Chapter 1

UNION GOVERNMENT FINANCES – AN OVERVIEW

1.1 This chapter provides a broad perspective of the finances of the Union Government during the year 2000-01 and analyzes critical changes in major fiscal aggregates in the context of prevalent trends over 1985-2001. The chapter presents a summary of the position of the different accounts, with reference to the Consolidated Fund of India (CFI) and the Public Account for 2000-2001, and discusses relevant changes in the macro economy over the sixteen-year period beginning with VII Plan (1985-90).

1.2 Table 1.1 summarizes some key fiscal parameters relative to GDP during VII Plan (1985-90) and first four years of IX Plan 1997-2001 and in the last two years.

Table- 1.1: Broad Fiscal Parameters relative to GDP (*per cent*)

	1985-90	1997-2001	Change	1999-2000	2000-01	Change
Total Expenditure	23.44	19.38	-4.06	19.04	18.27	-0.77
Revenue Expenditure	16.34	16.11	-0.23	16.16	15.81	-0.35
Capital Expenditure	3.03	1.35	-1.68	1.48	1.17	-0.31
Loans and Advances	4.07	1.91	-2.16	1.40	1.28	-0.12
Major Components of Revenue expenditure						
Salary and Pensions	3.25	3.04	-0.21	3.24	2.75	-0.49
Interest Payments	3.18	4.58	1.40	4.83	4.76	-0.07
Components of Revenue receipts						
Tax Revenue	10.53	8.70	-1.83	8.78	8.7	-0.08
Non Tax Revenue	6.09	6.08	-0.01	6.45	5.50	-0.95
Total Revenue to the Union	13.95	12.48	-1.47	13.01	11.82	-1.19
Non Debt Capital receipts	1.30	0.84	-0.46	0.73	0.87	0.14
Fiscal imbalances						
Revenue deficit	2.39	3.62	1.23	3.15	4.00	0.85
Fiscal deficit	8.19	6.05	-2.14	5.30	5.58	0.28

1.3 The Union government finances are a paradox. Government expenditure has contracted but its fundamental problem appears intractable. With aggregate expenditure declining from an average of 23.44 *per cent* of GDP during the second half of 1980s (VII Plan- 1985-90), to an average of 19.38 *per cent* during the second half of 1990s- (IX Plan- 1997-2001), it was reasonable to expect that this extraordinary contraction of over four percentage points would engender a significant decline in the fiscal deficit. Unfortunately, fiscal deficit is no lower than the trend during the early 1980s and throughout the 1990s.

1.4 The Balance of Payments crisis of 1991 did focus some attention on the fiscal deficit. Unfortunately, as soon as the balance of payments issue was addressed, fiscal consolidation was largely left unattended. It is not surprising, therefore, that the fiscal deficit, far from retreating has become endemic. In a situation where over 70 *per cent* of revenue receipts are applied to meeting charged expenditure on interest payments, etc. government's control over its finances is limited. Similarly, of every rupee of borrowed funds, repayment of principal and interest account for over 96 *paise*. In short, both on revenue and capital accounts, government has very little freedom over the application of the enormous resources that flow to its coffers. This is not because of the level of expenditure, since as mentioned above, aggregate expenditures including salaries and pensions relative to GDP have declined, nor is it due to any increase in loans and advances, which again have retreated significantly from 4.07 *per cent* of GDP during 1985-90 to 1.91 *per cent* of GDP during the last four years or for that matter capital expenditure.

1.5 Indeed, the problem is not the high expenditure, but the absence of efficient tax collection. With the dismantling of controls and globalisation, non-tax revenues generated through an administered price mechanism will continue to diminish and cannot help Union finances. Tax revenues, which were expected to fill this void, have failed to do so. It has been brought out elsewhere in this Report that while other countries collect on an average 18 *per cent* or more of their GDP as taxes, our tax collection is less than two thirds of this figure. Considering that the fiscal deficit is around 6 *per cent* of GDP, a gradual increase in tax-GDP ratio by around 5 to 6 percentage points - well below the average mentioned above- could address the fiscal problem.

1.6 The fact that this has not occurred is discussed in this Report and in greater detail in the Reports on Direct and Indirect Taxes. An important issue is the dismal collection of taxes from the services sector, which has been the engine of growth during the nineties. Taxes levied on services have resulted in modest yields. Further, most of the tax collection occurs through self-assessment and advance payments and little credit can be given to the tax collection machinery. In this situation, the single most important issue in addressing the finances of the Union is to secure greater tax compliance.

Summarised Accounts of the Union Government

The year 2000-01 ended with a deficit of Rs 23,925 crore in the Consolidated Fund.

1.7 The CFI emerged with a deficit of Rs 23,925 crore at the end of 2000-01, while at the end of the previous year there was a surplus of Rs 151,986 crore in the CFI, due to an investment of Rs 185,200 crore, made from the National Small Savings Funds (NSSF) in Central Government securities. This investment included Rs 176,221 crore as opening balance of NSSF as on 1 April 1999, which formed part of the investment in Central Government Special Securities.

1.8 In 2000-01, the Union Government used of the surplus in Public Account of Rs 25,123 crore for meeting its expenditure, due to the deficit in the CFI. The surplus in Public Account was in addition to the amount of Rs 8,316 crore invested in Central Government securities from the NSSF.

1.9 Table 1.2 presents the summarized picture of the Union Government accounts over the years.

Table 1.2: Summarised Accounts of the Union Government

(Rs in crore)

	1985-01	1985-90	1992-97	1997-01	1998-99	1999-00	2000-01
	(Average Annual)						
Receipts (CFI)	345488	188564	305299	670931	629584	829693	641421
Debt Repayment	161456	114851	126525	307082	322679	305088	269512
Net Receipt (CFI)	184032	73712	178774	363849	306905	524605	371909
Expenditure	196247	86398	203539	356755	347585	372619	395834
CFI Surplus/Deficit	-12215	-12685	-24765	7094	-40680	151986	-23925
Public Account Receipts	103217	43224	102117	198513	159818	214736	249876
Public Account Disbursements	90791	30342	77261	205236	118876	367612	224753
Surplus/Deficit	12426	12881	24855	-6724	40942	-152876	25123
Increase/Decrease in Cash Balances	210	196	91	370	236	-864	1198

(CFI Receipts and Expenditure are net of the share of the States in the Union Taxes)

1.10 Average annual receipts in CFI increased from an average of Rs 188,564 crore during 1985-90 to an average of Rs 670,931 crore during 1997-2001. However, on an average, over 45 *per cent* of these receipts were used for repayment of debt. CFI receipts, after the repayment of debt, continued to fall short of the total expenditure of the Union Government, all through these years, except during 1999-2000 due to NSSF. In other years, the surplus available in the Public Account was used to meet the balance expenditure.

Box 1.1: Union Government Funds and the Public Account

Consolidated Fund

All revenues received by the Union Government, all loans raised by issue of treasury bills, internal and external loans and all moneys received by the Government in repayment of loans shall form one consolidated fund entitled 'The Consolidated Fund of India' established under Article 266(1) of the Constitution of India

Contingency Fund

Contingency Fund of India established under Article 267(1) of the Constitution is in the nature of an imprest placed at the disposal of the President to enable him to make advances to meet urgent unforeseen expenditure, pending authorisation by Parliament. Approval of the legislature for such expenditure and for withdrawal of an equivalent amount from the Consolidated Fund is subsequently obtained, whereupon the advances from the Contingency Fund are recouped to the Fund.

Public Account

Besides the normal receipts and expenditure of Government which relate to the Consolidated Fund, certain other transactions enter Government Accounts, in respect of which Government acts more as a banker. Transactions relating to provident funds, small savings, other deposits, etc. are a few examples. The public monies thus received are kept in the Public Account set up under Article 266(2) of the Constitution and the connected disbursements are also made therefrom.

1.11 Table 1.3 indicates the ratio of the Union Government receipts and expenditure relative to GDP. It would be seen that net receipts in CFI declined from an average of 19.98 *per cent* of GDP during 1985-90 to an average of 17.50 *per cent* of GDP during 1992-97. During 1997-2001, this ratio increased to an average of 19.49 *per cent.* This was largely due to a significant increase in the ratio in 1999-2000, on account of NSSF, which was an exogenous factor. CFI receipts net of repayment declined to 17.16 *per cent* of GDP in 2000-01. Total expenditure (comprising revenue expenditure, capital expenditure and loans and advances) also declined from an average of 23.44 *per cent* during 1985-90 to an average of 19.38 during 1997-2001. It further declined to a level of 18.27 *per cent* of GDP during 2000-01.

1.12 Central government expenditure, as a percentage of GDP, declined from 23.44 *per cent* (1985-90) to 19.38 *per cent* (1997-2001) and to 18.27 *per cent* during 2000-01. Declining receipts in CFI and declining surpluses in the Public Account were both responsible for this.

Table 1.3: CFI Net Receipts and Total Expenditure Relative to GDP ***(per cent)***

	As percentage to GDP			Rate of Growth		
	CFI Receipts	Public Account Surplus	Total Expenditure	GDP	CFI Receipts	Expenditure
1985-2001	18.90	2.21	21.09	15.21	14.51	13.10
VII Plan (1985-90)	19.98	3.50	23.44	15.28	13.85	13.55
VIII Plan (1992-97)	17.50	2.42	19.91	16.54	11.59	11.87
IX Plan (1997-2001)	19.49	-0.10	19.38	12.37	18.58	8.26
Annual Values						
1998-99	17.45	2.33	19.77	15.49	21.80	11.77
1999-2000	26.81	-7.81	19.04	11.30	70.93	7.20
2000-01	17.16	1.16	18.27	10.72	-29.11	6.23

Finances of the Union Government: 2000-01

1.13 These declines notwithstanding, fiscal imbalances continued to be a feature of the Union Government finances in 2000-01. Both revenue and fiscal deficits were higher than that budgeted by the government. While revenue deficit was higher by 12.31 *per cent,* fiscal deficit was 7.72 *per cent* higher than what was budgeted.

1.14 Table 1.4 summarises the position of the finances of the Union Government covering the budget estimates and actuals in terms of revenue receipts, capital receipts, public account receipts, and total disbursements. Actuals deviated significantly from the budgeted figures.

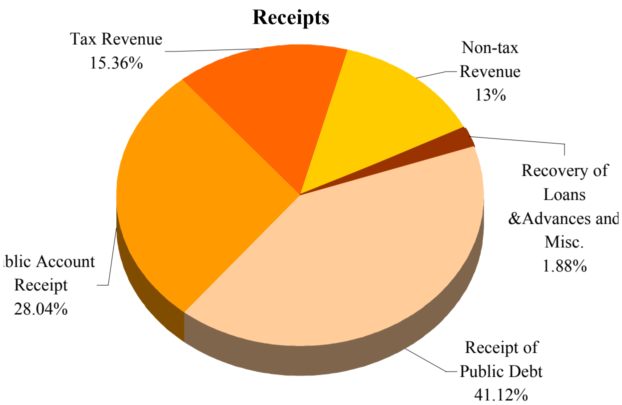
1.15 The imbalance in the revenue accounts was reflected in a revenue deficit, which was Rs 86,611 crore (4.0 *per cent* of GDP) as against the budgeted figure of Rs 77,120 crore. The overall imbalance resulted in fiscal deficit, which was Rs 120,874 crore (5.58 *per cent* of GDP) as against the budget provision of Rs 112,211 crore. Nearly 72 *per cent* of the fiscal deficit was utilised to meet revenue deficit.

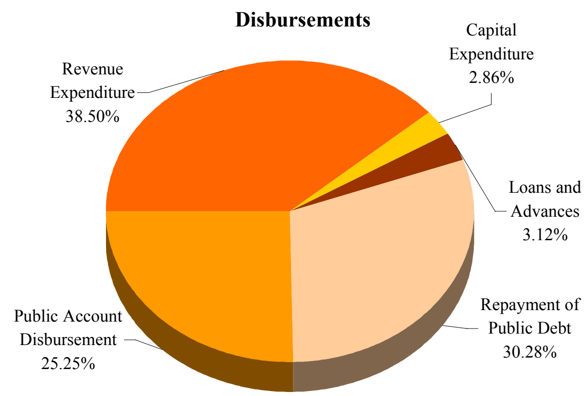
Table 1.4: Union Government Finances 2000-01 - Budget and Actual

(Rs in crore)

		Budget Estimates	Actuals	Shortfall(-)/ Excess(+)	Deviation* *(per cent)*
1	Total Receipt of the Union Government (7+8)	917960	891297	-26663	-2.90
2	Revenue Receipts	276962	256036	-20926	-7.56
	Tax revenue	146209	136915	-9294	-6.36
	Non-tax revenue***	130753	119121	-11632	-8.90
3	Miscellaneous Capital receipts	10000	2125	-7875	-78.75
4	Recovery of Loans and Advances	15839	16799	960	6.06
5	Total revenue and Non Debt receipts (2+3+4)	302801	274960	-27841	-9.19
6	Receipt of Public Debt	441800	366461	-75339	-17.05
7	Total receipts in the CFI (5+6)	744601	641421	-103180	-13.86
8	Public Account Receipt	173359	249876	76517	44.14
9	Total disbursement by the Union Government (15+16)	917960	890099	-27861	-3.04
10	Revenue Expenditure	354082	342647	-11435	-3.23
11	Capital Expenditure	34160	25426	-8734	-25.57
12	Loans and Advances	26770	27761	991	3.70
13	**Total expenditure of the Union Government (10+11+12)**	415012	395834	-19178	-4.62
14	Repayment of Public Debt	354767	269512	-85255	-24.03
15	Total disbursement out of the CFI (13+14)	769779	665346	-104433	-13.57
16	Public Account Disbursement	148181	224753	76572	51.67
17	Revenue Deficit (10-2)	77120	86611	9491	12.31
18	Fiscal Deficit (13-5)	112211	120874	8663	7.72

**** Deviation is estimated as (Budget Estimates-Actuals)/Budget Estimates x 100***





1.16 Tax, non-tax revenue and non-debt capital receipts, all under-performed in comparison to budgetary expectations. Both revenue and capital expenditure also fell short of the budget estimates. Deviation as percentage to the budget estimates was (-) 3.23 *per cent* for revenue expenditure and (-) 25.57 *per cent* for capital expenditure.

Box 1.2: Reporting Parameters

Fiscal aggregates like tax and non-tax revenues, revenue and capital expenditures, internal and external debt, and revenue and fiscal deficits have been presented as percentage to the GDP at current market prices. The New GDP series with 1993-94 as base as published by the Central Statistical Organisation has been used. Data up to 1998-99 are final estimates. For 1999-2000 and 2000-2001, quick and provisional estimates have been used respectively. Since the provisional estimates of 2000-01 did not indicate the GDP at market prices, the same was estimated using the rate of growth reported for GDP at factor cost.

For tax revenues, buoyancy estimates are given. The buoyancy indicates the responsiveness of a tax to percentage changes in the tax base. Here, buoyancies have been calculated with reference to the GDP series mentioned above.

For most series a Trend growth during 1985-2001 has been indicated. Further, trend growth over three plans, i.e. the Seventh Plan (1985-90); Eighth Plan (1992-97) and Ninth Plan (1997-2001) have also been indicated. While calculating these growth rates the first year of the Plan has been taken as the base year to estimate inter plan growth rates. This process eliminates the "low base bias" of the year immediately preceding the plan. Annual growth has been indicated for the three most recent years, i.e. 1998-99, 1999-2000 and 2000-01.

For most series, ratios with respect to GDP have also been indicated. As in the case of growth rates, average ratios have been used for the period 1985-2001 and plan periods separately for VII, VIII and IX Plan. Annual ratios of the three most recent years have also been indicated.

Union Government Finances 1985-2001 - Some Key Parameters

1.17 **A** detailed analysis of the Union Government finances covering the revenue receipts, expenditure, fiscal imbalances and fiscal liabilities are contained in Chapters 2 to 5 of this Report. An overview of the key parameters is presented below.

Revenue Receipts

1.18 Table 1.5 indicates the rate of growth and relative share as percentage to GDP of the tax, non-tax and total revenue receipts (net of share of the States in union taxes) over the plan periods.

Table 1.5: Key Parameters of the Union Government Revenue Receipts ***(per cent)***

Year	Tax Revenue		Non-Tax Revenue		Total Revenue to the Union		GDP Growth
	A	B	A	B	A	B	
1985-2001	13.39	9.66	15.15	5.99	14.11	13.11	15.21
VII Plan (1985-90)	15.97	10.53	15.21	6.09	15.88	13.95	15.28
VIII Plan (1992-97)	15.89	9.34	14.66	5.97	15.61	12.74	16.54
IX Plan (1997-2001)	11.50	8.70	9.30	6.08	10.21	12.48	12.37
Annual Values							
1998-99	3.29	8.18	19.42	6.29	9.89	12.24	15.49
1999-2000	19.44	8.78	14.25	6.45	18.29	13.01	11.30
2000-01	9.81	8.70	-5.70	5.50	0.57	11.82	10.72

A:- Rate of Growth ***B:- Relative Share as percentage to GDP***

1.19 It would be observed that the average annual trend rate of growth of revenue receipts (including the tax and non-tax receipts) was comparatively lower than the growth of GDP. Further, there has been a deceleration in the growth rates over the plans. As a result, the ratio of tax receipts to GDP has declined from a trend average of 9.66 *per cent* (1985-2001) to 8.70 *per cent* during 1997-2001. Non-tax revenue also declined from an average of 6.09 *per cent* of GDP during 1985-90 to 5.50 *per cent* during 2000-01. Total revenue receipts to the Union as percentage to GDP also reached its peak at an average of 13.95 *per cent* during 1985-90 and then declined to an average of 12.48 *per cent* in 1997-2001. The decline was even sharper in the current year.

1.20 Tax revenue (inclusive of the States' share) of the Union witnessed a buoyancy of 0.888 during 1985-2001 indicating that for each percentage point increase in GDP, increase in tax revenue was only 0.88 *per cent*. While direct taxes had a buoyancy greater than one, a lower buoyancy of indirect taxes (both customs and excise duties), which accounted for nearly three fourths of the total tax revenue, resulted in a overall lower buoyancy for the gross tax receipts.

Expenditure

1.21 The Union Government's total expenditure (Table 1.6) also reflected a similar position. Rate of growth of total expenditure peaked to an average of 13.55 *per cent* during 1985-90, which gradually decelerated to 8.26 *per cent* during 1997-2001. Revenue and capital expenditures also showed similar trends. Loans and advances registered a negative trend growth of 11.91 *per cent* during 1997-2001 compared to earlier periods, partly since allocation of small saving proceeds is now routed through the NSSF and not through CFI as non-plan loans, as was the practice till 1998-99.

Table 1.6: Key Parameters of the Union Government Expenditure ***(in per cent)***

	Revenue Expenditure		Capital Expenditure		Loans and Advances		Total Expenditure	
	A	B	A	B	A	B	A	B
1985-2001	14.94	16.02	7.13	2.20	7.03	2.87	13.10	21.09
VII Plan (1985-90)	16.49	16.34	8.87	3.03	6.01	4.07	13.55	23.44
VIII Plan (1992-97)	14.64	15.59	-8.44	2.03	11.91	2.29	11.87	19.91
IX Plan (1997-2001)	10.74	16.11	8.63	1.35	-11.91	1.91	8.26	19.38
Annual Values								
1998-99	8.03	15.69	24.6	1.43	31.36	2.65	11.77	19.77
1999-2000	14.67	16.16	15.17	1.48	-41.28	1.40	7.20	19.04
2000-01	8.35	15.81	-12.39	1.17	1.47	1.28	6.23	18.27

A: - Rate of Growth ***B:- Relative Share as percentage to GDP***

Fiscal Imbalances

1.22 Revenue and fiscal deficits of the Union Government over the years indicate diverging trends. While there was an increase in revenue deficit/GDP ratio from an average of 2.39 *per cent* during 1985-90 to an average of 3.62 *per cent* during 1997-2001 (revenue deficit/GDP ratio reached 4.0 *per cent* during the current year), fiscal deficit as percentage to GDP declined from an average of 8.19 *per cent* during 1985-90 to an average of 6.05 *per cent* during 1997-2001 as indicated in Table 1.7. Revenue deficit accounts for an increasingly higher share of the overall fiscal deficit indicating deteriorating fiscal imbalances.

Table 1.7: Ratio of Revenue and Fiscal Deficit to GDP ***(per cent)***

	Revenue Deficit	**Fiscal Deficit**	**Revenue Deficit as % to Fiscal Deficit**
1985-2001	2.90	6.89	43.77
VII Plan (1985-90)	2.39	8.19	29.43
VIII Plan (1992-97)	2.85	6.22	45.91
IX Plan (1997-2001)	3.62	6.05	60.33
Annual Values			
1998-99	3.44	6.44	53.45
1999-2000	3.15	5.30	59.41
2000-01	4.00	5.58	71.65

Fiscal Liabilities

1.23 During 1985-2001, the aggregate fiscal liabilities of the Union Government remained a little over 57 *per cent* of GDP. Though the rate of growth in aggregate liabilities indicated a decelerating trend, the ratio of liabilities to GDP did not benefit much from this deceleration as in the later period GDP growth itself witnessed a deceleration in nominal terms. However, average rate of interest on the outstanding liabilities continued to move upwards from an average of 7.02 *per cent* during 1985-90 to an average of 8.97 *per cent* during 1997-2001. In the current year (2000-2001) average interest rate, was moderated to 9.22 *per cent* compared to a level of 9.34 *per cent* reached a year earlier. However, as would be evident from the Table 1.8, most of the new debt was used for debt servicing leaving little scope for capital formation. The issue of debt sustainability has been discussed in greater detail in chapter 5 of the Report.

Table 1.8: Characteristics of the Union Government Fiscal Liabilities

	Rate of Growth of Total Liabilities	Total Liabilities/ GDP Ratio *(per cent)*	Average Rate of Interest	Ratio of Debt Repayment* / Debt Receipts *(per cent)*
1985-2001	15.96	57.85	7.92	91.74
VII Plan (1985-90)	18.04	53.57	7.02	89.44
VIII Plan (1992-97)	12.48	61.39	7.84	92.67
IX Plan (1997-01)	11.75	57.52	8.97	94.92
Annual Values				
1998-99	14.48	57.58	8.81	92.31
1999-2000	10.62	57.23	9.34	98.73
2000-01	10.57	57.17	9.22	96.15

**** Debt repayment includes the principal and interest paid during the period***

Disinvestment

1.24 Since 1991-92, government has been disinvesting its equity in select public sector units. The process of disinvestment, over the years, has moved from sale of the minority stake of PSUs shares to the financial institutions to strategic sale resulting in transfer of the majority stake. However, over the years, cross holding of equities has also continued as a disinvestment strategy. In paragraph 5.3.2 of the CAG's Report No. 1 of 2000, an observation regarding cross holding of equities amounting to Rs 4184 crore was made. In 2000-01 and 2001-02, government has continued to resort to this form of disinvestment, which only helps in showing a reduction in fiscal deficit, as it does not in any way alter the operating and management parameters of the PSUs. Use of disinvestments proceeds for current expenditure leads to the shrinkage of the asset-base to that extent without any corresponding reduction in fiscal liabilities. Disinvestment should not, therefore, be linked to temporary fiscal considerations.

Fiscal Marksmanship

1.25 The budget presents three sets of figures: (a) actuals for the preceding year, (b) revised estimates for the current year, and (c) budget estimates for the forthcoming financial year. Tables 1.9 and 1.10 indicate the deviation in various components of the Union Government finances.

1.26 Several reasons account for the departure of budget estimates from their corresponding realisations. Firstly, actuals may differ from the estimates because of unanticipated and random external events that affect growth of output and, therefore, tax bases. Secondly, methodological inadequacies may lead to underestimation or overestimation of expenditures or revenues. Thirdly, it is seen that often some critical parameters like the revenue and fiscal deficits are under estimated, while others like tax or non-tax revenue are over estimated.

1.27 Union Government has consistently underestimated its fiscal imbalances. In the last sixteen years, the Union Government under estimated its revenue deficit in thirteen years and the fiscal deficit in fifteen years. As would be seen from Table 1.9 below, actual deficits significantly differed from the budget estimates. The magnitude of these deviations as percentage to the budgeted figures also show an upward trend indicating continuing poor marksmanship by the government.

Table 1.9: Deviation in Actual and Budgeted Revenue and Fiscal Deficit ***(per cent)***

	Revenue Deficit	**Fiscal Deficit**
1985-2001	30.21	20.41
VII Plan (1985-90)	23.77	14.44
VIII Plan (1992-97)	28.93	21.33
IX Plan (1997-2001)	40.03	29.94
Annual Deviation		
1998-99	26.00	24.47
1999-2000	25.42	27.74
2000-01	12.31	7.72

In calculating the average deviation, negative signs have been ignored.

1.28 Government also overestimated its revenue receipts and capital expenditure. Revenue receipts were overestimated in nine of the last sixteen years with the average deviation (Table 1.10) being around 4 *per cent*. The magnitude of these deviations was greater in tax revenue. In case of expenditure, the deviation was significantly higher for capital expenditure and actual expenditure usually fell short of the budget provisions (in the last ten out of sixteen years). Significant reduction in capital expenditure was invariably used for moderating aggregate expenditure growth.

Table 1.10: Deviation in components of Revenue Receipts and expenditure from the Budget Estimates *(per cent)*

Year	Revenue Receipt	Tax Revenue	NT Revenue	Revenue Expenditure	Capital Expenditure	Loans and Advances	Total Expenditure
1985-2001	3.51	5.33	3.44	3.41	11.89	12.15	4.13
VII Plan (1985-90)	3.27	5.31	3.76	5.06	15.76	10.01	5.24
VIII Plan (1992-97)	3.75	5.62	1.89	1.95	8.21	10.97	2.97
IX Plan (1997-2001)	4.19	6.44	4.95	3.90	11.74	14.02	4.75
Annual Deviation							
1998-99	(-) 3.00	(-) 7.78	4.98	1.72	(-) 10.54	28.57	3.46
1999-2000	0.67	(-) 2.84	5.37	4.37	(-) 5.35	10.56	3.99
2000-01	(-) 7.56	(-) 5.74	(-) 8.89	(-) 3.23	(-) 25.57	3.70	(-) 4.62

Quality and productivity of Expenditure

1.29 While resource constraints have been a major concern, an equally significant issue is the efficient and productive use of these resources, which has not been adequately addressed. CAG's Report No. 2 of 2002, Union Government (Civil) has highlighted the poor implementation, coupled with ineffective controls that have hindered the achievement of the objectives underlying different schemes and projects. More often than not, there are mismatches between allocation of resources and the ambitious nature of the schemes. Audit reviews on various schemes reflect the shortcomings manifested in a thin spread of resources, failure of implementing agencies to raise additional resources, indifferent and tardy execution of key activities and absence of any effective system of monitoring.

A Macro Economic Perspective: Some Broad Indicators

1.30 The Indian economy has been undergoing structural shifts with the share of agriculture and allied activities in GDP declining from an average of 34.14 *per cent* during 1985-90 to an average of 25.64 *per cent* during 1997-2001 (Table 1.11). As against this, the share of services has gone up from 45.39 *per cent* during 1985-90 to 52.30 *per cent* during 1997-2001.

Table 1.11: Relative Sectoral Shares (*per cent* to GDP)

	Agriculture and Allied	Industry	Services
1985-2001	30.40	21.42	48.18
VII Plan (1985-90)	34.14	20.47	45.39
VIII Plan (1992-97)	29.91	21.86	48.23
IX Plan (1997-2001)	25.64	22.06	52.30
Annual Relative share			
1998-99	26.63	21.89	51.48
1999-2000	25.20	21.83	52.97
2000-01	24.01	21.85	54.15

Source: National Accounts Statistics 2001

1.31 The tax planning of the government does not seem to have responded to these changes in the Indian economy. The industrial sector, which constitutes the high magnitude of the tax base of important central taxes like the corporation tax and the Union excise duties accounted for only 20-22 *per cent* of GDP during 1985-2001. The services sector has not only constituted the largest segment of GDP, it has also witnessed the highest and the steadiest growth rate and offers itself as a more buoyant and less volatile source of tax revenue. However, its potential has remained largely untapped.

Macro Indicators of the Five Year Plans (1985-2001)

1.32 The targets and achievement in terms of some key macro indicators for VII, VIII and IX Plans are indicated in the Table 1.12.

Table 1.12: Macro Economic Targets & Achievements (*per cent*)

Plan Period		GDP Growth (%)	Domestic Savings	Capital Formation *	Current Account Deficit	Implicit ICOR
1985-90	ACTUAL	5.93	20.37	23.27	2.18	3.95
(1984-85 base)	TARGET	**5.00**	**23.70**	**25.3**	**1.60**	**5.10**
1992-97	ACTUAL	6.74	23.48	23.42	1.20	3.47
(1991-92 base)	TARGET	**5.60**	**21.60**	**23.20**	**1.60**	**4.10**
1997-2000	ACTUAL	5.96	22.59	22.27	1.08	3.73
(1996-97 base)	TARGET	**6.50**	**26.10**	**28.20**	**2.10**	**4.30**

(* Unadjusted for errors and omissions)
Source: National Accounts Statistics-2001 and relevant Plan Documents

1.33 During VII and VIII Plans, GDP growth exceeded the plan targets, despite a shortfall in the targeted saving and capital formation rates. In the Ninth Plan, in the first three years, there has been a shortfall in achievement of the growth target. With a downward revision in the GDP growth in 1999-2000 and a moderate growth in 2000-01 and 2001-02, the overall GDP growth during IX Plan will be significantly lower than the target. One of the contributing factors to this deceleration is a decline in the capital formation by the public sector and its negative savings.

Table 1.13: Ratio of Savings and Capital Formation to GDP ***(per cent)***

	Gross Domestic Savings	Gross Capital Formation	Public Sector Savings	Public Sector Capital Formation	Current Account Deficit
1985-2000	22.14	23.08	1.47	8.60	1.57
VII Plan (1985-90)	20.37	23.27	2.39	10.11	2.18
VIII Plan (1992-97)	23.48	23.42	1.52	8.04	1.20
IX Plan (1997-2000)	22.59	22.27	-0.16	6.68	1.08
Relative Annual share					
1998-99	21.99	21.16	-0.82	6.37	0.95
1999-2000	22.26	22.71	-1.19	7.06	0.92

1.34 Public sector saving as percentage to GDP declined from an average of 2.39 *per cent* during 1985-90 to (-) 0.16 *per cent* during 1997-2000. Public sector capital formation also similarly declined from an average of 10.11 *per cent* of GDP to an average of 6.68 *per cent* over the same period. The current account deficit continued to supplement domestic savings and to facilitate larger capital formation. However, the continuous build up of foreign exchange reserves during VII and IX Plans did not let the current account deficit get reflected in increased capital formation, constraining the GDP growth to that extent.

Impact of the revision in GDP on Fiscal Parameters

1.35 The Central Statistical Organisation (CSO) on January 31, 2002 released the quick estimates of National Income for 2000-01, revising their earlier advance estimates released in June, 2001. CSO effected a downward revision in GDP for 1999-2000 and 2000-01. This revision has changed the basic fiscal parameters of the Union Government, particularly in terms of their ratios to GDP. While the subsequent analysis of the Union Government finances is based on the earlier CSO releases, a summary highlighting the changes in key parameters is indicated in the Table 1.14.

Table 1.14: Broad Fiscal Parameters Relative to GDP ***(per cent)***

	Pre-revised GDP		**Revised GDP**	
	1999-2000	**2000-01**	**1999-2000**	**2000-01**
Revenue Receipts	13.01	11.82	13.19	12.26
Tax Revenue	8.78	8.70	8.90	9.03
Non-Tax Revenue	6.45	5.50	6.55	5.71
Total expenditure	19.04	18.27	19.31	18.96
Revenue Expenditure	16.16	15.81	16.39	16.41
Capital expenditure	1.48	1.17	1.50	1.22
Revenue Deficit	3.15	4.00	3.19	4.15
Fiscal deficit	5.30	5.58	5.38	5.79
Fiscal Liabilities	57.23	57.17	58.04	59.33

1.36 The tax/GDP ratio, consequent upon a downward revision in GDP, increases from 8.70 *per cent* in 2000-01 to 9.03 *per cent*. Similarly, ratio of revenue receipts to a GDP also improves from 11.82 *per cent* to 12.26 *per cent*. However, there is a deterioration in the fiscal situation since the revenue and fiscal deficits increase to 4.15 *per cent* and 5.79 *per cent* of GDP respectively. Debt sustainability assumes even more significance since average interest rate at 9.22 *per cent* in 2000-01 for the first time exceeds the GDP growth of 8.2 *per cent*. Aggregate fiscal liabilities/GDP ratio increases to 59.33 *per cent* in 2000-01 from the pre revision assessed level of 57.17 *per cent*. The revised GDP figures further increases the vulnerability of the Union Government finances.