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CHAPTER NO. V

MAJOR FINDINGS OF THE BUDGETARY ANALYSIS OF THE UNION  
GOVERNMENT OF INDIA : 1986 TO 1994.

- a) Major Findings.
- b) Broad Conclusions.

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CHAPTER - V

MAJOR FINDINGS OF THE BUDGETARY ANALYSIS

OF THE UNION GOVERNMENT OF INDIA

1986 TO 1994

Budgetary Analysis of the Union Government of India from 1986-87 to 1993-94 shows the following main trends.

- 1) Since 1986-87, the Union government of India is not only experiencing a overall fiscal deficit each year, but unfortunately the magnitude of such deficit has increased from Rs. 8,261 Crores in 1986-87 to Rs. 12,312 Crores in 1992-93. As a percentage of GDP, deficit fell from 2.81 % to 1.74% during the same period.
  
- 2) An examination of the combined receipts and expenditure of the Union Government reveals that, since the year 1986-87 the aggregate expenditure has throughout outstripped the aggregate receipts by Rs. 8,261 Crores in 1986-87 and by Rs. 10,960 Crores in 1993-94.

- i) Composition of expenditure of the Union Government of India shows that revenue expenditure is rising faster than capital expenditure. Revenue expenditure grew on an average by 14.27 % per annum during 1986-87 to 1993-94 . While capital expenditure grew on an average by 9.32% per annum during period under study.
- ii) The share of revenue expenditure in aggregate expenditure increased from 69.11% in 1986-87 to 76.25% in 1993-94 , while share of capital expenditure declined from 30.89% in 1986-87 to 23.75% in 1993-94.
- 4) Growth of Non-Plan expenditure has exceeded the growth of plan expenditure. The share of non-plan expenditure in aggregate expenditure rose from 42.34% in 1986-87 to 69.79% in 1993-94, while share of plan expenditure has fallen from 57.66% to 30.21% during the period under review.

5) An examination of the expenditure pattern of Non-Plan categories reveals that three major items namely interest payments, defence and subsidies have significantly contributed towards growing fiscal imbalance in the Union government Finances.

A) Interest payments increased from Rs. 9,237 Crores in 1986-87 to Rs. 36,695 Crores in 1993-94. As a percentage of aggregate receipts, expenditure and GDP rose from 17.33% 15%, & 3.15% in 1986-87 to 28.03% , 25.86% & 4.61% respectively in 1993-94 fiscal year.

B) Defence expenditure rose from Rs. 9,179 Crores in 1986-87 to Rs. 14,944 Crores in 1993-94 (R.E.) As a percentage of aggregate receipts, expenditure and GDP it fell from 17.22% , 14.91% & 3.13% in 1986-87 to 11.42% , 10.53% and 1.87% respectively in 1993-94.

C) Expenditure on subsidy increased from Rs. 5,576 Crores in 1986-87 to Rs. 12,400 Crores in 1993-94 (R.E.). As a percentage of aggregate receipts, expenditure and GDP fell

from 10.46 percent, 9.06 percent and 1.90 percent in 1986-87 to 9.47 percent, 8.74 percent and 1.58 percent respectively in 1993-94 (R.E.).

- D) Thus aggregate expenditure on these three items increased from Rs. 23,992 crores in 1986-87 to Rs.64,039 crores in 1993-94. Among the three interest payment shows highest increase.
6. To combat the above situation the Union Government has taken measures to raise resources and this is reflected in increase in both revenue and capital receipts. Total receipts (Revenue+Capital) increased from Rs. 53,297 crores in 1986-87 to Rs.1,30,893 crores in 1993-94.
7. It can be pointed out that taxation constitutes the most important source of revenue. Gross tax revenue collected by Union Government rose from Rs.32,838 crores in 1986-87 to Rs. 76,750 crores in 1993-94 (R.E.). Non-tax receipts also contributed significantly, Rs.10,450 crores in 1986-87 and Rs.21,693 crores in 1993-94.

8. In this context it can further be pointed out that the share of indirect taxes in Gross tax receipts such as union duties of excise and customs which was substantial at 81.04 percent in 1986-87 fell to 72.36 percent in 1993-94. Share of direct tax increased from 18.96 percent to 27.64 percent in 1993-94 (R.E.). This is due to tax reform measures adopted by the Union Government since 1991.
  
9. No doubt Gross tax receipts increased but ratio of Gross tax receipts to GDP has continuously declined from 11.21 percent in 1986-87 to 9.64 percent in 1993-94 (R.E.). Ratio of direct taxes to GDP increased from 2.13 percent in 1986-87 to 2.67 percent in 1993-94, whereas share of indirect taxes declined from 9.08 percent in 1986-87 to 6.98 percent in 1993-94. Thus, two key aims of the tax reforms tht is lessening the weight of indirect taxes and increasing that of direct taxes, are evidently materialising.
  
10. In order to meet rising expenditure, Union Government restortion to borrowing both internal

as well as external resulted into situation of alarming increase in public debt of the Union Government from Rs.1,06,611 crores in 1986-87 to Rs. 2,91,604 crores in 1993-94, in which internal debt grew faster than external debt. One way of interpreting this data is that the economy is managed more by borrowings from within the country and abroad than by accelerating the rate of growth in GDP since 1986-87.

11. As a consequence of rising Public debt, interest obligation of the Union Government rose from Rs.9,237 crores in 1986-87 to Rs. 36,695 crores in 1993-94, which is eroding away nearly 28 percent of receipts in 1993-94. As such interest charges are met from revenue receipts. The growth rate in internal debt outstripped that of revenue receipts and therefore interest charges had to be met from the capital budget. This signaled the entry of the economy into 'Internal Debt Trap'.
12. These imbalances in the Union finances are reflected in growing deficits in the Budget as analysed in our study.

- A. Revenue deficit which was Rs.7,716 crores in 1986-87 shot up to Rs. 18,562 crores in 1990-91 fell marginally to Rs. 16,261 crores in 1991-92 but further rose to Rs.32,716 crores in 1993-94. It is thus persistence of very high revenue deficits that is particularly a cause for worry. Such imbalance in Government accounts depresses the saving rate of the economy, reduces availability of funds for development and entails excessive borrowings for consumption expenditure and rising interest outgoings.
- B. Budgetary deficit fell from Rs. 8,261 crores in 1986-87 to Rs. 5,642 crores in 1988-89 and started growing and reached Rs. 11,347 crores in 1990-91 but fell sharply to Rs. 6,855 crores in 1991-92 but again increased in 1992-93. If containing inflationary pressure is the objective of fiscal policy, there should be cap on market borrowing along with the phasing out of deficit financing.
- C. Fiscal deficit which was Rs.26,790 crores in 1986-87 increased to Rs.50,344 crores in 1989-90 fell to Rs.45,399 crores in 1991-92 and shot upto Rs.66,440 crores in 1993-94.



- D. Primary deficit, which measures the net demand on resources by Government was Rs.17,553 crores in 1986-87 but rose to Rs.29,745 crores in 1993-94.
13. Revenue deficit as a ratio of GDP fell from 2.65 percent in 1986-87 to 2.60 percent in 1989-90, sharply rose to 3.49 percent in 1990-91 went down to 2.64 percent and 2.63 percent in 1991-92 and 1992-93 respectively, but increased upto 4.11 percent in 1993-94.
14. Budgetary deficit of the Union Government went down from 2.81 percent in 1986-87 to 1.42 percent in 1988-89, which brought down to 1.37 percent in 1993-94. Thus extent of deficit financing is reduce and fiscal operations of the Government are helping to curb excess growth in money supply.
15. Fiscal deficit as a percentage of GDP is reduced from 9.14 percent in 1986-87 to 8.89 percent in 1989-90 swell to 9.46 percent in 1990-91. To bring back economy on fiscal track the Union

Government did try to reduce fiscal deficit. As a result fiscal deficit fell to 6.85 percent in 1992-93 but again went upto 8.35 percent in 1993-94. Thus, objective of fiscal deficit has not succeeded to the extent as visualised. Figures also indicates that actual deficit at the end of year is always higher than estimated deficit amount indicating in-ability of the Government to reduce it's excessive expenditure increase more so on the revenue account.

b) On basis of our study of the Budgetary analysis of the Union Government Finances during the period 1986 to 1994, we can broadly conclude that :-

1) The Budgetary Data sufficiently reveals that Revenue deficit in the Union Government Budgets have been the major contributory factor to the consistence fiscal deficits in the Union Government finance. Rising interest payments along with subsidies, defence and Administrative costs are the major causes for the Growth in Revenue deficits. Such a trend

in Government Finances implies use of capital receipts for revenue expenditure which is not a healthy sign of sound fiscal management.

- 2) Growing Revenue deficits is also accompanied by fast growing internal as well as external public debt outstanding of the Union Government. This growth in public debt will bring debt management crisis by the end of 1990's. This is surely a fiscal crisis which may upset any long term structural Adjustment programme. This future fiscal crisis needs proper action which however has not been given the necessary importance in any of the Budgetary analysis or comments made by the Government or the finance minister.