

## **Union Budget 2023-24 on Fiscal Consolidation**

### **Why in news?**

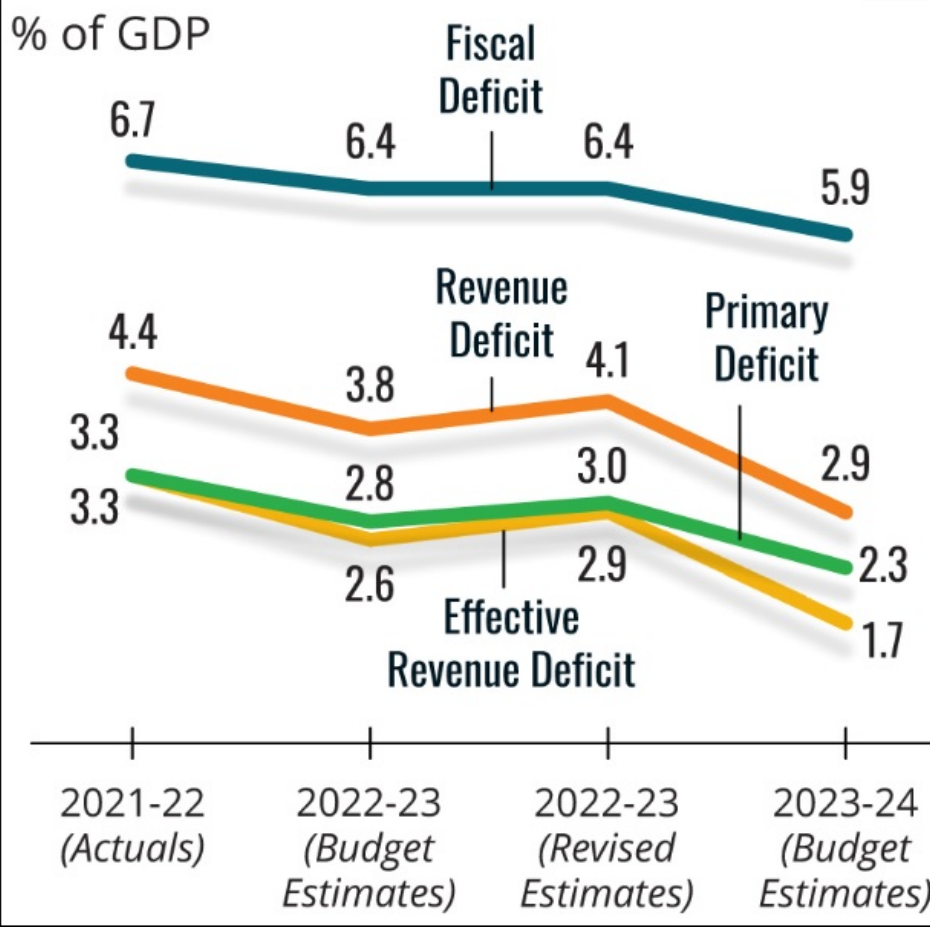
The 2023-24 Budget's attempt to address the aspirations of different segments of society is a good effort in a difficult situation and the main focus is on fiscal consolidation.

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](#)

