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# SUSTAINING INDIA'S GROWTH MOMENTUM: QUALITY EXPENDITURE WITH FISCAL CONSOLIDATION WOULD BE THE KEY

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In a complete contrast to the exit poll, the Bharatiya Janata Party (BJP) lost its single-party majority in parliament, in the 2024 Lok Sabha election results. The loss of majority leaves BJP dependant on its NDA allies, both major like Telegu Desam Party (TDP) and Janata Dal (United), or JD-U as well as minor ones like Lok Janshakti Party (LJP).

The Stock market indices closed nearly six percent lower on 4th June'24, the day on which the election results have been declared. There was a 4390-point crash in Sensex and ₹ 31 lakh crore wealth annihilation. India's Volatility Index or VIX stands at 26.74, a 27.75% increase. Many PSU stocks declined due to uncertainty regarding future disinvestment scenario and related reforms. Multiple Nifty indices crashed.

Nevertheless, irrespective of the election result, what is important is to sustain the ongoing growth momentum of the Indian economy. The recent upgrade of the Indian economy by S&P and robust real GDP growth by 8.2% in FY 2023-24 (as compared to the growth rate of 7.0% in FY 2022-23), is big positive for India provided maintaining future fiscal prudence with quality expenditure.

The S&P Global Ratings have recently upgraded India's sovereign rating outlook to "positive" from "stable" while maintain its lowest investment grade of BBB-, highlighting that robust economic expansion had a constructive impact based on India's continued policy stability, deepening economic reforms, and high infrastructure investment.

The rating agency has stressed that going forward, the rating could be upgraded provided India's fiscal deficits narrow meaningfully such that the net change in general government debt falls below 7% of GDP on a structural basis. Global rating agencies have highlighted that sustained deficit reduction, especially if underpinned by durable revenue-raising reforms, would be positive for India's sovereign rating fundamentals over the medium-term.

In the interim budget in Feb'24, the government set the FY25 fiscal deficit goal at 5.1% of GDP and revised the FY24 target to 5.8% from the previously budgeted 5.9%. For the next fiscal year, the fiscal deficit target is set at 4.5% beginning 1st April 2025. The final budget calculations would be done during July'24. According to media news, the RBI's hefty dividend of ₹ 2.11 lakh crore to the GOI has created space for a 30-basis point reduction in the fiscal deficit target for FY25. The interim budget estimated the fiscal deficit for FY25 at ₹16.85 lakh crore.

While some restructuring of spending is likely in the full budget, the final outlay for FY25 may not differ much from that of the interim budget (₹ 47.66 lakh crore). The non-tax revenue would also see a spike in the July'24 full budget including the RBI dividend.

The disinvestment targets have been missed; for instance, the GOI managed to receive ₹16500 crore as against ₹51,000 crore projected for 2023-24. Despite no specific target in the interim budget, the budget document included a figure of ₹50,000 crore for 2024-25. Challenges remain due to market conditions, acquiring interest from investors as well as other related procedural issues.

Quality fiscal expenditure on MGNREGA like scheme(s), as well as ensuring youth employment especially in semi-urban and rural areas could be a prudent policy in the sense of a effective fiscal multiplier impact, where a per cent income enhancement of the people at the lowest bottom strata could enhance aggregate demand, and can create a larger market for the FMCG among others.[1] The scheme recognizes the importance of strengthening the livelihood resource base of the poor by reaching the most vulnerable sections of rural areas.

There is a need to strengthen skill-based development programmes. To serve this objective better, it is required to focus on few such programmes instead of multiple

[1] The vision of Mahatma Gandhi NREGA is to enhance the livelihood security of rural households across the country by providing at least 100 days of guaranteed wage employment in a financial year to every rural household whose adult members volunteer to do unskilled manual work.

schemes, like Pradhan Mantri Kaushal Vikas Yojana (PMKVY) which is the flagship scheme of the Ministry of Skill Development and Entrepreneurship (MSDE) implemented by National Skill Development Corporation (NSDC), where the objective of this Skill Certification scheme is to enable Indian youth to take up industry relevant skill training that will help them in securing a better livelihood. Further, periodic monitoring of how the scheme is performing, is essential.

At present, there are at least sixteen employment generation programmes as well as many other programmes for enhancing productive employment opportunities etc.[2] However, despite so many schemes, the creation of employment opportunities on sustainable basis remains a challenge. Hence, there is a need for selective, very few targeted programmes, and needs specific monitoring of the effectiveness of such schemes in a time-bound manner.

The quality of fiscal expenditure assumes a crucial role in driving the growth engine as well as in maintaining India's global credibility. On the one hand, maintain the pace of capex would be crucial for infrastructure development, on the other hand, augmenting domestic private consumption, employment opportunities and aggregate demand also assume importance. The RBI's hefty dividend is a good opportunity to exploit the fiscal space in a prudent manner.

[2] https://dge.gov.in/dge/schemes_programmes