Budgetary developments in 2002-03

2.7 The Union Budget for 2002-03 was formulated in the background of falling industrial growth, falling revenue receipts, tense security environment and a slowdown in world economic growth. Keeping these constraints in view, the Budget aimed at consolidating the gains of economic reforms and hastening this process further to the State level through a strategy of reforms linked to public funding. The Budget adopted a strategy of continuing the emphasis on agriculture and food economy reforms, enhancing public and private investment in infrastructure, strengthening the financial sector and capital markets, deepening structural reforms and rejuvenating industrial growth, providing social security to the poor and consolidating tax reforms and continuing fiscal adjustments at both the Central and State levels.

2.8 Fiscal deficit of the Central Government which was budgeted at 4.7 percent of GDP (5.1 percent as per revised estimates of GDP) shot up to 5.9 percent in 2001-02 as per the provisional un-audited figures. The fiscal deficit budgeted for the year 2002-03 is Rs.1,35,524 crore constituting 5.3 percent of GDP (5.5 percent as per advanced estimates released in February, 2003). The budgeted reduction in fiscal deficit as a proportion of GDP is estimated to come from higher growth in revenue receipts and higher receipts from disinvestment in Public Sector Undertakings (PSUs). Proposals contained in the Union Budget 2002-03 are discussed below under different heads.

Revenue receipts

2.9 Revenue receipts (net to the Centre) in 2002-03 are budgeted to increase by 20.8 percent to Rs.2,45,105 crore compared with

Table 2.3 : Sources of tax revenue

	1990-91	1996-97	1997-98	1998-99	1999-2000	2000-01	2001-02 PU	2002-03@ Budget Estimates
					(Rs. crore)			
Direct (a)	**11024**	**38891**	**48274**	**46600**	**57958**	**68305**	**69077**	**91585**
PIT	5371	18231	17097	20240	25654	31764	31995	42524
CIT	5335	18567	20016	24529	30692	35696	36499	48616
Indirect(b)	**45158**	**88918**	**89741**	**95871**	**112450**	**118681**	**116221**	**142652**
Customs	20644	42851	40193	40668	48420	47542	40401	45193
Excise	24514	45008	47962	53246	61902	68526	72519	91433
Gross tax revenue #	**57576**	**128762**	**139221**	**143797**	**171752**	**188604**	**187000**	**235800**
				Tax revenue as a percentage of gross tax revenue				
Direct (a)	**19.1**	**30.2**	**34.7**	**32.4**	**33.7**	**36.2**	**36.9**	**38.8**
PIT	9.3	14.2	12.3	14.1	14.9	16.8	17.1	18.0
CIT	9.3	14.4	14.4	17.1	17.9	18.9	19.5	20.6
Indirect(b)	**78.4**	**69.1**	**64.5**	**66.7**	**65.5**	**62.9**	**62.2**	**60.5**
Customs	35.9	33.3	28.9	28.3	28.2	25.2	21.6	19.2
Excise	42.6	35.0	34.5	37.0	36.0	36.3	38.8	38.8
				Tax revenue as a percentage of Gross Domestic Product*				
Direct(a)	**1.9**	**2.8**	**3.2**	**2.7**	**3.0**	**3.2**	**3.0**	**3.7**
PIT	0.9	1.3	1.1	1.2	1.3	1.5	1.4	1.7
CIT	0.9	1.4	1.3	1.4	1.6	1.7	1.6	2.0
Indirect(b)	**7.9**	**6.5**	**5.9**	**5.5**	**5.8**	**5.6**	**5.1**	**5.8**
Customs	3.6	3.1	2.6	2.3	2.5	2.3	1.8	1.8
Excise	4.3	3.3	3.2	3.1	3.2	3.3	3.2	3.7
Total#	**10.1**	**9.4**	**9.1**	**8.3**	**8.9**	**9.0**	**8.1**	**9.6**

PIT : Personal income tax CIT : Corporation tax

Note : (a) also includes taxes pertaining to expenditure, interest, wealth, gift, estate duty and VDIS for 1997-98 & 1998-99;
(b) also includes service tax;

\# : includes taxes referred in (a) & (b) and taxes of Union Territories and "other" taxes. Tax revenue figures for 2002-03 are budget estimates, and for 2000-01 and earlier years these are actuals.

PU : Based on Provisional unaudited figures as per Controller General of Accounts.

* : Refers to Gross Domestic Product at current market prices.

@ : The ratios to GDP for 2002-03 (BE) are based on CSO's Advance Estimates released in February, 2003.

Source : Budget dcouments.

2001-02 (Prov.) (Table 2.2). Much of this increase is sought to be achieved by a higher growth of 29.8 percent in tax revenue as compared with a negative growth in 2001-02. Non-tax revenue is budgeted to grow at a moderate rate of 3.7 percent in 2002-03. The share of direct taxes in gross tax revenue improved strongly from 19.1 percent in 1990-91 to 36.9 percent in 2001-02. The share is expected to improve further to 38.8 percent in 2002-03 (BE). The share of indirect taxes in gross tax revenue has declined from 78.4 percent in 1990-91 to 62.2 percent in 2001-02 and is estimated at 60.5 percent in 2002-03. Within indirect taxes, the decline in the share of customs duties was more pronounced. The decline in the share of customs duties in 2001-02 to 21.6 percent from 25.2 percent in the previous year was partly on account of a lower growth in imports. The share of customs duties in 2002-03 is estimated at a lower level of 19.2 percent (Table 2.3). The decline in the share of customs duties is the result of a conscious decision to make the Indian industry competitive, and to integrate it with the global economy.

2.10 The decline in the tax-GDP ratio of the Centre from 10.1 percent in 1990-91 to 8.1 percent in 2001-02 is a matter of concern (Table 2.3). The decline in the ratio is on account of service sector mostly remaining outside the tax net, its growing importance in the composition of GDP and the lowering of customs tariff. The situation was sought to be corrected with the introduction of service tax on three services in 1994-95 and its extension to 51 services over the years. The yield from service tax has not been commensurate with its increasing share in the GDP. With the proposed extension of service tax, the yield from the tax is likely to improve. The tax-GDP ratio budgeted for 2002-03 is 9.6 percent.

Tax-measures

2.11 The tax measures proposed in 2002-03 Budget were formulated against the backdrop of an economic slowdown. The proposals are intended to revive demand, promote investment, accelerate economic growth and enhance productivity. They also aim at widening the tax base, rationalisation and simplification of tax structure and encouraging voluntary compliance. On the direct tax front, an additional depreciation at the rate of 15 percent on new plant and machinery acquired on or after April 1, 2002 for setting up a new industrial unit or for expanding the industrial capacity of existing units by at least 25 percent was allowed to promote fresh investment. The disparity in the rate of corporation tax applicable to foreign and domestic companies was corrected by reducing the rate applicable to foreign companies from 48 percent to 40 percent. The distribution tax of 10 percent on companies and mutual funds on the dividends or income distributed by them was proposed to be abolished and dividend was proposed to be taxed in the hands of recipients at the rate applicable to them and subject to tax deduction at source at the rate of 10 percent. A surcharge of 5 percent across the board on all categories of tax payers was levied except on individuals and Hindu undivided families having a total income up to Rs.60,000. The two percent surcharge levied for Gujarat earthquake relief was abolished. The details of various direct tax measures are given in Box 2.1.

2.12 Certain tax concessions were announced on July 31, 2002. These included an increase in the deduction for income derived from specified instruments under Section 80-L from Rs.9,000 to Rs.12,000 along with an additional deduction of Rs.3,000 on interest on Government securities. There would be no tax deduction at source on dividend received from a company or a mutual fund up to Rs.2,500.

2.13 On the indirect tax front, important tax measures include the abolition of 16 percent special excise duty on a number of items and restricting it to only 8 items, appropriate changes in the duty structure on petroleum products following the abolition of administered price mechanism, exemption of excise duty on automatic shuttleless looms, reduction of excise duty on tea and

Box 2.1 : Direct taxes

- No change in existing rates of personal income tax at 10 percent, 20 percent and 30 percent and corporate tax at 35 percent except for foreign companies, where the tax rate was reduced to 40 percent from 48 percent. Surcharge of 5 percent levied on all assessees including foreign companies except individuals and HUF having a total income up to Rs.60,000.
- Full exemption from taxation of the income of Credit Guarantee Fund Trust for small industries for five years.
- Concessional tax rate of 10 percent on dividends and long-term capital gains arising from GDRs extended to ADRs/GDRs issued or reissued by Indian companies against their existing shares and purchased in foreign exchange, as per Government approved schemes.
- Compliance costs of charitable and religious trusts reduced, by removing the condition of publishing accounts in local newspapers for availing the benefit under Sections 11 and 12.
- For charitable and religious trusts, the benefit of indefinite accumulation of 25 percent of their income reduced to 15 percent.
- Several tax exemptions removed as recommended by Shome Committee constituted by the Planning Commission. These include exemption on casual and non-recurring receipts {10(3)}, exchange risk premium {10(14A)}, interest on notified capital investment bonds and bonds purchased in foreign currency by NRIs {10(15)}, income of local authorities other than panchayats and municipalities {10(20)}, income of housing boards {10(20A)}, income of notified sports or games associations {10(23)}, income of marketing authorities {10(29)} and income of notified exchange risk administration fund {10(23A)}.
- Levy of income-tax on entities existing for a short duration for the purpose of organising particular events or shows.
- For ensuring equity in taxation of dividend income, dividend distribution tax at 10 percent on domestic companies under section 115-O removed. Shareholders are now required to pay tax on dividends at the maximum marginal rate at which they are otherwise taxable. TDS under section 194 to be deducted at the rate of 10 percent with a threshold limit of Rs.1,000/-. Inter-corporate dividends to get benefit of deduction under section 80-M.
- Income from units of UTI/mutual funds brought under taxation. However, income received from open-ended equity-oriented funds of UTI/mutual funds will be taxed at a concessional rate of 10 percent for one year for assessment year 2003-04 under new section 115-BBB.
- Scheme for taxation of perquisites simplified with the option being given to pay tax on the whole or part-value of perquisites (not provided for by way of monetary payments), on behalf of employees, without making any deduction from the income of the employees.
- Perquisites (not provided for by way of monetary payment) not to be taxed in the case of low-paid salaried employees earning salary up to Rs.1 lakh for assessment year 2002-03. A graded system of tax rebates introduced.
- The general limit of eligible investment increased from Rs.60,000 to Rs.70,000 and the overall limit for investment in all securities including infrastructural securities increased from Rs.80,000 to Rs.1,00,000 for tax rebate under section 88.
- Tax holiday under Section 80IB(4) & (5) for new industrial undertakings set-up in industrially backward States and industrially backward districts extended to units set up before March 31, 2004.
- A deduction under section 80IB amounting to 50 percent of profits for 5 years, extended to new multiplex theatres and convention centres, constructed during the period April 1, 2002 to March 31, 2005 as per the prescribed norms.
- Deduction u/s 10-A, to units in Free Trade Zones, Special Economic Zones, etc. and u/s 10-B to 100 percent export oriented units restricted to 90 percent of profits for the assessment year 2003-04.
- Tax holiday for units commencing operations from Special Economic Zones (SEZs) on or after April 1, 2002, now available for a total period of seven assessment years, comprising of a deduction of 100 percent of export profits for five years followed by deduction of 50 percent for subsequent two years.
- Deduction under section 80HHD on the foreign exchange earnings of hotels, tour operators or travel agents, enhanced from 40 percent to 50 percent for assessment year 2003-04 and from 20 percent to 30 percent for assessment year 2004-05.

- Expenditure tax levied on expenditure incurred in, or payments made to a hotel only for room charges, and only where such charges for any unit of residential accommodation are Rs.3,000 or more per day.
- Any amount withdrawn from a reserve or a provision created on or after April 1, 1997, and which is credited to the profit and loss account shall not be reduced from the book profit, unless the book profits in the year of creation of such reserves or provisions were increased by the amount transferred to such reserves or provisions at that time.
- Additional depreciation at the rate of 15 percent for fresh investment in plant and machinery in case of new industrial undertakings and substantial capacity expansion for the existing ones.
- For modernisation and fleet expansion of the shipping business, the maximum limit of reserve under section 33AC of the Income-tax Act raised to twice the aggregate of the amounts of the paid-up share capital, general reserves and amount credited to the share premium account. Further, the amounts transferred to a reserve specified under section 33AC of the Income-tax Act, 1961, shall not be added to the book profit, for the purpose of determining tax liability under MAT.
- Deduction in respect of provisions for bad and doubtful debts enhanced to 7.5 percent of the total income of scheduled and non-scheduled banks. Further, the optional deduction in respect of provision made as per RBI norms enhanced to 10 percent for assessment years 2003-04 and 2004-05. This optional deduction also extended to financial institutions for assessment years 2003-04 and 2004-05.
- Hindu undivided families and individuals required to deduct tax in cases where the total turnover or gross receipts exceed Rs.40 lakh or Rs.10 lakh, as the case may be.
- The rate of deduction of tax at source from income by way of commission or brokerage reduced from 10 percent to 5 percent.
- Deduction of interest payable on capital borrowed for housing up to Rs.1.5 lakh allowed in cases even where acquisition or construction is completed on/after April 1, 2003 so long as acquisition or construction is completed within three years from the end of the financial year in which capital is borrowed.
- Exemption from long term capital gains u/s 54EC extended to investment in bonds redeemable after three years issued on or after April 1, 2002 by National Housing Bank and by the Small Industries Development Bank of India (SIDBI).
- The benefit of carry forward and set-off of accumulated losses and unabsorbed depreciation in amalgamation or de-merger is extended under section 72A to an industrial undertaking engaged in the business of providing telecommunication services whether basic or cellular, including radio paging, domestic satellite service, network of trunking, broadband network and internet services.
- The new section 50C provides that where the consideration declared to be received or accruing as a result of the transfer of land or building or both, is less than the value adopted or assessed by any authority of a State Government for the purpose of payment of stamp duty in respect of such transfer, the value so adopted or assessed shall be deemed to be the full value of the consideration for the purpose of calculating income from capital gains.

extension of excise duty assessment based on maximum retail price scheme to 9 more categories. The levy of service tax was extended to 10 more services. The peak rate of customs duty was reduced from 35 to 30 percent. Other changes in customs duties included an increase in the duty on tea, coffee, spices, natural rubber and pulses, and reduction in duty on agricultural machinery and equipment. Details of various indirect tax measures are given in Box 2.2.

Service Tax

2.14 Taxation of services in India was introduced in 1994-95 when it was levied on stock-brokers, general insurance and telephone services. Although there is no specific provision in the Constitution of India on the levy of tax on services, the Government of India by virtue of Entry 97 of the Union List in the Constitution of India levies taxes on selected services. In the Budget for 2002-03, service tax was extended to ten new services. These are life insurance including insurance auxiliary services relating to life insurance, inland cargo handling, storage and warehousing services, light agricultural products and cold storage, event management, rail travel agents, health clubs and fitness centres, beauty parlours, fashion designers, cable operators and dry cleaning services. Subsequently, life insurance was exempted from service tax. With this, coverage of service tax now extends to 51 services. The Budget extended service tax applicable to specialised services provided

Box 2.2 : Indirect taxes

Customs

- Peak rate of customs duty reduced from 35 percent to 30 percent.
- Customs duty on a number of refractory raw materials reduced by 10 percent.
- Customs duty on copper, zinc and lead reduced from 35 percent to 25 percent and on aluminium and tin from 25 percent to 15 percent.
- Developers and manufacturing/processing units in Special Economic Zones would be entitled to exemption on inputs and all other materials including capital goods.
- Customs duty on specified equipment for Ports and Airports reduced to 10 percent.
- Duty on aeroplanes, helicopters, gliders, simulators of aeroplanes and their parts and raw materials exempted.
- Customs duty on a number of hardware inputs reduced to 5 percent, on certain capital goods to 15 percent. The duty on certain IT items reduced to 10 percent or 5 percent as per the WTO binding.
- Customs duty on cellular phones and pagers increased from 5 percent to 10 percent, along with exemption from CVD.
- Customs duty on tea and coffee increased from 70 percent to 100 percent, on natural rubber, poppy seeds, pepper, cloves and cardamom from 35 percent to 70 percent, and pulses from 5 percent to 10 percent.
- Customs duty on agricultural machinery and implements reduced from 25 percent to 15 percent to encourage farmers to acquire new and efficient technology.
- Eight more drugs used for treatment of cancer and some other critical diseases included in the list of fully exempted drugs. Vaccine for immunization against Japanese Encephalitis exempted from customs duty. Basic customs duty of 5 percent imposed on certain drugs.
- Duty on non-PDS kerosene reduced from 35 percent to 20 percent and customs duty on kerosene sold through the PDS increased from 5 percent to 10 percent.
- Customs duty on certain earth station equipment and studio equipment reduced from 35 percent to 25 percent
- Duty on cement and clinkers reduced from 25 percent to 20 percent.
- Customs duty on imported liquors reduced from 210 percent to 182 percent. The rates of CVD applicable to liquors and wines rationalised to 75 percent for value up to US $25 per case and 50 percent for others.
- The value limit on baggage under Transfer of Residence Rules increased from Rs.1.5 lakh to Rs.5 lakh and the duty thereon reduced from 35 percent to 30 percent. New items like lap top computers, portable photocopy machines, digital video disc players etc. included in the eligible list of items.

Excise

- 16 percent special excise duty on a number of items abolished. The special excise duty shall be confined to the following 8 items only: polyester filament yarn, motor cars, multi utility vehicles, tyres for replacement, aerated soft drinks and soft drinks concentrates, air conditioners, pan masala and chewing tobacco & miscellaneous tobacco preparations.
- The CENVAT rate increased to 16 percent ad valorem on LPG, kerosene, auto CNG and diesel engines up to 10 HP.
- Excise duty at 4 percent imposed on a few more items which have remained exempt so far.
- 16 percent CENVAT on cigars, cheroots and cigarillos of tobacco or tobacco substitutes which remained exempted so far.
- The rate of cess applicable to indigenous crude oil under the Oil Industry (Development) Act increased from Rs.900 per metric tonne to Rs.1,800 per metric tonne with effect from March 1, 2002. The ad valorem rate of excise duty applicable to motor spirit reduced from 90 percent to 32 percent and on HSD from 20 percent to 16 percent. A surcharge of six rupees per litre imposed on petrol.

- With effect from March 1, 2002, excise duty on the petroleum products produced by refineries located in the North East region reduced to half of the normal rates of excise duty otherwise applicable to petroleum products.
- Hank yarn to be charged excise duty at 8 percent.
- The rate of excise duty on fabrics, made ups and woven garments reduced from 16 percent to 12 percent. Excise duty on industrial fabrics would continue at 16 percent.
- The compounded levy scheme for independent power processors abolished. Excise duty exemption on handloom fabrics continued. Handloom garments also exempted from excise duty subject to certification by Handloom Export Promotion Council.
- Excise duty on tea reduced from Rs.2 per kg to Re.1 per kg.
- Specified anti-AIDS drugs exempted from excise duty with effect from March 1, 2002.
- Excise duty assessment based on Maximum Retail Price (MRP) extended to more categories of items, thus raising the number to 92 categories of items.

Service tax

- The coverage of service tax extended to new services. These are insurance auxiliary service relating to life insurance, inland cargo handling, storage and warehousing services (except for agriculture produce and cold storages), event management, rail travel agents, health clubs & fitness centres, beauty parlours, fashion designers, cable operators and dry cleaning services
- Service tax applicable to specified services provided by banks and non-banking financial companies extended to corporate bodies that provide similar services.
- Exemption from Service tax on services provided by hotels extended for one more year up to March 31, 2003.

by banks and non-banking financial companies to corporate bodies providing similar services. Exemption of service tax on hotels was extended up to March 31, 2003.

2.15 A few important legislative changes in respect of the levy of service tax relate to enhancing the time limit for issue of notice of recovery of tax, allowing credit of service tax paid on inputs for the payment of service tax on output services provided both input and output services fall in the same category and enhancing the limit of penalties. The revenue from service tax increased from Rs. 407 crore in 1994-95 to Rs.3,301 crore in 2001-02. The budgeted revenue for 2002-03 is Rs. 6,026 crore.

2.16 It is proposed to bring about an amendment in the Constitution to enable levy of tax on services and its collection and appropriation by both the Central and State Governments. It is expected that the proposed Constitutional amendment would give the Central and the State Governments sufficient powers to levy and collect service taxes.

Expenditure trends

2.17 Total expenditure of the Central Government was compressed in the first half of the 1990s. The total expenditure–GDP ratio declined from 17.3 percent in 1990-91 to 13.9 percent in 1996-97. The situation changed, with growth in total expenditure picking up from 1997-98. The compression in total expenditure witnessed in the first half of the 1990s was mainly on account of the fall in capital expenditure-GDP ratio. In 2001-02, total expenditure was 15.6 percent of GDP (13.0 percent of revenue expenditure and 2.6 percent of capital expenditure) which was marginally higher than the level in the previous year. In 2001-02, there was a considerable step up in capital expenditure, while containing the increase in the growth of revenue expenditure. With an emphasis on fiscal consolidation, aggregate expenditure is budgeted to grow at 14.3 percent in 2002-03 over the provisional figure of 2001-02. Revenue expenditure is budgeted to grow at a lower rate of 14.1 percent as compared with the growth of 15.2 percent in capital expenditure. Among major components of revenue expenditure, interest payments, major subsidies and defence expenditure account for 58.7 percent of revenue expenditure and absorb over 81 percent of net revenue receipts of the Centre (Table2.2). Trends in major components of revenue expenditure are discussed below.

Interest payments

2.18 Interest payments is the single largest item of expenditure on the revenue account. In the Budget for 2002-03, interest payments are budgeted at Rs.1,17,390 crore constituting 34.5 percent of revenue expenditure and 47.9 percent of net revenue receipts of the Centre. There has been a considerable increase in the growth of interest payments over the years. The increase in the interest liability is the outcome of rising fiscal deficits and recourse to market borrowings to meet the deficits. With the Government borrowings at market determined rates of interest, the average cost of borrowing has considerably increased in the 1990s. The weighted average interest rate on market borrowings increased from 7.0 percent in 1980-81 to a peak level of 13.8 percent in 1995-96. Thereafter, interest rates have started softening. In 2001-02, the weighted average interest rate on market borrowings came down to 9.4 percent. This reduction in the cost of borrowing is also on account of elongation in the maturity profile of the loans raised during the year. The weighted average maturity on loans increased from 10.6 years in 2000-01 to 14.3 years in 2001-02. A similar trend is observed in respect of the average cost of total internal liabilities of the Central Government (Table 2.4). The current year has witnessed a drastic reduction in the average cost of market borrowings to 7.5 percent (April-October). This is the result of excess liquidity with the banking system and commercial banks' investments in Government securities at lower interest rates. Scheduled commercial banks are currently holding over 37 percent of their net demand and time liabilities in Government securities as compared with the statutory liquidity ratio (SLR) of 25 percent. This situation may change once credit off-take by the commercial sector picks up. Interest payments exert considerable pressure on the finances of the Central Government curtailing its manoeuvrability to rein in the growth of revenue expenditure. The problem will continue as long as fiscal consolidation remains intractable.

Subsidies

2.19 Expenditure on major subsidies is budgeted at Rs.38,923 crore in 2002-03 as compared with an expenditure of Rs.30,094 crore in 2001-02 (Prov.). The subsidies budgeted in the current year absorb nearly 16 percent of the net revenue of the Centre and constitute 11.4 percent of the total revenue expenditure. Expenditure on major subsidies, which constituted 1.7 percent of GDP in 1990-91, had come down to 1.0 percent of GDP in 1996-97. Thereafter, it stabilised at around 1.2 percent of GDP. Expenditure on major subsidies budgeted in the current year constitutes 1.6 percent of GDP, which is higher than the subsidies-GDP

Table 2.4 : Interest on outstanding internal liabilities of Central Government

	Outstanding Internal liabilities	Interest on internal liabilities	Average cost of borrowing (percent per annum)
	(Rs. crore)		
1990-91	283033	19664	8.2
1991-92	317714	23892	8.4
1992-93	359654	27546	8.7
1993-94	430623	33017	9.2
1994-95	487682	40034	9.3
1995-96	554984	45631	9.4
1996-97	621438	55255	10.0
1997-98	722962	61527	9.9
1998-99	834551	73519	10.2
1999-00	962592	85741	10.3
2000-01	1102596	94900	9.9
2001-02(RE)	1265783	102940	9.3
2002-03(BE)	1435663	113070	8.9

Note : Average cost of borrowing is the percentage of interest payment in year 't' to outstanding liabilities in year 't-1'.

Source : Budget documents.

ratio observed in the last five years. With the dismantling of the administered price mechanism for petroleum products from April 1, 2002, the Budget for 2002-03 made an explicit provision of Rs.6,495 crore towards payment of subsidies for domestic LPG, kerosene supplied through public distribution system (PDS) and freight subsidy for remote areas. This has raised the budgeted expenditure on major subsidies in 2002-03.

Central plan outlay

2.20 The current financial year is the first year of the Tenth Five-Year Plan. At the time of budget formulation, the Tenth Plan was not finalised. In the Budget for 2002-03, the Central plan outlay is budgeted at Rs.1,44,038 crore, representing an increase of 12.8 percent over 2001-02 (RE). This outlay would be supported by budgetary resources amounting to Rs.66,871 crore (46.4 percent) and internal and extra budgetary resources of public sector enterprises amounting to Rs.77,167 crore (53.6 percent). Energy (25.2 percent), transport (22.2 percent), social services (20.4 percent) and communications (13.6 percent) account for bulk of the Central plan outlay for 2002-03. The outlay for agriculture and rural development in the Central plan is budgeted at Rs.11,706 crore constituting 8.1 percent of the total outlay. There is a significant step up in the outlays for the energy sector and for science and technology. The step up in the outlay for social services amounts to 19.7 percent.

2.21 Central assistance for States' and Union Territories' plans is budgeted at Rs.46,629 crore representing an increase of nearly 20 percent over the revised estimates of Rs.38,878 crore in 2001-02. Within Central assistance for States' plans, assistance under Accelerated Power Development & Reforms Programme (APDRP) has been stepped up from Rs.1,500 crore to Rs.3,500 crore in 2002-03 (BE). An amount of Rs.2,500 crore has been provided under the new initiative for strengthening infrastructure development and reform facility. The allocation under Accelerated Irrigation Benefit Programme (AIBP) has been raised from Rs.2,000 crore in 2001-02 to Rs.2,800 crore in 2002-03.

Government debt

2.22 The outstanding liabilities of the Central Government, comprising internal and external liabilities, which registered a declining trend as a proportion to GDP till 1998-99, have started rising thereafter. The outstanding liabilities-GDP ratio which declined from 55.3 percent in 1990-91 to 51.2 percent in 1998-99 increased to 58.1 percent in 2001-02 (RE). The outstanding total liabilities are budgeted to increase to Rs.15,04,183 crore in 2002-03 reaching a level of 61.4 percent of GDP. The increase witnessed after 1998-99 was mainly on account of increase in internal liabilities. Between 1997-98 and 2002-03, internal liabilities increased from Rs.7,22,962 crore to Rs.14,35,663 crore. The external debt has been declining as percentage of GDP over the years. External debt-GDP ratio declined from 5.5 percent in 1990-91 to 3.0 percent in 2001-02. External liabilities are estimated to decline to 2.8 percent of GDP in 2002-03. This ratio is based on the valuation of outstanding external liabilities at historical rates of exchange and, therefore, may not give a correct picture. The ratio of outstanding liabilities, at the year end exchange rate works out to 8.7 percent of GDP in 2001-02. The external debt-GDP ratio based on year end exchange rates has also exhibited a declining trend over the last few years (Table 2.5).

2.23 The increasing trend in internal liabilities is a matter of serious concern. This has not only raised the interest burden, but also raised concerns about the sustainability of the growing internal debt. Net market borrowings financed 64.8 percent of the gross fiscal deficit in 2001-02. In the current year, this is estimated to increase to 70.7 percent. Although in the current year, interest rates on Government securities have softened, the interest burden of the Government may go up once interest rates start firming up. In addition to market borrowings, Government has been depending on relief bonds for meeting its deficit. The

Table 2.5 : Outstanding liabilities of the Central Government

(end-March)

		1990-91	1997-98	1998-99	1999-2000	2000-01	2001-02 (RE)	2002-03$ (BE)
					(Rs. crore)			
1.	**Internal liabilities**	**283033**	**722962**	**834551**	**962592**	**1102596**	**1265783**	**1435663**
	(a) Internal debt	154004	388998	459696	714254	803698	909052	1021739
	i) Market borrowings	70520	216598	285584	355862	428793	517073	617932
	ii) Others	83484	172400	174112	358392	374905	391979	403807
	(b) Other Internal liabilities	129029	333964	374855	248338	298898	356731	413924
2.	**External debt(outstanding)***	**31525**	**55332**	**57255**	**58437**	**65945**	**67899**	**68520**
3.	**Total outstanding liabilities (1+2)**	**314558**	**778294**	**891806**	**1021029**	**1168541**	**1333682**	**1504183**
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)**	**314258**	**777994**	**891506**	**1020729**	**1168241**	**1333382**	**1503883**
					(As percent of GDP)			
1.	**Internal liabilities**	**49.8**	**47.5**	**47.9**	**49.7**	**52.4**	**55.1**	**58.6**
	(a) Internal debt	27.1	25.5	26.4	36.9	38.2	39.6	41.7
	i) Market borrowings	12.4	14.2	16.4	18.4	20.4	22.5	25.2
	ii) Others	14.7	11.3	10.0	18.5	17.8	17.1	16.5
	(b) Other Internal liabilities	22.7	21.9	21.5	12.8	14.2	15.5	16.9
2.	**External debt(outstanding)***	**5.5**	**3.6**	**3.3**	**3.0**	**3.1**	**3.0**	**2.8**
3.	**Total outstanding liabilities**	**55.3**	**51.1**	**51.2**	**52.7**	**55.5**	**58.1**	**61.4**
	Memorandum items							
	(a) External debt (Rs.crore)@	66314	161418	177934	186791	189990	199868	n.a.
	(as per cent of GDP)	11.7	10.6	10.2	9.6	9.0	8.7	n.a.
	(b) Total outstanding liabilities (adjusted) (Rs. crore)	349347	884380	1012485	1149383	1292586	1465651	n.a.
	(as per cent of GDP)	61.4	58.1	58.2	59.3	61.4	63.8	n.a.
	(c) Internal liabilities (Non-RBI)# (Rs. crore)	208978	574256	692842	820967	956478	1114024	1283904
	(as per cent of GDP)	36.7	37.7	39.8	42.4	45.5	48.5	52.4
	(d) Outstanding liabilities (Non-RBI)# (Rs.crore)	275292	735674	870776	1007758	1146468	1313892	n.a.
	Outstanding liabilities (Non-RBI) (as per cent of GDP)	48.4	48.3	50.0	52.0	54.5	57.2	n.a.
	(e) Contingent liabilities of Central Government (Rs.crore)	n.a.	73877	74606	83954	86862	n.a.	n.a.
	Contingent liabilities of Central Government (as per cent of GDP)	n.a.	4.9	4.3	4.3	4.1	n.a.	n.a.
	(f) Total assets (Rs crore)	236740	478774	537058	607705	675581	752653	826392
	Total assets (as per cent of GDP)	41.6	31.4	30.8	31.4	32.1	32.8	33.7

n.a. : not available

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

@ Converted at year end exchange rates. For 1990-91,the rates prevailing at the end of March,1991; For 1995-96,the rates prevailing at the end of March,1996 and so on.

 # This includes marketable dated securties held by the RBI.

$ The ratios to GDP at current market prices for 2002-03 (BE) are based on CSO's Advance Estimates released in February, 2003.

Source: 1. Budget documents. 2. Controller of Aid Accounts and Audit. 3. Reserve Bank of India.

net receipts under relief bonds amounted to Rs.4,500 crore in the revised estimates for 2001-02 and are budgeted to increase to Rs.6,500 crore in 2002-03. The Union Budget 2002-03 effected a reduction of 50 basis points in the interest rates on relief bonds. The Central Government has introduced 7 percent savings bonds 2002 as a tax free, non-transferable bond with 6 years maturity for subscription from October 1, 2002.

Supplementary demands for grants

2.24 In the current financial year, in the first batch of supplementary demands for grants, approval of Parliament was sought for gross additional expenditure of Rs.8,007 crore involving 32 grants. The first batch involved a net cash outgo aggregating to Rs.3,913 crore and gross additional expenditure matched by savings of Departments concerned or by enhanced receipts/ recoveries aggregating to Rs.4,094 crore. Major items of expenditure included a loan to BSNL of Rs.720 crore, Central assistance for North Eastern region of Rs.200 crore, compensation on account of pre-payment of IBRD loan by HDFC of Rs.258 crore and payment to UTI of Rs.500 crore to meet the shortfall between assured repurchase price and net asset value.

2.25 In the second batch of supplementary demands for grants, approval of Parliament was sought for gross additional expenditure of Rs. 9,045 crore, involving 37 grants. Of this, proposals involving net cash outgo aggregated to Rs.5,032 crore and gross additional expenditure matched by savings of the Departments concerned or by enhanced receipts/recoveries aggregated to Rs. 4,013 crore. Major items of expenditure related to loan to IDPL for implementation of Voluntary Retirement Scheme (VRS) (Rs.150 crore), central assistance to North Eastern Region (Rs. 315 crore), payment to UTI to meet the shortfall between assured repurchase price and net asset value under US 64 (Rs.438 crore) and for meeting additional requirements under Sampoorna Gramin Rozgar Yojana and Food for Work Programme (Rs.3,806 crore).

Savings and capital formation

2.26 The economic and functional classification of the Central Government budget reveals a few disturbing trends. Gross capital formation out of the budgetary resources of the Central Government has been progressively declining. Another disturbing development relates to the growing dis-savings of the Central Government. The dis-savings of the Central Government increased from 1.8 percent of GDP in 1990-91 to 3.2 percent of GDP in 2001-02. The dis-saving is estimated at 3.2 percent of GDP in 2002-03 (Table 2.6). The expenditure on wages, salaries and pensions as a proportion of the total Government expenditure, which was 14.6 percent in 2001-02 (RE) is budgeted at 13.9 percent in 2002-03.

Collection rates

2.27 The collection rate indicates incidence of customs duty and also levies/duties other than customs tariff which are not in the nature of protective tariffs, viz., special additional duty on imports levied to offset the incidence of domestic trade taxes other than union excise borne by domestic producers; countervailing duty(CVD) on imports of goods meant to offset incidence of excise duty on similarly produced indigenous goods, etc. The collection rate not only captures the element of protection due to custom duties but incidence of other duties/levies which are in the nature of offsets to mitigate the impact of host of domestic levies for which producers cannot avail of any credit. The collection rate is defined as the ratio of realised import revenue (including additional customs duty/ CVD and special additional duty) to the value of imports of a commodity. While the all inclusive collection rate includes all other incidental duties, a pure measure of protection would take account of basic customs duty to the exclusion of other duties/levies and would be lower.

2.28 Customs duty collection rates for selected import groups are indicated in Table 2.7. In Budgets 2000-01 and 2001-02, there was a conscious effort to reduce the peak customs tariff. The average collection rate declined from 47 percent in 1990-91 to 21 percent in 2000-01, which further declined to 16 percent in 2001-02. The collection rate for all major commodity groups barring food products and chemicals edged downwards in 2001-02 compared with 2000-01.

Buoyancy of major taxes

2.29 Buoyancy of Central tax revenue, during the Eighth and Ninth Plan periods indicates a declining trend (Table 2.8). This decline was more accentuated in the case of customs revenue. The reasons for this decline included scaling down of the tax rate, reduction in the number of slabs, etc., which were not necessarily aimed at raising revenue. The thrust of the measures taken for indirect taxation has been efficiency in

Table 2.6 : Total expenditure and capital formation by the Central Government and its financing

(As per economic and functional classification of the Central Government budget)

		1990-91	1997-98	1998-99	1999-2000	2000-01	2001-02 (RE)	2002-03$ (BE)
					(Rs. crore)			
I.	**Total expenditure**	**97947**	**224866**	**263755**	**307509**	**328265**	**361335**	**409585**
II.	**Gross capital formation out of budgetary resources of Central Government**	**28032**	**54815**	**57807**	**67602**	**66960**	**69239**	**77931**
	(i) Gross capital formation by the Central Government	8602	18955	20647	26075	22258	17860	21617
	(ii) Financial assistance for capital formation in the rest of the economy	19430	35860	37160	41527	44702	51379	56314
III.	**Gross saving of the Central Government**	**-10502**	**-23396**	**-41893**	**-41169**	**-56920**	**-73683**	**-79487**
IV.	**Gap(II-III)**	**38534**	**78211**	**99700**	**108771**	**123880**	**142922**	**157418**
	Financed by							
	a. Draft on other sectors of domestic economy	34768	76102	96793	106483	115561	140041	155788
	(i) Domestic capital receipts	23421	77012	97029	105619	116758	136238	155788
	(ii) Budgetary deficit/draw down of cash balance	11347	-910	-236	864	-1197	3803	0
	b. Draft on foreign savings	3766	2109	2907	2288	8319	2881	1630
					(As percent of GDP)			
I.	**Total expenditure**	**17.2**	**14.8**	**15.1**	**15.9**	**15.6**	**15.7**	**16.7**
II.	**Gross capital formation out of budgetary resources of Central Government**	**4.9**	**3.6**	**3.3**	**3.5**	**3.2**	**3.0**	**3.2**
	(i) Gross capital formation by the Central Government	1.5	1.2	1.2	1.3	1.1	0.8	0.9
	(ii) Financial assistance for capital formation in the rest of the economy	3.4	2.4	2.1	2.1	2.1	2.2	2.3
III.	**Gross saving of the Central Government**	**-1.8**	**-1.5**	**-2.4**	**-2.1**	**-2.7**	**-3.2**	**-3.2**
IV.	**Gap(II-III)**	**6.8**	**5.1**	**5.7**	**5.6**	**5.9**	**6.2**	**6.4**
	Financed by							
	a. Draft on other sectors of domestic economy	6.1	5.0	5.6	5.5	5.5	6.1	6.4
	(i) Domestic capital receipts	4.1	5.1	5.6	5.5	5.5	5.9	6.4
	(ii) Budgetary deficit/draw down of cash balance	2.0	-0.1	0.0	0.0	-0.1	0.2	0.0
	b. Draft on foreign savings	0.7	0.1	0.2	0.1	0.4	0.1	0.1
					(increase over previous year)			
II.	**Gross capital formation out of budgetary resources of Central Government**	**2.8**	**9.0**	**5.5**	**16.9**	**-0.9**	**3.4**	**12.6**
	Memorandum items							
					(Rs. crore)			
1	Consumption expenditure	22359	53090	59920	68831	71977	82659	94902
2	Current transfers	45134	111577	137611	161549	183696	204225	229707
					(As percent of GDP)			
1	Consumption expenditure	**3.9**	**3.5**	**3.4**	**3.6**	**3.4**	**3.6**	**3.9**
2	Current transfers	**7.9**	**7.3**	**7.9**	**8.3**	**8.7**	**8.9**	**9.4**

$: The ratios to GDP at current market prices for 2002-2003 (BE) are based on CSO's Advance Estimates released in February, 2003.

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) Consumption expenditure is the expenditure on wages & salaries and commodities & services for current use.
(iii) Interest payments, subsidies, pension etc. are treated as current transfers.
(iv) Gross capital formation & total expenditure are exclusive of loans to States'/Uts against States'/Uts share in the small savings collection.
(v) The figures of total expenditure of the Central Government as per economic and functional classification do not tally with figures given in the Budget documents. In the economic and functional classification, interest transfered to DCUs, loans written off etc, are excluded from the current account. In the capital account, expenditure financed out of Railways Posts &Telecommunications own funds, etc., is included.

Source : Economic and Functional Classification of the Central Government Budgets.

Table 2.7 : Collection rates* for selected import groups								
								(in percent)
Sl. No.	**Commodity Groups**	**1990-91**	**1996-97**	**1997-98**	**1998-99**	**1999-2000**	**2000-01**	**2001-02 (Prov.)**
1	Food products	47	19	16	15	15	31	40
2	POL	34	32	29	29	23	16	10
3	Chemicals	92	49	37	34	36	38	29
4	Man-made fibres	83	36	36	49	64	49	31
5	Paper & newsprint	24	11	13	11	9	8	6
6	Natural fibres	20	13	17	22	24	18	8
7	Metals	95	45	44	51	55	48	36
8	Capital goods	60	39	41	42	36	36	29
9	Others	20	14	15	11	12	12	9
10	Non POL	51	31	27	23	22	23	19
11	Total	47	31	27	23	22	21	16

***** **Collection rate is defined as the ratio of realised import revenue (including additional customs duty/ countervailing duty (CVD), and special additional duty) to the value of imports of a commodity.**

S.No.1 includes cereals, pulses, tea, milk and cream, fruits, vegetables, animal fats and sugar.

S.No 3 includes chemical elements, compounds, pharmaceuticals, dyeing and colouring materials, plastic and rubber.

S.No.5 includes pulp and waste paper, newsprint, paperboards and manufactures and printed books.

S.No 6 includes raw wool and silk.

S.No. 7 includes iron and steel and non-ferrous metals.

S.No. 8 includes non-electronic machinery and project imports, electrical machinery.

Source : Budget documents.

production and trade. Direct taxes remained more buoyant, which could be attributed to expansion in the tax base, extension of the base for tax deduction at source and improvement in direct tax administration. However, collection from direct taxes constituted only 37 percent of gross tax revenue. (Table 2.3). Therefore, the relatively higher buoyancy of direct taxes has failed to raise the tax-GDP ratio.

Table 2.8 : Buoyancy of Central tax revenue

	Direct taxes	Indirect taxes	Customs revenue	Excise revenue	Total
Eighth Plan	1.3	0.7	0.9	0.6	0.9
Ninth Plan	1.3	0.6	0.1	1.0	0.8

Source: Tenth Five Year Plan Document.