Chapter - 5

Chapter – V

SUMMARY AND CONCLUSIONS

Chapter – V

SUMMARY AND CONCLUSIONS

5.1 Introduction

The classical economist greatly belief on Laisser, Faire and Market Mechanism. The role of government restricted as government intervention in economy beyond a particular limit may adversely affects the smooth working of economy. But the whole nature of classical philosophy changed with the emergence of worldwide great depression of 1930's and replaced by Kensian analysis. Who gives importance to government role to bring out economy from the critical juncture of unemployment and overproduction. From then to upto now government activities increases continuously as modern government is welfare oriented. This increases expenditure of Government.

Data analysis of chapter third and fourth gives the complete picture of overall budgetary position of Government of India. Data reveals that the fiscal deficit has been rising in recent years, more so revenue account deficit. Financing of the fiscal deficit is more by borrowings (internal) and this is increasing the public debt of the government growth of public debt more so internal debt is associated with greater use of borrowed funds to finance revenue expenditure and this is a unhealthy trend as debt receipts are used to finance non developmental revenue account public expenditure. Moreover rapid increase in public debt is also leading to increase in interest payment obligation and this in turn is exerting a upward rise in committed revenue account expenditure, leaving less options for the government to increase its social and economically desirable expenditure.

Our study adequately suggests that growth of internal debt is increasing the interest payment liabilities. Government is borrowing more internally and the maturity pattern also is undergoing a change with more internal borrowings on short term and medium term basis, which brings repayment liability nearer in future. All these trends are a matter of concern and need immediate rectification.

The major conclusions that our data analysis reveals are as follows.

5.2 Major Conclusions

1. In the overall budgetary situation of the Government of India, total expenditure has grown tremendously over the period of study. This stands to Rs. 111414 crores in 1991-92, enhanced to Rs. 404613 crores in 2002-03. On the other hand total revenue stands to Rs. 103573 crores in 1991-92 increased to Rs. 404013 crores in 2002-03. The growth in total expenditure was much more than the growth in total revenue.

2. Rise in public expenditure was mainly because of rise in revenue expenditure. This revenue expenditure stands

to Rs. 82292 crores in 1991-92 reached to Rs. 341678 crores in 12 years of study. Interest payment, defence, subsidies are the major item of rising revenue expenditure. During 1991-92 the interest payment stands to Rs. 26596 crores reached to Rs.115994 crores in 2002-03. Defence expenditure was Rs. 16437 crores in 1991-92 enhanced to Rs. 56000 crores in 2002-03. And the expenditure on subsidies stands to Rs. 12253 crores in 1991-92 further increased to Rs. 44618 crores in 2002-03.

3. The rising revenue expenditure, increases the revenue deficit and ever rising revenue deficit is the main cause of rising fiscal deficit. Revenue deficit is increased from Rs. 16261 crores in 1991-92 to Rs. 107880 crores in 2002-03. On the other hand fiscal deficit was increased to Rs. 145072 crores in 2002-03 from just Rs. 36325 crores.

4. Primary deficit, the recent concept of deficit showing some fluctuation, in the period of study it was Rs. 9729 crores in 1991-92, increased to Rs. 27260 crores in 2002-03.

5. The total public debt of Government of India has been rising very rapidly. It was Rs. 209698 crores in 1991-92 reached to Rs. 1094813 crores in 2002-03 showing increase of 5 times. Among the internal and external public debt of the composition of total debt, internal debt comprise very

big part. It was of Rs. 172750 crores in 1991-92, increased to Rs. 1037163 crores in 2002-03. On the other hand, the share of external debt was of Rs. 36948 crores in 1991-92 reached to Rs. 57650 crores in 2002-03.

6. Market loans and small savings deposits are major item of internal debt. Among them market loan was increased from Rs. 78025 crores in 1991-92 to Rs. 621470 crores in 2002-03 and the small saving deposits increased from Rs. 69682 crores in 1991-92 to Rs. 203560 crores in 2002-03.

7. The ratio of internal debt to GDP was 26.45 percent in 1991-92 and finally reached to 42.36 percent in 2002-03 with some fluctuation. The ratio of external debt to GDP has very small share compare to internal i. e. 5.66 percent in 1991-92 decreased to 2.35 percent in last year.

8. Rising internal debt leads rising interest payment liability. The gross interest payment amount stands to R. 26596 crores in 1991-92 and with continuous rising reached to Rs. 115994 crores in 2002-03.

9. The percentage share of interest payment to total revenue expenditure was Rs. 26596 crores in 1991-92 and enhanced to Rs.115994 crores in 2002-03. Interest payment as percentage of revenue receipts was stands at Rs. 26596

crores in 1991-92 further reached to Rs. 115994 crores in 2002-03.

10. Maturity pattern of internal debt shows rise in short term and medium term securities than the long term. The short term period consist of 5 years. This amount was Rs. 16704 crores in 1997-98 increased to Rs. 2000 crores in 2001-02. Maturity amount ranging from 5 years to 10 years stands at Rs. 26686 crores in 1997-98 jumped upto Rs. 45000 crores in 2002-03. And the long term securities above 10 years was of Rs. 11324 crores in 1998-99 reached to Rs. 79200 crores in 2002-03.

11. The yield on government securities shows declining trend. In the period of less than 10 year it was at minimum level 10.85 percent and maximum level of 12.69 percent. This decline to minimum level of 6.57 percent and maximum level of 7.72 percent in 2002-03. The yield on medium term securities was at minimum level of 12.15 percent and maximum level of 13.05 percent in 1997-98 and decline to minimum level of 8.14 percent in 2002-03. The yield on long term securities also showing declining trend. It was at minimum and maximum level of 12.25 percent and 12.6 percent respectively. In 1998-99 decline to minimum

level of 6.05 percent and maximum level of 8.62 percent in 2002.03.

5.3 Suggestions

Following suggestions are made from the above study of data.

1. Rapid increase in revenue expenditure is the main cause for growing revenue account deficit, which is leading to actual size of fiscal deficit being more than the budget estimate. It is suggested that revenue account expenditure management be undertaken and growth in revenue expenditure be controlled by the government. In the fiscal reform package, expenditure control should get properly and expenditure eon subsidy be made target oriented and many of the government schemes not moving to be beneficial to the society be abolished, revenue deficit management holds the key to success of fiscal reforms in India and a medium term reform package should be enforced by government over a period of five years targeting to reduce fiscal deficit to zero percent by 2008.

2. The end use of debt receipts, utilization of public debt for investment purpose only and appropriate pricing policy for goods and services provided by government projects goes a long way in proper public debt management. Debt financed capital projects completed without undue

delays reduce investment cost and the pricing policy of which yields revenue surplus to the enterprise can help in meeting the debt service payment through appropriate sinking funds. The trend in Government of India's finances currently reveals that, increasing portion of debt receipts are being used to finance revenue expenditure, which is not a healthy sign. Further the pricing of public goods and services provided by the government contents large amount of subsidy, arrears are not collected in time and projects are delayed in completion. Such a fiscal situation leads to debt servicing being undertaken by further dose of taxes on the present as well as future generation by which people are taxed ore due to inappropriate use of debt receipts. The present fiscal reforms in India should address themselves to this problem on a war footing and stop this unhealthy fiscal trend which has no justification in the theory of public debt.

3. Internal public debt increases very rapidly than the external. And this rising internal debt increases at interest payment liabilities. Thus there is a need for fixing statutory limit to the internal and external borrowing through legislation and constitutional limits on growth of public debt.

4. The Government has to adopt a definite action plan for Public Expenditure Reform so that rise in deficits are controlled.

5. It is suggested that out of the revenues generated from disinvestments a considerable amount be earmarked for servicing the internal debt of the government.