IRJEMS International Research Journal of Economics and Management Studies
ISSN: 2583 – 5238 / Volume 5 Issue 11 November 2026 / Pg. No: 19-25
Paper Id: IRJEMS-V5I11P103, Doi: 10.56472/25835238/IRJEMS-V5I11P103

Original Article

Major Causes of the Fiscal Deficit of the Government of India: An Analysis

[1]Ekta Masih, [2]Dr. D.K. Nema

[1]Research Scholar, Department of Commerce, Dr. Hari Singh Gour Vishwavidyalaya (A Central University), Sagar, Madhya Pradesh, India.
[2]Professor and Head, Department of Commerce, Dr. Hari Singh Gour Vishwavidyalaya (A Central University), Sagar, Madhya Pradesh, India.

Received Date: 12 October 2026 Revised Date: 26 October 2026 Accepted Date: 03 November 2026 Published Date: 05 November 2026

Abstract: *India is an emerging economy with a mixed economic model. The fiscal deficit is a major indicator of an economy's true financial health. However, a high fiscal deficit has adverse effects on every sector as well as every aspect of an economy. This paper is an attempt to identify the major causes of the fiscal deficit of the Government of India, to analyze the compositional share of receipts and expenditures of the Government of India and to provide possible remedies to reduce the fiscal deficit. For this purpose, secondary data was collected from the database of the Reserve Bank of India. The time period of the study is 15 Years (from 2012-13 to 2026-27). The major findings of the study are that interest payments, subsidies, defense expenditure and low tax-to-GDP are the major causes of the growing fiscal deficit in India. Key remedies include limited use of deficit financing, rationalization of expenditures, efforts to promote peace, motivational efforts to increase tax revenues, and more efforts to increase non-tax revenues.*

Keywords: *Fiscal Deficit Causes, Government of India, Government Receipts, Interest Payments, Public Expenditure, Subsidies.*

I. INTRODUCTION

Fiscal Policy is an effective tool by which the government intervenes in an economy to make expenditure and increase its revenues. According to Section 2 (a) (Fiscal Responsibility and Budget Management Act, 2003), "Fiscal deficit means the excess of total disbursements, from the consolidated fund of India, excluding repayment of debt, over total receipts into the fund (excluding the debt receipts), during a financial year." In simple words, fiscal deficit is the gap between government total expenditures and total receipts, excluding borrowings. Thus, fiscal deficit represents the borrowing requirement of the government. A high fiscal deficit leads to inflation, crowding out of private investment, high interest payments and other economic problems. To ensure macroeconomic stability, it is important to control the fiscal deficit and achieve the targets set in the Fiscal Responsibility and Budget Management Act, 2003.

This research study is an attempt to identify the major causes of the fiscal deficit of the Government of India, to analyze the compositional share of receipts and expenditures of the Government of India and to provide possible remedies to reduce the fiscal deficit.

II. REVIEW OF LITERATURE

The following is some important literature reviewed by the researcher on the causes of the fiscal deficit of the Government of India.

- (Gupta, 2020)- The author explained the concept, types of budgetary deficit and how its financing is done in India. Some causes of fiscal deficit, such as interest payments, subsidies, defense expenditure, tax evasion and poor performance of the public sector, were identified in the study. The study also dealt with the analysis of the two main sources of financing the deficit, which are borrowings from internal and external sources as well as printing of new currency.
- (Kaur, 2015) - The researcher reviewed the trend and trajectory of India's fiscal policy with a focus on historical trends, fiscal discipline frameworks, fiscal responses to the global financial crises and identified reasons for the fiscal deficit. The researcher identified several reasons contributing to the fiscal deficit, such as payment of interest, increase in subsidies, defense expenditure, large population and low per capita income level and tax evasion.
- (K. S. Soni, 2014) – The researcher examined the fiscal imbalance position of the central government and the impact of fiscal deficit on economic growth in India. The study was based on secondary data for the period of 1970-71 to 2011-12. For analysis of the data, a regression equation was used to examine the impact of fiscal deficit on economic growth. According to the study, increases in subsidies, payment of interest and increases in defence expenditure are the main causes of fiscal imbalance of the central government. The results of the study showed that gross domestic product has a long-run negative relationship with fiscal deficit, inflation and imports on the one hand and a positive relationship with

This is an open access article under the CC BY-NC-ND license (https://creativecommons.org/licenses/by-nc-nd/2.0/)

gross domestic capital formation, money supply and exports on the other hand. Suggestions like redirection of government expenditure, increase in non- tax revenues were provided in the study.

- (Gaurav Akrani, 2011)- The author analyzed the causes and consequences of fiscal crises in India. The author stated that fiscal crises take place when the government exceeds its revenues. According to the author, increases in subsidies, payments of interest, defense expenditure, poor performance of the public sector, excessive government borrowings, tax evasion, weak revenue mobilization and huge borrowings are the main causes of fiscal crises in India. Further, according to the author, major consequences of fiscal crises include debt trap, cuts in capital, education and health expenditure, high interest rates and slow economic growth.

III. OBJECTIVES OF STUDY

The following are the objectives of the study-

- To identify the major causes of the fiscal deficit of the Government of India.
- To analyze the compositional share of receipts and expenditures of the Government of India
- To provide possible remedies to reduce the fiscal deficit.

IV. RESEARCH METHODOLOGY

This study is analytical in nature as it aims to analyze the causes of the fiscal deficit of the Government of India. The study is based on secondary data. The data sources are published sources of the Government of India, the Reserve Bank of India (Database on Indian Economy), journals, articles and reports. The time period for this study is 15 Years i.e. from 2012-13 to 2026- 27. Data for 2025-26 are Revised Estimates, and data for 2026-27 are Budget Estimates. The collected data has been processed through classification, tabulation, graphs, pie diagrams and summarization of the data as per the requirements of the study. Percentage analysis is used to analyze the trends of deficits, receipts and expenditures of the Government of India.

Trend analysis of major deficit indicators of the Government of India: Various deficit indicators help in determining the fiscal health of the country. Fiscal deficit, primary deficit and revenue deficit are the three major budgetary deficits. Fiscal deficit is the gap between the expenditures and receipts of the government, excluding borrowings. Primary deficit is the difference between fiscal deficit and interest payments. Whereas revenue deficit is the difference between revenue expenditure and revenue receipts. According to some economists, the revenue deficit is more crucial than the fiscal deficit. Table 1 presents the trends of all these fiscal indicators for the last 15 years.

Table 1: Trends of Major Deficit Indicators

Year	Gross fiscal deficit	Gross Fiscal Deficit	Gross primary deficit	Gross Primary Deficit	Revenue deficit	Revenue Deficit
	(₹ Crores)	(As Percentage of GDP)	(₹ Crores)	(As Percentage of GDP)	(₹ Crores)	(As Percentage of GDP)
2012-13	490,190	4.93	177,020	1.78	364,282	3.66
2013-14	502,858	4.48	128,604	1.14	357,048	3.18
2014-15	510,725	4.10	108,281	0.87	365,519	2.93
2015-16	532,791	3.87	91,132	0.66	342,736	2.49
2016-17	535,618	3.48	54,904	0.36	316,381	2.06
2017-18	591,062	3.46	62,110	0.36	443,600	2.6
2018-19	649,418	3.44	66,770	0.35	454,483	2.4
2019-20	933,651	4.65	321,581	1.6	666,545	3.32
2020-21	1,818,291	9.16	1,138,422	5.73	1,449,599	7.3
2021-22	1,584,521	6.71	779,022	3.3	1,031,021	4.37
2022-23	1,737,755	6.46	809,238	3.01	1,069,926	3.98
2023-24	1,654,643	5.49	590,771	1.96	765,216	2.54
2024-25	1,574,431	4.76	458,856	1.39	564,296	1.71
2025-26	1,558,492	4.36	284,154	0.8	526,764	1.47
2026-27	1,695,768	4.31	291,796	0.74	592,344	1.51

Source: *Database on Indian Economy, Reserve Bank of India, 2026*

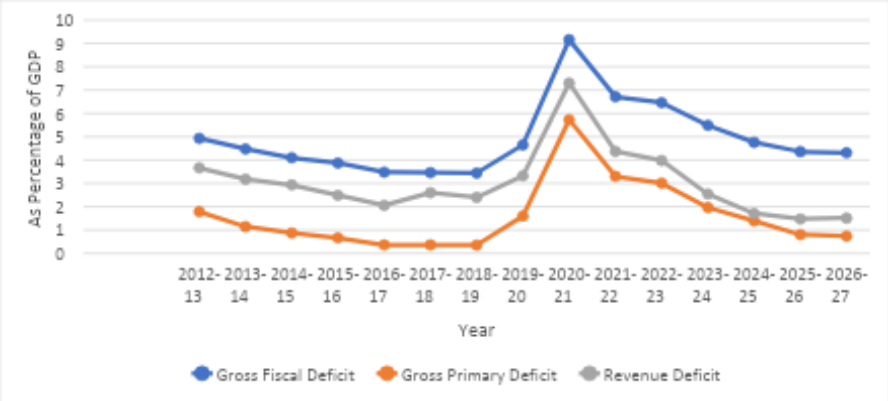

Figure 1. Trends of Major Deficit Indicators

Source: *Table 1.*

From Table and Figure 1, it was observed that gross fiscal deficit, gross primary deficit and revenue deficit are showing an increasing trend until 2019-20. In Figure No. 1.2, a clear spike is observed in all three deficit indicators for the year 2020-21, which was due to COVID-19, when the gross fiscal deficit, gross primary deficit and revenue deficit were 9.16, 5.73 and 7.30, respectively. This was due to an increase in borrowings by the government to finance food subsidies and health expenditure. However, subsequently, from 2021-22, all the deficit indicators showed a decreasing trend, indicating government efforts toward fiscal consolidation.

Trend analysis of receipts of the government of India- The main cause of deficit is slower growth in receipts of the government than growth in expenditure of the government. Thus, it is important to analyze the trends of receipts of the Government of India. Table 2 presents the trends of major receipts of the Government of India for the last 15 years.

Table 2: Trends of Major Receipts of Government of India

Year	Revenue Receipts		Of Which		Capital Receipts		Total Receipts
	(₹ Crores)	As % Of Total Receipts	Tax Revenue (Net)	Non-Tax Revenue	(₹ Crores)	As % Of Total Receipts	(₹ Crores)
2012-13	879,232	60	741,877	137,354	582,152	40	1,461,383
2013-14	1,014,724	64	815,854	198,870	563,894	36	1,578,618
2014-15	1,101,381	69	903,615	197,766	484,448	31	1,585,829
2015-16	1,195,025	67	943,765	251,260	582,579	33	1,777,604
2016-17	1,374,203	69	1,101,372	272,831	609,886	31	1,984,089
2017-18	1,435,233	67	1,242,488	192,745	702,650	33	2,137,883
2018-19	1,552,916	67	1,317,211	235,704	763,518	33	2,316,434
2019-20	1,684,059	63	1,356,902	327,157	997,301	37	2,681,360
2020-21	1,633,920	46	1,426,287	207,633	1,883,105	54	3,517,025
2021-22	2,169,905	57	1,804,793	365,112	1,621,353	43	3,791,258
2022-23	2,383,207	57	2,097,786	285,421	1,811,573	43	4,194,780
2023-24	2,729,036	61	2,327,251	401,785	1,713,617	39	4,442,652
2024-25	3,036,619	65	2,500,039	536,580	1,615,641	35	4,652,260

2025-26	3,342,323	68	2,674,661	667,662	1,576,797	32	4,919,120
2026-27	3,533,150	66	2,866,922	666,228	1,781,463	34	5,314,613

Source- *Database on Indian Economy, Reserve Bank of India, 2026*

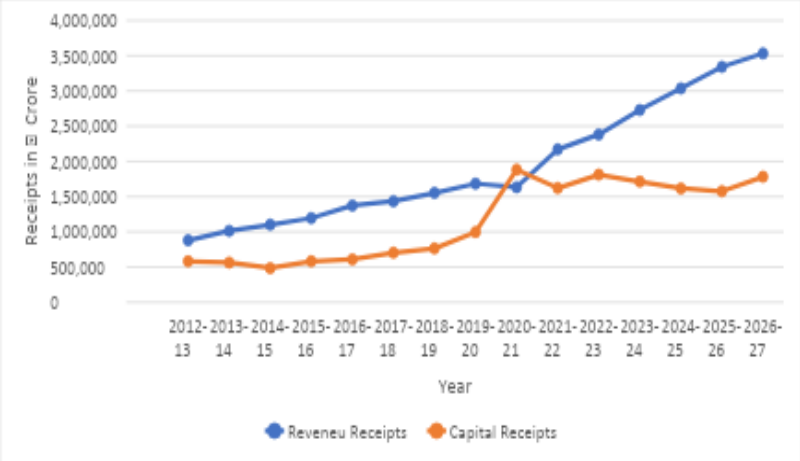

Figure 2. Trends Of Revenue and Capital Receipts of Government of India

Source: *Table 2.*

From Table and Figure 2, it was observed that the share of revenue receipts of the Government of India is playing a dominant role and is around 60% of total receipts during the study period. On the other hand, the share of capital receipts is around 40% of the Government of India's total receipts during the last 15 years. However, from Figure 1.2, it was observed that in the year 2020-21, the share of capital receipts was 54% and revenue receipts were 46%; this was due to an increase in borrowings by the government during COVID-19 and a decrease in revenue receipts of the government, as revenue receipts include tax and non-tax revenues of the Government of India. Subsequently, the trend changed, and the share of revenue receipts again took its dominant position from 2021-22. Revenue receipts include tax and non-tax revenues of the government. Further, among the revenue receipts, tax receipts contribute a large share; for the year 2026-27, the share of tax revenues in revenue receipts is around 81%, and the share of non-tax revenues is merely around 19%, indicating that the burden of financing expenditure is on the tax revenues of the government.

Trend analysis of expenditures of the government of India- Another major cause of concern is the increase in expenditure. There are two types of expenditures, namely revenue and capital expenditure. Although in a developing country like India, an increase in expenditure is good. However, a rational balance between revenue and capital expenditure of the government is important. Table 3 presents a trend of major expenditures of the Government of India for the last 15 years.

Table 3: Trends of Major Expenditures of Government of India

Year	Revenue Expenditure	Capital Expenditure	Total Expenditure	As Percentage of Total Expenditure	
	A	B	(A+B)	Revenue Expenditure	Capital Expenditure
2012-13	1,243,514	166,858	1,410,372	88.2	11.8
2013-14	1,371,772	187,675	1,559,447	88.0	12.0
2014-15	1,466,992	196,681	1,663,673	88.2	11.8
2015-16	1,537,761	253,022	1,790,783	85.9	14.1
2016-17	1,690,584	284,609	1,975,194	85.6	14.4
2017-18	1,878,833	263,140	2,141,973	87.7	12.3
2018-19	2,007,399	307,714	2,315,113	86.7	13.3
2019-20	2,350,604	335,726	2,686,330	87.5	12.5
2020-21	3,083,519	426,317	3,509,836	87.9	12.1
2021-22	3,200,926	592,875	3,793,801	84.4	15.6
2022-23	3,453,132	740,025	4,193,157	82.4	17.6

2023-24	3,494,252	949,195	4,443,447	78.6	21.4
2024-25	3,600,914	1,051,953	4,652,867	77.4	22.6
2025-26	3,869,087	1,095,755	4,964,842	77.9	22.1
2026-27	4,125,494	1,221,821	5,347,315	77.2	22.8

Source: *Database on Indian Economy, Reserve Bank of India, 2026*

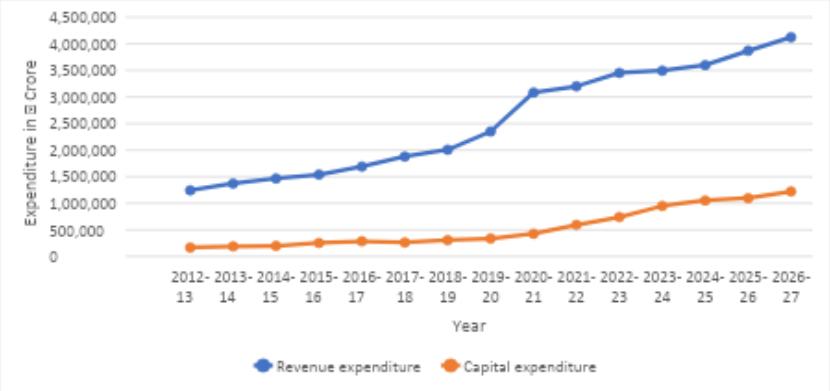

Figure 3. Trends of Revenue and Capital Expenditures of Government of India
Source: *Table 3.*

From the Table and Figure 3, it was observed that revenue and capital expenditure are both showing an increasing trend. However, the percentage share of revenue expenditure in total expenditure is around 80%. Capital expenditure, which is important for infrastructure development and employment generation, contributes only 20% to the government's total expenditure. For the year 2020-21, the revenue expenditure increased by 31% as compared to the previous year. The share of capital expenditure in total expenditure is increasing to more than 22% in the year 2023-24, indicating the positive efforts of the government in the growth and development of the economy.

As observed from Table and Figure 3, revenue expenditure is a dominant expenditure in total government expenditure. Thus, it is important to analyze the major revenue expenditure. Table No. 1.4 presents the trends of major revenue expenditure for the last 15 years.

Table 4. Trends of Major Revenue Expenditure

Year	Defence Expenditure		Interest Payments		Subsidies	
	(₹ Crores)	Percentage Share In Revenue Expenditure)	(₹ Crores)	Percentage Share In Revenue Expenditure)	(₹ Crores)	Percentage Share In Revenue Expenditure)
2012-13	111,277	8.9	313,170	25.2	257,079	20.7
2013-14	124,374	9.1	374,254	27.3	254,632	18.6
2014-15	136,807	9.3	402,444	27.4	258,258	17.6
2015-16	145,937	9.5	441,659	28.7	264,106	17.2
2016-17	165,410	9.8	480,714	28.4	234,809	13.9
2017-18	186,127	9.9	528,952	28.2	224,455	11.9
2018-19	195,572	9.7	582,648	29	222,954	11.1
2019-20	207,572	8.8	612,070	26	262,304	11.2
2020-21	205,789	6.7	679,869	22	758,165	24.6
2021-22	228,559	7.1	805,499	25.2	503,907	15.7

2022-23	256,183	7.4	928,517	26.9	577,916	16.7
2023-24	290,443	8.3	1,063,872	30.4	434,899	12.4
2024-25	290,965	8.1	1,115,575	31	422,606	11.7
2025-26	349,770	9	1,274,338	32.9	469,505	12.1
2026-27	365,479	8.9	1,403,972	34	454,773	11

Source: *Database on Indian Economy, Reserve Bank of India, 2026*

From Table 4, it can be observed that interest payments are showing an increasing trend as their share in revenue expenditure has increased from 25% in 2012-13 to 34% in the year 2026-27. Subsidies, in absolute money terms, have increased from ₹ 2,57,079 crores in 2012-13 to ₹ 4,54,773 crores in 2026-27. Similarly, defence expenditure has increased from ₹ 1,11,277 crores in 2012-13 to ₹ 3,65,479 crores in 2026-27. However, both expenditures are showing a dynamic trend as a percentage of revenue expenditure.

For a clearer understanding, Figure 4 presents the percentage share of interest payments, subsidies and defence expenditure for the year 2026-27 in a pie diagram form.

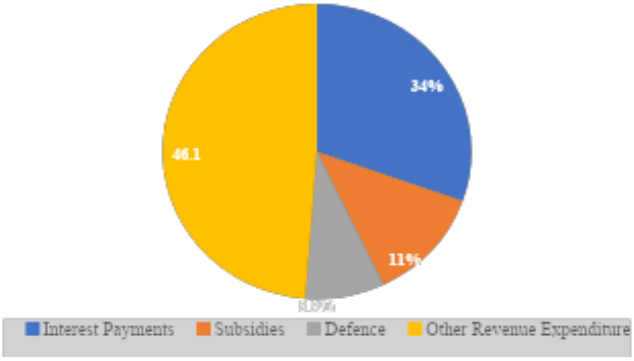

Figure 4. Composition of Central Government Revenue Expenditure (2026-27)

Source: *Table 4.*

From Figure 4, it is observed that around 34% share of revenue expenditure is captured by Interest payments, followed by subsidies with around 11% and defence expenditure with around 9%. Thus, Fiscal deficit is the gap between expenditures and receipts of the government (excluding borrowings), and in the above discussion, it is observed that major expenditure is revenue expenditure and the three major causes of fiscal deficit are identified as interest payments, subsidies and defence expenditure.

V. ANALYSIS OF CAUSES OF FISCAL DEFICIT IN INDIA

On the basis of data analysis, major causes of fiscal deficit of the Government of India are identified and described.

- Interest Payments- One of the major components of government expenditure is interest payments on both internal and external debt. The government debt has increased at a faster rate over the years. This has resulted in higher interest payments and, as a result, an increased fiscal deficit of the government. Interest payments have increased around 5 times, that is from ₹ 3,13,170 crore in 2012-13 to ₹ 14,03,972 crore in 2026-27.
- Subsidies- The Government of India has been providing subsidies on a number of items such as fertilizer, exports, food items, etc. Subsidies have increased around 2 times from ₹ 2,57,079 crore to ₹ 4,54,773 crore in 2026-27. The issue of freebies for political benefits is also worsening the situation. This has resulted in a fiscal imbalance. The major subsidies provided by the central government of India have increased over the years, resulting in fiscal imbalance.
- Defence Expenditure- Increasing defense expenditure is unavoidable, as the availability of advanced technology and advanced arms and ammunition for our armed forces is essentially required after the recent India- Pakistan conflict (Operation Sindoor); there has been a significant increase in defense spending. The government has limited scope to reduce the defense budget, as it is an issue of national security across India's borders. The defense expenditure has increased around three times from ₹ 1,11,277 crores in 2012-13 to ₹ 3,65,479 crores in 2026-27.
- Low tax-to-GDP ratio: Government revenue collection is not keeping pace with the growth of the economy, and it shows a low tax-to-GDP ratio. According to the Central Board of Direct Taxes, the direct tax-to-GDP ratio is only 6.64 % in the year 2023-24, which is very low as compared to other developed economies. When an increase in government expenditure

is unavoidable, then to reduce fiscal imbalance, a strong revenue mobilization system should be in operation; an inadequate rise in revenue receipts also contributed to fiscal imbalance.

VI. REMEDIES TO REDUCE FISCAL DEFICIT

The following are some possible remedies to reduce fiscal deficit that are based on major causes of fiscal deficit -

- Limited use of deficit financing policy – Fiscal deficit gives rise to deficit financing, which is not good for developing countries like India. It is good for using it in emergency situations, but now it has become a regular feature. In addition, it is observed that this facility of financing should be restricted to certain situations to reduce fiscal constraints in the future. To control the fiscal deficit, strict monitoring and adherence to the targets set in FRBMA, 2003 is important.
- Rationalization of expenditure- Public spending should be carefully monitored to ensure that it is demonstrably reaching the intended beneficiaries. There must be a concrete spending plan so that such spending is fully targeted to the intended purpose. As one of the major causes of fiscal deficit is the increase in subsidy expenditure, it is important to rationalize subsidies by upgrading biometric verification in subsidies and effective control on freebies.
- Efforts to promote peace- As defense expenditure is also a cause of fiscal deficit, more efforts are required to promote peace and harmony.
- Attractive Rewards- Another cause of increasing fiscal deficit is a low tax-to-GDP ratio. To increase direct and indirect taxes, more efforts are required to reward honest taxpayers.
- Effective Penalties- To increase tax revenues, a stricter penalty and punishment system is required to punish culprits involved in tax evasion.
- Reduction in tax rates- According to supply-side economist Arthur Laffer, increased taxation does not always lead to higher tax revenue because above a certain threshold tax rate, the incentive to produce more diminishes, thereby reducing the tax revenue the government receives. Paying taxes should become a facet of one's social behavior.
- Efforts to increase non- tax revenues- As mentioned above, low non - tax revenues are putting a burden on tax revenues; thus, it is important to increase non- tax revenues that include dividends from Central Public Sector Enterprises, etc. The government should support and monitor loss-making CPSEs with proper financial management and strategies.

REFERENCES-

[1] "Database on Indian Economy." *Rbi.Org.In*, Reserve Bank of India, 2026, rbi.org.in/. Accessed 7 Oct. 2026.

[2] *FISCAL RESPONSIBILITY AND BUDGET MANAGEMENT ACT, 2003*. (2003). https://dea.gov.in/files/budget_division_documents/FRBM_Act_2003_and_FRBM_Rules_2004.pdf

[3] Gaurav Akrani. "Fiscal Crisis in India - Indicators, Causes and Consequences." *Blogspot.Com*, 2011, kalyan-city.blogspot.com/2011/03/fiscal-crisis-in-india-indicators.html. Accessed 11 Oct. 2026.

[4] Gupta, Sonika. *Fiscal Deficit and ITS Financing in India Chapter IV Fiscal Deficit and ITS Financing in India*. 2020, www.drsonikagupta.com/wp-content/uploads/2020/07/07_chapter-4.pdf.

[5] Kaur, Sarabjeet. "Fiscal Policy in India:A Review." *International Journal of Economic Research*, 2015, www.ijeronline.com/documents/volumes/2015/Vol%206%20Iss%2001%20JF%202015/ijer%20vol6i1%20JF%202015(6).pdf. Accessed 3 June 2026.

[6] Masih, Ekta, and G. L. Puntambekar. "Fiscal Constraints of Central Government of India: Some New Dimensions." *Fiscal Constraints of Central Government of India: Some New Dimensions*, vol. 9, no. 6, 2019, pp. 374–381.

[7] Soni, Kalkikumar Shivangbhai. *Fiscal Imbalance Position of the Central Government and Economic Growth in India*. 2014, shodhganga.inflibnet.ac.in/handle/10603/116311.