



Pathfinder Economic Alert

## **Modi's Budget To-Day From Populism to Growth?**

The Indian Budget Speech, to be delivered by Arun Jaitley today, is likely to be the most reform-oriented since Dr. Manmohan Singh's much heralded effort in 1991. India's growth rate has halved to 4.5% last year. Policy paralysis has reduced confidence among both domestic and foreign investors. Bureaucratic inertia had stalled the pipeline of large infrastructure projects. The budget deficit had increased to unsustainable levels and inflation was persistently high leading to elevated interest rates that stifled economic activities.

The world's largest democracy delivered its verdict by supporting Prime Minister Modi's pro-growth/pro-business agenda. His slogan of less government and better governance resonated among the aspirational middle class which has become increasingly influential in determining political outcomes (as in Sri Lanka). Their impatient demand for a steady increase in their material standard-of-living can only be delivered by restoring 8% plus growth in India. Prime Minister Modi has understood this well. Hence, his budget is likely to contain a raft of measures to stabilize the economy and, even more importantly, to strengthen the growth framework in the medium-term through structural reforms.

Stabilization is likely to be pursued through fiscal consolidation on both the expenditure and revenue fronts. Subsidies are expected to be pruned and revenue is likely to be increased through a widening of the tax base, including through introduction of a general sales tax. The growth agenda is likely to entail structural reforms such as changes to labour market legislation; deregulation to reduce bureaucratic delays which constrain the investment climate; and boost to private sector activity through the sale of publicly owned assets and a strong impetus to PPS-driven infrastructure development.

The Pathfinder Foundation will seek to present a more considered analysis of the Indian budget once it is delivered, drawing important lessons for Sri Lanka where, as in India, growth has lost momentum and the people are becoming more restive as their material aspirations become unfulfilled.

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