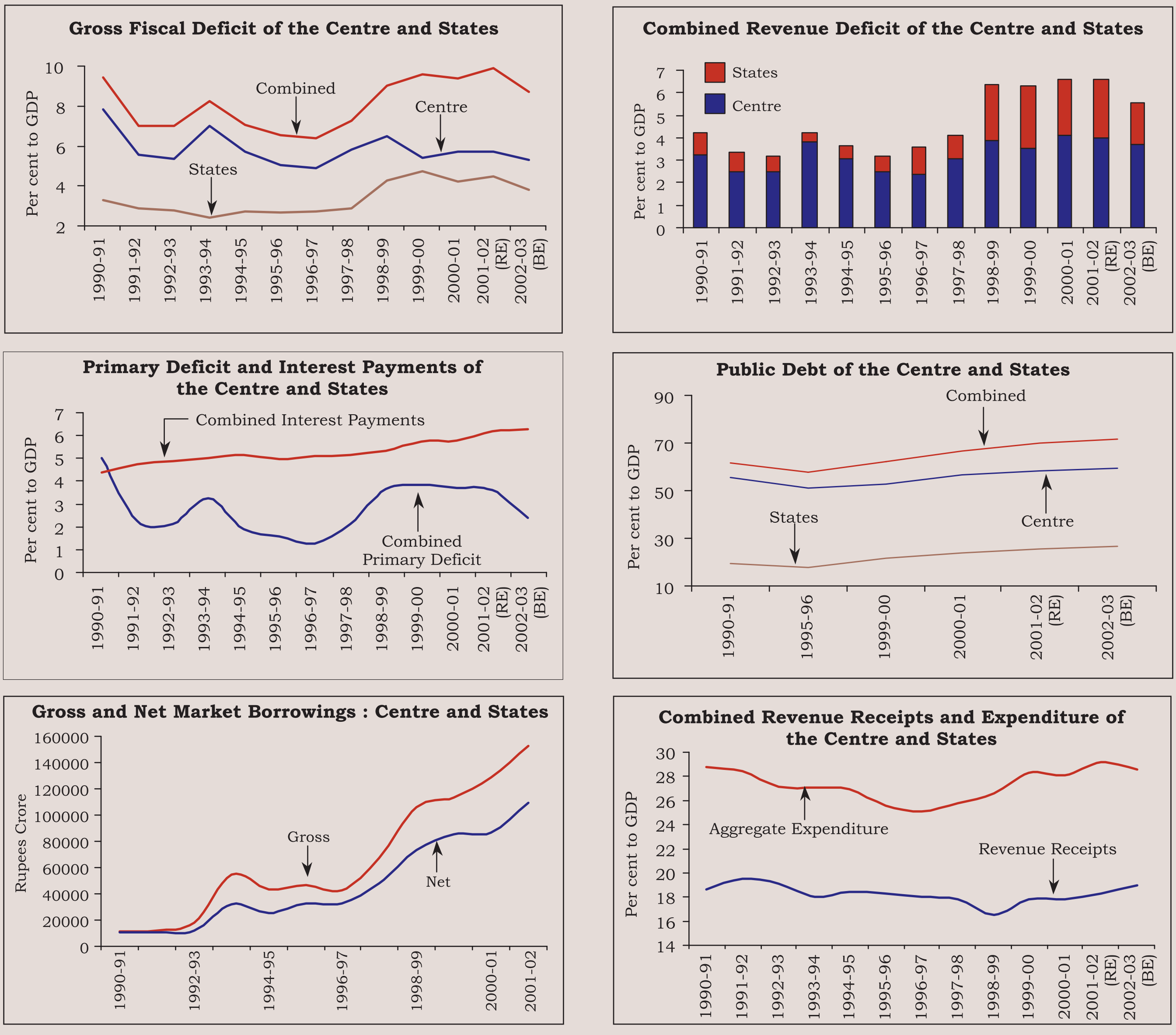
IV GOVERNMENT FINANCES

4.1 The finances of the Central Government came under pressure during 2001-02 from a shortfall in revenue collections, reflecting the continuing sluggishness in corporate activity and import demand. Consequently, despite some success achieved in the containment of non-Plan expenditure, deficit indicators recorded slippages from their budgeted levels. The gross fiscal deficit (GFD) during 2001-02 remained at 5.7 per cent of GDP [revised estimates (RE)] as in the preceding year, although higher than the budget estimates of 4.7 per cent. The information available in respect of State Governments indicates that the consolidated GFD of States at 4.5 per cent of GDP in 2001-02 (RE) was also higher than the budget

Chart IV. 1 : Fiscal Indicators



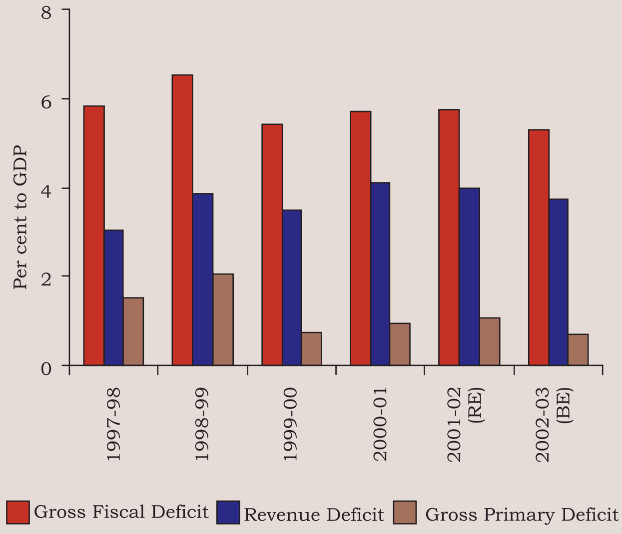
estimates of 3.8 per cent[1]. Accordingly, the combined fiscal deficit of the Centre and States widened to 9.9 per cent in 2001-02 from 9.4 per cent in 2000-01. The deterioration in the fiscal deficit at all levels necessitated an increasing recourse to market borrowings which financed 69.4 per cent of the GFD of the Centre and 15.2 per cent of the GFD of the States. The recourse by States to Ways and Means Advances (WMA) from the Reserve Bank was generally higher in 2001-02 than in the preceding year. The combined debt of the Centre and States rose to 69.9 per cent of GDP at the end of March 2002 from 66.9 per cent at the end of March 2001. Contingent liabilities of the Centre and States rose to 12.2 per cent of GDP at end-March 2001 from 11.2 per cent at end-March 2000 (Appendix Tables and Chart IV.1).

CENTRAL GOVERNMENT FINANCES, 2001-02

Overall Position

4.2 The Union Budget 2001-02 aimed at fiscal consolidation through reduction in the fiscal deficit, the revenue deficit and the primary deficit to 4.7 per cent, 3.2 per cent and 0.2 per cent of GDP, respectively, as compared with the revised estimates for 2000-01. In the actual outturn, according to the revised estimates for 2001-02, there were large gaps in revenues and disinvestment proceeds, whereas Plan expenditure registered an increase in relation to budgeted levels. As a result, the GFD overshot the budgeted level by 13.2 per cent in nominal terms. The revenue deficit in the revised estimates exceeded the budgeted level by 16.4 per cent and the primary deficit was more than six times the budget estimates. The revenue deficit accounted for 69.6 per cent of the GFD as against 67.8 per cent projected in the budget estimates (Table 4.1, Chart IV.2 and Appendix Tables IV.1 & IV.2).

Chart IV.2 : Trends in Deficit Indicators of the Centre



Aggregate Receipts

4.3 Pressure on Central finances primarily emanated from the shortfall in collections in all the major taxes, *viz.,* customs duty, Union excise duties, income tax and corporation tax (Table 4.2). Non-tax revenue registered an increase of 2.2 per cent over the budget estimates mainly due to higher dividends and profits from public sector enterprises (including surplus transfers from the Reserve Bank); however, the large shortfall of tax revenue resulted in a gap in revenue receipts of the order of Rs.19,173 crore (8.3 per cent) between the revised estimates and the budget estimates. The gross tax-GDP ratio of the Centre has generally been falling over the 1990s. It is estimated to have fallen further in 2001-02 to 8.6 per cent from 9.0 per cent in 2000-01, belying the budget estimates (Chart IV.3 and Appendix Table IV.3).

Table 4.1: Deficit Indicators of the Centre

(Rupees crore)

Item	2001-02 (RE)	2001-02 (BE)	2000-01	Variation between RE and BE (2001-02)	
				Amount	Per cent
1	2	3	4	5	6
Gross Fiscal Deficit	1,31,721	1,16,314	1,18,816	15,409	13.2
	(5.7)	(4.7)	(5.7)		
Revenue Deficit	91,733	78,821	85,234	12,912	16.4
	(4.0)	(3.2)	(4.1)		
Gross Primary Deficit	24,464	4,014	19,502		
	(1.1)	(0.2)	(0.9)	20,450	509.5

Note: Figures in brackets represent per cent to GDP. RE : Revised Estimates BE : Budget Estimates

[1] The States' data, throughout this chapter are provisional for the years 2000-01 onwards and pertain to the budgets of 26 States (out of 28 States) and NCT Delhi, of which two are Vote-on-Account.

Table 4.2: Total Receipts of the Centre

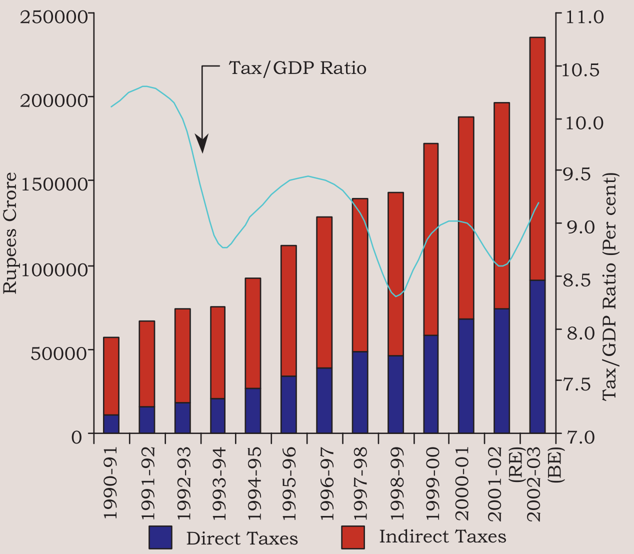
(Rupees crore)

Item	2001-02 (RE)	2001-02 (BE)	2000-01	Variation between RE and BE (2001-02)	
				Amount	Per cent
1	2	3	4	5	6
Total Receipts	3,64,436 (15.8)	3,75,223 (15.2)	3,25,611 (15.6)	-10,787	-2.9
Revenue Receipts	2,12,572 (9.2)	2,31,745 (9.4)	1,92,624 (9.2)	-19,173	-8.3
Tax Revenue (Net)	1,42,348 (6.2)	1,63,031 (6.6)	1,36,916 (6.6)	-20,683	-12.7
Non-Tax Revenue	70,224 (3.1)	68,714 (2.8)	55,708 (2.7)	1,510	2.2
Capital Receipts	1,51,864 (6.6)	1,43,478 (5.8)	1,32,987 (6.4)	8,386	5.8
Of which: Disinvestment	5,000	12,000	2,125	-7,000	-58.3
Memo Items					
Corporation Tax	39,059 (1.7)	44,200 (1.8)	35,696 (1.7)	-5,141	-11.6
Income Tax	34,438 (1.5)	40,600 (1.6)	31,764 (1.5)	-6,162	-15.2
Customs Duty	43,170 (1.9)	54,822 (2.2)	47,542 (2.3)	-11,652	-21.3
Union Excise Duty	74,520 (3.2)	81,720 (3.3)	68,526 (3.3)	-7,200	-8.8

Notes : 1. Memo items are on gross basis (includes share of States in central taxes).
2. Figures in brackets are per cent to GDP.

RE : Revised Estimates
BE : Budget Estimates

Chart IV.3 : Tax Receipts and Tax-GDP Ratio of the Centre



4.4 Under the non-debt capital receipts, the recoveries of loans and advances were only a shade lower at Rs.15,143 crore than the budgeted level of Rs.15,164 crore. The disinvestment programme gained some momentum during 2001-02; nevertheless, the actual proceeds at Rs.5,000 crore, were lower than the targeted amount of Rs.12,000 crore but significantly higher than Rs.2,125 crore raised during the preceding year.

4.5 Given the slowdown in revenue mobilisation, the need for fiscal consolidation by expanding the scope and size of revenue flows through, *inter alia*, restructuring the tax system assumes critical importance (Box IV.I).

Aggregate Expenditure

4.6 Aggregate expenditure fell below the budget estimates by Rs.10,787 crore. The reduction was effected in non-Plan expenditure by 3.6 per cent under interest payments (Rs.5,043 crore), defence (Rs.5,000 crore), and grants to States and UTs (Rs.1,544 crore). On the other hand, expenditure on subsidies increased by Rs.722 crore. Plan expenditure showed a rise of

Box IV.1
Fiscal Empowerment and Revenue Maximisation

Fiscal empowerment by augmenting the volume and scale of the revenue flows into the budget holds the key to fiscal consolidation in India. This presages the need for measures to increase both the tax and non-tax revenue.

International experience shows that simpler tax laws not only lower the costs of compliance and administration but also contribute to the revenue potential. Notwithstanding the substantial restructuring of the tax system in India since 1991-92 whereby tax rates were significantly rationalised and brought down to the levels comparable to developed economies, there has been a steady deterioration in the tax-GDP ratio. The agricultural sector remains out of the tax net and the fast growing services sector has not been adequately taxed. Taxation of services would diminish the regressive nature of the sales and excise taxes, since services account for a relatively larger proportion of the consumption basket among the upper income and expenditure groups. The level of non-tax revenue remained nearly stagnant for Centre and States during the 1990s.

Tax competition among States has weakened the revenue productivity of the sales tax. In this context, the State Governments have agreed to implement a harmonised floor rate of sales tax as a prelude to the introduction of a uniform Value Added Tax (VAT). It is imperative to expedite the process of transition to a VAT regime. Urban properties constitute a potent source of tax revenue, which is also not fully exploited. Laws governing the levy of property tax need to be suitably modified to improve tax administration and revenue productivity. There are few other taxes which States could levy but have remained unexploited or under exploited, such as agricultural tax, professional tax and land-based taxes. Local governments may be empowered to levy a surcharge on some of these taxes.

In case of non-tax revenues a paradigm shift is called for. There is a need to review the framework for determination of user charges of Departmental and commercial entities and evolve an effective strategy for cost recovery. User charges could be linked to input cost and a process of periodic revision should be automatic. A major area of reform is the poor return on investments in public sector enterprises (PSEs) and statutory corporate entities. The need for professionalisation of the management of PSEs is widely recognised. Persistently loss making PSEs need to be privatised or closed down. Railways, being the largest among the departmental undertakings, could raise revenue through commercial exploitation of railway land and space, leasing of surplus telecommunication capacity, promotion of railway tourism, reducing non-merited subsidies, regular revision of fares through an indexation formula and a progressive movement towards being run on a commercial basis (Government of India, 2001).

References

1. Government of India (2000), *Report of the Eleventh Finance Commission.*
2. Government of India (2001), *The Indian Railways Report 2001: Policy for Reinvention and Growth.*
3. Tanzi, Vito and Howell Zee (2001), “Tax Policy for Developing Countries”, *Economic Issues,* No.27, IMF.

4.3 per cent over the budgeted level (Table 4.3). The Central Plan outlay for 2001-02 at Rs.1,27,856 crore in the revised estimates was marginally lower than the budgeted level of Rs.1,30,181 crore.

Table 4.3 : Aggregate Expenditure of the Centre

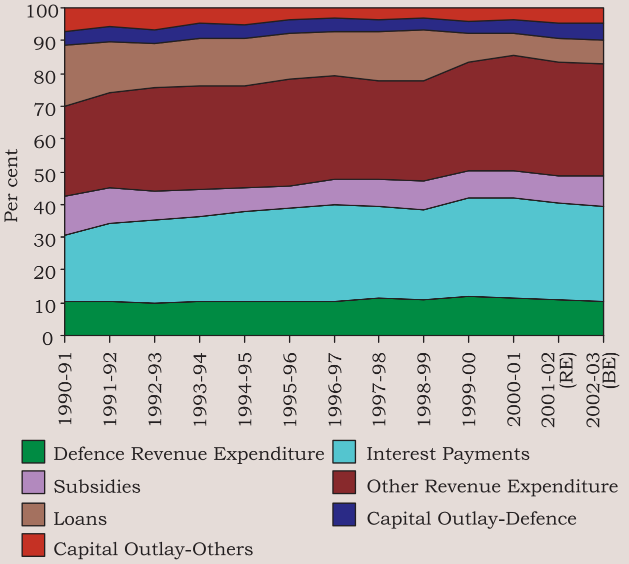
(Rupees crore)

Item	2001-02(RE)	2001-02(BE)	2000-01	Variation between RE and BE (2001-02)	
				Amount	Per cent
1	2	3	4	5	6
Total Expenditure (1+2=3+4)	3,64,436 (15.8)	3,75,223 (15.2)	3,25,611 (15.6)	-10,787	-2.9
1. Non-Plan Expenditure *of which:*	2,65,282 (11.5)	2,75,123 (11.1)	2,42,942 (11.6)	-9,841	-3.6
Interest Payments	1,07,257 (4.6)	1,12,300 (4.5)	99,314 (4.8)	-5,043	-4.5
Defence	57,000 (2.5)	62,000 (2.5)	49,622 (2.4)	-5,000	-8.1
Subsidies	30,523 (1.3)	29,801 (1.2)	26,842 (1.3)	722	2.4
2. Plan Expenditure	99,154 (4.3)	95,100 (3.8)	82,669 (4.0)	4,054	4.3
3. Revenue Expenditure	3,04,305 (13.2)	3,10,566 (12.5)	2,77,858 (13.3)	-6,261	-2.0
4. Capital Expenditure	60,131 (2.6)	64,657 (2.6)	47,753 (2.3)	-4,526	-7.0

Note: Figures in brackets are per cent to GDP. RE : Revised Estimates BE : Budget Estimates

4.7 The compositional pattern of the Centre's aggregate expenditures has remained broadly unaltered in recent years with substitutions in shares at the margin between interest payments and capital outlay (Chart IV.4).

Chart IV.4 : Central Government Expenditure: Compositional Shifts



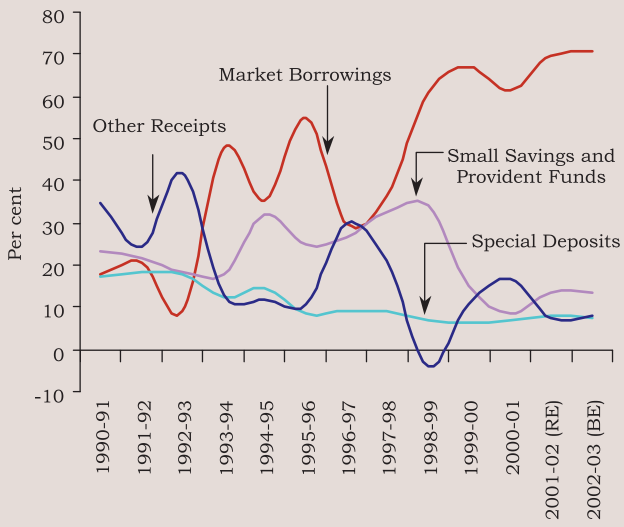
Financing

4.8 Market borrowings continue to be the major source of financing the Central Government's fiscal deficit. Net market borrowings financed 69.4 per cent of the GFD in 2001-02 as against 61.4 per cent in the preceding year and only 17.9 per cent in 1990-91. Other liabilities, which include small savings, State provident funds, special deposits, *etc.,* financed 26.1 per cent of the GFD as against the budgeted level of 31.9 per cent. The balance of GFD was financed by drawing down of cash balances and external assistance.

4.9 The increasing share of market borrowings in financing the fiscal deficit during the 1990s reflects the progress of reforms in monetary-fiscal co-ordination embodied in phasing out of *ad hoc* Treasury Bills and reducing the reliance on high cost sources of funds such as small savings. Consequently, the shares of various other sources of financing have declined (Chart IV.5 and Appendix Table IV.4).

4.10 The Relief Bonds, which form a part of internal debt, are emerging as an important source of financing the fiscal deficit. The net receipts under Relief Bonds during 2001-02 (RE) were Rs.4,500 crore and these have been budgeted at Rs.6,500 crore for 2002-03.

Chart IV.5 : Financing of Centre's Gross Fiscal Deficit



The interest rate on the Relief Bonds was reduced to 8.5 per cent on the new series (Relief Bonds, 2001) from 9.0 per cent in the previous series (Relief Bonds, 1999). The Union Budget, 2002-03 effected a further reduction of 50 basis points in the interest rate on the Relief Bonds. The Union Budget, 2002-03 also imposed a ceiling of Rs.2 lakh per year on investment in these bonds but all retiring and retired employees were exempted from this ceiling.

4.11 Substantial amounts mobilised through small savings and provident funds to finance the fiscal gap have generally been at a cost higher than the rates at which market borrowings through dated securities have been raised. The average interest rate on small savings and provident funds, which constitute a major component of the Public Accounts, was 11.24 per cent in 1991-92, 13.88 per cent in 1996-97 and 11.36 per cent in 2001-02 as compared with 10.43 per cent, 11.66 per cent and 11.32 per cent for market loans, in the respective years (Table 4.4). Taking into account the tax exemptions, the effective cost to the Government on account of small savings and provident funds is even higher.

4.12 During 2001-02, the Reserve Bank took devolvement/private placement to the tune of Rs.28,892 crore. The weekly average utilisation of WMA exhibited a progressive decline from Rs.10,391 crore in the first quarter to Rs.4,552 crore in the last quarter (Chart IV.6). However the average utilisation was higher at Rs.7,138 crore in 2001-02 as compared with Rs.4,881 crore in the previous year. The WMA

Table 4.4: Interest Payments as a percentage of Outstanding Liabilities

(Per cent)

Year	Internal Debt	Market Loans	Small Savings, PFs *etc*	Other Obligations	Reserve Funds	Domestic Liabilities	External Debt*	Public Debt
1	2	3	4	5	6	7	8	9
1991-92	7.35	10.43	11.24	0.78	0.63	8.44	8.58	8.46
1992-93	7.84	10.44	10.86	0.79	0.68	8.67	9.55	8.76
1993-94	7.83	11.33	13.36	0.54	0.72	9.18	8.81	9.14
1994-95	7.80	11.94	14.10	0.46	0.90	9.30	8.50	9.22
1995-96	8.32	11.76	12.50	0.78	0.87	9.36	8.67	9.29
1996-97	8.85	11.66	13.88	0.59	1.12	9.96	8.24	9.81
1997-98	9.08	12.04	13.20	0.58	1.34	9.90	7.58	9.71
1998-99	10.24	13.09	11.57	2.14	1.05	10.17	7.89	10.01
1999-00	10.72	13.34	10.62	0.68	0.80	10.79	7.87	10.61
2000-01	10.66	12.15	11.86	0.67	0.71	9.99	7.67	9.86
2001-02	10.21	11.32	11.36	0.44	0.19	9.26	6.55	9.11

* External debt at historical exchange rates.

outstanding at the end of the fiscal year 2001-02 was lower at Rs.5,176 crore as compared with Rs.5,395 crore at the end of the previous fiscal year.

4.13 There have been slippages in fiscal marksmanship since 1994-95 as evident in the wedge between budget estimates and actual outturns. This has necessitated increasing reliance on market borrowings, given the cost and other constraints on alternate sources of financing (Chart IV.7).

Central Government Budget: 2002-03

4.14 The strategy of fiscal rectitude outlined in the Union Budget for 2002-03 is based on achieving a higher growth in revenue receipts at 15.3 per cent, while the aggregate expenditure is expected to grow at 12.6 per cent. In absolute terms, the GFD at Rs.1,35,524 crore is 2.9 per cent higher than that in the revised estimates for 2001-02. The revenue deficit, estimated at Rs.95,377 crore, is higher by 4.0 per cent but the primary deficit projected at Rs.18,134 crore is lower by 25.9 per cent than that in 2001-02. In terms of GDP, the key deficit indicators are budgeted to decline from 2001-02 levels (Table 4.5).

Expenditure Estimates

4.15 Revenue expenditure is estimated to grow by 11.9 per cent, dipping below the trend growth rate of 14.5 per cent recorded over the 1990s (Table 4.6).

Chart IV.6 : Centre's Recourse to WMA

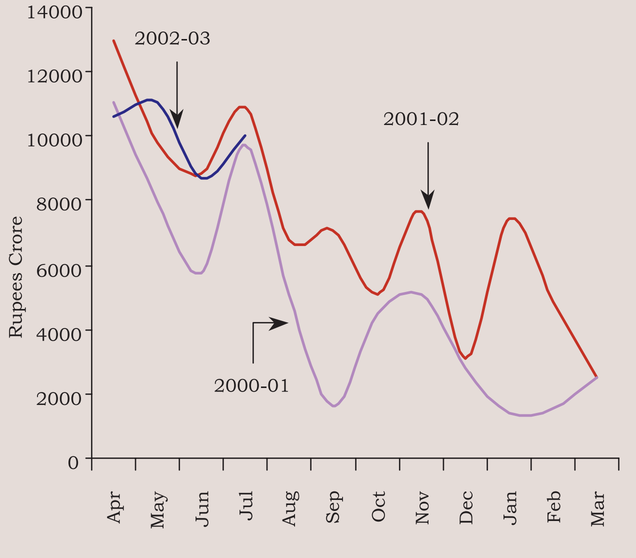


Chart IV.7 : Trends in Gross Fiscal Deficit and Market Borrowings

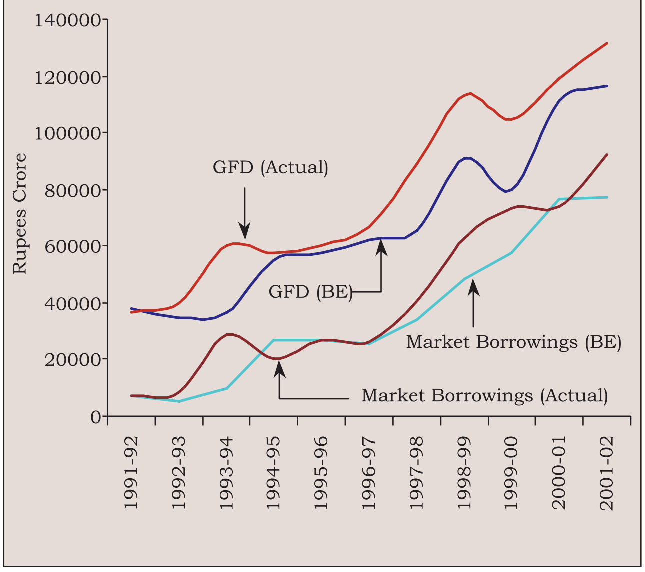


Table 4.5 : Centre's Fiscal Position: 2002-03

(Rupees crore)

Item	2002-03 (BE)	2001-02 (RE)	Variation (BE over RE) Amount	Per cent
1	2	3	4	5
Total Receipts/ Expenditure	4,10,309 (16.0)	3,64,436 (15.8)	45,873	12.6
Revenue Receipts	2,45,105 (9.6)	2,12,572 (9.2)	32,533	15.3
Capital Receipts	1,65,204 (6.5)	1,51,864 (6.6)	13,340	8.8
Revenue Expenditure	3,40,482 (13.3)	3,04,305 (13.2)	36,177	11.9
Capital Expenditure	69,827 (2.7)	60,131 (2.6)	9,696	16.1
Gross Fiscal Deficit	1,35,524 (5.3)	1,31,721 (5.7)	3,803	2.9
Revenue Deficit	95,377 (3.7)	91,733 (4.0)	3,644	4.0
Gross Primary Deficit	18,134 (0.7)	24,464 (1.1)	-6,330	-25.9

Note: Figures in brackets are per cent to GDP.

Table 4.6: Aggregate Expenditure of the Centre

(Rupees crore)

Item	2002-03 (BE)	2001-02 (RE)	Variation (BE over RE) Amount	Per cent
1	2	3	4	5
Total Expenditure (1+2=3+4)	4,10,309 (16.0)	3,64,436 (15.8)	45,873	12.6
1. Non-Plan Expenditure	2,96,809 (11.6)	2,65,282 (11.5)	31,527	11.9
of which:				
Interest Payments	1,17,390 (4.6)	1,07,257 (4.7)	10,133	9.4
Defence	65,000 (2.5)	57,000 (2.5)	8,000	14.0
Subsidies	39,801 (1.6)	30,523 (1.3)	9,278	30.4
2. Plan Expenditure	1,13,500 (4.4)	99,154 (4.3)	14,346	14.5
3. Revenue Expenditure	3,40,482 (13.3)	3,04,305 (13.2)	36,177	11.9
4. Capital Expenditure	69,827 (2.7)	60,131 (2.6)	9,696	16.1

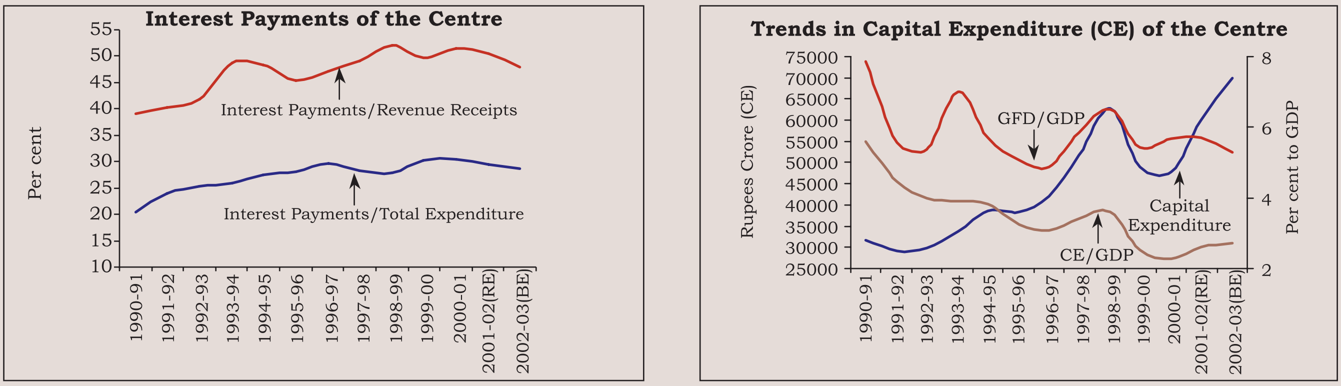
Note: Figures in brackets are per cent to GDP.

4.16 Non-Plan revenue expenditure is estimated to rise by 11.4 per cent to account for 79.3 per cent of the revenue expenditure. Among the major components of non-Plan revenue expenditure interest payments, defence revenue expenditure and subsidies taken together would account for 74.3 per cent of non-Plan revenue expenditure and would absorb 81.9 per cent of revenue receipts. The interest payments would pre-empt 47.9 per cent of the revenue receipts in 2002-03 as against 50.5 per cent during 2001-02.

4.17 In order to reverse the trend of fiscal adjustment occurring through reductions in public investment, the capital disbursements are projected to increase by 16.1 per cent of which capital outlay has been envisaged to rise by 17.9 per cent over the revised estimates for 2001-02 (Chart IV.8).

4.18 The Central Plan outlay for 2002-03 has also been budgeted higher by 12.7 per cent over the revised estimates for 2001-02. The budgetary support to the Central Plan outlay at Rs.66,871 crore (higher by 10.9 per cent) would contribute 46.4 per cent of the financing (47.1 per cent in the previous year). Internal and extra budgetary resources (IEBR) of public sector enterprises budgeted at Rs.77,167 crore (an increase of 14.2 per cent) would contribute 53.6 per cent of the Plan financing (52.9 per cent in 2001-02). Sector-wise allocations indicate that the major shares have gone to energy sector (25.2 per cent), transport sector (22.2 per cent), and social services (20.4 per cent).

Chart IV.8 Central Government Expenditure



Revenue Estimates: 2002-03

4.19 The Budget estimates that revenue receipts for 2002-03 at Rs.2,45,105 crore, would rise by 15.3 per cent (Rs.32,533 crore) over the revised estimates for 2001-02. Of the incremental revenue receipts, 94.1 per cent will be contributed by taxes (Rs.30,617 crore) and the remaining 5.9 per cent by non-tax revenue (Rs.1,916 crore). Gross tax revenue at Rs.2,35,800 crore would be higher by Rs.39,107 crore or 19.9 per cent over the revised estimates for 2001-02 (Table 4.7).

Table 4.7 : Revenue Estimates of the Centre

(Rupees crore)

Item	2002-03 (BE)	2001-02 (RE)	Variation (BE over RE) Amount	Per cent
1	2	3	4	5
Total Receipts	4,10,309 (16.0)	3,64,436 (15.8)	45,873	12.6
Revenue Receipts	2,45,105 (9.6)	2,12,572 (9.2)	32,533	15.3
Tax Revenue (Net)	1,72,965 (6.8)	1,42,348 (6.2)	30,617	21.5
Gross Tax Revenue	2,35,800 (9.2)	1,96,693 (8.6)	39,107	19.9
Of which:				
Corporation Tax	48,616 (1.9)	39,059 (1.7)	9,557	24.5
Income Tax	42,524 (1.7)	34,438 (1.5)	8,086	23.5
Customs Duty	45,193 (1.8)	43,170 (1.9)	2,023	4.7
Union Excise Duty	91,433 (3.6)	74,520 (3.2)	16,913	22.7
Capital Receipts	1,65,204 (6.5)	1,51,864 (6.6)	13,340	8.8

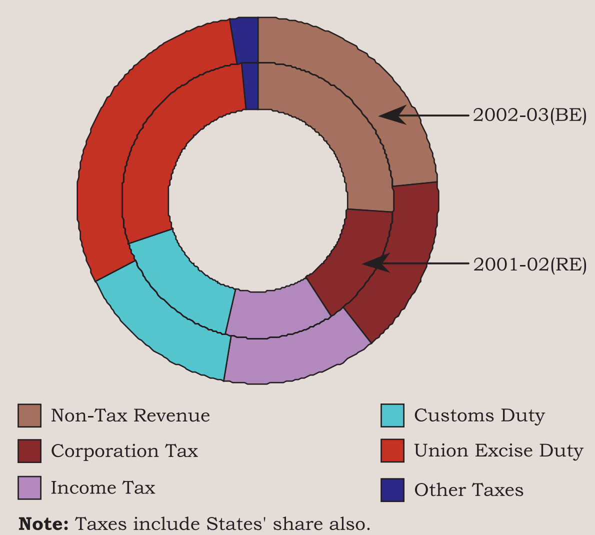
Note: Figures in brackets are per cent to GDP.

4.20 The Budget proposals on direct taxes including surcharge are expected to result in revenue gain of Rs.6,000 crore, while proposals on indirect taxes would result in revenue gain of Rs.4,500 crore. The major portion of increase in tax revenue is estimated to be obtained from Union excise duties (Rs.16,913 crore), corporation tax (Rs.9,557 crore), income tax (Rs.8,086 crore), and customs duty (Rs.2,023 crore). Net tax revenue (net of States' share) at Rs.1,72,965 crore would mean an increase of 21.5 per cent over the previous year. Non-tax receipts are estimated to increase by 2.7 per cent (Rs.1,916 crore) to Rs.72,140 crore during 2002-03 (Chart IV.9).

4.21 Capital receipts at Rs.1,65,204 crore are expected to rise by Rs.13,340 crore (8.8 per cent) over the revised estimates of 2001-02. Receipts from disinvestment are estimated at Rs.12,000 crore as against Rs.5,000 crore in the revised estimates for 2001-02. The non-debt capital receipts (disinvestment and recovery of loans) are estimated to contribute 18.0 per cent of the capital receipts, while the debt components would constitute the balance (Chart IV.10 and Table 4.8).

4.22 During 2002-03, net market borrowings would finance 70.7 per cent of GFD, marginally higher than 69.4 per cent in the revised estimates for 2001-02. The net market borrowings are budgeted at Rs.95,859 crore, compared with Rs.91,480 crore in the revised estimates for 2001-02. At the same time, financing

Chart IV.9 : Composition of Gross Revenue Receipts of the Centre



Note: Taxes include States' share also.

Chart IV.10 : Capital Receipts of the Centre: 2002-03 (BE)

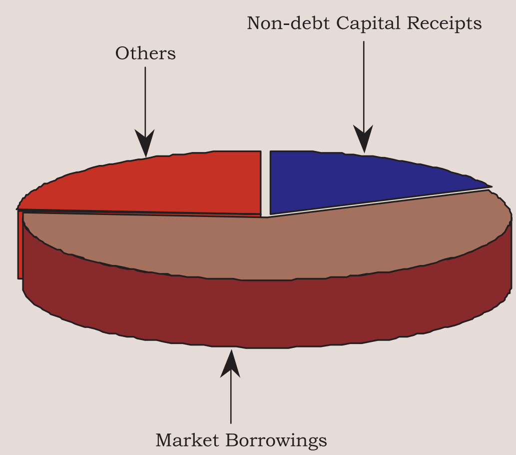


Table 4.8: Composition of Capital Receipts of the Centre

(Rupees crore)

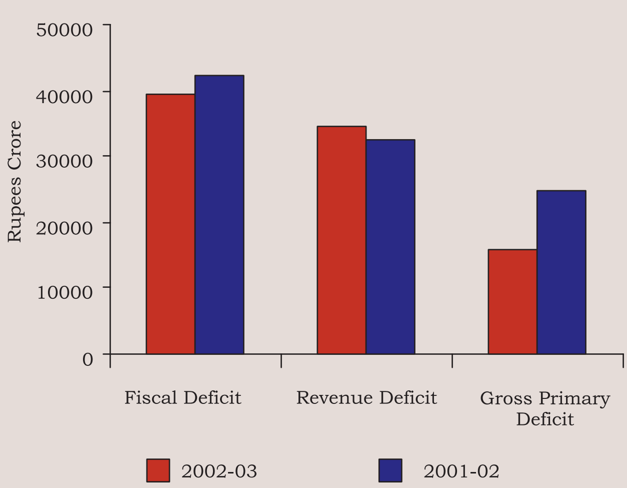
Item	2002-03 (BE)	2001-02 (RE)	Variation (BE over RE) (Per cent)
1	2	3	4
Recoveries	17,680	15,143	16.8
Disinvestment	12,000	5,000	140.0
Market Borrowings	95,859	91,480	4.8
Others	39,655	40,241	-1.5

through other liabilities would increase to 28.7 per cent from 26.1 per cent and external assistance would contribute 0.6 per cent as against 1.6 per cent in the previous year.

Central Government Finances, 2002-03 (April-June)

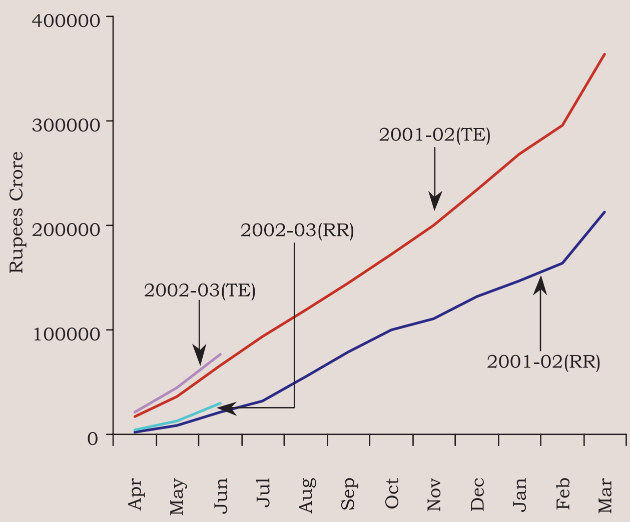
4.23 During the first quarter of 2002-03 (April-June), the Centre's GFD amounting to Rs.39,560 crore was lower by 6.3 per cent over the level in April-June 2001-02 (Rs.42,198 crore) and constituted 29.2 per cent of the budget estimates (Rs.1,35,524 crore) as compared with 37.9 per cent during the same period of the previous year. The revenue deficit at Rs.34,543 crore during April-June, 2002-03 was higher by 6.5 per cent and constituted 36.2 per cent of the budget estimates (41.1 per cent in the same period of the previous year). The gross primary deficit at Rs.15,671 crore was lower by 36.5 per cent over the same period of the previous year (Chart IV.11).

Chart IV.11 : Deficit Indicators of the Centre (April-June)



4.24 The revenue receipts during April-June, 2002-03 at Rs.29,864 crore were higher by 38.1 per cent over April-June, 2001-02 and represented 12.2 per cent of the budget estimates as compared with 9.3 per cent during April-June, 2001-02. The net tax revenue to the Centre stood at Rs.24,154 crore (14.0 per cent of the budget estimates) as against Rs.16,835 crore during April-June, 2001-02. Non-tax revenue at Rs.5,713 crore registered an increase of 19.3 per cent over Rs.4,788 crore during April-June, 2001-02. Aggregate expenditure at Rs.75,715 crore was higher by 16.3 per cent constituting 18.5 per cent of the budget estimates which is lower than the five year moving average for the relevant period (Chart IV.12). While revenue expenditure was higher by 19.2 per cent over April-June, 2001-02, capital expenditure registered an increase of 2.5 per cent.

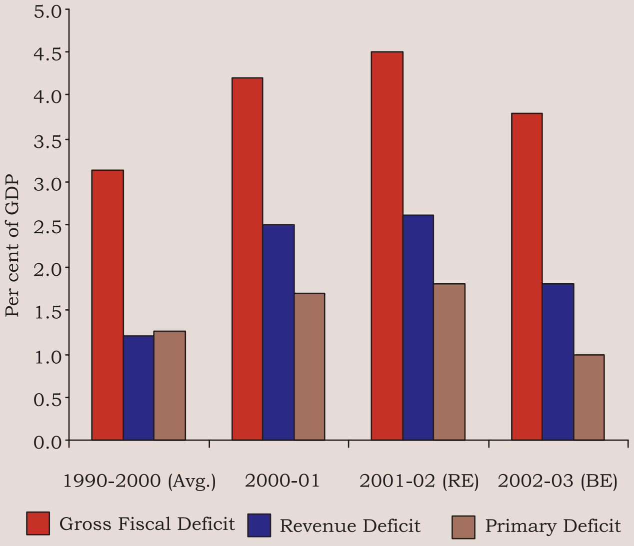
Chart IV.12 : Monthly Revenue Receipts (RR) and Total Expenditure (TE) of the Centre



STATE GOVERNMENT FINANCES

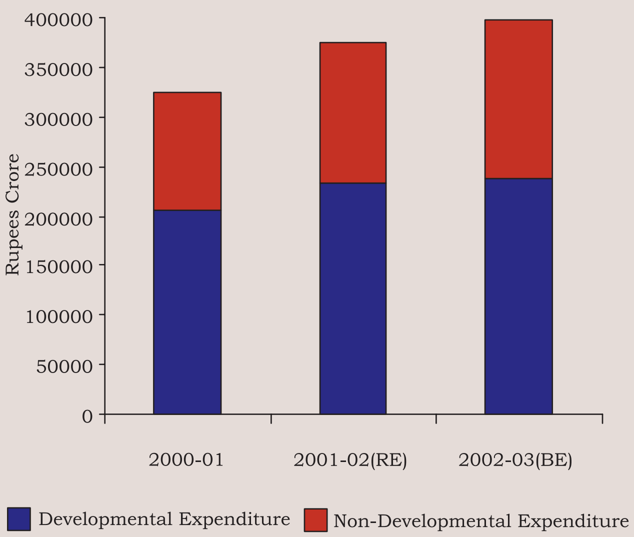
4.25 Revised estimates for 2001-02 indicate deterioration in the fiscal position of States. The gross fiscal deficit of States in 2001-02 at Rs.1,04,557 crore or 4.5 per cent of GDP was higher by 20.3 per cent over the year 2000-01. The revenue deficit in 2001-02 was also higher by 15.7 per cent in absolute terms; however, in terms of GDP, it rose marginally from 2.5 per cent in 2000-01 to 2.6 per cent in 2001-02. The primary deficit as a percentage of GDP also increased, though marginally, from 1.7 per cent in 2000-01 to 1.8 per cent in 2001-02; in absolute terms, it showed an increase of 14.4 per cent over the previous year level (Appendix Table IV.5 and Chart IV.13).

Chart IV.13 : Major Deficit Indicators of State Governments



4.26 The fiscal outcome for 2001-02 reveals continued imbalance between revenue receipts and expenditures of States which is overshadowing the modest efforts towards fiscal consolidation in recent years. While revenue receipts grew by 13.0 per cent over the previous year, mainly on account of a rise in States' own taxes (12.1 per cent) and grants from the Centre (32.6 per cent), these were outpaced by the growth of 13.5 per cent in revenue expenditure. Interest payments accounted for 32.3 per cent of the rise in revenue expenditure in 2001-02. The disaggregation of total expenditure reveals that developmental expenditure rose by 12.3 per cent in 2001-02, while non-developmental expenditure rose by 19.9 per cent over the previous year (Chart IV.14).

Chart IV.14 : Developmental and Non-Developmental Expenditure of State Governments



4.27 The revised estimates for 2001-02 indicate that all the major deficit indicators increased over the budgeted levels. The increase was most pronounced in the primary deficit, followed by the revenue deficit and gross fiscal deficit (Table 4.9).

Table 4.9 : States' Deficit Indicators: 2001-02

(Rupees crore)

Item	Revised Estimates (RE)	Budget Estimates (BE)	Variation RE over BE (Per cent)
1	2	3	4
1. Gross Fiscal Deficit	1,04,557 (4.5)	93,559 (3.8)	11.8
2. Revenue Deficit	59,419 (2.6)	46,326 (1.9)	28.3
3. Primary Deficit	40,697 (1.8)	29,365 (1.2)	38.6

Note : Figures in brackets indicate percentages to GDP.
Source : Budget documents of State Governments.

4.28 States experienced a revenue shortfall of the order of 5.3 per cent due to the slippage in the State's share in Central taxes by 8.2 per cent and State's own revenue receipts (tax and non-tax) by 6.8 per cent.

4.29 States were able to contain their expenditure at the budgeted levels in 2001-02. The revenue expenditure as well as the aggregate expenditure were lower by 0.6 per cent and 0.1 per cent, respectively, than their budgeted levels. Capital expenditure was, however, higher by 2.0 per cent in the revised estimates than their budgeted level.

4.30 States' gross fiscal deficit is financed by various sources such as loans from the Centre, market borrowings, loans against small savings, loans from financial institutions, State provident funds, among others. The financing pattern indicates that about half of the GFD has been financed by loans from the Centre (including loans against small savings) during the 1990s. The share of market borrowings in the total financing of GFD has declined from 18.7 per cent in 1995-96 to 13.8 per cent in 1999-00, but rose to 15.2 per cent in 2001-02 (Appendix Table IV.8, Chart IV.15 and Table 4.10).

State Budgets: 2002-03

4.31 In the budget estimates for 2002-03, several States have proposed measures to intensify fiscal

Table 4.10: Financing Pattern of Gross Fiscal Deficit of States

(Per cent)

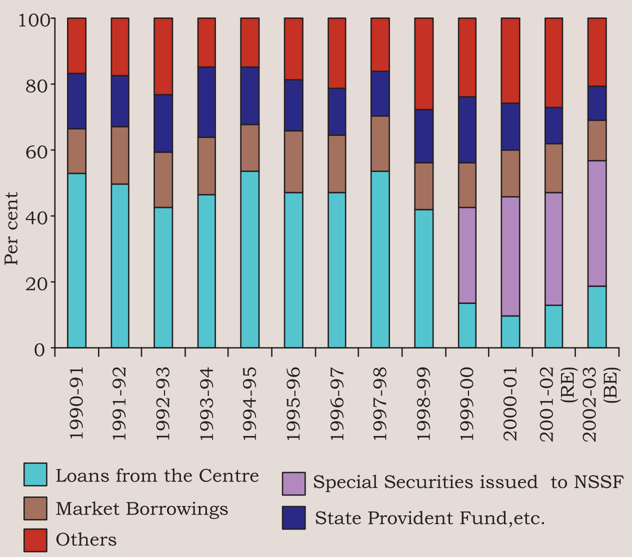
Year	Loans from the Centre	Market Borrowings	State Provident Fund, *etc.*	Special Securities issued to NSSF	Others*
1	2	3	4	5	6
1990-91	53.1	13.6	16.3	–	16.9
1991-92	49.6	17.5	15.4	–	17.5
1992-93	42.7	16.8	17.3	–	23.2
1993-94	46.3	17.6	21.0	–	15.1
1994-95	53.3	14.7	17.3	–	14.7
1995-96	47.1	18.7	15.6	–	18.6
1996-97	47.1	17.5	14.4	–	21.0
1997-98	53.6	16.5	14.1	–	15.9
1998-99	41.8	14.1	16.1	–	28.0
1999-00	13.6	13.8	19.5	28.9	24.2
2000-01	9.4	14.4	13.8	36.4	26.0
2001-02 (RE)	12.7	15.2	10.5	34.2	27.4
2002-03 (BE)	18.9	11.9	10.3	38.1	20.7

* Include loans from financial institutions, Reserve Funds, Deposits and Advances, *etc.*

Note : Due to the change in the accounting procedure, loans from the Centre excludes States' share in small savings collections from the year 1999-2000 and onwards which is shown under Col.5

Source : Budget documents of State Governments.

Chart IV.15 : Financing of Gross Fiscal Deficit of State Governments



consolidation process by widening the resource base and containing expenditure. Accordingly, the GFD of States is budgeted to decline to 3.8 per cent of GDP in 2002-03 from 4.5 per cent in the revised estimates for 2001-02. The revenue deficit is also budgeted lower at 1.8 per cent of GDP in 2002-03 than 2.6 per cent in 2001-02. Revenue receipts of States are budgeted to rise by 13.2 per cent with about 70.0 per cent of this increase to be contributed by States' own revenue receipts comprising tax and non-tax receipts, while current transfers from the Centre comprising sharable taxes and grants would account for the rest. Total tax receipts comprising States' own taxes and States' share in Central taxes are estimated to show a higher growth of 13.8 per cent during 2002-03 than that of 11.1 per cent in the previous year. The tax-GDP ratio of the States, which remained stagnant at around 8.0 per cent during the 1990s, is budgeted to increase to 8.3 per cent during 2002-03 from 8.1 per cent in 2001-02 (Table 4.11). On the non-tax front, States' own non-tax revenue receipts are estimated to show a rise of

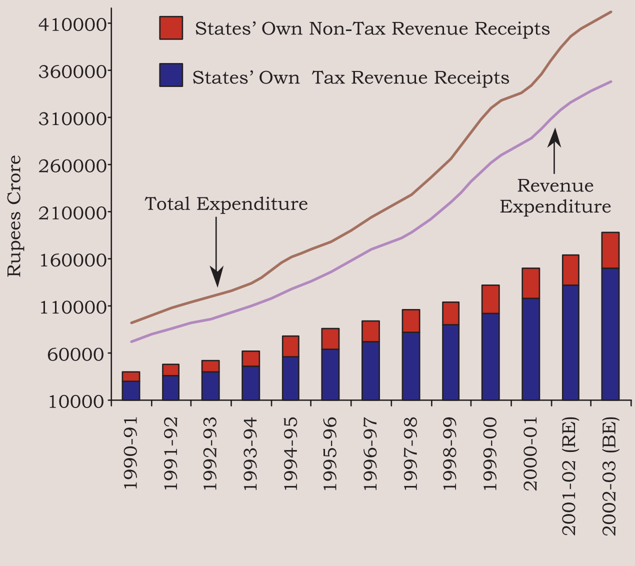
Table 4.11 : Total Tax Revenue and Tax/GDP Ratio of State Governments

Year	Tax Revenue (Rupees crore)	Tax/GDP Ratio (Per cent)
1	2	3
1990-91	44,586	7.8
1991-92	52,604	8.1
1992-93	60,448	8.1
1993-94	68,819	8.0
1994-95	80,619	8.0
1995-96	92,913	7.8
1996-97	1,06,139	7.8
1997-98	1,21,641	8.0
1998-99	1,28,416	7.4
1999-00	1,46,703	7.6
2000-01	1,68,164	8.1
2001-02 (RE)	1,86,779	8.1
2002-03 (BE)	2,12,535	8.3

Source : Budget documents of State Governments.

19.1 per cent in 2002-03 as against a marginal rise of 0.5 per cent in 2001-02. The grants from the Centre are budgeted to increase by 7.2 per cent. Thus, States' own revenue receipts are expected to finance 54.0 per cent of revenue expenditure and 44.7 per cent of the aggregate expenditure in 2002-03 as compared with 50.1 per cent and 41.4 per cent, respectively, in the revised estimates for 2001-02 (Chart IV.16).

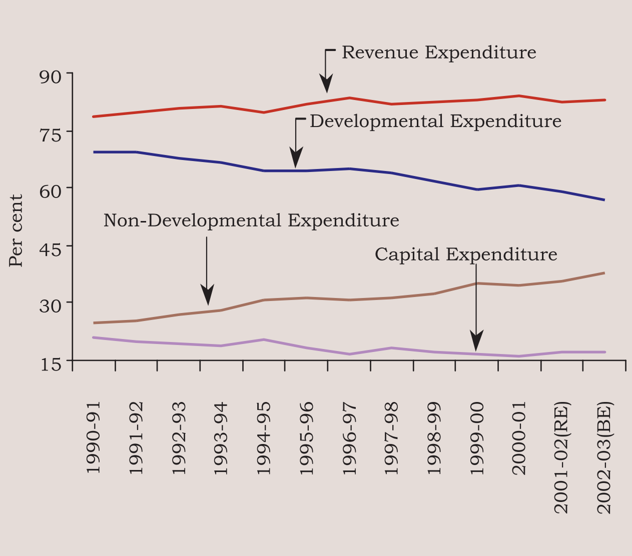
Chart IV.16 : States' Own Revenue Receipts and Expenditure



4.32 During 2002-03, the growth rate of total expenditure of States is budgeted to decelerate to 6.5 per cent from 15.4 per cent in the revised estimates for 2001-02. The budgeted deceleration is pronounced in the case of developmental expenditure and, as a result, the share of developmental expenditure in total expenditure is budgeted to decline from 58.8 per cent in 2001-02 to 56.7 per cent in 2002-03 (Chart IV.17).

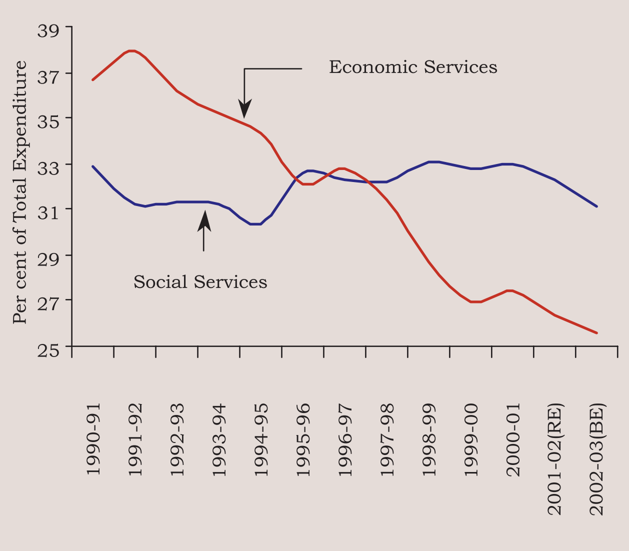
4.33 While the developmental expenditure has been higher than the non-developmental component in absolute terms, the latter has been rising faster throughout the 1990s. The non-developmental expenditure rose by an average annual growth rate of 19.2 per cent as compared with 13.5 per cent in case of developmental expenditure. As a result, the relative share of developmental expenditure in total expenditure has shown a declining trend. Component-wise, the share of social and economic services in total expenditure is budgeted to decline to 31.1 per cent and 25.6 per cent during 2002-03 from 32.3 per cent and 26.4 per cent, respectively, in the revised estimates for 2001-02 (Chart IV.18).

Chart IV.17 : Major Items of Expenditure as Share of Total Expenditure of State Governments



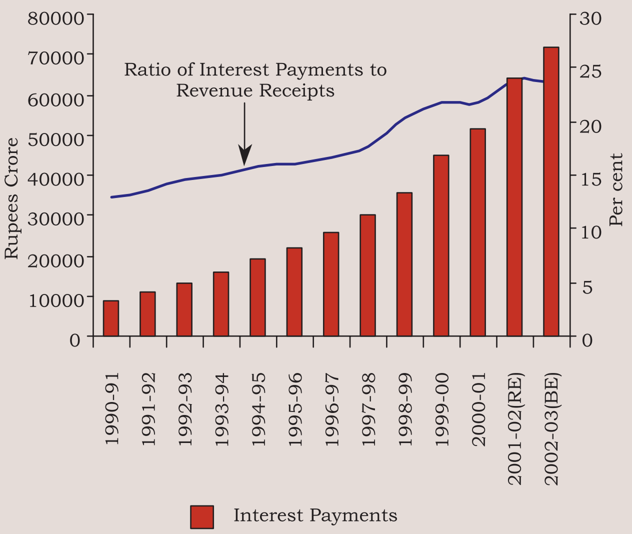
4.34 The rise in non-developmental expenditure is mainly on account of higher expenditure on items such as interest payments, administrative services and pensions. The expenditure on these three items taken together is budgeted to account for 37.7 per cent of revenue expenditure in 2002-03 as compared with 36.5 per cent in the revised estimates for 2001-02. Interest payments alone account for around one-fifth of total revenue expenditure. The ratio of interest payments to revenue receipts continues to follow the rising trend witnessed over the 1990s, and is indicative

Chart IV.18 : Composition of Developmental Expenditure of State Governments



of the growing preemption of revenues by debt servicing (Chart IV.19).

Chart IV.19 : Trends in Interest Payments of State Governments



Policy Initiatives in the State Budgets: 2002-03

4.35 Several States have proposed to take initiatives to improve their finances in the budgets. Measures for the enhancement of revenue receipts include widening of the tax base, better tax compliance, preparation for introduction of Value Added Tax (VAT) and rationalisation of user charges mainly in respect of power, water, transport. Containment of the growth in revenue expenditure, particularly in non-plan revenue expenditure, is envisaged through a set of economy measures including restrictions on fresh recruitment/creation of new posts, containing growth in administrative expenditure, redeployment of manpower and emphasis on prioritisation of resource allocation.

4.36 The institutional reforms envisaged in the State budgets essentially aim at fiscal consolidation. The States of Karnataka and Maharashtra have expressed their intention to introduce Fiscal Responsibility legislation. Maharashtra proposes to set up an independent Fiscal Advisory Board to oversee the implementation of the Fiscal Responsibility legislation as also to keep both the legislature and the public at large informed about the state of its finances. Tamil Nadu has decided to constitute a Tax Reforms and Revenue Augmentation Commission. The Tax Reforms Commission constituted by Karnataka has submitted its report to the State Government.

4.37 The initiatives/measures pertaining to State level public sector undertakings (PSUs) include a comprehensive review of the functioning of the State PSUs, setting up State Electricity Regulatory Commissions (SERCs) and preparing strategy papers on PSUs. Many States have proposed to restructure their PSUs in order to make them profitable and competitive entities. Maharashtra has constituted a Board for Restructuring the State PSUs which will also facilitate divestment or closure wherever necessary. In order to restore financial viability of electricity boards, several States have signed Memorandum of Understanding (MoU) with the Central Government for reforming the power sector, while the others have expressed their intention to complete this exercise soon.

4.38 Sectoral reforms aim at strengthening the basic infrastructure sectors which have relatively high potential for growth and revenue generation. Several States have proposed setting up of Information Technology Parks/Institutes of Information Technology. The States have also proposed/initiated measures to provide an enabling environment for private resources to flow into the infrastructure sector. In the agricultural sector, the reform initiatives aim at improvement in horticulture, floriculture, animal husbandry, farm mechanisation and wasteland development.

4.39 Supplementing the States' efforts, the Centre has also initiated measures to encourage fiscal reform at the State level. Pursuing the recommendations of the Eleventh Finance Commission (EFC), the Government of India has drawn up the 'States Fiscal Reforms Facility' (2000-01 to 2004-05). Accordingly, an Incentive Fund of Rs.10,607 crore has been earmarked over a period of five years (2000-01 to 2004-05) to encourage the States to implement monitorable fiscal reform programmes. A number of States have drawn up Medium-Term Fiscal Reforms Programmes (MTFRP) in consultation with the Central Government. The MTFRP of States cover various areas such as fiscal consolidation, public sector enterprises reforms, power sector reforms and fiscal transparency.

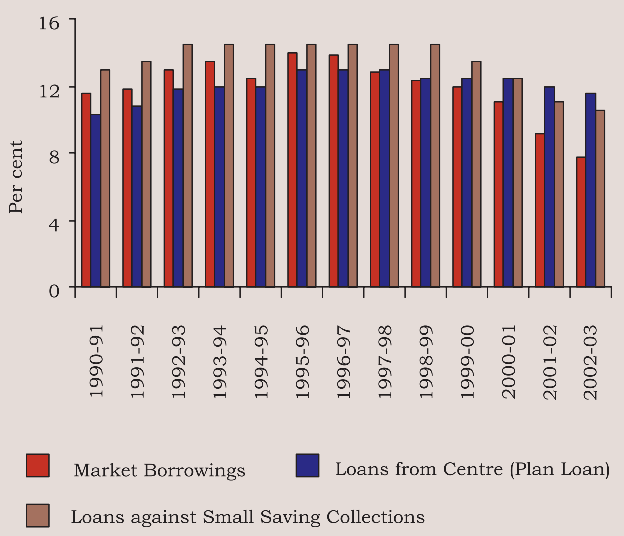
4.40 The Union Budget for 2002-03 has made provision for reform-linked assistance of Rs.12,300 crore for States under various schemes such as Accelerated Power Development and Reform Programme (APDRP), Accelerated Irrigation Benefit Programme (AIBP), Urban Reforms Incentive Fund (URIF), and Rural Infrastructure Development Fund (RIDF). In addition, a lump sum amount of Rs.2,500 crore has been proposed for policy reforms in sectors, which are constraining growth and development.

Market Borrowings of State Governments

4.41 The gross and net market borrowings allocated for all States for the fiscal year 2001-02 amounted to Rs.19,030 crore and Rs.17,583 crore, higher by 43.1 per cent and 36.5 per cent, respectively, than in the previous year. The State Governments raised an amount of Rs.18,707 crore (gross) during 2001-02. The amount was raised through traditional tranche method, tap method as well as through auctions (for details see Section XI).

4.42 The interest rate on market borrowings of the State Governments has been declining since 1996-97 (Chart IV.20). The interest rate on market borrowings of the State Governments varied between 7.80 per cent and 10.53 per cent in 2001-02 as compared with 10.50 per cent and 12.00 per cent in 2000-01.

Chart IV.20 : Interest Rates on State Government Borrowings : Component-wise



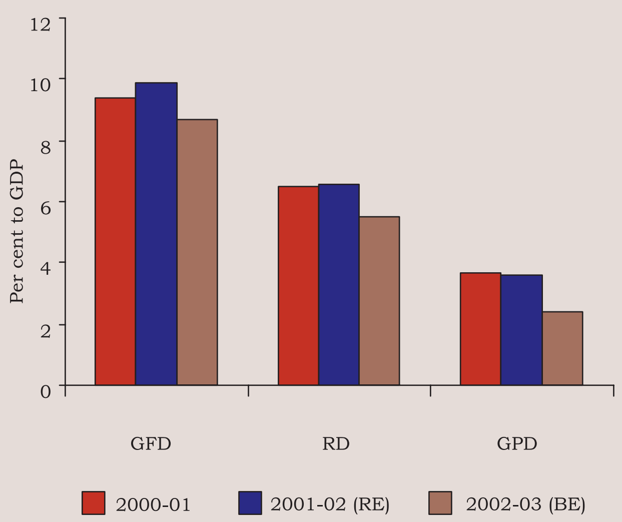
4.43 As witnessed in case of the Central Government, market borrowings are turning out to be the most cost effective option as compared to other sources of financing GFD. During the year 2001-02, the weighted average interest rate on States' market borrowings was 9.2 per cent compared with 12.0 per cent for loans from the Centre (Plan loans) and 11.0 per cent for loans against small saving collections. During 2002-03 (up to August 10, 2002), the interest rate on market borrowings has remained in the range of 7.8 per cent to 8.0 per cent as compared with 11.5 per cent in case of loans from the Centre (Plan loans) and 10.5 per cent for loans against small saving collections.

4.44 The gross and net market borrowings allocated for States for 2002-03 is tentatively placed at Rs.13,814 crore and Rs.12,024 crore, respectively. An amount of Rs.3,974 crore was raised by 26 States at the interest rate of 7.8 per cent through tap issuances. On the other hand, six States raised an amount of Rs.1,269 crore through auction at the rate of interest ranging between 7.8 per cent to 8.0 per cent. Thus, the States so far (up to August 10, 2002) have raised an amount of Rs.5,243 crore constituting 38.0 per cent of gross allocation for the year.

COMBINED BUDGETARY POSITION OF THE CENTRE AND STATES

4.45 The marked shortfall in revenue receipts was reflected in an upward movement in all the key deficit indicators of combined Centre and State finances in the revised estimates for 2001-02 relative to budget estimates in absolute terms as well as in terms of GDP (Chart IV.21 and Table 4.12).

Chart IV.21 : Combined Deficit Indicators of the Centre and States



4.46 The combined aggregate expenditure for 2001-02 (RE) was marginally lower than the budget estimates. Revenue expenditure was lower by 0.5 per cent whereas capital expenditure was lower by 3.3 per cent. The reduction was effected in respect of non-development expenditure (2.7 per cent); development expenditure was higher by 0.6 per cent (Chart IV.22 and Appendix Table IV.6).

4.47 The combined revenue receipts in the revised estimates for 2001-02 fell short of the budgeted level by 6.4 per cent. Combined tax revenue

Table 4.12 : Measures of Deficit of the Central and State Governments*

Year	Rupees crore			Per cent to GDP		
	Gross Fiscal Deficit	Revenue Deficit	Primary Deficit	Gross Fiscal Deficit	Revenue Deficit	Primary Deficit
1	2	3	4	5	6	7
1990-91	53,580	23,871	28,585	9.4	4.2	5.0
1991-92	45,850	21,912	14,858	7.0	3.4	2.3
1992-93	52,404	23,688	15,936	7.0	3.2	2.1
1993-94	70,952	36,529	27,938	8.3	4.3	3.3
1994-95	71,639	37,185	19,313	7.1	3.7	1.9
1995-96	77,671	37,932	18,598	6.5	3.2	1.6
1996-97	87,244	48,768	17,156	6.4	3.6	1.3
1997-98	1,10,743	62,782	32,466	7.3	4.1	2.1
1998-99	1,57,053	1,10,618	63,956	9.0	6.4	3.7
1999-2000	1,84,826	1,21,393	74,375	9.6	6.3	3.9
2000-01 #	1,97,252	1,36,612	77,145	9.4	6.5	3.7
2001-02(RE) #	2,26,678	1,51,152	83,323	9.9	6.6	3.6
2002-03(BE) #@	2,21,987	1,41,489	60,222	8.7	5.5	2.4

RE : Revised Estimates. BE : Budget Estimates.

* The combined deficit indicators have been worked out after netting out the inter-Governmental transactions between the Centre and States. As such, these figures will not be equal to the total deficits as worked out separately for the Centre and for the States.

\# Data for State Governments are provisional (See Notes to Appendix Table IV.5)

@ Worked out on the basis of the implicit nominal GDP underlying the budget estimates of the Central Government GFD/GDP ratio of 5.3 per cent for 2002-03.

declined by 9.9 per cent while non-tax revenue recorded a growth of 8.5 per cent. The combined tax-GDP ratio has shown a declining trend since the beginning of the last decade. The fall in tax-GDP ratio is attributable to the decline in the indirect taxes (Chart IV.23).

4.48 The combined deficit indicators are budgeted to come down in terms of GDP during the year 2002-03. The combined GFD for 2002-03 is budgeted at Rs.2,21,987 crore, which amounts to 8.7 per cent of GDP as compared with 9.9 per cent in the revised estimates for 2001-02. Similarly, the revenue deficit at Rs.1,41,489 crore would constitute 5.5 per cent of GDP, compared with 6.6 per cent for 2001-02 (RE). The gross primary deficit (GPD) is budgeted lower at Rs.60,222 crore (2.4 per cent of GDP) than Rs.83,323 crore in the revised estimates for 2001-02 (3.6 per cent of GDP) in 2001-02 (RE). The reduction in deficit indicators is envisaged through a relatively higher growth in revenue receipts (15.2 per cent) than in aggregate expenditure (8.9 per cent).

4.49 The budget estimates for 2002-03 place the aggregate expenditure at Rs.7,31,618 crore, higher by 8.9 per cent than Rs.6,71,561 crore in the revised estimates for 2001-02. Revenue expenditure is budgeted to increase by 9.5 per cent, whereas

Chart IV.22 : Expenditure of the Centre and States

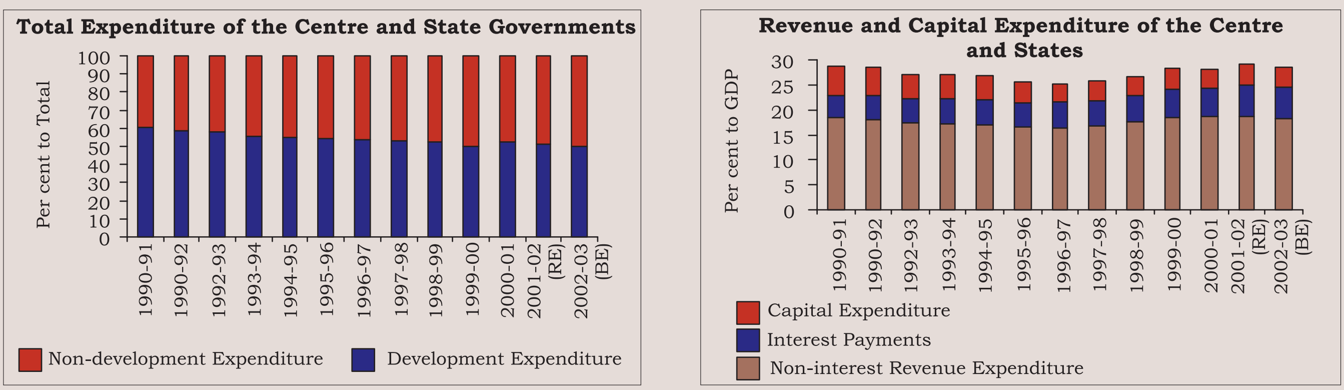
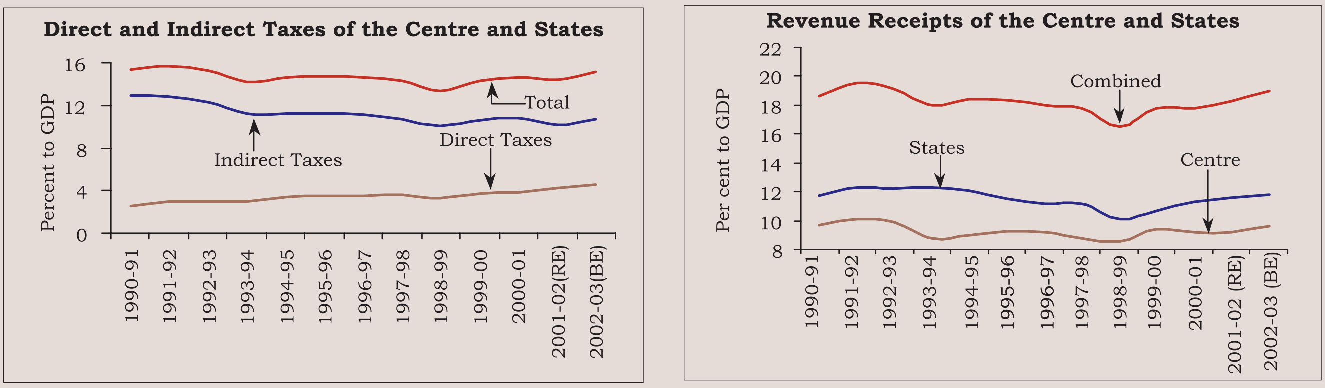


Chart IV.23 : Tax Revenue and Revenue Receipts of the Centre and States

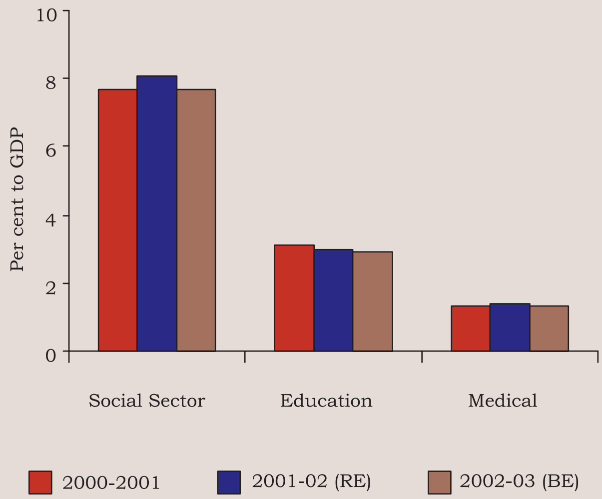


capital expenditure would increase at a relatively lower rate of 5.6 per cent. The share of development expenditure in the aggregate expenditure is budgeted to come down to 50.0 per cent in 2002-03 from 51.2 per cent in 2001-02 (RE) and 60.3 per cent in 1990-91. The share of non-development expenditure (including others) would increase accordingly. The compositional change in expenditure is the outcome of lower growth of 6.5 per cent in development expenditure as compared with 12.0 per cent in non-development expenditure (Table 4.13).

4.50 The total expenditure on the social sector at Rs.1,98,239 crore is budgeted to grow at a relatively lower rate of 6.0 per cent than that of 15.7 per cent in 2001-02(RE). In terms of GDP, social sector expenditure is budgeted to decline to 7.8 per cent from 8.1 per cent during 2001-02 (RE) (Chart IV.24).

4.51 The financing pattern of combined GFD reveals that domestic sources would finance more than 99 per cent of the combined GFD and the balance is financed through external assistance.

Chart IV.24 : Social Sector Expenditure of the Centre and States



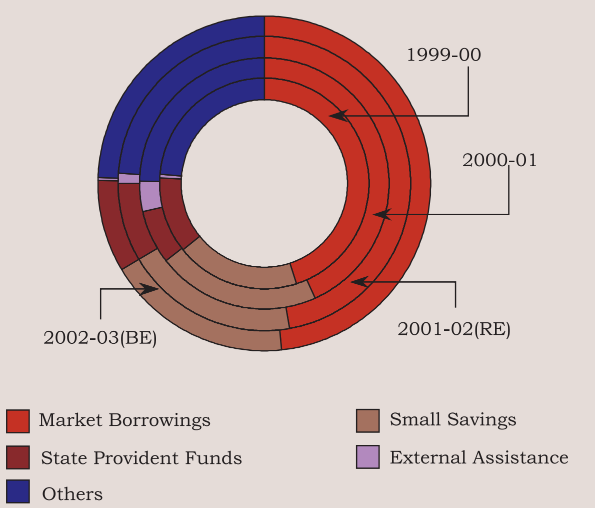
4.52 Among the domestic sources, the composition is shifting towards market borrowings with their share

Table 4.13 : Combined Receipts and Disbursements of Central and State Governments

	2002-03 (BE)	2001-02 (RE)	Variations between BE and RE	
			Amount	Per cent
1	2	3	4	5
I. Total Receipts (1+2)	7,30,302	6,65,462	64,840	9.7
1. Revenue Receipts (i+ii)	4,85,864	4,21,630	64,234	15.2
i) Tax Receipts	3,85,500	3,29,127	56,373	17.1
ii) Non-Tax Receipts	1,00,364	92,503	7,861	8.5
2. Capital Receipts	2,44,438	2,43,832	606	0.2
II. Total Disbursements (1+2)	7,31,618	6,71,561	60,057	8.9
1. Development Expenditure	3,66,156	3,43,834	22,322	6.5
2. Non-Development Expenditure (including others)	3,54,956	3,16,919	38,037	12.0

reaching 47.3 percent in 2001-02 (RE) and 48.4 per cent in 2002-03(BE). Consequently, the share of other financing items (including small savings, provident fund, deposits, reserve funds, and others) has come down to 51.8 per cent in 2001-02 (RE) and 51.3 per cent in 2002-03 (BE). Of these, small savings and provident funds together would finance 27.1 per cent of the combined GFD during 2002-03 (Chart IV.25).

Chart IV.25 : Financing of Combined GFD of the Centre and States



DOMESTIC PUBLIC DEBT

Debt Position of the Central Government

4.53 The outstanding domestic debt of the Central Government rose to 58.4 per cent of GDP at the end of March 2002 as compared with 56.4 per cent in the preceding year. During the earlier period of the economic reform process initiated in 1991, there was considerable progress in improving the debt position of the Government. This was reflected in significant improvement in the debt-GDP ratio which steadily declined from 54.3 per cent in 1991-92 to 49.4 per cent in 1996-97. Subsequently, as a result of the widening fiscal gap, higher Government borrowings became necessary and outstanding liabilities of the Central Government rose at an annual average rate of 14.4 per cent from Rs.6,75,676 crore in 1996-97 to Rs.15,12,768 crore in 2002-03. Similarly, high growth in outstanding debt also led to sharp increase in interest payments which rose at an annual average rate of 12.1 per cent from Rs.59,478 crore to Rs.1,17,390 crore over the same period. (Table 4.14, Chart IV.26 and Appendix Table IV.7).

4.54 There has been significant changes in the level and composition of domestic debt since the beginning of economic reforms in 1991-92. The share of internal debt which comprises market borrowings, rose from 54.4 per cent as at the end of March 1992 to 71.3 per cent as at the end of March 2002. Over the same period, the share of liabilities on public accounts comprising mainly of small savings and provident funds declined from 45.6 per cent to 28.7 per cent. High administered rates on public accounts liabilities have mainly been the cause of high average cost of Government borrowings hitherto. In March 2002, interest rates on most of the instruments under public accounts were revised downward by 50 basis points.

Table 4.14 : Total Liabilities and Interest Payments of the Centre

(Rupees crore)

Year	Total Liabilities	Interest Payments
1	2	3
1990-91	3,14,558	21,498
1991-92	3,54,662	26,596
1992-93	4,01,924	31,075
1993-94	4,77,968	36,741
1994-95	5,38,611	44,060
1995-96	6,06,232	50,045
1996-97	6,75,676	59,478
1997-98	7,78,294	65,637
1998-99	8,91,806	77,882
1999-00	10,21,029	90,249
2000-01	11,77,026	99,314
2001-02 (RE)	13,42,268	1,07,257
2002-03 (BE)	15,12,768	1,17,390

Chart IV.26 : Growth in Total Liabilities and Interest Payments of the Centre

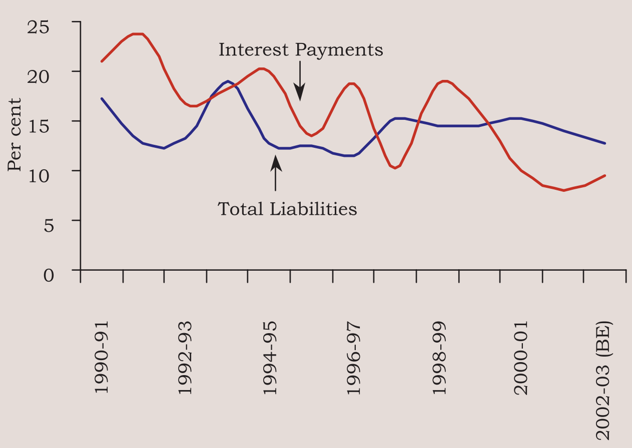


Table 4.15 :Combined Liabilities and Debt-GDP Ratio

Year	Total Liabilities			Debt - GDP Ratio		
	Centre	States	Combined	Centre	States	Combined
	(Rupees crore)			(per cent)		
1	2	3	4	5	6	7
1990-91	3,14,558	1,10,289	3,50,957	55.3	19.4	61.7
2000-01	11,77,026	4,97,865	13,96,310	56.4	23.8	66.9
2001-02 (RE)	13,42,268	5,88,177	16,07,704	58.4	25.6	69.9

Debt Position of State Governments

4.55 The States' debt-GDP ratio, which had declined during the period 1991-97, has been edging up in subsequent years to reach 25.6 per cent at the end of March 2002. Fiscal consolidation and reforms at the State level have received considerable attention during recent years. The Eleventh Finance Commission has recommended that as a medium-term objective, State Governments should endeavor to keep interest payments as a ratio to revenue receipts to about 18 per cent. Many of the States in their budgets have proposed measures for fiscal reforms such as setting up of consolidated sinking fund, guarantee redemption fund, statutory limits on guarantees and restructuring of PSUs.

Combined Debt

4.56 The combined outstanding debt of the Centre and the State Governments is estimated to be 69.9 per cent of the revised GDP for the year 2001-02 as against 66.9 per cent as at end-March 2001 and 61.7 per cent as at end-March 1991 (Table 4.15).

Contingent Liabilities/Guarantees of the Government

4.57 The guarantees given by the Central Government rose from Rs.58,088 crore in nominal terms as at end-March 1993 accounting for 7.8 per cent of GDP to Rs.86,862 crore as at end-March 2001 accounting for 4.2 per cent of the GDP. The outstanding State Governments guarantees increased sharply from Rs.42,515 crore as at end-March 1993 to Rs.1,68,712 crore as at end-March 2001. Unlike in the case of the Central Government, outstanding guarantees of the State governments as at end-March 2001 at 8.1 per cent of GDP were higher than 5.7 per cent of GDP as at end-March 1993 (Table 4.16).

4.58 Apart from the explicit contingent liabilities, State Governments also issue letters of comfort to banks/financial institutions to enable State public entities to raise funds. These implicit guarantees are not included in the present estimates of guarantees. However, some States have recently begun to disclose the details of implicit guarantees in their Budget documents following the recommendations of the Technical Committee on State Government Guarantees (1999). Many States have taken initiatives to place ceilings on guarantees. The statutory ceilings on guarantees have been instituted by Goa, Gujarat, Karnataka, Sikkim and West Bengal. The States of Rajasthan and Assam have imposed administrative ceilings on guarantees.

Table 4.16 : Outstanding Government Guarantees

Year	Centre		States		Total	
	Amount	% to GDP	Amount	% to GDP	Amount	% to GDP
1	2	3	4	5	6	7
1993	58,088	7.8	42,515	5.7	1,00,603	13.4
1994	62,834	7.3	48,866	5.7	1,11,700	13.0
1995	62,468	6.2	48,479	4.8	1,10,947	11.0
1996	65,573	5.5	52,631	4.4	1,18,204	9.6
1997	69,748	5.1	63,409	4.6	1,33,157	9.7
1998	73,877	4.9	73,751	4.8	1,47,628	9.7
1999	74,606	4.3	97,454	5.6	1,72,060	9.9
2000	83,954	4.4	1,32,029	6.8	2,15,983	11.2
2001	86,862	4.2	1,68,712	8.1	2,55,574	12.2

Source: 1. Data on Centre's guarantees are sourced from finance accounts and budget documents of the Central Government.
2. Data on States' guarantees are based on information received from State Governments. Data pertain to 17 major States.