Fiscal Developments

30. The process of fiscal consolidation received a setback during 1997-98 with the Central Government fiscal deficit (Revised Estimates) reaching 6.1 per cent of GDP as against the budget target of 4.5 per cent (Table 1.6). Concomitantly, the primary deficit was also 1.7 per cent points of GDP higher than budgeted. However, if the increase in expenditure attributable to small savings loans were excluded, the fiscal deficit, adjusted for the increase over budget in small saving loans to States and Union Territories, would be lower at 5.8 per cent of GDP in 1997-98. For the preceding year 1996-97, the actual fiscal deficit as a proportion of GDP has turned out to be 5.2 per cent as against the budget and revised estimate of 5 per cent.

31. The deterioration in the fiscal deficit was due primarily to a tax revenue shortfall of Rs. 14236 crore (net to Centre), and a shortfall of Rs. 3894 crore in disinvestment receipts. Both customs and excise revenues were well below the budget estimates, the former on account of both lower volume and unit price of imports, and the latter because of unexpectedly low industrial growth. According to the revised estimate, total expenditure exceeded the Budget estimates by only Rs. 3069 crore. This is less than the additional expenditure of Rs. 4432 crore incurred on account of the single item of loans to States and Union Territories against small savings collections, which have been exceptionally buoyant during the year.

32. The 1997-98 budget introduced sharp cuts in income tax rates with a view to stimulate saving and investment and encourage higher tax compliance. Personal and corporate tax rates were reduced and rationalised to bring them to internationally comparable levels. The top marginal personal income tax rate was cut from 40 to 30 per cent. The corporate tax rate for domestic companies was reduced from 40 to 35 per cent and on (branches of) foreign firms from 55 to 48 per cent. The surcharge on corporate tax was abolished. The tax on dividends in the hand of receipients was replaced by a 10 per cent tax on distributed profits of domestic companies. The tax rate on royalty and technical service fees payable to foreign residents was lowered to 20 per cent (from 30 per cent). Export profits were exempted from the Minimum Alternate Tax (MAT). Payment of MAT was converted into a tax credit, which could be carried forward for five assessment years.

33. A significant initiative was taken to widen the tax base by stipulating that residents of large metropolitan cities who satisfy certain specified economic criteria must file their tax return. Another proposal with the same objective was the introduction of an estimated income scheme for retail traders. With a view to harness “black money” for productive purposes a new Voluntary Disclosure Income Scheme (VDIS) was introduced, which netted tax collections estimated to exceed Rs. 10,000 crore.

34. The peak customs duty was lowered from 50 per cent to 40 per cent. Customs duties on a number of inputs, raw materials and intermediates were reduced to make domestic production more competitive in power, chemicals, textiles and information technology. The duty on capital goods was reduced from 25 per cent to 20 per cent. Excise duty changes were aimed at reducing dispersion in rates. The scheme of excise duty concession for the small-scale units was simplified. The ambit of service tax was widened to cover a number of services like transportation of goods by road, consulting engineers, steamer/shipping agents, air travel agents.

35. The discontinuation of ad-hoc treasury bills for financing the budget deficit is a step towards strengthening fiscal discipline. Budget for 1997-98 also took some initiatives in the infrastructure and agriculture sectors. Budget support for the National Highway Authority of India was stepped up from Rs. 200 crore in 1996-97 to Rs. 500 crore for 1997-98. A Rural Infrastructure Development Fund III was launched with a provision of Rs. 2500 crore for 1997-98. The following additional measures were taken to encourage capital formation in agriculture. (a) a re-capitalisation of regional rural banks through infusion of Rs. 200 crore for this purpose; and (b) augmentation of share capital of National Bank for Agriculture Reconstruction and Development by a further Rs. 500 crore (Rs. 100 crore by the Government and Rs. 400 crore by the Reserve Bank of India) during the course of 1997-98.

TABLE 1.6

Tax Revenue & Expenditure

	1990-91 Actuals	1992-93 Actuals	1993-94 Actuals	1994-95 Actuals	1995-96 Actuals	1996-97 Actuals	1997-98 Budget Estimates	1997-98 Revised Estimates
	(As per cent of GDP)							
1. Fiscal Deficit	8.3	5.7	7.4	6.0	5.4	5.2	4.5	6.1
2. Revenue Deficit	3.5	2.6	4.0	3.2	2.7	2.6	2.1	3.1
3. Primary Deficit	4.3	1.3	2.9	1.4	0.9	0.6	-0.2	1.5
4. Gross Tax Revenue	10.8	10.6	9.3	9.6	9.9	10.1	10.7	10.1
(a) Direct Taxes Of which	2.1	2.6	2.5	2.8	3.0	3.0	3.2	3.6
(i) Income Tax	1.0	1.1	1.1	1.2	1.4	1.4	1.5	1.3
(ii) Corporation Tax	1.0	1.3	1.2	1.4	1.5	1.5	1.5	1.5
(b) Indirect Taxes Of which :	8.7	7.8	6.7	6.8	6.9	7.0	7.5	6.4
(iii) Union Excise Duties	4.6	4.4	3.9	3.9	3.6	3.5	3.6	3.4
(iv) Customs	3.9	3.4	2.7	2.8	3.2	3.4	3.6	2.9
5. Total Expenditure of which :	19.7	17.4	17.5	16.7	15.9	15.7	16.1	16.6
(i) Interest Payments	4.0	4.4	4.5	4.6	4.5	4.7	4.7	4.6
(ii) Major Subsidies	1.8	1.3	1.3	1.2	1.1	1.1	1.2	1.3
(iii) Defence	2.9	2.5	2.7	2.4	2.4	2.3	2.5	2.6
(iv) Other Non-Plan Expenditure	5.7	4.0	3.6	3.6	3.8	3.4	3.3	3.8
(v) Budget Support For Plan	5.3	5.2	5.4	4.9	4.1	4.2	4.4	4.3