

# Budget 2026-27: If India Borrows More to Spend, Why Does it Deliver Less Welfare?



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*Budget 2026-27 attempts to raise welfare allocations on paper, but its record of under-spending, fiscal constraints and weak delivery will limit outcomes.*



Workers carry supplies on a bullock cart on Union Budget 2026-27 day. Chikkamagaluru, Karnataka. Photo: PTI

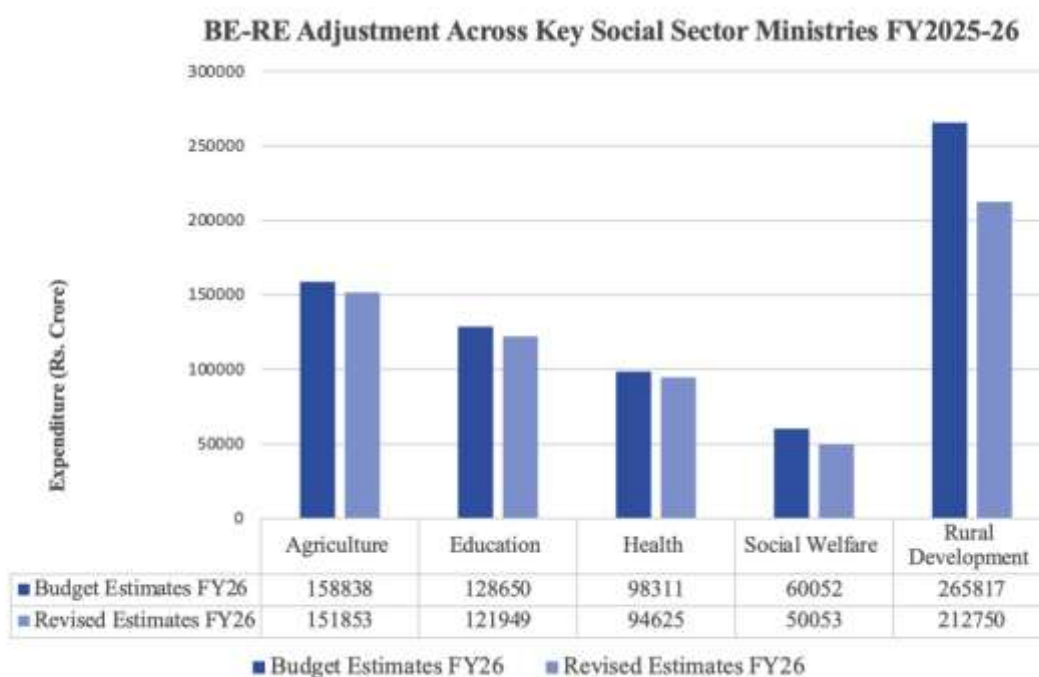
Union Budget 2026-27, which the government claims is anchored in a formidable macroeconomic stance, estimates total government expenditure at Rs 53.5 lakh crore and capital expenditure at Rs 12.2 lakh crore. It signals a delicate balancing act – a gradual **fiscal deficit reduction** to 4.3% of GDP alongside a proposed marginal improvement in the debt-to-GDP ratio of 55.6% – though that **looks like a long shot**.

An even larger question persists: How much of this ambitious game of projection will translate into actual **developmental and welfare spending** with measurable progressive social outcomes?

## Fiscal anatomy of welfare expansion

A closer reading of the budget, shifting away from headline allocations towards fiscal realism, is warranted in this context. The new Budget Estimate (BE) for FY 2027 places education at Rs 1.39 lakh crore, **health** at Rs 1.05 lakh crore, agriculture and allied activities at Rs 1.63 lakh crore, social welfare at Rs 62,326 crore and rural development at Rs 2.73 lakh crore.

When read against the persistent adjustments of the Revised Estimates (RE) over the BE in previous years, these figures highlight a familiar pattern – visible nominal increases are made in the budget, but they do not always translate into commensurate expenditure – or developmental gains.



Source: Budget at a Glance (2026-27)

Across major welfare ministries, revised estimates have been falling short of budget estimates – less is being spent than the government has been allocating. This indicates that budget formulation is consistently more ambitious than the annual revenues and cash balances allow the government to be.

In FY 2026, rural development contracted from a budget estimate of Rs 2.65 lakh crore to a revised estimate of Rs 2.12 lakh crore, a 20% adjustment. Social welfare declined from Rs 60,052 crore to Rs 50,053 crore, education from Rs 1.29 lakh crore to Rs 1.22 lakh crore, health from Rs 98,311 crore to Rs 94,625 crore and agriculture from Rs 1.59 lakh crore to Rs 1.51 lakh crore.

This closely replicates a pattern in the two previous financial years, 2025 and 2024, when mid-year rationalisations reduced allocations across these sectors.

This is an indication of expenditure realism that takes over between the political signaling – allocations made in the budget – and the actual expenditure at the level of schemes. For instance, the allocation for MGNREGS rose to Rs 86,000 crore in the revised estimates of FY 2024 but, despite rural stress, it remained unchanged at Rs 86,000 crore in both the BE and RE of FY 2025 – no growth despite sustained demand.

In FY 2027, MGNREGS has been subsumed under the Viksit Bharat Gramin programme, for which the budget estimate is Rs 95,692 crore. While the headline allocation appears higher, the shift in programme architecture makes year-on-year comparison difficult. The apparent hike does not indicate a substantive expansion in rural employment guarantees.

The macro context reinforces this situation. In FY 2026, inflation moderated sharply to 1.7% (April-December), but in the preceding years, inflation was materially higher – at 6.7% in FY 2023, 5.4% in FY 2024 and 4.8% in FY 2025. However, because nominal allocations for major schemes did not rise correspondingly, the real value of support has thinned over time, even if the current inflation environment has turned favourable.

In other words, the government did not increase budget allocations enough to keep up with rising prices. Therefore, the real buying power of welfare spending quietly shrank over time.

Meanwhile, **welfare spending is being squeezed** because a growing share of the budget is already locked into unavoidable expenses such as interest payments, leaving little room to expand support. Interest payments alone increased from Rs 11.37 lakh crore in FY 2025 (RE) to Rs 12.76 lakh crore in FY 2026 (BE), absorbing a significant share of revenue expenditure and limiting room for discretionary welfare expenditure.

According to the Economic Survey, 2026, **GST collections** remained historically high in absolute terms – Rs 22.1 lakh crore in FY 2025 (April to March). However, but growth moderated from 11.7% in FY 2024 to 9.1% in FY 2025 and further to 6.7% in FY 2026 (April to December).

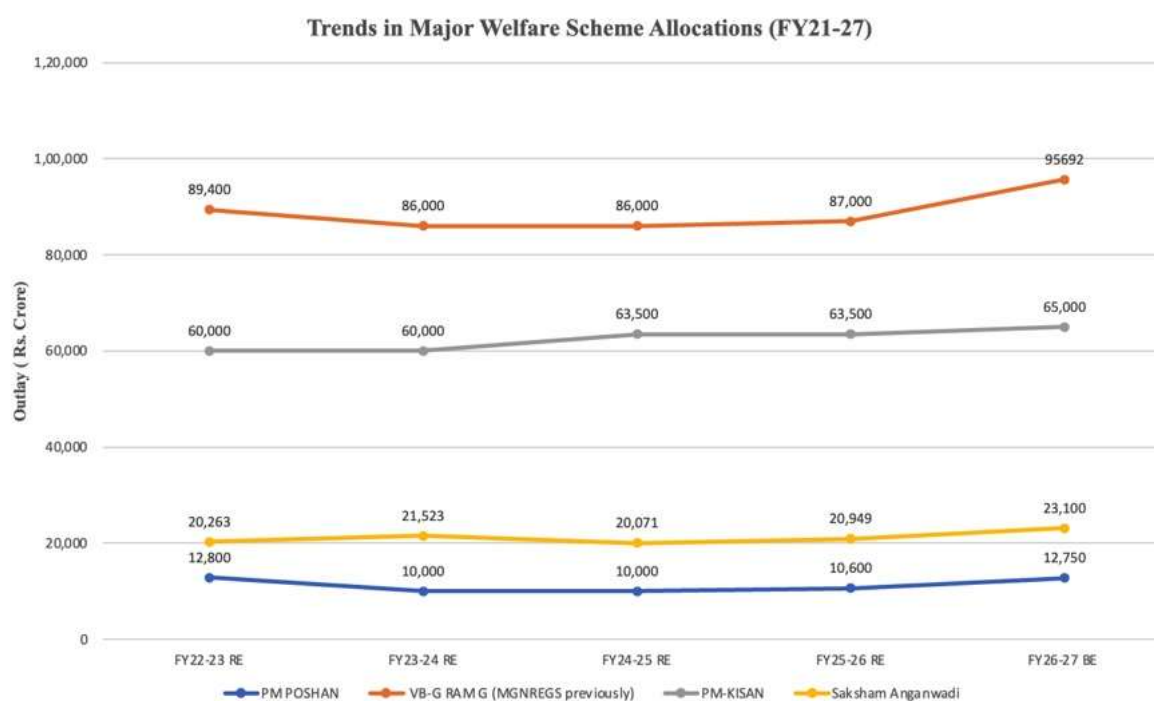
This GST growth now closely tracks nominal GDP, reflecting formalisation but not buoyancy. That is, GST growth has slowed to roughly the same pace as the economy, which means revenues are no longer giving the government extra fiscal room. Although **GST rate rationalisation** may support compliance and demand over time, its fiscal effects will unfold only gradually – it will not quickly translate into more money to spend.

## Spending without transformation

Against this backdrop, Budget 2026-27 signals continuity rather than transformation in welfare spending. It marks modest upticks across flagship schemes, reflecting a weakening fiscal capacity and limited scope to expand welfare.

For instance, allocation for **PM-POSHAN** has **risen to Rs 12,500 crore** (from Rs 10,000 crore in RE 2024-25), Saksham Anganwadi and Poshan 2.0 stand at Rs 20,949 crore – supporting eight crore children, one crore pregnant and lactating women and 20 lakh adolescent girls. Ayushman Bharat PM-JAY has climbed 24% to Rs 9,000 crore, while PM-KISAN holds steady at Rs 63,500 crore.

Such nominal increases will fail to reverse stagnant human development outcomes: The gap between allocations and on-ground impact, across nutrition, income support and health, will remain persistent in such a fiscal situation.



Source: Union Budget- Outlay on Major Schemes FY23-27

Nutrition outcomes exemplify this disconnect most starkly. Between FY 2021 and FY 2025, PM-POSHAN (including the erstwhile Integrated Child Development Scheme) received budget estimates totalling Rs 56,801 crore. The actual releases amounted to Rs 54,158 crore.

Between FY 2024 and FY 2025, even as nutritional indicators stalled, the revised estimates were reduced from Rs 11,600 crore to Rs 10,000 crore. (NFHS-5, pertaining to the years

2019 to 2021, reported marginal improvements in stunting from 38 to 36%, **no change in wasting** at 19% and a marked increase in anaemia from 59 to 67% among children under five and to 57% among women aged 15-49.)

There are more complications in this structure: More than 80% of the Ministry of Women and Child Development's budget remains tied to Anganwadi operations, while state-level fiscal pressures have contributed to implementation gaps. As a result, although Rs 52,444 crore was released between FY 2022 and FY 2024, on-ground delivery remained uneven.

Income-support schemes display a similar divergence between nominal stability and real-term erosion. PM-KISAN has disbursed **Rs 3.24 lakh crore**, yet the fixed instalment structure has lost its real value due to cumulative inflation of 24-28% when calculated year by year.

Health outcomes reflect structural constraints as well. By October 2025, Ayushman Bharat **had issued 42 crore cards** and generated an estimated Rs 1.52 lakh crore in out-of-pocket savings. Yet utilisation remained uneven, particularly in poorer states, as empanelment slowed – 443 hospitals joined (**got empanelled**) between January and April 2025 and only 20 in May 2025 due to concerns over package rates and delayed reimbursement.

Budget 2026-27, then, attempts to preserve the projected image of a welfare state, without addressing the core problem – expanding fiscal commitments financed through tightening fiscal room, and delivered through systems that struggle to convert allocations into durable gains for citizens. Unless spending becomes more credible and implementation improves, welfare risks becoming a system of headline allocations and transfers that offers no real mobility or sustained improvement in well-being.

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