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Impact of Borrowings and Liabilities on Capital Expenditure concerning the Fiscal Deficit: A Comprehensive Study"

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ABSTRACT

This study explores how borrowings, liabilities, and capital expenditure influence a nation's fiscal deficit. Borrowings and liabilities are key financial commitments, profoundly shaping fiscal health, while capital expenditure drives long-term economic growth. Through meticulous analysis, the study examines how government policies in these areas impact fiscal sustainability, economic stability, and overall development. Insights gained offer policymakers a roadmap for prudent financial management, sustainable development, and economic stability preservation. Understanding the interplay of these factors is vital for informed decision-making and the formulation of robust fiscal policies aligned with long-term economic well-being, enabling governments to support economic growth while maintaining fiscal responsibility. This research employs secondary data analysis from Union Budget datasets (2015-2021) to examine the interplay between capital expenditure decisions and borrowing liabilities in government fiscal policies. In conclusion, while borrowing liabilities affect interest payments, considering factors like interest rates and economic conditions enhances comprehension.

Keyword: Budget, Capital Expenditure, Economic Growth, Fiscal Deficit etc.

INTRODUCTION

The comprehensive study on the impact of borrowings, liabilities, and capital expenditure on fiscal deficit delves into the intricate dynamics that shape a nation's economic landscape. Borrowings and liabilities represent the financial commitments of a government, and their management profoundly influences fiscal health. As significant contributors to the fiscal deficit, understanding the nuanced relationship between these elements is crucial. Capital expenditure, on the other hand, represents investments in long-term projects that stimulate economic growth. The study examines how judiciously managing borrowings and liabilities allows governments to fund strategic capital projects, fostering infrastructural development and economic expansion. However, an imbalance in these financial components can lead to an expanding fiscal deficit, potentially signaling fiscal unsustainability.

Through a meticulous analysis, the study aims to unravel the complexities surrounding these factors. It scrutinizes how government policies in borrowing, liability management, and capital expenditure impact fiscal sustainability, economic stability, and overall development. Insights gained from this study provide policymakers with a roadmap to formulate strategies that strike a delicate balance—ensuring prudent financial management, sustainable development, and the preservation of economic stability. This comprehensive examination is crucial for informed decision-making and the formulation of robust fiscal policies that align with the long-term economic well-being of a nation.

REVIEW OF LITERATURE

Amrutha et.al (2017**)** examined the relationship between fiscal deficit and GDP growth of India in the short term and long term. In this paper the data from 1980 to 2013 and the Johansen methodology were used to check the relationship between variables. The study discovered that the fiscal deficit and GDP growth are inversely correlated, with a 1% increase in the fiscal deficit translating into a 0.61 percent drop in GDP. Anantha &Gayithri, K, (2017) revealed that the financial deficit had a detrimental impact on GDP and favored that the overall "golden rule" of public finance favored growth if funds were allocated to capital formation.

Kumar, Shenti (2017)revealed that the MUDRA Initiative is the most topical initiative to careslight and micro business units in India. It also showed that MUDRA by way of a monetarydeviceoriginated to be operative in its initialphasestransversely the realm. It will undoubtedly result in a dramatic shift and contribute to the development of India.
Ali (2019) the paper studied the impact of fiscal deficit on GDP growth of India from 1999 to 2013. At a five percent significant threshold, he discovered a negative link between the fiscal deficit and GDP growth.

Sharma & Mittal (2019) analyzed the effect of fiscal deficit on GDP growth in India from 1985 to 2015. In their study, other macroeconomic variables have also been employed. Additionally, they discovered that there was a short- and long-term negative correlation between the budget deficit and the economy. In the context of the impact of the budget deficit on the Indian economy, this research advances the Neo-Classical viewpoint. They contend that in order to prevent issues leading to a budget imbalance, the Indian government has to concentrate more on resource utilization.

OBJECTIVES OF THE STUDY

- Investigating the Relationship Between Borrowing Liability and Interest Payments.
- Assessing the Synergies and Trade-offs Between Capital Expenditure and Borrowing Liabilities in Government Fiscal Policy

METHODOLOGY

This research aims to comprehensively examine the interplay between capital expenditure decisions and borrowing liabilities within the context of government fiscal policies.This study employs a secondary data analysis methodology, utilizing datasets from the Union Budget spanning the period from 2015 to 2021. Sourced from official government records, the data selection is based on comprehensive criteria, ensuring relevance and reliability.

And the analysis focuses on percentage changes and trend identification within the Union Budget dataset. The research emphasizes the use of percentage analysis to unveil proportional shifts and trend analysis to discern patterns over time in government financial priorities.The objective is to explore how governments strategically utilize borrowing instruments to fund capital projects. This research aims to explore the intricate relationship between borrowing liability and interest payments within government finances.

Borrowings and Other Liabilities:-
It refers to obtaining funds from external sources, such as loans or credit, refers to obtaining funds from external sources, such as banks, financial institutions, or bond markets, to cover expenses or investments when the available revenues or savings are insufficient.

Borrowing can be a strategic financial decision when managed effectively, as it can facilitate growth, investment, or the smooth functioning of operations. The relationship between borrowings and other liabilities and the fiscal deficit is crucial for assessing a government's financial health.

High borrowings and liabilities may contribute to a widening fiscal deficit, impacting economic stability. Governments must carefully manage debt levels to mitigate fiscal risks, maintain investor confidence, and ensure sustainable economic growth. Monitoring and balancing borrowings against fiscal deficit targets are essential for effective fiscal policy and overall economic management.

Interest Payment:-
It refers to the money paid periodically (typically monthly or annually) to a lender as compensation for the use of borrowed funds. In a business budget, interest payments can impact profitability and cash flow management. Keeping track of interest payments is important for maintaining financial health and avoiding excessive debt burden. In a budget, interest payments are considered an expense because they represent money that must be paid out regularly to maintain the borrowing arrangement.

Managing interest payments effectively is an important aspect of financial planning, as high interest rates or large amounts of debt can significantly impact your overall financial health and ability to achieve your financial goals.

Data and Its Analysis
With the help of tables and graphics, data from different years ofhas been analyzed.

Table I Percentage change of Borrowings and other Liabilities and interest payments

YEAR	% Change Borrowings	% Change Interest
2015-2016		
2016-2017	0.53%	8.84%
2017-2018	10.35%	10.03%
2018-2019	9.87%	10.15%
2019-2020	43.77%	5.05%
2020-2021	94.75%	11.08%

(Source: - Union Budget)

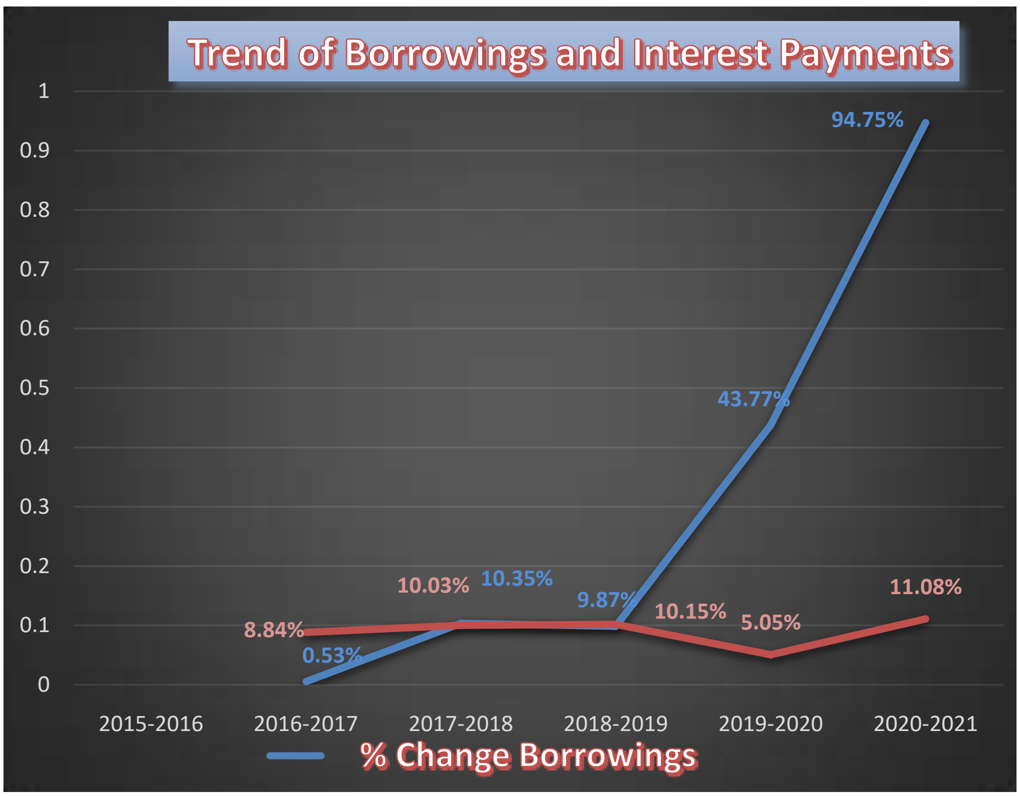

Figure I: - Trend of Change in % Borrowings and interest payments from the year 2015-16 to 2020-21

The table presents the year-wise percentage changes in borrowings and interest payments over the period from 2015 to 2021. In 2015-2016, no percentage change is reported for both borrowings and interest. From 2016-2017 to 2017-2018, borrowings increased by 0.53%, while interest payments saw a corresponding 8.84% increase. The subsequent years witnessed continued growth, with borrowings increasing by 10.19% in 2017-2018 and 9.95% in 2018-2019.

However, the percentage change in interest payments remained relatively stable during these years, hovering around 10%. Notably, in 2019-2020, there was a significant spike in borrowings, with a 43.66% increase, while interest payments experienced a more modest 5.07% rise.

The trend escalated in 2020-2021, with borrowings soaring by 94.45%, accompanied by an 11.08% increase in interest payments. The data underscores dynamic financial changes, warranting further investigation into the factors influencing borrowing and its impact on interest payments during this period.

Table II Percentage of Capital Expenditure Out of Borrowings and Other Liabilities

YEAR	Borrowings	Capital Expenditure	Percentage%
2015-2016	532791	253022	**47.49%**
2016-2017	535618	284610	**53.14%**
2017-2018	591062	263140	**44.52%**
2018-2019	649418	307714	**47.38%**
2019-2020	933651	335726	**35.96%**
2020-2021	1818291	426317	**23.45%**
Mean	**935618**	**324085**	
SD	**479462.67**	**67692.51**	
CV	**51.23%**	**20.88%**	

Source: www. Union Budget

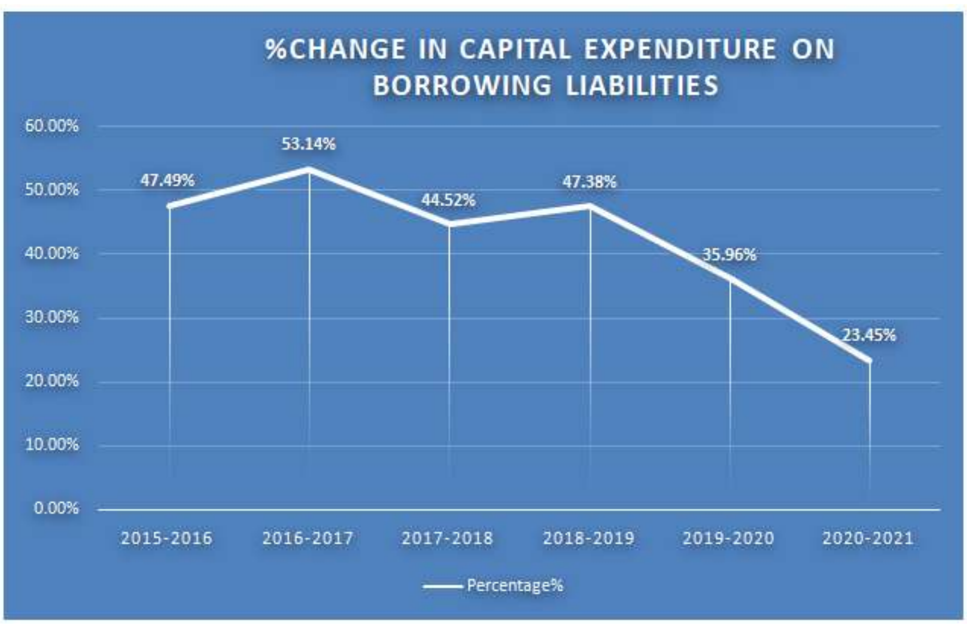

Figure II: Trend of Percentage Capital Expenditure from the year 2015-16 to 2020-21

The above table shows, and the result can easily be understood that the percentage of capital expenditure to total borrowings is an important metric indicating the proportion of borrowings utilized for capital expenditure. The percentage was highest in 2016-2017 at 53.14%, indicating that more than half of the borrowings in that year were used for capital expenditure. There is a general decreasing trend in the percentage over the years, reaching a low of 23.45% in 2020-2021.The sharp decrease in the percentage from 2019-2020 to 2020-2021 (35.96% to 23.45%) suggests a shift towards a lower utilization of borrowings for capital expenditure relative to the total borrowings. or "Borrowings and Other Liabilities," the mean value is approximately ₹935,617.50 with a standard deviation of approximately ₹479,462.67. This indicates a high variability relative to the mean, as shown by the coefficient of variation of approximately 51.23%. This suggests that the borrowings and liabilities fluctuate significantly over the years. For "Capital Expenditure," the mean value is approximately ₹324,084.83 with a standard deviation of approximately ₹67,692.51. The coefficient of variation is approximately 20.88%, indicating moderate variability relative to the mean. This suggests that the capital expenditure is relatively stable compared to borrowings and liabilities.

CONCLUSION

The analysis indicates that borrowing liabilities have an impact on interest payments, especially when there are significant changes in borrowing amounts. The Coefficient of Variation and percentage changes provide complementary insights into the relative variability and directional impact of these variables. However, a comprehensive understanding would require considering other factors such as interest rates, economic conditions, and financial policies.the borrowings and liabilities fluctuate significantly over the years and that the capital expenditure is relatively stable compared to borrowings and liabilities.

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