

PUBLIC FINANCE

The 1993-94 budget continued the process of reducing the high level of protection to domestic industry so as to foster competition and promote efficiency. Efforts were made to stimulate industrial revival. A major simplification of customs tariff was carried out by merging the auxiliary duty with basic customs duty. The peak rate of import duty was reduced to 85 per cent. The duty rate on personal baggage was brought down to 100 per cent over the year. Import duty on general capital goods and project imports was reduced to 35 per cent. Rationalisation of the customs duty was also initiated. For instance, the duties on other capital goods, machine tools and instruments were rationalised broadly into three duty rates. Changes in the excise duties had the objective of simplifying the excise structure, providing some relief to articles of mass consumption and stimulating industries suffering from exceptionally depressed demand conditions. In the area of direct taxes, personal income-tax exemption limits were adjusted to account for inflation. Income-tax exemptions available for export related activities were extended and the deduction on contributions to institutions of higher learning was raised from 50 per cent to 100 per cent. A weighted deduction of 125 per cent on contributions made out of income from business or professions to R&D institutions was also introduced.

2 During the year 1992-93, the gross primary deficit of the centre declined by 1.0 per cent of GDP. A decline of about 0.4 per cent in the non-interest expenditure from 14.2 per cent of GDP in 1991-92 to 13.8 per cent of GDP in 1992-93 (RE) and an increase in current revenue from 11.1 per cent of GDP in 1991-92 to 11.5 per cent in 1992-93 (RE) were the main factors. Gross capital formation financed by budgetary resources increased by 10.4 per cent in 1992-93 (RE) over that of 1991-92. Internal liabilities also showed a decline, from 51.6 per cent of GDP in 1991-92 to 50.4 per cent of GDP in 1992-93 (RE). However, the interest on these

liabilities increased from 8.4 per cent in 1991-92 to 9.1 per cent in 1992-93. Gross dissavings of the Government decreased from Rs.7802 crore in 1991-92 to Rs.5514 crore in 1992-93 (RE).

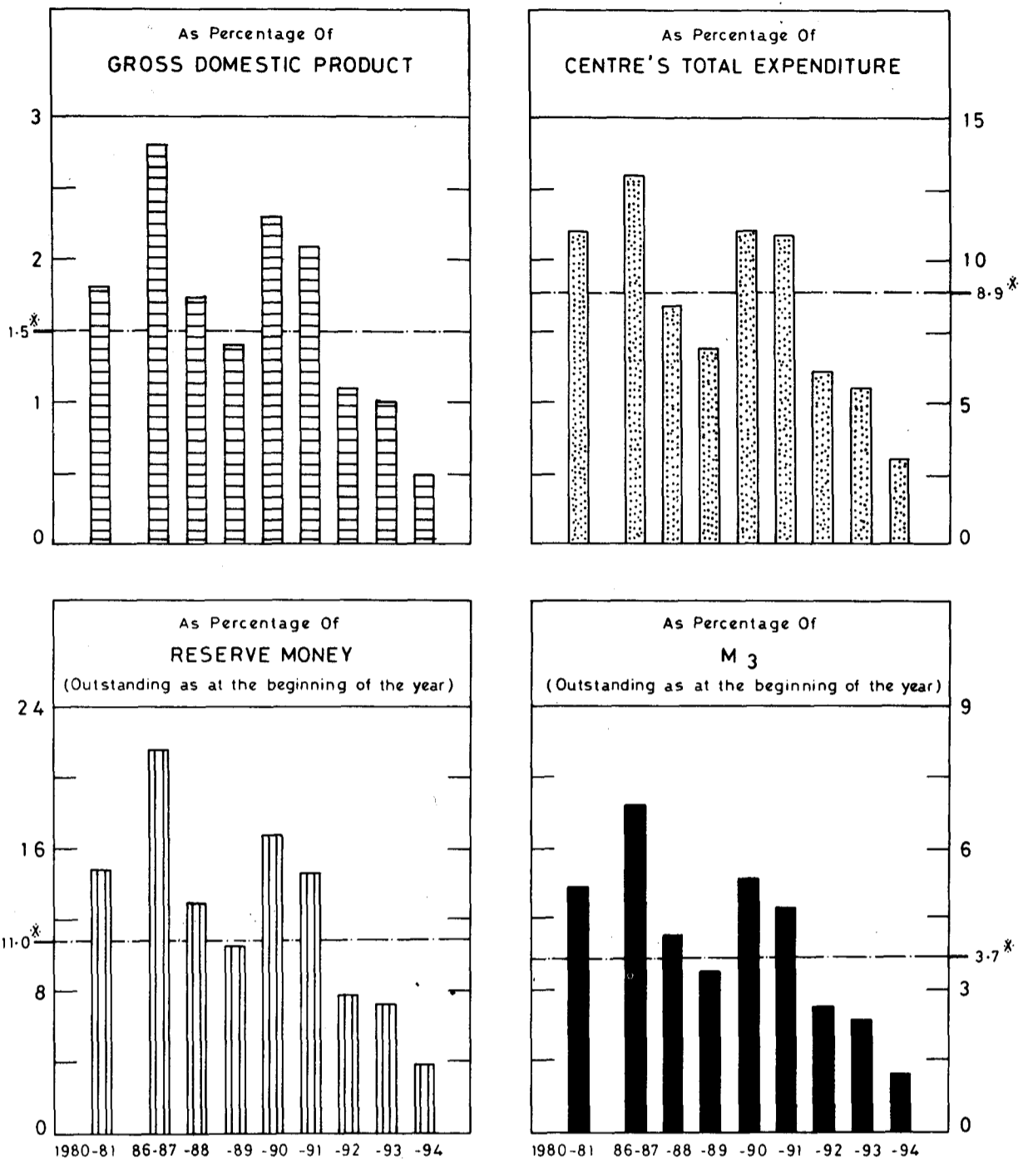
3 The results of the fiscal adjustment undertaken in 1991-92 and 1992-93 which were just beginning to emerge at the time of the reporting in the last year's Economic Survey, are now clearly visible. It is therefore, an appropriate time to review the experience of the past in the light of our

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

| | Budget Deficit | Revenue Deficit | Monetised Deficit | Gross Fiscal Deficit | Gross Primary Deficit |
|----------------------|----------------|-----------------|-------------------|----------------------|-----------------------|
| 1 | 2 | 3 | 4 | 5 | 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 | 1.1 | 2.6 | 0.9 | 5.9 | 1.6 |
| 1992-93(R.E.) | 1.0 | 2.4 | 0.8 | 5.2 | 0.6 |

Note: 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, comprising of the net increase in the holdings of Treasury Bills of the RBI and its contribution to the market borrowings of the Government. The 'fiscal deficit' is the excess of total expenditure over revenue receipts and grants. The 'primary deficit' is the fiscal deficit less interest payments.

CENTRE'S BUDGETARY DEFICIT



* Average for the period 1980-81 to 1993-94

BOX 2.1

Gross and Net Primary Deficit

- Macro-economic stability is measured in terms of the behaviour of key macro variables such as fiscal deficit, balance of payments and inflation. These are closely linked, with the fiscal deficit now commonly recognised to be the key driving force. A stable fiscal deficit is defined in terms of the ratio of Public Debt to GDP. Stability means that other things remaining the same, Debt-GDP ratio declines over time.
- Fiscal stability depends, *inter alia*, on the primary deficit, appropriately defined.
- Fiscal deficit is equal to revenue receipts minus expenditure. Excess of expenditure is met by borrowing (gross), thus adding to debt. Governments, besides borrowing to finance this shortfall, also lend to others which earns interest and would be repaid in future. The issue here is whether 'net lending' that is the flow of such lending minus related loan repayments should be treated as outflows and be added to normal expenditures. The other possibility is to treat them as a financing item, and subtract them from (gross) borrowing.
- The net fiscal deficit is defined as a change in net liabilities and is calculated by subtracting net lendings, from (gross) public borrowings. The corresponding Primary deficit can be obtained by subtracting net interest payments from net fiscal deficit. The gross fiscal deficit is defined as a change in gross liabilities, i.e., taking only the borrowing side into account. It is calculated by subtracting revenues from "Expenditure plus net lending". The corresponding primary deficit is obtained by subtracting gross interest payments from gross fiscal deficit.
- The definition on 'Net' basis is the one directly related to the concept of stability. These concepts have, however, been developed for the total public sector consisting of Centre, States and PSUs. Table 2.1 shows the deficit of the Centre which is a sub-set of the total public sector. Most of the lending is made to the States and PSUs. In this situation, deficits on 'gross' basis may be a more accurate reflection of the total public sector deficit.
- A third method, which may be called 'Hybrid', calculates the primary deficit by subtracting 'net' interest payments from 'gross' fiscal deficit. This method appears to be neither logically consistent nor related to the concept of fiscal stability.

recent success, and to lay out a clear direction for the future. Under this programme the Central fiscal deficit came down by about 3.2 per cent of GDP over a period of 21 months (RE). The primary deficit, which excludes interest payments, declined by about 3.8 per cent of GDP (Table 2.1). This is a better measure of the adjustment effort made by the Government, as it excludes the inescapable liability due to the past debt (Box 2.1). This reduction represents a significant achievement, and compares well with efforts made in this respect world-wide.

4 A rapid adjustment of this magnitude was essential for achieving quick control over the balance of payments deficit and over inflation. The success of this policy has been amply demonstrated by: (a) the fall in the current account deficit from 3.3 per cent of GDP in 1990-91 to 2.1 per cent in 1992-93 and; (b) the fall in inflation from a peak annual (point to point) rate of over 16 per cent in August-September, 1991 to less than 7 per cent in April-May, 1993. Such a rapid pace of decline in the fiscal deficit cannot be maintained indefinitely, and was bound to slow down. The disturbances at the end of 1992-93, and the need to pay greater attention to industrial recovery, slowed the pace of fiscal correction in 1993-94. With the rise of inflation since August, 1993 and likely revival in the industrial sector in the second half of 1993-94, the balance between inflation control and industrial recovery, will have to be re-assessed. The fiscal deficit must, therefore, be put more firmly on the medium-term path of steady decline.

5 The past few years of experience of deficit control has also sharpened the issue of whether the limited budgetary resources should be spent on investment in infrastructure services like power and roads or on social services, like health and education, and rural development. Over the longer term, the burden of infrastructure development will have to gradually shift to the private sector, and Government must focus its limited resources on the social sectors. Because of institutional and policy constraints, many at the State level, substantial private investment in these newly opened sectors may, however, take some time. For the present, therefore, the balance between the two types of expenditures will have to be carefully weighed.

Fiscal and Budgetary Developments in 1992-93

Central Government

Fiscal Deficit

6 The reform programme introduced in 1991-92 for the restoration of fiscal balance was continued in 1992-93. The fiscal deficit was reduced as per revised estimates, by 3.2 per cent of GDP during 1991-92 and 1992-93 (RE). The adjustment effort as measured by the gross primary deficit, was larger, with the primary deficit falling by 3.8 per cent of GDP (RE). The primary deficit during 1992-93 (RE) at 0.6 per cent of GDP would be at its lowest level in the last 15 years, suggesting a very successful macro-economic adjustment. Over the same period, the revenue deficit also declined by

TABLE 2.2
Centre's Revenue Receipts and Revenue Expenditure
(As per cent of GDP)

| | 1980-81 | 1988-89 | 1989-90 | 1990-91 | 1991-92 | 1992-93 (R.E.) | 1993-94 (B.E.) |
|--|---------|---------|---------|---------|---------|-------------------|-------------------|
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 1. Tax revenue (Net of States' share) | 6.9 | 8.5 | 8.4 | 8.1 | 8.1 | 8.3 | 8.4 |
| 2. Non-tax revenue | 2.5 | 2.8 | 3.4 | 2.6 | 2.9 | 3.3 | 3.1 |
| 3. Total current revenue(1+2) | 9.4 | 11.4 | 11.8 | 10.7 | 11.1 | 11.5 | 11.5 |
| 4. Total current expenditure | 10.9 | 14.0 | 14.4 | 14.2 | 13.7 | 13.9 | 13.7 |
| (a) Interest payments | 1.9 | 3.6 | 3.9 | 4.0 | 4.3 | 4.6 | 4.8 |
| (b) Subsidies | 1.2 | 2.0 | 2.4 | 2.0 | 1.7 | 1.4 | 1.0 |
| (c) Defence expenditure | 2.4 | 2.4 | 2.1 | 2.0 | 1.9 | 1.8 | 1.7 |
| (d) Grants to States & UTs | 2.1 | 2.5 | 1.9 | 2.5 | 2.6 | 2.6 | 2.5 |
| (e) Others | 3.4 | 3.5 | 4.1 | 3.6 | 3.3 | 3.5 | 3.8 |
| 5. Revenue Account surplus(+)/ deficit(-) [3-4] | -1.5 | -2.7 | -2.6 | -3.5 | -2.6 | -2.4 | -2.2 |

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

about 1.1 per cent of GDP to reach 2.4 per cent of GDP in 1992-93 as per revised estimates. The actual deficits for 1992-93 may, however, be higher by about 0.4 per cent of GDP (as per Discussion Paper on Economic Reforms) because of an unanticipated fall in revenue arising from the disturbances towards the end of 1992-93.

7 One of the factors in the reduction of fiscal deficit was the increase in revenues. The current receipts of the Centre increased by 19.1 per cent to Rs. 58257 crore in 1992-93 (RE) from Rs. 50614 crore in 1991-92. The increase came on top of a 20.0 per cent increase in 1991-92. As a result, over the two years of adjustment, revenues increased from 10.7 per cent of GDP to 11.5 per cent of GDP showing an improvement of 0.8 per cent of GDP. This improvement is primarily due to an improvement in non-tax revenue. Non-tax revenue increased from 2.6 per cent of GDP to 3.3 per cent during 1992-93 (RE), showing a total improvement of 0.7 per cent of GDP over the two years. Tax-revenues have increased only gradually over the two years (Table 2.2).

8 The second factor in the decline of the fiscal deficit was non-interest expenditure. This declined by 2.2 per cent of GDP over the adjustment period as per revised estimates (Table 2.3). Major elements of this decline were defence expenditure by 0.4 per cent of GDP, subsidies by 0.6 per cent of GDP and expenditure on financial assets (loans, equity) by 1.2 per cent of GDP. Grants to States remained constant as a proportion of GDP and expenditure on physical assets increased by 0.1 per cent of GDP. As interest payments increased by 0.6 per cent over the ad-

justment period, the reduction in fiscal deficit was smaller by this amount compared to the primary deficit (Table 2.3). It is also worth noting that the revenue deficit declined by 1.1 per cent of GDP over the two years of adjustment.

Savings and Capital Formation

9 The Economic and Functional Classification of the Central Government's Budget shows a steady improvement in gross savings. Gross dissavings of the Government decreased from a peak of Rs. 10502 crore (-2 per cent of GDP) in 1990-91 to Rs. 7802 crore in 1991-92 and further to Rs. 5514 crore (-0.8 per cent of GDP) in 1992-93 (RE). Gross savings of the Central Government have consequently increased by 1.2 per cent of GDP over the two years of macro economic adjustment (Table 2.4).

10 Gross capital formation financed by budgetary resources increased from Rs. 35165 crore in 1991-92 (Table 2.3) to Rs. 38820 crore in 1992-93(RE). This increase of Rs. 3655 crore (as per revised estimates) represents a 10.4 per cent growth over the previous year. Though expenditure on both physical and financial assets grew, the former grew much faster than the latter. Physical assets grew by about 29 per cent compared to a growth of less than 8 per cent in 1991-92. As a result, the expenditure on physical assets increased from 24.5 per cent of gross capital formation in 1990-91 to 30.7 per cent in 1992-93(RE).

Government Debt and Interest Payments

11 Increasing resort to borrowings over the years has led to a continuous growth in the total outstanding debt of

CENTRE'S REVENUE EXPENDITURE

PERCENTAGE DISTRIBUTION

RS. THOUSAND CRORE

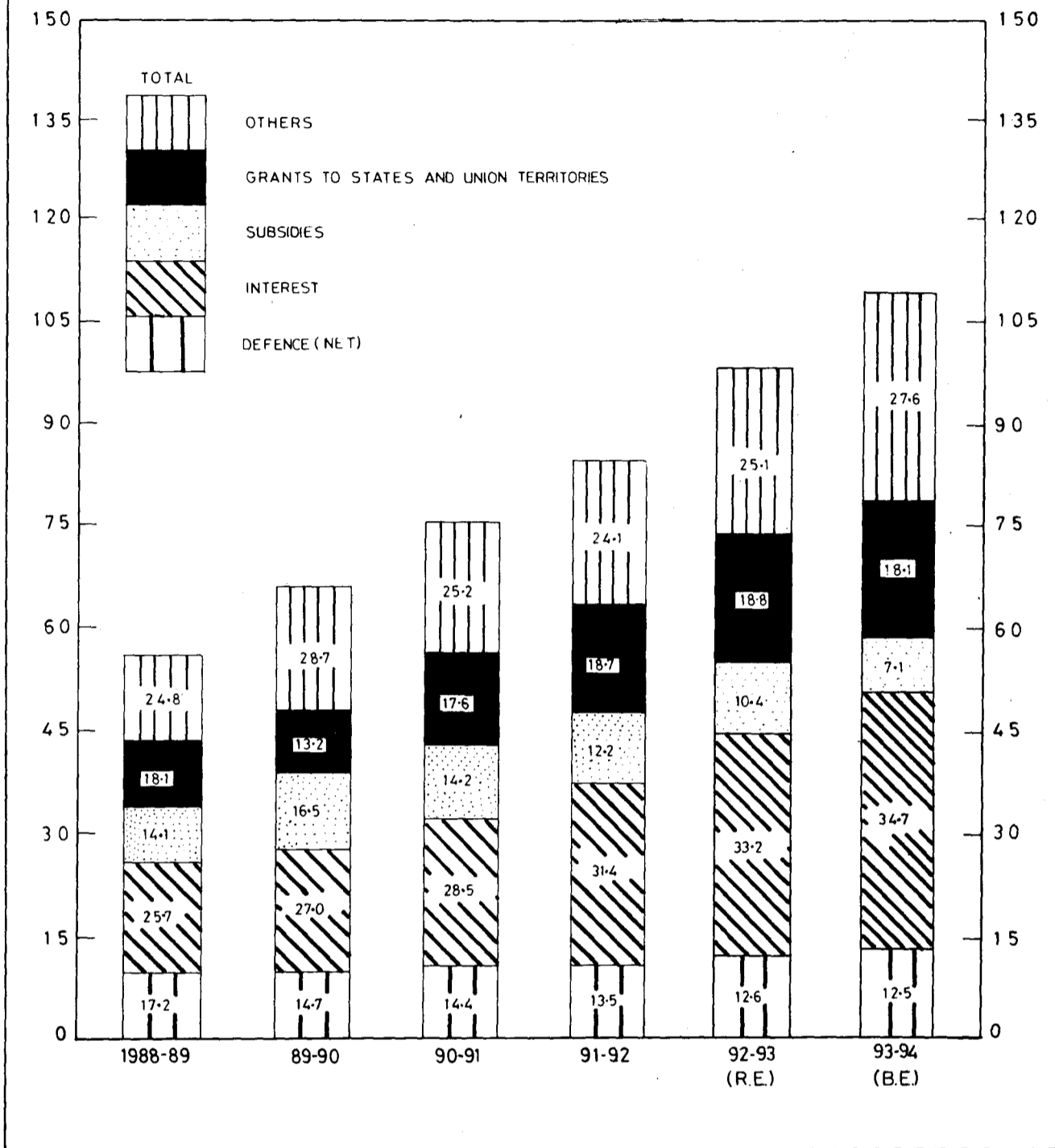


TABLE 2.3

Economic Classification of Total Expenditure of Central Government

| | 1980-81 | 1988-89 | 1989-90 | 1990-91 | 1991-92 | 1992-93 (R.E.) | 1993-94 (B.E.) |
|---|----------------------------------|---------|---------|---------|---------|-------------------|-------------------|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
| | (Rs. Crore) | | | | | | |
| 1. Consumption expenditure | 5174 | 18763 | 20784 | 22359 | 24466 | 27218 | 29936 |
| a) Defence | 3571 | 13237 | 14298 | 15319 | 16251 | 17384 | 19057 |
| b) Other Government administration | 1603 | 5526 | 6486 | 7040 | 8215 | 9834 | 10879 |
| 2. Transfer payments(Current) | 6912 | 31399 | 37877 | 45134 | 51378 | 59072 | 62358 |
| a) Interest payments | 2253 | 13347 | 16525 | 19949 | 24955 | 30278 | 35903 |
| b) Subsidies | 1912 | 7859 | 10862 | 10728 | 10326 | 10188 | 7731 |
| c) Grants to States & UTs (including local bodies) | 1810 | 5831 | 5725 | 7664 | 8797 | 10058 | 10121 |
| d) Others | 937 | 4362 | 4765 | 6793 | 7300 | 8548 | 8603 |
| 3. Gross capital formation out of budgetary resources | 9012 | 28977 | 33012 | 35058 | 35165 | 38820 | 44016 |
| a) Physical assets | 1907 | 7056 | 8136 | 8602 | 9259 | 11916 | 14773 |
| b) Financial assets | 7105 | 21921 | 24876 | 26456 | 25906 | 26904 | 29243 |
| 4. Others | 1397 | 2263 | 3376 | 2422 | 1722 | 2643 | 1718 |
| 5. Total expenditure | 22495 | 81402 | 95049 | 104973 | 112731 | 127753 | 138028 |
| | As per cent of GDP | | | | | | |
| | (per cent) | | | | | | |
| 1. Consumption expenditure | 3.8 | 4.7 | 4.5 | 4.2 | 4.0 | 3.9 | 3.8 |
| a) Defence | 2.6 | 3.3 | 3.1 | 2.9 | 2.6 | 2.5 | 2.4 |
| b) Other Government administration | 1.2 | 1.4 | 1.4 | 1.3 | 1.3 | 1.4 | 1.4 |
| 2. Transfer payments(Current) | 5.1 | 7.9 | 8.3 | 8.5 | 8.3 | 8.4 | 7.8 |
| a) Interest payments | 1.7 | 3.4 | 3.6 | 3.7 | 4.1 | 4.3 | 4.5 |
| b) Subsidies | 1.4 | 2.0 | 2.4 | 2.0 | 1.7 | 1.4 | 1.0 |
| c) Grants to States & UTs (including local bodies) | 1.3 | 1.5 | 1.3 | 1.4 | 1.4 | 1.4 | 1.3 |
| d) Others | 0.7 | 1.1 | 1.0 | 1.3 | 1.2 | 1.2 | 1.1 |
| 3. Gross capital formation out of budgetary resources | 6.6 | 7.3 | 7.2 | 6.6 | 5.7 | 5.5 | 5.5 |
| a) Physical assets | 1.4 | 1.8 | 1.8 | 1.6 | 1.5 | 1.7 | 1.9 |
| b) Financial assets | 5.2 | 5.5 | 5.4 | 5.0 | 4.2 | 3.8 | 3.7 |
| 4. Others | 1.0 | 0.6 | 0.7 | 0.5 | 0.3 | 0.4 | 0.2 |
| 5. Total expenditure | 16.5 | 20.6 | 20.8 | 19.7 | 18.3 | 18.1 | 17.3 |
| | As per cent of total expenditure | | | | | | |
| | (per cent) | | | | | | |
| 1. Consumption expenditure | 23.0 | 23.0 | 21.9 | 21.3 | 21.7 | 21.3 | 21.7 |
| a) Defence | 15.9 | 16.3 | 15.0 | 14.6 | 14.4 | 13.6 | 13.8 |
| b) Other Government administration | 7.1 | 6.8 | 6.8 | 6.7 | 7.3 | 7.7 | 7.9 |
| 2. Transfer payments(Current) | 30.7 | 38.6 | 39.8 | 43.0 | 45.6 | 46.2 | 45.2 |
| a) Interest payments | 10.0 | 16.4 | 17.4 | 19.0 | 22.1 | 23.7 | 26.0 |
| b) Subsidies | 8.5 | 9.7 | 11.4 | 10.2 | 9.2 | 8.0 | 5.6 |
| c) Grants to States & UTs (including local bodies) | 8.0 | 7.2 | 6.0 | 7.3 | 7.8 | 7.9 | 7.3 |
| d) Others | 4.2 | 5.4 | 5.0 | 6.5 | 6.5 | 6.7 | 6.2 |
| 3. Gross capital formation out of budgetary resources | 40.1 | 35.6 | 34.7 | 33.4 | 31.2 | 30.4 | 31.9 |
| a) Physical assets | 8.5 | 8.7 | 8.6 | 8.2 | 8.2 | 9.3 | 10.7 |
| b) Financial assets | 31.6 | 26.9 | 26.2 | 25.2 | 23.0 | 21.1 | 21.2 |
| 4. Others | 6.2 | 2.8 | 3.6 | 2.3 | 1.5 | 2.1 | 1.2 |

TABLE 2.4
Capital Formation by the Central Government and its Financing

| | 1980-81 | 1988-89 | 1989-90 | 1990-91 | 1991-92 | 1992-93 (RE) | 1993-94 (BE) |
|--|---|---------|---------|---------|---------|-----------------|-----------------|
| | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
| | (Rs. Crore) | | | | | | |
| I. Gross capital formation out of budgetary resources of Central Government | 9012 | 28977 | 33012 | 35058 | 35165 | 38820 | 44016 |
| (i) Gross capital formation by the Central Government | 1907 | 7056 | 8136 | 8602 | 9259 | 11916 | 14773 |
| (ii) Financial assistance for capital formation in the rest of the economy | 7105 | 21921 | 24876 | 26456 | 25906 | 26904 | 29243 |
| II. Gross Saving of the Central Government | 3 | -5722 | -5142 | -10502 | -7802 | -5514 | -2848 |
| III. Gap(I-II) | 9009 | 34699 | 38154 | 45560 | 42967 | 44334 | 46864 |
| Financed by | | | | | | | |
| a. Draft on other sector of domestic economy | 7339 | 31639 | 34831 | 41794 | 36599 | 38546 | 39918 |
| (i) Domestic capital receipts | 4762 | 25997 | 24239 | 30447 | 29744 | 31344 | 35604 |
| (ii) Budgetary deficit | 2577 | 5642 | 10592 | 11347 | 6855 | 7202 | 4314 |
| b. Draft on foreign savings | 1670 | 3060 | 3323 | 3766 | 6368 | 5788 | 6946 |
| | As per cent of GDP | | | | | | |
| | (Per cent) | | | | | | |
| I. Gross capital formation out of budgetary resources of Central Government | 6.6 | 7.3 | 7.2 | 6.6 | 5.7 | 5.5 | 5.5 |
| (i) Gross capital formation by the Central Government | 1.4 | 1.8 | 1.8 | 1.6 | 1.5 | 1.7 | 1.9 |
| (ii) Financial assistance for capital formation in the rest of the economy | 5.2 | 5.5 | 5.4 | 5.0 | 4.2 | 3.8 | 3.7 |
| II. Gross Saving of the Central Government | 0.0 | -1.4 | -1.1 | -2.0 | -1.3 | -0.8 | -0.4 |
| III. Gap(I-II) | 6.6 | 8.8 | 8.4 | 8.6 | 7.0 | 6.3 | 5.9 |
| Financed by | | | | | | | |
| a. Draft on other sector of domestic economy | 5.4 | 8.0 | 7.6 | 7.9 | 5.9 | 5.5 | 5.0 |
| (i) Domestic capital receipts | 3.5 | 6.6 | 5.3 | 5.7 | 4.8 | 4.4 | 4.5 |
| (ii) Budgetary deficit | 1.9 | 1.4 | 2.3 | 2.1 | 1.1 | 1.0 | 0.5 |
| b. Draft on foreign savings | 1.2 | 0.8 | 0.7 | 0.7 | 1.0 | 0.8 | 0.9 |
| I. Gross Capital Formation out of Budgetary Resources of Central Govt; increase over previous year | 24.7 | 12.4 | 13.9 | 6.2 | 0.3 | 10.4 | 13.4 |
| 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 the revision in the series of GDP, the ratios given here may differ from those given in the earlier issues of Economic Survey. | | | | | | |

the Centre. Internal liabilities registered a sharp increase in the 1980s from 35.6 per cent of GDP in 1980-81 to 53.2 per cent of GDP in 1990-91 (Table 2.5). This was due to a combination of revenue deficits and poor returns on assets financed by capital receipts. Internal liabilities have declined consistently over the adjustment period; to 51.6 per cent in 1991-92 and further to 50.4 per cent in 1992-93 (RE). Over the two years of adjustment, Internal liabilities have declined by 2.8 per cent of GDP. There has also been a change in the structure of debt, with the share of market borrowings in total internal liabilities falling from 24.9 per cent in 1990-91 to 23.0 per cent in 1992-93 (RE). This has

been substituted by 'other' Internal Debt such as treasury bills. The share of "other liabilities" (such as small savings, provident fund, etc.) has remained almost unchanged.

12 External liabilities shown in the budget are converted at the exchange rate prevailing in March of the year in which they were 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 1992-93 (RE). The repayment burden is, however, better measured, by valuing them at current end of the year exchange rates. When this is done, external liabilities of the Central Government are seen to have risen gradually from 9.9 per cent of GDP at the end of 1980-81 to 12.3 per

TABLE 2.5
Outstanding Liabilities of the Central Government

| | 1980-81 | 1988-89 | 1989-90 | 1990-91 | 1991-92 | 1992-93 (RE) | 1993-94 (BE) |
|---|---------|---------|---------|---------|---------|-----------------|-----------------|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
| (Rs. Crore) | | | | | | | |
| 1. Internal liabilities | 48451 | 204025 | 239849 | 283033 | 317714 | 355264 | 393988 |
| a) Internal Debt | 30864 | 114498 | 133193 | 154004 | 172750 | 193035 | 208671 |
| a) Market borrowings | 15676 | 55161 | 62565 | 70565 | 78075 | 81745 | 85445 |
| b) Others | 15188 | 59337 | 70628 | 83439 | 94675 | 111290 | 123226 |
| b). Other Internal liabilities | 17587 | 89527 | 106656 | 129029 | 144964 | 162229 | 185317 |
| 2. External debt(outstanding)* | 11298 | 25746 | 28343 | 31525 | 36948 | 41218 | 46452 |
| 3. Total outstanding liabilities (1+2) | 59749 | 229771 | 268192 | 314558 | 354662 | 396482 | 440440 |
| 4. Amount due from Pakistan on account of share of pre-partition debt | 300 | 300 | 300 | 300 | 300 | 300 | 300 |
| 5. Net liabilities (3-4) | 59449 | 229471 | 267892 | 314258 | 354362 | 396182 | 440140 |
| 6. Total assets | 58999 | 184303 | 209623 | 236740 | 261478 | 288465 | 314795 |
| 7. Excess of liabilities over assets (5-6) | 450 | 45168 | 58269 | 77518 | 92884 | 107717 | 125345 |
| As per cent of GDP at current prices (Per cent) | | | | | | | |
| 1. Internal liabilities | 35.6 | 51.6 | 52.5 | 53.2 | 51.6 | 50.4 | 49.5 |
| a) Internal Debt | 22.7 | 28.9 | 29.2 | 28.9 | 28.1 | 27.4 | 26.2 |
| b). Other Internal liabilities | 12.9 | 22.6 | 23.3 | 24.3 | 23.5 | 23.0 | 23.3 |
| 2. External debt(outstanding)* | 8.3 | 6.5 | 6.2 | 5.9 | 6.0 | 5.8 | 5.8 |
| 3. Total outstanding liabilities | 43.9 | 58.1 | 58.7 | 59.1 | 57.6 | 56.2 | 55.3 |
| 6. Total assets | 43.4 | 46.6 | 45.9 | 44.5 | 42.5 | 40.9 | 39.6 |
| 7. Excess of liabilities over assets (5-6) | 0.3 | 11.4 | 12.8 | 14.6 | 15.1 | 15.3 | 15.7 |
| Memorandum items | | | | | | | |
| External Debt (Rs.crore)@ | 13479 | 46839 | 54158 | 65208 | 109746 | 121149 | 123860 |
| (as per cent of GDP) | 9.9 | 11.8 | 11.9 | 12.3 | 17.8 | 17.2 | 15.6 |
| Total outstanding liabilities (as per cent of GDP) | 61930 | 250864 | 294007 | 348241 | 427460 | 476413 | 517848 |
| (as per cent of GDP) | 45.5 | 63.4 | 64.4 | 65.5 | 69.4 | 67.5 | 65.1 |
| * External debt figures represent borrowings by Central Government from external resources and are based upon historical rates of exchange. | | | | | | | |
| @ Converted at current year end exchange rates. For 1980-81, the rates prevailing at the end of March, 1981. For 1986-87, the rates prevailing at the end of March, 1987 and so on. However, for 1993-94 the rates pertain to end-September, 1993 | | | | | | | |

cent of GDP in 1990-91. They jumped to 17.8 per cent of GDP at the end of 1991-92, because of the exchange rate changes in 1991, which raised their value in Rupee terms. Since then there is a decline in the external debt-GDP ratio by 0.6 per cent to 17.2 per cent as per the revised estimates of 1992-93.

13 The increasing fiscal deficit and consequent borrowing from the domestic private sector was associated with higher average interest rates. The average rate of interest on internal liabilities rose from 7.1 per cent in 1986-87 to 8.2 per cent in 1990-91 (Table 2.6) and further to 9.1 per cent in 1992-93(RE), because of the continued replacement of old lower-interest debt by new higher-interest debt. Another noteworthy feature is the reduction of the difference between the interest rate on market borrowings and 'other internal liabilities' (small savings, provident funds, etc.). This difference was 1 per cent in 1990-91 was reduced to 0.7 per cent in 1991-92, and is estimated at -0.3 per cent in 1992-93(RE). This is an indication that Central Government 'market loans' are now really becoming "market" related. The rate of interest on external liabilities similarly increased from 2.9 per cent in 1986-87 to 3.4 per cent in 1990-91. 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.

14 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 almost doubled from 11.6 per cent in 1980-81 to 20.5 per cent in 1990-91, interest payments net of interest received increased by three times from 3.6 per cent to 12.1 per cent. Between 1990-91 and 1992-93 (RE) interest payments on internal liabilities increased by Rs. 9241 crore. Based on the stock of debt at the end of 1989-90 and the interest rate prevailing in 1990-91, it is seen that about 25 per cent of this rise in interest payments is due to the rise in the average interest rate. The remaining 75 per cent is due to the increase in debt during 1990-91 and 1991-92. The rise in debt is equal to the fiscal deficit which it self contains interest payments on past debt. More than half of the increase in debt can, therefore, be attributed to interest payments during 1990-91 and 1991-92 on the debt which existed at the end of 1989-90. The increase in debt attributable to the primary fiscal deficit, contributed only 33 per cent of the increase in interest payments.

| | 1980-81 | 1988-89 | 1989-90 | 1990-91 | 1991-92 | 1992-93 (RE) | 1993-94 (BE) |
|---|---------|---------|---------|---------|---------|-----------------|-----------------|
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| (Rs. Crore) | | | | | | | |
| 1. Interest on internal liabilities | 2373 | 13036 | 16241 | 19637 | 23892 | 28878 | 34054 |
| a) Internal debt | 1369 | 6913 | 8273 | 9814 | 11317 | 13602 | 15423 |
| i) Market borrowings | 808 | 4506 | 5368 | 6366 | 7355 | 7950 | 8680 |
| ii) Others | 561 | 2407 | 2905 | 3448 | 3962 | 5652 | 6743 |
| b) Other internal liabilities | 1004 | 6123 | 7968 | 9823 | 12575 | 15276 | 18631 |
| 2. Interest on external debt | 231 | 1242 | 1494 | 1834 | 2704 | 3622 | 3946 |
| 3. Gross interest payments | 2604 | 14278 | 17735 | 21471 | 26596 | 32500 | 38000 |
| 4. Net interest payments | 809 | 7297 | 9269 | 12687 | 15674 | 20064 | 23468 |
| Average rate of interest (per cent) | | | | | | | |
| 1. Internal liabilities | N.A. | 7.6 | 8.0 | 8.2 | 8.4 | 9.1 | 9.6 |
| a) Internal debt | N.A. | 7.0 | 7.2 | 7.4 | 7.3 | 7.9 | 8.0 |
| i) Market borrowings | N.A. | 9.6 | 9.7 | 10.2 | 10.4 | 10.2 | 10.6 |
| ii) Others | N.A. | 4.6 | 4.9 | 4.9 | 4.7 | 6.0 | 6.1 |
| b) Other Internal liabilities | N.A. | 8.3 | 8.9 | 9.2 | 9.7 | 10.5 | 11.5 |
| 2. External debt | N.A. | 5.3 | 5.8 | 6.5 | 8.6 | 9.8 | 9.6 |
| 3. Total liabilities | N.A. | 7.3 | 7.7 | 8.0 | 8.5 | 9.2 | 9.6 |
| N.A. : Not available | | | | | | | |
| Note : The interest liabilities indicated above are on cash basis and not on accrual basis. | | | | | | | |

15 The fiscal correction measures have marginally reduced the total internal liabilities-to-GDP ratio by 2.8 per cent of GDP over the adjustment period. The overall debt GDP ratio has not, however, gone down because of the revaluation of external debt due to exchange rate changes in 1991-92. 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, therefore, imperative that the Government continues the policy of fiscal correction in the years to come.

States and Union Territories : 1992-93

16 The overall fiscal position of the States and Union Territories as measured by the gap between current revenue and total outlay (including Public Sector Units) has improved. This 'gap' declined to 3.4 per cent of GDP in 1992-93(RE) from 3.9 per cent in 1991-92. The reduction was largely due to an increase in current revenue by 14.6 per cent from Rs. 75466 crore in 1991-92 to Rs. 86517 crore in 1992-93(RE). About 61 per cent of the increase was due to an increase in grants from the Centre and States' share of Union income tax and Excise duties. The remaining 39 per cent was accounted for by an increase in States' own resources. This contrasts with 62 per cent contribution which States resource mobilisation made in 1991-92. Grants from the Centre show an increasing trend, from Rs. 12384 crore in 1990-91 to Rs. 15327 crore in 1991-92 and to Rs. 18476 crore in 1992-93(RE). Revised estimates of the grants from the Centre during 1992-93 show an improvement over the Budget estimates of Rs. 17183 crore. Loans from the Centre have, however, declined marginally from Rs. 9414 crore in 1991-92 to Rs. 9157 crore in 1992-93 (RE).

17 A disturbing feature of State finances is the increase in proportion of non-developmental expenditure. This increased by 17.0 per cent in 1992-93(RE), while developmental expenditure increased by only 8.3 per cent. Finances of the State PSUs continue to be a drag on the budgets of the States. Though there was a decline in their dissavings by 23 per cent, the total losses of Rs. 1305 crore in 1992-93(RE) continue to put pressure on State finances. This includes proposed additional resource mobilisation, which in the case of State Electricity Boards alone is estimated at Rs.2108 crore. The Budgetary deficit has increased (Rs.952 crore) in 1992-93 (RE) and was over four times that in 1991-92 (Rs.226 crore). Nevertheless, the fiscal deficit of the States and Union Territories came down from 3.1 per cent of GDP in 1991-92 to 2.8 per cent as per the revised estimates of 1992-93 (RE).

Centre, States and Union Territories: 1992-93

18 Over the two years of macroeconomic adjustment (1991-92 and 1992-93) the gap between total outlay and current revenue has declined by about 1.6 per cent of GDP.

This decline is almost entirely due to an increase in current revenue by about 1.6 per cent of GDP. Developmental and non-developmental expenditure have, however, moved in opposite directions over the period. The former has declined by 0.9 per cent of GDP, while the latter has increased by the same per cent of GDP.

19 Progress in reducing the 'gap' between current revenue and total outlays has, however, been relatively slow in 1992-93. The gap between the total outlay and current revenue went up marginally from 10.6 per cent of GDP in 1991-92 to 10.8 per cent of GDP in 1992-93(RE) (Table 2.7). This was in spite of a rise in current revenue from 21.7 per cent of GDP in 1991-92 to 22.4 per cent of GDP in 1992-93(RE). The growth rate of current revenue (18.1 per cent) was also faster than that of total outlays (17.7 per cent). There was also an increase in the share of non-developmental outlays, as they grew at a faster rate (24.4 per cent) than developmental expenditure (13.1 per cent).

20 The dependence on deficit financing which had increased dramatically over the years showed a decline in 1992-93. The budget deficit in 1992-93 accounted for 10.7 per cent of the gap between current revenue and total outlay against 10.8 per cent in 1991-92 and 17.4 per cent in 1990-91.

21 The rising gap between total expenditure and current revenue over the last decade set in motion a vicious cycle of increased borrowings, higher debt and increase in interest payments. Interest payments, as a per cent of total expenditure of the Centre and States increased from 9.5 per cent in 1985-86 to 15.6 per cent in 1991-92 and further to 16.3 per cent in 1992-93(RE). The burden of interest payments comes out very clearly when seen in relation to non-developmental expenditure. As a proportion of non-developmental expenditure, interest payments amounted to 38.1 per cent in 1992-93(RE). This is the major factor which has led to an increase in the proportion of non-developmental expenditure in total expenditure to 42.8 per cent in 1992-93(RE). In principle, a reduction of debt through either a primary surplus or from the proceeds of assets sale would reduce long term debt liabilities. The impact could be maximised by retiring high interest debt and outright sale of loss making PSUs.

Central Government Budget : 1993-94

22 With inflation and current account deficit under control, the 1993-94 Budget, while targeting a 0.5 per cent reduction in the fiscal deficit, focussed on some other significant aspects as well. It increased outlays for rural development and social sectors such as education and health. A new balance was sought to be struck between fiscal consolidation and the need for development. The Budget aimed at strengthening industrial revival through

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 | 1989-90 | 1990-91 | 1991-92 | 1992-93 (BE) | 1992-93 (RE) | 1993-94 (BE) |
|-------------------------------|---------------------------|---------|---------|---------|-----------------|-----------------|-----------------|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
| | (Rs. Crore) | | | | | | |
| I. Total Outlay | 36845 | 158107 | 176548 | 199370 | 220275 | 234647 | 258477 |
| (a) Developmental | 24426 | 98501 | 105922 | 118715 | 129161 | 134276 | 153911 |
| (b) Non-developmental | 12419 | 59606 | 70626 | 80655 | 91114 | 100371 | 104566 |
| II. Current revenue | 24563 | 103115 | 110607 | 133834 | 150289 | 158118 | 178958 |
| (a) Tax revenue | 19844 | 77693 | 87723 | 103198 | 115331 | 118918 | 131805 |
| (i) Direct taxes | 3268 | 11165 | 12259 | 16656 | 18066 | 20216 | 22888 |
| (ii) Indirect taxes | 16576 | 66528 | 75464 | 86542 | 97265 | 98702 | 108917 |
| (b) Non-tax revenue | 4719 | 25422 | 22884 | 30636 | 34958 | 39200 | 47153 |
| III. GAP(I-II) | 12282 | 54992 | 65941 | 65536 | 69986 | 76529 | 79519 |
| Financed by: | | | | | | | |
| (i) Domestic capital receipts | 7161 | 40812 | 50192 | 52284 | 57528 | 62841 | 66428 |
| (ii) Net external assistance | 1670 | 3567 | 4263 | 6171 | 5375 | 5534 | 6820 |
| (iii) Budgetary deficit | 3451 | 10613 | 11486 | 7081 | 7083 | 8154 | 6271 |
| | As per cent of GDP | | | | | | |
| | (per cent) | | | | | | |
| I. Total Outlay | 27.1 | 34.6 | 33.2 | 32.4 | 31.2 | 33.3 | 32.5 |
| (a) Developmental | 18.0 | 21.6 | 19.9 | 19.3 | 18.3 | 19.0 | 19.3 |
| (b) Non-developmental | 9.1 | 13.0 | 13.3 | 13.1 | 12.9 | 14.2 | 13.1 |
| II. Current revenue | 18.1 | 22.6 | 20.8 | 21.7 | 21.3 | 22.4 | 22.5 |
| (a) Tax revenue | 14.6 | 17.0 | 16.5 | 16.8 | 16.3 | 16.9 | 16.6 |
| (i) Direct taxes | 2.4 | 2.4 | 2.3 | 2.7 | 2.6 | 2.9 | 2.9 |
| (ii) Indirect taxes | 12.2 | 14.6 | 14.2 | 14.1 | 13.8 | 14.0 | 13.7 |
| (b) Non-tax revenue | 3.5 | 5.6 | 4.3 | 5.0 | 5.0 | 5.6 | 5.9 |
| III. GAP(I-II) | 9.0 | 12.0 | 12.4 | 10.6 | 9.9 | 10.8 | 10.0 |
| Financed by: | | | | | | | |
| (i) Domestic capital receipts | 5.3 | 8.9 | 9.4 | 8.5 | 8.2 | 8.9 | 8.3 |
| (ii) Net external assistance | 1.2 | 0.8 | 0.8 | 1.0 | 0.8 | 0.8 | 0.9 |
| (iii) Budgetary deficit | 2.5 | 2.3 | 2.2 | 1.2 | 1.0 | 1.2 | 0.8 |

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

selective fiscal stimulus. High priority was accorded to exports in order to further strengthen the balance of payments. It emphasised further progress on tax reforms.

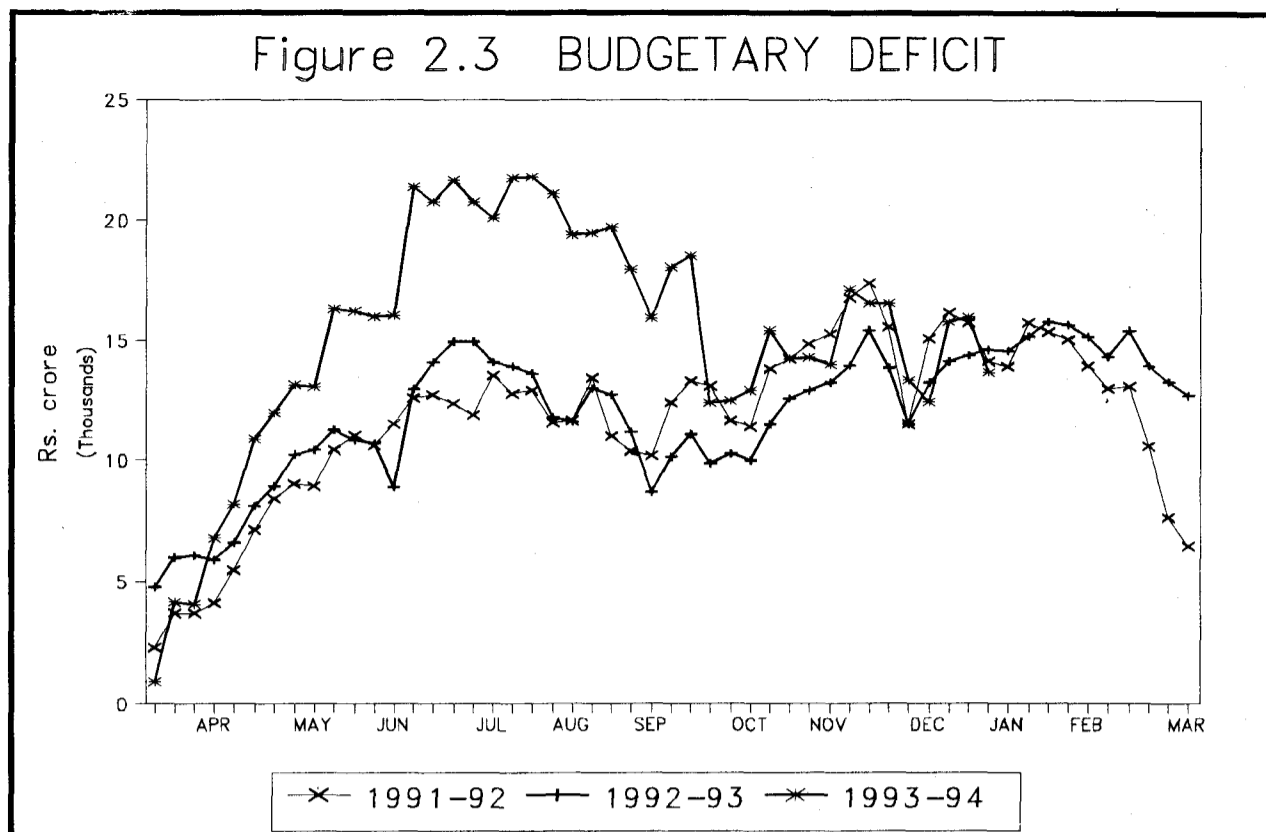
Budget Deficit

23 The budget deficit was to be reduced from Rs. 7202 crore in 1992-93(RE) to Rs. 4314 crore in 1993-94(BE). The weekly movements of the budget deficit during the last three years are shown in figure 2.3. Except for the first two weeks of April 1993, the deficit has been higher than the deficit prevailing during the corresponding weeks of the last two years. There has, however, been a steep decline in the budget deficit from the week ending October 15, 1993. Budget deficit for the week ending December 31, 1993 was lower than the deficit prevailing on this date during the last year. However, the budget deficit increased during the next two weeks and was marginally higher for the week

ending January 14, 1994 than the deficit prevailing on this date during the last year. The fiscal deficit has also been higher. It was Rs. 19694 crore at the end of June 1993, which is 62 per cent higher than the corresponding level last year. The fiscal deficit rose still further to Rs. 28978 crore at the end of August, 1993.

Revenue and Expenditure

24 The aggregate resources of the Centre (including PSUs) in 1993-94 (BE) are 13.1 per cent higher than those in 1992-93 (Table 2.7). While tax revenue is estimated to grow by 7.8 per cent, non-tax revenue is estimated to increase by 25.2 per cent. Internal resources of PSUs which increased by 35.2 per cent in 1992-93(RE) are estimated to increase further by 42.8 per cent in 1993-94. Aggregate disbursements are estimated (BE) to grow at a slower rate (10.8 per cent) than the resources (13.1 per cent). The



pattern of disbursement was also budgeted to change; the rate of growth of developmental expenditure was to increase from 14.2 per cent in 1992-93(RE) to 19.3 per cent in 1993-94(BE). Non-developmental expenditure was estimated to increase by only 1.1 per cent against 27.0 per cent in 1992-93(RE). The overall gap in the resources of the Centre and its PSUs is estimated at Rs. 67657 crore.

Fiscal Resources

25 The net effect of various fiscal measures in 1993-94 Budget was an estimated loss of Rs. 4522 crore; Rs. 3273 crore on account of Customs and Rs. 1249 crore on account of reduction in excise duties (Table 2.8). The net loss to the Centre after reducing the share of States by Rs. 541 crore came to Rs. 3981 crore. The Railway Budget for 1993-94 proposed increase in charges adding up to Rs. 1848 crore. Thus, the net loss of revenue to the Centre was Rs. 2133 crore.

Savings and Capital Formation

26 As per the Economic and Functional Classification of the Central Budget, gross dissavings are to be reduced further from Rs. 5515 crore during 1992-93(RE) to Rs. 2848 crore in 1993-94(BE). The gross dissavings were, therefore, budgeted to improve by 0.4 per cent of GDP (Table 2.4). The rate of growth of gross capital formation was estimated to increase from 10.4 per cent in 1992-93(RE) to 13.4 per cent in 1993-94 (BE). This would raise the share of gross

capital formation in total expenditure to 31.9 per cent from 30.4 per cent in 1992-93(RE). The share of expenditure on physical assets in total expenditure is expected to increase from 9.3 per cent in 1992-93(RE) to 10.7 per cent in 1993-94(BE). The share of expenditure on financial assets (21.2 per cent) is also marginally higher (21.1 per cent) than in 1992-93(Table 2.3).

Government Debt

27 The internal liabilities of the Government are expected

| | (Rs. crore) | | |
|---|-------------------|------------------|-------|
| | Centre's share | States' share | Total |
| | 1 | 2 | 3 |
| I. Taxes . | -3981 | -541 | -4522 |
| (a) Direct taxes | 0 | 0 | 0 |
| Concessions | -106 | -194 | -300 |
| Improvement in tax collections | 106 | 194 | 300 |
| (b) Indirect taxes | -3981 | -541 | -4522 |
| (i) Customs duties | -3273 | | -3273 |
| (ii) Excise duties | -708 | -541 | -1249 |
| II. Postal & Telecommunication tariffs, Railway fares and freight rates | 1848 | | 1848 |
| (a) Railways | 1848 | | 1848 |
| (b) Posts and Telecommunications | 0 | | 0 |
| III. Total (I+II) | -2133 | -541 | -2674 |

to decline further from 50.4 per cent of GDP in 1992-93(RE) to 49.5 per cent of GDP in 1993-94. Amongst the various components of internal liabilities, it is the internal debt component which is expected to register a decline of 1.2 percentage points. "Other internal liabilities" were to increase from 23.0 per cent of GDP in 1992-93(RE) to 23.3 per cent in 1993-94(BE). The average rate of interest on internal liabilities is expected to increase to 9.6 per cent from 9.1 per cent in the previous year. The rate of interest on external liabilities is expected to remain almost unchanged at 3.3 per cent(BE), because of offsetting changes in the composition of debt and a decline in international interest rates (Table 2.6). Gross interest payments will consequently rise from 25.4 per cent in 1992-93 to 27.5 per cent of total expenditure.

Supplementary Demands for Grants

28 Two sets of supplementary demands for grants were presented to Parliament, the first in August and the second in December 1993. The first supplementary demand for Rs.4600.14 crore was a technical grant i.e. matched by additional receipts/savings and therefore, involved no cash outflow. Most of this (Rs.4397.93 crore) relates to payments for maintenance of foreign exchange value of International Monetary Fund liabilities. Rs. 200 crore was for import of fertilizers.

29 The second supplementary demand for grants (Rs. 7955.87 crore) was presented in December 1993. Major items of expenditure were additional Central assistance for externally aided projects, advance plan assistance to special category States to cover their opening deficit, additional special plan loan to Punjab Government, food subsidy and Employment assurance scheme. The additional expenditure is matched by savings/recoveries or increased receipts to the extent of Rs. 1578.12 crore. Thus, there would be net cash out go of Rs. 6377.75 crore.

Tax Measures and Reforms

30 The tax system whose primary function is to raise resources in an efficient and equitable manner has, over the years, been over-loaded with provisions which aim at providing incentives and disincentives. In the last three years, an effort has been made to reduce such distortions. A major element of the reform has been a reduced reliance on distortionary trade taxes which impair the competitiveness of industry. Despite a reduction in peak rates over the last three budgets, they still remain (at 85 per cent), among the highest in the world. Initiatives have been taken to simplify and rationalise excise taxes, but major reforms are needed to pave the way for a value added tax (VAT). Overall reforms will also require greater efforts to widen the base of the domestic taxes and to improve compliance.

31 The 1993-94 budget continued the process of reducing the high level of protection to domestic industry and stimulating competition. An effort was made to stimulate industrial revival. The process of simplifying customs and excise taxes also continued, though a number of anomalies emerged in the process which need to be rectified. The traditional role of providing fiscal incentives fell on direct taxes, the most appropriate tax for the purpose. This was, however, sought to be focussed on areas in which externalities in production or consumption might exist, such as backward areas, environment, research and development, infrastructure and education. Even where incentives may be justified on theoretical grounds of a gap between private and social returns, their actual impact will need to be weighed against administrative cost and complexity.

Direct Taxes

32 Fiscal incentives covered both production and investment and social consumption. Production related incentives covered backward areas, infrastructure, research and development and exports. Social areas included higher education, welfare of aged and handicapped, social harmony and sports. New investment in industrially backward States, electricity undertakings and software exports was sought to be encouraged through a five year tax holiday. The tax exemption on profits would apply for five years after start of production. The existing tax holiday for Export Oriented Units/Export Processing Zones was extended to Software and Electronics Hardware Technology Parks. The 100 per cent income tax exemption for export of software was also extended for one more year. Interest income on export credit provided by banking companies was exempted from interest tax. The tax rate on short term capital gains made by foreign institutional investors was reduced to 30 per cent to bring it closer to rates in competitor countries. The depreciation rate on plant and machinery meant for environment protection and control was raised from 40 per cent to 100 per cent. This should increase the environmental consciousness of industry by reducing immediate out-of-pocket costs.

33 As budgets have tightened, it has become necessary to focus limited educational resources on primary and secondary education. It is, therefore, necessary to bring institutions of higher learning closer to industry, and to open alternative sources of funding for such institutions. The income tax deduction on contributions given to approved institutions of national eminence was raised from 50 per cent to 100 per cent. To encourage linkages between business and R&D Institutions a weighted deduction of 125 per cent was introduced. This will apply to contributions (out of income from business or professions) for research programmes in approved national laboratories and institutions.

34 In the field of personal income tax, changes related to inflation adjustment, welfare deductions and wealth/gift tax rationalisation, were introduced. The exemption limit was raised from Rs.28000 to Rs.30000, the standard deduction from Rs.12000 to Rs.15000 and the deduction for working women having total income upto Rs. 75000 from Rs.15000 to Rs.18000. The tax rebate for senior citizens was raised from 10 per cent to 20 per cent, and the income limit for eligibility raised from Rs.50000 to Rs.75000. The deduction allowed to guardians of handicapped dependents was further raised to Rs.15000, and full exemption for income of handicapped minors (upto a maximum of Rs.20000) was provided. In line with the recommendations of the TRC, the exemption for purposes of gift tax was raised to Rs.30000. The value of one residential house was exempted from the levy of wealth tax.

35 All donations made to the National Foundation for Communal Harmony were given the benefit of 100 per cent deduction under Section 80 G of the Income Tax Act. The income of the foundation was also declared to be fully exempt from income tax. The 100 per cent deduction from taxable income allowed under Section 35 AC has been extended to contributions to approved projects for sports promotion. The paper work involved in periodic renewal of tax exemption status for charitable trusts and institutions was reduced by increasing the approval period to five years.

Presumptive Taxation

36 Presumptive taxation is particularly suited for the unorganised sector as tax evasion and enforcement costs are significant. Apart from its administrative ease, the presumptive approach can raise both equity and efficiency, by collecting taxes from those paying nothing earlier. A number of countries including France, Israel, Mexico and Turkey have introduced some form of presumptive tax.

37 A presumptive tax scheme for individuals and Hindu undivided families (HUFs) was introduced in the 1992-93 budget to attract new tax payers into the tax net. Under this scheme, shopkeepers and other retail traders are allowed an option to pay a lump sum tax of Rs.1400, if their annual turnover is Rs.5 lakh or below and related income less than Rs.35000. This scheme also applies to persons engaged in a vocation or in the running of an eating place upto the same income limit. When the person has income from other sources, this must be limited to Rs.5000. Tax payers opting for this scheme file a simplified form with a declaration that income does not exceed the specified limits. In order to widen the base of presumptive tax, the 1993-94 budget extended the scheme to small road transport operators, hiring, operating or leasing one transport vehicle. Consequent to raising the exemption limit through the Finance Act 1993, the income limit for application of this scheme has been raised to Rs. 37000.

38 During 1992-93, 116644 persons opted for the scheme and paid a total tax of Rs. 16.47 crore as against the anticipated revenue collection of about Rs. 140 crore. During the current financial year, 15818 persons have opted for the scheme upto the end of October, 1993 and have paid a total tax of Rs. 2.27 crore. The revenue from this source in 1992-93 has been much below the expectations.

Import Duties

39 Customs duty reforms followed the overall direction prescribed by the Tax Reforms Committee (TRC) Reports. The 1993-94 budget carried out a significant simplification by merging auxiliary duty with basic customs duty. The process of reducing protective customs duty rates continued with a reduction of the maximum rate from 110 per cent to 85 per cent with the exception of dried grapes, almonds, alcoholic beverages, ball and roller bearings and passenger baggage. The duty rate on passenger baggage was reduced from 255 per cent to 150 per cent and subsequently to 100 per cent. Duties on capital goods have continued to receive special attention, as they have a more permanent effect on production cost. The import duty on projects and general machinery was reduced from 55 per cent to 35 per cent. There was a greater reduction in duty on some basic capital intensive project imports. Project import duties for coal mining and petroleum refining were reduced to 25 per cent, and for power projects to 20 per cent.

40 Duty structure in respect of other capital goods, including machine tools and instruments, was rationalised into three duty rates viz. 40, 60 and 80 per cent. A uniform rate of 40 per cent was prescribed for hand-operated tools. The duty on components of general machinery was 10 per cent less than that of complete machines and was brought down to 25 per cent in addition to 10 per cent countervailing duty (CVD). In line with the reduction in duties on capital goods, duty rates on ferrous metals were reduced by 10 to 20 percentage points, duty on steel scrap was reduced to 12.5 per cent and on specified refractory raw materials to 30 per cent. The duty rates in respect of non-ferrous metals were reduced by 10 to 55 percentage points. Some anomalies remain, however, particularly on raw material which had very high rates of protection at the start of reforms.

41 The duty structure for chemicals, which was characterised by a multiplicity of rates, was also simplified. The existing duty rates on basic feed stocks such as ethylene, propylene, butadiene, benzene etc. which ranged between 25 per cent and 80 per cent were replaced by a uniform duty rate of 15 per cent. The duty rates on xylenes, paraxylene, toluene, acrylonitrile were reduced and unified at 40 per cent and those on DMT, PTA and MEG were reduced to 70 per cent. To assist the film industry in meeting the challenge from VCRs and Cable TV, import duties on film rolls

of cine positive, finished film rolls, and negative cine films were reduced by 10 to 30 percentage points.

42 Project imports and specified capital tools for electronics were earlier subject to duty at either 30 per cent or 50 per cent. These were reduced to a uniform low rate of 25 per cent. Import duties on raw materials, specified piec-parts and components for the electronic industry was brought down to 20 per cent, 35 per cent and 50 per cent respectively. Duty on specified raw materials required for the manufacture of optical fibres and certain telecom cables used in the Telecom Sector was reduced from 90 per cent to 20 per cent. In order to encourage the development of non-conventional energy sources, import duty on specified raw materials for solar energy was reduced by 15 to 20 percentage points and that for wind-operated electricity generator from 40 per cent to 25 per cent.

43 To encourage export capability in thrust areas of textiles, leather, marine products, gems and jewellery, etc. import duty on specified capital goods for these sectors was reduced from 40 per cent to 25 per cent. Similarly, import duty on specified items required for augmenting the export potential of food processing, horticulture and floricultural industries was reduced to 25 per cent. Considering the importance of agriculture in our economy, import duty on various items of machinery used in agriculture, forestry, poultry-keeping and specified pesticides was substantially reduced.

44 To promote health care, import duty on specified bulk drugs was reduced to 25 per cent and a uniform duty rate of 50 per cent was fixed for specified drug intermediates. Import duty on homeopathic medicines was reduced from 40 to 25 per cent. The import duty rate on certain specified equipment required for the domestic manufacture of medical equipment was reduced to 15 per cent.

45 The apprehensions that a reduction in import tariffs would lead to higher imports and harm domestic producers have proved to be misplaced. In spite of a fall in the incidence of customs duty, import surge has not occurred during the current year. Total imports have fallen by 1.3 per cent, while non-POL imports have increased by only 2.2 per cent in dollar terms during the first nine months of the current financial year. Apart from the level of tariff, imports are also determined by the state of domestic demand. In fact, lower inflation, realistic level of exchange rate coupled with a rational tariff structure can make large segments of the Indian industry competitive and capable of with-standing import competition.

Collection Rates

46 Collection rates are better indicators of nominal tariff protection than the general (published) tariff rates. The collection rate is defined as the ratio of realised customs

revenue (including auxiliary and countervailing duty) to the value of imports of a commodity. Because of numerous exemptions, the (published) tariff rates do not fully reflect the nominal level of protection. The actual incidence of duty is lower than that notified in the tariff schedule.

47 Table 2.9 shows customs duty collection rates for the period 1990-91 to 1992-93. The average total import duty has fallen by about 10 percentage points as a result of the reforms-from 47 per cent in 1990-91 to 37 per cent in 1992-93. The drop in collection rates encompassed all major product groups except metals. The dispersion of rates as measured by collection rates is still, however, too wide, and seriously distorts incentives and leads to mis-allocation of resources. The difference between the lowest and the highest collection rate, has risen from about 75 percentage points in 1990-91, to about 85 percentage points in 1992-93. Food products and the "Others" category have the lowest collection rates while metals have the highest. The low collection rate for "Others" category is due to exemptions for fertilisers, precious stones, etc., which either attract nil or low import duty.

48 The average incidence of collection rates continues to be very high for intermediate inputs like chemicals and metals. The collection rate for metals has also been significantly higher than for capital goods. The current tariff structure, therefore, provides some disincentive for capital goods, and possibly provides negative protection. Elimination of end-use exemptions and rationalisation of the entire structure of tariffs along lines suggested by the TRC and the Discussion Paper on Economic Reforms is likely to reduce this disincentive.

TABLE 2.9
Collection Rates for Select Import Groups
(in per cent)

| Commodity Groups | 1990-91 | 1991-92 | 1992-93 |
|----------------------|---------|---------|---------|
| 1 | 2 | 3 | 4 |
| 1. Food products | 47 | 27 | 12 |
| 2. POL | 34 | 31 | 31 |
| 3. Chemicals | 92 | 82 | 71 |
| 4. Man-made fibres | 83 | 63 | 45 |
| 5. Paper & newsprint | 24 | 23 | 18 |
| 6. Natural fibres | 20 | 21 | 20 |
| 7. Metals | 95 | 110 | 97 |
| 8. Capital goods | 60 | 64 | 53 |
| 9. Others | 20 | 14 | 13 |
| 10. Non POL | 51 | 49 | 39 |
| 11. Total | 47 | 44 | 37 |

S.No. 1 includes food products and animal and vegetable oils.
S.No.3 includes chemical elements, compounds, pharmaceuticals, dyeing and colouring materials, plastics and rubber.
S.No.6 includes raw wool and silk.
S.No.7 includes iron and steel and non-ferrous metals.
S.No.8 includes non-electrical machinery and project imports, electrical machinery and transport equipment.

Excise Duties

49 The Budget proposals for 1993-94 in the field of excise duties had a number of objectives including the primary one of simplifying the excise structure. Other objectives were to provide relief on some articles of mass consumption, assist the domestic capital goods industry, and stimulate industries suffering from exceptionally depressed demand conditions. As a measure of simplification, special excise duty levied since 1988 was merged with the basic excise duty. The excise duty on capital goods and instruments which ranged between 11.5 per cent to 23 per cent was reduced to a uniform rate of 10 per cent, thus rationalising the CVD-Excise structure. Excise duty on capital goods for power sector was, however, lowered further to 5 per cent.

50 To provide relief to the common man, coffee, tea and instant tea were fully exempted from excise duty. Similarly, footwear made by units under Khadi and Village Industries Commission (KVIC) and units run as part of Integrated Rural Development Programme (IRDP) were exempted from excise duty. The excise duty on vanaspati was reduced by Rs. 400 per tonne bringing the duty rate closer to that on edible oils. Significant reductions in duty were also announced in respect of coolers, electric fans, domestic electrical appliances, dry cell batteries, printing and writing ink, radio sets, plastic moulded luggage, mattresses and bedding articles. Excise duty on every day personal and toilet preparations was reduced from about 121 per cent to 70 per cent. Over the years, the excise duty rates on polyester and nylon filament yarn had registered large increase as compared to other yarns and fibres. In order to bridge the gap, substantial duty reductions were announced on these yarns and fibres.

51 Excise duties were reduced in industries suffering from slack in demand, such as automobiles, television and refrigeration & air-conditioning. Excise duty on motor cars was reduced from 55 per cent to 40 per cent, on non-petrol driven commercial vehicles from 23 to 15 per cent. The excise duty on tractors, trailers, and three wheelers was also reduced. Excise duty on refrigerators was reduced from Rs. 575 to Rs. 5750 to the levels between Rs. 400 to Rs. 3500 per refrigerator. Duty on appliances used for cold storage of agricultural produce was reduced from 69 per cent to 20 per cent and that on air-conditioners from a range of Rs. 13800 to Rs. 85100 per unit to the range Rs. 7000 to Rs. 70000. Excise duty on colour televisions which varied from Rs. 1925 to Rs. 4785 per set was brought down to the Rs. 1250 to Rs. 2200 range.

52 As a measure of environment protection, pulp made from rice and wheat straw for production of writing and printing paper was exempted from excise duty. The excise duty on plywood was reduced from 34.5 per cent to 20 per

cent. Duty on bulk plastic resins was reduced from 46 to 35 per cent. The duty structure for match industry was rationalised.

53 In order to reduce the constraints on modernisation and expansion of small scale industries, the limit for exemption from registration was raised from Rs. 7.5 lakh to Rs. 10 lakh; the exemption from levy of excise was enhanced to Rs. 30 lakh for all units and the excise rate structure was rationalised. Having regard to price escalation over the years, the excise duty structure for production of cosmetics, refrigerators and air-conditioning appliances in the small scale sector was also rationalised.

Value Added Tax (VAT)

54 The most comprehensive and theoretically appealing way of domestic indirect taxation is a VAT. It provides a generalised system of set-offs for taxation of inputs. The present system of union excise duties consists of a Modified Value Added Tax (MODVAT) with excise duties on gross value basis and set off for most, but not all, sectors.

55 The Tax Reforms Committee report has envisaged introduction of VAT in two stages :

First stage: It recommends a complete Central Government VAT at the manufacturing stage. This requires an extension of coverage to most manufactured goods and selected services; a reduction in the level and number of rates to three basic rates of 10, 15 or 20 per cent; an extension of MODVAT credit to all inputs including machinery. Credit for tax on capital goods is to be provided in instalments over a number of years after the date of purchase and extension of VAT to the more important services used by productive enterprises. In addition to the VAT at the manufacturing stage, there would be special excises on a few commodities, such as petroleum products, tobacco products and certain luxury goods.

Second stage: It envisages extension of VAT (reformed Central Excise) to the wholesale stage. States would collect and retain the revenue from value added at the wholesale stage. TRC report describes "Wholesale" stage to mean traders who buy from manufacturers and sell to other manufacturers or to traders. Only wholesalers with a total turnover above a threshold level (Rs. 50 lakh or Rs. 1 crore) are to be covered.

56 The TRC report's proposed "ideal" solution from the economic point of view is a single VAT at the Central level, reaching down to the retail stage, to replace most indirect taxes other than protective duties and sumptuary excise duties. The proceeds of the VAT is proposed to be shared among the three levels of Government. This is not, however, the only possible solution. Other possibilities for replacement of Central excise and State sales taxes are a

BOX 2.2

Value Added Tax (VAT)

Indirect taxes are ultimately paid by the consumer, but some like retail sales tax and value added tax are efficient and transparent. Others like turnover tax, wholesale tax and excise taxes (without set off) tax inputs and distort the entire system of production. The consumer, therefore, ends up paying not only the tax but also for the inefficiency induced by such taxes. In a poor country with a large unorganised / small scale sector, the VAT has an additional advantage over the retail sales tax. As it is collected at every stage of production, taxes missed at one stage can in principle be recaptured at a later stage. Virtually all developed countries and a host of developing countries have therefore switched over from turnover, excise and wholesale taxes to the value added tax. A full-fledged VAT is, in essence, an advalorem tax on domestic final consumption levied and collected at all stages between production and the point of final sale. At each stage the tax is confined to value addition which is market value of sales minus purchases. The "invoice method" of value added taxation is usually adopted because it has the property of capturing taxes evaded /missed earlier in the production chain. It simultaneously achieves these two objectives by taxing sales at every stage of production but allowing full deduction of taxes paid on purchases. The producer therefore, pays the Government only the net amount or the tax on value added, as verified from the purchase and sale invoices. If however, the due tax has not been charged on any of the purchased inputs there would be no invoice for it and a deduction would be unavailable. The missed tax could, therefore, be recaptured.

In a federal set up, there are three possibilities for a comprehensive national VAT. VAT could be a Central levy. In that case, the rates would be levied and controlled by the Centre. The collection would be shared between the Centre and the States. VAT could be a purely State levy, with the Centre completely withdrawing from the field of domestic indirect taxes. A third possibility is a system of dual Centre-State VAT, with well defined spheres of responsibility. One variant of dual VAT is the extension of central VAT at manufacturing stage to the wholesale stage with states collecting and retaining revenue at the wholesale level. Under the system of "State VATs" or "Dual VAT" a comprehensive system of inter-state accounting of set-offs is necessary.

"State VAT" with responsibility for collecting vesting with States, or a "Dual VAT" with parallel- concurrent Central and State VATs.

57 It must be recognised that the introduction of a comprehensive VAT is no easy task in a federation. The National Institute of Public Finance and Policy (NIPFP) is preparing a paper setting out the issues and options for VAT in the Indian context. This will help in formulating a VAT system that is acceptable to the Centre and the States.

Tax Reform Agenda

58 Comprehensive tax reform has to be an essential element of any programme of stabilisation and structural reforms. Our economy has to move to a tax system, which is simple, has a wide base with moderate rates of tax, is well administered and, most important, promotes economic efficiency, growth and equity. Over time, we have to take measures to extend the coverage of MODVAT to new areas. Average tariffs have to be gradually reduced to around 25 per cent (excluding duty exempt imports), with maximum rates at about 50 per cent. End-use specific exemptions, should be phased out, with the main exception of inputs used in export production. Countervailing duties should be set equal to excise duties and be eligible for MODVAT on the same basis. Customs duties and import policies for consumer goods must be rationalised. On the direct tax

front, the process of gradual reduction of income and corporate tax rates has to be carried forward along with simplification of laws, rules and procedures to make it easier for tax payers to file returns and comply with the tax law. These changes will have to be carefully sequenced with due priority to raising revenues necessary to implement the avowed goal of continued reduction in the overall fiscal deficit.

States and Union Territories: 1993-94

59 During the current year, the fiscal deficit of the States and Union Territories is estimated at 2.9 per cent of GDP, marginally up from 2.8 per cent of GDP in 1992-93(RE). The budget deficit of the States and Union Territories for 1993-94 was estimated at Rs. 1957 crore (BE). This increased to Rs. 2498 crore, after adjustment for the decrease of the States' share by Rs. 541 crore in the additional resource mobilisation by the Centre.

60 Current revenue of the States, including the losses incurred by their enterprises, is estimated to increase by 10.0 per cent in 1993-94 (BE). This includes a 2.9 per cent increase in Grants and a 12 per cent increase in loans from the Centre. Of the Rs. 95211 crore of current revenue, Central loans will be Rs. 10258 crore. The financial performance of the State PSUs has deteriorated further, with an estimated 54.1 per cent increase (to Rs. 2011 crore) in losses.

As aggregate disbursements are to rise by 9.6 per cent to Rs. 121214 crore, the resource gap is estimated at Rs. 26003 crore. Of this gap, 39.4 per cent is to be financed by loans from the Centre, 16.1 per cent from market loans, 12.1 per cent from provident funds and the remaining from other capital receipts.

61 In 1993-94, the non-developmental expenditure of States is expected to increase by 15.2 per cent, while developmental expenditures is to increase by 6.8 per cent. The ratio of developmental expenditures to total expenditure will consequently decline to 64.8 per cent in 1993-94 from 74.5 per cent in 1984-85.

Centre, States and Union Territories: 1993-94

62 The budget deficit of the Centre, States and Union Territories in 1993-94(BE) is placed at Rs. 6271 crore, 23.1 per cent lower than in 1992-93(RE). Aggregate receipts including borrowings are budgeted to increase by 11.4 per cent to Rs. 252206 crore while aggregate expenditure is estimated to increase by 10.2 per cent to Rs. 258477 crore. Developmental expenditure is projected to rise by 14.6 per cent and non-developmental expenditure by 4.2 per cent (Table 2.7). The current revenue is estimated to increase by 13.2 per cent to Rs. 178958 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. 79519 crore, or 10.0 per cent of GDP.

Annual Plan

63 The Annual Plan for 1993-94 provides for a total outlay of Rs. 100120 crore for the Centre, States and Union Territories. This is 29.8 per cent higher than in 1992-93(RE)(Table 2.10). Of this, the allocation for the Central Plan at Rs. 63936 crore is 28.6 per cent above 1992-93(RE). The allocation for States and Union Territories' is 36.1 per

| Heads of Development | 1992-93 | 1993-94 | 1992-93 | 1993-94 |
|--|-------------|---------|------------|---------|
| | (RE) | (BE) | (RE) | (BE) |
| 1 | 2 | 3 | 4 | 5 |
| | (Rs. crore) | | (Per cent) | |
| 1. Agriculture and Allied Activities | 4373 | 5409 | 5.7 | 5.4 |
| 2. Rural Development | 5010 | 6187 | 6.5 | 6.2 |
| 3. Special Area Programme | 1154 | 1406 | 1.5 | 1.4 |
| 4. Irrigation and Flood Control | 4419 | 5854 | 5.7 | 5.8 |
| 5. Energy | 23412 | 30920 | 30.4 | 30.9 |
| 6. Industry and Minerals | 9271 | 11363 | 12.0 | 11.3 |
| 7. Transport | 10515 | 13947 | 13.6 | 13.9 |
| 8. Communications | 4968 | 6248 | 6.4 | 6.2 |
| 9. Science, Technology and Environment | 956 | 1317 | 1.2 | 1.3 |
| 10. General Economic Services | 827 | 1501 | 1.1 | 1.5 |
| 11. Social Services | 11938 | 15430 | 15.5 | 15.4 |
| 12. General Services | 284 | 538 | 0.4 | 0.5 |
| Total | 77127 | 100120 | 100.0 | 100.0 |

cent of the total outlay (Rs. 36184 crore). With a view to minimise the burden of adjustment on the poor, greater emphasis has been placed on social services. Central Plan outlay (BE) for the Department of Rural Development has been increased by 39.2 per cent over 1992-93(RE). The outlay for education has been increased by 29.5 per cent and that for family welfare by 22 per cent over the previous year.

64 The Plan outlay of the Central Public Sector Enterprises (CPSEs) for 1993-94 Annual Plan amounts to Rs. 47235 crore or 73.9 per cent of the Central Plan outlay of Rs. 63936 crore (excluding UTs.). The proportion of budget support in the Plan outlay of the CPSEs during 1993-94 works out to 13.8 per cent as against 36.4 per cent in respect of the overall Central Plan. The contribution of internal resources to the financing of the Plan of the CPSEs during 1993-94 is estimated to be 40.4 per cent, while the extra-budgetary resources, comprising bonds/debentures, external commercial borrowing/suppliers' credits and others (inter-corporate transfers, deposits raised by companies, etc.) account for 45.8 per cent of their Plan outlay. Though in 1992-93, the CPSEs could mobilise only around 20 per cent of the estimated amount through bonds due to adverse capital market conditions, they are expected to perform better during 1993-94.

65 In the pattern of financing of the Annual Plan 1993-94, it is envisaged that domestic resources would finance 81.9 per cent of the outlay and that net inflow from abroad would contribute another 12.1 per cent. The remaining 6.0 per cent is estimated to be met by the budget deficit. The contribution of the balance from current revenue is estimated to be Rs. 3823 crore.

Performance of Departmental Enterprises

Railways

66 In the Budget for 1992-93, the originating revenue-earning freight traffic was estimated at 354 million tonnes. Due to a drop in core sector traffic, the target was revised to 350 million tonnes. The revised target, representing a 12 million tonne increase over the previous year's actuals of 338 million tonnes, was achieved. Working expenses were kept under tight control. An 'excess' of Rs. 441 crore was achieved as against the revised estimates of Rs. 757 crore. This was due to a short fall in earnings and non-payment of Railways' dues by NTPC, Badarpur.

67 The Railway Budget for 1993-94 envisages an 'excess' of Rs. 2195 crore after providing for payment of dividend in full. The details of financial performance of the Railways are in Appendix Table 2.11.

68 The fare and freight rate increases in the Railway Budget for 1993-94 are shown in Box 2.3. They are expected

BOX 2.3

Highlights of Railway Budget 1993-94

- Freight rates increased by 10 per cent for distances upto 500 Kms. (inclusive) and by 12 per cent above 500 Kms. Exemptions given in the past to Grains & Pulses, Diesel, Sugar and Oil Cake withdrawn.
- Existing 'Smalls' classification of commodities abolished and replaced by new scale of rates LWL-I, LWL-2 and LWL-3 equivalent to Parcel Scale rates of GPA, CP-I and CP-2, respectively.
- No general increase in Parcel rates. However, the parcel rates rationalised.
- No increase in Second Class Ordinary fares except rounding off of fares in 1-15 km. slab.
- Second Mail/Express and Upper Class fares increased by 10 per cent.
- Fares of Rajdhani/Shatabdi/New Delhi-Bombay and August Kranti Express trains suitably increased.
- Sleeper class introduced with fare 25 per cent higher than the Second Class. No. separate sleeper surcharge leviable.
- Second Class Monthly Season Ticket(MST) fares increased based on the distance. Minimum increase of Rs. 5 for 0-50 kms and maximum increase of Rs. 40 for distance above 140 kms.

to fetch additional revenue of Rs. 1811 crore after taking into account the concessions of about Rs. 37 crore announced after the presentation of the budget. The Railways' Plan outlay for 1993-94, the second year of the Eight Plan, has been budgeted at Rs.6500 crore. Railways have been provided budgetary support of Rs.960 crore. Market borrowings are estimated at Rs. 900 crore. The rest of the plan outlay of Rs.4640 crore is to come from internal resources. The Konkan Railway Corporation is to raise Rs. 400 crore through sale of tax-free bonds. In the plan, priority has been accorded to gauge conversion, rolling stock, and replacements and renewals.

Posts and Telecommunications

69 The gross receipts of the Department of Posts increased from Rs. 948 crore in 1991-92, to Rs. 1074 crore in 1992-93 as a result of growth of traffic, revision of rates on foreign traffic in November, 1991, and better financial management. With working expenses at Rs. 1166 crore, there was a deficit of Rs. 92 crore. During 1993-94, as per the Budget Estimates, the gross receipts are expected at Rs. 1000 crore and working expenses at Rs. 1138 crore thereby increasing the deficit to Rs. 138 crore. Details are given in the Appendix Table 2.12. The increase in estimated losses suggests a need for starting the reform process in the post sector, by examining innovative solutions from other parts of the world.

70 The details of financial performance of the Department of Telecommunications are summarised in Appendix Table 2.13. The network owned and operated by the Department of Telecommunications has been generating increased surpluses. Net Receipts increased to Rs.1828 crore in 1992-93 (RE) from 1730 crore in 1991-92. These are expected to

rise further to Rs.2813 crore in 1993-94. The dividend to be paid to the general revenues is estimated to rise to Rs.261 crore from Rs.256 crore in 1992-93 (RE). The operating ratio which is a percentage of network expenses to the revenue earned has increased to 59.86 in 1992-93 (RE) from 55.35 in 1991-92. These surpluses are, however, not enough if the Telecommunication system is to provide a high quality service to existing and waiting users. The Telecom sector in many countries has raised enormous resources from domestic and international capital markets, without depending on subsidised credit or capital from the Government. As a result both consumers and Telecom workers have benefited simultaneously.

Outlook

71 The fiscal adjustment of 1991-92 and 1992-93 successfully accomplished the objectives which were specified for it. After initial success, there is a tendency for fiscal discipline to weaken. This has happened in many countries which faced a fiscal cum balance of payment crisis. The successful adjustment during the first two years will probably carry us through 1993-94, even though the forthcoming revised estimates are likely to exceed significantly last year's budget estimates. Financial year 1994-95 would be a year when further reforms relating to taxation, subsidies, price control and expenditure can be addressed to. These basic policy reforms may not show immediate dramatic results in deficit reduction, but can help ensure that control over the fiscal deficit is re-established. As noted in last year's Economic Survey, this is essential if the economy is to raise its saving rate and enter the path of sustained high growth.