Railway Budget: 2000-2001*

Introduction

The finances of the Indian Railways have witnessed strain in the 1990s emanating from slow growth in freight earnings and significant rise in working expenses. The limited buoyancy in revenues and the consequent low growth in internal resources have put pressure on the Railways to take recourse to market borrowings at market determined interest rates to finance the Plan outlay. The share of internal resources of the Railways, which are critical to sustain the investment growth in the long-term, showed a declining trend in the financing of capital outlays. Market borrowings entailed higher cost but had continued to increase during the 'nineties.

The deterioration in the Railway finances in the latter half of the 'nineties is reflected in the growing operating ratio and the declining return on capital. The budget estimates for the financial year 2000-01 reflect the continuation of this deteriorating trend and the structural problems faced by the Railways in the management of its finances. While internal resource generation has been insufficient to meet its larger social obligations, the resource support from the Central Exchequer has shown a progressive decline over the Plan period from 75 per cent in the Fifth Plan to a lower level of 18 per cent in the last two years of the Eighth Plan. This trend has driven the Railways to largely depend upon market borrowings to meet the investment expenditures, with the result, the interest and repayment obligations have got accumulated. The financial constraint and the resultant under-investment have had unfavourable linkage effects, since the Railways represent the principal transport infrastructure in the country.

In the backdrop of these adverse developments in the finances, the Railway Budget for 2000-01, presented to the Parliament on February 25, 2000, has estimated a surplus of Rs.576 crore, at 1999-2000 rates of passenger fares and freight. The Budget has proposed tariff revisions mainly in freight rates which would generate additional resources to the tune of Rs.600 crore. Passenger fares have been excluded from the revision. After reckoning for the estimated yield from the additional resource mobilisation (ARM), the surplus would increase to Rs.1,176 crore during 2000-01 as compared to Rs.899 crore in 1999-2000[1]. The gross traffic receipt is budgeted to show an increase of 10.4 per cent, a deceleration from 11.7 per cent in 1999-2000. The working expenses are estimated to show a sharp rise to 15.0 per cent as compared to 11.0 per cent in the previous year.

The overall financial operations of the Railways as reflected by the operating ratio (measuring the working expenses as a percentage of gross traffic receipts), is estimated to show deterioration to 98.8 per cent, as against 93.7 per cent in 1999-2000. At this level, the operating ratio would be the highest recorded in any of the years of the previous decade. The return on capital-at-charge and investment from Capital Fund in 2000-01 also showed a significant decline to 4.2 per cent as compared with that of 7.1 per cent in 1999-2000. The major concern, thus is that while the cost of market borrowings has been on the rise, the return from investments has continued to be low.

The Plan outlay for 2000-01 has been hiked substantially by 23 per cent to Rs.11,000 crore, an increase of Rs.2,036 crore over Rs.8,964 crore in the revised estimates of 1999-2000, with emphasis on safety, capacity augmentation and improving passenger amenities. The higher Plan outlay would be financed by increased budgetary support (Rs.3,540 crore), market borrowings (Rs.3,400 crore), private investment (Rs.268 crore), and balance Rs.3,792 crore to be met through a combination of normal internal resources, non-traditional sources of revenue and contribution from General Revenues for Railway Safety Works. The total market borrowings to be raised by the Indian Railways Finance Corporation (IRFC) is placed at Rs.3,400 crore in 2000-01 as against Rs.2,835 crore in 1999-2000. Contribution from the private investment is anticipated at Rs.268 crore.

This article presents a detailed analysis of the financial position of the Railways as presented in the 2000-01 Railway Budget. Section II presents the major highlights of the 1999-2000 revised estimates. Section III provides the main features of the 2000-01 budget estimates and concluding observations are set out in Section IV.

Section II

Revised Estimates: 1999-2000

The revised estimates for 1999-2000 show continued deterioration in the finances of the Railways. A surplus of only Rs.899 crore in 1999-2000 is expected to emerge as compared with that of Rs.1,544 crore envisaged in the budget estimates (Table1). The decline in the finances of the Railways was mainly due to the shortfall in revenue earning traffic from goods traffic and the sharp rise in the appropriation to Pension Fund. The Railways carried 450 million tonnes of originating revenue earning traffic, achieving the target set for the year, on account of overall economic recovery. However, a shortfall in freight earnings over the budget target is likely, on account of drop in the lead and change in the commodity mix. Although there was a marginal decline in the demand for transportation of coal, raw materials, pig iron and finished steel for steel plants, it was adequately offset by the increased demand in freight traffic for cement, foodgrains and fertilizers. Apart from this, the average lead traffic is estimated at 670 KM marginally lower than the target of 671 KM. The receipts from freight traffic are estimated to be lower by Rs.250 crore over the budget estimates of Rs.22,341crore.

The gross traffic receipts in the revised estimates at Rs.33,096 crore witnessed a decline of Rs.215 crore (0.6 per cent) over the budget estimates. The total working expenses at Rs.30,909 crore overshot the budgeted level of Rs.30,283 crore by 2.1 per cent mainly on account of post-budgetary developments, such as increase in price of diesel, retrospective revision of tariff by SEBs and damage to the Railway property caused by the Orissa cyclone. The appropriation to Pension Fund was enhanced to Rs.3,569 crore by Rs.615 crore over the budgeted Rs.2,954 crore. The appropriation to Depreciation Reserve Fund was reduced marginally from the budgeted amount of Rs.1,589 crore to Rs.1,550 crore. Austerity measures implemented in *inter alia* fuel consumption, material procurement, travel, office expenses helped a saving of about Rs.850 crore. The appropriation to Capital Fund in the revised estimates has been placed lower at Rs.380 crore as against Rs.944 crore envisaged in the budget estimates. The deterioration in internal resources has caused the downsizing of the Plan outlay by Rs.735 crore from the budget estimates of Rs.9,700 crore to Rs.8,965 crore in revised estimates.

The finances of the Railways in recent years were also affected by the downward rigidity of working expenses and relatively slow revenue growth (Chart 1). This in turn is reflected in the deterioration of the operating ratio, which in the revised estimates for 1999-2000 shot up to 93.7 per cent from 91.6 per cent projected in the budget estimates. The deterioration in the operating ratio by 2.1 percentage points occurred mainly on account of 2.1 per cent growth in working expenses and a marginal decline in traffic receipts. The return on capital, an indicator of productivity of the Railways, declined to 7.1 per cent as against the budgeted level of 8.6 per cent (Table A). It must, however, be recognised that since the Railways perform significant socio-economic obligations, the rate of return on capital has not been commensurate with the levels of outlay. Another factor, which has contributed to the strain on the revenue position of the Railways, is the dwindling ARM efforts in relation to plan outlay. The ratio of ARM to Plan outlay has declined from 28.4 per cent in 1993-94 to 9.3 per cent in 1999-2000.

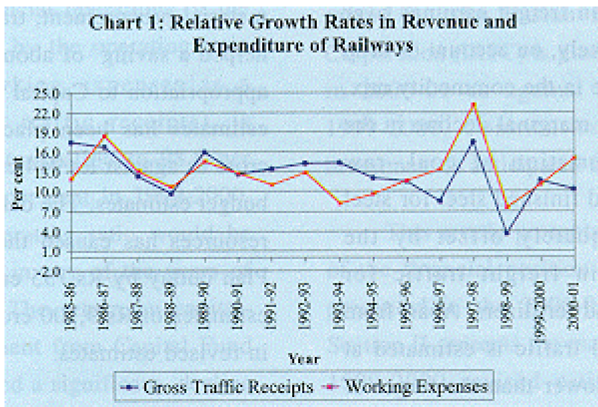


Table A: Major Financial Indicators of Railways

(Per cent)

Items	Operating ratio	Net Railway Revenue as % of Capital-at-Charge	Additional Resource Mobilisation as % of Plan Outlay @
1990-91	92.0	6.9	17.8
1991-92	89.5	8.7	11.0
1992-93	87.4	9.7	24.0
1993-94	82.9	13.7	28.4
1994-95	82.6	15.3	15.3
1995-96	82.5	14.9	10.0
1996-97	86.2	11.7	11.4
1997-98	90.9	8.9	21.7
1998-99	93.3	5.8	4.7
1999-2000 (RE)	93.7	7.1	9.3
2000-01 (BE)	98.8	4.2	5.5

@ : Figures pertain to Budget Estimates
Source : Railway Budgets, various years

Financial Impact of Social Obligations

As an integral part of public utility, the Railways provide basic transport infrastructure for promoting economic and industrial development and provide certain services at below their cost of operation. Such services which result in losses include those on transport of essential commodities of mass consumption, passenger and other coaching services, uneconomic branch lines and new lines. The losses incurred by the Railways on account of its social obligations rose from Rs.2,888 crore in 1996-97 to as high as Rs.4,673 crore in 1999-2000. The loss on coaching services is estimated to show a growth of 8.4 per cent and would amount to Rs. 4,514 crore in 1999-2000 (96.6 per cent of the total losses), while the loss on low-rated freight items is estimated at Rs.159 crore (3.4 per cent). Thus, the loss on account of social obligations continued to be high, accounting for 15.0 per cent of total expenditure and about 13.7 per cent of receipts in 1999-2000, marginally lower than that of 15.2 per cent and 14.1 per cent, respectively, in 1998-99 (Table B). The mounting losses reflect the input costs for rendering these services, which are not covered by prices, and the wide range of concessions offered to the various categories of users of these services.

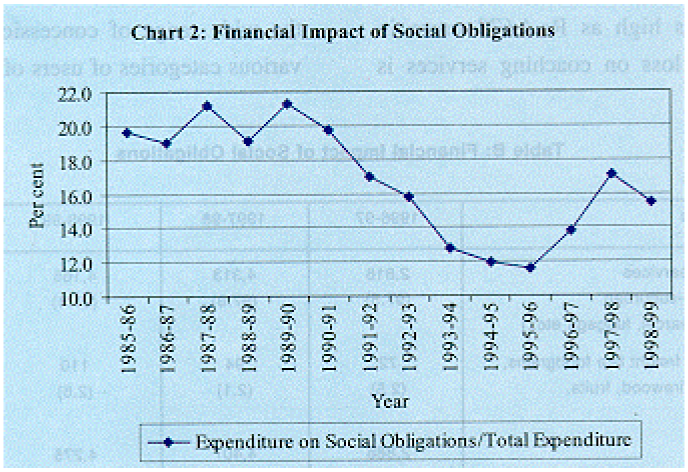
Table B: Financial Impact of Social Obligations

(Rs. crore)

Items	1996-97	1997-98	1998-99	1999-2000 (Estimated)
1. Loss on coaching services (suburban and non-suburban passenger traffic, parcel, luggage etc.,)	2,816 (97.5)	4,313 (97.9)	4,165 (97.4)	4,514 (96.6)
2. Loss on low- rated freight like foodgrains, fodder, charcoal, firewood, fruits, vegetables, etc.	72 (2.5)	94 (2.1)	110 (2.6)	159 (3.4)
3. Total (1+2)	2,888 (100.0)	4,407 (100.0)	4,275 (100.0)	4,673 (100.0)
4. Receipts including miscellaneous receipts	24,801	29,134	30,234	33,993
5. Expenditure including miscellaneous expenditure	21,177	26,110	28,093	31,189
6. Percentage of item (3) to item (4)	11.6	15.1	14.1	13.7
7. Percentage of item (3) to item (5)	13.6	16.9	15.2	15.0

Note : Figures in brackets represent percentages to total.
Source : 1) Indian Railway Year Book, various issues.
2) Explanatory Memorandum on the Railway Budget, 2000-01.

The share of expenditure incurred on carrying out social obligations in the total expenditure, after declining during the first half of the 'nineties, has again witnessed a rising trend thereafter, thus posing pressure on the revenue position of the Railways (Chart 2). The cost of such social service obligations has traditionally been cross-subsidised by the Railways. According to the Railway Fare and Freight Committee Report(1993), as the passenger traffic is priced below the actual cost of services, whereas freight services are priced on a cost-plus basis, freight earnings in effect subsidise passenger traffic. However, the scope for further cross-subsidisation is limited due to the reduced competitiveness of rail transport *visa-vis* other modes of transport. The increasing social service obligations and the decreasing scope for cross-subsidisation have led to a need for financing through other methods. In this context, the Railway Convention Committee has recommended that the Railways should be compensated adequately for carrying out such functions.



Financial Performance of Railways Undertakings

The Indian Railways received a total dividend of Rs.107 crore from all its Public Sector Undertakings during 1998-99 as against Rs.60 crore in the previous year. IRCON International Ltd. earned a profit of Rs.56 crore. The Rail India Technical and Economic Services Ltd. (RITES) achieved the highest ever turnover of Rs.142 crore, recording a net profit of Rs.10 crore. The Container Corporation of India Ltd. (CONCOR) had a turnover of Rs.685 crore with a net profit of Rs.141 crore. Furthermore, the Indian Railway Finance Corporation Ltd. (IRFC) mobilised Rs.2,955 crore to supplement the plan resources of the Railways and earned a net profit of Rs.326 crore.

Section III

Budget Estimates: 2000-01

The Railway Budget for 2000-01, after taking into account the ARM, would show a surplus of Rs.1,176 crore, as compared with Rs.899 crore in 1999-2000. The Budget however, has assumed a growth of 10.4 per cent in gross traffic receipts *albeit* lower as compared with 11.7 per cent in 1999-2000. The working expenses are estimated to register a 15.0 per cent growth over and above the 11.0 per cent recorded in 1999-2000. The ordinary working expenses are, however, budgeted to rise by 9.0 per cent as against a rise of 10.9 per cent in the previous year.

Gross Traffic Receipts

The gross traffic receipts during 2000-01 are estimated at Rs.36,529 crore, reflecting an increase of Rs.3,433 crore (10.4 per cent) over 1999-2000 (Table 1). Earning from both goods earnings traffic and passenger traffic is estimated to decelerate in 2000-01. The goods earnings traffic would show a rise of 6.9 per cent in 2000-01 as against 10.7 per cent during 1999-2000. The growth in receipts from goods traffic is based on an additional revenue earning traffic of 25 million tonnes assuming the buoyancy in the economy and better marketing efforts of the Railways. The freight traffic has been targeted at 475 million tonnes as compared to 450 million tonnes in 1999-2000 (Table 4). Although the average lead of goods traffic would marginally decline from 670 KM. to 668 KM., the total Tonnes-KM. would go up from 302 billion TKMS in 1999-2000 to 317 billion TKMS in 2000-01. The receipts from passenger traffic would show a growth of 7.0 per cent in 2000-01 as against 10.9 per cent in 1999-2000. The physical target of passenger traffic is envisaged at 4,739 million passengers, an increase of 3.7 per cent over 4,571 million passengers in the revised estimates for 1999-2000. Sundry and other earnings (including suspense) are budgeted at Rs.1,917 crore inclusive of Rs.500 crore in expectation of clearance of dues from Power Houses. The ARM through adjustments in tariff for freight, parcel and luggage is expected to yield Rs.600 crore during the year (Box-I).

BOX I: Fare and Freight Proposals

Passenger

(i) No revision in passenger fares of any class
(ii) Free travel for students upto Class X, further extended to cover girl students upto Std.XII from home to school/college and back.
(iii) Millennium Card at a cost of Rs.10,000/- valid for one year to be issued to any passenger to give him assured reservation in First AC and Second AC classes on any train on Indian Railways throughout the year.
(iv) The widows of Martyrs of ‘Operation Vijay' in 1999 in Kargil entitled to 75% travel concession in second class and sleeper class.

Freight

(i) A general 5 per cent increase in the freight rates of all commodities except essential commodities such as foodgrains, sugar, edible salt, edible oils, kerosene, LPG, fruits and vegetables.
(ii) For the core sector commodities such as coal, iron and steel, cement, limestone and certain petroleum products the freight rate hike is less than 5 per cent.
(iii) Freight tariff for chemical manures, livestock, oilseeds etc., is raised by more than 5 per cent, on an average, by upgrading their classifications.
(iv) For parcel and luggage, including Motor Car the rates of increase amount to 7 per cent.
(v) Commodities like urea, newspapers, magazine and medicine are the exempted items.

(vi) The above proposals will come into effect from April 1, 2000 and are estimated to generate additional resource of Rs.600 crore during the full year.

The growth in earnings is not commensurate with the increase in expenditure for day to day operations and maintenance, and for meeting the needs of expansion and safety requirements. Since market borrowings are relatively costly and for shorter maturity, the higher financing of plans through borrowings cannot be relied beyond a limit. Keeping these developments in view, while the Railways have initiated steps to augment internal resources, efforts are being made to raise revenues from other non-traditional sources, as is the practice in several countries. A Task Force in this regard has recently submitted its report and the recommendations are now proposed to be implemented in a time bound manner (Box II).

BOX II: Major Recommendations of Task Force on Non-traditional Sources of Revenues

A. Recommendations of the Task Force

- Commercial publicity to be undertaken by the Railways on passenger trains, stations, freight wagons, tickets and consumable items supplied on train.
- Additional resources to be generated through commercial utilisation of Railway land and air space, and by putting hoardings for rural marketing alongside tracks and hoardings and bill boards at level crossings.

B. Other Measures

- The Railways to utilise its Right of Way (ROW), covering sixty two thousand eight hundred kilometres, for building a nation-wide broad based telecom/multimedia network by laying optic fibre cable. This would provide a parallel telecom infrastructure for telecom operators and internet service provider.
- The Railways to construct one hundred budget hotel and shopping complexes near railway stations using surplus commercial land.
- The Railways have signed MoU with Housing and Urban Development Corporation (HUDCO) for commercial utilisation of surplus railway land in certain corridors such as Delhi-Panipat, Kanpur- Lucknow, Bangalore-Mysore and Chandigarh-Ludhiana.

Working Expenses

The aggregate working expenses of the Railways estimated at Rs.35,552 crore are expected to show a significant growth of 15.0 per cent over 1999-2000. The ordinary working expenses, which account for almost 80 per cent of total working expenses, would show a growth of 9.0 per cent in 2000-01 as against 10.9 per cent in 1999-2000. Operating expenses on traffic and fuel are estimated to show higher growth accounting for 44.2 per cent of the ordinary working expenses (Table 2). The appropriation to Pension Fund at Rs.4,996 crore would be higher by Rs.1,427 crore, an increase of 40 per cent over that in 1999-2000. Apart from this, the appropriation to Depreciation Reserve Fund at Rs.2,441 crore is being doubled over the previous year's leve l (Rs.1,550 crore in 1999-2000), based upon the actual requirements for Plan resources.

Net Financial Results

The net Railway revenue is budgeted at Rs.1,792 crore, showing a decrease of 36.1 per cent over Rs.2,804 crore in the revised estimates for 1999-2000. Out of this, the payment of dividends to General Revenues is estimated at Rs.2,115 crore for 2000-01 as against Rs.1,905 crore in 1999-2000. After reckoning for dividend payments, the financial operations of the Railways during 2000-01 would generate a surplus of Rs. 1,176 crore, while the Plan expenditure to be met from the Development Fund and the Capital Fund is budgeted at Rs.1,421 crore. The remaining Rs.249 crore would be drawdown from the Capital Fund. The return on capital (net railway revenue to capital-at-charge and investments) is budgeted to deteriorate to 4.2 per cent as compared with 7.1 per cent in the previous year.

Plan Outlay

The Ninth Plan for the Railways has been finalised with a total Plan outlay of Rs.45,413 crore with an overall budgetary support of Rs.11,791 crore (26.0 per cent of the total). The objectives during the Ninth Plan essentially relate to generation of adequate rail capacity for handling increasing freight and passenger traffic, replacement and renewal of overage assets, improve reliability, safety and quality of service to customers. Keeping in view the growing investment requirements of the Railways, the size of the Annual Plan for 2000-01 has been set higher at Rs.11,000 crore, an increase of 23.0 per cent over Rs.8,965 crore in 1999-2000 (Table 3). In the allocation of investment funds, rolling stocks and track renewals would together account for 61.9 per cent of total Plan outlay. New lines and doubling of lines would account for 13.1 per cent, electrification 3.0 per cent and signalling and telecommunication 3.7 per cent of Plan outlay.

On the financing side, internal resources, non-traditional sources of revenue and contribution from General resources for Railway Safety works would finance 34.5 per cent of total Plan outlay, which is lower than 38.2 per cent in 1999-2000 (Table C). The share of private investment would increase to 2.4 per cent in 2000-01 from 1.8 per cent in 1999-2000. Budgetary support would increase to 32.2 per cent in 2000-01 from 28.3 per cent in 1999-2000, the highest since 1992-93, while market borrowings would decline to 30.9 per cent from 31.6 per cent in 1999-2000. The borrowings of the Railways from the market, raised by the Indian Railway Finance Corporation (IRFC) is estimated at Rs.3,400 crore for 2000-01 as compared to Rs. 2,835 crore in 1999-2000.

Table C: Financing Pattern of Plan Outlays of Railways

(Per cent)

Year	Budgetary Support	Market Borrowings	Internal Resources	Private Investment
1990-91	27.3	22.7	50.0	-
1991-92	32.6	27.9	39.5	-
1992-93	42.0	16.6	41.4	-
1993-94	16.4	14.6	69.0	-
1994-95	20.6	15.3	64.1	-

1995-96	17.8	15.2	64.9	2.1
1996-97	17.6	23.5	53.7	5.2
1997-98	24.3	27.1	41.8	6.8
1998-99	24.8	36.3	35.7	3.1
1999-2000(RE)	28.3	31.6	38.2	1.8
2000-01(BE)	32.1	30.9	34.5*	2.4

***** includes a combination of non-traditional sources and contribution from General Resources for Railway Safety Works.

The financial position of the Railways is projected to deteriorate further in 2000-01, as the operating ratio is budgeted to escalate to 98.8 per cent from 93.7 per cent in 1999-2000 despite the fact that the budget has made an attempt to generate additional resources through hike in freight tariff and utilisation of non-traditional sources. The surplus which is projected in the current year is based on the assumption of clearance of a part of the outstanding dues from State Electricity Boards, targeted at Rs.500 crore and deferment of a substantial portion of the dividend payable to general revenues (Rs.1,500 crore) to the future. Both these factors underscore the tenuous position of Railway finances.

Section IV
Concluding Observations

The Railways, the core transport infrastructure of the Indian economy, has in recent years been faced with financial constraints mainly due to its developmental obligations. The demand for freight traffic in the terminal year of the Ninth Five Year Plan (2001-02) has been estimated at 490 million tonnes of revenue earning traffic and 328 billion tonnes kms of transport output. The passenger traffic in the terminal year of the Plan has been placed at 4.9 billion originating passenger, representing an annual growth of 3.7 per cent. Further, the current Budget has set a target to increase its share in total traffic from the existing 40 per cent to 50 per cent in the coming decade. These targets would require generation of adequate capacity for handling increasing freight and passenger traffic. Keeping this in view the Plan outlay for 2000-01 has been significantly raised by 23 per cent. However, the existing financing pattern with higher reliance on market borrowing and inadequate support of private investment would pose problems in sustaining the growth in capital outlay in the medium term. Thus, adequate generation of internal resources would assume critical importance in enhancing the traffic capacity.

The Railways have been faced with a significant financial stress in the last two consecutive years. The year 1998-99 saw a large shortfall in freight loading by 29 million tonnes in the wake of recession and sharp rise in working expenses. The additional expenditure commitment arising out of the implementation of the pay revisions has caused further setback to the Railway finances. The position has not shown improvement during the current fiscal year. The net surplus of the Railways is estimated to show a sharp decline to Rs.899 crore in 1999-2000 as against Rs.1,544 crore envisaged in the Budget. The deterioration in the internal resources has adversely affected the Plan outlay which has been pruned down to Rs.8,964 crore from the original targeted level of Rs.9,700 crore, placing severe pressure on developmental programmes.

An important issue affecting the growth of internal resources and having bearing on the financial position of the Railways is the price mechanism and transparent costing procedure. The costing of services needs to be developed to contribute towards competitive pricing of railway services. Expenditure and earnings of operations and infrastructure need to be separated to enable a better pricing mechanism. Thus, there is a need for market determined pricing for various services, rationalisation of tariff especially on the passenger traffic segment by reducing the extent of cross subsidy, efficiency in the utilisation of resources with emphasis on reduction in operating expenses, greater move towards non-traditional sources of funding and greater participation of private sector in financing the projects.

* **Prepared in the Division of Fiscal Analysis of the Department of Economic Analysis and Policy.**

[1] All references to 1999-2000 relate to revised estimates unless otherwise stated.