

Budget 2026-27: 'Important to anchor our fiscal policy in terms of debt'

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From targeting fiscal deficit for more than 20 years, the Centre is now going to target its debt-to-GDP ratio. How important is this change?

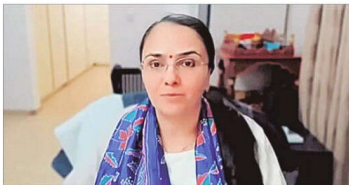
Debt and fiscal deficit are two sides of the same coin. While debt-to-GDP is the anchor, the operational target has to be fiscal deficit-to-GDP, which the government has specified for next year. Now, the way I would interpret it — and this follows the recommendation of the Fiscal Responsibility and Budget Management Review Committee — is that the government's fiscal strategy is now anchored in public debt with specific annual debt targets, and the goal is to bring down debt-to-GDP ratio to 50% +/- 1% by 2030-31.

Two things come, minimal GDP growth is a very important variable in any debt sustainability analysis — how much capacity you have to pay off your debt over time. And the central government's debt anchor would be tough to achieve if nominal growth numbers surprise to the downside.

Second, states are in a bind. Overall, states' debt is about 28% of GDP. So, if you take into account both the Centre and states, our sovereign debt is about 83% of GDP. It remains high, and that's what markets and credit rating agencies would ultimately care about. And overall sovereign borrowing is important because it also determines the debt service costs.

It think's very important to anchor our fiscal policy in terms of debt, because debt does matter. Higher debt is associated with higher debt servicing costs, and that can have opportunity costs and other consequences.

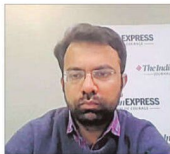
Over the last few years, the objective of raising capital expenditure has been to crowd in private investment. What is



your view on private capex and do you think the decisions taken last year — the income tax cut, the GST cuts — will be enough to create demand for companies to start thinking about investing and expanding capacities?

I think this question should be asked to the

industry leaders: what would it take to get a broader capex cycle going, and what else can the government do to encourage them to invest big? If you look at the aggregate data — at least aggregate macro data — private corporate investment is fairly stagnant at around 10-11% of GDP. There are green shoots: for



Prof Prachi Mishra (left) at the Explained Live session with Siddharth Upasani

example, if you look at the FICCI manufacturing index, it is at an all-time high. Capacity utilisation is still below long-term historical averages but still has gone up to 75%. Bank balance sheets are cleaned up; gross NPAs are 2.1%, net NPAs are almost zero.

Probably, firms are exhibiting strategic

caution as they digest global trade uncertainties, and they're being prudent rather than speeding up to arrive at the next capex cycle. I'm hoping that the (India-US) trade deal, giving a big fillip to external demand, can be the catalyst for a broad private capex cycle by reducing not only tariffs but also uncertainty.

In the Budget, the Finance Minister said a committee will look at what the banking sector should look like for a 'Viksit Bharat' by 2047. Do we need a committee-driven approach for this? Isn't the sector evolving as it is anyway?

What struck me about the Budget is that a lot of it was about the painstaking process and institutional reforms, which are essential to sustaining India's growth momentum.

In my view, having a committee to assess where banking stands is a terrific idea: how big we need banks to be, how should the banking system or non-banks evolve. I don't know what the committee mandate will be — only banks or we'll consider non-banks as well — but this is a great time, given that we want a sustained growth momentum of between 7-8% over the next 20 years. Given that net household financial savings have been declining as households are getting more married and are leveraging more, who will fund this growth going forward? And what role banks and other sources of credit or non-bank sources of funds will play is an excellent idea.

When it comes to household odds, they care about job opportunities and affordability. How should the common person look at the Budget?

The Budget is essentially an accounting exercise, but it also becomes (a way) to assess the vision of the government going forward. For a common person, to think about what the Budget does for jobs and for infrastructure — if the economy is growing fast, if we are creating enough in an inclusive and employment-generating way — should be very important. So, beyond how the Budget presents itself not merely as a statement of financial accounts, but how it reflects the government's priorities and reveals its theory of economic development is something to keep in mind.

AUDIENCE QUESTIONS

How will the Budget balance the need for employment and social spending with limited revenue growth?

The answer to this is investment. If we are able to realise and execute the Rs 80,000-crore divestment target and some of the advanced projects in the pipeline were to actually fructify, that can create space for spending on a lot of infrastructure, health, education, and a continued path of consolidation. So, in a sense, you are creating space for spending while creating resources for it.

When spending on the health sector is less than the health tax by virtue of cess collected, how will it work?

This is a fair question. I think our health spending is much less than what we would like it to be. Our sovereign debt is high and our sovereign borrowing is high. Therefore,

debt servicing costs are high — and it does crowd out investment in productive areas such as health. From a Budget perspective, that explains the move to debt as an anchor of fiscal policy; so that you can bring debt and debt servicing costs down and release resources for areas like infra, health, education. Also, generating resources through other measures like divestment is key.

In terms of free trade pacts, we have had the UK and New Zealand last year, the EU last month, and now the US. Does India require a deal with China?

Trade is based on the principle of comparative advantage, and we should be exploring what we are relatively competitive at. If we have a comparative advantage in certain products with China, deal or no deal, we should be looking to both export and import.

Whenever we think about China, it's more natural to think about imports. Of course, if we can get these raw materials at a cheaper cost from any partner country, that will increase our companies' profits and both countries gain. So, I don't see China differently in terms of these basic principles.

In this world of global value chains, we have to think in terms of knowing which part of the value chain is our comparative advantage. Even if you're at the lower end of the value chain, if you can scale it up it will be positive for both GDP and employment.

The bigger security considerations are paramount. But from an economic perspective, the principles are clear. If deals give us bigger access to markets, we should (sign them). I think signing deals is very important and it's a crucial step, but leveraging these deals is, for me, the bigger elephant.

