Budgetary developments in 2004-05

2.7 The Budget for 2004-05 has been formulated against the backdrop of the commitments made in the NCMP. The Budget has indicated that the Government will follow a 5-year road map to achieve the NCMP objective of bringing about rapid growth with stability and equity. For realising the NCMP objectives of maintaining an average annual growth rate of 7-8 per cent, providing access to quality basic education, assuring 100 days' of employment to the needy, focusing on agriculture and infrastructure, and fiscal consolidation, the Budget for 2004-05 has laid emphasis on enhancing investment, both public and private as well as domestic and foreign. The Budget for 2004-05 has attempted a front-loaded fiscal adjustment by targeting a revenue deficit of 2.5 per cent of GDP as against 3.6 per cent in 2003-04 (RE) and a fiscal deficit of 4.4 per cent of GDP as against 4.8 per cent of GDP in 2003-04 (RE). The reductions in revenue and fiscal deficits budgeted in 2004-05 are more than the minimum reductions stipulated in the rules framed under FRBM Act. The rules stipulate minimum reductions of 0.5 percentage points of GDP in revenue deficit and 0.3 percentage points of GDP in fiscal deficit.

Revenue receipts

2.8 Budget for 2004-05 aims at a front-loaded and revenue led fiscal consolidation. It envisages a 24.6 per cent growth in gross tax revenue to Rs.3,17,733 crore over 2003-04(RE). Non-tax revenue of Rs.75,416 crore budgeted for 2004-05 is marginally lower than the revised estimate of Rs.75,488 crore in 2003-04. (Table 2.2). The higher budgeted growth in gross tax revenue is based on continuing momentum in direct tax collections and concerted efforts proposed for recovery of arrears. Lower non-tax revenue budgeted for 2004-05 is on account of lower dividends and profits assumed for the year. The share of direct taxes is budgeted to improve from 40.6 per cent in 2003-04 (RE) to 43.9 per cent in 2004-05.

2.9 The tax-GDP ratio of the Centre has been consistently lower than the level of 10.3 per cent achieved in 1991-92. The tax structure continues to be characterised by reliance on commodity taxes, though the share of direct taxes in total tax revenue has been increasing gradually. There has been an improvement in the ratios of personal income tax and corporate income tax to GDP. The improvement is much greater in the case of corporate income tax. Since 1990-91, there has been a conscious effort to reduce the rates of commodity taxes, both customs and excise. In respect of customs, initially the reductions in duty rates were attributable to multilateral trade agreement induced commitments under the aegis of the World Trade Organisation (WTO). The Government's policy is to go beyond the WTO commitments and align customs duty rates gradually to ASEAN levels to make Indian industry internationally competitive. The lower tax-GDP ratio can be attributed to the fall in indirect tax to GDP ratio from 7.9 per cent in 1990-91 to 5.4 percent in 2003-04 (RE). The ratio is budgeted to improve to 5.7 per cent in 2004-05. Within indirect taxes, the fall in tax-GDP ratio is more distinct in the case of customs duties. In central excise duties, the policy focus has been on reducing dispersion in rates and lowering of rates. This has resulted in a decline in excise to GDP ratio from 4.3 per cent in 1990-91 to 3.3 per cent in 2003-04 (RE). The budget estimates indicate an improvement in this ratio to 3.5 per cent in 2004-05 (Table 2.3). To enhance indirect tax collections, the main strategy adopted has been the extension of the service tax base. From a modest level of Rs.407 crore in 1994-95, service tax is budgeted to yield a revenue of Rs.14,150 crore in 2004-05.

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Table 2.2 : Receipts and expenditure of the Central Government

	1990-91	1999-00	2000-01	2001-02	2002-03	2003-04 (R.E.)	2003-04@ (Prov.)	2004-05## (B.E.)
					(Rs crore)			
1. Revenue receipts (a+b)	**54954**	**181482**	**192605**	**201306**	**231748**	**263027**	**263000**	**309322**
(a) Tax revenue (net of States' share)	**42978**	**128271**	**136658**	**133532**	**159425**	**187539**	**186932**	**233906**
(b) Non-tax revenue	**11976**	**53211**	**55947**	**67774**	**72323**	**75488**	**76068**	**75416**
2. Revenue expenditure	**73516**	**249078**	**277838**	**301468**	**339628**	**362887**	**361308**	**385493**
of which:								
(a) Interest payments	21498	90249	99314	107460	117804 **	124555 **	124261	129500
(b) Major subsidies	9581	22678	25860	30447	40716	43725	43569	42214
(c) Defence expenditure	10874	35216	37238	38059	40709	43394	42597	43517
3. Revenue deficit (2-1)	**18562**	**67596**	**85233**	**100162**	**107880**	**99860**	**98308**	**76171**
4. Capital receipts	**31971**	**116571**	**132987**	**161004**	**182414**	**211228**	**208936**	**168507 $**
of which:								
(a) Recovery of loans	5712	10131	12046	16403	34191 *	64625 *	66928	27100 *
(b) Other receipt (mainly PSU disinvestment)	0	1724	2125	3646	3151	14500	16048	4000
(c) Borrowings and other liabilities	26259	104716	118816	140955	145072	132103	125960	137407 $
5. Capital expenditure	**24756**	**48975**	**47754**	**60842**	**74534 *****	111368 ***	**110628**	**92336**
6. Total expenditure [2+5=6(a)+6(b)]	**98272**	**298053**	**325592**	**362310**	**414162**	**474255**	**471936**	**477829**
of which:								
(a) Plan expenditure	28365	76182	82669	101194	111454	121507	122149	145590
(b) Non-Plan expenditure	69907	221871	242923	261116	302708	352748	349787	332239
7. Fiscal deficit [6-1-4(a)-4(b)]	**37606**	**104716**	**118816**	**140955**	**145072 #**	**132103**	**125960**	**137407**
8. Primary deficit [7-2(a)=8(a)+8(b)]	**16108**	**14467**	**19502**	**33495**	**27268**	**7548**	**1699**	**7907**
(a) Primary deficit consumption	6358	16316	22955	36180	38558	22145	-	-3400
(b) Primary deficit investment	9750	-1849	-3453	-2685	-11290	-14597	-	11307
					(As per cent of GDP)			
1. Revenue receipts (a+b)	**9.7**	**9.4**	**9.2**	**8.9**	**9.4**	**9.5**	**9.5**	**10.0**
(a) Tax revenue (net of States' share)	**7.6**	**6.6**	**6.5**	**5.9**	**6.5**	**6.8**	**6.8**	**7.5**
(b) Non-tax revenue	**2.1**	**2.7**	**2.7**	**3.0**	**2.9**	**2.7**	**2.8**	**2.4**
2. Revenue expenditure	**12.9**	**12.9**	**13.3**	**13.3**	**13.8**	**13.1**	**13.1**	**12.4**
of which:								
(a) Interest payments	3.8	4.7	4.8	4.7	4.8	4.3	4.5	4.2
(b) Major subsidies	1.7	1.2	1.2	1.3	1.7	1.6	1.6	1.4
(c) Defence expenditure	1.9	1.8	1.8	1.7	1.7	1.6	1.5	1.4
3. Revenue deficit (2-1)	**3.3**	**3.5**	**4.1**	**4.4**	**4.4**	**3.6**	**3.6**	**2.5**
4. Capital receipts	**5.6**	**6.0**	**6.4**	**7.1**	**7.4**	**7.7**	**7.6**	**5.4**
of which:								
(a) Recovery of loans	1.0	0.5	0.6	0.7	1.4	1.2	2.4	0.9
(b) Other receipt (mainly PSU disinvestment)	0.0	0.1	0.1	0.2	0.1	0.5	0.6	0.1
(c) Borrowings and other liabilities	4.6	5.4	5.7	6.2	5.9	4.8	4.6	4.4
5. Capital expenditure	**4.4**	**2.5**	**2.3**	**2.7**	**3.0**	**4.0**	**4.0**	**3.0**
6. Total expenditure [2+5=6(a)+6(b)]	**17.3**	**15.4**	**15.6**	**15.9**	**16.8**	**17.2**	**17.1**	**15.4**
of which:								
(a) Plan expenditure	5.0	3.9	4.0	4.5	4.5	4.4	4.4	4.7
(b) Non-Plan expenditure	12.3	11.5	11.6	11.5	12.3	12.8	12.7	10.7
7. Fiscal deficit [6-1-4(a)-4(b)]	**6.6**	**5.4**	**5.7**	**6.2**	**5.9**	**4.8**	**4.6**	**4.4**
8. Primary deficit [7-2(a)=8(a)+8(b)]	**2.8**	**0.7**	**0.9**	**1.5**	**1.1**	**0.3**	**0.1**	**0.3**
(a) Primary deficit consumption	1.1	0.8	1.1	1.6	1.6	0.8	-	-0.1
(b) Primary deficit investment	1.7	-0.1	-0.2	-0.1	-0.5	-0.5	-	0.4
Memorandum items					(Rs crore)			
(a) Interest receipts	8730	33895	32811	35538	37602	35999	37128	36950
(b) Dividend and profit	564	5074	4225	7940	10910	10841	n.a.	12979
(c) Non-Plan revenue expenditure	60896	202278	226762	239811	268074	284801	282771	293650

@ Provisional and unaudited as reported by Controller General of Accounts, Department of Expenditure, Ministry of Finance
# Based on provisional actuals for 2002-03.
* Includes receipts from States on account of debt swap scheme.
The ratios to GDP for 2004-05 (BE) are based on CSO's Advance Estimates released in February, 2005.
** Includes prepayment Premium for reduction of Debt.
*** Includes repayment to National Small Savings Fund.
$ Does not include Rs. 60,000 crore to be raised under Market Stabilization Scheme, which will remain in the cash balance of the Central Government and will not be used for expenditure.

Note : 1. The figures may not add up to the total because of rounding approximations.
2. Primary deficit consumption =Revenue deficit-interest payments+interest receipts+dividend & profits
3. Primary deficit investment =Capital expenditure-interest receipts -Dividend & profits-recovery of loans-other receipts.
4. Figures are exclusive of the transfer of States' share in the small savings collections.

Source : Budget documents.

Table 2.3 : Sources of tax revenue

	1990-91 Actuals	1999-2000 Actuals	2000-01 Actuals	2001-02 Actuals	2002-03 Actuals	2003-04 (RE)	2003-04@ (Prov.)	2004-05 (BE)
				(Rs. crore)				
Direct (a)	**11024**	**57958**	**68306**	**69197**	**83080**	**103400**	**105236**	**139510**
PIT	5371	25654	31764	32004	36858	40269	41441	50929
CIT	5335	30692	35696	36609	46172	62986	63608	88436
Indirect(b)	**45158**	**112450**	**118681**	**116125**	**131284**	**150029**	**147279**	**177599**
Customs	20644	48420	47542	40268	44852	49350	48625	54250
Excise	24514	61902	68526	72555	82310	92379	90764	109199
Service tax	0	2128	2613	3302	4122	8300	7890	14150
Gross tax revenue #	**57576**	**171752**	**188603**	**187060**	**216266**	**254923**	**254438**	**317733**
				Tax revenue as per cent of gross tax revenue				
Direct (a)	**19.1**	**33.7**	**36.2**	**37.0**	**38.4**	**40.6**	**41.4**	**43.9**
PIT	9.3	14.9	16.8	17.1	17.0	15.8	16.3	16.0
CIT	**9.3**	17.9	18.9	19.6	21.3	24.7	25.0	27.8
Indirect(b)	**78.4**	**65.5**	**62.9**	**62.1**	**60.7**	**58.9**	**57.9**	**55.9**
Customs	35.9	28.2	25.2	21.5	20.7	19.4	19.1	17.1
Excise	42.6	36.0	36.3	38.8	38.1	36.2	35.7	34.4
Service tax	0.0	1.2	1.4	1.8	1.9	3.3	3.1	4.5
				Tax revenue as per cent of gross domestic product*				
Direct(a)	**1.9**	**3.0**	**3.3**	**3.0**	**3.4**	**3.7**	**3.8**	**4.5**
PIT	0.9	1.3	1.5	1.4	1.5	1.5	1.5	1.6
CIT	0.9	1.6	1.7	1.6	1.9	2.3	2.3	2.8
Indirect(b)	**7.9**	**5.8**	**5.7**	**5.1**	**5.3**	**5.4**	**5.3**	**5.7**
Customs	3.6	2.5	2.3	1.8	1.8	1.8	1.8	1.7
Excise	4.3	3.2	3.3	3.2	3.3	3.3	3.3	3.5
Service tax	0.0	0.1	0.1	0.1	0.2	0.3	0.3	0.5
Total#	**10.1**	**8.9**	**9.0**	**8.2**	**8.8**	**9.2**	**9.2**	**10.2**

@ Figures for 2003-04 are provisional accounts (unaudited) released by the Controller General of Accounts.

PIT : Personal income tax CIT : Corporation tax

*** Refers to gross domestic product at current market prices.**

Note : (1) Direct taxes also includes taxes pertaining to expenditure, interest, wealth, gift and estate duty.
(2) The ratios to GDP for 2004-05 (BE) are based on CSO's Advance Estimates released in February, 2005.

 # Includes taxes referred in (a) & (b) and taxes of Union Territories and "other" taxes.

Source : Budget documents

Tax measures

a) Direct taxes

2.10 Tax policies vitally affect investment decisions, and hence the policy of maintaining stability in tax rates continues. The focus of the Budget for 2004-05 is on streamlining tax administration and on recovery of tax arrears. In direct taxes, the rates of corporate income tax and personal income tax have been left unchanged. In an effort to provide relief to about 1.4 crore income tax assessees in the low taxable income bracket, pending a revisit to the whole issue of reasonable rates and reasonable slabs, Budget for 2004-05 provides full tax relief for taxable income up to Rs.1,00,000 (Box 2.1). A major relief has been provided in the form of abolition of tax on long-term capital gains and reduction in tax on short-term capital gains from 30 per cent to a flat rate of 10 per cent on securities transactions. A securities transaction tax (STT) on transactions in securities on stock exchanges has been introduced. The STT is administratively simple, and easy to enforce. The tax became effective from October 1, 2004 (Box 2.2). To promote the NCMP objective of enhanced allocation to human development, an education cess of 2 per cent on all major central taxes has been levied.

Box 2.1 : Tax proposals—Budget 2004-05

Direct taxes

- No change in income tax rates, standard deduction and surcharge.
- Taxable income up to Rs.1 lakh exempted from tax.
- Family pension received by widows, children and nominated heirs of members of the armed forces and paramilitary forces killed in the course of operational duties exempted from income tax.
- Benefit of Section 80DD and Section 80U extended to persons suffering from autism, cerebral palsy and multiple disabilities.
- Contribution to the National Pension Scheme, to the limited extent of 10 per cent of the salary and accruals, would be exempt from tax. Terminal benefits received would be taxed at the applicable rate in the year of receipt.
- Gifts from unrelated persons above Rs.25,000 would be taxed as income. Gifts received from related persons, viz., blood relations, lineal ascendants, and lineal descendants and gifts received on certain occasions like marriage will continue to be totally exempt.
- Equity-oriented mutual funds exempted from dividend distribution tax. Debt-oriented mutual funds are required to withhold 12.5 per cent of income distributed to unit holders. While individuals and HUF unit holders will continue to pay tax at this rate, the rate for corporate unit holders has been raised to 20 per cent.
- Income of infrastructure capital companies included for assessment under Minimum Alternate Tax.
- Deduction of 100 per cent of profits for the first 5 years and 25 per cent of profits for next 5 year allowed in the case of new agro-processing industries set up to process, preserve and package fruits and vegetables. (Section 80IB).
- Additional depreciation of 15 per cent for new plant and machinery acquired or installed in an existing undertaking under Section 32(1)(ii a) continued and the condition for minimum increase in installed capacity reduced from 25 per cent to 10 per cent.
- In order to promote renovation and modernization of existing transmission and distribution lines, the benefit of tax concessions under Section 80IA extended to power projects undertaken during the period April 1, 2004 to March 31, 2006.
- To make the shipping industry internationally competitive, a new tonnage tax introduced. The concessional regime under Section 33AC withdrawn and shipping companies to pay tonnage tax or normal corporate tax on profits.
- Deduction of 100 per cent of profits for a period of 5 years allowed to new hospitals with 100 beds or more set up in rural areas.
- The 100 per cent tax exemption available for setting up industries in the State of Jammu and Kashmir extended up to March 31, 2005.

Box 2.2 : Securities transaction tax

The rate structure of STT is as follows:

(a) For those presently paying capital gains tax:

(i) *Delivery based trade in equity:* 0.15 per cent of the value of transactions to be split equally between buyer and seller.

(ii) *Unit holders holding units in equity-oriented mutual funds:* 0.15 per cent of the value of transactions. Units to be treated as securities or equity traded on the stock exchanges.

(b) For those now paying income tax on business profits:

(i) *Day traders and arbitragers:* 0.015 per cent of the value of transactions. Credit for STT to be provided on tax on business profits.

(ii) *Derivatives traders (futures and options):* 0.01 per cent of the value of transactions with credit for STT against business tax on profits.

Credit for STT against corporate income tax will be allowed in cases where business profits are declared on delivery-based transactions. Buying and selling of bonds including Government bonds are exempt from STT. Similarly, units of mutual funds other than equity-oriented funds are exempt from STT. Where STT is not attracted or exempted, normal capital gains tax would apply.

b) Indirect taxes

2.11 Budget for 2004-05 has reiterated the commitment to reduce customs duties gradually to the ASEAN countries' levels. The peak rate of basic customs duties has been retained at 20 per cent in the Budget. An important measure taken in the Budget for 2004-05 relates to the textiles sector (Box 2.3).

2.12 Textiles sector for long had been saddled with a complex tax system that sought to achieve multiple objectives, which resulted in serious distortions in the industry structure. The dispersion in rates and absence of a level playing field had constrained the competitive ability of the textiles sector. Recognising the need for enabling the textile sector to compete in the international market effectively, particularly to realise the full potential for enhanced export opportunities that have arisen at the expiry of the Agreement on Textiles and Clothing, Budget for 2004-05, has ushered in a new tax regime for textiles. The new regime replaces the mandatory CENVAT duty introduced in 2003-04 with an optional system, whereby every manufacturer can either avail the full tax exemption option by not availing of input credit or avail of input credit by paying a CENVAT duty of 4 per cent for pure cotton textiles or 8 per cent for blended textiles. The mandatory excise duty on man-made staple fibre, man-made filament yarn and polyester filament yarn continues. This measure has provided much needed relief to the handloom and powerloom sectors.

2.13 To provide relief to the metal industry, peak customs duty on raw materials like alloy steel, copper, lead, zinc and base metals has been brought down to 15 per cent. Customs duty on non-alloy steel has been brought down from 15 per cent to 10 per cent. In excise, the Budget for 2004-05 has carried forward the policy of rationalisation of duty rates with most important goods in the manufacturing sector bearing a duty of 16 per cent. Ostensibly, to bring down the prices of steel, excise on steel was brought down from 16 per cent to 8 per cent in February 2004, with a caveat to review it later. The Budget for 2004-05 reversed this partially by increasing the duty from 8 per cent to 12 per cent, as the intended impact of tax cut on moderating prices was not achieved, and in order to converge the rate towards the CENVAT rates of 16 per cent.

Service tax

2.14 The manufacturing sector continues to bear a disproportionately large burden of indirect taxes relative to its share in GDP, and has been providing maximum revenues to the Government. Services sector, though contributing the largest share in GDP, was not subjected to tax till 1993-94. Service tax was introduced in 1994-95 in a small way to operationalise the principle of neutrality of the tax system to different forms of production and in recognition of the fact that value additions, whether in manufacturing or service, should form the basis of taxation. Taxation of services faces three problems. First, a large number of service providers are in the informal sector without a regular system of accounts. Second, revenue potential of some of the services may not be commensurate with the efforts involved in the identification, assessment and enforcement. Third, lack of standards in assessments, in view of the wide variations in value additions across and within sectors, may lead to disputes. A system of self-assessment is in vogue since April 2001, whereby service providers, on whom the responsibility of payment of tax vests, are required to file a simple return. The rate of service tax was increased from 5 per cent in 1994-95 to 8 per cent on all the taxable services from May 14, 2003. As a major step towards integrating the tax on goods and services, Budget for 2004-05 extended the credit of service tax and excise duty across goods and services. To offset the negative revenue impact on account of such a move, the service tax rate was increased from 8 per cent to 10 per cent. Successive Budgets have extended the base of services by bringing new services into the tax net. The new services brought under the tax net in the Budget for 2004-05 include business

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Box 2.3 : Indirect tax proposals—Budget 2004-05

Customs

- No change in peak rate of customs duty of 20 per cent on non-agricultural goods.
- Exemption from additional duty of customs or countervailing duty (CVD) on some imported goods, which did not have a corresponding exemption from excise duty on Indian made goods, removed.
- Customs duty on non-alloy steel reduced from 15 per cent to 10 per cent.
- Excise duty on steel increased from 8 per cent to 12 per cent.
- Customs duty on copper, lead, zinc, tungsten, magnesium and other base metals, certain mineral refractories, raw materials for refractories, ashes and residues, and catalysts reduced from 20 per cent to 15 per cent.
- Reduction of customs duty on refractory raw minerals and mineral products like graphite, asbestos, mica and gypsum to 15 percent.
- Customs duty on crude palm oil retained at 65 per cent. To encourage domestic value addition, customs duty on refined palm oil raised from 70 to 75 per cent.
- Concessional rate of customs duty of 20 per cent extended to non-edible oils for manufacture of fatty acids/fatty alcohols.
- Concessional rate of 5 per cent customs duty extended to some additional machinery for tea and coffee plantation sector.
- Rehabilitation aids such as talking books, talking calculators, talking thermometers, Braille writers, Braille computer terminals, cochlear implants and stair lifts fully exempted from customs duty. These items also exempted from excise duty and CVD.
- Customs duty exempted on instruments and implants for physically handicapped patients, such as, spinal instruments and implants including bone cements, crutches, wheel chairs, walking frames, tricycles, Braillers, artificial limbs and parts thereof.
- Duty on a number of textile and garment making machinery (and also on parts for their domestic manufacture) reduced to 5 per cent. The domestic manufacturers of such machines also allowed to import parts at the same rate of duty.
- Concessional customs duty of 5 per cent on specified capital goods available to leather industry extended to non-leather footwear industry.
- Patent leather exempted from customs duty (20 per cent).

Excise

- Full duty exemptions to tractors, dairy machinery, hand tools, such as, spades, shovels, sickles.
- Optional duty scheme introduced for the entire textile sector, except for synthetic and artificial fibres, and filament yarns. The duty is 4 per cent for pure cotton and 8 per cent for other textile materials, if input tax credit is taken. For those not opting for tax credit, exemption from excise duty is available.
- Excise duty on iron and steel increased from 8 per cent to 12 per cent.
- Excise duty of 16 per cent imposed on specified parts of pre-fabricated buildings, such as, blocks, slabs, concrete beams and stairs and on parts of clocks and watches, whose retail sale price does not exceed Rs.500 per piece.
- Excise duty on preparations of meat, poultry and fish reduced from 16 per cent to 8 per cent and on food grade hexane from 32 per cent to 16 per cent.
- Items for the disabled rehabilitation aids, such as talking books, Braille computer terminals, Braille writers and typewriters, assistive listening devices, cochlear implants and stair lifts, fully exempt from excise.
- Exemption from excise duty available for diagnostic kits for hepatitis-B extended to diagnostic kits for all types of hepatitis.
- Excise duty increased from 8 per cent to 16 per cent on vacuum flasks, plastic insulated ware, scented supari, prefabricated buildings, laboratory glassware, black and white television receivers and their populated PCBs, imitation jewellery, and cakes and pastries. General excise exemption for small-scale industries for these items would continue and other manufacturers can avail CENVAT credit.
- To protect matches made in the non-mechanized sector, duty on matches made in the mechanized/semi-mechanized sector increased from 8 per cent without CENVAT credit to 16 per cent with CENVAT credit.
- Excise duty reduced from 16 per cent to 8 per cent on LPG gas stoves with maximum retail price up to Rs.2,000.
- The value limit for excise duty exemption increased from retail sale price of Rs.125 to Rs.250 per pair for footwear and from Rs.100 to Rs.200 per piece for pens. Parts of pens exempted from excise duty.
- Area-specific exemptions enjoyed by North Eastern States and Jammu & Kashmir to continue. For other States enjoying area-based exemptions, such exemption will continue and be available for units set up or expanded, which commence commercial production on or before March 31, 2007.

exhibition services, airport services, services provided by transport booking agents, transport of goods by air, survey and exploration services, opinion poll services, intellectual property services other than copyright, brokers of forward contracts, pandal and shamiana contractors, outdoor caterers, independent TV/radio programme producers, construction services in respect of commercial or industrial constructions and life insurance services to the extent of the risk premium.

Expenditure trends

2.15 As a proportion of GDP, aggregate expenditure of the Central Government, after declining almost continuously from 17.3 per cent in 1990-91 to 13.9 per cent in 1996-97, started rising from 1997-98 to reach 17.2 per cent in 2003-04 (RE). It is budgeted to come down to 15.4 per cent in 2004-05. While the level of expenditure is not very high by international comparison, the main problem in public expenditure management has been the poor quality outcomes of such expenditure. Furthermore, the composition of expenditure has deteriorated, with capital expenditure squeezed out by growing revenue expenditure. As a proportion of GDP, revenue expenditure increased from 12.9 per cent in 1990-91 to 13.8 per cent in 2002-03. In contrast, capital expenditure as a proportion of GDP declined from 4.4 per cent to 3.0 per cent in the same period. The year 2003-04 witnessed an improvement in the composition of expenditure with the revenue expenditure-GDP ratio coming down to 13.1 per cent and the ratio of capital expenditure to GDP improving to 4.0 per cent. The compression in the growth of revenue expenditure has been carried forward in the Budget for 2004-05. The revenue expenditure-GDP ratio budgeted for 2004-05 is lower by 0.7 percentage points at 12.4 per cent. A redeeming feature is that the compression is entirely on non-Plan account from 10.3 per cent of GDP in 2003-04 (RE) to 9.5 per cent of GDP in 2004-05. A marginal improvement in Plan revenue expenditure by 0.2 percentage points to 3.0 per cent of GDP is envisaged in 2004-05. The budgeted capital expenditure is lower at 3.0 per cent of GDP. Important components of expenditure are analysed below.

Interest payments

2.16 As a proportion of GDP, interest payments increased from 3.8 per cent in 1990-91, to 4.8 percent in 2002-03. With the softening of interest rates, the proportion declined to 4.5 per cent in 2003-04 (RE) and is budgeted at 4.2 per cent in 2004-05. The debt build-up, consequent upon high levels of fiscal deficits, has resulted in preemption of a disproportionately large part of revenue receipts by interest outgo. The proportion of interest payments to revenue receipts, which rose from 39.1 per cent in 1990-91 to 53.4 per cent in 2001-02, has been declining in recent years and is budgeted at 41.9 per cent in 2004-05 (BE). The average cost of total internal liabilities, which rose from 8.2 per cent in 1990-91 to 10.3 per cent in 1999-2000, has shown a declining trend in recent years on account of soft interest rates and elongation in the maturity of Government securities. The estimated average cost of internal liabilities in 2004-05 is 8.8 per cent (Table 2.4). Interest expenditure in 2004-05 (BE) includes, for the first time, interest payable on borrowings under the market stabilisation scheme (MSS), for the purpose of absorption of excess liquidity in the system.

Table 2.4 : Interest on outstanding internal liabilities of Central Government

	Outstanding internal liabilities	Interest on internal liabilities*	Average cost of borrowings (per cent 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	933000	85741	10.3
2000-01	1047976	94900	10.2
2001-02	1196245	103175	9.8
2002-03	1323704	113238	9.5
2003-04(RE)	1444104	117332	8.9
2004-05(BE)	1621245	126870	8.8

Note : 1. Average cost of borrowing is the percentage of interest payment in year ‘ t’ to outstanding liabilities in year ‘t-1’.
2. Outstanding internal liabilities exclude NSSF loans to States, with no interest liability on the part of the Centre.

* Excludes Rs.313.61 crore and Rs. 4079.62 crore towards premium on account of domestic debt buyback scheme and prepayment of external debt for 2002-03 and 2003-04(RE) respectively.

Source : Budget documents.

Subsidies

2.17 As a proportion of total expenditure, subsidies after declining from 12.4 per cent

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in 1990-91 to 7.5 per cent in 1995-96, maintained a rising trend till 1998-99, when it reached 9.2 per cent. After briefly declining to 8.2 per cent in 1999-2000 and 2000-01, subsidies rose to 10.5 per cent of total expenditure in 2002-03. In 2004-05, subsidies are budgeted to decline to 9.1 per cent of total expenditure. In absolute terms, expenditure on subsidies is budgeted to come down from Rs.44,709 crore in 2003-04 (RE) to Rs.43,516 crore in 2004-05. The undulating pattern observed in the subsidies arises primarily from the expenditure on food subsidies, which is determined increasingly by the minimum support price of foodgrains, operational efficiency of the public distribution system, highly subsidised welfare schemes and special interventions in drought-affected years. The rise in subsidy bill in 2002-03 and 2003-04 was on account of higher allocations for the food for work programme to soften the impact of drought on the poor and enhanced coverage under Antyodya Anna Yojana and other welfare schemes. Furthermore, with the dismantling of the Administered Price Mechanism, petroleum subsidies were brought on to the budget in 2002-03. A part of the decline in major subsidies in the current fiscal is attributable to lower budgetary subsidies in respect of the petroleum sector.

2.18 One of the important commitments made in the NCMP was to target subsidies sharply at the poor and truly needy sections of the society. Budget for 2004-05 promised to lay a blue print for realizing this objective. In pursuance of this commitment, the National Institute of Public Finance and Policy (NIPFP) was asked to prepare a blue print to accomplish the NCMP objective. The NIPFP report estimates the quantum of total subsidies (unrecovered costs in the provision of non-public goods) for the years 2002-03 and 2003-04, and analyses three major explicit subsidies provided by the Government, viz., subsidies on food, fertilizers and petroleum products (LPG for domestic use and kerosene for PDS). Based on the NIPFP study, a report "Central Government Subsidies in India, 2004", was placed in Parliament on December 23, 2004 (Box 2.4).

Box 2.4 : Central Government subsidies in India

- Subsidies are estimated to be Rs.104,913 crore for 2002-03 and Rs.1,15,825 crore for 2003-04, constituting 4.25 per cent and 4.18 per cent of GDP, respectively. Subsidies on social services constituted 12.8 per cent and 14.1 per cent of total subsidies in 2002-03 and 2003-04, respectively, with the rest accounted for by economic services. An intertemporal comparison, using estimates for earlier years using a similar methodology, reveals a declining trend in total subsidies.
- Subsidies are classified into Merit I, Merit II and Non-Merit categories, based on the perceived desirability in the provision of public services. Merit subsidies as a proportion of total subsidies accounted for 34 per cent and 42 per cent in 2002-03 and 2003-04, respectively.
- The NIPFP study suggests reducing the volume of subsidies relative to revenue receipts, limiting these to only Merit I and Merit II categories, while eliminating the non-Merit subsidies. It also favours progressively raising the user charges.
- In food subsidies, the study suggests that a large part of the recent problems are attributable to the relatively high minimum support prices (MSPs), exclusive attention to wheat and rice, limited areas of procurement operations and inefficiencies in the operations of the Food Corporation of India.
- The study offers the following suggestions in the case of food subsidies.
  - i) MSPs not to exceed the levels recommended by the Commission on Agricultural Costs and Prices.
  - ii) Reimbursement to FCI based on normative costs and actual quantities involved.
  - iii) Gradual implementation of food stamps scheme, beginning with differential in the issue prices of foodgrains to the poor and non-poor being given in the form of food stamps, redeemable in fair price shops initially and later in all retail shops.
- On the basis of existing studies, the NIPFP study reported that the benefit of fertilizer subsidy is shared between the farmers and the fertilizer industry in the ratio of 62: 38. The study suggests decanalising urea imports and providing a flat rate concession that converges into a uniform rate in the medium-term, periodically increasing the farm gate price and issuing tradable coupons to targeted small farm households.
- Petroleum subsidies are found to be non-transparent, regressive in incidence of benefits and not promoting the main objective of increased access to clean fuels. The study suggests the following policy options: reducing the level of subsidies, allowing private sector participation in marketing subsidised products and cash transfers in lieu of subsidy.
- The performance of poor States in implementing major poverty alleviation schemes is found to be deficient.

Central Plan outlay

2.19 As compared to the budgeted Central Plan outlay of Rs.1,47,893 crore, the RE for 2003-04 is placed at Rs.1,41,766 crore, indicating a shortfall of 4 per cent. This is attributable to a shortfall in the internal and extra budgetary resources (IEBR) of Central Public Sector Enterprises (CPSEs) by 9 per cent. Gross budgetary support (GBS) to the Plan exceeded the BE marginally by about 1 per cent.

2.20 The Central Plan outlay in 2004-05 is budgeted at Rs.1,63,720 crore, up 15.5 per cent over the RE for 2003-04. The outlay consists of budgetary support of Rs.87,886 crore and IEBR of CPSEs of Rs.75,834 crore. The outlay includes a lumpsum additional provision of Rs.10,000 crore over the outlay provided in the interim Budget for meeting the additional NCMP commitments. A sectoral composition of this outlay reveals that energy sector's share at 28.6 per cent was the highest followed by social services (21.8 per cent), transport (18.7 per cent) and communications (7.2 per cent). In partial fulfillment of the commitment made under NCMP, there is a significant step-up in the outlays for the current year in agriculture (26.5 per cent), industry and minerals (45.2 per cent) and social services (14.9 per cent). Outlay under general economic services has been raised substantially (391 per cent increase over RE 2003-04).

2.21 Central assistance for State Plans has been raised from Rs.48,660 crore in 2003-04 (RE) to Rs.57,704 crore in 2004-05, an increase of 18.6 per cent. There has been a substantial step up in Central assistance under Rashtriya Sam Vikas Yojana (previously known as Development Reform Facility) from Rs.1,000 crore in 2003-04 (RE) to Rs.3,225 crore in 2004-05 and Accelerated Irrigation Benefit Scheme from Rs.2,250 crore to Rs.2,800 crore in the same period. Out of the additional lumpsum provision of Rs.10,000 crore, which was susequently raised to Rs. 12,000 crore, Rs.3,900 crore has been earmarked for Central assistance to State plans.

States and Union Territories

2.22 As per the latest estimates, resources mobilized for the Annual Plans of States and Union Territories (UTs) in 2003-04 amounted to Rs.92,583 crore compared to the BE of Rs.96,080 crore, indicating a shortfall of about 4 per cent. Aggregate resources for the Annual Plan 2004-05 of States and UTs with legislatures are estimated at Rs.1,17,911 crore, consisting of States' own resources of Rs.60,207 crore and Central assistance of Rs.57,704 crore.

Mid-term appraisal of the Tenth Five-Year Plan

2.23 The Planning Commission has taken up the mid-term appraisal (MTA) of the Tenth Plan (2002-07). The MTA provides an opportunity to take stock of the economy and to introduce policy corrections and new initiatives in critical areas in the context of priorities outlined in the NCMP (Box 2.5).

Box 2.5 : Approach to the mid-term appraisal of the Tenth Plan (2002-07)

- The approach paper proposes to explore the scope for accelerating growth in the remaining two years of the Plan to achieve the target of 7-8 per cent set in the NCMP. A growth above 10 per cent in industry is considered essential to realise the projected real GDP.
- Focus on corrective policies needed to reverse the deceleration in agricultural GDP growth from 3.2 per cent per annum in the period 1980-1996 to 2.6 per cent per annum in the period 1996-2002.
- Identification of factors behind the success achieved in the areas of business process outsourcing, bio-technology, pharmaceuticals, industrial design, health care, etc., with a view to strengthening and creatively building upon them.
- Special emphasis on promotion of public investment in rural areas based on the possibility for absorbing labour for asset creation.
- Candid assessment of resource position and identification of corrective policies for Central and State finances.
- Examining the feasibility of the proposed employment guarantee scheme on the basis of overall resource availability, feasibility of increasing employment content of investment expenditure, especially in rural areas.
- Examination of the price support and procurement systems in agriculture with a view to introducing gradual changes in a manner that does not affect food security.
- Critical initiatives needed to promote investment in infrastructure, including public-private partnerships and foreign direct investment.
- Examination of recent experiences in countering regional disparities and backwardness.
- Providing operational guidelines for carrying out administrative reforms.

Government debt

2.24 The persistently high deficits in the last two decades have resulted in substantial build up of debt. Outstanding liabilities of the Central Government, after declining from 55.3 per cent of GDP in 1990-91 to 51.2 per cent in 1998-99, have risen continuously till 2002-03 (Table 2.5). Outstanding liabilities amounted to 62.5 per cent of GDP in 2003-04 (RE) and are budgeted to increase to 63.9 per cent of GDP in 2004-05. Excluding the borrowings under MSS amounting to Rs.60,000 crore, outstanding liabilities constitute 62.0 per cent of GDP in 2004-05 (BE). Outstanding external debt declined continuously from 5.7 per cent of GDP in 1991-92 to 1.7 per cent of GDP in 2003-04 (RE). It is budgeted at Rs.55,084 crore, equivalent to 1.8 per cent of GDP in 2004-05.

Table 2.5 : Outstanding liabilities of the Central Government

(end-March)

		1990-91	1999-00	2000-01	2001-02	2002-03	2003-04 (RE)	2004-05## (BE)
					(Rs. crore)			
1.	**Internal liabilities**	**283033**	**962592**	**1102596**	**1294862**	**1499589**	**1677092**	**1931083**
	a) Internal debt	154004	714254	803698	913061	1020688	1134020	1291628
	i) Market borrowings	70520	355862	428793	516517	619105	704902	825403
	ii) Others	83484	358392	374905	396544	401583	429118	466225
	b) Other Internal liabilities	129029	248338	298898	381801	478901	543072	639455
2.	**External debt (outstanding)***	**31525**	**58437**	**65945**	**71546**	**59612**	**47407**	**55084**
3.	**Total outstanding liabilities (1+2)**	**314558**	**1021029**	**1168541**	**1366408**	**1559201**	**1724499**	**1986167**
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**	**1020729**	**1168241**	**1366108**	**1558901**	**1724199**	**1985867**
					(As per cent of GDP)			
1.	**Internal liabilities**	**49.8**	**49.7**	**52.8**	**57.0**	**60.9**	**60.8**	**62.1**
	a) Internal debt	27.1	36.9	38.5	40.2	41.4	41.1	41.6
	i) Market borrowings	12.4	18.4	20.5	22.7	25.1	25.5	26.6
	ii) Others	14.7	18.5	17.9	17.5	16.3	15.5	15.0
	b) Other Internal liabilities	22.7	12.8	14.3	16.8	19.4	19.7	20.6
2.	**External debt (outstanding)***	**5.5**	**3.0**	**3.2**	**3.1**	**2.4**	**1.7**	**1.8**
3.	**Total outstanding liabilities**	**55.3**	**52.7**	**55.9**	**60.1**	**63.3**	**62.5**	**63.9**
	<u>Memorandum items</u>							
	(a) External debt (Rs.crore)@	66314	186791	189990	199639	196067	184177	n.a.
	(as per cent of GDP)	11.7	9.6	9.1	8.8	8.0	6.7	
	(b) Total outstanding liabilities	349347	1149383	1292586	1494501	1695656	1861269	n.a.
	(adjusted) (Rs.crore) (as per cent of GDP)	61.4	59.3	61.9	65.8	68.8	67.4	
	(c) Internal liabilities (Non-RBI)#	208978	820967	956478	1142698	1337752	1518040	1728068
	(as per cent of GDP)	36.7	42.4	45.8	50.3	54.3	55.0	55.6
	(d) Outstanding liabilities (Non-RBI)# (Rs.crore)	275292	1007758	1146468	1342337	1533819	1702217	n.a.
	Outstanding liabilities (Non-RBI) (as per cent of GDP)	48.4	52.0	54.9	59.1	62.3	61.7	n.a.
	(e) Contingent liabilities of Central Government (Rs.crore)	n.a.	83954	86862	95859	90617	n.a.	n.a.
	Contingent liabilities of Central Government (as per cent of GDP)	n.a.	4.3	4.2	4.2	3.7	n.a.	n.a.
	(f) Total assets (Rs crore)	236740	607705	676581	760592	840768	892123	1091009
	Total assets (as per cent of GDP)	41.6	31.4	32.4	33.5	34.1	32.3	35.1

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 1999-2000, the rates prevailing at the end of March, 2000 and so on. Data for 2003-04 is as per BE, as RE has not been finalised.

 # This includes marketable dated securties held by the RBI.

 # # Including net borrowing of Rs. 60,000 crore under MSS.

Note: 1. Total liabilities excluding Rs. 60,000 crore under MSS is Rs 1986167 crore (62.0 per cent of GDP).
2. The ratios to GDP for 2004-05 (BE) are based on CSO's Advance Estimates released in February, 2005.

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

2.25 The share of debt in total internal liabilities has been increasing over the years. The share, which was 54.4 per cent in 1990-91, increased to 67.7 per cent in 2003-04 (RE). Within debt, the share of market borrowings increased from 45.8 per cent in 1990-91 to 62.2 per cent in 2003-04 (RE). In recent years, banks have been subscribing to Government securities, much beyond the statutory liquidity ratio (SLR) of 25 per cent of their net demand and time liabilities (NDTL). Commercial banks have been parking their surplus liquidity in risk-free Government securities. Such investments amounted to 41.3 per cent of their NDTL by end-March, 2004. The pre-emption of financial resources by the Government has reduced the availability of credit to the private sector. A noteworthy development in the current year is the significant deceleration in investments in Government securities by commercial banks, following a pick up in the demand for credit from the commercial sector and lower market borrowings by the Central government. Commercial banks' investments in Central and State Government securities in the current year (up to January 21, 2005) have increased by 4.9 per cent compared to a growth of 20.1 per cent in the same period last year. Gross and net market borrowings of the Central Government through dated securities are budgeted at Rs.1,49,817 crore and Rs.1,15,501 crore, respectively, including Rs.25,000 crore under MSS. Actual gross and net market borrowings of the Central government in the current year (up to January 28, 2005) amounted to Rs.1,00,350 crore and Rs.66,034 crore, respectively compared with Rs.1,25,934 crore and Rs.94,032 crore, respectively in the corresponding period last year. When adjusted for borrowings under MSS, gross and net market borrowings in the current year are much lower than the level in 2003-04.

2.26 The rules framed under the FRBM Act place a limit of 9 per cent of GDP on the additional liabilities that can be assumed by the Central Government in 2004-05. This limit would go down by one percentage point in each subsequent year. Adherence to these limits is expected to bring down the debt burden over the medium term.

Supplementary demands for grants

2.27 Approval for the first batch of supplementary demands for grants involving gross additional expenditure of Rs.38,622 crore was sought from Parliament in December 2004 in respect of 56 grants and one appropriation. Of this, proposals involving net cash outgo aggregate to Rs.5,063 crore and gross additional expenditure, matched by savings of the Ministries concerned or by enhanced receipts or resources, amount to Rs.33,558 crore. Major items involving net cash outgo are transfers to Universal Service Obligation Fund (Rs.1,000 crore), grants to Sarva Shiksha Abhiyan (Rs.2,000 crore),provision for meeting additional expenditure of Delhi Metro Rail Corporation (Rs.500 crore), and provision for meeting additional expenditure for Indira Awas Yojana (Rs.400 crore). Major items of expenditure, not involving cash outgo, are compensation to telecom service providers under Universal Service Obligation (Rs.1,000 crore), additional GBS to State plans (Rs.4,625 crore) for meeting the NCMP objectives, additional requirement on account of repayments to NSSF under the debt swap scheme (Rs.22,665 crore), and National Food for Work Programme (Rs.2,020 crore).

Savings and capital formation

2.28 The economic and functional classification of the Central Government Budget 2004-05, which analyses budgetary transactions of the Centre by economic and functional categories, places the total expenditure at Rs.4,76,171 crore, an increase of 10.8 per cent over 2003-04 (RE). The share of consumption expenditure, which remained in the range of 21 and 23 per cent between 1990-91 and 2003-04, is budgeted to increase to 25.3 per cent in 2004-05. The substantial increase in the share of consumption expenditure is mainly on account of a step up in the provision made

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for commodities and services from Rs.53,015 crore in 2003-04 (RE) to Rs.72,014 crore in 2004-05. Expenditure on wages, salaries and pensions of the Centre as a proportion of its total expenditure is budgeted at 15.2 per cent in 2004-05 as compared with 15.0 per cent in 2003-04(RE).

2.29 Gross capital formation out of budgetary resources of the Central Government, which has been declining steadily, improved marginally to 19.4 per cent of total expenditure in 2003-04 (RE), compared to 19.2 per cent in the previous year (Table 2.6). This has been carried

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	1999-00	2000-01	2001-02	2002-03	2003-04 (RE)	2004-05$ (BE)
					(Rs. crore)			
I.	**Total expenditure**	**97947**	**307509**	**328265**	**360616**	**398879**	**429691**	**476171**
II.	**Gross capital formation out of budgetary resources of Central Government**	**28032**	**67602**	**66960**	**76888**	**76782**	**83180**	**99222**
	(i) Gross capital formation by the Central Government	8602	26075	22258	12634	21697	25312	30089
	(ii) Financial assistance for capital formation in the rest of the economy	19430	41527	44702	64254	55085	57868	69133
III.	**Gross saving of the Central Government**	**-10502**	**-41169**	**-56920**	**-76306**	**-81734**	**-76448**	**-65125**
IV.	**Gap(II-III)**	**38534**	**108771**	**123880**	**153194**	**158516**	**159628**	**164347**
	Financed by							
	a. Draft on other sectors of domestic economy	34768	106483	115561	145841	168582	168474	152672
	(i) Domestic capital receipts	23421	105619	116758	147337	166699	178706	139075
	(ii) Budgetary deficit/draw down of cash balance	11347	864	-1197	-1496	1883	-10232	13597
	b. Draft on foreign savings	3766	2288	8319	7353	-10066	-8846	11675
					(As per cent of GDP)			
I.	**Total expenditure**	**17.2**	**15.9**	**15.7**	**15.9**	**16.2**	**15.6**	**15.3**
II.	**Gross capital formation out of budgetary resources of Central Government**	**4.9**	**3.5**	**3.2**	**3.4**	**3.1**	**3.0**	**3.2**
	(i) Gross capital formation by the Central Government	1.5	1.3	1.1	0.6	0.9	0.9	1.0
	(ii) Financial assistance for capital formation in the rest of the economy	3.4	2.1	2.1	2.8	2.2	2.1	2.2
III.	**Gross saving of the Central Government**	**-1.8**	**-2.1**	**-2.7**	**-3.4**	**-3.3**	**-2.8**	**-2.1**
IV.	**Gap(II-III)**	**6.8**	**5.6**	**5.9**	**6.7**	**6.4**	**5.8**	**5.3**
	Financed by							
	a. Draft on other sectors of domestic economy	6.1	5.5	5.5	6.4	6.8	6.1	4.9
	(i) Domestic capital receipts	4.1	5.5	5.6	6.5	6.8	6.5	4.5
	(ii) Budgetary deficit/draw down of cash balance	2.0	0.0	-0.1	-0.1	0.1	-0.4	0.4
	b. Draft on foreign savings	0.7	0.1	0.4	0.3	-0.4	-0.3	0.4
					(increase over previous year)			
II.	**Gross capital formation out of budgetary resources of Central Government**	**2.8**	**16.9**	**-0.9**	**14.8**	**-0.1**	**8.3**	**19.3**
	<u>Memorandum items</u>							
					(Rs crore)			
1	Consumption expenditure	22359	68831	71977	77324	85389	95718	120701
2	Current transfers	45134	161549	183696	201188	228501	242847	251141
					(As per cent of GDP)			
1	Consumption expenditure	**3.9**	**3.6**	**3.4**	**3.4**	**3.5**	**3.5**	**3.9**
2	Current transfers	**7.9**	**8.3**	**8.8**	**8.9**	**9.3**	**8.8**	**8.1**

$ The ratios to GDP for 2004-05 (BE) are based on CSO's Advance Estimates released in February, 2005.

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, are included.

Source : Ministry of Finance, An Economic and Functional classification of the Central Government Budget-various issues.

forward in 2004-05, with the share of gross capital formation in total expenditure improving by 1.4 percentage points to 20.8 per cent. Transfer payments, financial investments and loans to the rest of the economy, which supplement the current and capital receipts of other sectors are placed at Rs.3,25,382 crore, constituting 68.3 per cent of total expenditure. The trend of growing dissavings of the Central Government was arrested in 2003-04. Dissavings of the Central government which declined from Rs.81,734 crore in 2002-03 to Rs.76,448 crore in 2003-04 are placed at Rs.65,125 crore in 2004-05 (BE).The reduction in dissavings are mainly in Government administration. As a proportion of GDP, dissavings are placed at 2.8 per cent in 2003-04 (RE) and 2.1 per cent in 2004-05 (BE).

Collection rates

2.30 Following the initiation of tax reforms, the peak rate of basic customs duty has been reduced in a phased manner from 120 per cent in 1990-91 to 20 per cent in 2003-04. The effective rates of customs duties were lower than nominal rates, as there were numerous general and end-use/specific exemptions in the initial years of tax reforms. Collection rate, the ratio of revenue realized from imports to the value of imports, is a comprehensive indicator of the incidence of customs duties, including the incidence of countervailing duties and special additional duties levied on imports. The average collection rate has come down from 47 per cent in 1990-91 to 14 per cent in 2003-04, reflecting the reductions in nominal rates of customs duties as part of tax reforms. Among the commodity groups, the collection rates have declined by over 65 per cent between 1990-91 and 2003-04 in respect of chemicals, metals, capital goods and petroleum, oil and lubricants (Table 2.7).

Table 2.7 : Collection rates* for selected import groups

(in per cent)

Sl. No.	Commodity Groups	1990-91	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04 (Prov.)
1	Food products	47	16	15	15	31	40	30	19
2	POL	34	29	29	23	16	10	11	11
3	Chemicals	92	37	34	36	38	29	28	24
4	Man-made fibres	83	36	49	64	49	31	31	46
5	Paper & newsprint	24	13	11	9	8	6	7	7
6	Natural fibres	20	17	22	24	18	8	10	13
7	Metals	95	44	51	55	48	36	36	32
8	Capital goods	60	41	42	36	36	28	23	19
9	Others	20	15	11	12	12	9	9	8
10	Non POL	51	27	23	22	23	19	17	14
11	**Total**	**47**	**27**	**23**	**22**	**21**	**16**	**15**	**14**

* 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, project imports and electrical machinery.

Source : Department of Revenue, Ministry of Finance

website : http:/indiabudget.nic.in