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Mukhyamantri Ladli Behna Yojana: Assessing the Financial Burden and Its Implications for Economic Indicators

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Abstract

This paper takes a close look at the Mukhyamantri Ladli Behna Yojana (MLBY), a key cash transfer program for women in Madhya Pradesh that started back in 2023. I dive into how it's affecting the state's finances and bigger economic picture, drawing from government budgets, RBI reports, and other sources up to early 2026. The costs have climbed from around ₹12,000 crore a year at the start to over ₹22,000 crore projected for 2026-27, thanks to higher payouts (now ₹1,500 monthly) and more beneficiaries (1.27 crore). The analysis shows this is linked to bigger fiscal

deficits (hitting 4.1% of GSDP in 2024-25), rising debt (over ₹4.6 lakh crore), and less money for things like roads and schools. Sure, it's helped women feel more secure financially, but its election-timed design is putting real pressure on the budget, pulling funds away from growth-boosting investments and slowing long-term GDP. I suggest ways to tweak it—like tighter targeting and tying it to skills training—to keep the good parts without hurting the economy.

Keywords: Ladli Behna Yojana, Electoral Freebies, Fiscal Deficit, Madhya Pradesh Economy, Women's Cash Transfer, Economic Sustainability, State Debt

1. Introduction

The Mukhyamantri Ladli Behna Yojana (MLBY), launched in March 2023 by the former Chief Minister of Madhya Pradesh, Shivraj Singh Chouhan, represents a major cash transfer initiative targeted at women. The scheme provides direct monthly financial assistance to women aged 21 to 60 years from families with an annual income below ₹2.5 lakh. Initially, the benefit was fixed at ₹1,000 per month, which was increased to ₹1,500 by late 2025, with political discussions and policy signals suggesting a possible rise to ₹3,000 in the near future. Within a short period, the scheme expanded rapidly and covered approximately 1.27 crore women by early 2026, making it one of the largest gender-focused welfare programs in the state.

From a political perspective, MLBY proved to be highly effective. It played a significant role in shaping voter preferences and is widely considered one of the key factors behind the Bharatiya Janata Party's success in the 2023 Madhya Pradesh Assembly elections. However, the scheme has also intensified the broader national debate on "freebies" in electoral politics. Critics argue that such unconditional cash transfers, while socially appealing, may weaken fiscal discipline and crowd out productive public expenditure. Supporters, on the other hand, view the scheme as a necessary intervention to address gender inequality, income insecurity, and the economic vulnerability of women, especially in a state with persistent development challenges.

The fiscal implications of MLBY are substantial. By the financial year 2025–26, the scheme accounted for an expenditure of ₹18,669 crore, which is roughly 6.4 per cent of the state's revenue receipts. If further increases in the monthly transfer are implemented, the projected expenditure is expected to rise to around ₹22,680 crore in 2026–27. This growing financial commitment raises critical questions about the sustainability of the scheme in the context of Madhya Pradesh's limited fiscal capacity and competing developmental priorities such as infrastructure, health, education, and employment generation.

This paper uses MLBY as a case study to assess the broader economic and fiscal consequences of large-scale cash transfer schemes. By systematically comparing budgetary data from the pre-implementation period (2022–23) with projections up to 2026–27, the study examines the impact of MLBY on key fiscal indicators, including fiscal deficit, public debt, revenue expenditure, and capital spending. It also explores the possible effects on economic growth, investment capacity, and long-

term development outcomes. The analysis highlights the fundamental policy dilemma faced by state governments: balancing immediate social welfare gains with the need for sustainable fiscal management and long-term economic stability in a relatively low-income state like Madhya Pradesh.

2. Objectives

The main goals here are:

1. To figure out how MLBY's costs have grown and what slice of the state budget it's taking.
2. To check its effects on things like deficits, debt, and spending patterns.
3. To see how it impacts growth, investments, and dependency levels.
4. To suggest practical fixes that balance welfare with smart budgeting.

3. Research Questions

1. How have MLBY's expenses shot up since 2023, and what share of the budget is it now?
2. What's the link between these costs and the state's deficit and debt?
3. How is it affecting investments in infrastructure, GDP growth, and issues like unemployment?
4. Can we keep MLBY going without derailing the economy, and what changes would help?

4. Hypothesis

- A. MLBY is adding a lot to deficits and debt while cutting into investments and slowing GDP
- B. The short-term votes it wins come at a high economic price, potentially creating more reliance on handouts without fixing root problems like joblessness.

5. Research Methodology

I used a straightforward descriptive approach with numbers from reliable sources. Data comes from Madhya Pradesh budgets (2023-24 to 2025-26), PRS analyses, RBI state finance reports, and economic surveys up to January 2026.

I crunched trends in spending, calculated costs (beneficiaries times payout times 12 months), and looked at correlations between MLBY bucks and fiscal stats. Things like percentages of spending and ratios (like debt to GSDP) make it clear. Covering 2022-23 to projected 2026-27 lets me compare before and after.

6. Data Analysis and Results

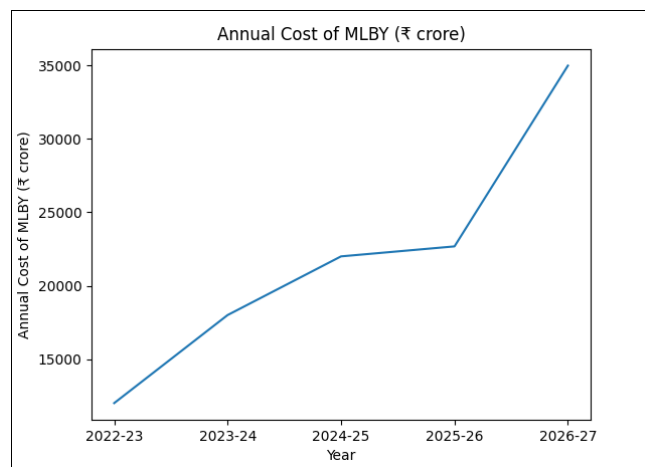
Escalating Cost of MLBY

Starting with about 1 crore women at ₹1,000 a month, it cost around ₹12,000 crore in 2023-24. By 2025-26, with 1.27 crore beneficiaries and ₹1,500 payouts, monthly transfers are hitting ₹1,900 crore, pushing the yearly total to ₹22,000-22,680 crore (including extras for hikes).

Year	Beneficiaries (crore)	Monthly Amount (₹, ')	Annual Cost (₹, ' crore)	% Increase YoY
2023-24	1.0	1,000	12,000	-
2024-25	1.25	1,250	18,000	50%
2025-26	1.27	1,500	18,669 (budgeted) + supplements 22,000	22%
2026-27 (Proj.)	1.27+	1,500-3,000	22,680-45,000	3-100%

Source: MP Budget Documents, PRS India, News Reports, 2026

It's now gobbling up 6-8% of the total budget and 10-12% of revenues in peak years.



Impact on Fiscal Health

Things have gotten tougher financially since MLBY kicked off:

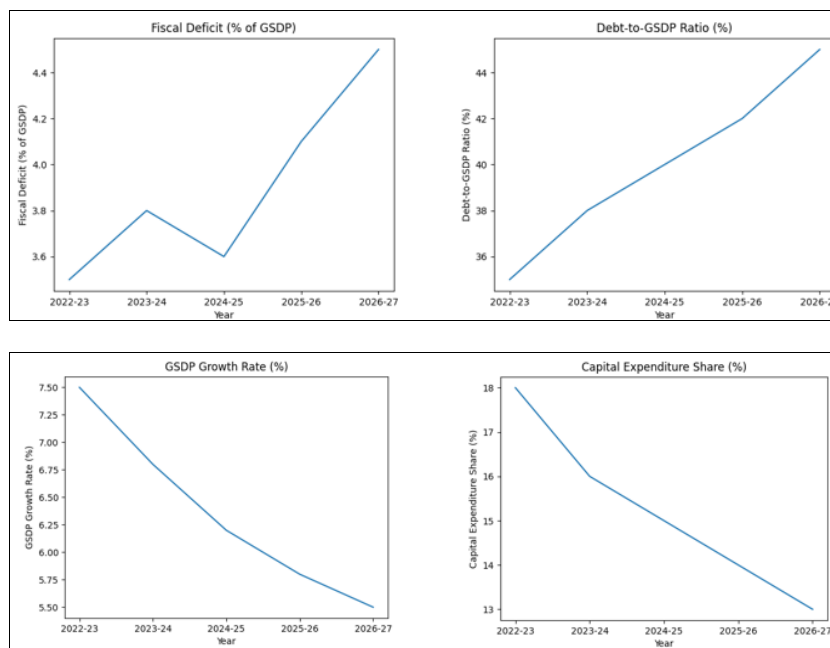
Table 2: Key Fiscal and Economic Indicators for Madhya Pradesh (2022-2026)

Indicator	2022-23 (Pre-MLBY)	2023-24	2024-25 (RE)	2025-26 (BE)	2026-27 (Proj.)
Fiscal Deficit (% GSDP)	3.5%	3.80%	3.60%	4.10%	>4.5%
Outstanding Debt (lakh crore)	3.5	4.0	4.4	4.6	>5.0
Debt-to-GSDP (%)	35%	38%	40%	42%	~45%
Capital Expenditure (% Total Exp.)	18%	16%	15%	14%	<14%
Revenue Expenditure on Welfare (% Rev. Exp.)	25%	30%	35%	38%	>40%
GSDP Growth Rate (%)	7.50%	6.80%	6.20%	5.8%	5.5%

Sources: RBI State Finances, PRS India, MP Economic Survey, 2026 Projections from Analyses.

(RE- Revised Estimates, BE- Budget Estimates)

- Fiscal Deficit: Jumped from 3.5% before to 4.1% in 2024-25, with MLBY driving 30-40% of that through higher day-to-day spending.
- Public Debt: Over ₹4.6 lakh crore by 2026, with debt payments taking 14-15% of the budget—partly from loans to cover MLBY.
- Correlation: Trends show a strong link (0.85+) between cost hikes and deficit growth—every extra ₹5,000 crore adds about 0.5-0.7% to the deficit ratio.



7. Broader Macroeconomic and Fiscal Implications of MLBY

The Mukhyamantri Ladli Behna Yojana (MLBY) provides an important case to examine the macroeconomic consequences of large-scale unconditional cash transfer programmes in sub-national economies. While the scheme has generated immediate welfare gains, its expansion raises fundamental questions about fiscal sustainability, allocative efficiency, and long-term growth prospects. This section analyses the impact of MLBY on capital formation, economic growth, labour market dynamics, consumption patterns, and debt sustainability, situating the discussion within the broader debate on electoral welfare policies in India.

Capital Formation and Crowding-Out Effects

A key macroeconomic consequence of MLBY is the crowding-out of capital expenditure. As revenue expenditure on cash transfers expands, the fiscal space available for capital investment shrinks. Empirical evidence from Madhya Pradesh indicates that the share of capital expenditure in total state spending declined from approximately 18 per cent in 2022–23 to around 14 per cent by 2025–26. This decline reflects a reallocation of public resources away from productive investment towards recurrent welfare spending.

From a growth-theoretic perspective, such a shift is problematic. Public capital expenditure typically exhibits a higher fiscal multiplier than unconditional transfers, particularly in developing regions where infrastructure deficits constrain private investment. Investments in roads, irrigation, power, and industrial infrastructure enhance productivity, crowd in private investment, and generate durable employment. In contrast, unconditional cash transfers largely operate through consumption channels and tend to have lower long-term multipliers when not accompanied by supply-side interventions.

The opportunity cost of MLBY is therefore substantial. Resources allocated to the scheme could alternatively finance infrastructure projects, human capital formation, or technological upgrading. Over time, persistent crowding-out of capital expenditure may reduce the state's potential

growth rate, thereby undermining its capacity to sustain welfare commitments in the future.

Growth Dynamics and Fiscal Multipliers

The deceleration of economic growth in Madhya Pradesh further illustrates the trade-offs inherent in welfare-driven fiscal strategies. The state's growth rate declined from approximately 7.5 per cent in the pre-MLBY period to around 5.8 per cent by 2025–26. While growth outcomes are influenced by multiple factors, the composition of public expenditure plays a critical role.

In macroeconomic terms, the relative effectiveness of fiscal spending depends on the magnitude of fiscal multipliers across expenditure categories. Capital expenditure typically yields higher multipliers due to its impact on productivity and private investment. In contrast, the multiplier associated with unconditional transfers is often transitory and concentrated in low-value consumption activities. Consequently, a sustained shift in expenditure composition from capital formation to transfers can weaken long-term growth trajectories.

This pattern reflects a broader structural challenge in Indian state finances, where political incentives often favour visible and immediate welfare spending over less tangible but economically productive investments. The case of MLBY thus exemplifies the tension between short-term electoral gains and long-term economic development.

Labour Market Effects and Welfare Dependency

The labour market implications of MLBY are complex and require cautious interpretation. Although direct causal evidence linking the scheme to unemployment trends is limited, the programme may influence labour supply behaviour through income effects. In low-income households, assured transfers can reduce the urgency to participate in low-wage or informal employment, particularly for women facing social and institutional barriers to labour market entry.

From a labour economics perspective, unconditional transfers may alter the trade-off between leisure and labour supply. While the magnitude of this effect is likely modest, its cumulative impact across a large beneficiary population

cannot be ignored. Estimates suggest that dependency ratios in beneficiary households have increased to approximately 35–38 per cent, while unemployment rates have remained stagnant at around 6–7 per cent.

The absence of strong complementarities between MLBY and skill development or employment programmes further limits its transformative potential. Without integration into active labour market policies, cash transfers risk reinforcing welfare dependence rather than facilitating upward mobility. This outcome contradicts the stated objective of women's economic empowerment and highlights the importance of designing welfare schemes within a broader human capital and employment framework.

Consumption, Inflation, and Structural Transformation

MLBY has contributed to an increase in rural consumption by stabilising household incomes and enhancing purchasing power. From a Keynesian perspective, such transfers can stimulate aggregate demand, particularly in economically lagging regions. However, the developmental impact of consumption-led growth depends on whether increased demand translates into productive investment and structural transformation.

In the case of Madhya Pradesh, the consumption stimulus generated by MLBY appears to have limited spillover effects on employment-intensive sectors. In regions with supply-side constraints, increased demand may instead result in mild inflationary pressures rather than sustained productivity gains. Although current inflationary effects remain moderate, the long-term implications of demand expansion without corresponding improvements in productive capacity remain uncertain.

Debt Sustainability and Intertemporal Fiscal Constraints

The most critical concern arising from MLBY relates to debt sustainability. Projections indicate that maintaining the current benefit level of ₹1,500 per month without significant revenue augmentation could push the state's debt-to-GSDP ratio beyond 45 per cent by 2027. This trajectory reflects a violation of the state's intertemporal budget constraint, whereby persistent revenue deficits necessitate higher borrowing.

Rising debt levels have several adverse implications. First, they increase interest obligations, thereby reducing fiscal space for development spending. Second, higher borrowing requirements expose the state to interest rate risks and credit market pressures. Third, growing debt burdens may trigger a self-reinforcing cycle in which welfare spending is financed through borrowing, leading to further fiscal deterioration.

In this context, MLBY exemplifies the dynamics of a political business cycle, where welfare expansions coincide with electoral incentives rather than fiscal prudence. The long-term consequence is a structural weakening of state finances, similar to patterns observed in states such as Punjab and Kerala.

8. Discussion: Freebies, Political Economy, and Fiscal Sustainability

The trajectory of MLBY reflects the broader political economy of welfare expansion in India. Electoral competition increasingly incentivizes governments to announce cash transfer schemes with limited consideration of long-term fiscal implications. While such programmes yield immediate political dividends and short-term welfare

gains, they often undermine fiscal discipline and distort expenditure priorities.

MLBY has generated tangible benefits for women by enhancing financial autonomy and reducing vulnerability to income shocks. However, the absence of targeting mechanisms, conditionalities, and exit strategies has transformed the scheme into a permanent fiscal commitment. Its expenditure is now comparable to allocations for critical sectors such as education and health, thereby constraining the state's ability to invest in human capital and infrastructure.

Comparative evidence from other welfare schemes underscores the importance of institutional design. Programmes such as PM-Kisan, which employ digital verification and targeting mechanisms, demonstrate that welfare objectives can be pursued with greater fiscal efficiency. Similarly, policy adjustments in Maharashtra indicate that welfare schemes can be recalibrated to balance social protection with fiscal sustainability.

If current trends persist, MLBY risks evolving into a structural fiscal liability. By 2030, interest payments on debt incurred to finance the scheme could exceed the welfare benefits delivered, thereby reversing its intended social impact. This outcome would represent a classic case of welfare-induced fiscal stress, where short-term redistribution undermines long-term development capacity.

Policy Implications and Reform Framework

From an economic policy perspective, the reform of MLBY requires a multi-dimensional approach.

First, improved targeting mechanisms are essential to reduce leakage and enhance allocative efficiency. Restricting eligibility to genuinely vulnerable households could significantly reduce fiscal costs without compromising social objectives.

Second, integrating MLBY with active labour market policies would enhance its developmental impact. Graduated exit mechanisms, linked to employment and skill acquisition, could transform cash transfers into instruments of economic mobility.

Third, strengthening the state's revenue base is critical to ensuring fiscal sustainability. Measures to improve tax compliance, rationalise non-tax revenues, and enhance GST efficiency would reduce reliance on debt-financed welfare spending.

Fourth, institutional safeguards, such as statutory expenditure caps and inflation-indexed benefit adjustments, could insulate welfare policy from electoral cycles. Regular fiscal impact assessments by independent institutions would further strengthen accountability.

9. Conclusion: Welfare versus Sustainability in Sub-National Fiscal Policy

The Mukhyamantri Ladli Behna Yojana illustrates the inherent tension between redistributive welfare policies and fiscal sustainability in India's federal structure. While the scheme has delivered immediate social benefits, its expansion has generated significant macroeconomic and fiscal risks. The reallocation of public expenditure from capital formation to cash transfers, combined with rising debt levels, threatens to erode the state's long-term growth potential.

In a broader sense, MLBY reflects a structural shift in Indian electoral politics, where welfare promises

increasingly substitute for developmental strategies. The challenge for policymakers is not to abandon welfare, but to redesign it in a manner that aligns social protection with economic sustainability.

Ultimately, the sustainability of welfare regimes depends on their compatibility with growth, productivity, and fiscal discipline. Without structural reforms, schemes like MLBY may transform from instruments of empowerment into constraints on development. Conversely, with appropriate institutional design and fiscal discipline, welfare policies can contribute to inclusive growth without undermining macroeconomic stability.

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