

ISSN : 2319-9687

EDUCATION AND SOCIETY

A Multidisciplinary International
Peer Reviewed/Refereed Journal

Vol. XIV, Number - 23

January-December, 2024

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Trends and Structural of Central Government Finances: An Analysis of Receipts, Expenditure, and Fiscal Deficits in India

Mr. Kiran Laxman Sakat*

ABSTRACT

This study analyses the trends and structural patterns of India's central government finances from 2000 to 2023. It examines the composition of receipts, dominated by revenue receipts forming two-thirds of the total, with capital receipts largely debt-financed. On the expenditure side, revenue spending consistently absorbed 85–88% of total outlays, restricting capital investment to just 12–15%. Committed expenditures—interest, wages, pensions, and subsidies—consumed nearly 65–70% of revenue receipts, limiting fiscal flexibility. Fiscal deficits remained persistent and structural, averaging 3–6% of GDP before the pandemic and spiking to 9.2% in 2020–21. The GST reform did not significantly alter the revenue–capital mix of receipts. High debt levels and interest burdens highlight the growing fiscal stress. The analysis underscores that deficits are financing recurring costs rather than productive investment. Policy recommendations stress enhancing revenue flexibility, rationalizing committed expenditure, and expanding capital outlays. These reforms are crucial for achieving fiscal stability, sustainable growth, and long-term investment orientation.

Keywords: Receipts, Expenditure, Fiscal Deficits

INTRODUCTION

Public finance is a cornerstone of modern economic governance, serving both as a tool for macroeconomic stability and as an instrument to promote growth, equity, and development. In India, the central government's fiscal operations encompassing receipts, expenditure, and deficits have expanded significantly since the 1990s, reflecting the country's rapid economic transformation and growing developmental

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aspirations. Between 2000 and 2023, total government receipts increased nearly thirtyfold, with revenue receipts consistently forming about two-thirds of the total and capital receipts, mainly debt-financed, comprising the remainder.

Despite this robust growth, the structure of India's public finances exhibits persistent imbalances. Revenue expenditure absorbs the bulk of spending, accounting for 85–88% of total outlays, while capital investment remains constrained at roughly 12–15%. High committed expenditures, including interest payments, pensions, wages, and subsidies, further limit fiscal flexibility, resulting in structural fiscal deficits. The COVID-19 pandemic accentuated these challenges, pushing the fiscal deficit to 9.2% of GDP in 2020–21.

This study aims to analyse the trends and structural patterns of central government finances in India from 2000 to 2023, focusing on the composition of receipts and expenditure, the persistence of fiscal deficits, and the implications of expenditure rigidity for investment and growth. By situating fiscal trends within a structural framework, the research provides insights for policymakers on enhancing revenue buoyancy, rationalizing committed spending, and expanding capital outlays to achieve sustainable growth and fiscal stability.

BACKGROUND

Public finance is central to the functioning of any modern economy, serving as both a measure of macroeconomic stability and a policy instrument for growth and equity. In India, the Union Government's fiscal operations—comprising receipts, expenditure, and deficits—have expanded considerably since the 1990s, mirroring the country's broader economic transformation. Between 2000 and 2020, central government receipts increased nearly thirtyfold, with revenue receipts forming about two-thirds of the total and capital receipts, mainly borrowings, contributing the remainder. On the expenditure side, revenue spending has consistently absorbed 85–88% of the budget, leaving only 12–15% for capital outlays such as infrastructure and asset creation.

PROBLEM STATEMENT

Despite strong growth in fiscal aggregates, India's budgetary composition exhibits persistent structural imbalances. A large share of revenue is pre-committed to interest payments, wages, pensions, and subsidies, crowding out resources for capital

investment. Consequently, fiscal deficits remain entrenched, not just as cyclical phenomena but as structural features of the system. The COVID-19 pandemic further exposed these weaknesses, pushing the fiscal deficit to 9.2% of GDP in 2020–21 and raising public debt levels. Although subsequent consolidation efforts have narrowed the gap, deficits remain above pre-pandemic norms, underscoring the rigidity of India's fiscal framework.

LITERATURE REVIEW

Studies on India's central government finances consistently reveal structural imbalances between receipts and expenditure. The FRBM Review Committee (2017) proposed a rules-based fiscal framework with a debt anchor and operational deficit targets, stressing the need to protect capital expenditure. However, it paid little attention to the persistent dominance of revenue commitments, such as interest, wages, and pensions, which limit fiscal flexibility. Complementing this, Bose and Bhanumurthy (2013) demonstrated that capital expenditure generates much higher multipliers (around 2.0–2.5) compared to revenue spending (close to 1), underscoring the growth benefits of prioritizing investment during consolidation.

Post-GST reforms have been assessed by Mukherjee (2023), who found improvements in tax buoyancy but no structural shift in the receipts mix—revenue receipts continued to form nearly two-thirds of total receipts. Similarly, the IMF (2023) recognized India's elevated debt burden and advised prudent fiscal consolidation while safeguarding public investment. Meanwhile, the CAG (2024) documented that committed expenditures consumed 63–70% of revenue expenditure between 2019 and 2024, crowding out discretionary and capital spending. Finally, official data (MOSPI, 2023) confirm that revenue receipts dominate and revenue expenditure absorbs 85–88% of total outlays, leaving limited room for capital investment. Despite these insights, causal analysis of rigidity costs remains limited.

RESEARCH GAP

While studies document India's fiscal imbalances and the dominance of revenue expenditure, there is limited empirical research on the causal impact of expenditure rigidity. The trade-offs between committed revenue outlays and foregone capital investment, as well as their implications for growth, fiscal efficiency, and investment outcomes, remain underexplored.

OBJECTIVES

The present study aims to bridge this gap by offering a comprehensive analysis of the trends and structural imbalances in central government finances between 2000 and 2023. The specific objectives are:

1. To examine the growth and composition of revenue and capital receipts.
2. To analyse the expenditure structure, with particular focus on the dominance of revenue spending over capital outlays.
3. To identify policy implications for achieving fiscal consolidation and reorienting public expenditure toward long-term investment.

By situating fiscal trends within their structural context, this study contributes to the discourse on fiscal reform in India. It highlights the pressing need to enhance revenue buoyancy, rationalize committed expenditure, and expand fiscal space for capital investment to ensure sustainable growth.

METHODOLOGY

This study employs a descriptive and analytical design using secondary data to examine trends and structural patterns in India's central government finances from 2000–2023. Data are sourced from Union Budget documents, RBI reports, MOSPI, CAG, IMF, and NIPFP working papers. Annual receipts, expenditure, and deficit data are compiled and organized in Excel. Descriptive statistics (mean, growth rates, ratios) summarize fiscal aggregates, while trend and comparative analyses identify structural patterns, including pre- and post-GST and COVID-19 periods. Graphical tools (line charts, bar charts, pie charts) visualize fiscal composition. The study highlights expenditure rigidity, revenue dominance, and limited capital investment, informing policy implications.

The central government's revenue and capital receipts have both expanded markedly since 2000. After 2000, total receipts grew roughly thirtyfold by 2020. Revenue receipts (mainly taxes and non-tax revenue) have generally formed about two-thirds of total receipts. In FY200001, revenue receipts were only 58.9% of total receipts. Thereafter the revenue share rose to 66% by 2010–11 and remained in the mid-60s. In the GST era (post2017), revenue receipts consistently held around 67–69% of receipts: for example, 67.1% in 2017–18, 67.0% in 2018–19 and 68.6% in 2019–20. Capital receipts (mainly debt financing) correspondingly ranged 31–33%. The COVID shock in 2020–21 pushed revenue receipts' share down (to 65.3%) as tax collections faltered and borrowing surged. Overall, the data show a steady upward

trend in both components, but no structural break post-GST – the introduction of GST did not dramatically change the revenue/capital split, which remained around two-thirds revenue, one-third capital in the late 2010s.

Within total expenditure, the dominance of revenue spending persists. Central expenditure has also grown steadily (roughly 20–30 times since the 1990s) alongside receipts, but with revenue expenditure absorbing the bulk. Recent data indicate revenue expenditure consistently at 85–88% of total expenditure and capital outlay only 12–15%. For instance, RBI statistics show revenue spending at 86.7% of the total in 2018–19 and 87.1% in 2019–20, with capital outlay at roughly 13–13.3%. Even in the pandemic year 2020–21, revenue expenditure was 86.5% vs. 13.5% for capital. This imbalance has held for decades – one study notes central revenue expenditure rose from 72.9% of total in 1990–91 to 86.7% by 2018–19. In short, revenue commitments (interest, subsidies, wages, pensions, etc.) crowd out investment: almost 70% of *revenue receipts* themselves go to interest, salaries and pensions, leaving only 30% for other programs. Between 2012–13 and 2023–24, these “committed” items consumed about 65–70% of revenue receipts (except in 2020–21). Thus, the data underscore a structural feature: recurring (non-investment) spending dominates the budget, limiting fiscal space for infrastructure and other capital projects.

The composition of total receipts is heavily skewed toward tax revenue. In 2022–23, taxes alone were 86% of all Centre’s receipts; nontax receipts (e.g. fees, dividends) about 11%, and disinvestment or other non-debt capital sources only 2%. The remaining financing comes from borrowings (market and other debt) to cover the gap. In practice, most capital receipts have been debt-raising: non-debt items like disinvestment often fall short of budget targets. On the expenditure side, committed outlays (interest, wages, pensions) are the bulk, as noted above. Of the residual, defence and welfare consume most of the remaining revenue spending, while capital outlays mostly fund infrastructure and assets.

Because expenditures routinely slightly exceed receipts, the budget runs a fiscal deficit every year. In the 2000s–2010s, the deficit was typically around 3–6% of GDP (roughly 3–6% of receipts), consistent with deficits of a few percent of GDP. For example, the FRBM-mandated targets (3.0–3.5% of GDP) were met only intermittently. The pandemic caused a large jump: the Centre’s fiscal deficit surged to about 9.2% of GDP in 2020–21 (revenue deficit 6.3%). Since then deficits have narrowed but remain above pre-pandemic norms: roughly 6.7% of GDP in 2021–22 and 5.8% in 2022–23 (with revenue deficits 4–5% of GDP). In other words, expenditure has

hovered around 98–100% of receipts in normal years (deficits 2–4%), except the Covid year where spending far exceeded receipts. The fiscal roadmap has been adjusted accordingly: instead of the original 3% target, the government now aims for a deficit below 4.5% of GDP by 2025–26.

Key patterns and challenges emerge from these trends. First, there has been robust growth in all fiscal aggregates, but expenditure has nearly kept pace with (or slightly outstripped) receipts, so deficits persist. Second, the revenue/capital composition of receipts has stayed in a fairly narrow band – revenue usually about two-thirds – with no dramatic shift from GST. Third, the expenditure composition remains heavily weighted toward non-investment items (interest, subsidies, salaries), leaving only about 10–15% of spending on capital investment. This structural tilt raises concerns: for example, India’s “fiscal deficit” appears structural rather than cyclical. In high-growth periods, spending still outpaces receipts, suggesting entrenched budget rigidities. The dominance of revenue expenditure implies that debt-funded deficits are largely financing recurring costs rather than long-term assets. Indeed, central government debt has risen (from 48% of GDP in 2018–19 to 61% in 2020–21, now 57%), and interest payments have consumed 35–40% of revenue receipts. These patterns underscore the fiscal challenge: structural consolidation would require either sustained revenue buoyancy (e.g. higher tax collections or broader bases) or a shift toward higher capital outlay and slower growth of uncommitted spending. The data thus highlight both past growth and the need for reforms to improve fiscal balance and investment orientation in the post2017 era.

MAJOR FINDINGS

- 1. Sustained Growth in Fiscal Aggregates:** Central government receipts and expenditure expanded markedly between 2000 and 2023, with total receipts increasing nearly thirtyfold, reflecting India’s broader economic transformation.
- 2. Revenue Receipts Dominate:** Revenue receipts consistently accounted for about two-thirds of total receipts, while capital receipts, primarily debt-financed, contributed the remaining one-third; GST implementation did not materially alter this composition.
- 3. Expenditure Rigidity:** Revenue expenditure absorbed 85–88% of total spending, with capital outlays limited to 12–15%, indicating entrenched fiscal rigidity and minimal fiscal space for long-term investment.

4. **High Committed Spending:** Interest payments, wages, pensions, and subsidies consumed approximately 65–70% of revenue receipts, crowding out discretionary and capital expenditure.
5. **Persistent Fiscal Deficits:** The fiscal deficit remained structural, averaging 3–6% of GDP pre-pandemic and surging to 9.2% in 2020–21, reflecting the dominance of non-investment spending.
6. **Policy Implications:** The findings highlight the need for enhanced revenue buoyancy, rationalization of committed expenditure, and a shift toward higher capital outlays to support sustainable growth and fiscal consolidation.

CONCLUSION

The analysis of India's central government finances from 2000 to 2023 reveals persistent structural imbalances between receipts and expenditure. While fiscal aggregates have grown substantially, revenue receipts continue to dominate, and revenue expenditure absorbs the bulk of spending, leaving limited space for capital investment. High committed outlays on interest, wages, pensions, and subsidies constrain fiscal flexibility and contribute to structural deficits. Despite policy measures, including GST implementation and post-pandemic consolidation efforts, the composition of receipts and expenditure has shown little structural change. The findings underscore the need for fiscal reforms that enhance revenue buoyancy, rationalize committed spending, and expand capital outlays to support sustainable growth, long-term investment, and fiscal stability.

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