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Original Article

Centre's Gross Fiscal Deficit and Its Financing: A Comprehensive Analysis of Trends, Composition and Economic Implications

Dr. Khose Maharudra Bibhishan
Assistant Professor,
Department of Economics,
K. J. Somaiya College of Arts, Commerce and Science, Kopargaon, Dist- Ahilyanagar (Maharashtra)

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***Corresponding Author:* Dr. Khose Maharudra Bibhishan**

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Abstract:

Fiscal deficit has emerged as one of the most significant indicators of fiscal health and macroeconomic stability in developing economies. In India, the Central Government's Gross Fiscal Deficit (GFD) has experienced considerable fluctuations over the past two decades due to changes in public expenditure, tax collections, economic reforms, global financial crises, and the COVID-19 pandemic. Financing this deficit has become equally important because the composition of financing directly influences public debt, interest burden, inflation, liquidity and long-term economic growth.

The present study examines the trends, composition, and financing pattern of the Centre's Gross Fiscal Deficit in India using secondary data obtained from the Union Budget documents and official publications of the Government of India. The study covers the period from 2000-01 to 2025-26 and analyses various sources of fiscal deficit financing, including market borrowings, external debt, internal liabilities, and drawdown of cash balances.

The study employs descriptive statistics, trend analysis, percentage composition analysis, and graphical techniques to evaluate changes in fiscal deficit financing over time. The findings reveal that market borrowings have gradually become the dominant source of financing the fiscal deficit, while external financing continues to account for only a small proportion. The COVID-19 pandemic significantly increased fiscal borrowing, leading to a sharp rise in the fiscal deficit and public debt. Despite fiscal consolidation efforts under the Fiscal Responsibility and Budget Management (FRBM) framework, fiscal pressures continue due to welfare expenditure, infrastructure investment and interest payments.

The study concludes that maintaining fiscal sustainability requires prudent expenditure management, broadening of the tax base, efficient debt management and improved quality of public expenditure. A balanced financing strategy can minimize macroeconomic risks while supporting long-term economic growth.

Keywords: Gross Fiscal Deficit, Fiscal Financing, Market Borrowing, Public Debt, Fiscal Sustainability, India, Union Budget.

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Introduction:

Fiscal policy is one of the most powerful instruments available to governments for achieving economic stability, sustainable growth, equitable income distribution, and employment generation. Among various fiscal indicators, the Gross Fiscal Deficit (GFD) serves as the most comprehensive measure of the government's borrowing requirement during a financial year.

Gross Fiscal Deficit represents the excess of the government's total expenditure over its total receipts excluding borrowings. A higher fiscal deficit indicates greater dependence on borrowed funds for financing government expenditure. Although fiscal deficits may stimulate economic growth through increased public investment during periods of recession, persistent and excessive fiscal deficits can lead to inflationary pressures, rising public debt, increased interest payments, and reduced fiscal flexibility.

India's fiscal management has undergone significant transformation during the last twenty-five years. Economic liberalization, implementation of the Fiscal Responsibility and Budget Management (FRBM) Act, introduction of the Goods and Services Tax (GST), global financial crises, and the COVID-19 pandemic have substantially influenced the size and financing pattern of the Centre's fiscal deficit.

An equally important issue is the method adopted to finance the fiscal deficit. Financing can be achieved through market borrowings, external loans, treasury bills, small savings, provident funds, and drawdown of cash balances. Each financing source has distinct implications for debt sustainability, monetary stability, interest rates, private investment, and macroeconomic performance.

The Government of India has increasingly relied upon domestic market borrowings to finance its fiscal deficit. The growing share of market loans has improved transparency in fiscal management but has simultaneously increased the government's interest burden. External borrowings remain relatively limited due to prudent debt management policies.

The unprecedented COVID-19 pandemic created severe fiscal challenges. Declining tax revenues, emergency health expenditure, welfare measures, and economic stimulus packages caused the fiscal deficit to rise sharply during 2020-21 and subsequent years. Consequently, understanding the changing pattern of fiscal deficit financing has become highly relevant for policymakers and researchers.

This study provides a comprehensive assessment of the Centre's Gross Fiscal Deficit and its financing pattern using official government data from 2000-01 to 2025-26. The study analyses long-term trends, financing composition, and the macroeconomic implications of different financing sources.

Statement of the Problem:

The increasing fiscal deficit of the Central Government has become a major concern for India's macroeconomic stability. While fiscal deficits support developmental expenditure and infrastructure creation, excessive dependence on borrowings increases public debt and future repayment obligations.

In recent years, particularly after the COVID-19 pandemic, fiscal deficits have expanded significantly. Simultaneously, the composition of deficit financing has shifted towards market borrowings. The long-term implications of this financing pattern on debt sustainability, fiscal stability, inflation, and economic growth require systematic investigation.

Therefore, there is a need to examine the changing trends and financing composition of the Centre's Gross Fiscal Deficit using recent official data.

Need of the Study:

The present study is important because:

- Fiscal deficit is one of the most important indicators of fiscal discipline.
- Financing pattern directly affects public debt sustainability.
- Increasing market borrowings influence interest rates and capital markets.
- Post-COVID fiscal expansion requires detailed analysis.
- The study contributes to understanding India's changing fiscal strategy.
- It provides useful policy suggestions for fiscal consolidation.
- The analysis will help researchers, policymakers, students, and financial institutions.

Objectives of the Study:

The study is undertaken with the following objectives:

1. To analyse the trend of the Centre's Gross Fiscal Deficit in India.
2. To examine the composition of fiscal deficit financing.
3. To study the changing pattern of market borrowings in financing fiscal deficit.
4. To evaluate the role of internal and external financing.
5. To analyse the economic implications of fiscal deficit financing.
6. To suggest policy measures for improving fiscal sustainability.

Research Questions:

The study attempts to answer the following questions:

1. How has the Gross Fiscal Deficit changed during 2000–2025?
2. What are the major sources of financing the fiscal deficit?
3. Has market borrowing become the dominant financing source?
4. What has been the impact of COVID-19 on fiscal deficit financing?
5. Is the present financing pattern fiscally sustainable?

Scope of the Study:

The study covers the fiscal performance of the Government of India from 2000-01 to 2025-26**.** The analysis focuses on:

- Gross Fiscal Deficit

- External Financing
- Internal Financing
- Market Borrowings
- Other Liabilities
- Draw Down of Cash Balances

The study is confined only to the Central Government and does not include State Government finances.

Research Methodology:

The present study is descriptive as well as analytical in nature. It aims to examine the trends, composition, and economic implications of the Centre's Gross Fiscal Deficit and its financing in India. The descriptive approach has been adopted to present the changing pattern of fiscal deficit financing over the study period, while the analytical approach has been used to interpret the financing structure and evaluate its implications for fiscal sustainability and macroeconomic stability. The study systematically analyses the evolution of Gross Fiscal Deficit and its major financing components using appropriate statistical techniques and graphical representations.

The study is based exclusively on secondary data collected from authentic and reliable government sources. The required data have been obtained from the Union Budget Documents, Budget at a Glance, publications of the Ministry of Finance, Government of India, the Reserve Bank of India (RBI), and the Economic Survey of India. These official publications provide comprehensive and consistent information on the Centre's Gross Fiscal Deficit and its financing pattern, ensuring the reliability and validity of the analysis.

The period of the study extends from the financial year 2000–01 to 2025–26, covering a span of twenty-six years. This period has been selected to capture the long-term evolution of India's fiscal policy, including significant economic events such as the implementation of the Fiscal Responsibility and Budget Management (FRBM) Act, the Global Financial Crisis of 2008–09, the introduction of the Goods and Services Tax (GST), and the fiscal expansion witnessed during the COVID-19 pandemic. Analysing data over this extended period enables a comprehensive understanding of structural changes in the Centre's fiscal deficit and its financing strategy.

To achieve the objectives of the study, various statistical and analytical tools have been employed. Percentage analysis has been used to examine the relative contribution of different financing sources to the Gross Fiscal Deficit. Trend analysis has been applied to identify the long-term movement and direction of fiscal deficit financing over the study period. Graphical analysis, including line graphs, bar diagrams and pie charts, has been used to present the data visually for better interpretation, while composition analysis has been employed to examine the changing structure and relative importance of various financing sources. The combined use of these statistical techniques facilitates a comprehensive assessment of the Centre's Gross Fiscal Deficit and its financing pattern and provides meaningful insights into their economic implications.

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Data Analysis and Interpretation:

1. Trend Analysis of Centre's Gross Fiscal Deficit (2000–01 to 2025–26):

Table.1: Centre's Gross Fiscal Deficit and Its Financing

CENTRE'S GROSS FISCAL DEFICIT AND ITS FINANCING						
		Financing of GFD				
Year	Gross Fiscal Deficit	External Finance	Internal Finance			
			Market Borrowing	Other Borrowings	Draw Down of Cash Balances	Total (D+E+F)
2000-01	118816	7505	73431	39077	-1197	111311
2001-02	140955	5601	90812	46038	-1496	135354
2002-03	145072	-11934	104126	50997	1883	157006
2003-04	123273	-13488	88870	51833	-3942	136761
2004-05	125794	14753	50940	61562	-1461	111041
2005-06	146435	7472	106241	53610	-20888	138963
2006-07	142573	8472	114801	14782	4517	134101
2007-08	126912	9315	130600	14168	-27171	117597
2008-09	336992	11015	246975	35168	43834	325977
2009-10	418482	11038	394371	14460	-1386	407444
2010-11	373591	23556	326399	17206	6430	350035
2011-12	515990	12448	484111	35421	-15990	503542
2012-13	490190	7201	507445	26556	-51012	482989
2013-14	502858	7292	475626	39111	-19171	495566
2014-15	510725	12933	457617	-37485	77752	497884
2015-16	532791	12748	414931	91942	13170	520043
2016-17	535618	17997	338149	188368	-8895	517622
2017-18	591062	7931	450728	128312	4091	583131
2018-19	649418	5519	422735	222485	-1321	643899
2019-20	933651	8682	473968	446030	4971	924969
2020-21	1818291	70180	1032907	722392	-7188	1748111
2021-22	1584521	36147	704097	841734	2543	1548374
2022-23	1737755	37124	1108260	593994	-1622	1700631
2023-24	1654643	55121	1180458	418270	794	1599522
2024-25	1574431	47271	1162878	363675	608	1527160
2025-26	1558492	20462	1132834	359474	45722	1538030
2026-27	1695768	15385	1173210	474471	32702	1680383

Source: Handbook of Statistics on the Indian Economy, 2025-26

The Gross Fiscal Deficit (GFD) of the Central Government has shown significant fluctuations during the study period. In the early 2000s, the fiscal deficit remained relatively moderate due to the implementation of fiscal reforms and improved revenue mobilisation. Following the enactment of the Fiscal Responsibility and Budget Management (FRBM) Act, the Government gradually reduced fiscal deficits until the Global Financial Crisis of 2008–09.

During 2008–10, fiscal deficit increased considerably because of fiscal stimulus measures introduced to protect economic growth. After a brief period of consolidation, the COVID-19 pandemic

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caused an unprecedented increase in government expenditure and a decline in tax revenues, resulting in the highest fiscal deficit during 2020–21.

Although the Government has gradually moved towards fiscal consolidation after the pandemic, the fiscal deficit continues to remain above the pre-pandemic level due to higher capital expenditure, welfare schemes and interest payments.

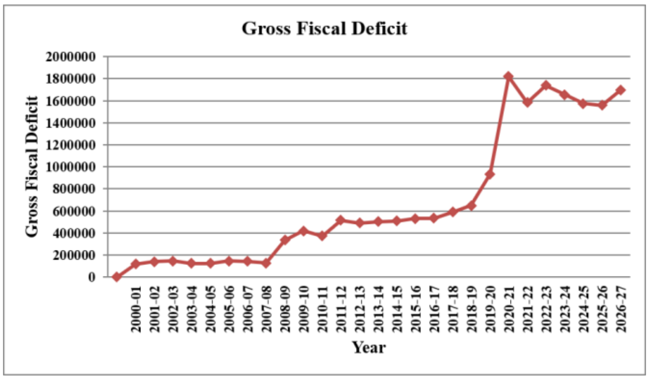
Interpretation:

The long-term trend indicates that fiscal deficits in India are influenced by:

- Economic growth
- Tax revenue performance
- Capital expenditure
- Global financial crises
- Pandemic-related expenditure
- Fiscal consolidation policies

Overall, the trend demonstrates a long-run upward movement with temporary shocks caused by major economic events.

Figure 1: Trend of Centre's Gross Fiscal Deficit (2000–01 to 2025–26)



Source: Prepared by the researcher based on secondary data compiled from Handbook of Statistics on the Indian Economy, 2025-26 and analysed using Microsoft Excel.

Figure Interpretation:

The figure clearly shows that the Gross Fiscal Deficit has increased considerably over the study period, with a sharp rise during the COVID-19 period followed by gradual fiscal consolidation.

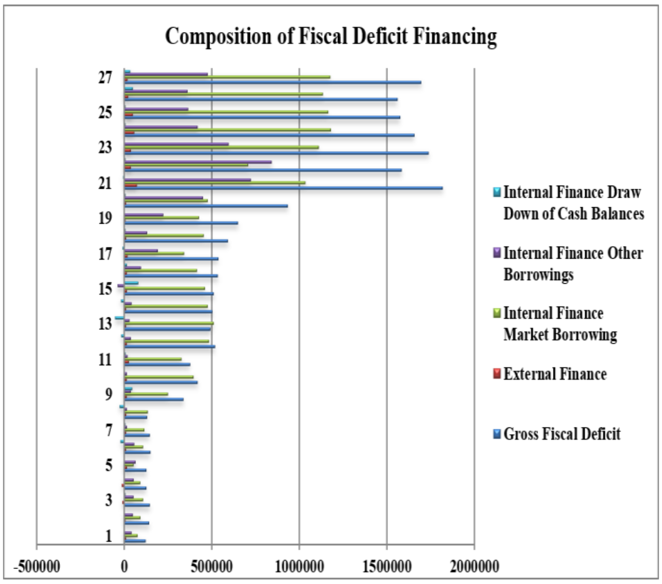
2. Composition of Fiscal Deficit Financing:

The financing of Gross Fiscal Deficit consists of:

- Internal Financing
- External Financing
- Market Borrowings
- Other Liabilities
- Draw Down of Cash Balances

Among these sources, market borrowings constitute the largest share throughout the study period. Internal financing has consistently dominated fiscal deficit financing, whereas external borrowing contributes only a marginal proportion.

Figure 2: Composition of Fiscal Deficit Financing



Source: Prepared by the researcher based on secondary data compiled from Handbook of Statistics on the Indian Economy, 2025-26 and analysed using Microsoft Excel.

Figure Interpretation:

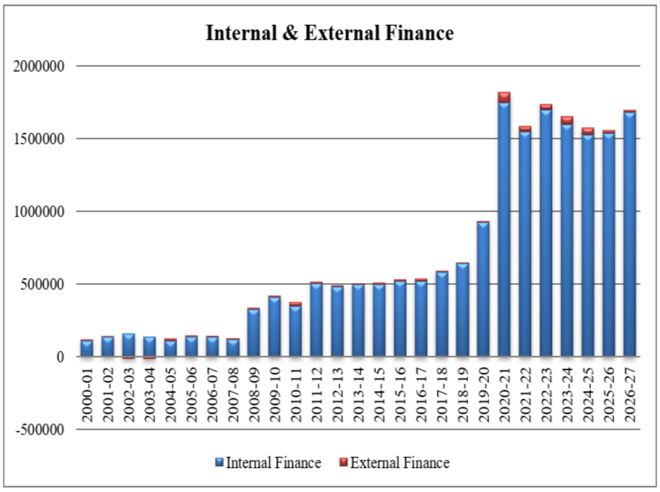
The composition diagram reveals that:

- Market borrowing has become the primary financing source.
- External borrowing has remained negligible.
- Internal liabilities dominate fiscal financing.
- Drawdown of cash balances varies depending on liquidity conditions.

3. Internal versus External Financing:

One of the most striking observations from the dataset is the increasing dependence on domestic financing. Internal financing accounts for more than 90 percent of total fiscal deficit financing in most years. External financing remains limited due to India's prudent external debt policy.

Figure 3: Internal vs External Financing



Source: Prepared by the researcher based on secondary data compiled from Handbook of Statistics on the Indian Economy, 2025-26 and analysed using Microsoft Excel.

Figure Interpretation:

The Government relies overwhelmingly on domestic resources for financing fiscal deficits. This reduces exchange rate risk and external debt vulnerability.

4. Market Borrowing Analysis:

Market borrowing has emerged as the single largest component of fiscal deficit financing.

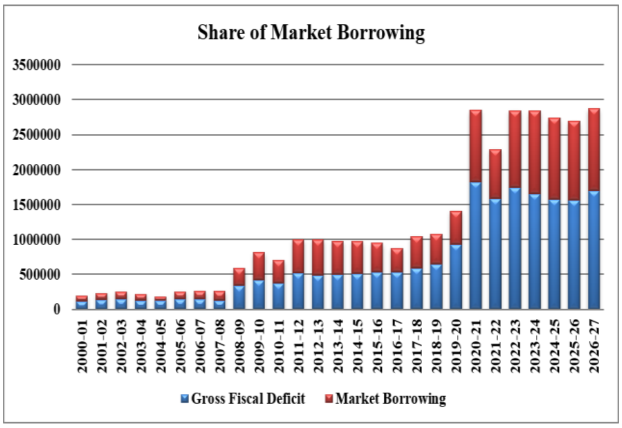
The increasing share reflects:

- Development of Government Securities Market
- Better investor confidence
- Increased demand from banks and financial institutions
- Expansion of capital expenditure

However, excessive dependence on market borrowing increases:

- Interest burden
- Public debt
- Crowding-out effect
- Future fiscal liabilities

Figure 4: Share of Market Borrowing



Source: Prepared by the researcher based on secondary data compiled from Handbook of Statistics on the Indian Economy, 2025-26 and analysed using Microsoft Excel.

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Figure Interpretation:

The share of market borrowings has steadily increased over the study period and now finances the majority of the Gross Fiscal Deficit.

5. Other Liabilities:

Other liabilities include:

- Small Savings
- Provident Funds
- Special Securities
- Reserve Funds

Their contribution has gradually declined compared with market borrowings.

6. Draw Down of Cash Balances:

Drawdown of cash balances is generally used only when temporary liquidity adjustments are required. Its contribution remains comparatively small and highly volatile.

7. Economic Implications:

The changing financing pattern has important macroeconomic implications.

Positive Effects:

- Infrastructure development
- Higher capital formation
- Economic growth
- Employment generation
- Better public investment

Negative Effects:

- Rising public debt
- Increasing interest payments
- Crowding out of private investment
- Inflationary pressure
- Fiscal sustainability concerns

Major Findings:

The analysis reveals the following important findings:

1. Gross Fiscal Deficit has shown an increasing trend over the last twenty-five years.
2. The highest increase occurred during the COVID-19 period.
3. Internal financing dominates fiscal deficit financing.
4. External financing constitutes only a very small proportion.
5. Market borrowing has become the major source of financing.
6. Other liabilities have gradually declined.
7. Fiscal deficit financing has increased the public debt burden.
8. Despite higher borrowing, increased capital expenditure is expected to promote long-term economic growth.

Discussion:

The analysis of the Centre's Gross Fiscal Deficit (GFD) and its financing over the period 2000–01 to 2025–26 reveals significant structural changes in India's fiscal management. The financing pattern has gradually shifted towards greater reliance on domestic market borrowings, while the share of external financing has remained relatively low. This shift reflects India's cautious external debt policy and the development of a deep domestic government securities market.

The implementation of the Fiscal Responsibility and Budget Management (FRBM) Act, 2003 marked a turning point in India's fiscal policy. During the pre-global financial crisis period

(2003-04 to 2007-08), the Central Government succeeded in reducing the fiscal deficit through improved tax collection, expenditure rationalisation and higher economic growth. However, the global financial crisis of 2008-09 compelled the Government to adopt expansionary fiscal measures, leading to an increase in fiscal deficit.

The COVID-19 pandemic represented an unprecedented fiscal shock. Reduced tax revenues, increased healthcare expenditure, welfare schemes and economic stimulus packages significantly widened the fiscal deficit. Consequently, the Government relied heavily on market borrowings to finance the deficit. Although this strategy helped stabilize economic activity, it also increased public debt and interest payment obligations.

The composition analysis indicates that internal financing constitutes the dominant source of deficit financing. Market borrowings have consistently accounted for the largest share, while other liabilities such as small savings and provident funds have shown a declining trend. External financing remains limited, thereby reducing exchange rate risk and external debt vulnerability.

A major concern arising from the increasing dependence on market borrowings is the growth in interest payments. Interest expenditure constitutes one of the largest components of revenue expenditure, limiting the Government's fiscal flexibility for productive investments in education, healthcare and infrastructure.

The increasing fiscal deficit is not necessarily undesirable if borrowed resources are utilised for productive capital formation. Higher investment in infrastructure, transport, digital connectivity, renewable energy and social sectors can generate long-term economic growth sufficient to service the accumulated public debt.

Therefore, the quality of expenditure is as important as the size of the fiscal deficit itself. Borrowing for productive investment creates future growth potential, whereas borrowing for consumption expenditure merely shifts the repayment burden to future generations.

Major Findings:

Based on the analysis, the following major findings emerge:

1. The Centre's Gross Fiscal Deficit has increased considerably during the study period.
2. Fiscal consolidation under the FRBM Act temporarily reduced the fiscal deficit before the Global Financial Crisis.
3. The COVID-19 pandemic caused the sharpest increase in fiscal deficit.
4. Market borrowings have emerged as the principal source of financing the Gross Fiscal Deficit.
5. Internal financing dominates the financing structure, whereas external financing contributes only a marginal share.
6. Increasing market borrowings have significantly raised the public debt burden.
7. Higher interest payments have reduced fiscal space for developmental expenditure.
8. Despite increasing debt, enhanced capital expenditure has the potential to improve long-term economic growth.

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9. India's external debt exposure remains relatively low due to prudent borrowing policies.
10. Fiscal sustainability depends not only on the size of the deficit but also on the efficiency and productivity of government expenditure.

Policy Implications:

The findings of the study suggest several important policy implications:

1. **Strengthening Fiscal Discipline-**The Government should continue to pursue fiscal consolidation under the FRBM framework while allowing flexibility during extraordinary economic crises.
2. **Improving Tax Revenue-**Broadening the tax base, reducing tax evasion, improving GST compliance and enhancing digital tax administration can reduce dependence on borrowings.
3. **Enhancing Capital Expenditure-**Borrowed funds should primarily be invested in productive infrastructure capable of generating long-term economic returns.
4. **Debt Management-**The Government should adopt a medium-term debt management strategy to minimise refinancing risk and interest burden.
5. **Reducing Revenue Expenditure-**Containing non-developmental expenditure can create greater fiscal space for capital investment.
6. **Promoting Economic Growth-**Higher GDP growth improves the debt-to-GDP ratio and enhances fiscal sustainability.
7. **Transparency in Fiscal Reporting-** Comprehensive disclosure of contingent liabilities, guarantees and off-budget borrowings will improve fiscal transparency.
8. **Diversification of Financing Sources-**The Government should diversify financing sources to reduce excessive dependence on market borrowings while maintaining external debt at sustainable levels.

Suggestions:

The following suggestions may improve fiscal sustainability:

- Strengthen fiscal responsibility legislation.
- Increase public investment efficiency.
- Rationalise subsidies through better targeting.
- Improve public expenditure management.
- Enhance tax administration using technology.
- Develop a comprehensive medium-term fiscal framework.
- Encourage public-private partnerships (PPP) for infrastructure financing.
- Increase disinvestment receipts where appropriate.
- Continue improving transparency in public finance statistics.

Scope for Future Research:

Future studies may examine:

- Fiscal deficit and inflation relationship.
- Fiscal deficit and economic growth.
- Fiscal deficit and private investment crowding-out.

- Comparative study of Centre and State fiscal deficits.
- International comparison of fiscal deficit financing.
- Fiscal sustainability after the COVID-19 pandemic.
- Debt servicing burden and macroeconomic stability.

Conclusion:

The Centre's Gross Fiscal Deficit has undergone significant changes over the past twenty-five years, reflecting India's evolving fiscal priorities and responses to domestic and global economic challenges. While fiscal deficits remain an essential instrument for financing developmental expenditure and supporting economic growth, their sustainability depends on prudent financing strategies and efficient utilisation of borrowed resources.

The analysis demonstrates that domestic market borrowings have become the dominant source of financing the Gross Fiscal Deficit, while external financing has remained limited. This strategy has helped reduce exchange rate risks but has increased domestic public debt and interest obligations.

The COVID-19 pandemic substantially widened the fiscal deficit, highlighting the importance of maintaining adequate fiscal space for responding to unforeseen shocks. As India continues to invest heavily in infrastructure and social development, balancing fiscal expansion with long-term debt sustainability remains a key policy challenge.

Future fiscal policy should focus on improving the quality of expenditure, strengthening revenue mobilisation, enhancing debt management practices and ensuring transparency in public finance. Such measures will contribute to sustainable economic growth while maintaining macroeconomic stability.

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