

## **Interim Budget 1998-99**

### **Speech of**

Shri Yashwant Sinha  
*Minister of Finance*

**25th March, 1998**

Sir,

I rise to present the Interim Budget for 1998-99.

2. This Interim Budget is being presented for the purpose of a Vote-on-Account to enable the Government to carry on its business and meet essential expenditure during the first four months of the next financial year. The Demands for Grants and the Annual Financial Statement, which are for the full financial year, will be revised and finalised at the time of presentation of the Regular Budget in a few weeks time. I shall also introduce a Finance Bill today, which merely seeks to continue the existing tax structure for a full year.

3. As regards the economic situation, we are concerned to note that overall economic growth has slowed to 5% in 1997-98, agriculture has registered negative growth of 2%, industry continues to be in the doldrums averaging only 4.6% growth over the 12 months up to January 1998, and exports have recorded negative growth in dollar terms in each of the three most recent months up to January 1998, for which data are available. The bottlenecks in key infrastructure sectors are well known, the capital market has been lacklustre and the fiscal situation is significantly worse than expected.

4. I would like to assure the House that these trends and difficulties will be fully addressed in the Regular Budget for 1998-99 that I shall bring before the Hon'ble Members shortly. The usual Economic Survey will also be presented to the House at that time. The Regular Budget will seek to impart the necessary stimulus to agriculture and industry, restore dynamism to exports, encourage larger flows of foreign investment in line with the National Agenda for Governance, take decisive initiatives to improve the state of infrastructure, strengthen the financial system, accelerate the reform of the public sector while building a strong and transparent system for PSU disinvestments, and bring about strict fiscal discipline. It will also embody other new directions included in our National Agenda for Governance.

5. The external economic environment is fraught with unusual uncertainty. The East Asian crisis has swept across much of Asia in the last nine months, bringing massive economic and financial disruption to several hitherto fast growing economies. It is the inherent strength of our economy, built over decades, which has enabled us to hold our heads high and not succumb to the economic gales that have been sweeping through the Asian region. But we must remain ever watchful and vigilant and conduct our economic policies with foresight and flexibility. Only then can we be sure of achieving rapid economic growth with low inflation and external stability despite the difficult international economic scenario.

#### **Revised Estimates for 1997-98**

6. Turning briefly to the Revised Estimates for 1997-98, the most noteworthy point is major shortfalls in tax collections and disinvestment receipts. Net tax revenues for the Centre are estimated at only Rs.99,158 crore, reflecting a drop of Rs.14,236 crore, or a 12.6% decline over Budget Estimates. The shortfall is primarily due to much lower customs revenue on account of both lower volume and unit price of imports. The decline in excise resulted from unusually low industrial growth. Receipts from PSU disinvestments are estimated to fall short of the Budget Estimates of Rs.4,800 crore by Rs.3,894 crore. The Revised Estimates for total expenditure are expected to exceed the Budget Estimates by only Rs.3,069 crore. This is less than the additional expenditure of Rs.4,432 crore incurred on account of the single item of loans to States and Union Territories against small savings collections, which have been exceptionally buoyant during the year. The net result is a deterioration of the fiscal deficit from the budget target of 4.5% of GDP to 6.1%. However, if the increase in expenditure attributable to small savings loans is excluded, the fiscal deficit, adjusted for the increase over budget in small saving loans to States and Union Territories, would be 5.8% of GDP in 1997-98.

7. In regard to collections under the Voluntary Disclosure of Income Scheme (VDIS), estimated at Rs.10,050 crore, my predecessor had announced a decision to devolve to the States 77.5% of the collections under the scheme up to the end of December, 1997, amounting to a sum of Rs.4,379 crore. With the blessings of the Prime Minister, I propose to go a step further and to devolve to the States 77.5% of the Revised Estimates of VDIS collections for the full year 1997-98. As a consequence, the States will now receive an additional Rs.3,215 crore, thus taking the total devolution on this account to Rs.7,594 crore in the current financial year.

8. Furthermore, I propose to provide an additional sum of Rs.1000 crore by way of Additional Central Assistance to States on account of externally aided projects in order to settle all pending claims in the current financial year.

9. Taken together, these two decisions will give to the States an additional sum of Rs.8,594 crore in the current financial year 1997-98. This is fully in accord with the commitment in our National Agenda to extend greater assistance to States.

#### **Budget Estimates for 1998-99**

10. According to the Budget as prepared, total expenditure in 1998-99 is estimated at Rs.2,64,988 crore against Rs.2,35,245 crore in the current year. Of this, the gross budgetary support to the Central, State and the Union Territory Plans

is placed at Rs.64,461 crore against Rs.60,630 crore in the current year. We propose to review the level and content of the budgetary support for Annual Plan 1998-99 in the Regular Budget. It is our firm resolve to review the Ninth Plan and to revise the Budget Estimates so that they reflect our thinking and priorities. We propose to complete this exercise in time for the Regular Budget which will be presented shortly.

11. Non-Plan expenditure in 1998-99 is estimated to be Rs.2,00,527 crore against Rs.1,74,615 crore in the current year, an increase of Rs.25,912 crore. The main reasons for increase over RE 97-98 are on account of an increase of Rs.10,300 crore in Interest Payments, an increase of Rs.4,747 crore in Pensions, an increase of about Rs.3,900 crore in Defence expenditure and an increase of about Rs.1,500 crore in major subsidies.

12. Total non-debt receipts, including tax revenues at existing rates of taxation, are estimated at Rs.1,68,173 crore, while total expenditure is estimated at Rs.2,64,988 crore. The fiscal deficit emerging from these estimates for 1998-99 will be about 6% of GDP. This is clearly not acceptable and it will be our endeavour to bring it down to a reasonable limit in the Regular Budget through appropriate measures.

13. While it would take some time for us to formulate our specific strategies in this regard, immediate action is called for to contain the growth in establishment expenditure and initiate the process of PSU disinvestment at an early date to avoid shortfalls in receipts experienced in previous years.

14. Hon'ble Members are aware that the Tenth Finance Commission had recommended an alternative scheme for sharing of resources between the Centre and the States under which 29% of the gross proceeds of almost all Central taxes is to be assigned to the States. This recommendation has been under consideration of Government. On the basis of a consensus arrived at in the Third Meeting of the Inter-State Council held on July 17, 1997 the previous Government had decided to accept this scheme in principle. We intend to bring forward the enabling Constitution Amendment Bill to give effect to this decision which has been endorsed by all the States.

15. I would like to assure the Hon'ble Members of this august House that I shall make every effort in my Regular Budget to implement the economic goals enunciated in our National Agenda for Governance. Economic reforms will be deepened, broadened and accelerated. Our goal is to make India an economically strong and vibrant nation which will participate in the world economy with confidence and from a position of strength. We are determined to build an India in which there is no place for hunger, poverty, unemployment and deprivation.

16. With these words, I commend the Budget to this august House.