



The pattern of government expenditure and budget allocation in India

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Abstract

Government expenditure and budget allocation are important instruments through which the state influences economic growth, social welfare, employment, infrastructure development and income distribution. In a developing economy such as India, public expenditure performs both developmental and redistributive functions. The pattern of government expenditure has gradually changed from an emphasis on administrative and consumption-oriented expenditure towards greater attention to infrastructure, capital formation, human development and targeted welfare. This paper examines the major components of government expenditure and the changing pattern of budget allocation in India, with particular attention to revenue expenditure, capital expenditure, social-sector spending, infrastructure, subsidies, transfers and fiscal consolidation. The study is based mainly on secondary data obtained from Union Budget documents and the Economic Survey of India. Recent official data indicate a significant increase in public capital expenditure. Government capital outlay increased from ₹5.92 lakh crore in FY2021-22 to a budgeted ₹11.21 lakh crore in FY2025-26, an increase of nearly 89 percent. At the same time, revenue expenditure has been rationalised, declining from 13.6 percent of GDP in FY2021-22 to 10.9 percent in FY2024-25. The study argues that the effectiveness of budget allocation should be assessed not only by the amount allocated but also by implementation, efficiency, targeting and measurable development outcomes. A balanced expenditure framework combining infrastructure investment, social protection, human capital and fiscal sustainability is essential for inclusive and sustainable economic development.

Keywords: Government expenditure, budget allocation, capital expenditure, revenue expenditure, fiscal policy, social sector, infrastructure, India

Introduction

The government budget is one of the principal instruments of economic policy. It presents the government's expected receipts and expenditure for a financial year and provides a framework for implementing economic and social priorities. Through budgetary decisions, governments influence production, investment, employment, consumption, income distribution and the provision of public services.

Government expenditure is particularly important in developing economies because markets alone may not provide adequate infrastructure, education, healthcare, social protection and other public goods. Public expenditure therefore has a dual role: it supports economic activity and addresses social and developmental requirements.

India's expenditure pattern has undergone considerable change over the last few decades. Earlier, a substantial part of public expenditure was associated with administration, subsidies, interest payments and other committed obligations. More recently, public investment in infrastructure and capital assets has received greater attention. The Economic Survey 2025-26 reports that the share of capital spending in total central government expenditure increased from approximately 12.5 percent in FY2020 to 22.6 percent in FY2025, while effective capital expenditure as a share of GDP increased from about 2.6 percent to 4.0 percent.

This changing composition is significant because capital expenditure can expand productive capacity and improve connectivity, while revenue expenditure is necessary for maintaining government services and meeting recurring obligations. The policy challenge is therefore not simply to

increase expenditure but to achieve an appropriate balance between different categories of public spending.

Objectives of the Study

The study has the following objectives:

- To explain the major components of government expenditure.
- To examine the pattern of budget allocation in India. To analyse the changing importance of revenue and capital expenditure.
- To examine the allocation of resources towards social and economic sectors.
- To identify major challenges associated with public expenditure and budget implementation.
- To suggest measures for improving the effectiveness of government expenditure.

Research Methodology

The study is descriptive and analytical in nature. It is based entirely on secondary information. Major sources include the Union Budget documents, Economic Survey of India and official government publications.

The analysis focuses particularly on recent fiscal developments and expenditure trends. Quantitative information has been interpreted in relation to the broader objectives of fiscal policy, economic development and social welfare. The study does not attempt to estimate the causal impact of individual expenditure programmes.

Concept of Government Expenditure

Government expenditure refers to the financial resources spent by the government on administration, public services,

economic development, social welfare, infrastructure, defence and other responsibilities.

Government expenditure may be classified in several ways.

▪ **Revenue Expenditure**

Revenue expenditure consists primarily of expenditure that does not directly create government-owned physical assets. It includes salaries, pensions, interest payments, subsidies, grants and expenditure required for the regular functioning of government departments. Revenue expenditure is essential because public institutions cannot function without recurring expenditure. However, a continuously rising proportion of expenditure on committed obligations can reduce the fiscal space available for developmental investment.

▪ **Capital Expenditure**

Capital expenditure involves spending that creates physical assets or contributes to long-term productive capacity. Roads, bridges, railways, irrigation projects, public infrastructure and certain forms of investment in public enterprises fall into this broad category.

The recent Indian fiscal strategy has placed greater emphasis on capital expenditure. According to the Economic Survey 2025-26, central government capital outlay rose from ₹5.92 lakh crore in FY2021-22 to a budgeted ₹11.21 lakh crore in FY2025-26.

▪ **Developmental and Social Expenditure**

Development-oriented expenditure includes spending on agriculture, rural development, education, health, infrastructure, employment and skill development. Social expenditure is particularly important for improving human capabilities and reducing disparities.

▪ **Economic Services**

Economic services include agriculture, irrigation, energy, transport, communications, industry and other activities that support production and economic infrastructure.

Changing Pattern of Government Expenditure in India

One of the important developments in India's public finance has been the increasing emphasis on capital expenditure.

The Economic Survey 2025-26 shows that government capital expenditure increased substantially during the post-pandemic period. Between FY2019 and FY2022, central government capital expenditure increased from ₹3.07 lakh crore to ₹5.92 lakh crore. The increase continued in subsequent years, reaching a budgeted capital outlay of ₹11.21 lakh crore in FY2026.

At the same time, revenue expenditure has been moderated. According to the Economic Survey, revenue expenditure declined from 13.6 percent of GDP in FY2022 to 10.9 percent in FY2025. Major subsidies declined from 1.9 percent of GDP in FY2022 to 1.2 percent in FY2025 and were budgeted at 1.1 percent of GDP for FY2026.

Table 1: Selected Trends in Central Government Expenditure

Indicator	FY2021-22	FY2024-25	FY2025-26
Revenue expenditure (% of GDP)	13.6%	10.9%	—
Major subsidies (% of GDP)	1.9%	1.2%	1.1% Budgeted
Capital outlay (₹ lakh crore)	5.92	—	11.21 Budgeted
Capital expenditure share of total expenditure	—	22.6%*	—

*FY2025 figure reported in Economic Survey 2025-26.

Source: Economic Survey 2025-26, Government of India.

The figures demonstrate a broad movement towards investment-oriented public expenditure. However, revenue expenditure continues to remain necessary because interest payments, pensions, salaries, defence and social obligations require regular funding.

Sectoral Pattern of Budget Allocation

Budget allocation reflects the priorities assigned to different sectors.

▪ **Infrastructure**

Infrastructure has become an important component of India's public investment strategy. Transport networks, railways, roads, ports, airports, power, urban infrastructure and digital connectivity require substantial investment.

Infrastructure expenditure can also influence private investment by improving connectivity and reducing transaction costs. The Economic Survey identifies infrastructure as a major component of India's growth strategy and notes that public infrastructure expenditure can have substantial multiplier effects on economic activity.

▪ **Education**

Education expenditure contributes to human capital formation. Government allocations cover school education,

higher education, scholarships, teacher development, research, skill development and digital learning.

The long-term impact of education expenditure depends on factors such as quality, accessibility, learning outcomes, teacher availability and efficient utilisation of funds.

▪ **Health**

Public health expenditure includes primary healthcare, hospitals, medical education, disease prevention, sanitation and health-related infrastructure. Investment in healthcare can improve labour productivity and reduce the economic burden associated with illness.

▪ **Agriculture and Rural Development**

Agriculture continues to receive budgetary attention through irrigation, rural infrastructure, agricultural research, farmer support, rural employment and related programmes. Rural expenditure also has implications for employment and regional development.

▪ **Social Protection**

Government expenditure on food security, pensions, housing, employment support and assistance to vulnerable groups provides social protection. Such expenditure can reduce the immediate effects of poverty and economic shocks.

The Economic Survey 2025-26 reports that around 78.9 crore beneficiaries were receiving free food grains as of October 2025 under the food-security framework.

▪ **Defence and Internal Security**

Defence expenditure includes military personnel, equipment, infrastructure, research and modernisation. It represents an important component of government expenditure because national security is a core responsibility of the state.

Capital Expenditure and Economic Growth

Capital expenditure has an important relationship with economic growth because it can create productive assets. Roads and railways facilitate transportation, irrigation supports agriculture, power infrastructure supports industry and digital infrastructure can improve economic connectivity.

The recent increase in capital expenditure represents a shift towards public investment. According to the Economic Survey 2025-26, central government capital outlay increased by nearly 89 percent between FY2022 and the budgeted FY2026 level.

However, expenditure quality is as important as expenditure quantity. A large capital allocation does not automatically guarantee development. Delays in project completion, cost escalation, weak project planning and inadequate maintenance can reduce the economic benefits of public investment.

Revenue Expenditure and Fiscal Management

Revenue expenditure is unavoidable for the functioning of government. Salaries, pensions, interest payments, defence services, subsidies and routine administration require continuous financial resources.

The challenge is to distinguish between necessary recurring expenditure and expenditure that could be made more efficient. The Economic Survey 2025-26 notes that a substantial portion of revenue expenditure is committed in nature, including salaries, pensions, interest payments and defence. It therefore emphasises the importance of rationalising discretionary expenditure to create fiscal space. Interest payments are particularly significant because they represent obligations arising from past borrowing. According to the Economic Survey's expenditure table, interest payments increased from ₹8.05 lakh crore in FY2022 to ₹12.76 lakh crore in the FY2026 budget estimate.

This highlights the importance of fiscal discipline and prudent borrowing.

Budget Allocation and Social Justice

Budget allocation is also an instrument for promoting social justice. Different sections of society do not begin with equal access to education, healthcare, employment opportunities, infrastructure and financial resources.

Public expenditure can address these disparities through targeted programmes, scholarships, social security, rural development, healthcare and basic services. Budgetary allocations for disadvantaged groups can therefore contribute to greater inclusion.

At the same time, effective targeting is important. Poorly designed programmes may result in leakage, duplication or inefficient use of public resources. Therefore, expenditure

programmes require transparent beneficiary identification, monitoring and outcome measurement.

Major Challenges

Despite improvements in expenditure management, several challenges remain.

▪ **Fiscal Constraints**

Government resources are limited while demands for public services continue to expand. Increasing expenditure without adequate revenue can widen fiscal deficits and increase borrowing requirements.

▪ **Rising Committed Expenditure**

Interest payments, pensions, salaries and other committed expenditure can restrict the government's flexibility in allocating resources.

▪ **Implementation Gaps**

Budget allocation does not necessarily mean that the allocated amount will be fully and effectively spent. Administrative delays, procurement problems and inadequate institutional capacity can affect implementation.

▪ **Regional Disparities**

States and regions differ substantially in infrastructure, income, employment and human development conditions. A uniform allocation approach may not adequately address these differences.

▪ **Outcome versus Outlay**

A larger budget allocation should not automatically be interpreted as better performance. The actual outcome—such as improved roads, better learning outcomes, increased health access or higher agricultural productivity—is more important than expenditure alone.

▪ **Transparency and Accountability**

Public expenditure requires effective parliamentary oversight, auditing, social monitoring and digital tracking. Greater transparency can improve public confidence and reduce inefficient expenditure.

Suggestions for Improving Budget Allocation

The following measures can strengthen the effectiveness of government expenditure:

- **Increase outcome-based budgeting:** Allocations should be linked to measurable outputs and outcomes.
- **Protect productive capital expenditure:** Infrastructure and other productive investments should receive sustained attention.
- **Improve expenditure efficiency:** Government departments should periodically evaluate programmes and eliminate duplication.
- **Strengthen social-sector delivery:** Increased spending on health and education should be accompanied by monitoring of service quality.
- **Use digital monitoring:** Technology can improve tracking of fund transfers, beneficiaries and project implementation.
- **Strengthen local governments:** Greater financial and administrative capacity at local levels can improve delivery of public services.

- **Improve project management:** Infrastructure projects require realistic cost estimates, timely approvals and regular monitoring.
- **Maintain fiscal sustainability:** Borrowing should be consistent with long-term fiscal capacity.
- **Encourage evidence-based allocation:** Budget decisions should increasingly use data, independent evaluation and measurable development indicators.
- **Increase transparency:** Citizens should have accessible information about allocations, expenditure and outcomes.

Conclusion

The pattern of government expenditure in India has been evolving in response to changing economic and social requirements. Recent fiscal trends indicate a greater emphasis on capital expenditure and infrastructure investment alongside continued spending on social protection, education, healthcare, agriculture, defence and essential government services.

Official data show that central government capital outlay increased substantially from FY2022 to the budgeted FY2026 level, while revenue expenditure as a share of GDP declined over the same period. This indicates an effort to create greater space for productive investment while maintaining essential public services.

Nevertheless, the effectiveness of public expenditure depends on more than the size of the budget. Efficient implementation, appropriate targeting, transparency, accountability and measurable outcomes are equally important. A sustainable expenditure strategy must balance infrastructure investment with human development and social protection while maintaining fiscal stability.

In the long term, India's budgetary framework can contribute more effectively to inclusive development when allocations are guided by evidence, developmental priorities and measurable outcomes. The objective should therefore be not simply to spend more, but to allocate resources efficiently, implement programmes effectively and maximise the social and economic value generated by every unit of public expenditure.

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