



FISCAL DEFICIT AND HUMAN DEVELOPMENT IN INDIA: AN EMPIRICAL ANALYSIS OF THE RELATIONSHIP BETWEEN FISCAL DEFICIT, HUMAN DEVELOPMENT INDICATORS AND SOCIAL-SECTOR EXPENDITURE

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ABSTRACT

Fiscal deficit is an important indicator of the financial position of government and reflects the extent to which government expenditure exceeds its non-borrowed receipts. In a developing economy such as India, fiscal deficit has a dual significance. On the one hand, excessive fiscal deficits can increase public debt, interest obligations and macroeconomic pressures, potentially reducing the fiscal space available for social-sector development. On the other hand, fiscal expansion can finance education, health, nutrition, social security and infrastructure, thereby contributing to improvements in human development. This study examines relationship between fiscal deficit and human development in India, with particular emphasis on the HDI, literacy, life expectancy and health outcomes. It also examines the relationship between fiscal deficits and expenditure on education and health. The study uses secondary data from the RBI, Ministry of Finance, Government of India, Ministry of Statistics and Programme Implementation (MoSPI), Ministry of Health and Family Welfare and United Nations Development Programme (UNDP).

The evidence indicates that India's central government gross fiscal deficit increased sharply during the COVID-19 period, reaching 9.2 percent of GDP in 2020–21, before declining to 5.9 % in 2023–24 and a budgeted 5.1 percent in 2024–25. During the same broad period, India's human-development indicators improved over the longer term, although the relationship is not mechanical or necessarily causal. India's HDI increased to 0.685 in 2023, while life expectancy reached 72.0 yrs. Combined government expenditure on social services also increased substantially, particularly during the pandemic. The findings suggest that the composition and productive use of fiscal expenditure are as important as the size of the fiscal deficit when evaluating its implications for human development.

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1. Introduction

Fiscal policy is one of the major instruments through which the government influences economic growth, employment, income distribution and social welfare. In developing economies, government expenditure plays an especially important role because private markets alone may not provide adequate levels of education, healthcare, nutrition, social protection and basic infrastructure. Fiscal deficit occurs when total government expenditure exceeds total receipts excluding borrowings. A fiscal deficit therefore indicates borrowing requirement of government. The deficit itself is not necessarily detrimental to economic development.

Its economic consequences depend upon its size, duration, financing structure and, most importantly, the purposes for which borrowed resources are used.

In India, fiscal policy has historically attempted to balance two competing objectives. The first is macroeconomic and fiscal sustainability, which requires controlling excessive borrowing, debt accumulation and interest expenditure. The second is development expenditure, particularly spending on education, healthcare, nutrition, infrastructure and social protection. This relationship becomes particularly important in the context of human development. Human development is broader than economic growth. The HDI incorporates achievements in health, education and standard of living. According to UNDP, India's HDI rose from 0.676 in 2022 to 0.685 in 2023, while life expectancy increased from 71.7 to 72.0 years. India's long-term human-development progress has therefore occurred alongside substantial changes in fiscal policy. The central government's fiscal deficit declined from 4.1% of GDP in 2014–15 to 3.4 percent in 2018–19, but increased to 9.2 percent in 2020–21 during the COVID-19 crisis. It subsequently declined to 6.7 % in 2021–22, 6.4 percent in 2022–23 and 5.9 % in 2023–24.

This creates an important research question:

Does a higher fiscal deficit necessarily reduce human development, or can fiscal expansion improve human development when borrowing finances productive social-sector expenditure?

The present study addresses this question by examining fiscal deficit together with human-development indicators and expenditure on education and health.

2.Statement of the Problem:

India faces a fundamental policy dilemma. Human development requires sustained public investment, but such investment requires fiscal resources. When government expenditure exceeds available revenues, borrowing can provide resources for development. However, persistent deficits can also increase public debt and interest payments, potentially limiting future expenditure. Consequently, the important issue is not merely whether fiscal deficit is high or low. The more relevant question is How does the size and composition of fiscal deficit affect expenditure on human-development sectors, and how are these changes reflected in human-development outcomes?

3. Objectives of the Study:

- 1.To study trend and magnitude of India's fiscal deficit and examine changes in fiscal policy during periods of fiscal expansion and fiscal consolidation.
- 2.To examine relationship between fiscal deficit and human development in India, with special reference to the HDI, literacy rate, life expectancy and health outcomes.
- 3.To analyse the relationship between fiscal deficit and human-development expenditure, particularly government expenditure on education, health and other social-sector services, and to examine whether fiscal expansion is associated with increased human-development expenditure.

4. Research Hypotheses:

H₀₁: There is no significant relationship between fiscal deficit and human development in India, particularly in terms of HDI, literacy rate, life expectancy and health outcomes.

H₀₂: There is no significant relationship between fiscal deficit and human-development expenditure, particularly government expenditure on education, health and social-sector services.

5. Research Methodology:

The present study is based entirely on secondary data and adopts a descriptive, analytical, empirical and time-series research design to examine the relationship between fiscal deficit and human development in India. The study covers the principal period from 2014–15 to 2023–24, while 2024–25 is considered wherever official Budget Estimates are available. The selected period is useful for examining changes in India's fiscal position before COVID-19 pandemic, during pandemic and during subsequent phase of fiscal consolidation. The study uses quantitative data relating to fiscal deficit, HDI, literacy rate, life expectancy, health outcomes, education expenditure, health expenditure and social-sector expenditure. Data have been collected from authoritative sources including the RBI, Ministry of Finance, Government of India, Union Budget documents, Economic Survey, MoSPI, Ministry of Health and Family Welfare, and UNDP Human Development Reports. For the fiscal-deficit analysis, RBI data indicate that India's central government gross fiscal deficit was 4.1% of GDP in 2014–15, 3.9% in 2015–16, 3.5% in 2016–17, 3.5% in 2017–18, 3.4% in 2018–19, 4.6% in 2019–20, 9.2% in 2020–21, 6.7% in 2021–22, 6.4% in 2022–23 and 5.9% in 2023–24. The data are analysed using trend analysis, percentage changes, correlation analysis and appropriate econometric/statistical techniques to examine the stated hypotheses. Particular attention is given to whether changes in fiscal deficit are associated with changes in human-development indicators and government expenditure on education, health and other social-sector services. Since study uses annual time-series observations, findings are interpreted primarily in terms of statistical association and relationship rather than automatic causal impact.

6. Trend of Fiscal Deficit in India:

The data indicate considerable variation in India's Central Government fiscal position during the study period from 2014–15 to 2024–25 (BE). The fiscal deficit declined gradually from 4.1% of GDP in 2014–15 to 3.4% in 2018–19, indicating a phase of fiscal consolidation. However, it increased to 4.6% in 2019–20 and reached a significantly high level of 9.2% in 2020–21, reflecting the exceptional fiscal requirements associated with the COVID-19 pandemic, including increased expenditure on healthcare, social protection and economic-support measures. Following the pandemic, fiscal consolidation resumed, with the fiscal deficit declining to 6.7% in 2021–22, 6.4% in 2022–23 and 5.9% in 2023–24. The 2024–25 Budget Estimate (BE) placed the fiscal deficit at 5.1% of GDP. Overall, the trend can be broadly divided into three phases: fiscal consolidation during 2014–15 to 2018–19, fiscal expansion during 2019–20 to 2020–21, and renewed fiscal consolidation during 2021–22 to 2024–25. The sharp increase in the fiscal deficit during 2020–21 is particularly relevant to this study because it provides an important basis for examining whether fiscal expansion was accompanied by increased expenditure on health, education and other human-development sectors.

7. Fiscal Deficit and Human Development:

The theoretical relationship between fiscal deficit and human development in India is complex and can operate through both positive and negative channels. A fiscal deficit enables the government to mobilise additional resources through borrowing, which can be used to finance

expenditure on education, healthcare, nutrition, sanitation, social security and other human-development programmes. Indian data provide evidence of this positive expenditure channel. According to the Economic Survey, combined expenditure of Centre and States on social services increased from 6.2% of GDP in 2014–15 to 8.8% in 2020–21 (BE). During the same period, education expenditure increased from 2.8% to 3.5% of GDP, while health expenditure increased from 1.2% to 1.5% of GDP. The COVID-19 period provides an important example: the Central Government's fiscal deficit reached 9.2% of GDP in 2020–21, while increased fiscal resources were required to address the economic and social consequences of the pandemic.

However, fiscal deficits can also create a negative channel when persistent borrowing increases public debt and interest obligations, potentially reducing the fiscal space available for future development expenditure. Therefore, the effect of fiscal deficit on human development depends not only on the size of the deficit, but also on the purpose, composition and efficiency of government expenditure. The subsequent improvement in India's human-development indicators provides relevant contextual evidence: according to UNDP, India's HDI increased from 0.676 in 2022 to 0.685 in 2023, while life expectancy increased from 71.7 to 72.0 years. These figures, however, should not be interpreted as proof that fiscal deficit directly caused improvements in human development, because HDI and its components are influenced by numerous economic, demographic, institutional and social factors. Thus, the present study treats the relationship primarily as an empirical association and examines whether changes in fiscal deficit are statistically related to changes in human-development indicators and human-development expenditure.

8. India's HDI Trend:

The HDI is a composite measure of human development that captures three major dimensions: a long and healthy life, access to knowledge and a decent standard of living. According to the UNDP Human Development Report 2025, India's HDI value increased from 0.676 in 2022 to 0.685 in 2023, while its ranking improved from 133rd to 130th among 193 countries and territories. During the same period, life expectancy at birth increased from 71.7 years to 72.0 years, indicating an improvement in the health dimension of human development. Mean years of schooling increased from 6.57 yrs in 2022 to 6.88 yrs in 2023, while expected years of schooling remained broadly stable at 12.96 years in 2022 and 12.95 years in 2023. The standard-of-living dimension also improved, with GNI per capita increasing from US\$8,475.68 to US\$9,046.76, measured in 2021 purchasing-power-parity dollars.

These changes indicate an improvement in India's overall human-development indicators during the period under consideration. However, the observed improvement in HDI cannot be attributed exclusively to changes in the fiscal deficit. Human-development outcomes are influenced by several interconnected factors, including economic growth, public and private expenditure on health and education, demographic changes, technological advancement, social-protection programmes, improvements in public infrastructure and state-level expenditure. The UNDP itself notes that India's long-term human-development progress has been associated with economic growth and social-protection and welfare programmes, while improvements in education and health have also contributed to the increase in HDI. Therefore, in the present study, the increase in HDI and its component indicators is treated as an important outcome variable for examining the relationship between fiscal deficit and human development, rather than as direct evidence of a causal effect of fiscal deficit. The empirical analysis consequently examines whether variations in fiscal deficit are statistically associated with changes in HDI, life expectancy, education indicators and human-development expenditure.

9. Literacy Rate and Fiscal Policy:

Literacy is one of important education-related indicators of human development because it reflects the population's access to basic knowledge and educational opportunities. According to the PLFS 2023–24, the literacy rate among persons aged 7 years and above in India was 80.9%. However, substantial variation exists across States, reflecting differences in educational infrastructure, public expenditure, socio-economic conditions and the effectiveness of programme implementation. For example, the literacy rate was 95.3% in Kerala, 87.3% in Maharashtra, 78.2% in Uttar Pradesh, 75.8% in Rajasthan and 74.3% in Bihar. These variations demonstrate that an India-level fiscal deficit indicator alone cannot fully explain differences in literacy outcomes, since education is a shared responsibility involving both the Union and State governments, with outcomes also influenced by local-level implementation and socio-economic factors. Nevertheless, fiscal resources remain important for financing school infrastructure, teacher recruitment and training, scholarships, digital education, school nutrition programmes, higher education and vocational education. Consequently, fiscal policy can influence literacy indirectly through the allocation, adequacy and effectiveness of public expenditure on education. In this context, the relationship between fiscal deficit and literacy should be examined through the extent to which additional fiscal resources are translated into productive educational expenditure and improved educational outcomes, rather than assuming that a higher fiscal deficit automatically leads to higher literacy. The present study therefore considers literacy as an important human-development indicator while examining its statistical association with fiscal conditions and public expenditure on education.

10.Fiscal Deficit and Life Expectancy:

Life expectancy is a major health dimension of human development because it reflects the overall health conditions, access to healthcare and broader socio-economic well-being of a population. According to UNDP Human Development Report 2025, India's life expectancy at birth increased from 71.7 years in 2022 to 72.0 years in 2023. This improvement, although relatively small over a single year, forms part of the broader long-term changes in India's human-development indicators. Public expenditure can contribute to such improvements through investment in primary healthcare, maternal and child health services, immunisation and vaccination programmes, sanitation, safe drinking water, nutrition, disease prevention and the development of health infrastructure. Adequate fiscal resources are therefore important for strengthening the availability and accessibility of healthcare services, particularly for vulnerable and economically disadvantaged populations. However, life expectancy is a cumulative and long-term human-development outcome and is unlikely to respond immediately to a change in the fiscal deficit during a particular financial year. Improvements in life expectancy generally reflect the accumulated effects of healthcare investment, nutrition, sanitation, disease control, living conditions and socio-economic development over several years. Therefore, the theoretical relationship between fiscal policy and life expectancy is more appropriately understood through a lagged mechanism in which current fiscal expenditure contributes to the development of health infrastructure and services, which subsequently improves health outcomes and, over time, contributes to higher life expectancy. The increase in India's life expectancy from 71.7 years in 2022 to 72.0 years in 2023 provides relevant descriptive evidence, but it should not be interpreted as evidence that the fiscal deficit itself caused the improvement, since life expectancy is affected by multiple economic, demographic, technological, environmental and public-health factors.

11.Fiscal Deficit and Health Expenditure:

One of the important channels through which fiscal policy can influence human development is public health expenditure. According to India's National Health Accounts (NHA) Estimates for

2021–22, total health expenditure was estimated at ₹9,04,461 crore, equivalent to 3.83% of GDP. Government health expenditure amounted to ₹4,34,163 crore, representing 1.84% of GDP, ₹3,169 per capita and 6.12% of general government expenditure. These figures indicate the important role of public financing in India's health sector, particularly in the context of strengthening healthcare access and reducing financial barriers for households. The NHA estimates further indicate that government expenditure accounted for approximately 48% of total health expenditure in 2021–22, while households' out-of-pocket expenditure accounted for approximately 39.4%. The relatively high share of government financing is significant because public expenditure on healthcare can improve access to essential health services and potentially reduce the financial burden associated with medical treatment. However, the relationship between fiscal deficit and health outcomes depends not merely on the amount of fiscal resources mobilised through borrowing, but also on how effectively those resources are allocated to primary healthcare, preventive services, maternal and child health, health infrastructure, vaccination, sanitation and disease prevention.

12. Social-Sector Expenditure and Fiscal Deficit:

Economic Survey data provide important evidence regarding the growth of combined expenditure on social services by the Centre and State governments in India. Combined expenditure on social services increased from ₹7.68 lakh crore in 2014–15 to ₹19.06 lakh crore in 2021–22. During the same period, expenditure on education increased from ₹3.54 lakh crore to ₹6.97 lakh crore, while expenditure on health increased from ₹1.49 lakh crore to ₹4.72 lakh crore. The increase in social-sector expenditure was particularly visible during the COVID-19 period, when governments faced increased requirements for healthcare, social protection and economic support. Between 2019–20 and 2020–21, combined social-service expenditure increased from ₹13.65 lakh crore to ₹16.34 lakh crore, while health expenditure increased from ₹2.73 lakh crore to ₹3.50 lakh crore. These trends indicate that periods of fiscal expansion can be accompanied by increased expenditure on social-sector services. Nevertheless, the data should not be interpreted as establishing a direct causal relationship between fiscal deficit and social-sector expenditure, because expenditure levels are also determined by economic conditions, revenue availability, intergovernmental transfers, policy priorities and emergency requirements. The evidence nevertheless provides a relevant basis for examining whether fiscal expansion is associated with increased government expenditure on sectors that contribute directly to human development.

13. Social Expenditure as Percentage of GDP:

The Economic Survey provides further evidence by examining combined government expenditure on social services as a proportion of GDP. Social-service expenditure increased from 6.2% of GDP in 2014–15 to 8.6% in 2021–22. Education expenditure remained approximately 2.8% of GDP during much of the pre-pandemic period and increased to 3.1% in both 2020–21 and 2021–22. Health expenditure increased from 1.2% of GDP in 2014–15 to 2.1% in 2021–22. The increase in the share of social-sector expenditure is particularly relevant to the present study because it indicates that government expenditure on education, health and other social services expanded relative to the size of the economy during the study period. The increase was especially pronounced during the pandemic, when public authorities required additional fiscal resources to address health emergencies and provide social and economic support. These developments suggest that fiscal expansion can create additional expenditure capacity for human-development sectors, although the extent to which such expenditure produces sustained improvements in human-development outcomes depends on expenditure efficiency, targeting, implementation capacity and the time required for such investments to generate measurable

results.

14. Relationship between Fiscal Deficit and Human Development:

The empirical evidence examined in this study indicates that relationship between fiscal deficit and human development can be understood through three broad phases. During the period from 2014–15 to 2018–19, the Central Government fiscal deficit declined from 4.1% to 3.4% of GDP, indicating a phase of fiscal consolidation. At the same time, social-sector expenditure continued to increase, while India's education, health and other human-development indicators showed longer-term improvement. This suggests that fiscal consolidation does not necessarily require a proportional reduction in human-development expenditure, particularly when governments protect productive social expenditure and improve expenditure efficiency. The period from 2019–20 to 2020–21 represents an exceptional phase associated with the COVID-19 pandemic. During this period, the Central Government fiscal deficit increased from 4.6% to 9.2% of GDP, while combined social-service expenditure increased from ₹13.65 lakh crore to ₹16.34 lakh crore and health expenditure increased from ₹2.73 lakh crore to ₹3.50 lakh crore. The simultaneous increase in fiscal deficit and social-sector expenditure indicates that fiscal expansion during an economic and public-health emergency was accompanied by higher expenditure on human-development-related sectors. From 2021–22 onwards, fiscal consolidation resumed, with the Central Government fiscal deficit declining from 6.7% of GDP in 2021–22 to 5.9% in 2023–24. During this broader period, India's human-development indicators continued to improve, with the HDI reaching 0.685 in 2023 and life expectancy reaching 72.0 years. These developments, however, represent descriptive associations rather than evidence of a direct causal relationship, because human-development outcomes are influenced by a wide range of economic, demographic, institutional and social factors.

15. Analytical Interpretation:

The evidence does not support a simple conclusion that a higher fiscal deficit automatically reduces human development, nor does it establish that a higher fiscal deficit automatically improves human development. The impact of fiscal deficit depends substantially on the composition, quality and efficiency of government expenditure. When additional borrowing is used to finance schools, hospitals, primary healthcare, drinking-water facilities, sanitation, nutrition programmes, productive infrastructure and other forms of human-capital formation, fiscal expansion can potentially contribute to improved human-development outcomes over time. In contrast, if additional borrowing is primarily directed towards expenditures that generate limited productive or social returns, the contribution of fiscal expansion to human development may be comparatively weaker. The analytical framework of the present study can therefore be expressed as a transmission mechanism in which fiscal deficit influences the availability of fiscal resources, which affects the composition and scale of government expenditure, which in turn influences social-sector investment and human-capital formation and ultimately contributes to human-development outcomes. The composition and effectiveness of expenditure are equally important dimensions of the fiscal deficit–human development relationship.

16. Suggested Empirical Model:

For an empirical examination of relationship between fiscal deficit and human development, the study can employ separate models for HDI, life expectancy and literacy. The first model may examine the relationship between HDI and fiscal deficit while controlling for government health and education expenditure. It can be specified as $HDI_t = \alpha + \beta_1 FD_t + \beta_2 HEXP_t + \beta_3 EDEXP_t + \varepsilon_t$, where HDI represents the Human Development Index, FD represents fiscal deficit as a percentage of GDP, HEXP represents government health expenditure and EDEXP represents

government education expenditure. The second model can examine the health dimension through life expectancy and may be specified as $LE_t = \alpha + \beta_1 FD_t + \beta_2 HEXP_t + \varepsilon_t$, where LE represents life expectancy. The third model can examine the education dimension through literacy and may be specified as $LR_t = \alpha + \beta_1 FD_t + \beta_2 EDEXP_t + \varepsilon_t$, where LR represents the literacy rate. These models are intended to examine statistical associations among the variables and should not automatically be interpreted as demonstrating causal effects. Since health and education outcomes may respond to public expenditure with a time lag, lagged expenditure variables may also be considered where the

available data and econometric specification permit. Given the relatively small number of annual observations in the proposed study period, the final model should remain parsimonious and should avoid including an excessive number of explanatory variables.

17. Major Findings:

Based on the official statistics examined in the study, several important findings emerge. First, India experienced a phase of fiscal consolidation before the COVID-19 pandemic, with the Central Government fiscal deficit declining from 4.1% of GDP in 2014–15 to 3.4% in 2018–19. Second, the COVID-19 pandemic produced an exceptional fiscal expansion, with the Central Government fiscal deficit increasing to 9.2% of GDP in 2020–21. Third, fiscal consolidation subsequently resumed, with the deficit declining to 5.9% of GDP by 2023–24. Fourth, India's HDI reached 0.685 in 2023, while life expectancy increased to 72.0 years. Fifth, according to PLFS 2023–24, the literacy rate among persons aged seven years and above was 80.9%. Sixth, combined government expenditure on social services increased substantially from ₹7.68 lakh crore in 2014–15 to ₹19.06 lakh crore in 2021–22, while education expenditure increased from ₹3.54 lakh crore to ₹6.97 lakh crore and health expenditure increased from ₹1.49 lakh crore to ₹4.72 lakh crore. Seventh, according to the National Health Accounts 2021–22, government health expenditure amounted to ₹4,34,163 crore, equivalent to 1.84% of GDP. They instead highlight the importance of examining the composition, allocation and effectiveness of government expenditure when assessing the fiscal deficit–human development relationship.

18. Policy Implications:

18.1 Protection of Productive Social Expenditure

Fiscal consolidation policies should distinguish between expenditure that contributes to long-term human-capital formation and expenditure with relatively limited developmental returns. Where fiscal adjustment is necessary, essential expenditure on education, healthcare, nutrition, sanitation and other productive social services requires careful consideration because reductions in such expenditure may have longer-term implications for human development.

18.2 Improving the Efficiency of Education Expenditure

Increasing the volume of education expenditure alone may not be sufficient to improve human-development outcomes. Greater emphasis may be placed on learning outcomes, teacher quality, school infrastructure, digital access, scholarships, skill development and vocational education. The effectiveness of expenditure should therefore be assessed not only in terms of financial allocation but also through measurable educational outcomes.

18.3 Strengthening Public Health Expenditure

The National Health Accounts 2021–22 indicate that government health expenditure amounted to 1.84% of GDP. Strengthening primary healthcare, preventive healthcare, maternal and child

health, immunisation, nutrition and public-health infrastructure can improve the capacity of the health system to deliver essential services. Greater efficiency and accessibility of public health expenditure can also contribute to reducing financial barriers faced by households.

18.4 Maintaining Fiscal Sustainability

Fiscal deficits need to remain consistent with medium- and long-term fiscal sustainability because persistent accumulation of public debt can increase debt-servicing requirements and potentially constrain future fiscal space. Fiscal consolidation therefore needs to be designed in a manner that maintains macroeconomic stability while protecting essential human-development expenditure.

18.5 Improving the Quality of Public Expenditure

The evidence suggests that the policy issue is not simply whether the fiscal deficit should be higher or lower, but how fiscal resources are mobilised and utilised. A sustainable policy framework should therefore seek to combine fiscal discipline with the protection and improvement of productive expenditure on education, healthcare, nutrition, sanitation, social protection and human-capital formation. In this sense, the relevant policy objective can be expressed as fiscal consolidation with protection of productive human-development expenditure.

19. Limitations of the Study

The study relies primarily on secondary data obtained from official sources. HDI and literacy indicators are based on different methodologies, which may limit direct comparability. Human development is influenced by several economic, social, demographic and institutional factors beyond fiscal deficit. The Central Government fiscal deficit does not fully capture the combined fiscal position of the Union and State governments. The limited number of annual observations restricts the scope of sophisticated econometric analysis, and correlation does not establish causation. The COVID-19 period represents an exceptional fiscal and economic shock, while health and education expenditure involve both Union and State governments.

20. Conclusion

The relationship between fiscal deficit and human development in India is complex and multidimensional. India's experience demonstrates that fiscal consolidation and human-development expenditure do not necessarily have to be mutually exclusive. Between 2014–15 and 2018–19, India's central fiscal deficit declined from 4.1% to 3.4% of GDP, while social-sector expenditure continued to expand. During the COVID-19 crisis, the fiscal deficit rose dramatically to 9.2% of GDP in 2020–21, while government expenditure on social services and health also increased. Subsequently, fiscal consolidation resumed. At the same time, India's longer-term human-development indicators have improved. The country's HDI reached 0.685 in 2023 and life expectancy reached 72 years. Literacy among persons aged seven and above reached 80.9% according to PLFS 2023–24. The central implication is therefore that the impact of fiscal deficit on human development depends substantially on how the borrowed resources are utilized. Fiscal borrowing that supports education, healthcare, nutrition, sanitation, infrastructure and other productive investments can potentially strengthen human development, while persistent deficits without corresponding productive returns can constrain future fiscal capacity. Thus, the appropriate policy framework for India is not simply to minimize the fiscal deficit, but to maintain fiscal sustainability while protecting and improving the efficiency of human-development expenditure.

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