# Massive Capital Expenditure, Modest Fiscal Consolidation, and Cut in Pillars of Social Safety Net

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The finance minister's five budgets, including the 2023–24 budget, demonstrate a welcome commitment to transparency. They also reveal a clear strategy of combining high capital expenditure-led growth with fiscal consolidation. But post the pandemic, these strategic priorities have been pursued at the cost of weakening the two key pillars of India's social safety net—food subsidy and the Mahatma Gandhi National Rural Employment Guarantee Act income support.

Views are personal.

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The 2023–24 budget is the fifth and final full budget of Finance Minister Nirmala Seetharaman.[1] It is interesting to compare her budgets across these five years to see what patterns, if any, can be discerned as hallmarks of her fiscal management. The difficulty in doing this is that the past five years have been exceptionally volatile. The budgets have had to respond to repeated shocks. Thus, one common feature of these budgets is that they have been anything but normal. That has to be kept in mind while seeking patterns in them.

When the COVID-19 pandemic struck, the world economy contracted by 3%, while the advanced economies contracted by as much as 4.4%. Global economic activity had barely started recovering in 2022 when the outbreak of the Ukraine war plunged the global economy in another crisis. Advanced country growth came in at only 2.4%, this time combined with unprecedented high inflation at 7.2%. Inflation in the emerging markets and developing countries group was even higher at 9.9%. Stagflation, low growth along with high inflation, was partly the consequence of supply disruptions caused by the Ukraine war. This supply-side driver was combined with exceptional quantitative easing and huge deficits in the advanced countries to reverse the contraction triggered by the pandemic, followed by the sharp switch to rising policy rates and monetary tightening in late 2022 to contain high inflation in the advanced countries. These global conditions have had an adverse impact on domestic growth and inflation in India as well as external capital flows.

Though often described as occupying a sweet spot in this grim global scenario, being the fastest growing major economy, the Indian economy has problems of its own. Growth had started slowing down since demonetisation and flawed goods and services tax (GST) rollout shocks of 2016 and 2017. It was down to 3.7% when the pandemic struck in early 2020. As a consequence, the economy contracted by a massive 6.6% in 2020–21 (Figure 1, p 35). It was again struck by the deadly Delta variant of COVID-19 in the first quarter of 2021–22. The high growth rates of 8.7% in 2021–22 and 7% in 2022–23 largely reflect the base effect of the contraction in 2020–21 and the disruption in the first quarter (Q1) of 2021–22. As the base effect has faded, growth has started decelerating, coming down from a high 13.5% in Q1 of 2022–23 to less than half that at 6.3% in Q2. It was probably even lower in Q3 and Q4, for which data is still awaited. For 2023–24, the *Economic Survey* has optimistically projected growth in the range of 6.5%–6.8%. Our own leading indicators-based forecast of 5.2% is in the same ballpark as a number of other forecasts. The budget does not assume any real growth rate, only a nominal growth rate of 10.5%. Going by our growth forecast of 5.2%, that would translate to an implicit (gross domestic product [GDP] deflator) inflation rate of 5.3%, which seems quite reasonable.

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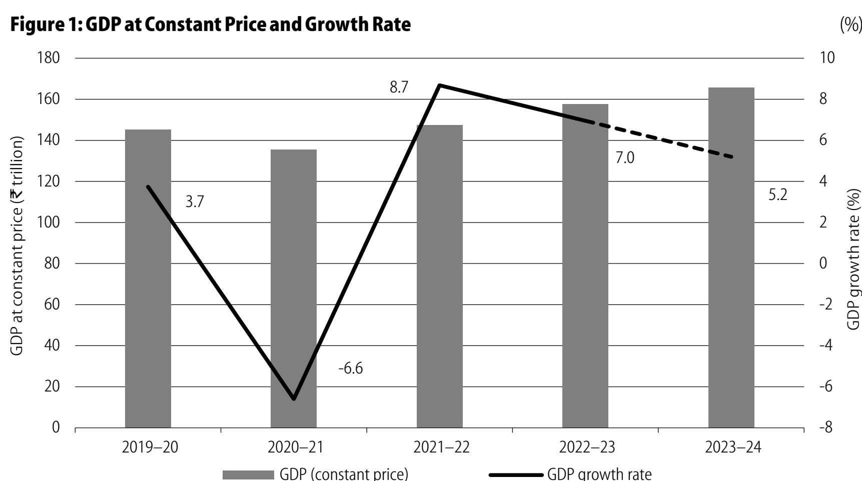
As in the world economy, so also in India, inflation has been elevated alongside decelerating growth. CPI inflation is still above the 6% upper limit of the RBI's mandated tolerance band of 4% +/- 2%, though it has declined from the September 2022 peak of 7.4%. A third area of macroeconomic concern is the current account deficit (CAD), which was reported to have risen to as much as 4.4% of GDP in the first half (H1) of 2023–24. This was despite a substantial surplus in services trade and large inflows of remittances, and mainly attributable to a large deficit in merchandise trade. Fortunately, data now available till December indicates that this has substantially declined. The fiscal stance of successive budgets in recent years has to be seen against this background.

## Fiscal Stance

Large government deficits, primarily financed through market borrowings in long-dated government securities and

**Figure 1: GDP at Constant Price and Growth Rate**




GDP numbers for 2023–24 are projected figures with a projected annual growth of 5.2% over the previous year.

short-maturity treasury bills, pushes up the cost of money for both the government and the private sectors, while adding to public debt. High interest rates and rising public debt in turn lead to a high cost of debt servicing. This pre-empts government spending on growth, promoting infrastructure and social services, apart from national security and other priorities, while the high cost of money also crowds out private investment. Hence, the need for fiscal prudence, which has been institutionalised in India through the Fiscal Responsibility and Budget Management (FRBM) acts of the central and state governments. Slippages notwithstanding, the finance minister was still broadly pursuing the fiscal consolidation glide path envisaged in the FRBM Act in FY 2020, with a fiscal deficit of 4.7%, when the pandemic struck (Table 1). While expenditure went up by nearly 31% in FY 2021, the contraction of the economy led to a fall in revenue receipts, resulting in a massive 95% absolute increase in the fiscal deficit, which rose to 9.3% of GDP. There was much criticism at the time that the government had done little to contain the economic contraction, mainly because poor messaging diverted media attention to the many credit guarantee and other credit support schemes via the financial sector which were announced at the time. But the fact is that there was a very large increase in the fiscal deficit to contain the contraction though, admittedly, nowhere near the scale of deficit financing seen in many of the advanced countries. This expansionary fiscal stance should have been maintained for at least another year to help recover growth. Unfortunately, strong fiscal consolidation was prematurely resumed in FY 2022, with the fiscal deficit being reduced in one shot from 9.2% to 6.7%, weakening the recovery momentum. Consolidation was much more muted in FY 2023, with the fiscal deficit being reduced by a mere 0.3% to 6.4%, a welcome stance since growth is yet to recover.

This is the context in which the present budget has been prepared. Growth is decelerating. Inflation is still elevated, though it has moderated. The RBI is addressing this through successive REPO rate increases and other liquidity tightening measures, inflation control being its principal mandate. The CAD has also reduced. Set against this background, the fiscal stance of the budget needed to focus on restoring growth as its immediate priority. But the focus on restoring growth in the short term also needed to be balanced against the possible negative impact of a large fiscal deficit and rising public debt on medium-term growth. The central government debt is currently estimated at 57.2% (FY 2024) and debt servicing will pre-empt 24% of central government expenditure from other growth-promoting public expenditure. This could rise further with a rising debt–GDP ratio, adversely affecting future growth. Hence, the concern about containing the size of the deficit and growth of public debt. Total public debt in India, centre plus states, has actually come down from a peak of 89.2% in FY 2020 to 84.2% in FY 2023. Moreover, as Chinoy and Jain (2021) have demonstrated, at the present cost of money the debt–GDP ratio should continue declining at nominal rates of growth exceeding 9%.[2] Hence, there is no urgent concern about India's public debt, especially since 95% of it is domestic debt, with very little foreign currency exposure. All things

**Table 1: Receipts, Expenditure and Deficits**

| | | ₹ Crore | | | | | % Changes | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 2019–20 (Actuals) | 2020–21 (Actuals) | 2021–22 (Actuals) | 2022–23 (RE) | 2023–24 (BE) | 2019–20 (Actuals)/ 2018–19 (Actuals) | 2020–21 (Actuals)/ 2019–20 (Actuals) | 2021–22 (Actuals)/ 2020–21 (Actuals) | 2022–23 (RE)/ 2021–22 (Actuals) | 2023–24 (BE)/ 2022–23 (RE) |
| 0 | 1 | 2 | 3 | 4 | 6 | 7 | 8 | 9 | 10 | 11 | 12 |
| 1 | Revenue receipts | 16,84,059 (8.4) | 16,33,920 (8.3) | 21,69,905 (9.2) | 23,48,413 (8.6) | 26,32,281 (8.7) | 8.4 | (-)3.0 | 32.8 | 8.2 | 12.1 |
| 2 | Tax revenue (net to centre) | 13,56,902 (6.8) | 14,26,287 (7.2) | 18,04,793 (7.6) | 20,86,662 (7.6) | 23,30,631 (7.7) | 3.0 | 5.1 | 26.5 | 15.6 | 11.7 |
| 3 | Non-tax revenue | 3,27,157 (1.6) | 2,07,633 (1.0) | 3,65,112 (1.5) | 2,61,751 (1.0) | 3,01,650 (1.0) | 38.8 | (-)36.5 | 75.8 | (-)28.3 | 15.2 |
| 4 | Non-debt capital receipts | 68,620 (0.3) | 57,626 (0.3) | 39,375 (0.2) | 83,500 (0.3) | 84,000 (0.3) | (-)39.2 | (-)16.0 | (-)31.7 | 112.1 | 0.6 |
| 5 | Total receipts (1+4) | 17,52,679 (8.7) | 16,91,546 (8.5) | 22,09,280 (9.3) | 24,31,913 (8.9) | 27,16,281 (9.0) | 5.2 | (-)3.5 | 30.6 | 10.1 | 11.7 |
| 6 | Total expenditure | 26,86,330 (13.4) | 35,09,836 (17.7) | 37,93,801 (16.0) | 41,87,232 (15.3) | 45,03,097 (14.9) | 16.0 | 30.7 | 8.1 | 10.4 | 7.5 |
| 7 | Revenue expenditure | 23,50,604 (11.7) | 30,83,519 (15.6) | 32,00,926 (13.5) | 34,58,959 (12.7) | 35,02,136 (11.6) | 17.1 | 31.2 | 3.8 | 8.1 | 1.2 |
| 8 | Capital expenditure | 3,35,726 (1.7) | 4,26,317 (2.2) | 5,92,874 (2.5) | 7,28,274 (2.7) | 10,00,961 (3.3) | 9.1 | 27.0 | 39.1 | 22.8 | 37.4 |
| 9 | Revenue deficit | 6,66,545 (3.3) | 14,49,599 (7.3) | 10,31,021 (4.4) | 11,10,546 (4.1) | 8,69,855 (2.9) | 46.7 | 117.5 | (-)28.9 | 7.7 | (-)21.7 |
| 10 | Fiscal deficit (6-5) | 9,33,651 (4.7) | 18,18,291 (9.2) | 15,84,521 (6.7) | 17,55,319 (6.4) | 17,86,816 (5.9) | 43.8 | 94.8 | (-)12.9 | 10.8 | 1.8 |
| 11 | Primary deficits | 3,21,581 (1.6) | 11,38,422 (5.7) | 7,79,022 (3.3) | 8,14,668 (3.0) | 7,06,845 (2.3) | 381.6 | 254.0 | (-)31.6 | 4.6 | (-)13.2 |

RE–revised estimates, BE–budget estimates. Figures in parenthesis denotes percentage of GDP.
Source: *Budget at a Glance* (various years).

being considered, the present fiscal context called for a modest reduction of the fiscal deficit by about 0.5% of GDP (Mundle 2022). The budget has indeed planned to reduce the fiscal deficit from 6.4% in FY 2023 to 5.9% in FY 2024, a 0.5% reduction, staying on the central government's pre-committed fiscal consolidation path targeting 4.5% of GDP by FY 2026 without front-loading the deficit compression before the revival of growth.

## Receipts and Taxation

The FY 2024 budget assumes that total tax revenue will grow by 10.4%, about the same as the assumed nominal GDP growth rate as noted earlier (Table 2). Total direct and indirect taxes are also assumed to grow at similar rates of 10.5% and 10.4%, respectively. This implies a buoyancy of 1, which seems appropriate because the tax–GDP ratio has been stationary at just over 11% for several years. However, the stationarity of the tax–GDP ratio when nominal GDP has been growing at double digit rates, setting aside the contraction of FY 2022, is a poor reflection on the tax effort in India. It calls for a concerted effort to widen the tax base and also strengthen tax administration. However, apart from an incentive to direct taxpayers to move to the new tax regime, which does away with most exemptions and concessions, initiatives announced to strengthen the digital tax information system and a planned strengthening of the tax administration machinery, few reform measures have been announced. Reforms focused on raising the tax–GDP ratio are still waiting to happen.

One interesting aspect of the receipts budget is a reversal of the pattern that had emerged, of increased central government recourse to cesses and surcharges (C&S). This trend emerged following the Fourteenth Finance Commission recommendation, which significantly raised tax devolution to 42% of the shareable pool of taxes. The same allocation was maintained by the Fifteenth Finance Commission except for a 1% reduction to adjust for the conversion of Jammu and Kashmir into union territories. The C&S are not part of the shareable pool as per the Constitution and accrue entirely to the central government. As Bhattacharya (2023) has recently pointed out, the share of C&S in total tax revenue went up from only about 5% in FY 2018 to as much as 13% in FY 2023. During the past three years, C&S has grown at about 33% each year (Table 2). As a consequence, the states' share of total tax revenues collected by the central government remained around 30%–33% instead of the 41%–42% recommended by the last two finance commissions. However, in the FY 2024 budget, C&S growth has been compressed to only 3.9%. Its share has accordingly declined marginally to 12% of tax revenue. This is a welcome development, hopefully one that will be sustained in the future also.

The reduced growth of C&S is mainly attributable to a reduction in the surcharge on taxable income exceeding ₹5 crore from 37% to 25%, bringing down the effective tax rate at the top bracket to 39%. Other changes in the direct tax provisions in the budget include a reduction of the total number of tax slabs to five, increase in the exemption limit to ₹3 lakh, a small increase in the standard deduction, and an increase in the rebate under the new tax regime from ₹5 lakh to ₹7 lakh. This is an incentive to taxpayers to migrate to the new tax regime. Some commentators have remarked that the changes in direct tax provisions are a sop to the middle class in a pre-election year. That seems unlikely since the income tax paying classes are an insignificant fraction of the voting public. The changes are more likely some routine rationalisation measures and adjustment for inflation.

Another unwelcome trend of recent years that has been arrested, if not reversed, in this budget is the ad hoc increases in customs tariffs, sometimes even more on inputs than on outputs. Acharya (2023) has pointed out that, as a consequence, the average "most favoured nation" tariff went up from 10% in 2015 to 15% in 2021. Such increases have been largely avoided this year and some inverted tax rates (higher on inputs than on

**Table 2: Receipts and Percentage Changes**

| | | ₹ Crore | | | | | % Changes | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 2019–20 (Actuals) | 2020–21 (Actuals) | 2021–22 (Actuals) | 2022–23 (RE) | 2023–24 (BE) | 2019–20 (Actuals)/ 2018–19 (Actuals) | 2020–21 (Actuals) / 2019–20 (Actuals) | 2021–22 (Actuals)/ 2020–21 (Actuals) | 2022–23 (RE)/ 2021–22 (Actuals) | 2023–24 (BE)/ 2022–23 (RE) |
| 0 | 1 | 2 | 3 | 4 | 6 | 7 | | 8 | 9 | 10 | 11 |
| 1 | Revenue receipts (3+6) | 16,84,059 (8.4) | 16,33,920 (8.3) | 21,69,905 (9.2) | 23,48,413 (8.6) | 26,32,281 (8.7) | 8.4 | (-)3.0 | 32.8 | 8.2 | 12.1 |
| 2 | Gross tax revenue (centre + states) | 20,10,059 (10.0) | 20,27,104 (10.2) | 27,09,315 (11.5) | 30,43,067 (11.1) | 33,60,858 (11.1) | (-)3.4 | 0.8 | 33.7 | 12.3 | 10.4 |
| 3 | Tax revenue (net to centre) | 13,56,902 (6.8) | 14,26,287 (7.2) | 18,04,793 (7.6) | 20,86,662 (7.6) | 23,30,631 (7.7) | 3.0 | 5.1 | 26.5 | 15.6 | 11.7 |
| 3.1 | Cesses and surcharge | 1,59,112 (0.8) | 2,12,679 (1.1) | 2,81,997 (1.2) | 3,73,570 (1.4) | 3,88,289 (1.3) | (-)29.5 | 33.7 | 32.6 | 32.5 | 3.9 |
| 4 | Direct tax | 10,49,549 (5.2) | 9,44,875 (4.8) | 14,08,293 (6.0) | 16,50,000 (6.0) | 18,23,250 (6.0) | (-)7.7 | (-)10.0 | 49.0 | 17.2 | 10.5 |
| 5 | Indirect tax | 9,60,510 (4.8) | 10,82,229 (5.5) | 13,01,022 (5.5) | 13,93,067 (5.1) | 15,37,608 (5.1) | 1.8 | 12.7 | 20.2 | 7.1 | 10.4 |
| 5.1 | Central GST | 4,94,072 (2.5) | 4,56,334 (2.3) | 5,91,226 (2.5) | 7,24,000 (2.7) | 8,11,600 (2.7) | 8.0 | (-)7.6 | 29.6 | 22.5 | 12.1 |
| 5.2 | Integrated GST | 9,125 (0.0) | 7,251 (0.0) | 2,119 (0.0) | | | (-)68.5 | (-)20.5 | (-)70.8 | | |
| 5.3 | GST compensation cess | 95,553 (0.5) | 85,192 (0.4) | 1,04,769 (0.4) | 1,30,000 (0.5) | 1,45,000 (0.5) | 0.5 | (-)10.8 | 23.0 | 24.1 | 11.5 |
| 6 | Non-tax revenue | 3,27,157 (1.6) | 2,07,633 (1.0) | 3,65,112 (1.5) | 2,61,751 (1.0) | 3,01,650 (1.0) | 38.8 | (-)36.5 | 75.8 | (-)28.3 | 15.2 |
| 6.1 | Interest receipts | 12,349 (0.1) | 17,113 (0.1) | 21,874 (0.1) | 24,640 (0.1) | 24,820 (0.1) | 1.7 | 38.6 | 27.8 | 12.6 | 0.7 |
| 6.2 | Dividends and profits | 1,86,133 (0.9) | 96,877 (0.5) | 1,60,647 (0.7) | 83,953 (0.3) | 91,000 (0.3) | 64.1 | (-)48.0 | 65.8 | (-)47.7 | 8.4 |
| 7 | Non-debt capital receipts | 68,620 (0.3) | 57,626 (0.3) | 39,375(0.2) | 83,500 (0.3) | 84,000 (0.3) | (-)39.2 | (-)16.0 | (-)31.7 | 112.1 | 0.6 |
| 7.1 | Disinvestment of government equity | 50,304 (0.3) | 37,897 (0.2) | 14,638 (0.1) | 60,000 (0.2) | 61,000 (0.2) | (-)46.9 | (-)24.7 | (-)61.4 | 309.9 | 1.7 |
| 8 | Total non-debt receipts (1+7) | 17,52,679 (8,7) | 16,91,546 (8.5) | 22,09,280 (9.3) | 24,31,913 (8.9) | 27,16,281 (9.0) | 5.2 | (-)3.5 | 30.6 | 10.1 | 11.7 |

RE—revised estimates, BE—budget estimates. Figures in parenthesis denote percentage of GDP.
Source: Receipts Budget (various years).

outputs) have been rationalised. However, our tariff rates still remain too high. This is at a time when other competing Asian countries have maintained low rates and are lowering them further as participants in regional free trade agreements that India has stayed away from. If the high tariffs are intended to help reduce our trade deficit, then such policies are self-defeating. This is because high protective tariffs create a policy bias in favour of domestic production as against exports and as a consequence tend to increase rather than reduce the trade deficit. Reducing our customs tariffs is a second tax reform waiting to happen.

Among domestic indirect taxes, the budget assumes that GST will grow at over 12%, that is, a buoyancy of more than 1. This seems quite reasonable since GST, which now accounts for more than half of total indirect tax collections, grew by over 29% and 22% in FY 2022 and FY 2023, respectively, after declining by 7.6% during the economic contraction of FY 2021. As the base effect of the contraction fades, the very high rates of GST growth will come down. But 12% growth is realistic since GST grew by 8% in FY 2020. This was before the pandemic started and at a time when the new GST reporting and collection system was yet to settle down. Regarding non-tax, non-debt receipts, there is not much worth noting except that the assumed receipts seem to be in line with the actual receipts in FY 2023. However, all these receipts together account for less than 12% of total non-debt receipts and their significance is limited compared to tax receipts.

## CAPEX and Social Safety Net

We now turn to what is arguably the defining feature of this budget, namely a reallocation of expenditure in favour of a massive increase in capital expenditure while cutting expenditure on the social safety net.

As has been widely noted, capital expenditure has been increased by a phenomenal 37.4% in the budget to over ₹10 trillion. This comes on top of similar large increases in capital spending in the last three budgets of FY 2021, FY 2022, and FY 2023. As a consequence, the share of central government capital expenditure as a proportion of GDP will have doubled from 1.7% in FY 2020 to 3.3% in FY 2024 (Table 1). Its share of total central government spending will also have nearly doubled, increasing from 12.5% in FY 2020 to 22.2% in FY 2024 (Table 3, row 1 data in parenthesis). The largest increase in capital expenditure will be in the transport sector, accounting for over 98% of a total expenditure of ₹4.9 trillion (see Table 3 row 4.4, data in parenthesis). The other major increases in capital spending are in the energy sector and communications.

**Table 3: Expenditure and Allocations**

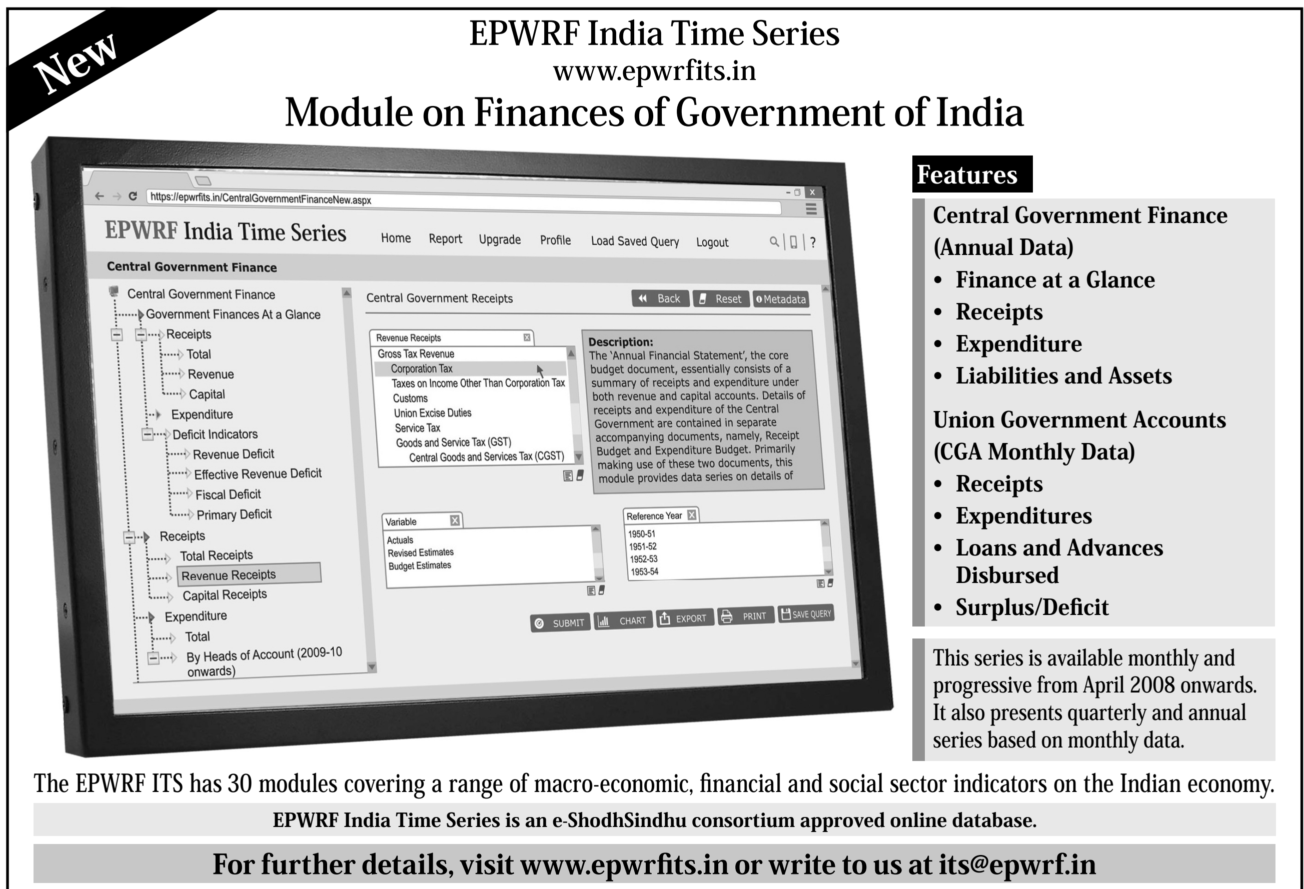
| | | Expenditure (₹ Crore) | | | | | Share in Total Expenditure (%) | | | | | % Change | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 2019–20 (Actuals) | 2020–21 (Actuals) | 2021–22 (Actuals) | 2022–23 (RE) | 2023–24 (BE) | 2019–20 (Actuals) | 2020–21 (Actuals) | 2021–22 (Actuals) | 2022–23 (RE) | 2023–24 (BE) | 2019–20 (Actuals)/ 2018–19 (Actuals) | 2020–21 (Actuals)/ 2019–20 (Actuals) | 2021–22 (actuals)/ 2020–21 (Actuals) | 2022–23 (RE)/ 2021–22 (Actuals) | 2023–24 (BE)/ 2022–23 (RE) |
| 0 | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 |
| 1 | Total expenditure | 26,86,330 (12.5) | 35,09,836 (12.1) | 37,93,801 (15.6) | 41,87,232 (17.4) | 45,03,097 (22.2) | 100 | 100 | 100 | 100 | 100 | 16.0 | 30.7 | 8.1 | 10.4 | 7.5 |
| 2 | General services | 12,66,553 (9.9) | 13,70,906 (10.4) | 15,83,560 (9.7) | 18,07,805 (9.3) | 19,71,139 (9.5) | 47.1 | 39.1 | 41.7 | 43.2 | 43.8 | 8.0 | 8.2 | 15.5 | 14.2 | 9.0 |
| 2.1 | Interest payment and servicing of debt | 6,12,070 | 6,79,869 | 8,05,499 | 9,40,651 | 10,79,971 | 22.8 | 19.4 | 21.2 | 22.5 | 24.0 | 5.0 | 11.1 | 18.5 | 16.8 | 14.8 |
| 2.2 | Defence services | 3,18,665 (34.9) | 3,40,094 (39.5) | 3,66,546 (37.6) | 4,09,500 (36.6) | 4,32,720 (37.6) | 11.9 | 9.7 | 9.7 | 9.8 | 9.6 | 9.6 | 6.7 | 7.8 | 11.7 | 5.7 |
| 3 | Social services | 1,38,609 (6.8) | 1,67,648 (4.2) | 2,64,142 (3.6) | 2,06,393 (4.7) | 2,23,723 (5.5) | 5.2 | 4.8 | 7.0 | 4.9 | 5.0 | 24.9 | 21.0 | 57.6 | (-)21.9 | 8.4 |
| 3.1 | Education | 42,661 | 42,348 | 44,843 | 50,638 | 53,917 | 1.6 | 1.2 | 1.2 | 1.2 | 1.2 | 14.1 | (-)0.7 | 5.9 | 12.9 | 6.5 |
| 3.2 | Medical and public health | 28,937 (5.7) | 35,076 (10.2) | 71,644 (4.4) | 39,157 (8.9) | 43,981 (11.8) | 1.1 | 1.0 | 1.9 | 0.9 | 1.0 | 24.9 | 21.2 | 104.3 | (-)45.3 | 12.3 |
| 4 | Economic services | 7,13,518 (24.6) | 12,64,080 (13.1) | 12,50,665 (29.7) | 14,29,958 (30.9) | 14,62,432 (43.6) | 26.6 | 36.0 | 33.0 | 34.2 | 32.5 | 17.2 | 77.2 | (-)1.1 | 14.3 | 2.3 |
| 4.1 | Agriculture and allied activities | 2,38,506 (1.4) | 7,02,495 (0.3) | 4,84,253 (1.8) | 4,68,532 (0.7) | 3,54,036 (0.1) | 8.9 | 20.0 | 12.8 | 11.2 | 7.9 | 33.6 | 194.5 | (-)31.1 | (-)3.2 | (-)24.4 |
| 4.1.1 | Food storage and warehousing | 1,15,723 (0.9) | 5,56,147 (0.2) | 3,05,052 (0.8) | 2,91,272 (0.7) | 2,00,774 (0.0) | 4.3 | 15.8 | 8.0 | 7.0 | 4.5 | 7.7 | 380.6 | (-)45.1 | (-)4.5 | (-)31.1 |
| 4.2 | Rural development | 74,342 | 1,13,910 | 1,01,036 | 93,105 | 64,475 | 2.8 | 3.2 | 2.7 | 2.2 | 1.4 | 16.3 | 53.2 | (-)11.3 | (-)7.9 | (-)30.8 |
| 4.2.1 | Rural employment | 71,679 | 1,11,170 | 98,441 | 89,400 | 60,000 | 2.7 | 3.2 | 2.6 | 2.1 | 1.3 | 16.0 | 55.1 | (-)11.4 | (-)9.2 | (-)32.9 |
| 4.3 | Energy | 61,803 (2.2) | 55,500 (5.4) | 30,431 (11.6) | 54,168 (4.1) | 70,317 (55.1) | 2.3 | 1.6 | 0.8 | 1.3 | 1.6 | 29.5 | (-)10.2 | (-)45.2 | 78.0 | 29.8 |
| 4.4 | Transport | 1,48,961 (93.2) | 1,34,762 (90.9) | 3,25,047 (91.4) | 3,73,993 (95.4) | 4,94,761 (98.1) | 5.5 | 3.8 | 8.6 | 8.9 | 11.0 | (-)1.0 | (-)9.5 | 141.2 | 15.1 | 32.3 |
| 4.5 | Communications | 29,372 (17.8) | 44,984 (11.0) | 35,601 (11.1) | 83,859 (44.9) | 99,852 (61.9) | 1.1 | 1.3 | 0.9 | 2.0 | 2.2 | 32.5 | 53.2 | (-)20.9 | 135.5 | 19.1 |
| 4.6 | Industry and minerals | 85,745 (7.3) | 1,19,870 (4.3) | 1,53,173 (4.2) | 2,01,441 (4.0) | 1,90,269 (3.4) | 3.2 | 3.4 | 4.0 | 4.8 | 4.2 | 8.6 | 39.8 | 27.8 | 31.5 | -5.5 |
| 5 | Grants-in-aid and contributions | 5,30,731 | 5,96,711 | 6,37,058 | 6,35,007 | 6,81,969 | 19.8 | 17.0 | 16.8 | 15.2 | 15.1 | 38.7 | 12.4 | 6.8 | (-)0.3 | 7.4 |

RE—eevised estimates, BE—budget estimates. Figures in parenthesis denotes share of capital expenditure under various heads.
Source: Expenditure Budget (various years).

One important point to note in this context is that in addition to its own capital expenditure of ₹10 trillion the central government has also made a provision of ₹1.3 trillion for 50-year interest-free capital expenditure loans to the states. This scheme had already been introduced last year with a ₹1 trillion provision which has now been extended and enhanced. This provision is of great importance because, unlike the central government, most state governments have been cutting back on their capital spending out of excessive risk aversion. The FRBM acts of the states are hard budget constraints. The RBI and central government can enforce fiscal discipline on the states in line with their FRBM acts since the borrowing programme of the latter has to be approved by the former. However, the states face a great deal of uncertainty at the time of preparing their budgets because they are not sure how much resources will eventually be transferred to them by way of devolution and grants. A large part of their budgets are pre-empted by committed expenditures and the states are reluctant to cut back on schemes that are politically popular. Hence, they prefer to cut capital spending to stay within their FRBM deficit limits. This calls for some rethinking on the arrangements for transfers from the centre to the states. While the larger issue remains to be addressed, the ring-fenced provision of ₹1.3 trillion as virtually free money for stepping up capital expenditure by the states is a great incentive. It is not clear why much of the ₹1 trillion provided last year remained unutilised. Hopefully, performance on this account will be better in FY 2024.

Another important point, to which Bhattacharya (2023) has drawn attention, is the budget support provided to capital spending by the public sector undertakings (PSUs). He points out that of the ₹10 trillion planned capital expenditure, over half will be transferred to the PSUs, mostly as equity and partly as loans. Budget support to PSUs has always been a significant component of central government capital expenditure. But Bhattacharya has pointed out that as government budget support to PSUs has gone up, their own capital spending through internal surpluses or borrowing has gone down, declining from around 64% of their total capital expenditure in FY 2021 to about 49% in FY 2024. In the case of the railways, the dependence on government budget support is even more stark at 82%. Thus, the large increase in capital expenditure by the central government is being offset to some extent by the decline in resource mobilisation by the PSUs themselves, thereby moderating the rise in overall public sector investment.

The massive increase in central government capital expenditure discussed above will be achieved despite a very modest increase in total expenditure of only 7.5% and a consequent reduction in the fiscal deficit by 0.5% of GDP as has been noted. It has been possible to achieve this essentially by compressing revenue expenditure, which will increase by a mere 1.2%, implying a significant reduction in real terms. Among the major components of revenue expenditure, "interest payments



and debt servicing" is a committed legacy item, derived from the volume, borrowing cost, and maturity profile of past debt. Its share of the total central government spending is rising to 24% in 2024, the highest in the last five years.

The compression is in other items. The total spending on defence will go up by only 5.7%, which means essentially constant in real terms. Just a little over a third of this will be capital spending, the same as in earlier years (Table 3). As a proportion of the total central government spending, the share of defence spending has gone down from 11.9% in FY 2020 to 9.6% in the budget estimate for FY 2024, that is, a share reduction of nearly 20%. Given India's security situation, domain experts may need to consider whether this is desirable. Of course, the main compression consists of large budgeted cuts in selected central and centrally sponsored schemes, namely food subsidy (-31.3%), fertiliser subsidy (-22.3%), Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) programme (-32.9%) and petroleum subsidy (-75.4%). The subsidies on petroleum and fertiliser are not merit subsidies and these cuts are welcome. The petroleum subsidy anyway had dwindled to ₹9,171 crore even before this cut, while the fertiliser subsidy will remain substantial at ₹1.75 trillion even after the cut.

The food subsidy and MGNREGA, however, are the two main pillars of India's social safety net for poor people. Both were expanded very sharply during the pandemic in FY 2021, the food subsidy in particular by nearly 400%—which partly included free distribution of food. But since then, both have been cut very significantly in absolute terms for the past three years. In FY 2024, the expenditure on food subsidy is being cut by over 31%, the old scheme being modified to provide free rations but only to those poor with PDS cards.[3] In other words, the massive increase in growth-promoting capital expenditure in FY 2024 will be largely at the cost of cutting down spending on the social safety net (Table 4).

## Key Features of Past Five Budgets

As we pointed out at the outset, the last five years have been exceptionally volatile. The economy has been buffeted

**Table 4: Major Centrally Sponsored Scheme (CSS) and Central Sector (CS) Schemes**

| Srl No | | Allocation (₹ Crore) | | | | | % Change | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 2019–20 (Actuals) | 2020–21 (Actuals) | 2021–22 (Actuals) | 2022–23 (RE) | 2023–24 (BE) | 2019–20 (actuals) / 2018–19 (actuals) | 2020–21 (Actuals)/ 2019–20 (Actuals) | 2021–22 (Actuals)/ 2020–21 (Actuals) | 2022–23 (RE)/ 2021–22 (Actuals) | 2023–24 (BE)/ 2022–23 (RE) |
| 0 | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 |
| 1 | Total allocations under CSS and CS schemes | 10,66,644 (100) | 17,40,793 (100) | 16,64,316 (100) | 18,63,630 (100) | 19,43,985 (100) | 14.1 | 63.2 | (-)4.4 | 12.0 | 4.3 |
| 2 | Food subsidy | 1,08,688 (10.2) | 5,41,330 (31.1) | 2,88,969 (17.4) | 2,87,194 (15.4) | 1,97,350 (10.2) | 7.3 | 398.1 | (-)46.6 | (-)0.6 | (-)31.3 |
| 3 | Fertiliser subsidy | 81,124 (7.6) | 1,27,922 (7.3) | 1,53,758 (9.2) | 2,25,220 (12.1) | 1,75,100 (9.0) | 14.9 | 57.7 | 20.2 | 46.5 | (-)22.3 |
| 4 | Pradhan Mantri Awas Yojana (PMAY) | 24,964 (2.3) | 40,260 (2.3) | 90,020 (5.4) | 77,130 (4.1) | 79,590 (4.1) | (-)1.9 | 61.3 | 123.6 | (-)14.3 | 3.2 |
| 5 | Jal Jeevan Mission (JJM)/National Rural Drinking Water Mission | 10,030 (0.9) | 10,998 (0.6) | 63,126 (3.8) | 55,000 (3.0) | 70,000 (3.6) | 82.9 | 9.6 | 474.0 | (-)12.9 | 27.3 |
| 6 | MGNREGA | 71,687 (6.7) | 1,11,170 (6.4) | 98,468 (5.9) | 89,400 (4.8) | 60,000 (3.1) | 16.0 | 55.1 | (-)11.4 | (-)9.2 | (-)32.9 |
| 7 | PM-Kisan | 48,714 (4.6) | 60,990 (3.5) | 66,825 (4.0) | 60,000 (3.2) | 60,000 (3.1) | 3,825.0 | 25.2 | 9.6 | (-)10.2 | 0.0 |
| 8 | National Education Mission | 33,654 (3.2) | 28,088 (1.6) | 25,305 (1.5) | 32,612 (1.7) | 38,953 (2.0) | 9.2 | (-)16.5 | (-)9.9 | 28.9 | 19.4 |
| 9 | National Health Mission | 35,155 (3.3) | 37,478 (2.2) | 32,958 (2.0) | 33,708 (1.8) | 36,785 (1.9) | 11.6 | 6.6 | (-)12.1 | 2.3 | 9.1 |
| 10 | Pradhan Mantri Krishi Sinchai Yojana | 8,200 (0.8) | 7,877 (0.5) | 11,278 (0.7) | 8,085 (0.4) | 10,787 (0.6) | 0.7 | (-)3.9 | 43.2 | (-)28.3 | 33.4 |
| 11 | PM POSHAN | 9,699 (0.9) | 12,878 (0.7) | 12,878 (0.8) | 12,800 (0.7) | 11,600 (0.6) | 1.9 | 32.8 | 0.0 | (-)0.6 | (-)9.4 |
| 12 | National Social Assistance Programme (NSAP) | 8,692 (0.8) | 42,443 (2.4) | 8,152 (0.5) | 9,652 (0.5) | 9,636 (0.5) | 3.3 | 388.3 | (-)80.8 | 18.4 | (-)0.2 |
| 13 | Rashtriya Krishi Vikas Yojana | | | | 7,000 (0.4) | 7,150 (0.4) | | | | | 2.1 |
| 14 | National Industrial Corridor Development and Implementation Trust (NICDIT) | 950 (0.1) | 2600 (0.1) | 859 (0.1) | 1,500 (0.1) | 2,000 (0.1) | (-)13.4 | 173.7 | (-)67.0 | 74.6 | 33.3 |
| 15 | NIIF | 2,001 (0.2) | 3,570 (0.2) | 1,238 (0.1) | 2,000 (0.1) | 2,000 (0.1) | 67.3 | 78.4 | (-)65.3 | 61.5 | 0.0 |
| 16 | Petroleum subsidy | 38,529 (3.6) | 38,455 (2.2) | 3,423 (0.2) | 9,171 (0.5) | 2,257 (0.1) | 55.1 | (-)0.2 | (-)91.1 | 167.9 | (-)75.4 |
| 17 | Market Intervention Scheme and Price Support Scheme (MISPSS) | 2,005 (0.2) | 1,358 (0.1) | 2,288 (0.1) | 1,500 (0.1) | 0 | 43.2 | (-)32.3 | 68.5 | (-)34.5 | |

RE—revised estimates, BE—budget estimates.
Figures in parenthesis denotes share of total allocation under centrally sponsored scheme and central sector schemes.
Source: Expenditure Budget (various issues).

**Figure 2: Fiscal Deficit Trend**

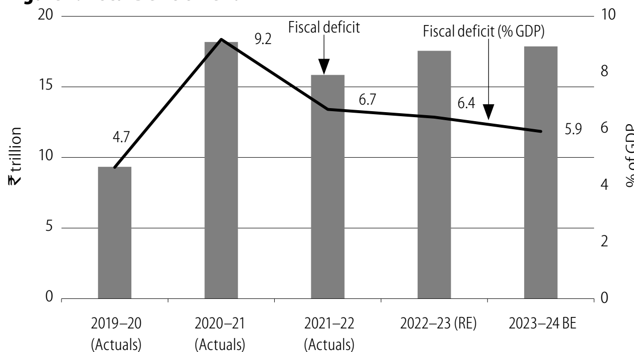
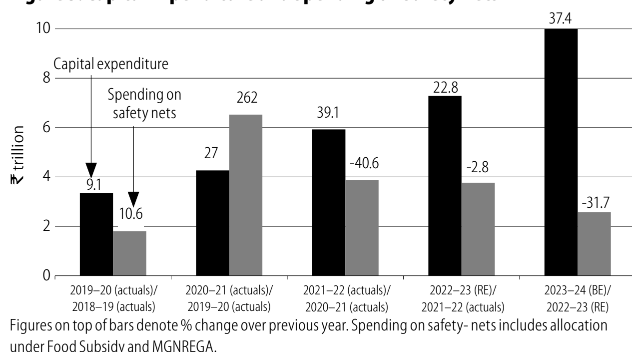



**Figure 3: Capital Expenditure and Spending on Safety Nets**




Figures on top of bars denote % change over previous year. Spending on safety- nets includes allocation under Food Subsidy and MGNREGA.

by repeated shocks, which have impacted growth, inflation, and India's external balance. The budgets of the union government have had to respond to these shocks, of course in partnership with the RBI, and they have not been "business as usual" budgets. Nevertheless, a few distinct features stand out, which together represent what might be called Finance Minister Seetharaman's fiscal philosophy.

The first distinctive feature of recent budgets is their transparency. In the past there have been efforts to render opaque or even disguise some features of budgets which made the optics bad. They were quite pointless because those who knew how to read budget documents always saw through these attempts and laid bare the actual picture. But in the present finance minister's watch such attempts have been eschewed and the emphasis has been on making budget documents more transparent. Perhaps the best example of this is the treatment of food subsidies. For some time, these were being recorded off-budget in the books of the Food Corporation of India, enabling the government fiscal deficit to be shown as smaller than it actually was. However, such practices have been given up in recent years—a most welcome development.

The second feature of these recent budgets is the focus on fiscal consolidation. When the pandemic led to a sharp contraction of of economic activity in FY 2021, the government was widely criticised at the time for doing little to contain the impact of the shock. This was partly because poor media messaging diverted attention to a relief package that primarily provided credit guarantees and other credit support. In fact, the central government did step up its actual spending by about 31% even though revenue had contracted, allowing a 95% increase in the absolute volume of the fiscal deficit to 9.2% of GDP. The food subsidy programme and the MGNREGA relief employment programme were both expanded substantially along with other income support programmes. But in the year immediately following FY 2022, while the economy was yet to recover, the fiscal deficit was clawed back by about 250 basis points in one go to 6.7%. The goal is to achieve a fiscal deficit target of 4.5% by FY 2026. This was quite premature in our view and the initial v-shaped recovery of the first few months could not be sustained as the base effect of the FY 2021 contraction faded (Mundle and Sahu 2021). The government has stayed on course to achieve the 4.5% fiscal deficit target by FY 2026, but fortunately along a more gradual consolidation path (Figure 2).

The third feature of recent budgets is the strategy of reviving growth through a massive step-up in central government capital expenditure (Mundle and Sahu 2022). Already evident in FY 2021, FY 2022, and FY 2023, the strategy has been very strongly enforced in FY 2024 as has been discussed above. The ratio of central government capital expenditure to GDP will have doubled during this period from 1.7% in FY 2020 to 3.3% in FY 2024, with much of the increased investment going to the transportation, power, and communications sector (Figure 3).

The fourth feature is the progressive shrinking of the social safety net programme. The massive step-up in capital spending within a programme of fiscal consolidation has been made possible primarily by sharp cuts in expenditure on the social safety net, specifically food subsidy and the MGNREGA relief employment programmes, which are the two main pillars of India's social safety net programme (Mundle 2013). After being raised to ₹5.4 trillion in FY 2021 to help cope with the economic contraction, the food subsidy has been progressively cut back to less than ₹2 trillion in the FY 2024 budget. Similarly, the expenditure on MGNREGA, after being raised to ₹1.1 trillion in FY 2021, has now been reduced to ₹60,000 crore in the FY 2024 budget. This is much lower than even the allocation made for MGNREGA prior to the pandemic (Figure 3).

NOTES

1 The 1 February 2024 budget will only be a vote on account, with the full budget to be presented by the new government after the 2024 general elections.

2 The FY 2024 budget is based on an assumption of 10.5% nominal growth.

3 Despite this reduction, the food subsidy bill will still be larger than the bill of ₹1,09,000 crore in FY 2020 by about ₹90,000 crore.

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