8. FISCAL SECTOR STATISTICS

8.1. Introduction

The term 'Budget' refers broadly to the financial proposals, which the Minister for Finance puts before the Houses of Parliament or the state Legislature as the case may be. In the Constitution of India, reference is made to the 'Laying of Annual financial Statement before the Houses of Parliament or the Legislatures of the States'. This document is a statement of estimated receipts and expenditure of the government for the coming financial year and is generally known as the 'Budget'. It also contains actuals for the preceding year and revised estimates of the current year. The Reserve Bank of India compiles and disseminates the budgetary data of the Central Government, State Governments, combined finances of the Central and State Governments, and public debt. Studies based on these data are regularly published in Reserve Bank of India Bulletin.

8.2. Deficit Indicators

In general, RBI follows the Government of India's approach/methodology for compilation in respect of various deficits/fiscal indicators. Details of methodology followed in budget 2006-07 are presented in Annex-8.1. The definitions of various deficit indicators used in compilation of fiscal statistics are as follows: *Revenue Deficit* denotes the difference between revenue receipts and revenue expenditure. *The conventional deficit (budgetary deficit)* is the difference between all receipts and expenditure, both revenue and capital. *The gross fiscal deficit (GFD)* is the excess of total expenditure including loans net of recovery over revenue receipts (including external grants) and non-debt capital receipts. Since 1999-2000, GFD excludes States' share in small savings as per the new system of accounting. The *net fiscal deficit* is the gross fiscal deficit less net lending of the Central Government. The *net primary deficit* denotes net fiscal deficit minus net interest payments. Primary revenue balance denotes revenue deficit minus interest payments. The *net RBI credit to the Central Government* represents the sum of variations in the RBI's holdings of (i) Central Government dated securities, (ii) Treasury Bills, (iii) Rupee Coins and (iv) Loans and Advances from RBI to Centre since April 1, 1997 adjusted for changes in the Centre's cash balances with RBI in the case of Centre. Regarding State Governments, net RBI credit refers to variation in loans and advances given to them by the RBI net of their incremental deposits with the RBI, for the State Governments having accounts with the RBI.

8.3. Combined Finances

While defining the combined deficit/fiscal indicators, the Bank broadly follows the approach/methodology adopted by International Monetary Fund (IMF) in its Government Finance Statistics (GFS) Manual. The fiscal variables are worked as the sum of Centre and States *minus* inter-governmental transactions. The data on inter-governmental transactions *viz*. States' share in Central taxes, grants to States and interest receipts from States in the revenue account; loans and advances to States and recovery of loans from States in the capital account, are taken from the Central Government budget documents. Combined GFD is the GFD of Central Government plus GFD of State Governments minus net lending (loans and advances from States *minus* recovery of loans and advances from States) from Central Government to State Governments. Revenue deficit is the difference between revenue receipts and revenue expenditure of the Central and State Governments adjusted for inter-Governmental transactions in the revenue account. Gross primary deficit is defined as combined GFD *minus* combined interest payments. Combined interest payments are sum of interest payments of the Centre and State governments net of interest payments by State governments to the Centre.

8.4. State Government Finances

All moneys coming into the possession of and disbursed by the public officers of the State in the course of their official duties have to be properly accounted for in the primary accounts maintained by them and the form in which the accounts are to be kept is prescribed by the Comtroller and Auditor General of India (CAG). The Finance Department is required to prepare for each financial year, a statement of all receipts and expenditure expected to be realised or incurred during the year, which is called the Annual Financial Statement (AFS) or the Budget as laid down in Article 202 of the Constitution. Under Article 150 of the Constitution of India, the accounts of States are to be kept in such form as the CAG may, with the approval of the President, prescribe. In exercise of these powers, the CAG has prescribed a list of major and minor heads of accounts in which Government accounts should be kept. In accordance with the provisions of Articles 266 and 267 of the Constitution, the accounts of the Government are to be maintained into three main parts - Part I: Consolidated Fund of the State, Part II: Contingency Fund of the State, and Part III: Public Account of the State. These accounts are also shown in the budget documents of the State Governments.

All budgetary heads are broadly classified into two *viz.*, Revenue Account (Revenue Receipts and Revenue Expenditure) and Capital account (Capital Receipts and Capital Disbursements) as set out in Annex 8.2. Department of Economic Analysis and Policy (Division of State and Local Finances) of RBI brings out an annual Study 'State Finances - A Study of Budgets' based on budget documents of the State Governments. The Study may be referred to for further detailed classification of budgetary heads.

As an illustration, Annex 8.3 presents the explanatory notes as given in the budget documents of the Government of Maharashtra.

8.5. Measures of Resource Gap: Concepts and Definitions

There is no single criterion to measure the resource gap in the Government finances. The choice of a particular measure is, therefore, purpose specific. In the context of Indian public finance, the traditional approach while measuring the resource gap takes into consideration revenue account gap, capital account gap and overall gap. Of late, there has been a frequent mention of the concept of gross fiscal deficit (GFD) by researchers while analyzing the finances of the State Governments; one variant of GFD *viz.*, primary deficit, which is analytically useful to examine the current operations of the Government finances, has been introduced in Indian public finance. The different measures of deficit (resource gap) are set out below.

(a) Revenue Deficit (RD) denotes the difference between revenue receipts and revenue expenditure.

Revenue Account Gap = Revenue Deficit (RD) = Revenue Receipts (RR) – Revenue Expenditure (RE)

(b) Capital Deficit denotes the difference between capital receipts and capital disbursements.

Capital Account Gap = Capital Account Deficit (CAD) = Capital Receipts (CR) – Capital Disbursements (CD)

(c) Conventional deficit (budgetary deficit or overall deficit) is the difference between all receipts and expenditure, both revenue and capital.

Overall Gap = RD+CAD = (RR-RE) + (CR-CD) = [(RR+CR) – (RE+CD)]

(d) Gross Fiscal Deficit (GFD) is the difference between aggregate disbursements net of debt repayments and recovery of loans and revenue receipts and non-debt capital receipts.

Gross Fiscal Deficit (GFD)

= RE + [CD-(Discharge of Internal Debt (DID) + Repayment of Loans to Centre (RLC) + Recoveries of Loans & Advances (RLA)] – RR

= RE + [Capital Outlay (CO) + Loans & Advances by States (LAS) + DID+RLC – (DID +RLC+RLA)] -RR

= (RE-RR) + [CO+ (LAS-RLA) + (DID-DID) + (RLC-RLC)]

= RD+CO+ Net Lending (NL)

(e) Net Fiscal Deficit (NFD) is the gross fiscal deficit *less* net lending of the State Governments.

Net Fiscal Deficit (NFD) = GFD – (LAS-RLA)

(f) Gross Primary Deficit (GPD) is defined as GFD *minus* interest payments.

Primary Deficit (PD) = GFD – Interest Payment (IP)

(g) Net Primary Deficit (NPD) denotes net fiscal deficit (NFD) *minus* net interest payments.

Net Primary Deficit (NPD) = NFD – [(IP-Interest Receipts (IR)]

(h) Primary revenue balance denotes revenue deficit *minus* interest payments.

Primary Revenue Balance (PRB) = RD – IP

(i) Net primary revenue balance denotes revenue deficit *minus* net interest payments.

Net Primary Revenue Balance (NPRB) = RD – (IP-IR)