

## CHAPTER 6

### FISCAL POLICY AND GOVERNMENT BUDGET

Fiscal policy in 1982-83 was directed towards maintaining the tempo of development while avoiding inflationary pressures in the economy. Emphasis was placed on raising resources for investment in a non-inflationary manner, promoting domestic savings and increasing operational efficiency and productivity in the public enterprises. In view of the continued strain on balance of payment position, special attention was given to encouraging investment and production for exports as well as attracting increased inflow of foreign remittances. However, widespread drought conditions during the kharif season of 1982 and the deceleration in the rate of industrial production have disturbed the fiscal balance during the current year. The growth in tax receipts has so far been significantly lower than anticipated in the budget. On the other hand, there have been substantial increases in expenditure on account of drought and other natural calamities relief, certain plan expenditures as also on other items. Although overall profitability of public sector enterprises improved, the generation of internal resources in the case of certain undertakings has been adversely affected due to shortfalls in production and also cost escalations. These developments will adversely affect the size of the budgetary deficit for 1982-83. However, in view of the evidence of weak demand in some sectors and the favourable price situation, an increase in expenditure in the current year is not likely to be destabilising.

#### Budgetary Developments in 1981-82

6.2 The general improvement in the performance of the economy in 1981-82 was reflected in the combined budgetary operations of the Central and State Governments. Despite a substantial step up in the aggregate expenditure by nearly 19 per cent in 1981-82 (RE) over that in 1980-81, the overall budgetary deficit according to the revised estimates was Rs. 2260 crores which was significantly lower than the deficit of Rs. 3460 crores in 1980-81. The

lower deficit resulted from a faster growth in domestic receipts, both current and capital. The increase in total tax revenues was a little over 20 per cent which was significantly higher than the budget estimates. The improvement was recorded in both direct and indirect taxes, the growth in the former being 26 per cent and in the latter over 19 per cent. Non-tax revenues increased by 32 per cent mainly on account of a sharp increase in the internal resources of the public sector undertakings for the Plan partly as a result of the additional resources mobilised during the year through petroleum price adjustments. Domestic capital receipts recorded an increase of 41 per cent partly because of the large contribution made by the Special Bearer Bonds. External assistance amounted to Rs. 1326 crores which was lower than in 1980-81 because a Trust Fund drawing of Rs. 538 crores had raised the external assistance figure above normal levels in that year.

6.3 There was a significant step-up in development expenditure in 1981-82 with the revised estimates showing a growth of 18 per cent over that in 1980-81. The expenditure on the Annual Plan for 1981-82 at Rs. 18,196 crores showed an increase of 23 per cent compared with Rs. 14,778 crores in 1980-81. The growth in non-development expenditure was nearly 21 per cent. The major components which contributed to this increase included defence and interest payments.

6.4 An important feature of the budgetary situation in 1981-82 was that although total expenditure of the Central Government increased by over 20 per cent as compared to that in 1980-81, the overall budgetary deficit of the Central Government was only Rs. 1700 crores according to the revised estimate which was significantly lower than Rs. 2577 crores in 1980-81. Total expenditure of States and Union Territories (including internal and extra-budgetary resources of the State public undertakings for the

TABLE 6.1  
*Budgetary Transactions of the Central and State Governments*

	1	1978-79	1979-80	1980-81	1981-82		1982-83 (B.E.)
					(B.E.)	(R.E.)	
					5	6	7
<b>I. Total Outlay</b>		<b>27447</b>	<b>31117</b>	<b>36845</b>	<b>41109</b>	<b>43804</b>	<b>49211</b>
(a) Developmental		17994	20298	24426	27088	28809	32300
(b) Non-Developmental		9453	10819	12419	14021	14995	16911
<b>II. Current Revenue</b>		<b>20054</b>	<b>22545</b>	<b>24563</b>	<b>28857</b>	<b>30120</b>	<b>35855</b>
(a) Tax Revenue		15528	17683	19844	22191	23886	27566
(i) Direct Taxes		2851	3096	3268	3788	4116	4626
(ii) Indirect Taxes		12677	14587	16576	18403	19770	22940
(b) Non-tax Revenue		4526	4862	4719	6666	6234	8289
<b>III. Gap (I—II)</b>		<b>7393</b>	<b>8572</b>	<b>12282</b>	<b>12252</b>	<b>13684</b>	<b>13356</b>
Financed by :							
(i) Domestic Capital receipts		6049	5021	7152	8961	10098	10065
(ii) Net external assistance		713	890	1670	1310	1326	1603
(iii) Budgetary deficit		631	2661	3460	1981	2260	1688

NOTE : Please see footnotes to Table 2.1 in the Statistical Appendix.

Plan) increased by 13.7 per cent, i.e. from Rs. 20,053 crores in 1980-81 to Rs. 22,807 crores in 1981-82 (RE) (12.5 per cent growth in development expenditure and 17.8 per cent in non-development expenditure). According to the revised estimates for 1981-82, the budgetary deficit of the States was placed at Rs. 560 crores. However, preliminary actuals available indicate that there has been a further deterioration in the States' combined budgetary position and their deficit was estimated to be much higher at Rs. 1127 crores compared with Rs. 883 crores in 1980-81. In the absence of the details of receipts and expenditures for 1981-82 (actuals) it is not possible to analyse precisely the factors that led to the emergence of such a sizeable deficit.

6.5 The performance of the State Governments in raising revenues from their own tax efforts was quite satisfactory and their tax revenues at Rs. 8134 crores in 1981-82 (RE) increased by as much as 22 per cent compared with that in the previous year. The States' share in Central taxes was also higher by Rs. 500 crores or by 13.2 per cent compared with the level in 1980-81. The States' capital receipts in 1981-82 were higher by 12.8 per cent. However, non-tax revenues at Rs. 1936 crores in 1981-82 (RE) though higher by 23 per cent than in the previous year, were significantly lower than the budget estimates of Rs. 2331 crores. There was a substantial erosion in the internal resources of the States' public undertakings and a considerable increase in non-development expenditure of the State Governments in 1981-82 due to grant of several instalments of dearness allowance and escalations in operational expenses. The revised estimates for 1981-82 indicate that compared with the budget estimates, the internal resources of the State public undertakings had declined sharply from Rs. 585 crores to Rs. 183 crores.

#### **Central Government Budget and Fiscal Developments : 1982-83**

6.6 The Central Budget for 1982-83 aimed at a substantial step up in plan expenditure while also providing several incentives for increasing savings and investment in the economy. Two new savings instruments were introduced. One was a social security certificate through which individuals between the age of 18 and 45 years can invest up to Rs. 5,000 which would triple in amount in ten years with the entire amount becoming immediately available in the event of the holder's demise. The other was a new series of bonds known as Capital Investment Bonds. These had a maturity period of 10 years and carried an interest rate of 7 per cent per annum payable annually. Interest income from these Bonds was to be exempt from income tax without any ceiling limit. The value of these Bonds was also exempt from wealth tax, and gifts of such Bonds made by the initial subscriber were exempted from gift tax subject to an aggregate ceiling of Rs. 10 lakhs made in one or more years. The amount of deduction allowed in

respect of long-term savings in specified modes such as contribution to provident fund and life insurance premium was liberalised. The amount allowed for 100 per cent deduction was raised from Rs. 5000 to Rs. 6000 and subsequent slabs were also increased; the ceiling for amounts qualifying for deduction was raised from Rs. 30,000 to Rs. 40,000 in the case of most tax payers. The limit of exemption from income tax of income from investments in specified financial assets, such as Government securities, units of the Unit Trust of India, deposits with banking companies and cooperative societies, and shares in Indian companies was raised from Rs. 3,000 to Rs. 4,000 and the separate ceiling in respect of income from units of the Unit Trust of India was raised from Rs. 2,000 to Rs. 3,000. A further exemption of Rs. 2,000 was provided in respect of income from interest on any security of the Central or State Governments and interest from deposits in banks for a period of one year or more. With these measures, a total amount of income from approved assets exempted from income tax was raised from Rs. 5000 to Rs. 9000. The ceiling limit for exemption from wealth tax in respect of specified financial assets was also raised from Rs. 1,50,000 to Rs. 1,65,000. The separate ceiling limit of exemption in respect of units of the Unit Trust of India was also raised from Rs. 25,000 to Rs. 35,000.

6.7 The maximum amount of investment in initial equity shares of industrial and approved companies qualifying for deduction was raised from Rs. 10,000 to Rs. 20,000. The provisions relating to capital gains were rationalised. The deductions allowed from capital gains for computing taxable capital gains was related to the number of years for which the capital asset had been held by the tax-payer, effectively increasing the deduction for assets held over longer periods. Provisions for exemption from income tax in respect of capital gains invested in residential house were also liberalised. Certain reliefs were provided to salaried tax payers. The test of 'residence' in India was relaxed. The 'tax holiday' for newly constructed residential house was raised from Rs. 2400 to Rs. 3600 and similar deduction in respect of income from self-occupied property was raised from Rs. 1800 to Rs. 3600.

6.8 A number of measures were also taken in the budget and later in the course of the year, to encourage the flow of foreign exchange remittances into India by non-resident Indian citizens and foreign nationals of Indian origin. The new deposits of maturities of one year and above held in non-resident external accounts were to carry interest of 2 per cent above the rates permissible on local deposits. Interest income derived by them from investment in notified savings certificates was exempted from income tax. The value of such certificates was also exempted from Wealth Tax. Gifts of the certificates by such persons to their relatives in India as well as gifts made by such persons in the form of convertible foreign exchange to their relatives were exempted from Gift Tax. Gifts made out of moneys in Non-Resident (External) Accounts were also exempted

from Gift Tax. Non-resident Indians were allowed to invest with repatriation rights in any new or existing company up to 40 per cent of capital issued by such company. Moreover, any investment (other than for transactions in commercial property and land) made by them without repatriation rights, was to be treated on the same footing as investment by resident Indian nationals. Levy of tax on chargeable receipts of hotels was discontinued. Contractors who undertook projects outside India were offered exemption of 25 per cent of the profits derived by them from such foreign projects subject to certain conditions. In order to encourage exports, tax relief was provided to exporters whose export turnover in a year exceeded the export turnover for the immediately preceding year by more than 10 per cent.

6.9 In the case of customs duties, the rates of auxiliary duties were raised by 5 percentage points on all categories of imports excluding certain essential items like crude petroleum, bulk petroleum products and some other items. The total exemption from import duty on cement was withdrawn and a customs duty of 10 per cent together with full countervailing duty was imposed. The other major items on which customs duties were increased included synthetic dyestuffs, certain categories of alloy steel, copper pipes and tubes and polyester chips. However, calcium ammonium nitrate and ammonium sulphate were fully exempted from customs duty. Import duty on internal combustion engines and non-interchangeable parts of such engines for manufacture of power tillers was substantially reduced from 125 per cent to 50 per cent. Certain bulk drugs imported for manufacture of life saving drugs and medicines were also exempted. To encourage the growth of electronics industry, basic customs duty on some of the electronic items such as computers and calculating machines were raised and on the other hand, import duty concessions were extended to cover certain new items of capital equipment, raw materials and components used by the electronics industry. The total additional yield from customs duties was expected to be Rs. 391 crores.

TABLE 6.2  
Additional Resource Mobilisation by the Centre during 1982-83  
(Rs. crores)

	Centre's share	States' share	Total
<b>I. Taxes*</b>	<b>464.74</b>	<b>53.37</b>	<b>518.11</b>
(a) Direct Taxes	—20.03	—45.22	—65.25
(i) Income Tax	—14.85	—44.40	—59.25
(ii) Hotel Receipts tax	—5.18	—0.82	—6.00
(b) Indirect Taxes	484.77	98.59	583.36
(i) Custom Duties	390.60	..	390.60
(ii) Union Excise Duties	94.12	98.59	192.71
(iii) Other heads	0.05	..	0.05
<b>II. Revision in Posts and Telegraphs Tariffs and Railway Fares and Freights</b>	<b>283.45</b>	<b>..</b>	<b>283.45</b>
(a) Railways	257.45	..	257.45
(b) Posts and Telegraphs	26.00	..	26.00
<b>III. Total (I + II)</b>	<b>748.19</b>	<b>53.37</b>	<b>801.56</b>

\*Excluding post-budget measures.

6.10 In the case of excise duties, cement constituted a major contributor of revenues i.e. about Rs. 159 crores out of a total expected additional yield of Rs. 193 crores from excise duties. A dual pricing policy was introduced in case of cement and the duty on ordinary cement was increased from Rs. 71.50 per tonne to Rs. 135 per tonne and special varieties of cement (except those chargeable to duty at ad valorem rates) were subjected to higher rates of duty. Rationalisation and changes in excise duty rates were effected in case of certain items. However, the items wherein excise duties were increased included expensive electronic goods and higher priced man-made fabrics favoured by the affluent sections. Excise duty on E.C. grade aluminium was levied on specific rates. Dyestuffs were excluded from the general scheme of excise duty concessions applicable to small scale manufacturers and a new scheme in its place was introduced. The scheme of duty exemption to manufacturers in case of specified consumer electronic goods manufactured in the small scale sector was modified to restrict its benefit to genuine small scale manufacturers. Several articles of common consumption or of interest to the student community, such as pencils, erasers, pens, ball pens, tooth brushes, domestic water filters and water coolers were fully exempted from excise duty. In order to enable the handloom sector to register faster growth in blended cloth, full exemption from excise duties was given to polyester blended fabrics woven on handlooms from processing stage duties in specified cases. In order to stimulate increased production, a scheme of excise duty concession for production of goods during the 12-month period March 1, 1982 to February 28, 1983 was introduced. The scheme covered 40 specified tariff items and was also made applicable to small scale manufacturers who actually paid duty.

6.11 After allowing for a net concession of Rs. 65 crores in direct taxes, the total revenue effect of the various tax changes, introduced in the Budget was estimated at Rs. 518 crores, of which the Centre's share was expected to be Rs. 465 crores and the balance was to go to the States as their share (Table 6.2).

6.12 Measures were also taken to mobilise additional resources in the case of public undertakings. In respect of the railways, the exemptions from surcharge which were granted in 1980-81 and 1981-82 budgets for travel in ordinary second class were withdrawn and fares rounded off to next higher multiple of 10 paise and the tariff rates and rates of surcharge on passenger traffic for different classes for specified distances of travel were raised. In the case of freight traffic, the exemptions from levy of supplementary charges effected in the past three Railway Budgets in respect of certain commodities were withdrawn with a view to rationalising the freight rates. However, exemptions were allowed to continue in respect of a few essential commodities, such as firewood, medicine, kerosene oil, safety matches and fodder (other than oil cakes). These

measures were expected to yield Rs. 257 crores during the year. In the case of the Posts and Telegraphs Department, the Budget for 1982-83 included several steps designed to yield Rs. 26 crores in the current year. The rates for printed post cards, letter cards and envelopes were raised. The tariff for book post articles and newspapers were also increased. It may be mentioned that the Posts and Telegraphs Department took certain measures towards the close of 1981-82 which came into force from March 1, 1982 and were expected to yield about Rs. 100 crores in a full year.

6.13 Some of the non-departmental public sector undertakings had raised considerable additional resources in 1981-82 through adjustment in prices of their products. In the current year, such efforts were only modest. Prices of coal were, however, raised in May 1982 and it was expected that sufficient surplus would be available for financing the developmental outlay of the coal industry from their internal resources but because of subsequent escalation in costs, there seems to have been a considerable erosion in surplus. The system of administered prices in case of steel was abolished from April 1982. However, the Joint Plant Committee (JPC) announced revision of prices of steel in April 1982 and further revised the prices of pig iron and certain items of steel with effect from October 23, 1982. In order to generate adequate resources for development emphasis in the case of public sector undertakings was laid on increasing capacity utilisation and improving efficiency and productivity.

#### Revenues and Expenditures

6.14 The aggregate resources of the Central Government (including internal and extra-budgetary resources of its undertakings for the Plan) for 1982-83 were estimated at Rs. 30684 crores which were higher by 22 per cent than the budget estimates for the previous year. On the other hand, the total expenditure was budgeted at Rs. 32,059 crores representing an increase of 20 per cent. The budgetary deficit was Rs. 1375 crores compared with the deficit of Rs. 1539 crores in 1981-82 (BE).

6.15 Tax revenues for 1982-83 were placed at Rs. 13363 crores showing an increase of nearly 27 per cent over the budget estimates for 1981-82. These were even higher (by 16.4 per cent) than the revised estimates for 1981-82. Nearly three-fourths of the tax revenues were expected from customs and excise duties. Realisations from customs duties were estimated to be higher by over 30 per cent than the budget estimates for 1981-82 and from excise duties higher by 21 per cent. The collections were expected to be higher by as much as 35 per cent from income and corporation taxes. Non-tax revenues in 1982-83 were expected to go up by nearly 28 per cent to Rs. 6679 crores largely on account of a considerable step-up in the internal resources of the Centre's public undertakings for the Plan, i.e. from Rs. 2209 crores in 1981-82 to Rs. 3285 crores in 1982-83. The increase in domestic capital receipts was

estimated at a modest rate of 12 per cent over the previous year but if the 1981-82 figures are adjusted for the receipts from the Special Bearer Bonds budgeted in that year, the growth rate in domestic capital receipts is 24 per cent. The net receipts from market loans at Rs. 3200 crores were envisaged to be higher by Rs. 400 crores and from small savings at Rs. 1400 crores higher by Rs. 150 crores than the budget estimates of 1981-82. Miscellaneous capital receipts were expected to yield nearly 36 per cent higher revenues than in the previous year. The budget for 1982-83 took credit of Rs. 1603 crores from net external receipts against the estimate of Rs. 1310 crores in the preceding year.

6.16 Development expenditure at Rs. 19,047 crores represented a step-up of 19.5 per cent compared with that budgeted in 1981-82 and constituted nearly 60 per cent of the aggregate expenditure. The outlay for the Central Plan for 1982-83 was placed at Rs. 11,000 crores which was higher by 27.6 per cent compared with the original plan provision in 1981-82. The non-development expenditure at Rs. 13,012 crores in 1982-83 (BE) was, however, expected to increase by nearly 21 per cent mainly on account of the substantial increases in expenditures on items like defence, interest payments and grants and loans to States, Union territories and others.

#### Savings and Capital Formation

6.17 The Economic and Functional Classification of the Central Government Budget for 1982-83 showed that in the Budget Estimates the gross savings of the Centre was expected to show a significant improvement to Rs. 1418 crores compared with Rs. 389 crores in 1981-82 (BE) and Rs. 808 crores according to revised estimates.

6.18 The gross capital formation out of the budgetary resources of the Central Government was estimated at Rs. 11599 crores in 1982-83 (BE) and represented a growth of nearly 15 per cent over that in 1981-82 (BE) and 7.1 per cent over that in revised estimates. The domestic receipts were likely to finance nearly 71 per cent of the gap which was more or less of the same order as in the previous year. The foreign savings were estimated to account for 15.7 per cent of the gap compared with 13.5 per cent in 1981-82 (BE).

#### Post-Budget Developments

6.19 Fiscal developments in the course of 1982-83 have placed severe strain on the budgetary position of the Central Government. Tax collections in respect of major taxes during the current year so far have been significantly short of the budgeted estimates. A substantial amount of collections on account of excise duties has been blocked on account of certain court cases. To overcome difficulties arising from legal interpretations an Ordinance amending the Central Excise Laws was promulgated in September, 1982 which was later replaced by an Act. From December 8, 1982, rates of auxiliary

duties of customs were increased by 5 percentage points on imported goods in respect of which the

effective basic duty was less than 100 per cent ad valorem, barring a few exceptions. The increase

TABLE 6.3  
*Capital formation by the Central Government and its financing*

	(Rs. crores)				
	1978-79	1979-80	1980-81	1981-82 (RE)	1982-83 (BE)
	1	2	3	4	5
<b>I. Gross Capital formation out of budgetary resources of the Central Government</b>	<b>6913</b>	<b>7228</b>	<b>9012</b>	<b>10832</b>	<b>11599</b>
	(21.6)	(4.6)	(24.7)	(20.2)	(7.1)
As per cent of Gross Domestic Product at current market prices	7.1	6.8	7.0	7.4	N.A.
(i) Gross capital formation by the Central Government	1301	1527	1907	2474	2597
(ii) Financial assistance for capital formation to the rest of the economy	5612	5701	7105	8358	9002
<b>II. Gross savings by the Central Government</b>	<b>1175</b>	<b>231</b>	<b>3</b>	<b>808</b>	<b>1418*</b>
As per cent of Gross Domestic savings at current prices	5.0	1.0	Neg.	2.4	N.A.
<b>III. Gap (I—II).</b>	<b>5738</b>	<b>6997</b>	<b>9009</b>	<b>10024</b>	<b>10181</b>
Financed by :					
<b>IV. Draft on other sectors of the Domestic Economy</b>	<b>5025</b>	<b>6107</b>	<b>7339</b>	<b>8698</b>	<b>8578</b>
(i) Domestic capital receipts	4074	3674	4762	6998	7203
(ii) Budgetary Deficit	951	2433	2577	1700	1375*
<b>V. Draft on Foreign Savings</b>	<b>713</b>	<b>890</b>	<b>1670</b>	<b>1326</b>	<b>1603</b>

\*After taking into account the post-budget concessions.

NOTES : (i) Gross capital formation in this table includes loans given for capital formation on a gross basis. Consequently domestic capital receipts include loan repayments to the Central Government.

(ii) Figures in brackets are percentage increases over the preceding year.

in auxiliary duties, however, was not to apply to crude petroleum, newsprint and GATT bound items. Full exemption from auxiliary duty was also continued in respect of bulk petroleum products and fertilisers. From the same date, concessional rates of Additional (Countervailing) Duty on certain iron and steel items were also withdrawn. Earlier i.e. from November 30, 1982 concessional rates of excise duty on cigarettes were withdrawn.

6.20 On the other hand, there is expected to be a substantial increase in expenditure on account of certain items. In the three supplementary demands for grants for 1982-83 presented to Parliament so far, an additional expenditure of Rs. 734 crores (excluding Rs. 1743 crores of medium term loans given to the States for clearing their deficits as on March 31, 1982 which will have no impact on the economy as this deficit has already been absorbed by the economy) is anticipated during the current year. Out of this, the railways were provided Rs. 190 crores to expedite the programme of capital works so that they were able to move an extra 5 million tonnes of freight traffic in the current year itself and also to take advance action to create the additional capacity required. The budgetary provision for fertiliser subsidy had to be raised by Rs. 200 crores as a result of the steep increase in the cost of inputs as no adjustment had been made in their selling prices. The transfers to State Governments had been augmented by over Rs. 184 crores mainly for providing relief on account of floods/cyclones (Rs. 75 crores), purchase and distribution of fertilisers

and other agricultural inputs (Rs. 50 crores) and accelerated rural water supply programme (Rs. 28 crores). Releases to public sector undertakings amounted to about Rs. 186 crores which included Rs. 50 crores to National Bank for Agricultural and Rural Development (NABARD) for financing projects assisted by IDA or other countries, Rs. 35 crores each for National Textiles Corporation and Delhi Transport Corporation and Rs. 12 crores for Indian Telephone Industries. There is likely to be further increase in expenditure on account of the assistance that may have to be provided to the States on account of relief against drought and other natural calamities.

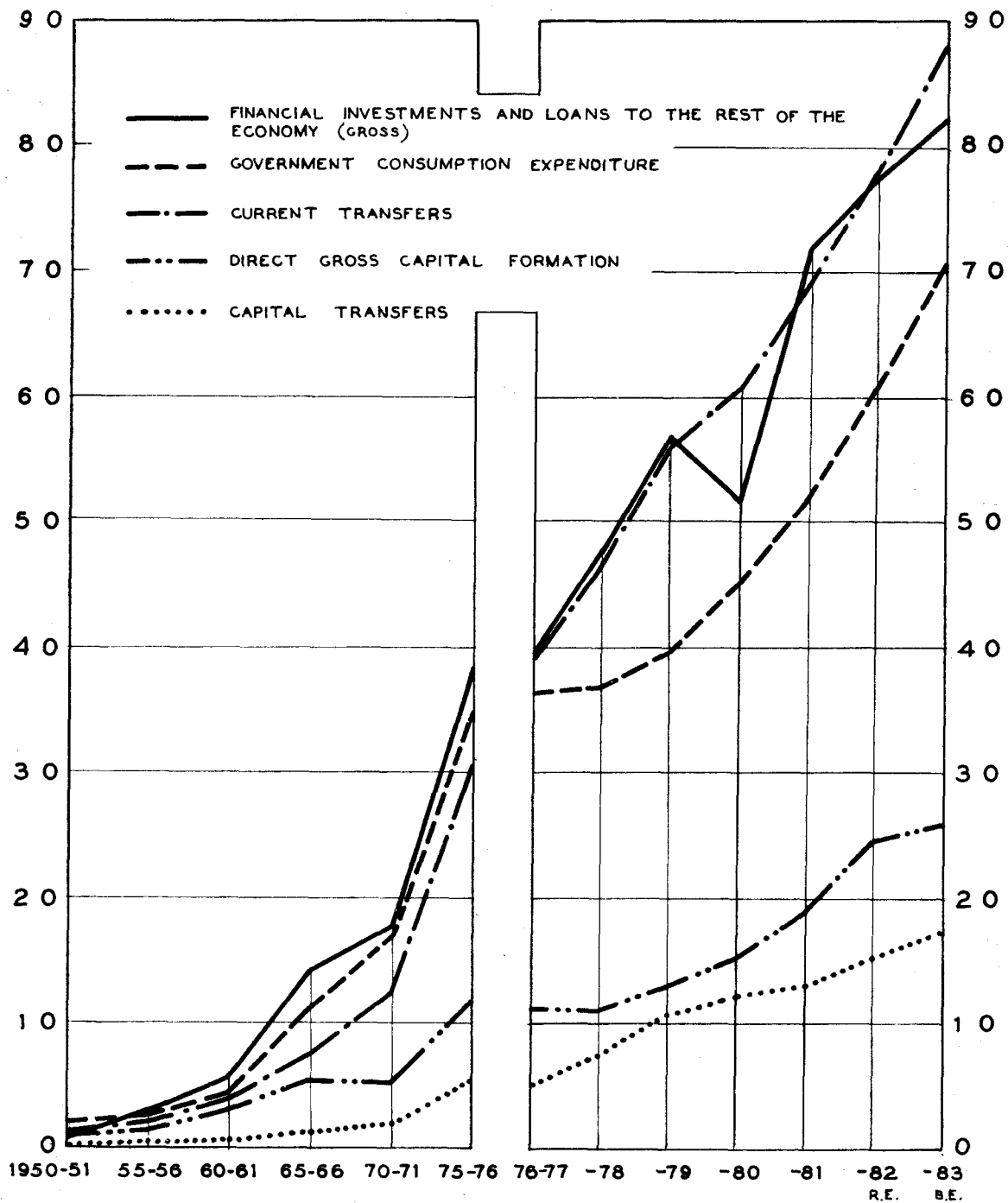
#### State Governments and Union Territories : 1982-83

6.21 The Budgets of the States and Union Territories for 1982-83 were also aimed at further accelerating the pace of development and included several measures for additional resource mobilisation. The States' own tax revenues were budgeted at Rs. 9437 crores which showed an increase of over 25 per cent compared with those in 1981-82 (BE). These were higher by 16 per cent than the revised estimates for 1981-82. The States' share in Central taxes was also expected to be higher by more than Rs. 600 crores or 15.2 per cent than the budget estimates for 1981-82. Receipts from State excise duties and sales tax constituted little over 71 per cent of their own tax receipts. By far the highest growth rate was expected in the realisations from State excise duties i.e. by 46.3 per cent. The

# CENTRAL GOVERNMENT EXPENDITURE

(ECONOMIC CATEGORIES)

RS. IN '00 CRORES



MINISTRY OF FINANCE, ECONOMIC DIVISION.

yield from sales tax was to go up by nearly 28 per cent compared with the 1981-82 budget estimates. The receipts from taxes on goods and passengers, stamp and registration duties, entertainment tax and taxes on vehicles were expected to increase by between 13 per cent and 35 per cent and these growth rates were higher than those recorded in the previous year. The collections from electricity duty were estimated to be higher by nearly 19 per cent. The yield from land revenue in 1982-83 was anticipated to be somewhat higher than in the previous year, and that from agricultural income tax lower.

6.22 The non-tax revenues of the States and the Union Territory governments were estimated at Rs. 2646 crores in 1982-83 (BE) showing an increase of 13.5 per cent over the budget estimates for 1981-82. These included the internal resources of the States' public undertakings for the Plan at current rates of fares and tariffs i.e. inclusive of the additional resource mobilisation efforts of these undertakings. The aggregate internal resources of these undertakings were placed at Rs. 605 crores which though marginally higher than Rs. 585 crores in 1981-82 (BE) were nearly three and a half times the revised estimates of Rs. 183 crores. Receipts of grants from the Centre in 1982-83 at Rs. 3150 crores were larger by 20.7 per cent over those in 1981-82 (BE). The capital receipts (net) were placed at Rs. 5193 crores and were higher by 16.6 per cent over 1981-82 (BE). State provident funds were expected to contribute Rs. 486 crores i.e. higher by over 40 per cent than 1981-82 (BE). The loans from the Centre at Rs. 2404 crores showed a step-up of 18 per cent. Net market loans (inclusive of the amounts raised by the public sector undertakings) at Rs. 904 crores in 1982-83 were expected to be higher by 15.6 per cent than in the previous year.

6.23 The total resources of the States and Union Territories in 1982-83 (BE) at Rs. 25098 crores were thus expected to be higher by 19.7 per cent compared with those in 1981-82 (BE). The aggregate expenditure, on the other hand, was budgeted to increase by 18.7 per cent to Rs. 25411 crores. This rate of growth in expenditure was higher than the increase of 13.7 per cent recorded in 1981-82 (RE). The budgetary deficit of Rs. 313 crores in 1982-83 (BE) was, however, lower than that of Rs. 442 crores in the budget estimates for 1981-82.

6.24 Total development expenditure in the States' budgets was placed at Rs. 19218 crores indicating a step-up of 17.6 per cent over the budget estimates for 1981-82. Non-development expenditure, on the other hand, was budgeted at Rs. 6193 crores i.e. 22 per cent higher than that in 1981-82 (BE). The Annual Plan outlay for 1982-83 of the States and Union Territories was raised by 14.6 per cent to Rs. 10,082 crores\* against the Annual Plan provision of Rs. 8799 crores for 1981-82. To finance a plan expenditure of this size, the States were to mobilise additional resources to the extent of Rs. 676

crores during 1982-83. Indications are that as a result of the measures taken so far and those which might be taken in the remaining period of the year, States might exceed the target in respect of additional resource mobilisation. On the other hand, it appears that on account of expenditure on relief in the States affected by natural calamities, revision in pay scales and grant of additional dearness allowance to State Government employees, the expenditure might be larger.

6.25 One of the disturbing features of the budgetary situation in the past few years is that the States have been running large deficits in their operations. By the end of 1981-82, their accumulated deficits had amounted to Rs. 1743 crores and it became imperative to take steps to prevent continuation of this practice. The Government of India, in consultation with the Reserve Bank of India, evolved a package of measures to enable the States to start with a clean slate from July 1, 1982. States were granted Rs. 1743 crores by way of medium-term loans to clear their closing deficits as on March 31, 1982. These loans were for a period of 10 years in the case of special category States and for five years in respect of other States, excluding a moratorium of one year on repayment of principal and interest. The States were also provided with additional amount of Rs. 787 crores as short-term assistance to clear the additional deficits generated by them between April 1, 1982 and June 30, 1982. This assistance, which was in the form of advance releases of Central transfers was, however, to be adjusted during the course of the current year. The ways and means limits of the States with the Reserve Bank of India were also almost doubled to Rs. 672 crores with effect from July 1, 1982 to provide the States a larger cushion against temporary imbalances between their receipts and expenditures.

### Central and State Governments—Combined

6.26 The aggregate expenditure of the Central and State Governments combined (inclusive of the internal and extra budgetary resources of the public sector undertakings for the plan) was estimated to increase by 19.7 per cent to Rs. 49,211 crores in 1982-83. However, the total budgetary deficit was limited to Rs. 1688 crores in 1982-83 as against Rs. 1981 crores in 1981-82 (BE). The reliance on the budgetary deficit to finance expenditure was lower at 3.4 per cent against 4.8 per cent in 1981-82. The share of external assistance was more or less of the same order, i.e. 3.3 per cent against 3.2 per cent in the previous year. The bulk of the Government expenditure (over 93 per cent) in 1982-83 was thus expected to be financed out of current revenues and domestic capital receipts.

6.27 The current revenues of the Central and State Governments were budgeted at Rs. 35,855 crores, the percentage growth being 24 in case of both the tax and the non-tax components. Nearly three-fourths of the increase in tax revenues was expected from

\*Includes Plan outlay of Rs. 638 crores for West Bengal which was subsequently revised to Rs. 490 crores.

customs and excise duties and sales tax. An increase of 39 per cent in the resources of the public sector undertakings to Rs. 3800 crores was the main factor responsible for the large growth expected in the non-tax revenues in the current year. The growth in domestic capital receipts was, however, envisaged to be of a modest order. The receipts from State and public provident funds were budgeted to increase by over 22 per cent and the growth in other major sources of capital receipts was likely to range between 12 per cent and 15 per cent.

6.28 The aggregate development outlay of the Centre and the States in 1982-83 was stepped up by 19.2 per cent to Rs. 32,300 crores against Rs. 27088 crores in 1981-82 (BE). Out of this, the allocation for the Annual Plan—1982-83 was placed at Rs. 21,082 crores which was higher by 21 per cent than the Annual Plan outlay for 1981-82. This included an outlay of Rs. 8374 crores for the revised 20-point programme. The sectoral allocations for the Annual Plan were made keeping in view the priorities and objectives of the Sixth Five Year Plan. High priority was accorded to the infrastructural sectors (energy, transport and irrigation) and to the augmentation of capacities in industries providing critical inputs such as steel, fertilisers, non-ferrous metals. The energy sector was provided with the largest amount of Rs. 6732 crores constituting 32 per cent of the total public sector plan outlay. It also represented a step-up of 40 per cent over the previous year's allocation for this sector. The allocations were stepped up by 14.4 per cent in case of industries and minerals and by 11 per cent to 12 per cent for transport, irrigation and agriculture and rural development. These allocations are reflected in the growth of production and capacity in these critical sectors in 1982-83.

6.29 Special attention was also given to the key poverty alleviation programmes such as the Integrated Rural Development Programme and the National Rural Employment Programme. The former was designed to assist 3 million families and the latter was expected to generate 300 million to 400 million man-days of employment during 1982-83. In addition, programmes for development of backward areas and classes were also proposed to be expanded in order to uplift the under-privileged and the weaker sections of the community. The outlay for the Minimum Needs Programme was significantly enlarged.

6.30 The aggregate non-development expenditure of the Centre and the States was budgeted to increase by 20.6 per cent in 1982-83 and the growth rate was somewhat higher than that of the development expenditure. As mentioned earlier, this was largely on account of increases in expenditure on defence and interest payments.

#### **Performance of the Central Government Departmental Enterprises**

6.31 The financial position of the Railways had been under severe strain in recent years. They

suffered a loss of Rs. 66 crores in 1979-80 and Rs. 198 crores in 1980-81. In the following year, substantial efforts were made by them to mobilise additional resources, and the tariff structure was revised upward twice during the year and the revised estimates of 1981-82 showed a surplus of about Rs. 50 crores. The Railway Budget for 1982-83 anticipated a surplus of Rs. 106 crores after taking into account the receipt of Rs. 257 crores (allowing for post-budget concessions of Rs. 4 crores) from the upward revision of passenger fares and freight rates. The Railways' gross traffic receipts were expected to increase by 18 per cent over the revised estimates of 1981-82. These were based on a projection of originating revenue earning traffic of 230 million tonnes i.e. 10 million tonnes higher than the estimated traffic in 1981-82. The growth in passenger traffic was assumed at 5 per cent for suburban and 3 per cent for non-suburban traffic. The working expenses were expected to go up by 17 per cent mainly because of the effect of increase in prices of diesel oil, electricity, additional instalments of dearness allowance, ration subsidy to staff of railway protection force and increase in the prices of other consumable stores. With a view to accelerating the programme of clearance of accumulation of arrears of renewal of track, signalling and telecommunication equipment, over-aged coaches, wagons and locomotives, the provision for depreciation was stepped up to Rs. 500 crores against Rs. 350 crores in 1981-82. The annual plan of the railways for 1982-83 provided for an outlay of Rs. 1137 crores which was subsequently raised by Rs. 190 crores and was higher by 16.7 per cent than the revised estimates of Rs. 1137 crores for 1981-82.

6.32 The financial position of the Posts and Telegraphs Department showed a considerable deterioration in 1981-82. As against a surplus of Rs. 217 crores estimated at the time of the budget, it came down to Rs. 45 crores in the revised estimates partly on account of escalation in the working expenses and partly due to decline in receipts from telecommunications. In order to mobilise additional resources, the Posts and Telegraphs Department took measures towards the close of the year which came into effect from March 1, 1982 and were to yield about Rs. 100 crores in a full year. As mentioned earlier, the Budget for 1982-83 also took additional measures designed to yield Rs. 26 crores in the current year. The total receipts of the Posts and Telegraphs Department were expected to increase by over 24 per cent to Rs. 1298 crores in 1982-83 (B.E.). The postal receipts were anticipated to go up by 20.6 per cent, and the telecommunication receipts by 26.1 per cent. However, the total expenditure (including dividend to general revenues) was budgeted to increase by 5.5 per cent only, from Rs. 998 crores in 1981-82 (RE) to Rs. 1053 crores in 1982-83 (BE). The surplus for 1982-83 was thus placed at Rs. 245 crores. The annual plan for 1982-83 of the Posts and Telegraphs Department envisaged an outlay of Rs. 506 crores which was 6.8 per cent higher than that for the Annual Plan for 1981-82.

### Performance of Central Government Public Enterprises

6.33 The preliminary data available in respect of the Central Government's autonomous undertakings showed, on the whole, a remarkable improvement in their financial position in 1981-82. As against a net loss of Rs. 74 crores in 1979-80 and Rs. 203 crores in 1980-81, they made a net profit (after tax) of Rs. 485 crores in 1981-82. Of the 187 running enterprises to which these data relate, 107 made profit of Rs. 1,297 crores and the remaining 80 incurred a loss of Rs. 812 crores.

6.34 The capital employed in these Central Government undertakings increased over the previous year by 20.1 per cent to Rs. 21865 crores in 1981-82 and their sales at Rs. 36443 crores registered a growth of 27.3 per cent. The ratio of gross profit to capital employed, which had remained almost static between 7.6 per cent and 7.8 per cent in the past few years, recorded a significant improvement to 12.2 per cent in 1981-82. This was both on account of the increases in the capacity utilisation and the prices of their products. The improvement in the financial position also benefited the exchequer in the form of larger receipts of corporation tax from Rs. 222 crores in 1980-81 to Rs. 590 crores in the following year.

6.35 Of the 80 companies which incurred net losses in 1981-82 nearly four-fifths of the losses were accounted for by 13 companies, namely, Fertiliser Corporation of India, Eastern Coalfields Ltd., NTC Group of Companies, Delhi Transport Corporation, Hindustan Fertiliser Corporation, Hindustan Copper Ltd., Bharat Aluminium Co., Indian Iron and Steel Co., Kudremukh Iron Ore Ltd., Indian Drugs and Pharmaceuticals Ltd., Bharat Coking Coal, Engineering Projects (India) Ltd., and Heavy Engineering Corporation.

6.36 Among the profit making companies, 20 turned the corner in 1981-82, prominent being National

Fertilisers Ltd., Oil India Ltd., and Air India. 56 companies increased their profits as compared to 1980-81. The companies which made substantial profits (after tax) during 1981-82 included Oil and Natural Gas Commission (Rs. 377 crores), Central Coalfields Ltd. (Rs. 118 crores), Indian Oil Corporation (Rs. 107 crores), Oil India Ltd. (Rs. 66 crores), National Fertilizers Ltd. (Rs. 60 crores), and Indian Petro-chemicals Corporation Ltd. (Rs. 56 crores). The profits in case of Western Coalfields Ltd., SAIL, Neyveli Lignite, Bharat Heavy Electricals Ltd., Minerals and Metals Trading Corporation, Hindustan Machine Tools, State Trading Corporation, Hindustan Aeronautics Ltd., and Rashtriya Chemicals and Fertilizers Ltd., ranged between Rs. 20 crores and Rs. 45 crores.

6.37 According to the available data for the first half of 1982-83 (April-September), there was a further improvement in the profitability of public sector enterprises. The overall net profit of these enterprises amounted to Rs. 459 crores before tax and Rs. 73 crores after tax compared with Rs. 206 crores and Rs. 48 crores respectively in the corresponding period last year.

### State Governments' Commercial Undertakings

6.38 The departmental commercial undertakings of the State Governments are expected to continue to incur significant losses during 1982-83 except forests and mines and minerals. Forests were expected to make a net contribution of Rs. 376 crores in 1982-83 compared with the budget estimates of Rs. 308 crores for 1981-82. The revenue from mines and minerals at Rs. 27 crores would be of the same order as in the previous year. The loss in case of irrigation projects (commercial) was anticipated at Rs. 390 crores against Rs. 356 crores in the budget estimates for 1981-82 and Rs. 325 crores in 1980-81. While the net loss in case of multi-purpose river projects at Rs. 76 crores was to be somewhat higher than Rs. 69

TABLE 6.4  
Five Year profile of Public Enterprises

	Unit	1977-78	1978-79	1979-80	1980-81	1981-82 (Provisional)
1	2	3	4	5	6	7
1. Number of Running Public Enterprises	Number	155	159	169	168	187
2. Capital employed	Rs. crores	12065	13969	16182	18207	21865
3. Turnover	Rs. crores	18020	19061	23290	28635	36443
4. Gross Profit before interest and tax	Rs. crores	915	1071	1229	1418	2675
5. Net Profit before tax	Rs. crores	160	185	225	19	1074
6. Net Profit after tax	Rs. crores	-91	-40	-74	-203	485
7. Internal Resources generated	Rs. crores	708	906	1030	1225	2249
8. Gross Profit to capital employed	Per cent	7.6	7.7	7.6	7.8	12.2
9. Employment	Lakhs	16.38	17.03	17.75	18.38	19.02

crores in 1981-82 (BE), the loss in case of power projects at Rs. 60 crores for 1982-83 was anticipated to be significantly larger than Rs. 36 crores in 1981-82 (BE). Even in the case of road and water transport services, these were to be almost double of Rs. 12 crores in 1981-82.

6.39 In regard to the non-departmental undertakings, the States did effect upward revision in the electricity rates and mobilised additional resources to the extent of Rs. 128 crores in 1980-81 and Rs. 580 crores in 1981-82. However, these were more than counter-balanced by the escalation in costs and the commercial losses of the State Electricity Boards averaged about Rs. 590 crores in 1980-81 and 1981-82. For the current year, although these losses were estimated at Rs. 1647 crores at 1979-80 rates, the yield from measures undertaken in the previous two years and in the current year so far were expected to reduce losses to Rs. 693 crores.

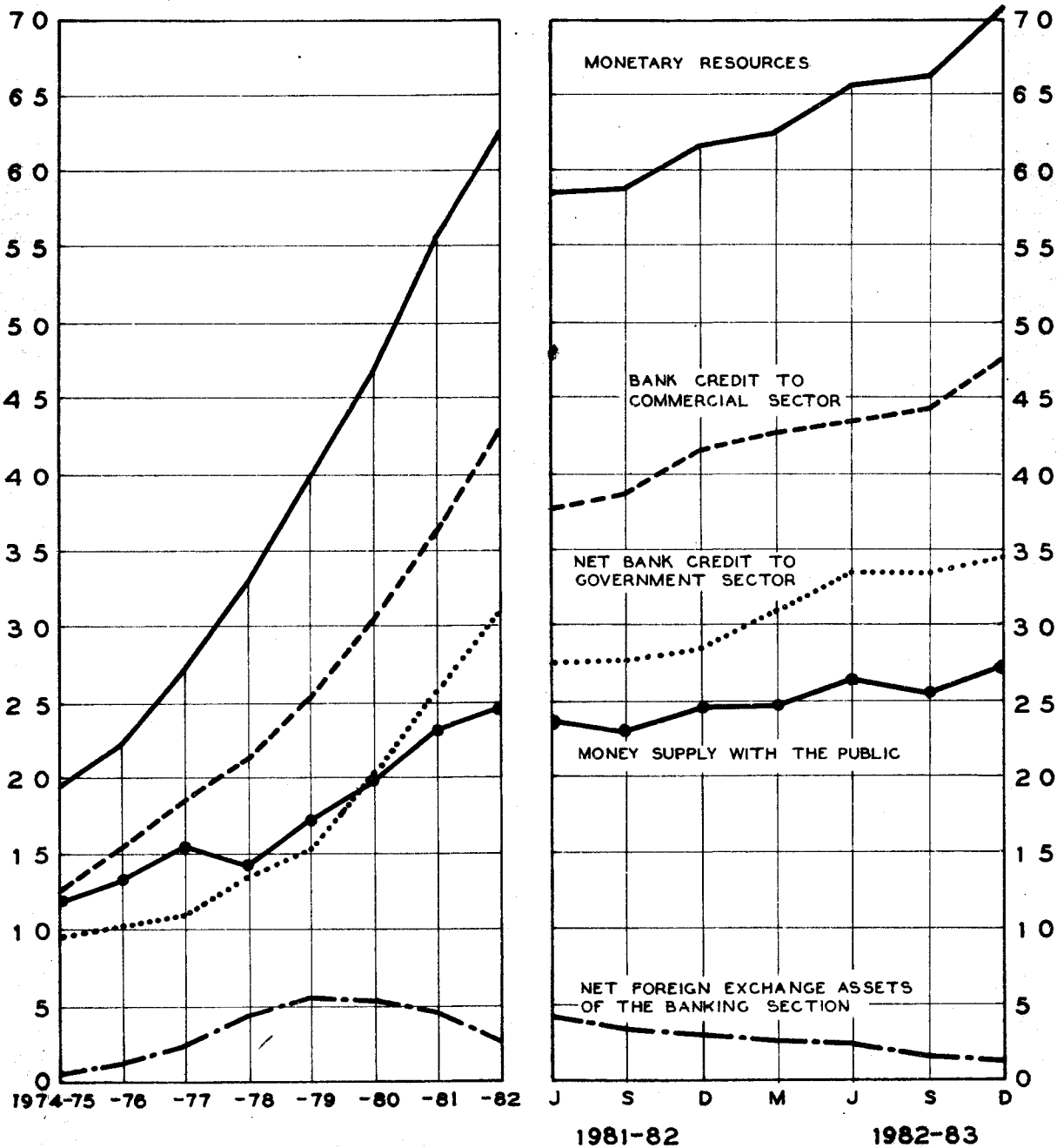
6.40 The commercial losses of the Road Transport Corporations at current prices worked out to Rs. 186 crores in 1980-81 and Rs. 200 crores in 1981-82. These were likely to go down to Rs. 165 crores in 1982-83.

6.41 The overall fiscal situation in 1982-83 was characterised by severe strains on the budgets of the Centre and the States. Some of the reasons for the deterioration in the current year, such as the additional expenditure on account of flood and drought relief were due to non-recurring factors and are therefore likely to be self-correcting. However, there are also difficulties of a continuing nature in regard to the overall resource situation. It is necessary to ensure that adequate resources are available to meet appropriate levels of Plan expenditure in the remaining years of the Sixth Plan. The resource requirements of the economy are very large and it is essential that concerted efforts continue with a view to increasing investment and improving productivity in critical sectors.

# MONEY SUPPLY WITH THE PUBLIC AND MONETARY RESOURCES

(AS ON LAST FRIDAY)

RS. IN '000 CRORES



MINISTRY OF FINANCE, ECONOMIC DIVISION.