Economic and functional classification of central government budget

3.33 The macroeconomic impact of fiscal consolidation may not show up in budgetary classification systems and hence the system of economic and functional classification (EFC) of Central Budget is usually referred to for this purpose. Of the total expenditure, consumption expenditure had been a major contributor at an average level of 22.2 per cent in the period 1997-98 to 2002-03. This started to come down and was placed at 18.8 per cent in 2007-08 (RE). Gross capital formation -- a better indicator of the impact -- ironically came down from an average of about 21.5 per cent in the period 1997-98 to 2002-03 to a level of 20.4 per cent in 2007-08 (RE). The Budget for 2008-09 placed the ratio of consumption expenditure to total expenditure at 19.7 per cent and the ratio of gross capital formation to total expenditure at 17.7 per cent (Table 3.7). However, as about 36.7 per cent of total expenditure EFC is classified unallocable in Centre's finances, the real impact could be to the extent some of the transfers to states end up in additional capital formation.

3.34 The share of salaries and wages within consumption expenditure was envisaged at 37.8 per cent in 2008-09 (BE), which was lower than 41 per cent in 2007-08 (RE). The share of grants to total expenditure was at 30.7 per cent in 2008-09 (BE) as against a level of 27.9 per cent in 2007-08 (RE). A significant impact of the process of fiscal consolidation was the fall in dissavings of the Central Government from a level of Rs. 81,734 crore in 2002-03 to Rs. 14,507 crore in 2007-08 (RE). It was budgeted at Rs. 3,817 crore in 2008-09. As a proportion of GDP, dissavings of the Central Government were placed at 0.3 per cent in 2007-08 (RE) and at 0.1 per cent in 2008-09 (BE).

Fiscal outcome

3.35 The Budget for 2008-09 envisaged a continuation of the momentum of fiscal consolidation achieved up to 2007-08 (RE) with only the terminal year revenue deficit target achievement being put off by a year. However, much change took place since then in the form of supplementaries, tax cuts and fiscal packages. The Provisional Actual data on Union finances released by the Controller General of Accounts captures the full dimensions of the twin shocks (of global commodity price shock and global financial turbulence) and the expenditure on other commitments. As a proportion of GDP, fiscal deficit was placed at 6.2 per cent of GDP for 2008-09, as against 6.1 per cent (RE 2008-09). Revenue deficit has been placed at 4.6 per cent of GDP and primary deficit at 2.6 per cent of GDP (Table 3.8).

3.36 Gross tax revenue was initially budgeted to grow by 16.3 per cent in 2008-09 over its level of Rs. 5,93,147 crore in 2007-08. In the event, the provisional actual for 2008-09 was Rs. 6,09,705 crore which represents a modest growth of 2.8 per cent over the level in 2007-08. As a proportion of GDP, gross tax revenue fell from a level of 12.6 per cent in 2007-08 to a level of 11.5 per cent in 2008-09, which indicated a reversal of the robust increasing trend observed since 2003-04. The robust growth observed in corporate income tax since 2003-04 could not be maintained in 2008-09 in view of the twin shocks; nevertheless a growth of 10.8 per cent was achieved for the full year. Similarly service tax also moderated and grew at 18.6 per cent in 2008-09, which was otherwise creditable but represents a steep fall relative to the performance in previous years. Personal income tax grew creditably at 20.8 per cent broadly in line with its recent trend. Major impact was observed in traditional sources of indirect taxes, namely, central excise and customs, affected as they were by global shocks and the fiscal stimulus that entailed cuts in the rates of both the taxes. Revenue from excise duties declined by 12.0 per cent and customs by 4.1 per cent in 2008-09. With non-tax revenues declining by 5.3 per cent, overall revenue receipts increased only by 0.5 per cent in 2008-09. Adjusting for the accounting transactions of acquisition of SBI stake by Government from RBI which entailed an equivalent transfer of profits of RBI, the growth in non-debt receipts was placed at 0.2 per cent.

3.37 Non-plan expenditure grew by 19.4 per cent as per provisional accounts data, composed of a 32.2 per cent growth in non-plan revenue expenditure and a decline in the non-plan capital expenditure by 42.9 per cent. Decline in non-plan capital expenditure adjusted for the accounting transaction of Government purchase of SBI stake from RBI was 3.3 per cent in 2008-09; consequently the adjusted growth non-plan expenditure was 28.4 per cent in 2008-09. Much of the growth in non-plan revenue expenditure could be attributed to increase in subsidy outgo and pensions/pay revisions. With adjusted capital expenditure growth placed at 8.5 per cent, total expenditure grew by 30.2 per cent in 2008-09.

Table 3.7 : Total expenditure and capital formation of the Central Government

	2003-04	2004-05	2005-06	2006-07	2007-08 (RE)	2008-09 (BE)
			(Rs. crore)			
I. Total expenditure	**426132**	**463831**	**501083**	**570185**	**702782**	**760262**
II. Gross capital formation out of budgetary resources of Central Government	**82561**	**92855**	**84757**	**87885**	**143048**	**134548**
(i) Gross capital formation by the Central Government	23997	27396	34450	36487	47502	63865
(ii) Financial assistance for capital formation in the rest of the economy	58564	65459	50307	51398	95546	70683
III. Gross saving of the Central Government	**-71968**	**-60378**	**-61431**	**-33918**	**-14507**	**-3817**
IV. Gap (II-III)	**154529**	**153233**	**146188**	**121803**	**157555**	**138365**
Financed by						
a. Draft on other sectors of domestic economy	165858	135918	109799	110801	145494	125581
(i) Domestic capital receipts	169800	208259	130687	106284	163678	118357
(ii) Budgetary deficit/draw down of cash balance	-3942	-72341	-20888	4517	-18184	7224
b. Draft on foreign savings	-11329	17315	36389	11002	12061	12784
			(As per cent of GDP)			
I. Total expenditure	**15.5**	**14.7**	**14.0**	**13.8**	**14.9**	**14.3**
II. Gross capital formation out of budgetary resources of Central Government	**3.0**	**2.9**	**2.4**	**2.1**	**3.0**	**2.5**
(i) Gross capital formation by the Central Government	0.9	0.9	1.0	0.9	1.0	1.2
(ii) Financial assistance for capital formation formation in the rest of the economy	2.1	2.1	1.4	1.2	2.0	1.3
III. Gross saving of the Central Government	**-2.6**	**-1.9**	**-1.7**	**-0.8**	**-0.3**	**-0.1**
IV. Gap (II-III)	**5.6**	**4.9**	**4.1**	**2.9**	**3.3**	**2.6**
Financed by						
a) Draft on other sectors of domestic economy	6.0	4.3	3.1	2.7	3.1	2.4
(i) Domestic capital receipts	6.2	6.6	3.6	2.6	3.5	2.2
(ii) Budgetary deficit/draw down of cash balance	-0.1	-2.3	-0.6	0.1	-0.4	0.1
b) Draft on foreign savings	-0.4	0.5	1.0	0.3	0.3	0.2
			(increase over previous year)			
II. Gross capital formation out of budgetary resources of Central Government	**7.5**	**12.5**	**-8.7**	**3.7**	**62.8**	**-5.9**
Memorandum items						
			(Rs crore)			
1 Consumption expenditure	87170	105692	116305	121609	132220	149747
2 Current transfers	248436	259529	297267	356560	420736	471384
	(As per cent of GDP)					
1 Consumption expenditure	**3.2**	**3.4**	**3.2**	**2.9**	**2.8**	**2.8**
2 Current transfers	**9.0**	**8.2**	**8.3**	**8.6**	**8.9**	**8.9**

Source : Ministry of Finance, An Economic and Functional classification of the Central Government Budget-various issues.

Notes:
- **(i) Gross capital formation in this table includes loans given for capital formation on a gross basis. Consequently receipts include loan repayments to the Central Government.domestic capital**
- **(ii) Consumption expenditure is the expenditure on wages & salaries and commodities & services for current use.**
- **(iii) Interest payments, subsidies, pension etc. are treated as current transfers.**
- **(iv) Gross capital formation & total expenditure are exclusive of loans to States/UTs against States'/UTs' share in the small savings collection.**
- **(v) The figures of total expenditure of the Central Government as per economic and functional classification do not tally with figures given in the Budget documents. In the economic and functional classification, interest transferred are excluded from the current account. In the capital account, expenditure financed out of Railways, Posts &Telecommunications' own funds etc, are included.**
- **(vi) The ratios to GDP at current market prices are based on CSO's National Account 1999-2000 series.**

Table 3.8 : Central Government finances

Sl. No.	Items	2007-08 Actuals	2008-09 BE	2008-09 RE	2008-09 Provisonal	Varations Prov. over RE, 2008-09 Absolute	Pro-visional 2008-09 as per cent of RE	Pro-visional 2008-09 as per cent of GDP
		Rs.crore						
1.	Revenue Receipts (2+3)	541925	602935	562173	544651	-17522	96.9	10.2
	Gross tax revenue	593147	687715	627949	609705	-18244	97.1	11.5
2.	Tax (net to Centre)	439547	507150	465970	447726	-18244	96.1	8.4
3.	Non Tax	102378	95785	96203	96925	722	100.8	1.8
4.	Non-Debt Capital Receipts(5+6)	43895	14662	12265	6704	-5561	54.7	0.1
5.	Recovery of loans	5100	4497	9698	6158	-3540	63.5	0.1
6.	Disinvestment Proceeds	38795	10165	2567	546	-2021	21.3	0.0
7.	Total Non-Debt Receipt (1+4)	585820	617597	574438	551355	-23083	96.0	10.4
	Memo items							
	Corporation Tax	192911	226361	222000	213812	-8188	96.3	4.0
	Income Tax	102644	138314	122600	124014	1414	101.2	2.3
	Union Excise Duty	123611	137874	108359	108740	381	100.4	2.0
	Customs	104119	118930	108000	99847	-8153	92.5	1.9
	Service Tax	51301	64460	65000	60866	-4134	93.6	1.1
	Total (Memo Items)	574586	685939	625959	607279	-18680	97.0	11.4
	Devolution to States	151800	178765	160179	160179	0	100.0	3.0
8.	Non-Plan Expenditure (a+b)	507650	507498	617996	606019	-11977	98.1	11.4
	(a) On Revenue Account	420922	448352	561790	556521	-5269	99.1	10.5
	of which:							
	(1) Interest Payments	171030	190807	192694	190485	-2209	98.9	3.6
	(2) Major Subsidies	66638	66537	122353	123640	1287	101.1	2.3
	(3) Pensions	24261	25085	32690	32529	-161	99.5	0.6
	(b) On Capital Account	86728	59146	56206	49498	-6708	88.1	0.9
9.	Plan Expenditure (12+13)	205082	243386	282957	275450	-7507	97.3	5.2
	(a) Revenue Account	173572	209767	241656	235176	-6480	97.3	4.4
	(b) Capital Account	31510	33619	41301	40274	-1027	97.5	0.8
10.	Total Expenditure (8+9)	712732	750884	900953	881469	-19484	97.8	16.6
11.	Revenue Expenditure (8a+9a)	594494	658119	803446	791697	-11749	98.5	14.9
12.	Capital Expenditure (8b+9b)	118238	92765	97507	89772	-7735	92.1	1.7
13.	Revenue Deficit (1-11)	52569	55184	241273	247046	5773	102.4	4.6
14.	Fiscal Deficit (7-10)	126912	133287	326515	330114	3599	101.1	6.2
15.	Primary Deficit (14-8(a)(1)	-44118	-57520	133821	139629	5808	104.3	2.6

Source : Controller General of Accounts, Ministry of Finance.

3.38 The intra-year pattern of revenue and expenditure traditionally exhibits a skew in favour of the second-half with an end-quarter jump in revenues reflecting the mode of payment of direct taxes. The impact of the twin shocks on the macro economy was also reflected somewhat in the intra-year revenue and expenditure pattern in 2008-09 (Table 3.9). In April-September 2008-09, revenue receipts at Rs. 2,44,878 crore was 40.6 per cent of BE when realization was 90.3 per cent of BE for the full year. As a proportion of the actual realization for the whole year, it was 45 per cent. This compares favourably with a realization of 36.7 per cent of total revenue in April-September 2007. While in April-September 2008, about 39.6 per cent was expended, it was 44.5 per cent of total expenditure in April-September 2007. Thus, revenue realization has been affected in the second half of 2008-09 even as expenditure was stepped up leading to an overall fiscal expansion. Overall the net impact of global shocks and domestic commitments pushed back the significant consolidation achieved up to

Table 3.9 : Trends in cumulative finances of Central Government for 2008-09

(Rs. crore)

	Budget Estimates	April	April May	April June	April July	April August	April Sept.	April Oct.	April Nov.	April Dec.	April Jan.	April Feb.	April March
1. Revenue Receipts	602935	13298	36030	82315	117869	161511	244898	289400	314974	375937	404815	437397	544651
Per cent to BE		2.2	6.0	13.7	19.5	26.8	40.6	48.0	52.2	62.4	67.1	72.5	90.3
2. Capital Receipts	147949	33035	73455	86624	116851	118093	104183	118995	179150	221279	266264	310927	336818
3. Total Receipts	750884	46333	109485	168939	234720	279604	349081	408395	494124	597216	671079	748324	881469
Per cent to BE		6.2	14.6	22.5	31.3	37.2	46.5	54.4	65.8	79.5	89.4	99.7	117.4
4. Non Plan Expenditure	507498	29168	71496	106776	158688	192962	240629	288657	357994	426419	471998	515747	606019
Per cent to BE		5.7	14.1	21.0	31.3	38.0	47.4	56.9	70.5	84.0	93.0	101.6	119.4
5. Plan Expenditure	243386	17165	37989	62163	76032	86642	108452	119738	136130	170797	199081	232577	275450
Per cent to BE		7.1	15.6	25.5	31.2	35.6	44.6	49.2	55.9	70.2	81.8	95.6	113.2
6. Total Expenditure	750884	46333	109485	168939	234720	279604	349081	408395	494124	597216	671079	748324	881469
Per cent to BE		6.2	14.6	22.5	31.3	37.2	46.5	54.4	65.8	79.5	89.4	99.7	117.4
7. Revenue Expenditure	658119	43780	103761	158872	218082	259390	323211	376427	456338	549767	614065	681910	791697
Per cent to BE		6.7	15.8	24.1	33.1	39.4	49.1	57.2	69.3	83.5	93.3	103.6	120.3
8. Revenue Deficit	55184	30482	67731	76557	100213	97879	78313	87027	141364	173830	209250	244513	247046
Per cent to BE		55.2	122.7	138.7	181.6	177.4	141.9	157.7	256.2	315.0	379.2	443.1	447.7
9. Fiscal Deficit	133287	32939	73201	86126	115980	116890	102654	117070	176510	218262	262815	307133	330114
Per cent to BE		24.7	54.9	64.6	87.0	87.7	77.0	87.8	132.4	163.8	197.2	230.4	247.7

Source : Controller General of Accounts, Ministry of Finance.

2007-08, which in the current conjecture of countering the adverse macroeconomic impact, was an appropriate and immediate short-term policy response.

Collection rates

3.39 In the context of global financial crisis and the resolve to maintain the pre-crisis levels of tariffs by G-20 leaders to eschew protectionist tendencies, the need for a comprehensive indicator of protection assumes importance. This is particularly relevant in the case of a large open economy like India with a large number of exemptions and the wedge between statutory and applied rates of tariffs. Collection rates, an indicator of overall incidence of tariffs including countervailing and special additional duties, have declined over the years and rules close to peak non-agricultural basic customs duties (Table 3.10 and Figure 3.9). The recent (last 3 years) sticky nature of the level of collection rate could possibly be attributed to withdrawal of exemptions.

Table 3.10 : Collection rates for selected import groups

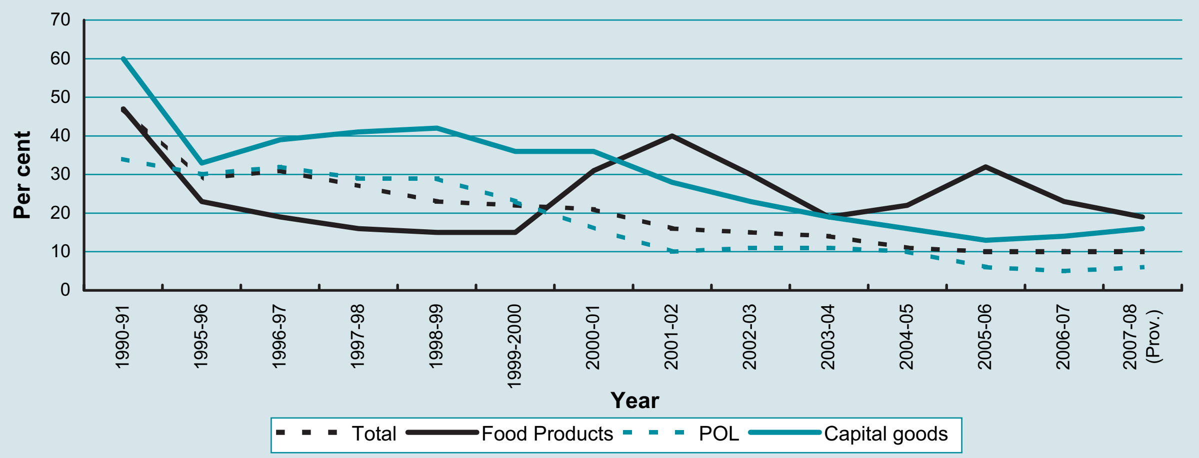
(per cent)

Sl. No.	Commodity Group	2003-04	2004-05	2005-06	2006-07	2007-08 (Prov.)
1	Food products	19	22	32	23	19
2	POL	11	10	6	5	6
3	Chemicals	24	22	20	22	22
4	Man-made fibres	46	39	34	28	30
5	Paper & newsprint	7	7	9	10	10
6	Natural fibres	13	11	13	12	13
7	Metals	32	26	25	24	24
8	Capital goods	19	16	13	14	16
9	Others	8	6	5	6	6
10	Non-POL	14	12	12	12	13
11	**Total**	**14**	**11**	**10**	**10**	**10**

Source : Department of Revenue, Ministry of Finance.

Notes : S.No. 1 includes cereals, pulses, tea, milk and cream, fruits, vegetables, animal fats and sugar.
S.No. 3 includes chemical elements, compounds, pharmaceuticals, dyeing and colouring materials, plastic and rubber.
S.No. 5 includes pulp and waste paper, newsprint, paperboards and manufactures and printed books.
S.No. 6 includes raw wool and silk.
S.No. 7 includes iron and steel and non-ferrous metals.
S.No. 8 includes non-electronic machinery and project imports, electrical machinery.

Figure 3.9 : Collection rates for selected import groups



Post-Budget 2008-09 developments

3.40 The impact of the global shocks in 2008-09 on the state of public finance of India was rather large. In the first half of the last fiscal, it was largely due to global commodity prices shooting up, particularly of crude petroleum, steel and food and the need of financing Eleventh Five Year Plan priorities and farmer loan waiver. In the case of crude petroleum, on which India is import dependent, the less than adequate pass through to consumers resulted in a burgeoning of the subsidy bill (both above the line and below the line items). Of the first two supplementary demand for grants that were approved by the Parliament with a total cash outgo of Rs. 1,48,093 crore, as much as 34.1 per cent was accounted for by way of subsidy-related items. An amount of Rs. 85,942 crore was authorized by way of bonds in 2008-09 for FCI, oil and fertilizer units. Besides, the above expenditure related impact, taxes were also cut as part of anti-inflationary policy in the first half and in the latter half of the year as a fiscal stimuli for the restoration of the growth momentum of the economy.

3.41 The sharp uptrend in commodity prices as reflected by the rise in wholesale price inflation, which remained in double digits for 21 weeks, led to post-budget tax measures in the levels of both the customs and central excise duties in respect of items like steel, crude petroleum and edible oil. Subsequently in the aftermath of the impact of global financial meltdown since September 2008, there was a decline in international commodity prices and some of the duty cuts were reversed. For instance, in order to ensure availability of raw material for the iron and steel industry, the government initiated the following measures:

- Custom duty on iron and non-alloy steel (headings 7203 and 7205 to 7217 of the customs tariff), pig iron and spiegeleisen, metcoke, zinc and ferro-alloys was reduced from 5 per cent to 'Nil' on 29.4.2008. Subsequently, with effect from November 2008/ January 2009, customs duty was restored at 5 per cent.
- Countervailing duty on TMT bars and structurals was reduced from 14 per cent to 'Nil' on 29.4.2008; later reintroduced w.e.f. 02.1.2009.
- Export duty at 15 per cent ad valorem was imposed on pig iron, sponge iron, iron and steel scrap, granules and powders of pig iron, spiegeleisen, iron or steel pencil ingots, semi-finished products and HR coils/sheets on 10.5.2008; some of these were later exempted again.
- With effect from 01.04.08, the customs duty was reduced on all crude edible oils to Nil. Customs duty was also reduced on all refined edible oils such as coconut oil, groundnut, linseed, sesame, castor, mahua, kokum, crude palm kernel oil, olive etc oils to 7.5 per cent. A basic customs duty of 20 per cent was however imposed on crude soyabean oil with effect from 18.11.08 but the same was again withdrawn on 24.3.09.

3.42 Some of the other major tax measures included:

- Changes in customs duty on mineral oils and fuels: crude petroleum was reduced from 5 per cent to Nil; motor spirit and HSD from 7.5 per cent to 2.5 per cent; other petroleum products was reduced from 10 per cent to 5 per cent;

aviation turbine fuel fully exempted from basic customs duty.

- Customs duty was reduced on all crude edible oils to Nil. Customs duty was reduced on all refined edible oils such as coconut oil, groundnut, linseed, sesame, castor, mahua, kokum, crude palm kernel oil, olive oil, etc. to 7.5 per cent.
- Export duty on iron ore (lumps and fines with iron content exceeding 62 per cent as well as not exceeding 62 per cent) enhanced to a uniform ad valorem rate of 15 per cent. With effect from 31.10.08, export duty on fines was reduced to Rs. 200 PMT. Subsequently w.e.f 7.11.08, export duty on iron ore fines was revised to 8 per cent ad valorem duty.
- An export duty of Rs. 8,000 PMT was imposed on basmati rice.
- In order to reduce the price of raw cotton and augment the domestic supply, raw cotton was fully exempt from customs duties.
- Excise duty on cement cleared in packaged form exceeding Rs. 190 per 50 kg bag (or equivalent to Rs. 3,800 per MT) was changed to 8 per cent of retail sale price and for not exceeding Rs. 190 per 50 kg bag (or equivalent to Rs. 3,800 per MT) was changed to Rs. 230 per MT. Consequently duty on cement cleared in packaged form and exceeding Rs. 190 per 50 kg attracted 8 per cent of retail sale price.
- Excise duty on unbranded motor spirit was reduced from Rs. 6.35 per litre to Rs. 5.35 per litre.
- Excise duty on unbranded HSD reduced from Rs. 2.6 per litre to Rs. 1.6 per litre.
- Central excise duty on large cars, multi-utility vehicles (MUVs) and sports-utility vehicles (SUVs) of engine capacity exceeding 1500 cc but not exceeding 1999 cc increased from 24 per cent ad valorem to 24 per cent plus Rs. 15,000 per unit.
- Central excise duty on large cars, MUVs and SUVs of engine capacity exceeding 1999 cc increased from 24 per cent ad valorem to 24 per cent plus Rs. 20,000 per unit.

3.43 Apart from the above measures, two fiscal packages were announced in December 2008 and January 2009, by the Government to deal with the impact on the Indian economy of the global financial crisis. These included macro economy wide measures like:

- Additional plan expenditure up to Rs. 20,000 crore for social sector schemes during financial year 2008-09.
- Across the board cut of 4 percentage points in ad valorem CENVAT rate except for petroleum products.

3.44 Besides, other sector-specific measures included measures to support exports, housing and Medium, Small and Micro Enterprises (MSME) and textile sectors as under :

- To support infrastructure under Public Private Partnerships, India Infrastructure Finance Company Limited (IIFCL) was authorized to raise Rs. 10,000 crore through tax free bonds in 2008-09; in addition IIFCL could access in tranches an additional Rs. 30,000 crore by way of tax free bonds once funds raised in 2008-09 are effectively utilized.
- Others include duty draw-back benefits on certain items; Exim Bank obtaining from RBI a line of credit of Rs. 5,000 crore for providing pre-shipment and post-shipment credit in rupees or dollars; liberalizing of policy of external commercial borrowings and enhancing limit of FII investments in rupee denominated corporate bonds from US$ 6 billion to US$ 15 billion.
- To facilitate the flow of credit to MSMEs, RBI has announced a refinance facility of Rs. 7,000 crore for SIDBI and made available to support incremental lending, either directly to MSMEs or indirectly via banks, NBFCs and SFCs.
- An additional allocation of Rs. 1,400 crore was provided to clear the entire backlog in Textile Upgradation Fund (TUF) Scheme.
- The Reserve Bank announced positioning of a refinance facility of Rs. 4,000 crore for the National Housing Bank.
- Pre- and post-shipment export credit for labour intensive exports, i.e., textiles (including handlooms, carpets and handicrafts), leather, gems & jewellery, marine products and SME sector was made more attractive by providing an interest subvention of 2 per cent up to March 31, 2009 subject to minimum rate of interest of 7 per cent per annum

Interim Budget 2009-10

3.45 In the wake of the General Elections to the Lok Sabha scheduled to be held in April/May 2009, an Interim Budget was presented to the Parliament on February 16, 2009 to enable the Government to meet all essential expenditure during the first four months (through a vote-on-account) of fiscal 2009-10. The Interim Budget enumerated the progress made in the last five years on the basis of the seven objectives originally specified in the Budget for 2004-05. It envisaged an allocation of Rs. 30,100 crore under NREGS; Rs. 13,100 crore under SSA; Rs. 12,070 crore under the National Rural Health Mission; Rs. 11,842 crore under the Jawaharlal Nehru National Urban Renewal Mission; and, Rs. 8,000 crore for the Mid-day Meal Programme. The Interim Budget also extended the interest subvention of 2 per cent on the pre- and post-shipment credit for certain employment-oriented sectors beyond March 31, 2009, i.e up to September 30, 2009 and assured that the Government would recapitalize the public sector banks over the next two years to enable them to maintain capital to risk weighted assets ratio (CRAR) of 12 per cent.

3.46 For 2009-10 the gross tax revenues of the Centre was estimated at Rs. 6,71,293 crore (11.1 per cent of GDP), representing a decline of 0.5 per cent over 2008-09 (RE) and net tax revenue was placed at Rs. 4,97,596 crore (8.3 per cent of GDP). As a proportion of GDP, total expenditure was budgeted to decline by 0.8 per cent in 2009-10 over the level in 2008-09 (RE). Overall the revenue deficit was budgeted at 4.0 per cent of GDP (4.5 per cent of GDP in RE 2008-09) and the fiscal deficit was placed at 5.5 per cent of GDP (6.1 per cent in RE 2008-09). The Finance Minister's speech also indicated that a further 0.5 per cent to 1 per cent of infrastructure expenditure could be considered if deemed appropriate at the time of the full budget.

3.47 In terms of the overall expansion, Centre's fiscal deficit in 2008-09 over 2007-08 was placed at 3.3 per cent of GDP. This was composed of a decline in non-debt receipts of 1.8 per cent of GDP (of which tax revenue was 0.7 per cent of GDP) and a hike in expenditure of 1.5 per cent of GDP. The interim Budget for 2009-10 placed the fiscal deficit at 5.5 per cent of GDP, which indicated a fiscal expansion of 2.8 per cent of GDP over the levels in 2007-08 composed of decline in non-debt receipts of 2.1 per cent of GDP (of which tax revenue was 1.0 per cent of GDP) and a hike in expenditure of 0.7 per cent of GDP. The decline in tax-GDP ratio was partly on account of the operation of automatic stabilizers and tax cuts implemented. In absolute terms this amounted to a decline (RE 2008-09 over BE 2008-09) of: Rs. 29,515 crore in excise; Rs. 10,930 crore in customs; Rs. 15,714 crore in personal income tax; and Rs. 4,361 crore in corporate income tax.

3.48 The issue of sustainability of such expansionary fiscal policies is essentially about the reversibility of the fiscal expansion. The fiscal expansion in 2008-09 was on account of four factors, namely, higher levels of food and fertilizer subsidy (1.03 per cent of GDP), the farm loan waiver (0.3 per cent of GDP), the implementation of the Sixth Pay Commission award (0.65 per cent of GDP) and the announced stimuli including higher budget support for the Eleventh Five Year Plan. Besides, there was a huge outgo on account of oil and fertilizer bonds due to the sharp rise in global oil prices in the first half. As far as farm loan waiver and the Sixth Pay Commission award are concerned, there are clear timelines. The release of pay arrears would be completed in full in 2009-10 and the impact of higher salaries and wages would taper off. Farm loan waiver has similar timelines. The Eleventh Five Year Plan priorities would remain and once the growth trajectory is restored there is likely to be much headroom available for the financing of the plan with the introduction of the goods and services tax. Global commodity prices are unlikely to go up significantly for several quarters. These are expected to provide a stabilizing influence on prices and interest rates.