HIGHLIGHTS OF THE UNION GOVERNMENT FINANCES AND ACCOUNTS: 2000-2001

This Report discusses government finances in the year 2000-2001 and also attempts to review its finances over a sixteen-year period beginning with the VII Five Year Plan (1985-1990).

The year 2000-2001 ended with a deficit of Rs.23925 crore in the Consolidated Fund of India (CFI), as compared to a surplus of Rs.151986 crore at the end of the year 1999-2000. The Union Government utilised the surplus of Rs.25123 crore available in Public Account for meeting its expenditure due to the deficit in the CFI. Fiscal imbalances continued to be a feature of Union Government finances in 2000-01. While the revenue deficit was 12.31 *per cent* higher than that budgeted, the fiscal deficit was 7.72 *per cent* higher than estimated. The revenue deficit was Rs.86611 crore which was 4 *per cent* of the GDP. The fiscal deficit at Rs.120874 crore was 5.58 *per cent* of GDP. Nearly 72 *per cent* of the fiscal deficit was utilised to meet revenue deficit.

The total receipts of the Union Government amounted to Rs.942985 crore in the year 2000-01. The Union Government's own receipts were Rs.326648 crore which constituted only 35 *per cent* of total receipts. The remaining 65 *per cent* came through borrowings. Revenue receipts recorded a modest growth of only 3.24 *per cent* in 2000-01. However, there was a significant increase in the relative share of revenue receipts in 2000-01 to 32.63 *per cent* of total receipts. Total revenue receipts in 2000-01 amounted to Rs.307724 crore.

Gross revenue of the Union Government as a percentage of GDP witnessed a continuous deceleration since the VII Plan (1985-1990). During the current year, the gross revenue/GDP ratio declined to 14.20 *per cent* in comparison to 15.23 *per cent* registered in the previous year. Net revenue, after providing for the States' share, as a percentage of GDP registered a sharp fall to 11.82 *per cent*. Overall tax/GDP ratio of the Union Government was around 8.70 *per cent* on an average during 1997-2001, which was 10-percentage points lower than the world average. While direct taxes had buoyancies greater than one during the period 1997-01, indirect taxes registered a buoyancy of 0.845 during the same period. This was largely due to a sharp fall in buoyancy of customs duties during the period. Higher buoyancy in direct taxes was, however, not able to off set the deceleration in buoyancy of indirect taxes.

There was a decline in non-tax revenues during the current year with a total of Rs.119121 crore being realized. There was a sharp decline in the contribution of telecommunications during the year. Similarly, interest receipts also declined during the year. However, revenues from dividends and profits stood at Rs.13575 crore, registering a healthy growth of 42.10 *per cent*. Over the sixteen-year period commencing with the VII Plan (1985-90), non-tax revenue as a percentage to GDP remained stagnant at around 6 *per cent*.

The total expenditure of the Union Government in the current year was Rs.395834 crore. This encompasses revenue expenditure, capital expenditure and loans and advances. If repayment of debt and public account disbursements are also taken into account, the total disbursements of the Union Government stood at Rs.941787 crore during the year. However, in essence, the government was left with only around 31 *per cent* of its mobilised resources for non-interest expenditure.

Overall government expenditure has tended to tilt towards non-asset forming revenue expenditure, which in the current year accounted for 87 *per cent* of total expenditure. During the first four years of the IX Plan, revenue expenditure averaged 83.22 *per cent* of total expenditure while capital expenditure averaged 6.99 *per cent* of aggregate expenditure. The same trend continued in 2000-01 when capital expenditure accounted for 6.42 *per cent* of total expenditure while loans and advances accounted for 7.01 *per cent*. The decline in the relative share of capital expenditure indicates that current consumption of the government is receiving priority over capital formation. In the context of plan expenditure, the capital component was low. Plan capital expenditure currently accounts for a mere 0.5 *per cent* of GDP and with the inclusion of loans and advances, the combined share increases to 1.46 *per cent*. Overall, the share of plan expenditure in aggregate expenditure declined from an average of 28.86 *per cent* during 1985-90 to 20.15 *per cent* during the period 1997-2001.

A significant part of revenue expenditure is transfer payments, which are mostly committed in nature. Interest payments, pensions, salaries and grants-in-aid fall in this category. In the first four years of the IX Plan (1997-2001), committed revenue expenditure accounted for 47.42 *per cent* of total revenue expenditure and 61.19 *per cent* of revenue receipts. A significant factor is the rise in interest payments, which increased nearly fourteen times, from 1985-86 to 2000-01. Interest payments accounted for 40 *per cent* of revenue receipts in the current year and were 4.76 *per cent* of GDP. The mounting interest burden coupled with a declining current revenue/GDP ratio has accentuated the problems of fiscal management.

Aggregate fiscal liabilities have grown over nine times in the last sixteen years from Rs.137485 crore in 1985-86 to Rs.1238842 crore in 2000-01 at an average rate of around 16 *per cent*. In 2000-01, fiscal liabilities of the Government increased by 10.61 *per cent*. Total liabilities stood at 57 *per cent* of GDP in 2000-01. External debt liabilities were less than 10 *per cent* of GDP while internal debt and net liabilities under Public Account together accounted for 48 *per cent* of GDP.

Debt sustainability continues to be a critical issue given the heavy incidence of fiscal liabilities of the government. The debt/GDP ratio was 57.85 *per cent* during the period 1985-2001. The average nominal interest rate remained lower than the rate of growth of GDP at market prices thereby satisfying one condition of debt sustainability. However, the average spread between GDP growth and average interest rates has narrowed over seven percentage in 1992-97 to a mere 0.14 percentage point in 2000-01. The convergence of GDP growth and interest rates has implications for the future stability of the debt/GDP ratio. Another issue in debt sustainability is the extent to which debt receipts are used for debt redemption. An increasing proportion of debt receipts is being used for debt redemption, both on account of principal and interest payments. Debt redemption accounted for 96.15 *per cent* of debt receipts during the current year.