

C H A P T E R - I V
GROWTH IN DEFICITS IN INDIAN ANNUAL BUDGETS

CHAPTER-IV**GROWTH IN DEFICITS IN INDIAN ANNUAL BUDGETS****4.1 INTRODUCTION :**

It has become a routine thing for every Finance Minister to announce that the control of inflation is a major objective of his budget and that he proposes to raise financial resources by restricting deficit financing to the minimum. But as a matter of fact budgetary deficits have been rising regularly in recent years.

4.2 BUDGET DEFICIT :

The term deficit financing means any government expenditure which is in excess of its current revenues. Therefore any expenditure which is met by borrowing from the public is considered a part of the deficit in the budget.¹

In India however deficit financing is taken to mean only that expenditure which is in excess of current revenue and non bank borrowing. Borrowing from the public is excluded from the measurement of deficit. In this sense, the deficit is financed in one or more of the following ways² :

- 1 Borrowing from the Reserve Bank of India.
- 2 Withdrawal of cash balances by the Government.
- 3 Borrowing from the Commercial Banks, and
- 4 Issue of new currency by the Government.

The Central Government meets its overall budgetary deficits by net sale of Treasury Bills to the Reserve Bank of India and reduction of its cash balances. Deficit

financing in India has been mainly adopted to enable the Government to obtain necessary resources for the Five Year Plans. But deficit financing cannot create real resources which do not exist in the economy. It is only a device to help in the transfer of resources to the Government. The real resources required for economic development must exist in the form of materials, equipments, skill and labour. These things cannot be created by printing money or issuing bank credit. This deficit adds to the money expansion in the economy and has been a major cause of inflationary rise in prices.³

4.3 REVENUE DEFICIT :

Most of the expenditure on revenue account is of the nature that it creates no earning assets. These types of expenditure are met from revenue which create no liability or rate of assets. These revenues are drawn from cash sources as taxes, direct and indirect, from non-tax sources like profits of the public sector enterprises etc.

4.4 FISCAL DEFICIT :

Fiscal deficit is the difference between the total expenditure and the total revenue receipts. It is composed of budget deficit plus net borrowing from the market and other liability of the Central Government. Fiscal deficit

shows that the country has been living beyond its means and is managing through short term borrowings from the market and other sources at high rate of interest.

Following table shows budget, revenue and Fiscal deficit of the Central Government.

Table 4.1
Budget Deficits of Central Government
(Rs.in Crores)

Year	Revenue Deficit	Budget Deficit	Fiscal Deficit
1985-86	5,889 [-]	5,315 [-]	21,857 [-]
1986-87	7,777 [32.06]	8,261 [55.43]	26,342 [20.52]
1987-88	9,137 [17.49]	5,816 [-29.60]	27,044 [2.66]
1988-89	10,515 [15.08]	5,642 [-2.99]	30,923 [14.34]
1989-90	11,912 [13.29]	10,592 [87.73]	35,630 [15.22]
1990-91	17,585 [47.62]	10,772 [1.70]	44,331 [24.42]
1991-92	13,854 [-21.22]	7,719 [-28.34]	37,727 [-14.09]
1992-93	13,882 [-0.20]	5,965 [-22.12]	34,984 [-7.27]
1993-94	17,630 [27.0]	4,314 [-27.68]	36,959 [5.65]

Source : Compiled from :

- 1 H.L.Bhatia-Public Finance-Vikas Publishing House Private Limited, New Delhi (1993) p.no.651. &
- 2 Datt and Sundharam -Indian Economy-S.Chand/Company Limited, New Delhi, Revised Editions of the year 1935 to 1994.
- 3 A.N.Agrawal -"Indian Economy" "Current Development P.No.45.

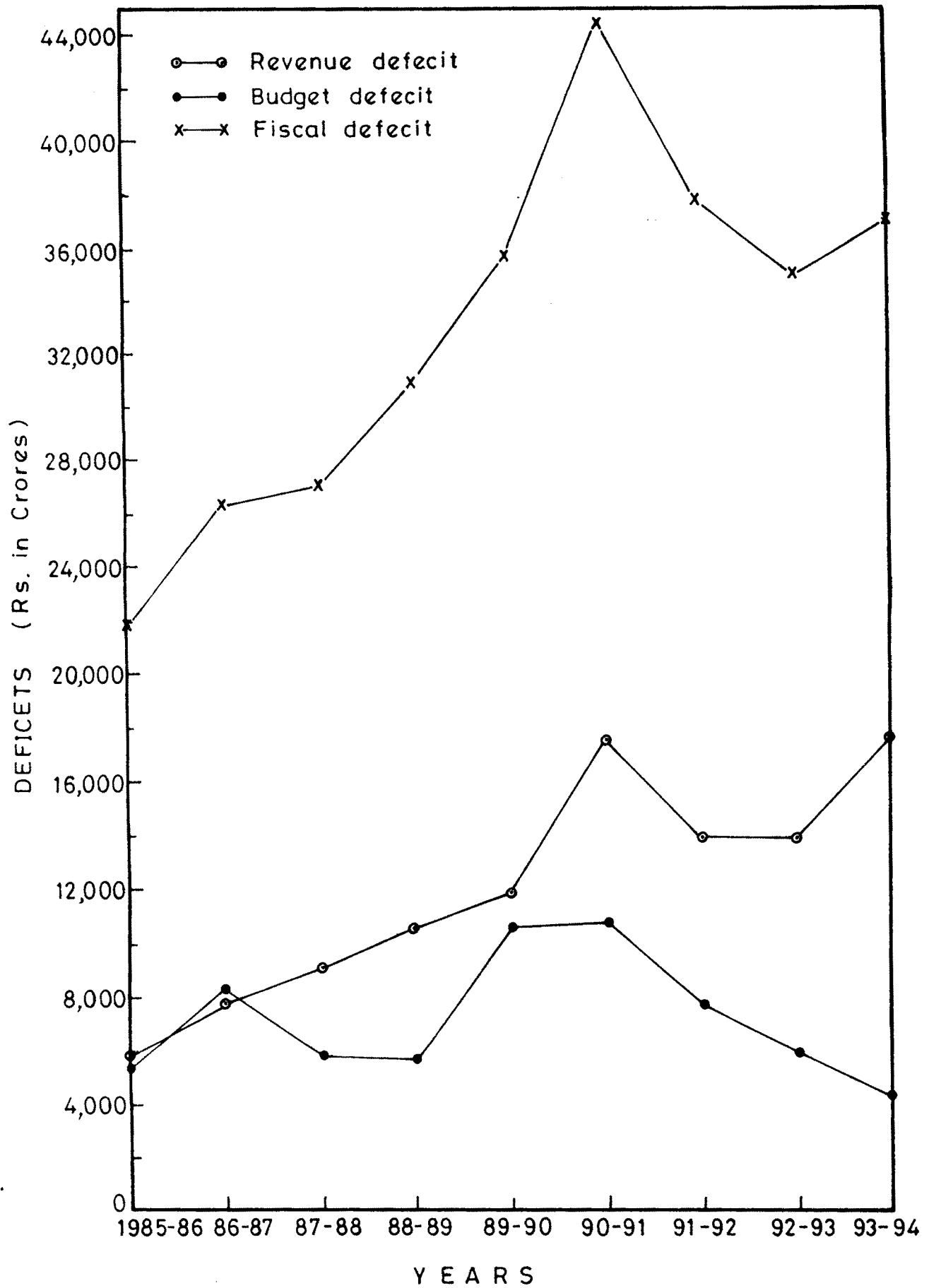


FIG.15 — BUDGET DEFICETS OF CENTRAL GOVERNMENT.

The above table shows that the revenue deficit has been rising continuously from 1985-86 to 1993-94 except in the year 1991-92. The revenue deficit is increasing because of decline in revenue receipts but mainly due to the increase in non plan expenditure. And ever increasing revenue deficit is a matter of serious concern.

As shown in the above table, the budget deficit has been decreasing from 1990-91 to 1993-94. In the year 1990-91 it was Rs. 10,772/- Crores and it has decreased to Rs. 4,314/- Crore in the year 1993-94. It was increasing from 1985-86 to 1989-90 except in the years 1987-88 and 1988-89.

The above table no.4.1 shows that fiscal deficit has been rising continuously from 1985-86 to 1993-94 except during 1992-93. Fiscal deficit is more significant deficit than budgetary deficit. Fiscal deficit is being met through borrowing at high rate of interest and as a result international debt and other liability of the Government have increased. And securing of international debt has become burdensome. Fiscal deficit has been increasing mainly because of increase in interest payments.