

CHAPTER 7

FISCAL POLICY AND GOVERNMENT BUDGET

Fiscal imbalance, characterised by unabated pressure on Government expenditure and growing deficits in the budget, has continued to remain the major concern of the Government during the last few years. Persistent and large deficits have serious implications not only for the finances of the Government but also for price stability and economic growth. Such deficits have to be met by borrowings by the Central Government with subsequent obligations for interest payments and debt repayments. At a macro-economic level, fiscal deficits inevitably spill into balance of payments problems and create inflationary pressures in the economy. Fiscal correction and consolidation is, therefore, high on the agenda of the Government.

7.2 The *budget deficit*, as conventionally reported, is the difference between all receipts and expenditure (both revenue and capital). This is only a partial measure of the fiscal imbalance as it does not indicate the Government's draft on domestic savings and dependence on external borrowings. As far as the growth of money supply is concerned, what matters is the *monetised deficit*, that is, the increase in net RBI credit to the Central Government. The Budget deficit is the sum total of the net addition to Treasury Bills issued by the Government and draw-down from its cash balance held with the Reserve Bank of India, while the monetised deficit is the sum total of the net increase in the holdings of Treasury Bills by the RBI and its contribution to the market borrowings of the Government. A more complete measure of macro-economic imbalance, used in most countries, is the gross fiscal deficit which is the difference between Government expenditure and net lending on the one hand and current revenue and grants on the other.

7.3 An analysis of trends in the ratios of these deficits to the GDP, outlined in Table 7.1, indicates that these ratios increased significantly during the Sixth and Seventh Plan periods. While the budget deficit as a proportion of GDP

increased from 0.9 per cent in 1981-82 to 2.4 per cent in 1989-90, the gross fiscal deficit as a proportion of GDP increased from 5.4 per cent to 8.0 per cent over the same period. Thus, the fiscal imbalance persisted and worsened during the 1980s, as the gross fiscal deficit on average rose from 6.3 per cent of GDP in the Sixth Plan period to 8.2 per cent of GDP in the Seventh Plan period.

7.4 The pattern of financing during the Seventh Plan brought to the fore a number of disturbing trends and the unsustainable nature of the present pattern of financing the Plan. The magnitude of actual budget deficit during the Seventh Plan had been of the order of Rs. 29,503 crores (at 1984-85 prices) which was more than double the estimate of Rs. 14,000 crores. Market borrowings amounted to Rs. 26,514 crores as against the estimate of Rs. 20,620 crores. Non-Plan revenue expenditure amounted to Rs. 167,390 crores exceeding the estimate by Rs. 16,980 crores. At the same time, there was a widening of the revenue deficit, which increased from an average level of 0.8 per cent of GDP in the Sixth Plan to 2.6 per cent of GDP in the Seventh Plan. Hence, there was no revenue surplus available to finance the plans during the 1980s.

7.5 The Budget for 1990-91 laid stress on limiting the size of the budget deficit through containment of expenditure growth and through better tax compliance. The Budget programmed a deficit of Rs. 7,206 crores (1.4 per cent of GDP) as against the deficit of Rs. 10,592 crores in 1989-90 (2.4 per cent of GDP). It was decided that there would be a four monthly review of the actual developments in the budgetary situation to keep the Parliament and the people informed about the performance in relation to deficit. The First Review for the period April-July, 1990, presented to the Parliament, revealed a deficit of Rs. 9,926 crores at the end of July, 1990, which was almost Rs. 1,500 crores lower than the corresponding figure of Rs. 11,390 crores in 1989-90. The Second Review of actual develop-

ments in the budgetary situation presented to the Parliament showed that the budget deficit at the end of November, 1990 was Rs. 13,000 crores as compared with Rs. 13,082 crores at the end of the first eight months in the preceding financial year. The revised estimates for the year 1990-91 placed the budgetary deficit at Rs. 10,772 crores which is nearly 50 per cent higher than the budget estimate. The provisional estimate of deficit for the year 1990-91 is even higher at Rs. 11,430 crores. Net Reserve Bank credit to the Central Government stood at Rs. 15,374 crores as on March 31, 1991 as against Rs. 13,813 crores a year ago. These figures clearly indicate no let up in the trend, observed during the past few years, of actual budget deficits exceeding the estimates by significant margins.

7.6 Prudent fiscal management demands that the revenue receipts should not only meet the revenue expenditure but also leave a surplus for financing the plan. Contrary to this, deficits on revenue account are growing year after year. The revised estimates place the deficit on revenue account during 1990-91 at Rs. 17,585 crores as against the budget deficit of Rs. 10,772 crores. A higher revenue deficit would imply that borrowed resources are deployed towards covering revenue deficit. Higher borrowings to cover deficits on revenue account build up pressures on revenue expenditure in the form of higher interest payments. Growth in revenue expenditure in turn necessitates higher borrowings, thus creating a sort of vicious circle.

TABLE 7.1

Budget Deficit, Monetised Deficit and Gross Fiscal Deficit as percentage of GDP at Current Market Prices

Year	Budget Deficit	Monetised Deficit	Gross Fiscal Deficit
1975-76	0.5	0.3	4.1
1980-81	1.8	2.6	6.2
1981-82	0.9	2.0	5.4
1982-83	0.9	1.9	6.0
1983-84	0.7	1.9	6.3
1984-85	1.6	2.6	7.5
Average Sixth Plan	1.2	2.2	6.3
1985-86	2.0	2.4	8.3
1986-87	2.8	2.4	9.0
1987-88	1.7	2.0	8.1
1988-89	1.4	1.6	7.8
1989-90	2.4	3.1	8.0
Average Seventh Plan	2.1	2.3	8.2
1990-91 (RE)	2.1	3.0	8.4

7.7 The immediate task is to check the fiscal imbalances before the situation assumes alarming proportions. As a first step, the emphasis should be on curtailing unproductive expenditure and ensuring a fair minimum return from the investments made in the public sector undertakings. A beginning was made in this direction during the year 1990-91 by the Government in the form of a number of economy measures. *Inter alia*, these measures included monthly budgeting of expenditure in all the Departments, cut in the expenditure on staff cars, electricity and telephone bills, and a complete ban on the purchase of new vehicles. Other economy measures included closure of several offices abroad, a 25 per cent cut in foreign travel budget, a 20 per cent cut in fuel consumption, impounding of additional DA for officers drawing a basic monthly salary of Rs. 3,500 and above, a ban on holding conferences in hotels and a cut in the expenditure on official entertainments. But judging by the seriousness of the problem, much more concerted efforts are required to be undertaken to arrest growing imbalances. The shortfall in revenue collections during 1990-91 as compared with the budget estimates, has further accentuated the problem.

Budgetary Developments in 1989-90*

Centre and States Combined

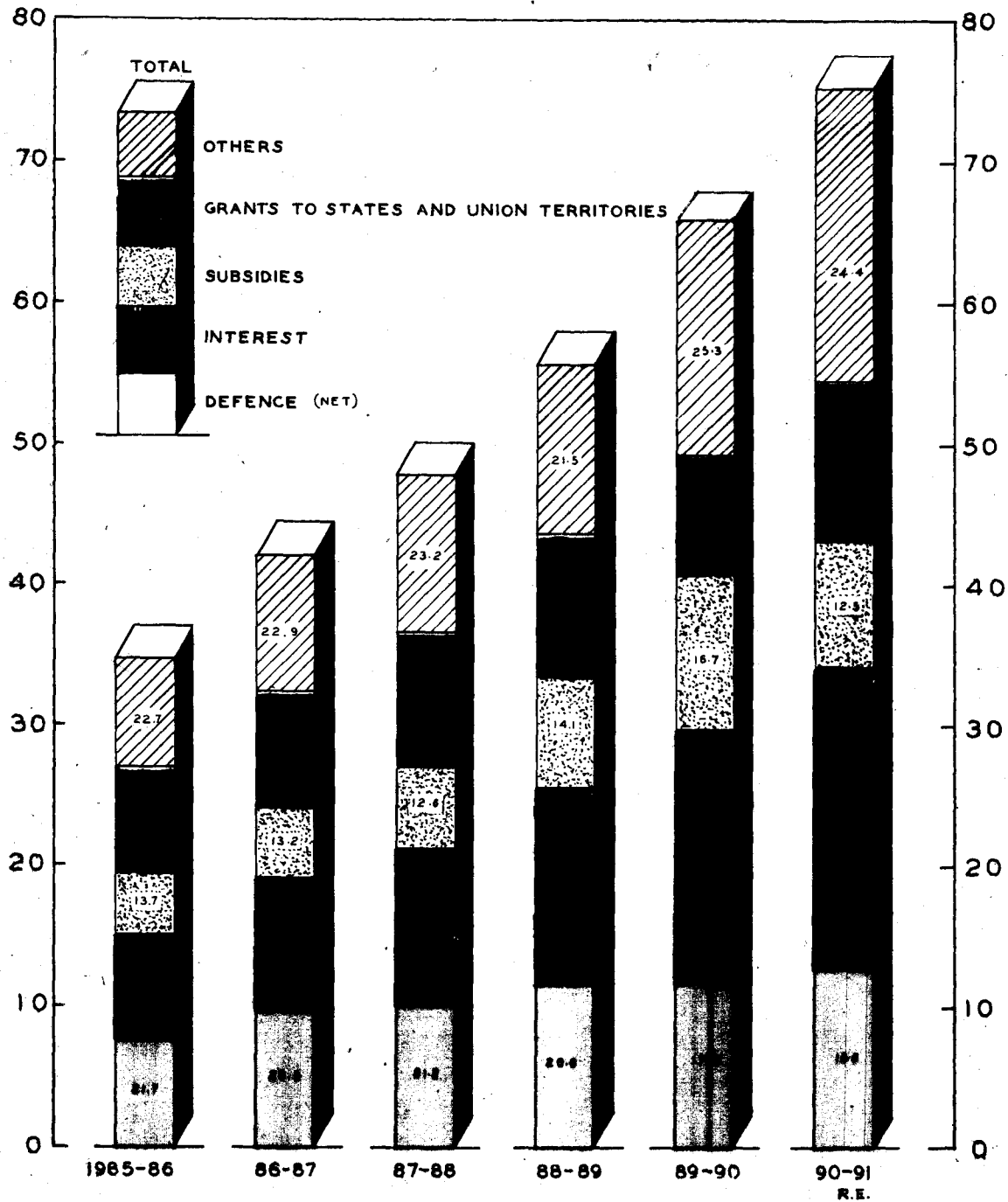
7.8 The net outcome of the combined budgetary operations of the Central and State Governments and Union Territories revealed an alarming worsening of fiscal imbalances. The combined budgetary deficit of the Centre and the States at Rs. 12,149 crores in 1989-90 (RE) was higher by 138 per cent than the actual deficit of Rs. 5,102 crores in 1988-89 (Table 7.2) and exceeded the budget estimate by 48 per cent. The deficit-GDP ratio in 1989-90 (RE) went up to 2.7 per cent compared with 1.3 per cent in 1988-89. The growing Budgetary deficit was mainly on account of a near stagnant current revenue-GDP ratio and a continuous rise in the expenditure-GDP ratio. While the current revenue-GDP ratio increased by only 1.5 per cent from 21.7 per cent in 1985-86 to 23.2 per cent in 1989-90 (RE), expenditure-GDP ratio increased by 4 per cent from 32 per cent to 36 per cent during the same period. There was a marked step up in develop-

*Based on Revised Estimates.

CENTRES REVENUE EXPENDITURE

PERCENTAGE DISTRIBUTION

RS. IN '000 CRORES



mental outlay in 1989-90, being the final year of the Seventh Five-Year Plan. Total developmental expenditure increased by 25.4 per cent in 1989-90, while the growth in non-developmental expenditure was somewhat lower at 18.5 per cent. The gap between total expenditure and current revenue, which approximates the fiscal deficit concept, used in most countries, widened from 10.4 per cent of GDP in 1985-86 to 12.8 per cent in 1989-90 (RE). About 72 per cent of the gap was financed by draft on domestic savings (domestic borrowings), 7 per cent from external assistance and 21 per cent from deficit financing. While the dependence on deficit financing for meeting the gap had increased considerably from about 13 per cent in 1985-86 to about 21 per cent in 1989-90, the dependence on domestic borrow-

ings had registered a fall from 81 per cent to 72 per cent during the same period. However, in absolute terms, the dependence on domestic borrowings increased from Rs. 21,899 crores in 1985-86 to Rs. 40,713 crores in 1989-90 (R.E.). Greater reliance on deficit financing had led to the generation of reserve money and consequent monetary expansion. Continued dependence on domestic borrowings for financing the major portion of the gap in resources had resulted in a significant increase in interest payments from Rs. 8,006 crores in 1985-86 to Rs. 20,571 crores in 1989-90 (R.E.) which is a major factor leading to an increase in the proportion of non-developmental expenditure from 36.4 per cent in 1985-86 to 37.5 per cent in 1989-90 (R.E.).

TABLE 7.2

*Budgetary Transactions of the Central and State Governments and Union Territories
(Including Extra-budgetary Resources of Public Sector Undertakings for Financing their Plans)*

	1980-81	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	(Rs. crores)		
								1989-90	1990-91	
								(BE)	(RE)	(BE)
I. Total Outlay	36845	60829	72825	83961	100790	112169	130048	149223	159618	176191
	(27.1)	(29.4)	(31.5)	(32.0)	(34.5)	(33.7)	(32.9)	(33.7)	(36.0)	(34.3)
(a) Developmental	24426	39274	48085	53397	63778	68801	79348	92163	99754	107993
(b) Non-Developmental	12419	21555	24740	30564	37012	43368	50500	57058	59864	68198
II. Current Revenue	24563	40989	47098	56773	64823	73485	85714	103523	102856	117855
	(18.1)	(19.8)	(20.4)	(21.7)	(22.2)	(22.1)	(21.7)	(23.4)	(23.2)	(22.9)
(a) Tax Revenue	19844	31525	35813	43267	49540	56976	66925	76041	76762	89183
	(14.6)	(15.2)	(15.5)	(16.5)	(17.0)	(17.1)	(16.9)	(17.2)	(17.3)	(17.4)
(i) Direct Taxes	3268	4907	5329	6252	6890	7483	9757	10337	11108	13047
(ii) Indirect Taxes	16576	26618	30484	37015	42650	49493	57168	65704	65654	76136
(b) Non-tax Revenue	4719	9464	11285	13506	15283	16509	18789	27582	26094	28672
III. Gap (I — II)	12282	19840	25727	27188	35967	38684	44334	45600	56762	58336
	(9.0)	(9.6)	(11.1)	(10.4)	(12.3)	(11.6)	(11.2)	(10.3)	(12.8)	(11.4)
Financed by :										
(i) Domestic Capital Receipts	7161	16094	18765	21899	24439	29415	36172	33671	40713	45010
(ii) Net External Assistance	1670	1611	1857	1850	2378	3765	3060	3723	3900	4327
(iii) Budgetary Deficit	3451	2135	5105	3439	9150	5504	5102	8206	12149	8999
	(2.5)	(1.0)	(2.2)	(1.3)	(3.1)	(1.7)	(1.3)	(1.9)	(2.7)	(1.8)

NOTES : (1) For clarification regarding the scope of some items in this table, see foot-note to Table 2.2 in the Statistical Appendix.

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

Centre

7.9 The budgetary position of the Central Government in 1989-90 was a matter of serious concern with the budget deficit more than doubling to Rs. 11,750 crores from Rs. 5,642 crores in 1988-89. While the expenditure-GDP ratio was 25.4 per cent, the ratio of current revenue (including internal resources of PSUs) to GDP was a mere 14.2 per cent. The revenue receipts of the Centre grew on an average by 16.9 per cent during 1980-81 to 1989-90, while the

growth in revenue expenditure during this period was 18.7 per cent. The higher growth of revenue expenditure than in revenue receipts resulted in growing deficits on revenue account. The revenue deficit increased from 0.6 per cent of GDP in 1980-81 to 2.1 per cent of GDP in 1985-86 and to 2.7 per cent of GDP in 1989-90 (Table 7.3). Revenue deficits have serious implications in terms of diversion of high cost borrowed funds for covering the deficit with no return flow and higher interest payments further contributing to the growth of revenue expenditure.

TABLE 7.3
Centre's Revenue Receipts and Revenue Expenditure
(As per cent of GDP)

	1980-81	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91 (R.E.)
1. Tax Revenue (Net of States' Share)	6.9	7.3	7.5	7.6	8.1	8.3	8.4	8.6	8.7	8.6
2. Non-Tax Revenue	2.5	2.8	2.4	2.9	3.1	3.4	3.1	2.8	3.5	2.9
3. Total Current Revenue (1+2)	9.4	10.2	9.9	10.5	11.2	11.7	11.5	11.4	12.2	11.5
4. Total Current Expenditure	10.0	10.9	11.0	12.0	13.3	14.4	14.3	14.1	14.9	14.9
(a) Interest Payments	2.0	2.2	2.3	2.6	2.9	3.2	3.4	3.6	4.0	4.3
(b) Subsidies ¹	1.2	1.3	1.3	1.6	1.8	1.9	1.8	2.0	2.5	1.8
(c) Defence Expenditure ²	2.6	2.7	2.7	2.8	2.9	3.4	3.0	2.9	2.7	2.4
(d) Grants to States & UTs	2.1	2.0	2.1	2.3	2.7	2.7	2.8	2.6	2.0	2.2
(e) Others	2.2	2.6	2.5	2.8	3.0	3.3	3.3	3.0	3.8	4.2
5. Revenue Account Surplus (+)/ Deficit (—) (3—4)	—0.6	—0.7	—1.2	—1.5	—2.1	—2.7	—2.7	—2.7	—2.7	—3.4

1. Excludes subsidies on imported fertilizer up to 1985-86.

2. Includes defence pension.

NOTE :—(a) The ratio in this Table from 1980-81 onwards are based on the new series on GDP released by the CSO and therefore these will differ from the figures given in the earlier issues of Economic Survey.

(b) Totals may not add up because of rounding.

States and Union Territories

7.10 The budgetary position of States and Union Territories had also worsened in 1989-90. The combined budgets of States and Union Territories showed a deficit of Rs. 399 crores in contrast to a surplus of Rs. 540 crores in 1988-89 and Rs. 312 crores in 1987-88. One redeeming feature of the finances of States and Union Territories during 1989-90 was a substantial improvement in the generation of internal resources by public undertakings. Internal resources of public undertakings amounted to Rs. 874 crores in 1989-90 (R.E.) as compared with negative Rs. 626 crores in 1988-89 and negative Rs. 654 crores in 1987-88. The rising trend of non-developmental expenditure continued during the Seventh Plan as reflected in the rise of the ratio of non-deve-

lopmental expenditure to total expenditure from 27 per cent in 1985-86 to 30.4 per cent in 1989-90 (R.E.).

Central Government Budgetary and Fiscal Developments 1990-91

7.11 The Budget for 1990-91 expressed a firm determination to limit the overall deficit within the budgeted level through strict fiscal discipline, containment of expenditure growth and improved tax compliance. Besides, it stressed the importance of improving tax-GDP ratio, promoting savings and investment and rationalising the tax system to render it more equitable.

7.12 A major resource mobilisation drive to yield Rs. 1959 crores in fresh taxes and postal tariffs was proposed in the Budget. The

revenue efforts were expected to substantially bring down the budget deficit for 1990-91 to Rs. 7206 crores from Rs. 11,750 crores for 1989-90 (RE). This was a major step towards improving fiscal balance with its moderating effects on inflation. Rationalisation of customs and excise tariffs, abolition of Gold Control Act, personal and corporate tax reforms were other important measures proposed in the Budget.

7.13 The Budget announced several measures designed to benefit agricultural sector like a new formula for computing agricultural costs for fixing the support prices, debt relief for agricultural loans upto Rs. 10,000, introduction of an employment guarantee scheme in drought prone areas and areas with acute problems of rural unemployment.

7.14 The Budget proposals for 1990-91 also aimed at simplifying tax laws, making saving linked incentives more equitable, curbing conspicuous consumption, boosting foreign exchange earnings and reducing inessential imports. The details of important fiscal measures contained in the Budget are given in the following paragraphs.

Direct Taxes

7.15 In the area of direct taxes certain major changes were proposed in the rate structure for personal income tax. The exemption limit for personal income tax was raised from Rs. 18,000 to Rs. 22,000 and the lowest rate of tax of 20 per cent was extended from the then existing limit of Rs. 25,000 to Rs. 30,000. The existing surcharge of 8 per cent for financing employment programmes was made applicable beyond taxable income of Rs. 75,000 as against the earlier limit of Rs. 50,000. A significant innovation of the Budget was the introduction of a system of tax rebate in place of the old provision for deduction under section 80-C. Under the new system, a person contributing to provident fund, life insurance, National Saving Certificates etc. as earlier would now be entitled only to a tax rebate calculated at the rate of 20 per cent on such savings. The maximum tax rebate allowable would be Rs. 10,000 generally and Rs. 14,000 in the case of authors, playwrights, artists, musicians, actors, sportsmen and athletes. As a further incentive

to save, the limit available for the saving incentives under section 80-CCA was increased from Rs. 30,000 to Rs. 40,000. In addition to this, the Equity Linked Saving Scheme (ELSS) announced in 1989-90 was finalised on a netting principle under a new section 80-CCB. Investment in units under the scheme would be eligible for deduction upto a maximum of Rs. 10,000 from the total income. The annual return on the investment in the units would be eligible for tax concession under section 80-L. On repurchase of the units by Mutual Funds or the UTI, the capital amount representing the cost of the units will be taxed as income in the year of repurchases and the excess will be liable to tax as capital gains. With a view to mitigating the hardships of the parents and guardians of physically handicapped or mentally retarded persons with income upto Rs. one lakh per annum, a deduction of Rs. 6,000 to cover medical and rehabilitation expenses was allowed.

7.16 In order to increase earnings from foreign exchange, the deduction in respect of income from foreign sources available to certain categories of professionals was increased from the then existing rate of 25 per cent to 50 per cent of the income or 75 per cent of the foreign exchange brought into India, whichever is higher. Besides, the Budget also announced modifications in the tax structure for partnership firms. Exemption limits in their case was raised from Rs. 10,000 to Rs. 15,000 and rates were suitably lowered.

7.17 For the corporate sector, incentives like Investment Allowance and Investment Deposit Account were abolished with a view to closing the escape route for the corporate sector to go out of the tax net. Simultaneously, the tax rate for widely held domestic companies was reduced from the then existing rate of 50 per cent to 40 per cent, with corresponding reduction of 10 percentage points in the rates for other domestic companies. As a measure of relief the deductions for setting up new industries was raised from 25 per cent to 30 per cent in the case of companies and from 20 per cent to 25 per cent for others. This benefit can now be availed of for 10 years as against 8 years. The special provision regarding tax on minimum profits contained in Section 115-J of the Income Tax Act was discontinued with

effect from the assessment year 1991-92. The existing surcharge of 8 per cent would however continue on corporate income above Rs. 75,000.

7.18 The Budget also discontinued some of the tax reliefs to simplify tax structure. Thus provisions relating to partial tax holidays for new small scale industries in rural areas under section 80-HHA and for industries in backward areas under section 80-HH stand withdrawn. Another significant tax proposal in 1990-91 Budget related to inter-corporate dividends. Under the new provisions, the dividend income of a domestic company will be exempt to the extent to which they themselves declare dividends during the relevant period. With a view to promoting afforestation, the scope of deduction under section 35-CCB and section 80GGA was enlarged so as to cover the payments made for the above purpose to an association or an institution.

7.19 Certain modifications in the original budget proposals were announced by the Finance Minister while moving the Finance Bill 1990. In the area of direct taxes, concessions were announced for cooperative societies and companies. The rate of tax for cooperative societies was reduced by five percentage points at all levels. In order to enable the tea industry to raise and conserve resources mainly for the upgradation of plantations, a modified form of deduction was provided. In addition, it was decided to treat the State Financial Corporations and Industrial Investment Corporations at par with public financial institutions for purposes of taxation of inter-corporate dividends.

Indirect Taxes

7.20 The main thrust of the Budget proposals in respect of indirect taxes was on simplification and rationalisation. A major emphasis was laid on strengthening impulses for growth and exports. Reliefs were also given to the deserving sectors, particularly small scale industry, agriculture and for environmental protection.

7.21 With a view to rationalising the rates and bringing down their multiplicity, the total

of the basic and auxiliary duty rates of customs were placed in a limited number of slots in the range of zero to 125 per cent in respect of most items. Further, as a step towards rationalisation and simplification of the Central Excise Tariff, the duty rates were recast for a large number of goods.

7.22 Certain concessions were introduced in the interest of agricultural development. The import duty on a few more specified bulk pesticides and pesticide intermediates was reduced. Complete exemption of excise duty was provided on refined rapeseed and mustard oil to encourage their use. Excise duty on pickles was also removed. Excise duty on coffee was reduced to a uniform level of Rs. 50 per quintal. Concessions were also given to marine food industry by reducing import duty on prawn feed and concessional rate of 40 per cent was extended to a few more specified machinery required for the industry. In order to reduce the cost of cattle feed, molasses used in its manufacture was exempted from the whole of excise duty. A concessional import duty of 40 per cent in respect of certain items of equipment required in cattle breeding and dairying was prescribed.

7.23 The excise duty exemption provided for kraft paper and kraft paper-board used for apple packaging (in Himachal Pradesh) was extended to packaging of horticultural produce all over the country *inter alia* to conserve forest resources. Likewise, for the development of industries under Khadi and Village Industries Commission (KVIC), full exemption from excise duty was provided to handmade paper and paper board manufactured by these units.

7.24 For the small scale sector, the Budget proposed a number of fiscal concessions designed to promote its growth. These included revival of 15 per cent Central Investment Subsidy Scheme which was withdrawn in 1989-90 and complete exemption from excise duty in respect of clearance of goods upto a value of Rs. 20 lakhs instead of the earlier Rs. 15 lakhs in case such goods fall under only one Chapter of Central Excise Tariff.

7.25 Similarly, certain finished formulations containing Rifampicin were exempted from

central excise duty. Specified bulk drugs required for life saving medicines were also exempted from customs duty. Further, import duty on certain specified drug intermediates was reduced to 90 per cent. These reliefs are expected to reduce the prices of life saving drugs.

7.26 Some concessions were also granted to capital goods and machinery. Broadly, capital goods upto a specified value limit imported under the scheme would be eligible to a concessional import duty of 25 per cent, subject to the condition, that goods equal to at least three times the value of the imported capital goods are exported within four years from the date of importation.

7.27 Further, a concessional import duty of 40 percent on specified instruments and equipments was prescribed. Likewise, for better environmental protection and pollution control, concessional customs duty of 40 per cent was extended to more specified air and water pollution control equipments. Excise duty on certain specified pollution control equipments was also reduced by 10 percentage points.

7.28 For the purpose of upgrading of the facilities available at the airports and also as a measure of relief, duty on navigational, communication, air traffic control and landing equipments imported by the National Airports Authority of India was reduced to the level of 25 percent. Other concessions included reduction of excise duty on dry cell batteries and specified telecommunication networks in rural areas, exemption of excise duty on feature films and reduction of import duty on standard newsprint by Rs. 100 per tonne.

7.29 A number of measures taken in the Budget aimed at the simplification and rationalisation of tariff structure in the textile sector. The whole of the basic excise duty on cotton fabrics was transferred to yarn. This would improve the competitiveness of the handloom sector. The number of slabs in the case of man-made fabrics was reduced in a manner that the duty on fabrics becomes more equitable and the administration of tax laws more efficient. Simultaneously, in order to ensure price discipline, import duties were reduced on DMT and PTA from 195 per

cent to 150 percent, on NFY from 130 percent to 100 percent, on PFY from 205 percent to 180 percent and on VSF from 55 percent to 40 percent. However, keeping in view the sharp decline in the international prices of MEG, the import duty on this item was raised from 90 percent to 150 percent.

7.30 The Budget contained a number of measures for resource mobilisation. The brunt of burden was mainly on cigarettes, non-essential items and luxury consumer durables. Excise duty was increased by 15 paise for cheaper cigarettes and 75 paise in the case of costlier cigarettes per packet of ten. Simultaneously, some sympathetic increase in the excise duty rates on pan masala was also made. Jams, ice creams, coca and coca preparations were subjected to higher excise duty. There was also hike in excise duty on certain luxury items like microwave oven, washing machine, certain sophisticated varieties of audio system, video cassette recorder and player, electronic games and high priced cooking ranges. Similarly excise duty on motor cars was raised from 35 per cent to 40 percent. Rates of excise duty on refrigerators, air-conditioners of capacity 1.5 tonnes and car airconditioning parts were raised. The excise duty on tyres and tubes was increased as a corrective measure. However, tractors, trailers and two-wheelers as well as their tyres and tubes were exempted from these increases. The Budget also raised basic excise duty on stainless steel items generally by Rs. 500 per tonne and by Rs. 100 per tonne in case of other items. However, customs duty on stainless steel was brought down to 200 percent from the then existing level of 345 percent.

7.31 Some marginal changes in the Baggage Rules relating to free allowance admissible to passengers arriving from foreign countries were also made. The general free allowance was raised from the then existing level of Rs. 1250 to Rs. 2000 per passenger. A uniform duty rate of 250 percent for baggage in excess of this limit as against the then existing 175 percent and 245 percent was provided. In addition, a uniform duty rate of 25 per cent was imposed on specified articles brought by passengers coming from abroad after a period of stay of more than one year, subject to certain conditions. As a revenue earning measure, the

Inland Air Travel Tax was proposed to be levied on full air fare instead of basic fare.

7.32 In a major move aimed at reducing the consumption of petroleum products and curbing the outflow of foreign exchange on import of crude oil, the Budget increased the administrative prices of motor spirit, high speed diesel oil and aviation turbine fuel for domestic users. The price of motor spirit was raised by Rs. 1.25 per litre ex-storage, the price of high speed diesel oil by 54 paise per litre and the price of aviation turbine fuel by Rs. 1320.45 per kilolitre. To mop up a part of the gain accruing to the oil companies as a result of price revision, the import duty of crude oil was increased from Rs. 1060 to Rs. 1500 per tonne.

7.33 During the course of discussions on the Budget in the Parliament some marginal changes were made in the original concessions and adjustments. Domestic air travel was made more expensive by increasing the Inland Air Travel Tax from 10 per cent to 15 percent. The farm sector was provided further relief in the form of total excise duty exemption on aluminium containers used for packing liquid pesticides. Concessions were also extended to metal containers, leather cloth industries, synthetic woven sacks and certain items of textile processing machinery. While the excise levy on both blank and recorded audio cassettes was removed, excise duty on the magnetic tape used in the manufacture of such cassettes was hiked from Rs. 2.10 to Rs. 3 per square metre. The pre-budget rate of twenty percent import duty on waste paper was also restored.

Additional Resource Mobilisation

7.34 The Additional Resource Mobilisation (ARM) measures undertaken in the 1990-91 Budget were expected to yield Rs. 1790 crores. Out of this, Rs. 550 crores were to be raised through direct taxes and Rs. 1240 crores through indirect taxes. The States' share in Centre's additional resource mobilisation after making adjustment for the loss of Rs. 170 crores on account of concessions in income tax was estimated at Rs. 3 crores. Details are given in Table 7.4

TABLE 7.4

Additional Resource Mobilisation through Central and Railway Budgets for 1990-91

	(Rs. Crores)		
	Centre's share	States' share	Total
I. Taxes	1787	3	1790
(a) Direct Taxes	720	(-)-170	550
(i) Corporation Tax	800	..	800
(ii) Income Tax	(-)-80	(-)-170	(-)-250
(b) Indirect Taxes	1067	173	1240
(i) Customs duties	835	..	835
(ii) Union Excise duties	217	173	390
(iii) Other Taxes and duties	15	..	15
II. Revision in the Postal & Telecommunication Tariffs and Railway Fares and Freights	1537	..	1537
(a) Railways	892	..	892
(b) Posts and Telecommunication	645	..	645
III. Total (I + II)	3324	3	3327

7.35 The Railway Budget for 1990-91 proposed hikes in the rates of goods traffic, passenger fares, parcel and luggage rates. These proposals were estimated to yield additional revenue of Rs. 892 crores. Revisions in the postal and telecommunication tariffs were estimated to result in an additional revenue of Rs. 645 crores. The total additional revenue through changes in tax rates, through revisions in railway fares and freights and through revisions in postal and telecommunication tariffs was thus estimated at Rs. 3327 crores in 1990-91.

Revenue and Expenditure 1990-91

7.36 The Budget of the Central Government for 1990-91 aimed at containing the deficit at Rs. 7,206 crores, Rs. 4,544 crores lower than the revised estimates of Rs. 11,750 crores in 1989-90. Aggregate resources of the Central Government, including internal and extra-budgetary resources of Centre's public enterprises were estimated at Rs. 1,15,882 crores, about 15 per cent higher than in 1989-90 (RE). On the other

hand, aggregate disbursements were estimated at Rs. 1,23,088 crores, higher by 9.4 per cent over the level of 1989-90 (R.E.). On the receipts side, tax revenue was expected to grow by 19.8 per cent over 1989-90 revised estimates. Non-tax revenue was estimated at 13.7 per cent higher than 1989-90's revised estimate. Domestic capital receipts were estimated to increase by 11.0 per cent while the estimated increase in external capital receipts was 10.9 per cent. On the disbursement side, while non-developmental expenditure was estimated to grow by 15.6 per cent, developmental expenditure was estimated to grow at a lower rate of 5.3 per cent. The overall increase envisaged in revenue receipts, capital receipts and aggregate expenditure was 17.4 per cent, 11.0 per cent and 9.4 per cent respectively.

7.37 An outlay of Rs. 39,329 crores was envisaged for the Central Plan 1990-91. This amounted to a step up of 10.1 per cent over the outlay in 1989-90 (RE). The budgetary support to the funding of the Plan was further reduced to 44.1 per cent from 51.1 per cent in 1989-90. This was sought to be achieved through an increase in the internal and extra-budgetary resources of public enterprises. In terms of sectoral allocations, the emphasis continued to remain on the development of agriculture, energy, industry and other infrastructural facilities. The outlays on science, technology and environment and Transport were stepped up significantly by 29.2 per cent and 20.8 per cent respectively. Next to outlays on science, technology and environment and transport, outlay on industry and minerals was stepped up by 18 per cent.

Revised Estimates of the Central Government : 1990-91

7.38 In the post-budget period, a number of developments took place which led to a sharp deterioration in the budgetary position of the Centre in 1990-91. As a consequence of the Gulf crisis, there was an increase in fertiliser subsidy and a shortfall in revenue collections attributable to the squeeze on non-oil imports. The Gulf crisis had imposed an unanticipated burden of Rs. 300 crores on the exchequer for repatriating Indian Citizens from Kuwait, besides resulting in the non-materialisation of the OCC surplus.

7.39 Taking into account the deterioration of the budgetary position of the Centre, the budget deficit is estimated at Rs. 10,772 crores (RE) compared with Rs. 7,206 crores anticipated at the time of formulation of the Budget. The revised estimates place the Central Plan Outlay at Rs. 38,053 crores as compared with the budget estimate of Rs. 39,329 crores. Apart from the Gulf crisis, the main contributory factor which brought about this deterioration in the financial position of the Central Government are additional loans to States, higher interest payments, under funding of the scheme of rural debt relief, increase in food subsidy and higher technical credits. The revised estimates of assistance to States include loans of Rs. 521 crores to meet a part of their opening deficits with the Reserve Bank of India, while another Rs. 966 crores has been provided to write-off loans to States as recommended by the Ninth Finance Commission. Interest payments are anticipated to be higher by Rs. 1000 crores as compared with the budget estimate. The scheme of rural debt relief which was not adequately provided for in the Budget is estimated to require an additional amount of Rs. 500 crores. Technical credits are expected to be Rs. 800 crores more because of a temporary imbalance in trade under the rupee payment arrangements. There is an increase in food subsidy amounting to Rs. 250 crores, attributable to sugar, in which the increase in prices to producers was not followed by an increase in the issue prices for consumers.

7.40 On the revenue side, gross tax revenue of the Centre is expected to be Rs. 862 crores less than the budget estimate. Despite post budget increases in auxiliary customs duties and basic excise duties on man-made fibres, collections under customs and excise duties are estimated to be lower by Rs. 660 crores and Rs. 625 crores respectively. Thus the revised estimates for the year 1990-91 reveal a disquieting picture of shortfalls in revenue receipts while expenditure continued to exceed the budget estimates.

Seventh Plan LTFP Projections : Comparison with Actuals

7.41 The Seventh Plan had projected five-year targets for selected fiscal indicators with 1984-85 as the base and the targets were annualised in the Long Term Fiscal Policy (LTFP) document

and were expressed as ratios of respective year's GDP. As actuals for all the five years of the Seventh Plan are available now, it would be of

interest to compare the actuals with the targets Table 7.5 presents this comparative picture.

TABLE 7.5
*Important Fiscal Parameters and Assistance for State & UT Plans
(Seventh Plan Projections* : A Comparison with Actuals)*

	1985-86		1986-87		1987-88		1988-89		1989-90	
	A/c	LTFP	A/c	LTFP	A/c	LTFP	A/c	LTFP	A/c	LTFP
1. Tax Revenue (net of States' Share)	8.7	7.8	9.0	8.2	9.1	8.7	9.2	9.2	9.3	9.4
(a) Direct Taxes	1.5	1.5	1.5	1.7	1.3	1.8	1.7	2.0	1.5	2.1
(b) Indirect Taxes	7.1	6.3	7.5	6.5	7.7	6.9	7.5	7.2	7.8	7.3
2. Non-Tax Revenue	3.1	3.0	3.5	2.9	3.2	2.8	2.9	2.7	3.6	2.7
3. Non-Plan Revenue Expenditure	11.9	11.1	12.9	11.3	13.3	11.5	13.2	11.6	14.1	11.9
(a) Defence	3.5	3.3	4.1	3.4	4.3	3.5	4.1	3.6	3.9	3.8
(b) Interest Payments	3.1	3.0	3.4	3.3	3.6	3.6	3.9	3.9	4.3	4.1
(c) Food and Fertilizer Subsidies	1.5	1.2	1.4	1.1	1.4	1.1	1.5	1.0	1.7	1.0
(d) All Others	3.9	3.6	4.0	3.4	4.0	3.3	3.7	3.1	4.3	3.0
4. Balance from Current Revenue (BCR)	-0.1	-0.4	-0.5	-0.2	-1.0	neg	-1.1	0.3	-1.2	0.2
5. Central Plan	8.1	7.5	8.7	7.5	8.3	7.5	8.2	7.5	8.7	7.5
6. Assistance for State & UT Plans	2.9	2.7	3.0	2.7	3.2	2.6	2.8	2.6	2.5	2.5
7. Domestic Borrowings	6.9	6.4	8.3	5.6	8.4	5.0	7.7	4.4	7.7	4.2
(a) Market Borrowings	2.0	2.1	2.0	1.6	1.9	1.5	2.3	1.5	1.8	1.5
(b) Budgetary Deficit	2.0	1.3	3.0	1.2	1.9	1.1	1.5	1.0	2.6	0.9
(c) Others	2.9	3.0	3.3	2.8	4.6	2.4	3.9	1.9	3.3	1.8
8. Internal & Extra-budgetary Resources of PSUs	3.1	2.9	2.6	3.4	3.0	3.7	3.0	4.0	3.2	4.1

*The yearly projections given in LTFP document, are annualised Seventh Five Year Plan targets which are expressed as ratios of annualised GDP. In case of actuals, the new series of GDP has been converted to conform to old series (as in LTFP) by using appropriate conversion factor.

Notes : 1. The ratios given here will not agree with the ratios given in Table 7.3 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 outlays on border roads and defence).

7.42 Throughout the Seventh Plan period BCR remained negative and even deteriorated to (—) 1.2 per cent of GDP in 1989-90 which is in sharp contrast to the LTFP that aimed at a positive BCR of 0.2 per cent of GDP in the terminal year of the Seventh Plan. The broad conclusions which emerge from the analysis are:—

- Tax revenue performance has been more than the target in all the years of the Plan excepting the terminal year. Among taxes, the performance of direct taxes has been lower than the targets. Indirect taxes have performed better, exceeding Seventh Plan Projections by significant margins.
- Non-tax revenues have also performed better exceeding the targets in all the years.
- Non-plan revenue expenditure, particularly defence, interest payments and

food and fertiliser subsidies crossed the targets.

- In financing the plan, the shares of domestic borrowings and budgetary deficit far exceeded the targets.
- Except in 1985-86, internal and extra-budgetary resources of public sector undertakings fell short of the targets by significant margins.
- Central Plan and Central assistance for State and Union Territory plans taken together remained above the projections in all the five years of the Plan.

Savings and Capital Formation

7.43 An economic and functional classification of the Central Budget is prepared every year. An analysis of the classification of expenditure classified in this manner has shown a steady decline in the proportion of expenditure

on capital formation beginning 1986-87. This proportion which hovered around 40 per cent

until mid-eighties has declined to 32.7 per cent in 1990-91 (BE) (Table 7.6). This situation resulted

TABLE 7.6

Economic Classification of Total Expenditure in Central Budget

(Rs. crores)

	1980-81	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90 (B.E.)	1990-91 (B.E.)
1. Consumption Expenditure	5174	7057	8130	9428	11210	14665	16551	18763	20931	22869
	23.0	23.1	22.6	21.5	21.1	22.9	23.5	23.0	21.8	22.4
(a) Defence	3571	5018	5823	6647	7962	10439	11875	13237	14381	15619
	15.9	16.5	16.2	15.1	15.0	16.3	16.9	16.3	15.0	15.3
(b) Other Government Administration	1603	2039	2307	2781	3248	4226	4676	5526	6550	7250
	7.1	6.6	6.4	6.3	6.1	6.6	6.7	6.8	6.8	7.1
2. Transfer Payments (Current)	6912	9590	11436	14938	18347	21243	25380	31399	38347	43492
	30.7	31.4	31.8	34.0	34.5	33.2	36.1	38.6	39.9	42.7
(a) Interest Payments	2253	3516	4450	5646	7090	8648	10702	13347	16473	19215
	10.0	11.5	12.4	12.9	13.3	13.5	15.2	16.4	17.2	18.9
(b) Subsidies	1912	2304	2886	4484	5070	5542	5976	7859	11035	9422
	8.5	7.6	8.0	10.2	9.5	8.7	8.5	9.7	11.5	9.2
(c) Grants to States & UTs (including local bodies)	1810	2365	2526	2863	3922	4205	4962	5831	6064	8421
	8.0	7.8	7.0	6.5	7.4	6.6	7.1	7.2	6.3	8.3
(d) Others	937	1405	1574	1945	2265	2848	3740	462	4775	6434
	4.2	4.6	4.4	4.4	4.3	4.4	5.3	5.4	5.0	6.3
3. Gross Capital Formation out of Budgetary Resources	9012	12403	14702	17551	21477	24320	25770	28977	33759	33291
	40.1	40.7	40.9	40.0	40.4	38.0	36.7	35.6	35.2	32.7
(a) Physical Assets	1907	2884	3356	4123	4558	5905	5961	7056	8145	9136
	8.5	9.5	9.3	9.4	8.6	9.2	8.5	8.7	8.5	9.0
(b) Financial Assets	7105	9519	11346	13428	16919	18415	19809	21921	25614	24155
	31.6	31.2	31.5	30.6	31.9	28.8	28.2	26.9	26.7	23.7
4. Others	1397	1444	1720	1962	2078	3795	2603	2263	2962	2231
	6.2	4.7	4.8	4.5	3.9	5.9	3.7	2.8	3.1	2.2
5. Total Expenditure	22495	30494	35988	43879	53112	64023	70304	81402	95999	101883

Note: Figures in decimals are percentages to respective total expenditures.

mainly from a substantial increase in the expenditure on current transfers. The proportion of transfer payments to total expenditure increased from 30.7 per cent in 1980-81 to 34.5 per cent in 1985-86 and further to 42.7 per cent in 1990-91 (BE). The increase in current transfers was in turn mainly due to an increase in interest payments; the proportion of expenditure on interest payments increased from 10 per cent in 1980-81

to 18.9 per cent in 1990-91 (BE). The share of consumption expenditure, in contrast, had remained fairly stable fluctuating between 21 and 24 per cent. Bulk of the consumption expenditure is on account of defence consumption (68 per cent). The share of defence expenditure in the total consumption expenditure which was around 70 per cent till 1988-89 came down to 68.3 per cent in 1990-91 (BE).

7.44 Details regarding capital formation and savings out of budgetary transactions of the Central Government are given in Table 7.7. Gross capital formation out of the budgetary resources which had shown, on an average, an increase of 18.8 per cent during 1982-83 to 1985-86 started decelerating from 1986-87. The rate of increase which had come down to 6 per cent in 1987-88 improved to 16.5 per cent in 1989-90 (RE). For the first time, rate of increase in gross capital formation turned negative (-1.4 per cent) in 1990-91. The gross savings of the

Government which turned negative for the first time in 1984-85 continue to remain negative. Infact, the dissavings of the Government were found increasing over the years. The dissavings of the Government increased from Rs. 1441 crores in 1985-86 to Rs. 6218 crores in 1990-91 (B.E.). The other component of Central Government's gross savings, namely depreciation and retained profits of departmental commercial undertakings improved from Rs. 3182 crores in 1989-90 (RE) to Rs. 4352 crores in 1990-91(BE).

TABLE 7.7
Capital Formation by the Central Government and its Financing

	(Rs. crores)									
	1980-81	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90 (R.E.)	1990-91 (B.E.)
I. Gross Capital Formation out of Budgetary Resources of Central Govt.	9012	12403	14702	17551	21477	24320	25770	28977	33759	33291
	(24.7)	(14.9)	(18.5)	(19.4)	(22.4)	(13.2)	(6.0)	(12.4)	(16.5)	(-1.4)
As per cent of gross domestic product at current market price (new series)	6.6	7.0	7.1	7.6	8.2	8.3	7.7	7.3	7.6	6.5
(i) Gross capital formation by the Central Government	1907	2884	3356	4123	4558	5905	5961	7056	8145	9136
(ii) Financial assistance for capital formation in the rest of the economy	7105	9519	11346	13428	16919	18415	19809	21921	25614	24155
II. Gross Savings of the Central Govt.	3	857	313	(-963)	(-1441)	(-2852)	(-4294)	(-5722)	(-5937)	(-6218)
III. Gap (I-II)	9009	11546	14389	18514	22918	27172	30064	34699	39696	39509
	(6.6)	(6.5)	(6.9)	(8.0)	(8.8)	(9.3)	(9.0)	(8.8)	(9.0)	(7.7)
Financed by										
IV. Draft on other sectors of domestic economy	7339	9955	12778	16657	21068	24794	26299	31639	35794	35182
(i) Domestic capital receipts	4762	8300	11361	12912	16131	16533	20483	25997	24044	27976
(ii) Budgetary deficit	2577	1655	1417	3745	4937	8261	5816	5642	11750	7206
V. Draft on foreign savings	1670	1591	1611	1857	1850	2378	3765	3060	3902	4327

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 decimals in row 2 are percentage increases over the preceding year.

(iii) Figures in decimals in row 8 indicate the Gap as percent of GDP. Because of the revision in the series of GDP the ratios given here will differ from those given in the earlier issues of Economic Survey.

Central Government Liabilities

7.45 In the context of the concern over growing Central Government's borrowings and deficit financing, it would be appropriate to present a brief review of Government's debt position and its implications. Table 7.8 summarises the position in regard to internal, external

and total liabilities of the Central Government. Internal liabilities are composed of internal debt and other internal liabilities. Internal debt includes market borrowings, treasury bills, special securities issued to Reserve Bank and special bearer bonds. The other internal liabilities include small savings collections, provident funds, reserve funds and deposits.

TABLE 7.8

Outstanding Liabilities of the Central Government and Payments of Interest

	(Rs. crores)									
	1980-81	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91 (RE)
1. Internal Liabilities (Out-standing)	48451	71190	80141	96804	119331	146247	172338	204025	235849	279528
	35.6	40.0	38.6	41.8	45.6	50.1	51.8	51.7	54.2	54.4
A. Internal Debt	3086*	46939	50264	58537	71039	86312	98646	114498	133193	151352
(a) Market Borrowings	15676	22355	26394	30470	35352	40880	46743	55161	62565	70565
(b) Others	15188	24584	23870	28067	35687	45432	51903	59337	70628	80787
B. Other Internal Liabilities	17587	24251	29877	38267	48292	59935	73692	89527	106656	128176
	12.9	13.6	14.4	16.5	18.4	20.5	22.2	22.7	24.1	25.0
2. External Debt (Outstanding)*	11298	13682	15120	16637	18153	20299	23223	25746	28343	31831
	8.3	7.7	7.3	7.2	6.9	7.0	7.0	6.5	6.4	6.2
3. Total Outstanding Liabilities (1+2)	59749	84872	95261	113441	137484	166546	195561	229771	268192	311359
	43.9	47.6	45.9	49.0	52.5	57.0	58.8	58.2	60.6	60.6
4. Gross Interest Payments	2604	3937	4795	5974	7512	9246	11252	14278	17735	21850
5. Net Interest Payments	809	1086	2127	2011	2917	3893	5497	7297	9269	12277
6. Gross Interest Payment as % of Total Expenditure	11.6	12.9	13.3	13.6	14.1	14.4	16.0	17.5	18.5	21.4
7. Net Interest Payment as % of Total Expenditure	3.6	3.6	5.9	4.6	5.5	6.1	7.8	9.0	9.7	12.1
Memorandum items										
External Debt (Outstanding) (Converted at year end exchange rates)	13479	17577	20214	24004	26638	32312	36578	46838	54100	66017
	9.9	9.9	9.7	10.4	10.2	11.1	11.0	11.9	12.2	12.9

*External debt figures represent borrowings by Central Government from external sources and are based upon historical rates of exchange.

NOTES : 1. Figures in decimals are percentages to respective GDPs.

2. GDP (at current prices) for 1990-91 is estimated to grow by 16.0 per cent.

7.46 Internal liabilities as a whole have increased from Rs. 48,451 crores in 1980-81 to Rs. 2,79,528 crores in 1990-91 (RE), nearly a six-fold increase in a span of just ten years. The ratio of outstanding internal liabilities to GDP increased from 35.6 per cent in 1980-81 to as much as 54.2 per cent at the end of 1989-90 and is estimated to be 54.4 per cent at the end of 1990-91. Among the internal liabilities, other internal liabilities have witnessed a sharp increase as compared with market borrowings. The ratio of outstanding other internal liabilities to GDP shot up from 12.9 per cent at the end of 1980-81 to 24.1 per cent at the end of 1989-90 and has risen further to 25.0 per cent at the end of 1990-91 (R.E.). These liabilities attract relatively higher interest rates and hence, have added to the growing interest payments liabilities.

7.47 The outstanding external liability, on the basis of historical exchange rates, as a ratio of GDP has tended to decline over the years from 8.3 per cent at the end of 1980-81 to 6.4 per cent at the end of 1989-90. The ratio has marginally come down to 6.2 per cent at the end of 1990-91 (R.E.). However, it will be seen from memorandum items in Table 7.8 that the outstanding external liabilities when converted at year-end exchange rates, showed a rising trend. The ratio of external liability at year-end exchange rates to GDP increased from 9.9 per cent at the end of 1980-81 to 12.9 per cent at the end of 1990-91.

7.48 Total outstanding liabilities of Central Government comprising of internal liability and external liability have continued to rise sharply over the 1980s. These liabilities formed about 44 per cent of GDP in 1980-81 and the ratio has increased to about 61 per cent at the end of 1990-91 (R.E.).

7.49 The growth of Government Debt has led to a substantial increase in gross interest payments which have gone up from 11.6 per cent of the total Central Government expenditure in 1980-81 to 21.4 per cent in 1990-91 (RE). Much more disturbing is the rise in net interest payments from 3.6 per cent of total expenditure in 1980-81 to 12.1 per cent in 1990-91 (RE).

7.50 The assets of the Central Government, comprising capital investments and loans advanc-

ed, have increased from Rs. 59,670 crores at the end of 1980-81 to an estimated total of Rs. 2,36,619 crores at the end of 1990-91. As a proportion of GDP at current market prices, this represents an increase from about 44 per cent in 1980-81 to 46 per cent in 1990-91. Over the same period, the total liabilities have increased from Rs. 59,749 crores to Rs. 3,11,359 crores. As a proportion of GDP, the liabilities increased from 43.9 per cent in 1980-81 to 60.6 per cent in 1990-91. Since 1980-81 when assets and liabilities were approximately of the same magnitude, total liabilities have consistently exceeded assets. The gap between them widened with each successive year and reached a level of Rs. 74,740 crores at the end of 1990-91. The growing gap between the stock of Central Government assets and liabilities primarily reflects the succession of deficits on revenue account.

Finances of States and Union Territories

7.51 The budget estimates of States and Union Territories taken together anticipated a deficit of Rs. 1,793 crores in 1990-91. This is more than double the budget estimate and more than four times the revised estimate for 1989-90. Aggregate resources were estimated to rise by 11.7 per cent to Rs. 80,383 crores while aggregate disbursements were to increase by 13.5 per cent to Rs. 82,176 crores, resulting in a deficit of Rs. 1,793 crores. Current revenue was estimated at Rs. 61,127 crores, 13.2 per cent higher than the revised estimate for 1989-90. States' own tax revenue was budgetted to increase by 14.5 per cent as against 14.4 per cent in 1989-90. States' share in Central taxes was budgetted to increase by 9.1 per cent as compared with an increase of 21.3 per cent in 1989-90. Non-tax revenue was estimated to grow by a mere 4.4 per cent as against a growth of 57 per cent in the previous year. Grants from the Centre, on the other hand, were estimated to rise by 20.1 per cent as compared with zero growth in 1989-90.

7.52 Developmental expenditure was budgetted to rise by 9.7 per cent, while non-developmental expenditure was estimated to increase by 22.3 per cent in 1990-91 over the revised estimates in 1989-90. The ratio of developmental expenditure to aggregate expenditure dropped to 67.3 per cent in 1990-91 from about 73 per cent in 1985-86.

7.53 The gap between current revenue and total expenditure was estimated at Rs. 21,049 crores in 1990-91 (BE) compared with Rs. 18,363 crores in 1989-90 (RE). The gap as a ratio of current revenue widened from about 30 per cent in 1985-86 to 34.4 per cent in 1990-91. Over 91 per cent of the gap was budgetted to be covered by capital receipts and the rest by budgetary deficit. Among the capital receipts, the gap to the extent of 44.5 per cent would be covered by loans from the Centre.

Central and State Governments—Combined

7.54 The combined budget estimates of the Centre, States and Union Territories for 1990-91 envisaged a deficit of Rs. 8,999 crores, substantially lower than the revised estimate of Rs. 12,149 crores in 1989-90. Aggregate receipts were budgetted to increase by 13.4 per cent to Rs. 1,67,192 crores. The growth in current revenue was estimated at 14.6 per cent from Rs. 1,02,856 crores in 1989-90 (RE) to Rs. 1,17,855 crores. Tax revenue was expected to increase by 16.2 per cent while non-tax revenue including internal resources of public undertakings was anticipated to increase by 9.9 per cent as compared with a growth of 38.9 per cent in 1989-90 (RE). Aggregate expenditure was expected to increase by 10.4 per cent to 1,76,191 crores. Developmental expenditure was estimated to move up by 8.3 per cent and non-developmental expenditure by 13.9 per cent. The gap between total expenditure and current revenue was estimated at Rs. 58,336 crores in 1990-91 (BE), amounting to nearly 50 per cent of current revenue. The gap was to be financed to the extent of 77 per cent from domestic capital receipts, 7 per cent from external receipts and the balance of about 16 per cent through budgetary deficit.

Annual Plan : 1990-91

7.55 The Annual Plan for 1990-91 provided for a total outlay of Rs. 64,717 crores for the Centre, States and Union Territories (Table 7.9), which is 12.4 per cent higher than the plan outlay in 1989-90, the terminal year of the Seventh Plan. The allocation for Central Plan was Rs. 39,329 crores compared with Rs. 34,446 crores in 1989-90. The Plan allocation for States and Union Territories was Rs. 25,388 crores against Rs. 23,152

crores in 1989-90. Central Plan outlay for 1990-91 constitutes 60.8 per cent of the total plan outlay somewhat higher than 59.8 per cent in 1989-90.

TABLE 7.9

Annual Plan Outlay : Centre, States and Union Territories
(Rs. crores)

Heads of Development	Annual Plan 1989-90		Annual Plan 1990-91	
	Amount	Percentage to total	Amount	Percentage to total
1. Agriculture and Allied Activities .	3055	5.3	3802	5.9
2. Rural Development	3100	5.4	4302	6.6
3. Special Area Programme. . .	905	1.6	1037	1.6
4. Irrigation and Flood Control . . .	3872	6.7	4110	6.4
5. Energy . . .	17182	29.8	18871	29.2
6. Industry and Minerals . . .	7032	12.2	8450	13.1
7. Transport . . .	7852	13.6	9303	14.4
8. Communications .	2860	5.0	3050	4.7
9. Science, Technology and Environment . . .	798	1.4	893	1.4
10. Social Services .	9162	15.9	9748	15.1
11. General Economic Services . . .	1270	2.2	905	1.4
12. General Services .	510	0.9	246	0.4
Total . . .	57598	100.0	64717	100.0

7.56 The Annual Plan for 1990-91 stepped up the outlays substantially in respect of agriculture, rural development, industry, minerals and transport. About 50 per cent of the outlay was allocated for agriculture, rural development, special area programmes, irrigation and energy.

Post Budget Developments

Supplementary Demands for Grants

7.57 Three supplementary demands for grants were presented to the Parliament, the first in August, the second in December 1990 and the third in March, 1991. The first supplementary demands for grants involved no net cash outgo. These were technical supplementary grants for Rs. 37.26 crores matched by additional receipts or corresponding savings. In addition to the

above technical supplementary demands, supplementaries involving an expenditure of Rs. 12.35 crores were obtained. The expenditure in these cases would be met from savings within the revenue and capital sections of the concerned grants. Five advances totalling Rs. 1.67 crores made out of the Contingency Fund earlier, were proposed to be recouped.

7.58 The second supplementary demands for grants which covered 22 grants involved an additional cash outgo of Rs. 648.95 crores of which Rs. 150.50 crores were on plan account and Rs. 497.45 crores were on non-Plan account. The most important item on plan account was the investment of Rs. 150 crores in Rashtriya Ispat Nigam Limited. On the non-Plan side, two important items were Cash Compensatory Support for exports and raising new battalions in the Central Police Forces, accounting for Rs. 300 crores and Rs. 100 crores respectively. Besides, the second supplementary demands included technical supplementaries for Rs. 1,494.23 crores which were matched by additional receipts or corresponding savings. Token grant of Rs. 1 lakh each was proposed to be taken in respect of a few items, the expenditure of which would be met from savings within the concerned grant. Seven advances totalling Rs. 2.90 crores made out of the Contingency Fund earlier, were proposed to be recouped.

7.59 The third supplementary demands for grants included 60 demands and three appropriations aggregating Rs. 7556 crores. The gross expenditure was matched by savings or increased receipts to the extent of Rs. 3627 crores. Thus, the net cash outgo was Rs. 3929 crores, of which Rs. 433.15 crores were on Plan account and Rs. 3495.90 crores were on non-Plan account. Important items on Plan account were claims of States under the Central Investment Subsidy Scheme and Central Transport Subsidy Scheme amounting to Rs. 158 crores, investment loans to Rashtriya Ispat Nigam and arrears to states relating to family welfare programme amounting to Rs. 100 crores each. On the non-Plan account two important items were interest payments amounting to Rs. 1000 crores and scheme of debt relief to farmers amounting to Rs. 500 crores.

The third supplementary demands for grants included technical supplementaries amounting to Rs. 3193.05 crores which did not involve any cash outgo. Three advances aggregating Rs. 6.27 crores sanctioned from the Contingency Fund of India earlier were proposed to be recouped. During 1989-90, four batches of supplementary demands for grants aggregating a net-cash outgo of Rs. 5,679 crores were presented.

Revenue Collections

7.60 The performance of tax revenues, as revealed by the Centre's collections from major taxes during the financial year 1990-91, has been somewhat unsatisfactory, specially in respect of direct taxes. The provisional data upto March 1991 reveal that the total revenue collections during the financial year 1990-91 was Rs. 55,539 crores registering an increase of 11.46 per cent over the figures for the year 1989-90. However, this accounted for only 97.26 per cent of the Revised Estimate (RE) for 1990-91 as compared with 100.4 per cent achieved during 1989-90. Data on tax-wise collection of revenue by the Centre for the period 1990-91 are given in Table 7.10.

TABLE 7.10

**Centre's collection from major taxes during the period 1990-91*

Sr. No.	Taxes/ Duties	April—March		Percentage Increase 1990-91/ 1989-90	As percentage of 1990-91 R.E.
		1990-91	1989-90		
		(Rs. crores)			
1	2	3	4	5	6
1.	Personal Income Tax .	5,274	5,008	5.31	94.86 (100.2)
2.	Corporation Tax	5,342	4,714	13.31	84.12 (99.1)
3.	Excise** .	24,356	22,197	9.73	99.86 (100.9)
4.	Customs .	20,567	17,908	14.85	98.88 (100.2)
5.	TOTAL .	55,539	49,827	11.46	97.26 (100.4)

(Figures in brackets in Col. 6 indicate percentage of collection in 1989-90).

*As per departmental records.

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

7.61 The combined realisation of customs and central excise duty up to March 1991 was Rs. Rs.44,923 crores which falls short of the collection target (R.E.) of Rs. 45,190 crores by 0.6 per cent of RE. Of this central excise collection has been of the order of Rs. 24,355 crores which is 9.73 percent higher than the corresponding collection upto March 1990. This represents a shortfall of Rs. 34 crores over the Revised Estimates. The shortfall is primarily attributed to law and order disturbances in various parts of the country and dislocation of road traffic which affected clearance of goods from factories. Moreover, there has been significant loss of revenue in regard to cess on crude oil. As regards the customs revenue, the total collection upto March 1991 was Rs. 20,567 crores which represents an increase of 14.85 per cent over the collections during the year 1989-90. Even then, this is Rs. 232 crores below the R.E. The less than expected collection of customs revenue may be attributed to the restrictions on imports imposed by the Government to tide over the difficult balance of payment position.

7.62 The gross collection from income-tax (including corporation tax) during 1990-91 was Rs. 10,616 crores representing an increase of 9.19 per cent over the corresponding collection during 1989-90. However, since this falls short of the R.E. of Rs. 11,910 crores by Rs. 1294 crores, it is a cause of concern. The net collection of corporate tax upto March 1991 was Rs. 5342 crores as against the corresponding figures of 1989-90 at Rs. 4714 crores representing an increase of 13.31 per cent. The collection from personal income tax was of the order of Rs. 5274 crores which is higher by only 5.31 per cent than the collections of 1989-90 in relation to RE. The shortfall in collection of direct taxes in 1990-91 is *inter-alia* due to higher refunds issued during the year and considerable decline in revenues from oil companies.

7.63 Following the financial strain caused by the Gulf crisis, Government announced a package of measures in October and December 1990 which aimed at economy in expenditure on one hand and additional resource mobilisation on the other. A "Gulf surcharge" in the form of a 25 per cent

hike in the prices of all petroleum products except LPG cylinders was levied which was expected to net Rs. 2,300 crores. The Government also imposed an additional surcharge of 7 per cent on corporation tax for the assessment year 1991-92 to meet the high cost of evacuating Indians from the Gulf. The surcharge was expected to yield Rs.400 crores. In addition, the Government introduced a package of tax measures in December 1990 to mobilise an additional revenue of Rs.1200 crores during the financial year 1990-91. In the sphere of direct taxes, the rate of surcharge on income tax was raised from 8 per cent to 12 per cent in the case of non-corporate tax payers whose income exceeds Rs.75,000 a year. The depreciation deduction was restricted to 75 percent of what would otherwise be allowed in the case of corporate income. These two direct tax proposals were estimated to yield Rs.60 crores and Rs. 750 crores respectively during the remaining part of the year 1990-91. In the sphere of indirect taxes, the Union Government further revised upward, the auxiliary customs duty on all products barring crude oil. The four graded auxiliary duty structure was reduced thereby to three. Goods that had so far been chargeable to auxiliary duty of 5 percent were subjected to a general rate of 25 per cent. Similarly goods attracting auxiliary duty at 30 per cent or 45 per cent were levied an auxiliary duty of 50 percent. The increase in auxiliary customs duties was expected to yield Rs.254 crores. Basic excise duties on man-made fibres/yarns (acrylic fibre, viscose fibre, polyester fibre, polyester filament yarn) and soft drinks including soda water were also raised to yield an additional revenue of Rs. 137 crores in the remaining part of the year 1990-91.

7.64 The information, intelligence and enforcement measures were further intensified to improve tax collection and curb tax evasion. A sustained and multipronged drive was launched against suspected economic offenders. The Economic Intelligence Bureau was revamped to coordinate action against tax evaders and black money operators. During the current financial year, particular emphasis was laid on improving the quality of searches carried out by the investigative machinery of the Income Tax Department. Consequently during 1990-91, 5474 search opera-

tions were conducted in which assets worth Rs. 227.87 crores were seized as against Rs.128.02 crores seized in 3984 searches during the year 1989-90. Similarly, the income disclosed as a result of the searches also rose from Rs. 193.44 crores during 1989-90 to Rs.328 crores in 1990-91. The average value of assets seized per search during this period worked out to Rs. 4.16 lakhs as against Rs.3.21 lakhs in 1989-90 thus indicating a qualitative improvement. A drive was also launched for bringing the maximum number of new assesseees in the tax net. As a result, the number of new assesseees brought into tax net during 1990-91 was 5,23,052 as against 4,67,711 new assesseees registered in 1989-90. The total number of premises surveyed was 8,92,438 as against 8,17,803 surveyed during 1989-90. The drive against smuggling activities was also intensified during the year and the efforts of the Directorate of Revenue Intelligence and Customs Collectorates resulted in seizures valued at Rs. 736 crores in 62392 cases as against seizure of Rs. 566 crores in 61394 cases during 1989-90. Further 4878 cases of excise duty evasion were unearthed involving duty of Rs.547.66 (provisional) crores as compared with Rs.995 crores detected during 1989-90.

7.65 In view of the immediate need to earn more foreign exchange, certain tax concessions were announced by the Government during the course of the year. The entire profit earned from export of computer software was proposed to be exempted from income tax on the same lines as in the case of merchandise exports. The concession would, however, be reviewed in the light of actual export performance in the next few years. As a measure to reduce consumption of oil products, the rate of depreciation for motor cars, purchased on or after April 1, 1990 (other than taxis) was brought down from 33.33 per cent to 20 per cent. To encourage development of tourist infrastructure it was decided that the expenditure incurred on new approved hotels set up in hilly and other remote areas would be exempt from expenditure tax for a period of ten years, and such hotels would be allowed enhanced deduction of 50 per cent under section 80-I subject to certain conditions.

7.66 Some adjustments in the excise and customs duties were also made during the course of the year in the light of changes in international prices of commodities, balance of payment situation, and growing deficit finance. Needs of the domestic industry were also kept in view.

7.67 In case of excise duties, concessional rates and exemptions were prescribed on a number of items. Full exemption was provided on capital goods when supplied to manufacturers/exporters holding an import license under specified conditions. Further, the facility to set off excise/countervailing duties was extended to duty paid on dimethyl acetamide used in the manufacture of acrylic fibre. The excise duty on motor cars was also raised from 40 per cent to 50 per cent with a view to curbing consumption of petroleum products.

7.68 In case of customs duty, basic rate was raised in respect of titanium sponge when imported for the manufacture of titanium and titanium alloy products. Import duty on certain grade of LDPE imported for specified purpose was reduced subject to certain conditions. In case of polyvinyl chloride and copolymers of vinyl chloride, auxiliary duty was further changed to ad valorem duty of 50 per cent. A basic concessional customs duty of 30 per cent ad valorem was prescribed in respect of high raw ground sponge iron for the manufacture of iron powder. In this case however, the auxiliary duty was raised to 50 per cent. The existing import duty concession on membranes for replacement available to caustic soda plants was extended to other industrial plants. In case of cotton yarn, cotton terry towel and fabrics, basic duty was reduced to 25 per cent with nil additional and auxiliary duty. The customs duty concession for sub-components of specified components of fuel efficient two wheelers was extended. Similarly, concessional import duty was prescribed on import of machinery and equipments by a project exporter. Some additions were also made in the list of equipments in respect of gems and jewellery industry. In case of computer equipments, software accompanying computer equipments, start-up spares, basic duty was reduced to 25 per cent and these were exempt-

ed from additional duty. Further, application software was fully exempted from customs duties and additional duty. Substantial duty relief was also given to specified items used in food processing industry.

Interim Budget : 1991-92

7.69 The Interim Budget for the year 1991-92 was presented to the Parliament on 4th March, 1991 for the purpose of a Vote-on-Account to enable the Government to meet essential expenditure during the first four months of the financial year. The Interim Budget envisaged a deficit of Rs. 9977 crores for 1991-92 compared with Rs. 10,772 crores in the revised estimates for 1990-91. Centre's gross tax revenue, at the existing rates of taxation, is expected to increase by Rs. 6203 crores or by 10.8 percent over the revised estimates for 1990-91. Non-tax revenue is estimated to grow by 8.8 percent. Capital receipts are estimated to be lower by Rs. 1958 crores mainly because of the transfer of collections under the National Savings Scheme to the Bharat Bachat Bank proposed to be set up. Total expenditure, taking revenue and capital together is estimated at Rs. 110,167 crores as against the revised estimate of Rs. 106,717 crores in 1990-91, showing a marginal increase of 3.2 per cent. Non-Plan expenditure is estimated to increase by a marginal amount from Rs. 76,761 crores in 1990-91 (RE) to Rs. 76,907 crores in 1991-92. The Interim Budget has provided for an outlay of Rs. 42,148 crores for the Central Plan. Out of this, an amount of Rs. 14,710 crores is earmarked for assistance to State and Union Territory Plans. The internal resources of public enterprises available for Central Plan are estimated at Rs. 23,598 crores which are 15.3 per cent higher than the revised estimates for 1990-91. In the final Budget for 1991-92, it is likely that revenue as well as expenditure estimates may undergo revisions both dimensionally and sectorally.

7.70 The Interim Budget for 1991-92 proposed disinvestment upto 20 per cent of Central Government's, equity in selected public sector undertakings, in favour of mutual funds and financial or investment institutions in the public sector. Another proposal mooted in the Interim Budget

relates to the transfer of the National Savings Scheme to the Bharat Bachat Bank to be set up.

The Ninth Finance Commission

7.71 The second report of the Ninth Finance Commission covering the period 1990-95 was presented to the Parliament on March 12, 1990. The basic objectives underlying the Commission's approach and methodology were (a) phasing out the revenue deficit of the Centre and the States in such a manner that the deficit is reduced to zero or a relatively small figure by March 31, 1995; (b) equity in the distribution of fiscal resources both vertically and horizontally; and (c) promotion of fiscal discipline and efficiency in the utilisation of resources.

7.72 The Commission had made an analysis of the trends in revenue and expenditure and pointed out that over the period 1974-75 to 1986-87, while the revenue receipts of the Union Government grew at 14.4 per cent per annum, its revenue expenditure grew at 16.8 per cent per annum. Over the same period, the revenue expenditures of the States grew at 17.1 per cent and their revenue receipts at a lower rate of 15.7 per cent. As a result of the divergence between the rates of growth of receipts and expenditure, the Central Government had been incurring a revenue deficit in all the years since 1979-80 and the States as a whole since 1984-85 (except for 1985-86). The Commission observed that incurring of revenue deficits on a large scale year after year implied an infraction of one of the fundamental principles of sound public finance in any economy, particularly in a developing economy.

7.73 The Commission had recommended transfer of Rs. 106,036 crores to the States by way of share in Central taxes and duties, grants-in-aid and grants towards meeting relief expenditure. It recommended that the share of the States in the proceeds of income tax should be 85 per cent and that in Union excise duties should be 45 per cent. It further recommended that 10 per cent of the shareable proceeds of income tax should be distributed among the States on the basis of contribution, 45 per cent on the basis of distance of the per capita income of the State from that of the

State with the highest per capita income, 22.5 per cent on the basis of the population of the State in 1971, 11.25 per cent on the basis of composite index of backwardness and the remaining 11.25 per cent on the basis of the inverse of per capita income multiplied by the population of the State in 1971. The Commission recommended a separate formula for the distribution of States' share in Union excise duties. This formula envisaged that 25 per cent of shareable proceeds of Union excise duties should be distributed among the States on the basis of 1971 population, 12.5 per cent on the basis of Income Adjusted Total Population (IATP), 12.5 per cent on the basis of index of backwardness, 33.5 per cent on the basis of 'distance' of per capita income and the remaining 16.5 per cent among the States with deficits, in proportion of deficit of each State to the total of all States' deficit. In respect of additional excise duties in lieu of sales tax on textiles, sugar and tobacco, the Commission recommended that 1.903 per cent of the proceeds should be retained by the Centre as the share of Union Territories and the remaining proceeds distributed among the States. It also recommended that the quantum of grant in lieu of tax on railways passenger fares for 1990-95 shall be Rs. 150 crores annually.

7.74 The Commission recommended the constitution of a Calamity Relief Fund for each State to which the Centre would contribute 75 per cent in the form of non-Plan grant and the balance of 25 per cent shall be contributed by the State Government out of its own resources. To cover the net five-year deficits on non-Plan revenue account and partly of the deficits on Plan revenue accounts as assessed by the Commission, grants-in-aid to States under Article 275 of the Constitution of specified amounts were recommended.

7.75 The Commission pointed out that one of the disquieting features of recent public finances in India was the rapidly growing public debt. As a result of the growth of debt on the one hand and inadequate returns from the use of borrowings on the other, the burden of interest payments had naturally been rising. It felt that the solution to the government debt problem lied in borrowed funds (a) not being used for financing revenue expenditure and (b) being used efficiently and

productively for capital expenditure. It held that in future rescheduling of the loans should be avoided and that the terms on which funds were lent by the Centre to the States must be reasonable and equitable.

7.76 The Commission recommended that composition of assistance for State Plans should remain 70 per cent loan and 30 per cent grant in respect of non-Special Category States. But the loan components so worked out might be contributed from two sources—an amount equal to grant portion might be in the form of Central loan and the balance made available by way of additional market borrowings. It recommended that from 1990-91, the direct Central loans for State Plans should have a maturity period of 20 years with 50 per cent of loan enjoying a grace period of 5 years. Other recommendations made by the Commission in respect of debt relief included (i) consolidation of State Plan loans advanced during the five year period 1984-89 and outstanding as on March 31, 1990 and its rescheduling to 15 years, (ii) write-off of certain Central loans, and (iii) moratorium of two years (1990-92) on repayment of principal and payment of interest in respect of the special loans granted to Punjab.

7.77 The recommendations of the Finance Commission regarding devolution of taxes and duties, grants-in-aid to cover non-Plan revenue gap, grants-in-aid to cover part of deficits on Plan revenue account, financing of relief expenditure have been accepted by the Government. In regard to debt relief, Government have accepted the recommendations of the Commission relating to rescheduling/write-off of certain Central loans outstanding against State Governments and elongation of the maturity period of future Central loans for State Plans from 15 years to 20 years with 50 per cent loans enjoying a grace period of 5 years. The other recommendations of the Commission on debt relief requiring in depth examination and remaining recommendations not requiring immediate action would be considered in due course.

Central Government Departmental Enterprises

Railways

7.78 The hikes in rates of goods traffic, parcel and luggage effected by the Railways and the

increment of 7.96 million tonnes in originating traffic enabled the Railways to improve gross traffic receipts to Rs. 10,732 crores in 1989-90 (RE) from Rs. 9,259 crores in 1988-89. The working expenses increased to Rs. 9890 crores in 1989-90 (RE) compared with Rs. 8633 crores in 1988-89. Consequently, net traffic receipts increased from Rs. 626 crores in 1988-89 to Rs. 842 crores in 1989-90 (RE). Net of payment of Rs. 815 crores to General Revenues, the Railways earned a net surplus of Rs. 140 crores. The payments to General Revenues during 1989-90 is substantially higher than those made in any single year since 1980-81. The net surplus of Railways as a percentage of capital at charge increased from 0.2 in 1988-89 to 1.0 in 1989-90. This is a marked departure from the declining trend witnessed since 1986-87.

7.79 The gross traffic receipts were estimated at Rs. 12,060 crores in 1990-91, of which Rs. 892 crores were proposed to be earned from additional resource mobilisation through hikes in passenger fares and freight rates. The working expenses were estimated at Rs. 11,091 crores in 1990-91. Net traffic receipts, therefore, were estimated to increase to Rs. 969 crores in 1990-91 from Rs. 842 crores in 1989-90 (RE). With contribution to General Revenues estimated at Rs. 932 crores, the resultant net surplus was estimated at Rs. 186 crores. There is a marginal improvement in the ratio of net surplus to capital at charge from 1.0 in 1989-90 to 1.2 per cent. The proposed hikes in tariffs and freights were as under :—

- The freight rates except for certain essential commodities were increased in phases by 7 per cent from April 1, 1990 and 10 per cent from October 1, 1990.
- The rates for parcels and luggage were increased by 10 per cent.
- The fares of higher classes, namely AC first class, AC sleeper, First class and AC chair car were increased by 17 per cent. There was no increase upto 25 Kms.
- The fare for the second class ordinary was increased by Re. 1 at the lowest slab with a progressive rise to a maximum of Rs. 4 for distance beyond 300 kms. There was no increase upto 25 Kms.

- The fare for second class mail/express trains was increased by Re. 1 to Rs. 15 depending upon the distance. There was no increase upto 25 Kms.
- The fares for the second class monthly season tickets were increased by Rs. 3 to Rs. 9 depending upon the distance. The increase in the case of first class monthly season tickets ranged from Rs. 12 to Rs. 36.
- The second class sleeper charges were increased from Rs. 10/- to Rs. 15/- for distances upto 500 Kms, from Rs. 15/-, to Rs. 20/- for distances from 501 to 1000 Kms. and from Rs. 15/- to Rs. 25/- for distances beyond 1000 Kms.

7.80 The outlay for the Railway Plan in 1990-91 was envisaged at Rs. 5,000 crores as against Rs. 4,450 crores in 1989-90. The outlay was proposed to be financed on the basis of budgetary support of Rs. 1694 crores, internal resources of Rs. 2136 crores and issue of bonds of Rs. 1170 crores. The level of budgetary support at Rs. 1694 crores or 33.9 per cent of the total plan outlay was the lowest ever so far. An amount of Rs. 371 crores was provided for new railway lines which denotes an increase of Rs. 105 crores over the allocation of Rs. 266 crores in 1989-90. The plan priority continued to remain on replacement of overaged assets, modernisation and completion of on-going projects.

Posts

7.81 The gross receipts of posts in 1989-90 decreased marginally to Rs. 703 crores from Rs. 742 crores in 1988-89. With the working expenses at Rs. 966 crores, the net outcome was a deficit of Rs. 263 crores. The gross receipts in 1990-91 (RE) were expected to increase by Rs. 197 crores to Rs. 900 crores, mainly on account of additional resource mobilisation to the extent of Rs. 172 crores. Working expenses were estimated at Rs. 1059 crores. The net result was expected to materialise in a smaller deficit of Rs. 159 crores in 1990-91 (RE). As in the previous years, no dividend was proposed to be paid to General Revenues.

Telecommunications

7.82 The gross receipts of Telecommunications amounted to Rs. 2841 crores in 1989-90.

This was Rs. 482 crores more than the gross receipts in 1988-89. The net working expenses of Telecommunications increased from Rs. 1375 crores in 1988-89 to Rs. 1603 crores in 1989-90. A dividend of Rs. 180 crores was paid to the General Revenues. The net outcome was a surplus of Rs. 1058 crores in 1989-90 compared with Rs. 823 crores in 1988-89.

7.83 The gross receipts of Telecommunications amounted to Rs. 3570 crores in 1990-91 (RE), while net working expenses were estimated to increase to Rs. 1935 crores. Dividend to be paid to General Revenues was estimated at Rs. 204 crores in 1990-91 (RE). With these, the year-end result was expected to show a surplus of Rs. 1431 crores, compared with a surplus of Rs. 1058 crores in 1989-90.

Central Government Public Enterprises

7.84 Net profits (after tax) of Central Government public enterprises increased substantially from Rs. 2,994 crores in 1988-89 to Rs. 3,782 crores in 1989-90 (Table 7.11). The rate of return, as measured by the ratio of net profits to capital employed, rose to 4.5 per cent in 1989-90, which is the highest achieved in the decade. However, as in the previous years, the petroleum sector accounted for the bulk of these profits, i.e., Rs. 2,900 crores out of the total Rs. 3,782 crores in 1989-90. The non-petroleum sector enterprises numbering about 200 contributed a meagre sum of Rs. 882 crores. While this reflected an improvement over the net profit of

Rs. 430 crores made in 1988-89, the ratio of the net profits to capital employed in non-petroleum sector enterprises was only 1.3 per cent in 1989-90. Clearly, there is a substantial scope for improving the financial performance of non-petroleum Central Government public enterprises.

7.85 The overall working results of the Central Government public enterprises for the first half of 1990-91 showed a net profit of Rs. 481 crores as against a net profit of Rs. 1103 crores during the corresponding period of 1989-90. Substantial increase in losses or decrease in profits have been reported by the Steel, Coal and Lignite, Chemicals and Pharmaceuticals, Minerals and Metals, Telecommunication Services, Heavy Engineering and Transportation Equipment sectors. On the other hand, Petroleum, Power, Trading and Marketing and Financial Services sectors have either reported increased profits or decreased losses.

7.86 The Seventh Plan envisaged generation of internal resources to the extent of Rs. 23,013 crores and additional resource mobilisation to the extent of Rs. 11,490 crores at 1984-85 prices for financing the Plan outlays. Against this, during the Seventh Plan, the public enterprises have generated gross internal resources of Rs. 37,715 crores at current market prices. About 32 per cent of the Plan investment in Central public enterprises during the Seventh Plan was financed by generation of net internal resources, 28 per cent by extra-budgetary resources and 40 per cent by the budgetary support.

TABLE 7.11

Profile of Centre's Public Enterprises

	Units	1980-81	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90
1	2	3	4	5	6	7	8	9	10	11
1. Number of running Public Enterprises	Number	163	193	201	207	211	214	221	226	233
2. Capital Employed	Rs. Crore	18207	26526	29851	36382	42965	51835	55554	67629	84437
3. Turnover	Rs. Crore	28635	41989	47272	54784	62360	69088	81271	93137	106078
4. Gross Margin (Profit before depreciation, interest and tax)	Rs. Crore	2401	5184	5771	7386	8230	9897	11134	13438	16410
5. Depreciation*	Rs. Crore	983	1719	2205	2758	2983	3376	4150	4866	5787
6. Gross profit before interest and tax	Rs. Crore	1418	3465	3565	4628	5287	6521	6984	8572	10523
7. Interest	Rs. Crore	1399	1923	2086	2529	3115	3420	3595	4167	5341
8. Net Profit before tax	Rs. Crore	19	1542	1480	2099	2172	3101	3389	4405	5282
9. Tax	Rs. Crore	222	928	1239	1190	1000	1330	1329	1411	1500
10. Net Profit after tax	Rs. Crore	-203	614	240	909	1172	1771	2060	2994	3782
11. Internal Resources generated (Gross)	Rs. Crore	1225	2753	3278	4251	5068	6014	6947	8915	10772
12. Net Profit (after tax) to Capital employed	Percent	-1.1	2.3	0.8	2.5	2.7	3.4	3.7	4.4	4.5

*Includes deferred revenue expenditure.

7.87 As on March 31, 1990, 23.17 lakh people including about 81,000 casual/daily rated workers were employed in 244 Central public enterprises. The total number of regular employees on the strength of public enterprises had gone up from 17.03 lakhs in 1978-79 to 22.36 lakhs in 1989-90.

State Governments' Commercial Undertakings

7.88 The working results of departmentally run commercial undertakings of States and Union Territories have continued to remain poor. Their net losses have been rising continuously. The net losses were estimated at Rs. 1928 crores in

1990-91, as against Rs. 1898 crores in the revised estimates for 1989-90 and Rs. 1578 crores in 1988-89. With the exception of forest and mines which have been showing net surplus, all others have been incurring losses. While profits from forests and mines have been showing only a marginal increase, losses of loss making undertakings increased substantially from Rs. 1086 crores in 1985-86 to Rs. 2522 crores in the Budget Estimates for 1990-91. Total losses of loss making undertakings amounted to Rs. 8579 crores during the Seventh Plan period. Details are given in Table 7.12.

TABLE 7.12

Financial Results of Departmental Commercial Undertakings of States & UTs
[Profit. (+)/Loss (—)]

	(Rs. crores)					
	1985-86	1986-87	1987-88	1988-89	1989-90 (R.E.)	1990-91 (B.E.)
1. Depart. Comm. Undertakings						
(i) Forest	497.70	516.21	543.69	414.35	447.94	536.49
(ii) Power projects	—75.04	—93.81	—116.40	—84.19	—48.34	—48.55
(iii) Road & Water Tpt. Services	—25.65	—36.59	—110.76	—56.51	—77.66	—79.67
(iv) Dairy Development	—99.29	—40.45	—43.91	—52.38	—380.48	—393.74
(v) Industries	—14.10	—16.46	—20.51	—10.09	—130.28	—77.18
(vi) Mines & Minerals	40.06	35.05	27.02	51.83	53.57	57.59
(vii) Irrigation Projects (Com- mercial) }	—871.60	—1225.95	—1344.50	—1840.79	—1763.00	—1922.96
(viii) Multipurpose River Projects }						
2. Profit of Profit making Under- takings	537.76	551.26	570.71	466.18	501.51	594.08
3. Loss of loss making Undertakings	—1085.68	—1413.26	—1636.08	—2043.96	—2399.76	—2522.10
4. Net Financial Results of Depart- mental Undertakings	—547.92	—862.00	—1065.37	—1577.78	—1898.25	—1928.02

7.89 The dividends and profits from non-departmental undertakings of the States and Union Territories showed a marginal deterioration from Rs. 48 crores in 1989-90 to Rs. 46 crores in 1990-91. The working of two major non-departmental undertakings, viz., State Electricity Boards (SEBs) and the State Road Transport Corporations, continued to remain highly unsatisfactory. The commercial losses of all the SEBs taken together amounted to Rs. 2825 crores in 1988-89, and Rs. 3517 crores in 1989-90. The losses are further estimated to increase to Rs. 4354 crores in 1990-91. The performance in terms of rate of return on capital (after depreciation and interest) was negative, being about (—)12.8 per cent in 1988-89 and (—) 13.8 per

cent in 1989-90, which is estimated to further deteriorate to (—) 14.4 per cent in 1990-91. The Electricity Supply Act, 1948 enjoins on the SEBs to earn a return of not less than 3 per cent by way of net surpluses after providing for depreciation and interest. The losses or negative rates of return of SEBs shown above do not take into account the claims of SEBs for subsidies for rural electrification from the State Governments. If these subsidies are taken into account, the position would show some improvement.

7.90 The financial performance of State Road Transport Undertakings (SRTUs) was also not satisfactory. Their commercial losses at Rs. 359 crores in 1989-90 (Pre-Actuals) were higher

than 1988-89 actuals of Rs. 283 crores. The losses in 1990-91 (RE) are estimated at Rs. 355 crores. It was estimated that during the Seventh Plan period, SRTUs would incur a commercial loss of Rs. 1434 crores at 1984-85 fare levels. SRTUs were expected to raise additional fare revenue of Rs. 2200 crores and, thus, have a net profit of Rs. 766 crores. On present reckoning, this expectation is unlikely to be achieved. On the other hand, provisional estimate shows that anticipated losses would amount to Rs. 1242 crores during the Seventh Plan period, even after taking into account additional revenue of Rs. 2213 crores from fare increases. This is due to the fact that the increases in input costs have been much higher than the earlier estimates.

Outlook

7.91 The outlook on the fiscal front is serious but not unmanageable. The fiscal imbalances

accumulated over several years cannot be eliminated in a short period. In the present context, soft options have either a limited effect or no effect at all in the correction of macro-economic imbalances. The measures introduced during 1990-91, which aimed at better revenue collections and containment of public expenditure have had a limited effect as evidenced by the revised budget deficit which is estimated to be considerably higher than the Budget Estimate. It is essential that a serious effort is made to introduce corrective measures through hard decisions and difficult choices. Any beginning at fiscal correction should aim at strict control over Government expenditure, particularly the revenue and non-Plan expenditure, rationalisation of subsidies so that they are better directed towards the poor and improvement in revenue collections. Continued efforts on the part of the Government, may provide the basis for a transition to a sustainable fiscal regime over the next few years.