CHAPTER 2

PUBLIC FINANCES

The fiscal situation, which was under strain throughout the 1980*s, reached a critical situation in* 1990-91 *with a sharp deterioration in the revenue deficit. Fiscal deficits generate pressures on inflation as well as on the balance of payments. The gross fiscal deficit of the Central Government, which measures the total resource gap, has been more than* 8 *per cent of GDP since* 1985-86, *as compared with* 6 *per cent at the beginning of* 1980*s and* 4 *per cent in the mid-*1970*s. Such fiscal deficits are unsustainable and would lead the country into a debt-trap. The unabated growth of non-plan expenditure and poor returns from investments made in the public sector have been the main contributory factors in the fiscal crisis.*

A particularly disquieting feature of the Centre's finances has been growing deficits on revenue account. The ratio of the revenue deficit to GDP reached 3.5 *per cent in* 1990-91 *(provisional actuals) as compared with* 1.5 *per cent in* 1980-81. *There has been a steady decline in the share of capital formation in Central Government expenditure. The gross savings of the Government, which turned negative for the first time in* 1984-85, *continued to remain so. The fiscal imbalance also manifested in a sharp increase in internal debt and resultant increase in interest payments.*

The regular Budget for 1991-92 *presented on July* 24, 1991, *initiated a major effort towards correcting the fiscal imbalance. It envisaged a reduction in the fiscal deficit by nearly two percentage points of GDP, from* 8.4 *per cent in* 1990-91 *(RE) to* 6.5 *per cent in* 1991-92 *(based on projections of GDP at that time; the latest GDP estimate yields* 6.2 *per cent). It aimed at containing Government expenditure and augmenting revenues; reversing the downward trend in the share of direct taxes in total tax revenues; curbing conspicuous consumption; encouraging indigenous industry and improving competitiveness of the industrial sector, particularly export-oriented industries. The important policy initiatives comprised reduction in fertiliser subsidy, abolition of Cash Compensatory Support for exports, abolition of subsidy on sugar, divestment of* 20 *per cent of Government equity in selected public sector undertakings to mutual funds, a* 20 *per cent increase in the prices of motor spirit and adjustment of tax rates to yield an additional net revenue of Rs.* 2005 *crore to the Centre. The provision of non-plan expenditure, excluding interest payments, in the current year represents a reduction of* 4.5 *per cent compared with the provisional actuals for* 1990-91.

Aggregate resources of the Central Government, including internal and extra-budgetary resources of Central public enterprises, were to be about 11.3 *per cent higher in* 1991-92 *(BE) than the revised estimates for* 1990-91. *Aggregate disbursements were* 8 *per cent higher than the revised estimates for* 1990-91. *The containment of disbursements through various measures was aimed at limiting the budgetary deficit to Rs.* 7719 *crore. Aggregate receipts of the Centre, States and Union Territories, including internal and extra-budgetary resources of their enterprises, were budgeted to increase by* 11.7 *per cent over* 1990-91 *(RE) while aggregate expenditure was estimated to increase by* 10.4 *per cent.*

The Annual Plan for 1991-92 *provided for a total outlay of Rs.* 72,317 *crore for the Centre, States and Union Territories, an increase of* 17.6 *per cent over the revised estimates for* 1990-91. *The allocation for the Central Plan was Rs.* 42,969 *crore.*

The working of both the departmental and non-departmental commercial undertakings of States and Union Territories deteriorated in 1990-91.

Sustained corrective action on the part of the Centre and the State Governments over the next few years is required to correct the fiscal imbalance.

The fiscal situation, which had been under mounting pressure throughout 1980s, assumed crisis proportions by the beginning of the fiscal year 1991-92. The Gulf Crisis of 1990 exacerbated the already precarious fiscal situation. At a macro-economic level, fiscal deficits, besides contributing to inflationary pressures, have also been seriously spilling into balance of payments.

2.2 Throughout the eighties, all the important indicators of fiscal imbalance were on the rise. These are the conventional budgetary deficit, the revenue deficit, the monetised deficit and gross fiscal deficit. The conventional budgetary deficit is the difference between all receipts and expenditure, both revenue and capital. This difference is met by the net addition to the Treasury

Bills issued by the Central Government and draw-down of cash balances kept with the Reserve Bank of India. The revenue deficit denotes the difference between revenue receipts and revenue expenditure. The monetised deficit is the increase in net RBI credit to the Central Government, which is the sum total of the net increase in the holdings of Treasury Bills of the RBI and its contribution to the market borrowings of the Government. These three measures do not fully reflect the structural imbalances in the fiscal operations of the Government and the full resource gap. They capture only a small part of the gap which is mainly financed by the issue of 91-day Treasury Bills. A larger portion of the gap in resources financed by market borrowings, small savings, provident funds, external borrowings, etc. does not get reflected in the conventional measures of fiscal imbalance.

2.3 A more complete measure of macro-economic imbalance used internationally is the concept of gross fiscal deficit, which reckons the total resource gap in terms of excess of total Government expenditure over revenue receipts and grants. This concept fully reflects the indebtedness of the Government. The trends in various indicators of fiscal imbalance over the eighties are given in Table-2.1. The gross fiscal deficit of the Central Government has been more than 8 per cent of GDP since 1985-86, as compared with 6 per cent at the beginning of 1980s and 4 per cent in the mid-1970s.

TABLE 2.1

Budget deficit, revenue deficit, monetised deficit and gross fiscal deficit of the Central Government

(per cent of GDP at current market prices)

	Budget Deficit	Revenue Deficit	Monetised Deficit	Gross Fiscal Deficit
1975-76 . .	0.5	1.1	0.3	4.1
1980-81 . .	1.9	1.5	2.6	6.2
1981-82 . .	0.9	0.2	2.0	5.4
1982-83 . .	0.9	0.7	1.9	6.0
1983-84 . .	0.7	1.2	1.9	6.3
1984-85 . .	1.6	1.8	2.6	7.5
Average Sixth Plan . .	1.2	1.1	2.2	6.3
1985-86 . .	2.0	2.2	2.4	8.3
1986-87 . .	2.8	2.7	2.4	9.0
1987-88 . .	1.7	2.7	2.0	8.1
1988-89 . .	1.4	2.7	1.6	7.8
1989-90 . .	2.4	2.6	3.1	7.9
Average Seventh Plan . .	2.1	2.6	2.3	8.2
1990-91 (R.E.) .	2.0	3.3	2.8	8.2
1990-91 (Prov. Act.)	2.1	3.5	2.8	8.4
1991-92 (B.E.) .	1.3	2.3	1·3	6.2

NOTE : GDP at current market prices is estimated to grow at 15 per cent in 1991-92.

2.4 Such a fiscal situation has become unsustainable. Interest payments on accumulated debts constitute about 24 per cent of total expenditure of the Central Government. Unless firmly dealt with by checking expenditure and raising revenues, such a situation would result in the absorption of an increasing proportion of Government resources necessitating higher borrowings simply to service the past debts, thus pushing the Government into a debt-trap. The unabated growth of Government expenditure, particularly non-plan expenditure, has been the main reason for the country falling into the present fiscal crisis. A comparison of the Seventh Plan projections of selected fiscal indicators as annualised in the Long-Term Fiscal Policy (LTFP) document with the actuals, reveals that throughout the Seventh Plan period, the balance from current revenue (BCR) remained negative and even deteriorated to (—)1.2 percent of GDP in 1989-90, the terminal year of Seventh Plan, as compared with the projection of a positive BCR of 0.2 per cent of GDP. The comparison also reveals that the performance of direct taxes has been lower than the targets. In financing the Seventh Plan, the shares of domestic borrowings and budgetary deficit far exceeded the targets. Causatively, non-plan revenue expenditure, particularly on defence, interest payments and food and fertiliser subsidies rose sharply and exceeded the targets. The process of fiscal adjustment cannot be postponed any further. In the present scenario, there are no soft options and no time to lose.

2.5 While the situation was bad enough in the first quarter of 1991 itself, the delay in the presentation of the regular budget for 1991-92 delayed the introduction of major adjustment policies. The Interim Budget presented to Parliament in March, 1991 did aim at a substantial reduction in the fiscal deficit, but because of its iterim nature, it did not contain major policies to ensure realisation of the projected reduction. Almost four crucial months were thus lost before the Government could present the regular Budget to Parliament on July 24, 1991.

2.6 The regular Budget for 1991-92 took a bold step in the direction of correcting the fiscal imbalance. It envisaged a reduction in the fiscal deficit by nearly two percentage points of GDP, from 8.4 per cent in 1990-91 (RE) to 6.5 per cent in 1991-92 (based on the projections of GDP at that time). This involved a fiscal correction of nearly Rs. 12,000 crore. This magnitude of fiscal correction can be considered unprecedented inasmuch as only 8 months of the current fiscal year remained to accomplish the task. The Budget laid stress on fiscal adjustment being supported by essential reforms in economic policy and management. While it contained proposals for raising additional revenue, most of the reduction in fiscal deficit was sought to be achieved through reduction in non-plan expenditure. The important policy initiatives introduced in the Budget for correcting the fiscal imbalance are briefly listed below.

(i) Reduction in the fertiliser subsidy by increasing the average prices of fertilisers by 30 per cent (except for marginal and small farmers).

(ii) Abolition of Cash Compensatory Support for exports.

(iii) Abolition of subsidy on sugar distributed through the Public Distribution System by increasing the price by 85 paise per kg to Rs. 6.10 per kg.

(iv) Offering of upto 20 per cent of Government equity in selected public sector undertakings to mutual funds and investment institutions in the public sector . This is estimated to fetch the Government Rs. 2,500 crore.

(v) A 20 per cent increase in the prices of motor spirit, domestic LPG and aviation turbine fuel for domestic use.

(vi) Adjustment of tax rates to yield an additional net revenue of Rs. 2,005 crore to the Centre.

2.7 As a result of these adjustments, the provision for non-plan expenditure, excluding interest payments, in the current year represents a reduction of 4.9 per cent compared with the provisions in the revised estimates for 1990-91, and a reduction of almost 15 per cent in relation to what would have had to be provided, but for the specific correction.

2.8 As a part of the Government's policy to supplement fiscal adjustment by structural reforms in economic policy and management, the Government initiated steps after the presentation of the budget to prioritise the activities and schemes both on plan and non-plan side to identify those which could be eliminated or reduced in size. In September, 1991 the Government had also imposed a 5 per cent cut on the expenditure provisions contained in the sanctioned Budget estimates for 1991-92 of all Ministries/Departments. Only a few items of expenditure, such as, statutory grants to State Governments, block grants and loans for State Plan schemes, interest payments and pension payments were exempted from the expenditure cut.

2.9 The Finance Minister in his statement in Parliament on 16th December, 1991 had indicated that the fiscal correction would be continued further in 1992-93 and that the burden of achieving reduction in fiscal deficit would fall heavily on expenditure side.

Budgetary Developments in 1990-91

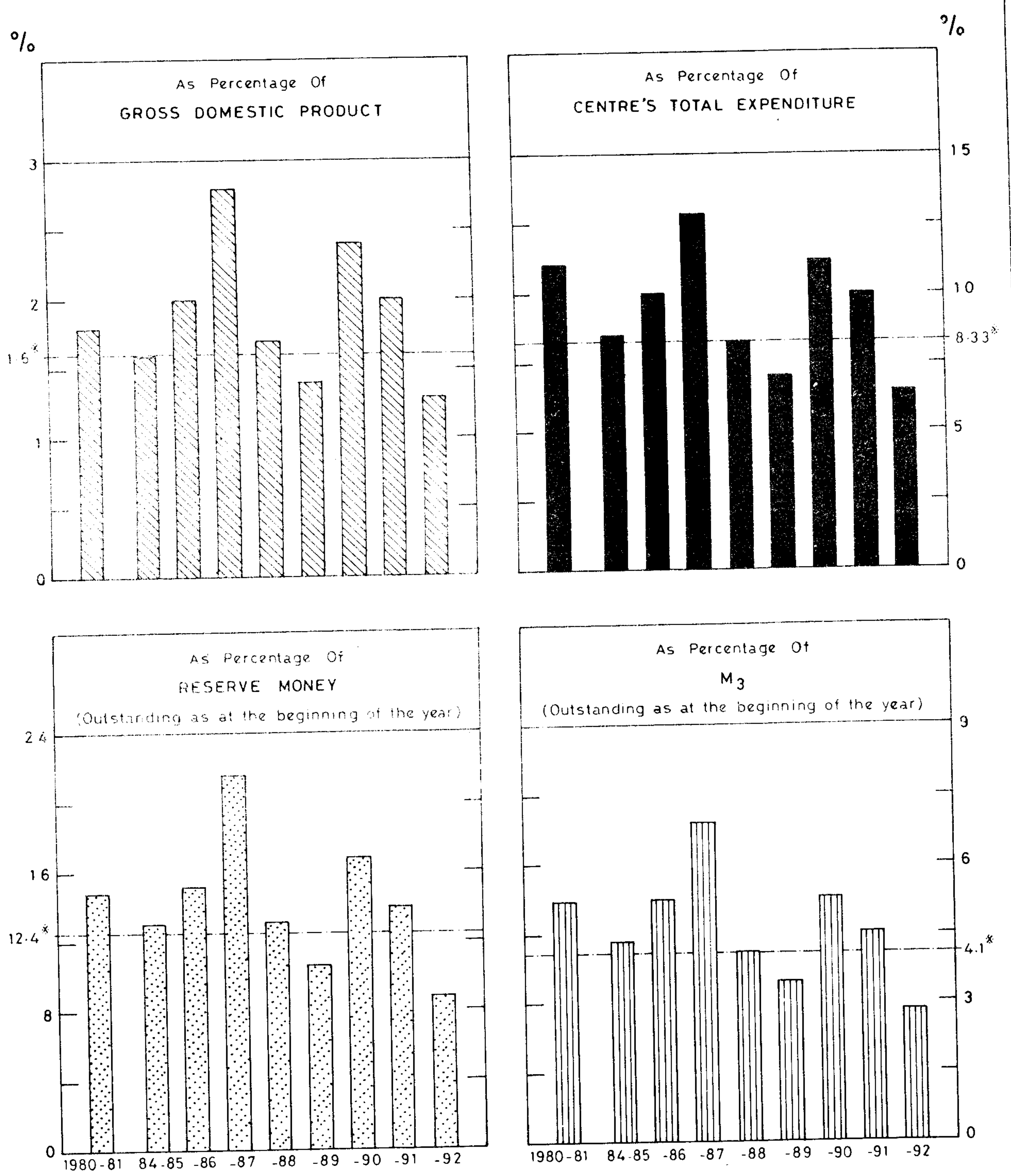
Centre and States Combined

2.10 The combined budgetary transactions of the Centre and the State Governments in 1990-91 (RE) revealed no marked departure from the deteriorating fiscal imbalance that had become characteristic of the entire period of the eighties, particularly the late eighties. The combined budgetary deficit of the Centre and the States was considerably higher than that envisaged at the time of formulation of the respective budgets. The growing budgetary deficit is mainly attributable to a near stagnant current revenue-GDP ratio and a continuous increase in the expenditure-GDP ratio. The gap in these ratios which was 9 per cent of GDP in 1980-81, reached the level of nearly 13 per cent in 1990-91 (RE). This gap broadly conforms to the concept of gross fiscal deficit used internationally.

2.11 The near stagnant current revenue-GDP ratio is mainly the result of stagnant direct tax-GDP ratio. While direct tax-GDP ratio increased from 2.4 per cent in 1980-81 to 2.5 per cent in 1990-91(RE), indirect tax-GDP ratio registered an increase from 12.2 per cent to 14.3 per cent in the same period. The phenomenal growth in the expenditure of the Centre and the States was the offshoot of the manner in which the gap in resources was being financed. Over 75 per cent of the resource gap of Rs. 67,170 crore was financed by domestic borrowings, 7 per cent from external assistance and 18 per cent from deficit financing. In the late eighties, the dependence on deficit financing had increased dramatically.

2.12 Continued dependence on domestic borrowings to meet the major portion of the gap in resources had resulted in a significant increase in interest payments. Interest payments, as a percentage of total expenditure of the Centre and States, increased from 7.6 per cent in 1984-85 to nearly 14 per cent in 1990-91 (RE). The burden of interest payments comes out more clearly when seen in relation to non-developmental expenditure. As a proportion of non-developmental expenditure, interest payments amounted to over 35 per cent in 1990-91. This is the major factor which has led to an increase in the proportion of non-developmental expenditure in total expenditure to nearly 40 per cent in 1990-91 (RE). One disconcerting feature of the finances of the Centre and the States in 1990-91 (RE) is a marked increase of 20 per cent in non-developmental expenditure over 1989-90 as compared to only 9.6 per cent increase in developmental expenditure (Table 2.2).

CENTRE'S BUDGETARY DEFICIT



* Average for the period 1980-81 — 91-92

TABLE 2.2

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

(Rs. Crore)

	1980-81	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91 (BE)	1990-91 (RE)	
I. Total Outlay	**36845**	**72825**	**83961**	**100790**	**112169**	**130048**	**158107**	**176191**	**179443**	**198160**
	27.1	31.5	32.0	34.4	33.7	33.0	35.1	33.3	33.9	32.5
(a) Developmental	24426	48085	53397	63778	68801	79548	98501	107993	107945	116726
(b) Non-Developmental	12419	24740	30564	37012	43368	50500	59606	68198	71498	81434
II. Current Revenue	**24563**	**47098**	**56773**	**64823**	**73485**	**85714**	**103115**	**117835**	**112273**	**132412**
	18.1	20.4	21.6	22.1	22.1	21.7	22.9	22.3	21.2	21.7
(a) Tax Revenue	19844	35813	43267	49540	56976	66925	77693	89183	89303	102896
	14.6	15.5	16.5	16.9	17.1	17.0	17.2	16.8	16.9	16.9
(i) Direct Taxes	3268	5329	6252	6890	7483	9757	11165	13047	13397	15338
(ii) Indirect Taxes	16576	30484	37015	42650	49493	57168	66528	76136	75906	87558
(b) Non-Tax Revenue	4719	11285	13506	15283	16509	18789	25422	28672	22970	29516
III. Gap (I—II)	**12282**	**25727**	**27188**	**35967**	**38684**	**44334**	**54992**	**58336**	**67170**	**65748**
	9.0	**11.1**	**10.4**	**12.3**	**11.6**	**11.2**	**12.2**	**11.0**	**12.7**	**10.8**
Financed by :										
(i) Domestic Capital Receipts	7161	18765	21899	24439	29415	36172	40812	45010	50517	50424
(ii) Net External Assistance	1670	1857	1850	2378	3765	3060	3567	4327	4806	4378
(iii) Budgetary Deficit	3451	5105	3439	9150	5504	5102	10613	8999	11847	10946
	2.5	2.2	1.3	3.1	1.7	1.3	2.4	1.7	2.2	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 decimals 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

2.13 The 1990-91 was a difficult year for the Centre. The Gulf crisis gave a major jolt to the already precarious financial position. In addition to imposing an additional burden on foreign exchange, the Government had to spend Rs. 300 crore on repatriating Indians stranded in Kuwait. The recommendations of the Ninth Finance Commission placed an additional burden in the form of providing debt relief to the States to the tune of Rs. 966 crore. Despite numerous additional resource mobilisation and economy measures initiated by the Government, 1990-91 represented a disquieting picture of shortfalls in revenue while expenditure continued to be incurred as budgeted. There was a shortfall of over Rs. 4,3[illegible] crore in current revenue, while expenditure exceeded the budget estimate by Rs. 5,728 crore. As a result, the deficit exceeded the budget estimate of Rs. 7,206 crore by Rs. 3,566 crore.

2.14 Another disquieting feature of the Centre's finances is the phenomenon of growing deficits on the revenue account. While revenue receipts grew on an average by 16.6 per cent per annum during 1980-81 to 1990-91 (RE), the growth in revenue expenditure was 17.1 per cent. The revenue deficit-GDP ratio reached 3.3 per cent in 1990-91 (RE) as compared with 1.5 per cent in 1980-81 (Table 2.3).

TABLE 2.3

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

	1980-81	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91 (R.E.)	1991-92 (B.E.)
1. Tax revenue (Net of States' share)	**6.9**	**7.5**	**7.6**	**8.1**	**8.3**	**8.4**	**8.6**	**8.5**	**8.4**	**8.6**
2. Non-Tax revenue	**2.5**	**2.4**	**2.9**	**3.1**	**3.4**	**3.1**	**2.9**	**3.5**	**2.8**	**2.9**
3. Total current revenue (1+2)	**9.4**	**9.9**	**10.5**	**11.1**	**11.7**	**11.5**	**11.4**	**12.0**	**11.2**	**11.5**
4. Total current expenditure	**10.9**	**11.1**	**12.3**	**13.3**	**14.4**	**14.2**	**14.1**	**14.6**	**14.5**	**13.8**
(a) Interest payments	2.0	2.3	2.6	2.9	3.2	3.4	3.6	3.9	4.1	4.5
(b) Subsidies	1.2	1.3	1.6	1.8	1.9	1.8	2.0	2.4	2.0	1.4
(c) Defence expenditure	2.6	2.7	2.8	2.9	3.4	3.0	2.9	2.6	2.4	2.1
(d) Grants to States & UTs	2.1	2.1	2.3	2.7	2.6	2.8	2.6	1.9	2.5	2.5
(e) Others	3.2	2.5	3.1	3.1	3.3	3.3	3.0	3.8	3.5	3.2
5. Revenue Account surplus (+)/deficit (—) [3—4]	—1.5	—1.2	—1.8	—2.2	—2.7	—2.7	—2.7	—2.6	—3.3	—2.3

Note : Figures may not add up to total because of rounding.

2.15 Prudent fiscal management demands that revenue receipts should not only meet revenue expenditure but also leave a surplus for meeting capital expenditure. Contrary to this, there has been diversion of high cost borrowings to meet the deficit on revenue account without any return flow to service the borrowings.

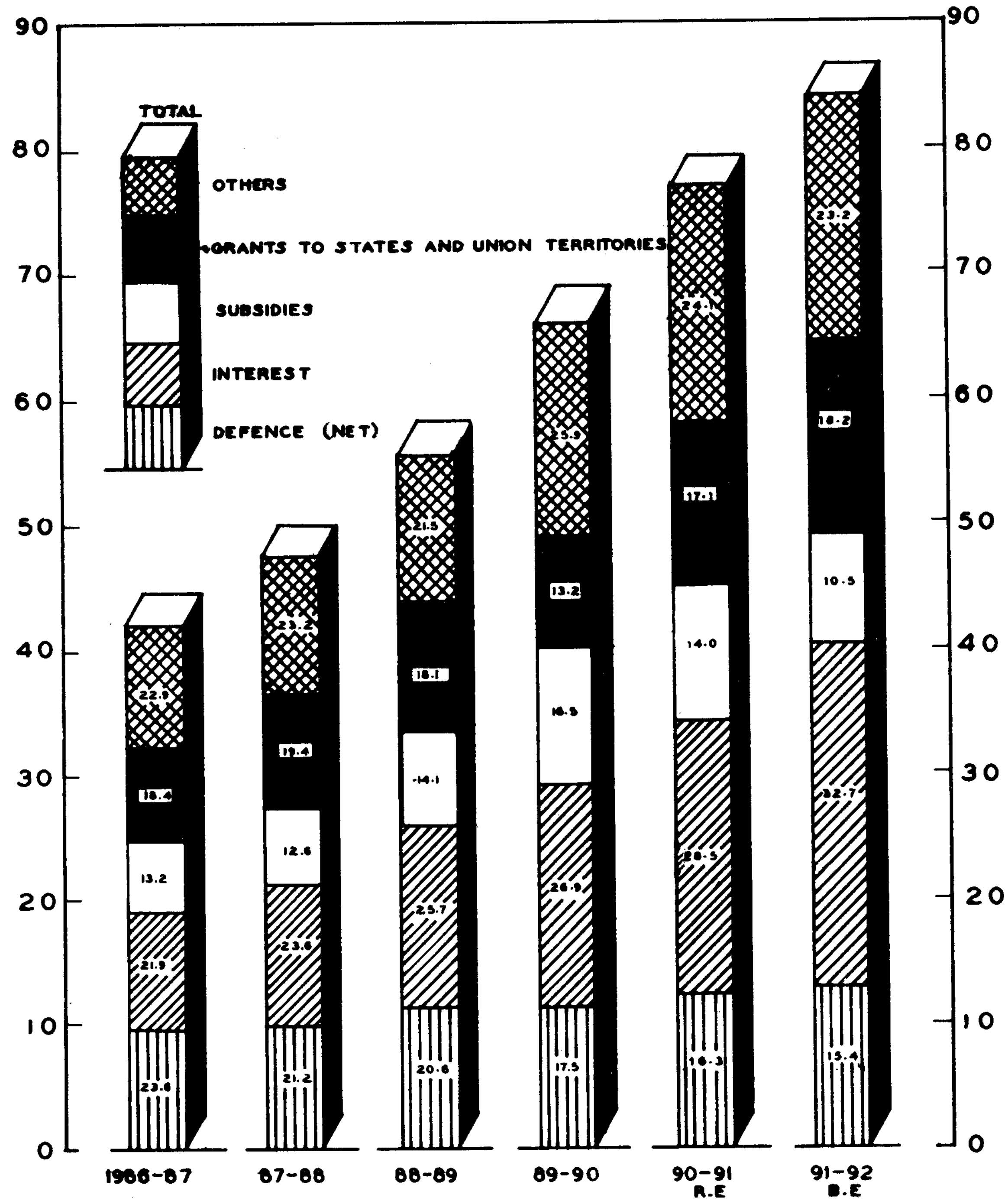
States and Union Territories

2.16 There was deterioration in the finances of the States and Union Territories with the budgetary deficit touching Rs. 1,076 crore in 1990-91 (RE) as compared with only Rs. 19 crore in 1989-90. There was an increase in current revenue as compared with the budget estimate, but this was entirely due to a substantial increase in the grants from the Centre. One disturbing feature of the State finances is the substantial deterioration in the internal generation of resources by State Public Undertakings. The internal generation of resources amounted to a negative Rs. 1,700 crore in 1990-91 (RE) as compared with a positive figure of Rs. 874 crore in 1989-90. While non-developmental expenditure increased by 24.5 per cent over 1989-90, developmental expenditure increased by 14.8 per cent.

CENTRE'S REVENUE EXPENDITURE

PERCENTAGE DISTRIBUTION

RS. THOUSAND CRORE



Central Government Budgetary and Fiscal Developments 1991-92

2.17 The thrust of fiscal management in 1991-92 was to meet the challenges posed by the unparalleled fiscal crisis being faced by the country. The Budget, *inter-alia*, aimed at expenditure reduction and increase in Government income. Measures in the field of direct taxes were targeted at reversing the declining trend in the share of these taxes in total tax revenues and as a proportion of Gross Domestic Product. The objectives of changes in indirect tax regime were : reducing excessive reliance on customs duties for additional resource mobilisation; ensuring price stability for essential commodities and goods; curbing conspicuous consumption; encouraging indigenous industry and improving the competitiveness of the industrial sector particularly, the export-oriented industries. Accordingly, the overall impact of the proposals in 1991-92 Budget relating to excise and customs duties was revenue-negative for the Central Government. The Government announced the Voluntary Deposits (Immunities and Exemptions) Scheme to mobilise unaccounted money. To tackle the extraordinarily difficult situation in the balance of payments two schemes, viz., Remittances in Foreign Exchange (Immunities) Scheme 1991 and India Development Bonds Scheme 1991, were announced. The Budget also emphasised the need for rationalisation of the tax system including, reduction in the plethora of concessions, and also the need to bring the rates of income tax at various slabs of income to more appropriate levels.

Direct Taxes

2.18 In order to give tax evaders an opportunity, the Government announced a scheme under which any person could make a deposit with the National Housing Bank on or before the 30th November, 1991. To give effect to the scheme, necessary legislation was passed by Parliament. The Voluntary Deposits(Immunities and Exemptions) Act, 1991 provided that any person could make a deposit with the bank; the bank would credit 40 per cent of the amount of such deposit to a special fund for financing slum clearance and low cost housing for the poor and the depositor could utilise the rest of the deposit for any purpose specified by him. The amounts deposited would be provided complete immunity from enquiry and investigation. Subsequently, the operation of the scheme was extended to the end of January, 1991. In addition, suitable amendments were made to Section 273-A of the Income Tax Act to provide for those who had already availed of the facility of waiver of penalty and interest on the amount disclosed once in life time. To cut down delay in the disposal of applications by the Settlement Commission, the provision for objecting to the admission of applications was deleted. This will encourage persons to go to the Settlement Commission to declare undisclosed income and wealth. Further, to expedite the process, a time limit of 120 days was fixed within which the Commissioner of Income Tax has to furnish a report to the Settlement Commission.

2.19 To encourage investment in priority areas such as, low and middle income group housing, highways, roads and bridges, non-conventional energy, school buildings and supply of drinking water, suitable tax exemptions were announced in the Budget to assessees who reinvested their profits in these areas.

2.20 In recognition of the importance of education and social research and their role in development, the scope of tax concessions was expanded. Cent per cent deduction was allowed in respect of sums paid for research in these areas, whether related to business or not, to any university, college or other approved institution. To encourage publication of quality text books in various Indian languages, as also to encourage the publishing industry, the earlier provisions of allowing deduction of 20 per cent of profits from publication of books for a period of five years and a 25 per cent deduction from professional income of authors of text books were revived.

2.21 Off shore country funds are regarded as an important source of foreign institutional investment, particularly from non-resident Indians. To make them attractive, the rate of tax on dividend income received from such investment was reduced from 25 per cent to 10 per cent and tax on long-term capital gains to 10 per cent from the earlier effective rate of 45 per cent applicable to a majority of the cases.

2.22 Because of India's historical involvement with the struggle of the black majority in South Africa, donations made to AFRICA Fund were made eligible for 100 per cent deduction under the Income Tax Act. The deduction available under the Income Tax Act in income in respect of totally and partially blind or physically handicapped persons was raised from Rs. 15,000 to Rs. 20,000.

2.23 For promotion of housing activity, a high priority sector, the benefit of tax rebate under Section 88 of the Income Tax Act was extended to contractual schemes floated by public housing corporations along the lines of the Home Loan Account Scheme of the National Housing Bank. Further, the tax rebate will also be available in respect of instalments/

repayments of loans towards cost of land and also in cases where the house was purchased or constructed before 1 April, 1987.

2.24 To increase the export potential, tax concessions available under Section 80 HHC were extended to software industry and also to processed minerals. The benefit of Section 80-O was also extended to non-corporate assessees on foreign exchange earned for export of professional services.

2.25 With a view to developing tourist infrastructure in hilly and remote areas, the Budget proposed to exempt from expenditure tax for a period of 10 years, expenditure incurred in new approved hotels set up in these areas. Further, these hotels were allowed a deduction of 50 per cent from their profit against the normal rate of 30 per cent.

2.26 To encourage the development of a healthy capital market, the basic deduction of Rs. 10,000 in respect of long-term capital gains was raised to Rs. 15,000. 5-2

2.27 As mentioned earlier, the share of direct taxes in the total tax revenue and as a proportion of GDP had witnessed a decline in recent years. Reversal of this trend is necessary for achieving a balance in our fiscal system besides restoring equity. With this end in view, a number of measures were announced in the Budget for 1991-92. The scheme of tax deduction at source was proposed to be extended to new areas, viz., payments made in the nature of commissions, interest paid by banks on time deposits and withdrawals from the National Savings Scheme. To avoid inconvenience to small depositors, tax deduction at source was limited to payments in excess of Rs.2,500 per annum. The existing provision for offsetting short-term capital losses was observed to have encouraged tax avoidance. It was therefore proposed that any loss on transfer of capital asset could be set off only against gains from transfer of another capital asset. The existing rules of valuation of assets aim at capturing the market value in case of assets held by an individual. On the other hand, the valuation of assets held by a group of individuals through an investment company, is based on book value. To remove this anomaly, the Budget provided the valuation of unquoted shares of an investment company and the determination of the break-up value of the share after revaluing the assets at their market value.

2.28 It has been observed that there has been a phenomenal growth in the output, value added and the profits of the corporate sector in recent years. In the normal course, it should have commensurately reflected in the tax-collection from the corporate sector. This has not happened and has been a matter of concern. The Budget provided for an increase of 5 percentage points in the tax rate both for the widely-held and closely-held companies. The distinction between trading companies and industrial companies for the purpose of corporate tax rate was also removed.

2.29 Despite relative labour abundance, the economy has shown a shift towards higher capital intensity. Fiscal incentives provided by the Government have indeed, helped in this capital bias. It is in this background that the Budget envisaged a reduction in the rates of depreciation for plant and machinery to 25 per cent from the existing 33.3 per cent and from 50 per cent to 40 per cent in the case of motor buses, motor taxies and other equipments. However, no change was proposed in the rate of 100 per cent depreciation for energy saving devices and renewable energy devices.

2.30 Tax exemption support which had been given to special institutions like the IDBI for their development was considered to be no longer necessary and was withdrawn. In order to mobilise additional resources, interest tax was also revived. To discourage conspicuous consumption the scope of the expenditure tax was extended to cover expenditure incurred on food and drinks in and from airconditioned restaurants.

Indirect Taxes

2.31 In recent years, there has been a growing reliance on indirect taxes for additional resource mobilisation. These measures are observed to escalate costs, fuel inflation and are sometimes regressive in impact. An attempt was made to break away from this trend in the 1991-92 Budget. The overall impact of the proposals relating to excise and customs duties was revenue-negative.

2.32 The need to rationalise and simplify the procedures, rules and regulations pertaining to indirect taxes, was recognised. It was, therefore, proposed to formulate concrete measures as a part of structural reforms in the tax system and an indication was given that a more broad-based effort may have to be evolved.

2.33 In the case of customs duties, major proposals related to (i) limiting the *ad-valorem* rates of customs duty (basic plus auxiliary) to a maximum of 150 per cent; (ii) rationalisation of auxiliary duties; (iii) reduction in duty rates on capital goods; and (iv) incentives for technology upgradation, export production, marine and leather industries.

2.34 To reduce extra-ordinarily high protection given to indigenous industries, the *ad-valorem* rate of basic plus auxiliary duties of customs were reduced to a maximum of 150 per cent, except on imported alcoholic beverages and passenger baggage.

2.35 As a measure to reverse the increases in auxiliary customs duties, with effect from 15 December, 1990 and to remove anomalies in the increases, a duty relief of 10 percentage points to almost every item which had earlier suffered from an increase of 20 percentage points was envisaged. Further, in case of items considered important from the points of view of environmental protection, export promotion and saving of foreign exchange, it was proposed to roll back these rates to the levels prevailing before 15th December, 1990. These include certain items of printing and the news paper industry, machinery for fuel injection equipment, waste paper, wood in the rough, jigat, ethylene etc.

2.36 In case of capital goods and components, import duty was reduced by 5 percentage points. For the promotion of technology, the list of items under the existing Technology Upgradation Scheme for import of capital equipment with fiscal relief was expanded.

2.37 For promotion of exports, excise duties on goods from 100 per cent export-oriented units, permitted to be sold in the domestic market was reduced to a level equivalent to half of import duty leviable on such goods subject, *inter-alia*, to the condition that the duty would not be less than the excise duty levied on similar items produced in the domestic tariff area.

2.38 To promote the growth of marine products, the list of specified industry machinery items, which were eligible for fiscal relief by way of customs duty concessions, was expanded by adding a few more items in the list. Specified yarns used for making fishnets were also fully exempted from excise duty. In order to encourage growth of the finished leather industry and also as a measure of export promotion, it was proposed to reduce basic and auxiliary duties of customs on polyurethane film and foil as well as polyols, isocyanates and leather preservatives (both TCMTB and PCMC). It was also proposed to extend the concessional customs duty, available to specified capital goods required by the leather industry to a few more items of such machinery. Customs duty on the import of raw materials for the manufacture of cubic zirconium was reduced in order to encourage its indigenous manufacture and employment. For promotion of tourism, it was proposed to reduce import duty on adventure sports equipment. In keeping with the exchange rate adjustments of the Rupee effected in early July, it was proposed to raise the baggage allowance including duty free limits for bonafide gifts. Standard newsprint was exempted from import duty and the monetary limit of duty free import of photographic goods by accredited cameramen of the Press was raised.

2.39 Major changes in respect of excise duties related to the promotion of agro-based industries, extension of MODVAT, curbing of conspicous consumption and tobacco and tobacco-based products and resource mobilisation. Some proposals were meant to provide a check on the increase in the prices of essential commodities.

2.40 A number of concessions in excise duty were proposed to promote agro-based industries and to control prices of agro-based industrial products. These include the exemption of a large number of agro-based products from central excise duty, relief to agro-based jute industry in the form of lower excise duty on products which contain a minimum of 35 per cent jute fibre, extension of excise duty concessions to a few more bulk pesticides and pesticide intermediaries, increase in 'money credit' in case of rice bran oil used in the manufacture of soap, and inclusion of more non-conventional oils and solvent extracted oils in the 'money credit' scheme.

2.41 Keeping in view the general demand for extension of MODVAT scheme, it was proposed to re-introduce the scheme in respect of aerated water and also to extend it to cover man-made fibres and filament yarn in respect of their inputs. It was also proposed to adjust duty rates on those fibres and yarns, whose duties were not raised in December, 1990, in order to retain collection from excise duties at the earlier level.

2.42 Keeping in view the objective that indirect taxes do not unduly contribute to the price rise of essential commodities, edible oils, electric bulbs, and energy efficient chullas were exempted from excise duties. The total exemption from excise duty earlier available to utensils made of aluminium, copper and stainless steel was extended to certain other household items e.g. tiffin boxes. Besides, excise duty was reduced on two wheelers of engine capacity exceeding 50 CC but not exceeding 75 CC. Khandsari sugar was excluded from the list of items, chargeable to additional excise duty. Excise duty on specified tableware produced by semi-automatic process and glassware by mouth blown process was also reduced.

2.43 In order to encourage the substitution of aluminium for wood in construction, aluminium doors, windows and their frames were fully exempted from excise duty. Various components containing more than 25 per cent of fly ash or phosphogypsum were fully exempted from excise duty. Excise duty on phosphogypsum was exempted to promote its use by farmers.

2.44 Duty rates on refrigerators, air-conditioners including compressors, motor cars, audio & video cassette tapes, picture tubes, colour television sets, VCRs and VCPs were raised to curb conspicuous consumption.

2.45 Excise duties on cigarette and biris were raised to curb smoking in view of adverse effect on health. Excise duty on pan massala was also raised. On health considerations, five specified anti-pileptic formulations were fully exempted from excise duty.

2.46 For revenue mobilisation, special excise duty was raised from 5 to 10 percent of the basic excise duty. Mass consumption items, like tea, coffee, sugar, kerosene, matches, vanaspati, diesel and two wheelers were exempted from this hike. Excise duty on polypropylene, monofilament and multifilament yarns was also raised. Additional excise duty on cotton fabrics containing 40 per cent or less of polyester was increased to the same rate as applicable to cotton fabrics containing more than 40 per cent of polyester. Excise duty on free sale sugar was raised as the duty on specific rate basis had remained unchanged over a long period. Excise duty on molasses was raised as it was found to be used largely by the alcohol industry.

2.47 While moving for the consideration of the Finance Bill, the Finance Minister proposed several amendments to direct and indirect budgetary tax proposals. A concession of Rs. 20 crore was proposed to the film industry by reducing customs duty on imported jumbo colour film. Duty reliefs were also provided to fruits, pulp-based beverages, soups, broths and powders of fruits and vegetables, soaps, drugs and pharmaceuticals, polyethylene terephthalate (PTA) chips users, and television and fuel injection equipment manufacturers. The revenue loss on accouut of these was estimated at about Rs. 30 crore.

Additional Resource Mobilisation

2.48 The additional resource mobilisation (ARM) measures undertaken in the 1991-92 Budget were estimated to yield Rs. 2,617 crore. A distinct feature of this year's additional resource mobilisation effort is the greater reliance on direct taxes, particularly corporation tax as compared with indirect taxes. In customs duties, there is a net loss of revenue on account of concessions announced in the Budget. Details are given in Table 2.4.

TABLE 2.4

Additional Resource Mobilisation through Central and Railway Budgets for 1991-92

(Rs. Crore)

	Centre's share	States' share	Total
I. Taxes	2005	612	2617
(a) Direct Taxes .	1332	97	1429
(i) Corporation Tax . .	1304	—	1304
(ii) Income Tax .	28	97	125
(b) Indirect Taxes .	673	515	1188
(i) Customs duties	—510	—	—510
(ii) Union Excise duties . .	473	515	988
(iii) Other Taxes and duties . .	710	—	710
II. Revision in the Postal & Telecommunications Tariffs and Railway Fares and Freights . .	584	—	584
(a) Railways . .	584	—	584
(b) Post and Telecommunications . .	—	—	—
III. Total (I+II) . .	2589	612	3201

2.49 The Railway Budget for 1991-92 proposed increases in the rates of goods traffic, passenger fares, parcel and luggage rates. These proposals were estimated to yield an additional revenue of Rs. 584 crore to the Railways. The total additional revenue through revisions in tax rates and revisions in railway fares and freights was thus estimated at Rs. 3,201 crore in 1991-92.

Budgetary Developments 1991-92

Centre

2.50 As mentioned earlier, the fiscal situation had assumed a crisis proportion by the beginning of the fiscal year 1991-92. The Budget of the Central Government presented in July, 1991 initiated major correctives to put it on an even keel. The Budget envisaged a reduction in the fiscal deficit from 8.4 per cent of GDP in 1990-91 (RE) to 6.5 per cent of GDP in 1991-92. The budgetary deficit is sought to be reduced from 2.0 per cent of GDP in 1990-91 (RE) to 1.3 per cent of GDP. The policy initiatives taken by the Government towards this end have been enumerated in para 2.6.

2.51 Aggregate resources of the Central Government, including net receipts of Rs. 2,005 crore from additional resource mobilisation and Rs. 15,984 crore from internal and extra-budgetary resources of public sector were estimated at Rs. 1,31,402 crore, about 11.3 per cent higher than the revised estimates for 1990-91. Aggregate disbursements were estimated at Rs. 1,39,121 crore, 8 per cent higher than the revised estimates for 1990-91. The containment of disbursements through a series of policy measures is expected to result in a lower budgetary deficit of Rs. 7,719 crore. The overall gap in resources of the Centre and its public enterprises was estimated at Rs. 56,442 crore. While tax revenue was estimated to grow by 18.5 per cent, non-tax revenue was estimated to show a higher increase of 20.1 per cent as compared with 1990-91 revised estimates. The targeted increases in both tax and non-tax revenue are considerably higher than the increase of 15.6 per cent and 4.6 per cent, respectively, attained in 1990-91 (RE). A noteworthy feature of the Budget is the modest increase of 8.0 per cent in total expenditure as compared with 1990-91 (RE).

2.52 The Central Plan outlay for 1991-92 (BE) was stepped up by 12.9 per cent to Rs. 42,969 crore, over the outlay of Rs. 38,053 crore in 1990-91 (RE). The budgetary support for the Central Plan outlay had been reduced to 44.3 per cent from 46.2 per cent in 1990-91 (RE). Over the years, there had been a gradual reduction in the budgetary support. In 1985-86, the budgetary support to the Central Plan was 65.8 per cent. This is in keeping with the policy of the Government to bring accountability and self reliance in the working of public enterprises. In terms of sectoral allocation, the emphasis remains on the development of agriculture, energy, industry and other infrastructural facilities. The outlays on science, technology and environment and social services were stepped up significantly by 28.1 per cent and 37.1 per cent, respectively, over revised estimates for 1990-91.

Savings and Capital Formation

2.53 The Economic and Functional Classification of the Central Government's Budget reveals a steady decline in the proportion of expenditure on capital formation (Table 2.5). Gross capital formation of the Central Government which was over 40 per cent of the total expenditure in the first half of the 1980s started declining from 1986-87 onwards. This trend continues in 1991-92. It is mainly on account of an increase in the proportion of transfer payments, particularly interest payments. In contrast, the share of consumption expenditure remained fairly stable. A welcome feature of the trends in consumption expenditure is the marginal fall in the share of consumption expenditure in 1991-92 (BE) by 0.6 per cent, to 20.8 per cent. This may be attributed to the marginal fall in defence consumption expenditure, which accounts for bulk of this category of expenditure.

TABLE 2.5

Economic Classification of Total Expenditure in Central Budget

(Rs. Crore)

	1980-81	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91 (R.E.)	1991-92 (B.E.)
1. Consumption Expenditure	**5174**	**8130**	**9428**	**11210**	**14665**	**16551**	**18763**	**20784**	**23102**	**24655**
	23.0	**22.6**	**21.5**	**21.1**	**22.9**	**23.5**	**23.0**	**21.9**	**21.4**	**20.8**
(a) Defence	3571	5823	6647	7962	10439	11875	13237	14298	15643	16227
	15.9	16.2	15.1	15.0	16.3	16.9	16.3	15.0	14.5	13.7
(b) Other Government Administration	1603	2307	2781	3248	4226	4676	5526	6486	7459	8428
	7.1	6.4	6.3	6.1	6.6	6.7	6.8	6.8	6.9	7.1
2. Transfer Payments (Current)	**6912**	**11436**	**14938**	**18347**	**21243**	**25380**	**31399**	**37877**	**46177**	**51207**
	30.7	**31.8**	**34.0**	**34.5**	**33.2**	**36.1**	**38.6**	**39.8**	**42.8**	**43.2**
(a) Interest Payments	2253	4450	5646	7090	8648	10702	13347	16525	20316	25835
	10.0	12.4	12.9	13.3	13.5	15.2	16.4	17.4	18.8	21.8
(b) Subsidies	1912	2886	4484	5070	5542	5976	7859	10862	10722	8789
	8.5	8.0	10.2	9.5	8.7	8.5	9.7	11.4	9.9	7.4
(c) Grants to States & UTs (including local bodies)	1810	2526	2863	3922	4205	4962	5831	5725	7997	8883
	8.0	7.0	6.5	7.4	6.6	7.1	7.2	6.0	7.4	7.5
(d) Others	937	1574	1945	2265	2848	3740	4362	4765	7142	7700
	4.2	4.4	4.4	4.3	4.4	5.3	5.4	5.0	6.6	6.5
3. Gross Capital Formation Out of Budgetary Resources	**9012**	**14702**	**17551**	**21477**	**24320**	**25770**	**28977**	**33012**	**35727**	**37414**
	40.1	**40.9**	**40.0**	**40.4**	**38.0**	**36.7**	**35.6**	**34.7**	**33.1**	**31.6**
(a) Physical Assets	1907	3356	4123	4558	5905	5961	7056	8136	8683	9750
	8.5	9.3	9.4	8.6	9.2	8.5	8.7	8.6	8.0	8.2
(b) Financial Assets	7105	11346	13428	16919	18415	19809	21921	24876	27044	27664
	31.6	31.5	30.6	31.9	28.8	28.2	26.9	26.2	25.1	23.3
4. Others	**1397**	**1720**	**1962**	**2078**	**3795**	**2603**	**2263**	**3376**	**2923**	**5225**
	6.2	**4.8**	**4.5**	**3.9**	**5.9**	**3.7**	**2.8**	**3.6**	**2.7**	**4.4**
5. Total Expenditure	**22495**	**35988**	**43879**	**53112**	**64023**	**70304**	**81402**	**95049**	**107929**	**118501**

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

2.54 Details regarding capital formation and savings out of budgetary transactions of the Central Government are given in Table 2.6. Gross capital formation, which had shown an average increase of 18.8 per cent per annum during 1982-83 to 1985-86 started declining from 1986-87 and reached an all time low of 4.7 per cent in 1991-92 (BE). The gross savings of the Government, which turned negative for the first time in 1984-85, continue to remain so. However, an encouraging feature is the substantial reduction in gross dissavings by over Rs. 4000 crore in 1991-92 (BE). As a result of this, there is a break in the growing trend witnessed during the eighties in the gap between capital formation and savings of the Central Government. The gap is mostly financed by domestic capital receipts, followed by budgetary deficit and draft on foreign savings, in that order.

TABLE 2.6

Capital Formation by the Central Government and its Financing

(Rs. Crore)

	1980-81	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91 (RE)	1991-92 (BE)
I. Gross Capital Formation out of Budgetary Resources of Central Govt.	**9012**	**14702**	**17551**	**21477**	**24320**	**25770**	**28977**	**33012**	**35727**	**37414**
	24.7	**18.5**	**19.4**	**22.4**	**13.2**	**6.0**	**12.4**	**13.9**	**8.2**	**4.7**
As per cent of gross domestic product at current market prices (new series)	6.6	7.1	7.6	8.2	8.3	7.7	7.3	7.3	6.7	6.1
(i) Gross capital formation by the Central Government	1907	3356	4123	4558	5905	5961	7056	8136	8683	9750
(ii) Financial assistance for capital formation in the rest of the economy	7105	11346	13428	16919	18415	19809	21921	24876	27044	27664
II. Gross Savings of the Central Govt.	**3**	**313**	**—963**	**—1441**	**—2852**	**—4294**	**—5722**	**—5142**	**—10092**	**—6065**
III. Gap (I—II)	**9009**	**14389**	**18514**	**22918**	**27172**	**30064**	**34699**	**38154**	**45819**	**43479**
	6.6	**6.9**	**8.0**	**8.7**	**9.3**	**9.0**	**8.8**	**8.5**	**8.7**	**7.1**
Financed by										
IV. Draft on other sectors of domestic economy	**7339**	**12778**	**16657**	**21068**	**24794**	**26299**	**31639**	**34831**	**41013**	**39101**
(i) Domestic capital receipts	4762	11361	12912	16131	16533	20483	25997	24239	30241	31382
(ii) Budgetary deficit	2577	1417	3745	4937	8261	5816	5642	10592	10772	7719
V. Draft on foreign savings.	**1670**	**1611**	**1857**	**1850**	**2378**	**3765**	**3060**	**3323**	**4806**	**4378**

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 increase 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

2.55 Against the backdrop of the massive fiscal adjustment undertaken by the Government, it would be relevant to briefly review Government's debt position. Table 2.7 summarises the position in regard to internal debt, external debt and total liabilities of the Central Government. Internal debt consists of market borrowings, treasury bills, special securities issued to the Reserve Bank and special bearer bonds. Other internal liabilities include small savings collections, provident funds, reserve funds and deposits.

TABLE 2.7

Outstanding Liabilities of the Central Government and Payments of Interest

(Rs. Crore)

	1980-81	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91 (RE)	1991-92 (BE)
1. Internal Liabilities (Outstanding)	**48451**	**80141**	**96804**	**119331**	**146247**	**172338**	**204025**	**239849**	**279528**	**318074**
	35.6	**38.6**	**41.8**	**45.5**	**49.9**	**51.7**	**51.7**	**53.2**	**52.8**	**52.2**
(a) Internal Debt	30864	50264	58537	71039	86312	98646	114498	133193	151352	169584
(i) Market Borrowings	15676	26394	30470	35352	40880	46743	55161	62565	70565	78065
(ii) Others	15188	23870	28067	35687	45432	51903	59337	70628	80787	91519
(b) Other Internal Liabilities	17587	29877	38267	48292	59935	73692	89527	106656	128176	148490
	12.9	14.4	16.5	18.4	20.5	22.1	22.7	23.7	24.2	24.4
2. External Debt (Outstanding)*	**11298**	**15120**	**16637**	**18153**	**20299**	**23223**	**25746**	**28343**	**31831**	**35122**
	8.3	**7.3**	**7.2**	**6.9**	**6.9**	**7.0**	**6.5**	**6.3**	**6.0**	**5.8**
3. Total Outstanding Liabilities (1+2)	**59749**	**95261**	**113441**	**137484**	**166546**	**195561**	**229771**	**268192**	**311359**	**353196**
	43.9	**45.9**	**49.0**	**52.4**	**56.9**	**58.7**	**58.3**	**59.5**	**58.8**	**58.0**
4. Gross Interest Payments	2604	4795	5749	7512	9246	11252	14278	17735	28150	27450
5. Net Interest Payments	809	2127	1786	2917	3893	5497	7297	9269	12277	16441
6. Gross Interest Payment as % of Total Expenditure	11.6	13.3	13.1	14.1	14.4	16.0	17.5	18.7	20.2	23.2
7. Net Interest Payment as % of Total Expenditure	3.6	5.9	4.1	5.5	6.1	7.8	9.0	9.8	11.4	13.9
Memorandum items										
External Debt (Outstanding) (Converted at year end exchange rates)	13479	20214	24004	26638	32312	36578	46838	54100	66017	N.A.
	9.9	9.7	10.4	10.2	11.0	11.0	11.9	12.0	12.9	

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

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

2. GDP (at current prices) for 1991-92 is estimated to grow by 15.0 per cent.

2.56 Outstanding internal liabilities, as a whole, registered a sharp increase in the eighties, from 35.6 per cent of GDP in 1980-81 to 52.2 per cent in 1991-92 (BE). The bulk of this increase was on account of a sharp increase in other internal liabilities (small savings, provident funds etc.) vis-a-vis market borrowings. The share of this category in total internal liabilities increased from 36.3 per cent in 1980-81 to 46.7 per cent in 1991-92 (BE). As the internal liabilities carry higher interest rates, this has also contributed in growing interest liabilities.

2.57 The outstanding external liabilities (at historical exchange rates) as a ratio of GDP started declining in the late eighties. The estimated outstanding external liabilities at the end of 1991-92 stood at 5.8 per cent of GDP compared with 8.3 per cent in 1980-81. However, this trend becomes worrisome when the outstanding external liabilities are expressed in terms of year-end exchange rates. The ratio of external liability of Central Government 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.

2.58 An offshoot of the growth in internal and external liabilities is the mounting burden of interest payments. While gross interest payments as a ratio of total government expenditure more than doubled between 1980-81 and 1991-92 to 23.2 per cent, net interest payments increased by four times, to 13.9 per cent, during the same period. As a result of the fiscal correction measures introduced by the Government, the outstanding internal and external liabilities in 1991-92 as ratio of GDP have shown a maginal fall to 58.0 per cent from 58.8 per cent in the previous year. However, this has not helped in reducing the net interest liability on accumulated debt. In 1991-92, it increased by over 2 percentage points of total expenditure. It would, indeed, take a few years before the reduced level of borrowing has a perceptible impact on the growing interest burden of the Government. It is imperative that the Government should pursue the policy of fiscal correction more vigorously in the coming years.

2.59 At the beginning of 1980s, assets and liabilities of the Central Government stood at around 44 per cent of GDP each. Since then, there has been a growing divergence between the two—the liabilities overtaking the assets. This gap, which relects deficit on revenue account, is estimated to reach a level of Rs. 90,299 crore at the end of 1991-92 (BE).

Finances of States and Union Territories

2.60 The overall budgetary deficit of the States and Union Territories taken together was estimated at Rs. 3,227 crore, nearly double the amount of deficit of Rs. 1,076 crore in 1990-91 (RE). There was a significant shortfall in additional resource mobilisation by the States as their budget proposals on the whole, fell short, of the amount indicated at the time of formulation of the annual plan. Their budgeted additional resource mobilisation amounted to just about Rs. 300 crore. An encourgaging feature, however, is the increase of 77.4 per cent in non-tax revenue over 1990-91 (RE).

2.61 Current revenues of the States, including internal generation of resources by their enterprises were estimated to increase by 16.3 per cent, to Rs. 72,271 crore, while aggregate disbursements were to rise by 14.6 per cent, to Rs. 96,111 crore. The resultant resource gap was thus estimated at Rs. 23,840 crore, or 3.9 per cent of GDP. More than 47 per cent of the gap was to be financed by loans from the Centre, 17.6 per cent from market loans, 8.9 per cent from provident funds and the remaining from other capital receipts.

2.62 The composition of aggregate expenditure of States and Union Territories in 1991-92 indicates a disquieting picture of the budgeted non-developmental expenditure to increase by 19.6 per cent against a 12.3 per cent increase in developmental expenditure over 1990-91 (RE). The ratio of developmental to aggregate expenditure dropped gradually to 67 per cent in 1991-92, from 74 per cent in 1983-84.

Centre and State Governments—Combined

2.63 The overall budgetary deficit of the Centre, States and Union Territories in 1991-92 (BE) was placed at Rs. 10,946 crore, lower by 7.6 per cent compared with the 1990-91 revised estimates. Aggregate receipts including borrowings were budgeted to increase by 11.7 per cent over 1990-91 (RE), to Rs. 1,87,214 crore while aggregate expenditure was estimated to increase by 10.4 per cent to Rs. 1,98,160 crore. Developmental expenditure was projected to rise by about 8.1 per cent and non-developmental expenditure by a larger 13.9 per cent.

2.64 The current revenue was estimated to increase by 17.9 per cent over 1990-91 (RE) to Rs. 1,32,412 crore. The gap between current revenue and disbursement, which denotes the total gap in the resources of the States and the Centre was estimated at Rs. 65,748 crore or 10.8 per cent of GDP.

Annual Plan 1991-92

2.65 The Annual Plan for 1991-92 provided for a total outlay of Rs.72,317 crore for the Centre, States and Union Territo ries, which is 17.6 per cent higher than the outlay in 1990-91(RE). The allocation for the Central Plan was Rs. 42,969 crore compared with Rs.38,052 crore in 1990-91(RE). The allocation for the States and Union Territory plan at Rs. 29,348 crore works out to 40.6 per cent of the total outlay. Details are given in Table 2.8.

TABLE 2.8

Annual Plan Outlay : Centre, States and Union Territories.

(Rs. crore)

Heads of Development	Annual Plan 1990-91(RE)		Annual Plan 1991-92	
	Amount	Percentage to total	Amount	Percentage to total
1. Agriculture and Allied Activities	3396	5.5	4473	6.2
2. Rural Development	4121	6.7	4442	6.1
3. Special Area Programmes	1027	1.7	1143	1.6
4. Irrigation and Flood Control	3837	6.2	4699	6.5
5. Energy	17999	29.3	21302	29.5
6. Industry and Minerals	8240	13.4	8618	11.9
7. Transport	8696	14.1	9916	13.7
8. Communications	3040	4.9	3385	4.7
9. Science, Technology and Environment	787	1.3	1018	1.4
10. General Economic Services	1032	1.7	1266	1.8
11. Social Services	9104	14.8	11790	16.3
12. General Services	239	0.4	265	0.3
Total	61518	100.0	72317	100.0

2.66 In the pattern of financing of the Annual Plan 1991-92, it was envisaged that domestic resources would finance 80.5 per cent of the outlay and that net inflow from abroad would contribute another 8.8 per cent. The remaining 10.7 per cent was estimated to be met through budgetary deficit. The contribution of the balance from current revenue at current rates of taxation was estimated to be a negative amount of Rs. 1412 crore but the contribution of public enterprises by way of generation of internal resources and through issue of bonds was estimated at Rs. 20,825 crore. The contribution from balance from current revenue being negative, a large proportion of domestic resources was estimated to come from borrowings. Details are given in Appendix Table 2.7.

Post Budget Developments

Supplementary Demands for Grants

2.67. A set of supplementary demands for grants was presented so far to Parliament in December, 1991. These were technical supplementary grants for Rs. 304.04 crore—Rs. 33.00 crore on plan side and Rs. 271.04 crore on non-plan side, matched by additional receipt or corresponding savings of the Departments concerned or by the lumpsum provision made in the grant of the Department of Expenditure for new programmes. Thus, the supplementary demands involved no cash outgo. The main itmes of expenditure on the plan side was establishment of a corporation for the welfare of backward classes (Rs. 25 crore) and that on the non-plan side was the fertiliser subsidy (Rs. 250 crore).

2.68 In addition to supplementary demands for grants, token grant of Rs.1 lakh each was proposed to be taken in respect of 9 demands, the expenditure of which would be met from savings within the concerned grant. Four advances, aggregating Rs. 9.06 crore, which were made out of the Contingency Fund earlier, were proposed to be recouped.

Revenue Collections

2.69 The Centre's collection from major taxes during the period April—December, 1991 has not compared favourably with the projected levels on prorata basis. Compared to last year, the percentage of collections from custom duties during the period is lower. Collections under excise duties upto December. 1991 are, as projected. At this point of time, however, it would be a little difficult to anticipate the likely level of collection under excise. In so far as personal income tax and corporation tax are concerned, the collections reported upto the end of December, 1991 are quite good. Special efforts are also made by the tax authorities at the field level to realise the arrears and also to expedite the collection of corporation tax. The collection levels under income and corporate taxes, therefore, are likely to be satisfactory in the remaining part of the year.

2.70 Collections from major taxes during April—December, 1990-91 and 1991-92 are given in the tab below.

TABLE 2.9

**Centre's collection from major taxes during the period 1991-92*

Sr. No.	Taxes/ Duties	April—December 1991-92	1990-91	Percentage Increase 1991-92/ 1990-91	As percentage of 1991-92 (BE)
		(Rs. crores)			
1	2	3	4	5	6
1.	Personal Income Tax .	3,781	3,020	25.2	61.4 (55.6)
2.	Corporation Tax . .	3,861	2,180	77.1	57.6 (35.8)
3.	Excise** .	19,260	16,988	13.4	70.6 (69.8)
4.	Customs .	14,442	14,238	1.4	55.8 (69.2)
5.	TOTAL .	41,344	36,426	13.5	62.6 (64.5)

(Figures in brackets in Col. 6 indicate percentage of collection in 1990-91.)

*As per departmental records.

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

It may be seen that collections of corporation tax and income tax have increased by 77.12 per cent and 25.18 per cent, respectively. It is expected that collections under both the heads will exceed the budget estimates for the whole year. The collections from customs duties are lower than expected due to import compression measures.

2.71 As announced in the Budget speech of the Finance Minister, two separate Bills, one relating to the Remittances of Foreign Exchange and Investment in Foreign Exchange Bonds and the other concerning the Voluntary Deposits with the National Housing Bank, were presented and approved by Parliament. The broad details of the schemes are :

(a) *The Remittances of Foreign Exchange and Investment in Foreign Exchange Bonds (Immunities and Exemptions) Schemes* :

(i) No recipient shall be required to disclose, for any purpose, whatsoever, the nature and source of remittances made to him. It has been further clarified that no inquiry or investigation would commence under any law against the person in receipt of any remittances in foreign exchange in accordance with the scheme notified;

(ii) the fact that the recipient has received a remittance shall not be taken into account and shall be inadmissible as evidence in any proceeding relating to any offence or the imposition of any penalty under any such law; and,

(iii) any remittance received under the scheme shall not form part of the assets of any assessee for the purpose of computing his net wealth in relation to any assessment year before the 1st day of April, 1992. No tax authority would contend at any time that the remittance was a gift and initiate proceedings under the Gift-Tax Act.

(b) *Investment in Foreign Exchange Bonds* :

(i) Notwithstanding anything contained in the Wealth-Tax Act, the Gift-Tax Act, the Income Tax Act, the Foreign Exchange Regulation Act and the Foreign Contribution Act, no non-resident Indian or overseas corporate body who or which owns the Foreign Exchange Bonds or any person resident in India to whom a gift of such Bonds has been made by such non-resident Indian or overseas corporate body, shall be required to disclose, for any purpose whatsoever, the nature and source of investment in such Bonds;

(ii) no inquiry shall be commenced against any of the persons referred to in (i) above under any of the said Acts on the ground that such persons own such Bonds; and,

(iii) the fact that any of the persons referred to in (i) above owns such Bonds shall not be taken into account and shall be inadmissible as evidence in any proceedings relating to any offence or the imposition of any penalty under any of the said Acts. It has also been clarified that the non-resident Indians or the overseas corporate body owning the Bonds as well as the persons resident in India to whom a gift of such Bonds is made, will not be required to disclose the source of investment in such Bonds.

(c) *The Voluntary Deposits (Immunities and Exemptions) Scheme* :

(i) Any person could make deposit with the National Housing Bank/designated bank;

(ii) such bank would credit forty percent of the amount of such deposit to a special fund created for financing slum clearance and low cost housing foı the poor;

(iii) the depositor could utilize the net deposit for any purpose specified by him;

(iv) no person, who has made a deposit with the National Housing Bank in accordance with the scheme, shall be required to disclose, for any purpose whatsoever, the nature and source of deposit;

(v) no inquiry or investigation shall commence against any person under any such law on the ground that he has made the deposit; and

(vi) the deposit shall not be taken into account and shall be inadmissible as evidence in any offence or the imposition of any penalty under any such law.

2.72 As a follow up of the Budget announcement that Government would set up a National Committee of eminent persons to identify areas and recommend specific projects for the promotion of socio-economic welfare and uplift of the public, a high level Committee consisting of eminent persons under the Chairmanship of Justice P. N. Bhagawati, former Chief Justice of India has been set up. The rules for approving associations and institutions and for recommending projects and schemes for tax exemption in respect of reinvestment of profits have been notified.

2.73 Further adjustments were brought about after the Budget in regard to indirect taxes in the light of various representations received, as well as from considerations of production, demand and balance of payments situation.

2.74 Imports of raw materials and components required for the manufacture of capital goods to be supplied to the fertilizer plants when these are construed as deemed exports in line with the Import & Export Policy (1990—93) of the Government of India, were exempted from the whole of customs duty subject to specific conditions. A total customs duty exemption was announced on specified goods, when imported for the purpose of development of software for export by software development units in the Software Technology Park Complex under the hundred per cent export oriented scheme and approved by the Interministerial Standing Committee on Mini-computer/Macro-computer based items and computer software.

2.75 Excise duty concessions were announced in regard to jumbo rolls for photo films as well as some plastic products. In the case of certain soft drinks full exemption from excise duty was allowed in line with exemptions provided to agro-based products, in the 1991-92 Budget.

2.76 The information, intelligence and enforcement measures were further intensified to improve tax collection and curb evasion. A sustained and multi- pronged drive was launched against suspected offenders. The drive for bringing the maximum number of new assessees into the tax net was continued. During April-December, 1991-92, 2,80,716 new assessees were brought into the tax net as against 3,03,644 new assessees brought into the tax net during the corresponding period of 1990-91. The total number of premises surveyed during April-December, 1991-92 was 5,28,291 as against 4,85,751 premises surveyed during the corresponding period of 1990-91.

2.77 The drive against smuggling activities was also intensified during the year and the efforts in this direction resulted in seizures of goods valued at Rs.513.94 crore in 39,376 cases between April to December, 1991 as against seizures of goods worth Rs.478.18 crore in 44,883 cases drcuring the corresponding period in 1990. 524 persons were detained under COFEPOSA during this period (April to December, 1991).

2.78 As a follow up to announcements made in Parliament while presenting the 1991-92 Budget, the Government constituted a High Level Committee of

Experts to examine the structure of direct and indirect taxes and to make recommendations, *inter-alia*, for making the tax system more elastic, broad based and also to suggest measures required for simplifying the existing laws and regulations to facilitate better enforcement and compliance.

2.79 Similarly, in pursuance of the statement on trade policy made in the Lok Sabha on 13th August, 1991, a High Level Committee on Trade Policy Reforms was constituted to work out the modalities of achieving transition from licensing and quntitative restrictions keeping in view the Balance of Payment position and the need to rationalise and reduce tariffs progressively to provide Indian industry with an appropriate environment to develop international competitiveness.

Eighth Five Year Plan

2.80 The Eighth Five Year Plan, which was to commence from 1990-91, could not keep the schedule on account of political changes in the last two years. The policy of fiscal correction initiated by the Government and the momentous changes taking place in the world necessitated a reorientation in the planning process. The Eighth Five Year Plan is now being formulated in this background. The National Development Council (NDC) approved the objectives and the document on Thrusts and Macro-Economic Dimensions of the Eighth Plan at its meeting held on December 23 & 24, 1991. The Plan will commence from April 1, 1992.

2.81 The Plan will give priority to the following objectives :

(i) Generating adequate employment to achieve near full employment by the turn of the century;

(ii) Containing population growth through people's active cooperation and an effective scheme of incentives and disincentives;

(iii) Universalisation of elementary education and complete eradication of illiteracy among people in the age group 15 to 35 years;

(iv) Provision of safe drinking water and primary health care accessible to all villages and entire population and complete elimination of scavenging.

(v) Growth and diversification of agriculture to achieve self-sufficiency in food and generate surplus for exports; and

(vi) Strengthening of infrastructure (energy, transport, communication, irrigation) in order to support growth process on a sustainable basis.

2.82 The Eighth Plan will focus on these objectives keeping in view the need for (a) continued reliance on domestic resources for financing investment, (b) increasing technical capabilities for the development of science and technology, and (c) modernisation and competitive efficiency so that the Indian economy can keep pace with and take advantage of global developments.

2.83 Human resource development will be the main focus of the Eighth Plan. It is towards this ultimate goal that employment generation, population control, literacy, education, health, drinking water and provision of adequate food and basic infrastructure are considered as the priorities of the Plan. Provision of the basic elements which help development of human capital will remain the primary responsibility of the Government.

2.84 The Eighth Plan aims at an average growth of 5.6 percent per annum and Incremental Capital-output Ratio (ICOR) is assumed to remain more or less at the same level as in the Seventh Plan (4.1). For achieving the targeted growth, the average rate of domestic savings required during the Eighth Plan will be 21.6 per cent of GDP. The corresponding investment rate will be 23 per cent of GDP. A total investment of Rs. 7,92,000 crore at 1991-92 prices is envisaged for the Eighth Plan out of which the share of public sector investment will amount to Rs. 3,42,000 crore or 43.2 per cent of the total investment as compared with 45.7 per cent realised in the Seventh Plan. This allows a larger scope for the private sector than that given hitherto. Public Sector outlay is Rs. 4,00,000 crore inclusive of the current outlay component. The Plan envisages a perceptible change in the manner of financing practised so far, which was neither envisaged nor healthy for the economy. Draft on foreign savings is estimated at 1.4 per cent of GDP amounting to Rs. 49,000 crore. The public sector investment will be financed to the extent of 70 per cent from household savings, 20 per cent from own savings and 10 per cent from the rest of the world. Determined efforts are called for on the part of the Central and State Governments and their enterprises to make their respective contributions to savings, so that the projected public sector outlay of Rs. 4,00,000 crore is realised.

2.85 It is also considered necessary to reorient the process of planning so as to :

(a) weed out projects which are not economically sound;

(b) rationalise plan expenditure by a process of consolidation and coordination of schemes;

(c) generate net additional resources to the extent possible through non-inflationary measures, particularly in the sectors which claim higher outlays; and

(d) divert some funds from the sectors which have surpluses largely due to the Government policies (administered prices), to the needy sectors, which cannot raise resources out of their own activities.

Role of Public Sector

2.86 The public sector will continue to perform an important role in the coming years.

(i) The role envisaged for it would mainly be in areas where investment is of an infrastructural nature and where private participation is not forthcoming to an adequate extent within a reasonable time. Thus, the public sector will continue to play a dominant role in areas like energy, transport, communications and irrigation. However, if private initiative comes forward to participate in creating such infrastructure on reasonable terms, including full protection of people's interests, such initiatives would be encouraged.

(ii) The public sector would play a useful role in augmenting basic resources of the country like land, forest, water, ecology and science & technology. The public sector will have responsibility for meeting social needs and for regulation of long-term interests of the society like population control, health, education, etc.

(iii) In large parts of its operations where commodities or services are produced and distributed, the principle of market would be applied as basic operating guideline, unless it is necessary to protect the interests of the poorest in the society. This implies recovery of costs and efficiency in operations.

Performance of Departmental and Public Enterprises.

Railways

2.87 The year 1990-91 was a difficult year for the Railways. Numerous bandhs, extensive civil disturbances, power shortage in the eastern sector and a devastating cyclone on the east coast affected its performance. There was a shortfall of 7 million tonnes in the revenue earning freight traffic. The increase in prices of petroleum products in March, 1990, the Gulf surcharge in October, 1990 and the general increase in the cost of inputs exerted considerable pressure on the working expenses. Despite an improvement in gross traffic receipts from Rs. 10,739 crore in 1989-90 to Rs. 12,038 crore in 1990-91 (RE), the surplus generation in 1990-91 (RE) is lower than that achieved in 1989-90.

2.88 The Railway Budget for 1991-92 envisaged a substantial increase in the net surplus. The net surplus as a percentage of capital at charge is estimated to reach 1.3 in 1991-92. This is in sharp contrast to the negative ratios witnessed during the early eighties. Details regarding the performance of Railways are given in Appendix Table 2.7. The Railway Budget proposed hikes in tariffs and freight rates to fetch an additional revenue of Rs. 584 crore in the current year. The highlights are given below :

- The freight rates except for certain essential commodities were increased by 10 per cent.
- The rates for parcels and luggage were increased by 10 per cent.
- The fares for upper classes, namely, AC first class, AC chair car were increase by 20 percent for distance upto 800 Kms and by 15 per cent for distances beyond 800 Kms.
- The fares for second class ordinary were increased by Re. 1.00 at the lowest slab, rising progressively to a maximum of Rs. 5.00 for distance beyond 400 Kms with some marginal adjustments in the fares in the distance zones 11 Kms to 60 Kms.
- The fares for second class mail/express were increased by Re. 1.00 per ticket at the lowest slab, rising progressively to a maximum of Rs. 20.00 per ticket for distances beyond 1300 Kms.
- For second class ordinary monthly season tickets, the increase varied from Rs. 4.00 to Rs. 16.00 according to the distance travelled.

2.89 The outlay for the Railway Plan, 1991-92 was fixed at Rs. 5,325 crore. This represents a very modest increase over the allocation of Rs. 5000 crore for the previous year. Priority continued to be accorded to improvement of rolling stock, traffic facilities and renewal of track and other overaged assets.

Post and Telecommunications

2.90 There was a fall in the deficit of postal services during 1990-91 mainly as a result of revision of rates of certain postal stationery items with effect from June 11, 1990. The deficit was Rs. 192 crore in 1990-91 (RE) as compared with Rs. 263 crore in 1989-90. Postal services are expected to result in a deficit of Rs. 225 crore in 1991-92 (BE). According to present indications the deficit is likely to exceed the budget estimate somewhat. As in the previous years, no dividend was proposed to be paid to General Revenues.

2.91 An increase in tariffs enabled the telecommunications to earn a surplus of Rs. 1328 crore in 1990-91 (RE). The surplus in 1991-92 is estimated at Rs. 1431 crore. Dividend to be paid to General Revenues is estimated at Rs. 204 crore in 1991-92. There has been a substantial improvement in the performance of telecommunications in terms of surplus generation and dividend paid to the General Revenues particularly from the late eighties as compared with the performance in the early eighties. Details are given in Appendix Table 2.8.

Central Government Public Enterprises

2.92 There were 246 Central Government public enterprises as on March 31, 1991, out of which 236 enterprises were in operation. Net profits of these enterprises declined from Rs. 3,789 crore in 1989-90 to Rs. 2,368 crore in 1990-91 (Table 2.10). The rate of return, as measured by the ratio of net profits to capital employed, declined from 4.5 per cent in 1989-90 to 2.3 per cent in 1990-91, the lowest since 1984-85. As in the previous years, the petroleum sector accounted for the bulk of the net profit—Rs. 2,299 crore out of the total of Rs. 2,368 crore. However, there was a decline in the net profits of both petroleum and non-petroleum sectors. The fall in the net profit during 1990-91 is marked in the case of Oil and Natural Gas Commission (Rs. 576 crore), Bharat Coking Coal Ltd. (Rs. 148 crore), Export Credit Guarantee Corporation (Rs. 141 crore) and Mahanagar Telephone Nigam Ltd. (Rs. 96 crore). Rashtriya Ispat Nigam Ltd. had incurred a net loss of Rs. 478 crore in 1990-91, the very first year of its operation. National Thermal Power Corporation and Indian Railway Finance Corporation had improved their net profits by Rs. 164 crore and Rs. 98 crore respectively in 1990-91. During the year 1990-91, 146 Central public enterprises generated gross internal resources to the extent of Rs. 11,372 crore.

TABLE 2.10

Profile of Centre's Public Enterprises

	Units	1980-81	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91
1	2	3	4	5	6	7	8	9	10	11
1. Number of running Public Enterprises . . .	Number	163	201	207	211	214	221	226	233	236
2. Capital Employed	Rs. Crore	18207	29851	36382	42965	51835	55554	67629	84869	101797
3. Turnover . .	Rs. Crore	28635	47272	54784	62360	69088	81271	93137	106069	118355
4. Gross Margin (Profit before depreciation, interest and tax).	Rs. Crore	2401	5771	7386	8230	9897	11134	13438	16412	18510
5. Depreciation * .	Rs. Crore	983	2205	2758	2983	3376	4150	4866	5790	7151
6. Gross profit before interest and tax	Rs. Crore	1418	3565	4628	5287	6521	6984	8572	10622	11359
7. Interest . .	Rs. Crore	1399	2086	2529	3115	3420	3595	4167	5329	7539
8. Net Profit before tax . . .	Rs. Crore	19	1480	2099	2172	3101	3389	4405	5293	3820
9. Tax . . .	Rs. Crore	222	1239	1190	1000	1330	1329	1411	1504	1452
10. Net Profit after tax . . .	Rs. Crore	—203	240	909	1172	1771	2060	2994	3789	2368
11. Internal Resources generated (Gross)	Rs. Crore	1225	3278	4251	5068	6014	6947	8915	10774	11372
12. Net Profit (after tax) to capital employed . .	Percent	—1.1	0.8	2.5	2.7	3.4	3.7	4.4	4.5	2.3

*Includes deferred revenue expenditure.

2.93 As on March 31, 1991, 23.05 lakh people including about 88,000 casual/daily rated workers were employed in 246 Central public enterprises. The total number of regular employees of public enterprises had gone up from 17.03 lakh in 1978-79 to 22.2 lakh in 1990-91.

State Governments' Commercial Undertakings

2.94 The working results of departmentally run commercial undertakings of States and Union Territories have continued to be poor. Of all departmentally run enterprises, only forest and mines have been generating net surpluses. While the profits from forest and mines registered a modest increase between 1985-86 and 1991-92, the losses of non-profit making enterprises more than doubled during this period. On the whole, the losses of departmentally run enteprises are estimated at a staggering level of Rs. 1827 crore during 1991-92. The unsustainable nature of the operations of these enterprises is mainly attributable to uneconomic pricing. In the context of the on-going process of fiscal adjustments, it is essential that urgent measures are taken to improve the performance of State-run enterprises. Economic pricing, coupled with increase in productivity, could be a starting point (Table 2.11).

TABLE 2.11

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

(Rs. Crore)

	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91 (R.E.)	1991-92 (B.E.)
1. Depart. Comm. Undertakings*							
(i) Forest	497.70	516.21	543.69	414.35	540.24	372.46	528.33
(ii) Power projects	—75.04	—93.81	—116.40	—84.19	—34.83	—54.56	—42.98
(iii) Road & Water Tpt. Services	—25.65	—36.59	— 110.76	— 56.51	—93.21	—75.78	—64.10
(iv) Dairy Development	—99.29	—40.45	—43.91	—52.38	—106.99	—72.23	—77.18
(v) Industries	—14.10	—16.46	—20.51	—10.09	—159.66	—112.91	—40.04
(vi) Mines & Minerals	40.06	35.05	27.02	51.83	60.62	60.43	75.26
(vii) Irrigation Projects (Commercial) (viii) Multipurpose River Projects	—871.60	—1225.95	—1344.50	—1840.79	—1916.85	—2002.63	—2206.66
2. Profit of Profit making Undertakings	**537.76**	**551.26**	**570.71**	**466.18**	**600.86**	**432.89**	**603.59**
3. Loss of Loss making Undertakings	**—1085.68**	**—1413.26**	**—1636.08**	**—2043.96**	**—2311.54**	**—2318.11**	**—2430.96**
4. Net Financial Results of Departmental Undertakings	**—547.92**	**—862.00**	**—1065.37**	**—1577.78**	**—1710.68**	**—1885.22**	**—1827.37**

* These donot include State Electricity Boards and State Road Transport Corporations.

2.95 The two major non-departmental undertakings, *viz.*, the State Electricity Boards (SEBs) and the State Road Transport Corporations (SRTCs) continued to incur substantial losses in their operations. The commercial losses of all SEBs taken together amounted to Rs. 4104 crore in 1989-90 and Rs. 4169 crore in 1990-91. These are estimated to increase to Rs. 4858 crore in 1991-92. The performance in terms of rate of return on capital (after depreciation and interest) was negative, being (—)16.4 per cent in 1989-90 and (—) 13.8 per cent in 1990-91. The rate of return is estimated to deteriorate to (—)14.8 per cent in 1991-92. The Electricity Supply Act, 1948 enjoins on the SEBs to earn a return of not less than 3 per cent by way of net surplus after providing for depreciation and interest. An important factor contributing to the high level of commercial losses of SEBs is the requirement to supply electricity to the rural/agricultural sector at lower tariff. The losses of SEBs shown above do not take into account the claims of SEBs for subsidies for rural electrification from the State Governments.

2.96 The performance of SRTCs was equally unsatisfactory. The commercial losses at Rs. 470 crore in 1990-91 (RE) were higher as compared with Rs. 359 crore in 1989-90. The losses are estimated at Rs. 362 crore for 1991-92. At the time of the formulation of Seventh Plan, it was envisaged that State Road Transport Corporations would generate internal resources of the order of Rs. 1789 crore after taking into account the gross yield of Rs. 2200 crore from fare revisions. Though the yield from fare revisions was around Rs. 2213 crore, which marginally exceeded the Seventh Plan target, the internal resources amounted to only Rs. 60 crore. This was mainly due to sharp increase in operational expenses.

Outlook

2.97 The fiscal situation which was on the verge of collapse by the middle of 1991, was sought to be put back on the rails through policy initiatives taken by the Government in the July, 1991 Budget. The deficits multiplied over several years cannot be eliminated in a single year. Hence, the need to continue with the policy of fiscal consolidation cannot be over-emphasised. The process to restore macro-economic balance has been launched. Government intend to continue fiscal stablisation and the Finance Minister has announced the intention to further reduce the fiscal deficit of the Central Government. This would imply a substantial decline in the government's net transfer to the rest of the public sector, most notably to Central public enterprises.

2.98 For the realisation of the above goal, it is imperative that the State Governments should also embark upon a policy of fiscal correction. Unless restraint is brought on to bear on the States' expenditure, not much progress can be made in the policy of fiscal correction.

2.99 As the proposed reduction in fiscal deficit involves a substantial cut in the budgetary support, it is necessary that public enterprises are able to generate internal surpluses, on a substential scale. Fiscal discipline is, therefore, necessary on the part of State and Central public undertakings to hasten the process of fiscal correction. The Eighth Five Year Plan (1992-97) approved by the National Development Council in December, 1991 lays emphasis on the need for reorienting the process of planning so as to weed out projects which are economically unsound and to rationalise plan expenditure by a process of consolidation and coordination of schemes. The Eighth Plan also laid emphasis that the principle of market should be applied in the operations of the public sector, unless it is necessary to protect the interests of the poorest of the poor in the society.