Finances of Government of India : 1999-2000 * (Part 1 of 4)

The Union Budget for 1999-2000, presented on February 27,1999, was formulated against the backdrop of a turbulent and unfavourable global economic environment prevailing during 1998-99. Despite the adverse economic environment, the domestic economy recovered to post a 5.8 per cent growth in real GDP, led mainly by 5.3 per cent growth in agriculture and allied activities. The volatility in the forex market has been curbed and the current account deficit is projected to come down to 1.4 per cent of GDP from 1.6 per cent in 1997-98. The inflation rate, after rising to a peak of 8.8 per cent in September, decelerated to below 5 per cent in January 1999. Notwithstanding these positive developments, the weak links in the economy have been deceleration in industrial growth, sluggishness in export performance and subdued conditions in the capital market. The fiscal deficits of both Centre and States are still high, posing challenges to the attempts at reducing interest rates, stimulating investment and growth, curbing inflationary pressure, releasing resources for infrastructure and other productive investment. Keeping these issues in view, the budget adopted a six-fold broad strategy to address these problems. These broad strategies are: i) a medium-term process of revenue and fiscal deficit reduction, along the lines indicated in the Ninth Plan, which will free more resources for productive investment and growth and contain inflation, ii) major reforms of indirect taxes to promote productivity and employment, iii) deepen and widen economic reforms in all major sectors and accelerate internal liberalisation to release the productive energies and creativity of farmers, manufacturers, traders and service providers, iv) safeguard the economy from external shocks, revive exports and stimulate the domestic engines for growth revival, v) strengthen the knowledge-based industries, and vi) revitalise and redirect public programmes for human development, encompassing food security, health care, education, employment and shelter with focus on empowering the poor and the weaker sections.

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On the fiscal front, the budget strives to set in motion a medium term strategy for restoring the fiscal health of the economy. The fiscal restoration is aimed through significant reduction in revenue and fiscal deficits to 2.7 per cent and 4.0 per cent of GDP, respectively, during 1999-2000. At these rates of reduction, the revenue deficit is expected to be eliminated in 4 years and fiscal deficit would decline below 2.0 per cent of GDP. The revenue mobilisation efforts and expenditure strategies envisaged in the budget are directed towards these objectives. On the taxation front, the medium-term strategy will be to move towards a single rate and a full-fledged Value Added Tax (VAT) system and custom duty structure will be phased down to Asian levels in 5 years. In the sphere of expenditure, efforts would be to promote transparency, downsizing government and curb growth of contingent government liabilities. The Government proposes to constitute an Expenditure Reforms Commission to look into these areas.

This article is structured into four Sections. Section I highlights the major policy initiatives proposed in the budget. The revised estimates for fiscal 1998-99 are discussed in Section II. The budget estimates for 1999-2000 are outlined in Section III. The concluding observations are set out in Section IV.

Section I

Policy Initiatives

The budget has announced far reaching reform measures in all major sectors of the economy. These policy measures are intended to revitalise and redirect public programmes towards human development, restructure and rationalise taxes, invigorate capital markets and carry forward reforms in banking sector. The major policy announcements are summarised below.

1. Agriculture and Rural Development

The budget, while recognising the critical role of credit and irrigation in agricultural rural development, concentrates upon a multi-pronged programme. The major policy announcements in this regard include, *inter alia,* setting up of a National Watershed Development Fund, rationalising water rates, and provision of subsidy to registered Water Users Associations. The budget also accords active involvement of Gram Panchayats, Local Self Help Groups and NGOs in the agricultural and rural development programmes. In order to provide timely credit to farmers in a flexible and cost-effective way, the Kisan Credit Card Scheme launched by public sector banks will be extended to cover 20 lakh farmers during 1999-2000. For effective distribution and use of fertiliser, the budget has proposed incentive discount to farmers for lifting fertiliser from cooperative societies during lean months of April and May. For further strengthening of financing rural infrastructure projects, the Rural Infrastructure Development Fund (RIDF) fifth phase is proposed to be launched. The corpus of RIDF-V is raised to Rs.3,500 crore from Rs.3,000 crore under RIDF- IV. For recapitalisation of Regional Rural Banks, Rs.168 crore has been provided during 1999-2000. Bank lending for Food and Agro Processing industries will be treated as priority sector lending. In order to give a boost to rural industrialisation, 100 rural clusters are to be set up under the National Programme for Rural Industrialisation, targeting mainly to benefit rural artisans and unemployed youth.

2. Human Development and Social Sector

The National Human Development Initiative (NHDI) is another significant policy measure focusing upon providing access to basic human necessities such as, food, health care, education, employment and shelter to entire population within a decade. Accordingly, Targeted Public Distribution System (TPDS) will be suitably designed to ensure its proper coverage. A new scheme called "*Annapurna*" will be introduced to provide 10 kg. of foodgrains per month free of cost to indigent senior citizens. The Central Government alongwith State Governments will provide funds to Gram Panchayats to set up health care facilities. With a view to providing access to primary education, an Education Guarantee Scheme will be implemented at the national level which is expected to provide an elementary school in every habitation. The budget has provided Rs.1,031 crore for Nutritional Support to Primary Education. The programme, being implemented through local bodies such as Panchayats and Nagarpalikas, intends to give a boost to universalisation of Primary Education and also simultaneously improve the nutrition level of students in primary classes. The budget has allocated Rs. 750 crore for the District Primary Education Programme (DPEP). This programme has a marked gender focus and attempts to enhance effectiveness through inputs in teachers' training and decentralisation management. The programme presently covers 149 districts in 14 States. The budget has provided Rs.400 crore for Operation Black Board. This scheme aims at providing essential facilities in all primary schools in the country in a phased manner. The budget has also provided Rs.350 crore for non-formal education and Rs.219 crore for Teachers' Training Programmes.

With a view to enhancing the effectiveness of employment schemes in rural areas, *Jawahar Rozgar Yojana* would be modified as the *Gram Samridhi Yojana*, to ensure funds at the disposal of Gram Panchayats. Moreover, to ensure greater participation of Panchayats, several self-employment programmes would be merged into a single programme called *Swaran Jayanti Gram Swa-Rozgar Yojana*. To provide integrated provision of shelter, sanitation and drinking water, the budget proposes to launch a comprehensive *Samagra Awas Yojana* which would integrate the existing programmes including *Indira Awas Yojana* .

3. Housing Sector

To encourage flow of credit to housing sector, commercial banks are required to lend a minimum 3 per cent of their incremental deposits for housing purposes. Further, amendments are proposed in the National Housing Bank Act to simplify legal provisions for foreclosure and transfer of property. This would facilitate developing the primary and secondary market for housing mortgages. Additionally, to improve quality of urban municipal services, upon which urban housing depends, tax-free status would be accorded to municipal bonds.

4. Industry and Infrastructure

In the context of growing integration with world economy, the process of industrial restructuring is inevitable. The budget has announced some concrete measures in this direction. The Industries (Development and Regulation) Act will be reviewed and amended to shift focus to development from regulation. To give a boost to textile industry, *Technology Upgradation Fund Scheme* will become operational from April 1999 and provide interest incentive of 5 per cent on loans availed by textile units. The Government has decided to set up two High Level Committees to review the present drug policy so as to reduce price controls and identify required support to Indian pharmaceutical companies to undertake domestic R&D.

With a view to facilitating restructuring of SEBs, activities relating to transmission and distribution of power are to be undertaken by separate companies, which would be eligible for fiscal incentives as available to infrastructure units. Moreover, in order to increase attractiveness of venture capital schemes and induce high net worth investors to commit funds to high-tech sectors, the guidelines for registration of venture capital activities with Central Board of Direct Taxes and SEBI are harmonised to ensure uniformity in norms and registration.

To give fillip to industrialisation in North-Eastern region, a 10-year tax holiday for all industries set up in growth centres/specified regions is proposed. Furthermore, to bring about uniformity amongst sectors in availing tax exemptions, the maximum period of tax holiday has been extended to 15 years. Besides, entertainment industry is given similar facilities and tax benefit as available to export sector.

In the Small Scale sector, in order to improve the credit delivery system, the limit for composite loan scheme is raised to Rs.5 lakh. Aggregate annual turnover for SSIs availing 20 per cent working capital limit is enhanced from Rs.4 crore to Rs.5 crore. Furthermore, bank lending to non-banking finance companies or other financial intermediaries for purposes of on-lending to the tiny sector will be treated as priority sector lending.

5. Banking Sector

The budget has emphasised further strengthening of the banking and financial sector reforms. In the banking sector, for expeditious recovery of debt dues of banks, five more Debt Recovery Tribunals and four Debt Recovery Appellate Tribunals are proposed to be set up. Further, Public Sector Banks will be encouraged to set up Settlement Advisory Committees for the settlement of litigation relating to the small sector in a timely and speedy manner. To alleviate the problem of low recovery in the SSI sector as well as to provide a boost to flow of investment credit to SSI units, a new credit insurance scheme will be launched. As an incentive for banks to reach international standards of prudential norms relating to provisioning against doubtful and non-performing assets, the budget proposed to provide tax deduction up to 5 per cent of such aggregate 'doubtful debts' being maintained by banks.

6. Capital Market

The budget has announced concrete measures to make the capital market vibrant and also restore investors' confidence. These include *inter alia*, a substantial fiscal package to strengthen corporates, particularly UTI and mutual funds, and evolving co-ordination between SEBI and the Department of Company Affairs for taking stringent actions against unscrupulous promoters. In case of amalgamation of companies, the routing of proposals through BIFR is removed. This is being done so that the eligibility for tax concessions is only contingent of minimum of 75 per cent of fixed assets of amalgamating companies being absorbed in the amalgamated company. For de-mergers, the accumulated losses and unabsorbed depreciation can be carried forward from the de-merging company to the resultant company. Further, to eliminate inconvenience faced by small investors in paying tax and claiming refunds, tax on all income from UTI and other mutual funds is exempted. Similarly, the budget proposed a three year exemption for US-64 Scheme as well as for all open-ended schemes of UTI and mutual funds with more than 50 per cent in equity from dividend tax. However, income distributed by mutual funds where equity investment is less than 50 per cent will be subject to 10 per cent dividend tax to provide level playing field to other domestic companies.

7. External Sector

The budget has proposed several steps to strengthen the external payments situation, revitalise exports and encourage non-debt creating inflows. These measures, *inter alia*, include revamping existing scheme of export credit in foreign currency at internationally competitive rates, bringing about simplification of procedures, expansion in the list of automatic approvals for FIPB clearance within 30 days for important industrial and service firms and creation of Foreign Investment Implementation Authority (FIIA) to overcome slow implementation of FDI approvals. A set of initiatives have also been proposed to strengthen the participation of NonResident Indians (NRIs) in the development of the country. These are: automatic approval for investment up to 100 per cent by NRIs/OCBs extended for all items subject to certain stipulations, SEBI to work out modalities for opening trading terminals abroad to facilitate participation of NRIs in capital markets, and NRI investment in Indian mutual funds simplified to a post-facto reporting mechanism.

The budget has proposed a new Gold Deposit Scheme to mobilise idle gold held by households, charitable and religious institutions etc. Under the proposed scheme, selected banks will be permitted to accept gold deposits and issue interest bearing certificates or bonds which on maturity can be reclaimed in gold. The measures while providing regular income to holders of gold would reduce the dependence on imported gold. The scheme is eligible for income tax, wealth tax and capital gains tax exemptions. Furthermore, State Governments are to consider exempting movement of gold from *octroi*, sales tax, stamp duty and other similar levies.

8. Fiscal Policy Reforms

In the fiscal sector, the budget has emphasised the need for improving the expenditure management, public sector reforms and continuation of the tax reform process. The major policy measures announced are summarised below:

(a) Expenditure Management

The high growth of non-development expenditure is a major concern in the area of effective and efficient expenditure manangement. The budget has taken initiatives to curb the trend of expenditure by downsizing Government, reducing its role and administrative structure and initiating a system of *Zero Base budgeting*. As an institutional arrangement to carry forward this process, the Government has proposed to constitute an Expenditure Reforms Commission. Furthermore, to promote transparency and curb the growth of contingent Government liabilities, the budget proposed to constitute a *Guarantee Redemption Fund* with an initial corpus of Rs.50 crore. State Governments would also be encouraged to set up similar funds.

(b) Public Sector Reforms

The strategy towards public sector reforms would continue to be a judicious mix of strengthening strategic units and privatising non-strategic ones through disinvestment or strategic sales and rehabilitation of weak units. These include encouraging marginally profit making enterprises to reduce manpower and providing support to such enterprises in their rationalisation exercises in raising money from banks against Government guarantees and interest subsidies. Government would also encourage PSEs to issue bonds to workers opting for Voluntary Retirement Scheme (VRS). The budget has proposed to enhance revenue collection from disinvestment to meet the requirements of social and infrastructure sectors. During 1999-2000 Government proposes to raise Rs.10,000 crore through the disinvestment programme as against Rs.9,000 crore in 1998-99.

(c) Tax Policy Measures

The budget aims at carrying forward the tax reforms with vital emphasis on rationalising the existing tax rate structure and at the same time giving incentives to various productive sectors. In the direct tax front, measures announced are intended to encourage savings and investment. Policy measures announced in respect of indirect taxes aim at reducing multiplicity of rates and ensuring convergence towards a central rate in excise duties and integration of the economy with rest of the world through phasing down of customs rates. The major tax proposals announced in the budget are given in BOX.

In the sphere of direct tax, the existing tax rates of personal income tax and corporation tax have been retained. However, an across-the-board surcharge of 10 per cent on corporate tax and all other categories of assessees has been imposed. The "One-by-Six" criteria introduced in the last budget for identifying potential tax assessees has been extended to 19 more cities having population of more than 5 lakh, from the present 35 cities. In order to encourage housing construction activities a comprehensive package of fiscal incentives has been proposed for the housing sector. The exemption of interest on loan for self-occupied property has been increased from Rs.30,000 to Rs.75,000. The budget has proposed to fully exempt from income tax, all income from UTI and other Mutual Funds received in the hands of the investors. It is also proposed to continue for three years the exemption for US-64 Scheme as also for all open ended equity oriented Schemes of UTI and mutual funds with more than 50 per cent investment in equity from dividend tax. The long-term capital gains tax for resident Indians on transfer of shares and securities is reduced from 20 per cent to 10 per cent in line with that for NRIs. Facilities and tax benefits available to the export of goods and merchandise under Section 80HHC are proposed to be given to the entertainment industry.

BOX

Major Changes in Tax Structure

Direct Taxes

- Across-the-board surcharge of 10 per cent on corporate tax and all other categories of assessees. For individuals and HUF, surcharge will be applicable for those having total income of Rs.60,000 or more. The burden of surcharge will be 2 per cent in 20 per cent slab, 3 per cent in 30 per cent slab while 10 per cent slab remains unaffected.

- For senior citizens deduction for medical insurance premium raised to Rs.15,000, tax deduction for specific diseases raised to Rs.60,000, sum insured increased to Rs. 5 lakh and upper age coverage increased to 80 years.

- Expenditure towards hostel projects for working women made eligible for deduction under Section 35AC of the Income Tax Act.

- Pension/family pension received by gallantry award winners and their heirs exempted from income tax.

- For expanding the tax base, "One-by-Six" criteria introduced in last budget for identifying potential tax assessees extended to 19 more cities (presently 35) having population of more than 5 lakh.

- To restore shareholders confidence and invigorate capital markets, all income from UTI and other Mutual Funds received by investors fully exempted from income tax. Further, all open-ended equity-oriented schemes of UTI and mutual funds, with 50 per cent or more investment in equity exempted from dividend tax. Income distributed by mutual funds with equity investment of less than 50 per cent subject to 10 per cent dividend tax.

- Long-term capital gains tax for resident Indians on transfer of shares and securities reduced from 20 per cent to 10 per cent, in line with that for NRIs.

- Stock options and Sweat Equity offered by management to employees of 'sunrise' sectors, to be taxed as perquisite and later as capital gains at the time of sale of security.

- For buy-back of shares, shareholders to pay only capital gains tax and not dividend tax.

- To encourage housing construction activities, exemption of interest on loan for self-occupied property increased from Rs.30,000 to Rs.75,000; built-up areas for tax holiday under Section 81A increased from 1,000 sq.ft. to 1500 sq.ft.(in all locations except Mumbai and Delhi); income of housing finance companies to be taxed on actual basis and depreciation rate on new dwellings purchased by business sector for employees increased from 20 per cent to 40 per cent; commercial banks to lend upto 3 per cent of their incremental deposit for housing purpose.

- The maximum period for tax exemption to infrastructure/core sector extended to 15 years.

- To promote industrialisation in North-eastern region, 10-year tax holiday for all industries set up in growth centres/specified areas in the region.

- Entertainment industry given similar facilities and tax benefits as available to export of goods and merchandise under Section 80HHC.

Indirect Taxes

- In order to rationalise the rate-structure, reduce multiplicity of rates and ensure convergence towards a central rate, the existing 11 major *ad valorem* rates of excise duty are reduced to three, *viz*., central rate of 16 per cent, merit rate of 8 per cent and demerit rate of 24 per cent. The existing rates of 5, 10 and 12 per cent are merged into the existing 8 per cent.

  The existing rates of 13, 15 and 18 per cent are merged to a new rate of 16 per cent. A new rate of 24 per cent to substitute earlier rate of 25 per cent.

- Commodities which carry a rate of duty of 30 and 40 per cent would also be reduced to the basic rate of 24 per cent. However, they will attract a surcharge of 6 per cent and 16 per cent, respectively, so that total excise on these commodities would remain unchanged.

- Duty on machinery and capital goods sector rises from 13 per cent to 16 per cent, however, these are eligible for MODVAT credit.

- Cap of 95 per cent on MODVAT adjustment allowed to manufacturing units lifted and restored to 100 per cent.

- The special customs duty of 5 per cent (imposed in the budgets of 1996-97 and 1997-98) discontinued. Existing 7 major *ad valorem* rates of customs duty reduced to 5 basic rates, *viz.:* 5 per cent remains unchanged; 10 per cent substituted by 15 per cent; 20 and 25 per cent merged to 25 per cent; 30 and 35 per cent made 35 per cent; and 40 per cent remains unchanged.

- Significant reduction in duty rates on critical inputs of the Information Technology sector, such as ICs, micro assemblies, storage devices, CD-ROMs, telecom equipment and optical fibres.

- Uniform surcharge of 10 per cent on all commodities imposed, excluding crude oil and petroleum, certain GATT bound items, gold and silver and items attracting 40 per cent rate of basic duty. Due to this, effective import duty on petroleum products stands reduced, consistent with Government's policy of rationalising taxes on these products. Further, peak rate of protective customs duty reduced from 45 per cent to 40 per cent on account of this exclusion.

- Commodities enjoying zero custom duty would attract 5 per cent rate of duty. However, to mitigate impact of incidence, the items are exempted from the existing 4 per cent special additional duty.

- Import duty structure of project imports rationalised. Nominal basic customs duty of only 5 per cent on power generation, coal mining, refinery, telecom and fertilizer projects. Mega Power projects to be an exception.

- An additional duty of Re.1 per litre imposed on imported and domestic High Speed Diesel Oil (HSD). It is likely to yield an aggregate amount of Rs.4,591 crore as additional duty of excise and Rs.363 crore as countervailing duty on domestically produced and imported HSD over the year.

- For small scale sector, concessions for units manufacturing cosmetics, refrigeration and air-conditioning equipment. Doubling of duty-free exemption slab from Rs.15 lakh to Rs.30 lakh, turnover under eligibility criteria doubled from Rs.50 lakh to Rs.100 lakh and clearances eligibility limits increased from Rs.15 lakh to Rs.30 lakh.

- As measure of simplification of administrative procedures, SSI units permitted to pay tax on monthly basis with effect from June 1, 1999. SSI benefits extended to goods bearing brand name of other manufacturer if produced in rural areas, and SSI benefits extended to small-scale units producing cotton yarn.

- Postal tariff on printed and competition postcard, inland letter, book pattern and sample packets and parcels revised upwards, but no change in the tariff of postcards, money orders, book packet containing printed books and registered newspapers.

The budget has proposed several measures relating to Infrastructure and Industry sectors.

The fiscal incentives by way of tax holiday under Section 80 IA of the Income Tax Act have been extended to cold chains for agricultural produce. In order to facilitate the restructuring and rehabilitation of State Electricity Boards, the activities of transmission and distribution of power, set up after April 1, 1999, will be treated to be eligible for fiscal incentives presently available to infrastructure activities. To give a fillip to industrialisation in North Eastern Region, the budget has announced a 10 year tax holiday for all industries set up in Growth Centres, Industrial Infrastructure Development Corporations and for other specified industries in this region.

The budget has recognised that multiple rates of indirect taxes are generally a major source of mis-classification, tax evasion and avoidance and cumbersome litigation. Keeping these issues in view, the budget proposes a comprehensive restructuring of both excise and custom duties. Accordingly, the existing 11 major *ad valorem* rates of excise duty are reduced to 3 rates. These are: central rate of 16 per cent, merit rate of 8 per cent and demerit rate of 24 per cent. Two slabs of surcharge of 6 per cent and 16 per cent are to be imposed over the rate of 24 per cent on commodities which carry a rate of duty of 30 per cent and 40 per cent. In the case of custom duties the existing 7 major *ad valorem* rates of customs duty have been reduced to 5 basic rates, *viz*., 5 per cent, 15 per cent, 25 per cent, 35 per cent and 40 per cent. An uniform surcharge of 10 per cent is to be imposed on all commodities excluding crude oil and petroleum products, items attracting 40 per cent rate of basic duty, certain GATT- bound items and gold & silver. An additional duty of Re.1 on imported and domestic High Speed Diesel Oil (HSD) is proposed to be imposed.[2] The cap of 95 per cent on MODVAT adjustment allowed to manufacturing units has been lifted and restored to 100 per cent. The special customs duty of 5 per cent imposed in the budget of 1998-99 has been discontinued. The import duty structure of project imports has been rationalised through a nominal basic customs duty of only 5 per cent on power generation, coal mining, refinery, telecom and fertiliser projects.

2. Half of the amount collected under this duty of Re 1.00 per litre levied would be utilised by the Centre to support the activities in rural development and social sectors. The other portion of 50 paise per litre will be converted into a statutory cess and transferred to the Central Road Fund. 30 per cent of the Fund will be transferred to the State Governments for development and maintenance of the State Roads.

The budget has proposed revision of tariff for some postal services. The rate of printed post card is being raised from Rs.1.50 to Rs.2.00, of competition post card from Rs.3.00 to Rs.4.00, of inland letter from Rs.1.50 to Rs.2.00. These revisions are estimated to yield additional revenue of about Rs.145 crore in a full year and about Rs.121 crore during 1999-2000.

The proposals regarding direct taxes are estimated to yield a revenue of Rs.3,100 crore and those regarding indirect taxes are estimated to yield Rs.6,234 crore. The net revenue accrued to the Centre out of the additional revenue mobilisation is estimated at Rs.9,334 crore. The changes in the rate structure of excise and customs duties and proposed revision of postal tariff are set out in Annexure I.

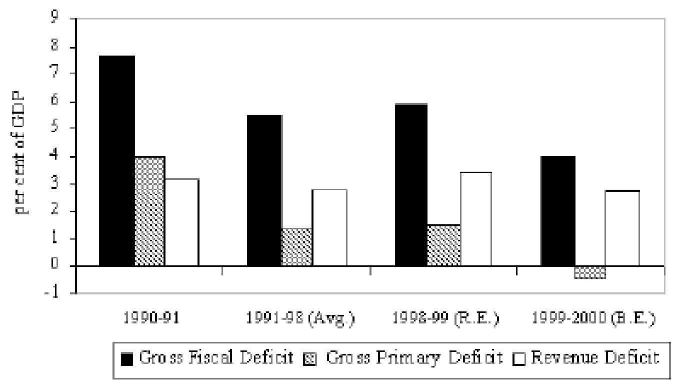
Section II

Revised Estimates: 1998-99

The process of fiscal consolidation suffered a setback during 1998-99 with a sharp rise in resource gap of the Centre (Table 1 and Graph 1). Gross Fiscal Deficit (GFD), which measures the overall resource gap or borrowing requirements, increased by Rs.12,712 crore (14.0 per cent) to Rs.1,03,737 crore (5.8 per cent of GDP with 1993-94 as base year)[3] in the revised estimates as against the budget estimates of Rs.91,025 crore (5.1 per cent of GDP). On the basis of 1980-81 base of GDP, the ratio of fiscal deficit to GDP for 1998-99(RE) works out to 6.5 per cent as against the ratio of 5.6 per cent envisaged in the budget estimates. Revenue deficit, which reflects the extent of Government dissavings, exceeded the budget estimates by Rs.12,406 crore to Rs.60,474 crore (3.4 per cent of GDP) from Rs.48,068 crore (2.7 per cent of GDP). The primary deficit placed at Rs.16,025 crore in the budget estimates shot up to Rs.26,489 crore in the revised estimates.

3. The ratios given are in relation to GDP with revised base (at 1993-94 prices) unless otherwise stated.

Graph 1: Central Government's Deficit Indicators



The deterioration in the fiscal position in the revised estimates was the combined result of shortfall in revenue receipts and steady rise in expenditure. Revenue receipts suffered a major setback due to a substantial shortfall in indirect taxes collection, *viz*., customs duty (Rs.5,500 crore) and excise duty (Rs.2,247 crore) (Table 2). The short fall in customs revenue was on account of both lower volume and unit price of imports and the decline in excise duties was as a result of low industrial growth. The budget had originally estimated a growth of 17.8 per cent in tax revenue (net to Centre), while the actual collection, as per the revised estimates, is estimated to be lower by Rs.7,320 crore (6.3 per cent). The non-tax receipts in the revised estimates recorded a growth of Rs.2,991 crore (6.6 per cent) over the budget estimates. The aggregate expenditure in the revised estimates was higher by Rs.13,985 crore (5.2 per cent) than the budget estimates. The non-Plan expenditure increased by Rs.17,616 crore while there was a shortfall of Rs.3,631 crore under Plan expenditure. Capital receipts as per the revised estimates at Rs.1,24,247 crore are higher by Rs.18,314 crore (17.3 per cent) than the budget estimates. Market borrowings at Rs.64,911 crore are higher by Rs.16,585 crore (34.3 per cent) than the budget estimates of Rs.48,326 crore (Table 3). According to the revised estimates, the share of market borrowings in financing of GFD increased to 62.6 per cent from 53.1 per cent anticipated in the budget estimates.

The rise in gross fiscal deficit during 1998-99 to Rs.1,03,737 crore from the budget estimates of Rs.91,025 crore was mainly due to sharp rise in revenue deficit. The decomposition of GFD reveals that revenue deficit accounted for 58.3 per cent of the borrowed funds (GFD) as against 52.8 per cent envisaged in the budget and 52.2 per cent in 1997-98. On account of a large pre-emption of borrowed funds for meeting revenue deficit, the resources available for investment expenditures (capital outlay) declined from 25.6 per cent in the budget estimates to 18.8 per cent in the revised estimates. The sharp rise in non-Plan expenditure over the budget estimates was mainly on account of higher interest payments (Rs.2,248 crore), major subsidies (Rs.1,180 crore), pension payments (Rs.2,712 crore) and loans to States and UTs against small saving collections (Rs.9,588 crore).

The Central Plan outlay in the revised estimates at Rs.88,482 crore is lower by Rs.16,705 crore (15.9 per cent) than the budget estimates of Rs.1,05,187 crore (Table 5). The reduction in budgetary support to Central Annual Plan was to the extent of Rs.4,201 crore (10.0 per cent) to Rs.38,263 crore. The cut back in Plan outlay was mainly due to substantial fall in the contribution of internal and extra budgetary resources of public enterprises (IEBR) by Rs.12,504 crore (19.9 per cent) from the budget estimates of Rs.62,723 crore.

Section III

Budget Estimates: 1999-2000

The Central budget for 1999-2000 accords high priority to the process of fiscal consolidation and carries forward the process of fiscal reforms. The emphasis has been given on reduction in revenue deficit and fiscal deficit through expenditure management and additional resource mobilisation. The fiscal deficit for the year 1999-2000 is placed at Rs.79,955 crore which is 4 per cent of the GDP as per new series (Base: 1993-94) as against 5.8 per cent in 1998-99 and 5.5 per cent, on an average, during 1991-92 to 1997-98. The amount of GFD for 1999-2000 is based on the new accounting system of loans given to States and UTs against small savings collections[4] . The revenue deficit is estimated at Rs.54,147 crore and the revenue deficit/GDP ratio is estimated to decline to 2.7 per cent as compared with that of 3.4 per cent in 1998-99. The primary balance is projected at a surplus of Rs.8,045 crore or 0.4 per cent of GDP as against a primary deficit of Rs.26,489 crore (1.5 per cent of GDP) during 1998-99 (Table 1).

4. With effect from April 1,1999, a new system of transferring 75 per cent of the net small savings collections to States and UTs from Public Account is being introduced. Under the new system, the small savings collection would be credited to "National Small Savings Fund " (NSSF) in Public Account. Similarly, all withdrawals of small savings by the depositors would be made out of the accumulation in the Fund. The balance in the Fund will be invested in Central and State Government securities. The debt servicing of these Government securities will be an income of the Fund while the cost of the interest and cost of management of small savings will be an expenditure of the Fund. For 1999-2000, the investment in Central and State Government securities is budgeted at Rs. 8,000 crore and Rs.25,000 crore, respectively. The investment in Central Government securities would form the part of Government of India's internal debt.

Pattern of Receipts

Revenue receipts for 1999-2000 estimated at Rs.1,82,840 crore show a rise of Rs.25,175 crore (16.0 per cent) over the revised estimates for 1998-99. About 90.7 per cent of the incremental revenue receipts will be contributed by taxes (Rs.22,828 crore) and the remaining 9.3 per cent through increase in non-tax revenue (Rs.2,347 crore). Gross tax revenue is estimated at Rs.1,76,860 crore (including ARM measures) which would show an increase of Rs.28,160 crore (18.9 per cent) over the revised estimates of Rs.1,48,700 crore. The tax-GDP ratio for 1999-2000 at 8.8 per cent is higher than that of 8.4 per cent in 1998-99. The additional revenue mobilisation measures are estimated to yield a net revenue of Rs.9,334 crore. Major portion of ARM revenue is estimated to be obtained from Union excise duties (Rs.4,765 crore), followed by income tax (Rs.2,000 crore), customs duty (Rs.1,469 crore) and corporation tax (Rs.1,100 crore). Net tax revenue at Rs.1,32,365 crore would record an increase of 20.8 per cent over the previous year. Non-tax receipts are estimated to increase by a lower rate of 4.9 per cent to Rs.50,475 crore as against an increase of almost 26.0 per cent during 1998-99. The expected lower growth in non-tax revenue is on account of a decline in external grants and other non-tax revenue, particularly from economic services. Non-tax receipts by way of interest receipts and dividends and profits are estimated to be higher by Rs.2,490 crore and Rs.1,946 crore, respectively. The net profits transferred to the Centre by the Reserve Bank are estimated at Rs.5,700 crore as compared to Rs.4,150 crore in 1998-99.

Capital receipts at Rs.1,01,042 crore are estimated to decline by Rs.23,205 crore (18.7

per cent) over the revised estimates of 1998-99 (Rs.1,24,247 crore). The substantial decline in capital receipts is the outcome of lower market borrowings and new accounting system for small savings. The receipts from disinvestment are estimated at Rs.10,000 crore as against Rs.9,000 crore in the revised estimates for 1998-99. Recovery of loans estimated at Rs.11,087 crore would be lower by 3.6 per cent than Rs.11,504 crore in the previous year. The non-debt capital receipts (disinvestment and recovery of loans) together are estimated to contribute about 21.0 per cent of the capital receipts while debt components would constitute 79 per cent. The net market borrowings (comprising normal, short-term, medium and long-term borrowings) budgeted at Rs.57,461 crore would be lower by Rs.7,450 crore (11.5 per cent) than Rs.64,911 crore in the revised estimates of 1998-99 (Table 3).

Pattern of Expenditure

The aggregate expenditure is budgeted to record a marginal increase of 0.7 per cent to Rs.2,83,882 crore during 1999-2000. The deceleration in the rate of growth of total expenditure is largely due to exclusion of Rs.25,000 crore representing the States/UTs share in small saving collections.[5] The higher growth in revenue expenditure results from an upsurge in non-Plan expenditure which, estimated at Rs.1,90,331 crore, would account for 80.3 per cent of the revenue expenditure. Among the major non-Plan revenue expenditure items, interest payments at Rs.88,000 crore, defence expenditure in revenure account at Rs.33,464 crore and major subsidies at Rs.22,440 crore taken together would account for 76 per cent of non-Plan revenue expenditure (Table 2). These three major items of non-Plan expenditure would absorb 78.7 per cent of revenue receipts. This ratio was 82.0 per cent in 1998-99. The interest payments alone would pre-empt 48 per cent of revenue receipts in 1999-2000 as against 49 per cent in 1998-99.

5. Under changed system of accounting with effect from April 1, 1999, a new system of transferring 75 per cent of net small savings collection to States and UTs from the Public Account is being introduced. Due to this change, the non-Plan expenditure of the Centre would be reduced to that extent. With the change, the non-Plan expenditure of the Centre during 1999-2000 is estimated to be lower by Rs.25,000 crore.

Besides the containment of the growth in overall expenditure, the budget also attempts to effect some qualitative improvement in expenditure, particularly, in the capital account. The capital outlay at Rs.24,400 crore is budgeted to increase by Rs.4,881 crore (25.0 per cent) over Rs.19,519 crore in 1998-99. Plan capital outlay is budgeted to increase by Rs.1,322 crore while non-Plan capital outlay by Rs.3,559 crore.

Central Plan Outlay

The Central Plan outlay for 1999-2000 has been budgeted at Rs.1,03,521 crore, showing a rise of Rs.15,039 crore (17.0 per cent) over the revised estimates of Rs.88,482 crore for 1998-99 (Table 5). On the financing side, budgetary support is estimated to contribute Rs.44,000 crore (42.5 per cent) and internal and extra budgetary resources (IEBR) of public sector enterprises are projected to contribute the balance of Rs.59,521 crore (57.5 per cent) during 1999-2000. During 1998-99, as per the revised estimates, budgetary support financed 43.2 per cent of the Plan outlay and IEBR 56.8 per cent. Significant increases are effected in the allocation to communication sector, science, technology and environment, agriculture and allied activities and social services. While Plan outlay on energy continues to gain the highest share at 26.4 percent in 1999-2000, the share of communications is budgeted to rise from 15.2 per cent to 16.2 per cent, and social services would increase from 16.1 per cent to 16.8 per cent. The share of transport would remain the same as in the previous year at 16.3 per cent, whereas the share of rural development would decline from 8.7 per cent to 7.6 per cent.

Transfer of Resources to State and Union Territory Governments

Gross transfer of resources from the Centre to the State and Union Territory (UT) Governments, comprising shareable tax revenue, grants and loans are budgeted at Rs.92,518 crore in 1999-2000, lower by Rs.10,753 crore (10.4 per cent) over the revised estimates of Rs. 1,03,271 crore in 1998-99 (Table 6). However, the decline in resources to be transferred to States is due to change in the accounting system, wherein the loans to States against small savings would be channelised through a 'National Small Savings Fund' (NSSF). The contribution of the NSSF in State Governments securities has been budgeted at Rs. 25,000 crore during 1999-2000. The States' share in Central taxes and duties is estimated to increase by Rs.5,332 crore (13.6 per cent) to Rs.44,495 crore during 1999-2000 from Rs.39,163 crore in 1998-99. Total grants to States and the Union Territories are budgeted to increase by Rs.5,944 crore (23.1 per cent), of which, non-Plan grants would show a much sharper increase by Rs.3,622 crore (79.2 per cent) while Plan grants would increase by Rs.2,322 crore (11.0 per cent). The Plan loans are budgeted to rise by Rs.1,747 crore to Rs.16,254 crore in 1999-2000. The net transfer of resources to State and Union Territory Governments after adjusting for recovery of loans and advances is estimated at Rs.83,807 crore (excluding the loans against small savings, transferred to NSSF) as compared with Rs.95,058 crore (including loans against small savings collections of Rs.23,788 crore) in 1998-99.

Section IV

Concluding Observations

The Central budget for 1999-2000 contains several bold and pragmatic policy initiatives towards further strengthening of fiscal correction and consolidation. The budget gives highest priority to a medium term process for revenue and fiscal deficit reduction which will free more resources for productive investments and growth and contain inflation. The deficit reduction strategy alongwith a package of other related policy initiatives is expected to send a right message about Government's determination in bringing about an improvement in Government finances. The revenue deficit for 1999-2000 estimated at Rs.54,147 crore is lower than that for 1998-99 (Rs.60,474 crore). The budgeted amount of revenue deficit for 1999-2000, however, is still high and as a result, a major portion of borrowings would be utilised for current expenditure. However, the Finance Minister's resolve to eliminate revenue deficit in the next four years is an important strategy aimed at fiscal consolidation. This apart, the policy to reduce the fiscal deficit in 1999-2000 to Rs.79,955 crore would be helpful in releasing more funds to other productive sectors of the economy. The lower level of borrowing of the Government would also reduce pressure on interest rates. For keeping the fiscal deficit low, the budget contains some new tax measures which are expected to generate an additional revenue of Rs.9,334 crore in 1999-2000. The medium-term strategy is likely to bring down the ratio of fiscal deficit to GDP to less than 2 per cent in the next four years.

The lasting improvement in the finances of the Government could be achieved through improvement in tax-GDP ratio and efficient expenditure management. The measures proposed for rationalisation of indirect taxes, in both customs and excise duties, are steps to carry forward the process of fiscal reforms. The simplification and rationalisation and effective enforcement of direct and indirect taxes play an important role in stimulating the revenue buoyancy and improvement in tax-GDP ratio. Simultaneously with revenue stimulation measures, the budget has also accorded high priority for expenditure management. The proposed Expenditure Reforms Commission would help identify the areas of reducing role of Government and restructuring Government administration towards the basic objective of containing rising expenditure. Besides this, the introduction of *Zero Base Budgeting* would also eliminate unnecessary expenditures. The proposal to bring a discussion on second generation reforms in the current session of Parliament would also bring out new initiatives which would be helpful in accelerating the pace of economic growth.

The budget, while emphasising the role of fiscal consolidation in macroeconomic stability, accords equal priority to stimulate growth and contain inflation. Most of the measures announced in the budget would help boost investment climate in the country. The revival of primary capital market would enable the country to mobilise more resources for productive sectors. Measures for boosting exports and NRI investments would be helpful in bringing an improvement in Balance of Payments. The outflow of resources on account of subsidies continues to be very high. However, it is expected that the pre-budget measures for reduction in various subsidies would continue and reduce the burden of subsidies. During 1999-2000, interest payments or debt servicing will alone pre-empt 48 per cent of the revenue receipts. There is a need to formulate a medium-term strategy to bring down this ratio which would release more resources for development purposes and ensure the sustainability of public debt. Moderation of gross fiscal deficit is an important step to achieve better co-ordination in fiscal-monetary management.