II. Fiscal Situation

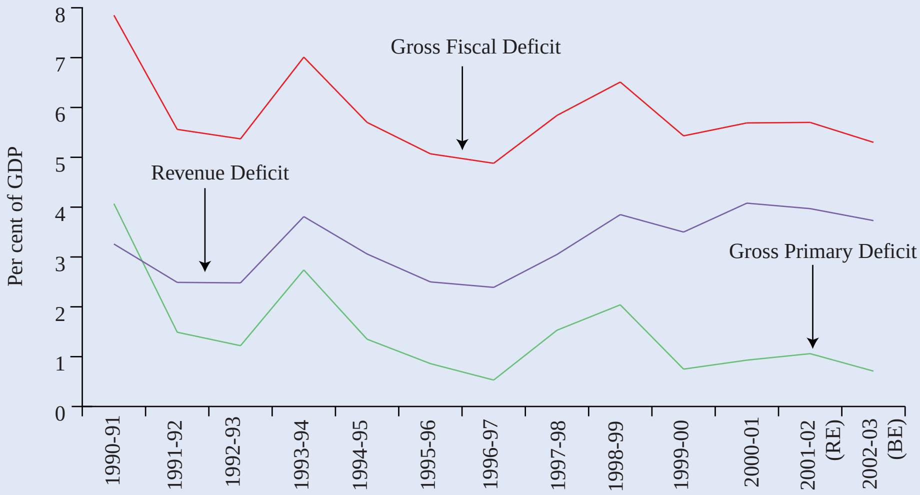
Centre's Fiscal Position

The Central Government budget for 2001-02 envisaged continued emphasis on fiscal consolidation. All the fiscal deficit indicators were budgeted lower than the previous year's levels. The gross fiscal deficit, revenue deficit and primary deficit of the Centre were projected at 4.7 per cent, 3.2 per cent and 0.2 per cent of GDP, respectively.

Despite the containment of expenditure, there was an increase in the deficit indicators in the revised estimates for 2001-02 due to shortfall in tax revenue and disinvestment receipts. The gross fiscal deficit (GFD) in the revised estimates for 2001-02 at Rs.1,31,721 crore surpassed the budgeted level of Rs.1,16,314 crore by 13.2 per cent, and at 5.7 per cent of GDP, it was higher by one percentage point over the budgeted level. The revenue deficit in the revised estimates for 2001-02 at Rs.91,733 crore exceeded the budgeted level of Rs.78,821 crore by 16.4 per cent and stood at 4.0 per cent of GDP as against the budgeted level of 3.2 per cent. The primary deficit was placed at Rs.24,464 crore (1.1 per cent of GDP) as against budget estimates of Rs.4,014 crore (0.2 per cent of GDP) (Chart 15).

Revenue receipts at Rs.2,12,572 crore in the revised estimates for 2001-02 were lower by 8.3 per cent than the budget estimates of Rs.2,31,745

Chart 15: Trends in Deficit Indicators of the Centre



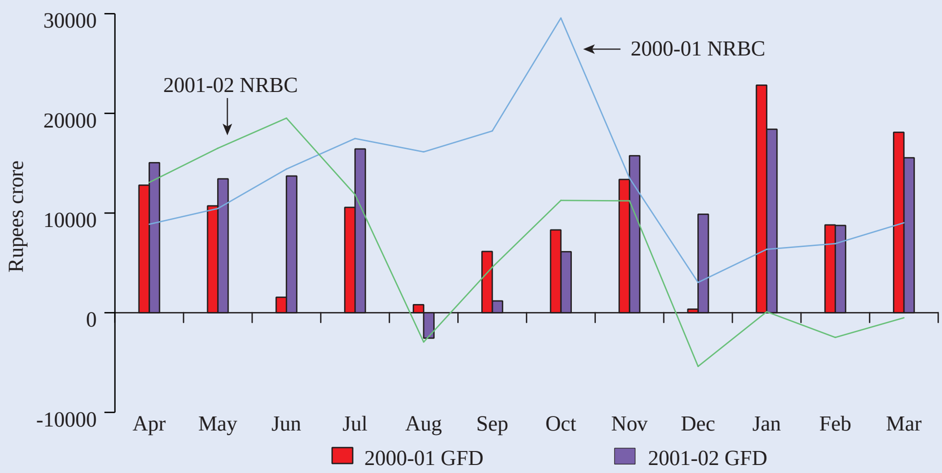
crore. Tax revenue at Rs.1,42,348 crore declined by 12.7 per cent, while non-tax receipts registered an increase of 2.2 per cent over the budget estimates. Capital receipts at Rs.1,51,864 crore were higher by 5.8 per cent during 2001-02 than the budgeted level of Rs.1,43,478 crore. Among the non-debt capital receipts, recoveries of loans at Rs.15,143 crore were marginally lower than the budgeted level. Realisation of receipts from disinvestment was Rs.5,000 crore as against the target of Rs.12,000 crore.

According to the revised estimates for 2001-02, the aggregate expenditure at Rs.3,64,436 crore was lower by 2.9 per cent than the budgeted level of Rs.3,75,223 crore as both the revenue expenditure and the capital expenditure declined by 2.0 per cent and 7.0 per cent, respectively, from the budget estimates. Plan expenditure (both revenue and capital taken together) rose by 4.3 per cent over the budgeted level, while non-Plan expenditure declined by 3.6 per cent.

The average utilisation of WMA at Rs.7,137 crore was higher during 2001-02 than in the previous year (Rs.4,881 crore). The net Reserve Bank credit to the Centre during the fiscal year 2001-02, however, declined by Rs.506 crore (before closure of accounts) (Chart 16).

The Union Budget for 2002-03 projects all the major deficit indicators lower than the levels in the revised estimates for 2001-02 (as a proportion of GDP). In absolute terms, the GFD is budgeted at Rs.1,35,524 crore for 2002-03, higher by 2.9 per cent over the revised estimates of Rs.1,31,721 crore for 2001-02. As a proportion of GDP, the gross fiscal deficit for 2002-03 is placed lower at 5.3 per cent as against 5.7 per cent in the revised estimates for 2001-02.

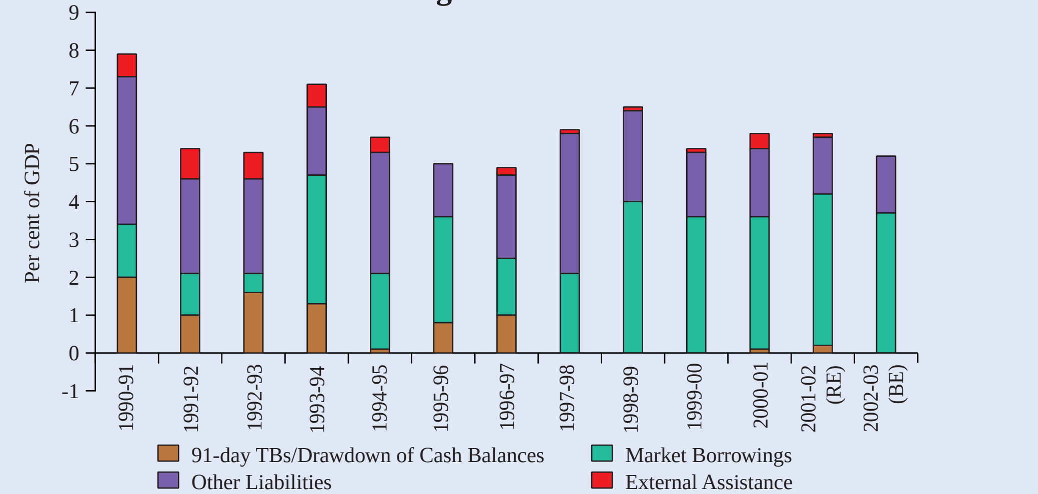
Chart 16: Net RBI Credit to Centre (NRBC) and GFD



The revenue deficit is estimated to increase by 4.0 per cent to Rs.95,377 crore; as a proportion of GDP, it is expected to decline to 3.8 per cent of GDP from 4.0 per cent in the revised estimates for 2001-02. The primary deficit is projected at Rs.18,134 crore (0.7 per cent of GDP) as against Rs.24,464 crore (1.1 per cent of GDP) in 2001-02 (revised estimates). The process of fiscal consolidation during 2002-03 is envisaged through a higher growth in revenue receipts (15.3 per cent) and a relatively moderate growth in aggregate expenditure (12.6 per cent).

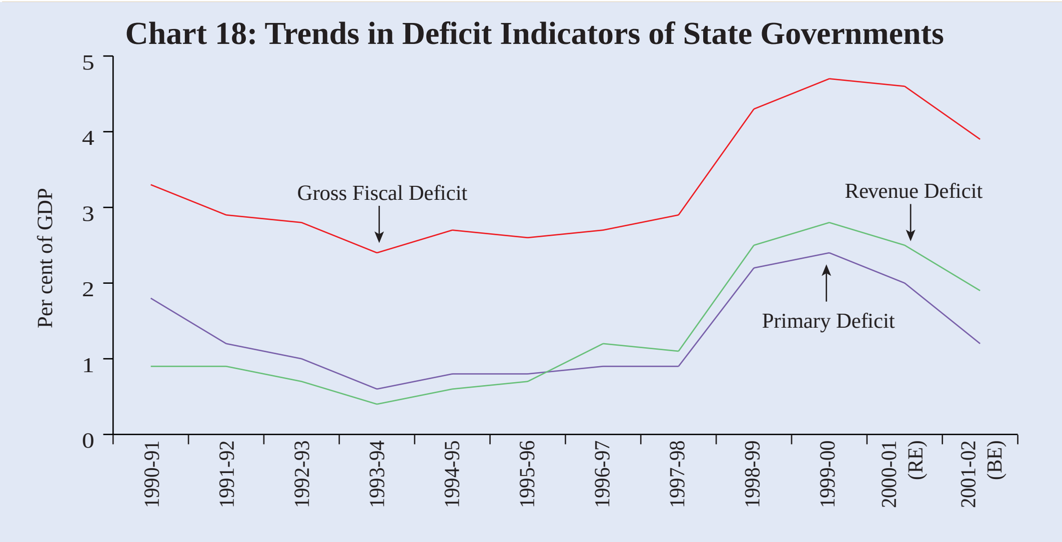
The financing pattern of GFD indicates that during 2002-03, net market borrowings at Rs.95,859 crore would finance 70.7 per cent of GFD, marginally higher than 69.4 per cent (Rs.91,480 crore) in the revised estimates for 2001-02. Financing through other liabilities would increase to 28.7 per cent from 26.1 per cent and external finance would contribute 0.6 per cent as against 1.6 per cent in the previous year (Chart 17).

Chart 17: Financing Pattern of GFD of the Centre



State Finances

The finances of State Governments were budgeted to show an improvement during 2001-02 over the previous year. The revenue deficit for 2001-02 was budgeted lower at 1.9 per cent of GDP as compared with 2.5 per cent of GDP in the revised estimates for 2000-01. With the compression in revenue deficit, the gross fiscal deficit was also budgeted to decline from 4.6 per cent of GDP in 2000-01 to 3.9 per cent of GDP in 2001-02. The primary deficit was estimated at 1.2 per cent of GDP, lower by 0.8 percentage points than the previous year's level (Chart 18). The revenue receipts were budgeted higher by 14.2 per cent with



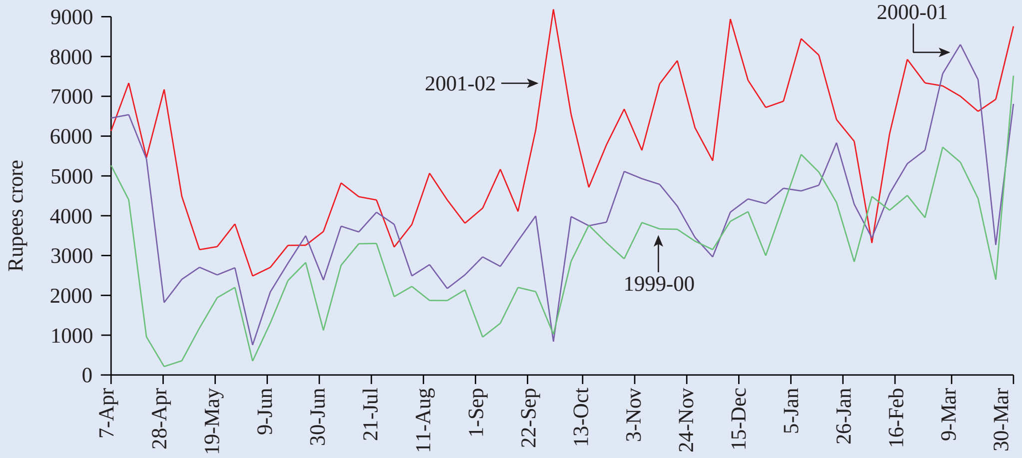
States' own revenue receipts (tax revenue and non-tax revenue) expected to finance 53.0 per cent of the revenue expenditure and 43.9 per cent of the aggregate expenditure in 2001-02 as compared with 50.0 per cent and 41.1 per cent, respectively, in 2000-01 (revised estimates).

On the expenditure front, revenue expenditure continued to absorb a major portion of receipts. The non-developmental expenditure (revenue and capital) was estimated to show a higher growth of 17.2 per cent in 2001-02 as compared with 12.5 per cent in the previous year. The growth of developmental expenditure (revenue and capital) was estimated to decelerate from 19.6 per cent in 2000-01 to 4.7 per cent in 2001-02.

Details regarding the fiscal outturn of the State Governments during 2001-02 are not available. Available information on WMA/overdraft position of States, however, suggests continued pressure on the States' finances. The recourse to WMA from the Reserve Bank in 2001-02 was generally higher than that in the previous year. The outstanding WMA and overdrafts from the Reserve Bank at end-March 2002 were Rs.8,758 crore as against Rs.6,811 crore as at end-March 2001 (Chart 19). Overall, the cash management of the States showed that 20 States had resorted to overdraft during 2001-02 as against 19 States during 2000-01.

Fiscal consolidation and reforms at the State level have received considerable attention during recent years. Many of the States have proposed measures for fiscal reforms such as setting up consolidated sinking funds, expenditure review/reforms committees, guarantee redemption funds, placing

Chart 19: Outstanding WMA and Overdrafts to States (Weekly)



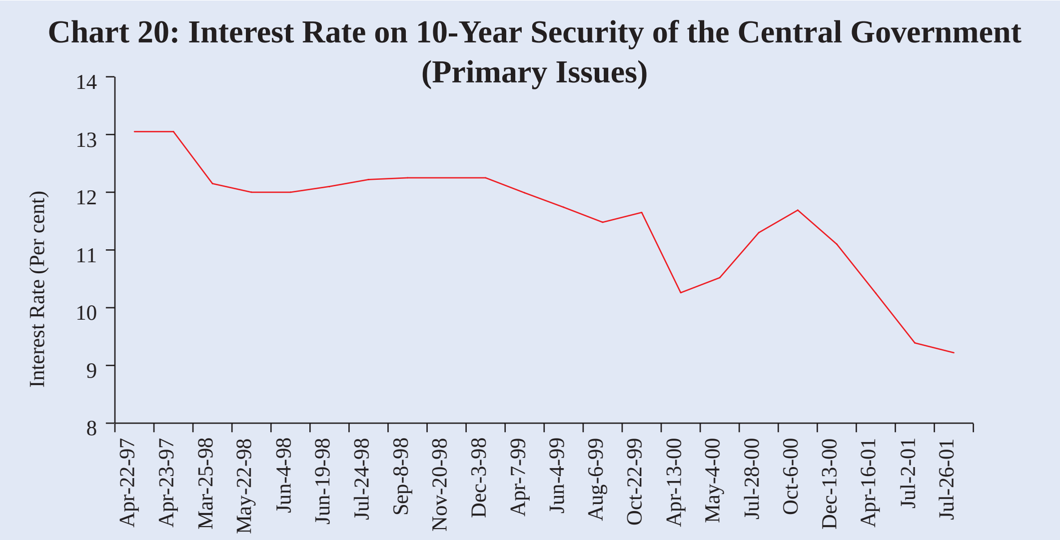
Note: The relevant date of weeks specified pertains to 2000-01; for other years it relates to corresponding weeks.

statutory limits on guarantees, restructuring public sector undertakings and comprehensive rationalisation of posts in government offices.

Market Borrowing

According to the revised estimates for 2001-02, the gross and net market borrowings of the Central Government at Rs.1,32,979 crore and Rs.91,480 crore were 11.9 per cent and 18.3 per cent higher than the budgeted levels of Rs.1,18,852 crore and Rs.77,353 crore, respectively. The actual net market borrowings of the Central Government during the year 2001-02 amounted to Rs.92,302 crore. For the fiscal year 2002-03, gross and net market borrowings of the Central Government are budgeted to increase by 7.4 per cent and 4.8 per cent to Rs.1,42,867 crore and Rs.95,859 crore, respectively.

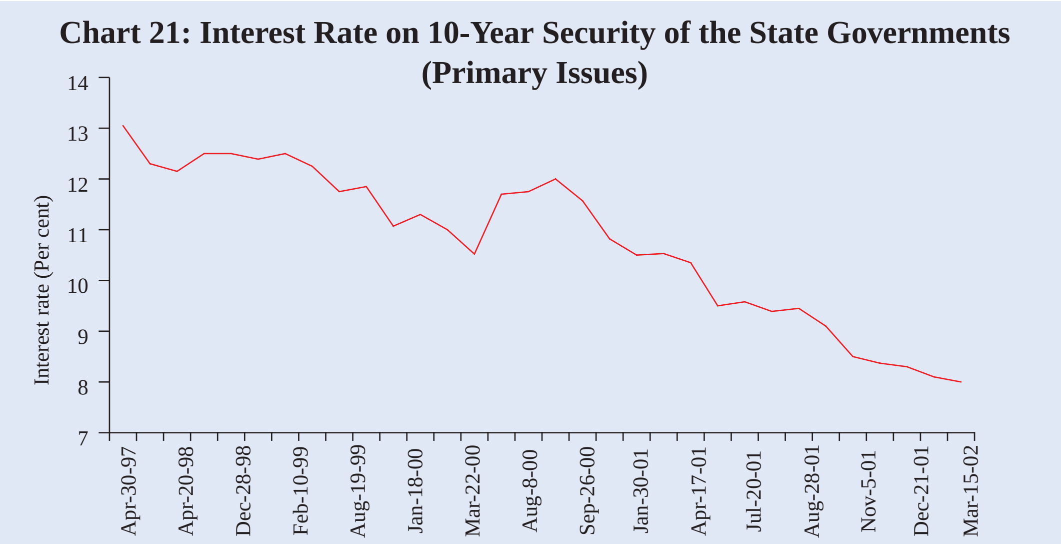
With a view to avoiding undue strain on yields, the Reserve Bank continued its practice of combining auctions with private placement. During the fiscal year 2001-02, the Reserve Bank took devolvement/private placement to the tune of Rs.28,892 crore. These were, however, more than offset by subsequent net open market sales amounting to Rs.30,335 crore. As a result, the net RBI credit to the Central Government declined by 0.3 per cent during 2001-02. Reflecting comfortable liquidity conditions, there was a persistent decline in the interest rates on market borrowings across the maturity spectrum during the year. For instance, the interest rate on primary issue of 10-year government securities declined from 10.25 per cent on April 12, 2001 to 9.22 per cent on July 25, 2001 (Chart 20). The yields in the secondary market declined to 7.36 per cent by end-March 2002 (Section V). Similarly, the cut-off yield in 91-day treasury bills auctions declined from 8.50 per cent on April 4, 2001 to 6.13 percent on March 27, 2002.



State Governments were allocated gross and net market borrowings of Rs.19,030 crore and Rs.17,583 crore, respectively, for the year 2001-02 which were higher by 43.1 per cent and 36.5 per cent, respectively, over the levels in the previous year. During the year 2001-02, an amount of Rs.18,707 crore constituting 98.3 per cent of gross market borrowings programme budgeted for the full fiscal year was raised through pre-announced fixed coupon tranches, tap method as well as through auctions. The interest rate on market borrowings of the State Governments showed a persistent declining trend during the year in tune with the interest rate on the Centre's market borrowings. The interest rate on primary issue of 10 year securities declined to 8.0 per cent on March 13, 2002 from 12.0 per cent on September 26, 2000 (Chart 21). The interest rate varied from 7.80 per cent to 10.53 per cent in 2001-02 as compared with 10.50 per cent to 12.00 per cent during 2000-01. The weighted average interest rate worked out to 9.20 per cent during 2001-02 as compared with 10.99 per cent in the previous year.

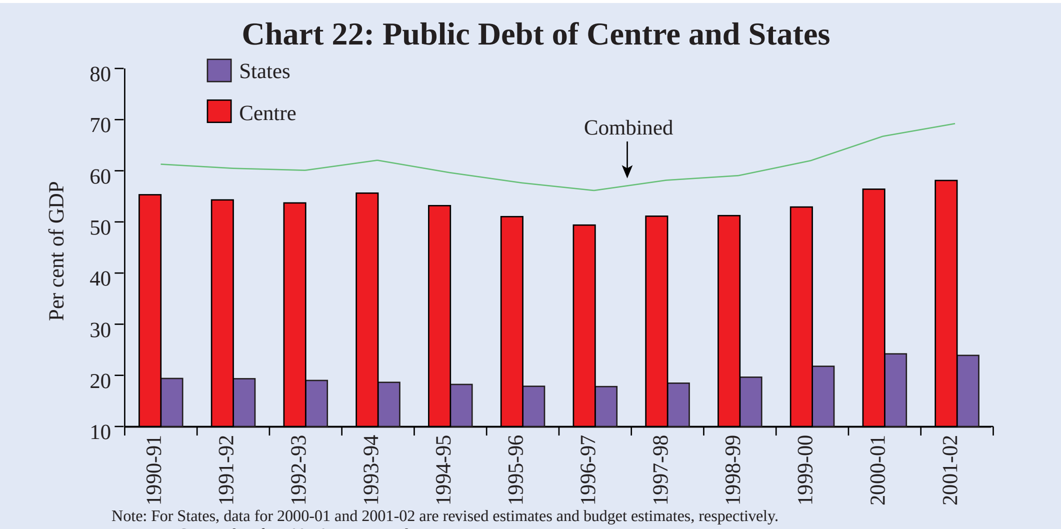
Public Debt

The Centre's debt-GDP ratio, which was 55.3 per cent at end-March 1991, recorded a significant consolidation over the first half of the 1990s and



declined almost 6 percentage points to 49.4 per cent by end-March 1997. In the subsequent period, however, it increased to 56.4 per cent by end-March 2001 and is estimated at 58.1 per cent at end-March 2002 (Chart 22). The high level of public debt is mirrored in interest payments/GDP ratio which increased from 3.8 per cent during 1990-91 to 4.6 per cent by 2001-02.

As in the case of the Centre, the debt-GDP ratio of State Governments initially recorded an improvement, although modest, falling from 19.4 per cent at



Note: For States, data for 2000-01 and 2001-02 are revised estimates and budget estimates, respectively.
For Centre, data for 2001-02 are revised estimates.

end-March 1991 to 17.8 per cent by end-March 1997; subsequently, the ratio increased significantly and was placed at 24.2 per cent at end-March 2001 in the revised estimates. According to the budget estimates of State Governments, the debt-GDP ratio is estimated at 23.9 per cent at end-March 2002. Concomitantly, the interest payments-GDP ratio of States rose from 1.5 per cent during 1990-91 to a budgeted level of 2.6 per cent during 2001-02.

The combined debt of the Centre and States was placed at 69.7 per cent of GDP at end-March 2002, significantly higher than 56.5 per cent at end-March 1997. The sharp increase in the debt-GDP ratio in 2001-02 is mainly attributable to the increase in total liabilities of the Central Government. The continuing high level of public debt leads to increasing interest payments, which, in turn, necessitate higher market borrowings and put pressure on fiscal deficits.