

# THE BUDGET FOR 1984: PROBLEMS AND PROSPECTS

## — AN ACADEMIC OVERVIEW

### (i) The Background Economic Picture

The budgetary proposals for 1984 (announced by the Finance Minister in November) have to be understood in the context of the developments that followed the post-1977 economic reforms. On the positive side, there was a significant increase in the rate of economic growth and in the rate of investment, and a noticeable expansion in employment opportunities. However, the growth rate of the Gross Domestic Product has begun to decline over the years — from an average of 6.8 per cent during 1978–80 to 5.5 during 1981–82 and further to an estimated 4.2 per cent in 1983. The trend in employment generation has also been downward. The new employment in the organised sector of the economy has declined from 45,000 jobs in 1980 to 20,000 in 1981 and to a mere 16,000 in 1982. Inflation (as measured by the official cost of living index) which rose to a level of 26 per cent in 1980, declined to 11 per cent in 1982 but only to rise again in 1983. During 1983 January–November, the index had recorded an increase of 19 per cent. Severe imbalances characterised both the external accounts and the internal budgetary situation. The current account of the balance of payments continued to deteriorate, the deficit rising by almost seven-fold — from SDR 75 million in 1978 to SDR million 519 in 1982. Imports have tended to grow "at a pace beyond the country's capacity to pay", while exports have expanded at a little less than quarter of the pace of import growth. These developments could not but put downward pressure on the external value of the Rupee. The Rupee depreciation against the US Dollar was as much as 35 per cent since the end of 1977. The rising government expenditures coupled with lagging revenue growth led to a sharp rise in the budget deficit from about Rs 7 billion in 1978 to over Rs 21 billion in 1983. The budget deficit in 1982 was equivalent to some 20 per cent of the Gross Domestic Product. The rising budgetary gap led to substantial recourse to bank borrowing in many years, thereby aggravating the inflationary pressure in the economy. In 1980 as much as Rs 7 billion had to be borrowed from banking sources. During 1981 and 1982, bank borrowing had been brought down to levels around Rs 4 billion. Heavy recourse to foreign loans has become another impor-

tant factor in the economic scene. The total outstanding foreign public debt stood at a level of Rs 43.5 billion in September 1983, having risen from Rs 10.5 billion at the end of 1977, an increase of over four-fold during the period. The per capita foreign debt stands at a level of Rs 2864 (equivalent to about 115 US Dollars). (It was only Rs 757 or US Dollars 48 at the end of 1977). The servicing of the foreign debt (amortisation and interest payments) had begun to absorb over 15 per cent of the export earnings from goods and services by 1982.

### (ii) Highlights of the Budget

It was against the above economic background that the Budget for 1984 was introduced. Following are the highlights of the budgetary estimates:

Recurrent expenditure	Rs 28,000 M
Capital Expenditure	19,492 M
Revenue	30,770 M
Current Account Surplus	2,693 M
Overall Deficit	16,543 M

The deficit is to be financed as follows:

(a) Foreign grants	Rs 4,150 M
(b) Foreign loans	8,162 M
(c) Domestic loans from non-bank sources	3,550 M
(d) Banking system	681 M

These proposals suggest an improvement in the budgetary picture when compared with the previous years. For the first time since 1979, the current account in the budget is expected to record a moderate surplus. During 1980–83, the revenue has fallen short of the recurrent expenditure creating a deficit in the current account. Moreover, the overall deficit had been brought down from Rs 21.5 billion in 1983 to Rs 16.5 billion in 1984. The government revenue which had been around 18–19 per cent of the GDP in recent years is expected to rise to a level of about 22 per cent in 1984. Moreover, bank borrowing is expected to be a modest level of 0.5 per cent of the GDP, meaning that inflationary pressures emanating from the budget will be contained.

### (iii) Prospects for 1984

Much depends, however, on how far the actual budgetary outturn would be in line with these estimates. In particular, the question arises: how far could the estimated increase in government revenue (from Rs 24 billion in 1983 to Rs 30 billion in 1984 — an increase of Rs 6 billion or 25 per cent) be expected to materialise in practice? If this revenue target fails to materialise, the government would be compelled to choose between a cut in expenditure or an enhanced recourse to bank borrowing and both would be rather painful experiences. The same sort of question arises on the expenditure side: how far can the actual expenditure be limited to the estimated level? Any failure to do so would enhance the budget gap necessitating either an increase in government revenue (through new measures) or a recourse to inflationary bank financing.

What happens on the balance of payments front is equally an important factor. The worsening of the balance of payments appears to have continued unabated in 1983. The import level has continued to rise faster than exports. The balance of trade deficit stood at a level of Rs 14.6 billion during January–October 1983 compared with Rs 12.6 billion in the same period of 1982. The external value of the Rupee came under severe pressure in 1983 leading to a significant depreciation — the rupee value of a US Dollar going up from Rs 21 in January to Rs 24.70 by November. This was an important cost-push factor which increased the inflationary pressure in the economy during the year. In this context, the question arises: what are the prospects for a better balance of payments picture in 1984? If not, how far can a further depreciation of the rupee be avoided? One important sign of hope is the rising export prices of tea which should lead to a substantial increase in export earnings in 1984.

A further depreciation of the rupee and/or higher recourse to bank borrowing than estimated in the Budget (because of a revenue short-fall or an increase in expenditure) can only aggravate the inflationary situation in the country. Some of the key prices in the economy remain yet to be adjusted to reflect the new import costs following the Rupee depreciation of 1983. The cost of living index has already moved up by 19 per cent during January–November 1983 and the wholesale price index has gone up by 21 per cent during January–September 1983.