

Public Finance

Fiscal consolidation, a key element in the package of economic reforms remains an unfinished task. Of the components of economic reforms, inadequate progress has been made in consolidating the fiscal deficit. After showing some signs of reduction in the mid-nineties, the fiscal deficit started rising from 1997-98. The fiscal deficit declined from 6.6 percent of GDP in 1990-91 to 4.1 percent in 1996-97 and then rose to 4.8 percent in 1997-98 and further to 5.9 percent in 2001-02 (Prov.)¹ (Table 2.1). Higher fiscal deficits, besides constraining growth have resulted in higher Government borrowings. The change in the composition of fiscal deficit of the Centre is an equally worrisome feature. The revenue deficit, which constituted 49.4 percent of fiscal deficit in 1990-91 accounted for 70.2 percent of fiscal deficit in 2001-02. This is reflective of the fact that a large portion of fiscal deficit goes to finance public consumption expenditure pre-empting public investment. A number of factors have contributed to this deterioration. The main factors are rising expenditure on salaries, unfunded pensions, interest payments, improperly targeted subsidies and stagnation in the tax – GDP ratio. The share of wages and salaries in total Central Government expenditure increased from 9.7 percent in 1996-97 to 10.5 percent in 1999-2000 and remained at 10.3 percent in 2000-01 as per Economic and Functional Classification. The share of pensions in total Government expenditure increased from 2.2 percent in 1996-97 to 3.7 percent in 1999-2000 and remained at 3.6 percent in 2000-01. Interest

payments as a proportion of GDP increased from 3.8 percent in 1990-91 to 4.7 percent in 1999-2000 and remained at 4.6 percent in 2001-02 (Prov.).

2.2 Direct tax revenue of the Centre, as a proportion of GDP, after increasing from 1.9 percent in 1990-91 to 3.2 percent in 1997-98, declined to 3.0 percent in 2001-02.

Table 2.1 : Trends in deficits of Central Government

Year	Revenue deficit	Primary deficit	Fiscal deficit
(As percent of GDP)			
1990-91	3.3	2.8	6.6
1991-92	2.5	0.7	4.7
1992-93	2.5	0.6	4.8
1993-94	3.8	2.2	6.4
1994-95	3.1	0.4	4.7
1995-96	2.5	0.0	4.2
1996-97	2.4	-0.2	4.1
1997-98	3.1	0.5	4.8
1998-99	3.8	0.7	5.1
1999-2000	3.5	0.7	5.4
2000-01	4.1	0.9	5.6
2001-02(Prov.) *	4.2	1.4	5.9
2002-03(BE)#	3.9	0.7	5.5

* Provisional and unaudited as reported by the Controller General of Accounts, Department of Expenditure, Ministry of Finance.

The ratios to GDP for 2002-03 (BE) are based on CSO's Advance Estimates released in February, 2003.

Note : 1. Ratios to GDP at current market prices.
2. Fiscal deficit excludes transfer of states' share in the small savings collections.

Source : Budget documents.

¹ Provisional (un-audited) figures of fiscal aggregates of Union Government accounts have been used in place of revised estimates for 2001-02, wherever possible, in this chapter.

On the other hand, indirect taxes as a proportion of GDP declined from 7.9 percent in 1990-91 to 5.9 percent in 1997-98 and further to 5.1 percent in 2001-02. The total expenditure – GDP ratio of the Central Government after declining from 17.3 percent in 1990-91 to 13.9 percent in 1996-97 started rising from 1997-98 (Table 2.2).

2.3 The fiscal situation of States is no different from that of the Centre. In fact, the

deterioration in the fiscal situation of States has been much sharper. The fiscal deficit of States increased from 3.3 percent of GDP in 1990-91 to 4.6 percent in 2001-02 (RE). This deterioration was mainly on account of continuing imbalances between revenue receipts and expenditure. The shortfall in Centre's tax revenue had also adversely impacted the State finances through lower transfers.

Table 2.2 : Receipts and expenditure of the Central Government

	1990-91	1997-98	1998-99	1999-00	2000-01	2001-02 (B.E.)	2001-02 (Prov.)	*2002-03# (BE)
(Rs crore)								
1 Revenue receipts (a+b)	54954	133886	149485	181482	192605	231745	202881	245105
(a) Tax revenue (Net of States share)	42978	95672	104652	128271	136658	163031	133285	172965
(b) Non-tax revenue	11976	38214	44833	53211	55947	68714	69596	72140
2. Revenue expenditure	73516	180336	216460	249078	277839	310566	298476	340482
of which:								
(a) Interest payments	21498	65637	77882	90249	99314	112300	104894	117390
(b) Major subsidies	9581	17819	20695	22678	25860	27845	30094	38923
(c) Defence expenditure	10874	26174	29861	35216	37238	42041	37959	43589
3. Revenue deficit (2-1)	18562	46450	66975	67596	85234	78821	95595	95377
4. Capital receipts	31971	83345	106276	116571	132987	143478	156189	165204
of which:								
(a) Recovery of loans	5712	8318	10633	10131	12046	15164	16333	17680
(b) Other receipts (mainly PSU disinvestment)	0	912	5874	1724	2125	12000	3645	12000
(c) Borrowings and other liabilities	26259	74115	89769	104716	118816	116314	136211	135524
5. Capital expenditure	24756	35985	39092	48975	47753	64657	60594	69827
6. Total expenditure [2+5=6(a)+6(b)]	98272	216321	255552	298053	325592	375223	359070	410309
of which:								
(a) Plan expenditure	28365	59077	66818	76182	82669	100100	100245	113500
(b) Non-plan expenditure	69907	157244	188734	221871	242923	275123	258825	296809
7. Fiscal deficit [6-1-4(a)-4(b)]	37606	73205	89560	104716	118816	116314	136211	135524
8. Primary deficit [7-2(a)=8(a)+8(b)]	16108	7568	11678	14467	19502	4014	31317	18134
(a) Primary deficit consumption	6358	8817	22602	16316	22956	13124	35652	30952
(b) Primary deficit investment	9750	-1249	-10924	-1849	-3454	-9110	-4335	-12818
(As percent of GDP)								
1. Revenue receipts (a+b)	9.7	8.8	8.6	9.4	9.2	10.1	8.8	10.0
(a) Tax revenue (Net of States share)	7.6	6.3	6.0	6.6	6.5	7.1	5.8	7.1
(b) Non-tax revenue	2.1	2.5	2.6	2.7	2.7	3.0	3.0	2.9
2. Revenue expenditure	12.9	11.8	12.4	12.9	13.2	13.5	13.0	13.9
of which:								
(a) Interest payments	3.8	4.3	4.5	4.7	4.7	4.9	4.6	4.8
(b) Major subsidies	1.7	1.2	1.2	1.2	1.2	1.2	1.3	1.6
(c) Defence expenditure	1.9	1.7	1.7	1.8	1.8	1.8	1.7	1.8
3. Revenue deficit (2-1)	3.3	3.1	3.8	3.5	4.1	3.4	4.2	3.9
4. Capital receipts	5.6	5.5	6.1	6.0	6.3	6.2	6.8	6.7
of which:								
(a) Recovery of loans	1.0	0.5	0.6	0.5	0.6	0.7	0.7	0.7
(b) Other receipts (mainly PSU disinvestment)	0.0	0.1	0.3	0.1	0.1	0.5	0.2	0.5
(c) Borrowings and other liabilities	4.6	4.9	5.2	5.4	5.6	5.1	5.9	5.5
5. Capital expenditure	4.4	2.4	2.2	2.5	2.3	2.8	2.6	2.8
6. Total expenditure [2+5=6(a)+6(b)]	17.3	14.2	14.7	15.4	15.5	16.3	15.6	16.7
of which:								
(a) Plan expenditure	5.0	3.9	3.8	3.9	3.9	4.4	4.4	4.6
(b) Non-plan expenditure	12.3	10.3	10.8	11.5	11.5	12.0	11.3	12.1
7. Fiscal deficit [6-1-4(a)-4(b)]	6.6	4.8	5.1	5.4	5.6	5.1	5.9	5.5
8. Primary deficit [7-2(a)=8(a)+8(b)]	2.8	0.5	0.7	0.7	0.9	0.2	1.4	0.7
(a) Primary deficit consumption	1.1	0.6	1.3	0.8	1.1	0.6	1.6	1.3
(b) Primary deficit investment	1.7	-0.1	-0.6	-0.1	-0.2	-0.4	-0.2	-0.5
(Rs. crore)								
Memorandum items								
(a) Interest receipts	8730	25323	30076	33895	32811	41578	37286	41660
(b) Dividend and profit	564	2681	3433	5074	4225	5025	7665	11305
(c) Non-plan revenue expenditure	60896	145162	175941	202278	226762	250341	236703	270169

* Provisional and unaudited as reported by Controller General of Accounts, Department of Expenditure, Ministry of Finance.

The ratios to GDP at current market prices for 2002-2003 (BE) are based on CSO's Advance Estimates released in February, 2003.

Note : 1. The figures may not add up to the total because of rounding approximations.

2. Primary deficit consumption =Revenue deficit-interest payments+interest receipts+dividend & profits

3. Primary deficit investment =Capital expenditure-interest receipts -Dividend & profits-recovery of loans-other receipts.

4. Figures are exclusive of transfer of States' share in the small savings collections.

Source : Budget documents.