Chapter 13

Managing Government Finances: A General Evaluation

13.1 The year 1999-00 provided the occasion to review government finances in the context of the fiscal reforms initiated in the early nineties. This concluding chapter attempts to signal critical areas of concern warranting remedial measures.

Summary Indicators of Fiscal Performance

In sum, over 1990-91 to 1999-00, central finances have become less adequate for current services, more vulnerable and offer less autonomy for current applications.

13.2 Table 13.1 presents a summarised position of government finances over 1990-91 to 1999-00, with reference to certain key indicators that help decipher the adequacy and effectiveness of available resources, highlight areas of concern, and capture important facets of government finances like adequacy, sustainability, autonomy and vulnerability, as discussed in the following paragraphs.

13.3 The tax-GDP ratio, the first indicator in this list, indicates the adequacy of the present flow of resources for the provision of current services. The fall in the tax-GDP ratio over the nineties indicates declining ***adequacy*** of resources. The second indicator - the share of non-interest - non-pension expenditure to total expenditure - indicates the ***availability*** of resources, i.e., the extent to which resources can be allocated for the provision of current services. This ratio has fallen by about 10 percentage points over the ten-year period.

Table 13.1: Summary Indicators of Fiscal Performance

Percent

Year	Tax-GDP ratio	Exp. Other than interest payments & pensions as % of total exp.	Voted exp. as % of total disbursement	Repayment as % of borrowing	Interest payments as % of revenue receipts	Revenue deficit as % of Fiscal deficit
1	*2*	*3*	*4*	*5*	*6*	*7*
1990-91	10.12	82.75	39.82	72.73	25.47	40.40
1991-92	10.31	80.49	43.31	75.26	26.64	41.92
1992-93	9.99	80.07	44.51	73.55	27.21	39.46
1993-94	8.82	79.79	40.46	71.97	30.72	45.68
1994-95	9.14	78.40	38.73	77.06	30.04	49.92
1995-96	9.41	62.46	38.98	77.77	29.69	46.75
1996-97	9.45	76.18	36.51	79.91	30.70	47.90
1997-98	9.19	78.25	31.94	81.58	30.07	56.81
1998-99	8.18	95.21	32.55	79.54	32.47	53.42
1999-00	8.78	72.75	35.68	86.74	33.60	59.43
Year	**Fiscal deficit to GDP ratio**	**Primary deficit to GDP**	**Internal liabilites to GDP ratio**	**Total liabilites to GDP ratio**	**Effective interest rate on internal liabilities**	**Change in debt-GDP ratio* (%points)**
8	*9*	*10*	*11*	*12*	*13*	*14*
1990-91	8.07	4.29	49.76		8.20	
1991-92	5.94	1.87	48.63	65.41	8.44	-1.01
1992-93	6.31	2.15	48.12	64.24	8.67	-0.51
1993-94	8.34	4.07	50.12	64.99	9.18	1.85
1994-95	6.15	1.78	48.29	62.39	9.30	-2.30
1995-96	5.39	1.55	46.95	59.53	9.36	-2.04
1996-97	5.01	0.64	45.63	56.57	9.96	-1.68
1997-98	6.90	2.57	47.70	58.53	9.90	1.74
1998-99	6.44	2.01	47.46	57.58	10.17	-0.63
1999-00	5.30	0.47	47.72	57.23	10.79	-0.01

*The change is with respect to the corresponding previous year figures of outstanding debt at historical rates as given in Table 1.12.

13.4 The ratio of voted expenditure to total disbursements reflects the degree of ***autonomy*** in the current allocation of resources. The lower this ratio, the lower is the degree of freedom with which expenditures priorities can be voted by Parliament. Voted expenditure as proportion of total disbursement has fallen from 44.51 percent in 1992-93 to 31.94 percent in 1997-98. Although by 1999-00, it recovered to 35.68 percent, it still shows that the degree of autonomy in the application of resources is low, and has fallen over the ten-year period.

13.5 Repayment as percentage of borrowing also indicates the degree of ***autonomy*** in utilizing available resources for current applications. The higher is this ratio; the lower is the amount available from borrowing for application for current services. This ratio was 72.73 percent in 1990-91. It increased to 86.74 percent in 1999-00 indicating that only about 13 percent of current borrowing is useable for current services. The ratio of interest payments to revenue receipts also indicates the degree of autonomy to which current resources can be used for current services. The interest ratio has increased from 25.47 percent to 33.60 percent, showing increasing loss of autonomy.

13.6 ***Vulnerability*** of central finances has been indicated by the ratio of revenue deficit to fiscal deficit. To the extent fiscal deficit is not used for creating assets, finances become vulnerable because liabilities are being added without addition to the capacity for repayments. Column 7 of Table 13.1 gives the revenue deficit as percentage of fiscal deficit. This ratio has increased from 40.40 in 1990-91 to 59.43 in 1999-00, exhibiting an increase of about 20 percentage points. This indicates that after nearly ten years of fiscal reforms, central finances are more vulnerable than before.

Internal debt and liabilities have been incurred at rising costs.

13.7 Sustainability of debt is the key issue in the assessment of government finances. The higher is the debt to GDP ratio, the larger is likely to be the cost at which the government is able to borrow. Column 13 of Table 13.1 gives the movement of effective interest rate on internal liabilities, which increased from 8.20 percent in 1990-91 to 10.79 percent in 1999-00. Higher interest rate means higher interest payments even if debt remains unchanged, and at times, even while debt relative to the GDP falls. Column 12 of Table 13.1 indicates that the ratio of total liabilities to the GDP fell in the nineties. Still, interest payments rose relative to the GDP (Table 3.5) as also relative to the revenue receipts (Column 6 of Table 13.1), indicating that the impact of the rising interest rate on interest payments was more than that of the fall in the debt GDP ratio.

13.8 In the context of debt sustainability, reduction in the debt-GDP ratio is called for. The Eleventh Finance Commission, in such a context, has suggested a reduction of 5 percentage points in the centre debt-GDP ratio within five years time (para 3.20 of their report). The related debt figures were at historical exchange rates. Comparable figures, per audited finance accounts, are given in Table 1.12. The trends in the nineties indicate that the ratio of total liability to GDP has fallen. However, this trend has weakened, after

1995-96. The average yearly fall, between 1991-92 to 1995-95 was 0.8 percentage points (column 14 of Table 13.1). This slowed down to an average of 0.15 percentage points between 1996-97 and 1999-00. The slower is the rate of fall in debt –GDP ratio, the longer it will take, to reach the desirable level of the debt-GDP ratio, consistent with sustainability, unless additional remedial measures are taken for the medium term adjustment.

Managing Government Expenditures: Sources of Inefficiency

Even as availability of resources for current services falls, their applications remain inefficient.

13.9 As resources available for application for current services have depleted relative to the GDP, it is critical that these are used with maximum efficiency. Inefficiencies in government expenditure lead to either higher costs for the same service or poorer service for the same cost. A more macro level of inefficiency relates to inadequate provision for essential services that need to be provided by the government, such as public goods and high merit goods. Inefficiencies result from rigidities like lapse of funds at the close of the financial year, opacities in the budget process, such as large hidden subsidies, limited parliamentary debates on demands for grants, and routine delays in decision processes. Many of these inefficiencies are visible after the examination of accounts and the emergent pattern of the finances. In sum, the following sources of inefficiencies may be underlined:

a. ***March rush***: a large proportion of expenditure is crowded in the month of March leading to hasty decisions, involving avoidable inefficiencies.

b. ***Implicit subsidies***: there is a large volume of hidden subsidies making the budget process opaque. The implication of these subsidies is not fully realized or debated because these are not mentioned in the budgets as subsidies.

c. ***Procedural inefficiencies***: major deficiencies in the process of incurring expenditures, already discussed, relate to incurring expenditure without sanction, excess disbursements over sanctioned grants, which remain non-regularized, and unspent amounts against provisions.

d. ***Unauthorised reappropriations***: considerable amounts are reappropriated between different primary units of appropriation defeating the original purpose or activity which is authorized by the Parliament; often these reappropriations are found to be injudicious and without prior approval.

e. ***Poor fiscal marksmanship***: a major cause of inefficiency is unrealistic budgeting. Budget estimates are based on such assumptions as often turn out to be unrealistic; demands are habitually overstated. Similar errors are repeated year after year.

13.10 The maladies pointed out above and elsewhere in the report call for discussions and consideration of various measures of reforms in government finance and accounts, including budget operations of the government.

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