Fiscal Developments and Public Finance

3

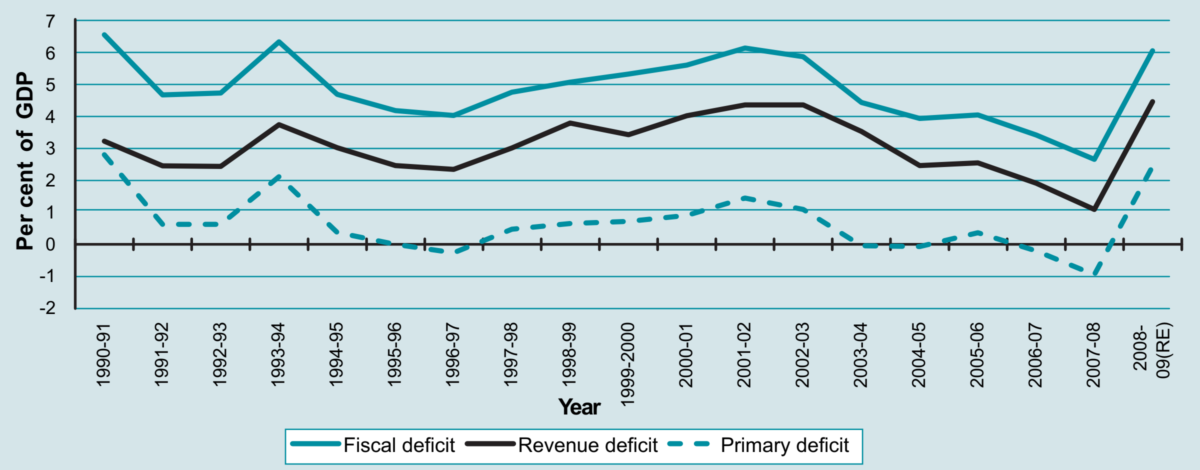
CHAPTER

From a macroeconomic perspective, low levels of budget deficits and public debt are generally considered as key ingredients for economic growth, reducing poverty and improving social outcomes. This owes to the stabilization models attributing resource-expenditure imbalances as the trigger for economic problems of many emerging/developing economies. The fiscal reforms initiated in 1990s as a part of economic liberalization reflected this view point. Fiscal consolidation began in the early 1990s with fiscal deficit declining from 6.6 per cent of GDP in 1990-91 to 4.1 per cent of GDP in 1996-97; however it faltered and started deteriorating in 1997-98 and reached a level of 6.2 per cent of GDP in 2001-02. It was against this background, that operationalization of the Fiscal Responsibility and Budget Management Act of 2003 (FRBMA) assumed urgency leading to the notification of the Rules under the Act in July, 2004. In the post-FRBMA period, progress in fiscal consolidation was more or less close to the targets envisaged thereunder.

3.2 In the five years ending 2007-08 -- a period marked by adherence to fiscal discipline -- Indian economy posted an average annual growth of about 8.8 per cent underscoring the importance of the real growth potential of fiscal consolidation. The fiscal space so generated enabled the Government to put in place the first comprehensive social safety net assuring statutory guarantee for 100 days of employment in a year for able-bodied persons in the rural districts under the National Rural Employment Guarantee Scheme (NREGS) and fund higher levels of plan expenditure. Centre's fiscal deficit at 2.7 per cent of GDP in 2007-08 signified the attainment of FRBMA terminal year target, albeit on cash basis. However, there was sharp deterioration in the fiscal position in 2008-09 owing largely to global commodity price rise and financial meltdown. While such deterioration raised doubts about the sustainability of the process of fiscal consolidation, it is to be noted that this was not due to fiscal laxity; but triggered by endogenous and exogenous factors, which manifested in 2008-09. The instant phase of expansion in the fiscal deficit substantially owes to the conscious and proactive measures that counteract the effects of global shocks. The reversibility of the instant expansionary phase and the commitment to return to the original mandate of the FRBMA once the crisis is over should dispel anxieties regarding the fiscal consolidation in the medium term.

3.3 The Budget for 2008-09, which marked the terminal year of the achievement of the targets under FRBMA, had envisaged fiscal deficit of the Centre at 2.5 per cent of GDP, which was lower than the 3 per cent mandated level; but the other key target, namely elimination of revenue deficit was put off by a year, with the level of deficit estimated at 1.0 per cent of GDP. As the year 2008-09 progressed, the Indian economy was seriously impacted by the twin global shocks – unprecedented increase in the global commodity prices in the first half of the year and the ripple effects of the deepening of the global financial crisis in the second half. This led to conscious fiscal expansion, composed of both tax cuts and expenditure hikes. The slippage in the

Figure 3.1 : Trends in deficits of Central Government



terminal year fiscal targets has also been accentuated by the Supplementary Demands for Grants on account of the farm loan waiver, implementation of the Sixth Pay Commission award and funding on the projects prioritized in the Eleventh Five Year Plan. There was a marked rise in liabilities

Table 3.1 : Trends in deficits of Central Government

Year	Revenue deficit	Primary deficit	Fiscal deficit	Revenue deficit as per cent of fiscal deficit
	(As per cent of GDP)			
1996-97	2.4	-0.2	4.1	58.2
1997-98	3.0	0.5	4.8	63.5
1998-99	3.8	0.7	5.1	74.8
1999-2000	3.5	0.7	5.4	64.6
2000-01	4.1	0.9	5.7	71.7
2001-02	4.4	1.5	6.2	71.1
2002-03	4.4	1.1	5.9	74.4
Enactment of FRBM				
2003-04	3.6	0.0	4.5	79.7
2004-05	2.5	0.0	4.0	62.6
2005-06	2.6	0.4	4.1	63.0
2006-07	1.9	-0.2	3.5	56.3
2007-08	1.1	-0.9	2.7	41.4
2008-09 (RE)	4.5*	2.5	6.1*	73.9

Source : Union Budget documents.

* The Interim Budget 2009-10 had placed the Revenue Deficit of 2008-09 (RE) at 4.4 per cent and the Fiscal Deficit at 6.0 per cent, based on GDP data available at that time.

Note: 1. The ratios to GDP at current market prices are based on CSO's National Accounts 1999-2000 series.

2. Fiscal deficit excludes transfer of states' share in small savings collections.

also on account of issue of oil, fertilizer and food bonds even after greater accommodation of fertilizer subsidies as above the line expenditure in 2008-09. As per the Revised Estimates (RE) for 2008-09, fiscal and revenue deficits of the Centre were placed at 6.1 per cent and 4.5 per cent of GDP, respectively (Figure 3.1). The quality of fiscal deficit indicated by the proportion of revenue deficit to fiscal deficit, which improved to reach a level of 41.4 per cent in 2007-08 also deteriorated sharply in RE for 2008-09 owing to the emerging economic situation, which required fiscal stimuli. (Table 3.1).

3.4 In comparison, the record of fiscal consolidation by states collectively has been impressive with a revenue surplus in 2006-07 and a level of fiscal deficit of 2.5 per cent of GDP in 2005-06. On the strength of relatively better performance by states and also the record of the Centre, combined gross fiscal deficit of the Centre and states fell from a level of 8.5 per cent of GDP in 2003-04 to a level of 5.2 per cent of GDP in 2007-08. The strong performance by states was expected to continue as evidenced by the BE for states in 2008-09.

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 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

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.

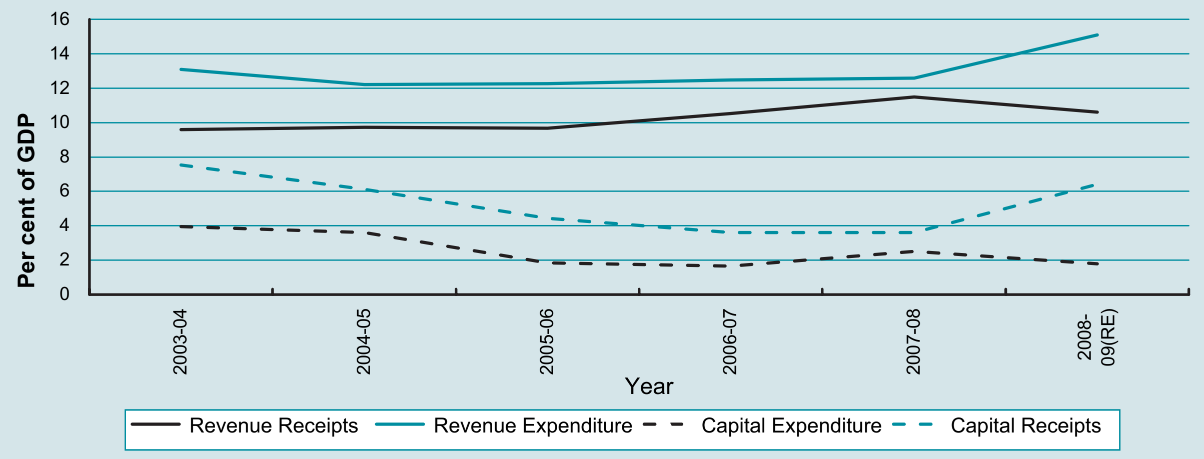
outcomes, a monetary policy setting supportive of growth (by ensuring availability of credit to productive sectors of the economy) also helped. The improvement in the state of public finances was as as a result of reduction in the levels of expenditure and increase in revenue receipts expressed as a 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.

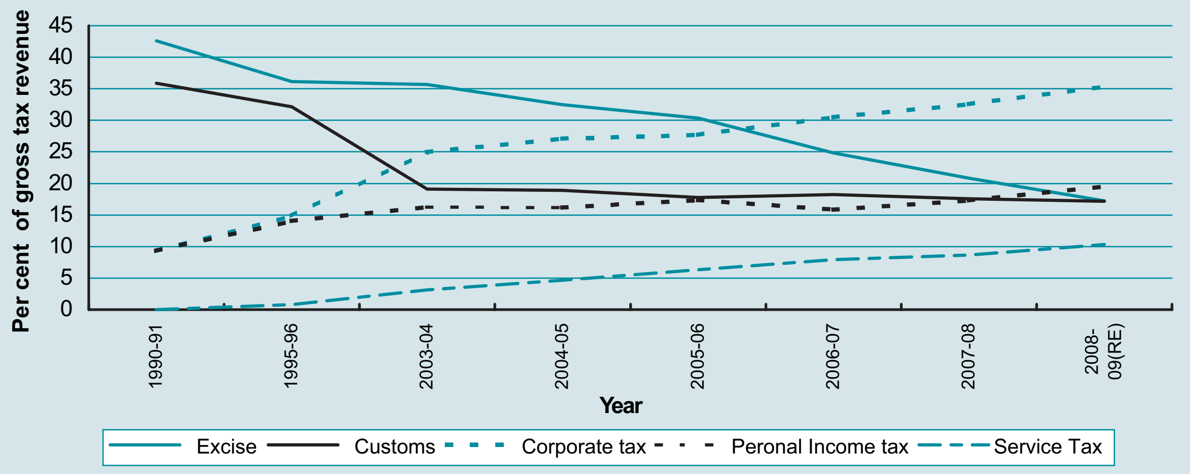
Indirect taxes

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
2007-08P	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

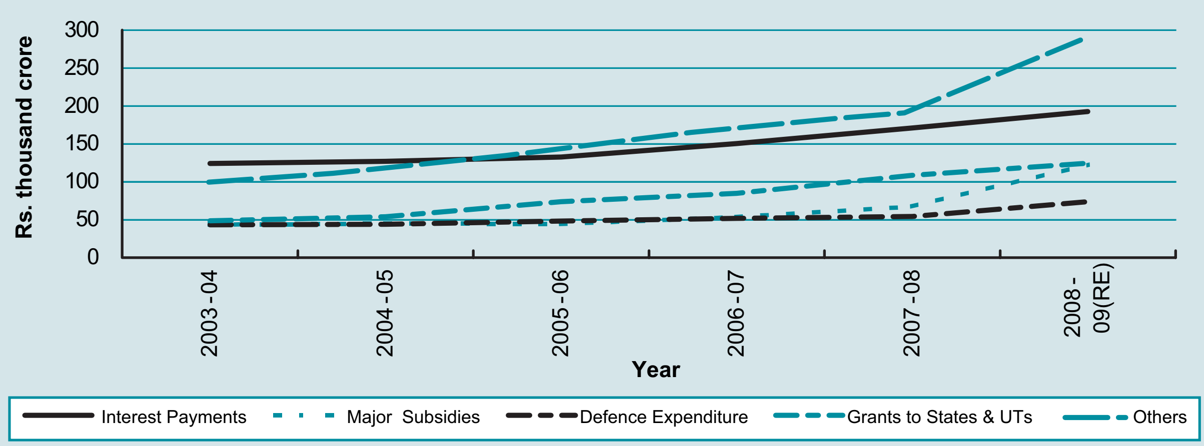
3.19 As a part of the FRBMA mandate of norms for transparency and disclosures, a "Statement of Revenue Foregone" is tabled along with Budget documents (Appendices in Receipts Budget). As per the Budget for 2008-09, tax expenditure on corporate income tax payers for 2006-07 and 2007-08 was Rs. 45,034 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

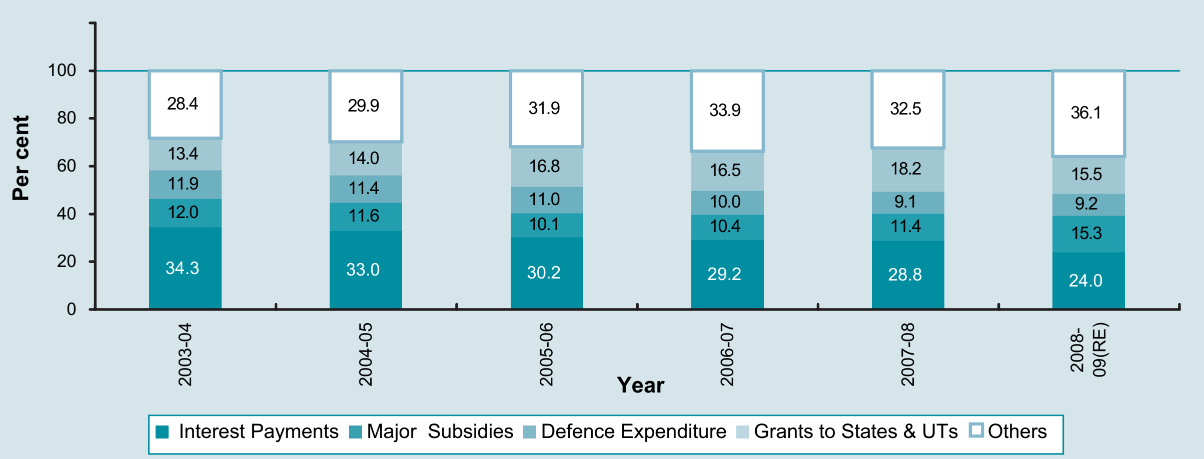
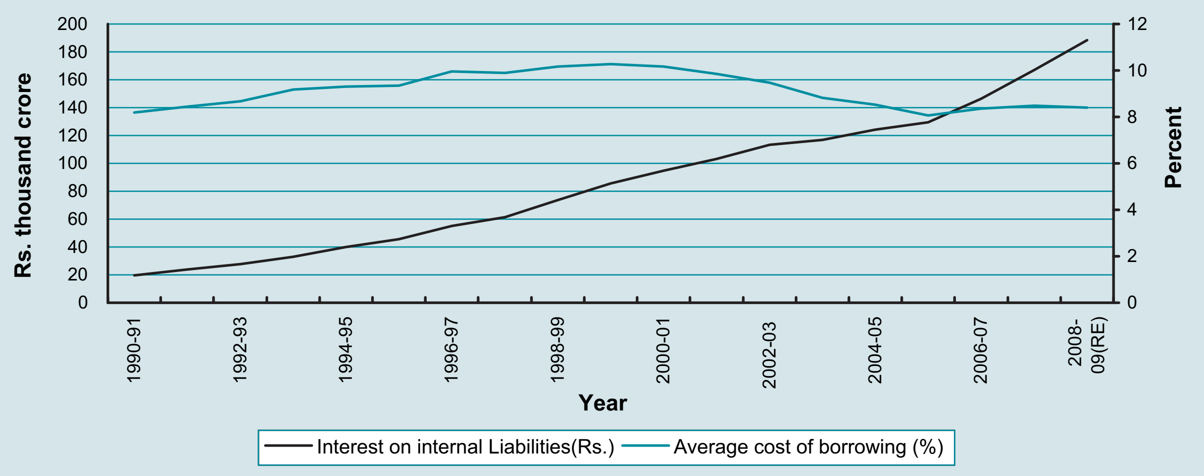


Figure 3.6 : Interest on internal liabilities and average cost of borrowing

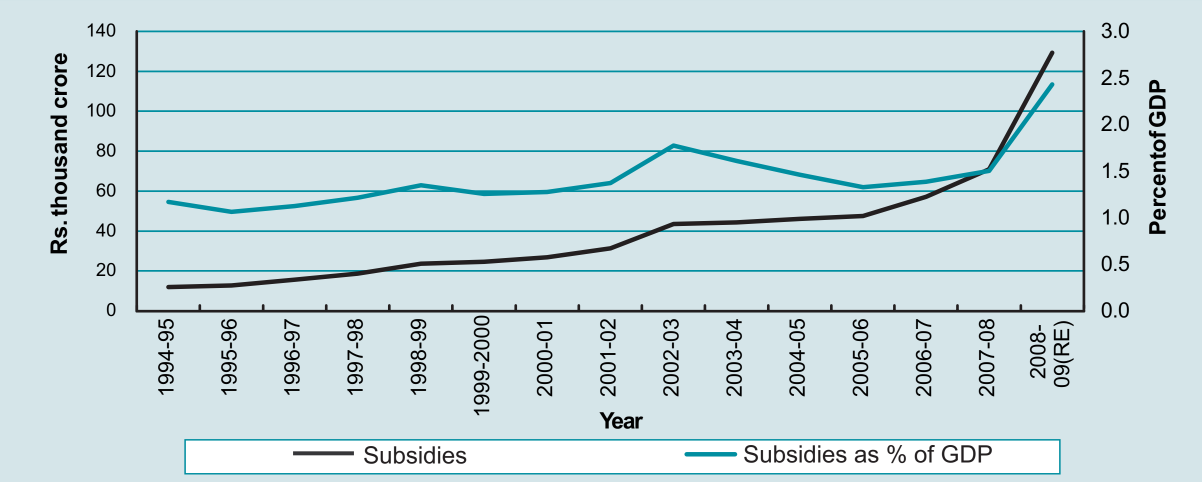


same level in BE 2008-09. The main condition for public debt to stabilize is that the rate of growth in nominal terms must exceed interest rate. The annual average cost of borrowing rose steadily from a level of 8.2 per cent in 1990-91 to 10.3 per cent in 1999-2000 (Figure 3.6). Following the softening 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

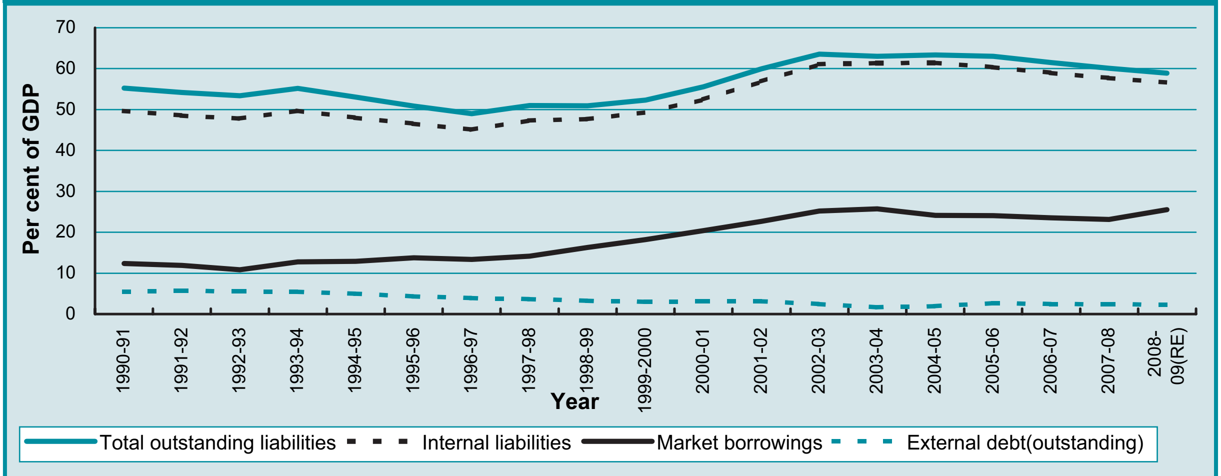
*** Incremental net liablities assumed has been compiled from data on liabilities given in Annex 3(i) of Receipts Budget, 2009-10**

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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HPEC (2007), Mumbai: An International Financial Centre; Technical Report, Ministry of Finance, Government of India.

CFSR (2009), A Hundred Small Steps; Report of the Committee on Financial Sector Reform; Planning Commission, Government of India.

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

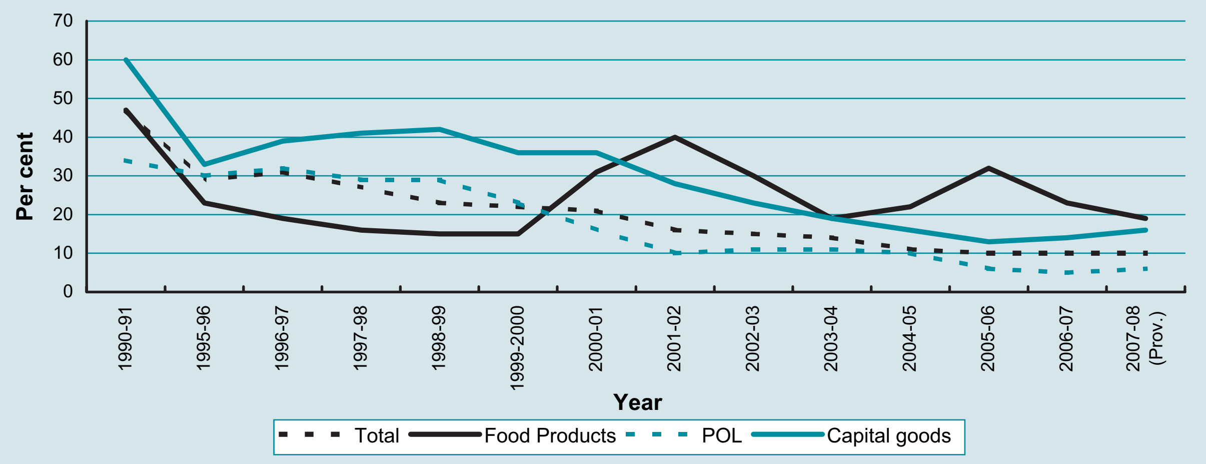
(per cent)

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.

Performance of the Departmental Enterprises of the Central Government

3.49 Indian Railways achieved freight loading of 794 million tonnes in 2007-08, representing an increase of 66 million tonnes over 2006-07. As a corollary, the freight revenue also grew by 13.7 per cent to Rs. 47,435 crore in 2007-08. Gross traffic receipts grew by 14.3 per cent to Rs. 71,720 crore in 2007-08. The additional traffic revenue was realized with minor adjustments in freight structure, despite various concessions provided to passenger traffic.

3.50 Ordinary working expenses of the Indian Railways increased by 9.6 per cent to Rs. 41,033 crore in 2007-08. The total working expenses including appropriations to the Depreciation Revenue Fund and Pension Fund increased by 11.0 per cent to reach Rs. 54,462 crore in 2007-08. Taking into account the net variations of the miscellaneous receipts and expenditure, net revenues of the Railways improved to Rs. 18,334 crore in 2007-08.

3.51 Railways fully discharged the dividend liability for 2007-08 which amounted to Rs. 4,239 crore and have also paid Rs. 664 crore towards outstanding deferred dividend liability. After payment of total dividend from the net revenues earned, Railways in 2007-08 have generated a net surplus of Rs. 13,431 crore. A healthy growth in traffic revenues and prudent economy measures adopted in expenditure management during 2007-08 have further consolidated the financial health of the Railways which is reflected in the operating ratio improving to 75.9 per cent as against 78.7 per cent in the previous year. The net revenue as a proportion of capital-atcharge and investment from capital fund has also improved to 20.7 per cent in 2007-08.

3.52 The plan expenditure of Railways for 2007-08 stood at Rs. 28,980 crore including internally generated resources of Rs. 14,948 crore (i.e. 52 per cent of the total outlay). This included market borrowings of Rs. 4,604 crore by the Indian Railway Finance Corporation (IRFC) and borrowings of Rs. 240 crore for Rail Vikas Nigam Limited (RVNL). Besides, the plan outlay also includes Rs. 520 crore under the Wagon Investment Schemes (WIS) as private participation. While certain important projects and strengthening of golden quadrilateral under the National Rail Vikas Yojana are in progress, Railways have incorporated the Dedicated Freight Corridor Corporation of India Ltd., to meet the large increase in volume of freight traffic over the years. Railways are also modernizing and upgrading the rail services, keeping in view the Eleventh Five Year Plan projections of the economy.

Department of Posts

3.53 Gross receipts in 2007-08 of the Department of Posts were Rs. 5,494.9 crore. Gross and net working expenses during the year were Rs. 7,272.7 crore and Rs. 7,006.3 crore respectively which resulted in a deficit of Rs. 1,511.4 crore. In BE 2008-09, gross receipts are budgeted to go up to Rs. 6,159.3 crore with gross and net working expenses estimated at Rs. 7,562.4 crore and Rs. 7,295.1 crore respectively. The deficit is projected to be Rs. 1,135.7 crore.

3.54 The universal service obligations of the Postal Department primarily consist of the social obligation to deliver letters/parcels/money orders to rural and remote areas. In a bid to reduce the deficit, the Department of Posts has over the last few years made several efforts at increasing revenue generation and cutting down costs. With a view to cutting down the deficit of the Department, it has initiated a host of measures involving both cost-cutting and revenue generation by introducing new products and services, strengthening the existing ones and harnessing the potential of its vast network to earn more revenue. Moreover, with the growth of the Indian economy at 8 per cent to 9 per cent annually, the vast network of India Post of 1,55,516 post offices has caught the attention of many organizations such as telecom companies, banks, financial institutions, NGOs which are eager to expand their services through postal network. Department of Posts hopes to leverage the network and delivery capabilities for actualizing the commercial potential of the same. The Department of Posts has also emerged as a single point of interface between the Government of India and the masses through initiatives such as acceptance of passport forms and filling of income tax returns, and even socially relevant initiatives such as pulse polio campaign and the payment of wages to the workers through the Post Office Savings Account under the National Rural Employment Guarantee Scheme.

Broadcasting

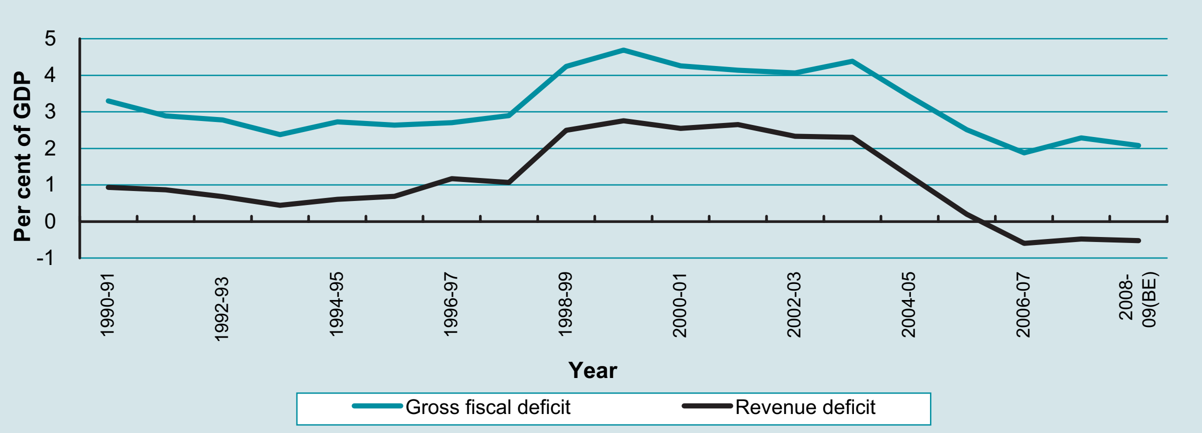
3.55 Prasar Bharati, a public service broadcaster, gives due priority to the matters of national importance as determined by the Government of the day. The total expenditure of Prasar Bharati in 2007-08 was Rs. 2,030.0 crore and the total receipts were Rs. 1,185.9 crore (gross) and Rs. 1,035.9 crore (net) in 2007-08.

3.56 Prasar Bharati has taken number of steps to increase the revenue generation by aggressive marketing, introducing digital technology and television on mobile phones. Nine marketing divisions have been set up at major cities (Mumbai, Delhi, Kolkata, Chennai, Kochi, Guwahati, Hyderabad, Bangalore and Thiruvananthapuram). These marketing divisions cater to the advertising needs of the All India Radio and Doordarshan through a single-window facility. Prasar Bharati will be the host broadcaster during the Commonwealth Games to be held in Delhi 2010. As host broadcaster, Prasar Bharati will be providing coverage to various sports events as per the international standards for relay by the member countries of the Commonwealth. Commonwealth Games 2010 would give an opportunity to Prasar Bharati to introduce modern technology of High Definition Television (HDTV) to cover sports events. However, the resource gap of Prasar Bharati continues to exist and Rs. 1,438.7 crore was allocated in 2008-09 (BE) to cover the same.

Finances of State Governments

3.57 The combined finances of the states, which had exhibited a somewhat intractable negative trait earlier, showed a dramatic turnaround in 2005-06 with the level of fiscal deficit ruling well below the target of 3.0 per cent of GDP mandated to be achieved three years later. Three important factors attributable to this included the award of the Twelfth Finance Commission in terms of grants and the

Figure 3.10 : Revenue and fiscal deficit of states



incentive scheme of debt consolidation and waiver linked to fiscal consolidation under fiscal rules, revenue buoyancy of the Centre and the introduction of state-level VAT, which proved to be a very buoyant source for states. As a proportion of GDP, combined gross fiscal deficit of the states fell to a level of 2.5 per cent in 2005-06-the first year of the award of the Twelfth Finance Commission and revenue deficit was limited to a level of 0.2 per cent (Figure 3.10). A revenue surplus of Rs. 24,856 crore in 2006-07 accompanied by the level of fiscal deficit at 1.9 per cent of GDP meant that collectively states recorded outstanding performance in terms of fiscal consolidation.

3.58 The introduction of state-level VAT had led to improved performance in terms of the states' own tax effort collectively, which grew in excess of 16 per cent in all the three years (2005-06 to 2007-08). Besides, non-tax revenues had also risen sizeably (Table 3.11). Simultaneously, there has been a compression in expenditure (as a proportion of GDP) in both revenue and capital accounts. In terms of the classification of development and non-development expenditure (adopted by the RBI in its publication "State Finances: A Study of Budgets 2008-09") as a proportion of GDP, development expenditure rose from a level of 9.2 per cent in 2005-06 to a level of 10.5 per cent in 2007-08 (RE) and non-development expenditure declined marginally from a level of 5.3 per cent to 5.1 per cent. The share of social sector expenditure in total expenditure of the states, which had exhibited a sharp decline in the period 1999-2000 to 2003-04, rose in the recent years. As a proportion of GDP, social sector expenditure rose from a level of 5.1 per cent of GDP to reach 6.3 per cent of GDP in 2008-09 (BE). While the states had posted an impressive record in terms of the aggregate fiscal indicators, there are variations in the levels of fiscal consolidation across states. The RE for 2007-08 for states indicated that 13 states (non-special category) had achieved revenue surpluses with Bihar achieving the highest revenue surplus at 3.6 per cent of GSDP. Besides, nine states achieved the target of limiting their gross fiscal deficit to 3.0 per cent of GSDP in 2007-08 (RE).

State level reforms

3.59 The process of rule-based fiscal reforms began with the state of Karnataka putting in place the first fiscal responsibility legislation prior to the Centre's FRBMA (enacted in August 2003). So far 26 out of 28 states have enacted FRBMAs. Sikkim and West Bengal are yet to enact FRBMAs. Thus, the pace of fiscal adjustment and correction at state level has gained further momentum.

3.60 The Debt Consolidation and Relief Facility (DCRF), formulated as per the recommendations of the Twelfth Finance Commission (TFC), has two components: consolidation of Central loans (from Ministry of Finance); and debt waiver. So far, Central loans to 25 out of 28 states have been consolidated to the extent of Rs. 1,13,596 crore. The most recent consolidation was that of Jammu & Kashmir on 24.4.2009. Debt consolidation provided interest relief to these 25 states to the extent of Rs. 4,392 crore, Rs. 3,995 crore, Rs. 3,903 crore and Rs. 3,398 crore in 2005-06, 2006-07, 2007-08 and 2008-09 respectively as against TFC's estimation of Rs. 4,711.5 crore, Rs. 4,375.0 crore, Rs. 3,937.8 crore, and Rs. 3,445.4 crore. The difference is due to the fact that consolidations have been carried out for these states over three years as and when

Table 3.11 : Receipts and disbursements of State Governments[a]

	2003-04	2004-05	2005-06	2006-07	2007-08 (RE)	2008-09 (BE)
			(Rs crore)			
I. Total receipts(A+B)	**5,14,829**	**5,63,661**	**5,95,629**	**6,73,604**	**7,63,377**	**8,95,141**
A. Revenue receipts (1+2)	3,09,187	3,63,513	4,31,022	5,30,555	6,28,742	7,19,835
1. Tax receipts of which	2,21,115	2,60,577	3,06,332	3,72,841	4,41,526	5,09,957
State's own tax revenue	1,54,037	1,82,027	2,12,307	2,52,548	2,93,392	3,36,810
2. Non-tax receipts of which:	88,072	1,02,936	1,24,690	1,57,714	1,87,216	2,09,878
Interest receipts	7,748	8,648	9,380	11,825	13,041	12,686
B. Capital receipts of which:	2,05,642	2,00,148	1,64,607	1,43,049	1,34,635	1,75,306
Recovery of loans & advances	16,158	8,039	8,904	7,579	6,212	5,172
II. Total disbursements(a+b+c)	**5,14,303**	**5,53,427**	**5,61,682**	**6,57,281**	**7,87,489**	**8,92,783**
a) Revenue	3,72,594	4,02,670	4,38,034	5,05,699	6,06,216	6,91,409
b) Capital	1,19,899	1,34,235	1,09,224	1,37,793	1,64,507	1,85,282
c) Loans and advances	21,810	16,522	14,424	13,789	16,766	16,092
III. Revenue deficit	**63,406**	**39,157**	**7,012**	**-24,856**	**-22,526**	**-28,426**
IV. Gross fiscal deficit	**1,20,631**	**1,07,774**	**90,084**	**77,508**	**1,07,958**	**1,12,653**
			(As per cent of GDP)			
I. Total receipts(A+B)	**18.7**	**17.9**	**16.6**	**16.3**	**16.2**	**16.8**
A. Revenue receipts (1+2)	11.2	11.5	12.0	12.8	13.3	13.5
1. Tax receipts	8.0	8.3	8.5	9.0	9.3	9.6
of which						
State's own tax revenue	5.6	5.8	5.9	6.1	6.2	6.3
2. Non-tax receipts of which:	3.2	3.3	3.5	3.8	4.0	3.9
Interest receipts	0.3	0.3	0.3	0.3	0.3	0.2
B. Capital receipts of which:	7.5	6.4	4.6	3.5	2.9	3.3
Recovery of loans & advances	0.6	0.3	0.2	0.2	0.1	0.1
II. Total disbursements(a+b+c)	**18.7**	**17.6**	**15.7**	**15.9**	**16.7**	**16.8**
a) Revenue	13.5	12.8	12.2	12.2	12.8	13.0
b) Capital	4.4	4.3	3.0	3.3	3.5	3.5
c) Loans and advances	0.8	0.5	0.4	0.3	0.4	0.3
III. Revenue deficit	**2.3**	**1.2**	**0.2**	**-0.6**	**-0.5**	**-0.5**
IV. Gross fiscal deficit	**4.4**	**3.4**	**2.5**	**1.9**	**2.3**	**2.1**

Source : Reserve Bank of India

a : Data pertains to 28 State Governments.

Note : 1. The ratios to GDP at current market prices are based on CSO's National Accounts 1999-2000 series.
2. Capital receipts include public accounts on a net basis.
3. Capital disbursements are exclusive of public accounts.
4. Negative (-) sign indicates surplus in deficit indicators.

FRBMAs were enacted in line with the recommendations laid down by the TFC in this regard. The second component of DCRF is debt waiver for 2005-06, consolidated debt of 15 states amounting to Rs. 3,984.4 crore was waived; for 2006-07 debt of 20 states to the extent of Rs. 4,691.6 crore was waived; and for 2007-08, debt of 18 states was waived to the extent of Rs. 4,609.6 crore. In 2008-09, 23 states are estimated to get debt waiver to the tune of Rs. 5,536.6 crore. Debt consolidation and waiver have facilitated the achievement targets of revenue deficit elimination and containing fiscal deficit to GSDP ratio at 3 per cent well ahead of 2008-09 as mentioned above. The states together have maintained the aggregate fiscal deficit within the overall borrowing ceiling fixed by the Centre in the years from 2005-06 to 2008-09. Some part of the improved fiscal position owes to the state level reforms, particularly the introduction of the state-level VAT.

Value added tax (VAT)

3.61 The Empowered Committee (EC) of State Finance Ministers is constantly reviewing the progress of implementation of VAT. The progress made in the last three years is as under:

- During 2006-07, the tax revenue of the 31 VAT implementing states/UTs had collectively registered a growth rate of about 21 per cent over the tax revenue of 2005-06 indicating that the VAT system was gradually stabilizing and had started yielding the desired results.
- During 2007-08, the tax revenue growth in 33 VAT states/UTs over the tax revenue of 2006-07, which included a growth of about 24 per cent in the revenue from VAT items.
- During 2008-09, the provisional growth registered in the tax revenue of 33 VAT states/UTs for the period April-December 2008, has been 19.1 per cent over the corresponding period in financial year 2007-08.

3.62 Under the extant compensation scheme of the Central Government whereby the states are compensated for any revenue loss on account of VAT introduction at the rate of 100 per cent of revenue loss during 2005-06, 75 per cent during 2006-07 and 50 per cent during 2007-08, claims admissible for these years totalled Rs. 16,349.5 crore as on March 31, 2009. A sum of Rs. 14,805.8 crore has already been released and balance claims are in process.

Central sales tax reforms

3.63 CST, being an origin-based non-rebatable tax, is incongruent with the system of VAT. After deliberations with the Empowered Committee of States, the road map for phasing out CST entailed reducing the CST rate by 1 per cent every year so as to eliminate it coincidental with the introduction of goods and services tax (GST) (Box 3.2). One critical issue involved in phasing out of CST has been that of compensating the states for the resultant

Box 3.2 : Goods and services tax

Over the past several years, significant progress has been made to improve indirect tax structure, broaden the base and rationalize the rates.

Notable among the improvements made are:

- Replacement of the single-point state sales taxes by the VAT in all of the states and union territories.
- Reduction in the central sales tax rate to 2 per cent, from 4 per cent, as part of a complete phase out of the tax.
- Introduction of service tax by the Centre, and a substantial expansion of its base over the years.
- Rationalization of the CENVAT rates by reducing their multiplicity and replacing many of the specific rates by ad valorem rates based on the maximum retail price (MRP) of the products.

These changes have yielded significant dividends in economic efficiency of the tax system, ease of compliance, and growth in revenues. The state VAT eliminated all of the complexities associated with the application of sales taxes at the first point of sale. The consensus reached among the states for uniformity in the VAT rates has largly brought an end to the harmful tax competition among them. It has also lessened the cascading of tax. The application of CENVAT at fewer rates and the new system of CENVAT credits has likewise resulted in fewer classification disputes, reduced tax cascading, and greater neutrality of the tax. The design of the CENVAT and state VATs was dictated by the constraints imposed by the Constitution, with neither the Centre nor the states being able to levy taxes on a comprehensive base of all goods and services and at all points in their supply chain.

In spite of the improvements made in the tax design and administration over the past few years, the systems at both Central and state levels still remain complex. The most significant cause of complexity is, of course, policy related and is due to the existence of exemptions and multiple rates, and the extant structure of the levies. These deficiencies are the most glaring in the case of CENVAT and the service tax. The starting base for the CENVAT is narrow, and is being further eroded by a variety of area-specific, and conditional and unconditional exemptions. The introduction of goods and services tax (GST) would thus be opportune for deepening the reform process already underway. The principal broad-based consumption taxes that the GST would replace are the CENVAT and the service tax levied by the Centre and the VAT levied by the states. All these are multi-stage value-added taxes.

In defining options for reform, the starting point is the basic structure of the tax. The Empowered Committee of State Finance Ministers in November 2007 had recommended a "dual" GST, to be levied concurrently by both levels of government. The dual GST option strikes a good balance between fiscal autonomy of the Centre and states, and the need for harmonization. It empowers both levels of government to apply the tax to a comprehensive base of goods and services, at all points in the supply chain. It also eliminates tax cascading, which occurs because of truncated or partial application of the Centre and state taxes.

Source: 1. Satya Poddar and Ehtisham Ahmad (2008) : "GST Reforms and Intergovernmental Considerations in India", Dept. of Economic Affairs' Working Paper, Ministry of Finance

2. Department of Revenue, Ministry of Finance

revenue losses. The scheme finalized in consultation with the Empowered Committee of State Finance Ministers (EC) provides for new revenue generating measures for states as the primary source of compensation. It also provides for meeting 100 per cent of the residuary losses to a state, if any thereafter, through the budgetary resources of the Centre. Central Government has received claims admissible for 2007-08 and 2008-09, totaling Rs. 5,017.0 crore till March 31, 2009. A sum of Rs. 4,118.9 crore has been released and balance claims are in process. The phasing out of the CST facilitates the introduction of a GST.

3.64 The report of the task force "Towards Implementation of the FRBM Act (June 2004)" identified the introduction of GST as a major policy reform measure. The GST would facilitate greater vertical equity in fiscal federalism, reduce cascading nature of commodity taxes and through shift to value addition as the basis for assessment unify the market for goods and services. The budget for 2006-07 indicated that GST could possibly commence from the financial year 2010-11. The introduction of GST would entail a restructuring of state VAT and central excise and as such involves a degree of coordination and due process of consultation with various stakeholders. The EC (which was instrumental in the operationalization of state level VAT) in consultation with the Central Government has initiated the process in May 2007 through the constitution of a Joint Working Group (JWG) consisting of officers of the Centre and State Governments to examine the various models and options for GST for the EC to take a view. The JWG presented its report to the EC on November 19, 2007. The EC has sent its recommendations to the Government of India in the form of "A Model and Road Map for Goods and Services Tax in India" dated April 30, 2008, which includes outline of the GST design proposed. The views of the EC are being examined in the Ministry.

Consolidated General Government

3.65 The growth dividend that the economy reaped in the period 2003-04 to 2007-08 was in large measure due to the improvement in the fiscal health of the consolidated General Government (Centre and states combined). As a proportion of GDP, receipts of the consolidated General Government rose from a level of 15.0 per cent in 2003-04 to 18.5 per cent in 2007-08 (RE) (Table 3.12). It was budgeted at 19.1 per cent in BE 2008-09. With non-tax receipts to GDP ratio remaining more or less static, this translated into higher revenue receipts (Figure 3.11). With total disbursement remaining more or less same levels in 2007-08 (RE), the combined revenue and fiscal deficit came down.

Challenges and Outlook

3.66 The uncertainty surrounding the macroeconomic developments world over in 2009-10 and the need for minimizing the second round impact of the global shock call for a continued fiscal policy stimuli. While in 2008-09 fiscal expansion in an overall sense helped arrest the decline in growth, given the relatively weaker automatic stabilizers in operation in the country, a more selective discretionary fiscal policy was used to address the affected sectors and sections of work force in a sustainable manner and promote investments that would not only boost demand in the short run but yield long run growth dividends. Within the proposed fiscal expansion, the mix of expenditure and tax cuts would be critical in the context of its impact on overall

Figure 3.11 : Combined (centre and state) revenue and fiscal deficit

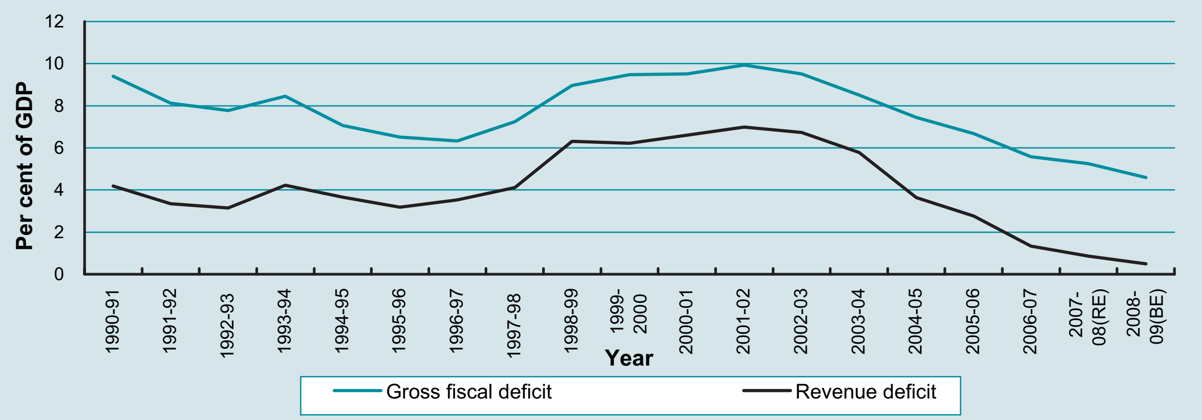


Table 3.12 : Receipts and disbursements of consolidated General Government

	2003-04	2004-05	2005-06	2006-07	2007-08 (RE)	2008-09 (BE)
			(Rs crore)			
I. Total receipts (A+B)	7,99,162	8,88,345	10,14,689	11,25,499	13,31,721	14,87,893
A. Revenue receipts (1+2)	5,18,611	6,15,644	7,07,054	8,77,075	10,55,165	12,08,803
1. Tax receipts	4,13,981	4,92,481	5,76,596	7,24,023	8,73,299	10,17,107
2. Non-tax receipts of which	1,04,630	1,23,163	1,30,458	1,53,052	1,81,866	1,91,696
Interest receipts	18,856	19,223	18,735	21,744	19,392	20,108
B. Capital receipts of which:	2,80,551	2,72,701	3,07,635	2,48,424	2,76,556	2,79,090
a) Disinvestment proceeds	16,952	4,424	1,590	2,440	44,525	25,165
b) Recovery of loans & advances	26,318	14,968	11,651	-773	8,309	7,106
II. Total disbursements (a+b+c)	7,96,383	8,69,757	9,59,855	11,09,174	13,55,831	14,85,536
a) Revenue	6,78,019	7,30,405	8,06,366	9,32,441	10,96,124	12,35,562
b) Capital	86,673	1,13,304	1,32,585	1,57,316	2,38,126	2,29,681
c) Loans and advances	31,691	26,048	20,904	19,417	21,581	20,293
III. Revenue deficit	1,59,408	1,14,761	99,312	55,366	40,959	26,759
IV. Gross fiscal deficit	2,34,501	2,34,721	2,39,560	2,30,432	2,47,832	2,44,462
			(As per cent of GDP)			
I. Total receipts (A+B)	29.0	28.2	28.3	27.3	28.2	28.0
A. Revenue receipts (1+2)	18.8	19.5	19.7	21.2	22.3	22.7
1. Tax receipts	15.0	15.6	16.1	17.5	18.5	19.1
2. Non-tax receipts of which	3.8	3.9	3.6	3.7	3.9	3.6
Interest receipts	0.7	0.6	0.5	0.5	0.4	0.4
B. Capital receipts of which:	10.2	8.7	8.6	6.0	5.9	5.2
a) Disinvestment proceeds	0.6	0.1	0.0	0.1	0.9	0.5
b) Recovery of loans & advances	1.0	0.5	0.3	0.0	0.2	0.1
II. Total disbursements (a+b+c)	28.9	27.6	26.8	26.9	28.7	27.9
a) Revenue	24.6	23.2	22.5	22.6	23.2	23.2
b) Capital	3.1	3.6	3.7	3.8	5.0	4.3
c) Loans and advances	1.2	0.8	0.6	0.5	0.5	0.4
III. Revenue deficit	5.8	3.6	2.8	1.3	0.9	0.5
IV. Gross fiscal deficit	8.5	7.5	6.7	5.6	5.2	4.6

Source : Reserve Bank of India

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

macroeconomic fundamentals like growth, interest rates and exchange rate. A commitment to return to FRBMA mandate at the earliest and quick reversibility of expansionary policies are critical for markets to synchronize their expectations with that of Government and work in a coordinated manner towards the restoration of the high growth momentum. The long-term fiscal policy stance beyond 2010-11 would emerge later this year when the Thirteenth Finance Commission presents its report.