Chapter - 3

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OVERALL BUDGETARY OPERATIONS AND TOTAL DEBT OF THE GOVERNMENT OF INDIA

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OVERALL BUDGETARY OPERATIONS AND TOTAL DEBT OF THE GOVERNMENT OF INDIA

3.1 Introduction

The present chapter makes an attempt to study the overall budgetary operations of the government of India and study the growth of the Total Debt of the Government. The study of the overall budgetary operation of the government gives us a idea about the financial position of the government and the soundness or otherwise of the fiscal position of the government. In recent years the central as well as state governments are finding themselves in a great deal of fiscal stress mainly due to larger increases in the public expenditure more so revenue expenditure. This is more so revenue expenditure. This is increase in fiscal deficits leading to more public borrowings especially internal debt borrowings as deficit financing is controlled. Therefore, before analysis the debt operations, the overall budgetary operations need scrutiny.

3.2 Overall Budgetary Position of Government of India

Modern government is welfare oriented. And this feature of government increases its expenditure rapidly. Rising expenditure leads to deficit financing, which is imposed from 1997. And finally this deficit financed through borrowings more so through internal debt mobilization in the form of market borrowings. Market borrowings is one of the important way among many and this increases the interest payment liabilities, which in turn is one of the major cause for increasing growth of Revenue Expenditure.

Table 3.1

Overall Budgetary Position of Government of India

Rs. in crores

Year	RR + CR Total Receipts	RE + CE Total Expenditure
1991-92	103573	111414
1992-93	110306	122618
1993-94	130893	141853
1994-95	159778	160739
1995-96	168468	178275
1996-97	187823	201007
1997-98	232978	232068
1998-99	279549	279340
1999-2000	298084	298053
2000-01	325611	325611
2001-02	362453	362453
2002-03 (Revised)	404013	404013
CGR	13.28	12.78

CGR = Compound Growth Rate

Source : Reserve Bank of India, Handbook of Statistics on Indian Economy, EPW (A Sameeksha Trust Publication) Vol. XXXVIII, No. 19, p. 1908, May 2003

Table No. 3.1 shows the overall budgetary position of Government of India, from 1991-92 to 2002-03. Total expenditure of the Government of India, which is comprise of Revenue expenditure and Capital Expenditure, increasing continuously. This total expenditure stands at Rs. 111414 crores in 1991-92 increased to Rs. 201007 crores in 1996-97 and further to Rs. 404013 crores in 2002-03. The compound growth rate of total expenditure for this period is 12.78 percent.

On the other hand, Total Revenue of the Government which is consisting of Revenue Receipts and Capital Receipts also showing growth trend, but not as fast as compare to total expenditure. This total revenue increased from Rs. 103573 crores in 1991-92 to Rs. 187823 crores in 1996-97 and finally reached to Rs. 404013 crores in 2002-03. The compound growth rate of total revenue during the period under study was greater than the compound growth rate of total expenditure. It was 13.28 percent. Though it is so, the growth in total revenue of the Government of India is lesser as compared to the growth in total expenditure.

3.3 Composition of Total Revenue of Government of India

In the modern era government have to perform vast varieties of function, which require public expenditure. And this public expenditure needs public revenue. The revenue that the government collects from its people through the various sources termed as public revenue. The various sources of income for the government is broadly classified into two –

Revenue Receipts

Capital Receipts

Revenue Receipts consist of tax and non tax revenue and usually used to finance revenue expenditure. On the other hand, Capital Receipts which is consisting of public debt, internal and external used to finance capital expenditure. In the modern era, as the government is welfare oriented, have to perform some developmental and welfare activities i. e. construction of roads and dams, irrigation projects, electricity provision etc. Along with these economic activities government have to perform some social functions also. All these economic sand social activities require lumpy investment and long gestation period. But to depend upon heavy taxation is not good way. Government cannot impose tax burden on the present generation, as these projects are long gested, then benefit goes towards next generation. This means that beneficiaries will be in future generation but the expenditure burden would be borne in the present. 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 3.2

Growth and Composition of Total Revenue of Government of India

Year	Total Receipts	Revenue Receipts	Capital Receipts
1991-92	103573 (100)	66031 (63.75)	37542 (36.25)
1992-93	110306 (100)	74128 (67.20)	36178 (32.80)
1993-94	130893 (100)	75453 (57.64)	55440 (42.36)
1994-95	159778 (100)	91083 (57.01)	68695 (42.99)
1995-96	168468 (100)	110130 (65.37)	58338 (34.63)
1996-97	187823 (100)	126279 (67.23)	61544 (32.77)
1997-98	232978 (100)	133901 (57.47)	99077 (42.53)
1998-99	279549 (100)	149485 (53.47)	130064 (46.53)
1999-2000	298084 (100)	181513 (60.89)	116571 (39.11)
2000-01	325611 (100)	192624 (59.16)	132987 (40.84)
2001-02	362453 (100)	201449 (55.58)	161004 (44.42)
2002-03 (Revised)	404013 (100)	236936 (58.65)	167077 (41.35)
CGR	13.28	12.64	15.80

Note : Figures in the Round Brackets are Percentage of Total Receipts

Source : As per Table No. 3.1

Table No. 3.2 reveals the total revenue pattern of Government of India, for the period 1991-92 to 2002-03. Total revenue of Government of India has been rising very fatly. It was Rs. 103579 crores in 1991-92 and increased to Rs. 187823 crores in the first six years – 1996-97. Further in 2002-03 it reached to the highest level of Rs. 404013 crores, this total receipts consist of revenue receipts and capital receipts. Among these two revenue receipts comprise very big part as compare to capital receipts. There is continuous trend of growth in revenue receipts. This stands to Rs. 66031 crores in 1991-92 and Rs. 126279 in 1996-97 and further increased to Rs. 236936 crores in 2002-03. The compound growth rate of revenue receipts is 12.64 percent.

Capital receipts also increasing but with much more fluctuation. In the 1991-92 it was Rs. 37542 crores, it grown up to Rs. 68695 crores in 1994-95 and then came down to Rs. 58338 crores in 1995-96 and Rs. 61544 crores in 1996-97. It grew further to Rs. 99077 crores in 1997-98 and these after showing the trend of increasing; it is Rs. 167077 crores in 2002-03. The compound growth rate of capital receipts is 15.80 percent.

The percentage wise study showing that the share of revenue receipts in total receipts is higher than the capital receipts. It was 63.75 percent in the initial period of study. It came down to 36.41 percent in 1994-95; and again it increased to 67.23 percent in 1996-97. Finally again it came down to 58.65 percent.

The percentage share of capital receipts showing much more fluctuating trend, it was 36.25 percent in 1991-92 increased to 46.53 percent in 1998-99. Then came down to 39.11 in next year and finally reached to 41.35 percent in the last year; 2002-03.

3.4 Growth of Total Capital Receipts of Government of India

Capital receipts or capital outlay or debt receipts of the government helps it to finances various developmental plans. Historically, public expenditure has recorded a continuous growth over time in almost every economy. This rising public expenditure leads to deficit. And this deficit can be overcome by imposing more taxation or by borrowings, after making strenuous efforts to raise as much as resources as possible through taxation, government creates money through borrowings internally or externally. These capital receipts are debt obligations of the governments.

For sound budget making, it is very important that the debt receipts should be used to finance capital investment outlays, which result in creation of new 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 government which can be utilized for debt servicing purpose. No theory in the public finance advocates that the debt receipts be used to finance revenue expenditure. Utilization of capital receipts to cover the deficit in revenue is unsound fiscal policy. Utilization 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.

There are three sets of liabilities, which consist central government public debt in India. They are –

A) Internal Debt

B) External Debt

C) Other Liabilities

Internal and External debt constitute public debt of India and are secured under the consolidated fund of India, Internal debt consisting of market borrowings or market leans raised in the open market. Previously, this was known as permanent debt or funded debt. Internal debts also consist of treasury bills issued by the Government of India to Reserve Bank, State Government, Commercial Banks and Financial Institutions. Special floating loans such as negotiable, non interest bearing securities issued to internal financial institutions are also termed as internal debt. These loans were formerly called temporary loans or floating loans. External debt includes loans which are raised from –

a) International financial institutions like IMF, IBRD, Ida, ADB etc. Loans are generally given to the member countries for short term period to cover temporary deficit and for long term for developmental plans.

b) The government has also raised loans from other friendly countries for developmental purpose.

Other liabilities cover large varieties of liabilities which were earlier known as unfunded debt. This liabilities includes

a) Small Savings – small saving is the safest form of government borrowings. Government collects small savings from the Post Office Savings, Bank Deposits, Cumulative Time Deposits, National Saving Certificates.

b) Provident Fund – Transaction under provident fund relate to State Provident Fund. In this saver can make contributions on a voluntary basis and to specified rules and regulations.

c) Other Accounts – It includes accounts like special deposits of Non-government Provident Fund and special Deposits of Non Governmental Provident Fund.

d) Reserve Fund 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 Deposits Schemes, Railways Reserve Fund and Post Office Funds etc.

The other liabilities arise in governments 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 a part of public account. Furthermore, some items of other liabilities like small savings are more in the native of autonomous flows, which to a large extent determined by public preference and relative attractiveness of these instruments.

Table No. 3.3

Growth and Composition of the Debt of Government of India

Rs. in crores

Year	Internal Debt	External Debt	Total Debt
1991-92	172750 (82.38)	36948 (17.62)	209698 (100)
1992-93	199100 (82.49)	42269 (17.51)	241369 (100)
1993-94	245712 (83.84)	47345 (16.16)	293057 (100)
1994-95	266467 (84.12)	50928 (16.08)	317395 (100)
1995-96	307869 (85.73)	51249 (14.27)	359118 (100)
1996-97	344476 (86.40)	54239 (13.60)	398715 (100)
1997-98	388998 (87.55)	55332 (12.45)	444330 (100)
1998-99	459696 (88.92)	57254 (11.08)	516950 (100)
1999-2000	714254 (92.44)	58437 (7.56)	772691 (100)
2000-01	803698 (92.42)	65945 (7.58)	869643 (100)
2001-02	913061 (92.73)	71546 (7.27)	984607 (100)
2002-03 (Revised)	1037163 (94.73)	57650 (5.27)	1094813 (100)
CGR	18.26	4.65	16.67

CGR = Compound Growth Rate

Note : Figures in Round Brackets are Percentage of Total Debt

Source : As per Table No. 3.1

The combined position (overall) of public debt has been shown in Table 3.3. The total public debt from different sources like internal and external was Rs. 209698 crores in 1991-92 increased to Rs. 1094813 crores in 2002-03. It has increased more than 5 times in the 12 years period under study. The year 1998-99 and 1999-2999 marks tremendous growth in it, from Rs. 516950 crores to Rs. 772691 crores. The compound growth rate of total debt is 16.67 percent.

Internal debt and external debt are major part of public debt, as it is mentioned in the study. Among these, the internal debt contribute a chunk part in total debt. This is showing a continuous trend of increasing. It was Rs. 172750 crores in 1991-92 increased to Rs. 34476 crores in 1996-97, the year 1998-99 and 1999-2000 showing a sudden increased from Rs. 459696 crores to Rs. 714254 crores. The internal debt reached to Rs. 1037163 crores in the last year i. e. 2002-03 of study.

The share of external debt is very small as compared to internal in total debt. In 1991-92 it was Rs. 36948 crores, enhanced to Rs. 54239 crores in 1996-97. Finally it reached to Rs. 57650 crores in the year 2002-03. This is increased by only 1.56 times as compared to 5.22 times of internal debt, the share of internal and external debt in total also shown in the diagram given above.

External debt has grown at the compound growth rate of 4.65 percent while internal debt has grown at 18.26 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 table and explanation we can conclude that –

1. Total debt of Government of India grown at compound growth rate of 16.67 percent.

2. In total debt of Government of India the share of internal debt is much more as compare to external debt.

3. The share of external debt in total debt is very less, hence it has less servicing burden.

Total Debt of Public Debt of Government of India has been rising very rapidly from just Rs. 209698 crores to Rs. 1094813 crores in the 12 years from 1991-92 to 2002-03. Rising public debt increases the debt burden per head on the population.

Table 3.4

Debt of Government of India and its Per Capital Burden

Rs. in crores

Year	Internal Debt	External Debt	Total Debt	Population Figure Mid Year Estimates (mn)	Debt per Head
1991-92	172750	36948	209698	NA	
1992-93	199100	42269	241369	NA	
1993-94	245712	47345	293057	NA	
1994-95	266467	50928	317395	910	3487.86
1995-96	307869	51249	359118	928	3869.81
1996-97	344476	54239	398715	946	4214.75
1997-98	388998	55332	444330	964	4609.23
1998-99	459696	57254	516950	983	5258.90
1999-2000	714254	58437	772691	1001	7719.19
2000-01	803698	65945	869643	1019	8534.28
2001-02	913061	71546	984607	1037	9494.76
2002-03 (Revised)	1037163	57650	1094813	1055	10377.37

Source: As per Table No. 3.1

Table No. 3.4 shows burden of debt on rising population. This burden was Rs. 3487.86 in 1994-95, Rs. 5258.90 in1 998-99 and finally reached to Rs. 10377.37 in 2002-03. Rising per capita debt burden indicates the amount of debt that each member of society has on his/her head due to rise in borrowings by the Government. Rising public debt today in India finances increased revenue expenditure of the government and this signifies the fact that borrowed money is used for non productive purpose. This implies that the per capita debt has more of non productive use and this is not a healthy trend in government finances.

Table No. 3.5

Total Debt of Government of India as Percentage of GDP

Year	Internal Debt	External Debt	Total Debt Receipts
1991-92	26.45	5.66	32.11
1992-93	26.60	5.65	32.25
1993-94	28.60	5.51	34.11
1994-95	26.31	5.03	31.34
1995-96	25.91	4.31	30.23
1996-97	25.16	3.96	29.14
1997-98	25.55	3.63	29.18
1998-99	26.40	3.29	26.69
1999-2000	36.88	3.02	39.89
2000-01	38.19	3.13	41.33
2001-02	39.77	3.12	42.88
2002-03	42.30	2.35	44.65

Source: As per Table No. 3.1

Table No. 3.5 shows the figure of internal debt and external debt as percentage of GDP. In 1991-92 the total liabilities was 32.11 percent of GDP in which internal liabilities constitutes 26.45 percent and remaining 5.66 percent of GDP shared by external debt. The percentage share of external debt to GDP came down continuously from 5.65 percent in1 992-93 to 2.35 percent in 2002-03. The year 1994-95 to 1998-99 showing somewhat decrease in share of internal debt in GDP. Thereafter, it is increasing continuously. Total liabilities as percentage of GDP increased from 32.11 percent in 1990-91 to 34.11 percent in 1993-94. But thereafter decreasing to 26.69 percent in 1998-99, again increases from next year from 39.89 percent in 1999-2999 to 44.65 percent in 2002-03.

3.5 Growth of the Total Expenditure of Government of India

The concept of public expenditure plays very important in the public finance, as the modern government is welfare oriented. Public expenditure is the expenditure incurred by public authorities i. e. Central Government, State Government and the local bodies for the satisfaction of collective needs of the citizen or for promotion of economic and social welfare. The public expenditure is broadly classified into

Plan Expenditure and

Non Plan Expenditure

Plan expenditure consist major item of central government expenditure. This is to finance –

a) Central plans such as agriculture, rural development, irrigation and flood control, transport and communication, science and technology and environment, industry and minerals and

b) Central assistance for plan of the states and union territories.

Non plan expenditure of Central Government is divided into revenue expenditure and capital expenditure. Revenue expenditure includes interest payment, defence revenue expenditure, major subsidies, debt relief to farmers, postal deficits, pensions, social services, economic services and grants to Union territories and grants to foreign government. Capital non plan expenditure includes items as defence capital expenditure, loans to public enterprises, loans to states and union territories and loans to foreign government. The variety of functions of government increases it expenditure.

Table 3.6

Growth and Composition of Total Expenditure of Government of India

Rs. in crores

Year	Total Expenditure	Revenue Expenditure	Capital Expenditure
1991-92	111414 (100)	82292 (73.86)	29122 (26.14)
1992-93	122618 (100)	92702 (75.60)	29916 (24.40)
1993-94	141853 (100)	108169 (76.25)	33684 (23.75)
1994-95	160739 (100)	122112 (75.97)	38627 (24.03)
1995-96	178275 (100)	139860 (78.45)	38415 (21.55)
1996-97	201007 (100)	158933 (79.07)	42074 (20.93)
1997-98	232068 (100)	180350 (77.71)	51718 (22.29)
1998-99	279340 (100)	217419 (77.83)	62879 (22.51)
1999-2000	298053 (100)	249078 (83.57)	48975 (16.43)
2000-01	325611 (100)	277853 (85.33)	47753 (14.67)
2001-02	362453 (100)	301611 (83.21)	60842 (16.79)
2002-03 (Revised)	404013 (100)	341678 (84.57)	62365 (15.44)
CGR	12.78	14.17	7.23

Note : Figures in the Round Brackets are Percentage of Total Expenditure

Source : As per Table No. 3.1

Table No. 3.6 showing Growth and Composition of Total Expenditure for 1991-92 to 2002-03. Total expenditure showing a continuous trend of growth. It was Rs. 111414 crores in 1991-92 increased to Rs. 201007 crores in 1996-97. Finally, this reached to Rs. 404013 crores in 2002-03. The compound growth rate of total expenditure is 12.78 percent.

Total expenditure consist of revenue expenditure and capital expenditure. Among the revenue and capital expenditure the share of revenue expenditure is high, comparatively. This was Rs. 82292 crores in1991-92, further increased to Rs. 158933 crores in six years and finally reached to Rs. 341678 crores. The share of capital expenditure is very small as it is Rs. 29122 crores in 1991-92 increased to Rs. 42074 crores in 1996-97 and finally Rs. 62365 crores in the last year of study.

The percentage analysis also shows that the revenue expenditure have high percentage share in total expenditure. The percentage share of revenue expenditure increasing with some fluctuation. This is 73.86 percent in 1991-92, 85.33 percent in 2000-01. There is decrease in it in 2001-02 and again increased to 84.57 percent. On the other hand, the share of capital expenditure is 26.14 percent in 1991-92 by declining continuously reached to 15.44 percent in the last year of the study. Capital expenditure grown at the compound growth rate of 7.23 percent while revenue expenditure grown at 15.11 percent.

Growth of the Non Plan Expenditure of Government of India

Public expenditure of Government of India has been rising very rapidly as the economic activities of state has increased manifold. Plan and non plan expenditure are the composition of total expenditure.

Non plan expenditure consists of revenue and capital expenditure. Interest payment, subsidies, social and economic services are major heads of non plan revenue expenditure. On the other hand, defence, loans to public enterprises, loans to states and union territories comes under non plan capital expenditure.

Table 3.7

Growth and Composition of Non Plan Revenue Expenditure of Government of India

Rs. in crores

Year	Non Plan Expenditure of which	Interest Payment	Defence	Subsidies
1991-92	80453 (100)	26596 33.06	16347 20.32	12253 15.23
1992-93	85958 (100)	31075 36.15	17582 20.45	10884 12.66
1993-94	98191 (100)	36741 37.42	21845 22.25	11605 11.82
1994-95	113361 (100)	44060 38.87	23245 20.51	11854 10.46
1995-96	131909 (100)	50045 37.94	26856 20.36	12666 9.60
1996-97	147473 (100)	59478 40.33	29505 20.01	15499 10.51
1997-98	172976 (100)	65637 37.95	35278 20.39	18540 10.72
1998-99	212522 (100)	77882 36.65	39897 18.77	23593 11.10
1999-2000	221871 (100)	90249 40.68	47071 21.22	24487 11.04
2000-01	242923 (100)	99314 40.88	49622 20.43	26838 11.05
2001-02	261259 (100)	107460 41.13	54266 20.77	31207 11.94
2002-03 (Revised)	289924 (100)	115994 40.01	56000 19.32	44618 15.39
CGR	13.17	14.75	12.75	13.11

Note: Figures in the Round Brackets are Percentage of Non Plan Revenue Expenditure

Source: As per Table No. 3.1

Table No. 3.7 gives the details of non plan revenue expenditure of Government of India for the period 1991-92 to 2002-03. The amount of non plan expenditure is Rs. 80453 crores in 1991-92. It has grown continuously. Further this increased to Rs. 147473 crores and finally reached to Rs. 289924 crores in the year 2002-03. The compound growth rate of non plan expenditure is 13.17 percent.

Interest payment, defence, subsidies are major items of non plan revenue expenditure. Table shows that among these three, the interest payment have larger share.

Interest payment stands at Rs. 26596 crores in 1991-92 reached to Rs. 59478 crores in 1996-97 and Rs. 115994 crores in 2002-03. The percentage share of interest payment was 33.06 percent in 1991-92, with rising continuously reached to 40.01 percent in 2002-03.

The second major item of non plan revenue expenditure is defence. In 1991-92 it was Rs. 16347 crores, it enhances to Rs. 29505 crores in first six years and then reached to Rs. 56000 crores in 2002-03. The percentage share of defence in non plan revenue expenditure showing some minor fluctuating trend. It was 20.32 percent in 1991-92, decreased to 20.01 percent in 1996-97 and finally 19.32 percent in 2002-03.

Subsidies is the third major item of non plan revenue expenditure. Subsidies consist subsidies on food, fertilizer and export promotion. It was Rs. 12253 crores in 1991-92. Later on this is showing declining trend upto

1994-95. Then again increased continuously from Rs. 15499 crores in 196-97 to Rs. 44618 crores in 2002-03. There is also fluctuations in percentage share of subsidies. It was 15.23 percent in 1991-92 then 9.60 in 1995-96 and 15.39 in 2002-03.

Interest payment has grown at the compound growth rate of 14.75 percent, and of defence is 12.75 percent while of subsidies 13.11 percent.

3.6 Trends in the Gross Fiscal Deficit, Revenue Deficit and Primary Deficit of Government of India

In the public finances the government first outlines its expenditure according to the heads and objectives of the national policy and then attempts to locate resources of funds to meet this estimated expenditures. When the total estimated expenditure exceeded the estimated revenue during a year, the gap between these two is called as deficit and financing this deficit is called as 'deficit financing.'

The term deficit in relation to the budget is used to desirable the position in the different account of budget of India. The budgetary position on revenue account shows the result of current operations of government since 195-51 the Government of India recognised only two types of concept viz. revenue deficit and overall budgetary deficit. Excess of Revenue Expenditure over revenue receipts is termed as revenue deficit. Current revenue expenditure of the Central Government is composed of plan and non plan expenditure of the Government, and is met out of current revenue receipts (which include net tax revenue and non tax revenue of the Central Government).

Till the middle of the 1970's the revenue receipts of the Central Government exceeded its revenue expenditure; accordingly the Central Government enjoyed revenue surplus. This surplus revenue was to be used to finance economic development under the Five Year Plans. This was a laudable objective but in a period of about two decades or so (1951-75) the objective of revenue surplus was gradually eroded because of the continuous expansion of current expenditure, particularly of the non plan category i. e. defence, interest payment, general administration, major and minor subsidies. This was, in spite of enormous growth in tax receipts during the period. Accordingly, revenue deficit became a special feature of Central Government budgeting from the middle of the 1970s.

Overall Budgetary Deficit or Budget Deficit occurs when total expenditure exceeds total receipts. On the other hand, there is budget surplus when total receipts exceeds total expenditure.

Since 1950-51, the total expenditure of the Central Government always exceeded its total revenues, this excess of total expenditure over total revenue was known as budget deficit or overall budgetary deficit. The Finance Ministry of the Government of India included all the expenditure (revenue and capital receipts which included market borrowings and other liabilities). It was this budgetary deficit which was called deficit financing by Government of India. Accordingly, it excluded Government borrowing from the market, or raising other funds from the public such as small savings schemes, post office savings deposits, provident fund collection etc. These receipts comes under capital receipts and they formed part of the total receipts of the Government and are thus excluded from the calculation of budgetary deficit. Actually, after jugging with the concept of 'budgetary deficit' or 'overall budgetary deficit' for many years, the Finance Ministry has finally given up this conventional concept from 1997-98 budget.

The Government of India accepted the recommendation of Sukhmoy Chakravarthy Committee and started the calculation of third concept of deficit, known as fiscal deficit. In simple terms, fiscal deficit is budgetary deficit plus market borrowings and other liabilities of Government of India. The 2nd method to calculate fiscal deficit is budget deficit + borrowing and other liabilities of Government fiscal deficit indicates the total borrowings requirement 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. On the other hand, budgetary deficit reflects only the governments borrowings from Reserve Bank of India.

In the recent years, the Finance Ministry has introduced one more concept of deficit, which is known as 'Primary deficit.' Primary deficit is equal to fiscal deficit minus interest payment. From 1991, Government of India introduced New Economic Policy, which is based on LPG phase. Since 1991, fiscal policy in India always advocated reduction in gross fiscal deficit. Even then, the fiscal deficit have always exceeded the budget estimates. This is mainly because of uncontrolled growth of revenue expenditure. Mainly non plan expenditure leads to revenue deficit and further fiscal deficit efforts should therefore, be made on a two pronged attack in reducing fiscal deficit through augmenting revenue on one side and controlling non plan expenditure on other side.

Table No. 3.8
Various Deficit Figures

Rs. in crores

Year	Revenue Deficit	Fiscal Deficit	Primary Deficit
1991-92	16261	36325	9729
1992-93	18574	40173	9098
1993-94	32716	60257	23516
1994-95	31029	57704	13644
1995-96	29731	60243	10198
1996-97	32655	66733	7255
1997-98	46450	73205	7568
1998-99	66675	89560	11678
1999-2000	67596	104716	14467
2000-01	85234	118816	19502
2001-02	100162	140955	33495
2002-03 RE	107880	145072	27268

Note: RE = Revised Estimates

Source: As per Table No. 3.1

Table No. 3.8 gives the details of the growth in the revenue deficit, fiscal deficit and primary deficit in the budget of Government of India, since 1991-92 to 2002-03. The revenue deficit has increased from Rs. 16261 crores in1 990-91 to Rs. 107880 crores in 2002-03. Except the year 1995-96, revenue deficit shows a continuous trend to growth, this stands to Rs. 29731 crores in 1995-96. The continuously rising revenue deific leads to increase in fiscal deficit of Government of India. Fiscal deficit stands to Rs. 36325 crores in 1991-92 increased to Rs. 60257 crores in 1993-94. The next year i. e. 1994-95 marks a decline in it. Thereafter, the growth in fiscal deficit is continuous, it was Rs. 60243 crores in 1995-96 increased upto Rs.145072 crores in 2002-03. Primary deficit shows ups and downs during the initial period of study. In 1991-92 it was Rs. 9729 crores which decreased to Rs. 9098 crores in next year. Again the year 1993-94 shows increasing trend i. e. Rs. 23516crores but again next four years shows decline in it. From the year 1998-99 the primary deficit of Government of India rising continuously from Rs. 11678 in 1998-99 to Rs. 27268 crores in 2002-03.

Reasons? for the rising deficit

Table No. 3.9

Central Governments Deficits – GDP Ratio

Percentage of GDP

Year	Revenue Deficit	Fiscal Deficit	Primary Deficit
1991-92	2.6	5.9	1.6
1992-93	2.6	5.7	1.3
1993-94	4.6	7.4	2.2
1994-95	3.2	6.1	0.4
1995-96	2.7	5.4	0.0
1996-97	2.4	5.2	- 0.2
1997-98	3.1	4.8	0.5
1998-99	3.9	5.1	0.7
1999-2000	3.5	5.4	0.7
2000-01	4.0	5.6	0.9
2001-02	4.3	6.1	1.4
2002-03	4.4 #	5.9 #	1.1 #

(-) = indicates surplus

= As per the budget glance for 2004-05

Source: Annual Report of RBI, August 30, 2004

Source: As per Table No. 3.1

Table No. 3.9 shows Central Governments Deficit GDP Ratio. Revenue deficit as percentage of GDP shows fluctuating trends. It was 2.6 percent in 1991-92, which was stable in next year, further increased to 4 percent in 1993-94 and then again decline to 3.2 percent in 1994-95, with fluctuation it finally reached to 4.4 percent in the last year of study 2002-03. Fiscal deficit increasing with minor fluctuation. It reached to highest level of 7.4 percent in 1991-93 during the study period. Further decline to 6.1 percent in 1994-95 and lastly reached to 5.9 percent in 2002-03. Primary deficit stand at 1.6 percent in 1991-92 increased to 2.2 percent in 1993-94. In the year 1995-95 this percentage became zero and was – 0.2 percent in next year. After with increase of 0.5 percent it stabilize at 6.7 percent in 1998-99 and finally reached to 1.1 percent in 2002-03. To co troll the ever rising growth in various deficit fiscal reforms measures have to be introduced, which from one side increase receipts and from other helps to reduce expenditure.