

**TURNING POINT** The budget sets India up for a massive economic win instead of just avoiding a follow-on

# It's Equivalent to Kapil Dev's 4 Sixes in the Lord's Test



**EXPERT TAKE**

**SHANKAR SHARMA**

CO-FOUNDER,  
FIRST GLOBAL

I normally don't use superlatives as frivolously as many do, but this Union Budget reminds me of the legendary Kapil Dev's four sixes off Eddie Hemmings in the first cricket Test match series at Lord's in 1990 to avoid a humiliating follow-on.

The Indian economy in the last several years has been underperforming. Before the virus struck, GDP growth had already reached a multi-year low. Then Covid-19 struck. That was the equivalent to facing a follow-on for the economy.

As a cricket buff, I can say without hesitation that this was a budget that conclusively hit four, perhaps even 6 sixes in a row. And instead of just avoiding a follow-on, it sets India up for a massive economic win.

What is most striking to me is that strangely, and paradoxically enough, it was the virus that created this budget.

Why? Because the virus led to a massive change in thinking on the fiscal deficit. Had the virus not happened, our thinking would have been fixated on keeping a lid on the fiscal deficit largely by increasing taxes. The virus simply helped shelve the old line excessive fiscal conservatism. At least, for now. And rightly so.

I have always argued that India's debt-to-GDP ratio has been very low and very comfortable and anything up to even a 100% plus is

tolerable, when a crisis like this pandemic comes up.

In my opinion, a gratuitous, even incorrect, focus on the fiscal deficit has kept India's growth lower than its potential, while the sole number that should matter is the debt-to-GDP ratio. A "good" quality deficit ends lowering the debt-to-GDP ratio by increasing growth.

This removal of a mental block on increasing the deficit in order to achieve blowout growth is the virus' gift to us. Further, it's very likely that if we shoot for growth, our tax buoyancy can increase way more than the nominal GDP growth. This can have the effect of keeping a lid on borrowings and hence, potentially, on inflation.

One other aspect that pleases me is that the investing environment for emerging markets has turned markedly salubrious in the past six months. The US is running a combined budget and current account deficit of around 20%, and this is pressuring the US dollar.

It's in this extremely conducive environment for emerging markets that I am absolutely delighted that finance minister Nirmala Sitharaman has created a very special micro-environment for India to regain the mantle of being the fastest-growing economy in the world.

Is it at all arithmetically possible to give 15/10?

## TRENDS TO WATCH OUT FOR

▲ HIGHER INFLATION ▲ ECONOMIC GROWTH

If higher deficit leads to somewhat higher inflation, so be it. These are costs, if at all so, that we need to bear to boost growth