

Central Government Finances (April-September 2008)*

This article reviews the finances of the Central Government during first half of 2008-09. While tax collections was buoyant, key deficit indicators, viz., revenue deficit (RD), gross fiscal deficit (GFD) and primary deficit (PD) were higher reflecting higher non-plan revenue expenditure on subsidies, interest payments and plan revenue expenditure on social services, other economic services, and grants to States.

Finances¹ of the Central Government during the first half of the current fiscal year (April-September 2008) indicate deterioration in all the key deficit indicators, both in absolute terms as well as per cent of GDP, over the corresponding period of the preceding year. As per cent of budget estimates, both RD and GFD were higher mainly due to rise in revenue expenditure, both non-plan and plan. Growth in revenue receipts was higher than that of the corresponding period last year as a result of higher growth of net tax revenue. The rate of growth of non-tax revenue was, however, lower partly because of decline in interest receipts. Capital expenditure maintained the growth momentum.

Major Trends

A. Deficit Indicators

The Union Budget for 2008-09 continued the process of fiscal

¹ The review in this article is based on the provisional data on Union Government Accounts for April-September 2008, received from the Controller General of Accounts, Ministry of Finance, Government of India. Comparisons with the corresponding data for 2007 is based on net of transactions involved in the acquisition of RBI's stake in SBI by the Union Government i.e., capital expenditure of Rs. 35,531 made by Government of India in June 2007 for acquisition of RBI stake in SBI and the one time transfer of surplus from the RBI of Rs.34,309 crore to the Union Government in August 2007.

* Prepared in the Division of Central Finances, Department of Economic Analysis and Policy, Reserve Bank of India.

consolidation as per the Fiscal Responsibility and Budget Management (FRBM) Rules, 2004 and RD was budgeted to decline by 0.2 per cent of GDP to Rs.55,184 crore (1.0 per cent of GDP) in 2008-09 over the provisional accounts of 2007-08. During the first half of 2008-09, RD at Rs.78,313 crore formed 141.9 per cent of the budget estimates (BE) as against 85.5 per cent during April-September 2007 primarily due to expenditure pressure emanating from interest payments, subsidies, other economic services, social services and grants to States/UTs (Statement 1). The trend in revenue deficit as a per cent of BE during the first-half of 2008-09, however, indicate that it was much higher than the corresponding period of previous two years (Chart 1). As per cent of GDP, during April-September 2008, revenue deficit at 1.5 per cent of GDP was higher than that in the corresponding period of the preceding year (Table 1).

During 2008-09, GFD was budgeted to decline by 0.3 per cent of GDP (equivalent to the minimum reduction of 0.3 per cent

Table 1: Major Deficit Indicators during April-September

	As ratio to GDP		As ratio to Budget Estimates	
	2008-09	2007-08	2008-09	2007-08
1	2	3	4	5
Revenue Deficit	1.5	1.3	141.9	85.5
Gross Fiscal Deficit	1.9	1.7	77.0	53.8
Primary Deficit	0.3	0.2	-28.8	-104.1

of GDP stipulated under the FRBM Rules, 2004) to Rs.1,33,287 crore (2.5 per cent of GDP) over the provisional accounts of 2007-08. During the first half of 2008-09, GFD at Rs.1,02,654 crore was 77.0 per cent of the budget estimates, higher than 53.0 per cent a year ago reflecting the rise in RD (Chart 2). GFD as per cent of GDP at 1.9 per cent during April-September 2008 was higher than that of 1.7 per cent during the corresponding period of the previous year.

Gross primary deficit during the first half of 2008-09 stood at Rs.16,593 crore as against the envisaged surplus of Rs. 57,520 crore in 2008-09 (BE) (Chart 3).

B. Revenue Position

During April-September 2008-09, revenue receipts at Rs.2,44,898 crore, registered an increase of 23.7 per cent, higher than 22.6 per cent recorded during

Chart:1 Revenue Deficit (Fiscal year variations)

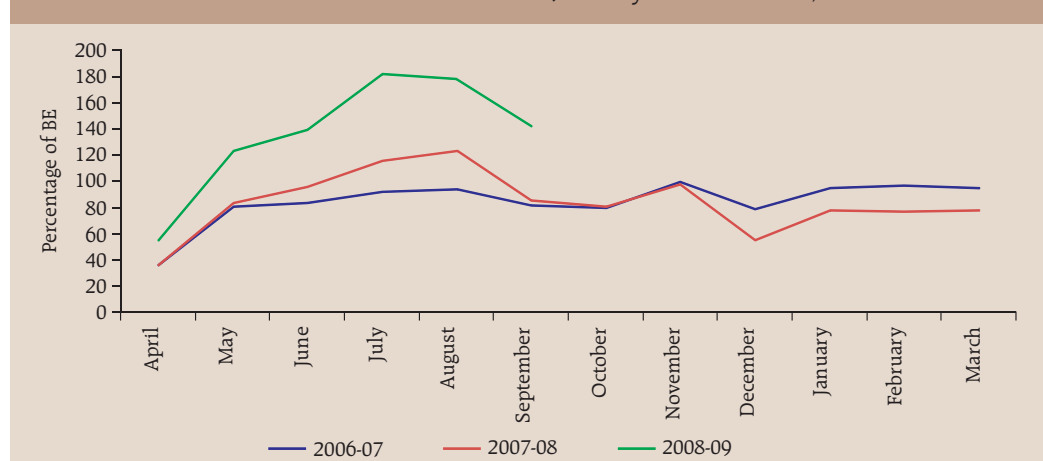
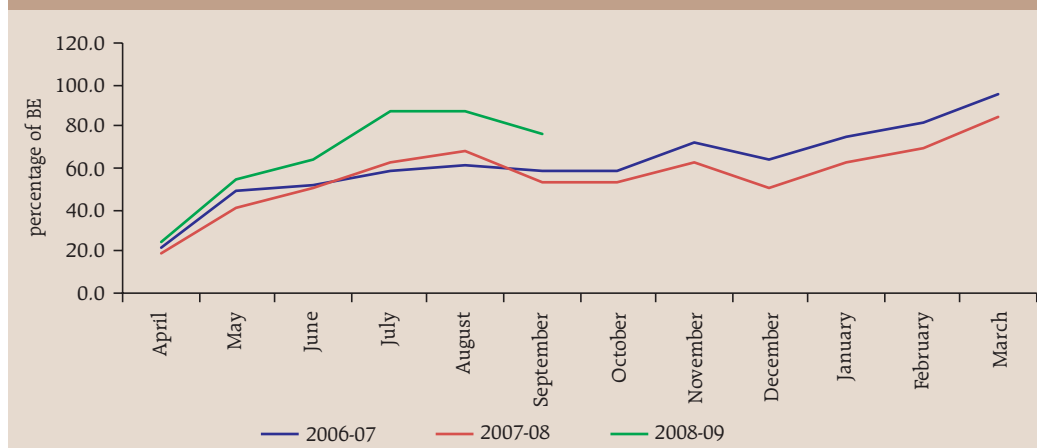


Chart 2 : Fiscal Deficit (Fiscal year variations)



April-September 2007 on account of increase in growth rate of tax revenue, notwithstanding the decline in growth rate of non-tax revenue (Statement 1 and Chart 4). As per cent of budget estimates, revenue receipts constituted 40.6 per cent marginally lower than 40.7 per cent in the first half of the previous year.

Tax Revenue

Gross tax collection of the Centre during April-September 2008 at

Rs.2,80,141 crore accelerated to 25.3 per cent from 24.5 per cent during the corresponding period of the previous year. As per cent of BE, at 40.7 per cent it was marginally lower than 40.8 per cent during April-September 2007. Assignment of taxes to States/UTs increased by 24.1 per cent as against the increase of 27.0 per cent during corresponding period of previous year. Net tax revenue to the Centre (at Rs.2,02,247 crore) after adjusting for the assignment to States/ UTs and surcharge

Chart 3: Primary Balance (Fiscal year variations)

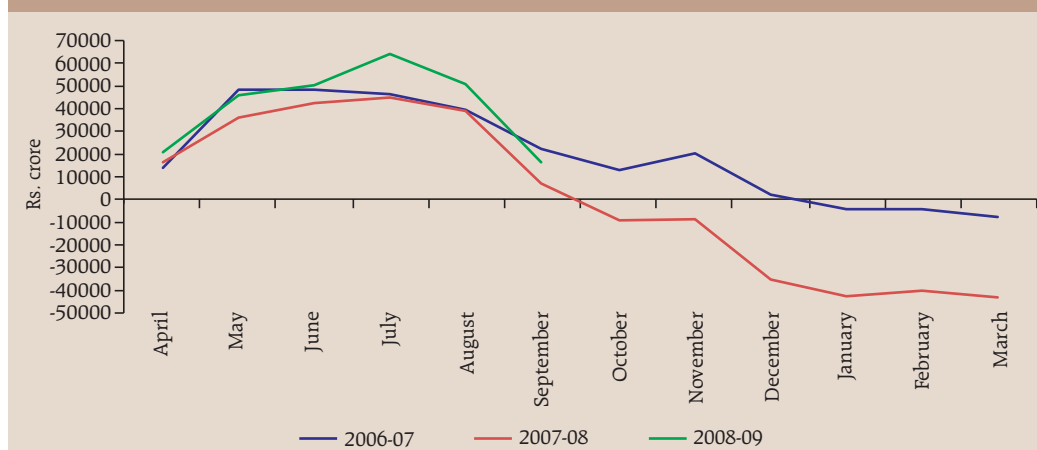
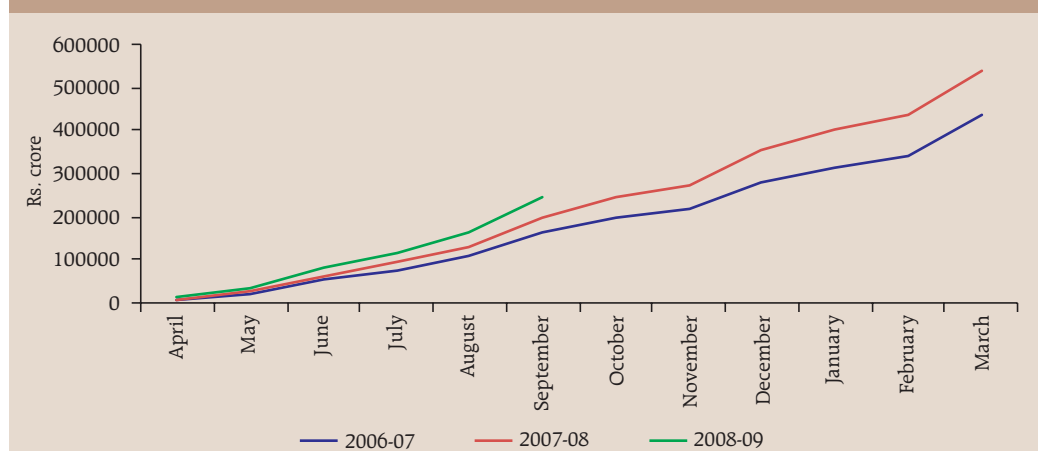


Chart 4: Revenue Receipts of the Centre (Fiscal year variations)



for financing National Calamity Contingency Fund (NCCF) showed a growth rate of 26.0 per cent as against 23.5 per cent in the corresponding period of the previous year (Chart 5). It formed 39.9 per cent of BE marginally higher than in April-September 2007 (Table 2 and Statement 2).

Among the major taxes, rate of growth of income tax at 30.7 per cent was lower than that of last year (38.2 per cent). Rates of growth of all components of income tax decelerated. There was a sharp decline in

the rate of growth of securities transaction tax (from 45.4 per cent last year to 2.7 per cent this year) and fringe benefit tax (from 94.0 per cent last year to 70.4 per cent this year). Rate of growth of corporation tax at 38.2 per cent was also marginally lower than that of last year (38.6 per cent). Growth rate of custom duties, however, increased from 15.9 per cent last year to 16.9 per cent this year. Rate of growth of union excise duties also increased from 3.4 per cent last year to 6.6 per cent this year.

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

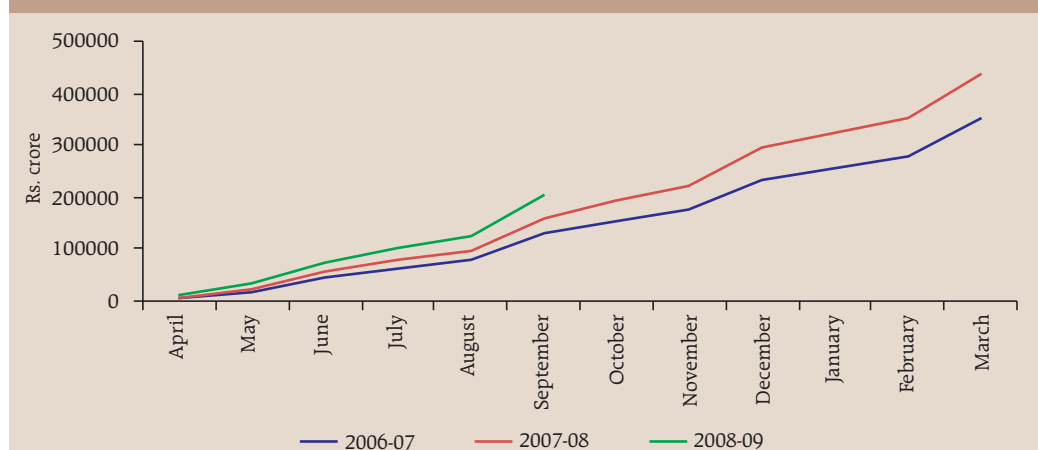


Table 2 : Growth Rates in Mobilisation of Major Taxes

(Per cent)					
	2007-08 (April- September)	2008-09 (April- September)	2007-08 (Revised Estimates)	2007-08 (Provisional Accounts)	2008-09 (Budget Estimates)
1	2	3	4		5
Corporate Tax	38.6	38.2	29.0	31.3	21.6
Income Tax	38.2	30.7	37.8	40.8	16.6
Customs Duty	15.9	16.9	16.7	19.2	18.0
Excise Duty	3.4	6.6	8.8	4.8	7.8
Gross Tax Revenue	24.5	25.3	23.6	24.8	17.5
Net Tax Revenue	23.5	26.0	22.9	24.6	17.5

Non-Tax Revenue

Non-tax revenue at Rs.42,651 crore decelerated to 13.9 per cent in April-September 2008 mainly on account of decline in interest receipts. Dividends and profits at Rs.20,669 crore showed an increase of Rs.2,607 crore, interest receipts (Rs.7,788 crore) a decline of Rs.530 crore and 'net other non-tax revenue' (net of Commercial Department) (Rs.13,861 crore) an increase of Rs.3,141 crore.

C. Non-Debt Capital Receipts

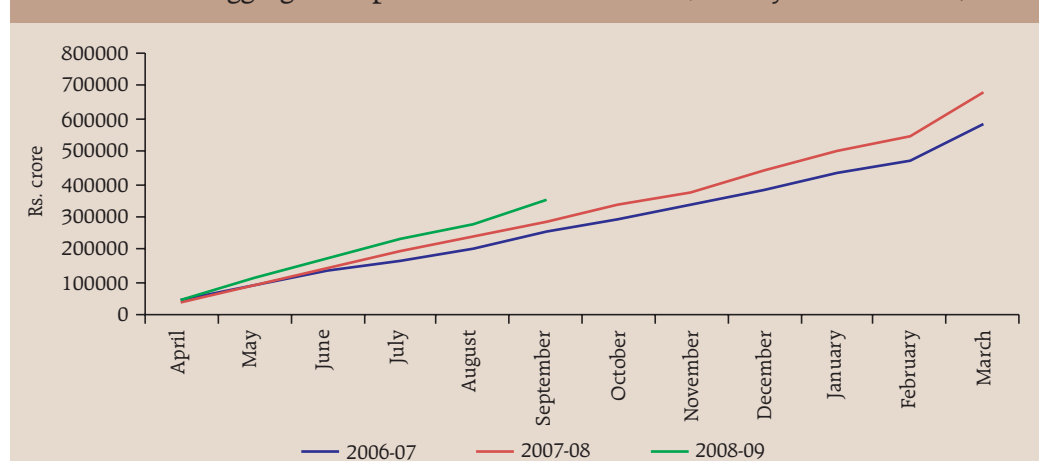
Non-debt capital receipts comprising recovery of loans and other receipts at Rs 1,529 crore were lower than a year ago. As

per cent of budget estimates, non-debt capital receipts were 10.4 per cent in April-September 2008 marginally lower than 10.3 per cent during corresponding period of the previous year.

D. Expenditure Pattern

Aggregate expenditure during April-September 2008 at Rs.3,49,081 crore, registered a sharp rise of 23.6 per cent compared to 12.1 per cent increase a year ago (Chart 6). As per cent of BE, aggregate expenditure during April-September 2008 at 46.5 per cent was higher than the same during the corresponding period of the previous year.

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



Plan Expenditure

Plan expenditure at Rs.1,08,452 crore increased by 25.0 per cent, lower than 26.0 per cent a year ago (Chart 7). As per cent of the BE, however, at 44.6 per cent, it was higher than 42.3 per cent in the preceding year. The increase in Plan expenditure was due to expenditure towards rural development, agriculture, drinking water supply, school education and literacy and power (Table 3).

Within total plan expenditure, the revenue component during the first half of 2008-09, at Rs.93,727 crore, recorded higher growth, constituting 44.7 per cent of BE as against 41.0 per cent in the corresponding period of the previous year. The increase in plan revenue expenditure by Rs.22,156 crore was primarily on account of other economic services, social services and plan grants to States/UTs. On the other hand, capital component at Rs. 14,725 crore declined by 3.0 per cent as against increase of 36.5 per cent last year (Table 4 and Statement 1).

Non-Plan Expenditure

Non-Plan expenditure, at Rs.2,40,629 crore during April-September 2008 also registered a substantially higher growth of 23.0 per cent as compared with 6.8 per cent in the corresponding period of the previous year (Chart 8). As per cent of budget estimates, it formed 47.4 per cent during the period under review as against 41.1 per cent a year ago. The acceleration in non-plan expenditure was primarily due to increase in the revenue component under interest payments and major subsidies (Table 4). Defence (revenue) expenditure and pension rose by 6.1 per cent and 14.6 per cent, respectively over those in the corresponding period last year. However, grants to States/UTs declined by 3.6 per cent during this period.

Interest payments and major subsidies constituted 61.4 per cent of non-plan revenue expenditure in April-September 2008-09 as compared with 57.5 per cent in corresponding period of the previous year (Chart 9). During the first half of 2008-09, increase in expenditure on major

Chart 7: Plan Expenditure of the Centre (Fiscal year variations)

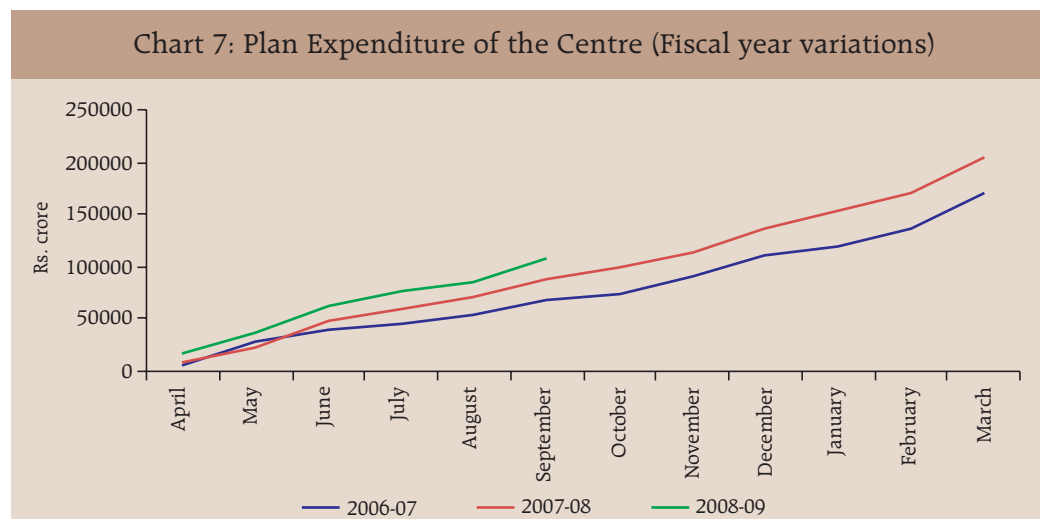


Table 3 : Major Items of Plan Expenditure by Ministry / Department

(Rupees crore)				
Ministry / Department (Deptt.)	2008-09 BE	April-September		Increase/ Decrease
		2008	2007	
1	2	3	4	5
Deptt of Rural Development	31,500	24,577	15,834	8,743
Deptt of Agriculture and Co-operation.	10,106	4,516	2606	1,910
Deptt. Of Drinking Water Supply	8,500	4,458	2,899	1,559
Deptt. Of School Education and Literacy	26,800	8,256	6,875	1,381
Ministry of Power	6,000	1,675	595	1,080
Deptt. Of Higher Education	7,594	2,218	1,347	871
Deptt. Of Health and Family Welfare	15,580	6,156	5,299	857

subsidies by Rs.19,962 crore was mainly on account of increase in fertiliser subsidies, viz., on decontrolled fertiliser (Rs.9,407.2 crore) and fertiliser (imported) (Rs.941.93 crore) and food subsidy (Rs.8,949.4 crore).

Capital Outlay

Capital outlay during the period under review, at Rs.20,703 crore, increased by 13.3 per cent as compared with an increase of 1.7 per cent in the preceding year. While

the defence capital outlay was higher by 47.3 per cent, non-defence capital outlay declined by 2.1 per cent from its level in April-September 2007 (Table 4).

E. Financing of Gross Fiscal Deficit

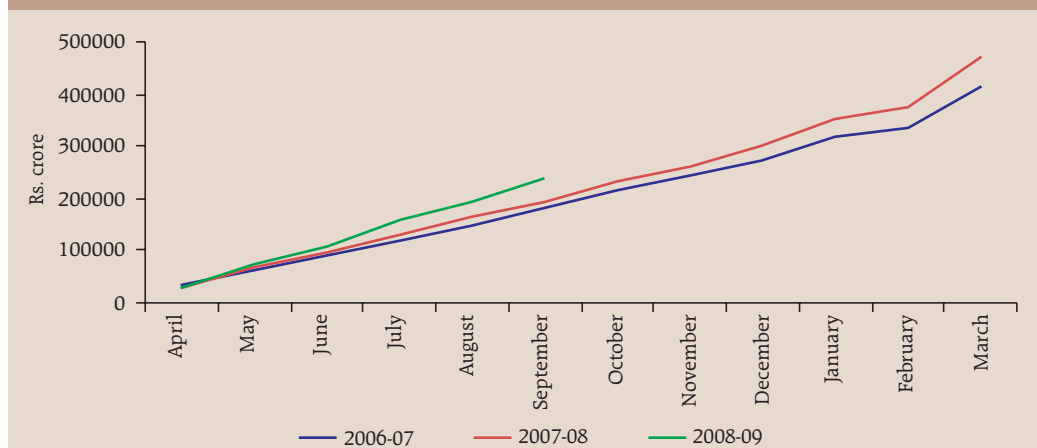
Market borrowing and drawdown of cash balances financed 62.3 per cent and 38.5 per cent of GFD, respectively. Short term borrowings financed 28.3 per cent of GFD. Treasury Bills (14-day) and other capital receipts made negative

Table 4: Expenditure of the Centre

(Rupees crore)				
Item	April-September		Variation	
	2008	2007	Amount	Per cent
1	2	3	4	5
A. Revenue Expenditure	3,23,211	2,59,080	64,131	24.8
Non-Plan Revenue Expenditure	2,29,484	1,87,509	41,975	22.4
Interest Payments	86,061	72,820	13,241	18.2
Major Subsidies	54,916	34,954	19,962	57.1
Defence Revenue	27,397	25,817	1,580	6.1
Pension	12,247	10,685	1,562	14.6
Grants to States/Uts	16,074	16,673	-599	-3.6
Plan Revenue Expenditure	93,727	71,571	22,156	31.0
Social Services	19,077	13,508	5,569	41.2
Grants to States /Uts	33,671	29,733	3,938	13.2
Other Economic Services	40,916	28,255	12,661	44.8
B. Capital Expenditure	25,870	23,281*	2,589	11.1
Loans & Advances	5,167	5,003	164	3.3
Non-Defence Capital Outlay	12,316	12,584*	-268	-2.1
Defence Capital Outlay	8,387	5,694	2,693	47.3
C. Total Expenditure	3,49,081	2,82,361*	66,720	23.6

*: Net of SBI transactions.

Chart 8: Non-Plan Expenditure of the Centre (Fiscal year variations)



contributions of (-) 26.8 per cent and (-) 8.6 per cent, respectively (Table 5).

Gross market borrowing this year as on December 1, 2008 was Rs.1,72,904 crore (98.4 per cent of BE) as against Rs.1,52,060 crore (80.3 per cent of BE) in the corresponding period last year. Net market borrowing this year as on December 1, 2008 was Rs.1,06,816 crore (107.9 per cent of BE) as against Rs.97,766 crore (88.3 per cent of BE) in the corresponding period last year.

Cash Management

During 2008-09 (up to December 1, 2008), the Central Government took recourse to ways and means advances for 20 days as compared with 91 days during the corresponding period of 2007-08. Commencing the year with a surplus cash balance of Rs.76,686 crore (end-March 2008), the Central Government used up these balances to meet its expenditure needs and resorted to WMA between August 4, 2008 and August 6, 2008. With

Chart 9: Monthly Trends in Non-Plan Revenue Expenditure for 2008-09

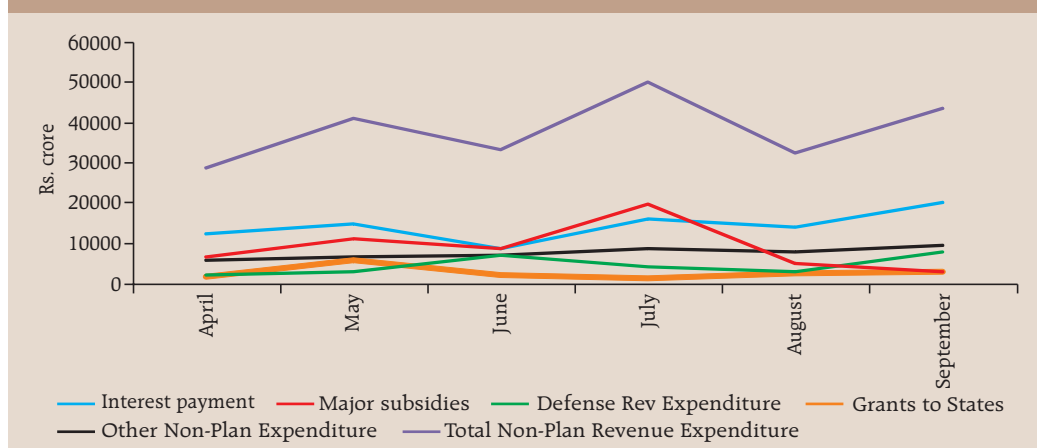


Table 5: Sources of Financing GFD: April-September, 2008-09 and 2007-08

1	2008-09		2007-08	
	Amount	Share (%)	Amount	Share (%)
2	3	4	5	
1. Gross Fiscal Deficit*	1,02,654	100.0	81,200	100.0
2. Market Borrowings (dated securities and 364-day T-Bills)	63,987	62.3	86,960	107.1
3. Short-Term Borrowings (91 and 182-day T-Bills)	29,078	28.3	11,583	14.3
4. 14-day Intermediate T-Bills	-27,550	-26.8	-4,422	-5.4
5. State Provident Funds	120	0.1	191	0.2
6. National Small Saving Fund (Net)	7,013	6.8	-13,891	-17.1
7. Special Deposits	-481	-0.5	865	1.1
8. Securities against Small Savings	-621	-0.6	-545	-0.7
9. Deposit Scheme for Retiring Employees	-4	0.0	-254	-0.3
10. External Assistance	2,315	2.3	2,478	3.1
11. Others	-10,702	-10.4	-22,025	-27.1
<i>Of which:</i>				
i. Suspense and Remittances	-1,879	-1.8	-5,551	-6.8
ii. Other Capital Receipts	-8,823	-8.6	-16,475	-20.3
<i>Of which:</i>				
(a) Compensation and other Bonds	-7,581	-7.4	-4,662	-5.7
(b) Advances	-1,992	-1.9	-1,756	-2.2
(c) Marketable Securities issued in Conversion of Special Securities	0	0.0	-5,000	-6.2
(d) Special Securities issued to Nationalised Banks	0	0.0	-12,101	-14.9
12. Disinvestment of Surplus Cash	0	0.0	0.0	0.0
13. Drawdown of Cash Balances	39,499	38.5	20,260	25.0
14. Ways and Means Advances and Over draft	0	0.0	0.0	0.0
* : Gross Fiscal Deficit in this table includes Rs.35,531 crore, acquisition cost of RBI's stake in State Bank of India (SBI) and neutralised to the extent of transfer from RBI with regard to the transaction.				
1 : GFD includes the net impact of transactions involved in acquisition of RBI's stake in SBI by the Central Government of Rs.1,223 crore.				

inflow of indirect taxes and surplus transferred from the Reserve Bank, the cash balances turned into surplus between August 7, 2008 and September 1, 2008. The Central Government again resorted to WMA during September 2-14, 2008 to meet the mismatches in receipts and expenditure. As on September 30, 2008 the Central Government maintained a surplus cash balance of Rs.41,470 crore with the Reserve Bank. The Government resorted to WMA during November 4-7, 2008 and as on November 30, 2008 it maintained a surplus cash balance of Rs. 4,812 crore with the Reserve Bank. The average daily utilisation of WMA by the Central Government (up to November 30, 2008) was Rs.446 crore as compared with

Rs.5,407 crore in the corresponding period of the preceding year. The Centre had also availed of overdraft during the corresponding period of the preceding year, the daily average being placed at Rs.968 crore.

Concluding Observations and Broad Assessment

Finances of the Central Government during the first half of the current fiscal year (April-September 2008) indicate deterioration in all the key deficit indicators, both in absolute terms as well as per cent of GDP, over the corresponding period of the preceding year. As per cent of budget estimates, both RD and GFD were higher mainly due to rise in revenue

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expenditure, both non-plan and plan. The acceleration in non-plan expenditure emanated from interest payments and major subsidies. The increase in Plan expenditure was due to expenditure towards social services, other economic services and grants to States. Growth in revenue receipts was higher than that of the corresponding period last year as a result of higher growth of net tax revenue. However, the rate of growth of non-tax

revenue was lower than that of last year on account of decline in interest receipts. Capital expenditure maintained the growth momentum. While expenditure is slated to increase in the coming months, growth of tax revenue is likely to decelerate with the expected moderation in real economic activities following the global financial meltdown. Consequently, pressure on deficit indicators is likely during remaining part of 2008-09.

Statement 1 : Budgetary Position of the Central Government

(Rupees crore)

Item	Actuals (April - September)		Budget Estimates (Financial Year)		April-September			
	2008-09	2007-08	2008-09	2007-08	Percentages to Budget Estimates		Growth Rate (Per cent)	
					2008-09	2007-08	2008-09	2007-08
1	2	3	4	5	6	7	8	9
1. Revenue Receipts	244,898	197,956	602,935	486,422	40.6	40.7	23.7	22.6
2. Tax Revenue (Net)	202,247	160,500	507,150	403,872	39.9	39.7	26.0	23.5
3. Non-Tax Revenue	42,651	37,456	95,785	82,550	44.5	45.4	13.9	19.2
of which :								
(i) Interest Receipts	7,788	8,318	19,135	19,308	40.7	43.1	-6.4	32.1
4. Capital Receipts	104,183	119,936	147,949	194,099	70.4	61.8	-13.1	32.5
		(85,627) *				(44.1)	(21.7)	-(5.4)
5. Recovery of Loans	1,486	2,030	4,497	1,500	33.0	135.3	-26.8	-50.2
6. Other Receipts	43	36,706	10,165	41,651	0.4	88.1	-99.9	-
		(2,397) *				(5.8)	-(98.2)	-
7. Borrowings	102,654	81,200	133,287	150,948	77.0	53.8	26.4	-6.1
8. Total Receipts (1+4)	349,081	317,892	750,884	680,521	46.5	46.7	9.8	26.2
		(283,583) *				(41.7)	(23.1)	(12.6)
9. Non-Plan Expenditure	240,629	231,134	507,498	475,421	47.4	48.6	4.1	26.3
		(195,603) #				(41.1)	(23.0)	(6.8)
10. On Revenue Account	229,484	187,509	448,352	383,546	51.2	48.9	22.4	8.4
of which :								
(i) Interest Payments	86,061	72,820	190,807	158,995	45.1	45.8	18.2	13.8
11. On Capital Account	11,145	43,625	59,146	91,875	18.8	47.5	-74.5	330.3
		(8,094) #				(8.8)	(37.7)	-(20.2)
12. Plan Expenditure	108,452	86,758	243,386	205,100	44.6	42.3	25.0	26.0
13. On Revenue Account	93,727	71,571	209,767	174,354	44.7	41.0	31.0	23.9
14. On Capital Account	14,725	15,187	33,619	30,746	43.8	49.4	-3.0	36.5
15. Total Expenditure (9+12)	349,081	317,892	750,884	680,521	46.5	46.7	9.8	26.2
		(282,361) #				(41.5)	(23.6)	(12.1)
16. Revenue Expenditure (10+13)	323,211	259,080	658,119	557,900	49.1	46.4	24.8	12.3
17. Capital Expenditure (11+14)	25,870	58,812	92,765	122,621	27.9	48.0	-56.0	176.6
of which :		(23,281) #				(19.0)	(11.1)	(9.5)
(i) Loans and Advances	5,167	5,003	8,243	7,498	62.7	66.7	3.3	52.1
18. Revenue Deficit (16-1)	78,313	61,124	55,184	71,478	141.9	85.5	28.1	-11.8
19. Fiscal Deficit {15-(1+5+6)}	102,654	81,200	133,287	150,948	77.0	53.8	26.4	-6.1
		(79,978) **				(53.0)	(28.4)	-(7.5)
20. Gross Primary Deficit {19-10(i)}	16,593	8,380	-57,520	-8,047	-28.8	-104.1	98.0	-62.7
		(7,158) **				-(89.0)	(131.8)	-(68.1)

* : Figures in parentheses are net of transfer of RBI's profit to the Government of India valued at Rs.34,309 crore on account of SBI transactions.

: Figures in parentheses are net of acquisition cost of RBI's stake in State Bank of India (SBI) at Rs. 35,531 crore.

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

Statement 2 : Tax Collection of the Central Government during April-September 2008

(Rupees crore)

Item	Actuals (April - September)		Budget Estimates (Financial Year)		April-September			
	2008-09	2007-08	2008-09	2007-08	Percentages to Budget Estimates		Growth Rate (Per cent)	
					2008-09	2007-08	2008-09	2007-08
1	2	3	4	5	6	7	8	9
A. Gross Tax Revenue (1 to 6)	280,141	223,491	687,715	548,122	40.7	40.8	25.3	24.5
1. Corporation Tax	96,991	70,176	226,361	168,401	42.8	41.7	38.2	38.6
2. Income Tax	53,666	41,057	138,314	98,774	38.8	41.6	30.7	38.2
(a) Taxes on Income other than Corporation Tax	46,349	35,445	120,604	86,829	38.4	40.8	30.8	35.3
(b) Securities Transaction Tax	3,182	3,099	9,000	4,500	35.4	68.9	2.7	45.4
(c) Banking Cash Transaction Tax	323	276	550	645	58.7	42.8	17.0	17.9
(d) Fringe Benefit Tax	3,812	2,237	8,160	6,800	46.7	32.9	70.4	94.0
3. Customs Duties	56,242	48,098	118,930	98,770	47.3	48.7	16.9	15.9
4. Union Excise Duties	47,870	44,889	137,874	130,220	34.7	34.5	6.6	3.4
5. Service Tax	24,139	18,343	64,460	50,200	37.4	36.5	31.6	37.2
6. Other Taxes	1,233	928	1,776	1,757	69.4	52.8	32.9	8.4
B. Surcharge for Financing NCCF	1,133	1,140	1,800	1,800	62.9	63.3	-0.6	40.9
C. Balance Gross Tax Revenue	279,008	222,351	685,915	546,322	40.7	40.7	25.5	24.4
D. Assignment to States/UTs	76,761	61,851	178,765	142,450	42.9	43.4	24.1	27.0
E. Net Tax Revenue	202,247	160,500	507,150	403,872	39.9	39.7	26.0	23.5

NCCF : National Calamity Contingency Fund.

UTs : Union Territories.

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