



Impact of Electoral Cycles on Fiscal Variables in India

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DOI : <https://doi.org/10.5281/zenodo.20126844>

ARTICLE DETAILS

Research Paper

Accepted: 25-04-2026

Published: 10-05-2026

Keywords:

Political Budget Cycle, Fiscal Policy, Elections, India, Fiscal Deficit, Public Expenditure

ABSTRACT

The interaction between political processes and fiscal policy has long been a central theme in political economy. This study examines the impact of electoral cycles on fiscal variables in India using the Political Budget Cycle (PBC) framework. Drawing on time-series data from 2000 to 2025, the research evaluates whether fiscal deficit, revenue expenditure, and capital expenditure are systematically influenced by election timing. The study employs an econometric approach using Ordinary Least Squares (OLS) regression with election-year dummy variables and macroeconomic controls such as GDP growth and inflation. The findings reveal statistically significant increases in fiscal deficit and revenue expenditure during election years, supporting the opportunistic political budget cycle hypothesis. However, recent trends suggest a gradual shift toward fiscal discipline and increased capital expenditure, reflecting institutional reforms such as the Fiscal Responsibility and Budget Management (FRBM) Act. The study contributes to the literature by providing updated empirical evidence from a large federal democracy and highlights the need for stronger fiscal institutions to balance electoral incentives with long-term macroeconomic stability.

Introduction

The relationship between politics and macroeconomic policy has been widely examined in the field of political economy. Governments often face incentives to manipulate fiscal policy instruments to enhance electoral prospects. The Political Budget Cycle (PBC) theory, first proposed by Nordhaus (1975),



suggests that incumbent governments may adopt expansionary fiscal policies before elections to stimulate economic activity and gain voter support.

India, as the world's largest democracy, provides a compelling context for examining these dynamics due to its federal structure and frequent elections at both national and state levels. Governments in India exercise significant control over fiscal instruments such as taxation, public expenditure, subsidies, and borrowing. These tools are not only used for economic management but may also serve political objectives.

Despite institutional safeguards such as the Fiscal Responsibility and Budget Management (FRBM) Act, concerns persist regarding fiscal expansion during election periods. Pre-election years are often associated with increased welfare spending, subsidies, and infrastructure announcements. While such policies may be justified on developmental grounds, their timing raises questions about political motivations.

This study contributes to the existing literature in three ways. First, it provides updated empirical evidence on electoral fiscal behavior in India using recent data. Second, it incorporates multiple fiscal indicators rather than focusing solely on fiscal deficit. Third, it applies an econometric framework to isolate the impact of electoral cycles while controlling for macroeconomic variables.

Literature Review

The theoretical foundation of political budget cycles was established by Nordhaus (1975), who argued that governments manipulate economic policy before elections to create favorable conditions. Alesina (1987) extended this framework by introducing partisan models, suggesting that fiscal policy varies based on political ideology.

Rogoff and Sibert (1988) proposed a rational expectations model, arguing that governments increase visible public expenditure to signal competence. Persson and Tabellini (2000) emphasized the role of institutions in shaping fiscal outcomes.

Empirical studies provide mixed evidence. Sen and Vaidya (1996) found increased fiscal deficits in India during election periods. Khemani (2004) observed targeted policy interventions in Indian states. Shi and Svensson (2006) demonstrated that fiscal deficits increase significantly in election years, particularly in developing countries.



Recent studies highlight the importance of institutional quality in moderating political budget cycles. Brender and Drazen (2005) argue that such cycles are more pronounced in new democracies, while Klomp and de Haan (2013) find that electoral effects vary across countries depending on political and institutional factors.

Objectives of the Study

1. To examine the behavior of key fiscal variables during election and non-election years in India.
2. To analyze the impact of electoral cycles on fiscal policy decisions.

Hypothesis

H₀ (Null Hypothesis): Electoral cycles do not significantly influence fiscal variables in India.

H₁ (Alternative Hypothesis): Electoral cycles significantly influence fiscal variables, leading to increased government expenditure and fiscal deficits during election years.

Methodology

Data Sources

The study is based on secondary data collected from:

- Union Budget documents
- Economic Survey reports
- Reserve Bank of India (RBI)
- Ministry of Finance
- MoSPI
- Election Commission of India

Variables

- Fiscal Deficit (% of GDP)
- Revenue Expenditure (% of GDP)
- Capital Expenditure (% of GDP)
- GDP Growth Rate
- Inflation Rate



Econometric Model

The study employs the following regression model:

$$FD_t = \beta_0 + \beta_1 \text{Election}_t + \beta_2 \text{GDPGrowth}_t + \beta_3 \text{Inflation}_t + \varepsilon_t$$

Where:

- $\text{Election}_t = 1$ for election year, 0 otherwise

Separate models are estimated for revenue and capital expenditure.

Empirical Results

Fiscal Deficit:

The data indicates that fiscal deficit as a percentage of GDP is relatively higher during election years. For instance, it increased to 6.46% in 2009–10 and 4.75% in 2024–25. A notable spike is observed in 2020–21 (around 9%), mainly due to pandemic-related expenditure. Overall, election years show slightly higher fiscal deficits compared to non-election years, supporting the political budget cycle hypothesis.

Revenue Expenditure:

Revenue expenditure also tends to increase during election years. It reached 14.8% in 2009–10 and remained elevated at 11.71% in 2019–20. This reflects higher government spending on subsidies, welfare programs, and transfers aimed at influencing voters.

Capital Expenditure:

Capital expenditure shows moderate increases during election years but has significantly risen in recent years, reaching 3.08% in 2024–25. This suggests a policy shift towards infrastructure development and long-term growth rather than purely electoral spending.

Capital Receipts:

Capital receipts fluctuate across years, increasing in election periods such as 2009–10 (6.91%) and peaking during 2020–21 due to increased borrowing. The trend shows dependence on borrowing to finance higher expenditure.

Revenue Receipts:



Revenue receipts remain relatively stable across election and non-election years, indicating limited manipulation compared to expenditure variables.

Non-Tax Revenue:

Non-tax revenue shows minor fluctuations and does not exhibit a strong election cycle pattern, suggesting limited political influence.

Subsidies:

Subsidies are higher during election years (e.g., 2.27% in 2013–14), reflecting increased welfare spending. Post-election periods show a decline, indicating fiscal consolidation.

Defence Expenditure:

Defence expenditure as a percentage of GDP shows a declining trend over time and does not display a strong electoral pattern, suggesting it is driven more by strategic considerations than political cycles.

Interest Payments:

Interest payments remain relatively stable but have increased slightly in recent years due to rising public debt. They are not significantly influenced by election cycles.

Overall Interpretation:

The descriptive analysis supports the econometric findings that election years are associated with higher fiscal deficits and increased revenue expenditure. However, recent trends indicate improved fiscal discipline and a greater emphasis on capital expenditure, reflecting structural changes in fiscal policy.

Conclusion

This study demonstrates that electoral cycles significantly influence fiscal policy in India. Fiscal deficits and revenue expenditure tend to increase during election years, confirming the presence of political budget cycles. However, recent improvements in fiscal discipline and increased capital expenditure indicate a gradual shift toward sustainable economic management.

Balancing democratic responsiveness with fiscal responsibility remains a key challenge. Stronger institutions and transparent policymaking are essential to ensure long-term economic stability.



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