II

RECENT ECONOMIC DEVELOPMENTS

Introduction

2.1 The Indian economy is now poised for a higher growth profile. Reflective of the growing investor confidence, the growth projections for the financial year 2003-04 made by various agencies/institutions have been successively revised upward. This was triggered by the confluence of several favourable factors, including an above-normal and widespread monsoon leading to an across-the-board increase in production of all major *kharif* crops, and an equally buoyant *rabi* forecast, as well as a continuing recovery in industrial production (Table 2.1). The sharp upturn in the economy was confirmed by the robust second quarter (July-September) growth rate of 8.4 per cent in the real gross domestic product (GDP), which demonstrated that buoyancy has spread across all the sectors of the economy and is not confined merely to agriculture. The Reserve Bank also revised its growth projection for 2003-04 upwards in January 2004 to around 7.0 per cent with a continued upward bias, from around 6.0 per cent in April 2003 and 6.5-7.0 per cent with an upward bias in November 2003. The signs of widespread revival in economic activity are also distinctly discernible in the improved investment climate, pick up in non-food bank credit, improvement in bottom-lines of corporates, buoyant stock markets, optimistic results of various industrial outlook surveys and a healthy external sector. The foreign exchange reserves have increased significantly, crossing the US $ 100 billion mark in December 2003.

2.2 The inflation conditions have been generally benign during the current year so far. A good *kharif* crop and comfortable food stocks, adequate foreign exchange reserves and a stronger rupee in an environment of subdued global inflationary expectations kept inflation low. Besides, modulation in monetary policy consistent with the long-term goal of achieving price stability and growth has also helped contain the inflationary expectations in the economy. The Mid-Term Review of the Monetary and Credit Policy in November 2003 had placed the inflation projections for policy purposes in the range of 4.0 per cent to 4.5 per cent with a possible downward bias. It was also mentioned that the Reserve Bank would continue to closely monitor the price behaviour leaving no room for complacency on the inflation front. The annual rate of inflation was 6.7 per cent at the time the April 2003 policy projections were made and continued in the range of 6.3-6.9 per cent till May 2003. It, however, declined to around 4.0 per cent in August, before climbing back to 5.0 per cent or more since September 20, 2003. Inflation has risen further since the Mid-Term Review and on January 3, 2004, the point-to-point inflation rate was 6.1 per cent. The inflation trends in the last two months have not been unexpected but the magnitude of price rise has been above the original expectations. This increase in inflation appears to be mainly on account of mineral oil, cotton textiles and oil seeds. Two important international factors have contributed to the more than unanticipated upward pressure on prices. First, international oil prices have remained firm. The average price of the OPEC basket had reached US $ 29.5 a barrel at the end of 2003, while US prices were hovering around US $ 32 a barrel. The global oil prices were, thus, about 10 per cent higher than they were at the time of the Mid-Term Policy Review. The outlook

Table 2.1: Real Gross Domestic Product Growth Forecasts for India: 2003-04

(Per cent)

Agency	Initial	Revised/Latest	
1	2	3	
Centre for Monitoring Indian Economy	6.5	8.2	(early January 2004)
Confederation of Indian Industry	6.5-6.8	7.2	(early November 2003)
National Council of Applied Economic Research	5.8	8.0	(mid-January 2004)
Ministry of Finance, Government of India	6.0	7.0	(mid-November 2003)
Reserve Bank of India	Around 6.0	Around 7.0 (with a continued upward bias)	(early January 2004)
International Monetary Fund@	5.1	6.5-7.0	(mid-November 2003)
Investment and Credit Rating Agency	6.0	6.5-6.9	(end-October 2003)

@ IMF staff estimates. In September, the IMF projected 5.6 per cent.

for oil prices in the near term appears highly uncertain. Second, world primary commodity prices have also increased in 2003. These trends, along with revival of growth and falling excess capacities in several advanced economies, have brought about a noticeable shift in the outlook for prices. The fear of deflation in advanced economies has been replaced by a possible upward pressure, led by increases in commodity prices. These international developments enhance the probability of transmission of inflation from abroad to India. At the same time, there are three favourable factors to counter these recent adverse global developments. First, in the normal course, it is expected that the inflation rate would fall in the period mid-January to March 2004. Second, there are cushions, in terms of food stocks and ample forex reserves. Third, the Indian economy has, in recent years, shown remarkable resilience in absorbing shocks. In view of all these factors, it is possible that the downward bias may not be attainable but it appears that the range of 4.0 per cent to 4.5 per cent for inflation indicated in the Mid-Term Review continues to be relevant for policy purposes unless there are unanticipated severe shocks.

2.3 Monetary conditions remain easy. Broad money (M_3) growth is in line with the projections in the April 2003 Monetary and Credit Policy Statement, notwithstanding strong capital flows. Credit off-take has begun to pick up in recent months. At the same time, the overhang of liquidity along with cuts in the policy rates has made the easing of the interest rate structure possible. Notwithstanding a slight steepening at the long-end of the yield curve, the behaviour of the fixed income market remains in consonance with the monetary policy stance. The upbeat mood is evident from the broad-based rally in the stock markets, not seen in recent times. The stability in financial markets has been buttressed by an improvement in both the profitability and the health of the commercial banking system.

2.4 The prospects for the world economy have also improved since April 2003, though there are uncertainties regarding the monetary policy stance in some advanced countries, including the US. According to projections of the IMF, the world economy is expected to grow at the rate of 3.2 per cent during 2003 and 4.1 per cent during 2004. The growth rates experienced by India in the recent period have been among the highest in the emerging market economies (EMEs). Notwithstanding the general recovery worldwide, there is a possibility that India may emerge as one of the fastest growing countries among the EMEs as the expected growth rate during 2003-04 is next only to China (Table 2.2).

Table 2.2: Growth in Real Gross Domestic Product: Cross-Country Comparison

(Annual percentage change)

Country	Average 1995-2003	1995	1996	1997	1998	1999	2000	2001	2002	2003P
1	2	3	4	5	6	7	8	9	10	11
World	3.5	3.7	4.0	4.2	2.8	3.6	4.8	2.4	3.0	3.2
Advanced Economies	2.7	2.8	3.0	3.5	2.7	3.4	3.9	1.0	1.8	1.8
Developing Countries	5.0	6.1	6.6	5.9	3.5	3.9	5.7	4.1	4.6	5.0
Of which:										
Argentina	0.1	-2.8	5.5	8.1	3.8	-3.4	-0.8	-4.4	-10.9	5.5
Bangladesh	5.1	4.8	5.0	5.3	5.0	5.4	5.6	4.8	4.9	5.4
Brazil	2.2	4.2	2.7	3.3	0.1	0.8	4.4	1.4	1.5	1.5
Chile	4.4	10.8	7.4	6.6	3.2	-0.8	4.2	3.1	2.1	3.3
China	8.3	10.5	9.6	8.8	7.8	7.1	8.0	7.5	8.0	7.5
India	**6.0**	**7.6**	**7.5**	**4.8**	**6.5**	**6.1**	**4.4**	**5.6**	**4.3**	**7.0 #**
Indonesia	2.7	8.2	8.0	4.5	-13.1	0.8	4.9	3.4	3.7	3.5
Malaysia	4.8	9.8	10.0	7.3	-7.4	6.1	8.6	0.3	4.1	4.2
Mexico	2.6	-6.2	5.2	6.8	5.0	3.6	6.6	-0.2	0.7	1.5
Pakistan	3.6	4.9	2.9	1.8	3.1	4.0	3.4	2.7	4.4	5.4
Philippines	4.0	4.7	5.8	5.2	-0.6	3.4	4.4	4.5	4.4	4.0
Sri Lanka	4.3	5.5	3.8	6.4	4.7	4.3	6.0	-1.5	4.0	5.5
Thailand	2.7	9.2	5.9	-1.4	-10.5	4.4	4.6	1.9	5.3	5.0

P IMF projections.

With a continued upward bias (RBI projection). For India, the source is Central Statistical Organisation and the data pertain to financial year (April-March).

Source: World Economic Outlook, September 2003.

Table 2.3: Sectoral Growth Rates of Real Gross Domestic Product

(Per cent)

Sector	Growth Rate					
	1997-98	1998-99	1999-00	2000-01 P	2001-02 *	2002-03 #
1	2	3	4	5	6	7
1. Agriculture and Allied Activities	**-2.4**	**6.2**	**0.3**	**-0.4**	**5.7**	**-3.2**
1.1 Agriculture	-2.8	6.9	-0.1	-0.6	5.7	..
2. Industry	**3.0**	**3.2**	**4.1**	**6.5**	**3.2**	**5.7**
2.1 Mining and Quarrying	9.8	2.8	3.3	2.4	1.0	5.0
2.2 Manufacturing	1.5	2.7	4.0	7.3	3.4	6.1
2.3 Electricity, Gas and Water Supply	7.9	7.0	5.2	5.0	4.3	3.9
3. Services	**9.9**	**8.1**	**9.9**	**5.7**	**6.5**	**7.1**
3.1 Construction	10.2	6.2	8.0	6.9	3.7	7.2
3.2 Trade, Hotels, Restaurants, Transport and Communication	7.8	7.7	8.5	6.9	8.7	7.8
3.3 Financing, Insurance, Real Estate and Business Services	11.6	7.4	10.6	3.5	4.5	6.1
3.4 Community, Social and Personal Services	11.7	10.4	12.2	5.6	5.6	6.8
4. GDP at factor cost	**4.8**	**6.5**	**6.1**	**4.4**	**5.6**	**4.3**

P Provisional. * Quick Estimates. # Revised Estimates. .. Not Available.

Source: Central Statistical Organisation.

2.5 The improved prospect for global recovery could provide fresh impetus to export growth. In tandem, the external sector remains comfortable as exports continue to grow at a steady pace and the buoyancy in capital flows is maintained. As a result, there is a record accretion to reserves. At end-December 2003, India was among the six countries in the world to hold reserves (including gold) of more than US $ 100 billion.

2.6 The objective of this chapter is to provide an account of developments during 2003-04 so far against the background of the developments last year. The rest of the chapter is organised as follows. Section I covers developments in the real sector – agriculture, industry and services. The following section on the fiscal situation focuses on Central and State Governments' finances during the current year. Section III dwells on the monetary and credit trends as well as the inflation outcome during 2003-04. The developments in financial markets – the money market, Government securities market, foreign exchange market and capital market – are covered in Section IV. This section also includes the latest position with respect to the financial sector. Section V covers the external sector including global outlook, trade, invisibles, current account, capital flows, foreign exchange reserves and external debt. Finally, the chapter ends with concluding observations.

I. REAL SECTOR

2.7 A broad-based industrial revival along with the continued growth of the services sector sustained economic activity in 2002-03. Though the growth of industry and services, driven mainly by exports, made room for higher economic growth, severe drought conditions impacted adversely, resulting in lower GDP growth during 2002-03. In industry, there was an acceleration driven by robust performances in 'mining and quarrying' and manufacturing. In addition, with a sustained broad-based performance, the services sector clocked a high growth rate during 2002-03, which helped to sustain the overall growth against the backdrop of a significant fall in agricultural GDP (Table 2.3).

2.8 The rebound in agriculture witnessed in the first quarter of 2003-04 accelerated sharply in the second quarter of 2003-04, aided by a salubrious spatial distribution of rainfall and the best monsoon in a decade, culminating into an impressive growth of real GDP at 8.4 per cent. The revival in industrial activity, which set in during the second quarter of 2002-03, has been broadly maintained in the first two quarters of 2003-04. The industrial upturn in 2002-03 has been led by manufacturing, supported by mining and quarrying. Manufacturing, in particular, has registered a sustained increase since the second quarter of 2002-03 after five quarters of very low growth. This momentum is now reinforced by improved prospects for real activity worldwide. The revival of manufacturing has led to an improvement in the corporate profitability, which appears to be reflected in the current upsurge in the stock markets. The services sector recorded a robust performance, particularly during the second and the last quarters of 2002-03, which was sustained in the first two quarters of 2003-04, driven by all its sub-sectors (Table 2.4).

Table 2.4: Quarterly Sectoral Growth Rates of Real Gross Domestic Product

(Per cent)

Sector	2001-02				2002-03				2003-04	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
1	2	3	4	5	6	7	8	9	10	11
1. Agriculture and Allied Activities	**2.6**	**5.6**	**5.9**	**8.3**	**2.7**	**-3.5**	**-7.6**	**-2.8**	**1.7**	**7.4**
2. Industry	**2.4**	**3.0**	**3.5**	**4.0**	**4.3**	**6.2**	**6.2**	**6.2**	**5.8**	**6.3**
2.1 Mining and Quarrying	-2.5	-0.2	3.6	2.7	7.7	6.0	3.8	3.2	3.1	2.2
2.2 Manufacturing	2.9	3.1	3.4	4.1	3.8	6.5	6.7	7.1	6.4	7.3
2.3 Electricity, Gas and Water Supply	3.5	5.0	3.4	5.0	4.4	4.0	5.0	2.4	4.8	2.9
3. Services	**6.0**	**5.8**	**7.7**	**6.3**	**6.8**	**7.8**	**6.4**	**7.5**	**7.4**	**9.6**
3.1 Construction	0.3	1.3	5.5	7.5	6.2	8.5	6.7	7.5	5.7	6.4
3.2 Trade, Hotels, Restaurants, Transport and Communication	7.7	9.0	8.4	9.7	6.9	8.1	7.2	8.8	9.6	11.9
3.3 Financing, Insurance, Real Estate and Business Services	4.5	5.0	4.8	3.8	6.7	7.0	6.3	4.4	7.1	7.3
3.4 Community, Social and Personal Services	6.8	3.1	10.3	3.1	6.9	7.8	4.6	7.7	4.3	8.9
4. GDP at factor cost	**4.4**	**5.1**	**6.3**	**6.3**	**5.3**	**5.2**	**2.3**	**4.9**	**5.7**	**8.4**

Source: Central Statistical Organisation.

2.9 The economy has undergone a structural transformation during the 1990s as reflected in the changing composition of GDP. The conventional economic development paradigm is evident in India in a declining trend in the share of the agricultural sector and an upward drift in the share of industry and the services sector (Table 2.5). A matter of concern, however, is that the shift to industry has slowed down in the 1990s, unlike in other countries.

Saving and Investment

2.10 Most countries in the East Asian region have had a discernible rise in the rate of gross domestic savings over the last 2-3 decades. The rise in the rate of savings in India has been lower as compared with most of the East Asian countries like Singapore, Malaysia, Korea and Thailand. While India's private savings are comparable with that in East Asia, it is the public sector savings that are now exceedingly low and even negative. The large current account surplus in the region is symptomatic of the comparatively lower level of investment (Table 2.6).

2.11 In India, the rate of gross domestic savings has improved modestly during 2001-02 though it remained below the peak level of 1995-96. This improvement was mainly on account of an increase in the rate of household saving in the form of increased holdings in financial and physical assets. While the increase in household financial saving was due to increases in holdings of all instruments, it was mainly driven by deposits and provident and pension funds. The rate of savings of the private corporate sector declined marginally in 2000-01 and 2001-02. Public sector dis-savings deteriorated further owing to an increase in dis-savings of Government administration, especially since 1998-99, reflecting, in part, the impact of the implementation of the recommendations of the Fifth Pay Commission. Alongside the improvement in the rate of gross domestic savings, the rate of investment declined in 2001-02. This resulted in a marginal surplus in the overall saving-investment balance in 2001-02 after a long time – since 1975-78. The saving-investment surplus was reflected in a modest surplus in current account in the balance of payments in 2001-02, which increased further in 2002-03. The rate of

Table 2.5: Sectoral Composition of Real Gross Domestic Product

(Per cent)

Sector	1950s	1960s	1970s	1980s	1990s	2000-01 P	2001-02*	2002-03 #
1	2	3	4	5	6	7	8	9
1. Agriculture and Allied Activities	56.1	47.8	42.8	36.4	29.1	23.8	23.9	22.1
2. Industry	11.7	15.1	16.9	19.5	21.9	22.0	21.5	21.8
3. Services	32.6	37.3	40.3	44.0	49.0	54.1	54.6	56.1
4. GDP at factor cost	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

P Provisional. * Quick Estimates. # Revised Estimates.

Source: Central Statistical Organisation.

Table 2.6: Savings and Investment of Select East Asian Countries and India

(Per cent of GDP)

Country	Gross Domestic Saving				Gross Domestic Investment			
	1971-80	1981-90	1991-96	1997-2003	1971-80	1981- 90	1991-96	1997-2003
1	2	3	4	5	6	7	8	9
China	35.8	30.8	40.3	39.2	33.9	30.5	39.6	38.0
Hong Kong	28.4	33.5	32.8	32.2	27.8	27.2	30.4	27.5
India	**20.5**	**21.2**	**22.2**	**23.5**	**20.5**	**22.4**	**23.6**	**24.0**
Indonesia	21.6	30.9	30.2	24.1	19.3	29.3	31.3	17.5
Korea, Republic of	22.3	32.4	35.2	31.5	28.6	30.6	37.0	27.1
Malaysia	29.1	33.2	37.6	44.7	24.9	30.6	38.8	27.5
Philippines	26.5	22.2	16.5	20.8	27.8	22.0	22.2	18.3
Singapore	30.0	41.8	48.1	47.7	41.2	41.7	35.1	29.3
Thailand	22.2	27.2	34.6	31.8	25.3	30.7	41.0	24.1

Source: Asian Development Outlook, Asian Development Bank, various issues.

capital formation in the private corporate sector continued to decline since 1998-99 owing to a decrease in saving originating from this sector (Table 2.7). The latest available data, with the Reserve Bank, reveal that there was a marginal increase in the rate of household financial saving (net) in 2002-03 as compared with that of 2001-02 mainly reflecting increases in the rates of contractual saving (life insurance, provident and pension funds) and shares and debentures.

2.12 The movements in the inter-sectoral saving-investment balances indicate that the widening public sector resource gap has been completely financed by the surplus of the private sector. This surplus, in part, also reflects the subdued investment climate. As the surplus in the saving-investment position of the private sector is financing the public sector dis-savings, the high fiscal deficit has not put pressure on interest rates or for that matter, on monetary policy and the current account balance. Moreover, in 2001-02, the private sector surplus bridged the public sector deficit, and also spilled over into the external accounts (Table 2.8).

Table 2.7: Gross Domestic Saving and Investment

(Per cent of GDP at current market prices)

	Variable	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-01P	2001-02*
	1	2	3	4	5	6	7	8	9	10	11	12
1.	Gross Domestic Saving (GDS) (2+3+4)	22.0	21.8	22.5	24.8	25.1	23.2	23.1	21.5	24.1	23.4	24.0
2.	Household Sector	17.0	17.5	18.4	19.7	18.2	17.0	17.6	18.8	20.8	21.6	22.5
	2.1) Financial Assets	9.5	8.7	11.0	11.9	8.9	10.4	9.6	10.4	10.5	10.4	11.2
	2.2) Physical Assets	7.4	8.8	7.4	7.8	9.3	6.7	8.0	8.4	10.3	11.2	11.3
3.	Private Corporate Sector	3.1	2.7	3.5	3.5	4.9	4.5	4.2	3.7	4.4	4.1	4.0
4.	Public Sector	2.0	1.6	0.6	1.7	2.0	1.7	1.3	-1.0	-1.0	-2.3	-2.5
5.	Gross Domestic Capital Formation (GDCF)#	22.6	23.6	23.1	26.0	26.9	24.5	24.6	22.6	25.2	24.0	23.7
6.	Saving-Investment Balance (GDS-GDCF)	-0.5	-1.8	-0.6	-1.2	-1.7	-1.3	-1.5	-1.0	-1.1	-0.6	0.2
7.	Gross Capital Formation (GCF) (8+9+10)	21.9	23.8	21.3	23.4	26.5	21.8	22.6	21.4	23.7	22.5	22.4
8.	Household Sector	7.4	8.8	7.4	7.8	9.3	6.7	8.0	8.4	10.3	11.2	11.3
9.	Private Corporate Sector	5.7	6.5	5.6	6.9	9.6	8.0	8.0	6.4	6.5	4.9	4.8
10.	Public Sector	8.8	8.6	8.2	8.7	7.7	7.0	6.6	6.6	7.1	6.4	6.3

Adjusted for errors and omissions. P Provisional. * Quick Estimates.

Source: Central Statistical Organisation.

Table 2.8: Saving-Investment Balance

(Per cent of GDP at current market prices)

Item	1990-1991	1991-1992	1992-1993	1993-1994	1994-1995	1995-1996	1996-1997	1997-1998	1998-1999	1999-2000	2000-2001	2001-2002
1	2	3	4	5	6	7	8	9	10	11	12	13
Saving - Investment Balance (GDS - GDCF)	-3.2	-0.5	-1.8	-0.6	-1.2	-1.7	-1.3	-1.5	-1.0	-1.1	-0.6	0.2
Private Sector Balance*	7.3	7.0	4.9	8.9	8.5	4.2	6.8	5.8	7.7	8.4	9.5	10.3
Public Sector Balance*	-8.2	-6.9	-7.0	-7.6	-7.0	-5.6	-5.4	-5.3	-7.6	-8.0	-8.7	-8.8
Current Account Balance	-3.1	-0.3	-1.7	-0.4	-1.0	-1.7	-1.2	-1.4	-1.0	-1.1	-0.8	0.2

* Private and public investment refer to gross capital formation (GCF), unadjusted for errors and ommissions.
GDS : Gross Domestic Saving.
GDCF : Gross Domestic Capital Formation.
Note : Derived from CSO and the Reserve Bank data. Components do not add up to totals because of errors and omissions.

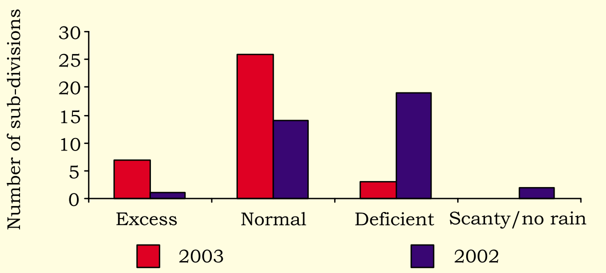
2.13 The investment climate has improved in recent months, with the persistence of easy monetary conditions, a reasonably steady order of inflation, improved corporate profitability and a revival of the capital market. While investment demand, *per se,* is yet to pick up, there has been an increase in non-oil imports and capital goods production, leading indicators of industrial activity, as well as higher sanctions and disbursements by financial institutions. Resource mobilisation by corporates in the primary market in the form of debt, equity and euro issues has, however, shown a moderate increase during the year. This could, in part, reflect a shift towards internal resource generation.

Agriculture

2.14 Indian agriculture is poised for an impressive turnaround during 2003-04 as a result of a satisfactory South-West monsoon, distributed equitably over space and time and comfortable water storage in the major reservoirs (Chart II.1A). The total foodgrain production target for 2003-04, at 220 million tonnes, is likely to be achieved, which would surpass the all-time high of 212 million tonnes attained in 2001-02. Crop production (measured by the Index of Agricultural Production) is expected to post a significant growth during the current year in sharp contrast to a decline of 12.6 per cent witnessed in 2002-03, due to drought conditions (Table 2.9). The astute foodgrains management reflects the comfortable levels of stock of rice and wheat with the Food Corporation of India (FCI)/ government agencies.

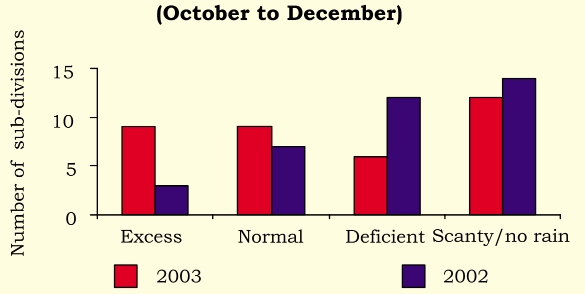
2.15 According to the India Meteorological Department (IMD), the cumulative area-weighted rainfall during the South-West monsoon season 2003 was two per cent above the Long Period Average (LPA). The temporal distribution of the rainfall was satisfactory with the months of June, July, August and September 2003 recording a rainfall of 109 per cent, 107 per cent, 95 per cent and 96 per cent of the LPA, respectively. The rainfall in month of July is crucial as it augments the surface and ground water stock for sowing activities undertaken during the *kharif* season - the failure of the *kharif* crop last year was mainly due to deficient rain (51 per cent of LPA) in July 2002. This also highlights the continued rain dependency

Chart II.1A : South-West Monsoon Cumulative Rainfall (June to September)



Source: India Meteorological Department

Chart II.1B : North-East Monsoon Cumulative Rainfall (October to December)



Source: India Meteorological Department

Table 2.9: Agriculture on a Rebound

	Indicator	2002-03	2003-04
	1	2	3
1.	South-West Monsoon	19 per cent below normal	2 per cent above normal
2.	Spatial Rainfall Distribution (in 36 meteorological sub-divisions)	Excess/normal in 15 sub-divisions	Excess/normal in 33 sub-divisions
3.	Progress of North-East Monsoon	33 per cent below normal	9 per cent above normal
4.	Live Water Storage (as on January 2, 2004)	37 per cent of the FRL	45 per cent of the FRL
5.	Foodgrains (million tonnes)	182.6	220 @
6.	Oilseeds (million tonnes)	15.8	24.7 @
7.	Sugarcane (million tonnes)	278.6	261.4 *
8.	Cotton (million bales)	9.3	13.1 *

@ Target. * First Advance Estimates. FRL : Full Reservoir Level.

of Indian agriculture. The spatial distribution of the rainfall was also satisfactory with 33 out of the 36 meteorological sub-divisions receiving excess/normal rainfall (Table 2.10).

2.16 Consequent upon an above-normal South-West monsoon, the area coverage under the *kharif* crops was satisfactory. The area sown under major *kharif* crops (as on September 22, 2003) was above normal in the case of both maize and pulses; almost normal for coarse cereals and oilseeds but below normal for cotton, rice, and sugarcane.

Kharif 2003

2.17 The strategies for *kharif* 2003-04 were drawn with a particular emphasis on efforts to augment production. These include measures such as effective transfer of crop production technology backed by efficient and timely input supply, larger area coverage under location-specific high-yielding varieties and balanced use of fertilisers along with bio-fertilisers/ organic manures. A renewed thrust was also placed on the crop-specific schemes and Technology Missions on various crops besides enhancing the outlay for the programme on varietal diversification and popularisation of recently evolved technologies.

Table 2.10: Cumulative Rainfall

Category	No. of sub-Divisions			
	South-West Monsoon		North-East Monsoon	
	2003	2002	2003	2002
	(June 1 to Sept. 30)		(Oct. 1 to Dec. 31)	
1	2	3	4	5
Excess	7	1	9	3
Normal	26	14	9	7
Deficient	3	19	6	12
Scanty/no rain	0	2	12	14

Source : India Meteorological Department, Pune.

The buoyant monsoon together with the policy initiatives resulted in an impressive production during *kharif* 2003-04. According to the First Advance Estimates released by the Ministry of Agriculture, the production of foodgrains during the *kharif* season 2003-04 is slated to increase significantly across all foodgrains crops, though lower than the peak of over 111 million tonnes attained in 2001-02. Among the non-foodgrains, while the output of oilseeds, cotton and jute and *mesta* is expected to be close to or even surpass the target for the season; sugarcane production, however, is expected to be lower than the previous year due to the unsatisfactory spread of rainfall in Maharashtra (Table 2.11).

2.18 The progress of the North-East monsoon was satisfactory, with the all-India area-weighted rainfall for the season, being nine per cent above normal. The spatial spread of the rains indicate excess/normal rains in 18 sub-divisions (10 in the corresponding period last year) out of 36 meteorological sub-divisions; with deficient/scanty/no rains in the remaining (Chart II.1B). Favourable precipitation and the consequent ground water recharging enabled the present live water storage (as on January 2, 2004) in the major reservoirs to reach 45 per cent of the Full Reservoir Level (FRL) (which is 122 per cent of last year's level and 76 per cent of last 10 year's average).

Rabi 2003-04

2.19 The adverse impact of drought in 2002-03 also affected the *rabi* season last year on account of acute moisture scarcity. The satisfactory South-West monsoon in the current year, its delayed withdrawal and subsequent moderate temperature in the North coupled with an above normal performance of the North-East monsoon have created congenial conditions for the *rabi* crops, mainly oilseeds and pulses. The area sown under

Table 2.11: Season-wise Agricultural Production

(Million tonnes)

Crop	*Kharif*			*Rabi*	
	2002-03	2003-04		2002-03	2003-04
	A	T	AE	A	T
1	2	3	4	5	6
Rice	66.5	78.6	75.1	9.2	14.4
Wheat	NA	NA	NA	69.3	78.0
Coarse cereals	20.1	27.1	28.0	6.1	7.0
Pulses	3.8	6.0	5.4	7.5	9.0
Total Foodgrains	**90.5**	**111.7**	**108.5**	**92.1**	**108.3**
Oilseeds	9.2	14.7	14.7	6.5	10.0
Sugarcane	278.6	320.0	261.4	NA	NA
Cotton*	9.3	15.0	13.1	NA	NA
Jute & Mesta**	10.8	12.0	10.8	NA	NA

T Target. A Achievement. AE First Advance Estimates.
* In million bales of 170 kilograms each. ** In million bales of 180 kilograms each.
Source: Ministry of Agriculture, Government of India.

the *rabi* crops, as on November 24, 2003, was satisfactory. Consequently, foodgrains production in *rabi* 2003-04 is expected to grow by about 18 per cent, consistent with the target set by the Ministry of Agriculture. Besides, the strategies drawn to augment *rabi* production include, *inter alia*, ensuring the availability of good quality seeds of desired varieties, balanced and adequate use of fertilisers, use of soil ameliorants for *alkali* soils, addition of organic farming, efficient water management, adequate and appropriate farm mechanisation. Furthermore, work plans for the various schemes subsumed under the Macro-Management Mode and Technology Missions have been firmed up. Taking into account the First Advance Estimates for *kharif* and targets set for *rabi*, the total foodgrain output during 2003-04 is slated to post a new high (Table 2.12).

Procurement, Off-take and Stocks of Foodgrains

2.20 Procurement operations by the Food Corporation of India and the other Government agencies during 2003-04 (up to end-December 2003) have been lower than in the corresponding period of the previous year. However, the off-take of foodgrains (April-October 1, 2003) has been higher than the corresponding period of the previous year. Among the various components, the off-take under the Targeted Public Distribution System (TPDS) during the year was highest, followed by the other welfare schemes (OWS), exports and open market sales (OMS). The higher off-take under TPDS and other welfare schemes could be attributed to the higher allocation made under the *Jawahar Rozagar Yojana* and drought relief work programmes.

Table 2.12: Crop-wise Targets / Achievements

(Million tonnes)

Crop	2001-02		2002-03		2003-04
	T	A	T	A	T
1	2	3	4	5	6
Rice	92.0	93.1	93.0	75.7	93.0
Wheat	78.0	71.8	78.0	69.3	78.0
Coarse cereals	33.0	33.9	33.0	26.2	34.0
Pulses	15.0	13.2	16.0	11.3	15.0
Total Foodgrains	**218.0**	**212.0**	**220.0**	**182.6**	**220.0**
Oilseeds	28.0	20.8	27.0	15.8	24.7
Sugarcane	325.0	300.1	320.0	278.6	320.0
Cotton*	14.5	10.1	15.0	9.3	15.0
Jute & Mesta**	11.0	11.6	12.0	10.8	12.0

T Target. A Achievement.
* In million bales of 170 kilogrames each. ** In million bales of 180 kilogrames each.
Source: Ministry of Agriculture, Government of India.

Table 2.13: Management of Foodstocks

(Million tonnes)

Month	Opening Stock of Foodgrains	Buffer Stocking Norm $	Foodgrain Procure-ment	Foodgrain off-take				Closing Stock	Food Credit @
				PDS	OWS	OMS	Exports		
1	2	3	4	5	6	7	8	9	10
2002-03									
April	51.0		14.3	1.2	0.4	0.2	0.2	62.6	52,483
May	62.6		6.1	1.5	0.8	0.1	1.2	64.8	60,669
June	64.8	24.3	2.5	1.6	1.4	0.2	0.2	63.1	61,008
July	63.1		0.5	1.5	0.7	0.4	1.1	59.9	59,077
August	59.9		0.4	1.8	0.6	1.1	1.5	55.4	56,401
September	55.4	18.1	0.2	1.5	0.5	0.7	1.4	51.4	53,362
October	51.4		7.5	1.8	1.3	0.7	0.9	53.6	52,705
November	53.6		0.9	1.5	0.8	0.5	0.8	51.5	54,346
December	51.5	16.8	1.5	2.0	1.1	0.4	0.9	48.2	51,947
January	48.2		2.0	1.8	1.2	0.8	0.8	40.1	49,784
February	40.1		1.4	2.1	1.1	0.4	0.9	36.2	50,227
March	36.2	15.8	0.9	1.8	1.8	0.3	1.1	32.8	49,479
2003-04									
April	32.8		13.1	1.6	1.0	0.2	0.6	41.3	44,589
May	41.3		3.6	2.0	1.6	0.3	0.9	39.8	51,047
June	39.8	24.3	1.0	1.5	2.5	0.2	1.1	35.2	50,066
July	35.2		0.2	2.2	1.4	0.1	2.2	30.5	43,277
August	30.5		0.2	1.5	0.8	0.1	0.9	27.9	41,283
September	27.9	18.1	0.2	1.9	1.0	0.1	0.8	23.7	37,465
October	23.7		7.2	1.0	0.8	0.1	0.9	22.1	36,020
November	22.1		1.6	–	–	–	–	–	36,461

$ The total minimum stocks to be maintained by the public sector agencies on the first day of the quarter under the new buffer stocking policy with effect from October 30, 1998.

@ Outstanding in Rupees crore as on the last reporting Friday of the month.

PDS Public Distribution System. OWS Other Welfare Schemes. OMS Open Market Sales. – Not Available.

Source: Ministry of Food, Consumer Affairs and Public Distribution; Ministry of Finance, Government of India.

2.21 In the recent years, conscious efforts have been made to encourage off-take and liquidate excess stocks. During 2001-02, various measures were introduced, which included, open market sales at prices much below the economic cost, lowering of issue prices under TPDS for Above Poverty Line (APL) families, increasing the monthly allocation for APL, Below Poverty Line (BPL) and *Antyodaya* families and utilisation of foodgrains for various welfare schemes. These measures, coupled with subdued procurement operations over time facilitated in reducing the stocks substantially. The decline in foodgrain stocks resulted in lower levels of food credit availed by the FCI (Table 2.13).

Industry

2.22 The buoyancy in industrial GDP witnessed in 2002-03 has been sustained in the current financial year 2003-04 so far. Industrial GDP recorded higher growth in the first and second quarters of 2003-04 as against the corresponding period of 2002-03. Industrial production, according to the index of industrial production (IIP), also accelerated during 2003-04 (up to November 2003) (Chart II.2 and Table 2.14). The increase in industrial production was led by the manufacturing sector. On the other hand, the lower growth in electricity could be attributed to the fact that a number of thermal and hydro power plants were kept under maintenance. Lower demand for power in agriculture in the wake of a better monsoon and critical coal stock position at some thermal power plants also contributed to lower electricity generation. The lower growth in mining was largely on account of the adverse impact of the monsoon on coal production.

2.23 The recovery in manufacturing during 2003-04 (up to November) has been widespread as in the previous year. Moreover, there has been a general sustenance of the growth momentum at the two-digit level in the present year so far. The improved industrial performance at the aggregate level coupled with a revival in agriculture was reflected in higher growth

Table 2.14: Sector-wise Growth of IIP

(Per cent)

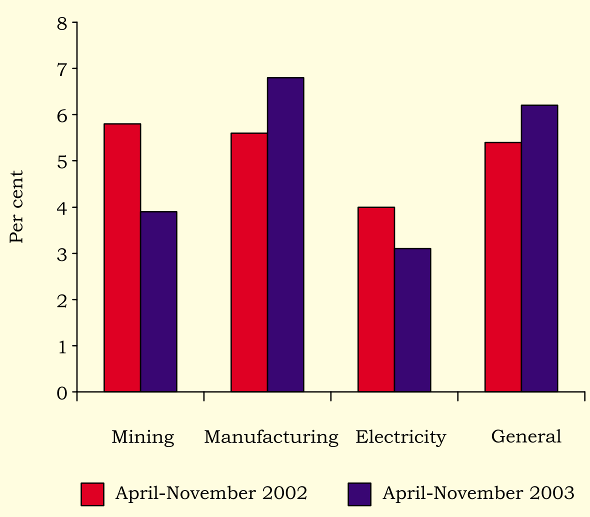
Month / Sector weight	General (100.00)		Electricity (10.17)		Mining & Quarrying (10.47)		Manufacturing (79.36)	
	2002-03	2003-04	2002-03	2003-04	2002-03	2003-04	2002-03	2003-04
1	2	3	4	5	6	7	8	9
April	4.1	4.2	5.2	1.9	3.6	6.3	4.0	4.3
May	4.1	6.4	2.2	5.2	7.9	4.7	4.0	6.7
June	4.5	6.7	3.8	5.4	9.0	5.7	4.2	6.9
July	7.1	6.6	6.1	-1.4	12.1	2.9	6.7	8.0
August	6.2	5.7	4.1	1.2	5.7	1.3	6.5	6.7
September	6.2	7.1	-0.4	6.0	1.0	4.6	7.6	7.5
October	7.0	5.4	7.1	2.6	4.2	2.2	7.3	6.1
November	4.1	7.4	3.5	4.3	3.7	4.1	4.3	8.1
December	6.2		2.8		6.1		6.6	
January	6.7		4.5		2.3		7.2	
February	7.0		0.6		7.2		7.1	
March	5.9		-0.6		7.6		6.4	
April-November	**5.4**	**6.2**	**4.0**	**3.1**	**5.8**	**3.9**	**5.6**	**6.8**

Source : Central Statistical Organisation.

of the input producing intermediate sector. Capital goods recorded a significant growth, maintaining the buoyancy witnessed in the previous year, and reflecting positive investment sentiment among the producers. The recovery of consumer durables has been facilitated by an increase in retail lending and softening of interest rates. The lower growth of basic goods, on the other hand, reflected the subdued performance of electricity and mining sectors (Table 2.15).

2.24 Sustenance of the industrial recovery, particularly in the manufacturing sector, during 2003-04 so far, is attributable to various industry-specific factors besides an overall rising business confidence as revealed in the various industrial outlook surveys, improvement in corporate profitability, corporate restructuring-induced productivity gains, better monsoon and softening of interest rates. As a result, 13 out of 17 two-digit manufacturing groups with a combined weight of 69.3 per cent in the IIP exhibited positive growth during April-November 2003 *vis-à-vis* 13 similar groups that had a combined weight of 67.4 per cent in the previous year (Table 2.16).

Chart II.2 : Sector-Wise Growth of IIP



2.25 During April-November 2003, the contributions of transport equipment, basic metals and machinery and equipment to manufacturing growth were relatively high. The high export demand continued to support the growth in sectors like steel, ferro chrome, passenger cars and auto components. The high growth in commercial vehicles was also on

Table 2.15: Use-based Classification of Industrial Production

Sector	Weights in IIP	Growth Rates (Per cent)		
		2002-03	2002-03 (April-November)	2003-04 (April-November)
1	2	3	5	4
IIP	100.0	5.8	5.4	6.2
Basic Goods	35.6	4.8	4.8	4.5
Capital Goods	9.3	10.5	10.4	8.8
Intermediate Goods	26.5	3.9	2.6	5.4
Consumer Goods	28.7	7.1	7.5	8.1
i) Consumer Durables	5.4	-6.3	-5.9	7.6
ii) Consumer Non-Durables	23.3	12.0	12.9	8.2

Source : Central Statistical Organisation.

Table 2.16: Growth Performance of Two-digit Manufacturing Groups

Performance	No. of Groups	Weight Per cent	No. of Groups	Weight Per cent
	April-November 2002-03		April-November 2003-04	
1	2	3	4	5
Acceleration	10	49.89	8	39.04
Deceleration	3	17.55	5	30.26
Negative	4	11.92	4	10.06

Source: Central Statistical Organisation.

account of the renewed thrust on the infrastructure sector, in general, and the Golden Quadrilateral Highway Project and Rural Road Network Project, in particular. The passenger car sector witnessed higher growth on the back of an eight per cent excise duty reduction, low interest loans, aggressive retail finance schemes and discounts, and launching of new models. The tractor industry also indicated signs of recovery on account of the better monsoon in 2003-04. The electrical machinery industry witnessed a revival in 2003-04, particularly in the power cable, high voltage motor and distribution transformer segments. Among the few sectors that witnessed a decline during 2003-04, notably, the fertiliser sector underwent a downward adjustment in production in the context of outstanding stock holdings on account of lower consumption during 2002-03.

2.26 The indicators of industrial production recorded significant growth over and above the strong performance in the previous year (Table 2.17). Despite the high growth base, capital goods production recorded a significant increase, reflecting the positive investment sentiment. The buoyant growth in the capital goods sector along with the surge in the imports of capital goods could reflect a revival of investment demand. This has been facilitated, on the supply side, by the availability of adequate credit to the productive sectors coupled with the soft interest rate stance so as to support investment demand. On the demand side, the credit requirement of the small-scale sector may be expected to increase further in tandem with the growth in large corporates. Besides, the capital requirement of the infrastructure sector and the credit demand of the agriculture sector may also increase.

Infrastructure Sector

2.27 During 2003-04 (up to November 2003), the overall growth of infrastructure industries was substantially lower. Moreover, five out of the six industries, barring petroleum refinery products, recorded lower growth during 2003-04 so far. Cement witnessed a lower growth, possibly because of subdued construction activities in the wake of the monsoon. Crude petroleum production witnessed a decline mainly due to a high water-oil ratio in some of the oil fields (Table 2.18).

Table 2.17: Indicators of Industrial Performance: Growth Rates

(Per cent)

Month	IIP	Capital Goods Production	Exports	Capital Goods Imports	Non Food Credit
1	2	3	4	5	6
2002					
April	4.1	-0.6	28.2	39.9	13.4
May	4.1	5.1	9.7	25.7	15.5
June	4.5	11.7	6.9	23.9	15.8
July	7.1	11.8	29.2	18.8	15.7
August	6.2	11.7	20.0	14.1	15.8
September	6.2	16.6	16.1	40.1	16.9
October	7.0	17.5	25.0	35.4	16.8
November	4.1	10.0	10.5	45.4	17.5
December	6.2	12.6	34.3	33.2	17.4
2003					
January	6.7	14.8	9.2	47.7	17.4
February	7.0	5.1	13.5	13.2	18.4
March	5.9	10.4	15.3	20.0	18.6
April	4.2	6.5	8.7	17.7	18.0
May	6.4	7.7	13.5	39.0	16.3
June	6.7	10.9	10.9	52.2	16.2
July	6.6	11.2	5.7	20.0	15.4
August	5.7	9.5	4.2	38.0	14.8
September	7.1	9.2	15.9	31.2	14.9
October	5.4	3.9	5.1	..	15.6
November	7.4	12.1	13.7		16.0

.. Not Available.

Note : Non-food credit growth rates from May 2002 to April 2003 are adjusted for the initial impact of mergers.

Table 2.18: Growth Rate of Infrastructure Industries

Sector	Weights in IIP	Growth Rates (Per cent)		
		2002-03	2002-03 (April-November)	2003-04 (April-November)
1	2	3	4	5
1. Electricity	10.17	3.0	3.9	3.1
2. Coal	3.22	4.3	4.9	3.4
3. Finished Steel	5.13	6.9	10.7	7.0
4. Cement	1.99	8.8	8.9	5.1
5. Crude Petroleum	4.17	3.3	3.9	-0.5
6. Pet. Ref. Products	2.00	4.9	5.0	6.9
Composite Index	**26.68**	**4.8**	**6.1**	**4.2**

Source : Office of the Economic Adviser, Ministry of Commerce and Industry, Government of India.

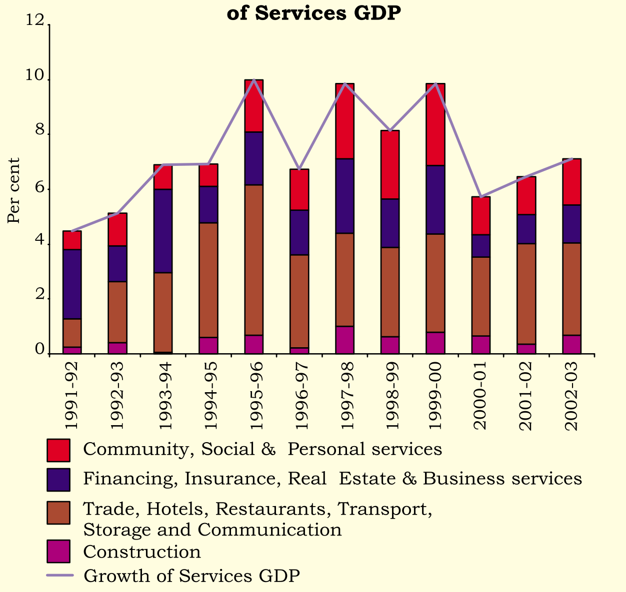
2.28 According to the Ministry of Statistics and Programme Implementation, revenue-earning freight traffic of railways, new cellular phone connections and net telephone connections and civil aviation (both domestic and international) recorded increases during April-October 2003. On the other hand, net switching capacity and village public telephone connections recorded a decline during April-October 2003. The upsurge in growth in the railways sector was mainly due to increased transportation of coal and raw material for steel plants. The transportation of coal and raw material for steel accelerated, for instance, to 5.8 per cent and 8.6 cent, respectively, during April-October 2003 from 4.0 per cent and 1.2 per cent during the corresponding period of the previous year. There has been a sharp increase in cellular connections, with cellular operators increasingly venturing into smaller cities and towns. The decline in net switching capacity addition and village telephone connections possibly reflects the substitution of basic telecom services by cellular services on account of preferences for such services due to declining tariffs. Both domestic and international segments in the civil aviation sector witnessed an increased growth mainly because of increased flow of foreign tourist arrivals.

Services Sector

2.29 According to the latest quarterly estimates of GDP released by the CSO, the services sector growth stood higher in the first and second quarters of 2003-04 at 7.4 per cent and 9.6 per cent, respectively, as compared with the corresponding period of the previous year (Chart II.3). The recent high growth in 'trade, hotels, restaurants, transport and communication' services has mainly reflected the robust growth of communications that benefited significantly from the reforms underway in the telecom sector. According to the Confederation of Indian Industry-Associations Council (CII-ASCON), new subscribers in cellular services, upsurge in tourist arrivals and higher occupancy of hotels extended a boost to this sub-sector during the first half of 2003-04. Alongside, according to the CSO, net tonne kilometres and passenger kilometres in respect of railways have shown a growth of 4.7 per cent and 4.1 per cent, respectively, during the second quarter of 2003-04. Besides, production of commercial vehicles and cargo handled at major ports has shown growth of 52.7 per cent and 7.6 per cent, respectively, during the second quarter of 2003-04.

2.30 Besides, the segment of 'trade, hotels, restaurants, transport and communication' appears to have got a boost from increased trade services on account of bumper agricultural production and increased industrial activities. The higher growth of the segment is also reflected in the increased revenue earning freight traffic (133.3 million tonnes during second quarter of 2003-04 as compared with 124.5 million tonnes during the comparable quarter of 2002-03) in the railway sector and passenger handling at major domestic and international airports (74.7 lakh passengers during the second quarter of 2003-04 as compared with 64.8 lakh passengers during the comparable quarter of 2002-03).

Chart II.3 : Sectoral Contribution in Growth of Services GDP



2.31 In connection with the growth performance of 'financing, insurance, real estate and business services' sub-sector, the CSO has placed the growth rate of bank deposits and credit (year-on-year basis) at 11.4 per cent and 10.7 per cent, respectively, in the second quarter of 2003-04. According to the CSO, the high growth performance of 'community, social and personal services' is reflected in the growth of revenue expenditure of the Central Government at 25.3 per cent in the second quarter of 2003-04.

2.32 Information technology (IT) and software services have emerged as one of the most dynamic services-providing sub-sectors of the economy. The IT software and services exports accounted for the bulk of revenues generated by the sector. The share of IT services increased to 3.2 per cent of GDP in 2002-03 from 2.9 per cent in 2001-02; of this, software and services accounted for 2.4 per cent of GDP during 2002-03 as compared with 2.1 per cent in the previous year. According to a preliminary NASSCOM estimate, business process outsourcing (BPO) is likely to grow by 50 per cent during 2003-04.

Industrial Outlook

2.33 The investment climate has improved during the year as reflected in the equity market recovery and recent signs of a pick-up in commercial bank non-food credit off-take. It is reported that large-scale corporate restructuring has already taken place and productivity gains harnessed to a significant degree. Besides, there are clear indications of improvement in the bottomlines of corporates due to the recovery in industrial activity. There is also evidence of lower interest expense by corporates aided by the soft-interest rate regime and ploughing back of internal resources for investment, leading to lower cost of funds.

2.34 The Business Confidence Index (BCI), based on a survey by Economic Times - National Council of Applied Economic Research (ET-NCAER), released in November 2003, has shown an improvement of 3.5 per cent over July 2003 indicating a consistent upturn in economic activity. The Federation of Indian Chambers of Commerce and Industry (FICCI), based on a similar survey, has shown a rise in its index by 6.9 per cent over its previous round for the second quarter of 2003-04. The Indian Leading Indicator Index released by the Delhi School of Economics-Economic Cycle Research Institute (DSE-ECRI), in December 2003, suggests a further upturn in overall economic growth in the months ahead.

II. FISCAL SITUATION

Central Government Finances

Union Budget 2003-04

2.35 The Union Budget for 2003-04 focused on poverty eradication, infrastructure development, fiscal consolidation, development of agriculture including irrigation, and enhancing manufacturing sector efficiency. The process of fiscal consolidation will be carried forward through a mixed strategy of revenue enhancement *via* tax reforms and expenditure containment through debt restructuring and cash management. The Union Budget projected moderate growth rates in revenue receipts and aggregate expenditure. The major deficit indicators during 2003-04 are expected to increase in absolute terms from the levels in the revised estimates for 2002-03 due to relatively higher growth in expenditure. However, in terms of GDP, all the deficit indicators are projected to be lower during 2003-04 than the levels in the revised estimates for 2002-03 in anticipation of higher GDP growth (Table 2.19).

Table 2.19: Deficit Indicators of the Centre

Indicator	2001-02	2002-03 RE	2003-04 BE	Variation (2 over 1) per cent	Variation (3 over 2) per cent
	1	2	3	4	5
Gross Fiscal Deficit	1,40,955 (6.1)	1,45,466 (5.9)	1,53,637 (5.6)	3.2	5.6
Revenue Deficit	1,00,162 (4.4)	1,04,712 (4.2)	1,12,292 (4.1)	4.5	7.2
Gross Primary Deficit	33,495 (1.5)	29,803 (1.2)	30,414 (1.1)	-11.0	2.1

Note: Figures in brackets are percentage to GDP.

2.36 The modest increase in revenue receipts during 2003-04 is to be generated entirely from tax receipts; with the result that the tax-GDP ratio of the Central Government is projected to show a modest rise to 9.2 per cent during 2003-04 from 9.0 per cent in the revised estimates for 2002-03. Non-tax revenue is budgeted to register a decline on account of lower interest receipts and dividends and profits. Receipts from disinvestment are projected at Rs.13,200 crore as against Rs.3,360 crore in the revised estimates for 2002-03. On the expenditure side, the aggregate expenditure would be moderately higher during 2003-04 than the revised estimates for 2002-03. Non-Plan revenue expenditure would also be higher. Among the major items of non-Plan revenue expenditure interest payments, defence expenditure and subsidies taken together would form 82.0 per cent of non-Plan revenue expenditure and would absorb 92.6 per cent of revenue receipts. Interest payments alone would pre-empt 48.5 per cent of the revenue receipts during 2003-04 (Table 2.20).

2.37 The Union Budget emphasised five important aspects of tax reforms: (i) Value Added Tax (VAT) for States; (ii) integration of services into the tax net; (iii) improvement in tax administration through greater application of information technology (IT); (iv) rationalisation of excise duties; and (v) reduction in customs duty. Moreover, cash management was to be initiated on a pilot basis in some major spending Ministries. This would facilitate the release of budgetary allocations in a phased manner to permit convergence with the availability of resources within the year. Improvement in cash flow matching is expected to have salutary effects on expenditure management. The Union Budget also focussed on debt restructuring, which is being undertaken on three fronts, *viz.,* pre-payment of external debt, buy-back of illiquid high interest rate loans from banks, and allowing State Governments to swap high-cost Central Government debt with lower-cost new borrowings.

Table 2.20: Select Fiscal Parameters of the Central Government

Amount in Rupees crore

Indicator	2001-02	2002-03 RE	2003-04 BE	Variation (2 over 1) per cent	Variation (3 over 2) per cent
1	2	3	4	5	6
Total Receipts	**3,62,453** (15.8)	**4,04,013** (16.3)	**4,38,795** (16.0)	**11.5**	**8.6**
Revenue Receipts	2,01,449 (8.8)	2,36,936 (9.6)	2,53,935 (9.3)	17.6	7.2
Tax Revenue (net)	1,33,662 (5.8)	1,64,177 (6.6)	1,84,169 (6.7)	22.8	12.2
Non-Tax Revenue	67,787 (3.0)	72,759 (2.9)	69,766 (2.5)	7.3	-4.1
Capital Receipts	1,61,004 (7.0)	1,67,077 (6.8)	1,84,860 (6.7)	3.8	10.6
Total Expenditure	**3,62,453** (15.8)	**4,04,013** (16.3)	**4,38,795** (16.0)	**11.5**	**8.6**
Non-Plan Expenditure	2,61,259 (11.4)	2,89,924 (11.7)	3,17,821 (11.6)	11.0	9.6
Plan Expenditure	1,01,194 (4.4)	1,14,089 (4.6)	1,20,974 (4.4)	12.7	6.0
Revenue Expenditure	3,01,611 (13.1)	3,41,648 (13.8)	3,66,227 (13.3)	13.3	7.2
Capital Expenditure	60,842 (2.6)	62,365 (2.5)	72,568 (2.6)	2.5	16.4

Note: Figures in brackets are percentage to GDP. RE Revised Estimates. BE Budget Estimates.

2.38 As on January 8, 2004, the Central Government announced a series of measures in respect of direct and indirect taxes. The objective of these measures has been mainly to further rationalise the tax rate structure under indirect taxes and to simplify the procedures under direct taxes. While changes in rates of indirect taxes would take effect immediately from January 9, 2004, procedural changes with respect to direct taxes would take effect from April 1, 2004.

2.39 Continuing the policy stance to reduce and align the custom duty rates to the international level, the peak rate of customs duty on non-agricultural goods has been further reduced from 25 per cent to 20 per cent and special additional duty of customs of 4 per cent has been abolished (Box II.1). Moreover, specific relaxations have been announced with respect to project imports, power sector, information technology/ electronics industry, communication services, medical equipment and life-saving drugs.

2.40 Furthermore, steps to facilitate trade include -round-the-clock electronic filing of customs documents for clearance of goods, clearances based on self-assessment and selective examination, reduction/ exemption of duty on specified items under transfer of residence and relaxation in baggage rules with respect to cinematographic films and laptops.

2.41 In case of excise duty, specific relaxations have been extended to the civil aviation sector and water supply projects. As regards income and services taxes, further simplification of procedures has been envisaged by introducing filing of income tax returns through internet, electronic filing of services tax returns for all 58 services taxes and exemption from filing the return to pensioners with no taxable income and employees with income upto Rs. 1.5 lakh and in whose case deduction of tax is made at source by the employer.

Developments during April-November 2003

2.42 The Central Government finances during the first eight months of the current fiscal year (April-November 2003) continued to be under pressure, as the growth in aggregate expenditure [excluding the discharge of liabilities to the National Small Savings Fund (NSSF)] over the corresponding period of the preceding year, outpaced the growth in revenue receipts. Including the expenditure on account of discharge of liabilities to the NSSF, the growth in aggregate expenditure was as high as 24.7 per cent. All the deficit indicators registered an increase in April-November 2003 (Table 2.21). There has, however, been some improvement in Central finances since September 2003. The Centre's ways and means

Box II.1

Highlights of Pre-Budget Announcements Made by Government of India

Indirect Taxes

- Peak customs duty on non-agricultural goods reduced from 25 per cent to 20 per cent and 4 per cent special additional duty (SAD) has been abolished.
- Customs duty on coal reduced from 25 per cent to 15 per cent.
- Customs duty on specified capital goods used for manufacture of electronic goods reduced from 15 per cent/10 per cent to Nil.
- Customs duty on project imports with investment of at least Rs 5 crore, in plant and machinery, reduced from 25 per cent to 10 per cent. Similarly, customs duty on power equipment cut by 15 per cent to 10 per cent.
- Customs duty on cell-phones and computers reduced from 10 per cent and 16 per cent to 5 per cent and 8 per cent, respectively.
- Excise duty on aviation turbine fuel (ATF) halved to 8 per cent and inland air travel tax of 15 per cent abolished.
- Customs duty on life saving drugs and equipment cut to 5 per cent.
- Trade facilitation measures such as round the clock electronic filling of custom documents extended to 23 custom formations; self-assessment and selective examination; and liberalisation of baggage rules.

Services Tax

- E- filing of service tax returns extended to all 58 taxable services from present 10.
- Process of registration for service tax simplified and rationalised.

Direct Taxes

- Pensioners with no taxable income and employees having salary income up to Rs. 1.5 lakh and whose entire tax is payable at source by the employer exempted from filing of returns.
- For perquisite valuation, rates of interest for housing loans, *etc.*, cut in line with the prevailing market rates.
- Infrastructure projects to be granted one-time approval for exemption under Section 10 (23G) of the Income Tax Act, 1961.
- Computer network to cover all 501 income-tax offices by June 2004.
- *Challan* forms for TDS payment cut from four to one.
- Paperless IT returns through internet under digital signatures for salaried taxpayers, doctors and accountants.

Expenditure Measures

- NABARD to operationalise a Rs.50,000 crore Agricultural Infrastructure and Credit Fund over the next three years for enhancing productivity and efficiency of agricultural activities.
- The Government to set up a Rs 50,000 crore Infrastructure Fund to provide credit for both term loans and working capital to projects in core sectors at 200 basis points below the prime lending rate (PLR) over the next three years.
- A new SMI Fund for Rs 10,000 crore for providing credit to small and medium enterprises (SMEs) at 200 basis points below the PLR, to be operationalised by SIDBI within four weeks.
- To rationalise the existing schemes, and to give a fillip to rural housing and sanitation, a new scheme called *Atal Grameen Griha Yojana* to come into effect from April 1, 2004.
- Food Corporation of India (FCI) to borrow funds from the capital market through government-guaranteed bonds from next financial year, which is likely to reduce revenue expenditure, on account of food subsidy by Rs. 2,000 crore per annum.
- Automatic route for ECBs with an average maturity of five years, thus minimising discretionary elements and rationalising the procedures.
- A new 'Dada-Dadi Bond' carrying a rate of interest higher than the prevailing market rate to enable senior citizens, above the age of sixty, earn a reasonable and secure income from their life's savings.
- The existing education loan scheme for needy students liberalised to allow access to loans at 200 basis points below PLR.

advances (WMA) from the Reserve Bank remained vacated for the larger part of the year (Chart II.4).

2.43 Till April 1999, the Central Government used to mobilise funds through small savings schemes and a major portion of net collection was being on-lent to the States. With a view to bringing transparency in accounting, the NSSF was created in April 1999, to collect the small savings and invest them in special securities issued by the Central and State Governments. With the creation of the NSSF, outstanding liabilities of the Centre towards small savers were taken over by it. The Centre, in turn, issued special securities of equivalent amount to the NSSF. Thus, outstanding balances as on March 31, 1999 became the liabilities of the NSSF towards small savers and the Centre had equivalent liability towards the NSSF. Further, the proportion of outstanding balances, which were earlier on-lent by the Centre to the States, continues to be the liabilities of the States to the Centre.