

2. The finances of the National Capital Territory

THE FISCAL JURISDICTION

The finances of the Government of NCT of Delhi comprise on the revenue receipts side, such taxation heads as, taxes on property and capital transactions, state excise, sales tax, taxes on vehicles, taxes on passengers and goods and other taxes (entertainment, luxury and betting taxes); numerous non-tax revenue heads including interest receipts and dividends and profits; and grant-in-aid contributions from the centre.¹

The revenue expenditure component consists of expenditure on general services, i.e., organs of state, fiscal services like collection cost of taxes, interest payments and other administrative services; expenditure on social services comprising, *inter alia*, education, health and family welfare, water supply, sanitation, housing, urban development, labour, employment, and social security; expenditure on economic services, and grant-in-aid and contributions, including assignment of tax revenues to local bodies and others. Interest payment in the case of Delhi is shown as a head of expenditure only from 1995–96. Expenditure on pensions is in the process of being incorporated in the budget of the Government of NCT.²

Added to the revenue receipts and expenditure are transactions of a capital nature. On the capital receipts side, the heads include loans received from the Government of India and recoveries of loans and advances, while capital expenditure is composed of loan repayments, loans and advances made by the Government of NCT, besides expenditure on general services, social services, and economic services.

AN OVERVIEW OF NCT'S FINANCES

Unlike most states and UTs which are currently faced with declining levels of budgetary expenditures, a cutback on capital investments, rising and often unsustainable debt burdens and contingent liabilities, and high revenue deficits, Delhi fiscal problems are rooted in sub-optimal exploitation of the vast tax potential that Delhi possesses, an extremely narrow non-tax revenue base, high implicit subsidies, and insufficient investment flows into such sectors as roads, urban development, and environment. These problems, in fact, overshadow what, *prima facie* may seem to be the positive aspects of Delhi's finances, such as, moderate levels of capital expenditure and revenue account surpluses. A comprehensive analysis providing important insights into the finances of NCT (table 2) is summarised below.

1 Grant-in-aid from the central government on the revenue receipts side are in lieu of an assumed share in central taxes.

2 For the earlier years, pension payments are shown in the accounts of the Ministry of Home Affairs, Government of India.

Table 2: Basic Data on NCT's Finances

Key Finances statistics	Years				
	1985-86	1993-94	1994-95	1995-96	1996-97
Revenue receipts (Rs. crore)	515.62	1484.61	1980.46	2296.51	2795.98
Tax revenues	491.85	1424.36	1787.47	2111.05	2534.86
Non-tax revenues	23.77	60.25	99.63	63.14	55.74
Grants	—	—	93.36	122.32	205.37
Revenue expenditure (Rs. crore)	399.96	1268.47	1430.91	1877.16	2031.80
Developmental	264.23	816.71	949.58	1185.39	1428.68
Non-developmental of which:	96.50	356.94	385.68	577.18	474.34
Interest payments	—	—	—	94.00	189.88
Compensations to local bodies	39.23	94.82	95.65	114.59	128.77
Capital receipts (Rs. crore)	8.19	133.64	547.99	825.38	880.57
Loans from the Centre	—	132.53	510.33	796.38	851.20
Recoveries of loans	8.19	1.11	37.66	29.00	29.37
Capital expenditure (Rs. crore)	307.31	782.92	976.11	1074.29	1483.52
Developmental	0.68	11.37	194.01	415.70	391.40
Non-developmental	0.02	0.31	18.55	28.94	25.56
Loans and advances by the government	214.70	590.61	763.55	735.55	1066.54
Others	91.91	180.63	—	-175.90	0.22
GSDP (current prices, Rs. crore)	5412.44	18033.42	20250.26	23941.00	27532.15
Revenue expenditure balance (Rs. crore)					
Revenue surplus	-115.66	-216.14	-549.55	-419.35	-764.17
Fiscal deficit	+183.46	+565.67	+388.9	+625.94	+693.67
Primary deficit	+183.46	+565.67	+388.9	+531.94	+503.79
As % of GSDP					
Revenue surplus	-2.14	-1.20	-2.71	-1.75	-2.78
Fiscal deficit	+3.39	+3.14	+1.92	+2.61	+2.52
Primary deficit	+3.39	+3.14	+1.92	+2.22	+1.83

Levels of budgetary expenditure

In 1996-97, the size of the NCT's budget was placed at Rs. 3,515 crore, or 12.77 percent of GSDP.³ The budget size has shown an annual average increase of 14.8 percent over the ten-year period, 1985-86 to 1995-96. The budgetary expenditure as a percentage of GSDP was high in the mid-1980s, declined in the early 1990s, and has since recovered to reach the current level of 12.8 percent. The relatively low level of budgetary expenditure in the case of Delhi is explained by the exclusion of expenditure on public order, police and land which is absorbed into the union budget.⁴ Further, the budgetary level is still to reflect the full impact of the recommendations of the *Fifth Central Pay Commission*, pensions and other retirement benefits, as also the impact of the institutional changes that have occurred in Delhi since it acquired a legislature in 1993.

3 On a per capita basis, it works out to Rs. 2,984.

4 In most other states, budgetary expenditure as a percentage of GSDP varies between 20-25 percent (see Reserve Bank of India, 1998. *Finances of State Governments: 1997-98*). Mumbai.

Capital expenditure formed in 1996–97, 42.2 percent of the total budgetary expenditure and 5.39 percent of GSDP. Over the period 1994–95 to 1996–97, capital expenditure has risen substantially in Delhi—from Rs. 976.1 crore in 1994–95 by 10.1 percent to Rs. 1,074.3 crore in 1995–96 and by as much as 38 percent to Rs. 1,483.5 crore in 1996–97. While this position is in sharp contrast to other states which have uniformly seen a fall in the levels of capital expenditure, reaching out in several states, to absurdly low levels of less than 15 percent of total budgeted expenditure,⁵ note should be made of the fact that 71–78 percent of capital expenditure is accounted for by loans and advances to local bodies and public utility corporations. NCT's own capital investments for development purposes are relatively small, forming in 1996–97, 1.5 percent of the GSDP.

The growth performance of revenue expenditure appears to be generally satisfactory. In 1996–97, the total revenue expenditure was placed at Rs. 2,031.8 crore, forming 7.38 percent of Delhi's GSDP. During the last three years, it increased at an average annual rate of 19.2 percent as compared to a rate of 14.63 percent observed during the period 1985–86 to 1993–94. Revenue and capital expenditures in the case of NCT have risen in tandem with each other; regressions show that over the years 1985–86 to 1996–97, an increase of Rs. 100 in capital expenditure led to an increase of Rs. 136 in revenue expenditure.

Table 3: NCT: Capital and Revenue Expenditure from 1994–95 to 1996–97

Year	Capital Expenditure			Revenue Expenditure			Total Expenditure		
	Rs. crore	Percent change	Percent of GSDP	Rs. crore	Percent change	Percent of GSDP	Rs. crore	Percent change	Percent of GSDP
1994–95	976.1	24.7	4.8	1430.9	12.8	7.1	2407.0	17.3	11.9
1995–96	1074.3	10.1	4.5	1877.2	31.2	7.8	2951.5	22.6	12.3
1996–97	1483.5	38.1	5.4	2031.9	8.2	7.4	3515.4	19.1	12.8

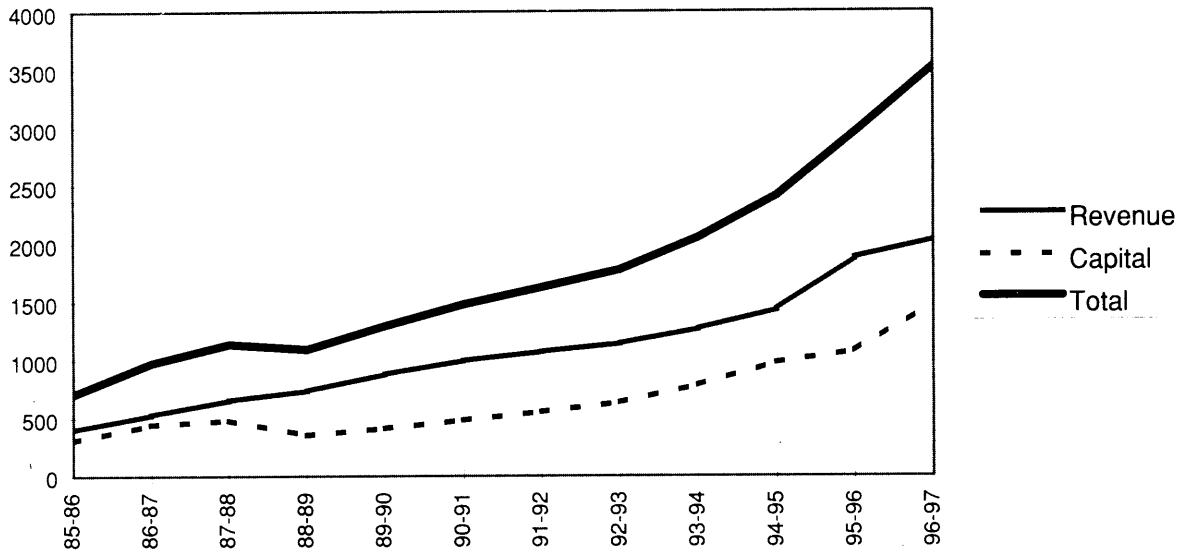
An important feature of Delhi's finances is that nearly three-quarters of the budgetary expenditure is financed by its own revenue resources.⁶ Own revenues as a percentage of GSDP range between 8.17 percent in 1991–92 and 9.55 percent in 1986–87. In recent years, own revenues as a percentage of GSDP have risen, reaching 9.32 percent in 1994–95, 9.08 percent in 1995–96 and 9.41 percent in 1996–97. When seen in the specific context of Delhi which has the highest per capita income in the country, a high turnover in trade and business, and which offers an extensive network of services, this level of revenue effort cannot be considered satisfactory. In fact, Delhi fares far worse when its own revenue to GSDP ratio is compared with the ratio of own revenues to non-agricultural GSDP in the states

5 Figures of capital expenditure to total budgeted expenditure for some of the states are: Bihar 10.2 percent; Haryana 12.6 percent; Madhya Pradesh 13.7 percent; and Tamil Nadu 12.9 percent. See, Reserve Bank of India 1998. *Finances of State Governments: 1997–98*. Mumbai.

6 In other states, this percentage is anywhere between 40–60 percent. See Reserve Bank of India, *Finances of State Governments: 1997–98*. Mumbai.

where it ranges between 20–30 percent.⁷

Graph 3: Growth of Revenue and Capital Expenditure (Rs. crore)



Tax revenues account for over 95 percent of the total own revenues. The non-tax component of own resources is insignificant, and has shown no sensitivity to the changes that have taken place in the administrative structure and fiscal and development policies of the territory. Indeed, the share of non-tax revenue sources in total revenues has shrunk to 2.9 percent in 1995–96 and 2.2 percent in 1996–97, raising queries about the seriousness and capacity of the government to be able to use instruments such as user charges for consolidation and augmentation of its revenue base, and for better allocation of resources.

Surpluses and deficits

The central feature of NCT's finances is that the NCT has been able to maintain a surplus on revenue account over the entire ten-year period covered by this study. In 1996–97, it was 2.78 percent of the GSDP. Note should be made of the pressure on revenue accounts in the latter part of the 1980s and in 1990–91 and 1991–92, but the last three years have experienced a large scale boost to internal resource generation, which is manifest in increasing surpluses on revenue account. On the other hand, fiscal deficits were high from mid-1980s to 1993–94 but dropped to 1.92 percent of GSDP in 1994–95 and 2.61 percent in 1995–96.

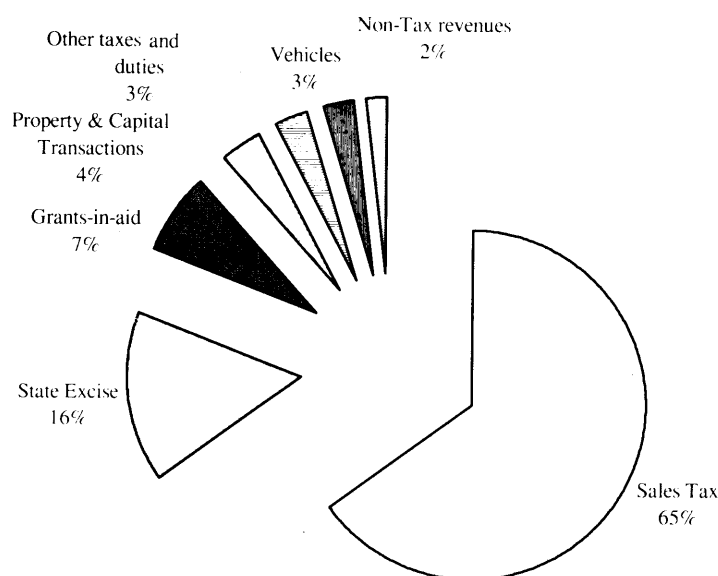
⁷ The ratio of own revenues to non-agricultural GSDP is 28.6 percent in Haryana, 23 percent in Karnataka, 22.1 percent in Kerala, 23.1 percent in Punjab, and 25.3 percent in Rajasthan. In other states too, it is higher than in Delhi.

Table 4: NCT: Surpluses and Deficits

Year	As a % of GSDP		
	Revenue surplus	Fiscal deficit	Primary deficit
1985–86	-2.14	+3.39	+3.39
1990–91	-0.26	+3.53	+3.53
1993–94	-1.20	+3.14	+3.14
1994–95	-2.71	+1.92	+1.92
1995–96	-1.75	+2.61	+2.22
1996–97	-2.78	+2.52	+1.83

Revenue base

Sales tax is the principal source of tax revenue accounting for 64–67 percent of the total tax revenue receipts. In terms of importance, sales tax is followed by state excises which generate 15–19 percent of the revenue and stamp duties and registration fees (4.5% to 5.5%). No perceptible change in the share of such taxes as motor vehicles and entertainment tax is noted in the case of Delhi. The contribution of motor vehicles tax and taxes on entertainment, luxury and betting continues to be low (5.4%).

Graph 4 : Structure of Revenue Income in percentage (1996–97)

Apart from being the main revenue source, sales tax has exhibited an improvement in buoyancy in recent years. It had a buoyancy coefficient of 0.93 during the 1985–86 to 1993–94 period; during

1994–95 to 1996–97, buoyancy coefficient in respect of sales tax rose to 1.16, while that of state excise declined from 0.86 to 0.83. Surprisingly, buoyancy in respect of taxes on capital and property transactions fell sharply, notwithstanding the boom that Delhi has experienced in its land and property market. Similarly, fall in the buoyancy of motor vehicles taxes in the face of a phenomenal increase in the number of motor vehicles indicates major weaknesses in tax administration and enforcement procedures. Given the overwhelmingly urban character of Delhi, low and falling buoyancy coefficients are striking and speak of the absence of a strategy to make fuller use of such taxes as stamp duty, registration fees and motor vehicles, and other local taxes to which a reference will be made later.

The non-tax component consists of receipts—in fact, charges from the sale of general, economic and social services, and interest receipts and dividend and profits, most of which hardly yield any revenue. The total revenue collection from economic services was placed at Rs. 10.80 crore in 1996–97, having risen from Rs. 5.6 crore in 1995–96; on the other hand, revenue yields from social sector heads declined from Rs. 8.24 crore in 1995–96 to Rs. 6.44 crore in 1996–97. Dividend on the government's investments in cooperative institutions and corporations which is another important non-tax component, is also abysmally low and did not contribute to the government's resources in any measure.⁸ The entire non-tax component in NCT's revenue structure is a clear testimony of the indifference to its potential, and lies at the very root of the existence of large scale subsidies, many of which have questionable justification.

Grants made to NCT in lieu of its share in central taxes are small but are now beginning to assume importance. In 1996–97, grants formed 9.3 percent of the total revenue resources, having risen from about 4.2 percent in 1994–95.

Pattern of expenditure

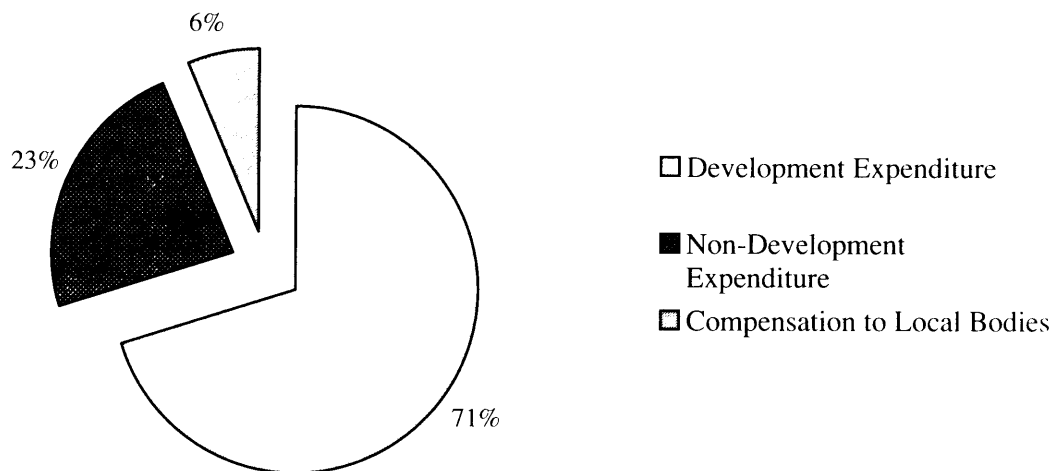
Revenue expenditure of the Government of NCT is divided into three main heads: developmental, non-developmental, and compensations and assignments to local bodies. Expenditure on developmental heads accounts for 70 percent of the total expenditure; compensation to local bodies accounts for approximately 6 percent, and the balance of 23–24 percent is non-developmental. These proportions have changed within a narrow band of 3–4 percentage points over the period 1985–86 to 1995–96. As a percentage of GSDP, considerable fluctuations are noted. Developmental expenditure as a percentage of GSDP was over 6 percent in the latter part of 1980s and 1990–91, but it dropped to less than 5 percent and stayed at that level until 1995–96. In 1996–97, developmental expenditure increased to 5.19 percent of the GSDP. Non-developmental expenditure in Delhi also faced fluctuations, largely in tandem with expenditure on development sectors. However, the central point is that the non-developmental expenditure has not encountered any acute pressure to rise.⁹

⁸ The total investment of the government in the cooperative institutions and corporations as on March 1997 was placed at Rs. 182.1 crore; dividend on the same was Rs. 6.94 crore. The rate of dividend in 1995–96 was 0.73.

⁹ An estimation of the non-discretionary component of expenditure has not been possible in this study on account of the non-availability of economic and functional classification of the NCT budget. The last year for which this classification was made is 1992–93. In 1992–93, the share of wages and salaries in revenue expenditure 53.2 percent. There were no interest payments in that year. Neither were there any liabilities on account of pension payments.

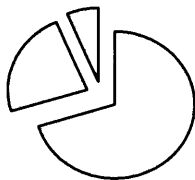
Provision of economic services and, consequently, direct investment in these are not amongst the priority heads of expenditure of the Government of NCT. Power and transport, for instance, are managed by the DVB and DTC, respectively. The share of economic services in the revenue account budgets is, therefore, low at 9.8 percent. On the other hand, social services are a priority budget head, accounting for over 60 percent of the total revenue expenditure and about 50 percent of the total capital expenditure. Several of the social services like education, health, urban development, and at least one economic service, namely, roads, represent the development priorities of the NCT, absorbing a greater part of its expenditure.

Graph 5 : Structure of Revenue Expenditure in percentage (1996-97)



Graph 5a: Share of Development Expenditure in Total Expenditure in percentage (1996-97)

Development Expenditure



Education comprising general education, technical education, sports, and art and culture, constitutes the single largest head of expenditure in the NCT budget. In 1996–97, it constituted 28 percent of the expenditure and 2.1 percent of GSDP. However, over 75 percent of this expenditure is

incurred on technical education and art and culture, leaving a relatively small proportion for primary education. Even allowing for the fact that primary education is the responsibility of local bodies (MCD and NDMC), there would seem to be a case for accelerating investment in primary education. An illiteracy rate of 24.71 percent for the NCT is indefensible.

Graph 5b: Structure of Development Expenditure in percent (1996-97)

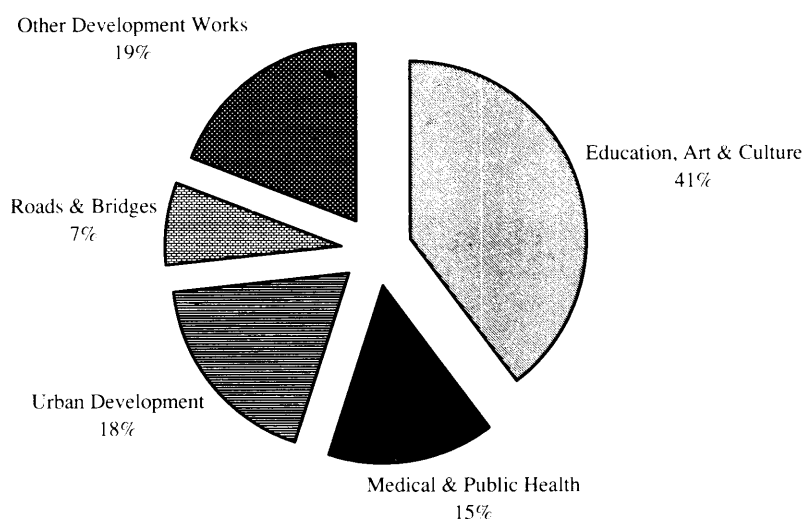


Table 5: NCT: Expenditure on Education

Year	Revenue expenditure (Rs. crore)	As % of total revenue expenditure	As % of GSDP	Annual growth rates %	Capital expenditure (Rs. Crore)	As % of the total capital expenditure	As % of GSDP
1985-86	128.54	32.14	2.37	—	—	—	—
1986-87	159.08	29.99	2.55	23.76	—	—	—
1987-88	189.74	28.90	2.63	19.27	—	—	—
1988-89	219.52	29.77	2.57	15.7	—	—	—
1989-90	254.66	28.89	2.59	16.01	—	—	—
1990-91	293.99	29.56	2.60	15.44	—	—	—
1991-92	311.25	29.04	2.16	5.87	—	—	—
1992-93	347.17	30.44	2.23	11.54	—	—	—
1993-94	387.83	30.57	2.15	11.71	—	—	—
1994-95	421.84	29.48	2.08	8.77	32.28	3.31	0.16
1995-96	492.34	26.23	2.06	16.71	45.88	4.27	0.19
1996-97(A)	568.91	28.00	2.07	15.55	69.50	4.68	0.25

Note: denotes not available.

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Given the urban character of Delhi, and the fact that it is endowed with a large private health sector, its health indicators represented by birth rate (24.4/1000 as compared to 23.1/1000 for all-India urban), death rate (7.0/1000 as compared to 6.7/1000 for all-India urban) and an infant mortality rate of 38/1000 are clearly unsatisfactory. In 1996–97, the total budgeted revenue expenditure on health services was placed at Rs. 216.56 crore; capital expenditure on this sector was placed at Rs. 30.67 crore. While expenditure on these services would appear to be meeting the Planning Commission norms, the unsatisfactory health indicators suggest that health expenditures are poorly targeted, particularly on those groups which are vulnerable and which have incidence of high birth and death rate, and high infant mortality rates.

Table 6: NCT: Expenditure on Health

Years	Revenue expenditure (Rs. crore)	As % of total revenue expenditure	As % of GSDP	Annual growth rates %	Capital expenditure (Rs. crore)	As % of total capital expenditure	As % of GSDP
1985–86	32.69	8.17	0.6	53.53	—	—	—
1986–87	50.19	9.46	0.8	32.99	—	—	—
1987–88	66.75	10.17	0.93	25.56	—	—	—
1988–89	83.81	11.37	0.98	47.89	—	—	—
1989–90	123.95	14.06	1.26	11.84	—	—	—
1990–91	138.62	13.94	1.22	-22.58	—	—	—
1991–92	107.32	10.01	0.75	14.18	—	—	—
1992–93	122.54	10.75	0.79	12.63	—	—	—
1993–94	138.02	10.88	0.77	14.01	—	—	—
1994–95	157.35	11.00	0.78	23.2	17.83	1.83	0.09
1995–96	193.85	10.33	0.81	23.81	31.12	2.90	0.13
1996–97	216.55	10.66	0.79	11.71	30.67	2.07	0.11

Note: denotes not available.

The last few years have seen a phenomenal increase in the number of motorized vehicles in Delhi. The total number of vehicles as on 31 December, 1996 was 27.93 lakh, having risen at 6–8 percent annually over 1992–96 period. In comparison, road network comprising roads of the three local bodies, national highways and other roads is 25,948 kms in length. There has been, at best, a marginal increment to the road infrastructure which is explained by low levels of revenue and capital expenditure on roads. As a proportion of total expenditure, revenue expenditure on roads has been around 5.2–5.8 percent. Capital expenditure on roads which was low at 4.88 percent in 1995–96 further declined to 4.33 percent in 1996–97. Moreover, the erratic growth behaviour of revenue expenditure indicates an absence of a coherent policy on road development for the NCT.

By virtue of its character, urban development is an important sector in Delhi. It consists of expenditure on a mix of programmes aimed at physical and environmental improvement of slums, squatter settlements, construction of flats for *katra* dwellers in the walled city area, preparation of perspective development plans for sub-standard areas, establishment of “squattling zones”, land acquisition, urban basic services programmes, and a host of related programmes. The key component of

the urban development sector, however, is the improvement of slum and squatter settlements. Over the 1985–86 to 1996–97 period, revenue expenditure on this sector has increased manifold—from Rs. 7.29 crore in 1985–86 to Rs. 264.02 crore in 1996–97, or from 1.82 percent in 1985–96 to 13 percent of total revenue expenditure in 1996–97. As a proportion of GSDP too, revenue expenditure has risen close to 1 percent from a low of 0.13 percent in 1985–86. On the other hand, the growth behaviour of capital expenditure on this sector has been extremely erratic. Despite the steep rise in revenue expenditure, the fact that the living conditions in the slum and other similar settlements continue to be poor, shows the inadequacy of expenditure and lack of a slum policy that would, on the one hand, improve the living conditions, and on the other hand, prevent further proliferation of slums. The present policy which is highly fragmented both in terms of programmes and institutional set-up needs to be comprehensively examined. The institutional set-up as the records show consists of the slum and *jhuggi-jhonpri* department which is responsible for the scheme of Environmental Improvement of Urban Slums (EIUS), structural repairs in *katras*, construction of night shelters for pavement dwellers, and resettlement of squatter families, land and building department of Delhi Administration, MCD, Delhi Slum Improvement Board, and such agencies as the Railway Board for slums located on its land.

Table 7: NCT: Expenditure on Roads

Years	Revenue expenditure (Rs. Crore)	As % of Total revenue expenditure	As % of GSDP	Annual growth rates %	Capital expenditure (Rs. crore)	As % of total capital expenditure	As % of GSDP
1985–86	36.53	9.13	0.67	–	–	–	–
1986–87	56.79	10.70	0.91	55.46	–	–	–
1987–88	62.42	9.51	0.87	9.91	–	–	–
1988–89	58.17	7.89	0.68	–6.81	–	–	–
1989–90	62.75	7.12	0.64	7.87	–	–	–
1990–91	73.62	7.40	0.65	17.32	–	–	–
1991–92	86.84	8.10	0.6	17.96	–	–	–
1992–93	77.16	6.77	0.5	–11.15	–	–	–
1993–94	86.59	6.83	0.48	12.22	–	–	–
1994–95	78.35	5.48	0.39	–9.52	58.56	6.00	0.29
1995–96	109.78	5.85	0.46	40.11	52.40	4.88	0.22
1996–97	105.10	5.17	0.38	–4.68	64.17	4.33	0.23

Note: denotes not available.

Debt profile

Mounting debt at sub-national levels is an important contemporary issue in the country. Many state governments are at a high fiscal risk for having accumulated large amount of debts and contingent liabilities. The Government of NCT, as pointed out earlier, is empowered to borrow only from the union government and has no access to market borrowings or institutional finance. The total outstanding loan of the Government of NCT at the close of fiscal year 1996–97 was placed at Rs. 2204.9 crore, or 8 percent of Delhi's GSDP. As a proportion of GSDP, loan from the union government was 2.52 percent in

1994–95, 3.33 percent in 1995–96, and 3.10 percent in 1996–97. Interest burdens have thus far been a small component of expenditure, but are poised to rise with increasing outstanding debt liabilities. The low interest liability is attributable partly to the non-separation of the debt of NCT from the Home Ministry's total budget bill.

Table 8: NCT: Expenditure on Urban Development

Year	Revenue expenditure (Rs. crore)	As % of total revenue expenditure	As % of GSDP	Capital expenditure (Rs. crore)	As % of total capital expenditure	As % of GSDP
1985–86	7.29	1.82	0.13	0.66	0.21	0.01
1986–87	14.55	2.74	0.23	94.65	21.27	1.52
1987–88	46.43	7.07	0.64	126.30	26.16	1.75
1988–89	54.33	7.36	0.64	-7.34	-2.06	-0.09
1989–90	71.75	8.14	0.73	0.39	0.09	-
1990–91	82.34	8.27	0.73	3.51	0.72	0.03
1991–92	87.44	8.16	0.61	5.68	1.02	0.05
1992–93	92.62	8.12	0.60	23.82	3.75	0.16
1993–94	88.71	6.99	0.49	3.01	0.38	0.01
1994–95	147.96	10.34	0.73	27.67	2.83	0.14
1995–96	208.04	11.08	0.87	25.95	2.41	0.10
1996–97	264.02	12.99	0.96	-27.44	-1.85	-0.10

Table 9: NCT: Debt Profile

Year	Debts (Rs. crore)							
	Non-plan	Loans for UT schemes	Total	As a % of GSDP	Outstanding loans	As a % of GSDP	Interest payments	As a % of GSDP
1994–95	343.03	167.30	510.33	2.52	627.33	3.10	-	-
1995–96	607.38	189.00	796.38	3.33	1353.71	5.65	94.00	0.39
1996–97	666.61	184.59	851.20	3.10	2204.91	8.00	189.89	0.69

Subsidies

Subsidies have in recent years become an important issue not only at the central but also at the level of states. The estimates of budget subsidy, both explicit and implicit, presented here follows the methodology employed by Srivastava and Sen in their recent NIPFP study on government subsidies.¹⁰

10 D.K. Srivastava *et al.*, 1997. *Government Subsidies in India*. New Delhi: National Institute of Public Finance and Policy.

Explicit subsidies in the case of Delhi relate to only a few minor heads, such as interest subsidy to small scale industries, fertiliser subsidy to small and marginal farmers, free supply of books and uniforms in elementary schools, promotion of non-conventional energy and the like, are of relatively minor significance. On the other hand, implicit subsidies are extremely large and relate to both merit and non-merit goods and services. For the year 1995–96, total subsidies on merit and non-merit goods after accounting for surplus sectors amounted to Rs. 2,248.42 crore or 9.39 percent of GSDP. Of this, merit goods subsidies on elementary education, public health, sewerage and sanitation, social welfare, welfare of scheduled castes and tribes, nutrition, flood control and drainage, and roads and bridges accounted for 20.6 percent of the total subsidy. Outside of the clearly defined merit goods sector, there were large scale subsidies in such sectors as technical education (more than four times than those available to primary education), medical services, water supply and sanitation, urban development, and power and transport sectors. The overall recovery rate was 0.14 percent. The recovery rate in the case of non-merit goods¹¹ was estimated at only 0.55 percent. On a per capita basis, subsidy is phenomenally large, being Rs. 1961. Delhi thus, has the distinction of having, compared to other states in the country, the lowest rate of recovery and highest per capita subsidy. The existence of subsidies on this scale is perhaps the most disconcerting feature of Delhi's finances and, if permitted to continue, will seriously jeopardise the future sustainability of government investment and development programmes.

In sum, the NCT's finances are a mixed bag of a few positive features combined with those that suggest major weaknesses. Table 10 summarises these features. The summary does not take into account the pressures on NCT's finances that may further arise on account of the poor and deteriorating financial performance of major public utilities and local bodies. The fiscal challenge for the Government of NCT would lie in better utilising the large tax and non-tax potential, and effectively addressing other weaknesses and pressures.

11 Non-merit goods are those goods where in principle, cost recovery is possible through user charges.

Table 10: A Fiscal Summary

Years	As a Percent of GSDP										Annual Growth Rate Between 1985-86 and 1996-97				
	Revenue surplus	Fiscal deficit	Primary deficit	Own tax revenue	Non-tax revenue (excluding grants)	Revenue expenditure	Non-development expenditure	Capital expenditure	Own revenues	Revenue expenditure	Non-development expenditure	Capital expenditure	Revenue expenditure	Non-development expenditure	Capital expenditure
1985-86	-2.14	3.39	3.39	9.09	0.44	7.39	1.78	43.4	-	-	-	-	-	-	-
1986-87	-1.04	5.95	5.95	9.14	0.41	8.51	2.10	45.6	15.45	32.64	35.70	44.8	32.64	35.70	44.8
1987-88	-0.29	6.14	6.14	9.08	0.33	9.10	2.32	42.4	13.76	23.74	27.64	8.5	23.74	27.64	8.5
1988-89	-0.89	2.92	2.92	9.28	0.24	8.63	2.15	32.6	20.14	12.32	9.68	-26.1	12.32	9.68	-26.1
1989-90	-0.11	3.87	3.87	8.73	0.34	8.95	2.31	31.9	9.74	19.57	24.11	15.9	19.57	24.11	15.9
1990-91	-0.26	3.53	3.53	8.76	0.30	8.79	2.16	32.7	14.77	12.83	7.36	17.2	12.83	7.36	17.2
1991-92	-0.72	2.88	2.88	7.91	0.26	7.45	1.91	34.1	14.64	7.76	12.47	14.5	7.76	12.47	14.5
1992-93	-1.95	1.85	1.85	8.70	0.59	7.34	2.02	35.7	22.93	6.40	14.50	14.4	6.40	14.50	14.4
1993-94	-1.20	3.14	3.14	7.90	0.33	7.03	1.98	38.2	2.81	11.23	13.47	23.4	11.23	13.47	23.4
1994-95	-2.71	1.92	1.92	8.83	0.49	7.07	1.90	40.6	33.40	12.81	8.05	24.7	12.81	8.05	24.7
1995-96	-1.75	2.61	2.22	8.82	0.26	7.84	2.41	36.4	15.96	31.19	49.65	10.1	31.19	49.65	10.1
1996-97	-2.78	2.52	1.83	9.21	0.20	7.38	1.72	42.2	21.75	8.24	-17.82	38.1	8.24	-17.82	38.1