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Dissecting India's Fiscal Ecosystem: A Thorough Investigation Of The Central Government's Financial Flow And Obligations

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Abstract

This study examines India's fiscal dynamics, highlighting the interplay between strong economic policies and challenges. It acknowledges the growth in revenue receipts and the significant impact of interest payments on debt-laden expenditures. The fiscal landscape shifted notably in 2020-21, primarily due to the COVID-19 pandemic, increasing borrowings and subsidies. Despite tax revenues being the main income source, there's room for diversification with non-tax revenues. The study also notes diverging trends in primary and fiscal deficits, signalling deeper fiscal issues. It urges policymakers to consider the substantial fiscal gap and debt burden when planning the budget. This analysis underscores the need for balanced economic strategies to maintain India's fiscal stability.

Keywords *– Fiscal Deficit, Capital Expenditure, Primary Deficit, Revenue Expenditure, Interest Payments, Subsidies, Govt. Borrowings.*

1 Introduction

Fiscal policy, quintessentially, pertains to the government's strategic orchestration of its revenue and expenditure to steer the economic trajectory of a nation. It encompasses the judicious calibration of taxes, public spending, and borrowing to achieve overarching macroeconomic goals, including growth, stability, and equitable wealth distribution. Within India's multifaceted economic canvas, the Central Government stands sentinel, crafting and refining fiscal strategies that mold the nation's economic vitality. Over the decades, India has witnessed transformative internal reforms that have redefined its fiscal landscape. The introduction of the Goods and Services Tax (GST), for instance, sought to streamline the country's indirect taxation system, fostering a unified market structure. Additionally, reforms in the banking sector, insolvency and bankruptcy code, and foreign direct investment policies have played pivotal roles in enhancing fiscal robustness. Coupled with global influences and unforeseen challenges like the COVID-19 pandemic, these reforms present a rich tapestry of fiscal dynamics.[1] This research delves deep into such intricacies, exploring revenue patterns, expenditure nuances, and the resultant fiscal implications. As India navigates an ever-evolving global economy, insights from this study are paramount in charting informed, future-ready fiscal pathways.

2 Literature Review:

In "A Role of fiscal policy impact on Indian Economy: A overview with case study (Srinidhi R and Ragu Balan P, 2018) provide an extensive overview of India's fiscal stance over the years. They emphasize the role of fiscal policy in stabilizing the economy, especially in times of economic downturns. The study also highlights the challenges faced by the Indian government in balancing growth aspirations with fiscal prudence.

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"Union Budget 2022-23: Fiscal-Monetary" offers a comprehensive analysis of the recent Union Budget, shedding light on the government's fiscal stance and its implications for monetary policy. The interconnectedness of fiscal and monetary policies is highlighted, demonstrating the balance required to achieve economic objectives. It has emphasised on "crowding-in" effects of public infrastructure investment on private investment. The efficacy of rules-based macroeconomic framework – both monetary and fiscal – needs to be recalibrated to support economic growth, as fiscal conservatism can adversely affect growth process and accentuate macroeconomic uncertainties. The credit related stimulus has limited multiplier effects and also lead to financial instability if the liquidity infusion is not adequately followed by the credit growth in the economy.

"Fiscal federalism in India" (N K Singh, Chairman, 15th Finance Commission, India) delves into the complexities of fiscal relations between the central and state governments in India. It underscores the importance of maintaining fiscal discipline at both levels of government and the challenges therein. The paper further elaborates on the dynamics of revenue sharing between the center and states, a critical aspect of India's fiscal federal structure.

In the RBI working paper on debt sustainability – "Subnational Government Debt Sustainability in India: An Empirical Analysis (2020), there is a thorough examination of India's debt dynamics. It observes, debt sustainability is intricately linked to fiscal deficits, as continuous high deficits can lead to mounting debts and also it provides valuable insights into the factors that influence debt sustainability, emphasizing the need for prudent fiscal management.

"Fiscal Policy in India: Trends and Trajectory"(Supriyo De, 2012) and the ADBI Working Paper Series – "Debt Dynamics, Fiscal Deficit, and Stability in Govt Borrowing in India: A Dynamic Panel Analysis" further contribute to the understanding of fiscal policy's nuances, its historical trajectory, and the challenges and opportunities it presents in the Indian context. Later one highlights, debt ratio should be sustainable over a long time. Debt will be sustainable when govt. consumption expenditure and transfer payments are to be met from revenue receipts of the government, while public investment and net government support to private investment should be financed through borrowing.

3 Objectives

1. To assess the trajectory of major expenditure items, such as interest payments, major subsidies, and defence expenditure & its proportion in the revenue expenditure and its significance

2. To analyze the trends in revenue receipts, distinguishing between tax and non-tax revenues.

2. To evaluate the fiscal deficit and primary deficit trends over the years.

4 Methodology:

4.1 Sources of Data

The research solely relies on secondary data, obtained from Ministry of Finance of the Indian government, the RBI, and financial news outlets.

4.2 Data Processing and Analysis plan

Relevant statistical tool such as ratios and CAGR have been used to analyse the data

4.3 Limitation of the study

Revised estimates for FY 2021- 22 and budgeted estimates for FY 2022-23 constitute the secondary data utilized in this study. While this might introduce some degree of inaccuracy in the research outcomes, the credibility of the data sources - RBI, the Government of India, and financial media - ensures that any potential impact on the findings' accuracy is likely minimal.

5 Analysis of Data

In the following table, the trend associated with major expenses, incomes and fiscal deficit during the FY 2017-23 is analysed. (Amount in Crores, INR)

Table 1 :Major Expenses, Incomes and Fiscal Deficit FY 2017 to FY 2023

Sl No	Particulars	Year							CAGR (%)
		2016-17	**2017-18**	**2018-19**	**2019-20**	**2020-21**	**2021-22**	**2022-23**	
1	**Revenue Receipts (a+b)**	13,74,203	14,35,233	15,52,916	16,84,059	16,33,920	21,68,426	22,04,422	**8.20%**
	(a)Tax Revenue (net of States' share)	11,01,372	12,42,488	13,17,211	13,56,902	14,26,287	18,20,382	19,34,771	**9.85%**
	(b)Non-tax Revenue	2,72,831	1,92,745	2,35,704	3,27,157	2,07,633	3,48,044	2,69,651	**-0.20%**
2	**Revenue Expenditure**	16,90,584	18,78,835	20,07,399	23,50,604	30,83,519	32,01,373	31,94,663	**11.19%**
	Interest Payments	4,80,714	5,28,952	5,82,648	6,12,070	6,79,869	8,05,390	9,40,651	**11.84%**
	Major Subsidies	2,04,025	1,91,183	1,96,496	2,28,341	7,07,707	4,46,048	3,17,866	**7.67%**
	Defence Expenditure	1,65,410	1,86,129	1,95,572	2,07,572	2,05,789	2,28,565	2,33,000	**5.88%**
3	**Revenue Deficit (2-1)**	3,16,381	4,43,602	4,54,483	6,66,545	14,49,599	10,32,947	9,90,241	**20.95%**
4	**Capital Receipts (non-debt) (a+b)**	65,373	1,15,678	1,12,779	68,620	57,626	39,208	79,291	**3.27%**
	(a) Recovery of loans	17,630	15,633	18,052	18,316	19,729	24,570	14,291	**-3.44%**
	(b)Other receipt (mainly PSU disinvestment)	47,743	1,00,045	94,727	50,304	37,897	14,638	65,000	**5.28%**
5	**Capital expenditure**	2,84,610	2,63,140	3,07,714	3,35,726	4,26,317	5,92,798	7,50,246	**17.53%**
6	**Non-Debt Receipts [1+4(a)+4(b)]**	14,39,576	15,50,911	16,65,695	17,52,679	16,91,546	22,07,634	22,83,713	**7.99%**
7	**Total Expenditure [2+5]**	19,75,194	21,41,975	23,15,113	26,86,330	35,09,836	37,94,171	39,44,909	**12.22%**

8	**Fiscal Deficit [7-1-4(a)-4(b)]**	5,35,618	5,91,064	6,49,418	9,33,651	18,18,290	15,86,537	16,61,196	**20.76%**
9	**Primary Deficit [8-2(a)]**	54,904	62,112	66,770	3,21,581	11,38,421	7,81,147	7,20,545	**53.58%**
10	**Borrowings and other liabilities**	5,35,618	5,91,064	6,49,418	9,33,651	18,18,291	15,86,537	16,61,196	**20.76%**

In the following table, the major expenses are compared with major incomes in terms of Percentage.

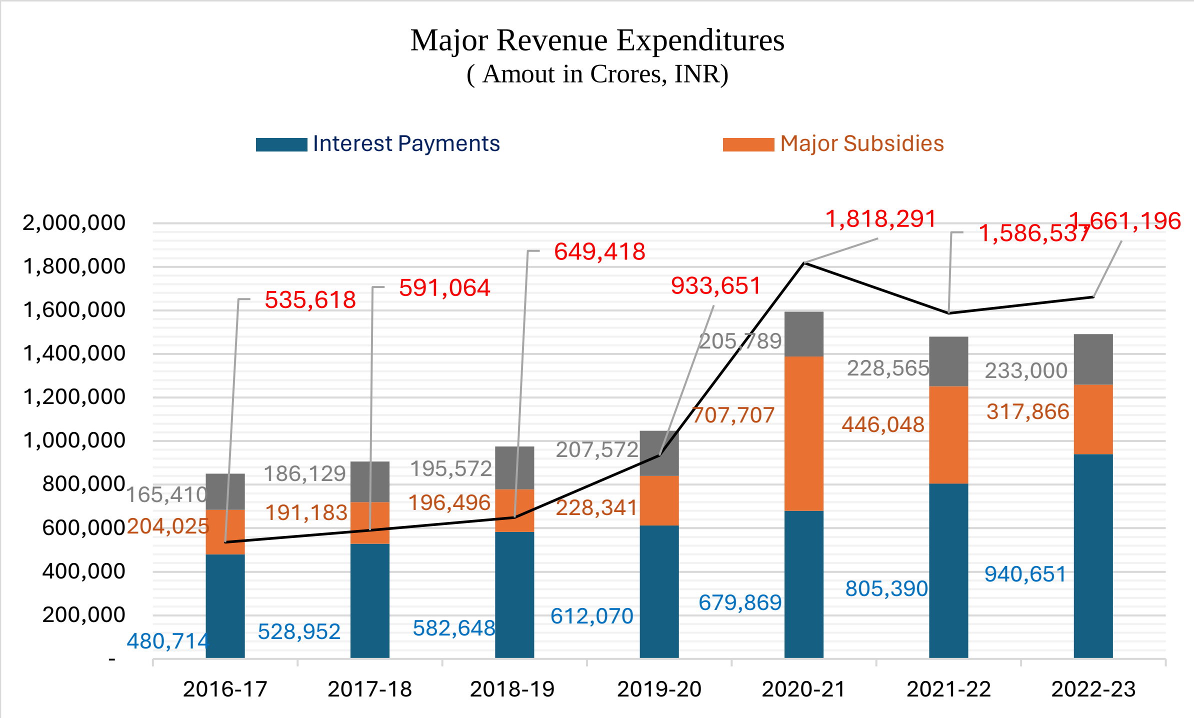
Table 2 : Comparison of Major Expenses with Incomes in terms of Percentage for the period of FY 2017 to FY 2023

	Particulars	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**2020-21**	**2021-22**	**2022-23**
1	**(Interest Payments / Total Revenue)%**	35%	37%	38%	36%	42%	37%	43%
2	**(Interest Payments / Capital Expenditure)%**	169%	201%	189%	182%	159%	136%	125%
3	**(Interest Payments / Total Expenditure)**	24%	25%	25%	23%	19%	21%	24%
4	**(Capital Expenditure/Total Expenditure)%**	14%	12%	13%	12%	12%	16%	19%
5	**(Revenue Expenditure/Total Expenditure)%**	86%	88%	87%	88%	88%	84%	81%
6	**(Borrowings/Total non-debt Receipts)%**	37%	38%	39%	53%	107%	72%	73%
7	**(Tax Revenue/Total non-debt Receipts)%**	80%	87%	85%	81%	87%	84%	88%
8	**(Non-Tax Revenue/Total Revenue)%**	20%	13%	15%	19%	13%	16%	12%

5.1 Major Revenue Expenditure

The graph illustrates the trends in major revenue expenditures for the Central Government of India over the years.

Figure 1 : Major Revenue Expenditures



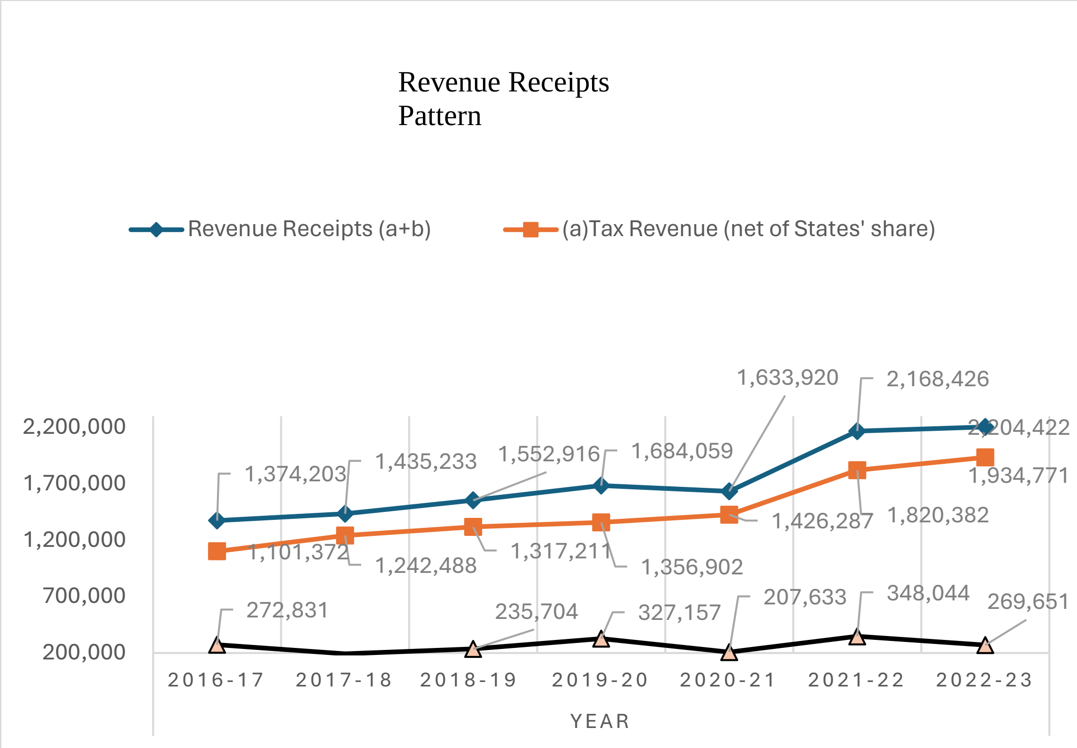
Among the trio of primary government expenditures, interest payments consistently tower due to India's significant existing debt. With each fresh borrowing, this outflow, represented in interest payments, amplifies. The Compound Annual Growth Rate (CAGR) of interest payments stands at 11.84%, closely mirroring the 11.19% CAGR of revenue expenditure, with a strong correlation of 0.9. This signifies that interest payments substantially influence revenue expenditure, both in absolute terms and annual growth rates.

The fiscal year 2020-21 witnessed transformative shifts, predominantly influenced by the COVID-19 pandemic. Borrowings surged by a staggering 94.75% year-on-year, subsidies by 209.93%, and interest payments by 11.08%. Moreover, subsidies, another prominent drain on tax revenues, have been escalating at a CAGR of 7.67%. These trends illuminate the complexities and challenges inherent in India's fiscal decision-making, as it navigates between socio-economic welfare, debt management, and national priorities.

5.2 Revenue Receipts

The graph illustrates the trends in revenue receipts for the Central Government of India over the years.

Figure 2 : Pattern of Revenue Receipts



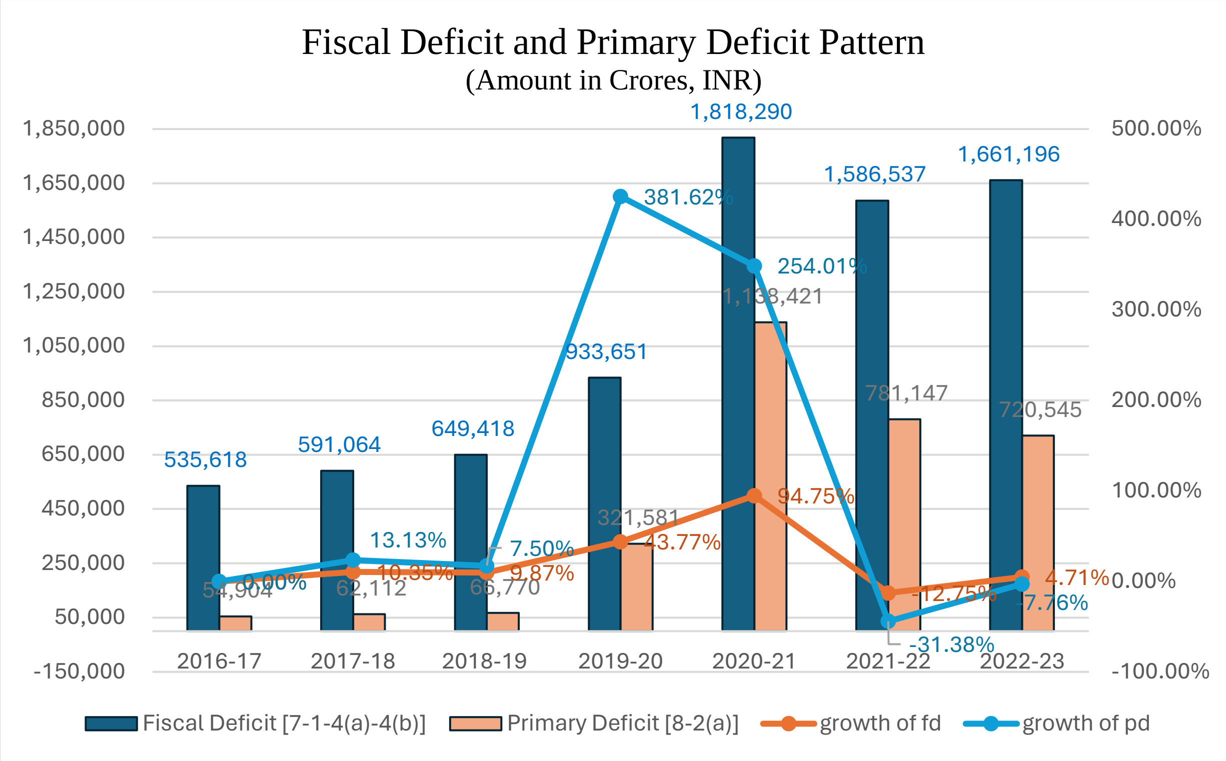
Tax Revenue serves as the predominant revenue stream for the government, constituting approximately 85% of the total revenue, with the remainder coming from non-tax sources. Observing a growth trajectory, revenue receipts have been escalating at a CAGR of 5.39%. However, an exception was noted in 2020-21, likely influenced by the economic repercussions of the COVID-19 pandemic. Tax Revenue's growth rate stands at 6.46%, whereas non-tax revenue has experienced stagnation, even indicating a negative trend with a CAGR of -0.13%.

There's potential for the government to diversify and amplify its non-tax revenue avenues. Although the revenue potential from individual non-tax sources might not rival that of tax sources, they remain crucial for holistic fiscal growth. Strategies could involve expanding the non-tax revenue portfolio or optimizing earnings from existing streams, such as service charges, rent, royalties, or interest. For instance, sectors like telecommunication, DTH, and broadband offer revenue opportunities given the government's infrastructural contributions. Moreover, there's scope to refine interest rates on loans provided to states. Additional contributions come from dividends from PSEs, RBI surplus transfers, petroleum exploration fees, power supply charges, spectrum usage fees, and tolls for roads and bridges.

5.3 Fiscal and Primary Deficit

The graph illustrates the trends in fiscal deficit and primary deficit for the Central Government of India over the years.

Figure 3 : Pattern of Primary and Fiscal Deficit



The primary deficit, derived by deducting interest payments from the fiscal deficit, provides a focused lens into the government's fiscal operations. In the fiscal year 2016-17, this deficit was pegged at INR 54,904 crores. However, by 2022-23, it expanded to INR 7,20,545 crores, registering a CAGR of 20.76%. Notably, 2020-21 witnessed a pronounced spike, with the primary deficit soaring to INR 11,38,421 crores, while the fiscal deficit for the same period stood at an imposing INR 18,18,290 crores.

Despite these challenges, there's a silver lining: both the fiscal and primary deficits receded post-COVID. Yet, when scrutinizing the CAGRs over the past seven years—encompassing three pre-COVID and three post-COVID years—it's evident that the primary deficit grew at a CAGR of 53.58%, outpacing the fiscal deficit's CAGR of 20.76%. This discrepancy underscores that the deficits weren't solely a result of pre-existing debt obligations. Instead, they pointed to a broader fiscal imbalance, stemming from the disparity between fresh revenue inflows and government spending.

6 Summary & Conclusion

India's fiscal landscape, as observed through above research, is marked by a series of contrasts. At the forefront of government expenditure, interest payments loom large, an outcome of India's considerable existing debt (INR 157,40,123 crores as on FY 2022-23 Budget Estimates). The CAGR of these payments, at 11.84%, almost mirrors the 11.19% growth of revenue expenditure, underscoring the significant influence of interest outflows on the nation's revenue expenditure.

The tumultuous events of 2020-21, steered by the COVID-19 pandemic, further intensified this scenario. In this period, a sharp surge in borrowings by 94.75%, coupled with an exponential rise in subsidies by 209.93% and a notable growth in interest payments by 11.08% over previous year, underlined the challenges and complexities of fiscal decisions. Moreover, in the Revenue Receipt segment, tax revenues have firmly held the reins of the nation's revenue stream, constituting around 85%, thanks to GST and increased tax-payer's base. Non-tax revenues present a picture of stagnation, even tilting towards a declining trend with a CAGR of -0.13% during the FY 2017-23. This brings to light untapped potentialities; avenues like telecommunications, dividends from PSEs, and spectrum usage fees indicates greater fiscal attention to diversify the revenue base.

Peeling back another layer, the primary deficit, which stood at INR 54,904 crores in 2016-17, swelled to INR 7,20,545 crores by 2022-23, revealing a CAGR of 20.76% during the FY 2017-23. The year 2020-21 alone saw it spike to an overwhelming INR 11,38,421 crores. Yet, amidst these fiscal tempests, a beacon of resilience emerged post-COVID, with both fiscal and primary deficits exhibiting a decline. However, a disconcerting revelation lies in the disparate growth rates of primary and fiscal deficits considering FY 2017-23, where the former's CAGR of 53.58% significantly overshadowed the latter's 20.76%. This not only underscores the challenges tied to existing debt but also the broader fiscal imbalances arising from the juxtaposition of revenues and government expenditures.

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