PUBLIC FINANCE

The Central Government budget for 1998-99 was presented on June 1, 1998 and was preceded by an interim budget on March 25, 1998. The budget for 1998-99 was formulated in the backdrop of serious fiscal slippage and a deceleration in the overall growth rate. So the basic objectives of the budget were to: reverse the decline in agriculture production, restore the momentum of industrial growth, ensure macro-economic stability, raise domestic savings to achieve higher investment, provide impetus to social sector development and to calibrate the pace and character of integration with the world economy. The budget announced a modest reduction in the gross fiscal deficit (GFD) from 6.1 per cent of gross domestic product (GDP) in 1997-98 (RE) to 5.6 per cent of GDP in 1998-99 (BE). Consequent to the release of new series of national accounts, the fiscal deficit as a proportion of gross domestic product at current market prices is now placed at 5.5 per cent and 5.1 per cent for 1997-98 (RE) and 1998-99(BE) respectively (Table 2.1).

2. The budget announced a number of initiatives to strengthen the infrastructure and social sectors. The plan outlay for infrastructure (comprising energy, transport and communications) was budgeted to go up by 35 per cent from Rs.45251 crore in 1997-98 (RE) to Rs.61146 crore in 1998-99. National Highways Authority of India (NHAI) was provided Rs.500 crore to catalyse new road projects. With a view to improve the quality of life of the people, the budget substantially enhanced the central plan outlay on social sector (comprising education, health & family welfare, welfare and women & child development) by about 35 per cent from Rs.7927 crore in 1997-98 (RE) to Rs.10694 crore in 1998-99 (BE). Besides, the central plan outlay on rural development and anti poverty and employment programmes was also raised from Rs.8290 in 1997-98 (RE) to Rs.9811 crore in 1998-99 (BE) reflecting an increase of 18.3 per cent.

TABLE 2.1

Trends in Parameters of Deficit of Central Government

Year	Revenue Deficit	Primary Deficit	Fiscal Deficit
	(As per cent of GDP)		
1990-91	3.2	4.0	7.7
1991-92	2.4	1.4	5.4
1992-93	2.4	1.2	5.2
1993-94	3.7	2.7	6.9
1994-95	3.0	1.3	5.6
1995-96	2.4	0.8	4.9
1996-97	2.3	0.5	4.7
1997-98(RE)	2.8	1.3	5.5
1998-99(BE)	2.7	0.9	5.1

Note : 1. The ratios to GDP are based on new series of National Account Statistics with 1993-94 as base year released by the Central Statistical Organisation (CSO) on February 3, 1999. For purpose of comparability, GDP at current market prices for the years 1990-91, 1991-92 and 1992-93 have been interpolated by using an average link factor of 1.0878 obtained from the overlapping years viz. 1993-94, 1994-95, 1995-96 and 1996-97 for which both the old series and new series for the GDP at current market prices are available.

2. The estimate of GDP at current market prices for 1998-99 is based on CSO's advance estimate of real GDP growth of 5.8 per cent along with an assumption of an average inflation rate of 7 per cent for the year.

3. In the field of agriculture the budget announced a series of steps to enhance agricultural productivity in a sustainable manner. The plan allocation for Watershed Development Programmes was hiked to Rs.677 crore from Rs.517 crore in 1997-98 (RE). The outlay for Accelerated Irrigation Benefit Programme was

enhanced by 58 per cent over the 1997-98. Rural Infrastructure Development Fund (RIDF) IV was launched with an enhanced allocation of Rs.3000 crore. The share capital of National Bank for Agriculture and Rural Development (NABARD) was further augmented by Rs.500 crore with a contribution of Rs.100 crore from the budget and Rs.400 crore from RBI. This will enable NABARD to leverage additional resources from the market to meet the credit needs of the agriculture.

4. Housing activity has been chosen to be an area of major policy thrust. The allocation for the Indira Awas Yojna Programme was enhanced to Rs.1600 crore, from Rs.1144 crore in 1997-98(RE). The capital base of the Housing Urban Development Corporation was enlarged with a budgetary support of Rs.110 crore. The budget also provided more fiscal concessions to stimulate housing activity. These include extension of tax holiday for approved small housing projects and enhanced deductions of interest paid on borrowed capital for housing against income from house property.

5. The budget for 1998-99 carried the process of tax reforms further by widening the tax base in the case of personal income tax and by introducing major procedural simplifications. The base of personal income tax was expanded further by using two additional presumptive indicators and extending its coverage from 12 cities to 35 cities. This has been accompanied by making it obligatory for assessees to quote their Permanent Account Number (PAN) or General Index Register (GIR) number in respect of certain high value transactions. With a view to simplify the tax return, a one page tax return called “Saral” was introduced for all non-corporate taxpayers.

6. The Budget provided fiscal incentives and fund raising benefits to Infrastructure Development Finance Company (IDFC) at par with other all India public financial institutions to enhance long-term finance for infrastructure investment in the private sector. As Provident Funds can be an important source of funding for private sector infrastructure projects, the budget has allowed investment up to 10 per cent of the new accretion in private sector securities which have an investment grade rating.

7. To encourage industrial activity in backward areas, the tax holiday granted to industrial undertakings located in any industrially backward State or district was extended till March 31, 2000 and for power generating units till March 31, 2003. Inland waterways and inland ports have also been accorded infrastructure status and given associated fiscal incentives of tax holiday.

8. With a view to mitigate the competitive disadvantage from incidence of local taxes on the indigenous industry an additional non-modvatable levy of 8 per cent was imposed on imports, which was subsequently scaled down to 4 per cent. However, certain category of imports have been exempted from this levy. The budget also signalled a firm commitment of the Government to reduce the import duty on crude oil from the current level of 27 per cent to not more than 5 per cent by the year 2001. Concomitantly, import duty reductions are to be effected on down stream products to the level of 10 to 15 per cent. To generate funds for development of roads, an additional duty at the rate of one rupee per litre on petrol was introduced. This is expected to garner Rs.790 crore in a year and will entirely go towards augmenting the corpus of NHAI.

9. On the excise side, the process of rationalisation and reduction of duty rates were carried forward so as to ensure convergence towards a mean rate of 18 per cent ad-valorem. Towards this end, an excise duty of 8 per cent was imposed on a number of commodities. The scope of service tax was widened to include 12 new services. For the small-scale industries sector the exemption limit for excise purposes was enhanced from Rs.30 lakhs to Rs.50 lakhs. Furthermore, to reduce litigation in payment of direct and indirect taxes, a new scheme called “Samadhan” was introduced. This offers waiver of interest, penalty and a part of tax and immunity from prosecution on payment of arrears.

10. To address the special developmental needs of the North Eastern region and Sikkim the budget announced a non lapsable central resource pool for deposit of funds from all Ministries where the plan expenditure on the North Eastern region is less than 10 per cent of the total plan allocation of the Ministry. The difference between 10 per cent of the allocation and the actual expenditure incurred on the North Eastern region and Sikkim is to be transferred to the central pool, which will be used for funding specific programmes in the region.