CHAPTER 6

FISCAL POLICY AND THE GOVERNMENT BUDGET

The focus of fiscal management in 1988-89 was to revitalise the drought hit economy, accelerate the tempo of production, especially in agriculture, maintain the priority for export growth and restore the overall momentum of economic development, while keeping inflationary pressures in check. The broad policy-mix, thus, focussed on stepping-up plan expenditure and raising resources for investment in a non-inflationary manner while keeping the budgetary deficit within prudent limits. Fiscal measures, notably, concessions to agricultural and agro-based activities, reintroduction of investment allowance and duty reliefs to selected industries were aimed at providing the necessary fillip to production, both in agricultural and industrial sectors. At the same time, fiscal incentives for export production, exporters and export houses were targetted to give a further boost to exports. Attention was also devoted to checking tax evasion, promoting the operational efficiency of public enterprises and containing budgetary deficit to manageable dimentions.

6.2 The secular pressures on Government's resources were compounded by additional responsibilities for relief expenditures and rising contractual commitments on non-plan account. Three major elements in non-Plan expenditure, namely, interest, subsidies and defence, which had accounted for Rs. 25,954 crores in 1986-87, increased to Rs. 30,908 crores in 1987-88 (RE) and further to Rs. 35,359 crores in 1988-89 (BE). Even then, the momentum of development expenditure was not allowed to be slackened and on the contrary, fiscal policies sought to augment such expenditure. The Central Plan outlay was stepped up by 16.6 per cent compared to the outlay in 1987-88 (B.E.), thus ensuring that for the first time, over four-fifths of the targetted Central Plan expenditure (in real terms) would be incurred in the first four years of a five-year Plan period. Plan expenditures were prioritised in a manner so as to accord top priority to development of agriculture and programmes aimed at developing the rural sector and helping the poorer sections of society. On the resources front, the progress in revenue collection upto December, 1988 has been satisfactory. The provisional estimates for Centre's collection for major taxes during April-December, 1988 amounted to 70.4 per cent of the budget estimates for 1988-89. This compared favourably with the figure of 71.5 per cent achieved during the corresponding period of the previous year. The continued emphasis on improving efficiency and productivity in the public sector enterprises could result in larger internal resource generation by them for their Plan expenditures.

Budgetary Developments in 1987-88

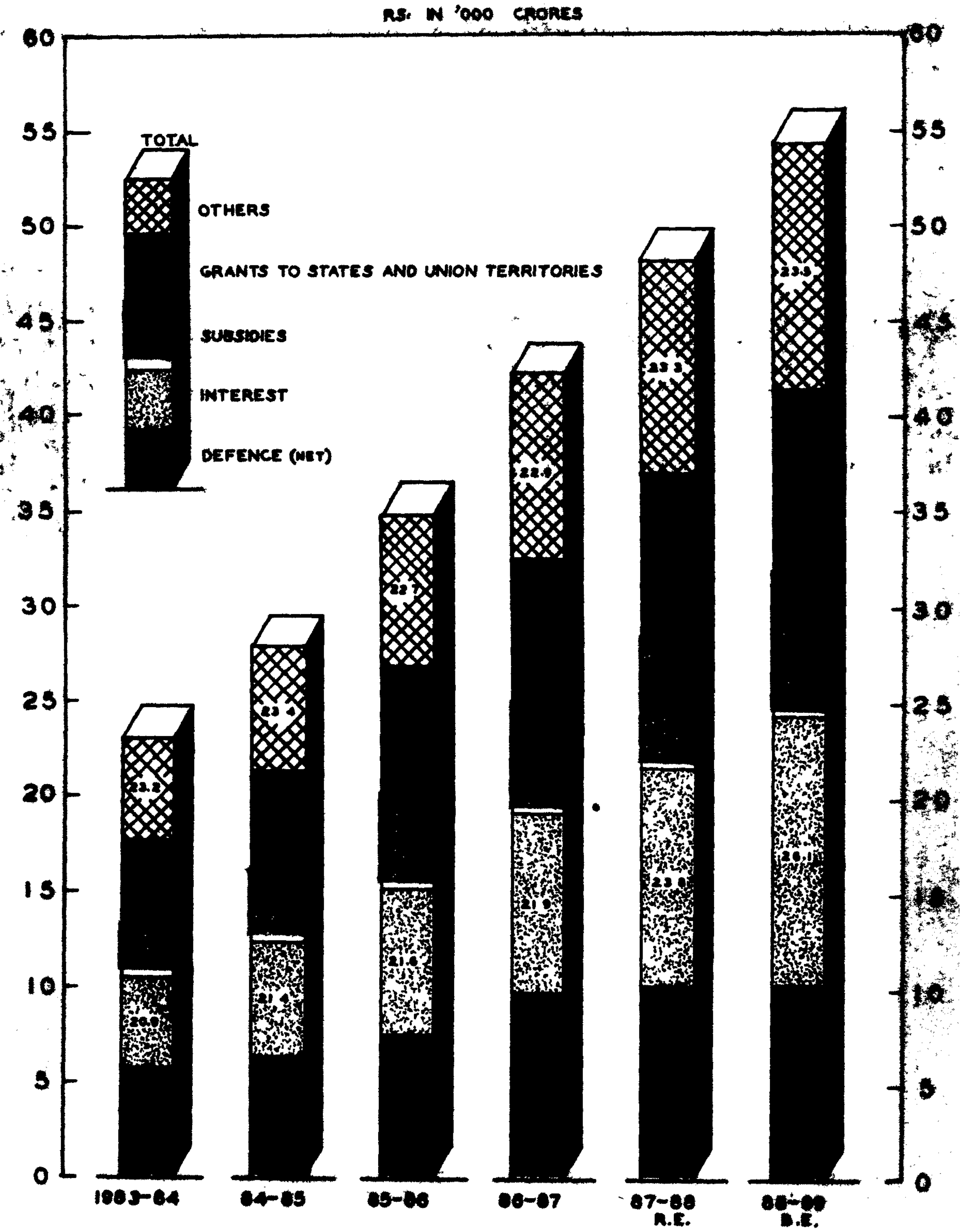
6.3 The net outcome of the combined budgetary operations of the Central and State Governments and Union Territories reflected a prudent fiscal management in the difficult year of 1987-88. The year's budgetary deficit at Rs. 7,663 crores as per revised estimates was about 16 per cent lower than the actuals (Rs. 9,150 crores) in 1986-87. As a proportion of GDP, budgetary deficit was 2.3 per cent; substantially lower than 3.1 per cent in 1986-87 (Table 6.1). Tax revenues also remained buoyant and recorded a rise of 15 per cent, marginally higher than the increase of 14.5 per cent in 1986-87. The tax-GDP ratio, too, improved to 17.2 per cent from 16.9 per cent in 1986-87, Non-tax revenue, however, witnessed a slower rise of 12.7 per cent compared with the increase of 13.2 per cent in 1986-87. Significantly the contribution from internal and extra-budgetary resources of public sector enterprises registered a rise of 13.8 per cent, which was almost double the increase of 7.1 per cent in 1986-87.

6.4 The growth in total expenditure, at the same time, by 12.8 per cent, was less pronounced than in 1986-87 when expenditure increased by

CENTRE'S REVENUE EXPENDITURE

PERCENTAGE DISTRIBUTION

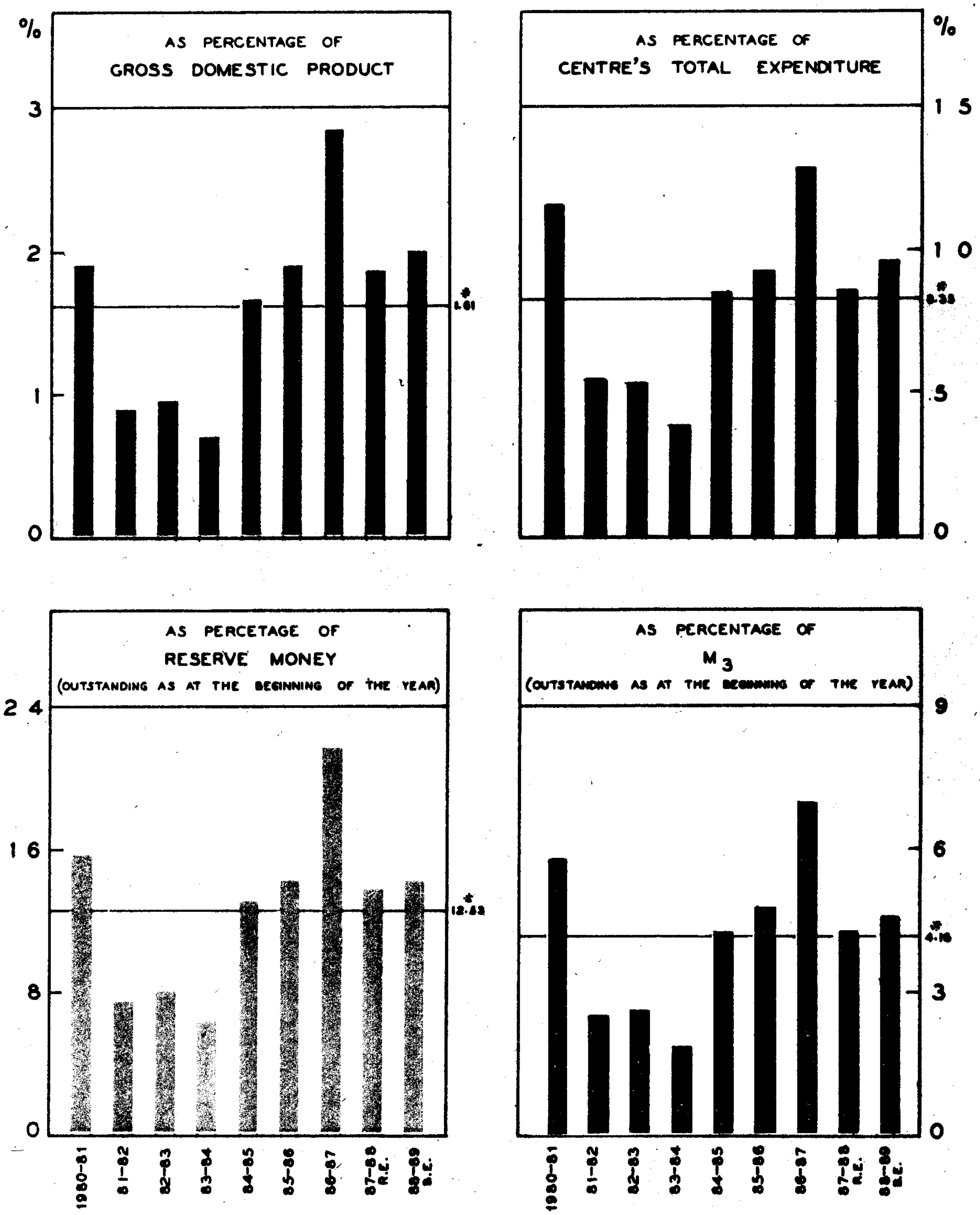
RS. IN '000 CRORES



MINISTRY OF FINANCE, ECONOMIC DIVISION.

MGIP(PLU)MRND-449/1/Ec Affairs/88-89

CENTRE'S BUDGETARY DEFICIT



MINISTRY OF FINANCE, ECONOMIC DIVISION.

* AVERAGE FOR THE PERIOD 1980-81 —— 88-89

20 per cent. The deceleration in the growth of expenditure was largely due to a slow-down in the rate of increase in development expenditure. The gap between total expenditure and current revenues of the Centre, States and Union Territories worked out at Rs. 39,469 crores in 1987-88 (RE). As a proportion of GDP, the gap was 11.9 per cent, lower than 12.3 per cent in 1986-87. The gap was financed to the extent of 72.4 per cent by domestic capital receipts, 7.9 per cent by external assistance and 19.7 per cent by budgetary deficit.

6.5 The budgetary position of the Central Government in 1987-88 (RE) was marked by a deceleration in the growth in aggregate expenditure and a moderate acceleration in the growth in current receipts (inclusive of internal resources of public sector enterprises) compared with the growth in expenditure and current receipts in 1986-87. As a consequence, the budgetary deficit was lower at Rs. 6,080 crores than Rs. 8,261 crores (inclusive of Rs. 1200 crores loan to FCI for financing buffer stocks) in 1986-87. The Centre's tax revenues grew by 16.5 per cent while non-tax revenues inclusive of internal resources of public sector enterprises went up by 19.4 per cent. The corresponding increases in tax and non-tax revenues in 1986-87 were by 15 per cent and 17 per cent respectively. On the expenditure side, development expenditure showed a rise of 9.1 per cent compared with that of 18.4 per cent in 1986-87. Non-development expenditure, however, registered an increase of 18.3 per cent as against 20.7 per cent in 1986-87. The size of the Central Plan was higher by 8.8 per cent compared with the level in 1986-87 (RE). The widening resource gap was met largely from internal capital receipts.

TABLE 6.1

Budgetary Transactions of the Central and State Governments and Union Territories
(Including extra-budgetary resources of public sector undertakings for financing their plans)

(Rs. crores)

	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88 (B.E.)	1987-88 (R.E.)	1988-89 (B.E.)
I. Total Outlay	**36845**	**43718**	**52747**	**60829**	**72825**	**83961**	**100790**	**109388**	**113642**	**127780**
	(27.1)	(27.4)	(29.7)	(29.3)	(31.6)	(32.0)	(34.4)	(33.1)	(34.4)	(33.9)
(a) Developmental	22426	28654	33591	39274	48085	53397	63778	67416	69951	78107
(b) Non-Developmental	12419	15085	19156	21555	24740	30564	37012	41972	43691	49673
II. Current Revenue	**24563**	**30425**	**35795**	**40989**	**47098**	**56773**	**64823**	**74650**	**74173**	**86036**
	(18.1)	(19.1)	(20.2)	(19.8)	(20.4)	(21.6)	(22.1)	(22.6)	(22.4)	(22.8)
(a) Tax Revenue	19844	24142	27242	31525	35813	43267	49540	56566	56949	64147
	(14.5)	(15.1)	(15.3)	(15.3)	(15.5)	(16.5)	(16.9)	(17.1)	(17.2)	(17.0)
(i) Direct Taxes	3268	4133	4492	4907	5329	6252	6890	7298	7853	8804
(ii) Indirect Taxes	16576	20009	22750	26618	30484	37015	42650	49268	49096	55343
(b) Non-Tax Revenue	4719	6283	8553	9464	11285	13506	15283	18084	17224	21889
III. Gap (I–II)	**12282**	**13313**	**16952**	**19840**	**25727**	**27188**	**35967**	**34738**	**39469**	**41744**
	(9.0)	(8.4)	(9.5)	(9.6)	(11.2)	(10.4)	(12.3)	(10.5)	(11.9)	(11.1)
Financed by :										
(i) Domestic Capital Receipts	7161	9493	13012	16094	18765	21899	24439	25362	28692	29653
(ii) Net External Assistance	1670	1301	1591	1611	1857	1850	2378	3129	3114	3735
(iii) Budgetary deficit	3451	2519	2349	2135	5105	3439	9150	6247	7663	8356
	(2.5)	(1.6)	(1.3)	(1.0)	(2.2)	(1.3)	(3.1)	(1.9)	(2.3)	(2.2)

NOTES : (1) For clarification regarding the scope of some items in this Table, see footnotes to Table 2.1 in the Statistical Appendix.

(2) Figures in brackets are percentages of new series of GDP at current market prices released by C.S.O. and, therefore, will differ from the figures given in the earlier issues of Economic Survey.

6.6 The revenue account of the Centre's budget continued to show a large deficit in 1987-88. In absolute terms, this deficit widened to Rs. 8,497 crores from the revised estimates of Rs. 7,233 crores and the actuals of Rs. 7,776 crores in 1986-87. As a proportion of GDP, this deficit, which had been only 0.6 per cent in 1979-80, reached the ratio of 2.7 per cent in 1986-87 and 2.6 per cent in 1987-88 (RE) (Table 6.2). The widening current account deficit is disturbing in as much as it consumes capital receipts without generating matching assets. The growth in current expenditure has continued to outstrip the growth in current revenues, despite strong growth in the the latter. Apart from large increase in interest payments and subsidies, growing revenue component of plan expenditure has contributed to this position. As a proportion of GDP, current revenues grew from 9.4 per cent in 1980-81 to 12 per cent in 1987-88. Current expenditure in the same period rose from 10 per cent to 14.6 per cent of GDP. Among the major items of expenditure, interest payments have shown a marked growth, from about 2.2 per cent in mid-eighties to 3.4 per cent of GDP in 1987-88. Subsidies, too, grew from 1.3 per cent of GDP in the first half of eighties to an average of 1.9 per cent during 1985-86 to 1987-88. The amount of grants to States and UTs averaged 2.7 per cent in the last three years as against 2 per cent in the first half of eighties. Defence expenditures, were, however, stable at 2.7 per cent in the decade upto 1985-86 and these rose to 3.1 per cent in 1987-88.

TABLE 6.2

Centre's Revenue Receipts and Revenue Expenditures

	As percent of GDP (Old Series)						As percent of GDP (New Series)								
	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88 (RE)	1988-89 (BE)[2]
1. Tax Revenue (Net of States share)	8.1	8.2	7.9	8.8	8.0	7.4	6.9	7.3	7.4	7.5	7.7	8.1	8.3	8.6	8.5
2. Non-Tax Revenue	2.8	2.7	3.0	2.7	2.6	2.7	2.5	2.5	2.8	2.4	2.9	3.1	3.4	3.4	3.3
3. Total Current Revenue (1+2)	10.9	10.9	10.9	11.5	10.6	10.1	9.4	9.8	10.2	9.9	10.6	11.1	11.7	12.0	11.8
4. Total Current Expenditure	9.7	10.5	10.4	11.2	11.2	10.7	10.0	9.8	10.9	11.1	12.1	13.2	14.4	14.6	14.4
(a) Interest Payments	1.7	1.7	1.7	1.9	2.1	2.1	2.0	2.0	2.2	2.3	2.6	2.9	3.2	3.4	3.7
(b) Subsidies[1]	0.6	1.2	1.3	1.3	1.4	1.2	1.2	1.2	1.3	1.3	1.6	1.8	1.9	1.9	1.9
(c) Defence Expenditure[3]	3.0	2.9	2.7	2.7	2.9	2.8	2.6	2.6	2.7	2.7	2.8	2.9	3.4	3.1	2.7
(d) Grants to States & UTs	1.7	2.0	2.2	2.7	2.2	2.2	2.1	1.7	2.0	2.1	2.3	2.7	2.6	2.8	2.6
(e) Others	2.6	2.7	2.6	2.6	2.6	2.4	2.2	2.4	2.6	2.7	2.8	2.9	3.3	3.4	3.5
5. Revenue Account Surplus(+)/ Deficit(−) (3 −4)	1.2	0.4	0.5	0.3	-0.6	-0.6	-0.6	-0.1	-0.7	-1.2	-1.5	-2.1	-2.7	-2.6	-2.6

1. Excludes subsidies on imported fertiliser upto 1985-86.
2. Estimates.
3. Includes defence pension.

Note : The ratios in this table from 1980-81 onwards are based on the new scries of GDP released by the CSO and therefore, these will differ from the figures given in previous year's Economic Survey. To facilitate comparison, however, the ratios for 1980-81 have also been given on the basis of the old series ofGDP.

6.7 The budgetary deficit of the States and UTs worsened in 1987-88. Whereas their budgets for 1987-88 had estimated a deficit of Rs. 559 crores, the revised estimates revealed a deficit of Rs. 1,583 crores. This deterioration emerged despite larger devolution of grants from the Centre amounting to Rs. 8,577 crores as against budget estimates of Rs. 7,792 crores. Their share in Income Tax proceeds was also 5.2 per cent higher than the budget estimate. The main factor responsible for the widening deficit was a rise in non-development expenditure and sizeable increases were noticeable on account of interest payments and administrative services.

Central Government Budgetary and Fiscal Developments, 1988-89

6.8 The budget of the Central Government for 1988-89 aimed to overcome the dampening effects on the economy of the previous four successive years of poor monsoon and on the other hand, it sought to give a special thrust to the development of agriculture to speed post drought recovery and achieve the Seventh Plan targets of production. Simultaneously, it endeavoured to revitalise the growth of industry, create job opportunities in rural areas, strengthen export efforts, enhance social security for weaker and vulnerable sections of the society and give a boost to the housing sector.

6.9 The details of important fiscal measures enumerated in the Budget for 1988-89 and the Finance Act, 1988, are outlined in the paragraphs that follow.

Direct Taxes

No changes were made in the rates of direct taxes in the budget for 1988-89. However, in order to meet the formidable after-effects of drought, the surcharge of 5% on Income Tax and 10% on Wealth Tax levied in preceding year was continued.

6.10 To provide relief to the salaried class, the provisions of Section 16(1) of Income Tax Act were amended to raise the rate of standard deduction to 33-1/3% of the salary income subject to an enhanced ceiling of Rs. 12,000/-. This brought down considerably the incidence of tax at the lower level of income. Certain changes were also made in the existing schemes of concessions available under Section 80-L of the Income Tax Act. The interest on deposits under Post Office (Monthly Income Account) was included in the list of specified saving instruments to which general exemption limit of Rs. 7000/- is applicable. To promote the growth of housing sector, interest and dividend income received from companies, providing long term finance for housing, was provided with a separate additional exemption limit upto Rs. 3000/-. Earlier this exemption was available only to Units of the Unit Trust of India and National Deposit Scheme. In order to stimulate the capital market, an additional deduction of Rs. 3000 was provided in respect of dividends from any Indian company. As a further measure of incentives for savings, the National Saving Scheme, based on the principle of net savings, was made more attractive by increasing the rate of deduction at the time of deposit from 50 per cent to 100 per cent with corresponding increase in the amount subject to tax at the time of withdrawal. The maximum qualifying amount of deposit was also increased from Rs. 20,000 to Rs. 30,000 per annum and the interest rate earned on deposit was enhanced from 9 per cent to 11 per cent.

6.11 In order to create a favourable environment for exports, the existing tax concession under Section 80-HHC of Income Tax Act for export profits was enhanced so as to exempt 100 per cent of export profits from Income tax. Besides, the benefit was also extended to supporting manufacturers, subject to the fulfilment of certain conditions. A five year tax holiday presently available for units in Free Trade Zones was also extended to 100 per cent Export Oriented Units. Replantation and rejuvenation subsidies for rubber, coffee and cardamom plantations were also exempted from Income Tax. The Budget announced an expansion in the menu of investment vehicles for non-resident Indians (NRIs) in the form of a new scheme of Foreign Currency Denominated Bonds on a non-repatriable basis, which were to be exempted from Income Tax, Wealth Tax and Gift Tax.

6.12 With a view to combat tax evasion and avoidance as well as to plug the loopholes in tax laws, some special measures were undertaken, which included introduction of new provisions and amendment of some existing provisions in the Income Tax Act. A new section 44AC was inserted to remove some of the difficulties faced in the past in assessing and collecting taxes from persons engaged in trades like liquor and forest contracts. The Section provided for a simple method of assessment under which a fixed percentage of the amount payable by the contractors for purchasing goods would be presumed to be their income. The rates originally proposed in the Bill at 60 per cent were later on reduced to 40 per cent in the case of liquor contractors and 35 per cent in the case of forest produce dealers. The proposed provision to tax the scrap dealers on fixed percentage basis was withdrawn. With a view to facilitating collection of taxes from such assessees, a new section 206-C was introduced which provided that Income Tax at specified rates would be deducted at source from the amount paid by the contractors at the time of purchasing goods.

6.13 As a further measure to check tax avoidance, provisions relating to the capital gains were amended to tax any transfer of capital asset by a holding company to its wholly owned subsidiary company or vice-versa in cases where such capital asset was taken over as stock-in-trade at the time of transfer. Earlier such transfer of capital asset was exempt from charge of capital gains tax.

6.14 With a view to stimulate the capital market and encourage investment in industrial sector, the budget sought to extend the benefit under Section 80-CC of the Income Tax Act in respect of investment in new equity to the units of any mutual fund set by public sector banks or other financial institutions subject to certain conditions. This measure was intended to help the small investors.

6.15 Certain changes were effected with the aim of promoting socially-oriented schemes. The Budget announced creation of Social Security Fund by Life Insurance Corporation (LIC) to provide insurance benefits to weaker and vulnerable sections of society at subsidised rates. With a view to generate resources for setting up this Fund the provision relating to computation of profits and gains of life insurance business was amended to provide considerable reduction in their tax liability. Similarly, the General Insurance Corporation (GIC) and its subsidiaries were provided with the benefit of tax exemptions of their profits earned on the sale of investment, in order to enable them to play more active role in capital market for the benefit of policy holders.

6.16 Considering the vast potential of the country's scientific and technical manpower the Budget announced special measures to help the young and new enterpreneurs to raise equity capital through Venture Capital Fund/Companies, which would be allowed to invest in new companies and be eligible for the concessional treatment of capital gains available to non-corporate entities. Also, to encourage employment of these qualified personnel within the country, certain tax benefits granted to foreign technicians under Section 10(6) with regard to remuneration were withdrawn.

Indirect Taxes

6.17 Besides providing relief to the common man, the Budget for 1988-89 contained incentives for the agricultural sector; rural employment; exports; health and medical care; housing and construction activities; technology upgradation; and selected industries such as cement, textiles, electronics, paper and plastics.

6.18 In view of the adverse effects of the drought and natural calamities, the 5 per cent surcharge by way of auxiliary duty of customs on imported goods (excluding essential commodities like fertilisers, power equipment, life-saving drugs and medical equipment) levied last year was continued. Further a surcharge by way of Special Excise Duty at the rate of 1/20th of the Basic Duty of Excise was levied. Certain essential goods of common consumption were, however, exempted from the surcharge, viz., sugar, matches, cotton fabrics, vanaspati, refined vegetable oil, tea, coffee and kerosene.

6.19 To give boost to agriculture and agro-based activities, several excise reliefs were provided. Full exemption from excise duty was given in respect of machinery items such as sprinkler systems, fodder mixers, germination appliances, egg candlers, etc. used in agricultural, horticultural, poultry and bee-keeping activities, in order to promote modernisation in the sector. Electric motors used in monobloc and submersible pump-sets for irrigation were exempted from excise duty. Exemption from excise duty was also provided for a large number of pesticide intermediates in order to reduce the cost of indigenous production. In addition, excise duty on parts and accessories going into the installation of cold storage plants was reduced from 40 per cent to 15 per cent ad valorem. To reduce cost and final prices of pesticides and pesticide intermediates, customs duty was reduced to 70 to 60 per cent ad valorem from the previous level of 105 to 147 per cent. Likewise, certain critical equipments, hormones and drugs, required for milk production programme, were exempted from customs duty in excess of 25 per cent ad valorem.

6.20 To help foster the growth of food processing and packaging industry, customs duty on 34 specified items was reduced from 55 to 35 per cent ad valorem. Excise duty on preparations from vegetables, fruits, nuts and other parts of plants like jams, fruit juices, jellies, pickles were reduced from 10 per cent to 5 per cent ad valorem. These items would be fully exempt if manufactured in rural areas by registered cooperative societies, KVIC and State Khadi and Village Industries Board. The excise duty on aluminium foil was reduced from 25 to 15 per cent ad valorem. Further, as a measure for generating self-employment in rural areas, excise duty exemption was provided for a number of industrial products like radios, cassette players and recorders, tape recorders, voltage stabilisers, footwear etc. if manufactured in rural areas by registered cooperatives and KVIC. Excise duty on hand tools like files, screwdrivers, pliers etc. was reduced from 20 per cent to 10 per cent ad valorem, with a view to provide relief to the self-employed toiling sections of society.

6.21 To encourage growth of housing, excise duty on building materials like cement, bricks and blocks, slabs, lintels etc. was reduced from 12 per cent to 5 per cent ad valorem. Furthermore, to protect the environment and help substituting demand for wood by metals, excise duty on doors, windows and their frames and thresholds made of aluminium was reduced from 20 to 15 per cent ad valorem. Excise duty on corrugated sheets of aluminium was also reduced from 25 to 15 per cent ad valorem. Similarly, the excise duty on steel doors, windows and their frames and thresholds for doors was reduced from 15 to 5 per cent ad valorem.

6.22 In order to ensure the availability of essential drugs at lower rates and provide efficient medicare to all as well as to increase availability of drugs by promoting domestic production, the excise tariff was aligned with the new Drug (Price Control) Order, 1987. As a result excise duty on a large number of bulk drugs and intermediates including X-ray films were either abolished or reduced. In respect of medical equipment and spares, import procedures were simplified and customs duty was either abolished or reduced. Import duty on 235 specified drug intermediates was reduced to 90 per cent ad valorem from the present level of 115 per cent in order to help the modernisation of our hospitals and clinics.

6.23 Excise duty on a number of consumer goods were reduced or abolished to provide relief to the common man. Thus, excise duty on toilet soaps; electric bulbs exceeding 60 watts; wall clocks and quartz clocks; and table wares like jugs, cups, plates, bowls etc. was lowered. Full excise duty exemption was given for laundry and carbolic soaps manufactured in rural areas, toys and certain domestic electric appliances.

6.24 To foster the growih of capital goods industry and to promote greater self-reliance in this critical sector, a technology upgradation scheme was announced in August, 1987 under which a concessional customs duty rate of 35 per cent had been fixed in respect of import of specified items of capital equipments required for manufacture of machinery covered by the scheme. In the Budget for 1988-89, the customs duty on selected raw materials needed for their production was reduced to 55 per cent from the earlier level ranging from 100 to 180 per cent. The customs duty on boiler and pressure vessel quality steel plates, turbine blade flats and stainless steel plates required for manufacture of machinery was also reduced from 90 per cent to 55 per cent. For 21 items of machinery for the roller bearing industry, a custom duty of 35 per cent was fixed.

6.25 As a step to support the textile industry and facilitate provision of low-cost clothing and textiles, excise duty reductions were granted for a wide range of synthetic yarns and concessions in customs duty were announced for textile machinery. Excise duty on viscose staple fibre (VSF) cleared for blending with cotton was reduced from Rs. 7 per kg. to Rs. 5 per kg. Simultaneously the duty on VSF used for other purposes was raised to Rs. 8 per kg. This was done with a view to substitute VSF for cotton. The duty on polyester staple fibre (PSF) was reduced from Rs. 25 per kg. to Rs. 15 per kg. and on polyester filament yarn (PFY) from Rs. 83.75 to Rs. 53.75 per kg. In order to encourage domestic producers to pass on the benefit of reduction in excise duty fully to the consumers, import duties on these items were also reduced by about 25 per centage points. Excise duty on nylon filament yarn (NFY) was reduced from Rs. 70 to Rs. 40 per kg. and that on acrylic fibre from Rs. 10 to Rs. 8 per kg. Customs duty on them was also suitably reduced. Excise duty on NFY for industrial purposes like tyre, filter fabrics was reduced from Rs. 70 to Rs. 8.13 per kg. and for fishing nets duty was lowered to a concessional rate of Rs. 4.55 per kg. Certain specified textile machinery required for modernisation of the mills was also provided with concessional excise duty. In addition customs duty on certain specified machinery for the garment, hosiery and woollen industries was reduced to 35 per cent.

6.26 In the field of electronic industries, several measures were taken to speed up the growth of this sector. The customs duty structure was rationalised and a uniform concessional duty of 60 per cent ad valorem was prescribed in respect of 280 items of machinery for this sector. Customs duty on moulds, tools and dies required by the industry was lowered from 60 per cent to 30 per cent ad valorem. The coverage of the graded structure of duties for raw materials, piece parts and components for the industry was enlarged. Furthermore as a rationalisation measure, a uniform rate of duty of 80 per cent ad valorem plus countervailing duty was provided in respect of all computers, computer systems, computer peripherals and spare parts, thereof. Excise duty on computer software was reduced from 25 per cent to 10 per cent ad valorem. To strengthen the communication base, lower rate of duty was provided for components of equipments for telecommunication, satellite and television transmissions. However, in an effort to mobilise additional rsources, excise duty on colour TV sets of screen size exceeding 36 cms and of assessable value exceeding Rs. 5,000/- per set was raised from Rs. 1,750 to Rs. 2,000 and that on audio magnetic tapes was enhanced to Rs. 4 per square meter.

6.27 Some concessions were given to the plastic industry in the wake of steep rise in the prices of the raw materials in the international market. To neutralise the price rise, customs duty on various plastic raw materials, such as LDPE, HDPE, PVC and polypropylene (PP) were lowered. The basic customs duty on LDPE was reduced from Rs. 3000 to Rs. 2000 per tonne and on HDPE from 30 per cent to 20 per cent ad valorem. For PP the auxiliary duty was reduced from 45 per cent to 30 per cent ad valorem.

6.28 In order to make exports more competitive, customs duty on machinery used in a number of identified export thrust industries was reduced. Thus specified machines for the garments and hosiery, leather, jewellery and textile industries, tea, bicycle, silk and woollen industries were provided with a concessional customs duty of 35 per cent ad valorem.

6.29 The Central Excise system has undergone sweeping changes through the introduction of MODVAT scheme in recent years. Because of its inherent advantages, the MODVAT system has been found beneficial by the industry. The procedural problems faced in the initial stages have, by and large, been sorted out. As a step further in this direction the rates of excise duty in respect of a few commodities including paints, trailors, furnitures, etc. were rationalised and the scheme of excise duty concessions applicable to small scale industry relating to airconditioning and refrigerating appliances and parts thereof were modified to enable full utilisation of MODVAT credit. The excise duty relating to ferrous and non-ferrous metals was aligned with the corresponding chapters of the Harmonised System which would help reduce classification disputes.

6.30 Some changes were effected with a view to curb tax evasion, including revision of the scheme of excise duty concessions to manufacturers of tread rubber in the small scale sector, enhancement of basic customs duty in respect of certain alcoholic drugs and conversion of basic custom duty in respect of steel sheets from ad valorem-cum-specified rates into specified rates.

Additional Resource Mobilisation 1988-89 (*B.E.*)

6.31 The Additional Resource Mobilisation Measures (ARM) undertaken in the 1988-89 Central Budget were expected to yield Rs. 1,535 crores. However, the Budget also provided reliefs and concessions to various sectors of the economy amounting to a revenue loss of Rs. 920 crores. Accordingly, the ARM measures (net of reliefs and concessions) were to yield Rs. 615 crores. Out of this, Rs. 546 crores were to be raised through indirect taxes and Rs. 69 crores through direct taxes. The States' share in Centre's additional resource mobilisation after making adjustment for a loss of Rs. 94 crores on account of concessions in direct taxes was estimated at Rs. 28 crores. Details are given in Table 6.3.

TABLE 6.3

Additional Resource Mobilisation through Central Budget for 1988-89

(Rs. crores)

	Centre's Share	States' Share	Total
I. Taxes[1] . . .	587	28	615
(*a*) Direct Taxes .	163	(—)94	69
(*i*) Corporation Tax	49	—	49
(*ii*) Income Tax	104	(—)94	10
(*iii*) Wealth Tax	10	—	10
(*b*) Indirect Taxes .	424	122	546
(*i*) Customs duties	307	—	307
(*ii*) Union Excise duties .	117	122	239
(*iii*) Tax on foreign exchange released for foreign travel	—	—	—
II. Revision in the Postal & Telecommunication Tariffs and Railway Fares & Freights .	1171	—	1171
(*a*) Railways . .	622	—	622
(*b*) Posts and Tele-communications[2]	549	—	549
III. Total (I+II) . .	1758	28	1786

1. After taking into account the changes announced during the Budget debate.

2. Including M.T.N.L.

6.32 The Railway Budget for 1988-89 proposed hikes in rates of goods traffic and passenger traffic and also parcel and luggage rates which were to yield an additional revenue of Rs. 622 crores. Revision in the Postal and Telecommunications tariffs were to result in an additional revenue of Rs. 549 crores in 1988-89.

Revenue and Expenditure

6.33 The budget for 1988-89 sought to contain the deficit at Rs.7,484 crores as against Rs.5,688 crores in 1987-88 (BE). Aggregate resources of the Central Government including net receipts of Rs.587 crores from additional resources mobilisation measures and Rs.9,958 crores from internal and extra-budgetary resources of public sector undertakings, were estimated to be Rs.83,617 crores, about 17 per cent higher than Rs.71,509 crores in 1987-88 (BE). Aggregate disbursements, on the other hand, were estimated at Rs.91,101 crores, 18 per cent higher than in 1987-88(BE). Hence, the uncovered deficit of Rs.7,484 crores. While tax revenues were expected to grow by 15.1 per cent, non-tax revenues were estimated to show a higher increase by 24.7 per cent. Domestic capital receipts were anticipated to grow by 13.5 per cent and external capital receipts by 19.4 per cent so that total capital receipts were projected to rise by 14.2 per cent to Rs.31,251 crores. On the disbursement side, while non-development expenditures were budgeted to rise by 17.2 per cent more than the level of last year's budget estimates, development expenditures were anticipated to rise by 18.6 per cent. The increase in allocation to development expenditure was substantially higher than last year's projected increase of 10.1 per cent.

6.34 The Central Plan outlay for 1988-89 (BE) was stepped up by 16.6 per cent to Rs. 28,715 crores over the outlay of Rs. 24,622 crores (this excludes the additional outlay of Rs. 420 crores provided for Railways' Annual Plan subsequent to the Central Budget) in 1987-88 (BE). The Budget support for the Central Plan outlay, however, was estimated to decline from 60.6 per cent to 55.7 per cent. The contribution of resources of public enterprises, at the same time, was expected to rise from 39.4 per cent to 44.3 per cent. The contribution of internal resources of public enterprises alone was likely to increase from about 25 per cent to 29 per cent. The total outlay during the first four years of the Seventh Plan was thus estimated to account for 86 per cent of the targetted Seventh Plan Outlay, in real terms, compared to only 66 per cent achieved in first four years of the Sixth Plan. In terms of sectoral allocations, the emphasis was on stregthening the productive potential of the economy which had suffered the ravages of a severe drought in the previous year and on expanding the programmes directly benefiting the weaker sections of the society. The allocation for rural development was enhanced by Rs.150 crores to Rs.2,200 crores. Likewise the outlay on development of infrastructures such as power, coal, surface transport and telecommunications were raised by about 34 per cent to Rs.8,418 crores over the level in 1987-88. The allocation for Agriculture including Irrigation and Flood Control was also stepped up by around 20 per cent.

Seventh Plan/LTFP Projection : Comparison with Actuals

6.35 It may be recalled that the Seventh Plan had projected five year targets for selected fiscal indicators (namely, Centre's revenue receipts, non-plan expenditures, budgetary deficit, Central Plan Outlay and assistance for State and UT Plans) with 1984-85 as the base and the targets expressed at base year-prices. The GDP growth target in the Seventh Plan was also on the same base. These targets were annualised in Long Term Fiscal Policy (LTFP) document and were expressed as ratios of respective year's GDP. As the first four years of the Seventh Plan are drawing to a close, it may be useful to observe how the actuals (including Revised Estimates for 1987-88 and Budget Estimates for 1988-89) so far have behaved compared to targets. Such a comparison is given in Table 6.4.

TABLE 6.4

Centre's Revenue Receipts, Non-Plan Expenditure, Balance from Current Revenue (BCR), Resources for Central Plan and Assistance for State and U.T. Plans

(Seventh Plan Projections*; A comparison with Actuals)

(As percent of G.D.P.)

	1985-86		1986-87		1987-88		1988-89	
	LTFP	A/C	LTFP	A/C	LTFP	(R.E.)	LTFP	(B.E.)
1. Tax Revenue (net of State's share)	**7.8**	**8.7**	**8.2**	**8.9**	**8.7**	**9.2**	**9.2**	**9.1**
(a) Direct Taxes	1.5	1.5	1.7	1.5	1.8	1.5	2.0	1.5
(b) Indirect Taxes	6.3	7.2	6.5	7.4	6.9	7.7	7.2	7.6
2. Non-Tax Revenue	**3.0**	**3.1**	**2.9**	**3.5**	**2.8**	**3.5**	**2.7**	**3.4**
3. Non-Plan Revenue Expenditure	**11.1**	**12.0**	**11.3**	**12.8**	**11.5**	**13.4**	**11.6**	**13.5**
(a) Defence	3.3	3.5	3.4	4.1	3.5	4.3	3.6	4.0
(b) Interest Payments	3.0	3.1	3.3	3.4	3.6	3.7	3.9	4.0
(c) Food & Fertilizer subsidies	1.2	1.5	1.1	1.4	1.1	1.4	1.0	1.5
(d) All others	3.6	3.9	3.4	3.9	3.3	4.0	3.1	4.0
4. Balance from Current Account (BCR)	**(—)0.4**	**(—)0.1**	**(—)0.2**	**(—)0.5**	**Neg.**	**(—)0.7**	**0.3**	**(—)1.1**
5. Central Plan	**7.5**	**8.1**	**7.5**	**8.7**	**7.5**	**8.4**	**7.5**	**8.2**
6. Assistance for States & U.T. Plan	**2.7**	**2.9**	**2.7**	**3.0**	**2.6**	**3.2**	**2.6**	**2.2**

* The yearly projections adopted from LTFP document are annualised Seventh Plan five year targets which are expressed as ratios of annualised GDP. In the case of actuals, the new series GDP available upto 1987-88 and the estimated GDP for 1988-89 (assuming growth rate of 14 per cent at current market prices) have been converted to conform to the old series (used in LTFP projections) by using suitable conversion factor.

NOTE : 1 The ratios given here will *not* agree with the ratios given in Table 6.2 because of conceptual differences and differences in GDP figures.

2 BCR for the Centre as defined in Plan documents is the balance of current receipts (excluding external grants) over non-plan revenue expenditure (including capital outlay on border roads and defence).

6.36 The broad conclusions which follow from the Table are :—

(i) Tax revenue performance has been encouraging as tax revenues (net of States' share) have been higher than Seventh Plan expectations during 1985-86 to 1987-88 and almost equal to it in 1988-89 (BE). However, within tax revenues, the performance of direct taxes has been less than the projections.

(ii) Non-tax revenue has performed better, exceeding the projections by significant proportions.

(iii) Non-plan revenue expenditures have exceeded the Seventh Plan targets by significant margins. Largely because of higher growth in non-plan expenditures, the Balance from Current Revenue(BCR), which was projected to become positive (+0.3 per cent of GDP) by 1988-89, remained negative and even widened to (—)1.1 per cent of GDP.

(iv) The size of Central Plan and assistance for State and UT Plans were well above the Seventh Plan anticipations.

Savings and Capital Formation

6.37 An economic and functional classification of the Central Budget is prepared every year. A brief analysis of the expenditure classification showed a decline in the proportion of expenditure on capital formation, from over 40 per cent till mid-Eighties to 35.5 per cent in 1988-89 (Table 6.5) This situation resulted primarily from substantial rise in expenditures related to current transfers. The proportion of expenditures on current transfers rose from around 31 per cent in 1980-81 to about 39 per cent in 1988-89. The rise in current transfers was, in turn, largely due to steep increase in interest payments; the proportion of expenditure on interest payments recorded an increase from 10 per cent in 1980-81 to a little less than 17 per cent in 1988-89. The share of consumption expenditure, on the other hand, did not show any steady trend over the decade; the proportion of expenditure on consumption declined from a

TABLE 6.5

Economic Classification of Total Expenditure in Central Budget

(Rs. crores)

	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88 (R.E.)	1988-89 (B.E.)
1. Consumption Expenditure	**5174** (23.0)	**6096** (24.0)	**7057** (23.1)	**8130** (22.6)	**9428** (21.5)	**11210** (21.1)	**14665** (22.9)	**16733** (23.6)	**18743** (24.1)
(a) Defence	3571 (15.9)	4327 (17.0)	5018 (16.5)	5823 (16.2)	6647 (15.2)	7962 (15.0)	10439 (16.3)	11906 (16.8)	13163 (16.9)
(b) Other Government Administration	1603 (7.1)	1769 (7.0)	2039 (6.6)	2307 (6.4)	2781 (6.3)	3248 (6.1)	4226 (6.6)	4827 (6.8)	5580 (7.2)
2. Transfer Payments (Current)	**6912** (30.7)	**7728** (30.4)	**9590** (31.5)	**11436** (31.8)	**14938** (34.0)	**18347** (34.5)	**21243** (33.2)	**25634** (36.1)	**29958** (38.5)
(a) Interest	2253 (10.0)	2763 (10.9)	3516 (11.5)	4450 (12.4)	5646 (12.9)	7090 (13.3)	8648 (13.5)	10580 (14.9)	12892 (16.6)
(b) Subsidies	1912 (8.5)	1946 (7.7)	2304 (7.6)	2886 (8.0)	4484 (10.2)	5070 (9.5)	5542 (8.7)	6245 (8.8)	7159 (9.2)
(c) Grants to States & UTs (including Local Bodies)	1810 (8.0)	1801 (7.0)	2365 (7.8)	2526 (7.0)	2863 (6.5)	3922 (7.4)	4305 (6.6)	4977 (7.0)	5701 (7.3)
(d) Others	937 (4.4)	1218 (4.8)	1405 (4.6)	1574 (4.4)	1945 (4.4)	2265 (4.3)	2848 (4.4)	3832 (5.4)	4206 (5.4)
3. Gross Capital Formation out of Budgetary Resources	9012 (40.1)	**10799** (42.5)	**12403** (40.7)	**14702** (40.8)	**17551** (40.0)	**21477** (40.4)	**24320** (38.0)	**26212** (36.9)	**27652** (35.5)
(a) Physical Assets	1907 (8.5)	2552 (10.0)	2884 (9.5)	3356 (9.3)	4123 (9.4)	4558 (8.6)	5905 (9.2)	5914 (8.3)	7300 (9.4)
(b) Financial Assets	7105 (31.6)	8247 (32.5)	9519 (31.2)	11346 (31.5)	13428 (30.6)	16919 (31.8)	18415 (28.8)	20298 (28.6)	20353 (26.1)
4. Others	**1397** (6.2)	**778** (3.1)	**1444** (4.7)	**1720** (4.8)	**1962** (4.5)	**2078** (3.9)	**3795** (5.9)	**2443** (3.4)	**1471** (1.9)
5. Total Expenditure	**22495**	**25401**	**30494**	**35988**	**43879**	**53112**	**64023**	**71025**	**77824**

NOTE : Figures in brackets represent percentages to respective total expenditures.

little over 23 per cent in the early eighties to 21 per cent in 1985-86 and then rose to 24 per cent in 1988-89. The bulk of the consumption expenditure is on account of defence consumption (about 71 per cent). Its share in total expenditure, which was about 16.5 per cent in early Eighties, declined to 15 per cent in 1985-86, and increased steadily thereafter to about 17 per cent in 1988-89. Likewise the share of other Government Administration consumption expenditure which had declined from over 7 per cent in 1980-81 to 6.1 per cent in 1985-86, again moved up to over 7 per cent in 1988-89.

6.38 Table 6.6 gives the gross savings and gross capital formation of the Central Government from 1980-81 onwards. Gross capital formation out of budgetary resources which had shown, on an average, an increase of 19 per cent during 1981-82 to 1985-86 witnessed substantial deceleration in 1986-87 when the increase was only 13.2 per cent. The rate of increase further dwindled to less than 8 per cent in 1987-88 (RE) and 5.5 per cent in 1988-89 (BE). Gross savings which had turned negative for the first time in 1984-85, continued to deteriorate further. The dis-savings in 1988-89 were estimated to be of the order of Rs.5,600 crores or about 1.5 per cent of GDP at market prices. The deterioration in the Central Government's savings performance was mainly on account of significant increases in dis-savings of Government Administration over the years; the dis-savings increased from Rs.4,162 crores (1.4 per cent of GDP) in 1986-87 to an estimated Rs.7,514 crores (2 per cent of GDP) in 1988-89. The other component of Central Government's gross savings, namely, depreciation and retained profits of departmental commercial undertakings, improved somewhat from Rs. 1,310 crores (0.4 per cent of GDP) in 1986-87 to Rs.1,914 crores (0.5 per cent of GDP) in 1988-89.

TABLE 6.6

Capital Formation by the Central Government and its Financing

(Rs. crores)

	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88 (R.E.)	1988-89 (B.E.)
I. Gross Capital Formation out of Budgetary Resources of Central Government .	**9012** (24.7)	**10799** (19.8)	**12403** (14.9)	**14702** (18.5)	**17551** (19.4)	**21477** (22.4)	**24320** (13.2)	**26212** (7.8)	**27652** (5.5)
As per cent of gross domestic product at current market price (new series) @ . .	6.6	6.8	7.0	7.1	7.6	8.2	8.3	7.9	7.3
(i) Gross Capital formation by the Central Government	1907	2552	2884	3356	4123	4558	5905	5914	7300
(ii) Financial assistance for capital formation in the rest of the economy .	7105	8247	9519	11346	13428	16919	18415	20298	20352
II. Gross Savings of the Central Government	**3**	**1107**	**857**	**313**	**(—)963**	**(—)1441**	**(—)2852**	**(—3951)**	**(—)5600**
III. Gap (I-II)	**9009** (6.6)	**9692** (6.1)	**11546** (6.5)	**14389** (7.0)	**18514** (8.0)	**22918** (8.7)	**27172** (9.3)	**30163** (9.1)	**33252** (8.8)
Financed by									
IV. Draft on other sectors of domestic economy . .	**7339**	**8391**	**9955**	**12778**	**14657**	**21068**	**24794**	**27050**	**29518**
(i) Domestic capital receipts	4762	6999	8300	11361	12912	16131	16533	20970	22034
(ii) Budgetary deficit .	2577	1392	1655	1417	3745	4937	8261	6080	7484
V. Draft on foreign savings .	**1670**	**1301**	**1591**	**1611**	**1857**	**1850**	**2378**	**3113**	**3734**

Note : — (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 increase over the preceding year.

(iii) Figures in brackets of row III indicate the gap as precent of GDP.

@ Because of the revision in the new series of GDP, the ratios given here will differ from those given in the earlier issues of Economic Survey.

Finances of States and Union Territories

6.39 The overall budgetary deficit of the States and Union Territories taken together in 1988-89 was Rs. 872 crores, 45 per cent lower than the deficit of Rs. 1,583 crores in the revised estimates for 1987-88 but 56 per cent higher than the budget estimates (Rs. 559 crores) for 1987-88. Aggregate resources were to increase by 13 per cent, to Rs. 59,547 crores from Rs. 52,680 crores in 1987-88 (BE), while aggregate disbursements were to rise by 13.5 per cent to Rs. 60,419 crores from Rs. 53,239 crores in the same period. The current revenue were estimated at Rs. 46,094 crores, 11.1 per cent and 14.8 per cent higher than the budget estimates and revised estimates respectively in 1987-88. States' own tax revenues were budgeted to grow by 10 per cent as against 19 per cent in 1987-88, while their share in Central taxes were estimated to rise by 15.8 per cent as against 17.2 per cent 1987-88. Non-tax revenues and grants from the Centre were projected to grow by 8 per cent and 12.2 per cent respectively.

6.40 The composition of aggregate expenditure of States and Union Territories indicate that development expenditures was to increase to Rs. 43,237 crores from last year's budget estimates of Rs. 38,819 crores; an increase of over 11 per cent. At the same time, non-development expenditure was estimated at Rs. 17,182 crores, about 19 per cent higher than the budget estimates of Rs. 14,420 crores in the previous year. The ratio of development expenditure to aggregate expenditure thus dropped marginally to 71.6 per cent from about 73 per cent in last year.

6.41 The gap between current revenues and aggregate expenditures of the States and Union Territories has continued to widen. It was estimated at Rs. 14,325 crores, about 22 per cent larger than Rs. 11, 750 crores in 1987-88 (BE). About 94 per cent of the gap was to be financed by capital receipts, which consisted of net loan from the Centre (46 per cent), market borrowing (19 per cent), State Provident Fund (13 per cent) and other miscellaneous receipts (22 per cent).

Centre and State Governments—Combined

6.42 The overall budgetary deficit of the Centre, States and Union Territories in 1988-89 (BE) was placed at Rs. 8,356 crores which was larger by one-third the size of deficit of Rs. 6,274 crores in 1987-88 (BE). Aggregate receipts were budgeted to increase by a little less than 16 per cent to Rs. 119,424 crores. Tax receipts were to increase by 13.4 per cent while, non-tax receipts including internal resources of public undertakings for the Plan, were expected to move up by 21 per cent over 1987-88 (BE). Aggregate expenditures were estimated to increase by about 17 per cent from Rs. 109,388 crores in 1987-88 (BE) to Rs. 127,780 crores in 1988-89 (BE). Development expenditures were projected to rise by about 16 per cent and non-development expenditures by a larger, 18.3 per cent. As a consequence, the proportion of development expenditure to total expenditure slipped marginally to 61 per cent from about 61.6 per cent in 1987-88 (BE). The gap between aggregate expenditure and current revenue widened substantially from Rs. 34,738 crores in 1987-88 (BE) to Rs. 41,744 crores in 1988-89 (BE). This was to be financed to the extent of 71 per cent from domestic capital receipts, 9 per cent from external receipts and the balance 20 per cent through budgetary deficit.

Annual Plan 1988-89

6.43 The Annual Plan outlay for the Centre, States and Union Territories was stepped up by 11.5 per cent to Rs. 49,818 crores (Table 6.7).

TABLE 6.7

Annual Plan Outlay : Centre, States and Union Territories

(Rs. crores)

Heads of Development	Annual Plan 1987-88		Annual Plan 1988-89	
	Amount	Percentage to total	Amount	Percentage to total
1. Agriculture and Allied Activities .	2,378	5.3	2,712	5.4
2. Rural Development	2,714	6.1	2,849	5.7
3. Special Area Programme. . .	697	1.6	772	1.6
4. Irrigation and Flood Control . .	3,762	8.4	3,859	7.7
5. Energy . .	12,999	29.1	14,847	29.8
6. Industry and Minerals . .	5,635	12.6	5,789	11.6
7. Transport .	6,243*	13.9	7,101	14.3
8. Communications .	1,231	2.7	1,822	3.7
9. Science, Technology and Environment .	670	1.5	795	1.6
10. Social Services .	7,587	17.0	8,298	16.7
11. General Economic Services . .	425	0.9	559	1.1
12. General Services .	357	0.8	415	0.8
TOTAL . . .	44,698	100,0	49,818	100.0

Note—*Includes additional outlay of Rs. 420 crores provided for Railways subsequent to the presentation of Central Budget for 1987-88.

The allocation for Central Plan was Rs. 28,715 crores, compared with the outlay of Rs. 25,042 crores (including the additional outlay of Rs. 420 crores provided for Railways Annual Plan subsequent to the Centrat Budget) in 1987-88 (Annual Plan). The allocation for States and Union Territories Plan at Rs. 21,103 crores represented an increase of 7.4 per cent over Rs. 19,657 crores (Annual Plan) last year.

6.44 The Plan priorities focussed on strengthening the productive sectors and ensuring larger flow of funds for the direct benefit of the weaker sections of the society. The Plan was to be financed to the extent of 76.3 per cent from domestic resources and 8.7 per cent from external inflow of funds. The remaining about 15 per cent was to be met through budgetary deficit. Additional resource mobilisation measures taken so far by the Centre, States and Union Territories and their enterprises were expected to contribute Rs. 12,163 crores. The contribution of public enterprises was estimated to be Rs. 6,309 crores at 1984-85 level of fares, freight rates, tariff and product prices. The other domestic sources of financing were to be: market borrowings (Rs. 9,500 crores), small savings (Rs. 4,600 crores), public sector bonds (Rs. 2,039 crores), provident funds (Rs. 2,295 crores), term loans from financial institutions (Rs. 1,151 crores) and miscellaneous capital receipts (Rs. 6,824 crores).

Post-Budget Developments

Supplementary Demands for Grants

6.45 Two supplementary demands for grants were presented to Parliament, in August and December, 1988. The first supplementary demand for grants involved a net expenditure of Rs. 688 crores on account of Plan and non-Plan assistance of Rs. 519 crores to Punjab and Plan and non-Plan allocation to others totalling Rs. 149 crores. Besides, technical supplementary grants amounting to Rs. 925 crores were also included in the first supplementary demand for grants. However, these did not involve any net cash outgo as the expenditures were matched by additional receipts or corresponding savings. Thirteen advances aggregating Rs. 39 crores which had been sanctioned from the Contingency Fund of India, were proposed to be recouped when the supplementary demands received sanction.

6.46 The second batch of supplementary demands for grants involved a net expenditure of Rs. 650 crores. The items consisted of fertiliser subsidy (Rs. 250 crores), export subsidy (Rs. 200 crores), comprehensive crop insurance scheme (Rs. 100 crores) and flood relief (Rs. 100 crores). Besides, technical supplementary grants amounting to Rs. 195 crores were also included in this batch of demands. These did not involve any cash outgo as the expenditures were to be matched by additional receipts or corresponding savings. These expenditures related mainly to release to public enterprises and super computers for weather forecasts.

Revenue Collections

6.47 The provisional data available upto December, 1988 indicate that there is a reasonable buoyancy in Central Gavernment tax revenue in 1988-89. The performance of tax revenue as revealed by the analysis of collection figures has been quite satisfactory. Total collection of revenues during April-December 1988-89 as table 6.8 shows is Rs. 29,119 crores, which is 13.1 per cent higher than the collection of Rs. 25,750 crores during the corresponding period in 1987-88. The total collection during this period represents 70.4% of the 1988-89 Budget Estimates (B.E.). Data on major tax-wise collection of revenue by the Centre for the period April-December 1988-89 and 1987-88 are given below :

TABLE 6.8

**Centre's collection from major taxes during the period April—December* 1988-89

Sl. No.	Taxes/Duties	1988-89	1987-88	Percentage increase 1988-89/ 1987-88	Percentage of 1988-89 B.E.
1	2	3	4	5	6
1.	Income and Corporation Tax	4809	4305	11.7	62.0 (67.5)
2.	Excise**	13051	11708	11.5	72.3 (69.9)
3.	Customs	11259	9737	15.6	72.3 (75.1)
	TOTAL	29119	25750	13.1	70.4 (71.5)

(Figures in brackets in Col. 6 indicate percentage of collection in 1987-88).

*As per departmental records.

**Excise figures are exclusive of cesses not collected by Department of Revenue.

6.48 Among the major taxes, revenue from customs and excise, recorded 15.6 per cent and 11.5 per cent increase respectively during April-December, 1988-89 over the corresponding period of the previous year. In case of custom duties this is partly due to increased imports and partly due to increase in prices of a large number of imported items. Revenue collection from Income and Corporation Tax, though showed increase both in absolute figures (Rs. 504 crores) and percentage-wise (11.7 per cent) in 1988-89 over the corresponding period of previous year, has lagged behind in terms of percentage of B.E. for 1988-89 (62 per cent). This is to be viewed in the context of the concessions in the Corporation Tax announced after the presentation of the Budget, which have a bearing on the B.E. The increase in both areas is roughly according to budget estimates.

6.49 The post-budget period was not marked by any special measures for additional resource mobilisation. However, with a view to enabling the State Governments to raise additional resources, a Bill entitled as the Constitution (Sixtieth Amendment) Bill 1988 was introduced in November, 1988. The Bill sought to amend Article 276(2) of the Constitution to raise the profession tax ceiling from Rs.250 per annum to Rs. 2,500.

6.50 To curb tax evasion, smuggling and foreign exchange malpractices, operations continued to be carried out during the year, against suspected tax evaders and other economic offenders. Search and seizure operations were carried out vigorously and intelligence, enforcement and anti-smuggling drives were intensified. During the period April to Decemer 1988 , search and seizure operations were carried out in 5508 cases, as against 6342 cases during the corresponding period in 1987-88. However, the total value of assets seized showed a marked increase. Prima facie unaccounted assets worth Rs. 117 crores were seized as against assets worth Rs. 88 crores last year. There had also been a qualitative improvement in the searches conducted during this year. The average value of assets seized per search during the period April-December 1988 worked out to Rs. 2.1 lakhs against Rs. 1.4 lakhs during the corresponding period of last year. Recently introduced provisions relating to confession of concealment during search operations has also yielded good results. In addition, there were a series of survey operations to widen the tax base and improve tax collection. During the period April-December 1988, 4,90,551 surveys were conducted bringing in 3,17,837 additional new assessees as compared to 3,17,718 surveys and 3,35,269 new assessees in the corresponding period in the previous year. In the field of indirect taxes,substantial amount of excise duty evasion was detected. Total number of cases detected during the period April-December 1988 was 3,581 involving duty of Rs. 212 crores. The drive against smuggling has also been intensified and there has been substantial increase in the value of contraband goods seized. This amounted to Rs. 354 crores during the period April-December 1988 as against Rs. 205 crores last year. The number of persons detained under COFEPOSA during April-December, 1988 was 856 as against 557 detained during the corresponding period last year.

6.51 In the real estate market, black money plays a pervasive pernicious role. An effective dent in this area was made by introducing the scheme of pre-emptive purchases by Government. From October 1986 Government was given the right of pre-emptive purchase of immovable properties at the declared sale price. Since then purchase orders have been issued by the Department in 283 cases where agreed sale price was more than Rs. 10 lakhs. Sixty five properties purchased till November 1988 for Rs. 20.72 crores fetched Rs. 29.50 crores on auction, resulting in profit of Rs. 8.78 crores and showing an understatement of more than 40% of the declared considerations. This measure has helped to reduce the black component of the sale considerations paving the way for better collection of revenue for the Central and the State Governments.

Direct Tax Laws (Amendment) Bill, 1988

6.52 In a noteable post-Budget development, the Government introduced in the Winter Session of the Parliament, the Direct Tax Laws (Amendment) Bill, 1988, which inter alia, sought to do away with some of the provisions of the earlier Direct Tax Laws (Amendment) Act, 1987 which had given rise to controversy and give effect to the concessions announced during the course of discussion of Finance Bill.

6.53 Among its various provisions, the Bill specifically sought to withdraw the earlier provisions, relating to the assessment of the partnership firms, charitable trusts, scientific research and sports associations and restore the old provisions relating to them. The deductions on account of scientific research, rural development and programmes of conservation of natural resources which were abolished by the earlier Amendment Act, were also sought to be restored.

6.54 The other main features of the Bill included 100 per cent deduction in respect of profits earned by approved hotels, tour operators and travel agents in convertible foreign exchange, exclusion of the export profits and the profits earned by approved hotels etc. from the purview of Section 115-J relating to levy of minimum tax on companies; certain tax concessions to the investors in NRI Bonds and complete exemption in respect of fees earned by a foreign company for technical services rendered from projects connected with the security of India. The new Bill also provided for the removal of unintended hardship caused by the provision for charging interest on late payment of advance tax on income from capital gains and winning from lotteries. Another noteworthy change has been the reintroduction of Investment Allowance scheme for selected high priority industries in which investment has to be encouraged. The scheme would be available as an option in place of Investment Deposit Account at the rate of 20 percent in respect of ships or aircrafts or plant and machineries aquired after 31-3-88. Another significant proposal in the Bill pertains to extension of the definition of "income" so as to include city compensatory allowance or any other similar allowance.

6.55 To provide certainty in the matter of assessment and reduce litigation on this account, significant changes have been effected by the Bill in respect of mode of valuation of both immovable and movable property for the purpose of Wealth Tax. The most important modification has been in respect of valuation of residential and commercial properties. Modifications have also been proposed in the valuation of shares and debentures of companies. Rules have also been incorporated for the valuation of unquoted shares and shares of inter-locked companies. Assessment of the net value of assets of the business as a whole is also specified. The Amendment Bill also specifies the manner of valuation of jewellery providing that if the value of jewellery declared is less than Rs. 5 lakh then the value declared by the assessee will be accepted.

6.56 In addition to the above main amendments, the Bill has introduced modifications in the provisions relating to levy of presumptive tax on trading in timber and in certain provisions of Direct-Tax Laws (Amendment) Act 1987 which are mainly procedural in nature to remove certain anomalies.

Indirect Taxes

6.57 Among indirect taxes, certain amendments were announced during the general debate on the Budget. While many of the amendments were clarificatory in nature, some provided relief to tax payers. To ensure availability of wool at reasonable prices to the carpet industry, the import duty on raw wool was reduced and full rebate of excise duty was provided in respect of exported tea. As a measure of relief to the physically handicapped persons, the extrusions and tubes of aluminium used in the manufacture of rehabilitation aids were fully exempted from excise duty. As further concession for health and medicare, 32 "sight-saving" equipments were fully exempted from custom duty and concessional rate of import-duty for 17 specified opthalmic equipments was provided. Certain other amendments in the original budget proposals, led to further reduction in the excise duty on plastic woven sacks manufactured on circular looms and fabrics laminated with low-density polyethelene.

6.58 Keeping in view the emerging needs of economy, some further adjustments were made in the excise duty structure. Cotton and man-made fabrics woven in prisons were exempted from excise duty. Desferiexamine mesylate injections were also exempted from excise. In the electronics sector, the Government abolished excise duty on 17 electronics items. These items included calculators, cassette players, electronic clocks and time pieces, elecronic watches, electronic lanterns, audio cassette, battery eliminators, mechaical T.V. tuners, invertors, gang condensers, trimmer capacitors, voltage stabilisers, loudspeakers and electronic fan regulators, black and white T.V. sets and radios manufactured in rural areas. The exemption will be applicable to the electronic items manufactured by cooperative societies, khadi and village industries and supported with cash assistance from district rural agencies under the Integrated Rural Development Programme (IRDP). As a further relief measure, unmachined iron castings and cast-articles of iron were exempted from the whole of excise duty provided they are made from pig iron, ferrous waste and scrap, remelting scrap ingots, etc.

6.59 Certain concessions in customs duties have been announced to facilitate import of raw materials. Keeping in view the requirements of the industry and to make available raw material at reasonable prices, customs duty on six types of iron and non-alloy steel products containing less than 0.6 per cent of carbon has been reduced. The basic custom duties on methanol and specified olefins imported for the manufacture of specified oxoalcohols were reduced. The basic and auxiliary custom duty on non-ferrous metals like copper, nickel, zinc etc. were also reduced.

6.60 Another important post-Budget development is the Government's announcement of setting up a high-power Appellate Tribunal shortly, to adjudicate disputes relating to determination of rates and duties of custom and central excise and valuation of goods. This was proposed keeping in view the large amounts of excise and custom collections blocked due to court cases.

6.61 To implement the recommendations of the Fifty-Seventh Report of the Law Commission on Benami transactions President promulgated the Benami Transactions (Prohibition of the Right to Recover Property) Ordinance 1988 on the 19th May, 1988. The Ordinance provided that no suit, claim or action to enforce any right in respect of any property held benami shall lie and no defence based on any right in respect of any property held benami shall be allowed in any suit, claim or action. The Ordinance was later on replaced by the Benami Transactions (Prohibition) Bill, 1988 which provided interalia that it would be an offence to enter into benami transactions after the commencement of the new law and that all the properties held benami will be subject to acquisition by a prescribed authority without payment of any compensation. The only exception is for the transfer of properties by the husband for the benefit of the wife or by the father for the benefit of the unmarried daughters. The introduction of the Bill has been viewed as a step against tax evasion and is expected to curtail the role of black money in the economy.

6.62 With surveys, searches, coordination and correlation of information about increased economic activity, the number of tax payers has increased sharply in the recent years. To cope with the consequent quantum jump in work load and to quicken the assessment process, the Government has undertaken an ambitious computerisation programme. Computer centres at a number of stations have been made operational for income tax summary assessments, challan processing and monitoring of tax collections and public grievances. Considering the tremendous increase in the customs and excise documentation work load and pressing need for quicker assessments, speedy clearances, quick verification of MODVAT credits/debits, greater uniformity in assessment and availability of faster and accurate assessment data and foreign trade statistics, the Central Board of Excise and Customs (CBEC) has embarked upon the project for computerisation of customs and excise field operations. A massive programme of installing a computer network linking all central excise and custom formation has also been launched. This would enable the trade and industry to be better served by bringing about uniformity in levy of duties and reduction in scope for classification and valuation disputes.

The Ninth Finance Commission

6.63 The first report of the Ninth Finance Commission covering the financial year 1989-90 was presented in the Parliament in September, 1988. The Commission noted in its report that the recommendations should be viewed by and large, as a continuation of the recommendations of the last Commission as it deliberately refrained from making radical departures so as not to upset the ongoing financial arrangment in the terminal year of the Seventh Plan. Analysing the trends in revenues and expenditures of the Centre and the States, the report noted that the growth in revenue expenditure of the Centre has outstripped the growth in revenue receipts. The proportion of grants to States has also risen considerably. The growth in States' own revenues has not been as fast as that of Central Revenues, but when supplemented by Central transfers, States' revenue receipts have grown fairly fast.

6.64. The Commission has expressed concern on the rapid increase in public debt, especially in recent years. The report pointed out that with a large public sector and the Government playing an active role in promoting economic growth, it was inevitable that the size of public borrowing programme would be fairly large. However, such a borrowing programme need not have resulted in a corresponding growth in interest burden if the investment in public enterprises and other financial assets had earned adequate returns. Accordingly, the Commission recommended at least 6 per cent rate of return on the outstanding investment made in the public sector enterprises.

6.65 The Commission in its report has recommended a higher volume of resource transfer to the States in 1989-90 than in 1988-89. The share of States in income tax proceeds should be 85 per cent. The existing arrangement under which 45 per cent of the net receipts of shareable excise duties is distributed among the States should be allowed to continue for the year 1989-90. A sum equal to a little over 2 per cent of the net proceeds of the additional duties in lieu of sales tax on textile, sugar and tobacco could be retained by the Central Government as attributable to the Union Territories and the balance should be distributed amongst the states. The scheme of financing of relief expenditures should be allowed to continue on the lines recommended by the earlier Commission, but the margin money has been increased. On the special problem of debt reliefs to states, the commission recommended that a moratorium on interest payments and the repayment of principal due in 1989-90 should be granted in respect of Central loans given to states in the preceding two years by the way of additional plan assitance for approved reliefs expenditure over and above five per cent of the Annual Plan outlays on account of unprecedented drought during those years. To cover the deficits on non-plan revenue account the Commission recommended specified sums to certain states as grants-in-aid of their revenue. In addition specified sums to certain states as grants-in-aid under clause (1) of Article 275 of the Constitution have been recommended. These sums would meet the requirements of the revenue component of the state plans. These amounts represented 95 per cent of the total grants-in-aid for state plans excluding externally aided projects in 1989-90

6.66 The recommendations of the Commission regarding devolution of various tax proceeds, financing of relief expenditures and debt relief have been accepted by the Government. In regard to grants-in-aid, the Government accepted the recommendations with the provision that recommendations relating to grants-in-aid for meeting the requirements of the revenue components of the state plans might be kept in view by the Planning Commission while finalising the funding arrangements for the annual plans of the states for 1989-90. The other recommendations not relating to immediate devolution, would be considered by the Government separately.

Central Government Departmental Enterprises.

Railways

6.67 During 1987-88, the Railways had to cope with the urgent needs of the drought situation and contend with the serious dislocations of rail links caused by floods. Despite these odds, gross traffic receipts were estimated to rise to Rs. 8,474 crores and yield a surplus of Rs. 69 crores in 1987-88 as against Rs. 102 crores in 1986-87. The annual targets of originating traffic worth 313 million tonnes and total freight traffic effort equivalent to 223 billion net tonne kilometres to be covered by wagons fixed for 1987-88 were expected to be realised.

6.68 The Budget Estimates for Railways for 1988-89 envisaged a lower surplus of Rs. 28 crores, after discharging the dividend liability of Rs. 736 crores. A target of total freight traffic output of 236 billion tonne kilometers (223 billion tonne kilometers in 1987-88) was set for the year. In terms of this target, the originating tonnage would amount to 332 million tonnes, of which 303 million tonnes would be revenue earning. Passenger traffic was estimated to go up by 3 per cent and luggage parcels and other receipts by 2 per cent over the 1987-88 level. On these assumptions and at 1987-88 level of fare and freight rates, gross traffic receipts were estimated to rise to Rs. 8,771 crores; Rs. 297 crores more than the revised estimates for 1987-88. The ordinary working expenses were estimated to increase by Rs. 630 crores to Rs. 6,675 crores owing to annual increments to staff, payment of dearness allowance and fuel and maintenance related activities. The contribution to Depreciation Reserve Fund and Pension Fund was also proposed to be stepped up. Consequently, the total working expenses were expected to rise to Rs. 8,725 crores leaving the net receipts of Rs. 46 crores. This was insufficient to meet even the dividend liability of Rs. 736 crores and hence adjustments in fare and freight traffic rates were proposed.

6.69 The hikes in fare and freight traffic rates were as under:

—The rates of goods traffic, excepting certain essential commodities of common use, were raised by 6 per cent.

—The fare per ordinary second class ticket was raised in slabs, ranging from 50 paise to Rs. 3 and that for mail/express ticket, raised in ranges from Rs. 2 to Rs. 15.

—The fare for A.C. Chair Car was raised by Rs. 5 at the lowest slab to Rs. 25 at the maximum.

—The fare for A.C. sleeper was also increased by Rs. 10 at the lowest slab to Rs. 95 at the maximum.

—Parcel and luggage rates were increased by 10 per cent.

The Railways Plan for 1988-89 envisaged an outlay of Rs. 3,850 crores compared with Rs. 3,400 crores in the previous year. The Plan priority would continue to remain on rehabilitation and modernisation of the Railways and an estimated 70 per cent of the total outlay would be spent on these accounts.

Posts

6.70 The gross receipts of Posts amounted to Rs. 655 crores in the revised estimate of 1987-88; Rs. 89 crores less than the budget estimates. At the same time, the net working expenses also registered a decrease of Rs. 87.38 crores. The net outcome of this was the deficit of the postal department increased marginally to Rs. 134.62 crores as against Rs. 133 crores in the Budget Estimates. With effect from April 1, 1988, upward revisions in respect of certain inland postal services were carried out.

Telecommunications

6.71 The gross receipts of telecommunications amounted to Rs. 1,745 crores in the revised estimates of 1987-88, Rs. 36 crores more than in the budget estimates. At the same time, their net working expenses registered an increase of Rs. 152 crores, largely on account of the grant of further DA instalments, impact of the Fourth Pay Commission's recommendations relating to pensionary benefits, increased payment of interest on public borrowings and additional expenditure for regulation of pay of casual workers. The dividend liability to General Revenues also moved upto Rs. 243 crores as against the budget estimate of Rs. 237 crores. The net outcome of these transactions was that the surplus of the telecommunications department shrinked by Rs. 122 crores to Rs. 185 crores as against Rs. 307 crores in the budget estimates.

Central Government Public Enterprises

6.72 The financial performance of Centre's public enterprises, as a whole, showed substantial improvement during 1987-88. The overall net profits of these enterprises touched an all time high figure of Rs. 2,183 crores, showing an increase of Rs. 412 crores or 23.3 per cent over the overall net profit of Rs. 1,771 crores earned during 1986-87 (Table 6.9). In fact, the overall profits of the public enterprises have been showing consistent trend of improvement in the recent years. Pre-tax profits earned by the profit-making enterprises had shown marked improvement from Rs. 4,805 crores in 1986-87 to Rs. 5,240 crores in 1987-88 i.e. an increase of Rs. 435 crores. On the other hand, the total loss incurred by loss-making enterprises increased only marginally to Rs. 1,719 crores from Rs. 1,705 crores in 1986-87 i.e. an increase of Rs. 14 crores only. The losses of loss-making enterprises had increased by Rs. 21 crores only during 1986-87.

6.73 Along with the improvement in overall net profits of Centre's public enterprises in 1987-88, there was an increase of 13.6 per cent in gross margin (i.e., profit before depreciation, interest and tax). In absolute terms, gross margin increased from Rs. 9,897 crores in 1986-87 to Rs. 11,246 crores in 1987-88. The percentage of gross margin to capital employed had also increased from 19.1 per cent in 1986-87 to 19.4 per cent in 1987-88 despite an increase of Rs. 6,290 crores in the quantum of capital employed during 1987-88. However, the ratio of gross profit to capital employed had come down marginally from 12.6 per cent in 1986-87 to 12.2 per cent in 1987-88. Gross internal resource generation improved to Rs. 7,022 crores in 1987-88. Investment at the same time recorded an increase of Rs. 9,656 crores over the levels of Rs. 61,643 crores in 1986-87.

TABLE 6.9

Profile of Centre's Public Enterprises

	Unit	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88 (Provisional)
1	2	3	4	5	6	7	8	9	10
1. Number of running Public enterprises . . .	Number	163	188	193	201	207	211	214	221
2. Capital employed . .	Rs. crores	18207	21935	26526	29851	36382	42965	51835	58125
3. Turnover . . .	Rs. crores	28635	36482	51989	47272	54784	62360	69088	81367
4. Gross Margin (Profit before depreciation, interest and tax)	Rs. crores	2401	4012	5184	5771	7386	8230	9897	11246
5. Depreciation* . .	Rs. crores	983	1358	1719	2205	2758	2983	3376	4133
6. Gross profit before interest and tax	Rs. crores	1418	2654	3465	3565	4628	5287	6521	7113
7. Interest	Rs. crores	1399	1630	1923	2086	2529	3115	3420	3592
8. Net profit before tax .	Rs. crores	19	1024	1542	1480	2079	2172	3101	3521
9. Tax	Rs. crores	222	579	928	1239	1190	1000	1330	1338
10. Net profit after tax . .	Rs. crores	—203	445	614	240	909	1172	1771	2183
11. Internal resources generated (Gross)	Rs. crores	1225	2261	2753	3695	4251	5068	6014	7022
12. Gross profit to capital employed	Per cent	7.8	12.1	13.1	11.9	12.7	12.3	12.6	12.2

*Includes deferred revenue expenditure.

6.74 At the sectoral level, out of 21 groups, as many as 14 had shown improvement by either increasing their profits or reducing their losses. As in previous years, the petroleum sector provided the overwhelming bulk of the net profits. The net profits of this sector were Rs. 2,172 crores in 1987-88. Among the other sectors showing improved performance during 1987-88, the notable ones were coal, power, telecommunication services, trading and marketing and chemicals, fertilisers & pharmaceuticals. The top 10 profit making enterprises included Oil & Natural Gas Commission, Indian Oil Corporation Ltd., National Thermal Power Corporation Ltd., Videsh Sanchar Nigam Ltd., and Bharat Heavy Electricals Ltd. In all, 7 sectors has shown deterioration in their financial performance during the period. The major ones were steel, minerals & metals, textiles and transportation equipment. The top 10 loss-making enterprises included The Indian Iron & Steel Company Ltd., Bharat Coking Coal Ltd., Hindustan Fertiliser Corporation Ltd., Central Coalfields Ltd. and Delhi Transport Corporation.

6.75 The provisional data for the first half of the current financial year showed net profit of Rs. 694 crores against net profit of Rs. 60 crores in the first half of the previous year, thus showing an improvement of Rs. 634 crores in the overall profitability. The disaggregated analysis of performance reveals an increase in the number of profit-making enterprises to 89 from 78 in the comparable period of the previous year. The net profits of profit-making enterprises show a marked improvement from Rs. 1,475 crores to Rs. 1,928 crores. The losses of the loss incurring enterprises have also come down from Rs. 1,415 crores incurred by 99 enterprises in the first half of the previous year to Rs. 1,234 crores incurred by 89 enterprises in the first half of the current financial year.

State Governments' Commerical Undertakings

6.76 The net losses of departmentally run undertakings of States and Union Territories in 1988-89 (B.E.) was placed at Rs. 1,085 crores as against Rs. 944 crores in the revised estimates and Rs. 742 crores in the budget estimates for 1987-88. With the exception of forests and mines and minerals which have been showing net surplus, all others have been incurring losses for quite sometime. What is more, the losses are widening over the years. Thus, in 1988-89, the losses of loss-making undertakings widened to Rs. 1,609 crores from Rs. 1,458 crores in 1987-88 (RE). The largest amount of loss was anticipated in the case of multipurpose river projects—Rs. 1,546 crores as against Rs. 1,396 crores in 1987-88 (RE). The losses of power projects were estimated to rise to Rs. 70 crores from Rs. 65 crores in 1987-88 (RE). Likewise, the losses in respect of industry were to increase to Rs. 45 crores from Rs. 19 crores last year. The combined losses of road, land and water transport services and dairy development were estimated to decline to Rs. 28 crores from Rs. 53 crores in the previous year. Among the surplus generating sectors, forests were expected to contribute Rs. 477 crores, marginally lower than Rs. 482 crores last year. The net contribution of mines and minerals was to increase to Rs. 47 crores from Rs. 32 crores in the previous year.

6.77 The dividends and profits from non-departmental undertakings of the States and Union Territories showed marginal improvement to Rs. 80 crores compared with Rs. 75 crores in the revised estimates for 1987-88. However, the two major non-departmental undertakings viz., the State Electricity Boards (SEBs) and the State Road Transport Corporations (SRTCs) continued to incur substantial losses in their operations. The losses of the SEBs at current rates amounted to Rs. 2,236 crores in 1987-88 and Rs. 2,702 crores in 1988-89 (RE). The losses are estimated to further increase to Rs. 3,247 crores in 1989-90. The Seventh Plan document had projected the commercial losses of the SEBs at Rs. 4,757 crores including Rs. 7,000 crores of additional resource mobilisation for the entire Plan period. However, the actual and anticipated losses of SEBs during the Seventh Plan would overshot the Plan projects. The performance in terms of the rate of return on capital, (after depreciation and interest) which is also negative, has further deteriorated from (—)9.3 per cent in 1986-87 to (—)12.4 per cent in 1987-88 and (—)13.2 per cent in 1988-89 (RE). The Electricity Supply Act, 1948, as amended in 1985, enjoins the SEBs to earn a return of not less than 3.0 per cent by way of net surplus after providing for depreciation and interest. An important factor contributing to the high level of commercial losses is the requirement for the SEBs to supply electricity to rural/agricultural sectors at low average tariff rates.

6.78 The performance of SRTCs, including departmental transport undertakings, was also far from satisfactory. Their commercial losses at Rs. 146 crores in 1987-88 (pre-actuals) were lower than Rs. 193 crores in 1986-87. The losses were expected to go up to Rs. 272 crores in 1988-89. It was estimated that during the Seventh Plan period SRTCs would incur a loss of Rs. 1,434 crores at 1984-85 rates of fares. At the same time, they were expected to raise additional revenue of about Rs. 2,200 crores after allowing for cost over-runs. Taking this into account, the SRTCs were expected to earn a net profit of Rs. 766 crores. On present trends, this expectation is unlikely to be achieved.