Dept of expenditure favours ending free foodgrain scheme

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The department of expenditure will likely recommend halting the pandemic-era free foodgrain programme to support the poor to ease the strain on government finances and stick to the current year's fiscal deficit of 6.4% of GDP.

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The government has already allocated ₹1.2 trillion more than it budgeted for food subsidies because of the extension of the Pradhan Mantri Garib Kalyan Anna Yojana (PMGKAY). The scheme provides 5kg of free foodgrain to 800 million households to cushion the poor from the pandemic's blow.

The free food programme rolled out in 2020 has been extended several times, with the latest announced in September, when the government extended the scheme by three months to 31 December. The extension will cost the exchequer an additional ₹44,762 crore, taking the total food subsidy bill this year to ₹3.31 trillion compared with the ₹2.07 trillion budgeted for the year.

"There is a strong case not to extend the free foodgrain scheme further, given the fiscal position. A final call, however, is yet to be taken," said a government official.

He added that the rising spending on fertilizer subsidies and food would mean that the Centre would have to curtail spending under the revenue expenditure head.

The additional free grains are over and above the quota provided under the National Food Security Act (NFSA), which provides 25kg of foodgrain at a subsidized rate of just ₹2 per kg.

"No doubt, extending the free food grain scheme to beneficiaries will impact fiscal arithmetic. Both real growth and inflation are expected to decline in the second half, and revenue growth in the second half is unlikely to match the first half's. Despite strong revenue growth so far in this fiscal,

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higher than budgeted expenditure on account of fertilizer subsidy is also putting pressure on FY23 fiscal arithmetic," said Devendra Kumar Pant, chief economist of India Ratings and Research.

The record depreciation of the rupee against the dollar is likely to result in the ballooning of the fertilizer subsidy bill for the current fiscal.

While the budget had allocated ₹1.05 trillion towards fertilizer subsidy, finance minister Nirmala Sitharaman had in May announced providing an additional fertilizer subsidy of ₹1.1 trillion to further cushion farmers from the price rise.

The government is expecting the fertilizer bill to rise to over ₹2.2 trillion for this fiscal. Queries emailed to the spokesperson for the finance ministry on Friday morning remained unanswered till press time.

"If the free foodgrain scheme is not extended further, we expect the fiscal deficit to be restricted to 6.4% of GDP, given our estimates of nominal GDP for FY23, which exceed the conservative forecast that had been included in the budget," said Aditi Nayar, chief economist, ICRA Ltd

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The Centre's additional expenditure burden, led by the extension of the free foodgrain scheme, rupee depreciation, and decline in the excise duty revenue has strained finances for the current fiscal.

However, the government is relying on higher-than-expected nominal GDP growth at close to 14% compared to the 11.1% estimated in the budget to achieve the fiscal deficit ratio of 6.4% of GDP, even as there may be a slippage in the absolute fiscal deficit number of ₹16.6 trillion estimated for FY23.

The government contained the fiscal deficit for FY22 to 6.7% of gross domestic product, better than the 6.9% estimated in the budget, largely on the back of a higher-than-expected revenue mop-up and a higher-than-expected nominal GDP growth, which is the denominator.

The fiscal deficit arises when government spending exceeds its revenues. Madan Sabnavis, chief economist of Bank of Baroda, said that given the rather tenuous fiscal state, there is definitely a case for not extending the free food scheme as things are back to normal.

"The problem with most free schemes is that they become hard to withdraw once people are used to it. This will be a challenge going ahead. The same holds for the PM-Kisan Scheme," he said.

With the government having to do the heavy lifting on capex and an expected slowdown in revenue, especially GST and corporate tax, next year, it will be necessary to prioritize schemes that are socially relevant but economically unviable, given the commitment to the fiscal path, Sabnavis added.