

CHAPTER 6

FISCAL POLICY AND GOVERNMENT BUDGET

The secular pressures on Government's expenditure have sharpened in recent years and the pattern of financing has been substantially different from what was anticipated in the medium term perspective outlined in the Seventh Plan. The Central Government budget deficit as conventionally defined has fluctuated around 2 per cent of GDP in recent years. The magnitude of deficit financing during the Seventh Five Year Plan has been of the order of Rs. 29,000 crores (at 1984-85 prices), more than double the Plan target of Rs. 14,000 crores. What is more, the revenue deficit has widened significantly over time and amounted to about 2.8 per cent of GDP in 1988-89 (RE). The budget for 1989-90 programmed a significant improvement in the deficit (1.7 per cent of GDP) but judging by the sharp rise in net RBI credit to Central Government so far during the year, the actual outcome may be distinctly worse. Net RBI credit to Central Government has risen by Rs. 15,255 crores since the beginning of the financial year upto January 26, 1990.

6.2 The conventional budgetary deficit does not indicate the full measure of overall deficit and the Government's draft on domestic savings and dependence on external savings. A fuller measure of the overall deficit, which is commonly used internationally is the difference between government expenditure and net lending on the one hand and current revenue and grants on the other. Measured thus, the overall deficit of the Central Government increased from 6.1 per cent of GDP in 1980-81 to 8.2 per cent in 1988-89 (RE). This was met from the draft on domestic savings, external borrowings and (narrowly defined) deficit financing (borrowing from RBI through treasury bills). The draft on domestic savings, which was to the extent of 3.7 per cent of GDP in 1980-81, increased to 5.9 per cent in 1988-89 (RE). Likewise, deficit financing increased from 0.9 per cent of GDP in 1981-82 to 2.1 per cent in

1988-89 (RE). Although the budget for 1989-90 had foreseen a reduction of the overall deficit, current indications are not supportive of such a prospect.

6.3 It is a matter of concern that a significant part of the borrowed resources goes towards covering revenue deficit of Government, which is substantially larger than the extent of narrowly defined deficit financing (borrowing from RBI through low-cost ad-hoc treasury bills). As borrowed resources command higher interest rates, the cost of financing the revenue gap has been on the rise. Moreover, the remunerative commercial activities also have not been generating adequate return flow by way of dividends and interest. On top of it, the interest cost of borrowing in the form of small savings, provident fund etc. has increased in recent years. With a near stagnant domestic saving rate, the increase in cost of borrowing is not surprising, particularly when the borrowing is large.

6.4 The net outcome of this pattern of financing is the emergence of unsavoury budgetary imbalances. Increase in borrowings and deficit financing leads to rise in interest payments, liquidity growth and inflation and pushes expenditures further. Growth in expenditure, in turn, necessitates larger borrowings and deficit financing.

6.5 Fiscal management in the immediate future must aim at correcting these imbalances to stem inflation, contain balance of payments pressures and secure economic benefits consistent with an equity oriented development strategy. The emphasis on improving efficiency and productivity in public enterprises has to be translated into actual achievement, if necessary, by making public funding of these enterprises contingent upon their generating adequate return flows to the budget.

Budgetary Development in 1988-89

6.6 The combined budgetary operations of the Central Government, State Governments and Union Territories in 1988-89 (RE) resulted in a budgetary deficit of Rs. 8,853 crores, about 52 per cent larger than Rs. 5,504 crores in 1987-88 (Actuals). The average budgetary deficit during 1980-81 to 1985-86 was around Rs. 3,166 crores (Table 6.1). The budgetary deficit-GDP ratio in 1988-89 (R.E.), thus went upto 2.3 per cent, from 1.3 per cent in 1985-86. This deterioration was partly due to a near stagnant tax-GDP ratio and partly to a rise in the expenditure-GDP ratio. Thus, the tax-GDP ratio, which was 16.5 per cent in 1985-86, crept to 16.7 per cent in 1988-89 (RE), while the expenditure-GDP ratio moved up from 32.0 per cent to 33.8 per cent du-

ring the period. The gap between total expenditure and current revenue which approximates the overall budgetary deficit concept in common use internationally, widened from 10.4 per cent of GDP in 1985-86 to about 12.1 per cent in 1988-89 (RE). This gap was about 9 per cent of GDP in 1980-81. About 74.5 per cent of the gap in 1988-89 was financed by draft on domestic savings, 6.8 per cent from external savings, and 18.7 per cent from deficit financing. The large draft on domestic savings in recent years against a near stagnant domestic saving rate, has inevitably led to a doubling of interest payments, from Rs. 8,006 crores in 1985-86 to Rs. 16,331 crores in 1988-89 (RE). The net result has been a rise in the proportion of non-developmental expenditures in total expenditure from 36.4 per cent in 1985-86 to 38.6 per cent in 1988-89 (RE).

TABLE 6.1

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

	(Rs. crores)										
	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89		1989-90
									(BE)	(RE)	(BE)
I. Total Outlay	36845	43738	52747	60829	72825	83961	100790	112169	127780	132081	149223
	(27.1)	(27.4)	(29.7)	(29.4)	(31.6)	(32.0)	(34.4)	(33.7)	(32.7)	(33.8)	(34.7)
(a) Developmental	24426	28653	33591	39274	48085	53397	63778	68801	78107	81153	92165
(b) Non-Developmental	12419	15085	19156	21555	24740	30564	37012	43368	49673	50928	57058
II. Current Revenue	24563	30425	35795	40989	47098	56773	64823	73485	86036	84301	103623
	(18.1)	(19.1)	(20.2)	(19.8)	(20.4)	(21.6)	(22.1)	(22.1)	(22.0)	(21.7)	(24.1)
(a) Tax Revenue	19844	24142	27242	31525	35813	43267	49540	56976	64147	65443	76041
	(14.6)	(15.1)	(15.3)	(15.2)	(15.5)	(16.5)	(16.9)	(17.1)	(16.4)	(16.7)	(17.7)
(i) Direct Taxes	3268	4133	4492	4907	5329	6252	6890	7483	8804	8966	10337
(ii) Indirect Taxes	16576	20009	22750	26618	30484	37015	42650	49493	55343	56477	65704
(b) Non-Tax Revenue	4719	6283	8553	9464	11285	13506	15283	16509	21889	19358	27582
III. Gap (I-II)	12282	13313	16952	19840	25727	27188	35967	38684	41744	47280	45600
	(9.0)	(8.4)	(9.5)	(9.6)	(11.2)	(10.4)	(12.3)	(11.6)	(10.7)	(12.1)	(10.6)
Financed by :											
(i) Domestic Capital Receipts	7161	9423	13012	16094	18765	21899	24439	29455	29653	35210	33671
(ii) Net External Assistance	1670	1301	1591	1611	1857	1850	2378	3765	3735	3217	3723
(iii) Budgetary deficit	3451	2519	2349	2135	5105	3439	9150	5504	8356	8853	8206
	(2.5)	(1.6)	(1.3)	(1.0)	(2.2)	(1.3)	(3.1)	(1.7)	(2.1)	(2.3)	(1.9)

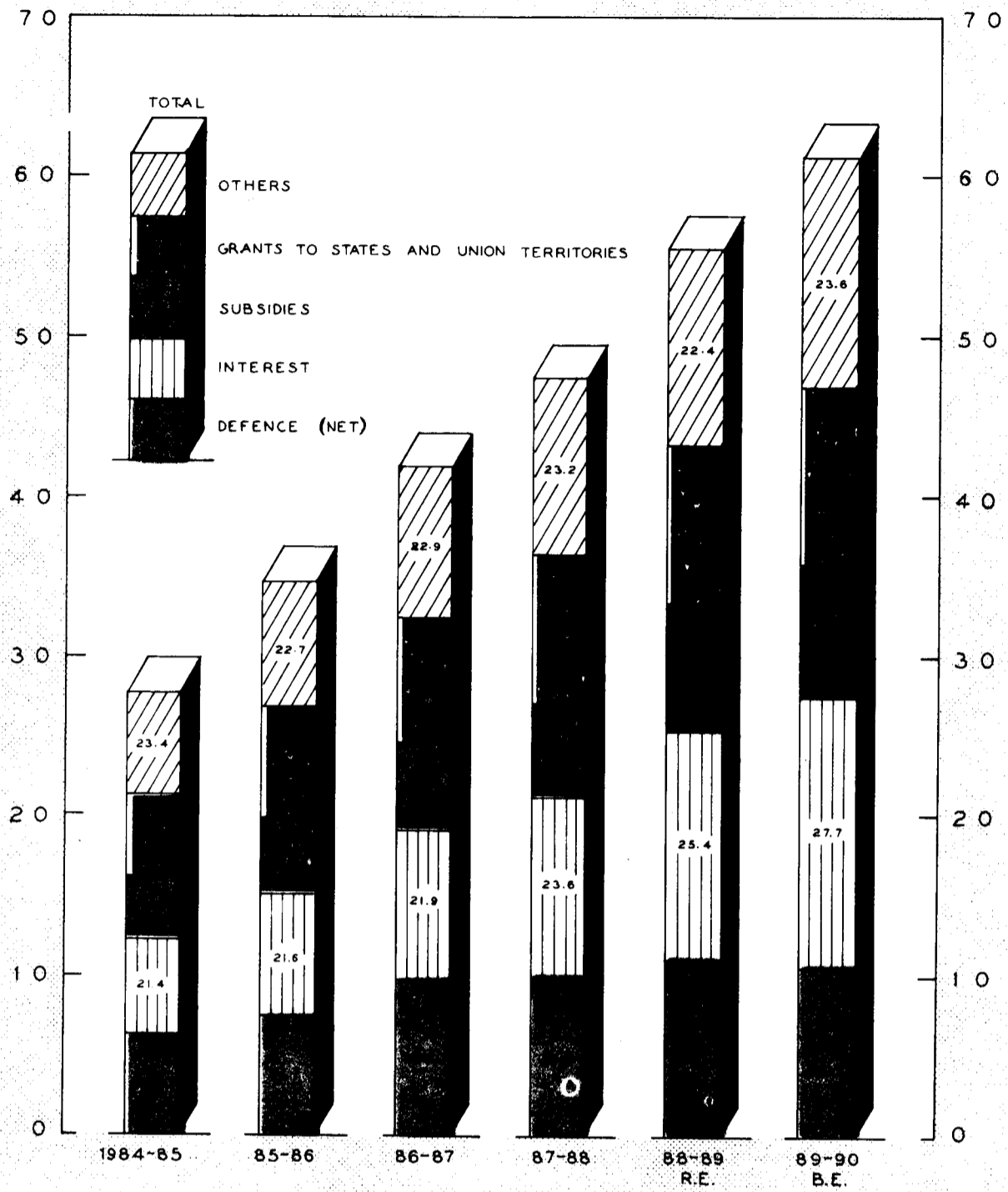
Notes :— (1) For clarification regarding the scope of some items in this Table, see footnotes to Table 2.1 in the Statistical Appendix.

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

CENTRE'S REVENUE EXPENDITURE

PERCENTAGE DISTRIBUTION

RS. IN '000 CRORES



MINISTRY OF FINANCE, ECONOMIC DIVISION

6.7 The budgetary position of the Central Government was distinctly worse in 1988-89 (RE) with budgetary deficit widening to Rs. 7,940 crores against the actuals of Rs. 5,816 crores in 1987-88 and Rs. 4,937 crores in 1985-86. The expenditure-GDP ratio was over 24 per cent, while the ratio of current revenue (including internal resources of PSUs) to GDP was a mere 13.4 per cent and hence the large gap. Expenditure growth on an average, was a little over 17 per cent during 1980-81 to 1988-89. Growth in revenue expenditure, was, however, far in excess; 19.5 per cent during the period. At the same time, tax-revenue grew on an average by 17 per cent in nominal

terms. This mis-match between growth in tax-revenue and revenue expenditure inevitably resulted in a large and widening revenue deficit during the period. Thus revenue deficit enlarged to 2.8 per cent of GDP in 1988-89 (RE), from 2.1 per cent in 1985-86 and 0.6 per cent in 1980-81 (Table 6.2). The widening revenue deficit was largely met from borrowed resources involving higher interest payment liabilities. The diversion of high cost borrowed resources for covering revenue deficit dissipated scarce resource while it ensured no return flow to the budget. The consequent destabilising effects have lengthened budgetary-imbances throughout the decade of eighties.

TABLE 6.2
Centre's Revenue Receipts and Revenue Expenditure

	(As per cent of GDP)									
	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89 (RE)	1989-90 (BE) ^a
1. Tax Revenue										
(Net of States share)	6.9	7.3	7.4	7.5	7.7	8.1	8.3	8.4	8.4	8.9
2. Non-Tax Revenue	2.5	2.5	2.8	2.4	2.9	3.0	3.4	3.1	3.0	3.7
3. Total Current Revenue (1+2)	9.4	9.8	10.2	9.9	10.6	11.1	11.7	11.5	11.4	12.6
4. Total Current Expenditure	10.0	9.9	10.9	11.1	12.1	13.2	14.4	14.3	14.2	14.2
(a) Interest payments	2.0	2.0	2.2	2.3	2.6	2.9	3.1	3.4	3.6	4.0
(b) Subsidies ¹	1.2	1.2	1.3	1.3	1.6	1.8	1.9	1.8	2.0	1.9
(c) Defence Expenditure ²	2.6	2.6	2.7	2.7	2.8	2.9	3.4	3.0	2.8	2.4
(d) Grants to States & UTs	2.1	1.7	2.0	2.1	2.3	2.7	2.6	2.8	2.6	2.6
(e) Others	2.2	2.4	2.6	2.6	2.8	3.0	3.3	3.3	3.2	3.4
5. Revenue Accounts surplus (+)/ Deficit (-)/(3-4)	-0.6	-0.1	-0.7	-1.2	-1.5	-2.1	-2.7	-2.8	-2.8	-1.6

1. Excludes subsidies on imported fertilizer upto 1985-86.

2. Estimates.

3. Includes defence pension.

Note :— The ratios in this Table from 1980-81 onwards are based on the new series of GDP released by the CSO and therefore, these will differ from the figures given in previous year's Economic Survey.

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6.8 The budgetary position of the States and UTs together was no better. The combined budgets of States & UTs showed a deficit of Rs. 913 crores in 1988-89 (RE) against a surplus of Rs. 312 crores in the previous year and Rs. 1,498 crores in 1985-86. Their revenues included Rs. 1,389 crores by way of grants from the Centre (Table 6.2). The internal resources of State PSUs continued to be plagued by poor performance. In 1988-89 (RE), internal resources of PSUs were a negative Rs. 626 crores against a negative Rs. 654 crores in 1987-88 and negative Rs. 29 crores in 1985-86. A disturbing feature has been the rise in non-developmental expenditure over the years. The ratio of non-developmental expenditure to total expenditure increased from 27 per cent in 1985-86 to 29.5 per cent in 1988-89 (R.E.). Here again, interest payment was the major element, its share in non-development expenditure increased from 26.9 per cent in 1985-86 to 32.9 per cent in 1988-89 (RE).

Central Government Budgetary and Fiscal Developments 1989-90

6.9 The Central Government Budget for 1989-90 sought to promote a number of objectives: promotion of productive employment; restraint on non-essential luxury consumption; protecting the consumption standard of the poor; maintaining the tempo of industrial modernisation and growth; providing relief to middle income tax payers and containing the Budget deficit. Budget proposals framed in pursuance of these objectives had two conspicuous features: a special surcharge on high income tax payers for financing a new rural employment programme and the levy of a range of indirect taxes on low priority and luxury items to tap resources from the relatively affluent sections of society. The Budget also contained measures to reverse the trend in the rising revenue deficit through mobilisation of resources and containment of expenditure. The Budget proposed Rs. 1,287 crores in fresh taxes, the burden being divided between direct taxes estimated to yield Rs. 530 crores and indirect taxes and levies to yield Rs. 757 crores. The gross revenue collection by the Centre was estimated to go up by over 17 per cent from Rs. 43,376 crores in 1988-89 to Rs. 50,875 crores in 1989-90.

6.10 The details of important fiscal measures contained in the Budget for 1989-90 and the Finance Act 1989 are enumerated in the following paragraphs.

Direct Taxes

6.11 No major changes were proposed in the personal and corporate tax structure except that the tax rate for the individuals in the entry slab of Rs. 18,000—25,000 was reduced from 25 per cent to 20 per cent. The drought surcharge on wealth-tax and income-tax levied in 1987 was withdrawn from the assessment year 1989-90 and 1990-91 respectively. Instead a new surcharge at the rate of 8 per cent, specifically linked to financing a new rural employment programme called Jawaharlal Nehru Rojgar Yojna, was levied on resident tax payers with income above Rs. 50,000. With a view to curbing conspicuous consumption, the rate of expenditure tax as applicable to higher class hotels was enhanced from the present level of 10 per cent to 20 per cent. Some measures were also adopted for providing relief which included tax exemption to the income from poultry farming at the rate of thirty-three and one third per cent of such income; standard deduction on family pension at the rate of thirty-three and one third per cent, subject to a ceiling of Rs. 12,000; deduction of Rs. 15,000 for mentally retarded persons, provision for deduction of profession tax in computing the salary income, uniformity in allowance of standard deduction to employees of public and private sectors and certain tax concessions to venture capital undertakings and Fund set up under Exchange Risk Administration Scheme.

6.12 Another significant aspect of the Budget was announcement of two new schemes for promoting savings and investment. The first scheme was linked with housing and could be availed of only by an individual who is not owner of a residential property. The scheme called Home Loan Account Scheme would be operated through National Housing Bank (NHB) and deposits made in the scheme as well as repayment of housing loan taken from the bank would qualify for deduction under Section 80-C of the Income-Tax Act. Such deposits upto a maximum of Rs. 5 lakhs would also be exempted from wealth-tax and tax

payers would get a tax concession on capital gains if the sale proceeds are invested in the bonds and debentures issued by the National Housing Bank. These concessions are expected to provide a solid financial base to the NHB and encourage savings for house building. The scheme became operational on July 1, 1989. The second scheme was in the nature of a new deposit scheme for retiring Government employees to invest with a three years lock-in-period. The interest on investment in the scheme would be free from income-tax and deposits would be fully exempt from wealth tax. This scheme came into effect from 1st July, 1989. Other initiatives in the area of small savings included withdrawal of National Savings Certificates(NSC) VI & VII issue and introduction of a new series of NSC VIII issue which would be eligible for tax concession under Section 80-C but not under Section 80-L of Income-Tax Act.

Indirect Taxes

6.13 Indirect tax measures sought to mobilise resources from a wide range of items. The existing specific excise duty rates of most of the commodities were raised by 5 per cent. Essential items like tea, coffee, sugar, kerosene, petroleum products, vegetable oils, vanaspati, cotton yarn and fabrics, jute yarn and fabrics, electric bulbs and fluorescent tubes were exempted from this change. Similarly the existing exemption for newsprint and specified papers for use in printing of books remained unaltered. A higher adjustment of rate was also made in case of pig iron and certain steel items such as ingots, billets, bars, rods, etc. Duty was also hiked on hot rolled and cold rolled flat products and a uniform rate of duty was prescribed for steel forgings and castings.

6.14 Focusing on luxury and semi-luxury items, the Budget raised the excise duty on a variety of electronic items including T.V. sets, music systems, radios, computers and certain imported specified raw materials and piece parts for the manufacture of electronic components. Duty was also increased on fuel efficient cars, vans and jeeps which were hitherto enjoying a concessional rate. The duty on two wheelers was restructured into a four tier regime. The proposed new rates for T.V. and two wheelers were further revised during the course of general

discussion on the budget. As a result, the enhanced excise duty on black and white TV sets was brought down to its pre-budget level and increase in duty on colour TV sets of screen size less than 36 cms was slightly moderated. In the case of two-wheelers, the new duty of 25 per cent ad valorem applicable to engine capacity of 100 cc to 150 cc, was modified to include two-wheelers with capacity upto 200 cc under this rate of duty. Some concessions in customs duty were also given to these sectors to encourage the process of indigenisation. These included a concessional duty of 40 percent to machinery and components imported for manufacturing fuel injection equipment, reduction in import duty of specified raw materials required for manufacture of optical communication cables and extension of the concessional duty to more items of machinery for production of high-tech items like large scale integrated circuits, micro-processors and other micro electronic items. These measures also focussed on the need to contain the high level of import content in domestic manufacture in the context of present tight BOP position.

6.15 With a view to mobilising additional resources, excise duty on cigarettes was increased at varying rates. Excise duty was also raised on certain low priority items like panmasalas and molasses required for the manufacture of liquor. Similarly, import duties were raised on wood pulp, waste paper, low ash coal, raw petroleum coke, glazed news print and certain chemicals. In view of the increased availability of cotton, the concessional excise duty on viscose staple fibre for blending with cotton was withdrawn. Likewise, the Foreign Travel Tax for neighbouring countries was raised from Rs. 50 to Rs. 150 and for other countries from Rs. 100 to Rs. 300 and a new tax called Inland Air Travel Tax at 10 per cent of the basic fare was introduced. Passengers paying air fare in foreign currency were exempted from this new tax.

6.16 The Budget announced several measures to rationalise tax on capital goods industry. The customs duty on general projects and machinery was reduced from the existing 90 per cent to 80 per cent ad-valorem. The duty concession for import of machinery under the technology up-gradation scheme was extended to four more

sectors, namely cutting tools, commercial tool rooms, textile machinery and paper machinery. In addition, for the machine tools sector, the list of machinery items attracting lower duty was expanded. The import duty on specified machinery which varied between 25 and 35 per cent was unified and fixed at 40 per cent ad-valorem. Simultaneously, an intermediate level of duty of 60 per cent ad-valorem was introduced on import of certain specified items of machinery which are also manufactured indigenously, such as, captive power plants, certain types of generating sets and circular looms for jute industry. Concessions available to export thrust sectors were further widened to include machinery imports for rubber and canvas, footwear sector and textile and sericulture sectors.

6.17 As a measure of relief, the Budget also made some marginal changes in the duty rates for several industries. Excise duty relief was given to match industry, mini cement units and lamp manufacturing industry. Full excise duty concession was provided for printing and writing paper containing not less than 75 per cent of pulp made from jute and mesta. Similarly, excise duty was lowered on synthetic organic dyestuff and complete exemption was provided for synthetic shoddy blankets of value upto Rs. 60/- per square metre. Budget also proposed complete exemption from excise duty on the first 30 prints of each feature film against the existing exemption for 12 prints and rates of duty on subsequent prints were reduced. On the customs side, duty was reduced on import of raw wool by apex Khadi Federations, paraxylene and raw silk. Fresh tariff concessions were extended to imports of specified life saving drugs and instruments for environmental control and safety in chemical industry.

6.18 The excise tariff for small scale units was restructured to allow complete exemption from excise duty upto a value of Rs. 30 lakhs only in cases where goods, falling under more than one chapter of the Central Excise Tariff, are manufactured. Subsequently, during the course of budget discussion the eligibility criterion for availing exemption was raised from the level of Rs. 1.5 crores of value of clearances to Rs. 2 crores. For coping with problems of industrial

sickness, the Budget proposed to introduce an excise relief scheme for weak units. The scheme as announced in a separate notification, is applicable to any industrial undertaking whose accumulated losses as at the end of any financial year have resulted in an erosion of 50 per cent or more of the maximum net worth during the immediately preceding five financial years. The eligible unit is provided excise loan not exceeding 50 per cent of excise duty actually paid for three years subsequent to the date of approval of rehabilitation package by the empowered committee. The total amount given by way of such excise loan, shall not, in any case, exceed 25 per cent of the overall cost of the rehabilitation package.

6.19 With a view to encouraging food processing and packaging industry, concessional excise duty was extended to refrigerating appliances and machinery intended to be used in vans meant for transport of food and dairy products. The list of specified food processing and packaging machinery enjoying concessional import duty was expanded. Excise duty was also reduced on skimmed milk powder, condensed milk, specified food preparations, namkeen etc. Similarly, import duty on specified amino acids, certain items of machinery for marine food sector, specified machinery and equipment for seed production, processing and quality control was reduced. However, customs duties on import of cinnamon and cloves were raised in order to help farmers realise remunerative prices.

6.20 Petrochemical industries were eligible for certain concessions including concessional excise duty on naphtha when they are declared as refineries. This was reviewed with a view to making available the concessions with certain modifications, without linking the concessions to the declaration of a factory as a refinery and orders declaring certain factories as refineries were rescinded. Simultaneously the concessional rate of duty on raw naphtha was raised from Rs. 30 to Rs. 60 per kl.

6.21 Following the decontrol of pricing and distribution of aluminium, excise and customs duties on aluminium and certain downstream products were restructured. While excise duty

was hiked in the case of aluminium ingots, wire-rods and some downstream products, the aluminium ingots were exempted from basic and auxiliary customs duties. Further, the basic customs duty on import of aluminium scrap was reduced from 30 per cent to 15 per cent.

Additional Resource Mobilisation

6.22 The Additional Resource Mobilisation (ARM) measures undertaken in Central Budget for 1989-90 were expected to yield Rs. 1,287

crores. Out of this, Rs. 757 crores were to be raised through indirect taxes and Rs. 530 crores through direct taxes and levies. The States' share in Centre's additional resource mobilisation, was to be Rs. 384 crores. The Railway budget for 1989-90 proposed further hikes in the rates of traffic, parcels and luggage which were expected to yield an additional revenue of Rs. 876 crores. Details of the ARM measures are given in Table 6.3.

TABLE - 6.3

Additional Resource Mobilisation through Central Budget for 1989-90

	(Rs. crores)		
	Centre's share	State's share	Total
I. Taxes	903	384	1287
(a) Direct Taxes	530	—	530
(i) Corporation Tax	255	—	255
(ii) Income Tax	245	—	245
(iii) Expenditure Tax	30	—	30
(b) Indirect Taxes	373	384	757
(i) Customs duties	(-)120	—	(-)120
(ii) Union Excise duties	408	384	792
(iii) Other Taxes and duties	85	—	85
II. Revision in the Postal & Telecommunication Tariffs and Railway fares & Freights	876	—	876
(a) Railways	876	—	876
(b) Posts and Telecommunication	—	—	—
III. Total (I+II)	1779	384	2163

Revenue and Expenditure

6.23 The budget for 1989-90 aimed to contain the budgetary deficit at Rs. 7,337 crores, about Rs. 150 crores lower than budget estimate of Rs. 7,484 crores and over Rs. 450 crores lower than the revised estimate of Rs. 7,940 crores in 1988-89. Aggregate resources of Central Government including internal and extra-budgetary resources of Centre's public enterprises were estimated at Rs. 98,008 crores, 17.2 per cent higher than Rs. 83,617 crores in 1988-89 (BE). Aggregate disbursements, on the other hand, were estimated to be Rs. 105,345 crores, 15.6 per cent higher than in 1988-89 (BE). Hence, the uncovered deficit of Rs. 7,337 crores. On the receipts side, tax and non-tax revenues were

expected to grow by 20.4 per cent and 30.4 per cent respectively. Domestic capital receipts were anticipated to increase by 6.1 per cent but external capital receipts were to decrease by 0.3 per cent, so that total capital receipts were estimated to rise by 5.4 per cent. On the disbursement side, non-developmental expenditure was projected to grow by 10.5 per cent over the level in budget estimates of 1988-89 and development expenditure was expected to rise by 19.5 per cent.

6.24 The Central Plan outlay for 1989-90 (BE) was raised by 20 per cent to Rs. 34,446 crores. A significant feature was a substantial lowering of budgetary support to Central Plan from about 56 per cent in 1988-89 (BF) to 49 per cent in

1989-90 (BE). The contribution from internal and extra-budgetary resources of public enterprises was envisaged to rise from 44 per cent to 51 per cent during the period. The sectoral allocation was oriented to strengthen agricultural, industrial and infra-structure sectors. The allocation to energy, transport and communications together was stepped up by over 23 per cent while the allocation to industry and minerals was also enhanced by 23 per cent.

Seventh Plan/LTFP Projections: Comparison with Actuals

6.25 The year 1989-90 is the terminal year of the Seventh Plan and it is interesting to

compare the behaviour so far of some important fiscal parameters with their Seventh Plan targets. The targets were fixed in terms of 1984-85 prices. These targets were annualised in the Long Term Fiscal Policy (LTFP) document and were expressed as ratios of respective year's GDP. The comparison with LTFP projections is presented in Table 6.4. Caution is required in comparing the various ratios of 1988-89 and 1989-90 with the corresponding year's LTFP ratios as 1988-89 ratios are based on revised estimates which are subject to changes and 1989-90 ratios are based on budget estimates which are only tentative.

TABLE—6.4

Important Fiscal Parameters

(Seventh Plan Projections : A Comparison with Actuals)*

	(As Percent of GDP)									
	1985-86		1986-87		1987-88		1988-89		1989-90	
	A/c	LTFP	A/c	LTFP	A/c	LTFP	Revised LTFP Estimates	LTFP	Budget LTFP Estimates	LTFP
1. Tax Revenue (net of States Share)	8.7	7.8	8.9	8.2	9.1	8.7	9.0	9.2	9.6	9.4
(a) Direct Taxes	1.5	1.5	1.5	1.7	1.3	1.8	1.5	2.0	1.5	2.1
(b) Indirect Taxes	7.1	6.3	7.4	6.5	7.7	6.9	7.5	7.2	8.1	7.3
2. Non-tax Revenue	3.1	3.0	3.4	2.9	3.2	2.8	3.1	2.7	3.4	2.7
3. Non-Plan Revenue Expenditure	11.9	11.1	12.8	11.3	13.3	11.5	13.3	11.6	13.4	11.9
(a) Defence	3.5	3.3	4.1	3.4	4.3	3.5	4.1	3.6	3.6	3.8
(b) Interest Payments	3.1	3.0	3.4	3.3	3.6	3.6	3.9	3.9	4.2	4.1
(c) Food and Fertilizers Subsidies	1.5	1.2	1.4	1.1	1.4	1.1	1.5	1.0	1.5	1.0
(d) All Others	3.9	3.6	3.9	3.4	4.0	3.3	3.8	3.1	4.1	3.0
4. Balance from Current Revenue (BCR)	-0.1	-0.4	-0.5	-0.2	-1.0	neg	-1.2	0.3	neg	0.2
5. Central Plan	8.1	7.5	8.7	7.5	8.3	7.5	8.3	7.5	8.6	7.5
6. Assistance for State & UT Plans	2.9	2.7	3.0	3.7	3.2	2.6	2.8	2.6	2.7	2.5
7. Domestic Borrowing	6.9	6.4	8.2	5.6	8.4	5.0	8.0	4.4	6.5	4.2
(a) Market Borrowing	2.0	2.1	2.0	1.6	1.9	1.5	2.0	1.5	1.8	1.5
(b) Budgetary Deficit	2.0	1.3	3.0	1.2	1.9	1.1	2.2	1.0	1.8	0.9
(c) Others	2.9	3.0	3.2	2.8	4.6	2.4	3.9	1.9	2.8	1.8
8. Internal & Extra-budgetary Resources of PSUs	3.1	2.9	2.6	3.4	3.0	3.7	3.1	4.0	3.6	4.1

* The yearly projections given in LTFP document, are annualised Seventh Five Year Plan targets which are expressed as ratios of annualised GDP. In case of actuals the new series GDP available upto 1988-89 and the estimated GDP for 1989-90 (assuming growth rate of 10 per cent) have been converted to conform to old series (as in LTFP) by using appropriate conversion factor.

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

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

6.26 It is observed from the Table 6.4 that BCR which had remained negative and even widened to (—) 1.2 per cent of GDP in 1988-89 (RE) showed a marginal surplus in 1989-90(BE). However, the 1989-90 figures are only tentative estimates. Judging by the latest available trend in net RBI credit to Central Government which has been running at a level higher than the budget estimates, the year-end results may well show a negative BCR against Plan expectations. Other broad conclusions are as under:—

(a) Tax revenue performance has been more or less on target. Within tax revenue, the performance of direct taxes has been behind the targets. Indirect taxes have performed better, exceeding Seventh Plan projections by significant margins.

(b) Non-tax revenues have also performed well, exceeding the projections by significant proportions.

(c) Non-Plan revenue expenditures have exceeded Seventh Plan targets by significant

margins. In particular, defence (excepting 1989-90), interest payments and food and fertiliser subsidies were well above the targets.

(d) In regard to finance, domestic borrowings were far above the projected levels and both market borrowings and budgetary deficit exceeded by wide margins the projected targets.

(e) Excepting 1985-86, Internal and Extra Budgetary Resources of PSUs (including Oil Pool Accounts surplus) fell significantly short of projections.

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

Savings and Capital Formation

6.27 An economic and functional classification of the Central Budget is prepared every year. A striking feature of the classification on the expenditure side has been the steady decline in the proportion of expenditure on capital formation, from over 40 per cent in mid-eighties to 34.7 per cent in 1989-90 (Table 6.5). This has

TABLE 6.5
Economic Classification of Total Expenditure in Central Budget

	(Rupees Crores)									
	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89 (R.E.)	1989-90 (B.E.)
1. Consumption Expenditure	5174	6096	7057	8130	9428	11210	14665	16551	18832	19669
	23.0	24.0	23.1	22.6	21.5	21.1	22.9	23.5	22.9	22.2
(a) Defence	3571	4327	5018	5823	6647	7962	10439	11875	13088	13262
	15.9	17.0	16.5	16.2	15.1	15.0	16.3	16.9	15.9	15.0
(b) Other Government Administration	1603	1769	2039	2307	2781	3248	4226	4676	5744	6407
	7.1	7.0	6.6	6.4	6.3	6.1	6.6	6.7	7.0	7.2
2. Transfer Payments (Current)	6912	7728	9590	11436	14938	18347	21243	25380	31298	35432
	30.7	30.4	31.4	31.8	34.0	34.5	33.2	36.1	39.1	40.0
(a) Interest Payments	2253	2763	3516	4450	5646	7090	8648	10702	13165	15673
	10.0	10.9	11.5	12.4	12.9	13.3	13.5	15.2	16.0	17.7
(b) Subsidies	1912	1946	2304	2886	4484	5070	5542	5976	7815	8272
	8.5	7.7	7.6	8.0	10.2	9.5	8.7	8.5	9.5	9.3
(c) Grants to States & UTs (including local bodies)	1810	1801	2365	2526	2863	3922	4205	4962	5708	6835
	8.0	7.1	7.8	7.0	6.5	7.4	6.6	7.1	6.9	7.7
(d) Others	937	1218	1405	1574	1945	2265	2848	3740	4610	4652
	4.4	4.8	4.6	4.4	4.4	4.3	4.4	5.3	5.6	5.3
3. Gross Capital Formation out of Budgetary Resources	9012	10799	12403	14702	17551	21477	24320	25770	29633	30734
	40.1	42.5	40.7	40.8	40.0	40.4	38.0	36.7	36.1	34.7
(a) Physical Assets	1907	2552	2884	3356	4123	4558	5905	5961	7425	8433
	8.5	10.0	9.5	9.3	9.4	8.6	9.2	8.5	9.0	9.5
(b) Financial Assets	7105	8247	9519	11346	13428	16919	18415	19809	22207	22301
	31.6	32.5	31.2	31.5	30.6	31.8	28.8	28.2	27.0	25.2
4. Others	1397	778	1444	1720	1962	2078	3795	2603	2372	2671
	6.2	3.1	4.7	4.8	4.5	3.9	5.9	3.7	2.9	3.0
5. Total Expenditure	22495	25401	30494	35988	43879	53112	64023	70304	82135	88506

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

resulted primarily from the sharp increase in expenditure related to current transfers. Thus, the proportion of transfer payments in total expenditures has increased from an average of 31 per cent during 1980-81 to 1983-84 to 40 per cent in 1989-90. Among transfer payments, the highest increase has been on account of interest payments; the proportion of interest payments in total expenditures increased from 10 per cent in 1980-81 to 17.7 per cent in 1989-90. The share of consumption expenditure, on the other hand, has fluctuated between 21 to 23 per cent. The bulk of the consumption expenditure has been on defence account but its share in total consumption expenditure has been remarkably stable at around 70 per cent.

6.28 The situation in regard to capital formation and savings out of budgetary transactions is detailed in Table 6.6. Consequent on the sharp decline in the proportion of expenditure on capital formation since 1986-87, the annual growth in capital formation in nominal terms has nosedived to only 3.7 per cent in 1989-90 from the annual average growth of around 19 per cent during 1981-82 to 1985-86. The dis-savings of the Central Government, however, reduced in 1989-90 largely due to a narrowing of dis-savings of Government Administration which in turn, was due to the transfer of Rs. 2300 crores from oil pool account to revenue account. Moreover, the retained net profits and depreciation provision of departmental undertakings and depreciation also improved from Rs. 2509 crores in 1988-89 (RE) to Rs. 3625 crores in 1989-90.

TABLE 6.6
Capital Formation by the Central Government and its Financing

	(Rs. crores)									
	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90
									(R.E.)	(B.E.)
I. Gross Capital Formation out of Budgetary Resources of Central Government	9012	10799	12403	14702	17551	21477	24320	25770	29633	30734
	(24.7)	(19.8)	(14.9)	(18.5)	(19.4)	(22.4)	(13.2)	(6.0)	(15.0)	(3.7)
As per cent of gross domestic product at current market price (new series)	6.6	6.8	7.0	7.1	7.6	8.2	8.3	7.7	7.6	7.1
(i) Gross capital formation by the Central Government	1907	2552	2884	3356	4123	4558	5905	5961	7426	8433
(ii) Financial assistance for capital formation in the rest of the economy	7105	8247	9519	11346	13428	16919	18415	19809	22207	22301
II. Gross Savings of the Central Government	3	1107	857	313	(-963)	(-1441)	(-2852)	(-4294)	(-6093)	(-698)
III. Gap (I-II)	9009	9682	11546	14389	18514	22918	27172	30064	35726	31432
Financed by	(6.6)	(6.1)	(6.5)	(7.0)	(8.0)	(8.7)	(9.3)	(9.0)	(9.1)	(7.3)
IV. Draft on other sectors of domestic economy	7339	8391	9955	12778	14657	21068	24794	26299	32509	27709
(i) Domestic capital receipts	4762	6999	8300	11361	12912	16131	16533	20483	24569	20372
(ii) Budgetary deficit	2577	1392	1655	1417	3745	4937	8261	5816	7940	7337
V. Draft on foreign savings	1670	1301	1591	1611	1857	1850	2378	3765	3217	3723

Note :— (i) Gross capital formation in this Table includes loans given for Capital formation on a gross basis. Consequently, domestic capital receipts include loan repayments to the Central Government.

(ii) Figures in brackets are percentage increase over the preceding year.

(iii) Figures in brackets of row III indicate the gap as per cent of GDP. Because of the revision in the new series of GDP, the ratios given here will differ from those given in the earlier issues of Economic Survey.

Central Government Liabilities

6.29 As indicated earlier, Central Government's borrowings and deficit financing have exceeded the Seventh Plan targets by significant margins. It is, thus, appropriate to give a brief review of Government's debt position and its implications. Table 6.7 summarises the position in regard to internal, external and total liabilities of the Central Government. Internal liabilities consist of two parts, namely internal debt and other internal liabilities. Internal debt includes market borrowings, treasury bills, special securities issued to Reserve Bank and special bearer bonds. The other internal liabilities include small savings collections, provident funds, reserve funds and

deposits. Internal liabilities, as a whole, have witnessed a significant rise over the years. Thus, the ratio of outstanding internal liabilities to GDP increased from 35.7 per cent at the end of 1980-81 to as much as 51.9 per cent at the end of 1988-89 and is estimated to be about 54 per cent by the end of 1989-90. A significant feature has been the sharp increase in other internal liabilities during the period. The ratio of outstanding other internal liabilities to GDP shot up from 12.9 per cent at the end of 1980-81 to 22.6 per cent at the end of 1988-89 and is expected to rise further to 23.5 per cent by the end of 1989-90. These liabilities attract relatively higher interest rates and as such, have added to the growing interest payment liability.

TABLE 6.7
Outstanding Liabilities of the Central Government and Payments of Interest

	(Rs. crores)									
	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89 (RE)	1989-90 (BE)
1. Internal Liabilities (Outstanding)	48451	55857	71190	80141	96804	119331	146247	172338	203002	231692
	35.7	35.0	40.1	38.7	42.0	45.4	49.9	51.8	51.9	53.8
(A) Internal Debt	30864	35653	46939	50264	58537	71039	86312	98646	114453	130758
(a) Market Borrowings	15676	18585	22355	26394	30470	35352	40880	46743	53993	61319
(B) Others	15188	17068	24584	23870	28067	35687	45432	51903	60460	69439
(b) Other Internal Liabilities	17587	20204	24251	29877	38267	48292	59935	73692	88549	100934
	12.9	12.7	13.7	14.4	16.6	18.4	20.4	22.2	22.6	23.5
2. External Debt (Outstanding)*	11298	12328	13682	15120	16637	18153	20299	23223	25239	28037
	8.3	7.7	7.7	7.3	7.2	6.9	6.9	7.0	6.5	6.5
3. Total Outstanding Liabilities (1+2)	59749	68185	84872	95261	113441	137484	166546	195561	228241	259729
	44.0	42.8	47.8	46.1	49.2	52.4	56.8	58.8	58.3	60.4
4. Gross Interest Payments	2604	3195	3937	4795	5749	7512	9246	11252	14149	17000
5. Net Interest Payments	809	979	1086	2127	1786	2917	3893	5497	7003	8960
6. Gross Interest Payment as % of Total Expenditure	11.6	12.6	12.9	13.3	13.1	14.1	14.4	16.0	17.2	19.2
7. Net Interest Payment as % of Total Expenditure	3.6	3.9	3.6	5.9	4.1	5.5	6.1	7.8	8.5	10.1
Memorandum items										
External Debt (Outstanding) (Converted at year end exchange rates)	13479	15445	17577	20214	24004	26638	32312	36578	46838	N.A.
	9.9	9.7	9.9	9.8	10.4	10.1	11.0	11.0	12.0	

*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 1989-90 are estimated to grow by 10.0 per cent.

S/35 Fin/90—12.

6.30 The outstanding external liability on Government account have been shown on the basis of historical exchange rates in Table 6.7. These liabilities as a ratio of GDP have tended to decline over the years, from 8.3 per cent at the end of 1980-81 to 6.5 per cent at the end of 1988-89. The ratio is expected to remain at 6.5 per cent by the end of 1989-90. However, it will be seen from the memorandum item in Table 6.7 that the outstanding external liabilities when converted at year-end exchange rates, showed a rising trend. The ratio of this converted external liability to GDP increased from 9.9 per cent at the end of 1980-81 to 12.0 per cent at the end of 1988-89. The year-end exchange rates for 1989-90 are not yet available.

6.31 The total outstanding liabilities of Central Government comprising of internal liability and external liability (expressed on the basis of historical exchange rates) have continued to rise over the eighties. These liabilities formed about 44 per cent of GDP at the end of 1980-81 and the ratio increased to over 60 per cent by the end of 1989-90. Taking external liabilities as converted by year-end exchange rates, the total outstanding liabilities grew from 45.6 per cent of GDP at the end of 1980-81 to 63.9 per cent at the end of 1988-89.

6.32 The growth of Government debt has led to a substantial increase in gross interest payments which have gone up from 11.6 per cent of total Central Government expenditure in 1980-81 to around 14 per cent in 1985-86 and over 19 per cent in 1989-90 (B.E.). Equally disturbing is the rise in the share of net (of interest receipts) interest payments from 3.6 per cent in 1980-81 to 5.5 per cent in 1985-86 and 10.1 per cent in 1989-90 (B.E.).

6.33 The assets of the Central Government, comprising capital investments and loans advanced, have increased from Rs. 59,670 crores at the end of 1980-81 to an estimated (in budget) total of Rs. 208,525 crores by the end of 1989-90. As a proportion of GDP at current market prices, this represents an increase from 44 per cent in 1980-81 to over 48 per cent in 1988-89. Over the same period, total liabilities have increased from

Rs. 59,749 crores (44 per cent of GDP) at the end of 1980-81 to an estimated (in budget) total of Rs. 259,729 crores (60 per cent of GDP) at the end of 1989-90. In 1981-82 assets and liabilities were approximately of the same magnitude. Since then total liabilities have consistently exceeded total assets and the gap has widened each successive year, to arrive at an estimated level exceeding Rs. 50,000 crores by the end of 1989-90. The growing gap between the stock of Central Government assets and liabilities primarily reflects the succession of deficits on revenue account incurred since 1979-80.

Finances of States and Union Territories

6.34 The budget estimates for 1989-90 of States and Union Territories taken together anticipated an overall deficit of Rs. 869 crores, close to the deficit of Rs. 872 crores in the budget estimates for 1988-89 but marginally lower than the revised deficit of Rs. 913 crores in that year. Aggregate resources were to rise by over 17 per cent to Rs. 69,874 crores while aggregate disbursements were also to increase by over 17 per cent to Rs. 70,743 crores, thereby leading to the deficit of Rs. 869 crores. Current revenue was budgeted to rise by 14.6 per cent to Rs. 52,827 crores from Rs. 46,094 crores in the budget estimates of the previous year. States' own tax revenues were estimated to grow by 16.8 per cent as against 14.3 per cent in 1988-89 (RE). Their share in Central taxes was to rise by 12.7 per cent as against 10.1 per cent in 1988-89 (RE). Non-tax revenue was expected to grow by only 2.6 per cent as against 8.3 per cent in the previous year. Grants from the Centre, on the other hand, was to rise by over 25 per cent against a little less than 22 per cent in 1988-89 (RE).

6.35 The pattern of expenditure of the States and Union Territories show a gradual decline in the proportion of development expenditure in total expenditure. The ratio of development expenditure to total expenditure declined from about 73 per cent in 1985-86 to less than 70 per cent in 1989-90 (RE). This trend is disquieting.

6.36 Another disquieting feature has been the progressive widening of the gap between total expenditure and current revenues. This gap as a ratio of current revenue widened from about 30 per cent in 1985-86 to 34 per cent in 1989-90. The gap has widened despite a substantial increase of over 58 per cent in grants from Centre between 1985-86 and 1989-90. A substantial part of the gap has been financed from loans from Centre. In recent years, however, the contribution of market loans and provident funds in covering the gap has increased. Thus, market loans and provident funds which covered about 25 per cent of the gap in 1985-86, increased their share to over 28 per cent in 1989-90.

Central and State Governments—Combined

6.37 The overall budgetary deficit of the Centre States and Union Territories in 1989-90 (BE), was targeted at Rs. 8,206 crores, marginally lower than Rs. 8,356 crores in 1988-89 (BE). Aggregate receipts were budgeted to increase by 18 per cent to Rs. 141,017 crores. Tax receipts were to increase by 18.5 per cent while non-tax receipts including internal resources of public undertakings were anticipated to move up by 26 per cent to Rs. 27,582 crores. Aggregate expenditure, at the same time, was expected to increase by 16.8 per cent to Rs. 149,223 crores. Development expenditure was expected to rise by 18 per cent and non-developmental expenditure by about 15 per cent. The gap between total expenditure and current revenue continued to widen further and amounted to Rs. 45,600 crores as against Rs. 41,744 crores in 1988-89 (BE). This gap was to be financed to the extent of 74 per cent from domestic capital receipts, 8 per cent from external receipts and the balance 18 per cent through budgetary deficit.

Annual Plan 1989-90

6.38 The Annual Plan outlay for the Centre, States and Union Territories was raised by 15.6 per cent to Rs. 57,598 crores (Table 6.8). The allocation for Central Plan was Rs. 34,446 crores compared with Rs. 28,715 crores in 1988-89. The allocation for States and Union Territories Plan was Rs. 23,152 crores as against Rs. 21,103 crores last year.

TABLE 6.8
Annual Plan Outlay : Centre, States and Union Territories
(Rs. crores)

Heads of Development	Annual Plan 1988-89		Annual Plan 1989-90	
	Amount	Percentage to Total	Amount	Percentage to Total
1. Agriculture and Allied Activities	2711	5.4	3055	5.3
2. Rural Development	2849	5.7	3100	5.4
3. Special Area Programme	772	1.5	905	1.6
4. Irrigation and Flood Control	3859	7.7	3872	6.7
5. Energy	14780	29.7	17182	29.8
6. Industry and Minerals	5816	11.7	7032	12.2
7. Transport	7104	14.3	7852	13.6
8. Communications	1822	3.7	2860	5.0
9. Science, Technology & Environment	795	1.6	798	1.4
10. Social Services	8298	16.7	9162	15.9
11. General Economic Services	597	1.2	1270	2.2
12. General Services	415	0.8	510	0.9
Total	49818	100.0	57598	100.0

6.39 The Annual Plan for 1989-90, which marked the terminal year of the Seventh Plan, accorded priority to the development of agriculture, rural development, irrigation and flood control and infrastructure (Table 6.8). More than two-third of the Plan outlay was allocated for agriculture, energy, transport and communication. Substantial provisions were also made for social services. The Plan was to be financed to the extent of about 79 per cent from domestic resources and 8.4 per cent from external inflow of funds. The remaining about 12.6 per cent was to be met through deficit financing.

Post-Budget Development

6.40 Three supplementary demands for grants were presented to Parliament; the first in July, the second in October and the third in December, 1989. The first supplementary demands for grants involved an additional cash outgo of

Rs. 48 crores, of which, Rs. 30 crores were on Plan assistance and Rs. 18 crores on non-Plan assistance. The supplementary demands for grants also included technical grants for Rs. 727 crores, which were to be matched by additional receipts or corresponding savings. Besides, six advances aggregating a little over Rs. 2 crores sanctioned from the Contingency Funds earlier were proposed to be recouped when the demands received sanction.

6.41 The second batch of supplementary demands for grants involved an additional cash outgo of Rs. 1,241 crores, of which Rs. 709 crores were on account of Plan assistance and Rs. 532 crores on non-Plan assistance. The most important item of Plan assistance was Jawahar Rozgar Yojana which claimed Rs. 389 crores. Two important items on non-Plan side were subsidy on imported fertilisers (Rs. 200 crores) and cash compensatory support (Rs. 150 crores). Besides, technical supplementaries amounting to Rs. 1325 crores were also involved but these were to be matched by additional receipts or corresponding savings. Three advances totalling Rs. 11.4 crores made out of the Contingency Fund earlier, were proposed to be recouped.

6.42 The third batch of supplementary demands for grants entailed an additional cash outgo of Rs. 830 crores, almost entirely on non-Plan account. The important items were defence services (Rs. 200 crores), subsidy on indigenous fertilisers (Rs. 300 crores), subsidy on imported fertilisers (Rs. 100 crores), cash compensatory support for exports (Rs. 125 crores) and others (Rs. 105 crores). Besides, an amount of Rs. 300 crores was sought for defence services to cover their payment of additional instalments of dearness allowance. This was to be counted against the lumpsum provision of Rs. 1000 crores already made for dearness allowance payments in the grants of the Ministry of Finance.

Revenue Collections

6.43 The performance of the tax revenues as revealed by the collection figures was not quite satisfactory particularly in respect of excise and corporation taxes. The provisional data upto December, 1989 indicate that total revenue collections during the first nine months of the year

1989-90 accounted for only 68 per cent of the Budget projections of the year as compared to over 70 per cent in the corresponding period of 1988-89. The combined realisation during April-December 1989 was Rs. 33,668 crores which was nearly 15 per cent more than Rs. 29,311 crores mopped up during the same period in the last financial year. Despite this upward trend, total collections fell short of the prorata Budget Estimates for 1989-90 by 7.02 per cent. Data on tax-wise collection of revenue by the Centre for the period April-December, 1989 are given below :—

TABLE 6.9
*Centre's Collection from major taxes during the period
April-December, 1989-90

Sl. No.	Taxes/Duties	1989-90 (Rs. crores)	1988-89	%age increase 1989-90/ 1988-89	%age of 1989-90 1989-90 (B.E.)
1	2	3	4	5	6
1.	Income and Corporation Tax	5322	4809	10.7	59.1 (62.0)
2.	Excise**	15617	13207	18.2	69.1 (70.5)
3.	Customs	12729	11295	12.7	71.2 (71.7)
	Total	33668	29311	14.9	68.0 (70.5)

(Figures in brackets in Col. 6 indicate percentage of collection in 1988-89).

*As per departmental records.

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

6.44 On the indirect taxes side, the combined realisation from central excise and customs upto December was Rs. 28,346 crores, an increase of 15.7 per cent over the same period last year. In case of excise, although an increase of 18.2 per cent over the figures of last year was recorded, the collection actually deviated from pro-rata Budget Estimates (BE) by (—)5.9 per cent. Similarly, customs duty collections deviated from its estimated level by (—)3.8 per cent. In respect of direct taxes, corporation taxes have not shown the same buoyancy of collection as personal income-tax. The collection of corporate taxes have shown an upward increase of 1.67 per cent whereas personal income-tax went up by 20.67 per cent. The increase in corporation tax

collection is low mainly due to reduced collection from oil sector and tax exemptions allowed to companies, like higher rates of depreciation, reintroduction of investment allowance and 100 per cent tax exemption on export profits.

6.45 To curb tax evasion, smuggling and foreign exchange malpractices, a series of operations were carried out against suspected tax dodgers and economic offenders. Under Income Tax Act, 2718 search operations were conducted during the period April-December 1989. The total seizure effected in these searches amounted to Rs. 79 crores as against Rs. 117 crores in 5608 searches during the corresponding period last year. The average value of assets seized per search during this period worked out to Rs. 2.90 lakhs as against Rs. 2.1 lakhs last year, thus indicating a qualitative improvement in the searches conducted. Total amount of concealed income surrendered in these search operations amounted to Rs. 119.13 crores. Further to broaden the tax net and improve collection, survey operations were carried out at 3,98,143 premises, bringing in 2,43,032 new assesseees on record as compared to 3,17,837 assesseees added in 4,90,551 surveys last year between April-December, 1989. In the field of indirect taxes 3778 cases of duty evasion were unearthed during the period April-December 1989 involving duty of Rs. 775.37 crores as compared to Rs. 212 crores detected during the same period in the previous year. Total number of cases booked under anti-smuggling drive was 46123 and the total value of contraband goods seized amounted to Rs. 384 crores against Rs. 354 crores during April-December 1988. The number of persons detained under COFEPOSA was 859 as against 856 in the previous year.

6.46 One of the noteworthy post-budget development was the enactment of the Direct Tax Laws (Second Amendment) Bill 1989, giving certain tax benefits to shipping companies and investments by non-resident Indians. The Act also removes some anomalies and operational difficulties in the new assessment procedure which came into effect from April 1, 1989. The salient features of the Act are : computation of capital gain on sales of shares in terms of foreign exchange in the case of non-residents, relaxation of the criterion for determining the residential status of non-residents by raising the time limit of stay in the

country from 90 days to 150 days, a new provision in the Income Tax Act to provide tax incentive to shipping companies to augment their fleet, extension of 80-CC benefit to the shares issued by shipping companies and an alternative method of valuation of quoted equity shares. The Act also brings uniformity in the method of valuation of unquoted equity shares of investment companies and non-investment companies in order to remove hardships in the case of the former.

6.47 On the indirect taxes front, concessions amounting to Rs. 123.2 crores (Rs. 118.9 crores on excise side and Rs. 4.3 crores on customs side) were announced by the Finance Minister during the course of general debate on the Budget. The concessions mainly related to black and white T.V., colour T.V. of 36 cm size, mini cement plant, plastic articles, paper and paper board, specified jute machineries etc.

6.48 Some further adjustments were made in the excise and customs duty structure during the course of the year. These included, reduction of excise duty on fire works, a new concessional rate of basic excise duty at Rs. 8.43 per kg. for polyester staple fibre manufactured out of recycled waste and Rs. 1.88 per kg. on waste of acrylic fibre and withdrawal of excise duty as well as reduction in import duty on paraxylene. Further, concessional rate of excise duty was provided on flax fabrics, modified polyphenylene oxide and full exemption in excise duty was granted on specified construction materials used in low-cost houses, burnt clay tiles generally used in irrigation and drainage works, expanded polystyrene beads (in specified cases), etc. As an administrative measure, potassium chlorate was withdrawn from SSI exemption scheme.

6.49 In case of customs duties, some changes were made to adjust to international prices and to reduce inessential imports. The auxiliary duty on import of pig iron was reduced from 45 per cent ad valorem to 5 per cent. Import duty on iron ore pellets was reduced from 85 per cent to 40 per cent ad valorem. Similarly, commodity rates of several chemical items were adjusted. These included specified plasticisers chemicals, intermediate B-C isomeric acid, methanol, interferon alpha 2-b injection, pesticide intermediate,

chloro acetyl chloride, ethylene, modified poly phenylene, copolymers, specific grades of P.V.C., H.D.P.E. and L.D.P.E. polystyrene and polypropylene, life saving drugs, LDPE based sheating compound or insulating compound, some of the chemicals used for manufacture of polypropylene multi-filament yarn (of colouring matter), polyester film required for manufacture of magnetic tapes, membrane for replacement by caustic soda plant etc. Further duty changes were introduced in case of components of fishing trawlers (20 per cent to 30 per cent) and full exemption was accorded to imports of recorded magnetic tapes by specified agencies and specified sports goods. The basic customs duty on computer software was increased from 65 per cent ad valorem to 107 per cent ad valorem. The basic customs duty on aluminium ingots was raised to 5 per cent ad valorem plus Rs. 2500 per tonne. Newsprint for printing of newspapers, books and periodicals were exempted from C.V.D.

Central Government Departmental Enterprises

Railways

6.50 The hikes in rates of goods traffic, passenger traffic, parcel and luggage effected by Railways in 1988-89 and the increment of 13 million tonnes in originating revenue traffic, enabled them to improve gross traffic receipts to Rs. 9,376 crores (revised estimates) from Rs. 8,435 crores in 1987-88. The working expenses also increased to Rs. 8,725 crores compared to Rs. 7,803 crores in the previous year. Consequently, the net traffic receipts could improve only marginally, from Rs. 632 crores in 1987-88 to Rs. 651 crores in 1988-89 (RE). After making payment to General Revenues, the Railways earned a net surplus of Rs. 28 crores compared with Rs. 84 crores in 1987-88. This surplus was to the tune of Rs. 179 crores in 1985-86. The surplus weathered away progressively thereafter. Even in 1985-86, the surplus as a ratio of capital at charge was a mere 2 per cent; this dwindled to 0.2 per cent in 1988-89 (RE). Judging by this standard, the performance of Railways has been far from satisfactory.

6.51 The gross traffic receipts for 1989-90 was estimated to be Rs. 10,633 crores, of which Rs. 876 crores were proposed to be earned from additional resource mobilisation through hikes in

rates of tariffs and freights. The working expenses were estimated to rise to Rs. 9,788 crores. Consequently, net traffic receipts were projected to increase to Rs. 845 crores from Rs. 651 crores in 1988-89 (RE). Contribution to General Revenues was estimated to be Rs. 719 crores. The net result was expected to materialise a surplus of Rs. 140 crores. The proposed hikes in tariffs and freights were as under :—

- The rates of goods traffic excepting certain commodities of common use were to be raised by 11 per cent.
- The freight structure was proposed to be rationalised by revising the classifications of low rated commodities.
- The rates of parcels and luggage were to be increased by 11 per cent.

6.52 The allocation for Railway Plan in 1989-90 was envisaged at Rs. 4,450 crores against Rs. 3,850 crores in 1988-89. The outlay was proposed to be financed on the basis of budgetary support of Rs. 1434 crores, internal resources of Rs. 2,016 crores and issue of Bonds of Rs. 1,000 crores. The Plan priority continued to remain on replacement of overaged assets, modernisation through the process of replacement and completion of essential on-going projects.

Posts

6.53 The gross receipts of Posts in 1988-89 (RE) improved to Rs. 774 crores from Rs. 643 crores in 1987-88. Working expenses at the same time increased to Rs. 863 crores from the previous year's Rs. 834 crores. The net outcome was a deficit of Rs. 89 crores which was lower than the deficit of Rs. 191 crores in 1987-88. The gross receipts were estimated to rise to Rs. 800 crores in 1989-90 (BE). Simultaneously, working expenses were estimated to increase to Rs. 990 crores. As in previous year, no dividend was proposed to be paid to general revenues. The net result was expected to generate a larger deficit of Rs. 190 crores in 1989-90 (BE).

Telecommunications

6.54 The gross receipts of Telecommunications amounted to Rs. 2493 crores in the revised estimates of 1988-89. This was Rs. 792 crores more

than the gross receipts in 1987-88. A good part of the increase, about Rs. 325 crores was due to ARM measures undertaken in 1988-89. The ARM measures included hike in rental and call charges (local and trunk) effective from April 1, 1988. The working expenses of Telecommunications also increased from Rs. 1247 crores in 1987-88 to Rs. 1550 crores in 1988-89 (RE). A dividend of Rs. 170 crores was paid to General Revenues. The net outcome was a surplus of Rs. 773 crores compared with Rs. 454 crores in the previous year.

6.55 The gross receipts were projected to rise to Rs. 2980 crores in 1989-90 (BE), while working expenses were estimated to increase to Rs. 1804 crores. A provision of Rs. 198 crores was proposed as dividend to General Revenues. With these, the year end result was expected to show a surplus of Rs. 978 crores.

Central Government Public Enterprises

6.56 In absolute terms net profits (after tax) of Central Government public enterprises rose substantially from Rs. 2020 crores in 1987-88 to Rs. 2981 crores in 1988-89 (Table 6.10). The rate of return, as measured by net profits to capital employed rose to 4.4 per cent in 1988-89, which is the highest achieved in the decade.

However, as in previous years, the petroleum sector enterprises contributed the overwhelming bulk of these profits—Rs. 2564 crores out of the total Rs. 2981 crores in 1988-89. Thus, the 200 odd non-petroleum sector enterprises contributed a meagre sum of Rs. 417 crores. While this reflected an improvement over the net loss of Rs. 141 crores incurred in 1987-88, the ratio of net profits to capital employed in non-petroleum sector enterprises was less than 1 per cent in 1988-89. Clearly, there is substantial scope for improving the financial performance of non-petroleum Central Government public enterprises.

6.57 The overall working results for the first half of 1989-90 showed a net profit of Rs. 1103 crores as against a net profit of Rs. 694 crores during the corresponding period in 1988-89. (This shows an increase of Rs. 409 crores or 58.9% over the corresponding period of the previous year). Substantial increase in profits or decrease in losses has been reported by the Petroleum, Minerals & Metals, Coal, Power, Transportation Equipment, Steel and Transportation Services Sectors. On the other hand, Chemicals & Fertilisers, Medium and Light Engineering, Telecommunication Services, Contract and Construction Services and Textiles Sectors have either reported increased losses or decreased profits.

TABLE 6.10
Profile of Centre's Public Enterprises

	Units	1980-81	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89
1	2	3	4	5	6	7	8	9	10
1. Number of running Public Enterprises	Number	163	193	201	207	211	214	220	222
2. Capital Employed	Rs. Crore	18207	26526	29851	36382	42965	51835	55617	67535
3. Turnover	Rs. Crore	28635	51989	47272	54784	62360	69088	81268	93122
4. Gross Margin (Profit before depreciation, interest and tax)	Rs. Crore	2401	5184	5771	7386	8230	9897	11082	13425
5. Depreciation*	Rs. Crore	983	1719	2205	2758	2983	3376	4142	4880
6. Gross profit before interest and tax	Rs. Crore	1418	3465	3565	4628	5287	6521	6940	8545
7. Interest	Rs. Crore	1399	1923	2086	2529	3115	3420	3587	4169
8. Net Profit before tax	Rs. Crore	19	1542	1480	2079	2172	3101	3353	4376
9. Tax	Rs. Crore	222	928	1239	1190	1000	1330	1323	1395
10. Net Profit after tax	Rs. Crore	—203	614	240	909	1172	1771	2030	2981
11. Internal Resources generated (Gross)	Rs. Crore	1225	2753	3695	4251	5068	6014	6910	8899
12. Net Profit (after tax) to Capital employed	Percent	—1.1	2.3	0.8	2.5	2.7	3.4	3.6	4.4

*Includes deferred revenue expenditure.

State Government's Commercial Undertakings

6.58 The working results of departmentally run commercial undertakings of States and Union Territories have been rather poor. Their net losses were estimated at Rs. 1483 crores in 1989-90 as against Rs. 1165 crores in the budget estimates of 1988-89 and Rs. 1485 crores in the revised estimates of 1988-89. With the exception of forests and mines and minerals which have been showing net surplus, all others have

been incurring losses for quite some years. The more disturbing feature has been the widening of losses of loss-making undertakings over the years. Thus, the losses of loss making undertakings widened from Rs. 1689 crores in 1988-89 (BE) to Rs. 2002 crores in 1989-90 (B.E.). The losses were of the order of Rs. 1,086 crores in 1985-86. The losses amounted to Rs. 8106 crores during the Seventh Plan. Details are shown in Table 6.11,

TABLE 6.11
Financial Results of Departmental Commercial Undertakings of States & UTs.
[Profit (+)/Loss (-)]

	(Rs. crores)				
	1985-86	1986-87	1987-88	1988-89 (R.E.)	1989-90 (B.E.)
1. Depart. Comm. Undertakings ;					
(i) Forest	497.70	516.21	543.69	441.67	476.87
(ii) Power projects	-75.04	-93.81	-116.40	-77.82	-76.57
(iii) Road & Water Tpt. Services	-25.65	-36.59	-110.76	-109.32	-108.23
(iv) Dairy Development	-99.29	-40.45	-43.91	-48.26	-51.98
(v) Industries	-14.10	-16.46	-20.51	-47.41	-34.14
(vi) Mines & Minerals	40.06	35.05	27.02	42.36	42.49
(vii) Irrigation Projects (Commercial) and Multipurpose River Proj.	-871.60	-1225.95	-1344.50	-1686.43	-1731.78
2. Profit of Profit making Undertakings	537.76	551.26	570.71	484.03	519.36
3. Loss of Loss making Undertakings	-1085.68	-1413.26	-1636.08	-1969.24	-2002.70
4. Net Financial Results of Departmental Undertakings	-547.92	-862.00	-1065.37	-1485.21	-1483.34

6.59. The dividends and profits from non-departmental undertakings of the States and Union Territories showed marginal improvement to Rs. 80 crores in 1988-89 compared with Rs. 75 crores in the revised estimates for 1987-88. However, the two major non-departmental undertakings viz., the State Electricity Boards (SEBs) and the State Road Transport Undertakings (SRTUs) continued to incur substantial losses in their operations. The losses of the SEBs at current rates amounted to Rs. 2264 crores in 1987-88, Rs. 2705 crores in 1988-89 (RE). The losses were estimated to further increase to Rs. 3251 crores in 1989-90. An important factor contributing to the high level of commercial losses was the requirement for the SEBs to supply electricity to rural/agricultural sectors at low average tariff rates in relation to costs of supply. The performance in terms of the rate of return on capital, (after depreciation and interest) was also negative, being about (-)12.4 per cent in 1987-88, (-)13.1 per cent in 1988-89 and (-)13.1 per cent in 1989-90. The Electricity Supply Act, 1948

enjoins on the SEBs to earn a return of not less than 3.0 per cent by way of net surplus after providing for depreciation and interest. The rates of return of SEBs shown above do not take into account the claims of SEBs for subsidies for rural electrification from the State Governments. If these subsidies are taken into account, the position would show some improvement.

6.60 The financial health of State Road Transport Undertakings (SRTUs) also was not satisfactory. Their commercial losses at Rs. 251 crores in 1988-89 (revised estimates) were higher than 1987-88 pre-actuals of Rs. 146 crores. The losses in 1989-90 (annual plan estimates) were expected to be Rs. 333 crores. It was estimated that during the Seventh Plan Period, SRTUs would incur a loss of Rs. 1434 crores at 1984-85 fare levels. But they were expected to raise an additional fare revenue of Rs. 2200 crores and thus have a net surplus of Rs. 766 crores. On present reckoning the expectation is unlikely to be achieved, rather the net loss is anticipated at around Rs. 1120 crores.