

Union Budget 2023-24 on Fiscal Consolidation

Why in news?

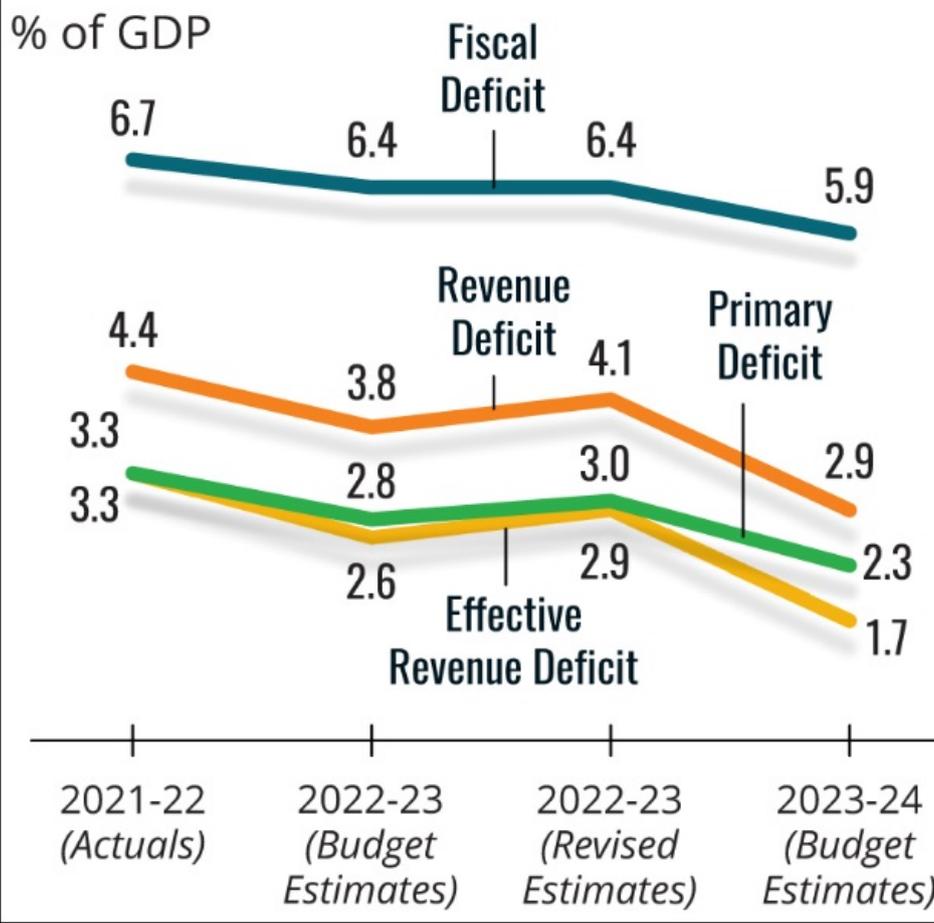
The 2023-24 Budget's attempt to address the aspirations of different segments of society is a good effort in a difficult situation and the main focus is on fiscal consolidation.

To know about the summary of Budget, click [here](#)

Why is fiscal consolidation important for an emerging economy?

- Fiscal consolidation means ways of narrowing fiscal deficit which is the amount spent by the government beyond its income and is measured as a percentage of the GDP.
- Government was financing its deficit
 - By creating money
 - Through unlimited recourse to the Reserve Bank
 - By issuing adhoc treasury bills which weakened the RBI's ability to direct effective money policy
- Increased government borrowing will crowd out the private sector in the debt market, leading to higher interest rates which will hurt economic growth.
- Speeding of economic growth depends on limiting the fiscal deficit by shifting the government expenditure from revenue to capital, according to the original FRBM Act, 2003.

Trends in Deficit



What is the FRBM Act?

- The Fiscal Responsibility and Budget Management (FRBM) Act was enacted in 2003.
- It led to the framing of FRBM Rules in 2004 that sets targets for the Central government to ensure fiscal discipline.
- **Amendment** - In 2018, the Centre is mandated to take appropriate steps to limit its fiscal deficit to **3% of GDP** by March 31, 2021 although this is an operational target.
- The mandated target pertains to the Centre's debt-GDP ratio which is to be brought down to **40%**.

What are the key facts of budget 2023-24?

- **New tax regime** - Those earning up to Rs 7 lakh a year need not pay any income tax under the new tax regime, giving a push for the regime which disallows all exemptions on investments.
- **[Mahatma Gandhi National Rural Employment Guarantee Act \(MGNREGA\) scheme](#)** - Union Budget allocated only Rs 60,000 crore that is 18% lower than the previous year allocation.
- **Allocation for health** - There is a 6.87% decrease in the allocation Department of Health Research this year, noting that it is due to lower utilisation of funds.

- **Food Subsidies** - The Centre has allocated a little above Rs 2 lakh crore for the food subsidy under the National Food Security Act (NFSA).
- **[Ayushman Bharat-PMJAY](#)** - The budget for the Ayushman Bharat Pradhan Mantri Jan Arogya Yojana (PMJAY) — the national public health insurance fund, saw an increase of about 12%.
- **Prime Minister's Kisan Samman Nidhi (PM-KISAN)** - the biggest scheme of Ministry of Agriculture and Farmers Welfare has received the lowest in five years and remained the same as the revised estimates for the current year.
- **Development of Scheduled Tribes and Scheduled Castes:** A fund of Rs 15,000 crore is allocated for the welfare of Particularly Vulnerable Tribal Groups (PVTGs).

How far do the Budget go to meet the goals of growth and stability?

- **Private Investment** - For raising growth in the medium term, augmentation of private investment relative to GDP needs to be ensured.
- **Tax Adjustments** - Growth may be stimulated indirectly due to tax slab adjustments which is applicable to the new income tax regime.
- **Increase in State Capital Expenditure** - Increase in central grants and also the facility of 50 years of interest-free loans for creating capital assets in 2023-24.

References

1. [The Hindu | Fiscal consolidation in the context of the Budget](#)
2. [The Hindu | Budget 2023-24](#)

