Chapter 10

MANAGING GOVERNMENT FINANCES: SUMMING UP

This chapter presents a summarised position of government finances over 1992-2009 focusing on the trends in the current year, with reference to certain key indicators that help in assessing the adequacy and effectiveness of available resources, highlighting the areas of concern, and capturing important facets of government finances. Fiscal parameters of the Union Government have broadly been grouped under four major components and for each component sets of indicators have been conceived to assess the fiscal developments over time. The four major components are resource mobilisation; expenditure management; management of fiscal imbalances and management of fiscal liabilities.

Resource Mobilisation

Table 10.1 shows four indicators, which capture the adequacy of resources, and growth of these resources. The revenue receipt to GDP ratio indicates the adequacy of the present flow of resources for the provision of current services. Revenue receipts comprise tax and non-tax receipts, which *inter alia* include 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. Revenue and tax buoyancy indicate the pace of resource mobilisation efforts. Table 10.1 also summarises the movement in value of these indicators over 1992-2009 encompassing the VIII, IX and X Plan periods as well as the first two years of the XI Plan (2007-12).

Table 10.1: Indicators of Resource Mobilisation

(Per cent)

Period	Revenue Receipt/ GDP	Gross Tax Receipt/ GDP	Revenue Buoyancy*	Tax Buoyancy*
1992-2009 (average)	**15.15**	**10.08**	**1.007**	**1.129**
VIII Plan (1992-97) (average)	15.18	9.27	0.932	0.961
IX Plan (1997-02) (average)	14.67	8.64	0.831	0.871
X Plan (2002-07) (average)	14.85	10.05	1.121	1.530
XI Plan (2007-12)				
2007-08	16.96	12.56	1.673	1.756
2008-09	**15.30**	**11.37**	**0.126**	**0.162**

*Revenue and Tax buoyancy coefficients are in ratios.

As indicated in Table 10.1, revenue receipts as a percentage of GDP was 15.30 *per cent* in the current year (lower than what it was in 2007-08 but higher than the average for period 1992-2009). In the case of the second indicator, viz. gross tax receipts as a percentage of GDP, in 2008-09, the ratio was lower than the previous year but higher than the trend average. In the case of both revenue buoyancy and tax buoyancy, the performance in 2008-09 was much lower than what it was in the previous year as well as for the entire period of 1992-2009.

Management of Expenditure

For assessing expenditure management, eight indicators shown in Table 10.2 were identified to capture expenditure growth and quality. Plan expenditure, capital expenditure and development expenditure are indicators of the quality of expenditure. The parameters of ratio of expenditure to GDP and buoyancy (with reference to revenue receipt) indicate relationship of expenditure with GDP and its responsiveness to changes in these parameters. Values of these parameters over the defined time frame are indicated in Table 10.2.

Table 10.2: Indicators of Expenditure Management

(Per cent)

Period	TE/GDP	RE/ GDP	RE/ TE	PE/TE	CE/TE	DE*/TE	Buoyancy of TE to NRR	Buoyancy of RE to NRR
1992-2009	**19.26**	**16.55**	**84.30**	**22.93**	**8.35**	**37.07**	**0.98**	**1.06**
VIII Plan (1992-97)	21.18	17.05	80.50	21.86	8.87	38.60	0.78	0.95
IX Plan (1997-02)	20.25	17.06	84.23	20.19	6.74	38.71	1.42	1.64
X Plan (2002-07)	17.85	15.58	87.27	24.17	8.19	41.16	0.74	0.84
XI Plan (2007-12)								
2007-08	18.28	15.56	85.10	23.75	13.54	47.00	0.79	0.49
2008-09	**20.71**	**18.98**	**91.64**	**24.97**	**7.04**	**51.19**	**40.62**	**55.04**

TE = Total Expenditure, RE = Revenue Expenditure; PE = Plan Expenditure; CE = Capital Expenditure; NRR = Net Revenue Receipts and DE denotes Development expenditure, which is total expenditure on social and economic services and the denominator total expenditure here excludes loans and advances.

Table 10.2 indicates that in the case of most of the indicators of expenditure management (viz. TE/GDP, RE/GDP, RE/TE, PE/TE and DE/TE), the expenditure in 2008-09 was higher not only compared to the previous year but also compared to the trend ratios for the post-liberalisation period (1992-2009). However, it is pertinent to note that in the case of capital expenditure as a percentage of total expenditure, there has been a fall in the ratio in the current year when compared to either the previous year or the trend average. It may also be observed that since the current year had faced considerable economic shocks, the net revenue receipts grew at a very low rate (0.68 *per cent*), whereas in order to counter the slowdown, Government expenditure increased significantly (27.65 *per cent*). As a result, the buoyancy of TE/NRR

showed a very high growth in 2008-09 as compared to either the previous year or the post-liberalization period. Similarly, the buoyancy of RE/NRR in the current year was even higher (55.04) compared to a buoyancy of 0.49 in the previous year and 1.06 for the period 1992-2009. The table shows that over the years, revenue expenditure and total expenditure have been funded by borrowings as the growth in net revenue receipts have been much lower than growth in expenditure.

Management of Fiscal Imbalances

Five indicators shown in Table 10.3 were identified to capture management of fiscal imbalances. These included the ratio of revenue, fiscal and primary deficit to GDP, the ratio of revenue deficit to fiscal deficit and the balance from current revenue (BCR). Though deficits are essentially the outcomes of the government's policy with regard to its receipts and expenditure, they serve as useful proxies for fiscal health. The Fiscal Responsibility and Budget Management (FRBM) Act of 2003 and Rules made there under, as they stand now, has mandated the Government to take appropriate steps to (i) eliminate revenue deficit by 31 March 2009 and thereafter build adequate revenue surplus, and (ii) to bring down the fiscal deficit to not more than 3 *per cent* of GDP by 31 March 2009. Union Government has, however, amended the dates originally envisaged in the Act for achieving the deficit targets. The targets relating to fiscal deficit were set to be achieved as per the mandate in the Act, while those relating to revenue deficit were rescheduled for its elimination by 2009-10. However, the sudden onset of recessionary trends due to the global economic slowdown led to a slippage in achievement of these targets. The values of these parameters over the specified periods as mentioned above are indicated in Table 10.3.

Table 10.3: Indicators of Management of Fiscal Imbalances

(Per cent)

Period	Revenue Deficit/GDP	Fiscal Deficit/ GDP	Primary Deficit/ GDP	Revenue Deficit/ Fiscal Deficit	Balance From Current Revenue *(Rupees in crore)*
1992-2009	**3.66**	**5.32**	**1.08**	**68.74**	**-12432**
VIII Plan (1992-97)	2.78	6.01	1.76	46.26	-2192
IX Plan (1997-02)	3.94	6.23	1.49	63.26	-28622
X Plan (2002-07)	3.31	4.15	-0.08	79.74	-4764
XI Plan (2007-12)					
2007-08	1.81	3.49	-0.32	51.79	88137
2008-09	**6.70**	**8.16**	**4.39**	**82.03**	**-121603**

The ratios of deficits to GDP and the ratio of revenue deficit to the fiscal deficit indicate vulnerability of Union finances. Finances become vulnerable to the extent that fiscal deficit is not used for creating assets, as there is no addition to the repayment capacity and no asset back up for the liabilities

incurred. Table 10.3 indicates during 2008-09, substantial growth in the ratio of all the three indicators of deficit -viz. revenue deficit (6.70), fiscal deficit (8.16) and primary deficit (4.39) to GDP as compared with previous year as well as for the entire period. The ratio of revenue deficit to fiscal deficit had also risen to 82 *per cent* indicating increasing share of revenue expenditure as compared to expenditure on capital and repayment of loans and advances. Similarly balance from current revenue, which is an indicator of funding available for plan expenditure from current revenue turned negative after a positive trend since 2004-05[1]. This indicates that resources to meet the Plan expenditure was met from borrowings, creating future liabilities.

Management of Fiscal Liabilities

Sustainability of debt is the key issue in the assessment of government finances. Higher the debt to GDP ratio, larger is likely to be the cost at which the government is able to borrow. Average rate of interest, difference between the interest and GDP growth (referred to as Domar gap) and the ratio of assets (utilisation of borrowed funds) to fiscal liabilities are important indicators of debt management. Debt redemption inclusive of interest as percentage of borrowing also indicates the degree of autonomy in utilising available resources for current applications. The higher this ratio, the lower is the amount available from borrowings for application for current services. Values of the seven indicators of management of fiscal liabilities are indicated in Table 10.4 below.

Table 10.4: Indicators of Management of Fiscal Liabilities

Period	Fiscal Liabilities/ GDP	Debt Redemption to Debt Receipt	Average Interest Rate on Total Liabilities	Domar Gap	Ratio of Assets to Liabilities	Fiscal Liabilities/ Revenue Receipts	Buoyancy of Assets
1992-2009	**56.92**	**96.51**	**8.32**	**3.99**	**44.43**	**441**	**0.66**
VIII Plan (1992-97)	60.39	93.10	7.91	8.63	57.68	423	0.83
IX Plan (1997-02)	58.84	94.70	9.06	1.27	50.90	448	0.70
X Plan (2002-07)	57.14	98.68	8.09	5.84	40.26	472	0.53
XI Plan (2007-12)							
2007-08	52.43	94.60	8.24	6.15	38.06	381	1.08
2008-09	**53.37**	**96.44**	**8.10**	**4.57**	**35.93**	**434**	**0.56**

Fiscal liabilities as a proportion of GDP was higher in the current year compared to the previous year but lower than what it was for the period 1992-2009. The correction made in previous years due to the adoption of the FRBM Act could not be sustained in the current year because of the downturn in the economy. Table 10.4 indicates that in the current year, 96.44 *per cent* of debt

[1] The BCR in 2004-05 was Rs 8,794 crore; in 2005-06, it was Rs 2,161 crore and in 2006-07, it was Rs 25,771 crore.

receipts was used for redemption purposes. In other words, the Union Government is borrowing primarily to payback earlier debt obligations. The difference between interest rates and growth in GDP (Domar gap) in the current year was lower than what it was in the previous year. This indicates that the cost of borrowing was lower during 2008-09. The table also indicates that fresh liabilities are being created at a faster rate than assets.

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