
CHAPTER NO. IV

FISCAL ANALYSIS OF POST REFORM BUDGETS : 1991 TO 1995.

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The Union Government of India launched New Economic Policy in 1991 under which fiscal consolidation and structural Adjustments are the main agenda for reform . Fiscal stabilisation alongwith necessary adjustment came as a part of NEP. Fiscal stabilisation as a part of policy package mainly insisted on cutting defcits for macro-economic balance. Analysis of the five reform Budgets presented by Dr. Manmohan Singh and their impact on the economy in term of fiscal stabilisation reveals that :

- a) It is one of the paradoxes of Indian public finance that the concept of fiscal defcits which did not find a place in the budget as recently as 1990-91 has now acquired new significance. This New legacy began with 1991-92 Budget. Table IV-1 shows trends in Fiscal deficit of the Union Government of India .

The fiscal deficit which was Rs. 36,323 crores in 1991-92, shotup to Rs. 40,173 crores and to Rs. 60,257 crores in 1992-93 and in 1993-94 crores further to Rs. 61,035 crores in the revised estimates of 1994-95, is now placed at Rs. 57,634

crores for 1995-96 Budget.

TABLE NO. - IV-1

POST REFORM FISCAL TRENDS OF UNION GOVERNMENT OF INDIA.

(Rs. in Crores).

YEAR	FISCAL DEFICITS		
	B.E.	R.E.	ACTUALS
1991-92	37,727	37,792	36,323
1992-93	34,408	36,722	40,173
1993-94	36,959	58,551	60,257
1994-95	54,915	61,035	--
1995-96	57,634	--	--

Note : B.E. - Budgetary Estimate.

R.E. - Revised Estimate.

Source : 1) Economic Times - 16th March, 1995.
'Budget at a glance'

2) Economic survey - 1995.

Except 1991-92 actual deficit exceeded estimated figures. In year 1992-93 fiscal deficit estimated at Rs. 34,408 crores which was revised to Rs. 36,722 crores but actual deficit was Rs. 40,173 crores, it means Rs. 3,451 crores higher than revised estimate. Same figure was Rs. 1,706 crores in 1992-93. The fiscal deficit for year 1994-95 and 1995-96 kept at Rs. 54,915 crores and 57,634 crores

and Rs. 57,634 crores respectively, will not be so looking at previous experience. Thus actual deficit at the end of year is always higher than estimated. Higher than estimated deficits means excess of expenditure than anticipated or shortfall in anticipated revenue yield both not good fiscal management more so excess spending.

As a percentage of GDP fiscal deficit was 8.4 percent of GDP in 1990-91 but reduced to 5.8 percent thereof in 1991-92 fell to 5.6 percent in 1992-93. Table IV-2 clearly reveals the fact

TABLE NO. - IV-2

FISCAL DEFICITS AS A PERCENTAGE OF GDP

YEAR	FISCAL DEFICIT	GDP AT CURRENT MP.	F.D. AS A % OF G.D.P.
1991-92	36,323	6,15,655	5.8
1992-93	40,173	7,05,566	5.6
1993-94	60,257	7,95,878**	7.57 **
1994-95	61,035 **	--	--
1995-96	57,634 *	--	--

Note : * Based on budget estimate.
 ** Based on revised estimate.
 MP Market Prices.

Source : As of Table No. IV-1.

The first two reform budgets essentially tried to reduce the fiscal gap by reducing expenditure on infrastructure, social services, human development and poverty alleviation programmes. But unfortunately, it also resulted in depressed growth of GDP. The 1993-94 and 1994-95 budgets tried to correct growth deficiencies by increasing expenditure, this resulted in recovery in GDP but fiscal deficit bouncing back again to initial level of around 7.5 percent of GDP in 1993-94 and it may exceed even eight percent level in the years to come.

These disturbing trends in fiscal deficit caused mainly due to continuous increase in revenue expenditure and fall in revenue receipts. Table IV-3 shows that ;

TABLE NO. IV-3

POST-REFORM TRENDS IN EXPENDITURE OF THE UNION GOVERNMENT

(Rs. in Crores)

YEAR	REVENUE EXPENDITURE			CAPITAL EXPEDT.			TOTAL EXPED.
	B.E.	R.E.	ACT.	B.E.	R.E.	ACT.	
1991-92	84724	87195	82292	32039	29472	29121	111413
1992-93	89570	94979	92702	29517	29747	29916	122618
1993-94	101839	110224	108169	29484	33648	33684	141853
1994-95	118811	122902	--	32888	39370	--	162272
1995-96	136328	--	--	35823	--	--	172151

Note : B.E. - Budgetary estimate.

R.E. - Revised Estimate.

Source : As of Table No. IV-1.

estimated revenue expenditure increased from Rs. 84,724 crores in 1991-92 to Rs. 1,36,328 crores in 1995-96 (B.E.). Thus revenue expenditure grew annually by average 12.7 per cent during 1991-92 to 1995-96. Except 1991-92 actual revenue expenditure exceeded estimated. In the year 1992-93 and 1993-94 actual expenditure exceeded estimated by Rs. 3,132 crores and Rs. 6,330 crores respectively. While capital expenditure fell from Rs. 32,039 crores in 1991-92 to Rs. 29,484 crores in 1993-94 started increasing from Rs. 32,888 crores in 1994-95 to Rs. 35,823 crores in 1995-96 (B.E.). Revenue expenditure of the Union Government in relation to total expenditure increased from 73.86% in 1991-92 to 79.19% in 1995-96 (B.E.), while revenue receipts in relation to total receipts fell from 63.14% in 1991-92 to 57.64% in 1993-94. Table IV-4 clearly indicated that,

TABLE NO. IV-4

SHARE OF REVENUE & CAPITAL EXPENDITURE IN TOTAL EXPENDITURE

	(Percentage)	
YEAR	REVENUE EXPENDITURE AS % OF TOTAL EXPEND.	CAPITAL EXPENDITURE AS % OF TOTAL EXPEND.
1991-92	73.86	26.13
1992-93	75.60	24.39
1993-94	76.25	23.74
1994-95	75.73	24.26
1995-96	79.19	20.80

Source : As of Table IV-1.

share of revenue expenditure in total expenditure rose from 73.86% in 1991-92 to 79.19% in 1995-96 (B.E.), while share of capital expenditure fell from 26.13% to 20.80% during same period. Thus it is revenue expenditure which is ballooning while capital expenditure are falling in real terms so shooting non plan expenditure of the union Government . Table No. IV-5 reveals expenditure on major items on non-plan account.

TABLE NO. IV-5

MAJOR ITEMS OF NON-PLAN EXPENDITURE OF THE UNION GOVERNMENT

(Rs. in Crores).

ITEMS	1991-92	1992-93	1993-94	1994-95	1995-96
Interest Payments.	26,596	31,075	37,500**	46,000*	52,000*
Subsidies	12,253	12,043	12,400**	9,463*	10,650*
Defence	11,442	12,109	14,944**	16,169*	25,500*

Note : * Based on Budget estimate.
 ** Based on revised estimate.

Source : As of Table No. IV-1.

total expenditure on three items increased from Rs. 50,291 crores in 1991-92 to Rs. 88,150 crores in 1995-96 (B.E.). Thus expenditure nearly doubled within five years. The single largest expenditure item in the Union government Budget is interest payment. It rose from rs. 26,596 crores in 1991-92 to Rs. 52,000 crores in 1995-96(B.E.)

if this trend continues unchecked, interest payment will eventually gobble up all revenue receipts which is obviously unsustainable. This puts an end to hopes of stabilising the internal debt. Defence expenditure increased from Rs. 11,442 crores in 1991-92 to Rs. 25,500 crores in 1995-96 (B.E.) , but expenditure on subsidies on an average remains constant.

b) CONCLUSIONS :

The scanning of five reform budgets indicates the following :

- 1) Fiscal deficit shows upward trend.
- 2) Revenue expenditure is rising up, while capital expenditure is diminishing in real terms.
- 3) Non-Plan expenditure continues in the same trend with no sign of decline.
- 4) Large contribution of interest payment in Non-Plan expenditure.

The Union Government has no fiscal flexibility. It must borrow to keep its head above water . A good part of fiscal deficit is constituted by the Government Market borrowing. It has to borrow more even at higher interest rate and this has had the effect driving up interest rate.

The task of Finance Minister in these circumstances is to consider the creation of a separate debt redemption or a mortisation fund. In fact it will be in great national

interest if the parliament passes a law making creation of such a fund and earmarking of certain amount annually for this fund mandatory. Towards this end , the law could also prescribe a percentage of disinvestment proceeds to be statutorily credited to the proposed fund (France has such a statutory provision). Besides, the Finance Minister will have to make some hard decisions to curb revenue expenditure, widen tax base and collect more tax revenue and above all control inflation. He has so long with him favourable monsoon and a satisfactory agricultural output yield on his side with a normal monsoon forecasted for 1995-96 fiscal year also in the 1996-97 budget he will have to take hard fiscal decisions with the crucial general elections coming up . That will be the real acid test for the most competent praiseworthy and successful finance minister, Dr. Manmohan Singh.

Fiscal Adjustment must be get reflected in reduced government spending overall. International Monetary Fund Occasional paper April 1992 'The Fiscal Dimensions of Adjustment in low Income countries' pertinently noted, A reduction in the fiscal deficit achieved through cuts in investment or productive infrastructure or in expenditure on operations and maintenance (as we did in India) may not be sustainable over time and indeed may be counter productive if such cuts lead for exmple to deterioration of infrastructure, education , and health facilities on

the other hand expenditure-saving can be effected by reducing non-productive outlays such as prestige projects and subsidies that are not well targeted. A targeted cuts in both subsidies and bureaucracy can produce permanent saving without Jeopardising their objectives.

Above discussion highlights that the key tenets of economic reform need to be fulfilled. The process of economic reform that started in 1991 failed to bring about any change on the fiscal consolidation process. The entire country is paying for it through rising inflation and reduced purchasing power of the national currency. Once again we are caught in debt trap, there is no easy way out but to tighten the belt till such time as the fiscal balance is restored. The Union Government must stop first manipulation of figures in this declared age of transparency and budget must set the agenda for meaningful development. The fiscal adjustment is not one shot affairs, it is not an exercise that begins and stops with the presentation of Union Budget. Budget figures do not always tell the whole story and this caution is particularly necessary in respect of fiscal management. Constant watchfulness must be the watchward.

Fiscal stabilisation programme initially helps in the laying of sound base for any structural Adjustment

Programme for faster economic development in developing nations of Asia, South America and Africa. Indian experience can surely learn a lot from the NEP followed in other developing nations where it was introduced earlier. Experience of other nations speaks well enough that Fiscal Stability is crucial for curtailment of domestic inflation rates and for sustaining the pace of SAP on which hinges the steady growth rate needed for faster development.