Leave No One Behind: The philosophy underpinning the Interim Budget

The Finance Minister has articulated her budget as a "humane" budget with fiscal consolidation as a primary consideration. A "beyond GDP" emphasis is welcome, incorporating the widening inequalities, climate change concerns and human capital formation

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Beyond the headline fiscal deficit number to GDP ratio pegged at 5.1 percent for FY25, what is striking in the Interim Budget 2024-25 is the high revenue deficit. Keeping the revenue deficit as high as 2 percent of GDP for FY25 is a clarion call to focus on the biggest challenges related to the Indian economy in terms of widening inequalities and unemployment.

Having set the firm ground for redistributive justice, the Interim **Budget 2024** has also looked into the question of macroeconomic stabilisation amidst the poly crisis. The Finance Minister has been **firm on the path of fiscal consolidation**. In the Interim Budget 2024-25, a strict adherence to fiscal consolidation path is conducted with fiscal deficit to GDP ratio pegged at 5.1 in FY25 and the RE for this financial year at 5.8 percent.
It is heartening to see the revised estimates of tax revenue is above the projected estimates. The increased tax buoyancy has helped the reduction in revenue deficit to GDP ratio from 2.8 percent in 2023-24 (RE) to 2 percent in 2024-25(BE). A mild reprioritisation of revenue spending has also been conducted to bring down the revenue deficit. However, phasing out of revenue deficit is not a feasible option in the post-pandemic fiscal strategy.

To maintain the growth momentum, the Interim Budget has focussed on capex at 3.4 percent of GDP for FY25. The capex growth rate at 11.1 percent for FY25 is indeed welcome. Higher public infrastructure investment has been a powerful determinant of private investment, as it "crowds in" the latter. However, the disinvestment proceeds lack budget credibility in its projections. As against a 2023-24 BE of Rs 61,000 crore, the realised proceeds were only Rs 30,000 crore in 2023-24RE. The Budget Estimate for the 2024-2025 is comparatively realistic at Rs 50,000 crore.

The investors are keen to know about how much the government will borrow in FY25. In FY25, government estimated its gross borrowing at Rs 14.3 lakh crore to finance the deficits which is slightly lower than the previous year. The cut off yield rate of the ten-year bond is around 7.17 percent in January 2024. The macroeconomists have been busy implicating the fiscal deficit as the villain behind high interest rates. However, the story we often surpass is the conflict of interest between inflation targeting and public debt management. High interest rates are affecting deficits now. Now with increased interest rates, the public debt management is becoming costlier, with increased debt servicing burden. The interest payment expenditure to GDP ratio is expected to rise from 3.22 percent in FY24 (RE) to 3.63 percent in FY25 (BE).

Overall, the Finance Minister has articulated her budget as a **“humane” budget with fiscal consolidation on board**, keeping the narrative of “Leave No One Behind”. A “beyond GDP” emphasis is welcome, incorporating the widening inequalities, climate change concerns and human capital formation. However, it is too early to analyse if the budget announcements are backed up by adequate allocations. The analysis from sectoral expenditure budgets of FY25 is an imminent exercise to understand the fiscal accountability – which refers to the deviation between the budget promises and actual allocations - of these announcements.

A conspicuous absence of announcing a Fiscal Council to follow up the fiscal marksmanship of macro-fiscal parameters is noted. However, an Interim Budget is not the only policy space for such announcements. Containment of revenue deficit is indeed detrimental as a post pandemic fiscal strategy. The annual Periodic Labour Force survey revealed that unemployment has declined from 6 percent in 2017-18 to 3.2 percent in 2022-23. However, the disaggregated analysis of the estimates revealed that over 57 percent of workers are reported to be self-employed, 22 percent were casual labourers and 18 percent were helpers in their household enterprises. So the biggest challenge is to tackle the crisis of jobless growth. It is high time to address these concerns as GDP per se will not trickle down. So keeping the revenue deficit high to address these concerns is welcome.

The calculus of voting models reiterate that people love to vote back the government in retrospect analysing the policies and programmes. To go one step further, with atomistic decision making powers, the voting pattern of women in India have become a significant determinant of democratic **election outcomes**. Incorporating these political economy concerns, the Finance Minister has announced a few measures to strengthen the economic participation of women through Nari Shakti policies. The predominant measure among these announcements relate to gender budgeting. The access to credit and financial inclusion through digital infrastructure in public finance. Gender budgeting is a powerful Public Financial Management (PFM) tool to redress gender inequalities, with an increase in allocation in FY25. Prior to these new factors of production – in terms of digital infrastructure – the access of women to formal credit markets was restricted to collateral-based lending.

No budget is complete without its commitments on the climate change crisis. Given the predicament of monetary policies to address the climate crisis due to lack of tools, the fiscal policy stance has a major role to play in national adaptation communication and to tackle energy transition. To conclude, Union Budget 2024 reiterated that fiscal transition and energy transition are moving together, and it is firmly established through fiscal consolidation procedures. The excessive deficit procedure of 0.5 percent of State level fiscal deficit-GDP ratio is closely tied to power sector reforms. Further articulation of this co-movement of fiscal transition and energy transition narrative of Interim Budget 2024 will hopefully be taken up by the 16th Finance Commission within the analytical framework of co-operative federalism in India.

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