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## PUBLIC SPENDING & FISCAL DISCIPLINE

# Well-Strung Purse Strings

**Rajiv Kumar & Chinmaya Goyal**

If one judges a government's performance by what it does with public finances, the Narendra Modi government deserves high marks. The quality of India's public spending had suffered in the past because of populist schemes and their ineffective implementation. This resulted in major leakages and long-term deficiencies in infrastructure. These, in turn, created supply-side bottlenecks.

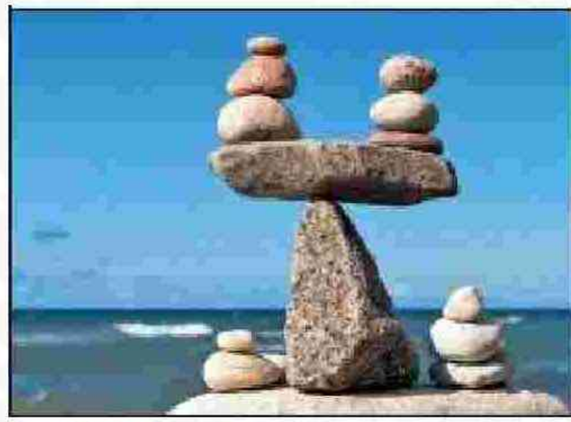
This government has given special attention to ramping up capital expenditure, which reached 1% of GDP or above in all the last four years, defence expenditure excluded, compared to about 0.75% during 2004-14. This translates today to an additional annual expenditure of ₹40,000 crore on productivity-enhancing durable assets.

Budget expenditure on the transport sector increased from ₹78,000 crore in 2013-14 to ₹1,40,000 crore in 2018-19. This is in addition to resources raised by National Highways Authority of India (NHAI), which will raise ₹62,000 crore in 2018-19, compared to ₹28,000 crore three years ago.

GoI also strengthened the banking sector by providing substantial equity to public sector banks (PSBs). An initial plan of ₹70,000 crore under the Indradhanush roadmap announced in 2015 was followed up with an even more substantial ₹2.11 lakh crore recapitalisation plan in 2017, of which ₹1.35 lakh crore would be funded through recapitalisation bonds funded by the exchequer.

Spending in critical areas promoting human development and equity has also been ramped up. This has been done by promoting existing and already effective schemes, or by funding new initiatives designed to address critical gaps.

For example, spending between 2015-16 and 2018-19 in the Pradhan Mantri Awas Yojana has increased by 137%, from ₹11,000 crore to ₹27,500 crore. During the same period, allocations for the National Health Mission have increased by 52%, and for the new National Health Protection Scheme. Spending in higher education has increased by 130%, driven by allocations made to a new Higher Education Financing Agency (Hefa).



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**Well balanced sheet**

Spending on GoI's flagship 'Smart Cities' and Atal Mission for Rejuvenation and Urban Transformation (AMRUT) schemes has been ramped up by 191%. And for metro projects in cities, by a further 54% between 2015-16 and 2018-19.

Overall spending in agriculture and rural development has increased by 177% from ₹1.14 lakh crore in 2015-16 to ₹2.02 lakh crore in 2018-19. This has been driven, for example, by increased allocations in the Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) by 47%.

In Centre-state fiscal relations, there has been a paradigm shift. The Centre's fiscal transfers to the states have increased rapidly in the last four years. In 2014-15, total transfers were ₹6.8 lakh crore, or 5.4% of GDP. This has increased to ₹12.7 lakh crore, or 6.8% of GDP in 2018-19. Unconditional tax devolution — which allows states to allocate their fiscal resources in line with their own needs and priorities — is by far the biggest component of these transfers.

A characteristic of this government's fiscal reforms has been its commitment to fiscal prudence. It has adopted a balanced approach where fiscal deficit has been gradually lowered (from 4.4% of GDP in 2013-14 to 3.5% in 2017-18), while ensuring that productive expenditures aren't affected.

Yes, the fiscal maths of GoI has been benefited by external factors such as low oil prices. But there have been challenges as well: the Seventh Pay Commission, One Rank, One Pension (Orop), and a stagnant economy that exerted pressure on revenues. So, GoI deserves credit for its commitment to fiscal reforms.

GST's positive impact is also beginning to come through. With collections rising above ₹1 lakh crore in April 2018, there are strong indications of greater fiscal space for GoI in the coming period. This is also buttressed by the sharp increase in direct revenues, which have shown unprecedented buoyancy of nearly 2.0 and a record expansion of the direct tax base, now nearly 70 million strong.

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