Union Finances in India: An Overview

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Abstract:

Post pandemic the world economy holds the pace of steady growth but globally the geopolitical issues and turbulence driven inflation have impacted the fiscal performance across countries. The spike in India's debt and deficit ratios has not only been due to higher spending necessitated by defense and social sector expenditure but also due to the contraction or slower growth in the denominator (nominal GDP). One of the obligations of FRBM act 2003 reinforces Centre Government to retain sustainable fiscal management and long-term macroeconomic stability. The new simplified Income-tax, 2025 and comprehensive rate rationalization of GST are few major strategies of mid-term reform to have taken place. In the able and prudent Centre Government the world is looking forward for India's move in such a crucial time. To carry out an overview of Centre Government's recent fiscal plans and developments become relevant. While presenting the Union Budget 2026-27 in Parliament, Union Minister for Finance and Corporate Affairs, Smt. Nirmala Sitharaman stated, "Government has been delivering on fiscal commitments consistently without compromising on social needs. In the fiscal monitor, we project global public debt to go above 100% of GDP by 2029. Public debt risks are widespread and tilted towards debt accumulating even faster. Policymakers must act now to keep debt under control and contain debt risks." said Vitor Gaspar, Director of the Fiscal Affairs Department, IMF. Fiscal monitor report released in October 2025 not only stated about current global fiscal stress but also urged for smarter public spending foe better prospect. sustainable Debt-GDP ratio is to be corrected across world other-wise world economy is going to face tougher time ahead.

Indian economy can't be unaffected by this, though According to the above said report India is not in the top 10 ranker. The prudent fiscal consolidation methods and mid-term fiscal resolutions are trying to make a peace in such a turbulent situation. Deficit indicators of the Union as percentage of GDP witnessed an electrifying shock during COVID-19 and post Pandemic. It is rightly said misfortune seldom come alone, as the global economy was about to recover geopolitical issue knocked and induced petroleum product induced inflation. The current study intends to observe the pre and post

Pandemic to Recovery of India's Fiscal Deficit Trends, composition of GDP, revenue, expenditure and Fiscal Deficit during 2015-16 to 2025-26 BE, further statistical analysis of the given data shall be done to find out he causes and extend of the fiscal deficit during said duration.

Keywords: Centre Government, Fiscal Deficit, Medium term Fiscal Policy.

Introduction:

The macro-economic framework of an Economy is observed for finding facts and resolving the issues by making policies and implementing then in such a way that prevails sustainable growth trajectory. Moreover, the postulates of the Budgetary deficits have always attracted the attention of State and Centre Government officials, corrective measures in accordance have also been taken up as per the requirement of time. FRBM act, 2003 and FRBM rules 2004, aims to promote fiscal discipline, transparency, and accountability in India's financial management by setting specific targets for fiscal deficits and ensuring sustainable economic growth. The FRBM framework mandates the Central Government to limit its Fiscal Deficit up to 3% of GDP by 31st March 2021. Despite of the sweeping outburst of pandemic COVID-19 the Indian Economy shown sustained and resilient growth in past decade.

The Comptroller and Auditor General (CAG) presented its 2023-24 annual review of the Fiscal Responsibility and Budget Management (FRBM) Act, 2003, in Parliament. The CAG Review of the FRBM Act for FY 2023-24: "Central Government Debt: Declined to 57% of Gross Domestic Product (GDP) (March 2024) from 61.38% in FY 2020-21. General Government Debt (GGD): GGD declined slightly from 83% of GDP in March 2022 to 81.3% in March 2023, still far above the 60% target."

The existing literature can be categorised as basic econometric model based traditional studied that have basically the relationship between government revenue and expenditure is a crucial aspect of public economics, with significant implications for budget deficits. The direction of causality between these two variables is particularly important, as it informs policy decisions on fiscal management. The traditional theories Keynesian Economics, Neoclassical Theory, Modern Monetary Theory, Fiscal Multipliers introduced the Government intervention in the Economy and proposed further dynamics of the various instruments of the fiscal and monetary policies. The second category studies have explored the revenue-expenditure mechanism in various countries, including developing economies. Chakraborty (2026) examined fiscal consolidation and the role of the 16th Finance Commission in India's Union Budget 2026. The study emphasized the need for greater financial autonomy for state governments to achieve fiscal consolidation. Blanchard and Perotti (2002) estimate that a 1% increase in government expenditure can boost GDP by approximately 1.5% in the short term, particularly during recessions. Jacob (2026) investigated the impact of fiscal transfers on state finances in Manipur, finding that the effectiveness of fiscal transfers depends on the state's economic condition. Mukherjee and Badola (2026) assessed the impact of GST 2.0, finding that lower tax rates have a positive effect on consumer prices. Another study examining the impact of fiscal deficit on India's GDP growth from 1999-2000 to 2013-2014 found a significant inverse relationship between fiscal deficit and GDP growth, with a 1% increase in fiscal deficit dampening GDP growth by approximately 0.023%

Overall, the existing literature suggests that the relationship between government revenue receipts and total expenditure have a direct relation and they impact each other, with high degree of causality. The key fiscal indicators of Government like GDP, total expenditure, different types deficits and total liabilities have specific statistical property and in different exogenous global or local conditions two or more non-stationary time series move together over time, forming a stable long-term equilibrium relationship. Since above said vital parts of Government fisc not only evolve within they impact each and every dynamic of the Economies across countries and time periods. So Further research is needed to explore the underlying factors driving these differences and to inform policy decisions on fiscal management.

<u>Deficit Indicators of the Union Government</u>: While reviewing the Union Finances a brief meaning of the indicators is needed to be discussed. Table:1 is representing the meaning of rimary, Fiscal and Revenue deficit with a short description of the Debt to GDP ratio.

Table:1

Indicator	Meaning
Primary Deficit (PD)	= It excludes the burden of the past debt and shows the net increase in the government's indebtedness due to the current year's fiscal operations. A reduction in primary deficit is reflective of government's efforts at bridging the fiscal gap during a financial year. *
Fiscal Deficit	=Fiscal deficit is the difference between revenue receipts plus non-debt capital receipts on the one side and total expenditure including loans, net of repayments, on the other. *
Revenue Deficit	= Revenue deficit is the gap between the consumption expenditure (revenue expenditure) of the Government (Union or the State Governments) and its current revenues (revenue receipts). *
Debt-to-GDP Ratio	= The total government debt as a percentage of GDP.

Source: * Deficit Measurement in India | Indian Economic Service

Table-2

Key Union Fiscal Indicators (as % of GDP)

	Year	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	Max. Value	Min. Value
	Centre/Union Finance Indicators													
1	%Growth in GDP	10.46	11.76	11.03	10.59	6.37	-1.27	18.85	13.95	12.02	9.78	7.95	18.85	-1.27
2	%Growth in Capex	1.8	1.8	1.5	1.6	1.7	2.1	2.5	2.8	3.2	3.2	3.1	3.2	1.5
3	%Growth in Rev. Exp.	-5.08	-1.79	0	-3.64	10.38	32.48	-12.26	-5.88	-9.38	-6.03	0.92	32.48	-12.26
4	FD/GDP	3.9	3.5	3.5	3.4	4.6	9.2	6.7	6.5	5.5	4.8	4.4	9.2	3.4
5	Outstanding Liabilities/GDP	50.1	48.3	48.2	48.1	50.7	60.7	57.4	56.6	56.4	56.1	55.1	60.7	48.1

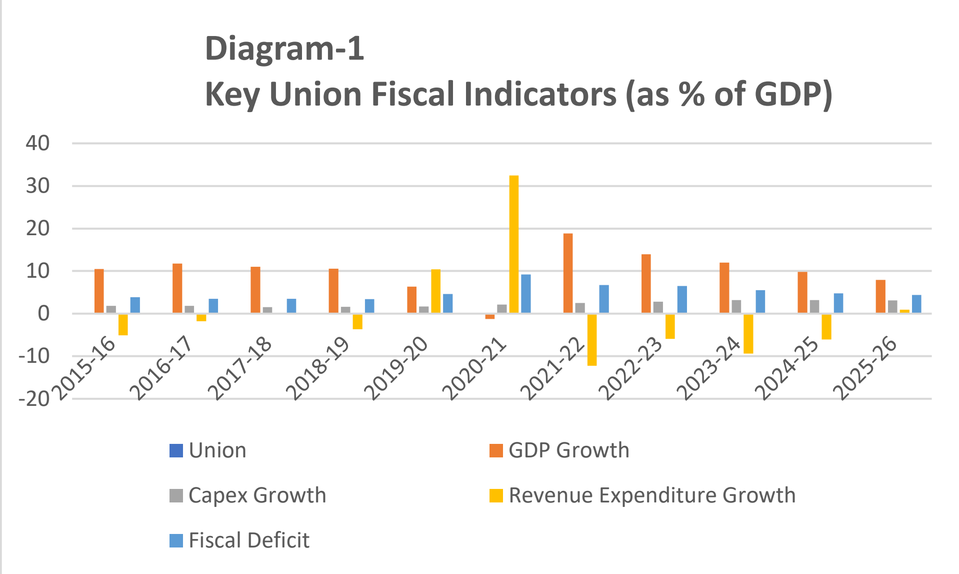
Source: Source: Union Budgets, Ministry of Statistics and Programme Implementation (MoSPI), Union Finance Accounts

Note: *For 2024-25, provisional figures(p)are provided instead of revised estimates (RE), wherever available, BE=Budget Estimates*.

Rev. Exp = Revenue Expenditure, Capex= Capital Expenditure, FD=Fiscal Deficit, GDP=Gross Domestic Product.

Table -2 is representing the growth pattern of the key indicators of union finance of India from year 2015-16 to 2025-26. The growth percentage of GDP, Revenue expenditure, Capital expenditure, Fiscal Deficit as percentage of GDP and outstanding liabilities for the said duration have been observed. In 2021-22 the GDP growth percentage is maximum i.e. 18.85 that also shows post Pandemic recovery from -1.27 to 18.85, it can also be observed that the growth in revenue expenditure was also maximum in year 2020-21 i.e.32.48% from 10.38 in year 2019-20 it shows a strong correlation between Fiscal Deficit maximum (9.2%) and Revenue expenditure in the year 2020-21 that also leads to maximum outstanding liabilities i.e. 60.7 %.

Recalling one of the FRBM obligations that declares to reduce Fiscal Deficit to 3% of GDP the statistics shown in the Table -2 presents a clear picture of declining FD as percentage of GDP after year 2020-21 to 2024-25 and 2025-26 the trend in Fiscal Deficit has witnessed decline and it is inversely related to Capex growth. It may also be observed that from the year 2020-21 to 2025-26 the growth arc of Capex is on higher side, from 2.1 in year 2020-21 to 3.2 %in year 2023-24 ; it may also be inferred that the decline in Revenue expenditure has an inverse relation with increase in Capex. There is a significant impact of increasing revenue expenditure on the increase in fiscal deficit, So the revenue expenditure needs to be curtailed, and the prudent Indian fiscal policy have adopted the same pattern of policy measures, despite of all the social sector expenditure and subsidies the revenue expenditure has witnessed a low post pandemic time.



Source: based on the data of Table -2

The Fiscal Deficit peaked in 2020-21 (9.2%) due to COVID-19 and is expected to decrease gradually. Revenue Deficit follows a similar trend, with a peak in 2020-21 (7.3%). Primary Deficit also shows a similar pattern, indicating reduced borrowing costs.

The bar diagram is a diagrammatical representation of table -2, it is reflecting the peaks of revenue deficit and lows of

Conclusion: The FRBM framework mandates the Central Government to limit its Fiscal Deficit up to 3% of GDP by 31st March 2021.Despite of the outbreak of Pandemic the prudent mid-term policy and quick fiscal consolidation techniques reduced the rate of indebtedness as compare to rest of the world. The government maintained the deficit close to its fiscal consolidation target, indicating controlled borrowing. As the data suggests from year 2015-16 to 2018-19 the Fiscal Deficit is under control and close to its target. During and after Pandemic the indicators of Union Finances witnessed its worst face.

The roadmap for fiscal consolidation was led by Eleventh FC it strictly suggests to lower the Union FD to 1% of GDP, while 12th, 13th and 14th FC suggested to keep it to 3% of GDP. The award period of 15th FC suggested to control the FD to 3% till year 2023-24.On a positive note India does not copied the trend of rest of the world in bringing down liabilities and pulled the fiscal deficit to 4.8 till the end of year 2024-25.15th FC also suggested to bring down the total liabilities from 89.9% in 2020-21 to 85.7% in 2025-26 and in year 2025-26 India's total government debt-to-GDP ratio for the year 2025 period declined to 56.4%.The resilience in the Indian Economy is a result of Prudent mid-term policy to combat fiscal distress. As it is already mentioned that the peaking to 9.2% the FD downfall to 4.8 in year 2025-26, shows a positive trend. The 16th FC has worked on a roadmap for fiscal deficit that suggests the FD should come down to 3.5% of GDP till the end of award period of 16th FC.

Suggestions:

Some of the recent Government policies have been discussed and represented for the reference. As the revenue expenditure of Government leads to increase in liabilities/borrowings the non-capital expenditure of a common man also increases their liabilities, so alike prudent fiscal consolidation policy of India common man may also refrain extravagancy on their part, it will lead to surplus amount in their personal accounts and small saving may be oriented to large economic benefits as suggested by traditional economists. The Keynesian model of saving =investment =employment=income needs to be practiced by common man and Government authorities. So as a citizen of India, the purchase of Gold and Petroleum products, oil and pulses should be cut down. These small savings of Indians have saved Indian Economy in past global crisis.

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