

CHAPTER V : MANAGEMENT OF FISCAL IMBALANCE : DEFICITS

5.1 Deficits in Government Accounts

Deficit in Government Accounts are defined in many ways, each indicating distinct facets of the budgetary, economic or monetary policy of the Government. These are worked out in different ways, by including or excluding specific elements of public expenditure or receipts. Three types of deficits namely, revenue deficit, fiscal deficit and primary deficit are indicated in the annual budget, while monetised deficit is worked out by the amount of increase in the RBI's holdings of Government debt plus any draw down by the Government of its cash balances with RBI.

The concept of budgetary deficit has become redundant following the discontinuance of ad hoc treasury bills with effect from April 1997, which earlier served as a source for bridging the temporary mismatch between receipts and expenditure of the Government. This system has been replaced by ways and means advances. Union Government has entered into an agreement with RBI in March 1997 regarding discontinuing the practice of issuing ad hoc treasury bills to replenish the cash balance with effect from April 1997. RBI makes ways and means advances to Union Government, if so required. The agreement stipulated that the outstanding ad hoc treasury bills as on 31 March 1997 would be funded into special securities on 1 April 1997 without any specified date of maturity at an interest rate of 4.6 per cent per annum. The outstanding tap treasury bills as on 31 March 1997 would be paid off on maturity with an equivalent creation of special securities without any specified date of maturity, at an interest rate of 4.6 per cent per annum

Borrowing by Union Government through ways and means advances has been discussed in detail in Chapter VII of this Report

The various types of deficits in the Union Government Accounts since 1976-77 are indicated in Appendix X which is represented graphically for the last two decades as under:

The break-up of the deficit during 1998-99 was as under :

Table 5.1 : Deficits in Government Account

(Rupees in crore)

| CONSOLIDATED FUND | | | | | |
|--|---------------|--|---------------|-------------------------------------|---------------|
| Receipt | Amount | | | Disbursement | Amount |
| Revenue | 239889 | Revenue deficit : | 60567 | Revenue | 300456 |
| Miscellaneous capital receipts (including disinvestment) | 5874 | | | Capital | 25200 |
| Recovery of loans & advances | 13189 | | | Loans & advances disbursement | 46594 |
| Sub total CFI (other than public debt) | 258952 | Fiscal deficit | 113298 | | 372250 |
| Public debt | 395297 | | | Public debt repayment | 322679 |
| Total (CFI) | 654249 | A: Deficit in CFI | 40680 | | 694929 |
| | -- | B: CONTINGENCY FUND | | | 27* |
| | | | | | |
| PUBLIC ACCOUNT | | | | | |
| Small savings, provident funds etc. | 94407 | | | Small savings, provident funds etc. | 53011 |
| Deposits and advances** | 45055 | | | Deposits and advances | 43424 |
| Reserve funds* | 14730 | | | Reserve funds | 17006 |
| Suspense & miscellaneous* | 5038 | | | Suspense & miscellaneous | 4749 |
| Remittances [†] | 588 | | | Remittances | 685 |
| Total Public Account | 159818 | C: Surplus in Public Account: 40943 | | | 118875 |
| Increase in cash balance {C-(A+B)} = 236 | | | | | |

Note : Statistical presentation above does not account for changes introduced in the Union Budget 1999-2000 vis-a-vis accounting and flow of small saving to the states outside the Consolidated Fund of India.

* Expenditure of Rs 27 crore met out of contingency fund remained unrecouped during 1998-99

♦ Includes Security Deposits, Deposits of Railways, Telephone Application Deposit, Postal Deposits, Forests Advances, Departmental Advances etc.

▲ Includes Depreciation Reserve Funds – Railways, Revenue Reserve funds – Railways, Sugar Development Fund, Mines Welfare Funds, National Renewal Fund etc.

* Includes amount awaiting final adjustments in the accounts like Pay and Accounts Office Suspense, Suspense Accounts P&T, Defence, Railways and Tele-communication, Coinage Accounts, Cheques and Bills etc.

[†] Includes the money in transit like Money Orders, RBI Remittances, small Coin Depot remittances, Mint remittances

5.2 Revenue deficits

The revenue deficit refers to the excess of revenue expenditure over revenue receipt. The trend of revenue deficit for the last five years was as under :

Table 5.2 : Revenue deficit

(Rupees in crore)

| Year | Budget estimates | Actuals | | Actual revenue deficit | Revenue deficit as a %age of GDP |
|---------|------------------|-----------------|---------------------|------------------------|----------------------------------|
| | | Revenue receipt | Revenue expenditure | | |
| 1998-99 | 48068 | 239889 | 300456 | 60567 | 3.44 |
| 1997-98 | 30265 | 218299 | 277732 | 59433 | 3.80 |
| 1996-97 | 31475 | 193718 | 226372 | 32654 | 2.56 |
| 1995-96 | 35541 | 168571 | 198302 | 29731 | 2.71 |
| 1994-95 | 32727 | 146670 | 177699 | 31029 | 3.28 |

Revenue deficit in the Government Accounts indicates that not only the entire capital expenditure is met out of borrowed funds but part of the revenue expenditure, to the extent of revenue deficit, is also met out of the borrowed funds.

The revenue deficit in 1998-99 increased from Rs 59433 crore in 1997-98 to Rs 60567 crore registering an increase of 1.91 per cent. In terms of absolute value, the revenue deficit had more or less been steady over three years 1994-97. The equilibrium was seriously upset during 1997-98, when revenue deficit jumped by Rs 26779 crore from Rs 32654 crore in 1996-97 to Rs 59433 crore. During 1998-99, measures taken by Government did not bring down the revenue deficit, which increased marginally over the previous year to Rs 60567 crore.

The revenue deficit as percentage of GDP decreased by 0.36 percentage point in 1998-99 compared to 3.80 in 1997-98. During 1998-99, the revenue deficit as percentage of GDP was 3.44 per cent as compared to budgeted figure of 3.0 per cent.

The actual revenue deficit outstripped the Budget Estimates of 1998-99 by Rs 12499 crore.

As would be evident from the Appendix X that up to 1978-79, the accounts had ended up with revenue surplus. Thereafter, the revenue deficit has been increasing steadily. Had the book adjustment not been made in respect of contributions towards redemption of petroleum bonds of Rs 6382 crore, which did not form part of revenue as envisaged in the budget, the actual revenue deficit could have been Rs 66949 crore (3.80 per cent of GDP).

Revenue deficit outstripped BE.

5.3 Fiscal deficits

Fiscal deficit is the difference between the revenue receipts plus certain capital receipts and the total expenditure including loans given, net of repayments. Since ideally the capital expenditure of the Government should be financed from the revenue surplus, fiscal deficit provides a measure of macro economic imbalance.

In the budget documents of the Union Government some items of expenditure, not involving cash outflow, were reduced from the expenditure to arrive at the fiscal deficit figure. This practice was also followed in the past while offering comments on the fiscal deficit in this chapter.

The fiscal deficit has been worked out on the basis of actual figure of receipt and expenditure (irrespective of outflow of cash) booked in the accounts and figure of fiscal deficit may differ from the figure appeared in earlier Reports. The fiscal deficit for the last 23 years are given in Appendix-V.

The fiscal deficit for the last five years was as under:

Table 5.3 (i) : Fiscal deficit

(Rupees in crore)

| Year | BE | Actual fiscal deficit | As a % age of GDP |
|---------|-------|-----------------------|-------------------|
| 1998-99 | 91025 | 113298 | 6.43 |
| 1997-98 | 65454 | 104621 | 6.69 |
| 1996-97 | 62266 | 68242 | 5.34 |
| 1995-96 | 57634 | 63689 | 5.80 |
| 1994-95 | 54915 | 62079 | 6.56 |

Fiscal deficit exceeded the Budget Estimates.

In absolute value terms, the fiscal deficit increased to Rs 113298 crore in 1998-99 from Rs 104621 crore in 1997-98, an increase of Rs 8677 crore. However, as percentage of GDP, during 1998-99, it declined marginally to 6.43 per cent from 6.69 per cent over the preceding year.

The fiscal deficit in 1998-99 exceeded the Budget Estimates of Rs 91025 crore by Rs 22273 crore. As percentage of GDP, it ended up 0.83 percentage point higher than the budgeted figure of 5.6 per cent.

Expenditure financed by borrowing during the last 23 years are given in Appendix XI. During 1996-99, the fiscal deficit arose on account of the Government's necessity to borrow in order to meet the following expenditure.

Table 5.3 (ii) : Expenditure financed by borrowings

(Rupees in crore)

| Expenditure to be financed through borrowings | 1998-99 | 1997-98 | 1996-97 |
|---|----------------|---------------|--------------|
| | Amount | Amount | Amount |
| Revenue expenditure | 60567 | 59433 | 32654 |
| Capital expenditure | 19326 | 19313 | 15249 |
| Loans and advances | 33405 | 25875 | 20339 |
| Total | 113298* | 104621 | 68242 |

While 53.46 per cent of the borrowed fund was applied to meet the revenue expenditure, remaining 46.54 per cent was utilised for funding expenditure on capital accounts. In order to meet the above expenditure the Government sourced the borrowing through the following :-

Table 5.3 (iii) : Sources of borrowings

(Rupees in crore)

| Borrowings | 1998-99 | 1997-98 | 1996-97 |
|---|---------------|---------------|--------------|
| | Amount | Amount | Amount |
| Internal debt (Net) | 70698 | 44524 | 36606 |
| External debt (Net) | 1920 | 1091 | 2987 |
| Small savings, provident fund etc. (Net) | 41396 | 52826 | 25637 |
| Deposits & advances (Net) | 1631 | 3917 | 1945 |
| Reserve funds (Net) | (-) 2276 | 411 | 2046 |
| Suspense & miscellaneous (Net) | 289 | 2139 | (-) 203 |
| Remittances (Net) | (-) 97 | 623 | (-) 1232 |
| Increase (-) / decrease (+) in cash balance | (-) 263 | (-) 910 | (+) 456 |
| Total | 113298 | 104621 | 68242 |

The reduction of fiscal deficit as a percentage of GDP from 6.56 per cent in 1994-95 to 6.43 per cent in 1998-99 had been achieved through compression in capital expenditure. The trend of the last five years was as under :

Table 5.3. (iv) : Impact of fiscal deficit

(Figures as %age of GDP)

| Year | Revenue receipt | Fiscal deficit | Revenue expenditure | Capital expenditure |
|---------|-----------------|----------------|---------------------|---------------------|
| 1998-99 | 13.61 | 6.43 | 17.05 | 1.43 |
| 1997-98 | 13.96 | 6.69 | 17.76 | 1.29 |
| 1996-97 | 15.17 | 5.34 | 17.73 | 1.23 |
| 1995-96 | 15.34 | 5.80 | 18.05 | 1.60 |
| 1994-95 | 15.51 | 6.56 | 18.79 | 2.04 |

* Does not include expenditure of Rs 27 crore not recouped to Contingency fund of India, but for which the expenditure financed from borrowing would have been Rs 113325 crore

Fiscal deficit as percentage of GDP was contained at the cost of capital expenditure.

It would be observed from the above table that the fiscal deficit as percentage of GDP decreased from 6.56 per cent in 1994-95 to 6.43 per cent in 1998-99 by reducing the capital expenditure by 0.61 percentage point of GDP while the reduction of the revenue expenditure during this period was 1.74 per cent of GDP. This pattern is also reflected in the fact that while the fiscal deficit in 1998-99 increased by 8.29 per cent over that in 1997-98, the revenue deficit increased by 1.91 per cent only.

5.3.1 *Less than anticipated receipts*

One of the main components responsible for the deterioration on the fiscal front was shortfall in tax revenues as discussed in Chapter III. In addition, Government's estimates for receipt on account of disinvestment of PSUs have consistently been out of tune with the reality during 1995-96 to 1997-98. There was mismatch between the budget and actual collection during all years since 1992-93. During 1998-99, the actual receipt was marginally more than the estimates.

5.3.2 *Disinvestment of equity holding in PSUs*

Receipt on account of disinvestment of equity holdings in public sector enterprises was projected as the major part of capital receipt. The receipt from disinvestment since 1991-92 has been as under:-

Table 5.3.2(i) :Receipt from disinvestment

(Rupees in crore)

| Year | BE | Actual receipts | Excess (+) Short fall (-) over BE |
|---------|------|-----------------|--------------------------------------|
| 1998-99 | 5000 | 5369* | (+) 369 |
| 1997-98 | 4800 | 910 | (-) 3890 |
| 1996-97 | 5000 | 380 | (-) 4620 |
| 1995-96 | 7000 | 362 | (-) 6638 |
| 1994-95 | 4000 | 5078 | (+) 1078 |
| 1993-94 | 3500 | (-) 48 | (-) 3548 |
| 1992-93 | 2500 | 1961 | (-) 539 |
| 1991-92 | 2500 | 3038 | (+) 538 |

Shortfall in disinvestment receipts upset the estimates of fiscal deficit.

The actual receipts from disinvestment of Government holding in PSUs have been negligible as compared to the budget estimates except during 1991-92, 1994-95 and 1998-99 upsetting the estimation of fiscal deficit.

However, the information supplied by the Department of Disinvestment revealed that receipt from disinvestments during 1998-99 was Rs 5371.11 crore. Out of this, a major chunk of receipt came from cross holding of equity of one public sector undertaking by another as detailed under:

* Largely due to cross holding of PSUs Share permitted by Government.

Table 5.3.2.(ii): Cross holding of equity

(Rupees in crore)

| PSU disinvested | Cross holder | Amount |
|--------------------------------|--------------------------------|----------------|
| Gas Authority of India Ltd. | Oil and Natural Gas Commission | 245.04 |
| | Indian Oil Corporation | 245.04 |
| Indian Oil Corporation | Oil and Natural Gas Commission | 1208.96 |
| Oil and Natural Gas Commission | Indian Oil Corporation | 2034.96 |
| | Gas Authority of India Ltd. | 450.00 |
| Total | | 4184.00 |

Thus, other than cross holding, the disinvestment fetched only Rs 1187.11 crore against the Budget Estimates of Rs 5000 crore.

Domestic/Institutional investor's participation was worth only Rs 221.65 crore in Container Corporation of India Ltd. and Rs 181.78 crore in Gas Authority of India Ltd.

Videsh Sanchar Nigam Ltd.'s equities were off loaded in international market and receipt from the global depository receipt (GDR) was Rs 783.68 crore.

But for allowing the cross purchasing of the equity the Government would not have been able to achieve the budgetary target.

5.4 Primary deficit

Primary deficit is measured by subtracting the interest payments from fiscal deficit. It is a measure of current year's fiscal operation after excluding the liability of interest payment created due to borrowings undertaken in the past.

The last five year's trend of the primary deficit was as under :

Table 5.4 : Primary deficit

(Rupees in crore)

| Year | Fiscal deficit | Interest payment | Primary deficit (2-3) |
|---------|----------------|------------------|-----------------------|
| 1 | 2 | 3 | 4 |
| 1998-99 | 113298 | 77882 | 35416 (16025) |
| 1997-98 | 104621 | 65637 | 38984 (- 2546) |
| 1996-97 | 68242 | 59478 | 8764 (2266) |
| 1995-96 | 63689 | 50045 | 13644 (5634) |
| 1994-95 | 62079 | 44060 | 18019 (8915) |

Figures in bracket denote BEs of primary deficit

As brought out in the last two year's Audit Report, the concept of primary deficit does not indicate any economic or budgetary parameter. Government is a continuing entity and subtracting any part of liability undertaken in the previous years is redundant. For that matter, the impact on future accounts by the budgetary and fiscal policy in the current year is camouflaged by excluding the liability on account of borrowings in the past. In this concept the interest receipt on account of loans and advances made in the preceding years is ignored. It would be seen from Appendix IV that interest receipt of the Government on loans and advances given by it has been increasing steadily. The objective behind coining a definition of the deficit by subtracting the interest payment does not serve any purpose

5.5 Monetised deficit

Monetised deficit goes beyond the Government's budgetary operations. The monetised deficit represents increase in the net RBI credit to the Union Government which is the sum of increases in the RBI's holdings of Government debt plus any draw down by the Government of its cash balance with RBI. Simply stated, the monetised deficit represents the expansion in money supply for the like amount by the RBI. The concept does not take into account Rs 5977 crore, RBI profits transferred to Government and displayed under profits. To that extent the monetised deficit is understated.

The monetised deficit during the last five years was as under:-

Table 5.5 : Monetised deficit

| <i>(Rupees in crore)</i> | | | |
|--------------------------|--------|------------------------------|----------------|
| Year | Amount | As a % age of fiscal deficit | As %age of GDP |
| 1998-99 | 11800 | 10.41 | 0.67 |
| 1997-98 | 12914 | 12.34 | 0.83 |
| 1996-97 | 1934 | 2.83 | 0.15 |
| 1995-96 | 19855 | 31.17 | 1.81 |
| 1994-95 | 2130 | 3.43 | 0.23 |

The monetised deficit during 1998-99 increased by 453.99 per cent over the period of five years.

The monetised deficit at the end of March 1999 was Rs 11800 crore, which accounted for 10.41 per cent of the fiscal deficit as against 12.34 per cent during 1997-98.

During 1998-99, out of the gross market borrowing of Rs 83753 crore, the devolvement on RBI was Rs 38205 crore. While during 1997-98, the devolvement on RBI was Rs 13028 crore out of the total market borrowing of Rs 43389 crore. The details of market borrowings and devolvement of market borrowings on RBI during the last five years have been indicated in table 7.7(i) and 7.7.1(i) respectively. Despite the huge amount of devolvement of market borrowing on RBI during 1998-99, the net credit to Union Government by

RBI, which connotes monetised deficit, came down to Rs 11800 crore by taking recourse to open market window and repo transactions.

5.6 Debt and deficit

The deficit is financed by debt in one form or other. The persistence of deficit in the account is, therefore, accompanied by increase of debt in the Government account. The quantum of internal and external debt and its impact have been analysed in Chapter-VII.