Finances of Government of India: 2000-2001 (Part 1 of 3)

Introduction

The Union Budget 2000-01, the first budget of the millennium, was presented to the Parliament on February 29, 2000. The budget was formulated against the backdrop of challenges such as border conflict, natural calamities in Orissa, somewhat weak monsoon and continued uncertainty in the world economic recovery. However, the economy is poised to achieve a growth of nearly 6 per cent in real terms during 1999-2000, facilitated by a broad-based industrial recovery, lower inflation, comfortable stocks of food grains, turnaround in export growth and encouraging renewal of capital market. Agriculture, on the other hand, is expected to post low growth mainly due to unfavourable weather conditions. Notwithstanding these factors, a major challenge faced by the economy is the weakening fiscal situation. During the current year, the fiscal position has suffered severe setbacks arising out of unanticipated expenditures on national defence, cyclone in Orissa, residual impact of the Fifth Pay Commission and the need for special fiscal assistance to the States. The gross fiscal deficit (GFD) has suffered a major challenge as the revised estimates placed GFD at 5.6 per cent of the Gross Domestic Product (GDP) in 1999-2000 as against the budget estimates of 4.0 per cent.

The budget exercise attempts to place the economy on a growth path of 7 to 8 per cent to reduce poverty significantly within the next decade. Towards these objectives, the budget has adopted a seven fold strategy: *viz.*, strengthen the foundation of growth of the rural economy, developing knowledge based industries, strengthening and modernising traditional industries, removing infrastructure bottlenecks, according high priority to human resource development with special emphasis on the poorest and weakest section of the society, strengthening the country’s role in the world economy through rapid growth of exports, higher foreign investment and prudent external debt management, and establishing a credible framework of fiscal discipline. Both the expenditure policies and resource mobilisation efforts are designed towards attaining these objectives.

The budget accords the highest priority to fiscal management with prime objectives of curbing expenditure growth and bringing about structural changes in the composition of expenditure. Both the revenue deficit and fiscal deficit are budgeted to be brought down to 3.6 per cent and 5.1 per cent of the GDP, respectively, during 2000-01 from 3.8 per cent and 5.6 per cent in 1999-2000 (revised estimates). The major policy initiatives on the expenditure management front include rigorous zero base budgeting scrutiny and restructuring of PSUs by closing down of units which are sick and not capable of revival. On the taxation front, the major policy steps encompass the introduction of a single rate Central Value Added Tax (CENVAT) and rationalisation of custom duties. The CENVAT, which is expected to provide long term stability to the tax system would also encourage the States to implement their agreed programme for converting sales taxes into VAT by April 1, 2001. For medium-term management of the fiscal deficit, the budget initiated mechanisms such as the enactment of Fiscal Responsibility Act. The Government has already set up a committee to examine this issue and the necessary legislative proposals are expected to be placed before the Parliament during the course of the year.

This article is organised into four Sections. Section I, while outlining the thrust of the budget, details the policy initiatives proposed. Section II presents the revised outcome *vis-a-vis* the budgeted and Section III gives the budgeted receipts, expenditure and deficit positions for 2000-01. Section IV provides the perspectives that may be drawn from the budget.

Section I

Major Policy Initiatives

The budget 2000-01 aims at, as mentioned earlier, strengthening growth of the rural economy, modernising the traditional industries, removing infrastructural bottlenecks, improving export growth and achieving higher foreign investment and establishing a credible framework of fiscal discipline. Keeping these objectives in view, a number of major policy measures were announced in the budget. These are briefly enumerated here.

1. Agriculture and Rural Development

The budget focuses on a sustained and broad-based growth of agriculture which has far reaching implications for alleviating poverty, generating incomes and employment, assuring food security and sustaining a buoyant domestic market for industry and services. The policy announcements are mainly centred on strengthening the flow of rural credit, long-term strategy for land use, removal of illiteracy in rural areas and rural housing.

The budget proposes to strengthen credit flow to agriculture sector by boosting the programme of micro finance. The budget proposes to set up a Micro Finance Development Fund with NABARD with a start up contribution of Rs.100 crore from RBI, NABARD, banks and others. This Fund will provide start up finance to micro finance institutions and infrastructure support for training and system management and data building. Vulnerable sections like women, scheduled castes, scheduled tribes and other backward classes will be given priority in the promotion of micro finance enterprises in rural areas. NABARD and SIDBI will cover an additional one lakh Self Help Groups during 2000-01. The corpus of RIDF-VI has been enhanced to Rs.4,500 crore (Rs.3,500 crore for RIDF-V) and the interest charged on this will be reduced by one half of one per cent. To promote rural credit and to have a more vibrant rural co-operative credit system, the budget has proposed to establish a Fund with NABARD. The details will be worked out in the light of the forthcoming recommendations of the Capoor Committee earlier constituted by the Union Government. In view of the importance of RRBs in rural financing, the budget proposes to continue with the programme of strengthening the rural based banking institutions.

With the objective of undertaking time bound programmes to fulfill critical needs of the rural people, a new scheme namely, the *"Pradhan Mantri Gramodaya Yojana"* is proposed to be launched with a budgetary allocation of Rs.5,000 crore separately for this Scheme. Under the scheme, Central assistance will be provided to States for implementing specific projects. With the introduction of this scheme, the erstwhile Basic Minimum Service Scheme will be merged with the new scheme. Universalisation of education being the key national objective, the budget has proposed a new initiative *viz.*, *"Sarva Shiksha Abhiyan"*. This scheme is introduced to enable all children to enroll by 2003 and expansion of the District Primary Education Programme to cover the remaining districts in Uttar Pradesh, West Bengal, Orissa and Gujarat. With the launching of the new scheme, it is proposed to revamp the National Literacy Mission with the objective of raising the literacy rate to 75 per cent by 2005. The plan allocation for elementary education has been enhanced to Rs.3,729 crore for 2000-01 from Rs.2,931 crore during 1999-2000.

Housing for all has been identified as a priority area in the agenda for governance. For the financial year 2000-01, the budget has targeted to provide 25 lakh dwelling units in rural areas. Under the *Indira Awas Yojana*, it is proposed to provide more than 12 lakh houses for the people below poverty line. For families with an annual income of below Rs.32,000 per annum, assistance will be provided to enable construction of 1 lakh houses under the credit-cum-subsidy Scheme. To further improve the availability of housing finance in rural areas, the Government has decided to provide equity support of Rs.350 crore to HUDCO during the Ninth Plan period. During 2000-01, it is proposed to release Rs.100 crore under this programme. Furthermore, the National Housing Bank will provide refinance to banks and housing finance companies for construction of 1.5 lakh houses under the Golden Jubilee Rural Housing Finance Scheme. To provide drinking water facilities in all rural habitations in the next five years, a new Department of Drinking Water Supply in the Ministry of Rural Development has been set up. The budget has proposed constitution of a National Commission on Land Use Policy for evolving an integrated approach in the pattern of land use both at the national and State level.

2. Social Sector

The areas of priority under social sector include empowerment of women, population policy, and health and social security for the poorest sections of the society. With a view to improving the access of women to national resources and for ensuring their rightful place in the mainstream of economic development, the budget has proposed a Task Force to review all existing legislations and Government schemes pertaining to the development of women. In order to operationalise the new Population Policy, the objective of which is to bring down total fertility rates to replacement levels by 2010, the Plan allocation has been increased to Rs.3,520 crore for 2000-01 from Rs.2,920 crore in 1999-2000.

In order to provide social security to the poorest sections of the society, the budget has proposed a new scheme of group insurance, viz. *"Janashree Bima Yojana"*. Under this scheme, beneficiaries will have insurance cover of Rs.20,000 in case of natural death, Rs.50,000 in case of accidental death or total permanent disability and Rs.25,000 for partial permanent disability due to accident. People below poverty line (BPL) will need to pay only half the premium, with the remainder being contributed from earnings of LIC's existing Social Security Fund, suitably augmented by Government.

3. Industry and Infrastructure

The policy announcements pertaining to industrial sector focus mainly on accelerating real growth and encouraging investment in knowledge-based industries. Liberalised tax treatment for Venture Capital Funds is a major plank of the policy. In order to simplify procedures, SEBI will be the single point nodal agency for registration and regulation of both domestic and overseas Venture Capital Funds.

As regards small scale sector, in the context of growing domestic and international competitiveness, the Government strategy is to support SSI sector through promotional policies of credit and technology. To improve credit flow to SSI units, the following steps have been proposed: (i) dispensing with the requirement of providing collateral security for tiny units for loans up to Rs.5 lakh, (ii) an increase in the composite loan limit from Rs.5 lakh to Rs.10 lakh, (iii) a new Central Scheme of credit guarantee for small-scale industries with a provision of Rs.100 crore and (iv) the raising of the limit of the National Equity Fund scheme under which equity support is provided for projects from Rs.15 lakh to Rs.25 lakh. The Central scheme of credit guarantee will cover loans up to Rs.10 lakh from the banking sector and guaranteed loans will be securitised and traded in the secondary debt market.

In the Infrastructure sector, the budget proposes to move ahead with the programmes for corporatisation of public sector service providers in the areas of telecommunications, ports and airports. The budget has also announced initiatives for road development. Measures have been proposed to augment resources for the National Highways Development Project, besides the levy of a cess of one rupee per litre on petrol and diesel introduced in the last budget.

In order to give fillip to the reform process in the power sector and for undertaking investments on renovation and modernisation of old and inefficient plants and also for strengthening the distribution system, a new scheme for providing assistance to State utilities is proposed to be introduced. Under this scheme, additional Central Plan assistance of Rs.1,000 crore will be provided to State Governments. The Government has already finalised a scheme for securitisation of large overdues of State Electricity Boards to the Central Sector Power and Coal utilities to assist SEBs to clear these dues. For commissioning of high priority projects by SEBs/State generating companies, a provision of Rs.300 crore has been made for subsidising interest on loans from the Power Finance Corporation. The Plan outlay for the Central PSUs in the power sector has been increased from Rs.7,626 crore to Rs.9,194 crore.

The sustained growth of knowledge-based industries will ultimately depend on the quality and extent of scientific and technological progress and training in the society. To harness the country’s potential in science and technology, relevant technology vision projects and for increasing cooperation between Universities and R&D institutions, additional provision of Rs.50 crore in the budget of the Technology Information Forecasting and Assessment Council under the Department of Science and Technology is proposed. Further, a provision of Rs.50 crore is also made in the budget of the Department of Scientific and Industrial Research, for launching a New Millennium Indian Technology Leadership Initiative.

4. Capital Markets

To strengthen the capital market, the budget proposed a few important measures. First, a 100 per cent exemption to the income of Investor Protection Funds of Stock Exchanges to give them incentives for setting up such funds. Second, liberalisation of the tax treatment for venture capital funds, wherein SEBI will be the single point nodal agency for registration and regulation of both domestic and overseas venture capital funds. This liberalisation will be a strong boost for NonResident Indians in Silicon Valley and elsewhere to invest some of their capital, knowledge and enterprise in ventures in India. Third, to further liberalise policy for acquisition of companies abroad, the ceiling under the automatic route has been increased from the existing US$ 15 million to US$ 50 million for Indian corporates and beyond this, through approval by the Committee on Overseas Investment. Fourth, under the existing policy on portfolio investment,

Foreign Institutional Investors (FIIs) are permitted to invest in a company upto 30 per cent of equity shares subject to the approval by the Board of Directors and a Special Resolution of the General Body of the Company. The budget has proposed to enhance this limit to 40 per cent.

5. Banking and Financial Sector

The budget has focussed upon the importance of undertaking reforms to further strengthen the banking sector. In order to facilitate the process of raising the capital base of the public sector banks through public participation, the Government has decided to accept the recommendations of the Narasimham Committee on Banking Sector Reforms (1998) for reducing the requirement of minimum shareholding by Government in nationalised banks to 33 per cent. The budget has proposed to bring about necessary changes in the legislative provisions to accord necessary flexibility and autonomy to the Boards of banks. The report of the Working Group on Restructuring Weak Public Sector Banks had suggested the constitution of a Financial Restructuring Authority (FRA). The budget has proposed a modified version of the FRA. Thus, in respect of any bank which is considered to be weak or potentially weak, the statutes governing public sector banks would be amended to provide for supersession of the

Board of Directors on the basis of recommendations of the RBI and constitution of a FRA for such a bank, comprising experts and professionals. The amendments would also enable the FRA to exercise special powers including all the powers of the Board of the bank. The Government would continue with recapitalisation of the weak banks to achieve the prescribed capital adequacy norms and strengthening of RRBs. To expedite adjudication and recovery of dues of banks and financial institutions, it is proposed to set up 7 more Debt Recovery Tribunals. For sharing of credit related information on borrowers and potential borrowers among banks and financial institutions, it is proposed to set up a Credit Information Bureau based on the recommendations of the Working Group constituted by RBI to curb the growth of non-performing assets (NPAs).

Furthermore, to facilitate the development of the Government debt market, it is proposed to replace the Public Debt Act, 1944 by a Government Securities Act. It is also proposed to bring about a regulation through a new bill to strengthen NBFCs. In order to accord greater operational flexibility to the RBI for conduct of monetary policy and regulation of financial system, the Finance Minister has announced to bring to Parliament, proposals for amending the relevant legislation.

5. Fiscal Policy Reforms

In the fiscal sector, the focus is on further strengthening expenditure management, restructuring of public sector enterprises and strengthening of tax reforms through restructuring and rationalisation of both direct and indirect taxes. Major policy measures announced in the budget are set out below:

(a) Expenditure Management

The downward rigidity in the pre-committed and non-Plan expenditure is a major cause of concern in the prudent expenditure management. The major non-Plan component which has a large bearing on annual budget outlays are transfer payments, interest expenditure, defence, subsidies, salaries, allowances and pension, internal security and non-Plan grant to States, which together account for about 95 per cent of non-Plan expenditure and about 70 per cent of the total expenditure. With a view to curb built-in expenditure growth and bring about structural changes in the composition of expenditure, the budget has proposed a number of initiatives which *inter alia*, include the following: All ongoing schemes will be subjected to rigorous zero base budgeting scrutiny. Second, the manpower requirements of Government departments will be reassessed by reviewing the norms for creation of posts and fresh recruitment in Government departments and institutions will be limited to minimum essential needs. Third, the scheme for redeployment of surplus staff will be made more effective and a VRS scheme will also be introduced for staff in the surplus pool. Fourth, all subsidies will be reviewed with a view to bringing in cost-based user charges wherever feasible. Fifth, budgetary support to autonomous institutions will be reviewed and they will be encouraged to maximise generation of internal resources. Sixth, the interest rate on General Provident Funds is being reduced by 1 per cent to 11 per cent effective April 1, 2000 to align it with the overall interest rate structure. This was in sequence to the restructuring of the interest rates on small savings and public provident funds effected on January 1, 2000 (Box 1). Seventh, the budget has made provision of Rs.1,000 crore through disinvestment proceeds to reduce debt service payments. For medium-term management of the fiscal deficit, the budget has proposed to bring about an institutional mechanism embodied in a Fiscal Responsibility Act, the necessary legislative proposals of which would be announced during the course of the year.

(b) Public Sector Restructuring

The main element of Government policy towards the Public Sector would be to restructure and revive potentially viable PSUs and close down PSUs which are sick and not capable of being revived. At the same time, the Government proposes to put in place mechanisms to raise resources from the market against the security of the assets of the closed PSUs and use these funds to provide adequate safety-net for workers. To give a fresh impetus to the programme of disinvestment and privatisation of PSUs, the Government has established a new Department for Disinvestment. The budget has now proposed to reduce Government equity in all non-strategic PSUs to 26 per cent or less. The receipts from disinvestment and privatisation will be used for meeting expenditures in social sectors, restructuring of PSUs and retiring public debt. During 2000-01, the disinvestment proceeds are placed at Rs.10,000 crore, of which, Rs.1,000 crore is earmarked for retiring public debt.

(c) Tax Policy Measures

The taxation proposals are intended to further the ongoing reform process. On the indirect tax front, the budget proposes to overhaul the rate structure, rationalise and simplify the procedures to reduce the compliance cost for the tax payer relating to both excise and custom duties. The Government has proposed to constitute an Expert Group to go into all aspects of service tax. The tax proposals relating to direct tax rest on grounds of stability, economic growth, rationalisation and simplification. The major proposals announced in the budget are summarised in BOX 2.

BOX 1

Alignment of Interest Rate on Small Savings and Public Provident Fund

The interest rates on small savings instruments were reduced with effect from January 15, 2000 in line with the recommendation of a committee of experts on small savings. The revised rates are as follows:

- The rate on Post Office Time Deposits for 1,2,3 and 5 years reduced by 1.0 percentage point to 8 per cent, 9 per cent, 10 per cent and 10.5 per cent, respectively;
- Interest on Post Office Recurring Deposits reduced to 10.5 per cent;
- Interest on Post Office Monthly Income Account reduced to 11 per cent ;
- The *Kisan Vikas Patra* will double in six and a half years instead of pre-revision period of six years;
- Interest rate on National Savings Certificate – VIII Issue reduced by 1 percentage point to 11 per cent; and on National Savings Scheme 1992 reduced to 10.5 per cent
- Interest on Public Provident Fund, where the income from interest is totally exempt from income tax has been reduced to 11 per cent.

The Government has also decided to pass on the benefit of the lower interest cost on small savings schemes to the State/UT Governments by reducing the rate of interest on Special Securities of the State/UT Government issued against small savings collections by 1 percentage point. Consequently, the rate of interest on Special Securities of the State/UT Government has been revised from 13.5 per cent to 12.5 per cent. In addition, to further assist State/UT Governments, it has been decided to increase the share against the net collections under small savings schemes from 75 per cent to 80 per cent with effect from April 1, 2000. The last revision in this share was done in 1987.

BOX 2

Major Changes in Tax Structure

Direct Taxes

- Surcharge on income tax increased from 10 per cent to 15 per cent for non-corporate taxpayers having total taxable income above Rs.1,50,000 per year, thereby increasing the marginal rate from 33 per cent to 34.5 per cent for them.
- For senior citizens the tax rebate raised from Rs.10,000 to Rs.15,000.
- Additional rebate of Rs.5,000 for women tax-payers from their tax liability.
- Pension/family pension received by gallantry award winners of para military forces and other forces engaged in national and civil defence exempted from income tax.
- For expanding the tax base and better tax compliance, "One-by-Six" criteria introduced earlier for identifying potential tax assessees extended to 79 more cities (presently 54) having population of more than two lakh.
- 100 per cent exemption proposed to the income of Investor Protection Funds of Stock Exchanges to provide incentives for setting up such funds, and to strengthen capital market.

- The rate of tax on dividend distributed by domestic companies has been increased from 10 per cent to 20 per cent, to reduce the anomaly in the tax treatment of the dividend income and interest income. However, dividend income in the hands of shareholders will continue to remain tax-free.

- To reduce distortions from differing tax treatment for interest incomes from mutual funds and other instruments, like bank deposits and corporate deposit, it is proposed to increase the rate of tax on income distributed by debt oriented Mutual Funds and UTI from 10 per cent to 20 per cent. However, the income distributed under the US-64 and other open-ended equity oriented schemes of UTI and Mutual Funds will continue to be exempt from this tax, as at present.

- With a view to creating a level playing field and enhancing the flow of financial resources, the interest tax of 2 per cent paid by banks and financial institutions has been abolished.

- To continue the thrust given to the housing sector in the previous year, 20 per cent rebate of tax under Section 88 of Income-Tax Act now available for repayment of housing loans up to Rs.20,000 per year as against the present limit of Rs.10,000.

- 100 per cent exemption on export profits of the entertainment industry available for both corporate and non-corporate assessees. Limit of reporting of payments made by film producers to tax authorities increased from Rs.25,000 to Rs.50,000.

- For generation of resources for strengthening and modernizing the shipping industry, 100 per cent deductions on entire profits available for next 5 years if these are kept in reserve to be used for purchase of new ships.

- To encourage investment in human resources, the maximum amount of repayment of loan for higher education to be increased from Rs.25,000 to Rs.40,000 as an allowable deduction.

- Minimum Alternate Tax (MAT) to be levied at the revised rate of 7.5 per cent of the ‘book profits’ instead of the existing effective rate of 10.5 per cent. Credit on MAT paid by companies will not be allowed.

- Exemptions on export earnings of various kinds are to be phased out by 5 years, starting with withdrawal of concessions by 20 per cent from 2000-01, and 20 per cent in each subsequent year till they reach zero level.

Indirect Taxes

- The existing three *ad valorem* rates of basic excise duty are converged to a single Central Value Added Tax (CENVAT) rate of 16 per cent.

- In addition to 16 per cent CENVAT, three rates of special excise at 8 per cent, 16 per cent and 24 per cent are proposed. Commodities, which carry a rate of 30 per cent at present are changed to 32 per cent, composed of 16 per cent CENVAT and 16 per cent special excise duty. Items being charged 40 per cent duty would be composed of 16 per cent CENVAT and 24 per cent special excise duty.

- Excise duty on all category of cigarettes enhanced by 5 per cent.

- MODVAT credit on capital goods to be spread over two years, cigarettes given full extension of MODVAT. MODVAT credit on project imports extended to 100 per cent of the counter-vailing duty.

- *Ad valorem* excise duty restored on steel produced by re-rollers and also steel produced by induction furnaces. These goods will be subjected to 16 per cent CENVAT from April 1, 2000.

- Compounded levy scheme for independent textile processors raised from Rs.1.5 lakh per chamber per month to Rs.2.0 lakh per month and from Rs.2.0 lakh to Rs.2.5 lakh.

- On customs duty, to provide adequate protection and growth impulses to the domestic industry and calibrate tariff to international level, peak rate of custom duty is reduced from 40 per cent to 35 per cent. Total number of customs rates are reduced from 5 to 4 i.e. 35 per cent, 25 per cent, 15 per cent and 5 per cent. Surcharge of 10 per cent will continue to apply to the peak rate of 35 per cent. Crude oil and petroleum products, certain WTO bound items and gold and silver continue to be exempt from surcharge. Exemptions of traders from Special additional duty (SAD) of customs are withdrawn. SAD is not applicable to petroleum products.

- Customs duty is reduced on computers, mother boards, floppy diskettes (from 20 to 15 per cent), micro-processors, memory storage devices, CD ROMs, display tubes (from 5 per cent to nil), specified capital goods for manufacture of semi-conductors and ICs (from 15 to 5 per cent).

- Custom duty is reduced for specified raw material for manufacture of optical fibre, cellular phones, battery packs, specified telecom equipment to ISP and cinematographic cameras, film rolls, platinum and non-industrial diamonds, crude oil (20 to 15 per cent) and petroleum products (30 to 25 per cent).

The process of restructuring of Union excise rates undertaken in the last budget is continued in this year's budget. The unique feature of restructuring of excise duties is the proposal to establish a single rate Central Value Added Tax (CENVAT). This would not only provide long-term stability, remove uncertainties for industry and eliminate disputes of classification, but would also encourage the State Governments to implement their agreed programme for converting sales taxes into VAT by April 1, 2001. The existing three *ad valorem* rates of basic excise duty *viz.*, 8, 16 and 24 per cent, are proposed to be collapsed into a single rate of 16 per cent CENVAT with MODVAT benefit. In addition to the 16 per cent CENVAT, the budget proposes three rates of special excise *viz.*, 8, 16 and 24 per cent, which will not generally be modvatable. It is also proposed to expand and rationalise the scope of the MODVAT scheme. With effect from the fiscal year 2000-01, MODVAT will be known as CENVAT scheme. The plethora of existing rules will be replaced by a small set of simple and transparent rules which will reduce disputes to a minimum. All inputs and capital goods are now being included in the eligible list of MODVAT scheme excepting the High Speed Diesel Oil and Petrol.

The budget also made proposals for restructuring and simplification of the excise system. With effect from July 1, 2000, all statutory records in excise would be dispensed with and the Excise Department would rely upon manufacturers' records. From April 1, 2000 onwards, excise assessees would be allowed to pay the excise duties in fortnightly instalments as against the existing practice of day-to-day payments. However, the small scale sector would be allowed to continue with the monthly payment system. Further, to make the valuation mechanism simple, user friendly and commercially acceptable, the existing section 4 of the Central Excise Act which is based on the concept of "normal price" will be replaced by a new section based on "transaction value" with effect from July 1, 2000, for purposes of assessment.

In the case of custom duties, the budget intends to carry forward the reform and further the rationalisation process. The rationalisation of custom duties proposed in the budget are intended to maintain a judicious balance between the need for providing adequate protection and growth impulses to the domestic industry and calibrating tariffs to international levels. The peak rate of basic custom duty is reduced from 40 per cent to 35 per cent. The rate structure is further rationalised by reducing the total number of custom duty rates from 5 to 4, with the tax rate structure consisting of 35 per cent, 25 per cent, 15 per cent and 5 per cent. The surcharge of 10 per cent will also apply to the new peak rate of 35 per cent.

In the sphere of direct taxes, the existing rates of personal income tax have been retained. However, in view of the heavy and unexpected expenditure burden, mainly on account of defence requirements and transfers to States mandated by the Finance Commission, the surcharge has been increased to 15 per cent on non-corporate tax payers having total taxable income above Rs.1,50,000 per year. The enhanced surcharge would slightly increase the marginal tax rate of the highest bracket of non-corporate sector from 33 per cent to 34.5 per cent. The tax proposals also instil welfare consideration. The measures in this sphere include enhancement of personal income tax rebate for senior citizens from Rs.10,000 to Rs. 15,000, additional tax rebate of Rs.5,000 for women tax payers from their tax liability subject to an overall ceiling of Rs.15,000, if they happen to be senior citizens and exemption from tax for the pension and family pension of gallantry award winners in defence services.

The budget proposals also enhance the role of taxation as a facilitator of industrial development and economic growth with major focus on knowledge-based industries, infrastructure and capital markets. A new regime for Venture Capital Funds is introduced to stimulate the growth of knowledge-based industries. Venture Capital Funds will not require the approval of tax authorities and the principle of ‘pass through’ would be applied in tax treatment of Venture Capital Funds. Tax benefits available for infrastructure have been extended to two additional and essential sectors of urban infrastructure *viz*., water treatment and solid waste management. The budget provides incentives for infrastructure development whereby tax exemption from capital gains would be available only if investment is made in bonds to be issued by NABARD and National Highways Authority of India (NHAI) with a lock-in period of five years and this will be used to finance agricultural sector and National Highway Development Project (NHDP). To promote industrialisation in less developed areas, the budget proposes to extend the tax holiday already available for new units set up in industrially backward States and industrially backward districts for another two years and to extend the existing tax benefits for new small scale industrial units for another two years i.e. till March 31, 2002.

To strengthen the capital market, the budget provides 100 per cent exemption to the income of Investor Protection Funds of Stock Exchanges so as to give them incentives for setting up such funds. To reduce the anomaly of large gap in the tax treatment of dividend income and interest income, the rate of tax on dividends distributed by domestic companies has been increased from 10 per cent to 20 per cent, though dividend income in the hands of shareholders will continue to remain tax free. A new system of Minimum Alternate Tax System (MAT) with the objective of lower rate of tax, a simple method of compilation and an equitable spread has been introduced. The revised rate of 7.5 per cent of the ‘book profits’ instead of the existing effective rate of 10.5 per cent will be effective from the year 2000-01. In order to bring the zero tax companies within the tax net which is the basic purpose of this tax, there will be no credit for MAT paid. To reduce the distortions arising out of the different tax treatment for interest incomes from mutual funds and other instruments, the rate of tax on income distributed by debt oriented Mutual Funds and UTI has been increased from 10 per cent to 20 per cent. The interest tax of 2 per cent borne by banks and financial institutions has been withdrawn.

The budget also continues the policy of broadening the tax base and rationalisation of direct taxes. The one-by-six scheme introduced for broadening the tax base, has been further extended from the existing 54 cities to an additional 79 cities. With this all the cities having a population of 2 lakh and more on the basis of the 1991 Census would stand covered under the scheme. In order to enable tax payers to pay taxes with speed, convenience and dignity, the budget proposes to expand and revamp the presently available facilities of tax collection such that tax payers could pay their tax in any branch of nationalised bank where they maintain an account. With a view to rationalising the existing scheme of concessions and exemptions, income tax exemptions available to export earners would be phased out equally over a period of 5 years. To begin with, these concessions would be withdrawn by 20 per cent from the financial year 2000-01. The revenues garnered from the rationalisation measures will help to finance the universalisation of primary education and other investments in human resources.

The new budget proposals announced in the budget relating to direct taxes are estimated to lead to an additional resource mobilisation of Rs.5,080 crore. In respect of the indirect taxes, the proposals in excise duties are estimated to result in a revenue gain of Rs.3,252 crore, while the proposals in regard to custom duties would result in a revenue loss of Rs.1,428 crore. The net ARM is estimated at Rs.6,904 crore, of which the States' share is placed at Rs.2,019 crore and the balance Rs.4,885 crore will accrue to the Centre.

Section II

Revised Estimates: 1999-2000[1]

The process of fiscal consolidation suffered a setback during 1999-2000, as reflected in the worsening of all the major deficit indicators in the revised estimates. The revenue gap overshot its estimates by Rs.19,385 crore (35.8 per cent) to Rs.73,532 crore (3.8 per cent of GDP) in the revised estimates. The gross fiscal deficit (GFD) which measures the overall resource gap was higher than the budgeted level by Rs.28,943 crore (36.2 per cent) to Rs.1,08,898 crore (5.6 per cent of GDP) as compared to the budget estimates of Rs.79,955 crore (4.0 per cent of GDP). The primary balance, an indicator of fiscal sustainability turned out to be a deficit of Rs.17,473 crore (0.9 per cent of GDP) from a surplus of Rs.8,045 crore as envisaged in the budget estimates (Chart 1).

The sharp deterioration in GFD during 1999-2000 was the combined effect of revenue shortfall and expenditure overrun. The shortfall in revenue collection in the revised estimates *vis-a-vis* the budgeted levels was to the extent of 1.8 per cent, whereas the overall expenditure exceeded the budget estimates by 7 per cent. The pattern of receipt and expenditure during the latter half of the nineties (1994-99) shows that more often the revenue collection has fallen short, while expenditures exceeded the budget estimates, indicating lack of fiscal marksmanship in the budget exercise. Such deviations between the budget estimates and the revised out-turn during 1999-2000 reflect structural weaknesses in Central finances. The deviation between the budget estimates and actual out-turn was more pronounced in the case of expenditure in recent years (Table A). During 1999-2000, unanticipated expenditures on national defence, election, natural calamities in Orissa, residual impact of the Fifth Pay Commission and the need for special fiscal assistance to States have added to the expenditure burden.

Revenue receipts during 1999-2000 at Rs.1,79,504 crore in the revised estimates were lower by Rs.3,336 crore over the budget estimates. This was mainly due to fall in the tax revenue [(net to Centre) (-Rs.5,896 crore or 4.5 per cent)] while the non-tax revenue showed a growth of 5.1 per cent. The net tax revenue showed a marked decline primarily on account of the shortfall in indirect taxes, *viz*. customs (-Rs.2,569 crore) and Union excise duties (net) (-Rs.2,315 crore) (Table 2). The shortfall in revenue receipts was mainly under custom duties due to a very low growth in the dollar value of non-oil imports and Union excise duties resulting from low inflation in manufactured products for most of the year. The shortfall in revenue collection coupled with lower realisation from disinvestment at Rs.2,600 crore (against the budgeted target of Rs.10,000 crore) necessitated enhanced borrowing during 1999-2000 to meet the expenditure requirements.

The aggregate expenditure in the revised estimates at Rs. 3,03,738 crore was higher by Rs.19,856 crore (7.0 per cent) over the budget estimates. The non-Plan expenditure contributed almost 88 per cent of the incremental expenditure, while the remaining 22 per cent was due to Plan expenditure. The growth in non-Plan expenditure was to the extent of Rs.17,461 crore (8.4 per cent), primarily on account of higher payments of pensions (+Rs.4,173 crore), interest payments (+Rs.3,425 crore), provision for extended Ways and Means Advances to States (Rs.3,000 crore), defence (+Rs.2,810 crore) and assistance to States from the National Calamity Relief Fund (+Rs.1,064 crore). The Plan expenditure exceeded the budget estimate level by 3.1

per cent (Rs.2,395 crore), mainly due to the extension of additional and special Central assistance for States’ Plan.

Despite the fact that the overall expenditure has shown a rise of 7.0 per cent, the Central Plan outlay in the revised estimates at Rs.96,310 crore, however, falls short by Rs.7,211 crore (or 7 per cent) from the budget estimates of Rs.1,03,521 crore (Table 5). The cut back in Plan outlay was mainly due to fall in the contribution of internal and extra budgetary resources of public enterprises (IEBR) by Rs.6,872 crore (11.5 per cent) from the budget estimates of Rs.59,521 crore. The reduction in budgetary support to Central Annual Plan was marginal to the extent of Rs.339 crore (0.8 per cent).

Table A : Budgetary Position of Central Government : Budget Estimates, Revised Estimat

Items	**1994-95 Deviation**			**1995-96 Deviation**			**1996-97 Deviation**			**1997-98 Deviation**			**1998- Deviat**	
	RE/ BE (Per cent)	**Accts/ RE (Per cent)**	**Accts/ BE (Per cent)**	**RE/ BE (Per cent)**	**Accts/ RE (Per cent)**	**Accts/ BE (Per cent)**	**RE/ BE (Per cent)**	**Accts/ RE (Per cent)**	**Accts/ BE (Per cent)**	**RE/ BE (Per cent)**	**Accts/ RE (Per cent)**	**Accts/ BE (Per cent)**	**RE/ BE (Per cent)**	**Acct RI (Pe cent**
1. Deficit Indicators														
a. Gross Fiscal Deficit	11.1	-5.5	5.1	11.1	-5.9	4.5	1.4	5.7	7.2	31.9	3.0	35.9	14.0	9.
b. Revenue Deficit	4.3	-9.1	-5.2	-6.2	-10.8	-16.4	-10.4	15.8	3.7	44.3	6.3	53.5	25.8	12.
c. Gross Primary Deficit	91.1	-19.9	53.0	113.2	-15.0	81.3	104.4	56.7	220.2	-910.9	12.9	-1,015.2	65.3	33.
2. **Revenue Receipts**	3.1	2.6	5.8	9.3	-0.1	9.3	0.3	-3.4	-3.1	-9.6	-3.3	-12.6	-2.7	-5.
I. Tax Revenue														
II. Non -Tax Revenue	1.9	-0.6	1.2	10.2	-3.1	6.7	1.6	-3.0	-1.4	-1.0	-2.9	-3.8	6.6	-6.
3. **Capital**	13.2	1.8	15.2	-1.7	-10.5	-12.1	-4.6	15.7	10.3	22.4	1.5	24.2	17.3	4.

Receipts														
of which:														
i) Disinvestment	30.9	7.1	40.2	-94.9	291.3	-80.0	-90.0	-9.0	-90.9	-81.1	0.6	-81.0	80.0	-34.
ii) Small Savings	132.9	18.6	176.3	68.8	57.2	165.2	7.1	1.7	9.0	82.0	-3.9	75.0	34.0	13.
iii) Market Borrowing	-10.0	-16.5	-24.8	1.5	-2.6	-1.1	0.0	3.4	3.4	25.6	-23.5	-3.9	34.3	6.
4. Total Expenditure	7.0	-0.9	6.0	6.3	-2.6	3.6	-1.2	-0.6	-1.8	1.3	-1.4	0.0	5.2	-0.
A. Revenue Expenditure	3.4	-0.6	2.8	5.3	-2.6	2.6	-1.8	0.0	-1.8	-0.7	-1.0	-1.7	3.8	-0.
of which:														
i)Interest Payments	-4.3	0.1	-4.2	0.0	-3.8	-3.8	-2.5	1.7	-0.9	-3.4	-0.1	-3.5	3.0	0.
ii) Subsidies	30.4	6.5	38.9	9.5	-3.4	5.8	-3.3	-4.0	-7.1	7.2	-0.7	6.5	5.9	1.
iii) Defence	2.7	-1.1	1.6	3.8	0.0	3.8	11.3	0.0	11.4	0.3	-2.3	-2.0	0.6	-3.
B. Capital Expenditure	19.7	-1.9	17.5	10.2	-2.7	7.2	1.1	-2.9	-1.8	8.8	-2.5	6.0	10.2	-2.
a. Capital Outlay	8.9	-3.2	5.4	0.1	-3.5	-3.4	-2.6	-3.2	-5.7	0.5	-6.2	-5.7	-16.1	-8.
b. Loans and Advances	27.9	-1.1	26.5	17.2	-2.2	14.6	3.1	-2.7	0.3	13.8	-0.5	13.3	27.9	-0.

Source: Budge documents of the Government of India

The excessive borrowing requirement was mainly necessitated by a substantial rise in revenue gap to Rs.73,532 crore, an increase of Rs.19,385 crore over the budget estimates (Rs.54,147 crore). Revenue deficit pre-empted almost 68 per cent of GFD in the revised estimates with the result, the share of borrowed funds for capital outlay was marginally higher at 3.2 per cent. The increased borrowings were met primarily through higher market borrowings (+Rs.19,604 crore) and through drawdown of cash balances (+Rs.3,469 crore). Accordingly, the Centre's market borrowing (net) turned out to be much higher at Rs.77,065 crore in the revised estimates as against the budget estimates of Rs.57,461 crore. Thus, market borrowings (short, medium and long-term) alone financed 70.8 per cent of GFD and the balance was financed through 'other liabilities' (small savings, provident funds, etc.) and external assistance (Table 4).

Section III

Budget Estimates: 2000-01

The Central budget for 2000-01 has taken various initiatives to curb the builtin expenditure growth and bring about structural changes in the composition of expenditures. The gross fiscal deficit (GFD) is placed at Rs.1,11,275 crore, higher than the revised estimates of Rs.1,08,898 crore for

1999-2000. As proportion of GDP, gross fiscal deficit for 2000-01 is placed lower at 5.1 per cent compared to 5.6 per cent for 1999-2000. The revenue deficit is estimated at Rs.77,425 crore, higher by Rs.3,893 crore or 5.3 per cent over Rs.73,532 crore for 1999-2000. The revenue deficit to GDP ratio is placed lower at 3.6 per cent as compared to 3.8 per cent in the revised estimates of 1999-2000. The primary balance is projected at a deficit of Rs.10,009 crore, a decline from Rs.17,473 crore and in terms of GDP, primary deficit is estimated to decline to 0.5 per cent from 0.9 per cent. The deficit reduction is envisaged through a relatively large growth in revenue receipts, during 2000-01 at 13.5 per cent in relation to the growth in aggregate expenditure which is budgeted to show a rise of 11.4 per cent over the previous year.

Pattern of Receipts

Revenue receipts for 2000-01 estimated at Rs.2,03,673 crore show a rise of Rs.24,169 crore (13.5 per cent) over the revised estimates for 1999-2000. Of the incremental revenue receipts, about 82 per cent will be contributed by taxes (Rs.19,740 crore) and the remaining 18 per cent through non-tax revenue (Rs.4,429 crore). The budget projects the gross tax revenue at Rs.2,00,288 crore (including additional tax collection through ARM), higher by Rs.30,309 crore (17.8 per cent) over the revised estimates of Rs.1,69,979 crore for 1999-2000. The tax-GDP ratio for 2000-01 would, therefore, improve to 9.2 per cent from 8.7 per cent in 1999-2000. The additional revenue mobilisation measures are estimated to yield a net revenue of Rs.6,904 crore, mainly through taxation measures (Box 2). The major portion of ARM revenue is estimated to arise from corporation tax (Rs.5,000 crore), followed by Union excise duties (Rs.1,433 crore), and income tax (Rs.880 crore). Out of the gross tax collection, the States' share is estimated at Rs.54,079 crore, which is higher by Rs.10,569 crore (24.3 per cent) than that of Rs.43,510 crore in the revised estimates for 1999-2000. The net tax revenue accrued to Centre at Rs.1,46,209 crore would record a 15.6 per cent growth over the previous year.

Non-tax receipts are estimated to increase by Rs.4,429 crore (8.4 per cent) to Rs.57,464 crore. Non-tax receipts by way of interest receipts are estimated to be higher by Rs.2,576 crore and dividends and profits would show a rise of Rs.1,894 crore. The net profits transferred to the Centre by the Reserve Bank are estimated at Rs.6,179 crore as compared to Rs.4,479 crore in 1999-2000.

Capital receipts at Rs.1,34,814 crore are estimated to show a rise of Rs.10,580 crore (8.5 per cent) over the revised estimates of 1999-2000 (Rs.1,24,234 crore). Receipts from disinvestment are estimated at Rs.10,000 crore as against Rs.2,600 crore in the revised estimates for 1999-2000. Recovery of loans estimated at Rs.13,539 crore would be higher by 6.3 per cent than in the previous year. The non-debt capital receipts (disinvestment and recovery of loans) are estimated to contribute 17.5 per cent of the capital receipts, while the debt components would constitute the balance (82.5 per cent). Among the debt components, net market borrowings (comprising normal, short-term, medium and long-term borrowings) budgeted at Rs.76,383 crore would be marginally lower by Rs.682 crore (0.9 per cent) than Rs.77,065 crore in the revised estimates of 1999-2000 (Table 3). With the result, market borrowings would form 68.6 per cent of the GFD, while other liabilities would contribute the remaining 31.4 per cent (Table 4).

Pattern of Expenditure

The aggregate expenditure budgeted at Rs.3,38,487 crore would show an increase of Rs.34,749 crore or 11.4 per cent over 1999-2000. The revenue expenditure, budgeted to grow by 11.1 per cent would contribute 81 per cent of the rise in the total expenditure and the remaining 19 per cent is due to growth in capital expenditure which is budgeted to show a rise of 13.2 per cent. Of the revenue expenditure, non-Plan expenditure estimated at Rs.2,28,768 crore, would show a rise of 11.6 per cent and would account for 81.4 per cent of the revenue expenditure. Among the major non-Plan revenue expenditures, interest payments at Rs.1,01,266 (+Rs.9,841 crore), defence expenditure in revenue account at Rs.40,661 crore (+Rs.4,788 crore) and major subsidies at Rs.21,491 crore (+Rs.1,714 crore) taken together would account for 71 per cent of non-Plan revenue expenditure (Table 2). These three major items of non-Plan expenditure would absorb 80.2 per cent of revenue receipts as against 83.8 per cent in 1999-2000. The interest payments alone would pre-empt 49.7 per cent of revenue receipts in 2000-01 as against 50.9 per cent in 1999-2000. Regarding subsidies, both major and minor subsidies together at Rs.22,800 crore would show a decline of Rs.2,892 crore from Rs. 25,692 crore. This is mainly due to reduction in the outgo on account of food and fertilizer subsidies.

Capital expenditure budgeted at Rs.57,389 crore indicates a growth of 13.2 per cent over Rs.50,702 crore in 1999-2000. Within capital expenditure, capital outlay at Rs.32,919 crore is budgeted to increase by Rs.7,736 crore (30.7 per cent) over Rs.25,183 crore in 1999-2000. Loans and advances are budgeted lower at Rs.24,470 crore as compared to Rs.25,518 crore in the revised estimates for 1999-2000. In the capital outlay, a major share goes to defence expenditure which is budgeted at Rs.17,926 crore; it would constitute 54.5 per cent of the total capital outlay. Defence expenditure, both revenue and capital account taken together, is estimated at Rs.58,587 crore (+Rs.10,083 crore) constituting 2.7 per cent of GDP as compared to 2.5 per cent in 1999-2000 (Table 8).

Central Plan Outlay

The Central Plan outlay for 2000-01 has been budgeted at Rs.1,17,334 crore, showing a significant rise of 21.8 per cent over the revised estimates of Rs.96,310 crore for 1999-2000 (Table 5). On the financing side, budgetary support is estimated to contribute Rs.51,276 crore (higher by 17.4 per cent) and internal and extra budgetary resources (IEBR) of public sector enterprises are projected to contribute the balance of Rs.66,058 crore (higher by 25.5 per cent) during 2000-01. Sectoral allocations for communication, science, technology and environment, agriculture and allied activities and social services would record substantial increase. While Plan outlay on energy continues to gain the highest share at 25.4 per cent, the other sectors which have been allocated higher shares include communications (16.6 per cent), social services (17.5 per cent) and transport (17.9 per cent).

Transfer of Resources to State and Union Territory Governments

Gross transfer of resources from the Centre to the State and Union Territories (UTs), comprising shareable tax revenue, grants and loans are budgeted at Rs.1,15,038 crore, higher by Rs.21,577 crore (23.1 per cent) over the revised estimates of Rs. 93,462 crore in 1999-2000 (Table 6). The States' share in Central taxes and duties is estimated to increase by Rs.10,570 crore (24.3 per cent) to Rs.54,080 crore during 2000-01 over the previous year. During 2000-01, the devolution of the States' share in the Central taxes and the quantum of non-Plan grants are based on the provisional devolution formula as suggested in the Interim Report of the Eleventh Finance Commission[2] . Total grants to States and the Union Territories are budgeted to increase by Rs.11,185 crore (37.0 per cent), of which the allocation of non-Plan grants has been more than doubled to Rs.17,676 crore in 2000-01 over the previous year. The Plan loans are budgeted to rise by Rs.2,749 crore to Rs.19,351 crore in 2000-01. The net transfer of resources to State and Union Territory Governments after adjusting for recovery of loans and advances is estimated at Rs.1,04,351 crore, an increase of 24.6 per cent as compared with Rs.83,738 crore in 1999-2000.

Section IV

Perspectives

The finances of Central Government have been subjected to considerable stress since 1996-97 reflecting the downward rigidity in expenditures and lack of revenue buoyancy. During 1999-2000, added to the inherent structural rigidity, the unprecedented expenditure commitments on account of defence, natural calamities, general elections, the spill over effect of the Fifth Pay Commission and additional financial support to the State Governments have put severe pressure on the expenditure side. Although the revenue growth showed improvement over the year, it fell short of the budget projection. Added to this, the collections from disinvestment once again belied the expectations with the realisation as per the revised estimates being only 26 per cent of the amount targeted. Consequently, the deficit far exceeded the budget estimates by 1.6 percentage point of GDP over the budget projection of 4.0 per cent point of GDP, necessitating the government resorting to additional market borrowings. The net market borrowings during 1999-2000 at Rs.77,065 crore exceeded the budget estimates by Rs.19,604 crore.

The budget 2000-01, therefore, accords the highest priority to fiscal management within the overall framework of fiscal consolidation. The fiscal policy measures show wide medium term implications for fiscal stability. The targeted revenue and expenditure in the budget appear to be consistent with the trend growth rates. The budget projects a 0.3 percentage rise in both revenue collection and expenditure in terms of GDP. The 0.5 percentage reduction in GFD-GDP (from 5.6 per cent to 5.1 per cent) would therefore, be attained mainly through mobilisation of large non-debt capital receipts. Further, the policy measures announced in regard to expenditure management such as the zero base budgeting scrutiny, restricting the fresh recruitment of government staff to minimum essential needs, introduction of cost based user charges, encouraging autonomous institutions to maximise generation of internal resources, closing down of loss making public sector units, downward adjustments in the interest rates of small savings and earmarking of disinvestment proceeds for debt redemption are consistent with the medium-term objectives of curbing built-in expenditure growth and structural changes in the composition of expenditure.

The taxation measures announced in the budget focus upon further restructuring and rationalisation of indirect taxes, closely in tandem with the medium-term objective of introducing a full-fledged value added tax system. The unified CENVAT proposed in the budget not only set in motion the process of evolving a national VAT system but also creates a favourable environment for the sub-national governments to speed up their programme of introducing State level VAT by April 2001. The taxation measures, while speeding up the reform process also intend to strengthen the revenue generation potential through fresh additional resource mobilisation measures. The tax-GDP ratio is budgeted to show a 0.5 percentage point increase to 9.2 per cent from 8.7 per cent of GDP in 1999-2000, although the budgeted incremental tax-GDP ratio is insufficient from the point of view of the long-term fiscal sustainability. Enhancing the tax-GDP ratio to contain the growth of GFD is an area of high priority, since resource mobilisation by way of non-debt capital resources *viz*., disinvestment has so far been much less than the annual targets and revenue generation through non-tax revenue as a proportion of GDP has shown near stagnation.

The budget announcements, while contributing to the improvement of financial stability, have implications for the conduct of monetary policy. There is a proposal to amend the relevant legislation to accord greater operational flexibility to Reserve Bank for conduct of monetary policy and regulation of the financial system. As part of strengthening financial sector reforms, fresh efforts would be initiated, which includes the proposal to constitute a Financial Restructuring Authority on the recommendation of the Working Group on Restructuring Weak Public Sector Banks to provide conducive environment to rehabilitate/ restructure weak banks, withdrawal of interest tax on commercial banks which not only provide a level playing field for banks with other financial institutions but would also impart greater flexibility in the interest rate structure, and establishment of Credit Information Bureau to curb the growth of fresh NPAs.

Notwithstanding the fact that the budget accords high priority to fiscal management through the proposals of curbing expenditure growth, the major areas of concern, however, continue to be the rising revenue deficit and pre-emption of high cost borrowed funds for meeting the revenue gap. This is evident from the fact that revenue deficit which absorbed 49.4 per cent of GFD in 1995-96 has been steadily rising since then to 59.9 per cent in 1998-99, 67.5 per cent in 1999-2000 (revised estimates) and is estimated to further increase to 69.6 per cent in 2000-01. The high revenue deficit pushes the borrowing requirements which in turn enlarges interest cost. During 2000-01, while the revenue deficit would absorb about 70 per cent of the borrowed funds, the resource available for capital outlay (investment expenditure) is 29.5 per cent, which showed a steady deterioration to 23 per cent in the ’nineties from 36 per cent in the ’eighties. The persistent rise in revenue deficit places pressure on the resources available for productive investment. Interest payments during 2000-01 are budgeted to account for 36.0 per cent of the revenue expenditure and would absorb 49.7 per cent of the revenue receipts. The financing of GFD envisaged in the budget, however, is heavily dependent on market borrowing which would further raise the interest obligation. Over the period, the share of market borrowing in the financing of GFD has increased from about 18 per cent in 1990-91 to 60.9 per cent in 1998-99 and further to 70.8 per cent in 1999-2000. It is estimated lower at 68.9 per cent in 2000-01. The high market borrowings to finance GFD would need to be viewed against the backdrop of the competing demands made by the private sector for purposes of investment. The limited availability of financial savings of the household sector to accommodate such borrowings throws up challenges in the pursuit of growth with price stability.

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* Prepared in the Division of Fiscal Analysis of the Department of Economic Analysis and Policy. This article is based on the Union Budget: 2000-2001 presented to the Parliament on February 29, 2000.

1 The figures exclude loans to States/UTs against small savings collections.

2 The devolution of States' share in Central taxes for 2000-01 is based on the provisional devolution formula as recommended by the Eleventh Finance Commission in its interim report. Under the provisional arrangement, the States' share is 80 per cent of the net proceeds of divisible income tax and 52 per cent in the net proceeds of divisible Basic/Special Excise Duties for 2000-2001. It may be mentioned that the Government has accepted the alternative scheme of devolution of Central Taxes recommended by the Tenth Finance Commission in the devolution of share in Central finances to States for the period from April 1996 to March 2000. As per this, 29 per cent of gross proceeds of almost all Central taxes (excluding stamp duty, Excise duty on medicinal/toilet items, Central Sales Tax, consignment tax and surcharge) will be assigned to the States in *lieu of* the existing share in Income Tax and Basic/Special Excise Duties, Additional Excise Duties in *lieu of* States Tax on tobacco, cotton and sugar and Grants in *lieu of* Tax on Railway passenger fares. This will be effective from April 01, 1996 to March 31, 2000. The percentage share of vertical devolution is to be reviewed by successive Finance Commissions instead of freezing it for fifteen years as suggested by the Tenth Finance Commission.