## Central government finances

3.5 The significant improvement in the state of public finances in the five years ending 2007-08 owes to the macroeconomic policy frame which facilitated the implementation of some of the key points in the fiscal reform agenda, including those articulated in

**Table 3.2 : Receipts and expenditure of the Central Government**

| | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08# | 2008-09 (B.E.) | 2008-09 (R.E.) |
|---|---|---|---|---|---|---|---|
| | | | | (Rs. crore) | | | |
| 1. Revenue receipts (a+b) | 263813 | 305991 | 347077 | 434387 | 541925 | 602935 | 562173 |
| **(a) Tax revenue (net of States' share)** | **186982** | **224798** | **270264** | **351182** | **439547** | **507150** | **465970** |
| **(b) Non-tax revenue** | **76831** | **81193** | **76813** | **83205** | **102378** | **95785** | **96203** |
| 2. Revenue expenditure | 362074 | 384329 | 439376 | 514609 | 594494 | 658118 | 803446 |
| *of which*: | | | | | | | |
| (a) Interest payments | 124088 | 126934 | 132630 | 150272 | 171030 | 190807 | 192694 |
| (b) Major subsidies | 43535 | 44753 | 44480 | 53495 | 67498 | 67037 | 122728 |
| (c) Defence expenditure | 43203 | 43862 | 48211 | 51682 | 54219 | 57593 | 73600 |
| 3. Revenue deficit (2-1) | 98261 | 78338 | 92299 | 80222 | 52569 | 55183 | 241273 |
| 4. Capital receipts | 207390 | 192261 | 158661 | 149000 | 170807 | 147949 | 338780 |
| *of which:* | | | | | | | |
| (a) Recovery of loans* | 67165* | 62043 * | 10645 | 5893 | 5100 | 4497 | 9698 |
| (b) Other receipt (mainly PSU disinvestment) | 16953 | 4424 | 1581 | 534 | 38795 | 10165 | 2567 |
| (c) Borrowings and other liabilities$ | 123272 | 125794 | 146435 | 142573 | 126912 | 133287 | 326515 |
| 5. Capital expenditure | 109129** | 113923 ** | 66362 | 68778 | 118238 | 92766 | 97507 |
| 6. Total expenditure [2+5=6(a)+6(b) | 471203 | 498252 | 505738 | 583387 | 712732 | 750884 | 900953 |
| *of which:* | | | | | | | |
| (a) Plan expenditure | 122280 | 132292 | 140638 | 169860 | 205082 | 243386 | **282957** |
| (b) Non-plan expenditure | 348923 | 365960 | 365100 | 413527 | 507650 | 507498 | 617996 |
| **7. Fiscal deficit [6-1-4(a)-4(b)]** | **123272** | **125794** | **146435** | **142573** | **126912** | **133287** | **326515** |
| **8. Primary deficit [7-2(a)=8(a)+8(b)]** | **-816** | **-1140** | **13805** | **-7699** | **-44118** | **-57520** | **133821** |
| (a) Primary deficit consumption | 25037 | -275 | 250 | -28557 | -75870 | -91731 | 89256 |
| (b) Primary deficit investment | -25853 | -865 | 13555 | 20858 | 31752 | 34211 | 44565 |
| | | | | (As per cent of GDP) | | | |
| 1. Revenue receipts (a+b) | 9.6 | 9.7 | 9.7 | 10.5 | 11.5 | 11.3 | 10.6 |
| **(a) Tax revenue (net of States' share)** | **6.8** | **7.1** | **7.5** | **8.5** | **9.3** | 9.5 | 8.8 |
| **(b) Non-tax revenue** | **2.8** | **2.6** | **2.1** | **2.0** | **2.2** | 1.8 | 1.8 |
| **2. Revenue expenditure** | **13.1** | **12.2** | **12.2** | **12.5** | **12.6** | **12.4** | **15.1** |
| *of which:* | | | | | | | |
| (a) Interest payments | 4.5 | 4.0 | 3.7 | 3.6 | 3.6 | 3.6 | 3.6 |
| (b) Major subsidies | 1.6 | 1.4 | 1.2 | 1.3 | 1.4 | 1.3 | 2.3 |
| (c) Defence expenditure | 1.6 | 1.4 | 1.3 | 1.3 | 1.1 | 1.1 | 1.4 |
| 3. Revenue deficit (2-1) | 3.6 | 2.5 | 2.6 | 1.9 | 1.1 | 1.0 | 4.5 |
| 4. Capital receipts | 7.5 | 6.1 | 4.4 | 3.6 | 3.6 | 2.8 | 6.4 |
| *of which:* | | | | | | | |
| (a) Recovery of loans * | 2.4 | 2.0 | 0.3 | 0.1 | 0.1 | 0.1 | 0.2 |
| (b) Other receipt (mainly PSU disinvestment) | 0.6 | 0.1 | 0.0 | 0.0 | 0.8 | 0.2 | 0.0 |
| (c) Borrowings and other liabilities $ | 4.5 | 4.0 | 4.1 | 3.5 | 2.7 | 2.5 | 6.1 |
| 5. Capital expenditure | 4.0 | 3.6 | 1.9 | 1.7 | 2.5 | 1.7 | 1.8 |
| 6. Total expenditure [2+5=6(a)+6(b)] | 17.1 | 15.8 | 14.1 | 14.1 | 15.1 | 14.1 | 16.9 |
| *of which:* | | | | | | | |
| (a) Plan expenditure | 4.4 | 4.2 | 3.9 | 4.1 | 4.3 | 4.6 | 5.3 |
| (b) Non-plan expenditure | 12.7 | 11.6 | 10.2 | 10.0 | 10.7 | 9.5 | 11.6 |
| **7. Fiscal deficit [6-1-4(a)-4(b)]** | **4.5** | **4.0** | **4.1** | **3.5** | **2.7** | **2.5** | **6.1** |
| **8. Primary deficit [7-2(a)=8(a)+8(b)]** | **0.0** | **0.0** | **0.4** | **-0.2** | **-0.9** | **-1.1** | **2.5** |
| (a) Primary deficit consumption | 0.9 | 0.0 | 0.0 | -0.7 | -1.6 | -1.7 | 1.7 |
| (b) Primary deficit investment investment | -0.9 | 0.0 | 0.4 | 0.5 | 0.7 | 0.6 | 0.8 |
| Memorandum items | | | | | | | |
| (a) Interest receipts | 38538 | 32387 | 22032 | 22524 | 21060 | 19135 | 19036 |
| (b) Dividend and profit | 12326 | 15934 | 18549 | 18969 | 21531 | 24758 | 21641 |
| (c) Non-plan revenue expenditure | 283436 | 296835 | 327518 | 372191 | 420922 | 448351 | 561790 |

**Source : Union Budget documents.**

\# Based on Provisional Actuals for 2007-08.

* Includes receipts from States on account of Debt Swap Scheme for 2003-04, and 2004-05.

** Includes repayment to National Small Savings Fund.

$ Does not include receipts in respect of Market Stabilization Scheme, which will remain in the cash balance of the Central Government and will not be used for expenditure.

**Note : 1. The ratios to GDP at current market prices are based on CSO's National Accounts 1999-2000 series.**
**2. The figures may not add up to the total due to rounding/ approximations.**
**3. Primary deficit consumption =Revenue deficit-interest payments+interest receipts+dividend & profits**
**4. Primary deficit investment =Capital expenditure-interest receipts -Dividend & profits-recovery of loans-other receipts.**
**5. Figures are exclusive of the transfer of States' share in the small savings collections.**

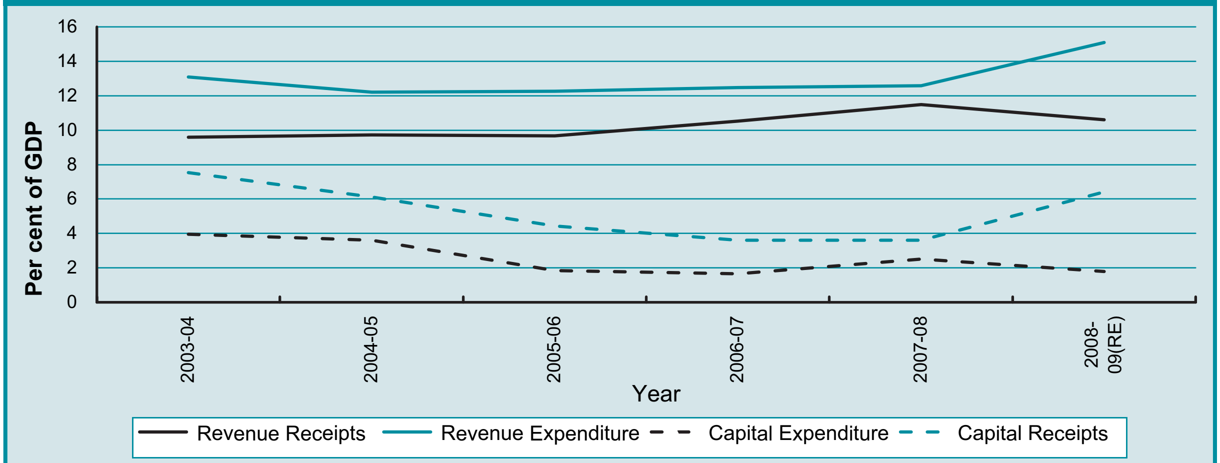
the Kelkar Task Force Reports on direct taxes, indirect taxes and the resolute adherence to the FRBMA; the emphasis on public expenditure management with the focus on fiscal policy outcomes, a monetary policy setting supportive of growth (by ensuring availability of credit to productive sectors of the economy) also helped. The improvement in the state of public finances was as as a result of reduction in the levels of expenditure and increase in revenue receipts expressed as a proportion of GDP. With non-tax revenues remaining quite slow and hovering close to the Rs. 80,000 crore levels since 2004-05, the buoyancy in revenue receipts is attributable to the increase in gross tax revenues (Table 3.2).

3.6 As a proportion of GDP, in the 1990s, gross tax revenues remained stagnant at around 8-10 per cent level in the face of reform of the tax structure that entailed reduction in indirect taxes and which was not fully compensated by the rise in direct taxes. Gross tax revenues grew at an average annual rate of 22.4 per cent in the last five years ending 2007-08 (post-FRBMA period). This was composed of an annual average growth of 16.3 per cent in indirect taxes and 29.0 per cent in direct taxes. In 2007-08, direct tax collections exceeded indirect tax collections; and within direct taxes, the main contribution came from corporate income tax. In the case of indirect taxes, while excise revenues remained less buoyant, customs revenue grew somewhat steadily, and service tax emerged as the main driver of revenue growth. As a proportion of GDP, gross tax revenues rose from a level of 9.2 per cent in 2003-04 to reach a level of 12.6 per cent in 2007-08.

3.7 While net revenue receipts of the Centre grew at an annual average of 18.7 per cent in the five-year period ending 2007-08, revenue expenditure grew by 12.0 per cent and helped lower the deficit on revenue account. A straightforward analysis of trend in capital expenditure would present difficulties in view of the accounting changes in the period 2002-05 when debt swap receipts were used to pay back loans from the National Small Savings Fund (NSSF), which was treated as non-plan capital expenditure (repayments of loans are usually not treated as expenditure) and the transfer of shares of the State Bank of India (SBI) to the Government of India from RBI in 2007-08. Adjusted for these, there is a decline in capital expenditure expressed as a proportion of GDP in the period 2003-04 to 2007-08. In the schema of classification of expenditure as plan and non-plan, in the last five years ending 2007-08 while plan expenditure grew by 13.1 per cent, non-plan expenditure grew by 11.3 per cent, (Figure 3.2). As a proportion of GDP, total expenditure fell from a level of 17.1 per cent of GDP in 2003-04 to a level of 15.1 per cent of GDP in 2007-08, which facilitated the process of fiscal consolidation.

3.8 Revenues were buoyant in 2007-08 with the proportion of gross tax revenue to GDP rising to a level of 12.6 per cent. As against budgeted net revenue receipts of Rs. 4,86,422 crore (equivalent of 10.4 per cent of GDP), the realization in 2007-08 was Rs. 5,41,925 crore (equivalent of 11.5 per cent of GDP). Growth in corporate income tax, personal income tax and service tax at 33.7 per cent, 36.7 per cent and 36.4 per cent respectively in 2007-08 were higher than the levels assumed in the Budget Estimates. While revenues from customs grew by 20.6 per cent (as against a growth of 20.7 per cent envisaged in BE), growth in revenue from excise was placed at 5.1 per cent (as against a growth of 11.0 per cent assumed in BE 2007-08). Thus the composition of taxes changed both as proportion of

**Figure 3.2 : Receipts and expenditure of the Central Government**



total taxes and GDP, owing to the higher contribution from the three buoyant sources (Table 3.3). Total expenditure of the Central Government exceeded the Budget Estimates by Rs. 32,211 crore in 2007-08, inter alia, to accommodate higher levels of fertilizer subsidy and interest outgo on account of enhanced levels for "Market Stabilisation Scheme" necessitated by the surge in capital inflows.

## Budgetary developments in 2008-09

3.9 The Budget for 2008-09 was formulated against a robust macroeconomic backdrop with steady inflows of capital and strong signs of a flare up in domestic inflation triggered by global cues. The Budget aimed to carry forward the fiscal consolidation process by adhering to the terminal year FRBMA target of fiscal deficit, but seeking an extension of the target on revenue deficit by one more year to accommodate the conscious shift in expenditure in favour of health, education and the social sector, which form the bedrock of the Eleventh Five Year Plan priorities. The Budget also acknowledged the significant levels of liabilities (through non-cash transactions) on account of oil, food and fertilizer bonds, which were not reckoned for the purposes of fiscal deficit in a cash accounting system. The Budget for 2008-09 had further indicated that the practice of the issue of such bonds as a means of financing was being referred to the Thirteenth Finance Commission for its views.

3.10 The Eleventh Five Year Plan has set a level of gross budgetary support (GBS) for the Plan at Rs. 2,28,725 crore for 2008-09. The Budget for 2008-09 enhanced it even further, placing total GBS at Rs. 2,43,386 crore. Of the above, Rs. 31,280 crore (which included the provision for North-eastern component), provided for the rural infrastructure under Bharat Nirman. Some of the important allocations/ developments in 2008-09 (BE) inter alia included a hike of 20 per cent in education sector and a shift in the focus of Sarva Shiksha Abhiyan (SSA) to quality of education, ensuring retention and access to upper primary classes, higher provision for Mid-day Meal Scheme extending it to upper primary classes in

**Table 3.3 : Sources of tax revenue**

| | 1995-96 | 2004-05 | 2005-06 | 2006-07 | 2007-08 | 2008-09 (BE) | 2008-09 (RE) |
|---|---|---|---|---|---|---|---|
| | (Rs. crore) | | | | | | |
| **Direct (a)** | **33563** | **132181** | **165202** | **219722** | **295938** | **365000** | **345000** |
| Personal Income tax | 15592 | 49268 | 63629 | 75093 | 102644 | 138314 | 122600 |
| Corporation tax | 16487 | 82680 | 101277 | 144318 | 192911 | 226361 | 222000 |
| **Indirect (b)** | **76806** | **170936** | **199348** | **241538** | **279031** | **321264** | **281359** |
| Customs | 35757 | 57611 | 65067 | 86327 | 104119 | 118930 | 108000 |
| Excise | 40187 | 99125 | 111226 | 117613 | 123611 | 137874 | 108359 |
| Service tax | 862 | 14200 | 23055 | 37598 | 51301 | 64460 | 65000 |
| **Gross tax revenue #** | **111224** | **304958** | **366151** | **473512** | **593147** | **687715** | **627949** |
| | Tax revenue as a percentage of gross tax revenue | | | | | | |
| **Direct (a)** | **30.2** | **43.3** | **45.1** | **46.4** | **49.9** | **53.1** | **54.9** |
| Peronal Income tax | 14.0 | 16.2 | 17.4 | 15.9 | 17.3 | 20.1 | 19.5 |
| Corporation tax | 14.8 | 27.1 | 27.7 | 30.5 | 32.5 | 32.9 | 35.4 |
| **Indirect (b)** | **69.1** | **56.1** | **54.4** | **51.0** | **47.0** | **46.7** | **44.8** |
| Customs | 32.1 | 18.9 | 17.8 | 18.2 | 17.6 | 17.3 | 17.2 |
| Excise | 36.1 | 32.5 | 30.4 | 24.8 | 20.8 | 20.0 | 17.3 |
| Service tax | 0.8 | 4.7 | 6.3 | 7.9 | 8.6 | 9.4 | 10.4 |
| | Tax revenue as a percentage of gross domestic product* | | | | | | |
| **Direct (a)** | **2.8** | **4.2** | **4.6** | **5.3** | **6.3** | **6.9** | **6.5** |
| Personal Income tax | 1.3 | 1.6 | 1.8 | 1.8 | 2.2 | 2.6 | 2.3 |
| Corporation tax | 1.4 | 2.6 | 2.8 | 3.5 | 4.1 | 4.3 | 4.2 |
| **Indirect (b)** | **6.4** | **5.4** | **5.6** | **5.8** | **5.9** | **6.0** | **5.3** |
| Customs | 3.0 | 1.8 | 1.8 | 2.1 | 2.2 | 2.2 | 2.0 |
| Excise | 3.4 | 3.1 | 3.1 | 2.8 | 2.6 | 2.6 | 2.0 |
| Service tax | 0.1 | 0.5 | 0.6 | 0.9 | 1.1 | 1.2 | 1.2 |
| **Total #** | **9.3** | **9.7** | **10.2** | **11.5** | **12.6** | **12.9** | **11.8** |

\# includes taxes referred in (a) & (b) and taxes of Union Territories and "other" taxes.
* Refers to gross domestic product at current market prices.
Note : 1. Direct taxes also include taxes pertaining to expenditure, interest, wealth, gift and estate duty.
2. The ratios to GDP at current market prices are based on CSO's National Accounts 1999-2000 series.

3,479 educationally backward blocks; a 15 per cent hike in allocation for health sector with two major interventions in the form of health cover of Rs. 30,000 for every BPL worker in the unorganized sector and a national programme for the elderly; universalizing the reach of NREGS.

## Revenue and capital receipts

3.11 The implementation of the Twelfth Finance Commission award entailed lower contribution from non-debt capital receipts to the non-debt receipts. With non-tax revenues remaining sluggish, the entire improvement in non-debt receipts owed to the buoyancy in tax revenues. Considering the levels of resources required for meeting the inclusive agenda of the Eleventh Five Year Plan priorities, the Budget for 2008-09 estimated a 17.5 per cent growth in gross tax revenues composed mainly of 21.6 per cent growth in corporate income tax, 16.9 growth in personal income tax, 27.4 per cent growth in service tax, 7.8 growth in excise and 18.0 per cent growth in customs (Figure 3.3). Non-tax revenues were budgeted to grow by 2.6 per cent. The sharper decline budgeted in 2008-09 in non-debt capital receipts was also on account of the base effect in 2007-08 of the accounting transfer of shares of the State Bank of India to the Government from RBI accounts.

3.12 The compositional shift in the tax structure in favour of direct taxes continued in 2008-09 (BE) with direct taxes forming 53.1 per cent of total tax revenue. As a proportion of GDP, total gross tax revenue was placed at 12.9 per cent and direct taxes were placed at 6.9 per cent. The decline in indirect taxes also owed to the policy of cuts in customs and excise duties and the continuance of the exemptions. It would also be relevant to recall that since June 2008, basic customs duty on crude petroleum, which was a major contributor earlier to customs revenue, was reduced to zero level.

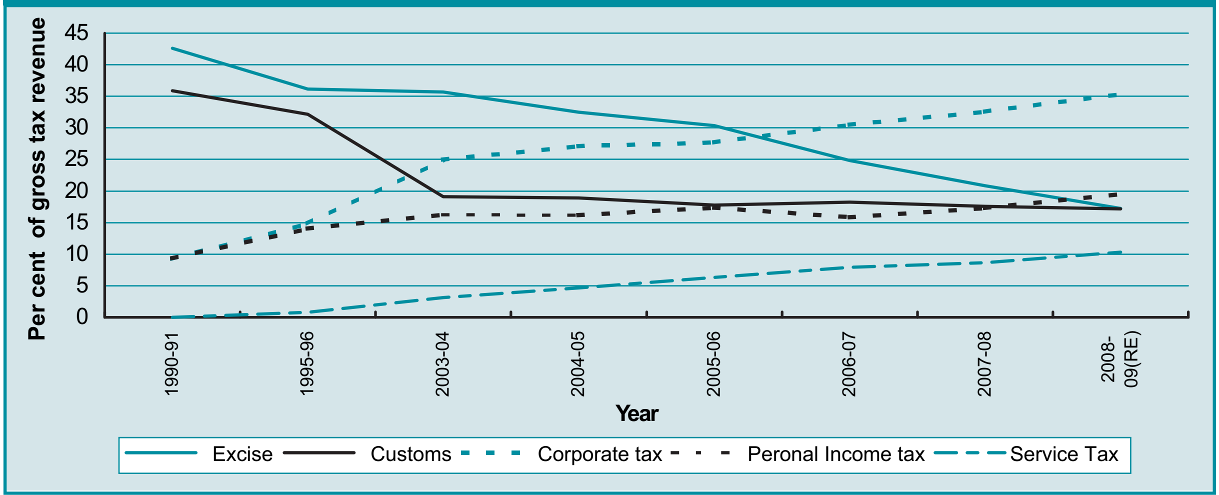
## Indirect taxes

### *Customs*

3.13 The peak rate of customs duty on non-agricultural products, which was 20 per cent in 2003-04, was successively reduced in subsequent budgets to reach a level of 10 per cent in 2007-08. The Budget for 2008-09 did not however carry this forward as the appreciation of the rupee vis-à-vis US dollar by 9.8 per cent in 2007-08 itself resulted in lower protection to domestic industry. Nevertheless, in certain cases/ items that merited reduction to provide a fillip to a particular industry or promote domestic value addition or rectify inversions, equitable changes were made. These included :

- Customs duty on project imports reduced to 5 per cent from the earlier level of 7.5 per cent.
- Duty on steel melting scrap and aluminium scrap reduced to Nil (from 5 per cent earlier).
- Duty reduced on certain life-saving drugs from 10 per cent to 5 per cent and CVD made fully exempt.
- Duty on specified convergence products (devices used in information/communication sector) reduced to 5 per cent from earlier level of 10 per cent to establish parity of end-use.
- Duty on specified machinery reduced to 5 per cent from the earlier level of 7.5 per cent.
- Customs duty on crude and non-refined sulphur reduced to 2 per cent from 5 per cent to boost domestic fertilizer production.

**Figure 3.3 : Composition of gross tax revenue**



- Customs duty on unworked or simply prepared corals was reduced from 10 per cent to 5 per cent. Duty on rough cubic zirconia was reduced from 5 per cent to Nil.
- Duty on cubic zirconia (polished) was reduced from 10 per cent to 5 per cent. Customs duty on tuna bait was reduced from 30 per cent to Nil. Duty on specified machinery for manufacture of sports goods was reduced from 7.5 per cent to 5 per cent.
- Customs duty on specified raw materials for manufacture of sports goods for export (up to 3 per cent of FOB value of exports in the preceding year) was reduced from 10 per cent to Nil.
- Customs duty on cigars, cheroots and cigarillos was increased from 30 per cent to 60 per cent.
- Exemption from additional duty of customs of 4 per cent levied was withdrawn from power generation projects (other than mega power projects), transmission, sub-transmission and distribution projects, and goods for high voltage transmission projects.

### Excise

3.14 The robust growth momentum of the Indian economy since 2003-04 in great measure could be ascribed to the resurgence the manufacturing sector and this was facilitated to a large extent by the rationalization of excise duties. The Budget for 2008-09 carried this forward by reducing the general CENVAT rate on all goods from 16 per cent to 14 per cent. Besides the above, sector specific initiatives were also taken which included:

- Excise duty was reduced from 16 per cent to 8 per cent on all drugs (formulations) and on instant sterile dressing pads, burn therapy pads, corn removers, sterile surgical catgut, sterile absorbable surgical, sterile tissue adhesive for wounds closure, first aid boxes and kits and blood grouping reagents etc; excise duty was made fully exempt on anti-AIDS drug ATAZANAVIR, and bulk drugs for its manufacture.
- In the automobiles sector, excise duties were reduced on small cars from 16 per cent to 12 per cent; hybrid cars from 24 per cent to 14 per cent; electric cars from 8 per cent to Nil; specified parts of electric cars from 16 per cent to Nil on end-use basis; buses and other vehicles for transport of more than 13 persons from 16 per cent to 12 per cent, and on the chassis of such vehicles from “16 per cent plus Rs. 10,000” to “12 per cent plus Rs. 10,000” ; and two-wheelers and passenger three-wheelers (up to 7 persons) from 16 per cent to 12 per cent.
- In the food processing sector, excise duty was made fully exempt on packaged tender coconut water, paws, *mudi* (puffed rice), milk containing edible nuts and tea/coffee pre-mixes; specified refrigeration equipment for the installation of a cold storage, cold room or refrigerated vehicle, on end-use basis. Besides, excise duty was reduced from 16 per cent to 8 per cent on Muesli, corn flakes & similar breakfast cereals, *sharbats* and packaging material viz.: open top sanitary cans, aseptic packaging paper and aseptic bags.
- In the information technology & communication sector: excise duty was made fully exempt on wireless data modem cards (consequently, CVD shall also be exempt on imported cards. 4 per cent additional duty of customs will, however, be applicable); excise duty was reduced from 16 per cent to 8 per cent on specified convergence products; excise duty was increased from 8 per cent to 12 per cent on packaged software.
- In paper and paper products: excise duty on writing paper, printing paper and packing paper was reduced from 12 per cent to 8 per cent; full exemption on excise duty allowed on paper and paper products, manufactured from non-conventional raw materials, up to clearance of 3,500 metric tonnes in a year from a unit and for paper and paper products, beyond clearance of 3,500 metric tonnes per year from a unit (not having an attached bamboo/wood pulp plant) was reduced from 12 per cent to 8 per cent.
- In cement, excise duty was revised on bulk cement from “Rs. 400 per tonne” to “14 per cent or Rs. 400 per tonne, whichever is higher”; and excise duty was increased on cement clinkers from Rs. 350 per tonne to Rs. 450 per tonne.
- Cigarettes attract duty at varying rates depending upon whether they are filter or non-filter and their length. Excise duty rates on non-filter cigarettes were enhanced to bring them at par with filter cigarettes of corresponding length. The rates of excise duty (basic + (NCCD) + health cess) on non-filter cigarettes were revised as under :

(Rs. per 1000)

| Sl. No. | Description | From | To |
|---|---|---|---|
| 1 | Not exceeding 60 mm in length | 168 | 819 |
| 2 | Exceeding 60 mm but not exceeding 70 mm in length | 546 | 1323 |

- The duties on motor spirit (petrol) and high speed diesel (HSD) sold without a brand name, which earlier had both ad valorem and specific components, were made fully specific rated as under :

| Sl. No. | Description | From | To |
|---|---|---|---|
| 1 | Motor Spirit | 6 per cent + Rs. 13 per litre | Rs. 14.35 |
| 2 | HSD | 6 per cent + Rs. 3.25 | Rs. 4.60 |

- NCCD at the rate of 1 per cent was imposed on mobile phones. On imported mobile phones, this was made leviable as additional duty of customs under section 3(1) of the Customs Tariff Act, 1975. NCCD of 1 per cent currently leviable on polyester filament yarn was withdrawn.

## *Service tax*

3.15 One of the important elements of the tax reforms in India after 1990s was on reducing the disproportionately large burden of taxes on the manufacturing sector to increase production and productivity on the one hand and enhance competitiveness on the other. It was in this context that taxing the services sector contributing the largest share in GDP assumed importance. Since its introduction in 1994-95, the number of services had increased over the years and the rate of service tax leviable was also revised (Table 3.4). The Budget for 2008-09 carried this forward through the inclusion of the following:

- Services provided in relation to information technology software for use in the course, or furtherance, of business or commerce;
- Services provided in relation to management of investment, under unit-linked insurance business, commonly known as Unit Linked Insurance Plan (ULIP) scheme;
- Services provided by a recognized stock exchange in relation to securities;
- Services provided by a recognized association or a registered association (commodity exchange) in relation to sale or purchase of any goods or forward contracts;
- Services provided by a processing and clearing house in relation to processing, clearing and settlement of transactions in securities, goods or forward contracts;
- Services provided in relation to supply of tangible goods, without transferring right of possession and effective control of the tangible goods;
- Services provided in relation to Internet telecommunication; consequently, reference to services provided in relation to Internet telephony, being covered as part of Internet telecommunication, was omitted.

3.16 Besides the above, the Budget for 2008-09 amended the scope of some existing services through certain inclusions (for example, purchase or sale of foreign currency, including money changing, by an authorized dealer or an authorized money changer, under banking and other financial service); certain exclusions (for example, from business auxiliary service, reference to information technology service consequent upon notifying information technology software service as a separate taxable service); and certain clarifications on the interpretation. It also raised the annual threshold limit of service tax exemption for small service providers from the earlier level of Rs. 8 lakh to Rs. 10 lakh. Exemption from service tax was also provided to: the taxable service provided by a person located outside India for a customer located outside India, and received by a hotel located in India in relation to booking of an accommodation in the said hotel located in India; 75 per cent of the gross amount

**Table 3.4 : Service tax – A growing revenue source**

| Year | Number of services | Number of assessees | Tax rate (per cent) | Revenue (Rs. crore) | Growth (per cent) |
|---|---|---|---|---|---|
| 2002-03 | 52 | 232048 | 5 | 4122 | 24.8 |
| 2003-04 | 60 | 403856 | 8 | 7891 | 91.4 |
| 2004-05 | 75 | 740267 | 10 | 14200 | 80.0 |
| 2005-06 | 84 | 806585 | 10 | 23055 | 62.4 |
| 2006-07 | 99 | 918746 | 12 | 37598 | 63.1 |
| 2007-08[P] | 106 | NA | 12 | 51301 | 36.4 |
| 2008-09(RE) | | NA | 12* | 65000 | 26.7 |

**Source : Receipts Budget (Budget Documents).**
*** w.e.f. 24-2-2009 the rates were reduced to 10 per cent.**
**P : Provisional**

charged as freight for services provided in relation to transport of goods by road in a goods carriage by a goods transport agency, unconditionally.

## Direct taxes

3.17 The Budget for 2008-09 attributed the buoyancy in direct tax revenues to the stable and moderate tax regime coupled with a tax administration that showed no fear or favour. This was carried forward in 2008-09 through changes in personal income tax slabs and rates conferring a minimum relief of Rs. 4,120 and maximum relief of Rs. 45,320 per annum per taxpayer. No change was made in corporate income tax. The Budget also raised short-term capital gains under Section 11A of the Income Tax Act to 15 per cent to establish parity with dividends. A commodities transaction tax with features on the lines of securities transaction tax on option and futures was introduced and the banking cash transaction tax was abolished.

3.18 Overall, the tax proposals on direct taxes were revenue neutral and a loss of Rs. 5,900 crore was estimated on the indirect taxes side. The Budget for 2008-09 also effected a reduction in Central sales tax (CST) to 2 per cent with effect from April 1, 2008 with a mechanism for compensation for losses to states. The Budget also expressed satisfaction at the considerable progress made in preparing the road map for the goods and services tax proposed to be operationalized with effect from April 1, 2010.

### *Tax expenditure*

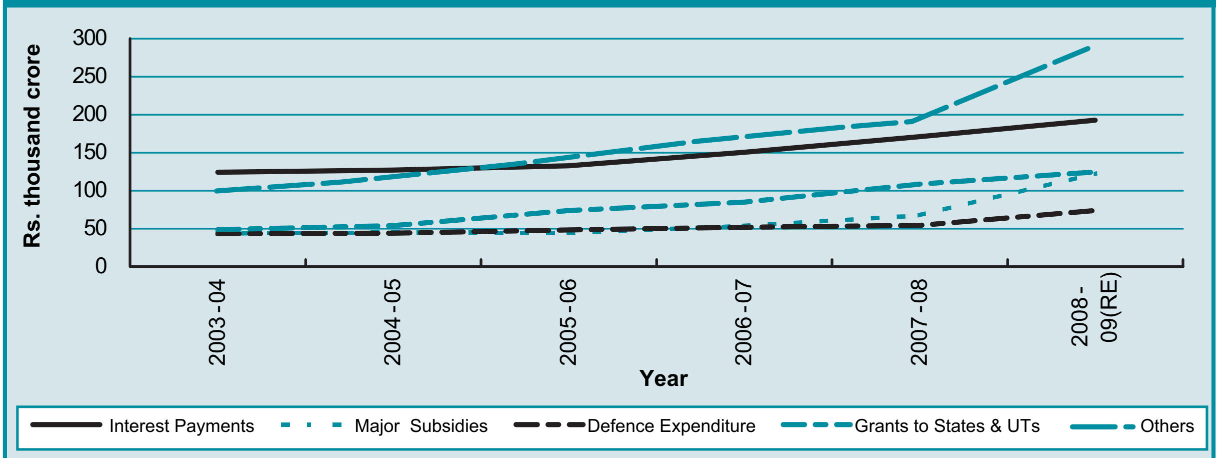
3.19 As a part of the FRBMA mandate of norms for transparency and disclosures, a “Statement of Revenue Foregone” is tabled along with Budget documents (Appendices in Receipts Budget). As per the Budget for 2008-09, tax expenditure on corporate income tax payers for 2006-07 and 2007-08 was Rs. 45,034 crore and Rs. 58,655 crore, respectively. Accelerated depreciations, deduction of export profits of units under the software technology parks of India and deductions of profits of undertakings engaged in providing telecommunication services were some of the major items under such corporate exemptions. Major tax expenditure on individual tax-payers were estimated at Rs. 29,130 crore and Rs. 38,107 crore respectively in 2006-07 and 2007-08 with deduction on account of certain investments and payments under Section 80C being the main contributory exemption.

3.20 In excise, tax expenditure on account of area-based exemptions was placed at Rs. 7,000 crore and Rs. 8,550 crore in 2006-07 and 2007-08 respectively. Total tax expenditure under excise was at Rs. 75,475 crore and Rs. 87,992 crore respectively in 2006-07 and 2007-08. Tax expenditure in respect of customs was placed at Rs. 1,37,105 crore and Rs. 1,48,252 crore respectively in 2006-07 and 2007-08. Overall total tax expenditure was estimated at Rs. 2,39,712 crore in 2006-07 and Rs. 2,78,644 crore in 2007-08. These amounted to 50.9 per cent and 47.9 per cent of the aggregate tax collections in 2006-07 and 2007-08 respectively.

## Expenditure trends

3.21 In an emerging market economy striving to sustain growth with macroeconomic stability within an overarching framework of fiscal consolidation, productivity of expenditure is at the root of fiscal reforms. This is all the more relevant as resources that are raised through borrowings are a tax on future generation and expenditure incurred would have to aim for generating future revenues through creation of assets, physical and human. Capital expenditure

**Figure 3.4 : Trends in centre's revenue expenditure**



and plan revenue expenditure broadly correspond to such asset creation. As a proportion of GDP, plan revenue expenditure had remained in the range of 2.3 per cent to 3.4 per cent in the period 1997-98 to 2006-07. It rose to reach 3.7 per cent of GDP in 2007-08 and was budgeted at 3.9 per cent of GDP in 2008-09. Capital expenditure (excluding such accounting changes like repayments to NSSF using debt swap scheme receipts in 2002-03 to 2004-05 and SBI stake in 2007-08) remained in the range of 2.6 per cent to 1.9 per cent of GDP in the same period. It stood at 2.5 per cent of GDP in 2007-08 and was budgeted at 1.7 per cent of GDP in 2008-09 (Figure 3.4).

3.22 Non-plan revenue expenditure mainly comprises of interest payments, defence expenditure, subsidies, wages & salaries, pensions, transfers and other consumption expenditure of the Government which traditionally appropriated bulk of the revenue receipts (Figure 3.5). As a proportion of GDP, non-Plan expenditure was in the range of 9.5 per cent to 10.9 per cent in the period 1997-98 to 2006-07 and was placed at 8.9 per cent in 2007-08. The Budget for 2008-09 envisaged it to go down to 8.4 per cent of GDP.

### *Interest payments*

3.23 Generally, a less than prudent fiscal policy results in the build up of debt and rising interest payments that pre-empt nation's resources from more productive uses. One key indicator of the fiscal health of an economy is the primary balance, which is usually expressed as fiscal deficit minus interest payments. Orthodox stabilization models target primary surpluses to attain sustainable debt levels and thus the level of interest payments has a crucial bearing on the macroeconomy. As a proportion of GDP, interest payments remained above the 4 per cent level in the period 1997-98 up to 2004-05, reaching a peak of 4.8 per cent in 2002-03. Thereafter, the proportion fell to a level of 3.6 per cent in 2007-08 and was budgeted at same level in 2008-09.

3.24 The proportion of interest payments to revenue receipts is an indicator of the level of pre-emption of current resources (representing the burden of past expenditure). This proportion was in the range of 49 per cent to 46.5 per cent in the period of 1997-98 to 2004-05; the proportion subsequently fell to a level of 31.6 per cent in 2007-08 and was placed at the

**Table 3.5 : Interest on outstanding internal liabilities of Central Government**

| | Outstanding internal liabilities | Interest on internal liabilities[a] | Average cost of borrowings (per cent per annum) |
|---|---|---|---|
| | (Rs. crore) | | |
| 2003-04 | 1457583 | 116869 | 8.8 |
| 2004-05 | 1603785 | 124126 | 8.5 |
| 2005-06 | 1752404 | 129474 | 8.1 |
| 2006-07 | 1967870 | 146405 | 8.4 |
| 2007-08 | 2247104 | 167099 | 8.5 |
| **2008-09(RE)** | **2537848** | **188535** | **8.4** |

Source : Budget documents.

[a] Excludes Rs. 4079.62 crore towards premium on account of domestic debt buyback scheme and prepayment of external debt for 2003-04.

Note : 1. Average cost of borrowing is the percentage of interest payment in year ' t' to outstanding liabilities in year 't-1'.

2. Outstanding internal liabilities exclude NSSF loans to States, with no interest liability on the part of the Centre.

**Figure 3.5 : Composition of revenue expenditure**

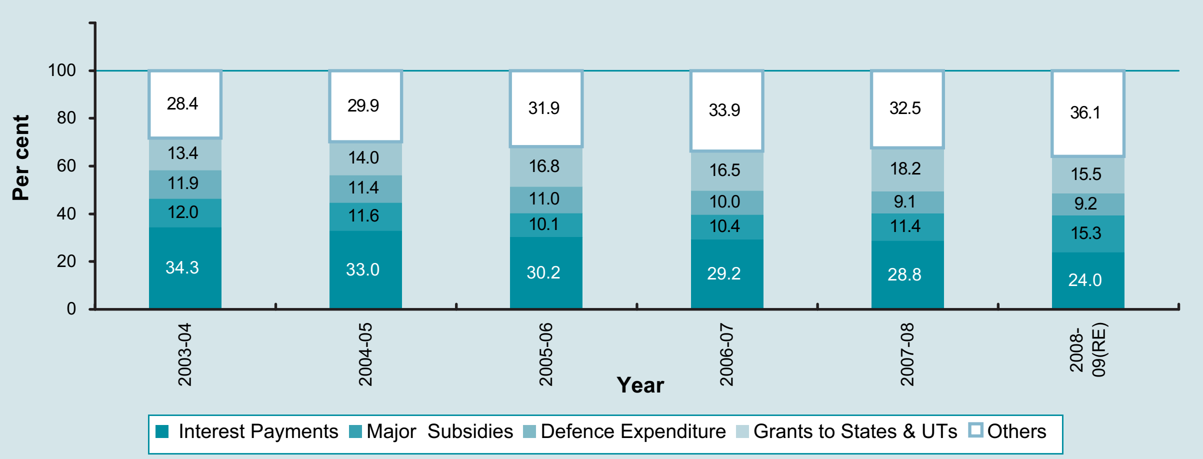
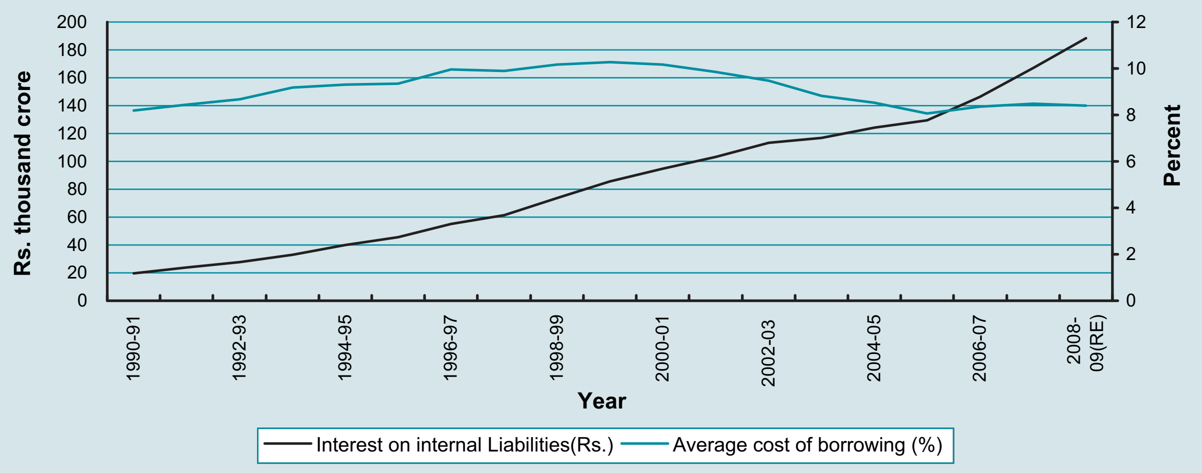


Figure 3.6 : Interest on internal liabilities and average cost of borrowing

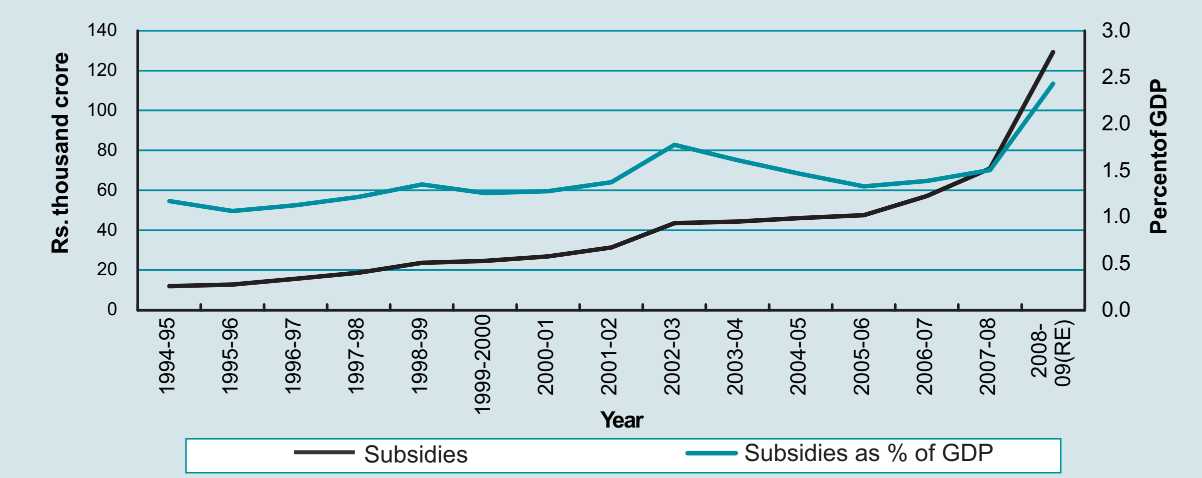



same level in BE 2008-09. The main condition for public debt to stabilize is that the rate of growth in nominal terms must exceed interest rate. The annual average cost of borrowing rose steadily from a level of 8.2 per cent in 1990-91 to 10.3 per cent in 1999-2000 (Figure 3.6). Following the softening of interest rates in the initial years of the millennium, it fell to a level of 8.1 per cent in 2005-06. Subsequently, it increased to 8.5 per cent in 2007-08 reflecting not only the firming up of the interest rates but also the costs of sterilization operations undertaken to moderate the impact of surge in capital inflows on the macroeconomy (Table 3.5).

### *Subsidies*

3.25 Market mechanism often results in underconsumption of goods and services by the vulnerable sections of essential commodities, either because of their high prices or because of the competing claims of other goods and services on their incomes. By reducing the price of the identified goods for identified sections of the society, subsidies increase affordability, improve access and correct the underconsumption of these goods with positive externalities. With this broad objective the subsidies on food, fertilizer and petroleum products continued with their prices being administered well below actual economic costs. In 2007-08, such pricing of these products came under severe strain in the face of global commodity price shock. As a proportion of GDP, explicit major subsidies borne on the budget remained in the range of 1.2 per cent in 1997-98 to 1.8 per cent in 2002-03, consistent with a rising trend in food subsidy. With the rise in international prices of oil since 2003-04, there was a pressure on petroleum & fertilizer subsidies as well (Figure 3.7).

Figure 3.7 : Subsidies as percentage of GDP



Since 2003-04, though such explicit subsidies on petroleum products borne on the budget remained static because a policy decision to this effect, there was a burgeoning of issue of oil bonds initially, which later spilled over to food and fertilizers also. While the impact of price stability on the level of consumption of goods with positive externalities cannot be understated, there is merit in reviewing their impact vis-à-vis cash transfers that are targeted and avoid leakages and systemic failure in the present subsidy regime. Reform of subsidies thus remains an important fiscal policy agenda.

## Supplementary demand for grants

3.26 Three Supplementary Demands for Grants approved by the Parliament in October 2008, December 2008 and February 2009, respectively had an impact on the state of public finances in 2008-09. The first batch of demands included 97 grants and 4 appropriations involving a net cash outgo of Rs. 1,05,613 crore and an additional expenditure of Rs. 1,31,672 crore a technical nature not involving cash outgo (including Rs. 14,000 crore of fertilizer bonds and Rs. 65,942 crore of oil bonds). The second supplementary demand for grants approved by the Parliament in December 2008 included 13 grants involving a net cash outgo of Rs. 42,480 crore and an additional expenditure of a technical nature without cash outgo of Rs. 13,125 crore (including Rs. 7,656 crore on account of fertilizer bonds). Two fiscal packages were also announced (each amounting to Rs. 20,000 crore) in the aftermath of the emergent global financial crisis on the Indian economy. The third and final Supplementary Demands for Grants were approved by the Parliament in February 2009 which included 83 grants and 4 appropriations involving a net cash outgo of Rs. 10,765 crore and additional expenditure of Rs. 4,60,952 crore of a technical nature comprising mostly of appropriation on account repayment of debt.

## Central plan outlay

3.27 The revised estimates for 2007-08, the first year of the Eleventh Five Year Plan, had indicated a shortfall in the Centre's plan outlay to the extent of about 9 per cent as compared with the Budget Estimates. The Budget support to the Central Plan was lower by 4 per cent in 2007-08 (RE) as compared with the Budget Estimates. There was also a shortfall in the internal and extra-budgetary resources (IEBR) of the Central Public Sector Enterprises (CPSEs) by 13 per cent as compared to the Budget Estimates.

3.28 In the Budget for 2008-09, a provision of Rs. 3,75,485 crore was made towards the annual plan outlay representing an increase of about 26 per cent over Revised Estimates of the previous year. This outlay was proposed to be financed by budgetary support amounting to Rs. 1,79,954 crore (47.9 per cent) and the internal and IEBR of CPSEs (52.1 per cent). Energy (25 per cent), transport (22.4 per cent), social services (25.5 per cent), rural development (6.3 per cent) and industry & minerals (7.7 per cent) accounted for bulk of the Central plan outlay. There was a significant step-up in the outlays as compared to 2007-08 (RE) for general economic services (98.9 per cent) and industry and minerals (60.6 per cent).

3.29 Central assistance to state and Union Territories (UTs) plans was budgeted to increase by 7.8 per cent over Revised Estimates for 2007-08 to Rs. 63,432 crore in 2008-09 (BE). There was a substantial step-up in Central assistance to the state and Union Territories under Rashtriya Krishi Vikas Yojana (RKVY) and Special Plan Assistance. While the assistance for RKVY was increased from Rs. 996 crore in 2007-08 (RE) to Rs. 3,153 crore in 2008-09 (BE), assistance under the Special Plan Assistance increased from Rs. 1,862 crore to Rs. 4,602 crore over the same period.

## Government debt

3.30 One of the main objectives implicit in a rule-based fiscal framework is the levels of and sustainability of public debt. The *raison d'être* of lower levels of fiscal deficit (or primary surpluses) advocated in the orthodox stabilization models is that otherwise the levels of debt become unsustainable raising interest rates, crowding out resources and thereby impacting growth and inflation adversely. As a proportion of GDP, outstanding liabilities of the Central Government (internal and external debt valued at historical exchange rates) were 63.3 per cent in 2004-05. In the face of adherence to fiscal rules, the proportion fell to a level of 60.1 per cent in 2007-08 (Figure 3.8) and was placed at 58.9 per cent in 2008-09 (RE). The composition of debt continues to be tilted heavily towards internal liabilities, market borrowings constituted 66.8 per cent of the total internal liabilities in 2008-09 (RE) (Table 3.6A). The FRBMA 2003 did not have any explicit target with respect to debt GDP ratio (Figure 3.8). But the FRBM Rules had stipulated progressive reduction in the assumption of incremental liabilities as a proportion of GDP by one percentage point every year from an

## Table 3.6A : Outstanding liabilities of the Central Government

(end-March)

| | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 | 2008-09 (RE) |
|---|---|---|---|---|---|---|
| | | | (Rs. crore) | | | |
| 1. **Internal liabilities #** | **1690554** | **1933544** | **2165902** | **2435880** | **2725394** | **3014441** |
| a) Internal debt | 1141706 | 1275971 | 1389758 | 1544975 | 1808359 | 2014451 |
| i) Market borrowings | 707965 | 758995 | 862370 | 972801 | 1092468 | 1358940 |
| ii) Others | 433741 | 516976 | 527388 | 572174 | 715891 | 655511 |
| b) Other Internal liabilities | 548848 | 657573 | 776144 | 890905 | 917035 | 999990 |
| 2. **External debt (outstanding)*** | **46124** | **60878** | **94243** | **102716** | 112031 | 121634 |
| 3. **Total outstanding liabilities (1+2)** | **1736678** | **1994422** | **2260145** | **2538596** | **2837425** | **3136075** |
| 4. Amount due from Pakistan on account of share of pre-partition debt | 300 | 300 | 300 | 300 | 300 | 300 |
| 5. **Net liabilities (3-4)** | **1736378** | **1994122** | **2259845** | **2538296** | **2837125** | **3135775** |
| | | | (As per cent of GDP) | | | |
| 1. **Internal liabilities** | **61.4** | **61.4** | **60.4** | **59.0** | **57.7** | **56.6** |
| a) Internal debt | 41.4 | 40.5 | 38.7 | 37.4 | 38.3 | 37.9 |
| i) Market borrowings | 25.7 | 24.1 | 24.0 | 23.6 | 23.1 | 25.5 |
| ii) Others | 15.7 | 16.4 | 14.7 | 13.9 | 15.2 | 12.3 |
| b) Other Internal liabilities | 19.9 | 20.9 | 21.6 | 21.6 | 19.4 | 18.8 |
| 2. **External debt (outstanding)*** | **1.7** | **1.9** | **2.6** | **2.5** | **2.4** | **2.3** |
| 3. **Total outstanding liabilities** | **63.0** | **63.3** | **63.0** | **61.5** | **60.1** | **58.9** |
| **Memorandum items** | | | | | | |
| (a) External debt (Rs.crore)@ | 184177 | 191182 | 194078 | 201204 | 210083 | 259156.0 |
| (as per cent of GDP) | 6.7 | 6.1 | 5.4 | 4.9 | 4.4 | 4.9 |
| (b) Total outstanding liabilities (adjusted) (Rs.crore) | 1874731 | 2124726 | 2359980 | 2637084 | 2935477 | 3273597 |
| (as per cent of GDP) | 68.1 | 67.5 | 65.8 | 63.9 | 62.1 | 61.5 |
| (c) Internal liabilities ( Non-RBI)# | 1529571 | 1771117 | 1969106 | 2217671 | 2471396 | 2707443 |
| (as per cent of GDP) | 55.5 | 56.2 | 54.9 | 53.7 | 52.3 | 50.9 |
| (d) Outstanding liabilities (Non-RBI) ## (Rs.crore) | 1713748 | 1962299 | 2163184 | 2418875 | 2681479 | n.a. |
| Outstanding liabilities (Non-RBI) (as per cent of GDP) | 62.2 | 62.3 | 60.3 | 58.6 | 56.8 | n.a. |
| (e) Contingent liabilities of Central Government (Rs.crore) | 87780 | 107957 | 110626 | 109826 | n.a. | n.a. |
| Contingent liabilities of Central Government (as per cent of GDP) | 3.2 | 3.4 | 3.1 | 2.7 | n.a. | n.a. |
| (f) Total assets (Rs crore) | 903558 | 1083422 | 1194446 | 1339119 | 1571668 | 1580300 |
| Total assets (as per cent of GDP) | 32.8 | 34.4 | 33.3 | 32.4 | 33.3 | 29.7 |

Source : 1. Union Budget documents. 2. Controller of Aid, Accounts and Audit. 3. Reserve Bank of India.

n.a. : not available

* External debt figures represent borrowings by Central Government from external sources and are based upon historical rates of exchange.

@ Converted at year-end exchange rates. For 1990-91,the rates prevailing at the end of March,1991; For 1999-2000,the prevailing at the end of March, 2000 and so on.

\# Internal debt includes net borrowing of Rs. 64,211crore for 2004-05, Rs. 29,062 crore for 2005-06, Rs.62,974 for 2006-07 Rs. 1,70,554 crore for 2007-08 and Rs. 88,773 crore for 2008-09(RE) under Market Stabilisation Scheme.

\## This includes marketable dated securties held by the RBI.

Note : The ratios to GDP at current market prices are based on CSO's National Accounts 1999-2000 series.

**Table 3.6B : Incremental net liabilities of the Central Government***

| | 2004-05 | 2005-06 | 2006-07 | 2007-08 | 2008-09 RE |
|---|---|---|---|---|---|
| Target as per FRBM Rule | 9 | 8 | 7 | 6 | 5 |
| Actual as per cent of GDP | 8.2 | 7.4 | 6.7 | 6.3 | 5.6 |
| Actual in Rs. crore | 257744 | 265723 | 278451 | 298829 | 298650 |

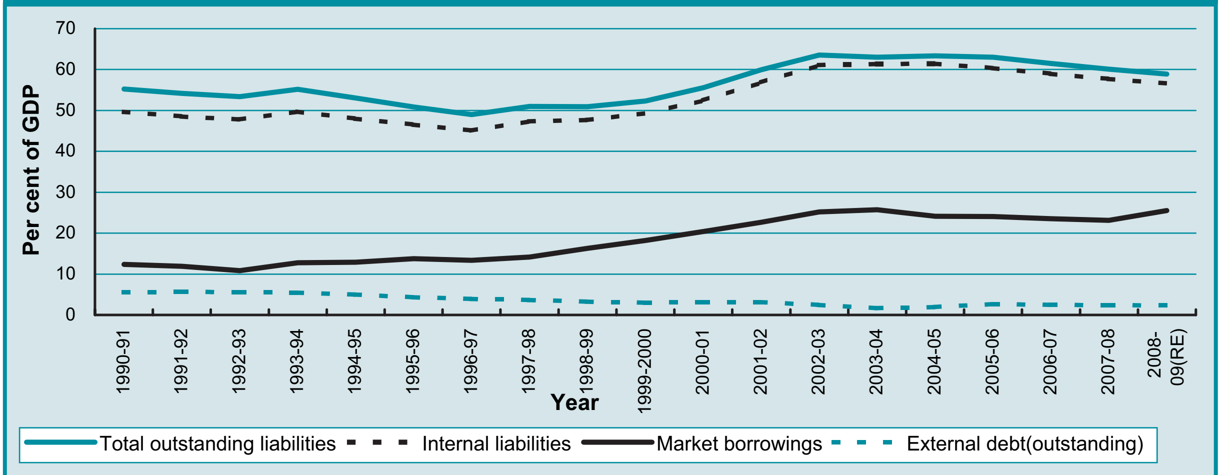
*** Incremental net liablities assumed has been compiled from data on liabilities given in Annex 3(i) of Receipts Budget, 2009-10**

initial level of 9 per cent in 2004-05. The progress in this regard as well as total debt is detailed in table 3.6B. As is evident there has been some slippage in 2007-08 and 2008-09 (RE). In 2007-08, the higher level of assumption of liabilities was on account of MSS operations to mop up excess liquidity and in 2008-09 (RE), the assumption of liabilities is understated (in relation to a fiscal deficit of 6.1 per cent of GDP) to the extent that there has been some unwinding of the liabilities under MSS.

3.31 In a milieu of greater dynamic interaction between the financial sector and the real sectors of the economy, not only the levels of public debt; but also its management assumes importance. An announcement was made in the Union Budget for 2007-08 about separation of debt management function from monetary management in a phased manner and subsequently the Middle Office was established within the Ministry of Finance. One of the primary objectives of establishing a separate debt management office is to provide greater operational autonomy to the monetary policy framework and avoid any possibility of conflict between monetary policy and debt management, which may arise in a situation where debt management and monetary policy are operationally under the same agency (Box 3.1). The major functions of the Middle Office, inter alia, include preparation of a medium-term debt management strategy, issuance of periodic calendars for borrowings, managing Government cash requirements, managing the risks in Government debt portfolio, developing and maintaining a centralized database on Government liabilities, preparing periodical reports on public debt and disseminating debt-related information.

3.32 The Middle Office has begun work on some of these functions such as preparation of a medium-term strategy framework, annual issuance programmes, instrument framework for managing cash surplus/deficit of the Government, developing a comprehensive debt database, etc. Simultaneously, the process of setting up the proposed independent debt office needs to be carried forward. In this regard, the Report of the Internal Working Group on Debt Management (October 2008) has laid down the broad road map – including the required legislation, institutional and governance structure of an independent debt office, its responsibilities and transition issues. The steps involved in evolution of the independent debt office need to be traversed in a manner characterized by urgency and transparency on the one hand and caution and coordination on the other.

**Figure 3.8 : Debt GDP ratios**



## Box 3.1 : Debt management office in India

The need for separation of monetary and debt management functions/objectives is recognized internationally. The IMF, in its guidelines on Public Debt Management (2001), discussed that clarity in the roles and objectives for debt management and monetary policy minimizes potential conflicts. Reserve Bank of Australia (1993) discussed how monetary policy implementation was made difficult by unpredictable net contribution of government to the amount of cash in money market and yields fixed by authorities on Commonwealth governments securities. At a theoretical level also, advantages of clear separation between debt management and monetary policy have been discussed extensively in the literature on this subject. For instance, Mohanty (2002) discussed that, in general, open market operations function most effectively when a clear division is maintained between debt management and monetary policy operations. Monetary policy's major objective is price stabilization, whereas government debt management is designed to search for an optimal trade-off between the cost of government debt and the risk involved and the two are potentially conflicting goals.

In India, the debt management function is presently dispersed over several agencies. Broadly, external debt and non-marketable debt and other liabilities are largely managed by the Ministry of Finance through various departments and marketable debt is largely managed by the Reserve Bank of India. In course of managing the government debt and financing requirement by the Reserve Bank, however, the fiscal operations have been perceived to be overburdening the monetary policy and even leading to blurring of distinction between fiscal and monetary policy operations. Ways and means agreement of the Reserve Bank with the Government in 1997 and prohibition of direct borrowings by the Central Government from the Reserve Bank under the Fiscal Responsibility and Budget Management Act, 2003 have provided greater transparency and operational autonomy to the monetary policy framework. In the changed framework, as noted in Reserve Bank's Annual Report 2000-01, the extent of monetization and the terms of such monetization would depend on the judgement of the Reserve Bank in regard to overall stability. It also underlined that such operational freedom is essential to assure the system that conduct of monetary policy balances the three relevant elements, viz., the fiscal needs of government, the compulsion of a deregulated interest rate regime and requirements of a more open external sector. In this backdrop, the Report mentioned that "the separation of the functions of debt management and monetary management is regarded as a desirable medium-term objective, conditional upon development of the Government securities market, durable fiscal correction and an enabling legislative environment".

Subsequently, the issue was examined extensively by various groups/committees. The Report of the Internal Expert Group on the Need for a Middle Office for Public Debt Management, 2001 chaired by Dr. Arvind Virmani, recommended establishing a centralized middle office in the Department of Economic Affairs to develop a comprehensive risk management framework as the first stage of this process. It recommended establishing an autonomous public debt office as the second stage. The Kelkar Report (MoF, 2004), while recognizing the conflicts of interest that arise between the multiple roles of RBI, recommended the creation of a new independent agency which may be called the National Treasury Management Agency (NATMA). The Percy Mistry Committee (HPEC, 2007) suggested setting up a debt management office which may operate either as an autonomous agency or under the Ministry of Finance. The Rajan Report (CFSR, 2009) suggested to expedite process of establishing debt management office in India.

The Union Budget for 2007-08 stated that "World over, debt management is distinct from monetary management. The establishment of a Debt Management Office (DMO) in the Government has been advocated for quite some time. The fiscal consolidation achieved so far has encouraged us to take the first step. Accordingly, I propose to set up an autonomous DMO and, in the first phase, a Middle Office will be set up to facilitate the transition to a full-fledged DMO." Following the announcement, the Middle Office was established within the Ministry of Finance.

It may be mentioned that IMF, in its guidelines on Public Debt Management (2001), discussed that operational responsibility for debt management is generally separated into front and back offices with distinct functions and accountabilities, and separate reporting lines. This separation helps to promote the independence of those setting and monitoring the risk management framework and assessing the performance from those responsible for executing market transactions. The Government has constituted an Internal Working Group on Debt Management to devise a suitable framework for debt management in India. The group submitted its report "Establishing a National Treasury Management Agency" in October 2008 which was placed in the public domain for comments. The comments and feedback are currently being examined.

Reference: Reserve Bank of Australia (1993). The Separation of Debt Management and Monetary Policy; Reserve Bank of Australia Bulletin; November.

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