

Central Government Finances: 2011-12 (April-September)*

A review of Central government finances for the first half of 2011-12 shows that it would be challenging to anchor the key deficit indicators within the budget estimates for 2011-12. The Centre had envisaged continuation of further progress towards fiscal correction by primarily budgeting a sharp reduction in expenditure growth while keeping a conservative stance on revenues. The mid-year fiscal situation shows that tax revenue growth remains far below the budgeted growth, reflecting not only a significant amount of direct tax refunds but also slowdown in indirect tax revenues during the current financial year. Moderation in economic growth and changes in duty structure on petroleum products in June 2011 may have also impacted the tax revenues. On the other hand, expenditure growth has overshot the budgeted growth primarily on account of non-plan expenditure. Consequently, fiscal and revenue deficits of the Centre, as proportion of budget estimates, were much higher in the first half of the current fiscal year even after adjusting for higher than the budgeted spectrum receipts from the first half of 2010-11. While expenditure growth of the Centre during April-September 2011 remained lower than a year ago, strong upside pressures are evident in respect of subsidies, which when accounted for in Central finances, pose the risk of fiscal slippages during 2011-12.

Finances of the Central government during 2011-12 (April-September) indicate deterioration in terms of key deficit indicators as compared with the corresponding period of the previous year (COPPY).¹ Even after adjusting for the one-off spectrum receipts in excess of the budgeted amount for the previous year, the key deficit indicators widened during 2011-12 (April-September). The widening of fiscal imbalances during the first half of 2011-12 was primarily

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¹ The review in this article is based on the provisional data on Union Government Accounts for April-September 2011, received from the Controller General of Accounts, Ministry of Finance, Government of India. Previous version of the article, viz., 'Central Government Finances (April-September 2010)' was published in the December 2010 issue of the Reserve Bank of India Bulletin.

attributable to decline in revenue receipts, reflecting deceleration in growth in tax revenues and decline in non-tax revenues. Expenditure growth at 11.4 per cent during April-September 2011 remained far higher than the budgeted growth rate (3.4 per cent) for 2011-12 on account of non-plan expenditures while plan expenditure growth decelerated.

Major Trends

A. Deficit Indicators

The Union Budget 2011-12, presented on February 28, 2011 against the backdrop of a swift and broad-based economic recovery, had proposed to carry forward the fiscal consolidation process during the year. Although some moderation was expected in revenue receipts growth, the revenue deficit-GDP ratio was kept at the previous year's level of 3.4 per cent as revenue expenditure growth was expected to decelerate sharply. The fiscal deficit as a ratio of GDP was budgeted lower at 4.6 per cent in 2011-12 which indicated that fiscal correction was primarily sought to be achieved through compressions in expenditure on subsidies as well as capital expenditure.

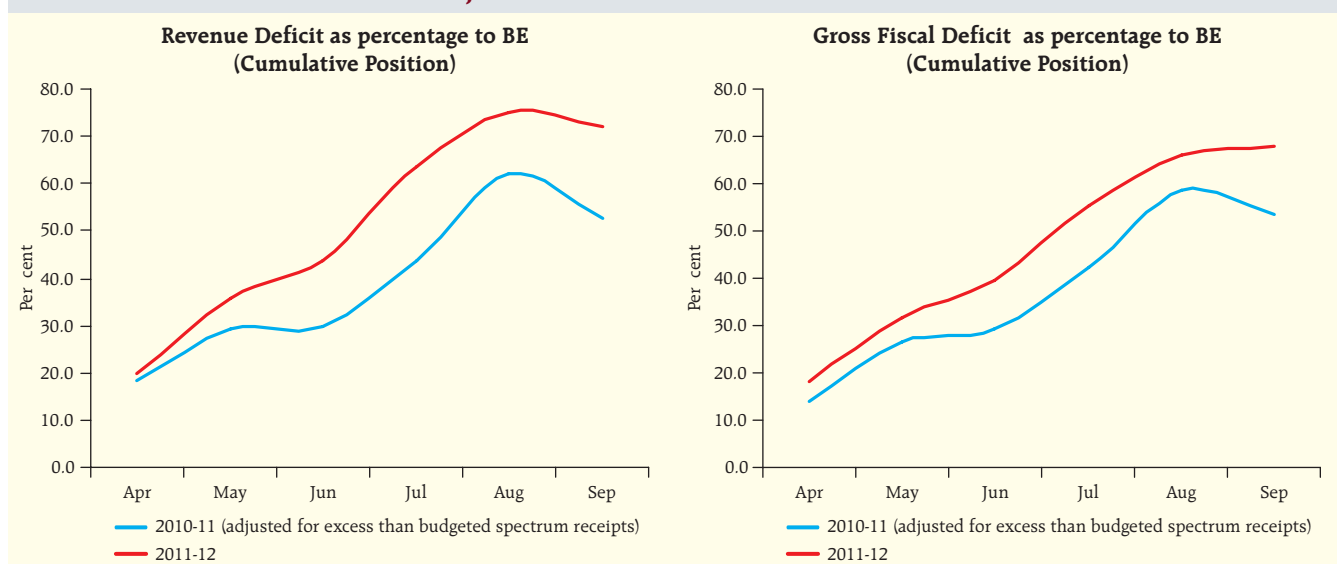
The Central government's key deficit indicators widened during 2011-12 (April-September). The deterioration was evident even when deficits were adjusted for more than budgeted one-off spectrum receipts in the first half of 2010-11 (Chart 1).

Revenue deficit (RD) and gross fiscal deficit (GFD) during April-September 2011 accounted for 72.2 per cent and 68.0 per cent of the budget estimates (BE) for 2011-12, much higher than the adjusted levels of 52.9 per cent and 53.6 per cent, respectively, for RD and GFD recorded during 2010-11 (April-September) (Statement 1).

B. Non-debt Receipts

Revenue receipts declined during 2011-12 (April-September) on account of a slowdown in tax revenues and decline in non-tax revenues. Apart from the impact

Chart 1: Major Deficit Indicators of the Central Government

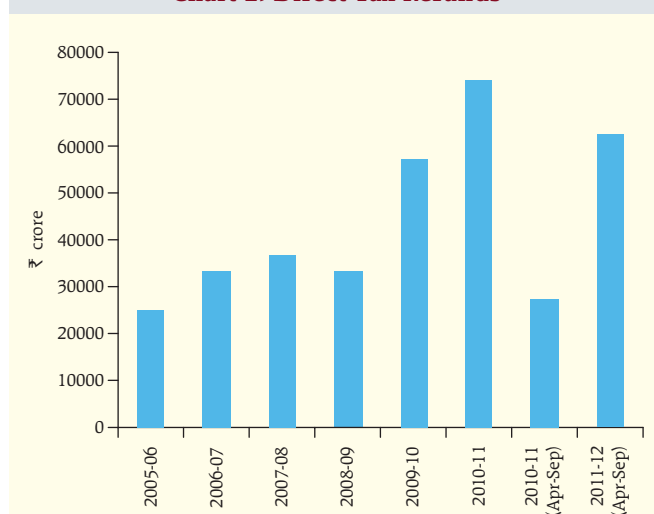


of moderation in economic growth on tax revenues, the overall tax collections have also been affected by higher direct tax refunds, particularly corporate tax refunds, during April-September 2011 (Chart 2). The deceleration was evident in excise duties and customs duties, reflecting, *inter alia*, the impact of changes in duty structure on petroleum products undertaken in June 2011. There was, however, an improvement in income tax and service tax collections (Table 1). Consequently, during 2011-12 (April-September), gross tax revenues accounted for 39.6 per cent of the budget estimates for the full year (43.4 per cent in the COPPY). The growth in tax revenue of the Centre (adjusted for

States' share) was much lower (9.1 per cent) during the first half of 2011-12 than that recorded (25.7 per cent) during 2010-11 (April-September) (Statement 2). The growth in Centre's tax revenues (adjusted for States' share) during April-September 2011 also remained lower than the budgeted growth of 17.9 per cent for the year as a whole, which itself was conservative in comparison with the tax revenue growth realised since 2004-05 (excluding 2008-09 and 2009-10).

Non-tax receipts during April-September 2011 turned out to be lower than those in the COPPY. It may be noted that non-tax revenues during April-September 2010 were substantially higher reflecting the impact of spectrum receipts which had exceeded the budgeted level. Among the major components of non-tax receipts, decline was seen in interest receipts and surplus transfer from the Reserve Bank.

Chart 2: Direct Tax Refunds



Source: Central Board of Direct Taxes, Ministry of Finance

Table 1: Growth Rates in Mobilisation of Taxes

	(in per cent)	
	April-September 2011	April-September 2010
	1	2
Corporation Tax	3.4	17.9
Income Tax	17.3	13.6
Customs Duties	22.5	61.8
Union Excise Duties	13.9	41.1
Service Tax	37.5	15.9
Gross Tax Revenue	13.9	25.3

Source: Controller General of Accounts, Ministry of Finance.

Table 2: Expenditure of the Centre

Item	(Amount in ₹ crore)			
	April-September		Growth rate (per cent)	
	2011	2010	2011	2010
	1	2	3	4
A. Revenue Expenditure	5,27,308	4,73,155	11.4	15.6
Non-Plan Revenue Expenditure	3,76,275	3,28,308	14.6	9.0
Interest Payments	1,22,499	1,02,779	19.2	18.6
Major Subsidies	75,190	64,036	17.4	-3.0
Defence Revenue	49,275	40,824	20.7	-0.8
Pension	29,694	25,015	18.7	17.6
Grants to States/UTs.	21,207	24,783	-14.4	37.5
Plan Revenue Expenditure	1,51,033	1,44,847	4.3	33.9
Social Services	40,781	34,723	17.4	50.9
Grants to States/UTs.	54,004	52,003	3.8	37.4
Other Economic Services	54,599	58,000	-5.9	22.9
B. Capital Expenditure	71,785	64,822	10.7	64.5
Loans and Advances	23,030	20,169	14.2	298.4
Non-Defence Capital Outlay	24,793	22,599	9.7	36.4
Defence Capital Outlay	23,962	22,054	8.7	24.1
C. Total Expenditure	5,99,093	5,37,977	11.4	19.9

UTs: Union Territories

The non-debt capital receipts were, however, higher during April-September 2011 attributable to an increase in loan recoveries. Disinvestment proceeds during 2011-12 (April-September) amounted to ₹2,731 crore as against the budgeted level of ₹40,000 crore for 2011-12. There have been no receipts from disinvestment for the Central government after May 2011.

C. Expenditure Pattern

Aggregate expenditure growth remained lower at 11.4 per cent during April-September 2011-12, though it was far above the budgeted growth (3.4 per cent) for the year as a whole. The Centre reduced its grants to States/UTs and other economic services to control its revenue expenditure. The growth rates of loans and

advances as well as capital outlays were also lower during the first half of the current financial year. The lower capital expenditure growth during the current year needs to be viewed in the context of higher expenditure during 2010-11 on account of equity infusion of public sector banks which have not occurred during this year so far (Table 2).

Plan expenditure (both revenue and capital) growth during the first half of the year was slower than the budgeted growth for 2011-12 as a whole. This was mainly due to lower plan expenditures in various Ministries/Departments like rural development, agriculture, health and family welfare and drinking water supply during the period April-September 2011 (Table 3).

Table 3: Major Items of Plan Expenditure by Ministry/Department

Ministry/Department	(Amount in ₹ crore)					
	2011-12 BE	2010-11 BE	April-September		April-September as per cent of BE	
			2011	2010	2011	2010
	1	2	3	4	5	6
Deptt. of Rural Development	74,100	66,100	30,761	32,280	41.5	48.8
Deptt. of Agriculture and Co-operation	17,123	15,042	8,603	9,212	50.2	61.2
Deptt. of Drinking Water Supply	11,000	10,580	4,586	4,601	41.7	43.5
Deptt. of Women and Child Development	12,650	11,000	6,650	5,478	52.6	49.8
Ministry of Railways	20,000	15,875	8,175	7,487	40.9	47.2
Deptt. of Road Transport and Highways	22,248	19,894	10,353	8,999	46.5	45.2
Deptt. of Health and Family Welfare	23,560	21,000	8,789	9,105	37.3	43.4

Table 4: Major Subsidies

(Amount in ₹ crore)

	April-September		2011-12 (BE)	2010-11 (BE)	Per cent of BE	
	2011-12	2010-11			Apr-Sep 2011	Apr-Sep 2010
	1	2	3	4	5	6
Food	42,572	34,673	60,573	55,578	70.3	62.4
Fertilisers (Total)	31,493	28,200	49,998	49,981	63.0	56.4
Petroleum*	22,721	15,173	23,676	3,142	96.0	482.9
Total	96,786	78,046	1,34,247	1,08,701	72.1	71.8

* Refers to non-plan expenditure in respect of Ministry of Petroleum and Natural Gas which primarily includes post-APM subsidies and compensation made to Oil Marketing Companies for under-recoveries on account of sale of sensitive petroleum products, apart from marginal amount for other non-plan expenditures.

Source: Controller General of Accounts, Ministry of Finance.

Non-plan expenditure, on the other hand, recorded a higher growth during April-September 2011 attributable to higher expenditure on major subsidies, interest payments and pensions. In view of the elevated prices of crude oil and fertilisers in the international markets and the increases in minimum support prices and procurement levels, the total expenditure on major subsidies is expected to over-shoot the budget estimates for the year (Table 4).

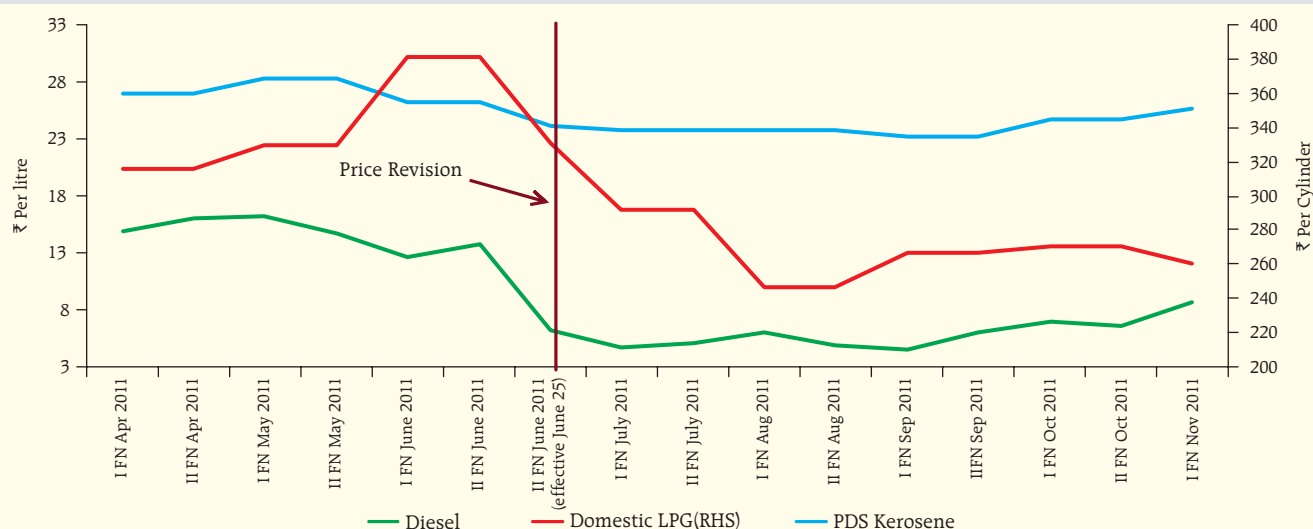
As per the present indications, the budgetary provision for petroleum subsidy is insufficient to cover the under-recoveries of oil marketing companies (OMCs). According to the Petroleum Planning and Analysis Cell (PPAC), the under-recoveries reported by Oil Marketing Companies (OMCs) for the first half of 2011-12 amounted to ₹64,900 crore. The per unit

under-recovery on sale of petroleum products has been firming up since mid-September 2011 in line with the weakening of the rupee, notwithstanding some interim decline in global crude oil prices (Chart 3). The PPAC has projected the total under-recovery of oil PSUs on sale of diesel, domestic LPG and kerosene at around ₹1,32,000 crore during 2011-12 (₹78,190 crore during 2010-11). Consequently, the government's expenditure on petroleum subsidies could turn out to be much higher than the budgeted level for 2011-12, unless steps are taken to de-regulate the prices of administered petroleum products.

D. Financing of Gross Fiscal Deficit

Gross fiscal deficit (GFD) during April-September 2011 was financed mainly through market borrowings (98.7 per cent). There was a substantial recourse to

Chart 3: Under recoveries of Oil Marketing Companies per unit of Product



Note: IFN: Ist fortnight IIFN: Second fortnight Source: PPAC

Ways and Means Advances (WMAs) of ₹24,387 crore (8.7 per cent of GFD) and disinvestment of surplus cash to the tune of 5.8 per cent of GFD as at the end of September 2011. Some of the other items of the capital receipts (net) (e.g. special deposits and suspense and remittances) also witnessed an outgo (4.7 per cent of GFD) during this period (Table 5). Recognising the link between WMAs and monetisation of deficit, the limit of WMA has been reduced from ₹30,000 crore as on September 30, 2011 to ₹20,000 crore for October-December 2011 and further to ₹10,000 crore for January-March 2012.

The Centre completed 61 per cent of its budgeted gross market borrowing during 2011-12 (April-September). It revised upwards the market borrowings through dated securities by ₹52,872 crore for the second half of 2011-12, thereby raising the gross market borrowings for 2011-12 by 12.7 per cent above the budgeted amount (₹4,69,738 crore).

Gross market borrowings this year as on November 25, 2011 stood at ₹3,82,369 crore (81.4 per cent of BE) as against ₹3,86,482 crore (77.5 per cent of BE) in the COPPY. The corresponding net market

borrowings were ₹2,83,307 crore (80.2 per cent of BE) and ₹2,76,926 crore (80.3 per cent of BE).

E. Cash Management

During 2011-12 (up to November 25, 2011), the Central Government took recourse to ways and means advances (WMA) for 212 days as compared with 57 days in the COPPY. Commencing the year with a surplus cash balance of ₹16,516 crore (end-March 2011), the Central Government utilised these balances to meet its expenditure needs and resorted to the WMA between April 5, 2011 and June 15, 2011 and the cash balance turned to positive on June 16, 2011. However, the cash balance turned into WMA again during June 30, 2011 and September 15, 2011 and further during September 24, 2011 and November 25, 2011. During 2011-12, the Government resorted to overdraft on 48 days as compared to 2 days in the COPPY. The daily average utilisation of overdraft till November 25, 2011 stood at ₹4,636.38 crore as compared with ₹105.51 crore in the COPPY. The average daily utilisation of WMA by the Central Government (up to November 25, 2011) was ₹21,213.09 crore as compared with ₹3,709.20 crore in the COPPY.

Table 5: Sources of Financing GFD: April-September

(Amount in ₹ crore)					
Components	2011-12		2010-11		
	Amount	Per cent Share	Amount	Per cent Share	
	1	2	3	4	
1 Gross Fiscal Deficit	2,80,810	100.0	1,33,252	100.0	
2 Market Borrowings (dated securities and 364-day T-Bills)	2,11,392	75.3	2,04,383	153.4	
3 Short Term Borrowings (91 and 182 day T-Bills)	65,683	23.4	-16,884	-12.7	
4 14-day Intermediate T-Bills	-35,733	-12.7	-26,760	-20.1	
5 State Provident Funds	2,162	0.8	3,745	2.8	
6 National Small Saving Fund (Net)	8,598	3.1	30,569	22.9	
7 Special Deposits	-2,388	-0.9	-476	-0.4	
8 Securities against Small Savings	-622	-0.2	-12,680	-9.5	
9 Deposit Scheme for Retiring Employees	-1	0.0	-1	0.0	
10 External Assistance	2,368	0.8	11,961	9.0	
11 Others	-13,285	-4.7	-25,022	-18.8	
<i>of which</i>					
i. Suspense and Remittances	3,170	1.1	-12,699	-9.5	
ii. Other Capital Receipts	-16,455	-5.9	-12,325	-9.2	
<i>of which</i>					
(a) Compensation and other Bonds	-6,803	-2.4	-2,249	-1.7	
(b) Advances	-4,219	-1.5	-671	-0.5	
(c) Marketable Securities issued in Conversion of Special Securities	0.0	0.0	0.0	0.0	
(d) Special Securities issued to Nationalised Banks	0.0	0.0	0.0	0.0	
12 Disinvestment of Surplus Cash	16,416	5.8	-31,819	-23.9	
13 Drawdown of Cash Balances	1,833	0.7	-3,764	-2.8	
14 Ways and Means Advances and Overdraft	24,387	8.7	0	0.0	

Concluding Observations and Broad Assessment

Central government finances during the first half of 2011-12 show that the increasing pressures emanating from major components of non-plan expenditures coupled with deceleration in growth of tax revenues could lead to deterioration in fiscal position of the Central government. While changes in duty structure of petroleum products and downside risks to overall economic growth could impact Centre's tax revenues in the coming months, there would be expenditure pressures on account of upside risks to petroleum, fertiliser and food subsidies. There is also a possibility of Central government missing its disinvestment target for 2011-12. The allocations in respect of grants to States/UTs and other economic services may also have to be speeded up in the remaining part of 2011-12. The contraction in capital expenditure during 2011-12 so far raises concerns relating to the quality of expenditure management. Going by the developments in the first half of

2011-12, it would be difficult to keep the fiscal deficit within the budgeted level of 4.6 per cent of GDP for 2011-12. The market borrowings for the year have already been revised upwards for the current year.

These fiscal developments are to be viewed in the context of the fiscal consolidation path in terms of rolling targets underlined in the Medium-term Fiscal Policy Statement (MTFPS) of Union Budget 2011-12. In terms of the rolling targets, revenue deficit and fiscal deficit are to be brought down to 2.1 per cent and 3.5 per cent of GDP, respectively, by 2013-14. While there could be a fiscal slippage during 2011-12, it would be imperative to return to the medium-term path of fiscal consolidation through timely implementation of tax reforms (Direct Tax Code, Goods and Services Tax), expenditure reform measures and linking the expenditure-related announcements to tax/revenue enhancing initiatives. It is expected that an amendment to FRBM Act, 2003, which is to indicate the fiscal roadmap for the next five years, as announced in the Union Budget 2011-12, will address some of these concerns.

Statement 1: Budgetary Position of the Central Government

(Amount in ₹ crore)

Item	Actuals (April-September)		Budget Estimates (Financial Year)		April-September 2011			
	2011-12 (1)	2010-11 (2)	2011-12 (3)	2010-11 (4)	Percentages to Budget Estimates		Growth Rate (Per cent)	
					2011-12 (5)	2010-11 (6)	2011-12 (7)	2010-11 (8)
1. Revenue Receipts	3,05,528	3,98,234	7,89,892	6,82,212	38.7	58.4	-23.3	62.9
2. Tax Revenue (Net)	2,54,731	2,33,415	6,64,457	5,34,094	38.3	43.7	9.1	25.7
3. Non-Tax Revenue	50,797	1,64,819	1,25,435	1,48,118	40.5	111.3	-69.2	180.3
of which:								
(i) Interest Receipts	7,937	10,371	19,578	19,252	40.5	53.9	-23.5	37.6
4. Capital Receipts	2,93,565	1,39,743	4,67,837	4,26,537	62.7	32.8	110.1	-31.6
5. Recovery of Loans	10,024	4,256	15,020	5,129	66.7	83.0	135.5	84.9
6. Other Receipts	2,731	2,235	40,000	40,000	6.8	5.6	22.2	-48.0
7. Borrowings	2,80,810	1,33,252	4,12,817	3,81,408	68.0	34.9	110.7	-32.6
8. Total Receipts (1+4)	5,99,093	5,37,977	12,57,729	11,08,749	47.6	48.5	11.4	19.9
9. Non-Plan Expenditure	4,21,270	3,68,270	8,16,182	7,35,657	51.6	50.1	14.4	14.3
10. On Revenue Account	3,76,275	3,28,308	7,33,558	6,43,599	51.3	51.0	14.6	9.0
of which:								
(i) Interest Payments	1,22,499	1,02,779	2,67,986	2,48,664	45.7	41.3	19.2	18.6
11. On Capital Account	44,995	39,962	82,624	92,058	54.5	43.4	12.6	92.3
12. Plan Expenditure	1,77,823	1,69,707	4,41,547	3,73,092	40.3	45.5	4.8	33.9
13. On Revenue Account	1,51,033	1,44,847	3,63,604	3,15,125	41.5	46.0	4.3	33.9
14. On Capital Account	26,790	24,860	77,943	57,967	34.4	42.9	7.8	33.5
15. Total Expenditure (9+12)	5,99,093	5,37,977	12,57,729	11,08,749	47.6	48.5	11.4	19.9
16. Revenue Expenditure (10+13)	5,27,308	4,73,155	10,97,162	9,58,724	48.1	49.4	11.4	15.6
17. Capital Expenditure (11+14)	71,785	64,822	1,60,567	1,50,025	44.7	43.2	10.7	64.5
of which:								
(i) Loans and Advances	23,030	20,169	17,150	17,810	134.3	113.2	14.2	298.4
18. Revenue Deficit (16-1)	2,21,780	74,921	3,07,270	2,76,512	72.2	27.1	196.0	-54.6
		(1,46,183)				(52.9)	(51.7)	(-11.4)
19. Fiscal Deficit {15-(1+5+6)}	2,80,810	1,33,252	4,12,817	3,81,408	68.0	34.9	110.7	-32.6
		(2,04,514)				(53.6)	(37.3)	(3.4)
20. Gross Primary Deficit {19-10(i)}	1,58,311	30,473	1,44,831	1,32,744	109.3	23.0	419.5	-72.6

Note: Figures in parentheses are after adjusting for excess than budgeted spectrum receipts of April-September 2010.

Source: Controller General of Accounts, Ministry of Finance, Government of India.

Statement 2: Tax Collection of the Central Government

(Amount in ₹ crore)

Item	Actuals (April -September)		Budget Estimates (Financial Year)		April-September 2011			
	2011-12 (1)	2010-11 (2)	2011-12 (3)	2010-11 (4)	Percentages to Budget Estimates		Growth Rate (Per cent)	
					2011-12 (5)	2010-11 (6)	2011-12 (7)	2010-11 (8)
A. Gross Tax Revenue (1 to 6)	3,69,353	3,24,397	9,32,440	7,46,651	39.6	43.4	13.9	25.3
1. Corporation Tax	1,27,375	1,23,161	3,59,990	3,01,331	35.4	40.9	3.4	17.9
2. Income Tax	66,249	56,480	1,64,526	1,20,566	40.3	46.8	17.3	13.6
3. Customs Duties	74,808	61,051	1,51,700	1,15,000	49.3	53.1	22.5	61.8
4. Union Excise Duties	59,315	52,058	1,63,550	1,32,000	36.3	39.4	13.9	41.1
5. Service Tax	37,049	26,936	82,000	68,000	45.2	39.6	37.5	15.9
6. Other Taxes	4,557	4,711	10,674	9,754	42.7	48.3	-3.3	-30.7
B. Surcharge for Financing NCCF	1,448	1,204	4,525	3,560	32.0	33.8	20.3	11.8
C. Balance Gross Tax Revenue	3,67,905	3,23,193	9,27,915	7,43,091	39.6	43.5	13.8	25.4
D. Assignment to States/UTs	1,13,174	89,778	2,63,458	2,08,997	43.0	43.0	26.1	24.5
E. Net Tax Revenue	2,54,731	2,33,415	6,64,457	5,34,094	38.3	43.7	9.1	25.7

NCCF: National Calamity Contingency Fund. UTs: Union Territories.

Source: Controller General of Accounts, Ministry of Finance, Government of India.