

CHAPTER III

OVERALL BUDGETARY POSITION AND GROWTH OF CAPITAL RECEIPTS OF THE GOVERNMENT OF INDIA

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CHAPTER III

OVERALL BUDGETARY POSITION AND GROWTH OF CAPITAL RECEIPTS OF THE GOVERNMENT OF INDIA

3.1 INTRODUCTION

The overall budgetary position of the government reflects the fiscal position of the government as far as revenue mobilisation and expenditure commitments are made in the annual budgets. Governments in present days economies have shown a tendency to increase expenditure outlays in developing countries, especially the developmental and growth functions and welfare commitments of the government and rising cost of administration have led to increase in public expenditures. Excess of expenditures over revenues has led to growing deficits in the government budgets, which are financed, mainly by deficit financing or increased borrowings.

3.2 OVERALL BUDGETARY POSITION

In India, with limits on deficit financing imposed from 1997 onwards. Growth in deficits has been mainly financed through borrowings – more so through internal debt mobilisation in the form of market borrowings. Dependence on market borrowings in recent years means borrowings at market rate of interest and this increases the interest payment liabilities, which in turn is one of the major causes for growth of revenue expenditure.

Table No. 3.1 gives details of the overall budgetary position of

TABLE NO. 3.1

**OVERALL BUDGETARY POSITION OF THE
GOVERNMENT OF INDIA**

(Rs. In Crore)

YEAR	TOTAL EXPENDITURE	TOTAL REVENUE	BUDGETARY POSITION (SURPLUS OR DEFICIT)
1980-81	24,838	22,261	-2,577
1981-82	27,122	25,730	-1,392
1982-83	33,033*	31,377	-1,656*
1983-84	37,771**	36,354	-1,417
1984-85	45,900	42,152	-3,748
1985-86	50,906	45,949	-4,957
1986-87	61,558	53,297	-8,261
1987-88	66,834	61,018	-5,816
1988-89	77,055	71,413	-5,642
1989-90	95,224	84,632	-10,592
1990-91	98,272	86,925	-11,347
1991-92	1,11,430	1,04,575	-6,855
1992-93	1,22,618	1,10,306	-12,312
1993-94	1,41,853	1,30,893	-10,960
1994-95	1,60,739	1,59,778	-961
1995-96	1,68,285	1,58,478	-9,807
1996-97	1,90,336	1,77,151	-13,185
1997-98	2,16,321	2,16,321	-
1998-99	2,56,339	2,56,339	-
1999-00	2,98,084	2,98,084	-
C. G. R.	13.57	13.99	-

Source: - Various Issues of RBI Bulletins

* - Excludes Rs. 1,743 cr. of special loans to State Government to clear their overdrafts as on March 31, 1982.

** - Excludes Rs. 400 cr. of loans to State Government to clear their overdrafts as on March 31, 1983.

the Government of India for the period 1980-81 to 1999-2000. Data and the Table reveals that from 1980-81 to 1996-97, each year there was

a deficit in the budgetary operations of the Government implying excess of total expenditure over total revenues. Total expenditure of the Government of India shows continuous growth during the period under study. Total expenditure increased from Rs. 24,838 cr. in 1980-81 to Rs. 50,906 cr. in 1985-86 and further to Rs. 1,68,285 cr. by 1995 - 96. This total expenditure by 1999 - 2000 was Rs. 2,98,084 cr. The Compound Growth Rate of total expenditure for this period is 13.57 percent.

Total revenue of the Government consisting of tax, non-tax and public debt receipts also have grown, but not as fast as rise in public expenditure. Total revenue increased from Rs. 22,261 cr. in 1980-81 to Rs. 45,949 cr. in 1985-86 and further to Rs. 86,925 cr. in 1990-91. In 1995-96 total revenues aggregated Rs. 1,58,478 cr. and were Rs. 2,98,084 cr. in 1999-2000. The Compound Growth Rate of total revenue during the period under study was greater than the Compound Growth Rate of total expenditure and was 13.99 percent for this period. Though it is so, the growth in total revenue of the Government of India is lesser as compared to the growth in total expenditure.

The trend of excess of public expenditure over total revenue implied that during the period under study the Government had to finance the deficit by resorting to deficit financing. Budgetary operations of the Government reveals that the deficits have been growing but with year wise fluctuations during the period 1980-81 to 1996-97. Between 1980-81 to 1989-90 budgetary deficit increased from

Rs. 2,577 cr. in 1980-81 to Rs. 8,261 cr. in 1986-87, declined in the next two years but again increased to Rs. 10,592 cr. in 1989-90. From 1990-91 to 1996-97 budgetary deficit amount shows more fluctuations. Budgetary deficit was Rs. 11,347 cr. in 1990-91 which came down to Rs. 961 cr. in 1994-95 but again increased to Rs. 13,185 cr. in 1996-97. Since March 1997 the procedure of financing budgetary deficit through deficit financing was replaced in India by a scheme of the Reserve Bank of India providing 'Ways and Means Advances' to the Central Government to finance the excess of expenditure over revenue. The scheme of 'Ways and Means Advances' meant that the Government of India to meet excess expenditure over revenue took a short-term loan from the Reserve Bank of India and in this way creation of excess money supply through old method of deficit financing was discontinued.

Budgetary operations of the Government depicting overall deficits implies that the fiscal operations of the Government lead to generation of excess money supply in the economy, when the deficit is financed through the method of deficit financing. Such trends in the fiscal operations of the Government can lead to the possibility of inflation arising in the economy if the overall supply conditions are not favorable.

3.3 COMPOSITION OF TOTAL REVENUE OF GOVERNMENT OF INDIA

As public expenditure is necessary for the governments to perform its various activities for the welfare of the society, it needs public revenue. Just like any other economic unit, a government also

requires funds to finance its activities. The revenue that the government collects from its people through the various sources is called as public revenue. For the public authorities, there are several sources of income, which may be broadly classified into two categories, viz.

1. Revenue Receipts

2. Capital Receipt

Revenue receipts consist of tax and non-tax revenue and are used mainly to finance revenue expenditure while, capital receipts include mainly debt receipts or borrowings of the government - internal or external. Capital expenditure is financed through these capital receipts. Now days, governments are welfare governments and these governments have to perform some extra developmental and welfare activities - such as, irrigation projects, electricity provisions, construction of dams, roads etc. and many other social facilities - in addition to their traditional functions. It needs heavy investment and for this, government requires huge amount of public revenue, but for this huge amount government cannot afford a way of taxation all the time. Government cannot impose tax burden on the present generation. These projects are of lumpy investment and moreover of long gestation period. So the benefit from these goes to the next generation. It means beneficiaries will be in future generation but the expenditure burden would be borne in the present, if the government imposes more taxes on the present generation. To be more just, for this heavy and lumpy investment or for capital expenditure, government has to borrow or

create funds from debt receipts.

Table No. 3.2 reports the figures of the total revenue of the Government of India for the period 1980-81 to 1999-2000. In this period, as data gives details, total revenue of the Government of India has increased at a tremendous rate. It was Rs. 22,261 cr. in 1980-81 and increased to Rs. 86,925 cr. in 1990-91. Further, in 1999-2000, it enhanced more than triple of 1990-91's, to Rs. 2, 89,094 cr. Total revenue or total receipts consists of revenue receipts and capital receipts. Between these two, share of revenue receipts is more than capital receipts during the period under study. It is about 60 to 65 percent and sometimes it goes to 70 percent also. Revenue receipts shows a continuous growth as it increased from Rs. 12,829 cr. in 1980-81 to Rs. 54,814 cr. in 1989-90 and further after ten years in 1999-2000 it was Rs. 1, 81,513 cr.

Capital receipts also show a trend of growth. But it has some fluctuation in it. In 1980-81 it was Rs. 9,432 cr., it grown up to Rs. 30,818 cr. in 1989-90. It grew further to Rs. 68,695 cr. in 1994-95 and again came down to Rs. 48,348 cr. in 1995-96. It increased to Rs. 50,872 cr. in 1996-97 and in the next year, 1997-98 it jumped up to Rs. 82,435 cr., further it reached to Rs. 1, 16,571 cr. in 1999-2000.

In total receipts, share of capital receipts is less than the share of revenue receipts. It was 42.37 percent in the initial period of the study. It came down to 36.41 percent in 1989-90, and again it increased and

TABLE NO. 3.2
GROWTH AND COMPOSITION OF TOTAL REVENUE OF
GOVERNMENT OF INDIA

(Rs. In Crore)

YEAR	REVENUE RECEIPTS	CAPITAL RECEIPTS	TOTAL RECEIPTS
1980-81	12,829 (57.63)	9,432 (42.37)	22,261 (100.00)
1981-82	15,574 (60.53)	10,156 (39.47)	25,730 (100.00)
1982-83	18,091 (57.66)	13,286 (42.34)	31,377 (100.00)
1983-84	20,493 (56.37)	15,861 (43.63)	36,354 (100.00)
1984-85	24,383 (57.85)	17,768 (42.15)	42,152 (100.00)
1985-86	29,186 (63.52)	16,763 (36.48)	45,949 (100.00)
1986-87	34,768 (65.24)	18,529 (34.76)	53,297 (100.00)
1987-88	38,992 (63.90)	22,026 (36.10)	61,018 (100.00)
1988-89	45,740 (64.05)	25,673 (35.95)	71,413 (100.00)
1989-90	54,814 (63.59)	30,818 (36.41)	84,632 (100.00)
1990-91	54,954 (63.22)	31,971 (36.78)	86,925 (100.00)
1991-92	66,047 (63.16)	38,528 (36.84)	1,04,575 (100.00)
1992-93	74,128 (67.20)	36,178 (32.80)	1,10,306 (100.00)
1993-94	75,453 (57.64)	55,440 (42.36)	1,30,893 (100.00)
1994-95	91,083 (57.01)	68,695 (42.99)	1,59,778 (100.00)
1995-96	1,10,130 (69.49)	48,348 (30.51)	1,58,478 (100.00)
1996-97	1,26,279 (71.28)	50,872 (28.72)	1,77,151 (100.00)
1997-98	1,33,886 (61.90)	82,435 (38.10)	2,16,321 (100.00)
1998-99	1,49,510 (58.33)	1,06,829 (41.67)	2,56,339 (100.00)
1999-00	1,81,513 (60.89)	1,16,571 (39.11)	2,98,084 (100.00)
C. G. R.	14.41	13.24	13.99

Source: - Various Issues of RBI Bulletins

Note: Figures in bracket indicate percentage to total.

became 42.99 percent in 1994-95. But in 1999-2000, it decreased to 39.11 percent. Approximately, it is about 30 percent to 43 percent. But the major part of the total revenue is revenue receipts.

3.4 GROWTH OF TOTAL CAPITAL RECEIPTS OF THE GOVERNMENT OF INDIA (YEARLY)

Capital receipts or debt receipt of the government helps the government in financing developmental works or capital outlays. Historically, public expenditure has recorded a continuous growth over a time in almost every country. It results in deficit in the budget. This deficit can be bridged by imposing more taxation or by borrowings. After making strenuous efforts to raise as much resources as possible through taxation, government creates money through borrowings-internally or externally. These capital receipts are debt obligations of the governments.

Theoretically, for sound budget making, it is essential that debt receipts be used to finance capital investment outlays, which results in creation of capital projects, which provides a stream of benefits to the society. Pricing of these benefits derived from the capital projects have to be remunerative in the sense that they yield revenues to the governments which can be utilized for debt servicing purpose. No theory of public finance advocates that debt receipts be used to finance revenue expenditure. Utilisation of debt receipts is very important and misuse of capital receipts to cover the revenue deficit is unsound fiscal policy. Utilisation of debt receipts and pricing the public goods

and services generated from capital projects should lead to revenue generation, so that amortization arrangements can be made for debt service.

As per current Indian budgetary practice there are three sets of liabilities, which constitute Central Government public debt, viz.

- A) Internal Debt
- B) External Debt
- C) Other Liabilities

Internal and external debts constitute public debt of India and are secured under the Consolidation Fund of India. Internal debt includes market loans raised in the open market. This was previously called permanent or funded debt. In addition to it, internal debt also includes treasury bills issued by the Government of India to Reserve Bank, state governments, commercial banks and other financial institutions. But market borrowings are a significant part of the internal debt. External debt represents loans raised from, :-

- a) International financial institutions like IMF, IBRD, IDA, IFC etc. These institution gives loans to their member countries for a short-term period covering temporary balance of payment difficulties and for long-term for development projects.
- b) Government can also borrow from friendly nations, which is mainly used for developmental projects.

Other liabilities cover a variety of Government liabilities.

The Government with the changing circumstances frequently revises their terms and conditions as also their yield rates. This category of Government of India debt obligations includes the followings: -

- a) Small savings - These instruments comprise a variety of saving schemes through post offices and associated schemes like Indira Vikas or Kisan Vikas Patra and account for about one third of Other Liabilities.
- b) Provident Funds - In addition to State Provident Funds, there is a Public Provident Fund also to which savers can make contributions on a voluntary basis and subject to specified rules and regulations.
- c) Other Accounts - This category includes Special Deposits of Non-Government Provident Funds etc. as also some other items.
- d) Reserve Funds and Deposits - Most of these are interest-bearing and includes Deposits Scheme for Retiring Government Employees, Deposit Scheme for Retiring Employees of Public Sector Companies, Special Deposit Schemes, Railway Reserve Funds and Post Office Funds etc.

The other liabilities of Government arise in Government's accounts more in its capacity as a banker rather than a borrower. Hence, such borrowings, not secured under Consolidated Fund of India, are shown as part of public account. Furthermore, some of

the items of other liabilities like small savings are more in the nature of autonomous flows, which to a large extent are determined by public preference and relative attractiveness of these instruments. Nevertheless, it should be emphasized that all liabilities are obligations of the Government.

Table No. 3.3 gives the details of yearly total debt or capital receipts of Government of India for the period 1980-81 to 1999-2000. The amount of total capital receipts in 1980-81, was Rs. 9,432 cr. It has grown continuously with some minor fluctuations till 1990-91. Further in the next five years it has some ups and downs and after 1996-97 it again showed a continuous growth except the last year. In 1990-91, total receipts were of Rs. 39,015 cr. In 1992-93 it decreased to Rs. 40,484 cr. as against Rs. 41,386 cr. in 1991-92. But again it jumped up to Rs. 72,600 cr. in 1994-95. In the next year it came down to Rs. 64,779 cr. But before this, in 1998-99, it was more than double of 1995-96, and was of Rs. 1, 37,951 cr. which is peak level of total capital receipts in the period under study. Total capital receipts have grown at Compound Growth Rate of 13.24 percent.

In our study we have considered internal debt as internal debt of the Government of India plus other capital receipts, the same will be further referred as ' internal debt ' only. Composition wise internal debt receipts form a major part in total debt receipts of Government of India. It also shows a continuous growth in the first ten years and further the growth of internal debt receipts shows some meager

TABLE NO. 3.3
GROWTH AND COMPOSITION OF TOTAL DEBT OF THE GOVERNMENT
OF INDIA (YEARLY)

(Rs. In Crore)

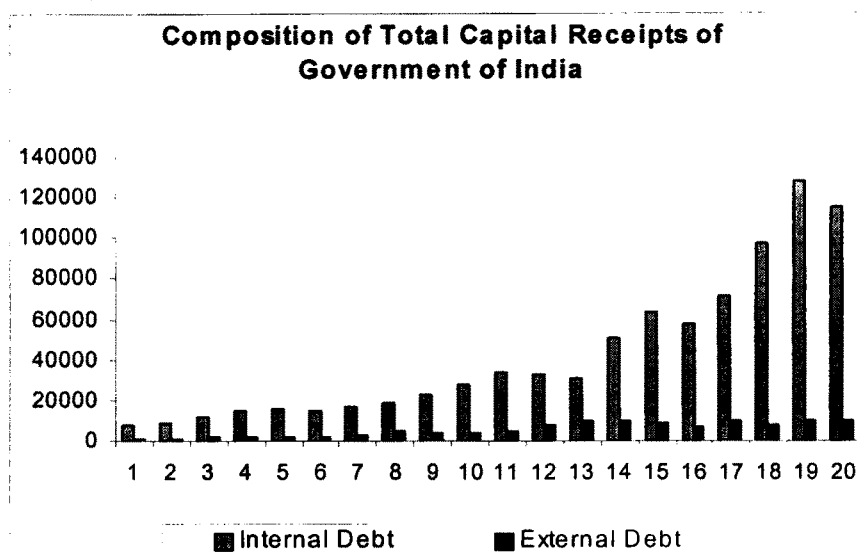
YEAR	INTERNAL DEBT	EXTERNAL DEBT	TOTAL CAPITAL RECEIPTS
1980-81	8,242 (87.38)	1,190 (12.62)	9,432 (100.00)
1981-82	8,705 (85.71)	1,451 (14.29)	10,156 (100.00)
1982-83	11,494 (86.51)	1,792 (13.49)	13,286 (100.00)
1983-84	14,424 (88.41)	1,891 (11.59)	16,315 (100.00)
1984-85	16,252 (89.03)	2,002 (10.97)	18,254 (100.00)
1985-86	15,248 (87.67)	2,145 (12.33)	17,393 (100.00)
1986-87	16,510 (84.45)	3,040 (15.55)	19,550 (100.00)
1987-88	18,608 (79.96)	4,664 (20.04)	23,272 (100.00)
1988-89	23,213 (85.25)	4,016 (14.75)	27,229 (100.00)
1989-90	27,423 (86.06)	4,443 (13.94)	31,866 (100.00)
1990-91	33,677 (86.32)	5,338 (13.68)	39,015 (100.00)
1991-92	33,107 (80.00)	8,279 (20.00)	41,386 (100.00)
1992-93	30,859 (76.23)	9,625 (23.77)	40,484 (100.00)
1993-94	50,366 (83.40)	10,024 (16.60)	60,390 (100.00)
1994-95	63,549 (87.53)	9,051 (12.47)	72,600 (100.00)
1995-96	58,020 (89.57)	6,759 (10.43)	64,779 (100.00)
1996-97	71,741 (88.27)	9,535 (11.73)	81,276 (100.00)
1997-98	97,076 (92.51)	7,859 (7.49)	1,04,935 (100.00)
1998-99	1,27,936 (92.74)	10,015 (7.26)	1,37,951 (100.00)
1999-00	1,15,391 (92.10)	9,893 (7.90)	1,25,284 (100.00)
C. G. R.	15.11	12.53	14.86

Source : -1. Reserve Bank of India, Monthly Bulletins : Issues on Central Government Finances – 1982 to 2002.

2. Indian Economic Survey, Government of India, Ministry of Finances, Various Issues.

3. Reserve Bank of India Report on Currency and Finance, Volume I and II of related years.

fluctuations in it. But overall it shows a growing trend. In 1980-81, it was Rs. 8,242 cr., which reached to Rs. 33,677 cr. in 1990-91. In next



two years it came down by about Rs. 3,000cr. , but again it enhanced in 1994-95 to Rs. 63,549 cr. As it is a major part of total capital receipts it also shows a peak point level in 1998-99. In this year it became Rs. 1, 27,936 cr. In 1999-2000 it came down to Rs. 1, 15,391 cr.

In total debt receipts, share of external debt of India is very less and is about seven percent to twenty-three percent with high fluctuations. In 1980-81 it was Rs. 1,190 cr., it enhanced to Rs. 8,279 cr. in 1991-92. Between this period the percentage of share of external debt was fluctuating between ten percent to twenty percent. But in next period it dropped down to seven percent only. Between 1992-93 to 1999-2000 share of external debt decreased from Rs. 9,625 cr. to Rs. 9,893 cr. The share of both – internal and external debt in total debt receipts can also be seen in the diagram given above.

External debt has grown at the Compound Growth Rate of 12.53 percent while internal debt has grown at 15.11 percent. This shows that Government of India has no heavy external debt liabilities and hence external debt servicing burden is not a problem.

From the above data analysis we can conclude that, -

1. Total capital receipts have grown at Compound Growth Rate of 14.86 percent and shows continuous growth with year to year fluctuations.
2. In total capital receipts of Government of India percentage share of internal debt is higher (76 percent to 93 percent) than the share of external debt and it also shows a growing trend during the period under study.
3. Relatively share of external debt in the total capital receipts is very less; hence it has less servicing burden.

3.5 TOTAL CAPITAL RECEIPTS OF GOVERNMENT OF INDIA (OUTSTANDING)

The expanding role of the governments in the modern times has created an unsatisfactory need for raising resources. As the activities of the government are growing the need for the revenue creation is increasing year by year. If the government fails to create as much resources to finance these activities or public works by revenue receipts,

it takes loans. These liabilities of the government are capital receipts and mostly used to finance capital or huge expenditure.

Table No. 3.4 reveals the data regarding outstanding liabilities of Government of India. In this table internal liabilities shared a maximum part in total liabilities of Government of India, than the external debt liabilities. From the first year the percentage share of internal debt is higher than 80 percent and in the year 1993-94, it crossed 90 percent also.

If we think about total outstanding liabilities of Government of India, it shows an increasing trend and shows a tremendous growth over the period under study. In 1980-81, it was Rs. 59,749 cr., it enhanced to Rs. 95,261 cr. in 1983-84. In 1987-88 it increased by more than Rs. 1 lakh than what it was in 1983-84. It was Rs. 1,95,561 cr. in this year. In the next year it was Rs. 2,29,771 cr. and in the same year it became more than Rs. 2 lakh at the first time in the period under study. In 1990-91 it jumped up to Rs. 3,14,558 cr. which increased to Rs. 4,01,923 cr. in 1992-93. It was Rs. 5,38,611 cr. in 1994-95 that became Rs. 8,91,806 cr. within four years only in 1998-99. And in the last year under study it shows a high jump to Rs. 10,21,029 cr. This increase in outstanding total liabilities taken by the Government shows not only growth in outstanding figures of Government debt, but also prescribes of yearly growth in debt liabilities.

This trend also can be seen in data regarding to internal outstanding debt liabilities. In the first year 1980-81, it was Rs. 48,451

TABLE NO. 3.4

TOTAL CAPITAL RECEIPTS OF GOVERNMENT OF INDIA (OUTSTANDING)

(Rs. In Crore)

YEAR	INTERNAL DEBT	EXTERNAL DEBT	TOTAL CAPITAL RECEIPTS
1980-81	48,451 (81.09)	11,298 (18.91)	59,749 (100.00)
1981-82	55,858	NA	NA
1982-83	71,190 (83.88)	13,682 (16.12)	84,872 (100.00)
1983-84	80,141 (84.13)	15,120 (15.87)	95,261 (100.00)
1984-85	96,804 (85.33)	16,637 (14.67)	1,13,441 (100.00)
1985-86	1,19,331 (86.80)	18,153 (13.20)	1,37,484 (100.00)
1986-87	1,46,247 (87.81)	20,299 (12.19)	1,66,546 (100.00)
1987-88	1,72,338 (88.12)	23,223 (11.88)	1,95,561 (100.00)
1988-89	2,04,025 (88.79)	25,746 (11.21)	2,29,771 (100.00)
1989-90	2,39,849 (89.43)	28,343 (10.57)	2,68,192 (100.00)
1990-91	2,83,033 (89.98)	31,525 (10.02)	3,14,558 (100.00)
1991-92	3,17,714 (89.58)	36,948 (10.42)	3,54,662 (100.00)
1992-93	3,59,654 (89.48)	42,269 (10.52)	4,01,923 (100.00)
1993-94	4,30,623 (90.28)	47,345 (9.91)	4,77,968 (100.00)
1994-95	4,87,682 (90.09)	50,929 (9.46)	5,38,611 (100.00)
1995-96	5,84,984 (91.55)	51,249 (8.45)	6,06,233 (100.00)
1996-97	6,21,438 (91.97)	54,238 (8.03)	6,75,676 (100.00)
1997-98	7,22,962 (92.89)	55,332 (7.11)	7,78,294 (100.00)
1998-99	8,34,551 (93.58)	57,255 (6.42)	8,91,806 (100.00)
1999-00	7,14,254 (94.28)	58,437 (5.72)	10,21,029 (100.00)
C. G. R.	16.67	10.17	16.28

Source: - As of Table No. 3.3

NA - Not Available.

cr. and it shared 81.09 percent of total outstanding liabilities. After only five years it became Rs. 1,19,331 cr. in 1985-86, which shared 86.80 percent of total outstanding debt. In 1989-90 it was Rs. 2,39,849 cr. In the same year, the percentage share of internal debt was 89.43 percent of total outstanding debt, which increased to 89.98 percent in the next year. But after this, the percentage share declined by some points only in the next two years. And was 89.58 percent and 89.48 percent in the years 1991-92 and 1992-93 respectively. But in 1993-94 it again increased to 90.28 percent and the actual figure of internal outstanding debt in this year was Rs. 4,30,623 cr. in 1994-95 the percentage share again decreased by only 0.18 percent. But after this it shows increasing trend till the last year under study and was 94.28 percent in this year. Internal outstanding debt liabilities which shows increasing trend till 1998-99, came down in 1999-2000. It was Rs. 8,34,51 cr. in 1998-99 and came down to Rs. 7,14,254 cr. in the last year, 1999-2000.

Total external liabilities of Government of India show also increasing tendency over the period. Though it is showing increasing trend the actual percentage share of it in total outstanding liabilities shows overall declining trend except the years 1991-92 and 1992-93. In the first year of study, external outstanding debt liabilities of Government of India was of Rs. 11,298 cr., which shared 18.91 percent in total outstanding debt stock. In 1985-86, the percentage share declined to 13.20 percent but external debt increased to Rs. 18,153 cr. in 1989-90 it increased more than Rs. 10,000 cr. than what it was in the

year 1985-86 and was Rs. 28,343 cr. But again in this year percentage share came down to 10.57 percent. In the next year this percentage share of external debt declined to 10.02 percent and external debt figures was of Rs. 31,525 cr. But in the next two years percentage share of external debt in total debt increased and was 10.42 percent in 1991-92 and 10.52 percent in 1992-93. But this growth was so minor and again it declined in 1993-94 to 9.91 only. External debt was Rs. 47,345 cr. in this year. From this year till the last year external debt shows increase in actual. Though it is so but percentage share declined to 5.72 percent only in 2000. In this year external debt was of Rs. 58,437 cr.

In the Table No. 3.5 we can find the figures of internal debt, external debt and total debt percentage to GDP. In 1980-81 total liabilities was 43.9 percent of GDP in which internal liabilities constitutes 35.6 percent and remaining 8.3 percent of GDP shared by external debt. In 1990-91 the percentage share of external debt to GDP came down to 5.5 percent only and it came down to 5.0 percent in 1994-95. Internal debt liabilities as percentage of GDP were 49.8 percent in 1990-91. It shows decline with some fluctuations till 1996-97. It was 45.4 percent in this year. For the next two years it increased and stabilised to 47.5 percent. In the last year it came up to 49.2 percent of GDP. Total liabilities as percent of GDP decreased from 55.3 percent in 1990-91 to 53.7 percent in 1992-93. It increased to 55.6 percent in the next year but declined again to 49.4 percent in 1996-97. It

was 51.1 percent in 1997-98, came down to 50.7 percent and again grew

TABLE NO. 3.5

**CAPITAL RECEIPTS OF GOVERNMENT OF INDIA AS
PERCENTAGE OF GDP**

YEAR	INTERNAL DEBT	EXTERNAL DEBT	TOTAL DEBT RECEIPTS
1980-81	35.6	8.3	43.9
1990-91	49.8	5.5	55.3
1991-92	48.6	5.7	54.3
1992-93	48.0	5.6	53.7
1993-94	50.1	5.5	55.6
1994-95	48.2	5.0	53.2
1995-96	46.7	4.3	51.0
1996-97	45.4	4.0	49.4
1997-98	47.5	3.6	51.1
1998-99	47.5	3.3	50.7
1999-2000	49.2	3.0	52.2

Source: - As of Table No. 3.3

to 52.2 percent of GDP in 1998-99 and 1999-2000 respectively. Thus it shows fluctuating trend from 1990-91 to 1999-2000.

Conclusions drawn from the above interpretation are :-

1. Internal outstanding debt shared a maximum part in total outstanding liabilities of Government of India, than the external outstanding debt liabilities. From the first year the percentage share of internal outstanding liabilities is higher than 80 percent and in the year 1993-94, it crossed 90 percent also and in the last year under study, share of internal outstanding

liabilities in total outstanding debt comes up nearly to 95 percent.

2. Total outstanding liabilities of Government of India show increasing trend and also show a tremendous growth over the period.

3. This trend also can be seen in the figures of internal outstanding debt liabilities. Internal outstanding debt liabilities, which shows increasing trend till 1998-99, shows a slight decline in the last year, 1999-2000, but percentage share in total outstanding debt liabilities of internal outstanding debt liabilities has no any tendency of decline.

4. Total external outstanding debt liabilities of Government of India shows also increasing tendency over the period. Though it is showing increasing trend, the actual percentage share of it in total outstanding debt liabilities shows overall declining trend except the years, 1991-92 and 1992-93.

5. Total outstanding debt – GDP ratio and internal debt – GDP ratio show fluctuating trends but external debt – GDP ratio is declining during period under study.

3 . 6 TRENDS IN THE GROSS FISCAL DEFICIT, REVENUE DEFICIT, AND PRIMARY DEFICIT OF GOVERNMENT OF INDIA

In public finance, the government first outlines its expenditure according to the heads of objectives of the national policy and then attempts to locate sources of funds to meet this estimated expenditure. When the total estimated expenditure exceeds the aggregate estimated receipts during a year, the gap between the two is to be filled by what

is called, "Deficit Financing".

The term deficit in relation to the budget is used to describe the position in the different accounts of budget in India. The budgetary position on revenue account shows the results of current operations of the government. The revenue receipts whether in nature of tax revenue (such as, receipts from income tax, excise duties and corporation tax etc.) or non-tax revenue (such as, fees for services, fines, funds, grants etc.) represents transfer of purchasing power from individuals to government and expenditure financed out of revenue receipts again becomes the income of the people. This would be the case, if there were balanced budget on revenue account. If there were deficit or surplus on this account, the government would carry it over to the capital account. This surplus or deficit on capital account signifies an excess or shortfall of receipts (such as, public borrowings, external loans, small savings, provident fund, repayment of loans by third parties etc.). The deficit or surplus on capital account along with deficit or surplus on revenue account is combined and expressed as overall position of the budget. Till the middle of 1970's the revenue receipts of the Central Government exceeded its revenue expenditure and accordingly, the Central Government enjoyed the revenue account surplus. This was a laudable achievement in a period of about two decades or so from 1951 to 1975. In later years one finds, continuous expansion of current expenditure, particularly of the non-plan category, i.e., general expenditure, defense, interest payments and major and minor subsidies.

This led to growth in revenue account deficit, which marks an unhealthy trend in Government of India finances.

While calculating over-all budgetary deficit, the Finance Ministry of the Government of India included all the expenditures (revenue and capital accounts) and all the revenues raised (revenue receipts and capital receipts, which included market borrowings and other liabilities). It was this budgetary deficit, which was called deficit financing by the Government of India. The term 'deficit financing' as used by the Government of India for a long time referred to 'overall budgetary deficits' or financing through budgetary deficits. Accordingly, it excluded Government borrowings from the market, or raising other funds from the public such as small saving schemes, provident fund, post office saving deposits etc. These receipts come under capital receipts and they formed part of the total receipts of the Government and are excluded from the calculation of budgetary deficit. Actually, after juggling with the concept of 'budget deficit' or 'overall budgetary deficit' for many years, the Finance Ministry has finally given up this conventional concept from 1997-98 budgets. The Government of India accepted and started the calculation of a concept of deficit known as fiscal deficit. In simple terms, fiscal deficit is budgetary deficit plus market borrowings and other liabilities of the Government of India. The Government has discontinued the issue of ad hoc treasury bills to Reserve Bank of India, but instead, it will tap 91 days treasury bills from the market. This would be part of the

capital receipts under the heading," Borrowings and Other Liabilities." The Finance Ministry has so estimated the capital receipts that the total receipts of the Government are exactly equal to the total expenditure, there is, therefore, no overall budgetary deficit. Fiscal deficit indicates the total borrowing requirements of the Government from all sources. From the point of view, of the economy, fiscal deficit is the most significant, since it shows the gap between Government receipts and Government expenditure. It reflects the true extent of borrowings by the Government in a fiscal year. In recent years the Finance Ministry has introduced one more concept of deficit known as "Primary Deficit." Primary deficit is equal to fiscal deficit minus interest payments.

New Economic Policy in India, 1991 based on the structural adjustment programme, essentially contains a growth policy and the stabilization policy. Fiscal consolidation measures formed a critical part of the stabilization policy in which, reduction in fiscal deficit is basically advocated to control the domestic rate of inflation. Fiscal reform measures also try to control the growth in expenditures. Since 1991, fiscal policy in India always advocated reduction in gross fiscal deficit. However, actual fiscal deficits especially in the late 1990s have always exceeded the budget estimates. This situation has mainly reason due to rapid increase in revenue expenditure, mainly due to rise in committed expenditure. Rise in revenue expenditure is also accompanied by yearly growth in revenue deficit, which is leading to actual fiscal deficit

being more than the budget estimates. The concept of fiscal deficit obtained a significant place in the India's fiscal or budgetary consideration, though it is not new. This change occurred when India faced an economic crisis at the beginning of the 1990s. India planned to reduce the fiscal deficit to 6.5 percent of GDP during 1991-92 and further to 5 percent during 1992-93. For this Bank of England, United Kingdom stated one rule, which is called as "**The Golden Rule**" that mainly, stressed on the current expenditure made by the government. It explains that, government will borrow only to invest and not to fund current spending. This means that the revenue account of the government budget should not show any deficit implying that revenue expenditure is financed by tax and non-tax revenue receipts.

However, Table No. 3.6 gives the details of the growth in the revenue deficit, fiscal deficit, and primary deficit in the budget of the Government of India, since 1980-81 to 1999-2000. Gross fiscal deficit has increased from Rs. 8,445 cr. in 1980-81 to Rs. 26,790 cr. in 1986-87 and has grown continuously thereafter till 1990-91 to Rs. 44,632 cr. It declined in the next year to Rs. 36,35 cr. and again rose to Rs. 60,257 cr. in 1993-94. In 1994-95 it again came down to Rs. 57,704 cr. In the later periods gross fiscal deficit grew continuously. It increased from Rs. 60,243 cr. in 1995-96 to Rs. 1,04,716 cr. in 1999-2000. Data adequately reveals that ever increasing revenue deficit is the main cause for this growth in gross fiscal deficit. Revenue deficit in 1980-81 was Rs. 2,037 cr., which increased substantially to

TABLE NO. 3.6

VARIOUS DEFICIT FIGURES

(Rs. in Crore)

YEAR	REVENUE DEFICIT	FISCAL DEFICIT	PRIMARY DEFICIT
1980-81	2,037	8,445	5,129
1981-82	NA	NA	NA
1982-83	NA	NA	NA
1983-84	NA	NA	NA
1984-85	NA	NA	NA
1985-86	NA	NA	NA
1986-87	7,776	26,790	17,553
1987-88	9,137	27,842	16,606
1988-89	10,515	31,312	17,051
1989-90	11,914	35,632	NA
1990-91	18,562	44,632	23,134
1991-92	16,261	36,325	9,729
1992-93	18,574	40,173	9,098
1993-94	32,716	60,257	23,516
1994-95	31,029	57,704	13,644
1995-96	29,731	60,243	10,198
1996-97	32,655	66,733	7,255
1997-98	46,450	73,205	7,568
1998-99	66,975	89,560	11,678
1999-00	67,596	1,04,716	14,467

Source: - As of Table No. 3.3

NA – Not Available

Rs.18,562 cr. by 1990-91. It declined to Rs. 16,261 cr. in the year 1991-92 but increased to Rs. 18574 cr. in 1992-93 and further rose to Rs. 32,716 cr. by 1993-94. It declined in the next two years but after 1996-97 it increased from Rs. 32,655 cr. to Rs. 67, 596 cr. in 1999-2000. Due

to implementation of the 5th Pay Commission Awards, mounting interest payments; salary and pension payments further increased the revenue deficit, which rose to Rs. 67,596 cr. in 1999-2000. Primary deficit shows ups and downs especially, in the later period of study. In 1980-81 it was Rs. 5,129 cr. which increased to Rs. 17,553 cr. in 1986-87 but declined in the next year to Rs. 16,606 cr. In 1990-91 it jumped up to Rs. 23,134 cr., but it shows a sudden decrease in next year to Rs. 9,729 cr. It again declined by Rs. 631 cr. only after one year. In 1993-94 it broadened to Rs. 23,516 cr. but thereafter it shows decline till 1996-97 to Rs. 7,255 cr. It further extended continuously from Rs. 7,568 cr. in 1997-98 to Rs. 14,467 cr. in 1999-2000. Primary deficit in the budget during the period under study shows a fluctuating trend. However, since 1990-91, it indicates decline with fluctuations, in contrast, in some years it shows high amount of primary deficit, implying rapidly increasing interest payments mainly due to increase in debt liabilities of Government of India, more so internal liabilities. Gross fiscal deficit as percentage of GDP shows fluctuating trends. It was 6.2 percent in 1980-81, which declined in the next year to 5.4 percent. But from 1982-83 it started increasing from 6 percent to 9 percent in 1986-87. In 1987-88 it came down to 8.1 percent and for the next two years it reduced and stabilised at 7.8 percent. In the first stage of new economic reforms in 1990-91 gross fiscal deficit of Government of India rose to 8.3 percent but decreased in 1991-92 and 1992-93. In 1993-94 it was 7.4 percent of GDP, which came down afterwards till the year 1997-98. In this year it

TABLE NO. 3.7
CENTRAL GOVERNMENT DEFICITS – GDP RATIO

(Percentage of GDP)

YEAR	BUD. D.	REV. D.	G.F.D.	G.P.D.
1980-81	1.8	1.5	6.2	4.3
1981-82	0.9	0.2	5.4	3.4
1982-83	0.9	0.7	6.0	3.8
1983-84	0.7	1.2	6.3	4.0
1984-85	1.6	1.8	7.5	5.0
1985-86	2.0	2.2	8.3	5.5
1986-87	2.8	2.7	9.0	5.8
1987-88	1.7	2.7	8.1	4.7
1988-89	1.4	2.7	7.8	4.2
1989-90	2.3	2.6	7.8	3.9
1990-91	2.1	3.5	8.3	4.3
1991-92	1.1	2.6	5.9	1.6
1992-93	1.8	2.6	5.7	1.3
1993-94	NA	4.0	7.4	2.2
1994-95	NA	3.2	6.1	0.4
1995-96	NA	2.7	5.4	0.0
1996-97	NA	2.4	5.2	-0.2
1997-98	NA	3.1	4.8	0.5
1998-99	NA	3.9	5.1	0.7
1999-00	NA	3.5	5.4	0.7

Source: - As of Table No. 3.3

BUD.D. – Budgetary Deficit

REV.D. - Revenue Deficit

G.F.D. - Gross Fiscal Deficit

G.P.D. - Gross Primary Deficit

NA – Not Available

- The Fiscal Deficit excludes the transfer of State's share in the small savings collections from 1997-98 onwards.

was 4.8 percent of GDP. Gross fiscal deficit increased in the last two years to 5.1 percent and 5.4 percent respectively. Revenue deficit as percentage of GDP shows some ups and downs in the first six years. It

fluctuates between 0.2 percent to 2.2 percent from the year 1980-81 to 1985-86. What's more, is that it shows increase in it but with some fluctuations, mainly in the years 1993-94 and in 1998-99 it was 4.0 percent and 3.9 percent respectively. As it constitutes major part in gross fiscal deficit, now and then it shows the waves in the years in which gross fiscal deficit is showing a fluctuation. Primary deficit as percentage of GDP was 4.3 percent in 1980-81. In the subsequent two years it shows decline. From 1983-84 it increased from 4.0 percent to 5.8 percent in 1986-87. Thereafter, from 1987-88 it declined unceasingly till 1996-97. The primary deficit as percentage of GDP was 4.7 percent in 1987-88, it declined to 0.4 percent in 1994-95. In the next year this percentage became zero and was - 0.2 percent. But a while later it increased and stabilised on 0.7 percent in the last year 1999-2000. Thus the above data adequately reveals that growth in Revenue Deficit is the main cause for increase in Gross Fiscal Deficit. It also means that debt receipts are increasingly being used to finance revenue expenditure of the Government. Fiscal reform measures will have to tackle this problem which calls for Revenue Expenditure curtailment and augmentation of revenue receipts so that the revenue deficit is brought under control.