THEIR VIEW

It will take a clear fiscal strategy to pave our path to Viksit Bharat

India's economy will have to expand at a pace that would need sustainably large budget allocations for capital expenditure

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On 1 February 2025, India's finance minister Nirmala Sitharaman presented her record eighth budget in Parliament. Her budgets have usually been characterized by three signature features: transparency, fiscal prudence and high capital expenditure (capex). However, in the 2024-25 and 2025-26 budgets, there is a visible tension between the latter two. Capex growth has been drastically cut to meet the committed fiscal consolidation targets. Earlier, high capex could be combined with fiscal consolidation—reduction of the fiscal deficit (FD)—by cutting down on revenue (or current) expenditure. With revenue expenditure growth already pared to a minimum in earlier budgets, the FD reduction target could only be met by also cutting back capex growth. This was in turn reflected in a sharp reduction in economic growth, compromising the high-growth path required for Viksit Bharat—India becoming an advanced country by 2047.

The inflexibility of using reduction of the FD-to-GDP ratio as the single monitoring goal for fiscal consolidation had already been noted earlier, as also the need to focus on the level of government debt. The 2025-26 budget has shifted to a new fiscal consolidation framework with debt-to-GDP as the key monitoring target. It is a fundamental reorientation of India's fiscal framework with far-reaching implications for public investment and growth. However, it has not been much discussed because the mandarins in North Block have tucked away the new framework in an annexure to one of over a dozen different budget documents, The Statement on Fiscal Policy under the FRBM Act, which few people read. This article discusses how the new framework is likely to work and its implications for our path to Viksit Bharat.

It has long been believed that in India public investment 'crowds in' private investment instead of crowding it out, and that capex growth has a very strong impact on GDP growth. In a paper published way back in 2011, my co-authors and I quantified and demonstrated this using a policy simulation model ('Fiscal Consolidation with High Growth: A policy simulation model for India,' *Economic Modelling*). Others have demonstrated this using macro-econometric forecasting models. These model predictions have been confirmed in the real world by India's recent growth experience. GDP growth was very high in 2021-22, mainly due to the base effect of the covid-pandemic contraction in 2020-21. But growth was high at 7.6% and 9.2% respectively during 2022-23 and 2023-24. Government capex grew at 25% and 28% during these years. Capex growth was cut back to just 7.3% in 2024-25 and has been limited again to 10% in 2025-26. GDP growth came down to 6.5% in 2024-25 and is projected at less than 7% in 2025-26. Capex growth is not the only determinant of GDP growth, but it is clearly a key driver.

The required growth path to reach the goal of Viksit Bharat by 2047 and the fiscal policy support needed for it should be viewed against this background. There is no standard definition of what is an advanced country. However, a widely accepted benchmark is per capita income in nominal US dollar terms as measured by the World Bank Atlas method. Without getting into the arcane details of this method, let it suffice to say that in 2023, the most recent year for which the relevant data is available, the minimum threshold for 'high income country' status was $14,005. Compared to that, India's per capita income, measured using the same method, was $2,540 in 2023. At the present growth rate of 6.5%, adjusted for 1% population growth and measured at constant (2023) prices, India would achieve high income country status in 30 years (i.e., by 2055). To achieve that status by 2047, again allowing for 1% population growth, India must grow at an average annual rate of 8.4%. In other words, our growth rate will have to be significantly stepped up.

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Capex growth has proven to be a key driver of GDP growth, as India's post-pandemic trajectory has shown. Fiscal consolidation thus needs to be done with care, lest budget cuts slow India down.

Achieving Viksit Bharat by 2047 would need the government to sustain high capex levels and its policy switch to watching debt instead of the fiscal deficit as a proportion of GDP should help.

Based on the close link between GDP growth and capex growth discussed earlier, growth acceleration will require a very significant boost to government capex, and this takes us to the heart of the fiscal policy question. Under the old fiscal consolidation framework as embodied in the FRBM Act and its rigid annual fiscal deficit targets, such a boost to government capex would be out of the question. But the new framework, which anchors fiscal consolidation in the debt-to-GDP ratio rather than FD-to-GDP ratio opens up new possibilities. The annual FD is a marginal addition to the total debt stock accumulated over many years, indeed decades. Hence the debt-to-GDP ratio changes very gradually compared to the FD-to-GDP ratio. Given a nominal GDP, a large FD would raise the FD-to-GDP ratio much faster than the debt-to-GDP ratio. This offers us more flexibility and elbow room to again step-up capex growth, as seen prior to 2024-25. That is a required condition for getting India back to the 8.4% average growth path necessary to reach high-income-country status by 2047.

If such a capex step-up starts raising the debt-to- GDP ratio instead of enabling it to glide down towards the 50% (+/- 1%) target, then strong measures will be necessary. These may include cutting unwarranted subsidies, politically driven handouts and tax exemptions and concessions. This is possible only during the first half of an electoral cycle.

These are the author's personal views

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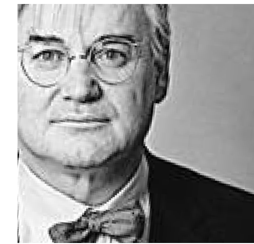
Imitation game: Can Big Auto emulate Xiaomi's EV strategy?

Big Auto may be left in the dust as Chinese carmakers zoom ahead



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The Chinese EV industry seems to be at the peak of its power BLOOMBERG

Good artists copy. Great artists steal. If the global auto industry wants to survive the next decade, it had better start following that maxim, and fast. Xiaomi's $5.5 billion share sale in Hong Kong on Tuesday, coming just a few weeks after BYD raised $5.6 billion in the same market, is another warning tremor ahead of the tsunami that's heading for the world's legacy carmakers. Those delaying the switch to electric vehicles (EVs) must act quickly, or they will be swamped.

The move will raise funds for Xiaomi to invest in its burgeoning EV business to build on the success of its SU7, a sporty model launched just a year ago that looks like a Porsche Panamera but costs roughly what you'd pay for a Toyota Camry.

Like BYD's announcement of five-minute fast-charging technology last week, it is a sign of a Chinese EV industry at the peak of its powers.

It might seem surprising that Xiaomi, of all companies, should be the herald of doom for Big Auto. For years, the company was treated like a punchline—an Apple imitator whose founder Lei Jun looked like a Steve Jobs cosplayer. It spent much of the 2010s flailing around for a business model selling robot vacuum cleaners, massage guns and rice cookers after Huawei and Oppo squeezed its position in the Chinese smartphone market.

All along, Xiaomi was quietly learning Apple's most profound lesson, one BYD's rise to dominance recently shows it learnt too: "If you keep your eye on the profit, you're going to skimp on the product [...] but if you focus on making really great products, then the profits will follow." This quote is most often attributed to Jobs.

Translate that into accountant-speak, and it's an exhortation to deploy capital generously when the moment is right. Look back at Apple's history, and you can see the arrival of the iMac, iPhone and iPad from the way capital expenditure spiked as sales surged and the supply chain ballooned to meet customer demand.

That captures Xiaomi's approach to product development pretty well . Despite its occasional reputation as a capital-lite business that depends more on selling ads and online services than physical devices, it's one of the most aggressive investors out there. Among 36 major global manufacturers for which Bloomberg has comparable data, only Lockheed Martin and Panasonic spend more on capital expenditure, relative to depreciation.

This week's share sale will augment that ambition. Xiaomi is looking to expand its car production lines to support demand for both the basic SU7, plus a high-performance variant and an electric SUV planned for later this year. Analysts expect the car unit to overtake smartphones, home appliances and services to become the company's biggest profit driver as soon as 2026.

There is a virtuous circle here that Steve Jobs would recognize. Come up with a great product, sell it at a decent price, and let customers queue up to get their hands on it. That way, you can grow business at a tremendous pace and attract billions in investment capital to turbocharge your expansion.

Much of the auto industry has spent decades learning the opposite lesson. Plagued with dismal valuations and struggling to manage global supply chains in the midst of trade shocks, executives have tried to prove themselves prudent custodians of their shareholders' money—investing less, and doing their best to support margins in a sagging market.

This hasn't yielded good results. The auto companies trading on the best valuations, after Tesla, are mostly the same Chinese carmakers that have deployed capital most aggressively to capture the wide-open EV market: BYD, Seres, GAC and Great Wall Motor. Big Auto, more concerned with conserving its shareholders' capital than conquering a brand new market, has been left behind.

Xiaomi seems to have been quite shameless about imitating Apple's capital- and product-driven business model, but that's in the tradition of the master himself. "We have always been shameless about stealing great ideas," Jobs once said, in the same interview where he popularized that "great artists steal" quote.

BYD and the winners of the cut-throat Chinese car industry have in turn copied Xiaomi's approach, developing new products at a breakneck pace and selling them at thin margins to win their place in a booming market. Lei is now in a race to keep a slice of the pie in the face of his own imitators.

If the rest of the global auto industry wants to survive the onslaught as our roads go electric, they'll have to do the same: Let go of their pride, start imitating the world's most vibrant EV sector, and surrender to Xiaomi-fication.

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MY VIEW | PEN DRIVE

Relationships: When attraction met social evolution

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Some of the most loved rom-coms imply that opposites not only attract, but create magical love stories. The reserved bookworm falling for the socialite, the glass-half-full optimist drawn to the enigmatic realist—these unlikely pairings make for irresistible on-screen chemistry. But in reality, do contrasting personalities stand the test of time? Attraction is often based on differences. We are attracted to the unfamiliar, the novel, the qualities that feel new and exciting. This is why the idea that 'opposites attract' holds popular belief. However, over time, the very differences that once fascinated us can become sources of friction. This paradox is central to many relationship challenges.

Jeevansathi's *Modern Matchmaking Report 2025* revealed shifting priorities in choosing a partner, with men valuing love and romance (47%) and women prioritizing compatibility (39%). This reflects evolving relationship priorities, with emotional connection and shared value systems playing a crucial role in deciding who you spend your life with. Other factors include evolving gender roles and expectations, the growing importance of emotional fulfilment, and a desire for deeper meaningful connections that go beyond superficial attraction. As society evolves further, these preferences indicate a move towards relationships that are not just based on love and romance, but on mutual respect, understanding and a strong foundation for life-long happiness.

I have witnessed how value alignment impacts relationships. I once worked with a couple who had entered marriage through an arranged set-up. On paper, they seemed like a perfect match, sharing similar cultural backgrounds. However, deep-rooted differences in their value systems led to recurring conflicts. The husband preferred luxury spending, while the wife valued experiences over material purchases. Despite their physical attraction, they struggled to reconcile these differences and their relationship could not be sustained. Tinder, an online dating and geo-social networking app, corroborates this in its *Year in Swipe 2025* report, which reveals that singles prioritize shared values (31%), emotional availability (30%), and shared interests (28%) in seeking a partner. Conversely, another couple I worked with struggled with intimacy but were deeply aligned in their worldview—from gender roles and household chores to treatment of staff. Despite their initial struggles, they worked on reconnecting emotionally and physically through shared activities and mutual understanding. With time, their relationship strengthened.

Psychologists Boyd and Boyd proposed a model for healthy relationships based on four pillars: Compatibility, Caring, Closeness, and Communication. Each plays a crucial role in determining the longevity and success of a partnership. John Gottman, a renowned couple's therapist, identified four negative communication patterns that can erode relationships over time. Gottman's 'Four Horsemen' include Criticism, where complaints target a partner's character instead of actions ("You always forget"); Contempt, which involves sarcasm, mockery or belittling remarks that create emotional distance ("Oh great, you forgot again. What a surprise"); Defensiveness, where a person responds to criticism with excuses or counter-attacks instead of addressing concerns ("It's not my fault! You're too demanding"); and Stonewalling, where one shuts down emotionally to avoid confrontation or punish a partner. These behaviours are often seen in how couples argue, as I've seen among clients.

QUICK READ

Do opposites attract? While rom-coms suggest so, the story is more complex than that in a world of evolving gender roles and expectations altering modern relationship dynamics.

Cinema has long romanticized co-dependency but healthy relationships are built on interdependence. Partners must have separate identities while nurturing their partnership.

Modern relationships are challenging traditional gender roles and taking greater control of romantic lives. This shift in relationship dynamics aligns with broader trends. Bumble's *2025 Global Dating Trends* reveals that the level of tolerance has shifted. Among women in India, just about 70% say they are being more honest with themselves and are no longer making compromises.

Relationships thrive when partners identify and respect each other's non-negotiables. Cinema has long romanticized co-dependency, but healthy relationships are built on interdependence. Both individuals must have separate identities—friendships, careers and interests—while still nurturing their partnership. Here are some tips.

Curiosity over judgement: Differences can trigger discomfort. Instead of resisting them, couples should explore why they feel challenged by their partner's views or habits.

Conscious communication: Many conflicts stem from assumptions rather than facts. Asking open-ended questions can help clarify misunderstandings.

Therapy as a neutral ground: Seeking professional help isn't an admission of failure; rather, it's a proactive step towards understanding and growth.

As relationship therapist Esther Perel noted, modern relationships exist in a minefield of shifting expectations. Yet, even in the face of financial struggles or basic disagreements, couples who truly commit to working through challenges often find a way forward. Love isn't always about erasing differences—it's about learning to embrace and accept these facets of one's partner.