

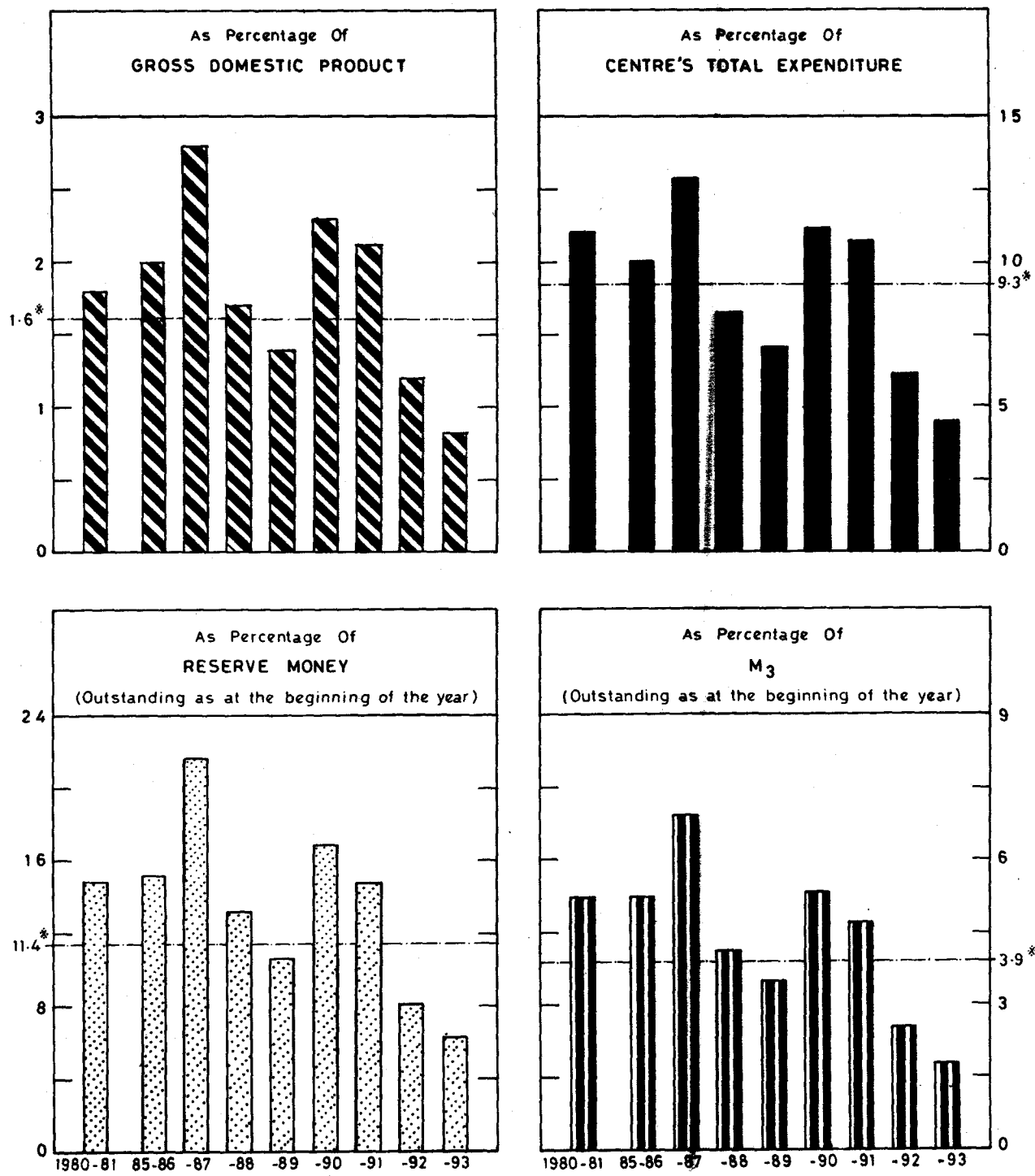
PUBLIC FINANCE

The process of fiscal consolidation initiated in the Union Budget for 1991-92 was continued in 1992-93. All three deficit indicators included in the Budget, namely, the revenue deficit, budget deficit and fiscal deficit, show a significant reduction in BE 1992-93 compared to RE 1991-92. This was sought to be achieved by substantially higher tax and non-tax receipts and by measures to contain expenditure. Reforms in direct and indirect taxes have contributed to buoyancy in revenue collections. There is a significant increase in non-tax revenues, through higher dividend earnings from the PSUs and a higher share of profits from Reserve Bank of India. Interest rates on Government loans were increased. On the expenditure side, the estimates show a degree of restraint. The total expenditure increase in BE 1992-93 over BE 1991-92 is Rs.5665 crore, of which interest payments alone account for Rs.4750 crore. Expenditure compression of this magnitude necessitated keeping budget support for the Central Plan at more or less the same level in nominal terms as in BE 1991-92. Non-Plan establishment expenditure remained tightly controlled. The decontrol of phosphatic and potassic fertilizers in August 1992 was a major measure to control the outgo on fertiliser subsidy. Increase in petroleum product prices announced in September 1992 is expected to generate a surplus in the OCC pool account and will, therefore, avoid pressure on the Government Budget. As part of expenditure control strategy, and in order to regulate the level of borrowing from the Reserve Bank, fiscal deficit ceilings were prescribed for the quarters ending June, September and December 1992. It has been possible to achieve these targets for strengthening the existing expenditure control mechanism.

The Government had set up a Tax Reforms Committee in August 1991. Based on the recommendations made by the Committee in its Interim Report, personal income tax was restructured with lower tax rates, fewer slabs and a higher exemption limit in the 1992-93 Budget. The taxation of firms was revamped and a flat rate of tax of 40 per cent was prescribed. Taxation of capital gains was also reformed. Long-term capital gains would be taxed at flat rates after allowing for the cost of assets to be adjusted for inflation. The peak level of import duties was lowered to 110 per cent and import duties for capital goods and machinery were lowered and rationalised. The Committee in its two final Reports has made recommendations in the area of corporate taxation, import duties and excise duties. These would be taken into consideration while formulating the tax policies in the coming years.

Figure 2.1

CENTRE'S BUDGETARY DEFICIT



Despite financial constraints, the outlay for Central Plan has been kept up at reasonable levels. The Central Annual Plan outlay for 1992-93 was stepped up by 20.5 per cent to Rs.48407 crore. The Budgetary support for the Central Plan was, however, reduced from 44 per cent in RE 1991-92 to 38.2 per cent in BE 1992-93

The importance of reducing the fiscal deficit and bringing inflation under control has been evident for some time. Decisive action to limit the fiscal deficit was initiated in the Budget of July 1991-92, which reduced the Central Government's fiscal deficit from 8.4 per cent of GDP in 1990-91 to 6.2 per cent in 1991-92. This represented a reduction in the primary deficit from 4.4 per cent to 1.7 per cent of GDP. The Budget of 1992-93 continued the process of restoring fiscal discipline and targeted a further reduction in fiscal deficit to 5.0 per cent of GDP.

2.2 The process of fiscal consolidation initiated in the Union Budget for 1991-92 was continued in 1992-93. All three deficit indicators included in the Budget namely, revenue deficit, budget deficit and fiscal deficit show a significant reduction in BE 1992-93 compared to RE 1991-92. This is sought to be achieved by substantially higher tax and non-tax receipts and by measures to contain expenditure.

2.3 On the expenditure side, the estimates show a degree of restraint. The total increase in BE 1992-93 over BE 1991-92 is Rs.5665 crore, of which interest payments alone account for Rs.4750 crore. Interest payments continue to show high growth due to Government moving gradually to market related rates of borrowing and high interest payments falling due on small savings instruments maturing after a lock-in period of 5 to 5 1/2 years. Expenditure compression of this magnitude was made possible by keeping budget support for the Central Plan at more or less the same level in nominal terms as in BE 1991-92. The Plan outlay was however higher by Rs 5438 crore over BE 1991-92 due to higher estimates of internal resources and borrowings. Non-Plan establishment expenditure continued to be tightly controlled. The decontrol of phosphatic and potassic fertilisers in August 1992 was a major measure to control the outgo on fertiliser subsidy. The increase in petroleum product prices announced in September 1992 is expected to generate a surplus in the OCC pool account and will, therefore, avoid pressure on the Government Budget.

2.4 As part of expenditure control strategy, and in order to regulate the level of borrowing from the Reserve Bank, fiscal deficit ceilings were prescribed for the quarters ending June, September and December 1992. It has been possible to achieve these targets by strengthening the existing expenditure control mechanism. A system of monthly budgeting based on a monthly phasing of budgeted receipts and expenditures of Ministries/Departments was introduced. Budgetary provisions are now apportioned in monthly allotments and Financial Advisers attached to Ministries/Departments are required to report significant variations from the targets along with reasons for the variations and the remedial steps proposed to be taken. Further measures to strengthen this system are under consideration.

2.5 There is a significant increase in non-tax revenues, through higher dividend earnings from PSUs and higher share of profits from the RBI, the latter made possible by withdrawal of concessional finance provided by RBI to certain financial institutions. Interest rates on Government loans have been increased, although the gap between interest payments and receipts continues to increase, partly reflecting the revenue deficit, and partly the subsidy built into the rates.

2.6 On the tax revenue side, the reforms in direct and indirect taxes have contributed to the buoyancy in revenue collection. Further reforms in these areas will be undertaken keeping in view the recommendations of the Tax Reforms Committee. In order to improve the functioning of the public sector enterprises and to mobilise additional resources, the process of disinvestment initiated last year has been continued. The public sector, however, will continue to perform a vital role in the years to come in areas such as power, transport, communication and irrigation.

2.7 Throughout the 1980s, all important indicators of fiscal imbalance were on the rise. The trend in the various indicators of fiscal imbalance since 1975-76 is given in Table 2.1. The fiscal deficit of the Central Government was around 8 per cent of GDP from 1985-86 onwards, as compared with 6 per cent at the beginning of 1980s and 4 per cent in the mid 1970s. During the year 1990-91, the fiscal deficit rose to 8.4 per cent of GDP. The fiscal deficit can be decomposed into primary deficit and interest payments by the Government. The primary deficit was 2.5 per cent of GDP in 1975-76, increased to 4.3 per cent of GDP in 1980-81, and rose further to 5.5 per cent of GDP in 1985-86. It remained around 4.5 per cent of GDP till 1990-91.

TABLE 2.1
Central Government Deficit
(per cent of GDP at current market prices)

1	Budget deficit 2	Revenue deficit 3	Monetised deficit 4	Fiscal deficit 5	Primary deficit 6
1975-76	0.5	1.1	0.0	4.1	2.5
1980-81	1.8	1.5	2.6	6.2	4.3
1981-82	0.9	0.2	2.0	5.4	3.4
1982-83	0.9	0.7	1.9	6.0	3.8
1983-84	0.7	1.2	1.9	6.3	4.0
1984-85	1.6	1.8	2.6	7.5	5.0
Average Sixth Plan	1.2	1.1	2.2	6.3	4.1
1985-86	2.0	2.2	2.4	8.3	5.5
1986-87	2.8	2.7	2.4	9.0	5.8
1987-88	1.7	2.7	2.0	8.1	4.7
1988-89	1.4	2.7	1.6	7.8	4.2
1989-90	2.3	2.6	3.0	7.8	3.9
Average Seventh Plan	2.1	2.6	2.3	8.2	4.8
1990-91	2.1	3.5	2.8	8.4	4.4
1991-92(R.E.)	1.2	2.8	0.9	6.2	1.7
1992-93(B.E.)	0.8	2.0	0.8	5.0	0.3

Note: GDP at current market prices is estimated to grow at 14 per cent in 1992-93.

The budget deficit is the difference between all receipts and expenditure, both revenue and capital. 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 of the net increase in the holdings of Treasury Bills of the RBI and its contribution to the market borrowing of the Government. The fiscal deficit is the excess of total expenditure including loans net of lending over revenue receipts, grants and non-debt capital receipts. The primary deficit is the fiscal deficit less interest payments.

2.8 The steady growth of Government expenditure, particularly non-plan expenditure, has been the main reason for the country falling into a fiscal crisis. A significant element of this is the growth in interest payments, which in an efficient system would have been fully covered by returns on productive capital expenditure and investment financed by debt. Instead of providing such a cover, plan expenditure has been characterized by low returns from investments and inefficiency. This has resulted in wastage of scarce resources. The decreasing share of plan expenditure going for capital expenditure has further compounded the problem. Seventh Plan projections of selected fiscal indicators (interpolated for the 2nd to the 4th year of the Plan in the long-term fiscal policy), envisaged a positive balance of current revenue (BCR) of the Centre of 0.2 per cent of GDP by 1989-90. A comparison with actual performance reveals that throughout the Seventh Plan period, the BCR remained negative and even deteriorated to -1.2 per cent of GDP in 1989-90, the terminal year of the Seventh Plan. One reason was that direct tax collections were lower than targeted. On the financing side the share of domestic borrowing and the budgetary deficit far exceeded the

targets. Interest payments, food and fertiliser subsidies rose sharply and also exceeded the targets.

2.9 There was a further deterioration in 1990-91, with the fiscal deficit reaching 8.4 per cent of GDP, the primary deficit 4.4 per cent of GDP and the budgetary contribution to money supply 2.8 per cent of GDP. The link between the fiscal deficit and the current account deficit, which was beginning to be recognised in 1989-90, became more apparent in 1990-91. The combination of a further rise in the fiscal deficit and political instability led to a dramatic loss of confidence in the Indian economy in the international capital markets. The fiscal deficit spilled over into a balance of payment crisis and the process of fiscal adjustment could not be postponed any longer.

Fiscal and Budgetary Developments in 1991-92 : Central Government

2.10 The centre-piece of the reform programme introduced in 1991-92 was restoration of the macro-economic balance which had been severely disturbed in 1990-91. Both the stabilisation of the balance of payments and the control of rising inflation required an immediate and dramatic reduction in the fiscal deficit. The target was to reduce the fiscal deficit of the Centre from about 8.4 per cent of GDP to 6.2 per cent. Given the reduced time frame of nine months available, much of the reduction had to come from capital expenditure. Though revenues as a proportion of GDP increased by about half a percentage point, expenditure plus net lending had to be cut by over 1.6 per cent. About 0.4 per cent of GDP was contributed by the disinvestment of PSU shares.

2.11 The revenue deficit continues to be at a high level, although the actuals for 1991-92 are significantly lower than for 1990-91. The pressures on the revenue deficit will remain as long as the Government has to set apart increasing outlays on Rural Development, Agriculture, Health and Education and interest payments continue to show a high growth. The growth in the revenue deficit can be moderated if reasonable returns on the investments in departmental and non-departmental enterprises financed by the Government can be ensured within the framework of the Eighth Five Year Plan.

2.12 The strategy of stepping up revenues was broadly successful in 1991-92; the revenue receipts of the Centre increased by 22 per cent to Rs. 69289 crore in 1991-92 (RE) from Rs. 56873 crore in the previous year. This compared with an increase of revenue receipts of only 5 per cent in 1990-91. Current account expenditure increased by 15 per cent from Rs. 75434 crore in 1990-91 to Rs. 86370 crore in 1991-92 (RE). Consequently, the revenue deficit as a proportion of GDP was brought down from 3.5 per cent in 1990-91 to 2.8 per cent in 1991-92 (Table 2.2).

Savings and Capital Formation

2.13 The Economic and Functional classification of the Central Government Budget reveals a steady decline in the proportion of expenditure on capital formation (Table 2.3). 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 continued in 1991-92. The growth of gross capital formation shows a similar pattern. It averaged 18.8 per cent per annum from 1982-83 to 1985-86 and 11.4 per cent from 1986-87 to 1989-90. It fell further to an average of only 4.1 per cent in 1990-91 to 1991-92 (RE) (Table 2.4).

TABLE 2.2
Centre's Revenue Receipts and Revenue Expenditure

Centre Revenue Receipts and Revenue Expenditure									(Per cent of GDP)		
	1980-81	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	
									(R.E.)	(B.E.)	
	1	2	3	4	5	6	7	8	9	10	11
1. Tax revenue (Net of States' share)	6.9	7.6	8.1	8.3	8.4	8.5	8.5	8.1	8.2	8.1	
2. Non-tax revenue	2.5	2.9	3.1	3.4	3.1	2.8	3.4	2.6	3.1	3.2	
3. Total current revenue(1+2)	9.4	10.5	11.1	11.7	11.5	11.4	11.9	10.7	11.4	11.3	
4. Total current expenditure	10.9	12.3	13.3	14.4	14.2	14.0	14.5	14.2	14.2	13.3	
(a) Interest payments	1.9	2.6	2.9	3.2	3.4	3.6	3.9	4.0	4.5	4.6	
(b) Subsidies	1.2	1.6	1.8	1.9	1.8	2.0	2.4	2.0	1.7	1.3	
(c) Defence expenditure	2.6	2.8	2.9	3.4	3.0	2.8	2.5	2.4	2.2	2.1	
(d) Grants to States & UTs	2.1	2.3	2.7	2.6	2.8	2.5	1.9	2.5	2.6	2.4	
(e) Others	3.2	3.1	3.1	3.3	3.3	3.1	3.7	3.3	3.2	3.0	
5. Revenue Account surplus(+)/ deficit(-) [3-4]	-1.5	-1.8	-2.2	-2.7	-2.7	-2.7	-2.6	-3.5	-2.8	-2.0	

Note: The figures may not add up to the total because of rounding.

2.14 There were, however, three positive developments. Firstly, investment in physical assets, increased marginally to 8.3 per cent (RE) of total expenditure from 8.2 per cent in 1990-91. Secondly, defence expenditure declined from 14.6 per cent of total expenditure to 14.2 per cent. Thirdly, gross savings of the Government, decreased in absolute value by Rs.2214 crore (or 21.1 per cent) though they continued to remain negative as they had since 1984-85 (Table 2.4).

Government Debt

2.15 Increasing resort to borrowings over the years has led to a continuous growth in the total outstanding debt. Internal liabilities registered a sharp increase in the 1980s, from 35.6 per cent of GDP in 1980-81 to 53.3 per cent in 1990-91. This was due to a combination of revenue deficits and poor returns on assets financed by capital receipts, a summary measure of which is the fiscal deficit. Liabilities did decline marginally, however, to 52.1 per cent in 1991-92 (RE) (Table 2.5). Other liabilities (small savings, provident funds etc.) have risen much more than market borrowings. Their share in total internal liabilities increased from 36.3 per cent in 1980-81 to 46.5 per cent in 1991-92 (RE).

2.16 External liabilities are shown in the budget converted at the exchange rate prevailing in March of the year in which they are incurred. The ratio of these liabilities to GDP has come down from 8.3 per cent in 1980-81 to 5.8 per cent in 1991-92 (RE). However, it is more appropriate to convert them at current end-of the year exchange rates, to reflect the burden of the debt fully. When this is done, external liabilities of the Central Government are seen to have risen rapidly from 9.9 per cent of GDP at the end of 1980-81 to 12.5 per cent at the end of 1990-91 and to 18 per cent at the end of 1991-92 (RE).

CENTRE'S REVENUE EXPENDITURE

PERCENTAGE DISTRIBUTION

RS. THOUSAND CRORE

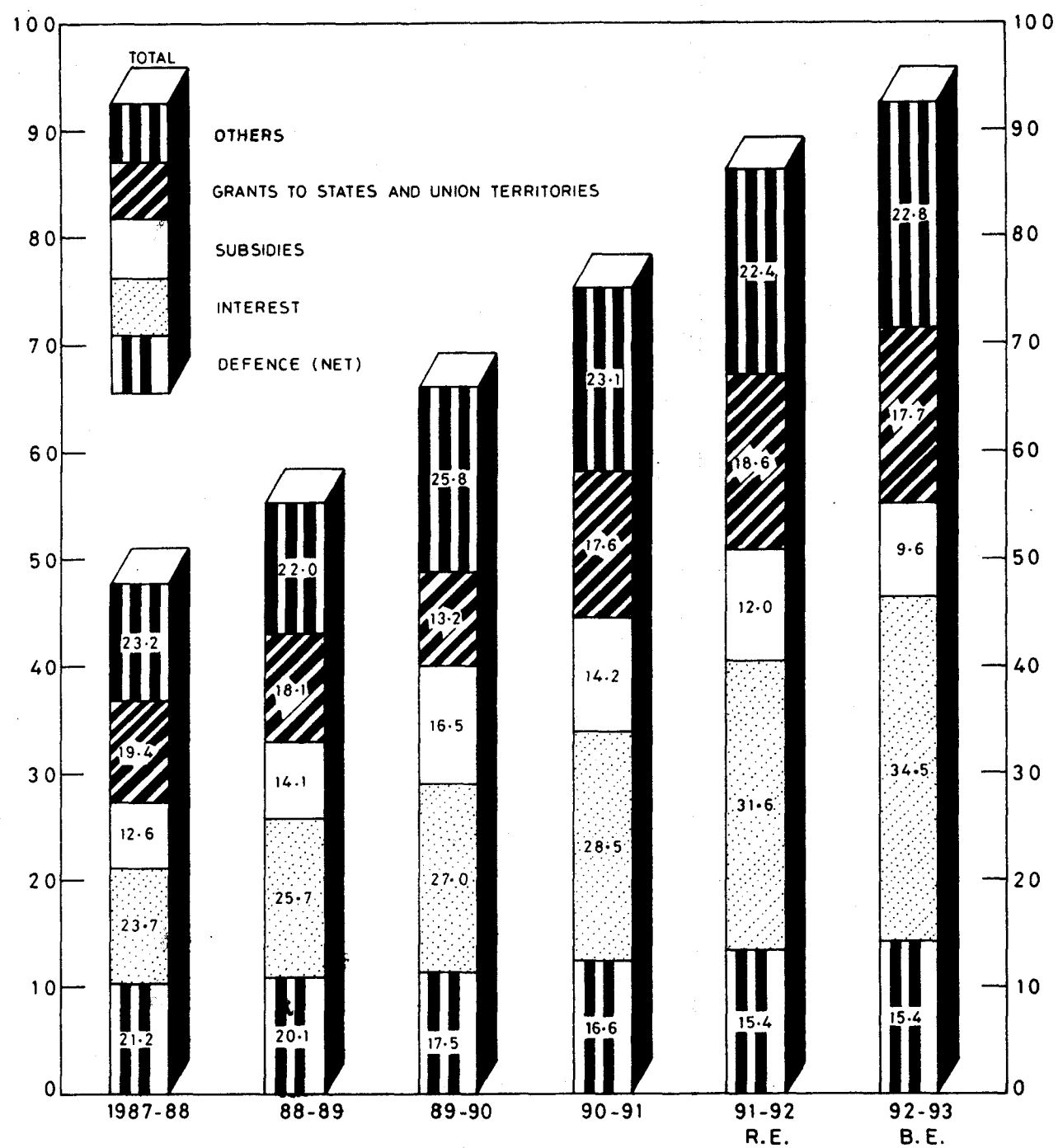


TABLE 2.3
Economic Classification of Total Expenditure of Central Government

	1980-81	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92 (R.E.)	1992-93 (B.E.)	
	1	2	3	4	5	6	7	8	9	10	11
1. Consumption expenditure							(Rs.crore)				
a) Defence	5174	9428	11210	14665	16551	18763	20784	22359	24731	27130	
b) Other	3571	6647	7962	10439	11875	13237	14298	15319	16256	17405	
Government administration	1603	2781	3248	4226	4676	5526	6486	7040	8475	9725	
2.Transfer payments (Current)	6912	14938	18347	21243	25380	31399	37877	45134	52674	55905	
a)Interest payments	2253	5646	7090	8648	10702	13347	16525	19949	25682	29646	
b)Subsidies	1912	4484	5070	5542	5976	7859	10862	10728	10363	8910	
c)Grants to States & UTs (including local bodies)	1810	2863	3922	4205	4962	5831	5725	7664	9102	9239	
d)Others	937	1945	2265	2848	3740	4362	4765	6793	7527	8110	
3.Gross capital formation Out Of budgetary resources	9012	17551	21477	24320	25770	28977	33012	35058	35746	3859	
a)Physical assets	1907	4123	4558	5905	5961	7056	8136	8602	9520	11787	
b)Financial assets	7105	13428	16919	18415	19809	21921	24876	26456	26226	26806	
4.Others	1397	1962	2078	3795	2603	2263	3376	2422	1613	1250	
5. Total expenditure	22495	43879	53112	64023	70304	81402	95049	104973	114764	122878	
As per cent of total expenditure							(per cent)				
1.Consumption expenditure	23.0	21.5	21.1	22.9	23.5	23.0	21.9	21.3	21.5	22.1	
a) Defence	15.9	15.1	15.0	16.3	16.9	16.3	15.0	14.6	14.2	14.2	
b) Other Government administration	7.1	6.3	6.1	6.6	6.7	6.8	6.8	6.7	7.4	7.9	
2.Transfer payments (Current)	30.7	34.0	34.5	33.2	36.1	38.6	39.8	43.0	45.9	45.5	
a)Interest payments	10.0	12.9	13.3	13.5	15.2	16.4	17.4	19.0	22.4	24.1	
b)Subsidies	8.5	10.2	9.5	8.7	8.5	9.7	11.4	10.2	9.0	7.3	
c)Grants to States & UTs (including local bodies)	8.0	6.5	7.4	6.6	7.1	7.2	6.0	7.3	7.9	7.5	
d)Others	4.2	4.4	4.3	4.4	5.3	5.4	5.0	6.5	6.6	6.6	
3.Gross capital formation Out Of budgetary resources	40.1	40.0	40.4	38.0	36.7	35.6	34.7	33.4	31.1	31.4	
a)Physical assets	8.5	9.4	8.6	9.2	8.5	8.7	8.6	8.2	8.3	9.6	
b)Financial assets	31.6	30.6	31.9	28.8	28.2	26.9	26.2	25.2	22.9	21.8	
4.Others	6.2	4.5	3.9	5.9	3.7	2.8	3.6	2.3	1.4	1.0	

2.17 The increasing fiscal deficits and consequent borrowings from the domestic private sector have also put upward pressure on interest rates. This is reflected in the increasing trend in average rates. The average rate of interest on internal liabilities rose from 7.2 per cent in 1985-86 to 8.2 per cent in 1990-91 (Table 2.6), and further to 8.7 per cent in 1991-92 (RE), because of the continued replacement of old lower-interest debt by new higher-interest debt. The rate of interest on external liabilities similarly increased from 3.2 per cent in 1985-86 to 8.4 per cent in 1991-92 (RE). This was due to the reduction in the proportion of soft loans provided by multilateral lending institutions (IDA etc.), and the hardening of international interest rates in the 1980s.

TABLE 2.4

Capital Formation by the Central Government and its Financing

	1980-81	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92 (RE)	1992-93 (BE)
	2	3	4	5	6	7	8	9	10	11
	(Rs. crore)									
I. Gross capital formation out of budgetary resources of the Central Government	9012	17551	21477	24320	25770	28977	33012	35058	35746	38593
(i)Gross capital formation by the Central Government	1907	4123	4558	5905	5961	7056	8136	8602	9520	11787
(ii)Financial assistance for capital formation in the rest of the economy	7105	13428	16919	18415	19809	21921	24876	26456	26226	26806
II. Gross savings of the Central Government	3	-963	-1441	-2852	-4294	-5722	-5142	-10502	-8288	-4039
III. Gap(I-II)	9009	18514	22918	27172	30064	34699	38154	45560	44034	42632
Financed by										
a. Draft on other sectors of the domestic economy	7339	16657	21068	24794	26299	31639	34831	41794	39083	37703
(i)Domestic capital receipts	4762	12912	16131	16533	20483	25997	24239	30447	32051	32314
(ii)Budgetary deficit	2577	3745	4937	8261	5816	5642	10592	11347	7032	5389
b. Draft on foreign savings	1670	1857	1850	2378	3765	3060	3323	3766	4951	4929
As per cent of GDP	(Per cent)									
I. Gross capital formation out of budgetary resources of the Central Government	6.6	7.6	8.2	8.3	7.7	7.3	7.3	6.6	5.9	5.6
(i)Gross capital formation by the Central Government	1.4	1.8	1.7	2.0	1.8	1.8	1.8	1.6	1.6	1.7
(ii)Financial assistance for capital formation in the rest of the economy	5.2	5.8	6.5	6.3	5.9	5.5	5.5	5.0	4.3	3.9
II. Gross savings of the Central Government	0.0	-0.4	-0.5	-1.0	-1.3	-1.4	-1.1	-2.0	-1.4	-0.6
III. Gap(I-II)	6.6	8.0	8.7	9.3	9.0	8.7	8.4	8.6	7.2	6.1
Financed by										
a. Draft on other sectors of the domestic economy	5.4	7.2	8.0	8.5	7.9	8.0	7.7	7.9	6.4	5.4
(i)Domestic capital receipts	3.5	5.6	6.2	5.6	6.1	6.6	5.3	5.7	5.3	4.7
(ii)Budgetary deficit	1.9	1.6	1.9	2.8	1.7	1.4	2.3	2.1	1.2	0.8
b. Draft on foreign savings	1.2	0.8	0.7	0.8	1.1	0.8	0.7	0.7	0.8	0.7
I. Increase in gross capital formation out of budgetary resources of the Central Government	24.7	19.4	22.4	13.2	6.0	12.4	13.9	6.2	2.0	8.0

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) Because of revisions in the series of GDP, the ratios given here may differ from those given in the earlier issues of Economic Survey.

TABLE 2.5

Outstanding Liabilities of the Central Government

	1980-81	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92 (RE)	1992-93 (BE)
1	2	3	4	5	6	7	8	9	10
	(Rs.crore)								
1.Internal liabilities	48451	119331	146247	172338	204025	239849	283194	317680	356291
a)Internal debt	30864	71039	86312	98646	114498	133193	154004	170104	188536
a)Market borrowings	15676	35352	40880	46743	55161	62565	70565	78066	83066
b)Others	15188	35687	45432	51903	59337	70628	83439	92038	105470
b).Other internal liabilities	17587	48292	59935	73692	89527	106656	129190	147576	167755
2.External debt(outstanding)*	11298	18153	20299	23223	25746	28343	31525	35501	39565
3.Total outstanding liabilities (1+2)	59749	137484	166546	195561	229771	268192	314719	353181	395856
4.Amount due from Pakistan on account of share of pre-partition debt	300	300	300	300	300	300	300	300	300
5.Net liabilities (3-4)	59449	137184	166246	195261	229471	267892	314419	352881	395556
6.Total assets	58999	123966	143776	162810	184303	209623	236970	260186	288979
7.Excess of liabilities over assets (5-6)	450	13218	22470	32451	45168	58269	77449	92695	106577
As per cent of GDP at current prices	(Per cent)								
1.Internal liabilities(outstanding)	35.6	45.5	49.9	51.7	51.4	52.8	53.3	52.1	51.3
a)Internal debt	22.7	27.1	29.5	29.6	28.9	29.3	29.0	27.9	27.1
b).Other internal liabilities	12.9	18.4	20.5	22.1	22.6	23.5	24.3	24.2	24.1
2.External debt(outstanding)*	8.3	6.9	6.9	7.0	6.5	6.2	5.9	5.8	5.7
3.Total outstanding liabilities (1+2)	43.9	52.4	56.9	58.7	57.9	59.1	59.3	57.9	57.0
6.Total assets	43.4	47.3	49.1	48.9	46.5	46.2	44.6	42.7	41.6
7.Excess of liabilities over assets (5-6)	0.3	5.0	7.7	9.7	11.4	12.8	14.6	15.2	15.3
Memorandum items									
External Debt (Rs.crore)	13479	26638	32312	36578	46838	54100	66314	109675	112022
(Converted at year-end exchange rates) @									
(as per cent of GDP)	9.9	10.2	11.0	11.0	11.8	11.9	12.5	18.0	16.1

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

@ End-March rates. For 1980-81, the rates prevailing at the end of March, 1981; for 1985-86, the rates prevailing at the end of March, 1986 and so on. However, for 1992-93 the information pertains to end-September 1992.

Note: GDP (at current prices) for 1992-93 is estimated to grow by 14 per cent.

2.18 The growth in internal and external liabilities and the increasing rate of interest have resulted in a mounting burden of interest payments. While gross interest payments as a ratio of total expenditure more than doubled between 1980-81 and 1991-92 (RE), from 11.6 per cent to 23.7 per cent, interest payments net of interest received increased by nearly four times from 3.6 per cent to 13.9 per cent. The fiscal correction measures introduced in the 1991-92 budgets marginally reduced the total (internal and external) liabilities-to-GDP ratio from 59.3 per cent in the 1990-91 to 57.9 per cent in 1991-92. However, this has not helped in reducing the net interest liability. It would take a few years before the reduced level of borrowings has a perceptible impact on the heavy interest burden of the Government. It is imperative that the Government continue the policy of fiscal correction in the coming years.

2.19 At the beginning of 1980s, book value of assets and liabilities of the Central Government were both at 44 per cent of GDP (Table 2.5). Since then, there has been a growing divergence between the two, with liabilities overtaking assets. Liabilities exceeded assets by 15.2 per cent of GDP in 1991-92.

TABLE 2.6
Interest on Outstanding liabilities of Central Government

	1980-81	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91 (R.E.)	1991-92 (B.E.)	1992-93	
	1	2	3	4	5	6	7	8	9	10
	(Rs.crore)									
1.Interest on internal liabilities	2373	6974	8480	10275	13036	16241	19637	24615	29084	
a)Internal debt	1369	3919	4763	5514	6913	8273	9814	11191	13264	
i)Market borrowings	808	2465	3098	3681	4506	5368	6366	7215	8250	
ii)Others	561	1454	1665	1833	2407	2905	3448	3976	5014	
b).Other internal liabilities	1004	3055	3717	4761	6123	7968	9823	13424	15820	
2.Interest on external debt	231	538	766	977	1242	1494	1834	2635	2916	
3.Gross interest payments	2604	7512	9246	11252	14278	17735	21471	27250	32000	
4.Net interest payments	809	2917	3893	5497	7297	9269	12687	15953	18536	
Average rate of interest	(Per cent)									
1. Internal liabilities	N.A.	7.2	7.1	7.0	7.6	8.0	8.2	8.7	9.2	
a)Internal debt	N.A.	6.7	6.7	6.4	7.0	7.2	7.4	7.3	7.8	
i)Market borrowings	N.A.	8.1	8.8	9.0	9.6	9.7	10.2	10.2	10.6	
ii)Others	N.A.	5.2	4.7	4.0	4.6	4.9	4.9	4.8	5.4	
b).Other internal liabilities	N.A.	8.0	7.7	7.9	8.3	8.9	9.2	10.4	10.7	
2. External debt	N.A.	3.2	4.2	4.8	5.3	5.8	6.5	8.4	8.2	
3. Total liabilities	N.A.	6.6	6.7	6.8	7.3	7.7	8.0	8.7	9.1	

Note: The interest liabilities indicated above are on cash basis and not on accrual basis.

States and Union Territories : 1991-92

2.20 There was a sharp deterioration in the finances of the States and Union Territories in 1991-92 with the combined budgetary deficit touching Rs. 1896 crore as compared with only Rs. 139 crore in 1990-91. However, the gap between current revenue and total outlay (including Public Sector Units) declined to 3.8 per cent of GDP in 1991-92 (RE) from 4.1 per cent in 1990-91. The current revenue of the States and Union Territories increased by 23 per cent from Rs. 60381 crore to Rs. 74379 crore in 1991-92 (RE). The increase was almost entirely due to an increase in grants from the Centre, and State's share of income-tax and Union excise duties, collected by the Centre. There was a decline in receipts from land revenue by 6.8 per cent. The dissavings of State Public Undertakings amounted to Rs.

TABLE 2.7

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	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92 (BE)	1991-92 (RE)	1992-93 (BE)
	2	3	4	5	6	7	8	9	10	11
	(Rs. crore)									
I. Total outlay	36845	83961	100790	112169	130048	158107	176548	198158	198922	220275
(a) Developmental	24426	53397	63778	68801	79548	98501	105922	116724	117391	129161
(b) Non-developmental	12419	30564	37012	43368	50500	59606	70626	81434	81531	91114
II. Current revenue	24563	56773	64823	73485	85714	103115	110607	132411	132452	150289
(a) Tax revenue	19844	43267	49540	56976	66925	77693	87723	102896	102475	115331
(i) Direct taxes	3268	6252	6890	7483	9757	11165	12259	15338	16233	18066
(ii) Indirect taxes	16576	37015	42650	49493	57168	66528	75464	87558	86242	97265
(b) Non-tax revenue	4719	13506	15283	16509	18789	25422	22884	29515	29977	34958
III. GAP(I-II)	12282	27188	35967	38684	44334	54992	65941	65747	66470	69986
Financed by:										
(i) Domestic capital receipts	7161	21899	24439	29415	36172	40812	50192	50424	51504	57528
(ii) Net external assistance	1670	1850	2378	3765	3060	3567	4263	4377	6038	5375
(iii) Budgetary deficit	3451	3439	9150	5504	5102	10613	11486	10946	8928	7083
	(Per cent)									
I. Total outlay	27.1	32.0	34.4	33.7	32.8	34.8	33.3	32.5	32.6	31.7
(a) Developmental	18.0	20.4	21.8	20.6	20.1	21.7	20.0	19.2	19.3	18.6
(b) Non-developmental	9.1	11.7	12.6	13.0	12.7	13.1	13.3	13.4	13.4	13.1
II. Current revenue	18.1	21.6	22.1	22.1	21.6	22.7	20.8	21.7	21.7	21.6
(a) Tax revenue	14.6	16.5	16.9	17.1	16.9	17.1	16.5	16.9	16.8	16.6
(i) Direct taxes	2.4	2.4	2.4	2.2	2.5	2.5	2.3	2.5	2.7	2.6
(ii) Indirect taxes	12.2	14.1	14.6	14.9	14.4	14.7	14.2	14.4	14.1	14.0
(b) Non-tax revenue	3.5	5.2	5.2	5.0	4.7	5.6	4.3	4.8	4.9	5.0
III. GAP(I-II)	9.0	10.4	12.3	11.6	11.2	12.1	12.4	10.8	10.9	10.1
Financed by:										
(i) Domestic capital receipts	5.3	8.4	8.3	8.8	9.1	9.0	9.5	8.3	8.5	8.3
(ii) Net external assistance	1.2	0.7	0.8	1.1	0.8	0.8	0.8	0.7	1.0	0.8
(iii) Budgetary deficit	2.5	1.3	3.1	1.7	1.3	2.3	2.2	1.8	1.5	1.0

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

1699 crore in 1991-92 (RE), almost the same as in 1990-91. While non-developmental expenditure increased by 21.5 per cent in 1991-92, developmental expenditure increased by only 17.3 per cent. The fiscal deficit of the State Governments and Union Territories came down from 3.5 per cent of GDP in 1990-91 to 3.3 per cent as per the revised estimates of 1991-92.

Centre, States and Union Territories : 1991-92

2.21 The combined budgetary transactions of the Centre and the State Governments in 1991-92 (RE) mark a departure from the pattern of deteriorating fiscal imbalance. As a proportion of GDP the gap between total outlay and current revenue came down from 12.4 per cent in 1990-91 to 10.9 per cent in 1991-92 (RE) (Table 2.7). This was due both to a slower growth of total expenditures and increased revenues. Within these expenditure levels there was also a relative shift from non-development to development expenditure. The current revenue-GDP ratio increased from 20.8 per cent in 1990-91 to 21.7 per cent in 1991-92 (RE). Both direct and indirect taxes increased as a proportion of GDP.

2.22 The dependence on deficit financing which had increased dramatically over the years showed a decline in 1991-92. The budget deficit in 1991-92 accounted for 13 per cent of the gap between current revenue and total outlay against over 17 per cent in 1990-91 and 19 per cent in 1989-90.

2.23 The rising gap between total expenditure and current revenues over the past decade set in motion a vicious cycle of increased borrowings, higher debt and increased 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 16 per cent in 1991-92 (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 39 per cent in 1991-92 (RE). This is the major factor which has led to an increase in the proportion of non-developmental expenditure in total expenditure to nearly 41 per cent in 1991-92 (RE) (Table 2.7). In principle, a reduction of debt through either a primary surplus or from the proceeds of asset sales would reduce long-term debt liabilities. The effectiveness of the latter can be increased by retiring high-interest debt or disinvestment of the equity of selected PSUs which were making losses.

Fiscal and Budgetary Developments in 1992-93 : Central Government

2.24 The Budget of 1991-92 succeeded in reversing the increasing trend in fiscal deficit. The Budget of 1992-93 continued the process by putting the fiscal deficit on a firm down-trend. The objective of reducing the deficit from 6.2 per cent to 5 per cent of GDP was designed to bring inflation pressures under control and bring down the current account deficit to a sustainable level. In addition to expenditure controls the Budget initiated the process of comprehensive tax reform designed to remove distortions and increase the income elasticity of revenue. Over a medium-term horizon, this would put revenue on a rising path as well as stimulate growth.

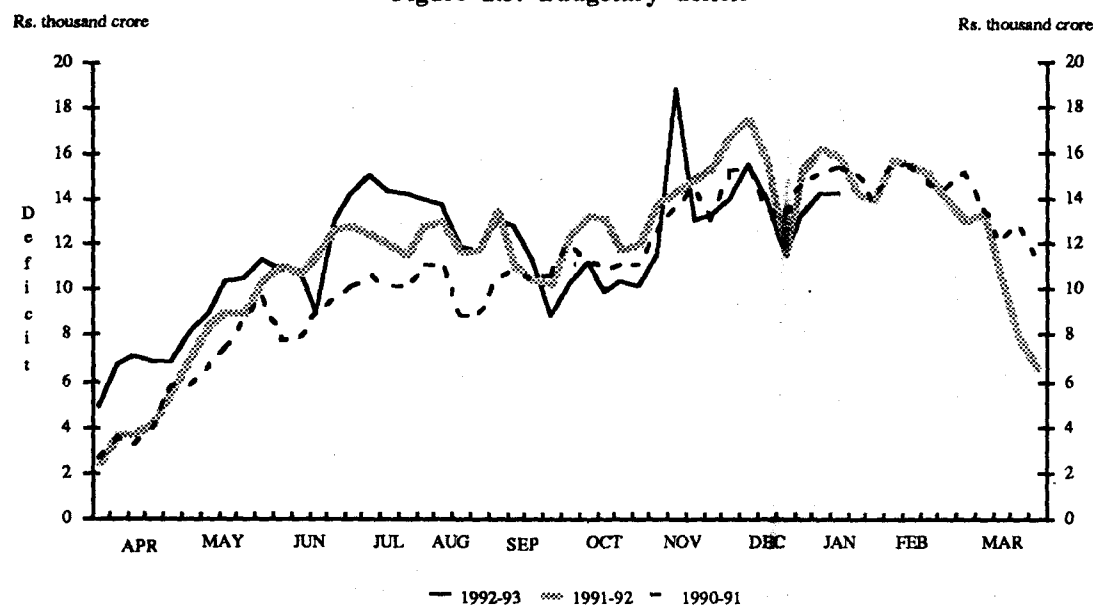
2.25 The growth of non-plan expenditure as per the budget estimates is estimated to be 5.5 per cent in 1992-93. If interest payments are excluded, this represents a marginal reduction from the previous year. An important element of expenditure are various subsidies, such as on fertilisers, which had risen over the years. On receipt of the Report of the Parliamentary Committee, prices of urea were reduced by 10 per cent, and the prices, distribution and movement of phosphatic and potassic fertilisers decontrolled. The Retention Price Scheme related to low analysis nitrogenous fertilisers, which were decontrolled in July 1991, was reintroduced. Another important decision was to increase the ex-storage point prices of all petroleum products except for kerosene for domestic use

which is used by the weaker and more vulnerable sections of the society. This has reduced the increasing deficits of Oil Industry.

2.26 The budgetary deficit is sought to be reduced from Rs.7032 crore in 1991-92 (RE) to Rs. 5389 crore in 1992-93, and the fiscal deficit from Rs.37792 crore (RE) to Rs.34408 crore (BE). The weekly movements of the budget deficit in the last three years are shown in Figure 2.3. During the last few weeks, the level of deficit has been lower than the level prevailing during the corresponding weeks of the last two years. The fiscal deficit has been kept within target. The fiscal deficit targeted for the quarter ending June 1992 was Rs.12000 crore. Against this, the actual deficit was Rs. 12163 crore. The fiscal deficit at the end of September 1992 at Rs.14976 crore was substantially lower than the target of Rs.18500 crore. Similarly, the deficit at the end of December was Rs.22692 crore, close to the target of Rs.25300 crore.

2.27 Aggregate resources of the Centre (including PSUs) in 1992-93 are estimated at Rs.145882 crore, 11.6 per cent higher than in 1991-92 (RE). Aggregate disbursements are estimated at Rs.151271 crore, 9.8 per cent higher than in 1991-92 (RE). The containment of disbursements through a series of policy measures is expected to lower the budgetary and fiscal deficits to Rs.7032 crore and Rs.37792 crore respectively. A noteworthy feature of the Budget is the higher rate of growth of developmental expenditure at 9.6 per cent as compared with 4.7 per cent in 1991-92 (RE). The overall gap in the resources of the Centre and its PSUs is estimated at Rs. 58061 crore. While tax revenue is estimated to grow by 12.8 per cent, non-tax revenue is estimated to grow by 19.8 per cent.

Figure 2.3. Budgetary deficit



2.28 The Central Plan Outlay for 1992-93 (BE) was stepped up by 20.5 per cent, to Rs. 48407 crore, over 1991-92 (RE). The budgetary support for the Central Plan Outlay has been reduced to 38.2 per cent from 44 per cent in 1991-92 (RE). Over the years, there has been a gradual reduction in the budgetary support. This is in keeping with the policy of the Government to bring about greater accountability and self-reliance in the working of PSUs, so that funds are raised from the market as far as possible. In terms of sectoral allocations, the emphasis remains on the development of infrastructure services for industry, agriculture and energy sectors. The outlay on transport and on communications was stepped up by 23.1 per cent and 34.7 per cent respectively, in 1992-93 (RE).

Additional Resource Mobilisation

2.29 The net effect of the various fiscal measures in the 1992-93 Budget was an expected additional revenue of Rs.983 crore. Whilst direct taxes were to raise an additional Rs.795 crore, a loss of Rs.2023 crore on customs was to be offset by a gain of Rs.2211 crore on excise. There was likely to be a net gain of Rs.1500 crore to the States, and a loss to the Centre of Rs.517 crore (Table 2.8). The Railway Budget for 1992-93 increased passenger fares and freight rates and rationalised parcel rates. These measures were estimated to yield an additional revenue of Rs. 1366 crore. The total additional revenue to the Centre through a revision in tax rates and in fares and freights was thus estimated at Rs. 2349 crore in 1992-93, of which it would retain Rs.849 crore.

Savings and Capital Formation

2.30 The decline trend in the proportion of expenditure going to capital formation is likely to be halted, and the decline in the rate of growth of gross capital formation to be reversed, during the current year. Gross capital formation is expected to grow by 8 per cent this year (Table 2.4). Investment in physical assets is estimated to increase to 9.6 per cent of the total expenditure. Consumption expenditure is estimated to be 22.1 per cent of total in 1992-93, only 0.6 per cent more than in 1991-92 (RE). The ratio of defence expenditure to total expenditure will remain unchanged at 14.2 per cent (Table 2.3). Gross dissavings are expected to be reduced by Rs.4249 crore to Rs.4039 crore (Table 2.4).

TABLE 2.8
Additional Resource Mobilisation in the Central and
Railway Budgets for 1992-93

		(Rs.crore)	
	Centre's share	States' share	Total
1	2	3	4
I. Taxes	-517	1500	983
(a) Direct taxes	360	435	795
(i) Corporation tax	325		325
(ii) Income tax	135	435	570
(iii) Expenditure tax	-100		-100
(b) Indirect taxes	-877	1065	188
(i) Customs duties	-2023		-2023
(ii) Excise duties	1146	1065	2211
II. Posts & Telecommunications tariffs, Railway fares and freight rates	1366		1366
(a) Railways	1366		1366
(b) Posts and Telecommunications	0		0
III. Total(I+II)	849	1500	2349

Government Debt

2.31 The decline in the ratio of internal liabilities to GDP is likely to continue in 1992-93, with this ratio being reduced to 51.3 per cent. This is primarily due to a reduction in the share of other liabilities to 47.1 per cent of total internal liabilities. The gap between book value of liabilities and assets will, therefore, increase marginally to 15.3 per cent of GDP from 15.2 per cent in the previous year (Table 2.5). The average rate of interest on internal liabilities is, however, expected to increase to 9.2 per cent from 8.7 per cent in the previous year. The rate of interest on external liabilities is expected to decline marginally to

8.2 per cent (BE) because of decline in international interest rates over the last few years (Table 2.6). Interest payments will consequently rise to 15.1 per cent of total expenditure from 13.9 per cent in the previous year.

Supplementary Demands for Grants

2.32 Two sets of supplementary demands for grants were presented to Parliament, the first in August and the second in December 1992. The first supplementary demand for grants for Rs. 12.15 crore (Rs. 11.33 crore on the non-plan side and Rs.0.82 crore on the plan side) was for technical grants i.e., matched by additional receipts/savings and therefore involved no cash outflow.

2.33 The second supplementary demand for grants for Rs.2624.16 crore, presented in December 1992, involved a cash outgo of Rs.1233.37 crore out of which Rs. 57.86 crore was on plan account and Rs. 1175.51 crore on non-plan account. The net outgo is accounted for mainly by subsidy on indigenous fertilisers, grant of technical credits to foreign governments, arrears of cash compensatory support for exports and working capital loans to PSUs. The second supplementary demand also included technical grants for Rs.1390.70 crore, Rs.571.18 crore on plan side and Rs.819.52 crore on non-plan side. These included assistance to PSUs for implementation of voluntary retirement schemes through the National Renewal Fund and service charges of International Monetary Fund.

Tax Structure Reforms

2.34 The Government set up a Tax Reforms Committee under the Chairmanship of Dr Raja J. Chelliah in August 1991 to recommend a comprehensive reform of both the direct and indirect tax system. The Committee submitted its Interim Report in February 1992 in which it stressed the importance of lower rates of taxation, a narrower spread between the entry rate and the maximum marginal rate, and the fewest special exemptions and deductions. In the field of indirect taxes, the Committee recommended a reduction in the general level of tariffs and in the dispersion of tariff rates and the abolition of end-use exemptions and concessions. The basic philosophy underlying these recommendations, with which the Government is in consonance, is to cut through the welter of detailed changes which have been made over the past 40 years to serve narrow objectives, and restore the tax system to its primary function of generating revenues in an efficient and equitable manner. Some of the recommendations of the Committee were embodied in the Budget proposals, while others are under the Government's consideration. The major changes in the direct and indirect tax policies are indicated below.

Direct Taxes

2.35 On the basis of international experience, the Chelliah Committee recommended that moderate taxes combined with fewer deductions and exemptions and effective enforcement would encourage voluntary tax compliance and increase revenue. Accordingly, personal income tax was restructured, with lower taxes, fewer slabs and a higher exemption limit. As the saving-linked tax exemptions available under Sections 80 CCA and 80 CCB of the Income-Tax Act conferred larger tax benefits on higher income groups, these were merged with Section 88 which provides for a tax rebate on savings. Similarly, deduction available under Section 80 L was reduced. Deductions available in respect of income from housing were rationalised by clubbing deductions for repairs and collection charges and disallowing setting off of losses from house property against other income (Box 2.1).

2.36 There had been a long standing demand to end the double taxation of partnership firms. The Budget revamped the system of taxation of firms by eliminating the distinction between registered and unregistered firms and prescribed a flat rate of tax of 40 per cent on all partnerships. Reforms in the area of corporate taxes were postponed till the final recommendations of the Chelliah Committee were received and examined. To widen the

tax base, a scheme of presumptive taxation was introduced for small traders and retailers on an optional basis. For a long time, it had been felt that the existing provisions for clubbing of minors' income from gifts with their parents' were not effective in checking tax avoidance. To plug the possible loopholes and leakage of revenue, minors' income except their professional income was clubbed with that of their parents. The expenditure tax on airconditioned restaurants was abolished, and the room charge limit for purpose of its levy was raised from Rs.400 to Rs.1200.

BOX 2.1

Changes in Personal Income Tax in 1992-93

- Exemption limit of personal income tax raised from Rs.22000 to Rs.28000.
- Income tax slabs reduced from four to three: new tax rates - 20 per cent up to Rs.50000, 30 per cent up to Rs.1 Lakh and 40 per cent above Rs. 1 Lakh. Surcharge on income tax remains on last slab.
- Sections 80 CCA and 80 CCB providing for 100 per cent deduction from taxable income on netting principle in respect of deposit under National Saving Scheme, Equity Linked Saving Schemes and Annuity Schemes of LIC abolished.
- Deduction under Section 80L in respect of income from dividends; interest on securities, deposits, debentures; and units of the Unit Trust of India reduced from Rs.13000 to Rs.7000.
- Maximum limit of 20 per cent tax rebate under Section 88 in respect of specified savings increased from Rs.10000 to Rs.12000. Section 88 to include schemes covered earlier by Sections 80 CCA and 80 CCB.
- Scope of Section 88 widened to include contributions to Pension Funds set up by the National Housing Bank and Mutual Funds.
- Higher standard deduction of Rs.15000 for women employees, 10 per cent additional tax rebate for senior citizens and enhanced deduction of Rs.12000 for handicapped dependants.
- Deduction for medical insurance for self-employed persons raised from Rs.3000 to Rs.6000.
- Presumptive income tax of Rs.1400 for shopkeepers and retail traders with an annual turnover of Rs.5 lakh and below.
- Income of minors' other than income from profession to be clubbed with that of parents.

2.37 The taxation of capital gains was reformed in several directions. Taxation of capital gains was completely restructured, so that only capital gains net of price increases would be taxed. Long-term capital gains will now be taxed at flat rates after allowing the cost of assets to be adjusted for inflation. The standard deductions in computing taxable capital gains and also other exemptions available under sections 53 and 54E were withdrawn. This new system will favour long-term capital gains. In order to stimulate investment on productive assets, wealth tax on these assets was abolished. Specified assets like

farmhouses, residential houses, motor cars, jewellery, bullion, yacht, aircrafts and boats would, however, continue to be subject to wealth tax. To prevent tax avoidance the wealth of a minor was to be clubbed with that of his or her parents. The cooperative banking sector was exempted from the levy of the interest tax (Box 2.2).

2.38 As part of the reform of the financial system, an announcement was made that companies with good track records would be permitted to issue bonds or equity in foreign exchange to investors abroad in order to tap investible funds available in international market. These issues would be subject to the same tax treatment as is available to offshore mutual funds. Simultaneously, it was proposed to allow reputable foreign investors to invest in the Indian stock market subject to equity share limits, reporting requirements and mechanisms to ensure that this does not result in the loss of management control. Under the scheme, portfolio investments in primary or secondary markets will be subject to a ceiling of 24 per cent of issued share capital for the total holdings of all registered Foreign Institutional Investors (FII), in any one company. The holding of a single FII in any company would also be subject to a ceiling of 5 per cent of total issued capital.

BOX 2.2

Changes in Capital Gains and Wealth Tax in 1992-93

- Long term capital gains to be taxed at flat rates of 20 per cent for individuals and HUFs, 30 per cent for firms and 40 per cent for companies.
- Capital gains to be adjusted for inflation. Cost inflation Index with 1981 - 82 = 100 notified.
- Exemption up to Rs.2 lakh under Section 53 on transfer of residential property and exemption under section 54E on investment of capital gains in specified modes withdrawn.
- Public and private mutual funds to be granted same tax treatment.
- Wealth tax abolished on shares, securities, bonds, bank deposits etc.
- Wealth tax to be levied on non-productive assets such as farmhouses, urban land, jewellery, bullion, cash, motor cars, planes, boats etc.
- Wealth tax exemption limit raised from Rs.5 lakh to Rs 15 lakh. Wealth tax to be levied at 1 per cent.

2.39 There were some other significant proposals in the Budget relating to tax administration. A National Court of Direct Taxes was proposed to be set up to ensure that litigation in direct tax matters is settled expeditiously. The Government also announced its intention to bring a Bill on Direct Taxes Code integrating therein all the three direct taxes. A scheme of giving advance rulings in respect of transactions involving non-residents was also announced. All these measures aim at improving tax compliance and simplifying tax administration.

Indirect Taxes

2.40 The measures proposed in the area of indirect taxes were a first step towards promoting competitiveness in the Indian industry. This requires a reduction in tariffs to the levels comparable with those in similar developing countries, a reduction in the dispersion of tariff rates and a drastic pruning of end-use exemptions. Similarly, the excise duty structure has to be progressively converted from a MODVAT to a VAT. This will allow simplification in administration through a reduction in rates and a switch to accounting methods of enforcing tax compliance.

Import Duties

2.41 On the basis of the recommendations of the Chelliah Committee the Budget lowered the peak tariff level of import duties to 110 per cent with the exception of passenger baggage and alcoholic beverages. To reduce the cost of new investment, the duty on project imports was lowered from 80 per cent to 55 per cent and in the case of electronic industry to 50 per cent. A deeper reduction to 30 per cent was proposed for capital goods for projects of coal mining and crude petroleum refining. In the case of power projects a uniform duty of 30 per cent was fixed.

2.42 The Budget announced reductions in import duty on specified pesticides, pesticide intermediates and full exemption on oilseeds and seeds of vegetables, flowers and ornamental plants, cuttings or saplings of flower plants, seeds of fruit plants and pulses for the purposes of sowing and planting. As a measure of relief to the asbestos cement industry which serves the housing, water supply and irrigation sectors, the Budget reduced the import duty on asbestos fibres from 90 per cent to 70 per cent. The import duty incidence on rags and synthetic waste was equalised at 110 per cent (Box 2.3).

Excise

2.43 In the area of excise duties, full exemption was provided for bricks and tiles with a minimum content of 25 per cent of red mud, light-weight concrete building blocks, doors and windows made of plastic, iron and steel. So also complete exemption was given to panel doors. Besides, concessional duty rates were announced on prefabricated buildings.

2.44 A number of measures were directed towards simplification and additional revenue generation. The multiplicity of slabs for cotton yarn was reduced to five and for cellulosic spun yarn to three. The number of excise duty slabs on two wheelers was reduced from five to two, with the first slab of 15 per cent up to an engine capacity of 75 cc and 25 per cent on those exceeding 75 cc. The Budget proposed a switchover from specific rates to ad valorem rates wherever feasible. In the case of metals namely, copper, lead, zinc and its products, iron forgings and certain steel products a uniform ad valorem levy of 10 per cent was fixed in place of existing specific rates of duty.

2.45 To augment revenue, excise duties were raised on cigarettes, cocoa, cocoa preparations, certain plastic resins, watches, wires and cables, tyres, tubes and flaps, cement, paints, organic surface active agents, ingots and certain rolled products like bars, rods of ferrous metals other than stainless steel etc. Excise duties were also raised on viscose fibre, viscose filament yarn and acrylic fibre. The duty on light commercial vehicles was raised from 10 per cent to 15 per cent. Special excise duty was raised on products which were attracting a 10 per cent rate of duty, to 15 per cent. This increase did not apply to petroleum products, motor cars and TVs (Box 2.4).

BOX 2.3
Changes in Import Duties in 1992-93

- Peak tariff level lowered to 110 per cent.
- Duty rate on project imports and general machinery reduced to 55 per cent, and in the case of electronic industry to 50 per cent.
- Uniform import duty rate of 30 per cent for capital goods for coal mining, petroleum refining and power projects.
- Import duty on other capital goods reduced by 10 percentage points.
- Extension of concessional import duty of 80 per cent to specified electronic components.
- Import duty on 15 specified pesticides reduced from 110 per cent to 75 per cent and on two pesticide intermediates from 120 per cent to 65 per cent.
- Full exemption from duty for oilseeds, seeds of vegetables, flowers, ornamental plants for the purpose of sowing and planting.
- Full exemption for glazed newsprint, specified formulations of certain life-saving drugs and medicines.
- Import duty on propylene reduced from 120 per cent to 80 per cent, on butadiene from 55 per cent to 40 per cent, on benzene from 40 per cent to 25 per cent and a uniform duty of 40 per cent for ethyl benzene and styrene.
- Reduction in import duty on asbestos fibre, colour negatives of cinematographic films and raw silk.
- Returning Indians allowed to import gold up to 5 kg. at a duty of Rs.220 per 10 grams (approximately 3 per cent).
- Import duty on computers and computer peripherals raised to 110 per cent.

Post Budget Changes in Taxes and Duties

2.46 Some mid-year concessions were announced through special notifications. Major modifications are listed in Box 2.5. In the wake of new liberalised foreign investment policy, income tax and corporate tax rates for Foreign Institutional Investors (FII) such as pension funds, mutual funds, investment trusts etc, were brought in line with those of competing countries. The tax rate set at 20 per cent was prescribed on dividend and interest income, and at 10 per cent on long term capital gains for FII. This will encourage foreign investment in Indian capital market. Customs duty on 35 articles of personal or household effects has been sharply reduced from 255 per cent to 150 per cent (105 per cent basic plus

BOX 2.4

Changes in Excise Duties in 1992-93

- Switchover from specific rates to a uniform 10 per cent ad valorem duty on copper, lead, zinc, iron and products thereof.
- Number of rates for cotton yarn reduced to five slabs.
- Full exemption from excise duty on bricks and tiles with a minimum content of 25% of red mud; lightweight concrete building blocks; doors and windows made of plastic, iron and steel; and jute yarn in hanks and jute products manufactured in rural areas by registered cooperative societies.
- Full exemption from excise duty on insulated thermoware, vacuum flasks, specified soya products and candles for water filters.
- Full exemption of duty on specified pesticide intermediates.
- Excise duty on nylon filament yarn and polyester filament yarn reduced.
- Special excise duty raised from 10 per cent to 15 per cent on all goods except motor cars, TVs and petroleum products.
- Excise duties increased on cigarettes, cement, steel, tyres, two wheelers, viscose fibre, acrylic fibre, filament yarn, cocoa, plastic resins, paints and watches.
- Increase in excise duty on pig iron, iron forgings, steel ingots.

45 per cent auxiliary) Import up to 100 kg. of silver per passenger at a concessional duty of Rs.500 per kg. has also been allowed. Another noteworthy development was the introduction of the facility of a green channel for cargo imports and self-assessment of the duty liability. In line with the practice prevalent in major trading countries, imports through international courier services have been made easier. The level of duty has been reduced and the value up to which the articles can be imported through couriers has been enhanced.

Chelliah Committee on Tax Reforms

2.47 A number of suggestions contained in the Interim Report of the Chelliah Committee were implemented in the 1992 Budget. Some other changes remained to be implemented. These relate to ad valorem rates of duties in place of specific duties for certain products such as sugar, vegetable products, refined oils, pan masala, inorganic chemicals, tyres and tubes, paper and paper products, air conditioners, compressors, refrigerators etc. The Committee submitted its final report in two parts, Part I in August 1992 and Part-II in January 1993. Part I of the Report contains recommendations for comprehensive reforms in the areas of corporate tax, tax administration and enforcement machinery. The Committee has suggested measures to tackle problems relating to auditing, appeal procedures, search and seizures. Part II gives Committee's final recommendations regarding the restructuring and rationalisation of import duties for specific groups of industries and their phasing. The final Report also deals with the restructuring of excise duties and review of exemption notifications in the import tariffs. These recommendations would be considered in the

context of the Government's policies and reforms for the coming years. The major recommendations contained in Part I and Part II of the Report are listed in Boxes 2.6 and 2.7.

BOX 2.5

Post-Budget Developments in 1992-93

- Concessional tax regime for Foreign Institutional Investors such as Pension Funds, Mutual Funds, Investment Trusts etc. investing in the capital market.
- Duty exemption for gold imported under the scheme for export of gold jewellery by domestic units and the MMTC.
- Import duty exemption for raw materials and components for the goods to be supplied to offshore oil exploration.
- Concessional customs duty of 35 per cent for specified drug intermediates.
- Reduction by 10 per cent in customs duty on components for fuel efficient vehicles.
- Exemption from customs duty for import of wood pulp, used in manufacture of newsprint.
- Value limit of duty-free import of tags, labels, printed bags and stickers by exporters raised from Rs.1000 to Rs.10,000 in each case.
- Full import duty exemption for goods for renovation and modernisation of fertiliser plants.
- Exemption from basic duty in excess of 50 per cent and the whole of auxiliary and additional duties for import of air conditioned cars and coaches for State Tourism Corporations, classified hotels and travel agencies.
- Duty free allowance under baggage rules raised from Rs.2400 to Rs.3000.
- Customs duty reduced from 255 per cent to 150 per cent on 35 articles of personal or household effects such as FAX machine, video camera, cordless and cellular telephone, personal computer, airconditioner, refrigerator, washing machine, microoven, TV, VCR, music system etc.
- Total value of articles imported as baggage not to exceed Rs.1.5 lakh.
- Silver import up to 100 kg per passenger at a concessional rate of Rs.500 per kg. allowed.
- Excise duty on colour TVs, VCRs, VCPs, motor vehicles and chassis reduced.

BOX 2.6

Tax Reforms Committee's Recommendations on Corporate Taxes

- Corporate tax rate for domestic companies be lowered to 45 per cent in 1993-94 from the present level of 51.75 per cent by abolition of surcharge and further to 40 per cent in 1994-95.
- Tax rates for foreign companies be lowered and the differential between the rates on domestic and foreign companies should be around 7.5 percentage points. Differential not to exceed 10 percentage points.
- Agricultural income in excess of Rs.25000 accruing to the non-agriculturists be taxed by aggregating it with non-agricultural income.
- Retention of the general rate of depreciation on plant and machinery at 25 per cent.
- Abolition of interest tax.
- Exemption limit for the gift tax be raised to Rs.30,000 from the present level of Rs.20,000.
- Taxation of perquisites and fringe benefits.

States and Union Territories : 1992-93

2.48 The overall budgetary deficit of the States and Union Territories for 1992-93 is estimated at Rs.1694 crore. This gap between the total expenditure and receipts narrows down to Rs.194 crore on receipt of the States' share of Rs. 1500 crore in the additional resource mobilisation by the Centre. However, the fiscal deficit of the States does not show any marked decline. During the current year, the fiscal deficit of all the States is estimated at 3.2 per cent of GDP.

2.49 Current revenue of the States, including internal resource generation by their enterprises, is estimated to increase by 10.7 per cent, to Rs.82363 crore, in 1992-93. Aggregate disbursements are to rise by 10.1 per cent to Rs.107315 crore. The resource gap is thus estimated at Rs.24952 crore. Of this gap, 48.5 per cent is to be financed by loans from the Centre, 16.8 per cent from market loans, 8.6 per cent from provident funds and the remaining from other capital receipts.

2.50 The budgeted non-developmental expenditure of the States is expected to increase by 16.2 per cent in 1992-93 against a 7.1 per cent increase in development expenditure over 1991-92 (RE). The ratio of development expenditure to total expenditure has declined from 74.4 per cent in 1983-84 to 65.5 per cent in 1992-93.

BOX 2.7

**Tax Reforms Committee's Recommendations on
Customs and Excise**

- Tariffs on finished goods should be higher than on basic raw materials and those on components and machinery should be in between.
- Agricultural imports should be subject to some import duty.
- The import duty structure for 1997-98 (excluding CVD) should be a zero rate for essential agricultural goods; 10 per cent for other agricultural goods (e.g. oilseeds); 15 per cent for tin, pig iron, aluminium, and nickel; 20 per cent for medical equipment, organic and inorganic chemicals, lead, zinc, and machinery; 25 per cent for polymers, textiles, fibres and yarns; 30 per cent for articles of nonferrous metals and of iron & steel; and 50 per cent for non-essential agricultural goods such as almonds and cashewnuts.
- Central excise duties be restructured in the light of the recommendations made in the Interim Report; three-rate MODVAT regime at the manufacturing level at 10, 15 and 20 per cent and selective excise on nonessential commodities at 30, 40 and 50 per cent.
- Examination of the feasibility of collection of excise duty on cigarettes through banderols.
- Extension of MODVAT to textiles and petroleum products.
- Excise duty on selected products at present exempted from excise.

Centre, States and Union Territories : 1992-93

2.51 The overall budgetary deficit of the Centre, States and Union Territories in 1992-93 (BE) is placed at Rs.7083 crore, 20.7 per cent lower than in 1991-92 (RE). Aggregate receipts including borrowings are budgeted to increase by 12.2 per cent to Rs.213192 crore while aggregate expenditure is estimated to increase by 10.7 per cent to Rs.220275 crore. Developmental expenditure is projected to rise by 10 per cent and non-developmental expenditure by 11.8 per cent (Table 2.7). The current revenue was estimated to increase by 13.5 per cent to Rs.150289 crore. The gap between current revenue and disbursement which denotes the total gap in the resources of the States and the Centre, is estimated at Rs.69986 crore, or 10.1 per cent of GDP.

Annual Plan

2.52 The Annual Plan for 1992-93 provides for a total outlay of Rs.80772 crore for the Centre, States and Union Territories, 22.7 per cent higher than in 1991-92 (RE) (Table 2.9). The allocation for the Central Plan is Rs.48407 crore, 20.5 per cent above 1991-92 (RE). The allocation for the States and Union Territories' plans at Rs.32365 crore works out to 40.1 per cent of the total outlay.

TABLE 2.9
Annual Plan Outlay: Centre, States and Union Territories

Heads of development	1991-92 (RE) (Rs.crore)	1992-93 (BE)	1991-92 (RE) (per cent)	1992-93 (BE)
1	2	3	4	5
1. Agriculture and allied activities	3944	4710	6.0	5.8
2. Rural development	4113	4536	6.2	5.6
3. Special area programme	1101	1180	1.7	1.5
4. Irrigation and flood control	3956	4935	6.0	6.1
5. Energy	18843	23574	28.6	29.2
6. Industry and minerals	8026	9884	12.2	12.2
7. Transport	9512	11756	14.4	14.6
8. Communications	3632	4890	5.5	6.1
9. Science, technology and environment	888	992	1.3	1.2
10. General economic services	861	1105	1.3	1.4
11. Social services	10732	12847	16.3	15.9
12. General services	247	363	0.4	0.4
Total	65855	80772	100	100

2.53 In the pattern of financing of the Annual Plan 1992-93, it is envisaged that domestic resources would finance 79.3 per cent of the outlay and that net inflow from abroad would contribute another 14 per cent. The remaining 6.7 per cent is estimated to be met by the budget deficit. The contribution of the balance from current revenue at current rates of taxation is estimated to be Rs.351 crore. The generation of internal resources and issue of bonds by public enterprises is estimated at Rs.22027 crore. Details are given in Appendix Table 2.7.

Eighth Five Year Plan

2.54 The Eighth Five Year Plan, which could not commence in 1990-91 on account of political changes, has now commenced from 1 April 1992, with the objectives specified in Box 2.8. The Eighth Plan will keep 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.

2.55 Human resource development will be the main focus of the Eighth Plan. It is towards this 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.

BOX 2.8

Plan Objectives

- Generating employment to achieve near-full employment by the turn of the century;
- Containing population growth through people's active cooperation and an effective scheme of incentives and disincentives;
- Universalisation of elementary education and eradication of illiteracy among people in the age group 15 to 35 years;
- Provision of safe drinking water and primary health care to all villages and the entire population and elimination of scavenging;
- Growth and diversification of agriculture to achieve self-sufficiency in food and generate surplus for exports; and
- Strengthening of infrastructure (energy, transport, communication, irrigation) in order to support the growth process on a sustainable basis.

2.56 The Eighth Plan aims at an average growth of 5.6 per cent per annum. The incremental capital-output ratio (ICOR) is assumed to be 4.1, about the same level as in the Seventh Plan. 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 23.2 per cent of GDP. A total investment of Rs.798000 crore at 1991-92 prices is envisaged for the Eighth Plan, the share of public sector investment will amount to Rs.361000 crore or 45.2 per cent of the total investment as compared with 45.7 per cent realised in the Seventh Plan and 47.8 per cent in the Sixth Plan. Public sector outlay is Rs.434100 crore inclusive of current outlay. Draft on foreign savings is estimated at 1.6 per cent of GDP amounting to Rs.55000 crore. Public sector investment will be financed to the extent of 72 per cent from household savings, 19 per cent from Government savings, and nine 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.434100 crore can be realised.

2.57 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 funds from the sectors which have surpluses to the needy sectors, which cannot raise resources out of their own activities.

Role of Public Sector

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

- (a) 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.
- (b) 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.
- (c) 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. This implies recovery of costs and efficiency in operations.

Performance of Departmental Enterprises

Railways

2.59 In the Budget for 1991-92, the originating revenue-earning freight traffic was estimated at 335 million tonnes. This was raised to 337 million tonnes at the revised estimates stage, 19 million tonnes more than the previous year's actuals of 318 million tonnes. The actual performance in 1991-92 was even better than that estimated at the revised estimate stage. Because of this better performance and the vigorous steps taken to achieve the reduction in working expenses by cost control, cost reduction and economy measures, the surplus for the year 1991-92 estimated at Rs.235 crore in the budget estimates was raised to Rs.435 crore at the revised estimate stage. While achieving the surplus of Rs.435 crore, contribution to the Pension Fund was raised from Rs.1050 crore to Rs.1180 crore and a deferred dividend liability of Rs.74 crore was discharged.

2.60 From the year 1992-93, the connotation of the word 'surplus' has been changed to 'excess'; it is to be utilised for meeting expenditure on works charged to Development Fund and other plan expenditure. The Railway Budget for 1992-93 envisages an excess of Rs.563 crore after providing for the dividend in full and completely liquidating the deferred dividend liability of Rs.416 crore. The excess as a percentage of capital-at-charge is, estimated to reach 2.9 in 1992-93. Further details on financial performance of the Railways are in Appendix Table 2.9.

2.61 The fare and tariff increases in the Railway Budget are shown in Box 2.9. They are expected to fetch additional revenue of Rs.1306 crore. The concessions of Rs.60 crore made at the time of budget discussions will be made up by corresponding savings in working expenses. The outlay for the Railways' Plan 1992-93, the first year of the Eighth Plan, was fixed at Rs.5700 crore, seven per cent over the previous year's outlay. Priority continues to be accorded to rolling stock, traffic facilities, renewal of track, replacement and renewal of overaged assets, acquisition of other overaged assets to meet the demand of additional traffic. A major impetus has been given to the conversion of selected metre gauge and narrow gauge routes to broad gauge.

BOX 2.9

Highlights of Railway Budget 1992-93

- Freight rates were increased by 7.5 per cent except that the increase was only 4 per cent for coal. In addition to general increase, the classification of all commodities (except the essential commodities) increased by one step.
- There was no general increase in parcel rates. However, the parcel scales were rationalised and minimum charge revised to Rs.20 and Rs.30 for perishables and other than perishables, respectively.
- IInd class ordinary fares were increased by Rs.0.50 to Rs.5 per ticket for various distance slabs. There was no increase in 1-10 km slab.
- II Mail/Express fares were increased by Re.1 to Rs.25 for different distance slabs with the maximum of Rs.25 for 1301 kms and above.
- AC Ist class fares were revised by 20 per cent and AC sleeper/Ist class/AC Chair Car fares by 15 per cent. Fares of Rajdhani/ Shatabdi/ New Delhi-Bombay AC Express trains were also suitably increased.
- IInd class Monthly Season Ticket (MST) fares were increased by Rs.11 in 11-15 km slab, Rs.20 up to 70 kms and Rs 25 beyond 70 kms. No increase was made in 1-10 km slab. Ist class MST fares were revised to four times the IInd class MST fares.

Posts and Telecommunications

2.62 The gross receipts of Department of Posts in 1991-92 increased to Rs.948 crore from Rs 841 crore in 1990-91, mainly as a result of growth of traffic and revision of rates on foreign traffic in November 1991. With working expenses at Rs.1162 crore, there was a deficit of Rs.214 crore. During 1992-93, as per the budget estimates, the gross receipts are expected to increase marginally to Rs.960 crore, and working expenses to decrease to Rs.1109 crore, thereby reducing the deficit to Rs.149 crore. Details are given in the Appendix Table 2.10A.

2.63 Telecommunications have been earning an increasing surplus. Net receipts increased to Rs.1730 crore in 1991-92 and are further expected to rise to Rs.2391 crore in 1992-93. The dividend to be paid to the general revenues is estimated to rise to Rs.251 crore from Rs.247 crore in 1991-92. Details are given in Appendix Table 2.10B.

Outlook

2.64 Fiscal adjustment is the most vital part of short-term macro adjustment, because it influences both the rate of inflation and the size of the balance of payments deficits on current account. Though considerable progress has been made on both the inflation and the balance of payments fronts, the process of short-term fiscal adjustment is not yet complete. The short-term fiscal adjustment must continue at least for the next year and possibly the succeeding year. Now that the Central Government has demonstrated its firmness in bringing down the Central Government fiscal deficit, the time has come for such fiscal discipline to be extended to the States and Union Territories. Once the immediate short-term crisis is behind us, we will have greater flexibility in focussing public expenditures on areas with high effective social benefit cost ratios.

2.65 Looking beyond the short-term adjustment, the fiscal balance must be converted from a source of macro imbalance, to an instrument of growth. For much too long the public sector has acted as a drain on the resources of the nation. We must now start thinking and planning for an era in which the public sector deficit will be converted into a surplus, contributing to a national saving rate comparable to the best. This in turn will result in lower real interest rates and higher growth in a competitive environment.