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A Study on the Fiscal Dynamics of Central and State Governments in India: An Analysis of Revenues, Expenditure, Deficits, and Borrowings (1980-81 to 2024-25)

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Abstract *:* This research article provides a comprehensive analysis of the fiscal dynamics of the Indian central and state governments, collectively referred to as the general government, over a period of more than four decades (1980-81 to 2024-25). Utilising data from official budget documents and the Reserve Bank of India, the study examines key fiscal indicators, including combined deficits (fiscal, primary, and revenue), the composition of tax revenues (direct vs. indirect), developmental and non-developmental expenditure, and market borrowings. The analysis reveals a persistent trend of high fiscal deficits, a significant reliance on indirect taxes, and a sharp escalation in government borrowings, particularly in the last decade. The COVID-19 pandemic (2020-21) marked a critical juncture, causing a severe deterioration in all fiscal metrics. While recent years show signs of consolidation, the underlying structural challenges of high revenue deficits and growing debt burdens remain. The study highlights the critical interdependence between the centre and states and underscores the need for sustainable fiscal management to ensure long-term economic stability.

Index Terms- Fiscal Deficit, Tax Revenue, Market Borrowings, Developmental Expenditure, Fiscal Federalism, India.

1. Introduction

The fiscal health of a nation is a cornerstone of its economic stability and growth trajectory. In a federal structure like India's, the combined financial performance of the central and state governments provides the most holistic view of the country's public finances. The management of revenues, expenditure, and deficits at both levels of government has profound implications for macroeconomic stability, public investment, and the overall well-being of citizens.

Over the past four decades, India's fiscal landscape has undergone significant transformations. From a period of moderate deficits and controlled borrowing in the 1980s and early 1990s, the country faced a balance of payments crisis in 1991, which catalysed a wave of economic reforms. These reforms altered the tax structure, reduced trade barriers, and aimed to instil fiscal discipline. However, the path to fiscal consolidation has been non-linear, punctuated by global financial crises, policy shifts, and, most recently, the unprecedented shock of the COVID-19 pandemic.

This study aims to dissect the available data on combined finances, deficits, tax revenues, borrowings, and expenditure patterns to paint a detailed picture of India's fiscal evolution. By examining trends and identifying key turning points, the article seeks to provide insights into the successes and persistent challenges of fiscal management in the world's largest democracy.

2. Statement of the Problem

Despite the implementation of fiscal responsibility frameworks like the Fiscal Responsibility and Budget Management (FRBM) Act, India's public finances have often been characterised by high deficits and a growing debt burden. The combined fiscal deficit of the centre and states has repeatedly breached targets, raising concerns about debt sustainability, inflationary pressures, and the crowding out of private investment. Furthermore, the distinction between developmental and non-developmental expenditure is crucial; a high proportion of revenue expenditure can constrain the government's capacity to invest in critical infrastructure and human capital. The problem is compounded by the complex interplay between central and state finances, where the borrowing and spending decisions of one level can significantly impact the other. This study seeks to systematically analyse the magnitude and composition of these fiscal imbalances using empirical data.

3. Objectives of the Study

The primary objectives of this research are:

1. To analyze the trends in the combined fiscal deficit, revenue deficit, and primary deficit of the central and state governments from 1980-81 to 2024-25.
2. To examine the structure and growth of direct and indirect tax revenues for the center and states, and their combined total.
3. To assess the trends in market borrowings (gross and net) of the central and state governments, both individually and combined.
4. To explore the patterns of developmental and non-developmental expenditure at the central and state levels (subject to data availability).
5. To identify the key challenges and turning points in India's fiscal history based on the data.
6. To suggest policy measures for sustainable fiscal consolidation and improved resource allocation.

4. Methodology

This study is based on a quantitative analysis of secondary data. The data is sourced from the following official documents, as provided:

1. **Combined Deficits of Central and State Governments:** Data on gross fiscal deficit, gross primary deficit, and revenue deficit (1980-81 to 2024-25).
2. **Direct and Indirect Tax Revenues:** Data on direct and indirect tax collections for the centre, states, and combined (1980-81 to 2024-25).
3. **Market Borrowings:** Data on gross and net market borrowings of the centre and states (1985-86 to 2024-25).
4. **Developmental and Non-Developmental Expenditure:** Data for central and state governments (Note: The provided file was corrupted, preventing a detailed analysis).
5. **Combined Liabilities:** Data on combined liabilities (Note: The provided file was incomplete).

The time frame of the study spans from 1980-81 to 2024-25, covering the most recent data available. The analysis employs trend analysis, graphical representation, and descriptive statistics to interpret the data. Year-on-year growth rates and structural shifts are identified to understand the underlying fiscal patterns.

5. Significance of the Study

This study is significant for several stakeholders. For **policymakers**, it provides an empirical basis to evaluate the effectiveness of past fiscal policies and to design future strategies for consolidation. For **academics and researchers**, it offers a consolidated analysis of crucial fiscal data, highlighting long-term trends and the impact of major economic events. For **investors and credit rating agencies**, the study sheds light on the sustainability of India's public debt and its implications for macroeconomic stability. By analysing the combined finances of the centre and states, this research provides a more accurate picture of the general government's fiscal position, which is critical for informed economic discourse.

6. Review of Literature

A substantial body of literature exists on India's fiscal policy. Early works focused on the high fiscal deficits of the 1980s, which culminated in the 1991 crisis. Authors like Chelliah (1991) and Rangarajan (1998) emphasised the need for tax reforms and expenditure rationalisation.

The introduction of the FRBM Act in 2003 marked a shift towards rule-based fiscal management. Studies by the International Monetary Fund (IMF) and the Reserve Bank of India (RBI) periodically analyse fiscal performance, noting the success of the act in reducing deficits in the mid-2000s, only to be followed by a relaxation during the global financial crisis of 2008-09 (Reddy, 2010).

Recent literature has focused on the quality of fiscal adjustment. Chakraborty (2021) and others have argued that periods of fiscal consolidation have often been achieved through cuts in capital expenditure, which are crucial for long-term growth, rather than through a sustained reduction in revenue expenditure. The impact of the Goods and Services Tax (GST) on state revenues and fiscal autonomy has also been a major area of research.

This study builds upon this literature by providing an updated, combined perspective of the centre and states, covering the period up to 2024-25, which includes the fiscal fallout of the COVID-19 pandemic and the subsequent recovery phase.

7. Limitation of the Study

The study has the following limitations:

1. **Data Incompleteness:** Two of the provided files (Developmental Expenditure and Combined Liabilities) were either corrupted or incomplete, preventing a comprehensive analysis of those critical dimensions.
2. **Estimation vs. Actuals:** The data for recent years (e.g., 2023-24, 2024-25) are based on Revised Estimates and Budget Estimates, which may differ from actual outcomes.
3. **Data Granularity:** The analysis is at an aggregate level. It does not account for variations across individual states or specific sectors of expenditure.
4. **Complex Accounting:** Differences in accounting standards between the centre and states, though harmonised to an extent, can still pose challenges for precise comparability.

8. Analysis and Findings

8.1 Analysis of Combined Deficits

The data on combined deficits reveals a volatile fiscal trajectory.

- **Pre-Reform Era (1980s):** The deficits were relatively moderate but steadily rising. Gross Fiscal Deficit (GFD) increased from ₹10,780 crore in 1980-81 to ₹22,174 crore in 1985-86, and further to ₹53,580 crore by 1990-91.
- **Post-Reform and Early FRBM Era (1990s-2000s):** The post-1991 reforms saw GFD remain elevated, crossing ₹1,00,000 crore by 1998-99. A period of significant consolidation occurred in the mid-2000s, with GFD dropping from a high of ₹6,04,668 crore in 2009-10 (post-global financial crisis) to ₹1,99,110 crore in 2007-08. Notably, this period also saw a **Primary Surplus** (negative primary deficit) in 2007-08 (-₹59,675 crore), indicating that revenue was sufficient to cover all expenses except interest payments.

- **Post-Global Financial Crisis (2010s):** Following the 2008 crisis, deficits surged again. GFD remained stubbornly high, hovering between ₹6-7 lakh crore throughout the early 2010s. Revenue Deficit also remained a critical issue, staying above ₹3 lakh crore for most of the decade, indicating that a large portion of borrowings was being used for consumption rather than asset creation.

- **The COVID-19 Shock (2020-21):** The pandemic led to a massive fiscal expansion. GFD peaked at a staggering ₹26,00,335 crore, accompanied by an enormous Revenue Deficit of ₹18,20,823 crore. This was the largest fiscal shock in the data period.

- **Recent Trends (2021-22 to 2024-25):** The government has initiated a process of fiscal consolidation. GFD has declined from its peak to an estimated ₹24,72,912 crore in 2024-25 (BE). However, it remains significantly higher than pre-pandemic levels.

Table 1: Key Deficit Indicators (Selected Years)

Year	Gross Fiscal Deficit (₹ Cr)	Revenue Deficit (₹ Cr)	Gross Primary Deficit (₹ Cr)
1990-91	53,580	23,871	28,585
2000-01	1,99,852	1,38,803	75,035
2007-08	1,99,110	9,626	-59,675
2013-14	7,49,711	3,67,611	2,15,480
2019-20	14,49,230	7,88,040	4,93,430
2020-21	26,00,335	18,20,823	15,39,733
2024-25 (BE)	24,72,912	6,60,320	7,60,940

Source: Combined Deficits of Central and State Governments RBI Statistics

8.2 Analysis of Tax Revenues

- **Growth Trajectory:** Combined total tax revenues have grown exponentially, from ₹19,763 crore in 1980-81 to an estimated ₹61,42,276 crore in 2024-25 (BE), reflecting economic growth and increased tax compliance.

- **Direct vs. Indirect Taxes:** Historically, indirect taxes (e.g., excise, customs, and later GST) formed the bulk of government revenue. The share of direct taxes (corporate and personal income tax) increased significantly post-reforms. By 2024-25 (BE), direct taxes are estimated to contribute ₹25,06,181 crore, while indirect taxes are estimated at ₹36,36,096 crore.

- **Centre vs. States:** The data clearly delineates the tax collection roles. The central government collects the majority of direct taxes. States' tax revenues, which include their own taxes (like state GST, VAT, and stamp duties), have also grown significantly, from ₹6,614 crore in 1980-81 to an estimated ₹23,11,566 crore in 2024-25 (BE), highlighting their crucial role in public finance.

Table 2: Combined Tax Revenues (Selected Years)

Year	Combined Direct (₹ Cr)	Combined Indirect (₹ Cr)	Combined Total (₹ Cr)
1980-81	3,592	16,171	19,763
1990-91	14,267	73,360	87,627
2000-01	81,163	2,19,809	3,00,972
2010-11	5,08,719	7,41,348	12,50,067
2020-21	11,14,805	20,78,585	31,93,390
2024-25 (BE)	25,06,181	36,36,096	61,42,276

Source: Direct and Indirect Tax Revenues of Central and State Governments. RBI Statistics

Analysis of Market Borrowings

The market borrowings data provides direct evidence of the financing of these deficits.

- **Sharp Increase:** Combined gross market borrowings have increased dramatically, from ₹3,204 crore in 1980-81 to an estimated ₹24,74,008 crore in 2024-25.
- **Role of the Centre:** The central government accounts for the bulk of gross borrowings, but states' share has been rising significantly. In 2024-25 (BE), states' gross borrowings are estimated at ₹10,73,310 crore, almost matching the centre's ₹14,00,697 crore.
- **Net Borrowings:** The gap between gross and net borrowings represents repayments. The data shows that the net increase in debt is substantial. For instance, in 2024-25, the combined net borrowing is estimated at ₹17,92,620 crore, adding significantly to the public debt.

Table 3: Combined Market Borrowings (Selected Years)

Year	Gross (₹ Cr)	Net (₹ Cr)
1980-81	3,204	2,811
1990-91	11,558	10,570
2000-01	1,28,483	86,667
2010-11	5,83,521	4,14,797
2020-21	26,27,380	20,35,460
2024-25 (BE)	24,74,008	17,92,620

Source: Market Borrowings of the Central and State Governments. RBI Statistics

9. Suggestions

Based on the findings, the following suggestions are proposed:

1. **Targeted Fiscal Consolidation:** While reducing the fiscal deficit is important, the focus should be on reducing the **Revenue Deficit**. A high revenue deficit implies that borrowings are used for consumption. The government must strive to rationalise non-developmental and unproductive revenue expenditure.

2. **Enhance Tax-to-GDP Ratio:** Despite growth, India's tax-to-GDP ratio remains low compared to other emerging economies. Efforts should continue to broaden the tax base, simplify compliance, and leverage technology to improve collection efficiency for both direct and indirect taxes.

3. **Quality of Expenditure:** There is a need to protect and enhance **capital expenditure** (a key component of developmental expenditure) at both the centre and states. Investment in infrastructure, education, and health has high multiplier effects on growth and can help generate future revenues.

4. **Sustainable Debt Management:** The sharp rise in borrowings, especially during the pandemic, necessitates a credible medium-term debt management strategy. This involves extending the maturity profile of debt, diversifying investor bases, and ensuring that the cost of borrowing remains sustainable.

5. **Fiscal Coordination:** Given the interdependence of centre and state finances, a formal and transparent mechanism for fiscal coordination is essential. This is particularly important in the context of state debt levels and the implementation of centrally sponsored schemes.

10. Conclusion

The fiscal journey of India from 1980 to 2025 is a story of resilience amidst persistent challenges. The data reveals a clear pattern: periods of economic stress (1991 crisis, 2008 global financial crisis, 2020 pandemic) have led to significant fiscal expansions, followed by efforts at consolidation. While the fiscal architecture has evolved—with the FRBM Act, GST, and improved tax administration—the underlying issues of structural deficits and high revenue expenditure remain.

The combined fiscal metrics of the central and state governments indicate that while the economy has the capacity to generate high revenues, the demands on the public exchequer have grown even faster. The key to future fiscal stability lies not just in reducing the deficit numbers, but in improving the quality of that adjustment—by prioritising growth-enhancing capital expenditure, ensuring tax buoyancy, and maintaining the delicate balance of fiscal federalism. A sustainable fiscal path is imperative for India to achieve its long-term economic aspirations and provide for the welfare of its citizens.

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