Chapter-10

MANAGING GOVERNMENT FINANCES: A GENERAL EVALUATION

Summary Indicators of Fiscal Performance

10.1 Table 10.1 presents a summarized position of government finances over 1985-2001, with reference to certain key indicators that help assess 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.

10.2 The revenue receipt -GDP ratio, the first indicator in this list, indicates the adequacy of the present flow of resources for the provision of current services. Revenue receipts comprise both tax and non-tax receipts and also captures the element of recovery of user charges for social and economic services provided by the government. The second indicator of adequacy of resources is the tax-GDP ratio, a sub set of the revenue receipts. This ratio indicates the government's access to such resources for which there is no direct service provision obligation. There is a marked decline in these ratios during the VIII and IX Year Plans indicating declining adequacy of resources. The revenue receipt-GDP ratio recorded a steep fall in 2000-01. Compared to the average level of 13.95 *per cent* during 1985-90, the overall decline was more than 2 percentage points, which works out to a trend annual growth of *(minus)* 0.95 *per cent.* The ratio of committed expenditure to revenue receipts is another indicator of the adequacy of resources for capital formation, maintenance of assets already created and availability of funds for non-salary, non–interest purposes. This ratio also moved upwards by over 17 percentage points from an average of 46.04 *per cent* during 1985-90 to 63.62 *per cent* in 2000-01.

10.3 The third ratio- the share of the committed expenditure to the total expenditure of the government- indicates the extent of flexibility. A rising ratio would indicate reduced availability of resources for new activities. Increase in this ratio over the years, indicates a decline in government's fiscal flexibility. The ratio of interest payments to revenue receipts indicates extent of availability of resources for current services. This ratio also increased by nearly 17 percentage points by 2000-01 compared to the Seventh Plan average pointing to lower availability of resources for application to current services..

Table 10.1 Summary of Indicators of Fiscal Performance

	Revenue Receipt/ GDP	Tax/GDP	Committed Expenditure/ Total expenditure	Interest Payments/ revenue Receipts	Committed Expenditure/ Revenue Receipts	Total Expenditure/ GDP
	1	2	3	4	5	6
1985-2001	13.11	9.66	33.32	30.50	53.16	21.09
VII Plan (1985-90)	13.95	10.53	27.45	22.77	46.04	23.44
VIII Plan (1992-97)	12.74	9.34	34.91	33.54	54.43	19.91
IX Plan (1997-01)	12.48	8.70	39.47	36.79	61.19	19.38
Annual Values						
1998-99	12.24	8.18	38.39	36.19	61.99	19.77
1999-2000	13.01	8.78	42.37	37.15	62.02	19.04
2000-01	11.82	8.70	41.15	40.32	63.62	18.27

	Fiscal deficit/ GDP	Revenue Deficit/ GDP	Primary Deficit/GDP	Revenue Deficit/ Fiscal Deficit	Debt Repayment/ New Loans	Debt $ Repayment/ New Loans
	7	8	9	10	11	12
1985-2001	-6.89	-2.90	-2.93	43.77	78.42	91.74
VII Plan (1985-90)	-8.19	-2.39	-5.02	29.43	82.34	89.44
VIII Plan (1992-97)	-6.22	-2.85	-1.96	45.91	76.05	92.67
IX Plan (1997-01)	-6.05	-3.62	-1.46	60.33	78.71	94.92
Annual Values						
1998-99	-6.44	-3.44	-2.01	53.46	75.52	92.31
1999-2000	-5.30	-3.15	-0.47	59.41	84.14	98.72
2000-01	-5.58	-4.00	-0.81	71.65	75.06	96.15

	Internal Liabilities/ GDP	Total # Liabilities/ GDP	Average Interest Rate (Internal Debt)	Average Interest Rate (Total Debt)	Change in Debt/GDP	Capital Expenditure/ GDP
	13	14	15	16	17	18
1985-2001	47.76	57.85	8.84	7.92	0.51	2.20
VII Plan (1985-90)	47.26	53.57	7.37	7.02	1.43	3.03
VIII Plan (1992-97)	47.69	61.39	9.29	7.84	-1.82	2.03
IX Plan (1997-01)	47.77	57.52	10.36	8.97	0.21	1.35
Annual Values						
1998-99	47.46	57.58	10.17	8.81	-0.51	1.43
1999-2000	47.72	57.23	10.79	9.34	-0.35	1.48
2000-01	48.39	57.15	10.58	9.22	-0.08	1.17

$ *Includes repayment of interest*
 # at current exchange rate from 1991-92 and at historic rates prior to that

10.4 Vulnerability of the Union finances is indicated by the ratios of deficits to GDP and the ratio of revenue deficit to the fiscal deficit. Finances become vulnerable to the extent that fiscal deficit is not used for creating assets as there is no addition to the repayment capacity. This ratio increased from an average of 29.43 *per cent* during 1985-90 to 71.65 *percent* in 2000-01, an increase of over 40 percentage points in little over a decade. The continuous increase in fiscal deficit along with an increasing ratio of revenue deficit is in sharp contrast to the long-term target of complete elimination of revenue deficit by March 2006 and reduction of fiscal deficit GDP ratio to 2 *per cent* by then, as enunciated in draft Fiscal Responsibility and Budget Management Bill (FRBM), 2000.

10.5 Repayment as percentage of borrowing also indicates the degree of autonomy in utilizing available resources for current applications. The higher this ratio, lower is the amount available from borrowings for application for current services. This ratio, at 75.06 in 2000-01, showed a marginal improvement over the long-term trend of 78.42 *per cent*. However, reckoning that interest payments also are being made out of borrowed funds, the combined burden of the two increases the ratio from an average of 89.44 *per cent* during 1985-90 to 96.15 *per cent* in 2000-01. Less than 4 *per cent* of the new borrowing is now available for other expenditure.

Internal debt and liabilities have been incurred at rising cost.

10.6 Sustainability of debt is the key issue in the assessment of government finances. The higher the debt to GDP ratio, larger is likely to be the cost at which the government is able to borrow. Columns 15 and 16 of Table 10.1 give the movement of average interest rate on internal and total liabilities. Average interest rate of the internal liabilities increased from an average of 7.37 *per cent* during 1985-90 to 10.58 *percent* in 2000-01. The average interest rate on internal liabilities in 2000-01 exceeded the GDP growth (the quick estimates released by C.S.O. on 31 January 2002 indicate a GDP growth of 8 *per cent* during 2000-01) by 250 basis points. This has made debt sustainability a critical issue.

10.7 A reduction in the debt-GDP ratio is called for in the context of debt sustainability. The Eleventh Finance Commission had suggested a reduction of 5 percentage points in the debt-GDP ratio within five years time. The FRBM, 2000 also envisages a reduction in total liabilities (including external debt at current exchange rate) of the Centre to no more than 50 *per cent* of GDP by March 2011. However, in the last three years debt/GDP ratio has generally been stable. The slower the rate of fall in debt – GDP ratio, the longer it would take, to reach the desirable level of the debt-GDP ratio, consistent with sustainability, unless additional remedial measures are taken for medium term adjustment.

10.8 As resources available for application for current services have depleted relative to GDP, it is critical that these are used with optimal efficiency. These inefficiencies result from the inability to use the resources in time delaying projects and programme implementation rigidities like lapse of funds, opacities in budget proposals. Report No. 1 of 2001, Union Government (Civil) had highlighted March rush of expenditure, implicit subsidies, procedural inefficiencies, unauthorized appropriation, poor fiscal marksmanship as some of the sources of inefficiency.

10.9 These issues and others pointed out elsewhere in the Report call for various measures of reform in government finances and accounts, including budgetary operations of the government.

New Delhi	**(H.P. DAS)**
Date	**Director General of Audit**
	Central Revenues

Countersigned

New Delhi	**(V.K. SHUNGLU)**
Date	**Comptroller and Auditor General**
	of India