Trade-off between Fiscal Consolidation and High Employment-intensive Growth

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A large reduction in government capital expenditure growth in 2024–25 and 2025–26 to meet fiscal deficit targets primarily accounts for the recent decline in growth, since capex growth is a key driver of GDP growth. The greater flexibility of the new debt-to-GDP related fiscal consolidation framework should be exploited to restore high government capex and GDP growth. Fiscal incentives to accelerate the growth of large, employment-intensive sectors like construction are also necessary for more employment-intensive growth.

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Finance minister Nirmala Sitharaman set a record earlier this year, having presented her eighth consecutive budget on 1 February 2025. The high volatility that followed the massive pandemic shock of 2020–21 is possibly behind us and economic growth seems to have stabilised at around 6.5%–7%, higher than growth in any other major economy in the world. Inflation is also modest, printing below the Reserve Bank of India's 4% target rate at 3.6% in February 2025. But new challenges have emerged. The shock waves unleashed by President Donald Trump, combined with the ongoing wars in Gaza and Ukraine and civil wars in Africa, have generated exceptionally high levels of global uncertainty. How does the budget positions India to navigate this mixed environment of benign economic conditions at home and highly uncertain conditions abroad? This question is addressed by comparing the present budget with earlier budgets of the post-pandemic period. Next, we analyse the overall fiscal path in these budgets. This is followed by examining the underlying performance on the receipts side of the budget. Subsequently, we look at expenditure policies. Then we assess how the budget addresses the employment question, arguably the most urgent economic challenge facing the Indian economy, followed by conclusions.

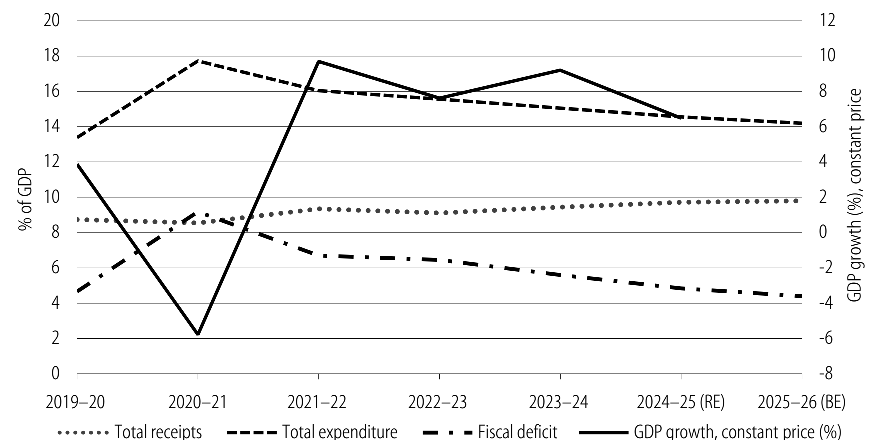
BUDGET 2025

Post-pandemic Fiscal Consolidation and Path to 2030–31

The path of revenues, expenditure, and the fiscal deficit since the pre-pandemic baseline of 2019–20 has been charted in Figure 1 against the growth of the economy during this period. The sharp contraction of 2020–21 was followed by a few years of high but volatile growth, which has possibly settled down now (2024–25) to moderately high growth in the range of 6.5%–7%. This is much higher than the growth rate of 3.9% recorded in 2019–20 immediately prior to the pandemic contraction, which was itself the culmination of a period of declining growth.

Throughout this period, revenues as a proportion of GDP remained remarkably steady, rising gradually from 8.5% in 2020–21 to 9.7% in 2024–25. It is budgeted to rise to 9.8% in 2025–26 (Table 1, p 21) (GOI 2025a). Meanwhile, expenditure relative to GDP has been brought down from 17.7% during the fiscal stimulus of 2020–21 (Figure 1) to 14.6% in 2023–24 and it is projected to decline further to 14.2% in 2025–26 (Figure 1 and Table 1). The fiscal deficit to GDP ratio has accordingly come down from a high of 9.2% in 2020–21 to an estimated 4.8% in 2024–25. It is projected to decline further to 4.4% in 2025–26. Exceeding the target of 4.5% set in 2021–22, it reaffirms

Figure 1: Receipts, Expenditure, Deficits and GDP Growth



Source: Budget at a Glance, various issues; National Accounts Statistics 2024.

the commitment to fiscal prudence. This along with transparency and high capital expenditure (capex), constitute the three characteristic features of all the finance minister's budgets.

Table 1: Receipts, Expenditure and Deficits

		₹ Trillion					% Change				% of GDP				
		2021–22 (Act)	2022–23 (Act)	2023–24 (Act)	2024–25 (RE)	2025–26 (BE)	2022–23 (Act)/ 2021–22 (Act)	2023–24 (Act)/ 2022–23 (Act)	2024–25 (RE)/ 2023–24 (Act)	2025–26 (BE)/ 2024–25 (RE)	2021–22 (Act)	2022–23 (Act)	2023–24 (Act)	2024–25 (RE)	2025–26 (BE)
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
1	Revenue receipts	21.70	23.83	27.29	30.88	34.20	9.8	14.5	13.2	10.8	9.2	8.8	9.2	9.5	9.6
2	Tax revenue (net to centre)	18.05	20.98	23.27	25.57	28.37	16.2	10.9	9.9	11.0	7.6	7.8	7.9	7.9	7.9
3	Non-tax revenue	3.65	2.85	4.02	5.31	5.83	-21.8	40.8	32.2	9.8	1.5	1.1	1.4	1.6	1.6
4	Non-debt capital receipts	0.39	0.72	0.60	0.59	0.76	83.4	-17.2	-1.3	28.8	0.2	0.3	0.2	0.2	0.2
5	Total receipts (1+4)	22.09	24.55	27.89	31.47	34.96	11.1	13.6	12.8	11.1	9.3	9.1	9.4	9.7	9.8
6	Total expenditure	37.94	41.93	44.43	47.16	50.65	10.5	6.0	6.1	7.4	16.0	15.6	15.0	14.6	14.2
7	Revenue expenditure	32.01	34.53	34.94	36.98	39.44	7.9	1.2	5.8	6.7	13.5	12.8	11.8	11.4	11.0
8	Capital expenditure	5.93	7.40	9.49	10.18	11.21	24.8	28.3	7.3	10.1	2.5	2.7	3.2	3.1	3.1
9	Revenue deficit (7-1)	10.31	10.70	7.65	6.10	5.24	3.8	-28.5	-20.3	-14.1	4.4	4.0	2.6	1.9	1.5
10	Fiscal deficit (6-5)	15.85	17.38	16.55	15.70	15.69	9.7	-4.8	-5.1	0.0	6.7	6.4	5.6	4.8	4.4
11	Primary deficits	7.79	8.09	5.91	4.32	2.93	3.9	-27.0	-26.9	-32.2	3.3	3.0	2.0	1.3	0.8
12	Total debt (outstanding)*	135.46	152.23	168.65	182.15	197.77	12.4	10.8	8.0	8.6	57.3	56.5	57.1	56.2	55.4

RE—revised estimates; BE—budget estimates; Act—actuals; * outstanding debt of the union at the end of 2024–25 are revised estimates (RE) for total debt (outstanding).
Source: Receipt and Expenditure Budget, Budget documents for various years.

Marking a more pragmatic and flexible approach to fiscal prudence, the FY 2025–26 budget shifts the operational goal from fiscal deficit to debt, namely the central government debt to GDP ratio (GoI 2025b).

In the 2021–22 budget speech, immediately after the pandemic, it was indicated that the Fiscal Responsibility and Budget Management (FRBM) Act framework with annual fiscal deficit targets was too rigid to adhere to, especially in the event of major shocks. This was in line with the observations in the 18th Report of the Standing Committee on Finance way back in 2001 regarding the inflexibility of the FRBM Act framework. Instead, the 2021–22 budget committed to a fiscal deficit target of 4.5% for 2025–26 without setting intermediate annual targets. The 2024–25 budget went a step further, announcing that the monitoring target for fiscal consolidation would be shifted to the union government debt ratio and not the fiscal deficit (GoI 2025b). Since the main purpose of limiting the fiscal deficit is indeed to maintain sovereign debt at a sustainable level, without any excessive burden of debt servicing, this shift was quite sensible. The 2025–26 budget has now operationalised this shift by specifying that the debt–GDP ratio would be progressively brought down from over 55% in 2025–26 to 50% +/- 1% by 31 March 2031. Moreover, by not specifying intermediate annual targets and outlining alternative paths for mild, moderate, and high levels of fiscal consolidation under different growth scenarios, the new framework builds in considerable flexibility to adapt the consolidation path to emerging conditions.[1]

The pragmatic new framework for fiscal consolidation, which combines consolidation with flexibility, has already been operationalised and is welcome. It should now be codified with a suitable further amendment to the FRBM Act. However, the specific growth scenarios envisaged and the target of reducing the debt–GDP ratio to 50% +/- 1% by end-March 2031 may have to be revisited keeping in view the goal of India reaching Viksit Bharat status by 2047. This is explained further in the article.

As already noted, a second characteristic of Sitaraman's budgets is high government capex. Mundle et al (2011) used a structural policy simulation model to demonstrate the strong growth effect of high government capex.[2] The Sitaraman budgets have confirmed this model prediction in the real world. Capex grew by a phenomenal 39% in the immediate post-pandemic period in 2021–22 and was further raised by 25% and over 28% during 2022–23 and 2023–24 (Mundle and Sahu 2024).[3] The very high GDP growth of nearly 10% in 2021–22 is mainly attributable to the base effect of the contraction in 2020–21. But GDP continued to grow at high rates of 7.6% and 9.2% in 2022–23 and 2023–24, respectively. In 2024–25, when capex growth was cut back to just over 7%, GDP growth also came down to 6.5%. Capex is now projected to grow at a little over 10% in the current budget for 2025–26. Capex growth is obviously not the only factor accounting for variations in GDP growth but it is clearly a major determinant.

Why has capex growth been cut back when it is such an important determinant of GDP growth? Among several possible explanations, the most compelling one is the following: growth of revenue expenditure has been very modest in recent years, 1.2%, 5.8%, and 6.7% in 2023–24, 2024–25 (RE), and 2025–26 (BE), respectively. Having already pared down revenue expenditure growth to a minimum, cutting capex growth became essential to meet the fiscal deficit reduction targets. This trade-off between capex growth and fiscal consolidation poses a dilemma. In the new fiscal consolidation framework, the 2025–26 budget considers alternative scenarios to get the debt–GDP ratio down to 50% by end-March 2031. The nominal growth rates envisaged in these scenarios range from 10% to 11%. Assuming inflation is successfully maintained at the RBI target rate of 4%, this implies an average real GDP growth rate of 6%–7% up to 2030–31. But this falls short of the growth required to absorb the backlog of unemployment or reach Viksit Bharat status by 2047. This dilemma is further discussed in the later part of this article.

Tax Buoyancy, Concessions, Exemptions and Revenue Foregone

Turning to the receipts side of the budget, growth projections of both tax revenue and total revenue are modest. Barring customs and excise duties, the growth of most tax revenues as well as non-tax revenue has been robust in recent years. During 2022–23 and 2024–25, indirect taxes grew by only 7.5%, but central GST grew by 16.5% despite the slowdown in 2024–25. Direct taxes grew by 16.7% during the same period. Non-tax revenue grew by 17.1%. As a result, total tax revenue and total revenue have both grown at an average rate of 12.5% during the past three years. Relative to nominal GDP, both were higher in 2024–25 compared to 2022–23, indicating buoyancy of over 1 during this period. The buoyancy notwithstanding, the 2025–26 budget has projected gross tax revenue and total revenue receipts growth at a modest 10.8% each.

Underlying the projected growth of tax revenue, there have been very significant changes in provisions for both direct and indirect taxes in the 2025–26 budget. In direct tax provisions, the big change is in tax slabs and rebates for personal income tax under the new regime. It raises the threshold for "nil" tax liability from ₹7 lakh to ₹12 lakh (GoI 2025e, Annexure to Part B), which is a major relief for the middle class as the finance minister emphasised. Critics point out that it was politically motivated by the Delhi elections which followed soon after. The other big direct tax measure the budget announced is the replacement of the Income Tax Act by a much simpler Direct Tax Code. The code is currently under discussion in Parliament.

On the indirect taxes side, a major change is the reduction of tariff rates. After years of ad hoc tariff increases, the present budget has reduced rates in many tariff lines (GoI 2025e, Annexure to Part B). The tariff has been raised in only two tariff lines, knitted fabrics, and interactive flat panel displays. In another 37 tariff lines, the basic duty rate (BDR) has been reduced but without any change in the effective duty rate, implying an offsetting increase in cesses and surcharges. Essentially, it means that there is no change in the level of protection but the amount of customs duty in the shareable pool is reduced. As against that, the effective duty rate has been reduced or eliminated in 41 tariff lines.

The finance minister indicated that the changes in direct tax provisions will entail tax expenditure (revenue foregone) to the tune of ₹1 trillion. The changes in customs duty provisions will entail tax expenditure to the order of ₹2,600 crore.

Expenditure Allocation under Conditions of Fiscal Compression

It was stated earlier that there is strong compression of expenditure, particularly capex, in the 2025–26 budget to meet the fiscal consolidation target. In most expenditure lines, shares have been reduced or were reduced last year. The exception is interest payment, a committed expenditure and charged item which is also the single largest item in the expenditure budget. Interest payment will pre-empt as much as ₹12.76 trillion from other socially or economically beneficial lines of expenditure, with its share of total expenditure going up from 21.2% in 2021–22 to 25.2% in 2025–26 (Table 3, p 23). It is this rising burden of interest payments that has made reduction of the debt–GDP ratio a top priority in the budget.

Expenditure compression is especially noticeable in the economic sectors, where capex accounts for over 42% of total expenditure. Barring energy, the share of all the other infrastructure sectors has been reduced. The compression is particularly severe in transport, where capex accounts for over 97% of total expenditure. The allocation for communications has also been cut back. In agriculture and allied services, the allocation has been cut for the fourth successive year. From ₹4.84 trillion in 2021–22, it is now down to ₹3.72 trillion in 2025–26. The share of "food storage and warehousing," mostly food subsidy, has been progressively reduced from 8% of expenditure in 2021–22 to about 4% at present. The allocation for rural development, mostly the expenditure on the Mahatma Gandhi National Rural Employment Guarantee Scheme, is

Table 2: Receipts

		₹ Trillion					% Change				% of GDP				
		2021–22 (Act)	2022–23 (Act)	2023–24 (Act)	2024–25 (RE)	2025–26 (BE)	2022–23 (Act)/ 2021–22 (Act)	2023–24 (Act)/ 2022–23 (Act)	2024–25 (RE)/ 2023–24 (Act)	2025–26 (BE)/ 2024–25 (RE)	2021–22 (Act)	2022–23 (Act)	2023–24 (Act)	2024–25 (RE)	2025–26 (BE)
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
1	Revenue receipts (3+9)	21.70	23.83	27.29	30.88	34.20	9.8	14.5	13.2	10.8	9.2	8.8	9.2	9.5	9.6
2	Gross tax revenue (centre+states)	27.09	30.54	34.66	38.53	42.70	12.7	13.5	11.2	10.8	11.5	11.3	11.7	11.9	12.0
3	Tax revenue (net to centre)	18.05	20.98	23.27	25.57	28.37	16.2	10.9	9.9	11.0	7.6	7.8	7.9	7.9	7.9
4	Direct tax*	14.08	16.59	19.56	22.37	25.20	17.8	17.9	14.4	12.7	6.0	6.2	6.6	6.9	7.1
5	Indirect tax#	13.01	13.95	15.09	16.16	17.50	7.2	8.2	7.1	8.3	5.5	5.2	5.1	5.0	4.9
6	Central GST	5.91	7.19	8.21	9.08	10.11	21.5	14.2	10.7	11.3	2.5	2.7	2.8	2.8	2.8
7	Integrated GST	0.02	0.05	-0.05	0.00	0.00	124.1				0.0	0.0	0.0		
8	GST compensation cess	1.05	1.26	1.41	1.53	1.67	20.1	12.4	8.5	8.9	0.4	0.5	0.5	0.5	0.5
9	Non-tax revenue	3.65	2.85	4.02	5.31	5.83	-21.8	40.8	32.2	9.8	1.5	1.1	1.4	1.6	1.6
10	Interest receipts	0.22	0.28	0.38	0.34	0.48	27.3	37.4	-11.0	40.2	0.1	0.1	0.1	0.1	0.1
11	Dividends and profits	1.61	1.00	1.71	2.89	3.25	-37.8	71.0	69.3	12.3	0.7	0.4	0.6	0.9	0.9
12	Non-debt capital receipts	0.39	0.72	0.60	0.59	0.76	83.4	-17.2	-1.3	28.8	0.2	0.3	0.2	0.2	0.2
13	Disinvestment of government equity	0.15	0.46	0.33	0.33	0.47	214.5	-28.1	-0.4	42.4	0.1	0.2	0.1	0.1	0.1
14	Total non-debt receipts (1+12)	22.09	24.55	27.89	31.47	34.96	11.1	13.6	12.8	11.1	9.3	9.1	9.4	9.7	9.8

RE–revised estimates; BE–budget estimates; Act–actuals.
*Includes income, corporate, and other minor direct taxes. These are gross figures inclusive of states' share. #includes central GST, UT GST, integrated GST, GST compensation cess, customs, union excise duties, and other minor indirect taxes of the union government.
Source: Receipt Budget, Budget documents, various years.

being maintained at about ₹90,000 crore, which implies a progressive reduction in real terms. Social service expenditure has never been a large component of central expenditure since education and health services are primarily state subjects. However, even here, there is compression; its share of expenditure being reduced from 7% in 2021–22 to only 3.9% in the 2025–26 budget. The allocation for defence services is being maintained at 9.7% of expenditure or around ₹5 trillion.

Fiscal Consolidation vs High Employment-intensive Growth

India's recent growth experience is characterised by a paradox. It is and has been for some time the fastest growing major economy in the world. Yet the size of the unemployed workforce is also growing just as fast since employment growth is not able to keep pace with the growth of the labour force (Mundle 2025). The challenge is compounded by the fact that competition is forcing producers towards more capital-intensive techniques of production and driving down the output elasticity of employment. The 2024 *Economic Survey* indicated that about 8 million additional jobs per year have to be generated outside agriculture to cope with this challenge (GoI 2024). Addressing the urgency of generating more jobs, the finance minister introduced a package of employment-linked incentive (ELI) schemes with an initial allocation of ₹10,000 crore and an additional apprenticeship incentive scheme for corporates of another ₹2,000 crore. As initial allocations, these were very significant, considering that the production-linked incentive (PLI) scheme, which has gained considerable traction, had started initially with just a nominal allocation in 2021–22 and grew to about ₹14,000 crore by 2024–25.

While welcoming this initiative, which recognised the urgency of promoting more employment-intensive growth, we had also argued that the ELI schemes may not prove to be very effective because of the way they were being conceived (Mundle and Sahu 2024).[4] Instead, we had made the case for an alternative approach. Despite rising capital intensity, there are large variations in employment intensity across non-agricultural sectors (Bhandari and Sahu 2025). We had suggested that a PLI scheme could leverage these variations and make growth more employment-intensive by providing incentive grants for additional employment to a selected few large employment-intensive sectors outside agriculture.

Table 3: Expenditure and Allocations

		Expenditure across Heads (₹ Lakh Crore)					Share in Total Expenditure (%)					% Change			
		2021–22 (Act)	2022–23 (Act)	2023–24 (Act)	2024–25 (RE)	2025–26 (BE)	2021–22 (Act)	2022–23 (Act)	2023–24 (Act)	2024–25 (RE)	2025–26 (BE)	2022–23 (Act)/ 2021–22 (Act)	2023–24 (Act)/ 2022–23 (Act)	2024–25 (RE)/ 2023–24 (Act)	2025–26 (BE)/ 2024–25 (RE)
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
1	Total ependiture	37.94 (15.6)	41.93 (17.7)	44.43 (21.4)	47.16 (21.6)	50.65 (22.1)	100	100	100	100	100	10.5	6.0	6.1	7.4
2	General services	15.84 (9.71)	17.77 (9.1)	19.79 (9.0)	21.39 (8.5)	23.13 (9.0)	41.7	42.4	44.5	45.3	45.7	12.2	11.4	8.1	8.1
2.1	Interest payment and servicing of debt	8.05	9.29	10.64	11.38	12.76	21.2	22.1	23.9	24.1	25.2	15.3	14.6	7.0	12.2
2.2	Defence services	3.67 (37.6)	3.99 (35.8)	4.45 (34.7)	4.57 (34.9)	4.92 (36.6)	9.7	9.5	10.0	9.7	9.7	8.9	11.4	2.7	7.7
3	Social services	2.64 (3.6)	2.12 (5.7)	2.47 (3.5)	1.91 (6.0)	1.99 (5.6)	7.0	5.1	5.6	4.0	3.9	-19.7	16.3	-22.7	4.5
3.1	Education, sports, art and culture	0.50 (0.1)	0.57 (0.1)	0.88 (0.1)	0.64 (0.3)	0.68 (0.3)	1.3	1.4	2.0	1.4	1.3	16.0	52.3	-26.4	6.1
3.1.1	Education	0.45	0.52	0.81	0.58	0.62	1.2	1.2	1.8	1.2	1.2	15.4	57.1	-28.0	5.5
3.2	Medical and public health	0.72 (4.4)	0.39 (7.8)	0.39 (5.0)	0.44 (5.7)	0.49 (6.9)	1.9	0.9	0.9	0.9	1.0	-46.0	1.3	11.1	13.4
4	Economic services	12.51 (29.7)	14.17 (31.8)	14.23 (42.3)	15.95 (41.0)	15.84 (42.6)	33.0	33.8	32.0	33.8	31.3	13.3	0.4	12.1	-0.7
4.1	Agriculture and allied activities	4.84 (1.8)	4.71 (0.7)	3.93 (0.1)	3.77 (0.1)	3.72 (0.1)	12.8	11.2	8.9	8.0	7.3	-2.7	-16.6	-4.1	-1.3
4.1.1	Food storage and warehousing	3.05 (0.0)	2.76 (0.7)	2.14 (0.1)	2.00 (0.0)	2.06 (0.0)	8.0	6.6	4.8	4.2	4.1	-9.4	-22.6	-6.6	3.4
4.2	Rural development	1.01 (0.0)	0.94 (0.0)	0.93 (0.0)	0.9 (0.0)	0.90 (0.01)	2.7	2.3	2.1	1.9	1.8	-6.6	-1.0	-4.0	0.1
4.2.1	Rural employment	0.98	0.91	0.89	0.86	0.86	2.6	2.2	2.0	1.8	1.7	-7.8	-1.8	-3.5	-0.2
4.3	Energy	0.30 (11.6)	0.50 (4.2)	0.42 (5.3)	0.52 (7.0)	0.67 (16.0)	0.8	1.2	0.9	1.1	1.3	64.4	-16.1	24.6	27.3
4.4	Transport	3.25 (95.5)	3.88 (95.5)	5.37 (95.8)	5.42 (94.5)	5.26 (97.4)	8.6	9.3	12.1	11.5	10.4	19.4	38.4	0.8	-2.8
4.5	Communications	0.36 (11.1)	1.24 (44.8)	0.93 (65.2)	1.28 (58.7)	0.84 (60.0)	0.9	3.0	2.1	2.7	1.7	248.5	-25.2	37.7	-34.6
4.6	Industry and minerals	1.54 (5.4)	2.17 (3.0)	1.81 (3.5)	1.91 (6.6)	1.91 (6.4)	4.0	5.2	4.1	4.0	3.8	41.8	-16.9	5.6	0.0
5	Grants-in-aid and contributions	6.37 (8.3)	7.87 (14.7)	7.94 (20.3)	7.91 (21.6)	9.69 (23.3)	16.8	18.8	17.9	16.8	19.1	23.5	1.0	-0.3	22.4

BE–Budget Estimates, RE–Revised Estimates, Act–actuals.
Figures in parentheses are the share of capital expenditure in total expenditure under each head.
Source: Expenditure Budget, Budget documents, various years.

Bhandari and Sahu (2025) have identified seven specific non-agricultural sectors as being the largest employers and also the most labour-intensive outside agriculture. These include construction, trade (domestic, wholesale, and retail), land transport, education and research, manufacture of wearing apparel and "other services" (Table 4). Mundle (2025) suggested that the first six of these sectors be targeted for incentives to urgently maximise employment-intensive growth. Rapid growth of just these six sectors could pick up a large part of the backlog of unemployment and begin to draw workers out of the overcrowded agricultural sector. Further, instead of a separate ELI scheme, these six sectors can simply be folded into the existing PLI scheme since maximising production in these sectors would also maximise employment (Mundle 2025).[5]

Table 4: Non-agricultural Employment Share, Employment Intensity, Employment Multiplier and Effective Rate of Taxation

S No	Sectors	Non-agricultural Employment Share (%)	Employment Intensity	Employment Multiplier	Effective Rate of Taxation (%), 2022–23
	1	2	3	4	5
1	Construction	24	12.7	16.2	17.6
2	Trade	18.8	16.8	20.5	23.79
3	Land transport	6.5	12.4	16.4	22.98
4	Education and research	6.2	12.6	14.2	26.36$
5	Manufacturing of wearing apparel	4.6	55.7	67.6	20.68@
6	Hotels and restaurants	3.4	15	30.3	22.81
7	Other services	3.1	50.8	55.5	34.85

(1) "Employment intensity" is the number of persons directly employed per ₹1 crore of output.
(2) "Employment intensity" is the number of persons directly employed per ₹1 crore of output.
(3) Only profit-making companies (that is, profit before tax>0) have been considered in this analysis (column 5).
(4) Effective rate of taxation for all sector combined was 23.24%.
(5) "Manufacturing of wearing apparel" excludes custom tailoring.
(6) $ Includes education services only.
(7) @ Manufacture of textiles is taken as a proxy for "manufacture of wearing apparel."
Sources: (1) Mundle (2025).
(2) GoI (2025c): *Receipt Budget 2025–26*, Effective Tax Rate, Inclusive of Surcharge and Education Cess, of Companies across Industry, Appendix Table, pp 42–45.

It should also be pointed out that there are two fiscal alternatives to provide policy incentives to these sectors. One is the grant incentive as is being provided in the present PLI scheme. The other is a tax incentive. The effective tax rate for these sectors has been presented in Table 4 (column 5). Most of them are close to or more than the average effective tax rate of 23.24%. The effective tax rate for these sectors could be brought down to 15% or even 10% to give a strong boost to production in these sectors. Which of these two alternatives is to be chosen as the instrument of choice for PLI, should be determined by the administrative ease of implementation.

Of particular interest in this list of sectors is construction. This sector alone accounts for nearly one quarter of total employment outside agriculture, and for every additional ₹1 crore worth of production (gross value of output at 2022–23 prices), the sector generates 16 additional jobs. There is not much headroom for reducing the effective tax rate for this sector since it is already the lowest among all the sectors in the list. However, it is arguable that the sector may not need the incentive of a lower effective tax rate or any special PLI type incentive. It has been one of the fastest growing sectors in the real economy when public investment has been high in recent years. All that is required to maintain high growth of the sector is a high rate of capital expenditure.

Concluding Remarks

This takes us directly to the heart of the trade-off between two of the finance minister's characteristic budget priorities—capex growth and fiscal consolidation. So long as buoyant revenues could be combined with cutting down the growth of revenue expenditure, high capex growth could be combined with strong fiscal consolidation. However, with revenue expenditure growth already pared down to a minimum, fiscal consolidation could be sustained only by cutting down capex growth in 2024–25. This was immediately reflected in a distinct growth slowdown. The slow growth of capex has been extended to the 2025–26 budget, and it should come as no surprise if growth in 2025–26 is closer to 6% than 7%. It should also be no surprise that private sector capex remains weak since it is well known that in India, private investment is "crowded in" by public investment. Under today's highly uncertain conditions, high public investment is the only assurance that can drive up private investment.

It was mentioned at the outset that the close association between high government capex and growth demonstrated by policy simulation models has been confirmed in the real world by India's recent growth experience. If compressed government capex is treated as a necessary condition for fiscal consolidation, then it will not be possible to maintain the high growth of 8% or so required to absorb the backlog of unemployment and indeed to achieve the goal of Viksit Bharat by 2047. It is essential to use the flexibility provided by the new debt–GDP related fiscal consolidation framework to find a path to fiscal consolidation without compromising on government capital expenditure.

NOTES

1 See GoI (2025b) Appendix.
2 The model was further developed by Bose and Bhanumurthy (2015) to demonstrate the higher multiplier effect of capex compared to revenue expenditure. More recently, Sachdeva et al (2023) have used a forecasting model to estimate the value of the expenditure multipliers over the business cycle.
3 See also Figure 1 and Table 1 in this article.
4 A review of the schemes after one year in 2025 budget confirms that indeed very little progress has been made and that a draft cabinet note on ELI is still under preparation (GoI 2025d).
5 Mundle excluded "other services" as an omnibus residual sector in which individual components may be difficult to target for incentive policies. However, "food processing" should possibly be considered a candidate for such incentives. Though it does not figure in the Bhandari–Sahu list, the 2024 *Economic Survey* pointed out that this is a very employment intensive sector with much of it located in rural areas. Agricultural workers could easily move to jobs in this sector without any physical migration out of rural areas.

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