

II. FISCAL SITUATION

Combined Government Finances: 2008-09

An overview of the combined budgetary position of the Central and State Governments indicates that the key deficit indicators are budgeted to decline significantly during 2008-09. The revenue deficit and gross fiscal deficit (GFD) of combined Government finances are budgeted to decline by 0.4-0.6 percentage points during 2008-09 over the revised estimates (RE) for 2007-08 (Table 17). Primary balance, which turned into surplus in 2007-08 (RE), is budgeted to record a surplus of 0.8 per cent of GDP in 2008-09 (BE). Supported by rise in direct taxes, the combined revenue deficit has declined in recent years, reflecting the build up of surplus in the revenue account of consolidated State Government finances and a reduction in the revenue deficit of the Central Government. The combined debt-GDP ratio of the Central and State Governments is budgeted to decline to 73.4 per cent by end-March 2009 from 77.0 per cent at end-March

Table 17: Key Fiscal Indicators

(Per cent to GDP)				
Year	Primary Deficit	Revenue Deficit	Gross Fiscal Deficit	Outstanding Liabilities*
1	2	3	4	5
Centre				
2002-03	1.1	4.4	5.9	63.5
2003-04	-0.03	3.6	4.5	63.0
2004-05	-0.04	2.5	4.0	63.3
2005-06	0.4	2.6	4.1	63.1
2006-07	-0.2	1.9	3.5	61.2
2007-08 RE	-0.6	1.4	3.1	61.5
	(-0.9)	(1.2)	(2.8)	
2008-09 BE	-1.1	1.0	2.5	57.7
States				
2002-03	1.3	2.3	4.1	32.0
2003-04	1.5	2.3	4.4	33.2
2004-05	0.7	1.2	3.4	32.7
2005-06	0.2	0.2	2.5	32.6
2006-07	-0.4	-0.6	1.9	30.2
2007-08 RE	0.1	-0.5	2.3	28.4
2008-09 BE	0.1	-0.6	2.1	27.4
Combined				
2002-03	3.1	6.6	9.6	80.3
2003-04	2.1	5.8	8.5	81.4
2004-05	1.3	3.6	7.5	81.3
2005-06	1.0	2.8	6.7	80.4
2006-07	0.0	1.4	5.6	77.0
2007-08 RE	-0.3	0.9	5.2	77.0
2008-09 BE	-0.8	0.5	4.6	73.4

RE : Revised Estimates. BE: Budget Estimates.

* : Include external liabilities at historical exchange rates.

Note : 1. Figures in parentheses relate to provisional accounts.

2. Negative sign indicates surplus.

3. Data in respect of States are provisional from 2006-07 onwards and relate to the Budgets of 27 States of which two are *vote-on-accounts*.

2008, reflecting the continued process of fiscal consolidation and buoyant economic growth.

Market borrowings are budgeted to finance two thirds of the combined GFD during 2008-09 (70.5 per cent a year ago). The contribution of small savings in GFD financing, which had fallen sharply to 3.6 per cent in 2007-08(RE), is budgeted to increase to 11.7 per cent in 2008-09 (Table 18).

Centre's Fiscal Situation: 2008-09

The revenue deficit and GFD of the Centre budgeted at 1.0 per cent and 2.5 per cent of GDP, respectively, during 2008-09, would be 0.4 percentage point and 0.6 percentage point lower than those in the revised estimates for 2007-08. In comparison with the provisional accounts for 2007-08, the revenue deficit and GFD in 2008-09 would be lower by 0.2 percentage point and 0.3 percentage point, respectively. However, finances of the Central Government may come under pressure during 2008-09 on account of Sixth Pay Commission (SPC) award including payment of arrears; reduction of duties on petroleum products; higher oil subsidies; increase in fertiliser subsidy due to sharp rise in the prices of raw materials and fertilisers in the international market; and burden of debt waiver to the farmers.

Available information on Central Government finances during April-May 2008 indicates that revenue deficit and GFD were higher than a year ago, both in absolute terms and as percentages to budget estimates (Chart 5 and Table 19). Gross primary deficit in April-May 2008 was also higher than a year ago.

Table 18: Financing of Gross Fiscal Deficit of the Centre and States

(Rupees crore)						
Year	Market Borrowings	State Provident Funds	Small Savings	External Borrowings	Others	Gross Fiscal Deficit
1	2	3	4	5	6	7
2004-05	85,498 (36.4)	13,139 (5.6)	87,690 (37.4)	14,753 (6.3)	33,641 (14.3)	2,34,721 (100.0)
2005-06	1,21,546 (50.7)	15,388 (6.4)	89,836 (37.5)	7,472 (3.1)	5,318 (2.2)	2,39,560 (100.0)
2006-07	1,27,843 (55.4)	15,130 (6.6)	63,746 (27.6)	8,472 (3.7)	15,373 (6.7)	2,30,564 (100.0)
2007-08 RE	1,74,325 (70.5)	15,143 (6.1)	8,827 (3.6)	9,970 (4.0)	39,030 (15.8)	2,47,295 (100.0)
2008-09 BE	1,62,767 (66.8)	16,249 (6.7)	28,498 (11.7)	10,989 (4.5)	25,043 (10.3)	2,43,546 (100.0)

BE : Budget Estimates. RE : Revised Estimates.

Note : 1. Figures in parentheses are percentages to GFD.

2. Data in respect of States are provisional from 2006-07 onwards and relate to the Budgets of 27 States of which two are *vote on account*.

The widening of fiscal deficit of the Central Government during April-May 2008 was mainly on account of a sharp rise in plan expenditure over April-May 2007. On the other hand, non-plan expenditure was contained mainly due to a moderation in the growth of interest payments and major subsidies, and a decline in defence expenditure (Table 19). While the tax revenue in April-May 2008 was 47.1 per cent higher than that during April-May 2007, non-tax revenue was lower by 2.4 per cent. Receipts of major taxes were higher than those during April-May 2007.

Cash Management and Central Government Market Borrowings

Net market borrowings (dated securities and 364-day Treasury Bills excluding allocations under the MSS) of the Central Government are placed at Rs.99,000 crore during 2008-09. Including repayments of Rs.76,780 crore, gross market borrowings are estimated at Rs.1,75,780 crore during 2008-09. The issuance calendar for dated securities for the first half of 2008-09 released on March 24, 2008, in consultation with the Central Government, provided for mobilisation of Rs.96,000 crore through auctions during April-September 2008 as compared with Rs.97,000 crore raised during the corresponding period of the previous year. During 2008-09 (up to July 18, 2008) the actual issuances of dated securities amounted to Rs.66,000 crore, which is in accordance with the calendar released. All auctions during 2008-09 (up to July 18, 2008) were for reissuance of existing securities, barring one new issue of 10-year maturity. There was a devolvement of Rs.779 crore on PDs during 2008-09 (up to July 18, 2008) as compared with no devolvement during the corresponding period of the

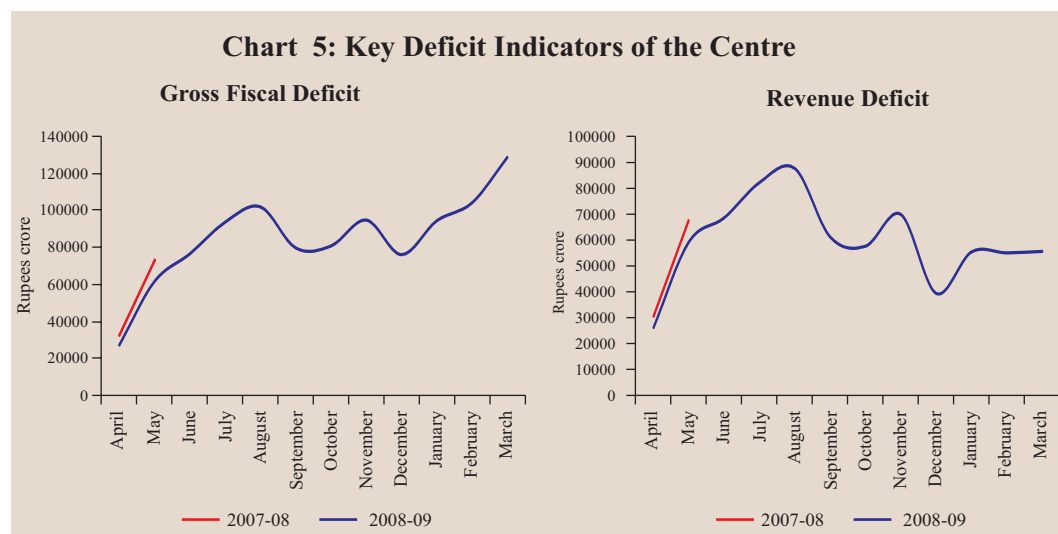


Table 19 : Central Government Finances: April-May 2008

(Rupees crore)					
Item	2008-09 (Budget Estimates)	April - May		Per cent of Budget Estimates	
		2007	2008	April-May	
1	2	3	4	5	6
1. Revenue Receipts (i + ii)	6,02,935	25,899	36,030	5.3	6.0
i) Tax Revenue	5,07,150	21,725	31,958	5.4	6.3
ii) Non-tax Revenue	95,785	4,174	4,072	5.1	4.3
2. Non-Debt Capital Receipts	14,662	2,716	254	86.2 *	1.7
3. Non-Plan Expenditure	5,07,498	67,615	71,496	15.5 *	14.1
of which:					
i) Interest Payments	1,90,807	26,221	27,229	16.5	14.3
ii) Defence	1,05,600	6,770	6,451	7.1	6.1
iii) Major subsidies	67,037	15,508	18,002	30.3	26.9
4. Plan Expenditure	2,43,386	23,135	37,989	11.3	15.6
5. Revenue Expenditure	6,58,119	85,234	103,761	15.3	15.8
6. Capital Expenditure	92,765	5,516	5,724	6.7 *	6.2
7. Total Expenditure	7,50,884	90,750	109,485	14.2 *	14.6
8. Revenue Deficit	55,184	59,335	67,731	83.0	122.7
9. Gross Fiscal Deficit	1,33,287	62,135	73,201	41.2	54.9
10. Gross Primary Deficit	-57,520	35,914	45,972	-	-
N.A.: Not Available					
*: Excludes an amount of Rs.40,000 crore in the budget estimates for 2007-08 on account of transactions relating to transfer of the Reserve Bank's stake in SBI to the Central Government.					
Source: Controller General of Accounts, Ministry of Finance, Government of India.					

previous year. The bid-cover ratio ranged between 1.63 and 3.49. Gross and net market borrowings (dated securities and 364-day Treasury Bills) during 2008-09 (up to July 18, 2008) amounted to Rs. 77,809 crore and Rs.42,819 crore, respectively, accounting for 44.3 per cent and 43.3 per cent of the estimated market borrowings for the year. During the corresponding period of the previous year, gross and net borrowings accounted for 40.5 per cent and 33.5 per cent, respectively. The weighted average maturity of dated securities issued during 2008-09 (up to July 18, 2008) at 15.67 years was higher than 14.33 years during the corresponding period of the previous year. The weighted average yield of dated securities issued during the same period increased to 8.58 per cent from 8.31 per cent (Table 20).

The cash balance of the Central Government remained in surplus during 2008-09 (up to July 18, 2008). Commencing the year with a surplus cash balance of Rs.76,686 crore (end-March 2008), the Central Government used the balances to meet its expenditure requirements as a result of which the surplus cash balance of the Central Government declined to Rs.19,767 crore on July 18,

Table 20: Central Government Securities Issued during 2008-09

(Amount in Rupees Crore/Maturity in years/Yield in Percent)							
Borrowings as per Issuance Auction Calendar				Actual Borrowings			
Sr. No.	Period of Auction	Amount	Residual Maturity	Date of Auction	Amount	Residual Maturity	Yield
1	2	3	4	5	6	7	8
1.	April 04 - 11, 2008	6,000	5-9 year	April 11, 2008	6,000	7.38	8.14
		4,000	20- year and above		4,000	24.37	8.67
2.	April 18 - 25, 2008	6,000	10-14 year	April 21, 2008	6,000	10.00	8.24
		4,000	20- year and above		4,000	28.13	8.77
3.	May 2-9, 2008	6,000	5-9 year	May 09,2008	6,000	7.92	7.96
		4,000	20-year and above		4,000	24.29	8.35
4.	May 16-23, 2008	6,000	10-14 year	May 23, 2008	6,000	9.91	8.07
		4,000	20-year and above		4,000	23.72	8.52
5.	May 30- June 6, 2008	6,000	10-14 year	June 6, 2008	6,000	9.87	8.26
		4,000	20 year and above		4,000	24.22	8.72
6.	June 13 - 20, 2008	6,000	15-19 year security	June 20,2008	6,000	18.64	9.25
7.	July 4-11, 2008	6,000	10-14 year	July 4, 2008	6,000	9.79	9.13
		4,000	20 year and above		4,000	23.61	10.03
Total		66,000			66,000		
<i>Memo:</i>							
Year			Weighted Average Maturity		Weighted Average Yield		
2004-05			14.13		6.11		
2005-06			16.90		7.34		
2006-07			14.72		7.89		
2007-08			14.90		8.12		
2007-08 (up to July 18, 2007)			14.33		8.31		
2008-09 (up to July 18, 2008)			15.67		8.58		

2008. During 2007-08 (up to July 18) the Central Government was in cash deficit for 70 days. It had availed of overdraft of Rs.3,593 crore over and above the ways and means advances (WMA) of Rs. 20,000 crore as on July 18, 2007.

State Finances: 2008-09¹

The State Governments, while presenting the budgets for 2008-09, indicated their commitment to the process of fiscal consolidation and correction. The State Governments budgeted a higher consolidated revenue surplus of 0.55 per cent of GDP in 2008-09 than 0.46 per cent of GDP in the previous year. As a result, GFD is budgeted to decline to 2.1 per cent in 2008-09 from 2.3 per cent a year ago. The improvement in the revenue account during 2008-09 is budgeted to be achieved through increase in revenue receipts (14.3 per cent) and deceleration in revenue expenditure (13.6 per cent). In terms of GDP, while revenue receipts would increase by 0.2 percentage point to 13.5 per cent of GDP in 2008-09 (BE), the revenue expenditure would increase by 0.1 percentage point to 12.9 per cent during the same period. The capital outlay is budgeted to be

¹ Based on information pertaining to 27 State Budgets (excluding Tripura), of which two are vote-on-accounts.

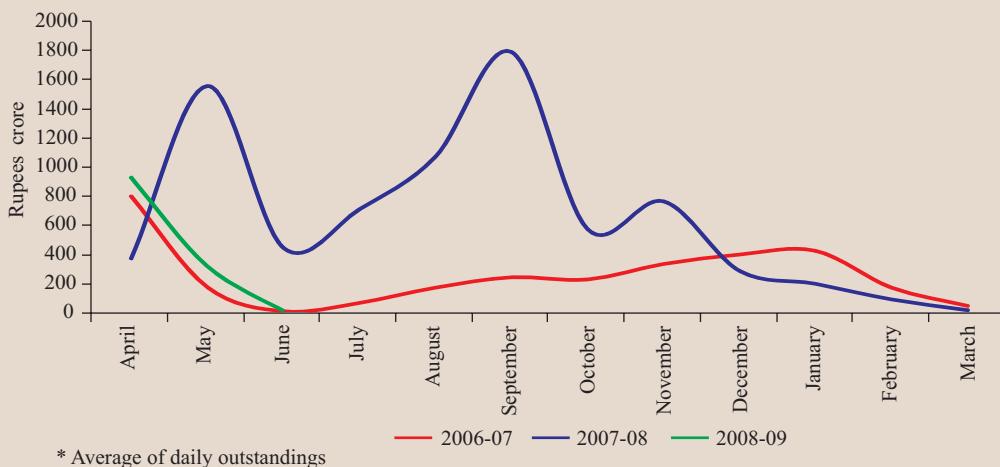
maintained at 2.7 per cent of GDP during 2008-09, though it would be higher in absolute terms.

Cash Management and State Government Market Borrowings

The provisional net allocation under market borrowing programme of the State Governments for 2008-09 is placed at Rs.44,629 crore. Taking into account repayments of Rs.14,371 crore, the gross market borrowings of State Governments are estimated at Rs.59,000 crore. During the current year so far (up to July 18, 2008), eight State Governments raised Rs.8,712 crore through auctions with a cut-off yield in the range 8.39-9.81 per cent as compared with Rs.7,153 crore by 13 State Governments (cut-off yield ranging from 8.30-8.57 per cent) during the corresponding period of the previous year. The weighted average interest rate on market loans firmed up to 8.87 per cent during 2008-09 (up to July 18, 2008) from 8.41 per cent during the corresponding period of 2007-08 (Table 21). The spreads of State Government securities over the yields of Central Government security of corresponding maturity ranged between 30 and 98 basis points as against 22 and 35 basis points during the corresponding period of 2007-08.

The average daily utilisation of WMA and overdraft by the States during 2008-09 (up to July 18, 2008) was Rs.351 crore as compared with Rs. 736 crore during the corresponding period of 2007-08 (Chart 6). Four States availed of WMA and three States resorted to overdraft during 2008-09 (up to July 18, 2008) as compared with six States and three States, respectively, during the corresponding period of the previous year.

Table 21: Market Borrowings of State Governments - 2008-09				
Item	Date	Cut-off Rate (Per cent)	Tenor (Years)	Amount Raised (Rupees Crore)
1	2	3	4	5
Auctions				
i. First	April 4, 2008	8.50-8.60	10	2,648
ii. Second	May 27, 2008	8.39-8.68	10	3,264
iii. Third	June 27, 2008	9.38-9.59	10	2,300
iv. Fourth	July 10, 2008	9.81	10	500
Grand Total				8,712
<i>Memo:</i>				
Year		Weighted Average Yield (per cent)		
2004-05				6.45
2005-06				7.63
2006-07				8.10
2007-08				8.25
2007-08 (up to July 18, 2007)				8.41
2008-09 (up to July 18, 2008)				8.87
Source : Reserve Bank of India.				

Chart 6: Utilisation of WMA and Overdraft by States*

The cash surplus position of the States, as reflected in their average investments in Treasury Bills (14-day Intermediate Treasury Bills and Auction Treasury Bills) was higher at Rs. 82,637 crore on July 18, 2008 than that of Rs. 75,659 crore on July 18, 2007. The average investments by the States in Treasury Bills during 2008-09 (up to July 18, 2008) amounted to Rs. 81,750 crore as compared with Rs. 70,608 crore during the corresponding period of 2007-08 (Chart 7).

Chart 7: Investments in Treasury Bills by State Governments*