

Central Government Finances (April-September 2009)*

This article reviews the finances of the Central Government during the first half of 2009-10. The key deficit indicators in absolute terms as well as per cent of GDP were substantially higher than the corresponding period of previous year. However, 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. The higher levels of budgeted deficits for the current fiscal year reflect fiscal stimulus measures to contain economic slowdown. Revenue receipts declined and lagged behind those of budget estimates due to lacklustre performance of tax revenues, while expenditure kept up with the momentum envisaged in the budget estimates.

Finances¹ of the Central Government during April-September 2009 indicate that all the key deficit indicators as per cent of GDP widened significantly over the corresponding period of the previous year. Revenue receipts declined while aggregate expenditure increased during the period. Growth in revenue receipts declined due to decline in tax revenue. The rate of growth of non-tax revenue was, however, higher due to larger dividend and profit transfer from government owned financial institutions. Capital expenditure grew at a much higher rate than corresponding period of previous year.

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¹ The review in this article is based on the provisional data on Union Government Accounts for April-September 2009, received from the Controller General of Accounts, Ministry of Finance, Government of India.

Major Trends

A. Deficit Indicators

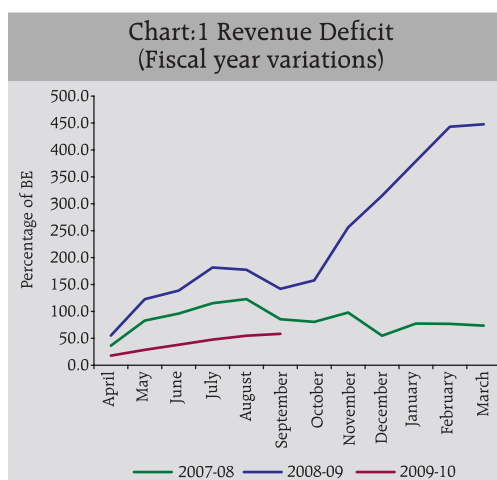
The Union Budget 2009-10 continued with the expansionary fiscal stance adopted by the Central Government since the second half of 2008-09 to contain the slowdown in the Indian economy emanating from the global financial crisis. This necessitated the deferment in attaining the FRBM targets during 2009-10 as well. Revenue deficit (RD) was budgeted to increase further by 0.2 per cent of GDP to Rs.2,82,735 crore (4.8 per cent of GDP) over the provisional accounts of 2008-09. During the first half of 2009-10, RD at Rs.1,64,983 crore formed 2.8 per cent of GDP, significantly higher than 1.5 per cent of GDP during April-September 2008. As per cent of budget estimates, RD at 58.4 per cent, however, was far lower than the corresponding period of previous year (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).

Gross fiscal deficit (GFD) for 2009-10 was budgeted to increase further by 0.6 percentage points of GDP to Rs.4,00,996 crore over the provisional accounts of 2008-09. During the first half of 2009-10,

Table 1: Major Deficit Indicators during April-September

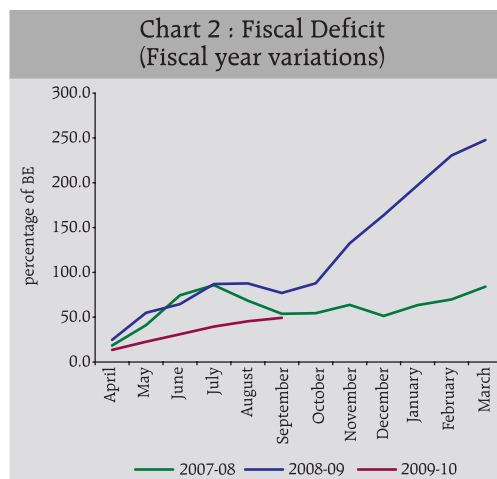
	(Percentage Shares)			
	As ratio to GDP		As ratio to Budget Estimates	
	2009-10	2008-09	2009-10	2008-09
1	2	3	4	5
Revenue Deficit	2.8	1.5	58.4	141.9
Gross Fiscal Deficit	3.4	1.9	49.3	77.0
Primary Deficit	1.9	0.3	63.3	-28.8*

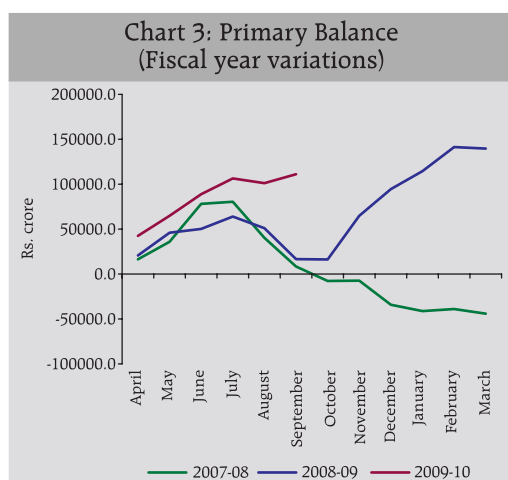
* Deficit of Rs.16,593 crore during April-September 2008 against budgeted surplus of Rs.57,520 crore for the full year.



GFD stood at Rs.1,97,775 crore and formed 3.4 per cent of GDP, higher than the corresponding period of previous year. However, as per cent of budget estimates, it formed 49.3 per cent and was markedly lower than 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).

Gross primary deficit at Rs.1,11,106 crore (1.9 per cent of GDP) during April-September 2009 was much higher than the corresponding period of previous year at

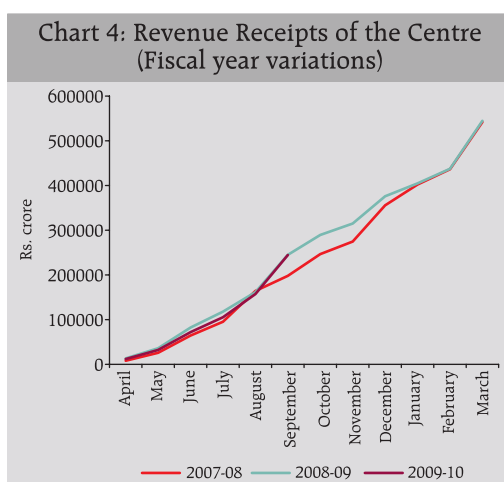




Rs.16,593 crore (0.3 per cent of GDP) (Chart 3). It formed 63.3 per cent of the budget estimates for 2009-10.

B. Revenue Position

Reflecting the combined impact of economic slowdown and rate cuts in indirect taxes, on tax revenue, revenue receipts during April-September 2009 declined by 0.2 per cent to Rs.2,44,471 crore as against an increase of 23.7 per cent in the corresponding period of previous year. The decline was despite a marked improvement in the collection of non-tax revenue (Statement 1 and Chart 4).



As per cent of budget estimates non-tax revenue, at 41.9 per cent, was lower than the first half of the previous year (44.5 per cent).

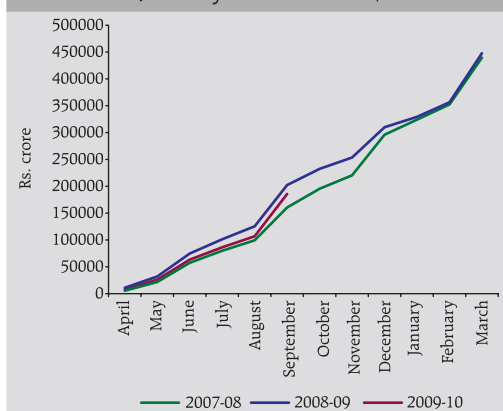
Tax Revenue

Gross tax revenue during April-September 2009 declined by 7.6 per cent to Rs.2,58,880 crore, in contrast to a high growth of 25.3 per cent during April-September 2008. As per cent of budget estimates, at 40.4 per cent, it was marginally lower than that of the first half of previous year. This largely reflected the expectation of high tax buoyancy in budget 2008-09, while a significant decline was expected in the same during 2009-10 due to tax cuts and lower economic growth. Taxes assigned to States/UTs declined by 6.0 per cent as against the increase of 24.1 per cent in previous year. The net tax revenue to the Centre (adjusted of taxes assigned to States/UTs and surcharge for financing National Calamity Contingency Fund) declined by 8.2 per cent, while it grew by 26.0 per cent during the first-half of the previous year (Table 2, Chart 5 and Statement 2).

All the major taxes either decelerated or declined during April-September 2009.

**Table 2: Growth Rates in Mobilisation
of Major Taxes**

	(Percent)				
	2008-09 (April- Sept.)	2009-10 (April- Sept.)	2008-09 (RE)	2008-09 (Prov. Accts)	2009-10 (BE)
1	2	3	4	5	6
Corporation Tax	38.2	7.7	15.1	10.8	15.6
Income Tax	30.8	7.2	5.2	7.2	-1.1
Customs Duties	16.9	-32.9	3.7	-4.1	-9.3
Union Excise Duties	6.6	-22.9	-12.3	-12.0	-1.7
Gross Tax Revenue	25.3	-7.6	5.9	2.8	2.1
Net Tax Revenue	26.0	-8.2	6.0	1.9	1.8

Chart 5: Net Tax Revenue of the Centre
(Fiscal year variations)

Economic slowdown and decline in the corporate profits led to deceleration in the collection of income tax and corporate tax to 2.9 per cent and 7.7 per cent from 30.7 per cent and 38.2 per cent, respectively during the first half of previous year. The rate cuts combined with lower industrial growth (though improving in the recent months) led to decline in collection in Union excise duties by 22.9 per cent as against an increase of 6.6 per cent in the first-half of previous year. Large scale decline in imports, both due to economic slowdown and fall in the prices of crude oil, led to decline in the collection of customs duties by 32.9 per cent, while it increased by 16.9 per cent in the corresponding period of previous year.

Non-Tax Revenue

Non-tax revenue, on the other hand, increased by 37.9 per cent to Rs.58,802 crore, significantly higher than the growth of 13.9 per cent in the corresponding period of previous year. The improvement in non-tax revenue collection was on account of larger dividend and profit transfers from the government owned financial institutions.

C. Non-Debt Capital Receipts

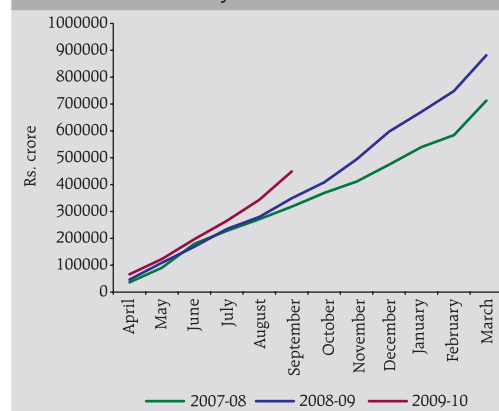
Non-debt capital receipts comprising recovery of loans and other receipts at Rs.6,602 crore was much higher than the previous year, despite the budget estimates for 2009-10 being significantly lower than that of 2008-09. Thus, non-debt capital receipts during April-September 2009 exceeded the budget estimates for the full year (123.5 per cent), as against 10.4 per cent in the previous year.

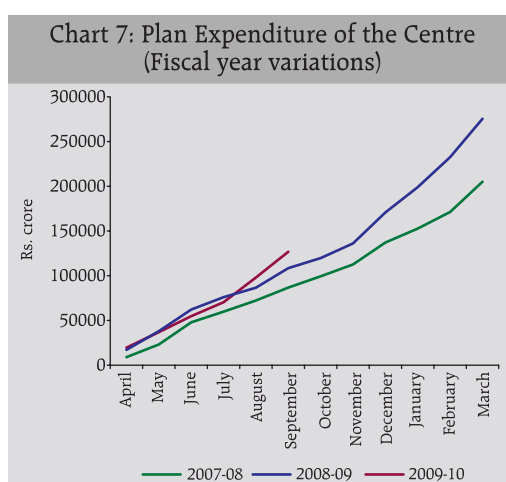
D. Expenditure Pattern

Aggregate expenditure during the first half of 2009-10 at Rs.4,48,848 crore registered a growth of 28.6 per cent on top of an increase of 23.6 per cent in the first half of 2008-09 (Chart 6). In view of the much higher budget estimates for 2009-10 than 2008-09, aggregate expenditure as per cent of budget estimates, however, was lower in the first half of 2009-10 than the first half of 2008-09.

Plan Expenditure

Plan expenditure at Rs.1,26,778 crore, however, increased at a lower rate of 16.9

Chart 6: Aggregate Expenditure of the Centre
(Fiscal year variations)



per cent than that of 25.0 per cent in the first half of 2008-09 (Chart 7). As per cent of budget estimates, at 39.0 per cent, it was lower than 44.6 per cent in the preceding year. This was mainly due to rural development on which the budgetary allocation for 2009-10 was nearly doubled but the utilisation rate up to the first half was substantially lower than the previous year. The plan expenditure under rural

development, agriculture, women and child development, road transport and health and family welfare however increased while that of drinking water supply declined during the period April-September 2009 as compared with the corresponding period of previous year.

The deceleration in plan expenditure was on account of revenue component which increased by 15.4 per cent to Rs.1,08,163 crore, against the much higher increase of 31.0 per cent in the previous year. The increase in plan revenue expenditure was mainly due to increase in expenditure on social services. The capital component, however, increased by 26.4 per cent to Rs.18,615 crore in contrast with a decline of 3.0 per cent in the previous year. However, because of the much higher envisaged plan expenditure for 2009-10 than in 2008-09, both the components of plan expenditure as per cent of budget estimates were lower during the first half 2009-10 than in the first half of 2008-09 (Table 4 and Statement 1).

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

(Rupees crore)

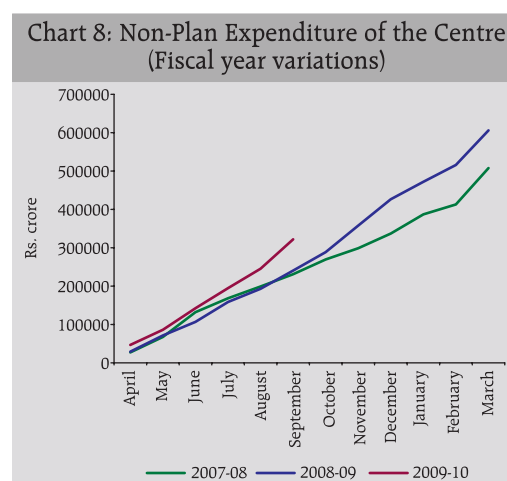
Ministry/Department	2009-10 BE	2008-09 BE	April-September		April-September as per cent of BE	
			2009	2008	2009	2008
1	2	3	4	5	6	7
Deptt of Rural Development	62,670	31,500	28,024	24,577	44.7	78.0
Deptt of Agriculture and Co-operation.	11,307	10,106	5,337	4,516	47.2	44.7
Deptt of Drinking Water Supply	9,200	8,500	3,478	4,458	37.8	52.4
Deptt of Women and Child Development	7,350	7,200	3,743	2,927	50.9	40.7
Ministry of Railways	14,600	-	7,300	3,550	50.0	-
Deptt of Road Transport and Highways	17,520	15,122	8,305	7,171	47.4	47.4
Deptt of Health and Family Welfare	18,380	15,580	7,297	6,156	39.7	39.5

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Non-Plan Expenditure

Non-plan expenditure at Rs.3,22,070 crore during April-September 2009 registered a substantially higher growth of 33.8 per cent as compared with 23.0 per cent in the corresponding period of previous year (Chart 8). As per cent of budget estimates,

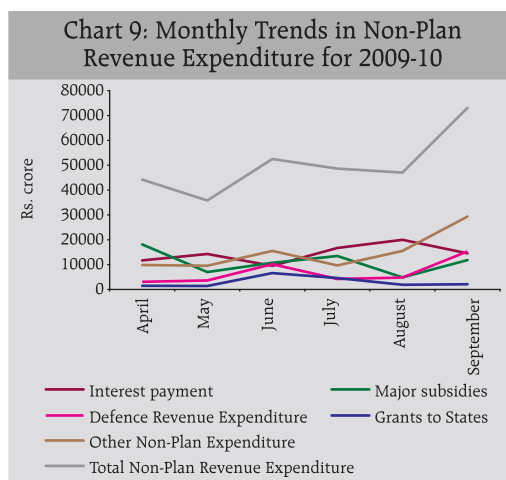


it formed 46.3 per cent, lower than 47.4 in the previous year. The higher growth in non-plan expenditure was observed in both the revenue and capital components, but the growth in the latter was much higher than in the former. The increase in non-plan revenue expenditure was mainly accounted for by pension (growth of 73.7 per cent) and defence (growth of 50.2 per cent), which are the expenditures related to the implementation of Sixth Pay Commission award (Table 4).

Interest payments and subsidies are the major items under non-plan revenue expenditure (Chart 9). Interest payments increased marginally by 0.7 per cent to Rs.86,669 crore during April-September 2009 over the corresponding period of previous year. Major subsidies increased by 20.2 per cent to Rs.66,013 crore. The share of interest payments and subsidies

Table 4: Expenditure of the Centre

(Rupees crore)				
Item	April-September		Variation	
	2009	2008	Amount	Per cent
1	2	3	4	5
A. Revenue Expenditure	409454	323211	86243	26.7
Non -Plan Revenue Expenditure	301291	229484	71807	31.3
Interest Payments	86669	86061	608	0.7
Major Subsidies	66013	54916	11097	20.2
Defence Revenue	41156	27397	13759	50.2
Pension	21271	12247	9024	73.7
Grants to States/Uts.	18018	16074	1944	12.1
Plan revenue Expenditure	108163	93727	14436	15.4
Social Services	24582	6421	18161	282.8
Grants to States/Uts.	37838	33671	4167	12.4
Other Economic Services	47207	40916	6291	15.4
B. Capital Expenditure	39394	25870	13524	52.3
Loans and Advances	5063	5167	-104	-2.0
Non- Defence Capital Outlay	16567	12316	4251	34.5
Defence Capital Outlay	17764	8387	9377	111.8
C. Total Expenditure	448848	349081	99767	28.6



in non-plan revenue expenditure declined substantially to 50.7 per cent from 61.4 per cent during the corresponding period of the previous year.

Capital Outlay

Capital outlay during the first half of 2009-10 increased substantially by 65.8 per cent to Rs.34,331 crore, as against the increase of 13.3 per cent in first half of the previous year. The increase was mostly in defence capital outlay, which increased by 111.8 per cent. Non-defence capital outlay also increased by 34.5 per cent as against a decline of 2.1 per cent during the first half of previous year (Table 4).

E. Financing of Gross Fiscal Deficit

The front loading of market borrowing programme of the Central Government for 2009-10 during the first half of 2009-10 meant that the net market borrowings far exceeded gross fiscal deficit. Net market borrowings constituted 146.5 per cent of the GFD. There were also net inflow of resources on account of state provident funds, national small savings fund and

external assistance to finance the GFD. On the other hand, the contributions from 14-day Treasury Bills and other capital receipts were negative. However, due to the surplus net market borrowings, there was substantial accumulation of funds in the investment of surplus cash account and the cash balances account together amounting to 34.2 per cent of GFD.

Gross market borrowings this year as on November 23, 2009 stood at Rs.4,06,369 crore (including 28,000 crore towards de-sequestering of MSS cash account) (82.8 per cent of BE) as against Rs.1,63,904 crore (47.8 per cent of BE) during the corresponding period of the previous year. The corresponding net market borrowings were Rs.3,45,376 crore (86.8 per cent of BE) and Rs.97,816 crore (36.7 per cent of BE).

Cash Management

During 2009-10 (upto November 21, 2009), the Central Government took recourse to ways and means advances for 76 days as compared with 20 days during the corresponding period of 2008-09. Commencing the year with a surplus cash balance of Rs.16,319 crore (end-March 2009), the Central Government used up these balances to meet its expenditure needs and resorted to the WMA between April 4, 2009 and June 15, 2009; between July 6th and 7th 2009; and on July 9, 2009. Out of this period, Government resorted to overdraft on 44 days. The daily average utilisation of overdraft till November 21, 2009 stood at Rs.1,995 crore. With the inflow of indirect taxes and surplus transferred from the Reserve Bank, the cash balances turned into surplus between June 16, 2009 and July 5, 2009. The average daily utilisation of WMA

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Table 5: Sources of Financing GFD: April-September

	April-September 2009		April-September 2008	
	Amount	Share %	Amount	Share %
1	2	3	4	5
1 Gross Fiscal Deficit	197775	100.0	102654	100.0
2 Market Borrowings (dated securities and 364-day T-Bills)	289767	146.5	63987	62.3
3 Short Term Borrowings (91 and 182 day T-Bills)	1151	0.6	29078	28.3
4 14-day Intermediate T-Bills	-14813	-7.5	-27550	-26.8
5 State Provident Funds	5491	2.8	120	0.1
6 National Small Saving Fund (Net)	10997	5.6	7013	6.8
7 Special Deposits	-908	-0.5	-481	-0.5
8 Securities against Small Savings	-622	-0.3	-621	-0.6
9 Deposit Scheme for Retiring Employees	-1	0.0	-4	0.0
10 External Assistance	2974	1.5	2315	2.3
11 Others	-28719	-14.5	-10702	-10.4
<i>Of which</i>				
i. Suspense and Remittances	-7011	-3.5	-1879	-1.8
ii. Other Capital Receipts	-21710	-11.0	-8823	-8.6
<i>Of which</i>				
(a) Compensation and other Bonds	-8463	-4.3	-7581	-7.4
(b) Advances	-4631	-2.3	-1992	-1.9
(c) Marketable Securities issued in Conversion of Special Securities	-5000	-2.5	0	0.0
(d) Special Securities issued to Nationalised Banks	0	0.0	0	0.0
12 Disinvestment of Surplus Cash	-33781	-17.1	0	0.0
13 Drawdown of Cash Balances	-33761	-17.1	39499	38.5
14 Ways and Means Advances and Over draft	0	0.0	0	0.0

by the Central Government (up to November 21, 2009) was Rs.5,351 crore as compared with Rs.462 crore in the corresponding period of the preceding year. There was no overdraft in corresponding period of last year.

Concluding Observations and Broad Assessment

Finances of the Central Government during the first half of 2009-10 show that the key deficit indicators as a ratio to GDP were much larger than in the corresponding period

of previous year. This was, however, expected as the envisaged deficit targets for 2009-10 were at least three times higher than those envisaged in the Budget for 2008-09. The deficit indicators as a proportion of the budget estimates during the first half of 2009-10 were, however, markedly lower than those during the first half of 2008-09. Revenue receipts remained subdued, in fact declined, due to the combined impact of continued economic slowdown and cuts in indirect tax rates. Thus, so far, revenue receipts have lagged behind those envisaged in the budget estimates. However, the pace

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of deceleration/decline in tax collections has moderated over the months of the first half of 2009-10, reflecting gradual pickup in economic activity. Expenditure, on the other hand, maintained a rising momentum and grew faster than what was envisaged in the

Budget. It thus appears that if the envisaged deficit indicators are to be met, the revenue collections, in particular taxes, need to improve substantially in the second half. This would crucially hinge on the revival of the economy.

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Statement 1 : Budgetary Position of the Central Government

(Rupees crore)

Item	Actuals (April- September)		Budget Estimates (Financial Year)		(April- September)			
	2009-10	2008-09	2009-10	2008-09	Percentages to Budget Estimates		Growth Rate (Per cent)	
					2009-10	2008-09	2009-10	2008-09
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1. Revenue Receipts	244,471	244,898	614,497	602,935	39.8	40.6	-0.2	23.7
2. Tax Revenue (Net)	185,669	202,247	474,218	507,150	39.2	39.9	-8.2	26.0
3. Non-Tax Revenue	58,802	42,651	140,279	95,785	41.9	44.5	37.9	13.9
<i>of which :</i>								
(i) Interest Receipts	7,539	7,788	19,174	19,135	39.3	40.7	-3.2	-6.4
4. Capital Receipts	204,377	104,183	406,341	147,949	50.3	70.4	96.2	-13.1 (21.7)
5. Recovery of Loans	2,302	1,486	4,225	4,497	54.5	33.0	54.9	-26.8
6. Other Receipts	4,300	43	1,120	10,165	383.9	0.4	-	-99.9 -(98.2)
7. Borrowings	197,775	102,654	400,996	133,287	49.3	77.0	92.7	26.4
8. Total Receipts (1+4)	448,848	349,081	1,020,838	750,884	44.0	46.5	28.6	9.8 (23.1)
9. Non-Plan Expenditure	322,070	240,629	695,689	507,498	46.3	47.4	33.8	4.1 (23.0)
10. On Revenue Account	301,291	229,484	618,834	448,352	48.7	51.2	31.3	22.4
<i>of which :</i>								
(i) Interest Payments	86,669	86,061	225,511	190,807	38.4	45.1	0.7	18.2
11. On Capital Account	20,779	11,145	76,855	59,146	27.0	18.8	86.4	-74.5 (37.7)
12. Plan Expenditure	126,778	108,452	325,149	243,386	39.0	44.6	16.9	25.0
13. On Revenue Account	108,163	93,727	278,398	209,767	38.9	44.7	15.4	31.0
14. On Capital Account	18,615	14,725	46,751	33,619	39.8	43.8	26.4	-3.0
15. Total Expenditure (9+12)	448,848	349,081	1,020,838	750,884	44.0	46.5	28.6	9.8 (23.6)
16. Revenue Expenditure (10+13)	409,454	323,211	897,232	658,119	45.6	49.1	26.7	24.8
17. Capital Expenditure (11+14)	39,394	25,870	123,606	92,765	31.9	27.9	52.3	-56.0 (11.1)
<i>of which :</i>								
(i) Loans and Advances	5,063	5,167	12,339	8,243	41.0	62.7	-2.0	3.3
18. Revenue Deficit (16-1)	164,983	78,313	282,735	55,184	58.4	141.9	110.7	28.1
19. Fiscal Deficit {15-(1+5+6)}	197,775	102,654	400,996	133,287	49.3	77.0	92.7	26.4 (28.4)
20. Gross Primary Deficit {19-10(i)}	111,106	16,593	175,485	-57,520	63.3	-28.8	569.6	98.0 (131.8)

Figures in parantheses are excluding SBI transactions.

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

Statement 2 : Tax Collection of the Central Government during September- 2009

(Rupees crore)

Item	Actuals (April- September)		Budget Estimates (Financial Year)		April-September 2009			
	2009-10	2008-09	2009-10	2008-09	Budget Estimates (Per cent)		Growth Rate (Per cent)	
					2009-10	2008-09	2009-10	2008-09
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
A. Gross Tax Revenue (1 to 6)	258,880	280,141	641,079	687,715	40.4	40.7	-7.6	25.3
1. Corporation Tax	104,504	96,991	256,725	226,361	40.7	42.8	7.7	38.2
2. Income Tax	55,229	53,666	112,850	138,314	48.9	38.8	2.9	30.7
(a) Taxes on Income other than Corporation Tax	49,703	46,349	106,800	120,604	46.5	38.4	7.2	30.8
(b) Securities Transaction Tax	3,537	3,182	6,000	9,000	59.0	35.4	11.2	2.7
(c) Banking Cash Transaction Tax	83	323	50	550	166.0	58.7	-74.3	17.0
(d) Fringe Benefit Tax	1,906	3,812	0	8,160	—	46.7	-50.0	70.4
3. Customs Duties	37,744	56,241	98,000	118,930	38.5	47.3	-32.9	16.9
4. Union Excise Duties	36,893	47,870	106,477	137,874	34.6	34.7	-22.9	6.6
5. Service Tax	23,236	24,139	65,000	64,460	35.7	37.4	-3.7	31.6
6. Other Taxes	1,274	1,234	2,027	1,776	62.9	69.5	3.2	32.8
B. Surcharge for Financing NCCF	1,076	1,133	2,500	1,800	43.0	62.9	-5.0	-0.6
C. Balance Gross Tax Revenue	257,804	279,008	638,579	685,915	40.4	40.7	-7.6	25.5
D. Assignment to States/UTs	72,135	76,761	164,361	178,765	43.9	42.9	-6.0	24.1
E. Net Tax Revenue	185,669	202,247	474,218	507,150	39.2	39.9	-8.2	26.0

NCCF : National Calamity Contingency Fund.

UTs : Union Territories.

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