

An analytical study of fiscal deficit in India (1990-91 to 2020-21)

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Abstract

Fiscal deficit sphere of Indian Economy present a weak state of affairs. A large fiscal deficit represents high government borrowing along with debt; as a result government has to cut the amount spending on infrastructure facilities, health facilities and other important facilities for the development of the country. High fiscal deficit involves high risk to the economy, which affect the economy adversely. As a result of which, the government has to take some remedial measures to fall down the fiscal deficit of the country. The study is an attempt to analyse the changes in fiscal deficit as a percentage of GDP. The present study examine the growth of fiscal deficit, government expenditure and government revenue in the post-reform period from 1990-91 to 2020-21.

Keywords: fiscal deficit, government expenditure, government revenue, GDP

Introduction

Fiscal deficit is the difference between current plus capital expenditure and current receipts. When a government spends more than it receives in the form of taxes and other revenues in a particular year, it has a budget deficit commonly referred as the fiscal deficit. If a government runs a deficit; it borrows on financing the gap between expenditure and taxation; as a result, the stock of outstanding debt is increased. Fiscal deficit measures the indebtedness of the government and throw light on the extent to which the government exceed its means. Fiscal deficit is the sum of budgetary deficit together with government's borrowings and liabilities undertaken. The portion of the government expenditure which is financed by borrowings and drawing down of cash balances is referred to as the fiscal deficit.

Measurement of Fiscal Deficit

When we have seen the definition of fiscal deficit, the following formula can be understood in terms of mathematical equation

Fiscal Deficit = Total Expenditure – Total Receipts other than Borrowings

By expanding the term total expenditure and total receipts, we can rewrite the formula as

Fiscal Deficit = (Revenue Expenditure + Capital Expenditure) – (Revenue Receipts + Capital Receipts other than borrowings)

By arranging the terms, we can calculate the fiscal deficit as

Fiscal Deficit = (Revenue Expenditure – Revenue Receipts) + Capital Expenditure – (Recoveries of Loans + other Receipts)



Fig 1

Objectives of the Study

The objectives of the present study are as follows

1. To investigate the changes in fiscal deficit as a percentage of GDP in the post-reform period.
2. To examine the growth of fiscal deficit, government revenues and government expenditure in the post-reform period.

Fiscal Deficit as a Percentage of GDP

In Pre-Liberalisation Era, between 1980-81 to 1990-91, fiscal deficit of Indian Government rose from 5.7 percent of GDP in 1981 to 7.8 percent of GDP in 1991. This situation indicated that the fiscal deficit as a percent of GDP has been increased continuously between 1981 to 1991.

This fiscal situation was unsustainable and alarming, so it required immediate corrective actions. In the next budget government has taken some major steps to correct the fiscal imbalance. The government has imposed five percent cut on the expenditure provisions contained in the Budget estimates for all Ministry/ Departments.

Table 1: Fiscal Deficit in India (Percentage of GDP)

Year	Fiscal Deficit in India (Percentage of GDP)
1991-92	5.4
1992-93	5.2
1993-94	6.8
1994-95	5.5
1995-96	4.9
1996-97	4.7
1997-98	5.7
1998-99	6.3
1999-00	5.2
2000-01	5.5
2001-02	6.0
2002-03	5.7
2003-04	4.3
2004-05	3.9
2005-06	4.0
2006-07	3.3
2007-08	2.5
2008-09	6.0
2009-10	6.5
2010-11	4.8
2011-12	5.8
2012-13	4.8
2013-14	5.4
2014-15	4.1
2015-16	3.9
2016-17	3.5
2017-18	3.5
2018-19	3.4
2019-20	3.3
2020-21	4.6

Source: Reserve Bank of India, Central Statistical Organisation and Ministry of Finance

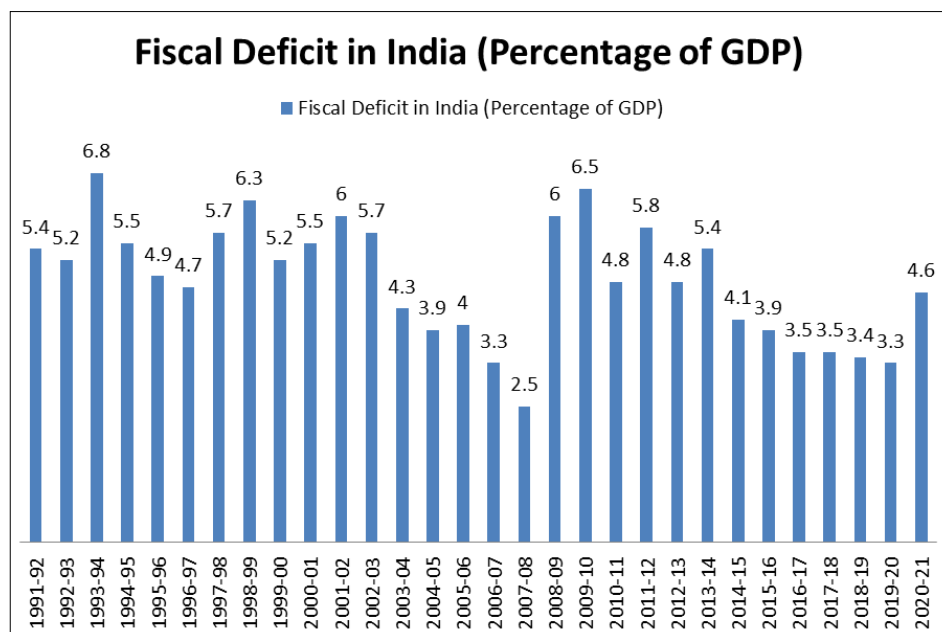
**Fig 2: Fiscal Deficit in India (Percentage of GDP)**

Figure 1 depicts the trends of fiscal deficit from 1991-92 to 2020-21. The corrective measures taken by the Government enable it to reduce the fiscal deficit from 7.8 percent of GDP in 1990-91 to around 5.4 percent of GDP in 1991-92. Fiscal deficit fell down to 5.2 percent of GDP in 1992-93 but rose to 6.8 percent of GDP in 1993-94. Fiscal deficit fell down to 4.7 percent of GDP in 1996-97. But in 1997-98, the expectation has gone down as a result fiscal deficit increased upto 5.7 percent of GDP. Again in 1998-99, fiscal deficit rose upto 6.3 percent of GDP. In 2001-02, fiscal deficit stood at 6 percent of GDP. From 2002-03 fiscal deficit continuously decline for

three years and it stood 3.9 percent of GDP in 2004-05. Fiscal deficit declined to 3.3 percent of GDP in 2006-07 and further upto 2.5 percent of GDP in 2007-08. Due to slowdown of economy in the whole world, fiscal deficit rose upto 6.5 percent of GDP in 2009-10. After declining upto 4.8 percent of GDP in 2010-11, it again rose upto 5.8 percent of GDP in 2011-12. After that there is a continuous reduction for consecutive six years in fiscal deficit, as a result fiscal deficit gone down upto 3.3 percent of GDP in 2019-20. Again fiscal deficit rose upto 4.6 percent of FDP in 2020-21.

Table 2: Centre's Gross Fiscal Deficit and its Financing (in Billions)

Year	GFD Receipts	GFD Expenditure	Gross Fiscal Deficit
1990-91	549.54	995.86	446.32
1991-92	690.69	1053.94	363.25
1992-93	760.89	1162.62	401.73
1993-94	754.05	1365.62	602.57
1994-95	966.91	1543.94	577.03
1995-96	1115.27	1717.7	602.43
1996-97	1267.34	1934.68	667.33
1997-98	1347.98	2237.35	889.37
1998-99	1553.59	2687.07	1133.49
1999-00	1832.06	2879.22	1047.16
2000-01	1947.3	3135.46	1188.16
2001-02	2049.52	3459.07	1409.55
2002-03	2339.85	3790.57	1450.72
2003-04	2807.65	4040.38	1232.73
2004-05	3104.15	4362.09	1257.94
2005-06	3486.58	4950.93	1464.35
2006-07	4349.21	5774.94	1425.73
2007-08	5806.59	7075.71	1269.12
2008-09	5408.25	8778.17	3369.92
2009-10	5973.92	10158.74	4184.82
2010-11	8113.17	11849.08	3735.92
2011-12	7695.25	12855.15	5159.9
2012-13	9051.22	13953.12	4901.9
2013-14	10440.92	15469.5	5028.58
2014-15	11392.09	16499.35	5107.25
2015-16	12371.57	17699.48	5327.91
2016-17	14219.46	19575.64	5356.18
2017-18	15352.78	21263.40	5910.62
2018-19	18096.82	24440.80	6343.98
2019-20	20677.61	27715.21	7037.60

Source: Table 98: Centre's Gross Fiscal Deficit and its Financing (in Billions), Handbook of Statistics on Indian Economy 2019-20, Reserve Bank of India, Budget documents of Government of India.

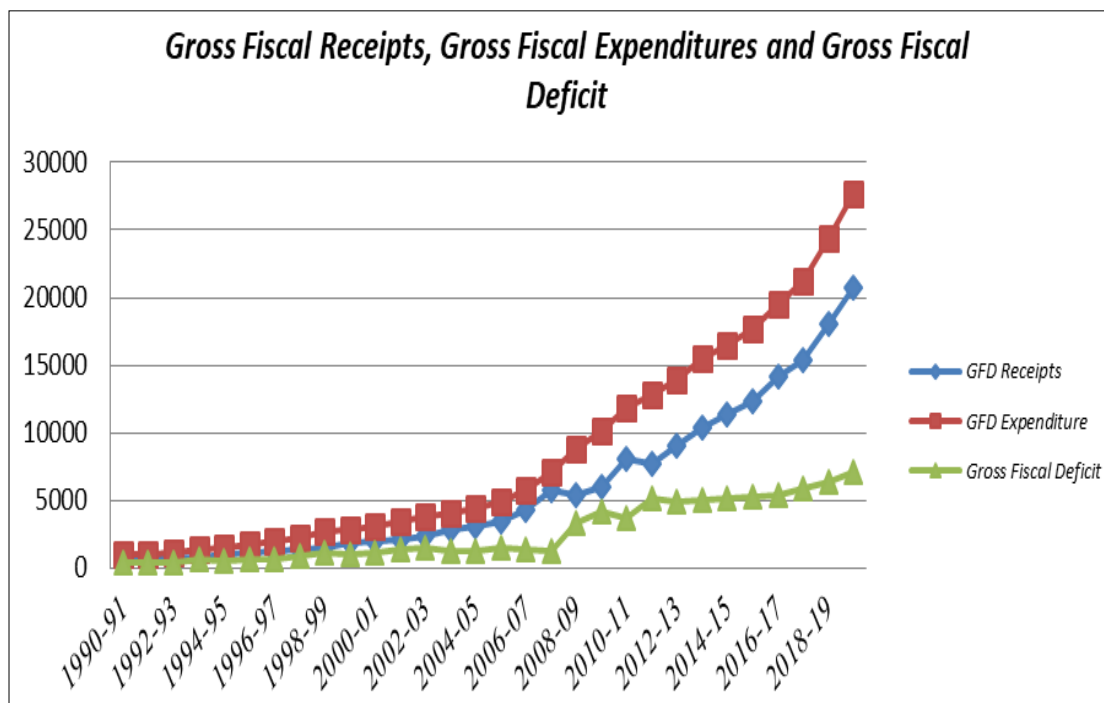


Fig 3: Fiscal Receipts, Fiscal Expenditure and Fiscal Deficit

Gross Fiscal Receipts

Table 2 depicts the following points about Gross Financial Receipts

- Lowest gross financial receipts were in the year 1990-91 which was 549.49 billion.
- Highest gross financial receipts were in the year 2019-20 which was 20667.6 billion.
- During 1990-91 to 2019-20, gross financial receipts were gone down in three years in comparison with previous years i.e. 6.84 billion in 1993-94 in comparison with 1992-93, 398.34 billion in 2008-09 in comparison with 2007-08 and 417.92 billion in 2011-12 in comparison with 2010-11.
- Decline of 398.34 billion in gross financial receipts were due to down fall in world economy during 2008-09.
- Maximum Increase in gross financial receipts was 2744.04 billion in 2018-19.
- Minimum Increase in gross financial receipts was 70.2 billion in 1992-93.
- During 1990-91 to 2020-21, three times gross financial receipts were increase more than 2000 billion i.e. 2744.04 billion in 2018-19, 2580.79 billion in 2019-20 and 2139.25 billion in 2010-11.
- During 1990-91 to 2020-21, five times gross financial receipts were increase more than 1000 billion but less than 2000 billion i.e. 1847.89 billion in 2016-17, 1457.38 billion in 2007-08, 1389.70 billion in 2013-14, 1355.97 billion in 2012-13 and 1133.32 billion in 2017-18.
- During 1990-91 to 2020-21, four times gross financial receipts were increase more than 500 billion but less than 1000 billion i.e. 979.48 billion in 2015-16, 951.17 billion in 2014-15, 862.63 billion in 2006-07 and 565.67 billion in 2009-10.
- During 1990-91 to 2020-21, fourteen times gross

financial receipts were increase less than 500 billion.

Gross Financial Expenditure

Table 2 depicts the following points about Gross Financial Expenditure

- Lowest gross financial expenditure was in the year 1991-92 which was 995.86 billion.
- Highest gross financial expenditure was in the year 2008-09 which was 27715.81 billion.
- Gross financial expenditure were always increasing from 1990-91 to 2020-21, it never reduced during the whole period.
- During 2018-19 and 2019-20, gross financial expenditure was increased at a very high rate i.e. 3274.41 billion in 2018-19 and 3177.4 billion in 2019-20.
- During 1990-91 to 2020-21, ten times gross financial expenditure was increased by more than 1000 billion during the whole period i.e. 1876.16 billion in 2016-17, 1702.46 billion in 2008-09, 1690.34 billion in 2010-11, 1687.76 billion in 2017-18, 1516.38 billion in 2013-14, 1380.57 billion in 2009-10, 1300.77 billion in 2007-08, 1200.13 billion in 2015-16, 1097.97 billion in 2012-13, 1029.85 billion in 2014-15, 1006.07 billion in 2011-12.
- During 1990-91 to 2020-21, two times gross financial expenditure was increased by more than 500 billion but less than 1000 billion during the whole period i.e. 824.01 billion in 2006-07 and 588.84 billion in 2005-06.
- During 1990-91 to 2020-21, fourteen times gross financial expenditure was increased by less than 500 billion i.e. 449.72 billion in 1998-99, 331.5 billion in 2002-03, 323.61 billion in 2001-02, 321.71 billion in 2004-05, 302.67 billion in 1997-98, 256.24 billion in 2000-01, 249.81 billion in 2003-04, 216.98 billion in 1996-97, 203 billion in 1993-94, 192.15 billion in 1999-

- 2000, 178.32 billion in 1994-95, 173.76 billion in 1995-96, 108.68 billion in 1992-93 and 58.08 billion in 1991-92.
- During 1990-91 to 2020-21, eight times gross financial expenditure was reduced in comparison with previous year expenditure i.e. 4.5 billion in 1995-96, 24.68 billion in 1994-95, 81.69 billion in 2003-04, 188.4 billion in 2017-18, 257.57 billion in 1999-2000, 321.89 billion in 2009-10, 486.53 billion in 2014-15, 684.27 billion in 2011-12.
 - Highest increase of gross financial expenditure in comparison with previous year is 1489.64 billion in 2018-19 in comparison with 2017-18.
 - During 1990-91 to 2020-21, only one time gross financial expenditure was increased by more than 500 billion in comparison with previous year i.e. 676.03 billion in 2016-17 in comparison with 2015-16.
 - During 1990-91 to 2020-21, eight times gross financial expenditure was increased by more than 100 billion but less than 500 billion in comparison with previous year i.e. 476.76 billion in 2007-08, 418.81 billion in 2013-14, 401.69 billion in 2008-09, 309.77 billion in 2010-11, 267.13 billion in 2005-06, 235.17 billion in 2006-07, 170.28 billion in 2015-16, 147.05 billion in 1998-99.
 - During 1990-91 to 2020-21, ten times gross financial expenditure was increased by less than 100 billion in comparison with previous year i.e. 97.01 billion in 2019-20, 94.32 billion in 1993-94, 91.9 billion in 2012-13, 85.69 billion in 1997-98, 71.9 billion in 2004-05, 67.37 billion in 2001-02, 64.09 billion in 2000-01, 50.6 billion in 1992-93, 43.22 billion in 1996-97, 7.8 billion in 2002-03.
- Gross Fiscal Deficit**
- Table 2 depicts the following points about Gross Fiscal Deficit
- Lowest gross fiscal deficit was in the year 1991-92 which was 363.25 billion.
 - Highest gross fiscal deficit was in the year 2019-20 which was 7037.6 billion
 - During 1990-91 to 2020-21, eight times gross fiscal deficit was increased more than 5000 billion i.e. 7037.6 billion in 2019-20, 6343.98 billion in 2018-19, 5910.62 billion in 2017-18, 5356.18 billion in 2016-17, 5327.91 billion in 2015-16, 5159.9 billion in 2011-12, 5107.25 billion in 2014-15, 5028.58 billion in 2013-14.
 - During 1990-91 to 2020-21, two times gross fiscal deficit was more than 4000 billion but less 5000 billion i.e. 4901.9 billion in 2012-13, 4184.82 billion in 2009-10.
 - During 1990-91 to 2020-21, two times gross fiscal deficit was more than 3000 billion but less than 4000 billion i.e. 3735.92 billion in 2010-11, 3369.92 billion in 2008-09.
 - During 1990-91 to 2020-21, ten times gross fiscal deficit was more than 1000 billion but less than 2000 billion i.e. 1464.35 billion in 2005-06, 1450.72 billion in 2002-03, 1425.73 billion in 2006-07, 1409.55 billion in 2001-02, 1269.12 billion in 2007-08, 1257.94 billion in 2004-05, 1232.73 billion in 2003-04, 1188.16 billion in 2000-01, 1133.49 billion in 1998-99, 1047.16 billion in 1999-2000.
 - During 1990-91 to 2020-21, eight times gross fiscal deficit was less than 1000 billion i.e. 889.37 billion in 1997-98, 667.33 billion in 1996-97, 602.57 billion in 1993-94, 602.43 billion in 1995-96, 577.03 billion in 1994-95, 446.32 billion in 1990-91, 401.73 billion in 1992-93, 363.25 billion in 1991-92.
 - During 1990-91 to 2020-21, eight times gross fiscal deficit was increased less than in comparison with previous years i.e. 25.54 billion in 1994-95, 38.62 billion, 83.07 billion in 1991-92, 86.33 billion in 1999-2000, 156.61 billion in 2007-08, 217.99 billion in 2003-04, 258 billion in 2012-13, 448.9 billion in 2010-11.
 - During 1990-91 to 2020-21, highest increase in gross fiscal deficit was in the year 2008-09 i.e. 2100.8 billion in comparison with 2007-08.
 - During 1990-91 to 2020-21, second highest increase in gross fiscal deficit was in the year 2011-12 i.e. 1423.98 billion in comparison with 2010-11.
 - During 1990-91 to 2020-21, three times gross fiscal deficit was increase than 500 billion in comparison with previous year i.e. 814.9 billion in 2009-10, 693.92 billion in 2019-20, 554.44 billion in 2017-18.
 - During 1990-91 to 2020-21, sixteen times gross fiscal deficit was increase less than 500 billion in comparison with previous year.

Table 3: Growth Rate of India's Fiscal Deficit, Revenue and Expenditure (In Percentage)

Year	Receipts	Expenditure	Fiscal Deficit
1991-92	25.69	5.83	-18.6
1992-93	10.16	10.31	10.59
1993-94	-0.90	17.46	49.99
1994-95	28.23	13.06	-4.24
1995-96	15.34	11.25	4.40
1996-97	13.64	12.63	10.77
1997-98	6.36	15.64	33.27
1998-99	15.25	20.10	27.45
1999-00	17.92	7.15	-7.62
2000-01	6.29	8.90	13.46
2001-02	5.25	10.32	18.63
2002-03	14.17	9.58	2.92
2003-04	19.99	6.59	-15.00
2004-05	10.56	7.96	2.04
2005-06	12.32	13.50	16.41

2006-07	24.74	16.64	-2.64
2007-08	33.51	22.52	-11.00
2008-09	-6.86	24.06	165.53
2009-10	10.46	15.73	24.18
2010-11	35.81	16.64	-10.70
2011-12	-5.15	8.49	38.12
2012-13	17.62	8.54	-5.00
2013-14	15.35	10.87	2.58
2014-15	9.11	6.65	1.56
2015-16	8.59	7.27	4.32
2016-17	14.94	10.60	0.53
2017-18	7.97	8.62	10.35
2018-19	17.87	14.94	7.33
2019-20	14.26	13.4	10.93

Source: Centre's Gross Fiscal Deficit and its Financing (in Billions)

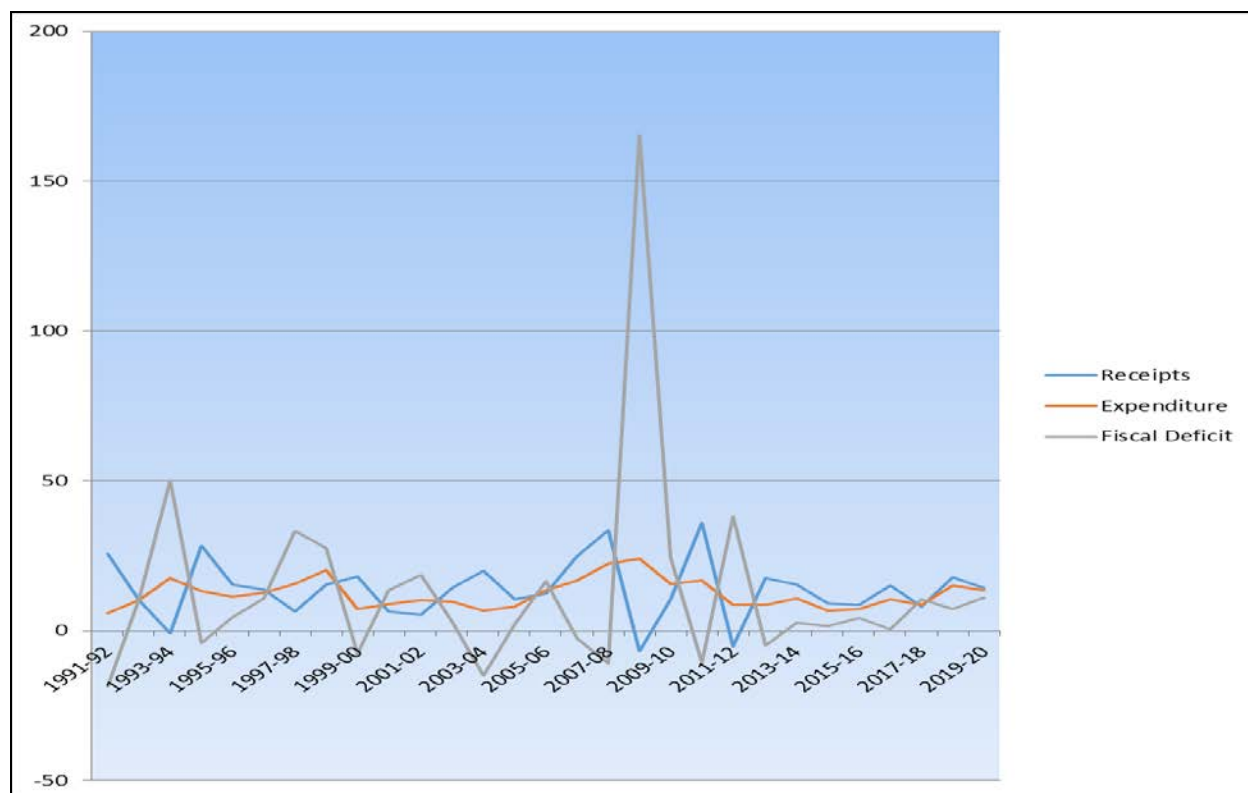


Fig 4: Growth Rate of India's Fiscal Deficit, Revenue and Expenditure (In Percentage)

Government Receipts

Table 3 depicts the following points about Government Receipts

- Highest Increase in terms of percentage in government receipts was in 2010-11 i.e. 35.81 percent.
- Lowest Increase in terms of percentage in government receipts was in 2001-02 i.e. 5.25 percent.
- During 1990-91 to 2020-21, three times government receipts become negative in comparison with previous year i.e. 0.90 percent in 1993-94, 5.15 percent in 2011-12 and 6.86 percent in 2008-09.
- Second highest growth in terms of percentage in government receipts was 33.51 percent in 2007-08 which is more than 30 percent in any other year except highest increase in the year 35.81 percent in 2010-11.
- During 1990-91 to 2020-21, three times growth rate of

government receipts lie between 20 percent to 30 percent i.e. 28.23 percent in 1994-95, 25.69 percent in 1991-92 and 24.74 percent in 2006-07.

- During 1990-91 to 2020-21, fifteen times growth rate of government receipts in terms of percentage lies between 10 percent to 20 percent.
- During 1990-91 to 2020-21, six times growth rate of government receipts was less than 10 percent in terms of percentage.

Government Expenditure

- Table 3 depicts the following points about Government Expenditure
- Highest Increase in terms of percentage in government expenditure was in 2008-09 i.e. 24.06 percent.
- Lowest Increase in terms of percentage in government

- expenditure was in 1991-92 i.e. 5.83 percent.
- During 1990-91 to 2020-21, three times government expenditure growth was more than 20 percent in comparison with previous year i.e. 24.06 percent in 2008-09, 22.52 percent in 2007-08, 20.10 percent in 1998-99.
- During 1990-91 to 2020-21, fifteen times government expenditure growth lies between 10 percent to 20 percent in comparison with previous year.
- During 1990-91 to 2020-21, eleven times government expenditure growth was less than 10 percent in comparison with previous year.

Government Fiscal Deficit

Table 3 depicts the following points about Government Fiscal Deficit

- Highest Increase in terms of percentage in government fiscal deficit growth was in 2008-09 i.e. 165.53 percent.
- Lowest Increase in terms of percentage in government fiscal deficit growth was in 2016-17 i.e. 0.53 percent.
- During 1990-91 to 2020-21, eight times government fiscal deficit growth becomes negative in comparison with previous year i.e. 2.64 percent in 2006-07, 4.24 percent in 1994-95, 5 percent in 2012-13, 7.62 percent in 1999-2000, 10.70 percent in 2010-11, 11 percent in 2007-08, 15 percent in 2003-04, 18.6 percent in 1991-92.
- During 1990-91 to 2020-21, five times government fiscal deficit growth lies between 25 percent to 50 percent i.e. 49.99 percent in 1993-94, 38.12 percent in 2011-12, 33.27 percent in 1997-98, 27.45 percent in 1998-99, 24.18 percent in 2009-10.
- During 1990-91 to 2020-21, fifteen times government fiscal deficit growth was less than 25 percent in comparison with previous year.

Conclusion

From the above description we concludes that fiscal deficit, government expenditure and government revenue have increased significantly in the post-reform period in India. During 1990-91 to 2020-21 fiscal deficits, government expenditure and government revenues increased and decreased many times. There were a lot of ups and downs in fiscal deficit, government expenditure and government revenue during the whole period. During 2020-21, fiscal deficit again rose up, so government has to take corrective actions to control over it.

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