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Public Finance

Growth in India's real Gross Domestic Product (GDP) for 2000-01 which was estimated at 6 per cent by the Central Statistical Organisation at the time of formulation of the Budget 2001-02 turned out to be much lower at 4.0 per cent as per the quick estimates. During the course of 2000-01, the growth in manufacturing sector output as measured in terms of the Index of Industrial Production fell from 6.5 per cent in the first quarter (April-June) to 3.6 per cent in the fourth quarter (January-March). On the other hand, imports in dollar terms after posting a robust growth in the first quarter showed decline in the last quarter of 2000-01. These developments in the real sector severely constrained revenue performance. This slower growth led to revenue shortfalls. As a consequence actual tax receipts (net to Centre) for 2000-01 at Rs.1,35,193 crore were lower by Rs.9,210 crore as compared with the revised estimate of Rs.1,44,403 crore. Also, actual non-tax receipts at Rs.55,795 crore for 2000-01 were lower by Rs.5,968 crore over the revised estimates. However, the impact of lower revenue realisation was to a considerable extent cushioned by savings on the expenditure front. Consequently, actual gross fiscal deficit for 2000-01 at Rs.1,14,369 crore exceeded the revised estimate by only Rs.2,397 crore. Thus gross fiscal deficit as a proportion of GDP at current market prices for 2000-01 placed at 5.1 per cent in the revised estimates is now 5.5 per cent on the basis of provisional[1] unaudited figures. Similarly, revenue deficit as a proportion of GDP estimated at 3.6 per cent in the revised estimates is now 3.9 per cent of GDP for 2000-01. For 2001-02, the gross fiscal deficit and the revenue deficit of the Centre was budgeted at 4.7 per cent and 3.2 per cent of GDP respectively.

2.2 Inadequate fiscal adjustment continues to be the most intractable problem confronting the Indian economy. The fiscal imbalance of the Central Government has been further exacerbated by growing interest payments, increasing levels of subsidies to unaffordable levels (which do not necessarily reach the deserving beneficiaries) and a surge in pension payments in recent years. These factors have contributed to rising revenue deficit and erosion in public sector savings thereby severely constraining Government's ability to undertake investment in infrastructure and social sectors.

2.3 In order to ease constraints on growth and achieve full growth potential, the Budget adopted a six-fold strategy encompassing speeding up of agricultural sector reforms and better management of the food economy; intensification of infrastructure investment, and continued reforms in the financial sector and capital markets, and deepening of structural reforms through removal of remaining controls constraining economic activity; human development through better educational opportunities and programmes of social security; fiscal consolidation through stringent control of non-productive Government expenditure, rationalisation of subsidies and improvement in the quality of Government expenditure; acceleration of the privatisation process and restructuring of public enterprises; and revenue enhancement through widening of the tax base

[1]Provisional actual (unaudited) recent estimates of fiscal aggregates of Union Government Accounts have been used in place of revised estimates for 2000-01 wherever possible, in this chapter.

and administration of a fair and equitable tax regime.

2.4 Debt service burden caused by rising Government debt has been compounded by the prevalence of high real interest rates. High real interest rates not only entail an unsustainable burden on both Central and State Governments but also result in high cost of capital which constricts economic growth. Although most interest rates in the economy are market determined, nevertheless, their movement downward is constrained by the rigidities inherent in the administered interest rates governing the contractual savings. Administered interest rates were therefore reduced by 1.5 percentage points as of March 1, 2001. The benefit of reduction in interest rates on small savings deposits has been fully passed on to the States. Concomitantly, the rate of interest on amounts transferred to States/UTs "against net small savings collections" was reduced from 12.5 per cent to 11 per cent from April 1, 2001. Besides, interest rate on loan component of Central assistance to State Plans was reduced by 50 basis points.

2.5 Rapid development of the economy depends on adequate investment in infrastructure. To this end, outlays for key infrastructure sectors were enhanced. The plan outlay for central sector power utilities was raised from Rs.9,194 crore in 2000-01 (RE) to Rs.10,030 crore for 2001-02(BE). Besides, plan allocation to the Accelerated Power Development Programme was stepped up to Rs.1,500 crore for 2001-02 from Rs.1,000 crore during 2000-01. For the petroleum and natural gas sector, central plan outlay was increased by 34 per cent from Rs.12,790 crore in 2000-01 (RE) to Rs.17,147 crore in 2001-02(BE). This reflects a strong commitment to accelerate public sector investment in the energy sector. In order to accelerate the road development programme, the central plan outlay for this sector was enhanced by about 66 per cent from Rs.5,248 crore in 2000-01(RE) to Rs.8,727 crore in 2001-02 (BE).

2.6 The principles that guided the framing of tax proposals in the Budget 2001-02 were the need for growth in revenue, simplification and rationalization of the tax regime, and for effective tax compliance. On the direct tax front, the emphasis was to retain stability in tax rates, widen the tax base, rationalize and simplify the tax structure. All surcharges were abolished except surcharge at the rate of 2 per cent for the National Calamity Fund to be levied on all non-corporate and corporate assessees barring foreign companies. Tax incentives in the form of tax holidays for development of infrastructure were rationalized and enlarged. For the core sectors of infrastructure namely, roads, highways, rail system, water treatment and supply, irrigation, sanitation and solid waste management system, a ten year tax holiday was provided which could be availed of during the initial twenty years. Airports, ports, inland ports and waterways, industrial parks and generation and distribution of power were also provided a tax holiday of ten years which could be availed during the initial fifteen years. Concessions available for infrastructure by way of a ten year tax holiday were extended to the developers of Special Economic Zones. Tax holiday for five years and 30 per cent deduction of profits for the next five years were provided to enterprises engaged in the integrated business of handling, transportation and storage of foodgrains. Besides any income by way of interest, dividends and long term capital gains from investments in infrastructure was made fully tax exempt and exemption was extended to cover guarantee commission and credit enhancement fees earned from this sector. To provide stimulus to the growth of the capital market, the tax payable on the distribution of dividends of domestic companies and income in respect of units of Mutual Funds and UTI was reduced from 20 per cent to 10 per cent. Further measures to widen the tax base and enlarge the scope of deduction at source were taken. Income tax at source was made deductible at the rate of 10 per cent on income by way of commission or brokerage exceeding Rs.2,500 barring transaction relating to shares and securities. Income tax at the rate of 30 per cent is to be deducted at source from the winning from games. The one-by-six scheme for identifying potential tax payers was extended to all urban areas in the country as defined by the 1991 census.

2.7 In the area of indirect taxes, the process of rate reduction, rationalization and simplification of procedures was further carried forward. The peak level of customs duty was brought down to 35 per cent with the abolition of 10 per cent surcharge. The Budget also signalled government's resolve to move progressively within three years to reduce the number of rates to the minimum with a peak rate of 20 per cent. To encourage growth of information technology and telecom sector, duty on these items were reduced to 15 per cent. Basic customs duty was raised to 70 per cent on tea, coffee, copra and coconut etc. Similarly the customs duty was raised to 75 per cent on crude edible oil and to 85 per cent on refined oils. With the abolition of quantitative restrictions, the customs duty on import of used cars, multi-utility vehicles and two wheelers was raised to 105 per cent. To curtail smuggling of gold, customs duty was scaled down from Rs.400 per ten grammes to Rs.250 per ten grammes. The excise duty structure was rationalised to a single rate of 16 per cent CENVAT (Central Value Added Tax) in 2000-01. But (additional) special excise duty rates of 8 per cent, 16 per cent and 24 per cent had remained on specified items. For further rationalisation these rates were reduced to a single rate of 16 per cent. However, an additional levy called National Calamity Contingent Duty was imposed on cigarettes, pan masala, biris etc. to garner funds for National Calamity Contingency Fund. Food preparations based on fruits and vegetables were completely exempted from excise duty in order to promote the food processing industry and diversification of agriculture. Compressed natural gas which was exempt from excise was brought under the purview of excise duty at the rate of 8 per cent. Excise duty on petrol was raised from 16 per cent to 32 percent, and on high speed diesel oil from 12 per cent to 16 per cent in the Budget. Further, excise duty on petrol and diesel were increased to 90 per cent and 20 per cent respectively w.e.f. the midnight of the 11th / 12th January, 2002. The new rates of excise duty will remain in force only upto March 31,2002. The coverage of service tax at the rate of 5 per cent on the value of taxable service was expanded to include fifteen new services.