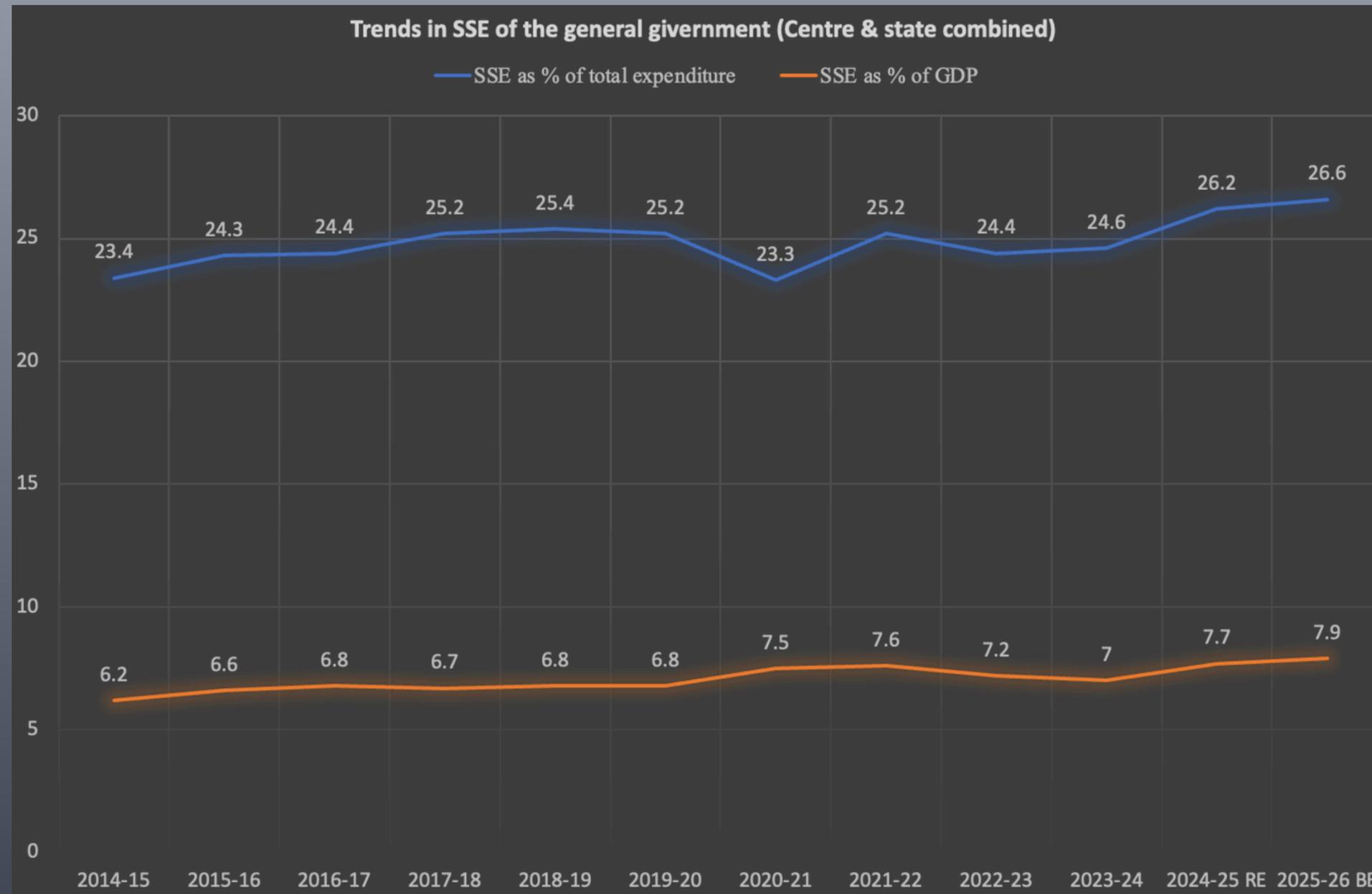




# **Part 2: Post-Budget Analysis 2026-27**

Saksham Raj, Aditi Lazarus, Nagappan Arun, Inika Gupta, Sumedha Sahoo,  
Srisoniya Subramoniam, Anvita Tripathi

# Social Sector Allocation Trend



- The long-term trend shows that India's social sector spending has remained structurally stagnant, hovering around 6–7.5% of GDP since 2014–15, with only a temporary pandemic-driven spike.
- As a share of total expenditure, SSE has barely moved beyond the 24–26% band, indicating no meaningful reprioritisation towards welfare. Together, this suggests that fiscal consolidation over the past decade has been achieved without expanding social investment, despite rising developmental needs.

Source: Budget at a Glance 2026-27

# Marginalised Groups – Bearing the Burden

Scheme	BE 25–26	RE 25–26	% Cut	BE 26–27
Mission Shakti	3150.0	2000.0	36.5	3605.0
Mission Vatsalya	1500.0	1100.0	26.7	1550.0
Saksham Anganwadi & POSHAN 2.0	21,960.0	20,949.0	4.6	23,100.0
PM Jan Vikas Karyakram	1,914.0	1,565.0	18.2	2,000.0
PM Vanbandhu Kalyan Yojana	5,582.0	4,023.0	27.9	5,700.0
NSAP	9,652.0	9,197.0	4.7	9,671.0
PM AJAY	2,040.0	1,250.0	38.7	2,140.0

Source: Expenditure Profile, 2026-27

- Schemes serving marginalised populations face the steepest fiscal compression, clearly demonstrating that it is those focused on the vulnerable who bear the greatest burden of cuts. Women- and child-centred programmes absorb the largest mid-year reductions: Mission Shakti falls by 36.5%, while Mission Vatsalya drops by 26.7%. This reveals how core protections for gender and child welfare are the first to be squeezed when fiscal space tightens.
- A similar pattern is visible for social groups with low institutional and political power: key development schemes for Scheduled Tribes decline by 27.9% (PM Vanbandhu Kalyan Yojana) and for minority communities by 18.2% (PM Jan Vikas Karyakram), signalling structural deprioritisation.

- Even basic income support for the elderly, widows and disabled under NSAP contracts by 4.7%, despite these groups having the highest dependency on state transfers. Together, these figures show a consistent trend: the more marginalised the beneficiaries, the deeper the cuts, indicating a fiscal adjustment pattern that disproportionately burdens the least empowered.

# Underspending Pattern in Social Sector Ministries

Department/Ministry	BE 25-26	RE 25-26	% Cut	BE 26-27
Rural Development	187754.5	186995.6	0.4	194368.8
Health & Family Affairs	95957.9	92925.9	3.2	101709.2
Social Justice & Empowerment	13611.0	11402.7	16.2	13687.6
Tribal Affairs	14925.8	10824.2	27.5	15422.0
Minority Affairs	3350.0	2160.5	35.5	3400.0
Labour & Employment	32646.2	12688.1	61.1	32666.3
Skill Development & Entrepreneurship	6100.1	2703.5	55.7	9885.8
Women & Child Development	26889.7	24373.9	9.4	28183.1

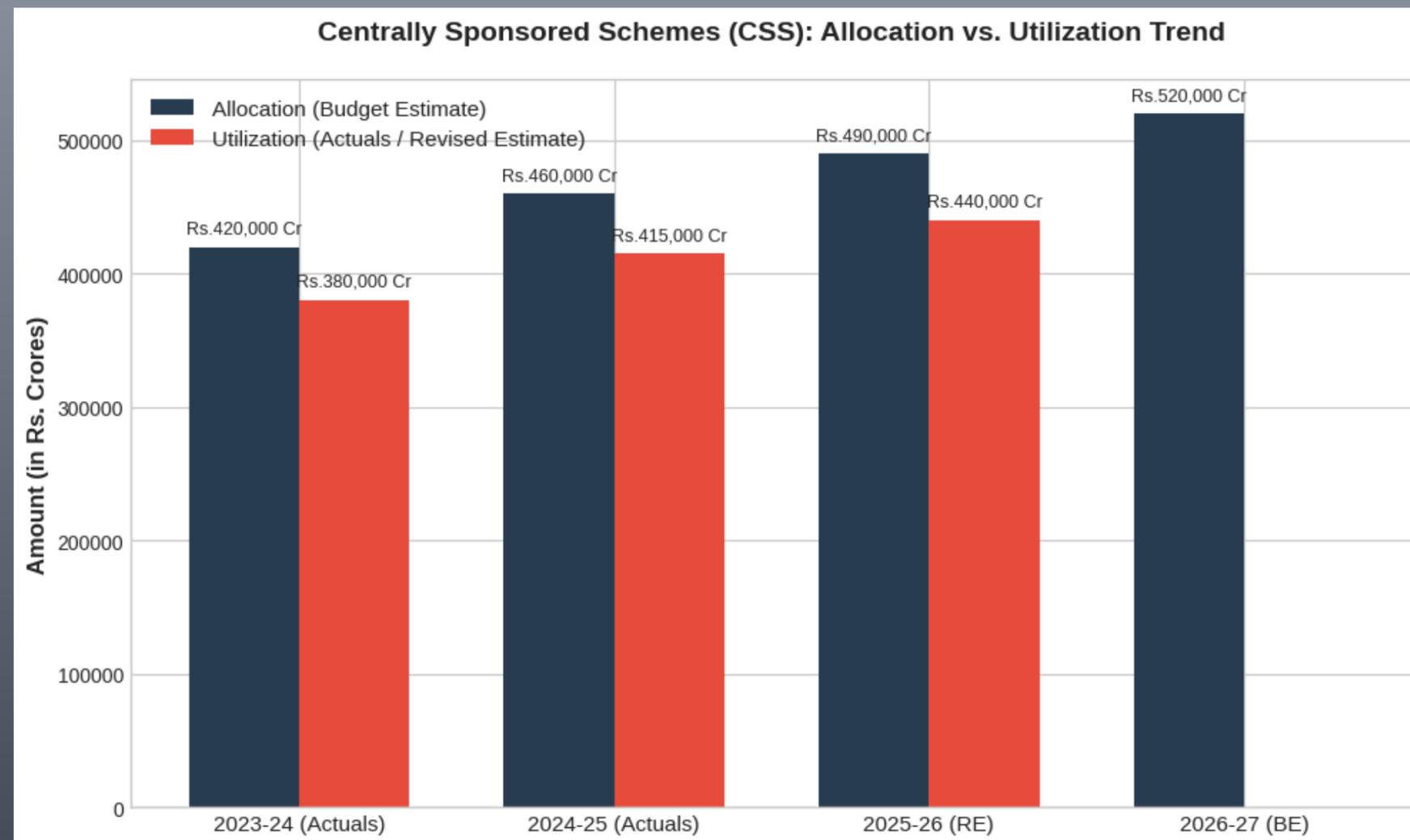
- Across the eight core social-sector ministries (Education, Health, Social Justice, Tribal Affairs, Minority Affairs, Labour, Skill Development, and Women & Child Development), the Expenditure Profile reveals a consistent pattern of mid-year fiscal compression.
- BE-RE comparisons show widespread underspending: while large ministries such as Health (3.16%) and Rural Development (0.40%) face moderate downward revisions, the most severe cuts fall on smaller, capacity-constrained departments serving vulnerable populations.
- Labour & Employment contracts by 61.1%, Skill Development by 55.7%, Minority Affairs by 35.5%, Tribal Affairs by 27.5%, and Social Justice by 16.2%, with Women & Child Development also declining by 9.4%.

Source: [Expenditure Profile, 2026-27](#)

- The recurring pattern of BE-to-RE reductions signals systemic underutilization driven by implementation bottlenecks, rather than mere resource scarcity, indicating deep administrative and absorptive capacity issues within India's social-sector ministries.

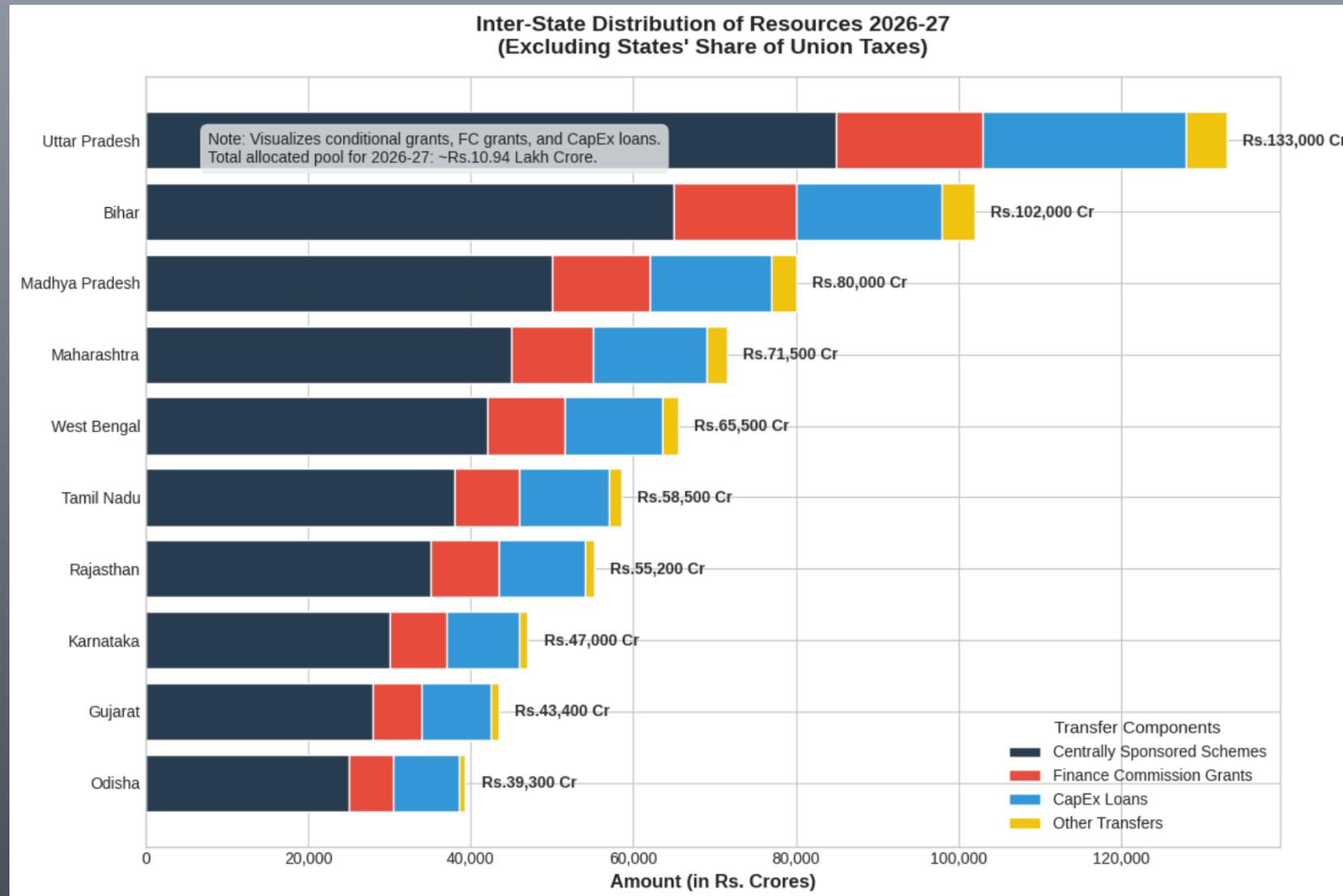
# Centrally Sponsored Schemes – Implementation Gaps

The efficacy of India's social sector expenditure is structurally constrained by the current architecture of Centrally Sponsored Schemes (CSS), which remain the primary vehicle for social welfare delivery. Despite their critical role, these schemes suffer from severe fragmentation, necessitating urgent restructuring to enhance state-level flexibility. Analytical observation of CSS allocations reveals persistent underutilization patterns, indicating that the core issue extends beyond mere funding shortages to systemic implementation gaps at the state level. Furthermore, the persistent failure to implement the Finance Commission's recommendations regarding CSS rationalization exacerbates these inefficiencies. The overarching CSS framework requires fundamental reform, as nominal allocations frequently fail to translate into actualized expenditure due to rigid design architectures and localized implementational lacks.



Source: EXPENDITURE BUDGET 2026-2027

# Inter-State Distribution of Spending

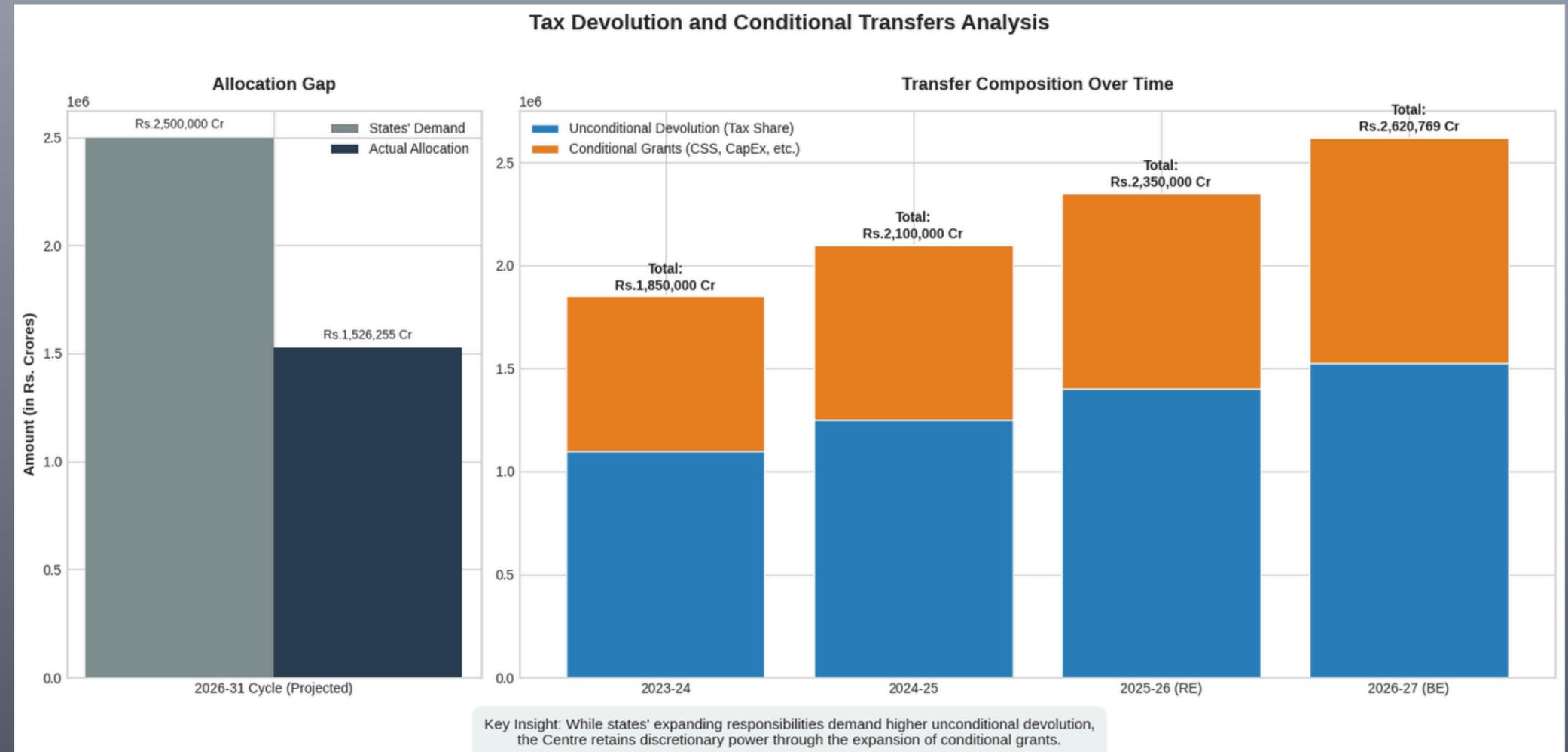


An examination of the inter-state distribution of spending reveals a concerning trajectory regarding regional economic divergence. By analyzing CapEx grants across varying state groups, a contrast emerges between top-performing and bottom-performing states in both absolute and per-capita terms. This disparity is further compounded by differing CSS dependence ratios, which heavily influence the composition of state fiscal space, specifically the balance between a state's own generated revenue and central transfers. The Centre's prevailing strategy of relying on highly centralised CapEx distribution inherently risks reinforcing, rather than improving, deep-seated regional inequalities. Thereafter, the current fiscal framework systematically disadvantages states with lower internal revenue-generation capacities, binding them to a structurally inequitable allocation mechanism

Source: EXPENDITURE BUDGET 2026-2027; Transfer to States Sheet

# Tax Devolution and Conditional Transfers

- The structural dynamics of federal resource sharing indicate a deliberate shift toward centralized discretionary fiscal power, particularly evidenced by the ratio of conditional to unconditional transfers over time. While the 16th Finance Commission has established the tax devolution rate for 2026-31, an analysis of states' fiscal demands versus actual allocations reveals that the devolution rate remains stagnant despite the rapidly expanding expenditure responsibilities borne by the states.



Source: Source: 16th Finance Commission Report; Transfer to States Sheet; Budget at a Glance.

- The volume of conditional grants such as CSS and CapEx grants, continues to trend upward; these structurally compelling states to provide matching contribution requirements. This growing reliance on conditional mechanisms fundamentally demonstrates that fixed devolution rates fail to adequately reflect expanding state obligations, allowing the Centre to consolidate its discretionary spending authority while leaving pivotal Finance Commission recommendations on CSS rationalisation unimplemented.

# States Fiscal Autonomy

## Fiscal Space & CSS Matrix

Fiscal Year	CSS Allocation (BE) (in Rs. Crores)	CSS Actual Release (in Rs. Crores)	Release Status (Allocation vs. Release)	State Fiscal Space: Own Revenue (%)	State Fiscal Space: Central Transfers (%)
2024-25 (Actuals)	4,60,000	4,15,000	<b>Allocation &gt; Release (Gap: ~9.8%)</b>	43%	<b>57%</b>
2025-26 (RE)	4,90,000	4,40,000	<b>Allocation &gt; Release (Gap: ~10.2%)</b>	41%	<b>59%</b>
2026-27 (BE)	5,20,000	Pending	-	39%	<b>61%</b>

Sources: [Transfer to States Sheet](#), [Finance Commission reports](#), [Expenditure Budget 2026-2027](#), [CAG reports](#).

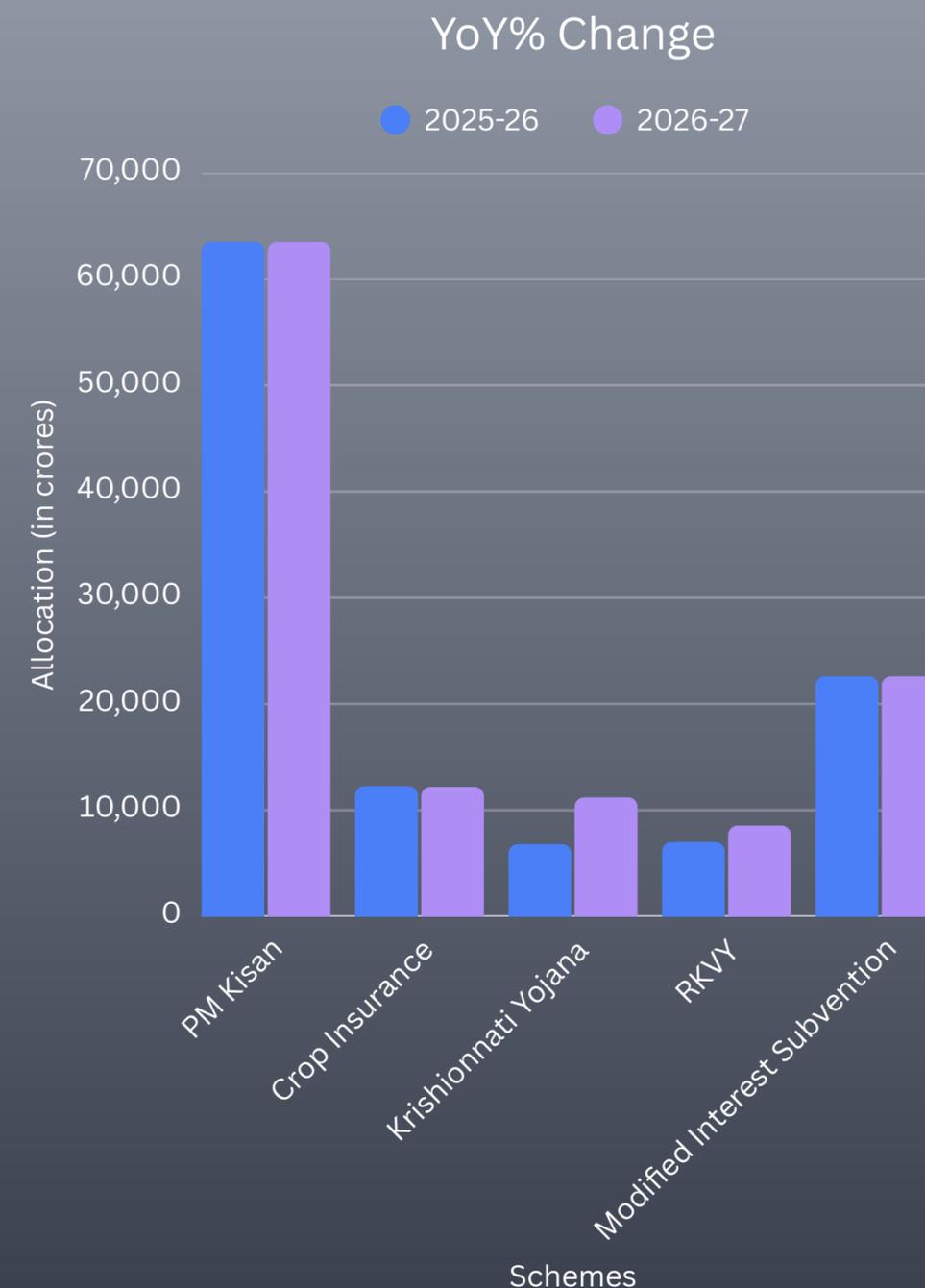
The cumulative impact of the current fiscal architecture has eroded state's fiscal autonomy, fundamentally shifting power dynamics from the states to the Centre. States are currently burdened with the implementation responsibilities for over 150 Centrally Sponsored Schemes, which often feature overlapping objectives and mandate the creation of separate administrative units, such as under Article 270. However, this implementation burden is strictly accompanied by a lack of design autonomy, unpredictable funding patterns characterized by release delays, and routine mid-year expenditure cuts. Top-down conditional mandates heavily restrict the flexibility required by states to adapt interventions to localized socio-economic needs. Ultimately, this reliance on centrally controlled spending via conditional transfers directly contradicts core federal principles, aggressively shrinking the available fiscal and policy space for state governments despite their foundational role in executing welfare delivery.

# Agriculture and Rural Development

- The combined budget for Agriculture and Rural Development including the Ministry of Agriculture & Farmers Welfare and the Ministry of Rural Development crossed ₹4.35 lakh crore in 2026-27. This shows continued prioritization of rural India in the Union Budget. Over the past decade, rural development allocations have risen sharply from approximately ₹87,765 crore in 2016-17 to approximately ₹2.73 lakh crore in 2026-27, which is more than a 211% increase.
- **B-G RAM G** - The Viksit Bharat-Guarantee for Rozgar and Ajeevika Mission (Gramin)' scheme, which has replaced MGNREGA, has received the largest share of the rural development budget - approximately ₹95,692 crore (about 40%). This scheme replaces the long-standing Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) as the primary rural employment framework, extending guaranteed employment to 125 days per rural household per year under a statutory framework tailored to Viksit Bharat 2047. Under this scheme, there has been increased concentration on rural infrastructure assets, livelihood growth and integrated Gram Panchayat plans.
- **MGNREGA** - Post-VB-G RAM G transition, MGNREGA allocation was sharply cut to ₹30,000 crore in 2026-27 which amounts to about 66% lower than the previous year's revised estimate. This dramatic reduction signals a policy shift away from traditional wage employment schemes toward asset-linked, infrastructure-oriented rural development.
- **PMAY-G** - The Pradhan Mantri Awas Yojana-Gramin scheme which is a rural housing scheme which indicates a shift toward asset creation and rural infrastructure. The allocation for 2026-27 amounts to approximately ₹54,917 crore, almost a 69% increase.
- **Jal Jeevan Mission** - which prioritized pipe water supply to rural homes, amounts to an allocation of ₹67,000 crore.
- **PM Kisan Samman Nidhi** - remains stable in outlay, indicating sustained income support to farmers without major expansion. The allocation for the same remains steady at ₹63,500 crores.

# Agriculture Sector – Allocation and New Initiatives

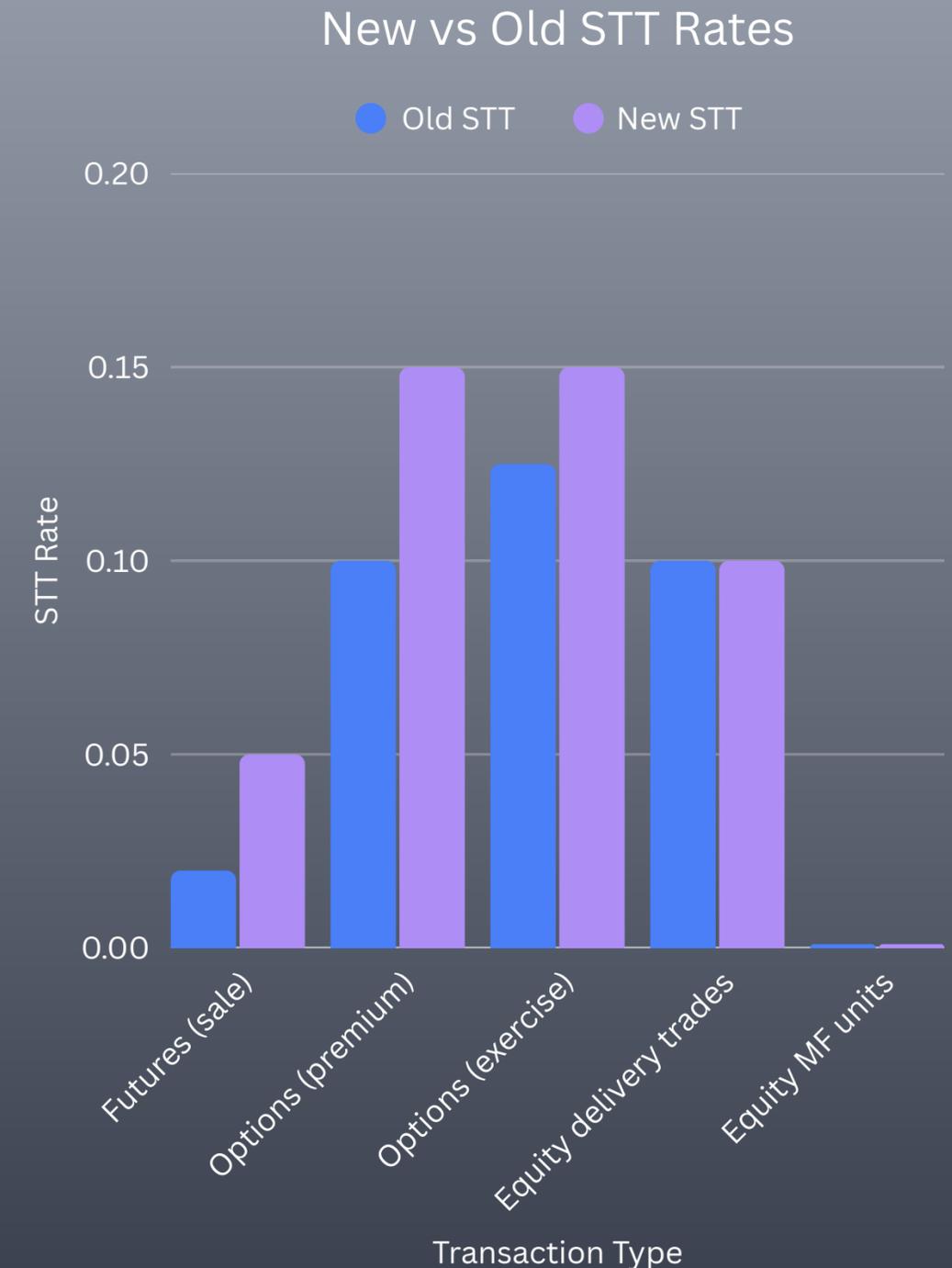
- The total allocation to the Ministry of Agriculture & Farmers’ Welfare in 2026-27 was ₹1,40,529 crore, which is a 5.4 % increase over the revised estimate of 2025-26. Within this, about 93 % goes to the Department of Agriculture & Farmers’ Welfare, with the rest to agricultural research and education.
- **Bharat-VISTAAR**, a Virtually Integrated System to Access Agricultural Resources which is a multi-lingual AI tool to integrate AgriStack portals and the ICAR package for better advisory support, weather data, and practices. ₹150 crore were allocated to this scheme.
- On the other hand, ₹350 crore has been earmarked for high-value agriculture support targeting export-oriented crops including coconut, cashew, walnuts, cocoa, almonds, sandalwood and other value niches. The government announced dedicated programmes to enhance production, processing and export competitiveness of these crops. These initiatives reflect a broad policy push from low-value staples toward higher value, export-linked agriculture aimed at diversifying farmer incomes and improving global competitiveness.
- **Krishionnati Yojana** has one of the largest increases which amounts to ₹11,200 crores, among agriculture schemes, absorbing and strengthening components like horticulture missions and marketing infrastructure support. The boost suggests the government’s focus on value-chain enhancement from input access and mechanization to value addition and market linkages.
- **PM Fasal Bima Yojana** (PMFBY) allocation in 2026-27 is ₹12,200 cr, nearly stable but marginally lower compared to 2025-26. Despite frequent extreme weather events, the stagnant insurance budget and absence of large increases highlight structural challenges in extending comprehensive risk protection to farmers.



Source: [PRS Legislative Research](#)

# Securities Transaction Tax (STT)

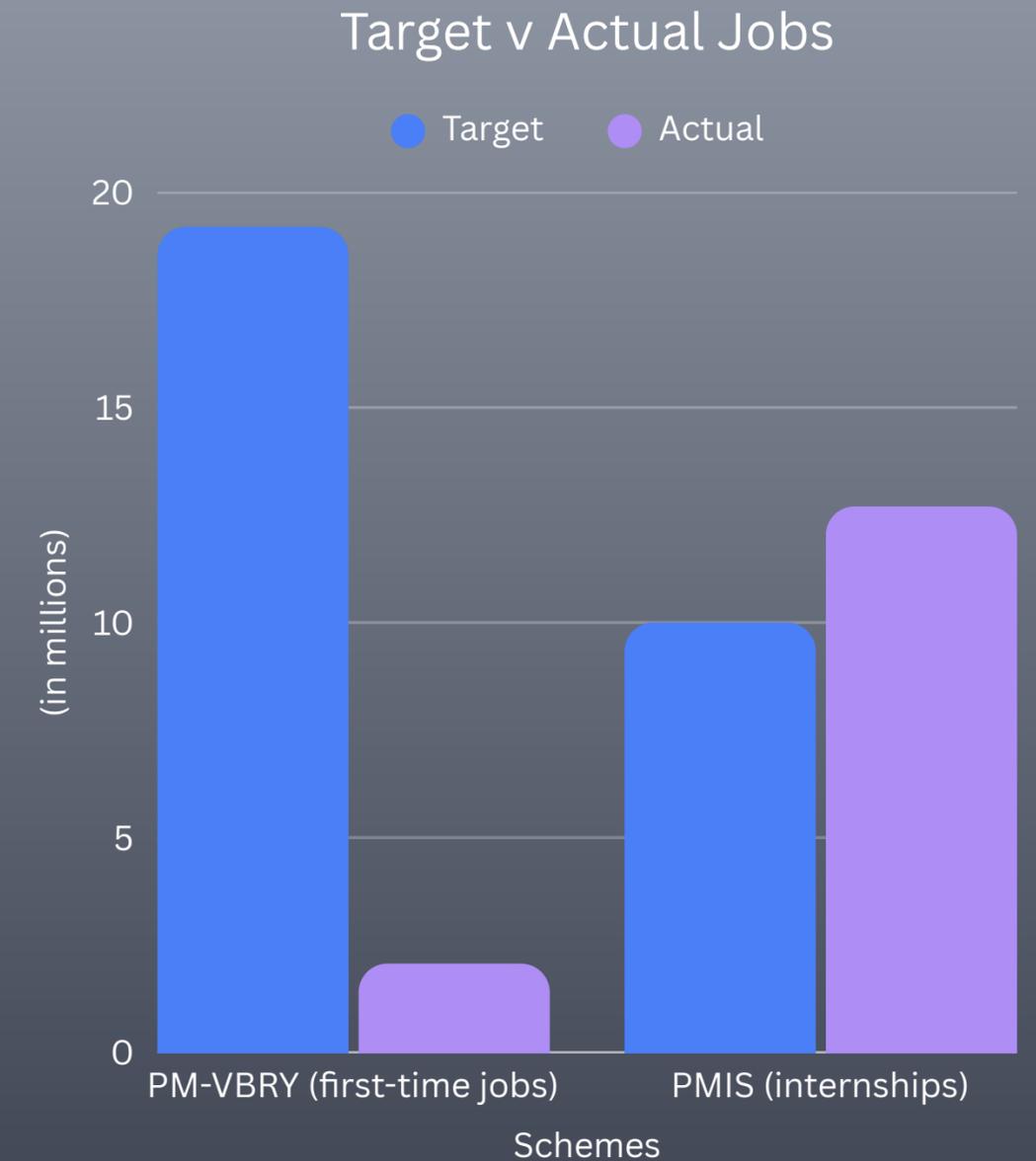
- Securities Transaction Tax (STT) is a transaction-based tax levied on trades in securities executed on recognised Indian exchanges. It is collected automatically at the time of transaction on both buy/sell trades, regardless of profit or loss. STT is a key part of the government's "other taxes" revenue stream in the Finance Bill 2026.
- The Union Budget 2026-27 significantly raised STT specifically on Futures and Options (F&O) transactions to curb excessive retail speculation in derivatives for transactions on or after 1 April 2026.
- The STT on delivery equity and mutual fund units remains unchanged by the 2026-27 Budget. The increases are specific to derivatives (F&O).
- For active F&O traders, the hike translates to significantly higher trading costs particularly for futures ranging from 0.02% → 0.05%. This affects net profitability and may raise the break-even cost threshold for trades. Analysts note the change is material for intraday or high-frequency F&O traders.
- The Government's rationale for raising STT on F&O is to curb excessive retail speculation and gambling-like behaviour in the stock market's derivatives segment. Higher transaction taxes make routine Futures & Options trading more expensive, thereby acting as a friction to ultra-short-term speculative turnover.



Source: MMSCO

# Employment Schemes Reality

- **Pradhan Mantri Viksit Bharat Rozgar Yojana (PM-VBRY):** This is a flagship employment-linked incentive scheme with a budget outlay of approximately ₹99,446 crore to create over 3.5 crore jobs between 1 Aug 2025 and 31 Jul 2027. It aims to support both first-time employees (approx. 1.92 crore targeted) and employers for additional hires via EPFO-linked incentives.
- **Viksit Bharat-Guarantee for Rozgar and Ajeevika Mission (Gramin) – VB-G RAM G:** This is a new statutory framework which replaces MGNREGA to guarantee 125 days employment per rural household annually.
- **PM Internship, Skill India (PMKVY/PMIS etc.):** This internship scheme aims at providing structured employment experience. Skill development continues under multiple schemes supporting employability (e.g., PM Kaushal Vikas Yojana).
- **Allocation vs Actual Utilisation:** PMVBRY reported 235,459 establishments registered and approx. 2.07 million first-time employees benefitted by end of 2025 which is far below the 3.5 crore target over two years. The PM Internship Scheme saw very low fund utilisation (about ~₹64.9 crores out of ~₹4,800 crores), with only a few thousand interns completing placements, pointing to weak on-ground uptake.
- **Formalization Outcomes:** In regions like Lucknow, formal jobs saw localized growth (approx. 6-8% increase in formal employment) tied to PMVBRY engagement and EPFO registrations, signaling some sectoral impact. Lack of real-time nationwide job creation data makes evaluation difficult wherein official EPFO enrolments are used as proxies, not direct employment counts. Core skilling schemes such as PMKVY have trained millions over the years but do not directly guarantee wage employment, indicating a structural gap between training outputs and placements.
- PM Internship Scheme utilisation was extremely low (only ~1.35% of allocated funds were used by Dec 2025), indicating design and outreach gaps. Early data suggests actual beneficiary numbers for PMVBRY are far below the long-term target, pointing to slower job generation momentum in the initial rollout phase. Although formalisation (via EPFO) shows growth in some areas, the scale remains constrained compared to the overall labour market, dominated by informal employment.



Source: [EPFO](#), [PIB](#)

# Education Sector - Allocation vs Needs

- Total Education Expenditure and Growth: The Ministry of Education has been allocated ₹1,39,289 crore for FY 2026-27. This represents a 14% increase over the FY 2025-26 Revised Estimates (RE) of ₹1,21,949 crore.
- Education as % of GDP: The combined spending of the Centre and States on education is approximately 4.1% of GDP, which remains significantly lower than the National Education Policy (NEP) 2020 target of 6%.
- Major Schemes (2026-27 BE):
  - Samagra Shiksha: ₹42,100 crore.
  - PM POSHAN: ₹12,750 crore.
  - PM SHRI: ₹7,500 crore.
  - PM-USHA: ₹1,850 crore.
- Note (State-Level Cuts): Despite central increases, budget cuts have led to an 8% reduction (approx. ₹5,719 crore) in approved budgets for States in 2025-26 compared to the previous year.
- Emphasis: While allocations increase on paper, underutilization persists. By December 2025, the Department of School Education had utilized only 41% of its allocation. There is a strategic shift toward "exclusivity over universality," with higher growth for model schools (PM SHRI) while the flagship Samagra Shiksha's share of the budget has declined from 62% in 2019-20 to 50% in 2026-27.

Key Education Schemes	2025-26 RE (₹ Cr)	2026-27 BE (₹ Cr)	% Change
Samagra Shiksha	38,000	42,100	11%
PM POSHAN	10,600	12,750	20%
PM SHRI	4,500	7,500	67%

Source: PRS India

# Healthcare Sector - Allocation vs Policy Targets

- Total Health Expenditure and Growth: The Ministry of Health and Family Welfare (MoHFW) allocation crossed the ₹1 lakh crore milestone, reaching ₹1,06,530 crore in 2026-27. This is a 10% increase over the 2025-26 RE of ₹96,854 crore.
- Health as % of GDP: Public health spending is approximately 1.8% of GDP, remaining well below the 2.5% target set by the National Health Policy (NHP) 2017.
- Major Schemes (2026-27 BE):
  - National Health Mission (NHM): ₹39,390 crore (37% of total budget).
  - PMJAY (Ayushman Bharat): ₹9,500 crore.
  - PM-ABHIM: ₹4,200 crore.
  - PMSSY (New AIIMS): ₹2,005 crore.
- Note (Public Health Targets): The budget shows a structural pivot toward insurance-based care (PMJAY) rather than direct primary service provision, with NHM's share of the health budget declining from 44.5% in 2024-25 to 38.7% in 2026-27.
- Emphasis: Experts suggest underspending (NHM utilization was only 62% in FY 2024-25) points to structural design issues and administrative bottlenecks rather than just funding gaps.

# Infrastructure-Heavy Social Schemes – Low Utilisation

- Major Schemes Comparison (BE vs. RE/Actuals):
  - Jal Jeevan Mission (JJM): 2025-26 RE (₹17,000 crore) was 75% lower than the BE (₹67,000 crore). No funds were released to states in 2025-26 as of February 2026.
  - PM Awas Yojana-Rural (PMAY-G): 2025-26 RE (₹32,500 crore) was 41% lower than the BE (₹54,832 crore).
  - PM Awas Yojana-Urban (PMAY-U): 2025-26 RE (₹7,900 crore) was 69% lower than the BE (₹25,794 crore).
  - PM Gram Sadak Yojana (PMGSY): 2025-26 RE was ₹11,000 crore against a BE of ₹19,000 crore.
- Utilisation Rates & Unspent Balances: In 2024-25, these schemes utilized less than two-thirds of their budgets (except rural roads). States reported a massive opening balance of ₹21,076 crore for rural housing in 2025-26.
- Key Insight: Despite high paper allocations to signal political intent, actual spending is stifled by state-level implementation gaps, administrative capacity issues, and repeated deadline extensions.

# Urban Development - Infrastructure Focus

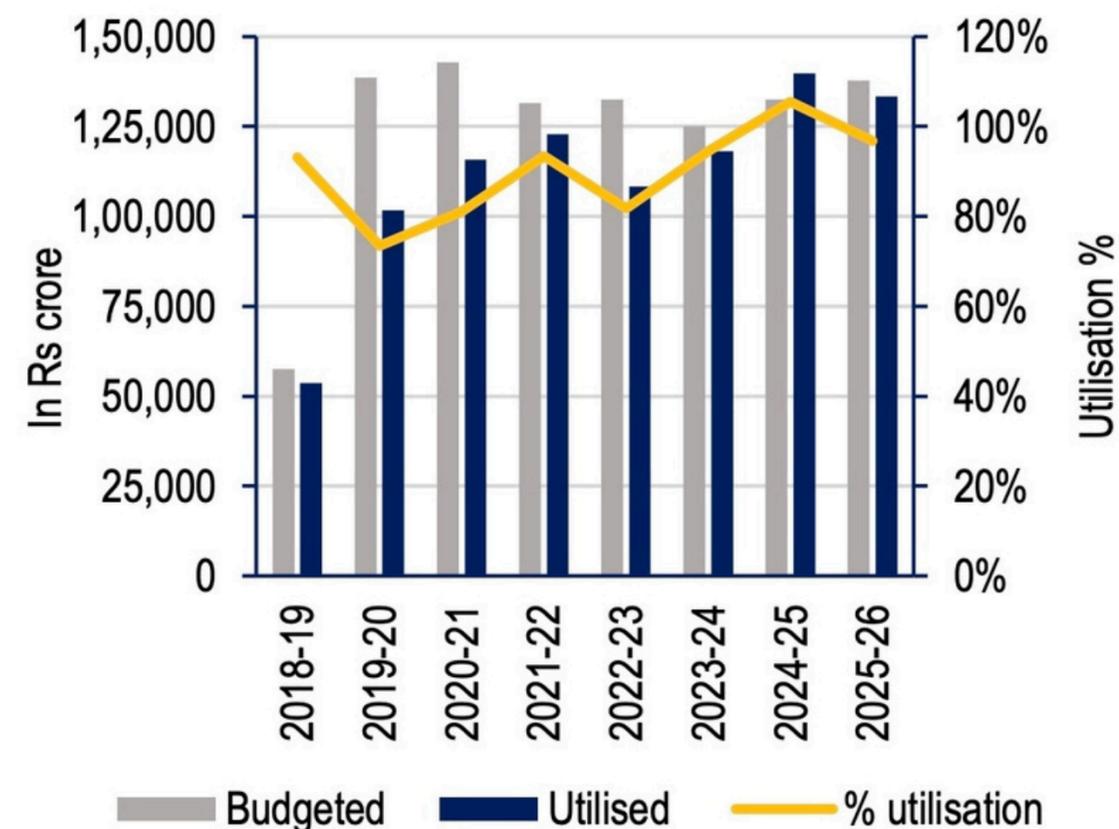
- Urban Development Allocation: The Ministry of Housing and Urban Affairs (MoHUA) is allocated ₹85,522 crore for 2026-27. While this is a 50% increase over the 2025-26 RE (₹57,203 crore), it is a 12% decline from the previous year's BE.
- Major Schemes (2026-27 BE):
  - MRTS & Metro Projects: ₹30,996 crore (36% of total budget).
  - PMAY-Urban (including 2.0): ₹22,025 crore.
  - Urban Challenge Fund (UCF): ₹10,000 crore.
  - AMRUT: ₹8,000 crore.
  - Swachh Bharat Mission (SBM-U): ₹2,500 crore.
- Note (PMAY-U Phase-out): Housing completion is slowing down; the Centre announced that no further assistance will be available after December 2025 for PMAY-U, with states required to bear remaining costs.
- Emphasis: A strategic shift is visible away from traditional welfare housing toward "bankable" urban infrastructure and city-level competitiveness, evidenced by the restoration of the Urban Challenge Fund and the mapping of City Economic Regions.

Urban Scheme Composition	FY 2026-27 BE (₹ Cr)	% of MoHUA Budget
Metro & MRTS	30,996	36%
PMAY-Urban / 2.0	22,025	26%
Urban Challenge Fund	10,000	12%
AMRUT	8,000	9%

Source: PRS India

- **Food Subsidy:** Budget 2024-25 outlay of ₹2.05 lakh crore (BE) vs ₹2.72 lakh crore actual in FY2023. As a share of GDP, food subsidy fell from ~0.8% in 2013-14 to 0.5% by 2019-20, spiking to 2.7% in 2020-21 due to one-time loan clearances.
- **Fertiliser Subsidy:** Allocated ₹1.71 lakh crore in FY2026-27 (BE) – about 3.2% of the Union budget. Fertiliser subsidy has risen ~8% p.a. since 2015 is driven by higher input costs, but remains tightly controlled by limiting urea and P&K subsidies.
- **Petroleum Subsidy:** Direct oil/fuel subsidies have been largely phased out. Current budget support is only for LPG/kerosene transfers: FY2025-26 BE ~₹1,500 cr (DBTL) + ₹9,100 cr (PMUY). Diesel/petrol are now fully market-priced and PDS kerosene sold at cost.

**Figure 1: The Ministry has utilised 90% of the allocated funds between 2015-16 and 2025-26**



Note: Revised Estimates have been used as Actuals for 2025-26.  
Sources: Budget Documents for various years; PRS.

# Green Energy and Sustainability

- PM Surya Ghar (Rooftop Solar): ₹22,000 crore in FY2026-27 (BE), up 10% from previous year. This flagship scheme (free rooftop solar for 1 crore homes) leads green allocations.
- PM-KUSUM (Solar Pumps/Grids): ₹5,000 crore (BE) for FY2026-27, maintained at the FY2025-26 RE level. (Supports solarisation of farm pumps and off-grid panels.)
- Battery Storage (BESS – VGF): ₹1,000 crore (BE). Viability-gap funding for grid-scale batteries saw a 5x increase (from ₹200 cr in FY25 to ₹1,000 cr).
- Carbon Capture (CCUS): ₹500 crore (new in FY2026-27). First dedicated budget outlay for carbon capture, utilisation & storage.
- PM E-DRIVE (Electric Vehicles): ₹1,500 crore (BE). This is an increase (from ₹993 cr in FY25) to bolster EV incentives.
- Other: Continued support for renewables: total renewable energy budget up to ₹32,915 crore (FY27 BE) (30% higher than FY26 RE). Wind, hydro remain flat (₹500 cr, ₹51 cr). Green hydrogen mission steady at ₹600 cr.
- Budget Share: Even with these increases, green energy allocations are a small part of the budget (~0.6% of Rs 53.47 lakh cr total expenditure).

## Budget Outlay for Major Renewable Energy Programmes

Central Scheme	INR in Crore			
	2024-25 (Actual)	2025-26 (BE)	2025-26 (RE)	2026-27 (BE)
PM Surya Ghar Muft Bijli Yojana	7817.61	20,000	17,000	22,000
PM-KUSUM Yojana	2,560	2,600	5,000	5,000
Solar Power (on-grid)	6,584	1,500	1,000	1,775
Solar Power	17,107.07	24,224.36	23,124.36	30,539.36
Wind Power	800	500	500	500
Hydro Power	30.21	51	51	51
Green Energy Corridor	346.07	600	800	599.99
National Green Hydrogen Mission	300.97	600	300	600
Bio Energy	160.12	325	175	275
Power System Development Fund	1190.87	1100.08	1099.58	1102.62
VGF for BESS		200	100	1,000
Energy Efficiency Financing Facility - ADEETIE		72	15	50
Carbon Capture Utilization and Storage Scheme				500
PM E-DRIVE Scheme	993.05	4,000	1,300	1,500
PLI for ACC Battery Storage	12.28	155.76	13.31	86.01

Source: Budget Document, Energetica India Research

# Medium-Term Fiscal & Climate Risks

- **Hidden Liabilities:** Much lending is off-budget. FY2025-26 included ₹1.5 lakh crore in 50-year interest-free loans (SASCI) to states – up from ₹11,830 cr in 2020. This now finances ~19% of states' capital outlay. Such debt does not show in official deficit/GDP but still raises future liabilities.
- **Sovereign Guarantees:** The government has extensive guarantees on infrastructure/PSU debt (FCI, IRFC, etc.). These contingent liabilities (on the order of 2–3% of GDP from past estimates) pose fiscal risk if defaults occur, yet they are not on the balance sheet.
- **Pension & Ageing:** India's 60+ population is rising (now ~10%, ~19% by 2050). Central pensions (civil, defence, judiciary) already account for a growing share of expenditure (~1.5–2% of GDP). With limited national pension system provisions, ageing could substantially increase outlays. (E.g., withdrawals under NPS remain tax-inefficient, indicating low formal pension coverage.)
- **Climate Finance Gap:** Meeting India's climate goals (net-zero by 2070) requires enormous investment. Global estimates (UNEP) put the adaptation finance gap for developing countries in the trillions by 2030. India's budgeted climate spending (renewables, CCS, adaptation schemes) remains tiny in comparison. A major shortfall looms if public finance does not scale up.
- **Current low interest rates (r)** have aided consolidation (debt/GDP ~55.6%, deficit 4.3% GDP). But if inflation rises and the RBI tightens, real interest could exceed growth ( $r > g$ ). In such a scenario, debt could spiral even under current borrowing plans; conversely, sustained growth above borrowing costs would keep debt stable.

# Political Economy – Infrastructure vs Welfare

- **Expenditure Contrasts:** Infrastructure ministries receive outsized budgets and publicity. In FY2026-27 (BE): Defence ~₹7.85 lakh cr (15% of total), Roads ₹3.10 lakh (6%), Railways ₹2.81 lakh (5%). In contrast, core welfare-related outlays are lower share: Food & Public Distribution ₹2.40 lakh (4.5%), Rural Dev ₹1.97 lakh (3.7%), Agriculture ₹1.40 lakh (2.6%). (Even if welfare transfers like pensions and DBT total large sums, they are dispersed and less ‘visible’.)
- **Visibility & Media:** Brick-and-mortar projects yield photo-ops and media coverage (e.g. ribbon-cuttings for highways/bridges) that welfare schemes lack. Election literature and state budgets often highlight km of roads or new metro lines, while PDS/insurance are simply line items. Although rigorous media-analysis is scarce, experts note welfare benefits (DBT, free ration) get far less front-page attention than flashy infrastructure.
- **Political Incentives:** Leaders derive electoral mileage from tangible projects. Visible infrastructure like “we built X km highway” translates easily into credit claims. By contrast, welfare like “given Y crores in subsidy” is abstract. This creates a skew where policy-makers may prioritise infrastructure even if welfare spending (health, pensions, safety nets) could be equally or more impactful for equity.

**Table 4: Ministry-wise expenditure in 2026-27 (Rs crore)**

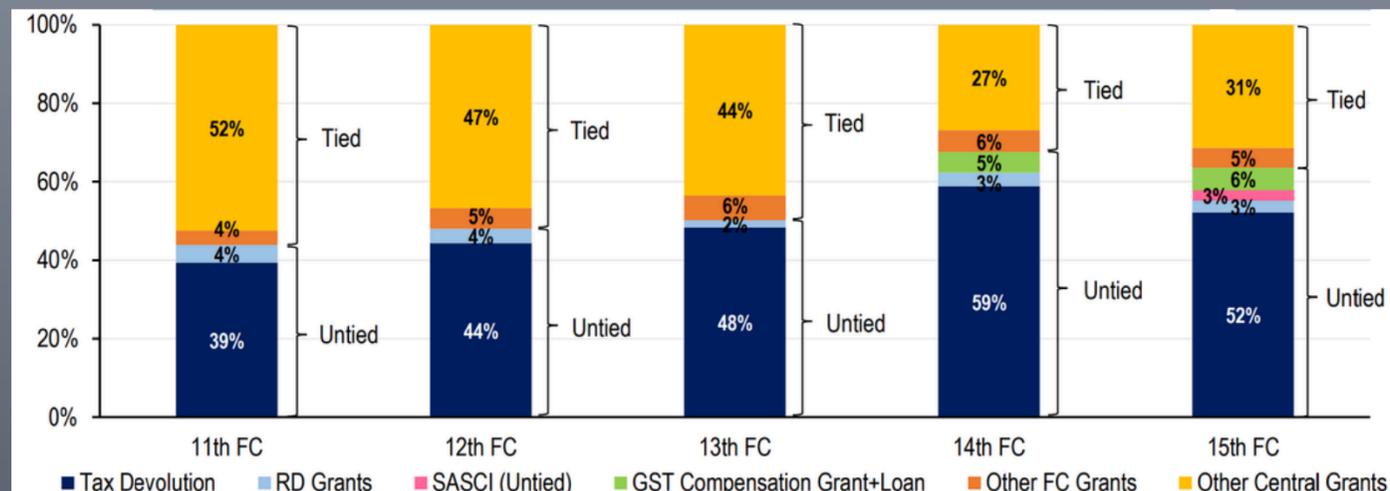
	Actuals 2024-25	Budgeted 2025-26	Revised 2025-26	Budgeted 2026-27	% change (2025-26 RE to 2026-27 BE)
Defence	6,36,003	6,81,210	7,32,512	7,84,678	7.1%
Road Transport and Highways	2,99,460	2,87,333	2,87,142	3,09,875	7.9%
Railways	2,55,263	2,55,445	2,55,466	2,81,377	10.1%
Home Affairs	2,24,585	2,33,211	2,41,485	2,55,234	5.7%
Consumer Affairs, Food and Public Distribution	2,15,009	2,15,767	2,38,409	2,39,521	0.5%
Rural Development	1,79,307	1,90,406	1,88,753	1,97,023	4.4%
Chemicals and Fertilisers	1,84,993	1,61,965	1,91,186	1,77,061	-7.4%
Agriculture and Farmers' Welfare	1,39,744	1,37,757	1,33,370	1,40,529	5.4%
Education	1,10,736	1,28,650	1,21,949	1,39,289	14.2%
Health and Family Welfare	90,684	99,859	96,854	1,06,530	10.0%
Communications	1,47,832	1,08,105	79,768	1,02,267	28.2%
Jal Shakti	46,720	99,503	41,437	94,808	128.8%
Housing and Urban Affairs	53,255	96,777	57,204	85,522	49.5%
<b>Total Expenditure</b>	<b>46,52,867</b>	<b>50,65,345</b>	<b>49,64,842</b>	<b>53,47,315</b>	<b>7.7%</b>

Sources: Expenditure Budget, Union Budget 2026-27; PRS.

# Centre–State Power Shift

- Untied transfers declined from 68% to 64% during 15th Finance Commission, After steady growth from 44% (11th FC) to 68% (14th FC), share of untied transfers dropped to 64% (2021-26), reversing the 14th FC's emphasis on state expenditure flexibility.

The Share of Untied Transfers in Total Transfers to States Decreased during the 15th FC Period



Source: [PRS Legislative Research](#)

- SASCI unconditional component collapsed from 80% to 38% in three years, In 2022-23, Rs 80,000 crore (80%) was unconditional; by 2025-26, only 38% (Rs 57,000 crore) remained unconditional while 62% tied to Centre-mandated schemes like PM Gati Shakti and Jal Jeevan Mission.
- Budget 2025-26 allocated Rs 1.5 lakh crore SASCI—12.7x growth since 2020-21 as SASCI grew from Rs 11,830 crore (2020-21) to Rs 1,50,000 crore, now financing 19% of state capital outlay versus 2.9% earlier, creating structural dependence on conditional central financing.
- 14 states finance over 25% of capital outlay through SASCI loans while states including Manipur (68%), Nagaland (53%), Arunachal (45%), and Meghalaya (44%) rely heavily on Centre-controlled capex in 2024-25, eroding autonomous infrastructure prioritization.
- States' own capital spending stagnated at 2.1-2.2% of GDP while SASCI surged with capital outlay excluding SASCI remained flat (2020-25), indicating 50-year interest-free loans substituted rather than supplemented state capex, with 62% now conditional on central priorities.

# The Consolidation Choice of Who Bears the Burden?

- Fiscal consolidation has been achieved not through revenue expansion, but through deliberate expenditure recomposition as capital expenditure prioritised while revenue-funded welfare programmes compressed to accommodate debt servicing obligations that now pre-commit nearly 40% of revenue receipts before any policy priorities are funded.
- Social sector allocation has declined to its second-lowest level in over a decade, indicating that a large portion of the adjustment burden falls on welfare spending rather than being distributed across the fiscal envelope. This concentration of consolidation costs raises fundamental questions about distributional equity and political sustainability.
- The underlying assumption is that infrastructure-led growth will generate sufficient economic expansion to validate temporary welfare compression, yet this depends on demand conditions, weak household balance sheets and moderate consumption growth may undermine the multiplier effects upon which the entire strategy rests.
- Tax policy has been deployed as a behavioural instrument rather than a purely revenue-raising mechanism, as a reduction in TCS rates eases middle-class liquidity pressures, while STT increases on derivatives temper speculative financial activity, yet neither measure structurally expands fiscal space to accommodate both infrastructure ambitions and welfare adequacy simultaneously.
- A balanced fiscal mix that protects foundational welfare adequacy while pursuing infrastructure expansion would strengthen long-term sustainability, with automatic indexation of major welfare schemes to inflation, which could ensure real-term protection without requiring repeated political interventions, embedding welfare sustainability within the fiscal framework itself.

# The Gap Between Allocation and Impact

- Systematic underspending across welfare ministries reveals structural implementation constraints beyond funding adequacy, with ministries serving marginalised populations consistently experiencing mid-year cuts and low utilisation, suggesting delivery mechanisms are broken rather than merely underfunded, requiring institutional rather than budgetary solutions.
- Infrastructure schemes, despite high allocations and political emphasis, demonstrate persistently low absorption rates with frequent deadline extensions, this indicates that capacity constraints at state and local levels limit the effectiveness of the capital expenditure push, potentially creating underutilised assets rather than productive infrastructure.
- The Centrally Sponsored Schemes architecture remains fragmented with overlapping mandates, rigid central design, and state matching requirements that reduce policy flexibility despite repeated Finance Commission recommendations for rationalisation. The proliferation of schemes continues to impose an administrative burden while delivering suboptimal outcomes, suggesting that comprehensive consolidation to 30-40 core schemes with outcome-based funding would reward utilisation over allocation maximisation.
- Manufacturing employment outcomes lag industrial policy inputs significantly, with capital-intensive sectors dominating value addition while labour-intensive sectors provide employment. This structural mismatch means high-growth sectors are not translating into broad-based job creation, limiting the social sustainability of the growth model.
- Employment schemes face a credibility gap between announcement and execution—while headline initiatives promise formalisation and skill development, actual job creation remains concentrated in informal sectors and self-employment rather than salaried formal positions, with skill certification not translating into market-valued employment at anticipated rates.

# Eroding Federalism Through Conditional Grants

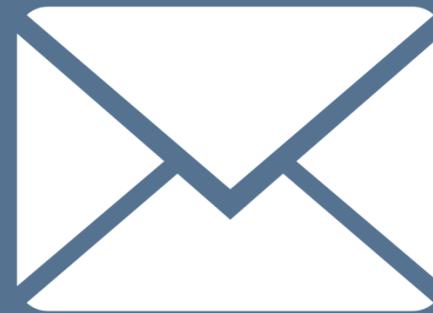
- Fiscal devolution remains unchanged despite expanding state expenditure responsibilities, while conditional grants through CSS and capital expenditure schemes grow relative to unconditional transfers as this architectural shift centralises discretionary spending power with the Union, while implementation responsibility and political accountability remain with states.
- States bear the burden of delivering social sector services like health, education, nutrition, and welfare, yet face constrained fiscal autonomy to design context-appropriate interventions, with centrally mandated schemes requiring matching contributions that strain state budgets and reduce flexibility to address local priorities within their constitutional domain.
- Real-term welfare adequacy is eroding for vulnerable populations as nominal allocations remain static despite inflation, while fixed cash transfers lose purchasing power progressively, yet the absence of automatic indexation mechanisms means protection requires repeated political decisions, making welfare sustainability dependent on discretion rather than design.
- Regional inequality risks intensifying as centralised capital expenditure allocation patterns favour states with stronger absorption capacity and fiscal headroom—per-capita disparities in infrastructure investment may widen rather than narrow, undermining the convergence objective that should guide federal fiscal policy and suggesting the need for per-capita floors for unconditional transfers alongside time-bound release guarantees to enhance state fiscal predictability.
- Marginalised communities bear disproportionate cuts with ministries serving minorities, tribal populations, persons with disabilities, women, and children accounting for minimal social sector expenditure as the political economy of visible infrastructure projects over invisible welfare transfers means those with the weakest political voice absorb the heaviest consolidation burden, raising serious concerns about inclusive development commitments.

# Medium-Term Sustainability

- The growth strategy's success depends critically on consumption revival, which current indicators do not yet confirm, while infrastructure multipliers require demand-side activation to be effective, yet household financial stress, subdued real wage growth, and moderate private consumption suggest insufficient conditions to fully realise the anticipated growth dividends from capital expenditure.
- Manufacturing competitiveness remains dependent on policy support rather than organic capability, as persistent import dependencies and widening trade deficits in strategic sectors indicate industrial policy has not yet achieved the structural transformation necessary for self-sustaining export competitiveness, raising questions about the durability of growth once subsidies are withdrawn.
- The political economy of consolidation may prove unsustainable if employment generation continues to lag growth, welfare adequacy erodes further through inflation, and marginalised populations experience prolonged exclusion from growth benefits, as social cohesion is necessary for durable development may be undermined by a distributional pattern that concentrates adjustment costs on those least able to bear them.
- External sector vulnerabilities from import-intensive growth remain unaddressed, the infrastructure push drives capital goods imports faster than merchandise export expansion, with services surplus providing a temporary cushion but masking structural trade imbalances that could constrain future policy flexibility if global demand conditions deteriorate or FTA utilisation accelerates import penetration in sensitive sectors.

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*Thank You!*



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