

Interim Budget 1991-92

Speech of

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Minister of Finance

4th March, 1991

Sir,

I rise to present the interim Budget for the year 1991-92.

2. The new Government, which assumed office in mid-November 1990, inherited an economic situation of crisis proportions. The budget deficit of the Central Government reached a level of Rs. 13,000 crores, on 30th November 1990, as a consequence of revenue shortfalls and expenditure overruns. The Wholesale Price Index registered an increase of 8.5 per cent, while the Consumer Price Index rose by 11.9 per cent, during the first eight months of the current financial year. The sharp deterioration in the balance of payments situation led to a rapid depletion of foreign exchange reserves, which dropped to Rs. 3142 crores at the end of November 1990 and this sum was not even sufficient to finance imports for one month.

3. These developments were not an unfortunate coincidence, but were the outcome of shortcomings in the macro-management of the economy in the past. I say this neither in a spirit of acrimony nor with a desire to apportion blame. But the time has come for the Government to share its concerns with the Parliament and the people, in an endeavour to evolve a national consensus, so that the restoration of the health of the economy is perceived as a collective responsibility.

4. Macro-economic imbalances which have been large and persistent are at the root of the problem. The fiscal deficits of the Government had to be met by borrowing at home. The current account deficits of the economy were inevitably financed by borrowing from abroad. The burden of servicing the accumulated internal and external debt has now become onerous. I need hardly stress that neither the Government nor the economy can live beyond its means for long. The room for maneuver, to live on borrowed money or time, has been used up completely. The soft options have been exhausted.

5. It is not surprising that the persistent fiscal imbalances have accentuated inflationary pressures in the economy and strained the balance of payments. Thus, even at the beginning of the current financial year, the economy was in a serious fiscal crisis and faced a very difficult balance of payments situation. These problems

have been sharply exacerbated by the oil shock and the dislocations caused by the crisis and the war in the Gulf. We have experienced a deterioration in the fiscal situation. Consumers are faced with double digit inflation. The economy is faced with a balance of payments crisis. The impact of the Gulf war on the economy, in the year to come, is difficult to assess fully at this point of time. The level at which international oil prices would stabilise thereafter cannot be predicted.

6. On assumption of office, we could not have waited and allowed a further deterioration in the budgetary situation. Therefore, without losing any time, I introduced a package of measures to mobilise additional revenue. Steps were taken to improve tax compliance and revenue collections. The strictest possible control was exercised on expenditure. At the same time, I had also assured the Parliament that the Government attached a very high priority to fiscal consolidation, even if it meant hard decisions and difficult choices which had been postponed for long. I would like to stress, once again, that my commitment to fiscal adjustment in 1991-92 remains firm and irrevocable.

7. In the difficult set of circumstances, where the uncertainties remain, we shall need some more time to evolve a comprehensive strategy for restoring the health of the economy. In formulating the Budget, we want to ensure that such a macro-economic adjustment does not disrupt the rhythm of the growth process and does not place a burden on the poor. What is more, the process of fiscal correction needs to be situated in a medium term perspective. We are engaged in the formulation of a comprehensive approach which would provide a satisfactory and sustainable solution to these problems. This needs time. I would, therefore, plead with the House to wait until the regular Budget for 1991-92 is presented in May 1991.

REVISED ESTIMATES FOR 1990-91

8. In presenting the interim Budget, I would like to begin with a brief account of the Revised Estimates for the current financial year. The Revised Estimate of total expenditure for the Budget of 1990-91 is Rs. 1,06,717 crores which reflects a significant increase over the original Budget Estimate of Rs. 94,535 crores. For a more appropriate comparison, however, the original Budget Estimate should be adjusted to Rs. 99,309 crores, to include small savings loans to State Governments and a part of the capital expenditure of the Railways previously netted against receipts, which would make it consistent with the Revised Estimate. The increase would be off-set, to the extent of Rs.4,100 crores, by matching receipts. Thus, the net increase in expenditure would be Rs. 3,308 crores. This expenditure overrun is attributable, in significant part, to some unexpected post-budget developments during the current financial year which were beyond the control of Government.

9. Additional loans to State Governments, following larger collections of small savings, account for Rs. 2,270 crores. In addition, the Revised Estimates also include loans of Rs. 521 crores to States to meet a part of their opening deficits with the Reserve Bank of India, while another Rs. 966 crores has been provided to write-off loans to States as recommended by the Ninth Finance Commission.

10. Interest payments would be Rs. 1000 crores higher than the Budget Estimates. Pensions for defence personnel would be Rs. 170 crores more. The

repatriation of Indian citizens from Kuwait would impose an unanticipated burden of Rs. 300 crores on the exchequer. The scheme of rural debt relief, which was not adequately provided for in the budget, would require another Rs. 500 crores. Technical credits would be Rs. 800 crores more than estimated because there is a temporary imbalance in trade under the rupee payment arrangements. The Revised Estimates for major subsidies exceed the Budget Estimates by Rs.1,034 crores. The increase in food subsidies, at Rs. 250 crores, is attributable to sugar, in which the increase in issue prices to producers implemented in January 1990 was not followed by an increase in issue prices for consumers in the public distribution system. The increase in fertiliser subsidies, at Rs. 400 crores, is a consequence of the increase in the domestic prices of naphtha and the increase in the landed costs of imported fertilisers. The increase in export subsidies, at Rs. 384 crores, is because Cash Compensatory Support, given at ad valorem rates, is a function of the rupee value of exports.

11. Gross tax revenue is expected to be Rs. 58,916 crores, which is Rs. 862 crores less than the budget estimates of Rs. 59,778 crores. Income tax and Corporation tax are estimated to yield Rs. 134 crores and Rs. 261 crores, respectively, more than the budget estimates, largely as a result of the post budget additional resource mobilisation during the current year. However, customs duties and excise duties are expected to yield Rs. 660 crores and Rs. 625 crores, respectively, less than the budget estimates, despite the post budget additional resource mobilisation during the current year. Non-tax revenue is expected to be Rs. 419 crores larger. Capital receipts are expected to register an improvement of Rs. 4,399 crores, of which Rs. 2,500 crores will be from small savings collections.

12. Revised estimates of total receipts and total expenditure show that the current year is likely to end with a budget deficit of Rs. 10,772 crores compared to Rs. 7,206 crores estimated at the time of the budget. I would like to stress that, but for the measures implemented in the past three months, in the spheres of both revenue and expenditure, this budget deficit would have been significantly higher. It is a matter of concern that the additional expenditures have to be met from additional borrowings, thus pushing up the estimated fiscal deficit in the current year to Rs. 43,331 crores from Rs. 36,795 crores envisaged in the budget. The increase in the fiscal deficit is, to some extent, beyond the control of the Government due to the autonomous buoyancy in small savings collections, as a result of which the provision for loans to State Governments against small savings collections has gone up by Rs. 2,270 crores in the revised estimates. Were it not for this factor, the fiscal deficit, now estimated at 8.59 per cent of GDP, would have been 8.14 per cent of GDP.

BUDGET ESTIMATES FOR 1991-92

13. I shall now turn to the interim budget for 1991-92, which is being presented for the purpose of a Vote-on-Account to enable Government to meet essential expenditure during the first four months of the next financial year. The Demands for Grants and the Annual Financial Statement, which are for the entire financial year, would be revised as necessary and finalised at the time of presentation of the regular budget.

14. At this stage, budget support for the Central Plan outlay in 1991-92 is placed at Rs. 18,550 crores, while Central assistance for the plans of States and Union Territories is placed at Rs. 14,710 crores for 1991-92. On this basis, the outlay for the Central Plan would be Rs.42,148 crores, while the plan outlay of States and Union Territories, including special area programmes, would be about Rs. 29,300 crores. It has been my endeavour to provide the maximum possible support to programmes for the poor and the weaker sections of society, specially in the rural areas.

15. We have stressed economy and austerity in non-plan expenditure in order to maintain levels of investment and sustain the momentum of growth. Thus, I have taken great care to ensure that non-plan expenditure is kept at the barest minimum level next year. In absolute terms, the total non-plan expenditure would increase by a marginal amount from Rs.76,761 crores in the current year to Rs.76,907 crores next year.

16. No provision has been made for additional installments of dearness allowance that may become payable next year. I am requesting all Ministries and Departments to absorb this additional liability within their budgeted outlay by effecting suitable economies. The provision for payment of loans to States, on account of their share of small savings, is placed at Rs. 4,500 crores next year against Rs. 6,770 crores in the Revised Estimates for the current year. This reduction is due to the proposed transfer of the National Savings Scheme to the Bharat Bachat Bank, to be set up soon.

17. The provision for defence expenditure during the next year is placed at Rs.16,850 crores. To meet the obligation of the Government under the scheme of rural debt relief introduced this year, a provision of Rs. 1,500 crores is also being made for the next year.

18. In our quest for fiscal consolidation, it is essential to rationalise expenditure on subsidies. As a first step in this direction, I propose to reduce the budgetary allocations for the major subsidies on exports, fertilisers and food from Rs.9,550 crores in the Revised Estimates for 1990-91 to Rs.8,616 crores in the Budget Estimates for 1991-92. In my view, a better targeting of subsidies for the poor and the needy, combined with an improvement in management, should make it possible to attain the desired objectives within these allocations.

19. In the sphere of receipts, at the existing rates of taxation, gross tax revenue is estimated at Rs.65,354 crores next year, compared to the revised estimate of Rs.58,916 crores in the current year. The payments to States of their share of taxes is placed at Rs.15,900 crores next year as against Rs.14,535 crores in the current year. Thus, the net revenue receipts of the Centre, including non-tax revenue, are estimated to increase from Rs.57,381 crores in 1990-91 to Rs.63,584 crores in 1991-92. Under capital receipts, market borrowings are placed at Rs.7,500 crores next year which is lower than Rs.8,000 crores in the current year. Budgetary receipts from net collections of small savings are estimated at Rs.6,000 crores in 1991-92 as compared with Rs.8,000 crores in 1990-91 on account of the transfer of the National Savings Scheme to the new Bharat Bachat Bank, proposed to be set up. External assistance excluding grants but net of repayments is expected to be Rs.4,000 crores in the next year as against Rs.3,984 crores in the current year.

20. It has been decided that Government would disinvest upto 20 per cent of its equity in selected public sector undertakings, in favour of mutual funds and financial or investment institutions in the public sector. This disinvestment, which would broad-base the equity, improve management and enhance the availability of resources for these enterprises, is also expected to yield Rs.2,500 crores to the exchequer in 1991-92. The modalities and details of implementing this decision, which are being worked out, would be announced separately.

21. Taking into account the other variations in receipts and expenditure, total receipts at the 1990-91 rates of taxation are estimated at Rs.1,00,190 crores, while total expenditure is estimated at Rs.1,10,167 crores, so that the budget deficit, without additional resource mobilisation, would be Rs.9,977 crores.

22. The increases in the budgetary provisions for plan expenditure and other important categories of expenditure are related to, and depend upon, the magnitude of total receipts that emerges in the regular budget. The interim period, before the presentation of the regular budget, would be utilised for a close scrutiny and review of all these expenditure provisions, so as to ensure that the fiscal deficit of the Central Government is about 6.5 per cent of GDP in 1991-92. The increases in provisions, wherever these are substantial, could not therefore be taken fully into account in determining the provisions for which the Vote-on- Account is to be sought, except in respect of items such as interest payments, salary or pension payments and statutory grants to State Governments. I am requesting all Ministries, Departments and public sector undertakings of the Central Government not to take up any new schemes and not to enter into any fresh major commitments during this period. All Ministries and Departments will also be advised to observe utmost economy in expenditure and austerity would continue to be the watchword of the Government.

23. I propose to introduce a Finance Bill which seeks to continue the existing rates of Income tax in the financial year 1991-92. There is no change in the rates of Customs and Central Excise duties. However, provision has been made in the Finance Bill for the continuance of the auxiliary duties of Customs and special duties of Excise at the existing rates in the next financial year.

[Interim-4th March 1991]