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BUDGET 1995-96

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This paper which analyses the 1995-96 Budget of the Government of India, represents the opinions of the author, and *not* that of the National Council of Applied Economic Research. The forecasts for 1995-96 which are given at the end were prepared by Dr. S. Bhide, Director, NCAER.

March 20, 1995 S. L. Rao

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BUDGET 1995-96

S. L. Rao*

This may be the last Budget which can be presented by the current Government of India. It is therefore also a pre-General Election year Budget. It follows a series of election defeats of the ruling Congress Party, earlier in December 1994 in Karnataka and Andhra Pradesh; and this month (March 1995) in Maharashtra and Gujarat. It presents the Budget for 1995-96 at a time when almost all the macro-economic indicators are good. At the same time, investing communities in India and overseas want reassurance that the Budget would give fresh signals about the determination of the Government to proceed with reforms. After the series of electoral defeats it has been generally expected that the Budget would be a "populist" one, meaning that it would give away vast sums of money in loosely framed programmes for the poor without any consideration for sound macro economic management.

ISSUES BEFORE THE BUDGET

In his budget speech, the Finance Minister has candidly admitted that there are several areas in which much effort is required for the economy to show even better performance. These include further reforms in taxation, trade, financial sector and industrial policies; removing barriers to further expansion of agriculture; reforming the public sector; allowing greater flexibility in deployment of labour; modernising delivery systems for social services; capital market reforms and the insurance sector reforms. The budget in fact addresses only a few of these areas. His speech points to the weak spots in the fiscal consolidation process – the pressure of the fiscal deficit, high inflation, weak physical infrastructure (such as power, roads, ports, railways, telecommunication, etc.), and social issues including the imperative of poverty

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alleviation. The Budget is much better on measures to deal with these. He concludes that we must persevere with a two-track strategy: growth and investment with modernisation on the one track, and strengthening of antipoverty programmes on the other.

BUDGET AS MAJOR POLICY VEHICLE

Each of the past budgets of this Government made new and major policy pronouncements. For example, in 1991-92, the budget for the first time spelt out a target for the fiscal deficit; began the processes of government divestment of equity in public sector enterprises; and introduced flexibility in the interest rate structure. The 1992-93 Budget announced partial convertibility of the Rupee (60% at market rates and the balance at official rates); a resumption after almost 20 years of imports of gold, though confined to NRIs; and the beginning of flexibility to banking operations. The 1993-94 Budget announced the full convertibility of foreign exchange inflows at market determined rates of exchange. The 1994-95 Budget announced full convertibility of the Rupee on the current account; prepayment of $ 1.4 billion to the IMF, symbolising the confidence that the serious external crisis of June 1991 was over; placed a voluntary limit on Government's ability to issue ad hoc treasury bills at will from the RBI; and began a major effort to reform indirect and direct tax administration.

MAJOR POLICY THRUST OF THIS BUDGET

Many observers have noted that the current Budget makes no such major policy announcements. Perhaps dramatic changes in policy are no longer possible since the important ones have already occurred. It might also be that too much attention has been concentrated upon, and hence continuing expectations raised, about new announcements in relation to industry, trade and financial sectors.

There are two important trends in this Budget. The first is that it offers well thought out schemes for the benefit of the poor and disadvantaged – nutritious meals to school children, pregnant and nursing mothers, old age pensions, life insurance, enterprise loans to SCs/STs. The other is that it expands the reach of taxation and

the range of improvements in tax administration while at the same time lowering the rates of taxes.

India is not accustomed to social programmes of this range being announced at one time, nor to tax reductions as a consistent thrust of Government policy. It is perhaps for this reason that these two strong policy thrusts have not been commended by the stock markets. At the same time, most of the budget proposals seem to be focussed on sectors which will help the acceleration of economic growth, especially industrial growth, and to giving it as much orientation towards increased employment as possible, while protecting the very poor and the disadvantaged and giving them opportunities for self-development.

MACRO-ECONOMIC PERFORMANCE

The Finance Minister in his comments on the Budget subsequent to its presentation, said that the assumptions behind the Budget for 1995-96 are that real GDP will grow by 6 per cent; industrial growth by 10 per cent; and inflation will be below double digit. We can take it at 9 per cent. The corresponding figures for 1994-95 were 5.3 per cent, 8 per cent and 11 per cent respectively. Clearly, the Budget expects significant improvement in these macro economic variables. The economy appears to be set on a growth path as can be seen from:

	Real GDP growth	*Industrial growth*
1990-91	5.3	8.3
1991-92	0.6	0.6
1992-93	4.2	2.3
1993-94	4.6	4.1
1994-95	5.3	8.0
1995-96 (Estimated)	6.0	10.0

However, the reduction in inflation rates will occur not merely due to actions taken in this Budget. The Budget will help in dampening the prices of many manufactured consumer products because of the reduction in excise duties and of import duties on inputs. To the extent that the production capacities for some products are nearing full utilisation, reduction in taxes might not result in reduction in prices, but might be still helpful in holding back increases. It is the actions taken before the Budget that are more relevant from the point of view of controlling inflation. These include open market operations in rice and wheat using FCI's huge stockpiles of foodgrains (30.3 million tonnes in January 1995) which are now being sold below cost; improving the availability of foodgrains in the PDS; opening out the import of many primary products such as sugar, edible oils, with lower duty rates from 65 per cent to 30 per cent; and reducing the inflationary potential of foreign money inflows. The effects of all these actions will begin to be seen on prices in the coming months and the Finance Minister's speech promises to make further use of imports to dampen inflationary pressures. Support prices are also likely to see more modest increases than in the last four years. We can expect more moderate inflation levels by June. Even if there was a serious failure of monsoon this year, India has the foreign exchange reserves and foodgrains stocks to contain any resulting price rise, while ensuring that its people remain reasonably fed.

TAX REVENUES

The tax reform measures initiated over the last four years consisted of the lowering of the extortionately high rates, simplifying classifications and rules, and reducing exemptions. Computerisation, better information, training and increased staffing in the revenue departments, were the other measures that were taken. There has been an increase in tax revenues and a change in their composition. Specifically, the collections from direct taxes have begun to rise, though indirect taxes continue to dominate tax revenues.

	Percentage to Total Tax Revenue of	
	Direct Taxes	*Indirect Taxes*
1990-91	19.2	80.8
1991-92	22.8	77.2
1992-93	24.3	75.7
1993-94 (RE)	27.6	72.4
1994-95 (RE)	28.3	71.7
1995-96 (BE)	29.2	70.8

Tax collections have improved. Thus:

	Direct Taxes	*Indirect Taxes*
	(Rupees crores)	
1990-91	11030	46547
1991-92	15353	52008
1992-93	18132	56505
1993-94	21211	55539
1994-95 (RE)	25355	64475
1995-96 (BE)	30276	73485

The resurgence of economic activity, improved compliance, and better collection are clearly reflected in these figures.

UNREALIZED EXPECTATIONS FROM THE BUDGET

There are many expectations which had been voiced but have not found a place in the Budget. Thus there is no mention of manufactured consumer goods imports. However, even before the Budget, the Commerce Minister had announced the freeing of the imports of some primary products (edible oils and sugar) and the lowering of duties on them from 65 per cent to 30 per cent. In India these are the mass consumption goods and rightly deserve prior attention. The Finance Minister had said in his budget speech that this could extend to other primary products.

There are also many measures in the Budget which will substantially strengthen the competitiveness of many Indian made consumer products, especially those that might have to withstand foreign competition in the domestic market when imports are allowed – synthetic and blended textiles, airconditioners, and other white goods, cosmetics, perfumes, electronic items (both entertainment and computer electronics). It would appear from this that the government is preparing the ground for opening out the import of at least some manufactured consumer products.

Another expectation was in regard to the public enterprises. There is a developing privatisation programme in many states. Andhra has already offered two power plants to ITC; Tamil Nadu has had a privatisation programme in place for many years; Rajasthan has the recommendations of a study commissioned by them which they are considering for action; West Bengal has privatised some units including one to George Soros; Karnataka has announced that it will privatise. All these are ruled by important opposition parties. It was therefore expected that there was no longer any ideological or political reason for the Centre not to follow the same route. A beginning was expected in the Budget and that the proceeds would be used to repay debt and bring down the interest costs of Government. This has not happened, though the amount expected to be raised by divestments of equity in public enterprises is the highest that has been budgeted in the last four years (Rs. 2,500 crores and Rs. 4,000 crores, against Rs. 7,000 crores now). With the old relationship of Government to public enterprises continuing, we cannot expect improvement in their performance. Their contribution to central non-tax revenues, and more importantly to investments may not reach the levels expected in the Budget.

It was expected that the Insurance sector would be opened to private investors including foreign investors, beginning with general insurance. (Last year the Government said they were considering the Malhotra Commiteee Report on Insurance.) This has not happened. However, the Government has announced the creation of a regulatory authority for insurance. This would seem to be a preparation of ground for the opening up of the sector. A competent regulatory authority is essential in such sectors, and

especially so when there are private participants as well. Indeed, similar regulatory authorities for power, telecom, oil and natural gas, would have made for greater transparency in the decision making regarding allotment of areas, contracts, rates, etc.

The corporate sector expected that the surcharge on income tax paid by domestic companies, would be removed; that the capital gains tax for Indian investors would be brought to the same levels as that for foreign investors; that the tax holiday for new units set up in backward areas which had been announced for a period of five years and expires this year, would be extended. These have not happened and have made for a downward trend in stock market prices and some irritated reactions from industrialists. The corporate surcharge was perhaps not removed because of the excellent corporate performance over the last two years, due primarily to reforms and tax reductions. However, the discrimination between foreign and Indian investors in respect of capital gains is unfortunate and must go soon.

Along with this is another missing policy. This relates to the socalled Mauritius route for foreign institutional investments, by which any money coming in to the Indian market from Mauritius is not subject to capital gains taxes. Such investments can therefore be liquidated at short notice and the money withdrawn out of India. In that sense, a part of foreign institutional investments in India (using this route) have been of 'hot' money. The Budget is silent about how this hole is to be plugged.

There is no mention of any further convertibility of the Rupee. This is understandable. Inflation continues to be high as is the value of the Rupee. The Indian equity and bond markets are not yet ready to face the immediate impact of convertibility – quick and large fund flows. Indian nominal interest rates are high compared to many developed countries. Indian communications systems are yet not sufficiently developed. There is also no hardship to the country because of the lack of capital account convertibility. It seems unlikely that this is in the offing for some years, especially after the grim experience of Mexico.

SOME MISSING ELEMENTS

1. Social Sector Programmes

Social Sector Expenditures: Some items of expenditure on the social infrastructure are given here :

	1993-94 Revised	*1994-95 Revised*	%	*1995-96 Budget*	%
Family Welfare	1284	1442	+12.3	1593	+10.5
Health	843	993	+17.8	1048	+5.5
Education	2192	2486	+13.4	2704	+8.8
Youth Affairs & Sports	138	134		132	
Culture	184	400 *		195	
Women & Child Development	621	706	+13.6	774	+9.6
Rural Development	5620	7336	+30.5	7718	+5.2
Urban Development	907	1234	+36.1	1207	+2.0
Welfare	691	839	+21.4	925	+10.2

* Rs. 200 crores spent on purchasing Nizam's Jewellery.

Last year saw some large increases in expenditures – by 36 per cent on urban development, and 30 per cent on rural development. Welfare got 21 per cent more while family welfare was up by 12 per cent, health by 18 per cent, and education by 13 per cent. In contrast, the Budget provisions for 1995-96 show modest increases, in most cases well below the expected levels of inflation. Thus expenditures on urban development are set to decline by 2 per cent, rural development to increase by 5 per cent, welfare and family welfare by 10 per cent each, health by 5.5 per cent, and education by 9 per cent. If this budget reflects greater concern for social development, and the Finance Minister's speech not only emphasises it but has specific programmes for the purpose. However, many of the schemes are not costed, and we have to wonder whether they are there as talking points, or as serious programmes. Also, the Budget does not provide significant

additional money for the social sector. This may not be because of an assumption of improved efficiencies in delivery, "more bangs for the same buck". As mentioned many of the proposed new schemes have apparently not been costed in detail, nor have the various modalities for their operation. The funds might be asked for later, as supplementary grants. This also raises the question as to how many of these schemes were earlier in the Budget, and how many were pulled out of filing cabinets, dusted, and incorporated, but without time for cost estimates. If they were late thoughts, perhaps the original budget had a stronger orientation towards macro-economic correctness.

In Tamil Nadu which has for many years conducted a nutritious noon-meal programme for school children, along with others for children aged 6 months to 6 years, the outlays were Rs. 312.42 crores in 1993-94, and budgeted at Rs. 345.30 crores in 1994-95. Similar programmes have been announced, among others, in this Central Budget, for nation-wide operation. It is unlikely that the cost will be less than Rs. 3,000 crores. This is apart from other programmes for which also funding is not provided in the Budget.

Many of the new programmes for people below the poverty line are modelled on the successful programmes introduced by Mr. M.G. Ramachandran about 15 years ago, the then Chief Minister of Tamil Nadu, e.g., nutritious hot mid-day meals to children in all schools; nutritious food to pregnant women and nursing mothers; modest pensions to the aged. Other schemes announced in this Central Budget provide for loans to people belonging to scheduled tribes and scheduled castes; housing for scheduled tribes and scheduled castes and freed bonded labour; national minimum old age pension of Rs. 75 per month to those over 65 years and below the poverty line; sanctioning Rs. 5,000 to the bereaved family on the death of the breadwinner in the family; subsistence to pregnant women and nursing mothers who are below the poverty line, upto the first two births; group life insurance scheme with the premium costs being shared by State, Centre and the beneficiary. These programmes are necessary and should have been introduced in the past when India was a self-proclaimed socialist state.

Given the poor quality of delivery system of social services by State Governments and even by the Centre, a mechanism to ensure

proper targetting and delivery on time, with low administrative costs, are absolutely essential if these programmes are not to go awry as have earlier programmes.

Thus many of the well-conceived social programmes have not been costed, and financial provisions not made in the Budget. The Finance Secretary in post-budget presentations has said that the costs can be easily borne without affecting the deficit. However there is the model of the state of Tamil Nadu which has operated the same nutritious meal schemes for 15 years, and the costs are by no means negligible. The costs for a nationwide programme are likely to be quite large. To these must be added the costs of the less expensive schemes like pension and insurance. These costs will have an impact on the deficit. However since the meals schemes will mainly use the surplus food stocks, they will to that extent be anti-inflationary. The future operation of these schemes will require stocks of foodgrains to be procured and distributed to the centres where meals are to be prepared. If government stocks fall in coming years there could be a problem.

2. Delivery Systems

Another criticism is about the lack of effort to improve government delivery systems, while putting more money into anti-poverty and social programmes. There is no doubt that the delivery systems for many services provided by governments in India are inefficient, poorly targetted, and rarely reach many of the desired beneficiaries, while a considerable part of the funds is spent on administration and lost in theft and wastages. The Budget may not be the instrument for improving government delivery systems, though the Finance Minister in his speech has mentioned the deficiency in government delivery systems. However, many of the programmes announced, try to circumvent this problem by involving banks and NABARD, SC and ST Corporations, and by providing guarantees from the State and Central Governments to such Corporations.

3. Burden on Nationalised Banks

Another criticism is that the Budget places new burdens on nationalised banks and on financial institutions. Thus, they are

expected to provide upto 1.5 per cent of the net credit from their shortfall in achieving priority lending, for some of the social programmes; give loans to the KVIC, handloom sectors, and quality dyeing units, and set up specialised bank branches for SSIs. The North East Development Corporation is to get its equity from ICICI, IDBI and UTI. However the problem of limited markets, high transport costs to the rest of India, and lack of local entrepreneurial ability need to be first dealt with if the corporation is to succeed and the FIs to make a return. Government guarantees are not always easy to enforce and project appraisals may sometimes be faulty. Of course, these obligations may not be the hardships that they seem. In a regime of declining SLR and CRR, with banks in the coming years having greater funds than they have had in the past for lending, and increasing access to domestic and international capital markets by blue chip clients, Indian banks are looking for new customers to lend to. The Budget provides such new customers who will pay market rates of interest and whose borrowing will be guaranteed by the Central and State Governments or NABARD. Shortfalls in priority sector lending would have to be otherwise lent to SIDBI (Small Industries Development Bank of India) at a lower rate of interest. That will still be the only route available to foreign banks.

4. Fiscal Deficit

Another criticism refers to the fiscal deficit. The record of Government in managing the fiscal deficit has not been good. In 1990-91, the deficit was 8.4 per cent; the target for 1991-92 was stated to be 6.5 per cent and the achievement was 5.9 per cent; 1992-93 target was 5.0 per cent and achievement was 5.7 per cent; 1993-94 target was 6.0 per cent and achievement was 7.7 per cent; 1994-95 target was 6.0 per cent and achievement was 6.7 per cent or 6.2 per cent depending on whether the small savings schemes implemented by the States should be accounted in the receipts of the Centre or not. (The Central Government could well have cut other borrowings to the extent of these small savings.) The target for 1995-96 of 5.5 per cent might, based on past record, be exceeded. However, it is not just the number that is important but the trend. Except for the aberration of a sharp rise in 1993-94, there has been a distinct declining trend in the fiscal deficits as per

cent to GDP. Nobody can really say what is a reasonable level of deficit to GDP, which will keep inflation at around 4 per cent on an average for the year. It does appear, however, that a 5.5 per cent fiscal deficit might not dampen inflationary forces altogether, and if it is higher, the inflationary pressure might be stronger. At the same time, there are many who think that the fiscal deficit does not have a major role to play in fanning or fuelling inflation, and that it is the revenue deficits, administered price increases, and production shortfalls especially of primary products, which are the major causes of inflation. Revenue deficits as percentage of GDP have moved from 1990-91 to the budget estimates of 1995-96 as follows: 3.5, 2.6, 2.6, 4.2, 3.8 and 3.4. Perhaps we can conclude that deficits remain high, and inflation is unlikely to moderate by much.

5. Subsidies

The overall position is marginally below 1994-95 (R.E.). This is chiefly because there is no longer any provision for debt relief to farmers – a legacy of the generosity of the last Janata government. As expected there is a reorganization of fertilizer subsidies between indigenous and imported ones.

The breakup on education expenditure shows that more emphasis in the Centre is on mass education.

(Rs. crores)

	1994-95 RE	*1995-96 BE*
Elementary Education	512	562
Secondary Education	602	670
University & Higher Education	638	609
Adult Education	213	237

Clearly some reduction in the hidden subsidies to university and higher education is implicit in these figures. There seems to be a similar attempt to reduce the Budget support to central

research laboratories, suburban railway services, etc. However the chief subsidies, on food and fertilizers, have not been cut.

6. Savings and Personal Incomes

The CSO has published its recent estimates of Indian savings rates and concludes that the savings rates have declined by almost 4 per cent over the four years of economic reform. The figures and the methodology are now being questioned since the decline defies logic. The economy has done very well especially in the last two years, and while inflation might have eroded savings to some extent, it could not have done so to any significant level. However, it was expected that the Budget would provide new incentives for savings. These would have been inconsistent with the tax reforms initiated by this Government two years ago on the lines proposed by the Chelliah Committee on tax reforms. That report had argued for removing all exemptions, simplifying tax returns and tax collection procedures, which they felt, would help improve collection and reduce tax evasion. However one exemption remained for calculating personal income tax, viz., investments in selected funds and equity. This exemption limit has been raised to Rs. 13,000 from the present limit of Rs. 10,000. The minimum slab for income tax has again been raised this year like last year. In addition, bonus shares received by investors are now to be valued at nil cost, possibly increasing the tax liability beyond the current levels. The substantial excise duty reductions on consumer products are additional benefits, as is the increase in the free baggage allowance to overseas travellers from Rs. 4,000 to Rs. 6,000, with duty reduction from 100 per cent to 80 per cent. However the Budget does not make any special effort to stimulate savings.

7. Tax Deduction at Source

There has also been some criticism about the extension of tax deduction at source (TDS) beyond a minimum level, on interest, dividend payments by mutual funds, and also to various other contracts – transport, advertising, broadcasts/telecasts, and catering contracts. The TDS on bank deposits will, it is feared, divert deposits from banks and the same might happen with mutual funds, since people not paying taxes now, will try to avoid being

netted. While this measure could be subject to evasion, it does expand the reach of taxation, and by aiming at more easily identifiable prospects, makes evasion more difficult. Unfortunately, instead of expanding the range of services for taxation the Budget uses TDS to reach new areas like travel and advertising, for which TDS is not suited. The withholding of cash on account of TDS by customers, will make the cash flow for such services very inadequate, and erode most of the low margins. What is needed is a straight tax on turnover for such services.

8. Interest Payments

The revised estimates for 1994-95 show a decline of Rs. 2,000 crores in interest payments by government, bringing it to almost the same level as in 1993-94. As a result, the interest payments as a percentage of revenue receipts drop to 49.5 per cent against the earlier budgeted 53.4 per cent. This drop is difficult to understand. If we examine the capital receipts for that year we do not find any significant change in the profile, except that the total is up by almost Rs. 8,000 crores, on account of increase in small savings, public provident fund and deposit scheme for retiring employees. If any thing, the rate of interest on borrowings should have gone up, with the ceiling on borrowings from the Reserve Bank.

In 1995-96 the total capital receipts are expected to be about Rs. 1,200 crores below the previous year, chiefly because of a decline of Rs. 6,000 crores on the same heading (small savings, etc.). However, interest payments are projected to rise to Rs. 52,000 crores, 51.5 per cent of the revenue receipts.

The available information does not enable us to identify the reasons for these variations in interest payments. Suffice it to say that, there is no effort in the Budget to bring down the total debt stock by the sale of assets in the form of government equity in public enterprises, and using the proceeds to pay off some of government's debt.

The deficit this year might be larger if the interest payments are not fully provided. Next year, with more market borrowings, the average interest will rise, and the cost of unprovided for new social schemes and shortfalls in public enterprise disinvestment,

might all add up to a larger deficit. In any case, with so much of demand on the capital market, we should not expect nominal interest rates to fall next year.

9. Public Sector Investment

Another issue is public sector investment. The total plan outlay in 1994-95 was about Rs. 11,000 crores higher than in the budget estimate. In 1995-96, it is expected to rise by 10.6 per cent – marginally above the expected inflationary rate of 11 per cent. The break-up is illuminating: an increase on the revenue plan expenditure by around Rs. 400 crores, a decline in the capital plan expenditure by around Rs. 6,000 crores, and an increased budgetary support for the central plan by Rs. 1,000 crores; decline in the central assistance to state and union territory plans by Rs. 1,300 crores. This is unfortunate since the declining level of public sector investments through the plan will mean further inadequacies in infrastructure investments.

The 5-year holiday on infrastructure investments perhaps signals the expectation that the private sector will take the initiative from the public sector in this field. It is unlikely that this will happen soon and in sufficient amounts to make up the public sector shortfall.

Another point to note is that, of the central plan outlay, the budget estimate for 1994-95 estimated 61 per cent from the internal and extra budgetary resources of public enterprises. This has come down to 59 per cent in the revised estimate for 1994-95; and is expected in 1995-96 to climb to 63 per cent. This seems to be a very generous assumption about the ability of public sector enterprises to raise and internally generate such resources. We might therefore see public sector enterprise investments not growing at this rate, and a further deterioration in the competitiveness of public enterprise.

The budget support for the central plan in 1993-94 was 40.7 per cent, was budgeted to be 38.8 per cent and reached 40.9 per cent in 1994-95. It is again budgeted to decline in 1995-96 to 36.7 per cent. This is predicated on the assumption that the public enterprises will be able to generate or raise over Rs. 96 billion of

resources in 1995-96 over the previous year. Such an assumption of increases has been made in past budgets as well, and has not been achieved. For example, in both 1993-94 and 1994-95 government had to find additional resources to increase the budget support to the plan because public enterprises were not able to find resources as budgeted. Nothing has changed in the structure of ownership and management of public enterprises. There is no reason to expect that 1995-96 will be different in respect of resources from public enterprises as compared to earlier years. At the same time, the government has been unable in past years to make up in full the shortfall from public enterprises. As a result, in each year the outlay on the central plan has been below budget by around Rs. 20 billion. Thus public investment has been and will be behind budget. Unless there are structural alterations in the relationship between government and central public enterprises, the decline in the plan outlays will continue.

It was clear last year that the initiative on investment had shifted from the public to the private sectors. The private industrial sector has begun to raise increasing resources from domestic and overseas capital markets. It also appears that private investments in agriculture are rising.

10. Resource Transfers to States

We have totalled the resources transferred to the states from the items relating to grants and loans to state and union territory governments on revenue and capital accounts, and the central assistance to state and union territory plans under revenue and capital accounts. The latter shows a decline in relation to the revised estimates. In overall terms, the transfer from centre to states and union territories (not accounting for the expenditures of union territories without legislatures) was Rs. 32,893 crores in the 1994-95 budget and the revised estimate will be marginally less; in 1995-96, it is Rs. 32,959 crores. Thus transfers to states and union territories will not have changed by much. It must also be seen in the context of reductions in taxes announced in the Budget which will lead to a loss of revenue to state and union territory governments, which according to the Finance Minister, would in the case of excise duties and income tax amount to Rs. 808 crores.

11. Staffing in Government

Both 1995 and 1996 are expected to show growth in the numbers employed by the Central Government. The growth is chiefly in the Departments of Telecommunications, Revenue, Audit, Home Affairs, Police, and Atomic Energy. The increase in numbers for Revenue and for Audit are understandable and have been recommended by an expert committee, to help improve tax collections and efficiency in expenditures. Home Affairs and Police have more numbers because of the increasing demands on central police forces to assist states in maintaining law and order. Since a good part of telecommunications is to be privatised, the increase in numbers is not explicable.

Staff costs in the central government (pay and allowances excluding travel) have risen each year from 1993-94 by approximately Rs. 10 billion, and in 1995-96 are expected to constitute 15.4 per cent of the expenditure of government on revenue account, and 9.6 per cent of all the expenditure of government.

There does not appear to be a serious attempt to revamp government – reduce ministries, departments and agencies, get more performance and accountability from staff, nor to deal with surplus staff. Reform has yet to reach government.

FRESH AGRICULTURE INVESTMENT

The plan outlays on agriculture in the Budget show modest increase from Rs. 2,853 crores (RE) to Rs. 3,022 crores for 1995-96. The unique new proposal to set up a Rural Infrastructure Development Fund in NABARD which will give loans to medium and minor irrigation projects of state governments, and state owned corporations, as also for water management, soil conservation, etc., with a corpus of Rs. 2,000 crores, and debt servicing guaranteed by State Governments, could well lead to significant improvement in the rural infrastructure.

DEFENCE EXPENDITURE

In 1994-95, expenditure on defence is estimated to have been very close to budgeted estimates and to grow by 10.8 per cent,

i.e., marginally higher than expected inflation. Of the total expenditure of the government, defence is expected to take 16.6 per cent. Since the Budget gives little detail, it is difficult to know what is the strategy behind this expenditure. What are the threat perceptions and the long term plans? Is the expenditure primarily on men and how much is on new equipment? However it is clear that for the fourth year in a row, India is putting a tight ceiling on defence expenditures. In the first two years the increases were below inflation, i.e., a real cut; in subsequent years the increases have more or less kept pace with inflation. Incidentally the public enterprises under the Defence Ministry have sharp cuts in the budgetary support to them, as is the case with the ordnance factories.

It must be hoped however, that Defence departments have undertaken a thorough review and restructured themselves, and that these "real" cuts in expenditures have not been ad hoc, at the cost of India's national security.

CONCLUSION

This is an attempt to demonstrate a caring budget. It has a well displayed human face, which is possible, now that the macro-economic situation has improved so much. However much of the expenditure is not provided for. There is no attempt to improve the delivery systems. The deficit projections may not be achieved. Inflationary pressures will moderate because of better supply management, but rising demand could neutralise the effect. The neglect of public sector reform is a major lapse. The fresh pressures on banks and financial institutions – only the nationalized ones – are not a good signal after the last few years, when autonomy has been fostered. The increasing demand for capital, with government competing with the private sector, could lead to pressure on availability and cost of capital. The low level of public sector investment must be a source of anxiety on these counts. One is the urgent need for and unlikelihood of large investments in infrastructure materialising soon. The second is the possible further erosion of the competitiveness of public enterprises. The continuation of tax reform with lower rates, enabling of improved tax administration, and wider reach, are very commendable and

are likely to stimulate the economy, and improve tax collections while improving the competitiveness of industry. A fresh effort at more effective investment in agriculture has come after many years. This is a budget cast in the same mould as last year, with the addition of a variety of social programmes, the money for many of which has not been provided in the budget.

ECONOMIC FORECAST, 1995-96

The present forecast has been prepared after taking into account the information available from the latest Central Budget proposals for 1995-96. The new assumptions on the basis of which the forecast is made are listed below:

Assumptions

a) Government consumption expenditure in real terms to increase by 5%.

b) Nominal public fixed investment expenditure to increase by 10%.

c) Excise rates to decrease marginally by 1%.

d) Tariff rates to decrease by 4.5%.

e) World GDP (real) to increase by 3%.

f) Agricultural output to rise by 3%.
Agricultural prices to increase by 8.7%.

g) Nominal interest rate to stay stable.

h) Capital inflows higher by Rs. 1,000 crores.

i) International price increase by 4-7% for major agricultural commodities, POL, fertilisers, consumer goods and capital goods. For intermediates other than fertiliser and POL, the international prices are expected to rise by a higher rate.

j) Exchange rate depreciation by 5% over the year.

The Macro Scenario on the basis of above assumptions is documented in Table 1.

Table 1 : Macro Scenario : 1995-96

Variables	*Units*	*Level of Variables in 1993-94*	*Percentage Change 1994-95/1993-94*		*Percentage Change 1995-96/1994-95*	
			Last Forecast	*Present* Assessment*	*Forecast*	*Alternative Scenario*
GDPFC(R) at Factor Cost	Billion Rs.	23.30	4.8	5.3	5.9	4.9
GDPMP(N) at Market Prices	Billion Rs.	78.64	14.7	15.8	16.9	18.3
Private Consumption Expen	Billion Rs.	16.68	–	–	6.8	6.1
Value of Output (GDP real)						
– Agriculture	Billion Rs.	6.94	3.2	2.4	3.0	1.4
– Industry (Mfg)	Billion Rs.	4.64	6.6	8.0	9.2	7.9
– Infrastructure	Billion Rs.	2.80	5.6	7.0	7.2	6.4
– Construction	Billion Rs.	1.03	5.5	6.0	11.4	11.3
– Services	Billion Rs.	8.04	5.5	6.0	6.7	6.0
Nominal Fixed Investment						
– Public	Billion Rs.	6.60	8.0	5.0	10.0	10.0
– Private	Billion Rs.	10.84	28.2	28.0	28.8	31.5
External Account						
– Exports (Goods)	Thousand Rs.	69549	18.9	16.0	15.1	14.7
– Imports (Goods)	Thousand Rs.	72806	19.4	22.0	22.2	21.8
– Trade Deficit	Thousand Rs.	3257	25.9	22.8	134.1	130.8
– Current Account Deficit	Thousand Rs.	315	1487.3	1169.8	188.5	184.0
– Exchange Rate	Rs./$	31.40	2.0	2.0	5.0	5.0

(Continued)

Table 1 – *Continued*

Variables	*Units*	*Level of Variables in 1993-94*	*Percentage Change 1994-95/1993-94*		*Percentage Change 1995-96/1994-95*	
			Last Forecast	*Present* Assessment*	*Forecast*	*Alternative Scenario*
Money Supply (M3)	Thousand Rs.	433566	15.3	17.0	17.0	18.9
Prices						
– Average (WPI)	Index	247.8	9.6	11.5	9.3	11.5
– CPI (IW)	Index	240.0	10.0	11.0	8.9	11.7
– NDP Deflator	Index	302.9	10.3	11.0	9.0	11.0
Government Account						
– Budget Deficit	Thousand Rs.	12274	-9.2	-19.0	23.9	71.7
– Fiscal Deficit	Thousand Rs.	66489	8.1	4.2	22.7	27.2
Percentage of GDPMP						
– Budget Deficit		1.56	1.24	1.09	1.16	1.58
– Fiscal Deficit		8.46	7.97	7.61	7.99	8.18
– Current Account Deficit		0.04	0.55	0.44	1.08	1.05

* Based on available official data.