

Central Government Finances: April-September 2010*

This article reviews the finances of the Central Government during the first half of 2010-11. Central Government finances during the first half of the current fiscal year show that Government is well within its target to meet its budgeted deficit indicators. The key deficit indicators in absolute terms as well as per cent of GDP during 2010-11 (April-September) were substantially lower than the corresponding period of previous year. As proportion of their respective budget estimates, the levels were much lower in the first half of current fiscal year than that of the previous year. Revenue receipts increased substantially during the first half of 2010-11 on account of surge in non-tax revenue and rebound in tax revenue. Aggregate expenditure, on the other hand, increased at a lower rate during the first half of 2010-11.

Finances of the Central Government during April-September 2010 indicate an improvement in terms of key deficit indicators as compared with the corresponding period of the previous year.¹ While revenue receipts increased substantially, the aggregate expenditure recorded relatively a modest increase during the period. Higher growth in revenue receipts can be attributed to increase in tax revenue and non-tax revenue. While, the higher tax collections reflect firming up of growth

* Prepared in the Fiscal Analysis Division, Department of Economic and Policy Research, Reserve Bank of India. The previous edition of the article, viz., 'Central Government Finances (April-September 2009)', was published in the December 2009 issue of the Reserve Bank of India Bulletin.

¹ This article is based on the provisional data on Union Government Accounts for April-September 2010, received from the Controller General of Accounts, Ministry of Finance, Government of India.

momentum, surge in non-tax revenue was due to substantial mobilisation of revenues through the 3G spectrum and broadband wireless access (BWA) auctions. As a result, a substantial improvement was evident in revenue account in April-September 2010 which, in turn, led to decline in gross fiscal deficit (GFD) over April-September 2009.

Major Trends

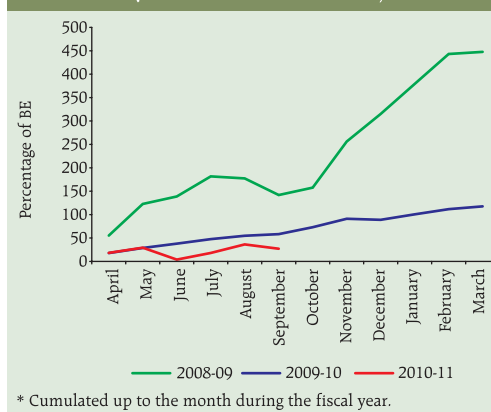
A. Deficit Indicators

The Union Budget 2010-11, announced in February 2010, started the process of calibrated exit of fiscal stimulus measures. The Budget has partially rolled back indirect tax rate cuts extended during the period of slowdown. During the first half of 2010-11, revenue deficit (RD) at ₹74,921 crore formed 1.1 per cent of GDP, significantly lower than 2.6 per cent of GDP during April-September 2009. It may be noted that the RD-GDP ratio was budgeted at 4.0 per cent for the full year 2010-11. During April-September 2010, the Central Government incurred revenue deficit to the extent of 27.1 per cent of budget estimate (BE) while the same was 58.4 per cent in April-September 2009 (Table 1). The trend in RD as per cent of budget estimates during the first-half also indicates that it was lower than the previous two years (Chart 1).

Table 1: Major Deficit Indicators during April-September

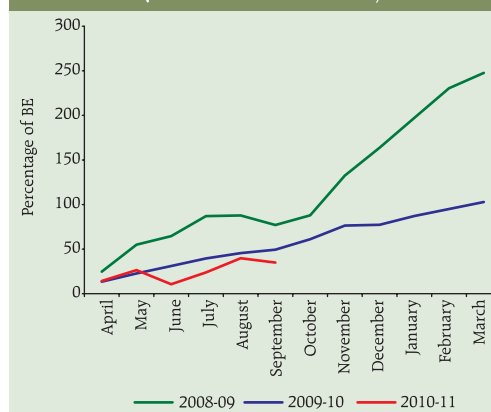
	(Per cent)			
	As ratio to GDP		As ratio to Budget Estimates	
	2009-10	2010-11	2009-10	2010-11
1	2	3	4	5
Revenue Deficit	2.6	1.1	58.4	27.1
Gross Fiscal Deficit	3.2	1.9	49.3	34.9
Primary Deficit	1.8	0.4	63.3	23.0

Chart 1: Revenue Deficit (Cumulative Position*)



Gross fiscal deficit for 2010-11 is budgeted to decline by 1.2 percentage points of GDP to ₹3,81,408 crore over the provisional accounts of 2009-10. During the first half of 2010-11, GFD stood at ₹1,33,252 crore and formed 1.9 per cent of GDP, much lower than the level of 3.2 per cent recorded during the first half of previous year. As per cent of budget estimates, it formed 34.9 per cent and was markedly lower than 49.3 per cent in the first half of previous year. The trend in GFD as per cent of budget estimates during the first half also indicates that it was lower than the previous two fiscal years (Chart 2).

Chart 2: Fiscal Deficit (Cumulative Position)



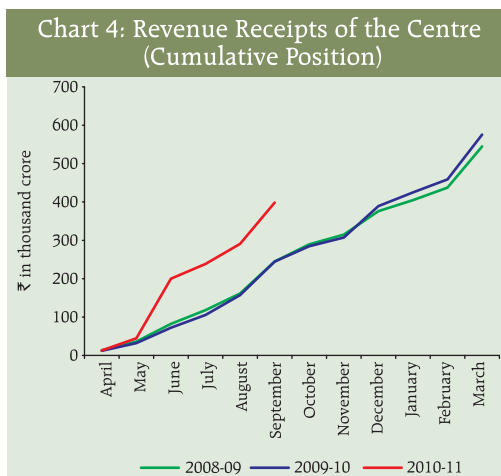
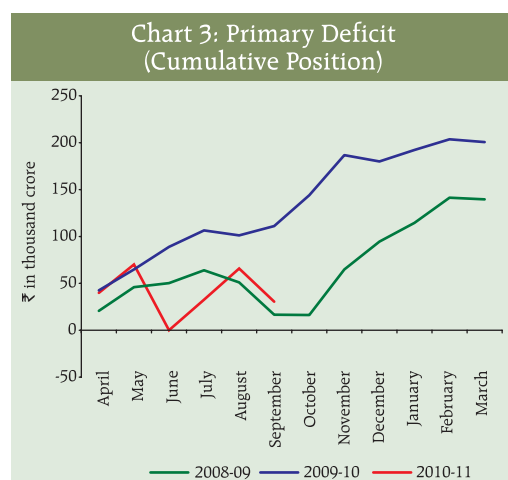
Gross primary deficit at ₹30,473 crore (0.4 per cent of GDP) during April-September 2010 was much lower than the corresponding period of previous year at ₹1,11,106 crore (1.8 per cent of GDP) (Chart 3). It constituted 23.0 per cent of the budget estimates for 2010-11.

B. Revenue Position

Reflecting the combined impact of economic recovery and partial roll-back of indirect tax rate cuts, a perceptible increase of 62.9 per cent was observed in revenue receipts during April-September 2010 as against a decline of 0.2 per cent in April-September 2009. The increase was due to marked improvement in the collection of tax and non-tax revenue (Statement 1 and Chart 4). As per cent of budget estimates, revenue receipts at 58.4 per cent, were much higher than the first half of the previous year (39.8 per cent).

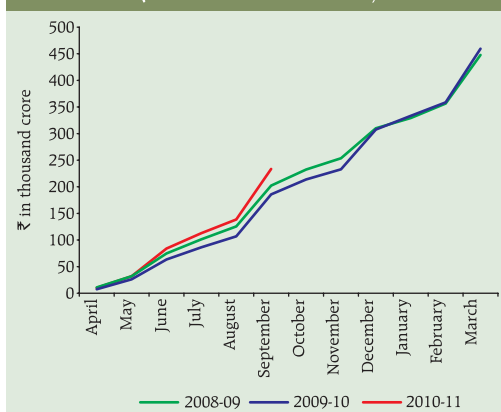
Tax Revenue

Tax buoyancy seems to have improved with firming of growth momentum in 2010-11. Growth in major categories of tax receipts is much higher during the first half than the growth budgeted for the full year. Gross tax



revenue during April-September 2010 increased by 25.3 per cent to ₹3,24,397 crore, in contrast to a decline of 7.6 per cent during April-September 2009. This largely reflected the high tax buoyancy, as expected in budget 2010-11, due to reversal of tax rate cuts and recovery in economic growth. Taxes assigned to States/UTs increased by 24.5 per cent as against a decline of 6.0 per cent in the corresponding period of previous year. The net tax revenue to the Centre (adjusted of taxes assigned to States/UTs and surcharge for financing the National Calamity Contingency Fund) increased by 25.7 per cent, while it had declined by 8.2 per cent during the first half of previous year (Chart 5 and Statement 2).

Economic recovery and better corporate performance during the first half of 2010-11 led to increase in the collection of income tax and corporate tax as compared with the first half of 2009-10 (Table 2). It may be noted that the Union Budget 2010-11 proposed to restore the basic duty on crude petroleum, diesel and petrol and other refinery products. In addition, the central excise duty on petrol and diesel was proposed to be increased.

Chart 5: Net Tax Revenue of the Centre
(Cumulative Position)

Therefore, policy of reversal of rate cuts combined with higher industrial growth seems to have led to increase in collection in the Union excise duties by 41.1 per cent as against a decline of 22.9 per cent in the first half of previous year. Similarly, rise in customs duty collections can be attributed to a steep rise in imports in the first half of 2010-11.

Non-Tax Revenue

Non-tax revenue, increased by 180.3 per cent to ₹1,64,819 crore, during April-September 2010, significantly higher than the growth of 37.9 per cent in the corresponding period of the previous year. The improvement

Table 2: Growth Rates in Mobilisation
of Major Taxes

1	(Per cent)				
	2009-10 (April- Sept.)	2010-11 (April- Sept.)	2009-10 (RE)*	2009-10 (Prov. Accts)#	2010-11 (BE)@
	2	3	4	5	6
Corporation Tax	7.7	17.9	14.9	14.4	17.4
Income Tax	7.2	13.6	7.2	6.7	6.8
Customs Duties	-32.9	61.8	-21.8	-15.6	17.3
Union Excise Duties	-22.9	41.1	-5.9	-3.8	24.0
Gross Tax Revenue	-7.6	25.3	0.8	2.8	16.5
Net Tax Revenue	-8.2	25.7	-0.2	2.6	12.6

* Over 2008-09 (RE) # Over 2008-09 (Prov. Accts)
@ Over 2009-10 (BE)

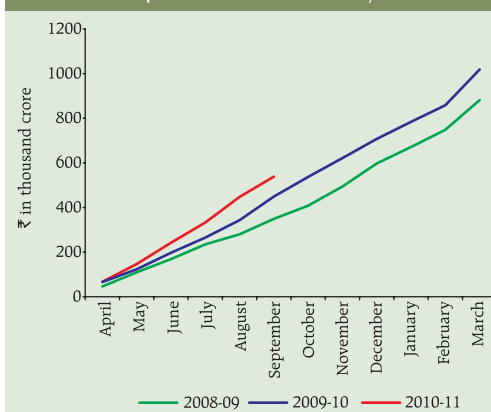
in non-tax revenue collections was on account of the more-than budgeted mobilisation of revenues from 3G spectrum and broadband wireless access (BWA) auctions.

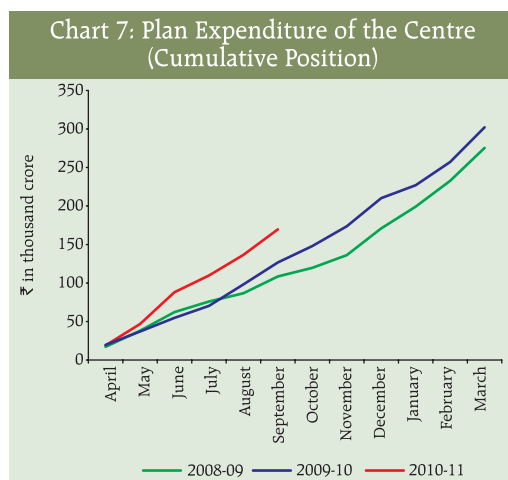
C. Non-Debt Capital Receipts

Non-debt capital receipts comprising recovery of loans and other receipts at ₹6,491 crore were lower than that in the previous year, despite the budget estimates for 2010-11 being higher than that of 2009-10. As per cent of budget estimates, non-debt capital receipts were 14.4 per cent in April-September 2010, much lower than 21.9 per cent during the corresponding period of the previous year. In this regard, it may be noted that the Central Government has already initiated the process for disinvestment of select central PSUs.

D. Expenditure Pattern

Aggregate expenditure during the first half of 2010-11 registered a lower growth as compared with the first half of 2009-10 (Chart 6). The lower growth can be attributed to decline in non-plan expenditure in September 2010. In spite of higher growth in interest payments in April-September 2010, growth in revenue account of non-plan

Chart 6: Aggregate Expenditure of the Centre
(Cumulative Position)



expenditure was lower than that in April-September 2009 while a significant increase in capital account of non-plan expenditure was observed during April-September 2010.

Plan Expenditure

Plan expenditure at ₹1,69,707 crore, however, increased at a higher rate of 33.9 per cent than that of 16.9 per cent in the first half of 2009-10 (Chart 7). As per cent of budget estimates, at 45.5 per cent, it was higher than 39.0 per cent in the previous year. This was mainly due to increase in expenditure under various Ministries/Departments like rural development,

agriculture, health and family welfare and drinking water supply during the period April-September 2010 as compared with the corresponding period of previous year (Table 3).

Within total plan expenditure, both the revenue and capital components recorded higher growth during the first half of 2010-11 constituting 46 per cent and 42.9 per cent of BE as against 38.9 per cent and 39.8 per cent in the corresponding period of the previous year. The increase in plan revenue expenditure was primarily on account of increase in expenditure on social services, other economic services and grants to States. Capital component of plan expenditure increased mainly because of increase in loans and advances and expenditure on account of social services (Table 4 and Statement 1).

Non-Plan Expenditure

Non-plan expenditure at ₹3,68,270 crore during April-September 2010 registered a substantially lower growth of 14.3 per cent as compared with 33.8 per cent in the corresponding period of previous year (Chart 8). As per cent of budget estimates, it formed 50.1 per cent, higher than 46.3 per cent in the previous

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

Ministry/Department	2009-10 (BE)	2010-11 (BE)	(Amount in ₹ crore)			
			April-September		April-September as per cent of BE	
			2009	2010	2009	2010
1	2	3	4	5	6	7
Deptt. of Rural Development	62,670	66,100	28,024	32,280	44.7	48.8
Deptt. of Agriculture and Co-operation	11,307	15,042	5,337	9,212	47.2	61.2
Deptt. of Drinking Water Supply	9,200	10,580	3,478	4,601	37.8	43.5
Deptt. of Women and Child Development	7,350	11,000	3,743	5,478	50.9	49.8
Ministry of Railways	14,600	15,875	7,300	7,487	50.0	47.2
Deptt. of Road Transport and Highways	17,520	19,894	8,305	8,999	47.4	45.2
Deptt. of Health and Family Welfare	18,380	21,000	7,297	9,105	39.7	43.4

Table 4: Expenditure of the Centre

(Amount in ₹ crore)				
Item	April-September		Variation	
	2009	2010	Amount	Per cent
1	2	3	4	5
A. Revenue Expenditure	4,09,454	4,73,155	63,701	15.6
Non-Plan Revenue Expenditure	3,01,291	3,28,308	27,017	9.0
Interest Payments	86,669	1,02,779	16,110	18.6
Major Subsidies	66,013	64,036	-1,977	-3.0
Defence Revenue	41,156	40,824	-332	-0.8
Pension	21,271	25,015	3,744	17.6
Grants to States/UTs	18,018	24,783	6,765	37.5
Plan revenue Expenditure	1,08,163	1,44,847	36,684	33.9
Social Services	23,017	34,723	11,706	50.9
Grants to States/UTs	37,838	52,003	14,165	37.4
Other Economic Services	47,207	58,000	10,793	22.9
B. Capital Expenditure	39,394	64,822	25,428	64.5
Loans and Advances	5,063	20,169	15,106	298.4
Non-Defence Capital Outlay	16,567	22,599	6,032	36.4
Defence Capital Outlay	17,764	22,054	4,290	24.1
C. Total Expenditure	4,48,848	5,37,977	89,129	19.9

year. The higher growth in non-plan expenditure was observed in capital account while the revenue component showed a lower growth (Table 4).

Interest payment has been a major item under non-plan revenue expenditure during all months of the first half of 2010-11

(Chart 9). Interest payments increased steeply by 18.6 per cent during April-September 2010 over the corresponding period of previous year. A modest decline in the Central Government's non-plan expenditure on major subsidies during April-September 2010 can be attributed to a decline in fertiliser subsidy. In this context,

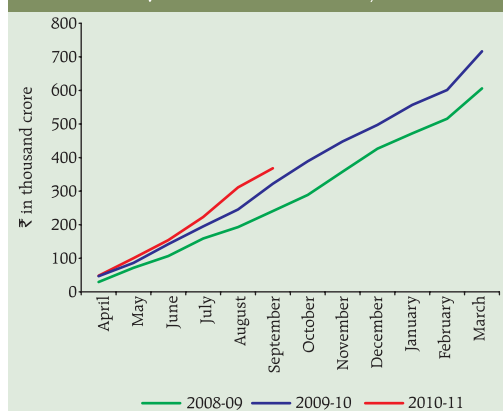
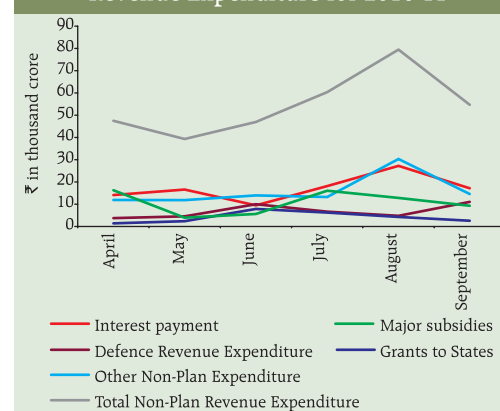
Chart 8: Non-Plan Expenditure
(Cumulative Position)

Chart 9: Monthly Trends in Non-Plan Revenue Expenditure for 2010-11



it may be mentioned that the Central Government has taken some initiative to reform subsidy by announcing a nutrient-based subsidy for the fertiliser sector which was supposed to reduce imbalances in the use of fertilisers in addition to containing the subsidy bill. The combined share of interest payments and subsidies in non-plan revenue expenditure stood at 50.8 per cent (almost the same level during the corresponding period of the previous year).

Capital Outlay

Capital outlay during the first half of 2010-11 increased by 30.1 per cent to ₹44,653 crore, as against the increase of 65.8 per cent in the first half of the previous year. This is mainly

because of lower growth in defence capital outlay during first half of 2010-11, which increased by 24.1 per cent compared with an increase of 111.8 per cent in the corresponding period of previous year. Growth in non-defence capital outlay was marginally higher in the first half of 2010-11 as compared with the first half of previous year (see Table 4).

E. Financing of Gross Fiscal Deficit

The front-loading of market borrowing programme of the Central Government for the first half of 2010-11 meant that the market borrowings far exceeded gross fiscal deficit. Market borrowings constituted 153.4 per cent of the GFD (Table 5). There were also net inflow of resources on account of

Table 5: Sources of Financing GFD: April-September

(Amount in ₹ crore)				
	2009-10		2010-11	
	Amount	Share %	Amount	Share %
1	2	3	4	5
1. Gross Fiscal Deficit	1,97,775	100.0	1,33,252	100.0
2. Market Borrowings (dated securities and 364-day T-Bills)	2,89,767	146.5	2,04,383	153.4
3. Short-Term Borrowings (91 and 182 day T-Bills)	1,151	0.6	-16,884	-12.7
4. 14-day Intermediate T-Bills	-14,813	-7.5	-26,760	-20.1
5. State Provident Funds	5,491	2.8	3,745	2.8
6. National Small Saving Fund (Net)	10,997	5.6	30,569	22.9
7. Special Deposits	-908	-0.5	-476	-0.4
8. Securities against Small Savings	-622	-0.3	-12,680	-9.5
9. Deposit Scheme for Retiring Employees	-1	0.0	-1	0.0
10. External Assistance	2,974	1.5	11,961	9.0
11. Others	-96,261	-48.7	-60,605	-45.5
<i>Of which :</i>				
i. Suspense and Remittances	-7,011	-3.5	-12,699	-9.5
ii. Other Capital Receipts	-21,710	-11.0	-12,325	-9.2
<i>Of which :</i>				
(a) Compensation and other Bonds	-8,463	-4.3	-2,249	-1.7
(b) Advances	-4,631	-2.3	-671	-0.5
(c) Marketable Securities issued in Conversion of Special Securities	-5,000	-2.5	0	0.0
12. Investment (-)/Disinvestment (+) of Surplus Cash	-33,781	-17.1	-31,819	-23.9
13. Drawdown of Cash Balances	-33,761	-17.1	-3,764	-2.8

state provident funds, national small saving fund and external assistance to finance the GFD. On the other hand, the contribution from treasury bills was negative. Yet, due to the surplus market borrowings, there was substantial accumulation of funds in the investment of surplus cash account and the cash balances account together amounting to 26.7 per cent of GFD.

Gross market borrowings this year as on November 19, 2010 stood at ₹ 3,75,481 crore (75.3 per cent of BE) as against ₹3,96,369 crore (80.7 per cent of BE) during the corresponding period of previous year. The corresponding net market borrowings were ₹2,65,925 crore (77.1 per cent of BE) and ₹3,35,376 crore (84.3 per cent of BE).

Cash Management

During 2010-11 (upto November 22, 2010), the Central Government took recourse to ways and means advances (WMA) for 57 days as compared with 76 days during the corresponding period of 2009-10. Commencing the year with a surplus cash balance of ₹18,282 crore (end-March 2010), the Central Government utilised these balances to meet its expenditure needs and resorted to WMA between April 6, 2010 and May 30, 2010 and on September 4 and 5, 2010. During 2010-11, the Government resorted to overdraft on six days (two spells of a total of three days each in April and May 2010) as compared to 44 days during the corresponding period of the previous year. The daily average utilisation of overdraft till November 22, 2010

stood at ₹106.85 crore as compared to ₹1,284.34 crore in the corresponding period of the preceding year. With the inflow of indirect taxes and surplus transferred from the Reserve Bank, the cash balances turned into surplus between May 31, 2010 and September 3, 2010 and from September 6, 2010 till date. The average daily utilisation of WMA by the Central Government (up to November 22, 2010) was ₹3,756 crore as compared with ₹5,328 crore in the corresponding period of the preceding year.

Concluding Observations and Broad Assessment

With continued economic recovery and reversal of tax rate cuts, tax collections have displayed buoyancy during the first half of 2010-11. In addition, the mobilisation of revenues from 3G spectrum and broadband wireless access (BWA) auctions has helped to ease the pressure on Government finances thus far (*i.e.*, upto September 2010). However, the impact of one-off nature of revenues might taper off in the months to come with a pick-up in expenditure and moderation in the levels of growth in revenues. Durable fiscal consolidation would require correction on the recurring components of expenditure and receipts, and less reliance on one-off items. In the coming months of the year, developments with regard to the progress in disinvestment, the likely impact of economic growth on tax revenues and cash outgo on account of supplementary demand for grants may have implications for overall Central Government finances.

Statement 1: Budgetary Position of the Central Government

(Amount in ₹ crore)

Item	Actuals (April- September)		Budget Estimates (Financial Year)		Percentages to Budget Estimates		Growth Rate (Per cent)	
	2009-10	2010-11	2009-10	2010-11	2009-10	2010-11	2009-10	2010-11
	2	3	4	5	6	7	8	9
1. Revenue Receipts	2,44,471	3,98,234	6,14,497	6,82,212	39.8	58.4	-0.2	62.9
2. Tax Revenue (Net)	1,85,669	2,33,415	4,74,218	5,34,094	39.2	43.7	-8.2	25.7
3. Non-Tax Revenue <i>of which :</i>	58,802	1,64,819	1,40,279	1,48,118	41.9	111.3	37.9	180.3
(i) Interest Receipts	7,539	10,371	19,174	19,252	39.3	53.9	-3.2	37.6
4. Capital Receipts	2,04,377	1,39,743	4,06,341	4,26,537	50.3	32.8	96.2	-31.6
5. Recovery of Loans	2,302	4,256	4,225	5,129	54.5	83.0	54.9	84.9
6. Other Receipts	4,300	2,235	1,120	40,000	383.9	5.6	-	-48.0
7. Borrowings	1,97,775	1,33,252	4,00,996	3,81,408	49.3	34.9	92.7	-32.6
8. Total Receipts (1+4)	4,48,848	5,37,977	10,20,838	11,08,749	44.0	48.5	28.6	19.9
9. Non-Plan Expenditure	3,22,070	3,68,270	6,95,689	7,35,657	46.3	50.1	33.8	14.3
10. On Revenue Account <i>of which :</i>	3,01,291	3,28,308	6,18,834	6,43,599	48.7	51.0	31.3	9.0
(i) Interest Payments	86,669	1,02,779	2,25,511	2,48,664	38.4	41.3	0.7	18.6
11. On Capital Account	20,779	39,962	76,855	92,058	27.0	43.4	86.4	92.3
12. Plan Expenditure	1,26,778	1,69,707	3,25,149	3,73,092	39.0	45.5	16.9	33.9
13. On Revenue Account	1,08,163	1,44,847	2,78,398	3,15,125	38.9	46.0	15.4	33.9
14. On Capital Account	18,615	24,860	46,751	57,967	39.8	42.9	26.4	33.5
15. Total Expenditure (9+12)	4,48,848	5,37,977	10,20,838	11,08,749	44.0	48.5	28.6	19.9
16. Revenue Expenditure (10+13)	4,09,454	4,73,155	8,97,232	9,58,724	45.6	49.4	26.7	15.6
17. Capital Expenditure (11+14) <i>of which :</i>	39,394	64,822	1,23,606	1,50,025	31.9	43.2	52.3	64.5
(i) Loans and Advances	5,063	20,169	12,339	17,810	41.0	113.2	-2.0	298.4
18. Revenue Deficit (16-1)	1,64,983	74,921	2,82,735	2,76,512	58.4	27.1	110.7	-54.6
19. Fiscal Deficit {15-(1+5+6)}	1,97,775	1,33,252	4,00,996	3,81,408	49.3	34.9	92.7	-32.6
20. Gross Primary Deficit {19-10(i)}	1,11,106	30,473	1,75,485	1,32,744	63.3	23.0	569.6	-72.6

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

ARTICLE

Central Government
Finances:
April-September 2010

Statement 2: Tax Collection of the Central Government

(Amount in ₹ crore)

Item	Actuals (April- September)		Budget Estimates (Financial Year)		April-September			
	2009	2010	2009-10	2010-11	Percentages to Budget Estimates		Growth Rate	
					2009	2010	2009	2010
1	2	3	4	5	6	7	8	9
A. Gross Tax Revenue (1 to 6)	2,58,880	3,24,397	6,41,079	7,46,651	40.4	43.4	-7.6	25.3
1. Corporation Tax	1,04,504	1,23,161	2,56,725	3,01,331	40.7	40.9	7.7	17.9
2. Income Tax	49,703	56,480	1,06,800	1,20,566	46.5	46.8	7.2	13.6
3. Customs Duties	37,744	61,051	98,000	1,15,000	38.5	53.1	-32.9	61.8
4. Union Excise Duties	36,893	52,058	1,06,477	1,32,000	34.6	39.4	-22.9	41.1
5. Service Tax	23,236	26,936	65,000	68,000	35.7	39.6	-3.7	15.9
6. Other Taxes	6,800	4,711	8,077	9,754	84.2	48.3	-20.5	-30.7
B. Surcharge for Financing NCCF	1,077	1,204	2,500	3,560	43.1	33.8	-4.9	11.8
C. Balance Gross Tax Revenue	2,57,803	3,23,193	6,38,579	7,43,091	40.4	43.5	-7.6	25.4
D. Assignment to States/UTs	72,135	89,778	1,64,361	2,08,997	43.9	43.0	-6.0	24.5
E. Net Tax Revenue	1,85,668	2,33,415	4,74,218	5,34,094	39.2	43.7	-8.2	25.7

NCCF : National Calamity Contingency Fund.

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