Budgetary developments in 2005-06

2.10 Continuing with the process set in motion in the previous year, the Budget for 2005-06 sought to further the NCMP objectives of growth, stability and equity in a calibrated manner. Maintaining a growth rate of 7-8 per cent per annum, promoting investment, generating employment, accelerating fiscal consolidation, ensuring higher fiscal devolution and focusing on agriculture, manufacturing and infrastructure were the key objectives. Budget 2005-06 sought to achieve these objectives through a series of initiatives, which included: hike in gross budgetary support (GBS) for the plan by 16.9 per cent on a like-to-like basis from Rs.1,45,590 crore in 2004-05(BE) to Rs.1,72,500 crore in 2005-06 (BE); provision of livelihood security for crores of poor families through the National Rural Employment Guarantee Scheme (NREGS), the legislation for which was passed by the Parliament on August 24, 2005; a visionary development proposal – Bharat Nirman – for building infrastructure, especially in rural areas; an outlay of Rs.1,100 crore for covering 1.25 lakh villages in five years under a massive programme of rural electrification; creation of an SPV to overcome the infrastructure deficit and provison of guarantees to the extent of the borrowing limit of Rs. 10,000 crore; enhanced outlay on NHDP from Rs. 6,514 crore in BE 2004-05 to Rs. 9,320 crore to speed it up; provision of Rs. 5,500 crore for National Urban Renewal Mission (NURM); and a focus on outcomes rather than outlays.

2.11 The process of fiscal adjustment, through mandated annual reduction in the revenue deficit by 0.5 per cent of GDP, was paused in the Budget for 2005-06. Revenue deficit was budgeted at Rs. 95,312 crore, which as a proportion of GDP, was maintained at the same levels as 2004-05 (RE). This was a one-off measure to accommodate the higher resource requirements due to TFC award. Fiscal deficit, as a proportion of GDP, was budgeted to decline from 4.5 per cent in 2004-05 (RE) to 4.3 per cent.

Revenue and capital receipts

2.12 Given the committed nature of public expenditure, which provide very little head room for compression in the short run, and the need for resources to fulfill the NCMP objectives, the strategy for achieving the targets set under the FRBMA and the rules made thereunder was primarily revenue-led. The Budget for 2005-06 continuing with this revenue led strategy estimated a growth of 16.7 per cent in revenue receipts over 2004-05 (RE), composed primarily of a 20.9 per cent growth in gross tax revenue. The sharp decline in capital receipts projected was mainly on account of the discontinuance of the debt swap scheme. (Table 2.2).

2.13 The tax reforms underway since the mid-80s, especially from the nineties, sought to effect a compositional shift in the structure of the tax system away from the excessive dependence on regressive indirect taxes to direct taxes and provide for enhanced competitiveness of the Indian industry. The direct tax to GDP ratio increased from 1.9 per cent in 1990-91 to 4.2 per cent in 2004-05 (RE). With indirect tax to GDP ratio declining

Table 2.2 : Receipts and expenditure of the Central Government

	1990-91	2000-01	2001-02	2002-03	2003-04#	2004-05 (B.E.)	2004-05 (Prov.)@	2005-06 (B.E.)
					(Rs crore)			
1. Revenue receipts (a+b)	**54954**	**192605**	**201306**	**230834**	**263878**	**309322**	**305187**	**351200**
(a) Tax revenue (net of States' share)	**42978**	**136658**	**133532**	**158544**	**186982**	**233906**	**224857**	**273466**
(b) Non-tax revenue	**11976**	**55947**	**67774**	**72290**	**76896**	**75416**	**80330**	**77734**
2. Revenue expenditure	**73516**	**277838**	**301468**	**338713**	**362140**	**385493**	**384745**	**446512**
of which:								
(a) Interest payments	21498	99314	107460	117804	124088	129500	126540	133945
(b) Major subsidies	9581	25860	30447	40716	43455	42214	44633	46358
(c) Defence expenditure	10874	37238	38059	40709	43203	43517	43967	48625
3. Revenue deficit (2-1)	**18562**	**85233**	**100162**	**107879**	**98262**	**76171**	**79558**	**95312**
4. Capital receipts (a+b+c)	**31971**	**132987**	**161004**	**182414**	**207490**	**168507**	**193261**	**163144**
(a) Recovery of loans*	5712	12046	16403	34191	67265	27100	60862	12000
(b) other receipts (mainly PSU disinvestment)	0	2125	3646	3151	16953	4000	4424	0
(c) Borrowings and other liabilities$	26259	118816	140955	145072	123272	137407	127975	151144
5. Capital expenditure	**24756**	**47754**	**60842**	**74535****	**109228****	**92336**	**113703****	**67832**
6. Total expenditure [2+5=6(a)+6(b)]	**98272**	**325592**	**362310**	**413248**	**471368**	**477829**	**498448**	**514344**
of which:								
(a) Plan expenditure	28365	82669	101194	111470	122280	145590	132160	143497
(b) Non-plan expenditure	69907	242923	261116	301778	349088	332239	366288	370847
7. Fiscal deficit [6-1-4(a)-4(b)]	**37606**	**118816**	**140955**	**145072**	**123272**	**137407**	**127975**	**151144**
8. Primary deficit [7-2(a)=8(a)+8(b)]	**16108**	**19502**	**33495**	**27268**	**-816**	**7907**	**1435**	**17199**
(a) Primary deficit consumption	6358	22955	36180	38607	25017	-3400	1304	2960
(b) Primary deficit investment	9750	-3453	-2685	-11339	-25833	11307	131	14239
					(As per cent of GDP)			
1. Revenue receipts (a+b)	**9.7**	**9.1**	**8.8**	**9.4**	**9.6**	**9.9**	**9.8**	**10.0**
(a) Tax revenue (net of States' share)	**7.6**	**6.5**	**5.9**	**6.5**	**6.8**	**7.5**	**7.2**	**7.7**
(b) Non-tax revenue	**2.1**	**2.7**	**3.0**	**3.0**	**2.8**	**2.4**	**2.6**	**2.2**
2. Revenue expenditure	**12.9**	**13.2**	**13.2**	**13.8**	**13.1**	**12.3**	**12.3**	**12.8**
of which:								
(a) Interest payments	3.8	4.7	4.7	4.8	4.5	4.1	4.1	3.8
(b) Major subsidies	1.7	1.2	1.3	1.7	1.6	1.4	1.4	1.3
(c) Defence expenditure	1.9	1.8	1.7	1.7	1.6	1.4	1.4	1.4
3. Revenue deficit (2-1)	**3.3**	**4.0**	**4.4**	**4.4**	**3.6**	**2.4**	**2.5**	**2.7**
4. Capital receipts (a+b+c)	**5.6**	**6.3**	**7.1**	**7.4**	**7.5**	**5.4**	**6.2**	**4.6**
(a) Recovery of loans*	1.0	0.6	0.7	1.4	2.4	0.9	1.9	0.3
(b) Other receipt (mainly PSU disinvestment)	0.0	0.1	0.2	0.1	0.6	0.1	0.1	0.0
(c) Borrowings and other liabilities$	4.6	5.6	6.2	5.9	4.5	4.4	4.1	4.3
5. Capital expenditure	**4.4**	**2.3**	**2.7**	**3.0**	**4.0**	**3.0**	**3.6**	**1.9**
6. Total expenditure [2+5=6(a)+6(b)]	**17.3**	**15.4**	**15.9**	**16.9**	**17.1**	**15.3**	**16.0**	**14.6**
of which:								
(a) Plan expenditure	5.0	3.9	4.4	4.6	4.4	4.7	4.2	4.1
(b) Non-plan expenditure	12.3	11.5	11.4	12.3	12.6	10.6	11.7	10.5
7.Fiscal deficit [6-1-4(a)-4(b)]	**6.6**	**5.6**	**6.2**	**5.9**	**4.5**	**4.4**	**4.1**	**4.3**
8.Primary deficit [7-2(a)=8(a)+8(b)]	**2.8**	**0.9**	**1.5**	**1.1**	**0.0**	**0.3**	**0.0**	**0.5**
(a) Primary deficit consumption	1.1	1.1	1.6	1.6	0.9	-0.1	0.0	0.1
(b) Primary deficit investment investment	1.7	-0.2	-0.1	-0.5	-0.9	0.4	0.0	0.4
Memorandum items					(Rs crore)			
(a) Interest receipts	8730	32811	35538	37622	38517	36950	32733	25500
(b) Dividend and profit	564	4225	7940	10910	12326	12979	15553	16092
(c) Non-plan revenue expenditure	60896	226762	239811	267144	283502	293650	297249	330530

@ Provisional and unaudited as reported by Controller General of Accounts, Department of Expenditure, Ministry of Finance
 # Based on provisional actuals for 2003-04.
*** Includes receipts from States on account of debt swap scheme for 2002-03, 2003-04 and 2004-05.**
**** Includes repayment to National Small Savings Fund.**
$ Does not include Rs. 60,000 crore for 2004-05(BE), Rs. 65,481 crore for 2004-05(RE) and Rs. 80,500 crore for 2005-06 (BE) 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 ratios to GDP for 2005-06 (BE) are based on CSO's Advance Estimates. GDP at current market prices prior to 1999-2000 based on 1993-94 series and from 1999-2000 based on new 1999-2000 series.
2. The figures may not add up to the total because of rounding approximations.
3. Primary deficit consumption =Revenue deficit-interest payments+interest receipts+dividend & profits
4. Primary deficit investment =Capital expenditure-interest receipts -Dividend & profits-recovery of loans-other receipts.
5. Figures are exclusive of the transfer of States' share in the small savings collections.

Source : Budget documents.

from 7.9 per cent to 5.5 per cent in the same period, the gross tax-GDP ratio generally remained in the range of 8 per cent to 9 per cent as the growth in direct tax-GDP ratio could not fully offset the decline in the indirect tax-GDP ratio. There was a distinct recovery in the last few years in the gross tax-GDP ratio, which was budgeted to go up to 10.5 per cent in 2005-06 (Table 2.3). Among the direct taxes, the growth in corporate income tax was the dominant one. Disinvestment proceeds were treated as a part of non-debt capital receipts under the head 'other receipts' till 2004-05 and used for financing the fiscal deficit. From 2005-06, these proceeds would be credited to an 'investment fund', the income from which would only be used to finance expenditure on social infastructure and to provide capital to viable public sector enterprises.

Tax Measures

a) Direct taxes

2.14 In the area of direct taxes, the Budget for 2005-06 carried forward the process initiated in the previous Budget. In personal income tax, the tax rates were revised for various tax brackets conferring gain to all taxpayers through higher exemption limits and scaling up, even as standard deduction was withdrawn. In another significant move, neutrality of taxes between forms of savings was achieved through a general rebate on savings in any approved instrument up to Rs.1 lakh. Budget for 2005-06 introduced two new taxes: a fringe benefit tax targeted at those benefits enjoyed collectively by the employees and not attributable to individual employees, which are to be taxed in the hands of employer; and a tax on banking cash transactions (withdrawals) over a certain

Table 2.3 : Sources of tax revenue

	1990-91 Actuals	1995-96 Actuals	2000-01 Actuals	2001-02 Actuals	2002-03 Actuals	2003-04 Actuals	2004-05@ (Prov.)	2005-06 (BE)
				(Rs. crore)				
Direct (a)	**11024**	**33563**	**68306**	**69197**	**83085**	**105082**	**132027**	**177077**
Personal income tax	5371	15592	31764	32004	36866	41379	48312	66239
Corporation tax	5335	16487	35696	36609	46172	63562	83566	110573
Indirect(b)	**45158**	**76806**	**118681**	**116125**	**131284**	**147294**	**171010**	**192215**
Customs	20644	35757	47542	40268	44852	48629	57655	53182
Excise	24514	40187	68526	72555	82310	90774	99155	121533
Service tax	0	862	2613	3302	4122	7891	14200	17500
Gross tax revenue #	**57576**	**111224**	**188603**	**187060**	**216266**	**254348**	**304980**	**370025**
				Tax revenue as a percentage of gross tax revenue				
Direct (a)	**19.1**	**30.2**	**36.2**	**37.0**	**38.4**	**41.3**	**43.3**	**47.9**
Peronal income tax	9.3	14.0	16.8	17.1	17.0	16.3	15.8	17.9
Corporation tax	**9.3**	14.8	18.9	19.6	21.3	25.0	27.4	29.9
Indirect(b)	**78.4**	**69.1**	**62.9**	**62.1**	**60.7**	**57.9**	**56.1**	**51.9**
Customs	35.9	32.1	25.2	21.5	20.7	19.1	18.9	14.4
Excise	42.6	36.1	36.3	38.8	38.1	35.7	32.5	32.8
Service tax	0.0	0.8	1.4	1.8	1.9	3.1	4.7	4.7
				Tax revenue as a per cent of GDP*				
Direct(a)	**1.9**	**2.8**	**3.2**	**3.0**	**3.4**	**3.8**	**4.2**	**5.0**
Personal income tax	0.9	1.3	1.5	1.4	1.5	1.5	1.5	1.9
Corporation tax	0.9	1.4	1.7	1.6	1.9	2.3	2.7	3.1
Indirect(b)	**7.9**	**6.5**	**5.6**	**5.1**	**5.4**	**5.3**	**5.5**	**5.4**
Customs	3.6	3.0	2.3	1.8	1.8	1.8	1.8	1.5
Excise	4.3	3.4	3.3	3.2	3.4	3.3	3.2	3.4
Service tax	0.0	0.1	0.1	0.1	0.2	0.3	0.5	0.5
Total#	**10.1**	**9.4**	**8.9**	**8.2**	**8.8**	**9.2**	**9.8**	**10.5**

@ Provisional and unaudited as reported by Controller General of Accounts, Department of Expenditure, Ministry of Finance.
# Includes taxes referred in (a) & (b) and taxes of Union Territories and "other" taxes.
* 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 2005-06 (BE) based on CSO's Advance Estimates. GDP at current market prices prior to 1999-2000 based on 1993-94 series and from 1999-2000 based on new 1999-2000 series.

Source : Budget documents

Box 2.1 : Budget 2005-06 : Direct taxes

- The basic exemption limit for personal income tax increased: in general to Rs.1 lakh; for women to Rs.1.35 lakh; and for senior citizens to Rs.1.85 lakh.
- The personal income tax rates modified: to 10 per cent for income between Rs.1 lakh to Rs.1.5 lakh; 20 per cent for income between Rs.1.5 lakh to Rs.2.5 lakh; 30 per cent for income above Rs.2.5 lakh. Surcharge at 2.5 per cent applicable in the case of individuals, HUFs, association of persons and body of individuals on taxable income above Rs.10 lakh.
- Standard deduction withdrawn. All prevailing sectoral caps/rebate under Section 88, 88B and 88C removed.
- Investment in financial instruments hitherto eligible for rebate under section 88 eligible for deduction from income under new section 80C with an overall cap of Rs.1 lakh. Sectoral caps on house loan repayment, tuition fees, contribution to provident fund payment, etc. removed.
- Deduction provided in respect of interest on certain securities etc. under Section 80L withdrawn.
- One-in-six criteria for filing income tax returns modified. Cellular phones removed from the list and expenditure exceeding Rs.50,000 on electricity consumption in any previous year included.
- The corporate income tax rate for domestic companies and firms reduced from 35 per cent to 30 per cent. However, a surcharge of 10 per cent applies.
- A new fringe benefits tax introduced on the value of benefits provided by the employer for the collective enjoyment of the employees. The tax at 30 per cent on the value of such fringe benefits is payable by the employer. The tax would, *inter alia*, include benefits like entertainment, conveyance, tour & travel, use of hotel, boarding & lodging facilities, and gifts.
- Banking Cash Transaction Tax (BCTT) at 0.1 per cent introduced on withdrawal of cash from bank on a single day of Rs.25,000 or more by individuals or HUF and Rs.1 lakh by persons other than individuals and HUF. Banks to report all deposits which are exempt from tax deduction at source on interest. Cash withdrawals from savings account and purchase of demand draft for cash exempt from BCTT.
- BCTT is applicable for encashment of term deposits if cash received during a single day exceeds the limit.
- Credit for MAT paid under section 115JB provided against tax liability that arises in subsequent years.
- Exemption for interest on Non-Resident (External) Account continued.
- Authorities constituted under the Central or State Act and operating, developing and maintaining an infrastructure facility eligible for 100 per cent deduction of profits for a period of 10 years.
- Rates of depreciation on plant & machinery reduced from 25 per cent to 15 per cent.
- Additional depreciation on new plant & machinery acquired after April 1, 2005 increased to 20 per cent.
- The rates for Securities Transaction Tax (STT) for all categories of transactions increased by 33.33 per cent.

threshold in a single day. (Box 2.1). Taking a leaf out of the international best practices, corporate income tax was reduced to 30 per cent, albeit with a higher surcharge of 10 per cent and reduced depreciation allowance that is a better approximation to the replacement life-value. Further, the withholding tax on technical services was reduced from 20 per cent to 10 per cent. To facilitate large taxpayers, new large taxpayer units (LTUs) providing single window service were proposed to be established.

b) Indirect taxes

2.15 Adhering to the pre-announced commitment to align customs duties to ASEAN levels, Budget for 2005-06 reduced peak customs duty on non-agricultural products to 15 per cent with steeper reductions for capital goods and raw materials and corrections for inverted duty structures. As a part of oil prices management, in an era of unprecedented rise in international prices, customs duty on crude petroleum was halved from 10 per cent to 5 per cent; customs duty on petroleum products reduced to 10 per cent from 20 per cent and 15 per cent; customs duty on subsidised products, namely domestic LPG and PDS kerosene, made nil; and excise duties on motor spirit and high speed diesel converted to specific duties together with an

Box 2.2 : Indirect taxes: Customs

- Peak rate of customs duties for non-agricultural products reduced from 20 per cent to 15 per cent.
- To promote investment, customs duties on selected capital goods and parts thereof reduced to 10.5 per cent.
- Duty on textile machinery and refrigerated vans reduced from 20 per cent to 10 per cent.
- Duties on seven specified machinery used in leather and footwear industry reduced to 5 per cent from 20 per cent; duty on ethyl vinyl acetate reduced from 20 per cent to 10 per cent.
- Duty on nine specified machinery used in pharma and biotech sectors reduced to 5 per cent.
- Duties on specified parts of battery-operated road vehicles and for printing presses reduced from 20 per cent to 10 per cent.
- To encourage indigenous industries, duties on primary and semi-finished forms of metal viz., stainless steel, other alloy steel, ferro-alloys, aluminum, copper, zinc, tin etc. reduced from 15 per cent to 10 per cent;
- Customs duty on industrial raw materials such as catalysts, refractory raw materials, basic plastic materials, molasses and industrial ethyl alcohol reduced to 10 per cent; duty on lead reduced from 15 per cent to 5 per cent.
- Duty on coking coal with high ash content reduced to 5 per cent.
- Duty on polyester and nylon chips, textile fibres, yarns and intermediates, fabrics, and garments reduced from 20 per cent to 15 per cent.
- Customs duty on specified capital goods and all inputs required for the manufacture of Information Technology Agreement (ITA) bound items removed.
- A CVD of 4 per cent levied on the imports of ITA bound items and their inputs that attract nil duty; credit for the CVD made available against payment of excise duty; IT software exempted from the proposed CVD.
- Duty on atmospheric drinking water generators reduced from 20 per cent to 5 per cent.
- Customs duty structure of petroleum sector rationalized: duty on crude reduced from 10 per cent to 5 per cent; nil rate of duty on LPG for domestic consumption and on subsidized kerosene; and duty on other petroleum products, including motor spirit (MS) and diesel (HSD) reduced from 20 or 15 per cent to 10 per cent.

Box 2.3 : Indirect taxes : Excise and service tax

Excise:

- Duty on polyester filament yarn, tyres and air conditioners reduced to 16 per cent.
- Independent texturizers given the option to avail the exemption route or pay 8 per cent excise duty with CENVAT credit.
- Excise duties on MS or petrol, and HSD fixed as a combination of *ad valorem* and specific duties: at 8 per cent plus Rs.13 per litre for MS, and 8 per cent plus Rs.3.25 per litre for HSD.
- Duty on Liquified Petroleum Gas (LPG) for supply to domestic households and kerosene for ultimate sale through public distribution system reduced from 8 per cent to nil.
- Excise duty on tyres, tubes and flaps reduced from 24 per cent to 16 per cent.
- Duty on polyester filament yarn including texturised yarn reduced from 24 per cent to 16 per cent and optional duty of 8 per cent extended to processed filament yarns including polyester filament yarn, manufactured from yarn procured from outside by independent processors.
- Duty on branded jewellery pegged at 2 per cent; on mosaic tiles at 8 per cent; and on road tractors for semi trailers of engine capacity exceeding 1800 cc at 16 per cent; agricultural tractors continues to be exempt.
- Surcharge of Re.1 per kg on tea; duty of Re.1 per kg on refined edible oils; and Rs.1.25 per kg on vanaspati abolished.
- Ceiling for annual turnover-based SSI exemption raised from Rs.3 crore to Rs.4 crore. SSI units have two options: either full exemption on the first clearance of Rs.1 crore or normal duty on the first clearance of Rs.1 crore with CENVAT credit.
- Duty on iron and steel raised from 12 per cent to 16 per cent.
- Duty on molasses per MT increased from Rs.500 to Rs.1,000; duty on cement clinkers per MT increased from Rs.250 to Rs.350 as an anti-avoidance measure.
- Cess on MS and HSD increased by 50 paise per litre to raise additional resources for the National Highways Development Project.
- Specific rate on cigarettes raised by about 10 per cent and a surcharge of 10 per cent introduced on other tobacco products including gutka, chewing tobacco, snuff and pan masala excluding biris.

Service Tax

- Service tax rate increased from 8 per cent to 10 per cent.
- From April 1, 2005, an exemption scheme for small service providers with aggregate taxable services of no more than Rs.4 lakh during the preceding financial year.
- Production/processing of goods from the inputs received from a manufacturer, which was returned to the same manufacturer for manufacture of final products, which are cleared on payment of excise duty, exempt.

8 per cent *ad valorem* component (Boxes 2.2 and 2.3). A surcharge was imposed on pan masala and certain specified tobacco products to finance the National Rural Health Mission. This additional duty was charged at specified rates on cigarettes equivalent to 10 per cent of the aggregate of normal rates of excise duty payable on pan masala and other tobacco products except biris. In excise, Government intends to bring as many goods as possible to the median CENVAT rate of 16 per cent. Towards this, the Budget for 2005-06 reduced duties on polyester filament yarn, tyres and air-conditioners from 24 per cent to 16 per cent.

2.16 In a significant move, the Budget for 2005-06 announced Government's intent to rectify the anomaly of State-level taxes on domestic production that is not countervailed on direct import of such products by end-users. This is to be achieved through the levy of a countervailing duty of 4 per cent on all imports. For the current year though, this was only levied on the imports of Information Technology Agreement bound items and their inputs that attract nil duty.

Service tax

2.17 From a modest beginning in 1994-95, service tax has grown into a significant source of revenue, with Rs.14,200 crore realised in 2004-05. It was budgeted at Rs.17,500 crore in 2005-06(BE). A part of the budgeted growth is attributable to the 2-percentage point increase in the rate of tax. Continuing with the practice of bringing additional services in to the tax net, the Budget for 2005-06 added the following 9 items to the list of taxable services: transport of goods through pipeline or other conduit; site preparation and clearance, excavation, earth moving and demolition services, other than those provided to agriculture, irrigation and watershed development; dredging services of rivers, ports, harbours, backwaters and estuaries; survey and map making other than by Government Departments; cleaning services other than in relation to agriculture, horticulture, animal husbandry or dairying; membership of clubs or associations; packaging services; mailing list compilation and mailing; and construction of residential complexes having more than twelve residential units of apartments together with common areas and other appurtenances.

2.18 Besides, the scope of existing services was also expanded. These were : commercial or industrial construction service to include renovation of such building or civil structure, post construction completion and finishing services for such building or civil structure, construction, repair, alteration, renovation or restoration of pipeline or conduits; erection, commissioning or installation services to include specified installation services; maintenance or repair services to include maintenance or management of immovable properties, maintenance or repair including reconditioning or restoration undertaken as part of any contract or agreement; broadcasting services to include charges recovered by broadcasting agencies from multi-system operator and provision of direct to home signals to the customers; sound recording to include recording of sound on any media and includes post production services such as sound mixing or re-mixing; video-tape production to include recording of any programme, event or function on any media and includes post production services; taxable services provided by authorised service station to include reconditioning or restoration of motor-cars, two wheeled and light motor vehicles; beauty parlours service to include all services provided by beauty parlours; manpower recruitment service to include supply of manpower, temporary or otherwise; franchisee service to cover all agreements by which, the franchisor grants representational rights to franchise to sell or manufacture goods or provide services identified with the franchisor; business auxiliary service to include production or processing of goods for or on behalf of the client; and outdoor catering service, to include catering from a place or premises provided, by way of tenancy or otherwise by the person receiving such services. Such measures at widening the tax base and procedures that facilitate voluntary compliance, going forward, would make service tax a buoyant source of revenue commensurate with its high share in GDP.

Expenditure trends

2.19 The NCMP has pledged to raise the level of public spending in education to at least 6 per cent of GDP and on health to at least 2-3 per cent of GDP in a phased manner. Further, it attaches highest priority to the development and expansion of physical infrastructure like roads, highways, ports, power, railways, water supply, sewage treatment and sanitation through higher public investment, even as the role of the private sector is expanded. This has to be accomplished in an overarching framework of fiscal consolidation. As about 86 per cent of the revenue receipts in 2005-06 is appropriated by committed expenditure like interest payments, subsidies, pay, pensions and defence, expenditure reprioritization needs to be calibrated through higher allocation of incremental revenue towards the NCMP objectives.

2.20 A straightforward comparison of the total expenditure in the last three years is misleading because of the large unbudgeted non-plan expenditure on capital account, which was in the nature of a balancing item corresponding to the debt swap prepayment proceeds shown against capital receipts under the head 'recovery of loans'. Adjusting for this entry, total expenditure as a proportion of GDP, works out to 16.3 per cent, 15.5 per cent and 14.9 per cent for 2002-03, 2003-04 and 2004-05, respectively. With similar adjustment, capital expenditure as a proportion of GDP for the same period works out to 2.5 per cent, 2.3 per cent and 2.6 per cent, respectively. As a proportion of GDP, total expenditure of the Central Government was budgeted at 14.6 per cent of GDP in 2005-06. Capital expenditure was budgeted at 1.9 per cent of GDP in 2005-06, the decline reflecting the impact of the discontinuance of State-loan-intermediation by the Central Government.

2.21 An important objective of the FRBMA is that public expenditure must be reoriented for the creation of productive assets. Given the existing classification of expenditure, plan expenditure is arguably the closest approximation to expenditure for creation of productive assets. As a proportion of GDP, plan expenditure, after declining from 5.0 per cent in 1990-91 to 3.8 per cent in 1998-99, started rising again to reach 4.6 per cent in 2002-03 and declined to 4.4 per cent in 2003-04 and 4.2 per cent in 2004-05. Plan expenditure was budgeted at 4.1 per cent of GDP in 2005-06. As a proportion of GDP, non-plan expenditure followed a similar pattern, desirable though, and fell from 12.3 per cent in 1990-91 to reach 10.0 per cent in 1996-97. The proportion rose again to reach 11.5 per cent in 2000-01. With adjustments, the proportion declined to 11.0 per cent and 10.7 per cent in 2003-04 and 2004-05, respectively, and was budgeted at 10.5 per cent in 2005-06.

Interest payments

2.22 Persistent and high deficits seriously impair the counter cyclical ability of fiscal policy, lead to unsustainable debt build up and adversely affect the composition of expenditure through larger and larger interest outgo. As a proportion of GDP, interest payments after remaining at highs of 4.6 per cent to 4.8 per cent in the four-year period from 1999-2000 to 2002-03, started declining to reach 4.1 per cent in 2004-05(Prov.). This virtuous decline was partly on account of the soft interest rate regime in vogue. As a proportion of revenue receipts, interest payments declined from a high of 53.4 per cent in 2001-02 to 41.5 per cent in 2004-05. The proportion was budgeted at 38.1 per cent in 2005-06. These declining trends, both as a proportion of GDP as well as a proportion of revenue receipts, are on account of the progressive reduction in the average cost of borrowing (Table 2.4). The average cost of borrowing, including those under MSS, is budgeted at 8.1 per cent in 2005-06. Bringing down the average cost of borrowing and reducing, in general, the interest outgo are critical to fiscal consolidation, growth and macroeconomic stability.

Subsidies

2.23 Subsidies are an important fiscal policy tool for correcting market failures, particularly under-consumption of basic essentials such as food. With direct provision by the State, major subsidies, mainly on food, fertiliser and petroleum grew from Rs.40,716 crore in 2002-03 to Rs.43,455 crore in 2003-04. Expenditure on major subsidies remained high

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	1457583	116869	8.8
2004-05(RE)	1605734	123108	8.4
2005-06(BE)	1756460	130833	8.1

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 respectively.

Source : Budget documents.

at Rs.45,187 crore in 2004-05 (RE). As a proportion of GDP, subsidies fell from 1.66 per cent in 2002-03 to 1.45 per cent in 2004-05(RE) and was budgeted at Rs.46,358 crore or 1.31 per cent of GDP in 2005-06. However, the apparent decline needs to be seen in the context of the measures taken to facilitate liquidation of stocks and drought conditions that entailed a huge additional outgo in 2002-03 through 2003-04 in the first place.

2.24 The extant food subsidy as a fiscal policy tool seeks to serve two separate and potentially conflicting objectives of protecting producers' interest through payment of 'remunerative' prices and also keeping prices stable/low for consumers. With the inefficiencies and rent-seeking associated with the public provision of goods and services, the income transfer to poor consumers through a unit increase in subsidy goes down. A recent study, "Performance Evaluation of the Targeted Public Distribution system" by the Programme Evaluation Organisation, Planning Commission has estimated that to transfer Re. 1 to the poor, Government spends Rs.3.65 in the form of food subsidy, indicating that cash or near cash transfer could lead to large welfare gains for the poor. With the unprecedented rise in the international prices of petroleum, given the sizeable production through high cost feedstock in urea units, fertiliser subsidy rose sharply from Rs.11,847 crore in 2003-04 to Rs.15,662 crore in 2004-05(RE) and further to Rs.16,254 crore in 2005-06 (BE).

Supplementary demands for grants

2.25 There were two supplementary demands for grants for which Parliament gave its approval. The first batch of demands included 42 grants involving a net cash outgo aggregating to Rs.6,819 crore. Together with the demands for additional expenditure, of a technical nature without cash outgo, of Rs.7,842 crore, the gross additional expenditure authorised amounted to Rs.14,661 crore. The major items involving cash outgo included grants-in-aid to Government of Jammu & Kashmir under Special Central Assistance (SCA) and one time Additional Central Assistance (ACA) for other projects (Rs.632 crore); grants-in-aid to States for irrigation/water resources (Rs.672 crore); grants-in-aid for Accelerated Power Development Programme (Rs.542 crore); loans and advances to States under ACA for externally aided projects (Rs.3,376 crore); and compensation to Bharat Sanchar Nigam Limited for rural telephony (Rs.617 crore). Two major items of expenditure of technical nature were liquidation of audited balances outstanding in the oil pool account through the issue of special securities (Rs.5,763 crore) and transfer of rural electrification provision from Ministry of Finance to Ministry of Power. (Rs.1,100 crore).

2.26 Approval for the second batch of supplementary demands for grants for 48 items accorded by the Parliament authorised gross additional expenditure of Rs. 9,080 crore. Net cash outgo involved was Rs.1,965 crore and the rest were matched by savings or enhanced receipts. The major items of expenditure with cash outgo included:

subsidies on fertilisers (Rs.1,000 crore); settlement of outstanding claims of State Trading Corporation (Rs.104 crore); transfers to States/UTs from National Calamity Contingency Fund (Rs. 200 crore); lump sum provisions for revival and restructuring of public sector enterprises (Rs. 210 crore); and reimbursement of losses to the Cotton Corporation of India (Rs.256 crore). The major items of expenditure of a technical nature, that is, without net cash outgo were compensation through issue of bonds to oil marketing companies towards estimated under recoveries in 2005-06 on account of domestic LPG and PDS Kerosene (Rs.5,750 crore) and meeting additional expenditure of Delhi Metro Rail Corporation Limited (Rs.500 crore).

Central plan outlay

2.27 The Budget for 2004-05 envisaged a Central Plan outlay of Rs.1,63,720 crore, the RE for which was placed at Rs.1,50,818 crore, indicating a shortfall of 7.9 per cent attributable to the 9.9 per cent lower than budgeted internal and extra budgetary resources (IEBR) of Central Public Sector Enterprises (CPSEs). Budget support to the plan was lower than BE by 6.1 per cent. The Budget for 2005-06 hiked the Central Plan outlay by 40.1 per cent to Rs.2,11,253 crore. This outlay is composed of Budget support of Rs.1,10,385 crore and IEBR of CPSEs of Rs.1,00,868 crore. The IEBR and Budget support for this year are 33 per cent and 25.6 per cent higher than BE 2004-05. The relative share of important heads of development are: energy (27.5 per cent); transport (20.1 per cent); communication (5.7 per cent); social services (25.3 per cent); irrigation and flood control (0.2 per cent); rural development (6.6 per cent); agriculture and allied activities (3.0 per cent); and industry and minerals (5.7 per cent). Central assistance for States & UTs plans for 2005-06 is budgeted at Rs.33,112 crore, indicating a decline of 39.6 per cent over 2004-05 (RE) and reflecting the impact of discontinuance of loan intermediation by the Centre.

States and Union Territories

2.28 The resources mobilised for the Annual Plans of States and UTs in 2004-05 (RE) amounted to Rs.1,14,209 crore compared to the BE of Rs.1,17,911 crore. Aggregate resources for the Annual Plan 2005-06 of States and UTs with legislatures were estimated at Rs.1,39,393 crore, consisting of States' own resources of Rs.1,06,281 crore and central assistance of Rs.33,112 crore.

Government debt

2.29 As a proportion of GDP, outstanding liabilities of the Central Government (including external debt at historical exchange rate) declined from 55.3 per cent in 1990-91 to reach 49.4 per cent in 1996-97, reflecting the lower fiscal deficit in the intervening years. This trend got reversed subsequently and outstanding liabilities as a proportion of GDP rose to 63.5 per cent in 2004-05 (RE) and were budgeted to decline marginally to 63.2 per cent in 2005-06 (Table 2.5).

2.30 The Central Government debt is composed primarily of internal debt, which includes market loans (as also treasury bills) and relief/savings bonds and others. The share of debt in total internal liabilities rose from 54.4 per cent in 1990-91 to 65.9 per cent in 2004-05 (RE). Market borrowings, as a proportion of Government debt, after increasing from 22.4 per cent in 1990-91 to 39.7 per cent in 2002-03, declined marginally to 38.3 per cent in 2004-05 (RE). The RBI in consultation with Ministry of Finance fixes biannual indicative issuance calendar for Government borrowings. The Budget for 2005-06 placed the net market borrowings (dated securities and 364-day Treasurey Bills excluding borrowings under MSS) at Rs.1,03,695 crore. With repayments of Rs.61,676 crore, the gross market borrowings is estimated at Rs.1,65,467 crore. The actual gross and net market borrowings of the Central Government (excluding borrowing under MSS) in the financial year up to February 7, 2006 are placed at Rs.1,39,010 crore and Rs.83,329 crore as compared with Rs.98,900 crore and Rs. 61,044 crore in the corresponding period of the previous year. The outstanding balances under MSS declined from Rs. 65,481 crore as at end-March 2005 to Rs. 36,028 crore by February 7, 2006. The banks have been subscribing to Government securities much in excess of their statutory

Table 2.5 : Outstanding liabilities of the Central Government

(end-March)

		1990-91	2000-01	2001-02	2002-03	2003-04	2004-05 (RE)	2005-06 (BE)##
					(Rs. crore)			
1.	**Internal liabilities**	**283033**	**1102596**	**1294862**	**1499589**	**1690554**	**1927155**	**2168671**
	a) Internal debt	154004	803698	913061	1020688	1141706	1270272	1406525
	i) Market borrowings	70520	428793	516517	619105	707965	758999	870836
	ii) Others	83484	374905	396544	401583	433741	511273	535689
	b) Other Internal liabilities	129029	298898	381801	478901	548848	656883	762146
2.	**External debt (outstanding)***	**31525**	**65945**	**71546**	**59612**	**46124**	**54359**	**63215**
3.	**Total outstanding liabilities (1+2)**	**314558**	**1168541**	**1366408**	**1559201**	**1736678**	**1981514**	**2231886**
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**	**1168241**	**1366108**	**1558901**	**1736378**	**1981214**	**2231586**
					(As per cent of GDP)			
1.	**Internal liabilities**	**49.8**	**52.3**	**56.8**	**61.2**	**61.2**	**61.7**	**61.4**
	a) Internal debt	27.1	38.1	40.0	41.7	41.4	40.7	39.9
	i) Market borrowings	12.4	20.3	22.6	25.3	25.6	24.3	24.7
	ii) Others	14.7	17.8	17.4	16.4	15.7	16.4	15.2
	b) Other Internal liabilities	22.7	14.2	16.7	19.5	19.9	21.0	21.6
2.	**External debt(outstanding)***	**5.5**	**3.1**	**3.1**	**2.4**	**1.7**	**1.7**	**1.8**
3.	**Total outstanding liabilities**	**55.3**	**55.4**	**59.9**	**63.6**	**62.9**	**63.5**	**63.2**
	Memorandum items							
	(a) External debt (Rs.crore)@	66314	189990	199639	196067	184177	191182	n.a.
	(as per cent of GDP)	11.7	9.0	8.8	8.0	6.7	6.1	n.a.
	(b) Total outstanding liabilities	349347	1292586	1494501	1695656	1874731	2118337	n.a.
	(as per cent of GDP) (adjusted) (Rs.crore)	61.4	61.3	65.5	69.2	67.9	67.9	n.a.
	(c) Internal liabilities(Non-RBI)#	208978	956478	1142698	1337752	1529571	1772992	2016052
	(as per cent of GDP)	36.7	45.4	50.1	54.6	55.4	56.8	57.1
	(d) Outstanding liabilities (Non-RBI) #	275292	1146468	1342337	1533819	1713748	1964174	n.a.
	Outstanding liabilities (Non-RBI) (as per cent of GDP)	48.4	54.4	58.8	62.6	62.1	62.9	0.0
	(e) Contingent liabilities of Central Government (Rs.crore)	n.a.	86862	95859	90617	87780	n.a.	n.a.
	Contingent liabilities of Central Government (as per cent of GDP)	n.a.	4.1	4.2	3.7	3.2	n.a.	n.a.
	(f) Total assets (Rs crore)	236740	676581	760592	840768	903558	1084398	1242596
	Total assets (as per cent of GDP)	41.6	32.1	33.3	34.3	32.7	34.7	35.7

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 1999-2000, the rates prevailing at the end of March, 2000 and so on.

 # This includes marketable dated securties held by the RBI.

 # # Internal debt includes net borrowing of Rs. 65,481 crore for 2004-05(RE) and Rs. 80,500 crore for 2005-06(BE) under Market Stabilisation Scheme.

Note: The ratios to GDP for 2005-06 (BE) are based on CSO's Advance Estimates. GDP at current market prices prior to 1999-2000 based on 1993-94 series and from 1999-2000 based on new 1999-2000 series.

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

liquidity ratio (SLR) requirement. With the pick up in non-food credit (details in Chapter 3), such investments are placed at 32.1 per cent of net demand and liabilities of scheduled commercial banks as on January 20, 2006.

Economic and functional classification

2.31 The economic and functional classification of the Central Government Budget 2005-06, which reclassifies budgetary transactions in significant economic categories on the lines of national income accounts, places the total expenditure at Rs.5,12,995 crore, indicating an increase of 8.5 per cent over 2004-05 (RE). The total expenditure was composed of consumption expenditure of Rs.1,25,607 crore (24.5 per cent), transfers of Rs.3,05,576 crore (59.6 per cent) and gross capital formation of Rs.81,812 crore (15.9 per cent) (Table 2.6). In terms of functional classification, general

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	2000-01	2001-02	2002-03	2003-04	2004-05 (RE)	2005-06 (BE)
					(Rs. crore)			
I.	**Total expenditure**	**97947**	**328265**	**360616**	**398879**	**426132**	**473010**	**512995**
II.	**Gross capital formation out of budgetary resources of Central Government**	**28032**	**66960**	**76888**	**76782**	**82561**	**95234**	**81812**
	(i) Gross capital formation by the Central Government	8602	22258	12634	21697	23997	30807	36871
	(ii) Financial assistance for capital formation in the rest of the economy	19430	44702	64254	55085	58564	64427	44941
III.	**Gross saving of the Central Government**	**-10502**	**-56920**	**-76306**	**-81734**	**-71968**	**-70854**	**-74475**
IV.	**Gap(II-III)**	**38534**	**123880**	**153194**	**158516**	**154529**	**166088**	**156287**
	Financed by							
	a. Draft on other sectors of domestic economy	34768	115561	145841	168582	165858	153988	143413
	(i) Domestic capital receipts	23421	116758	147337	166699	169800	132456	139823
	(ii) Budgetary deficit/draw down of cash balance	11347	-1197	-1496	1883	-3942	21532	3590
b.	Draft on foreign savings	3766	8319	7353	-10066	-11329	12100	12874
					(As per cent of GDP)			
I.	**Total expenditure**	**17.2**	**15.6**	**15.8**	**16.3**	**15.4**	**15.2**	**14.5**
II.	**Gross capital formation out of budgetary resources of Central Government**	**4.9**	**3.2**	**3.4**	**3.1**	**3.0**	**3.1**	**2.3**
	(i) Gross capital formation by the Central Government	1.5	1.1	0.6	0.9	0.9	1.0	1.0
	(ii) Financial assistance for capital formation in the rest of the economy	3.4	2.1	2.8	2.2	2.1	2.1	1.3
III.	**Gross saving of the Central Government**	**-1.8**	**-2.7**	**-3.3**	**-3.3**	**-2.6**	**-2.3**	**-2.1**
IV.	**Gap(II-III)**	**6.8**	**5.9**	**6.7**	**6.5**	**5.6**	**5.3**	**4.4**
	Financed by							
	a. Draft on other sectors of domestic economy	6.1	5.5	6.4	6.9	6.0	4.9	4.1
	(i) Domestic capital receipts	4.1	5.5	6.5	6.8	6.2	4.2	4.0
	(ii) Budgetary deficit/draw down of cash balance	2.0	-0.1	-0.1	0.1	-0.1	0.7	0.1
	b. Draft on foreign savings	0.7	0.4	0.3	-0.4	-0.4	0.4	0.4
					(increase over previous year)			
II.	**Gross capital formation out of budgetary resources of Central Government**	**2.8**	**-0.9**	**14.8**	**-0.1**	**7.5**	**15.3**	**-14.1**
	Memorandum items							
					(Rs. crore)			
1	**Consumption expenditure**	**22359**	**71977**	**77324**	**85389**	**87170**	**113574**	**125607**
2	**Current transfers**	**45134**	**183696**	**201188**	**228501**	**248436**	**256959**	**300156**
					(As per cent of GDP)			
1	**Consumption expenditure**	**3.9**	**3.4**	**3.4**	**3.5**	**3.2**	**3.6**	**3.6**
2	**Current transfers**	**7.9**	**8.7**	**8.8**	**9.3**	**9.0**	**8.2**	**8.5**

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.
(vi) The ratios to GDP for 2005-06 (BE) are based on CSO's Advance Estimates. GDP at current market prices prior to 1999-2000 based on 1993-94 series and from 1999-2000 based on new 1999-2000 series.

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

services account for 24.7 per cent of total expenditure, social and economic services account for 35.8 per cent, and 39.5 per cent was unallocable being in the nature of statutory grants-in-aid to States, non-plan grants, food and other consumer subsidies, etc.

2.32 The share of wages and salaries within consumption expenditure fell marginally from 39.8 per cent in 2004-05(RE) to 39.4 per cent in 2005-06 (BE). The reclassification shows that share of grants in total expenditure went up from 20.8 per cent in 2004-05 (RE) to 26.9 per cent in 2005-06 (BE), reflecting the impact of implementation of the TFC award. Gross capital formation out of the budgetary resources of the Central Government improved to 20.1 per cent of total expenditure in 2004-05 (RE) and was budgeted at 15.9 per cent in 2005-06 (BE). The apparent decline needs to be seen in the light of the discontinuance of loan intermediation by the Centre. Dissavings of the Central Government, which grew steadily from Rs.10,502 crore in 1990-91 to Rs.81,734 crore in 2002-03, was reduced to Rs.71,968 crore in 2003-04 and further to Rs.70,854 crore in 2004-05 (RE). It was budgeted to increase to Rs.74,475 crore in 2005-06. As a proportion of GDP, dissavings were placed at 2.3 per cent in 2004-05 (RE) and 2.1 per cent in 2005-06 (BE).

Expenditure management

2.33 Public expenditure management is an integral part of the fiscal reforms and the Government has been taking a series of initiatives in this regard, like avoiding rush of expenditure through releases in a time sliced manner and simplification of procedures. Recent initiatives include: special drive to bring down outstanding 'unspent balances' and 'utilisation certificates' from States and other implementing agencies; instructions that prohibit relaxation of conditionalities attached to transfer of funds under Plan schemes; revision of General Financial Rules (Box 2.4); to ensure transparency, competition, fairness and objectivity in the procurement/bidding processes in the Government, constitution of three Working Groups, one each for 'Goods', 'Works' and 'Consultancy', for preparation of 'Manual of Policies and Procedures', 'Bidding Documents', 'Guidelines to Purchaser', 'Guidelines to supplier', and 'Draft Standard Contracts' for different categories; to speed up the process of transmission of funds and simultaneously to facilitate faster feedback on unspent balances through utilization certificates; and e-banking scheme for transfer of funds to district level implementation agencies by three big social sector Ministries, namely, the Ministries of Human Resource Development, Rural Development and Health & Family Welfare has been taken up and expected to cover all District Rural Development Agencies.

Collection rates

2.34 The peak rate of customs duty was brought down from 150 per cent in 1991-92 progressively to 15 per cent in the Budget for 2005-06. As the spread between peak rate and average effective rate of duty was high to begin with, the initial reductions in the former did not have significant adverse impact on revenues. However, with the spread coming down, revenue growth from customs decelerated. Since there were numerous rates and exemptions, the closest approximation to the average effective rates for customs duty for different sectors are given by the relevant collection rates. The collection rate for all commodity groups combined fell from 47 per

Box 2.4 : General Financial Rules 2005

General Financial Rules (GFRs) are a compendium of general provisions to be followed by all offices of the Government of India while dealing with matters of a financial nature. The unamended rules, which were in the nature of executive instructions, had become obsolete with developments in the delivery system like outsourcing and the use of information technology. A Task Force was set up for revising the rules. The existing rules as well as the plethora of Government decisions were reviewed by a Task Force with the following basic approach: -

- To take into account recent developments in the financial sector, availability of new instruments in banking, insurance, material sourcing, information technology, communications, etc.
- To simplify procedures, causing unnecessary movement of papers between several layers of Government, devolving necessary authority, responsibility and direct accountability on the vital functionaries in Government to ensure speedier decision-making.

Based on their Report, the new General Financial Rules were notified from July 1, 2005. It is expected that General Financial Rules, 2005 will provide greater flexibility to officers in transacting government business while ensuring accountability commensurate with responsibility at different levels.

cent in 1990-91 to 12 per cent in 2004-05 (Prov). There are large variations in the collection rates for various groups with a continued high of above 40 per cent only in the man-made fibre group. Metals and chemicals also continue to have high collection rates, though they have come down in the last few years (Table 2.7).

Table 2.7 : Collection rates* for selected import groups

(in per cent)

Sl. No.	Commodity Groups	1990-91	1995-96	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05 (Prov.)
1	Food products	47	23	15	31	40	30	19	22
2	POL	34	30	23	16	10	11	11	10
3	Chemicals	92	44	36	38	29	28	24	23
4	Man-made fibres	83	36	64	49	31	31	46	40
5	Paper & newsprint	24	8	9	8	6	7	7	8
6	Natural fibres	20	12	24	18	8	10	13	11
7	Metals	95	52	55	48	36	36	32	27
8	Capital goods	60	33	36	36	28	23	19	16
9	Others	20	13	12	12	9	9	8	6
10	Non POL	51	28	22	23	19	17	14	12
11	**Total**	**47**	**29**	**22**	**21**	**16**	**15**	**14**	**12**

* 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