

Fiscal Developments and Public Finance

3

CHAPTER

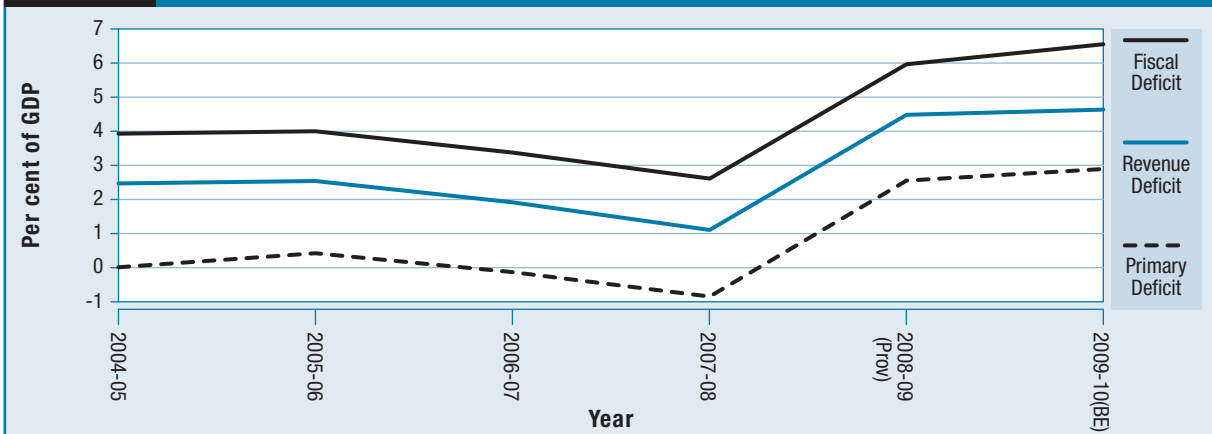
The fiscal space generated in the 2004-05 to 2007-08 period, following the Fiscal Responsibility Budget Management Act (FRBMA) mandate, mitigated the knock on effects of global financial and economic crisis in 2008-09 through facilitation of an expansionary fiscal stance to boost aggregate demand. While traditionally the assessment of public finances was confined to analysis of fiscal indicators, the macro-economy-wide impact of the crisis underscored the importance of using national accounts data in tandem in such assessments. As per the national accounts data, in 2008-09, the deceleration in growth in private final consumption expenditure was partly made up for by the growth in Government consumption expenditure (over 2007-08), which resulted in a shoring up of the overall economic growth rate. The reversal in major fiscal deficit indicators in 2008-09 and 2009-10 constitutes a conscious policy-driven stimulus to counter the demand slowdown.

3.2 As the impact of the crisis continued through 2009-10, the expansionary fiscal stance was continued in the Budget for 2009-10. Given the relative levels of shares of private final consumption expenditure and government consumption expenditure, such expansion could only be a short-term measure and the Medium Term Fiscal Policy Statement presented along with the Budget for 2009-10 favoured a resumption of the fiscal consolidation process, albeit a gradual one, with fiscal deficit declining to 5.5 per cent of the gross domestic product (GDP) and 4.0 per cent of the GDP in 2010-11 and 2011-12 respectively. In its Report, the Thirteenth Finance Commission has traced the path of fiscal consolidation for the Centre and States. The resumption of the path of fiscal prudence would complement the recovery process in the near term and lay the foundation for reviving the growth momentum in the long term.

3.3 The Budget for 2009-10, continuing with the policy of fiscal expansion to boost aggregate demand, envisaged a fiscal deficit of Rs 4,00,996 crore, equivalent of 6.8 per cent of the GDP (6.5 per

cent based on Advanced Estimates of GDP 2004-05 series). In absolute terms, this implied a growth of 21.5 per cent in the level of fiscal deficit over 2008-09 (provisional). With growth in nominal GDP at only 10.6 per cent, as a proportion of the GDP, fiscal deficit was higher. The higher estimated levels of fiscal deficit in 2009-10 owe largely to the fuller impact of the tax cuts announced as a part of the fiscal stimulus packages late in the second half of fiscal 2008-09. The bulk of the expansion was also reflected in the rise in revenue deficit in 2008-09 and BE (budget estimate) 2009-10 (Table 3.1). The reversal of the trend of fiscal consolidation was thus marked in 2008-09 and BE 2009-10 (Figure 3.1).

3.4 The fiscal stimulus packages also facilitated an expansion in the fiscal deficit of the States through a relaxation in targets by 100 basis points. As a result, the gross fiscal deficit of the States combined rose from 1.4 per cent of the GDP in 2007-08 to 2.6 per cent in 2008-09 (RE) and was estimated at 3.2 per cent of the GDP in 2009-10 (BE). Following the high levels achieved in 2007-08, the reduced levels of revenue surplus at 0.1

Figure 3.1 Trends in deficits of Central Government

per cent of the GDP in 2008-09 (RE) and a modest deficit of 0.6 per cent of the GDP in 2009-10 (BE) also reflected this expansionary stance. With the award of the Thirteenth Finance Commission, the resumption of the progress in fiscal consolidation has a distinct timeframe for both the Centre and the States.

3.5 In advanced economies, the operation of

automatic stabilizers and discretionary fiscal policies pursued to obviate the adverse impact of the global financial and economic crisis was made possible by the space available and the largely cyclical nature of the fiscal deficit. In the literature on the nature of fiscal deficits in India, available evidence points to the predominance of the structural features and the relatively small cyclical component. Therefore, the rapid and significant fiscal consolidation achieved in the post- FRBMA period up to 2007-08 was indeed an important achievement that enabled greater fiscal space for a macroeconomic policy stance to counteract the impact of the global economic crisis. Besides, as a proportion of the GDP, the reductions in fiscal deficit in the period 2003-04 to 2007-08 were made possible in equal measure by higher tax revenues and expenditure compression. This facilitated use of both tax and expenditure measures in the expansionary fiscal policies to boost demand. As such, the progress in fiscal consolidation in India is different from the typical models elsewhere driven purely by expenditure compression. Having regard to the levels of tax-GDP ratio, expenditure commitments and needs, smaller social security contributions and weaker operation of automatic stabilizers, such a process was considered apposite and might inform the policy stance, going forward.

Table 3.1 : Trends in deficits of Central Government

Year	Revenue deficit	Fiscal deficit	Primary deficit	Revenue deficit as per cent of fiscal deficit
	(As per cent of GDP)			
Enactment of FRBMA				
2003-04	3.6	4.5	0.0	79.7
2004-05	2.4	3.9	0.0	62.3
2005-06	2.5	4.0	0.4	63.0
2006-07	1.9	3.3	-0.2	56.3
2007-08	1.1	2.6	-0.9	41.4
2008-09(Prov.)*	4.4	5.9	2.5	74.8
2009-10(BE)	4.6	6.5	2.8	70.5

Source : Union Budget documents.

BE—budget estimate.

* Provisional and unaudited as reported by Controller General of Accounts, Department of Expenditure, Ministry of Finance.

Notes: The ratios to GDP at current market prices are based on the Central Statistical Organization's(CSO) National Accounts 2004-05 series.

CENTRAL GOVERNMENT FINANCES

3.6 A low and stagnant tax-GDP ratio characterized Central Government revenues for a considerable period since 1990-91. This reflected

in part the reform of the tax structure through lower rates in indirect taxes and the levels of the tax base. The rapid growth momentum in the post-FRBMA period helped change the composition of taxes, deepen the process of rationalization of taxes and widen the base. As a proportion of gross tax revenue, direct taxes rose from a level of 19.1 per cent in 1990-91 to reach 49.9 per cent in 2007-08; in 2008-09 (provisional), they were at 55.5 per cent. In terms of year-on-year growth, in 2008-09, reflecting the two distinct halves of the financial year with different economic environments, direct taxes grew by 14.3 per cent with personal income tax rising by 20.8 per cent and corporate income tax by 10.8 per cent. This represented moderation from the levels that obtained in the period 2003-04 to 2007-08. There was corresponding decline in the share of indirect taxes in the 1990-91 to 2007-08 period; however, service tax has emerged as a major component with a 10 per cent share in 2008-09. In terms of year-on-year growth, in 2008-09, indirect taxes fared poorly with decline in both excise and customs and service tax moderating to a lower growth of 18.6 per cent. With non-tax revenues remaining at a level of around 2 per cent of the GDP and at the given levels of devolution, revenue receipts which were at 11.0 per cent of the GDP in 2007-08 declined to a level of 9.8 per cent in 2008-09 (provisional).

3.7 As a proportion of GDP, total expenditure fell from a level of 17.1 per cent in 2003-04 to 14.4 per cent in 2007-08, largely driven by the steep fall in capital expenditure with revenue expenditure falling relatively slowly (Figure 3.2). Total expenditure was

placed at Rs 8,81,469 crore in 2008-09, which implied a growth of 23.7 per cent over 2007-08 levels and 17.4 per cent over that assumed in 2008-09 (BE). The front loading of Plan expenditure was evident in the rise in its proportion to the GDP from a level of 4.1 per cent in 2007-08 to 4.9 per cent in 2008-09 (estimated initially at 4.6 per cent in BE 2008-09) (Table 3.2). Thus the reversal in major fiscal deficit indicators in 2008-09 and 2009-10 is a policy-driven stimulus to counter the demand slowdown.

BUDGETARY DEVELOPMENTS IN 2009-10

3.8 The Budget for 2009-10 presented on July 6, 2009 was formulated in the midst of an uncertain macroeconomic environment with a focus on recovery from the economic slowdown following the knock-on effects of the global financial and economic crisis. The three challenges identified included leading the economy back onto the high growth path of 9 per cent at the earliest; deepening and broadening the inclusive agenda for development; and re-energizing the Government and improving the delivery mechanism. In view of the uncertainties associated with the impact of the crisis and not so strong signs of recovery, the Budget for 2009-10 continued fiscal expansion to boost demand. The Budget acknowledged the short-term nature of the stance through a medium-term policy indication of resumption of fiscal consolidation and the initiative to rein in fiscal deficit through institutional reform measures like the intention to move towards a nutrient-based subsidy regime (and ultimately to

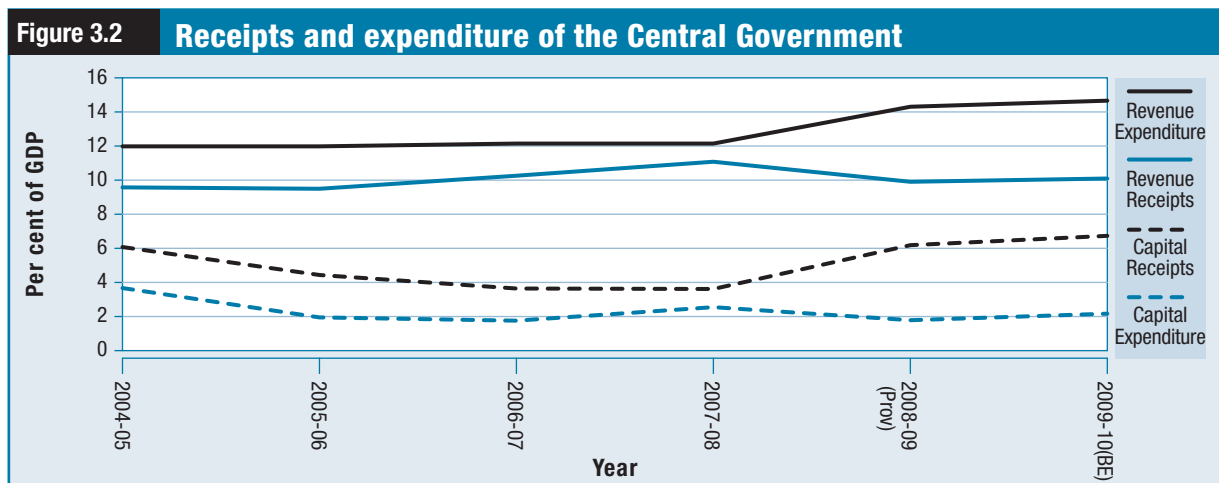


Table 3.2 : Receipts and expenditure of the Central Government

	2004-05	2005-06	2006-07	2007-08#	2008-09 (B.E.)	2008-09 (Prov.)	2009-10 (B.E.)
	(Rs. crore)						
1. Revenue Receipts (a+b)	3,05,991	3,47,077	4,34,387	5,41,864	6,02,935	5,44,651	6,14,497
(a) Tax Revenue (Net of States' share)	2,24,798	2,70,264	3,51,182	4,39,547	5,07,150	4,47,726	4,74,218
(b) Non-tax Revenue	81,193	76,813	83,205	1,02,317	95,785	96,925	1,40,279
2. Revenue Expenditure	3,84,329	4,39,376	5,14,609	5,94,433	6,58,118	7,91,697	8,97,232
<i>of which:</i>							
(a) Interest Payments	1,26,934	1,32,630	1,50,272	1,71,030	1,90,807	1,90,485	2,25,511
(b) Major Subsidies	44,753	44,480	53,495	67,498	67,037	1,23,640	1,06,004
(c) Defence Expenditure	43,862	48,211	51,682	54,219	57,593	72,836	86,879
3. Revenue Deficit (2-1)	78,338	92,299	80,222	52,569	55,183	2,47,046	2,82,735
4. Capital Receipts	1,92,261	1,58,661	1,49,000	1,70,807	1,47,949	3,36,818	4,06,341
<i>of which:</i>							
(a) Recovery of Loans*	62,043	10,645	5,893	5,100	4,497	6,158	4,225
(b) Other Receipt (Mainly PSU Disinvestment)	4,424	1,581	534	38,795	10,165	546	1,120
(c) Borrowings and Other Liabilities \$	1,25,794	1,46,435	1,42,573	1,26,912	1,33,287	3,30,114	4,00,996
5. Capital Expenditure**	1,13,923	66,362	68,778	1,18,238	92,766	89,772	1,23,606
6. Total Expenditure [2+5=6(a)+6(b)]	4,98,252	5,05,738	5,83,387	7,12,671	7,50,884	8,81,469	10,20,838
<i>of which:</i>							
(a) Plan Expenditure	1,32,292	1,40,638	1,69,860	2,05,082	2,43,386	2,75,450	3,25,149
(b) Non-Plan Expenditure	3,65,960	3,65,100	4,13,527	5,07,589	5,07,498	6,06,019	6,95,689
7. Fiscal Deficit [6-1-4(a)-4(b)]	1,25,794	1,46,435	1,42,573	1,26,912	1,33,287	3,30,114	4,00,996
8. Primary Deficit [7-2(a)]	-1,140	13,805	-7,699	-44,118	-57,520	1,39,629	1,75,485
	(As per cent of GDP)						
1. Revenue Receipts (a+b)	9.4	9.4	10.1	11.0	11.4	9.8	10.0
(a) Tax Revenue (Net of States' Share)	6.9	7.3	8.2	8.9	9.6	8.0	7.7
(b) Non-tax Revenue	2.5	2.1	1.9	2.1	1.8	1.7	2.3
2. Revenue Expenditure	11.9	11.9	12.0	12.0	12.4	14.2	14.6
<i>of which:</i>							
(a) Interest Payments	3.9	3.6	3.5	3.5	3.6	3.4	3.7
(b) Major Subsidies	1.4	1.2	1.2	1.4	1.3	2.2	1.7
(c) Defence Expenditure	1.4	1.3	1.2	1.1	1.1	1.3	1.4
3. Revenue Deficit (2-1)	2.4	2.5	1.9	1.1	1.0	4.4	4.6
4. Capital Receipts	5.9	4.3	3.5	3.5	2.8	6.0	6.6
<i>of which:</i>							
(a) Recovery of Loans*	1.9	0.3	0.1	0.1	0.1	0.1	0.1
(b) Other Receipts (Mainly PSU Disinvestment)	0.1	0.0	0.0	0.8	0.2	0.0	0.0
(c) Borrowings and Other Liabilities \$	3.9	4.0	3.3	2.6	2.5	5.9	6.5
5. Capital Expenditure**	3.5	1.8	1.6	2.4	1.7	1.6	2.0
6. Total Expenditure [2+5=6(a)+6(b)]	15.4	13.6	13.6	14.4	14.2	15.8	16.6
<i>of which:</i>							
(a) Plan Expenditure	4.1	3.8	4.0	4.1	4.6	4.9	5.3
(b) Non-Plan Expenditure	11.3	9.9	9.7	10.3	9.6	10.9	11.3
7. Fiscal Deficit [6-1-4(a)-4(b)]	3.9	4.0	3.3	2.6	2.5	5.9	6.5
8. Primary Deficit [7-2(a)]	0.0	0.4	-0.2	-0.9	-1.1	2.5	2.8
Memorandum Items	(Rs crore)						
(a) Interest Receipts	32,387	22,032	22,524	21,060	19,135	20,556	19,174
(b) Dividend and Profit	15,934	18,549	18,969	21,531	24,758	20,653	19,340
(c) Non-Plan Revenue Expenditure	2,96,835	3,27,518	3,72,191	4,20,861	4,48,351	5,56,521	6,18,834

Source : Union Budget documents.

Based on Provisional Actuals for 2007-08.

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

** Includes repayment to National Small Savings Fund for 2004-05.

\$ 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 2004-05 series.

2. The figures may not add up to the total due to rounding/ approximations.

direct cash transfers) in fertilizers; setting up of an expert group to advise on viable and sustainable pricing of petroleum products; encouraging people's participation in public sector undertakings (PSUs) through disinvestment; and bringing about structural changes in direct taxes through the draft Direct Taxes Code and moving towards a harmonized goods and services tax (GST).

3.9 The Budget for 2009-10, acknowledging the importance of infrastructure development, significantly raised the allocation for the sector. This included a significant step up (by 87 per cent) in the allocation under the Jawaharlal Nehru National Urban Renewal Mission (JNNURM); a 23 per cent hike in the allocation under the National Highway Development Programme (NHDP); increase in allocation for the Railways from Rs10,800 crore in the Interim Budget 2009-10 to Rs15,800 crore; and increase of 144 per cent in the allocation under the National Rural Employment Guarantee Scheme (NREGS) taking the outlay to a level of Rs 39,100 crore.

Revenue and capital receipts

3.10 As the fiscal stimulus packages were announced late in the second half of 2008-09, the full impact of the measures was expected to kick in the current fiscal, particularly on the revenue side. It was initially estimated that the tax cuts announced would entail a revenue loss of around 1 per cent of GDP. Given the above, and the need to continue with the stimulus, the Budget for 2009-10 presented in July 2009 envisaged a growth of 5.1 per cent in gross tax revenue of the Centre and was estimated at Rs 6,41,079 crore (Rs 6,09,075 crore in 2008-09 provisional accounts and Rs 6,87,715 in BE 2008-09). While direct taxes were estimated to grow by 9.4 per cent from 2008-09 (prov.) levels, indirect taxes were estimated to grow marginally reaching a level of Rs 2,69,477 crore (Table 3.3). Within direct taxes, revenue from personal income tax was estimated to decline by 9.0 per cent and that from corporate income tax to grow by 20.1 per cent. While revenue from customs and excise was budgeted to decline marginally, the growth in revenue from service tax was estimated at 6.8 per cent, fully compensating the shortfall in the former.

3.11 These trends in individual taxes carried forward the tilt in composition in favour of direct taxes with their share in total tax revenue rising from 55.5

per cent in 2008-09 to 57.7 per cent in 2009-10 (BE)(Figure 3.3). As proportion of the GDP, revenue from direct taxes marginally declined to a level of 6 per cent and revenue from indirect taxes substantially declined to reach 4.4 per cent. Thus, the marksmanship in indirect taxes took a knock in 2008-09. This also reflected the fact that as part of fiscal stimulus package to revive demand, it was excise that bore the brunt of tax cuts and the effect of economic slowdown was more pronounced in consumption than on income.

Indirect taxes

Customs

3.12 In the Budget for 2009-10, no change was made in the overall rate structure of customs duties. The peak rate for non-agricultural products at 10 per cent and the two major ad valorem rates at 5 per cent and 7.5 per cent were retained. However, some sector-specific changes in the rates of duty were made which are detailed below.

- The concessional rate of basic customs duty of 5 per cent on specified machinery for tea, coffee and rubber plantations, which was earlier available up to April 30, 2009, was extended up to July 6, 2010. Basic customs duty on 'mechanical harvesters' for coffee plantations was reduced from 7.5 per cent to 5 per cent. Such harvesters were also exempted from countervailing duty (CVD) by way of excise duty exemption. On permanent magnets for manufacture of PM synchronous generators above 500 KW for use in wind-operated electricity generators, basic customs duty was reduced from 7.5 per cent to 5 per cent.
- Full exemption from customs duty presently available to specified raw materials/inputs imported by manufacturer-exporters of sports goods was extended to five additional items. Similarly, full exemption from customs duty presently available to specified raw materials and equipment imported by manufacturer-exporters of leather goods, textile products, and footwear industry was extended to some additional items. The basic customs duty on unworked corals was also reduced from 5 per cent to nil.
- Full exemption from basic customs duty available to set-top boxes was withdrawn and

Table 3.3 : Sources of tax revenue

	2004-05	2005-06	2006-07	2007-08	2008-09 (BE)	2008-09 (Prov.)@	2009-10 (BE)
	(Rs. crore)						
Direct Taxes (a)	1,32,181	1,57,557	2,19,722	2,95,938	3,65,000	3,38,213	3,70,000
Personal Income Tax	49,268	55,985	75,093	1,02,644	1,38,314	1,24,014	1,12,850
Corporate Tax	82,680	1,01,277	1,44,318	1,92,911	2,26,361	2,13,812	2,56,725
Indirect Taxes (b)	1,70,936	1,99,348	2,41,538	2,78,845	3,21,264	2,69,454	2,69,477
Customs	57,611	65,067	86,327	1,04,119	1,18,930	99,848	98,000
Excise	99,125	1,11,226	1,17,613	1,23,425	1,37,874	1,08,740	1,06,477
Service Tax	14,200	23,055	37,598	51,301	64,460	60,866	65,000
Gross Tax Revenue #	3,04,958	3,66,151	4,73,512	5,93,147	6,87,715	6,09,705	6,41,079
	Tax revenue as a proportion of gross tax revenue (in per cent)						
Direct Taxes (a)	43.3	43.0	46.4	49.9	53.1	55.5	57.7
Personal Income tax	16.2	15.3	15.9	17.3	20.1	20.3	17.6
Corporate Tax	27.1	27.7	30.5	32.5	32.9	35.1	40.0
Indirect Taxes (b)	56.1	54.4	51.0	47.0	46.7	44.2	42.0
Customs	18.9	17.8	18.2	17.6	17.3	16.4	15.3
Excise	32.5	30.4	24.8	20.8	20.0	17.8	16.6
Service Tax	4.7	6.3	7.9	8.6	9.4	10.0	10.1
	Tax revenue as a proportion of gross domestic product* (in per cent)						
Direct Taxes (a)	4.1	4.3	5.1	6.0	6.9	6.1	6.0
Personal Income Tax	1.5	1.5	1.8	2.1	2.6	2.2	1.8
Corporate Tax	2.6	2.7	3.4	3.9	4.3	3.8	4.2
Indirect Taxes (b)	5.3	5.4	5.6	5.6	6.1	4.8	4.4
Customs	1.8	1.8	2.0	2.1	2.2	1.8	1.6
Excise	3.1	3.0	2.7	2.5	2.6	2.0	1.7
Service Tax	0.4	0.6	0.9	1.0	1.2	1.1	1.1
Gross Tax Revenue #	9.4	9.9	11.1	12.0	13.0	10.9	10.4

Source: Union Budget documents.

@ Provisional and unaudited as reported by Controller General of Accounts, Department of Expenditure, Ministry of Finance.

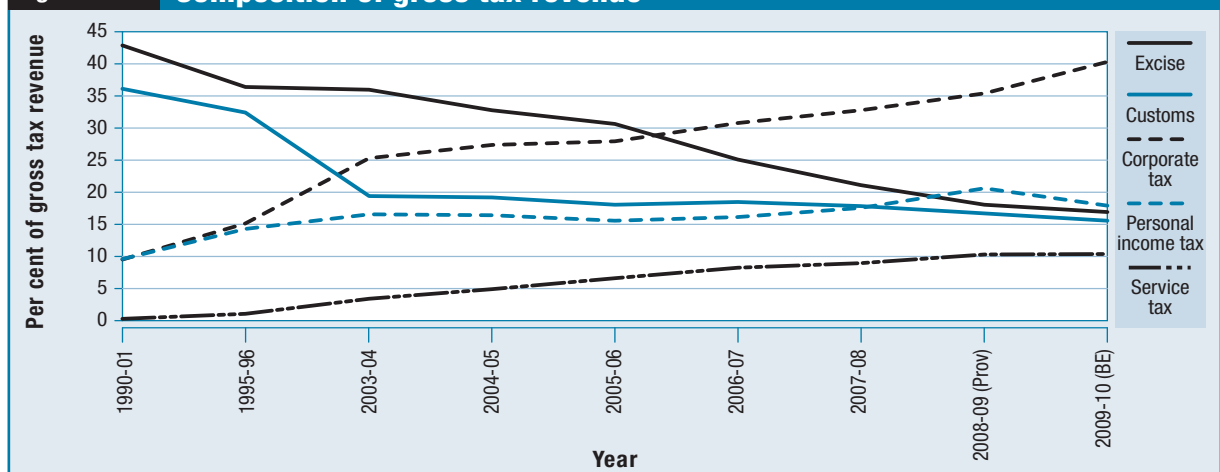
includes taxes referred to in (a) & (b) and taxes of Union Territories and "other" taxes.

* Refers to GDP at current market prices.

Notes: 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 the CSO's National Accounts 2004-05 series.

Figure 3.3 Composition of gross tax revenue



basic customs duty of 5 per cent was reimposed. Basic customs duty on LCD panels for manufacture of LCD televisions was reduced from 10 per cent to 5 per cent. Full exemption from 4 per cent special CVD on parts for manufacture of mobile phones and accessories was reintroduced for one year, that is up to July 6, 2010.

- Basic customs duty on nine specified drugs and bulk drugs for their manufacture, and one vaccine was reduced from 10 per cent to 5 per cent. These items were also exempted from CVD by virtue of full exemption from excise duty. Also, the basic customs duty on Patent Ductus Arteriosus/Atrial Septal Defect occlusion devices was reduced from 7.5 per cent to 5 per cent with nil CVD by way of excise duty exemption. Similarly, basic customs duty on artificial hearts (left ventricular assist devices) was reduced from 7.5 per cent to 5 per cent. This device already attracts nil excise duty/CVD.
- Basic customs duty on cotton waste and wool waste was reduced from 15 per cent to 10 per cent.
- On packaged or canned software, CVD exemption has been provided on the portion of the value which represents the consideration for transfer of the right to use such software, subject to specified conditions. Service tax is leviable on this portion of the value as an "Information Technology Software Service".
- Customs duty on serially numbered gold bars (other than tola bars) and gold coins was increased from Rs100 per 10 g to Rs 200 per 10 g. On other forms of gold, the customs duty was increased from Rs 250 per 10 g to Rs 500 per 10 g. Customs duty on silver was increased from Rs 500 per kg to Rs 1,000 per kg.

3.13 Some other changes announced in the Budget 2009-10 and thereafter are listed below:

- Basic customs duty on rock phosphate was reduced from 5 per cent to 2 per cent.
- CVD exemption on Aerial Passenger Ropeway Projects was withdrawn. Consequently, such projects will attract applicable CVD.
- Basic customs duty exemption for "concrete batching plants of capacity 50 cum per hour or

more" was withdrawn. Such plants will now attract 7.5 per cent basic duty.

- Inflatable rafts, snow skis, water skis, surfboards, sailboats and other water sports equipment were fully exempted from basic customs duty.
- Basic customs duty on bio-diesel was reduced from 7.5 per cent to 2.5 per cent.
- Nil rate of basic customs duty on import of raw sugar, earlier available up to August 1, 2009, has been extended up to December 31, 2010. Import of white/refined sugar (up to 10 lakh MT) at nil rate has been extended up to March 31, 2010.
- Semi- or wholly milled rice was fully exempted from basic customs duty till September 30, 2010.

Excise

3.14 The resurgence in the manufacturing sector, which led to the robust growth momentum in the 2003-04 to 2007-08 period, owes also to the rationalization of excise duties. As a consequence of changes in ad valorem rates of Central excise duty for non-petroleum products on February 24, 2009 as part of the third fiscal stimulus package, a dual rate structure with rates of 4 per cent and 8 per cent ad valorem was put in place. This rate structure for non-petroleum products has been retained in Budget 2009-10. However, the rate of duty on several items attracting 4 per cent was restored to 8 per cent. Among the important sectors/items where such an increase occurred were ceramic tiles manufactures in a factory not using electricity for firing the kiln; plywood, flush doors and articles of wood; writing ink and other ink used in writing instruments; zip fasteners; and MP3/MP4 or MPEG4 players. Consequent upon increase in excise duty rate from 4 per cent to 8 per cent, abatement rates were revised suitably on items covered under retail sale price (RSP)-based assessment.

3.15 On the other hand, the 4 per cent rate was retained on mass consumption and essential items such as drugs and pharmaceutical products; medical equipment; certain varieties of paper, paperboard and articles made therefrom; food items such as sugar confectionary, biscuits of retail price exceeding Rs100/kg, cakes and pastries and sherbets; pressure cookers; power-driven pumps

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designed for handling water; water filtration/purification equipment; specified textile machinery; paraxylene; footwear of retail price exceeding Rs 250 per pair but not exceeding Rs 750 per pair; compact fluorescent lamps (CFL) and vacuum and gas-filled bulbs of retail price not exceeding Rs 20 per bulb.

3.16 The specific changes made included:

- Restoration of the scheme of optional excise duty of 4 per cent for pure cotton.
- Rate of duty on manmade fibre and yarn enhanced from 4 per cent to 8 per cent on mandatory basis. Beyond the fibre/yarn stage the optional levy of 8 per cent ad valorem restored (instead of pre-budget rate of 4 per cent). Similarly, textile items manufactured from natural fibre other than cotton such as silk, wool and flax to bear an optional levy of 8 per cent ad valorem instead of 4 per cent beyond the fiber stage. The enhanced rate of 8 per cent to also apply to blended fabrics and products.
- Corresponding changes made in the rates of duty applicable to export-oriented units (EOUs) using only indigenous raw materials when they make clearances of textile items in the domestic tariff area (DTA).
- Enhanced excise duty from 4 per cent to 8 per cent ad valorem on some important textile intermediates, namely polyester chips; di-methyl terephthalate (DMT), purified terephthalic acid (PTA); and acrylonitrile.
- The ad valorem component of excise duty on petrol intended for sale with a brand name converted into a specific rate. Consequently, such petrol to attract total excise duty of Rs 14.50 per litre instead of "6 per cent + Rs13 per litre".
- Similarly, the ad valorem component of excise duty on diesel, intended for sale with a brand name converted into a specific rate. Consequently, such diesel to attract total excise duty of Rs 4.75 per litre instead of "6 per cent + Rs 3.25 per litre".
- Exemption from basic excise duty, additional excise duty and special additional excise duty provided to high-speed diesel (HSD) oil blended with bio-diesels, up to 20 per cent by volume, provided both HSD and bio-diesel have paid the appropriate excise duty.
- Excise duty rate on special boiling point spirits and Naphtha reduced to 14 per cent.
- Excise duty on large cars/utility vehicles, having engine capacity exceeding 1999 cc, reduced from "20 per cent + Rs 20,000 per unit" to "20 per cent + Rs15,000 per unit".
- Excise duty on petrol-driven trucks/lorries reduced from 20 per cent to 8 per cent. Excise duty on chassis of such truck/lorries also reduced from "20 per cent + Rs10,000" per chassis to "8 per cent + Rs10,000" per chassis.
- No change made either in the exemption limit or the eligibility limit for small-scale exemption.
- Brand name restriction relaxed in respect of printed laminated rolls. As a consequence, manufacturers of printed laminated rolls bearing the brand name of another person and fulfilling the conditions of notification entitled to full exemption from excise duty for their first clearances of this item (for home consumption) not exceeding Rs150 lakh during the remaining part of this financial year, that is 2009-10.
- Full exemption from excise duty has been provided to goods falling under Chapter 68 manufactured at the site of construction for use in construction work at such site.
- Full exemption from excise duty provided to tops manufactured from manmade fibres using the tow-to-top process under specified conditions.
- Articles of jewellery on which brand name or trade name is indelibly affixed or embossed (branded jewellery) fully exempted from excise duty.
- Full exemption provided to EVA compound manufactured on job-work basis for further manufacture of footwear.
- Partial exemption from excise duty provided to packaged or canned software so that the duty payable on that portion of the value which represents the consideration for the transfer of the right to use such software is exempted.
- Recorded smart cards and tags are exempt from excise duty. A condition had been added to this exemption so as to make it available only if the manufacturer has not availed of central value-added tax (CENVAT) credit of the duty paid on inputs for these goods.

Service Tax

3.17 The introduction of service tax in 1994-95 ushered in a major structural change in indirect taxes in the form of wider base and facilitated the process of rationalization of excise duties resulting in lower tax burden on productive sectors. Over the years, there has been an increase in the number of services and the rate of service tax leviable (Table 3.4). The Budget for 2009-10 carried this process forward through the following measures:

- (a) Service tax retained at 10 per cent (which was reduced from 12 per cent on February 24, 2009 as part of the fiscal stimulus package).
- (b) The following four new services have been brought under the service tax net:
 - (i) Services provided in relation to transport of coastal goods and goods through national waterways and inland water.
 - (ii) Services provided in relation to transport of goods by rail (service tax kept in abeyance for some time).
 - (iii) Cosmetic and plastic surgery services undertaken to preserve or enhance physical appearance or beauty.
 - (iv) Legal consultancy services provided by a business entity to another business entity.
- (c) As relief to exporters :
 - Two taxable services, namely “transport of goods by road” and “commission paid to foreign agents” exempted from the levy of service tax, should the exporter be liable to pay service tax on reverse charge basis.

Year	No. of services	Tax rate in per cent	Revenue (Rs crore)	Growth in per cent
2003-04	60	8	7891	91.4
2004-05	75	10	14200	80.0
2005-06	84	10	23055	62.4
2006-07	99	12	37598	63.1
2007-08	106	12	51301	36.4
2008-09	110	10*	60702	18.3
2009-10(P)	114	10	36785	-6.5 #

Source: Receipts Budget and Principal Chief Controller of Accounts.

* Reduced to 10 per cent with effect from February 24, 2009.

Over corresponding period April-December, 2008. (P) Revenue collection for 2009-10 (April-December 2009).

- In respect of other taxable services, a new revamped and trust-based refund scheme notified with effect from July 7, 2009. Under the new scheme, refund to be granted to exporters within one month without any pre-audit based on certification. If the amount of refund claim does not exceed 0.25 per cent of the total f.o.b. value of exports under a claim, self-certification by the exporter to the effect that the eligible services have been received and used for export by him and service tax payable thereon has been reimbursed would be sufficient to get the refund. In cases where amount of refund claim exceeds 0.25 per cent of the f.o.b. value of exports, the refund claim to be sanctioned on the basis of certification by the chartered accountant who audits the annual accounts of the exporter. A simplified format has been prescribed to file the refund claims. The condition for filing refund claims once in a quarter dispensed with and the time period for filing the refund claim increased to one year from the date of export.
- ‘Terminal handling charges’ added to the list of services eligible for refund.
- Services provided for transport of export goods through national waterways, inland water and coastal shipping included in the list of services eligible for refund of service tax.

(d) Other relief measures included:

- Exemption from service tax provided to inter-State or intra-State transportation of passengers in a vehicle bearing “contract carriage permit”, with specified conditions.
- Federation of Indian Export Promotion Organization (FIEO) and specified export promotion councils exempted from the levy of service tax under the “Club or association service”. The exemption would be valid till March 31, 2010.
- Exemption from service tax leviable under “banking and other financial services” or under “foreign exchange broking services” provided to inter-bank purchase and sale

of foreign currency between scheduled banks.

- Services provided in relation to transport of goods by rail exempted from service tax.
- Services provided or to be provided in relation to management, maintenance or repair of roads exempted from service tax.
- Service tax exemption on taxable services provided in relation to transport of specified goods through national waterways, inland water and coastal shipping.
- Sub-brokers excluded from the definition of “stockbroker”.
- Service tax exemption provided on business auxiliary services provided in the manufacture of pharmaceutical products, medicines, perfumery, cosmetics or toilet preparations containing alcohol, which are charged excise duty under the Medicinal and Toilet Preparations (Excise Duties) Act 1955.
- Partial exemption from service tax granted to job workers providing business auxiliary service to the brand owners of alcoholic beverages to the extent of service tax leviable on inputs (i.e. raw materials and packing materials) used in the manufacture of such alcoholic beverages.
- Service tax exemption provided to canals built under works contracts, including EPC projects, provided they are not used for commercial purposes.
- Specified processes undertaken during the course of manufacture of parts of cycles or sewing machines exempted from service tax under business auxiliary services.

Direct Taxes

3.18 The Budget for 2009-10 pointed out that the thrust of tax reforms over the last few years had been on improving the efficiency and equity of the tax system by eliminating distortions in the tax structure, maintaining moderate levels of taxation

and expanding the base. This was carried forward in 2009-10 through enhancement of the minimum level of income exempt under personal income tax by Rs10,000 for general taxpayers and by Rs 15,000 for senior citizens. The surcharge of 10 per cent on personal income tax was also eliminated. The fringe benefit tax was abolished to reduce the compliance burden on employers. The rate of minimum alternate tax was raised to 15 per cent to improve inter-se equity in the taxation of corporate taxpayers.

3.19 Overall, tax proposals on direct taxes were revenue neutral. In pursuance of a Budget announcement, the draft Direct Taxes Code and Discussion Paper was released in August 2009 for public comments (Box 3.1). An alternate dispute resolution mechanism was introduced in the Income-tax Act 1961 to facilitate expeditious resolution of tax disputes involving international transactions.

Tax Expenditure

Direct Taxes

3.20 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 2009-10, tax foregone on account of exemptions under corporate income tax for 2007-08 and 2008-09 was estimated at Rs 62,199 crore and Rs 68,914 crore respectively. Deduction on account of accelerated depreciation, deduction of export profits of units located in Software Technology parks and of EOUs were some of the major items under such corporate exemptions. Tax foregone on account of exemptions under personal income tax was estimated at Rs 33,278 crore and Rs 34,437 crore respectively in 2007-08 and 2008-09 with deduction on account of certain investments and payments under section 80C of the Income-tax Act being the main exemptions.

Indirect Taxes

3.21 Estimates of total revenue foregone on the Central excise side for 2008-09 were placed at Rs1,28,293 crore as against the corresponding figure of Rs 87,468 for 2007-08. The sharp increase in revenue forgone is attributable to the reduction in mean effective rate of excise duty from 16 per cent to 14 per cent in the Budget for 2008-09; subsequent

Box 3.1 : Direct Taxes Code

The Budget for 2009-10 underscored the importance of continuing the process of structural change in Direct Taxes and promised a comprehensive code to this effect. A Discussion Paper (DP) along with a draft Direct Taxes Code was put in the public domain on August 12, 2009. The Code seeks to consolidate and amend the law relating to all direct taxes, that is income-tax, dividend distribution tax and wealth tax so as to establish an economically efficient, effective and equitable direct tax system which will facilitate voluntary compliance and help increase the tax-GDP ratio. All the direct taxes have been brought under a single code and compliance procedures unified, which will eventually pave the way for a single unified taxpayer reporting system. The need for the Code arose from concerns about the complex structure of the Income Tax Act, numerous amendments making it incomprehensible to the average tax payer and frequent policy changes due to the changing economic environment. The DP states that marginal tax rates have been steadily lowered and the rate structure rationalized to reflect best international practices and any further rationalization of the tax rates may not be feasible without corresponding increase in the tax base to enhance revenue productivity of the tax system and improve its horizontal equity.

A threefold strategy for broadening the base has been articulated in the Code. The first element of the strategy is to minimize exemptions that have eroded the tax base. The removal of these exemptions would result in a higher tax-GDP ratio; enhance GDP growth; improve equity (both horizontal and vertical); reduce compliance costs; lower administrative burdens; and discourage corruption. The second element of the strategy seeks to address the problem of ambiguity in the law which facilitates tax avoidance. The third element of the strategy relates to checking of erosion of the tax base through tax evasion.

Some key features

- The Discussion paper discusses the principles of residence-based taxation of income and source-based taxation of income in terms of international best practices that are mixes of the two. Under the Code, residence-based taxation is applied to residents and source-based to non-residents. A resident of India will be liable to tax in India on his world-wide income. However, a non-resident will be liable to tax in India only in respect of accruals and receipts in India (including deemed accruals and receipts).
- The draft Code simplifies the dualistic concepts of “previous year” and “assessment year” used in the Act and replaces them with the unified concept of “financial year” and decrees that all rights and obligations of the taxpayer and the tax administration will be made with reference to the “financial year”.
- The DP argues for special treatment of capital gains under an income tax regime for two reasons. Firstly, taxing gains each year, as they accrue, would strain the finances of an individual who is yet to receive these gains in hand. Second, the capital gain realized when a capital asset is sold is usually the accumulated appreciation in the value of the asset over a number of years. The “bunching” of such appreciation in the year in which the asset is sold pushes the seller into a higher marginal tax bracket, if the value of the asset is sufficiently high. As such, if no special treatment is accorded to capital gains, a progressive income tax would discriminate against those whose income from capital assets is in the form of capital gains as compared to those whose income is derived from interest or dividends. The Code also seeks to eliminate the present distinction between short-term investment asset and long-term investment asset on the basis of the length of holding period of the asset.
- On tax incentives, the DP argues that they are inefficient, distorting, inequitable, impose greater compliance burden on the taxpayer and on the administration, result in loss of revenue, create special interest groups, add to the complexity of the tax laws, and encourage tax avoidance and rent-seeking behaviour. Based on a comprehensive review, the Code proposes that profit linked tax deductions will be replaced by investment linked deductions in areas of positive externality.
- The draft Code argues against area-based exemption through allusion to economic distortion, that is allocate/ divert resources to areas where there is no comparative advantage. Such exemptions also lead to tax evasion and avoidance. It proposes that area-based exemptions that are available under the Income Tax Act 1961 will be grandfathered.
- The draft Code proposes to rationalise the tax incentives for savings through the introduction of the ‘Exempt-Exempt-Taxation’ (EET) method of taxation of savings. Under this method, the contributions are exempt from tax (this represents the first ‘E’ under the EET method), the accumulations/accretions are exempt (free from any tax incidence) till such time as they remain invested (this represents the second ‘E’) and all withdrawals at any time would be subject to tax at the applicable personal marginal rate of tax (this represents the ‘T’ under the EET method).

reduction in excise duty rates on petrol and HSD in June 2008; across-the-board reduction in excise duty rates by 4 percentage points on non-petroleum products in December 2008; and further reduction in 10 per cent rate of excise duty to 8 per cent in February 2009. Since the tariff rate continued to remain unchanged at 16 per cent, the revenue foregone, that is the difference between tariff rate and effective rate, grew sharply in 2008-09 as compared to 2007-08. The estimated tax expenditure in respect of customs for 2008-09 was placed at Rs 2,25,752 crore as compared to Rs1,53,593 crore (provisional) in 2007-08. The increase in customs revenue foregone is due to exemptions given in 2008-09 to items like edible oils, crude petroleum, ores and concentrates.

EXPENDITURE TRENDS

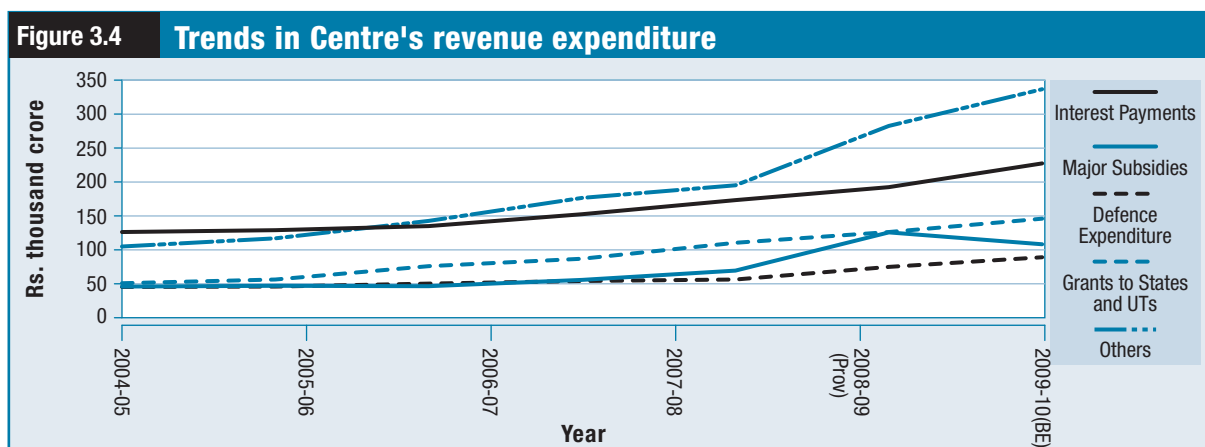
3.22 In the post-FRBMA period (2004-05 to 2007-08), average annual/compound growth in total expenditure was 11.2 per cent, which compared favourably with the 12.2 per cent in the previous four years. Within total expenditure, growth in capital expenditure was again lower than that in revenue expenditure. Adjusting for one-off distortions in capital expenditure like redemption of securities of the National Small Savings Fund in 2004-05 and the expenditure on acquisition of State Bank of India (SBI) shares from the Reserve Bank of India (RBI), growth in capital expenditure is more stable. While traditionally assessment of the trends in expenditure, particularly in the context of the fiscal consolidation process, had focused on the compression in terms of proportions of GDP, in view of the policy-driven expansion process it would be useful to understand the magnitude and direction of the expansion. In 2008-09 (provisional) and 2009-10 (BE), the increase

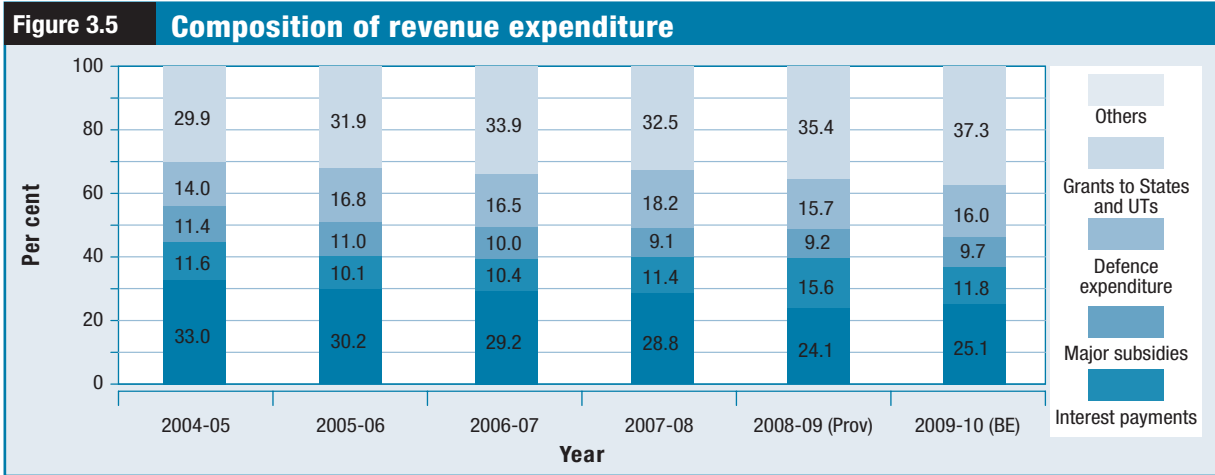
in total expenditure was of the order of 23.7 per cent and 43.2 per cent respectively over the levels in 2007-08. In 2008-09, the main components of expenditure significantly higher than their 2007-08 levels were major subsidies, social services, Plan expenditure and economic services. In 2009-10, the major components of the expansion were interest payments, defence, social services and economic services.

3.23 In a two-way classification of expenditure as Plan and non-Plan, the front loading of Plan expenditure is evident from the levels of growth of 34.3 per cent and 18.0 per cent in 2008-09 and 2009-10 (BE) respectively. Plan expenditure at 5.3 per cent of the GDP in 2009-10(BE) was the highest in recent years. Non-Plan expenditure grew by 19.4 per cent and 14.8 per cent respectively in 2008-09 and 2009-10 (BE). In the four-way classification of expenditure, growth in 2008-09 and 2009-10 (BE) respectively was 32.2 per cent and 11.2 per cent in non-Plan revenue expenditure; -3.3 per cent (after adjustment) and 55.3 per cent in non-Plan capital expenditure; 35.5 per cent and 18.4 per cent in Plan revenue expenditure; and 27.8 per cent and 16.1 per cent in Plan capital expenditure (Figure 3.4 & 3.5).

INTEREST PAYMENTS

3.24 To the extent that rising interest payments reflect past consumption and do not contribute to current productive uses and are primarily tax financed, they are a drag on the present generation. Inter-generational equity concerns were one of the key objectives of institutionalizing the fiscal consolidation process in the form of the FRBMA. Interest payments appropriated substantial proportions of revenue receipts and the efforts in the





FRBMA period were to reduce the level of deficits and incremental assumption of debt to contain the interest burden. Interest payments as a proportion of revenue receipts declined from a level of 52.1 per cent in 1998-99 to a level of 31.6 per cent in 2007-08. They were at the 35 per cent level in 2008-09 (provisional) and were budgeted at 36.7 per cent in 2009-10 (BE). The rise in the levels of gross market borrowings in 2008-09 and 2009-10 (BE) has resulted in a reversal of the trend towards fall in average cost of borrowings (Table 3.5 and Figure 3.6).

Table 3.5 : Interest on outstanding internal liabilities of Central Government

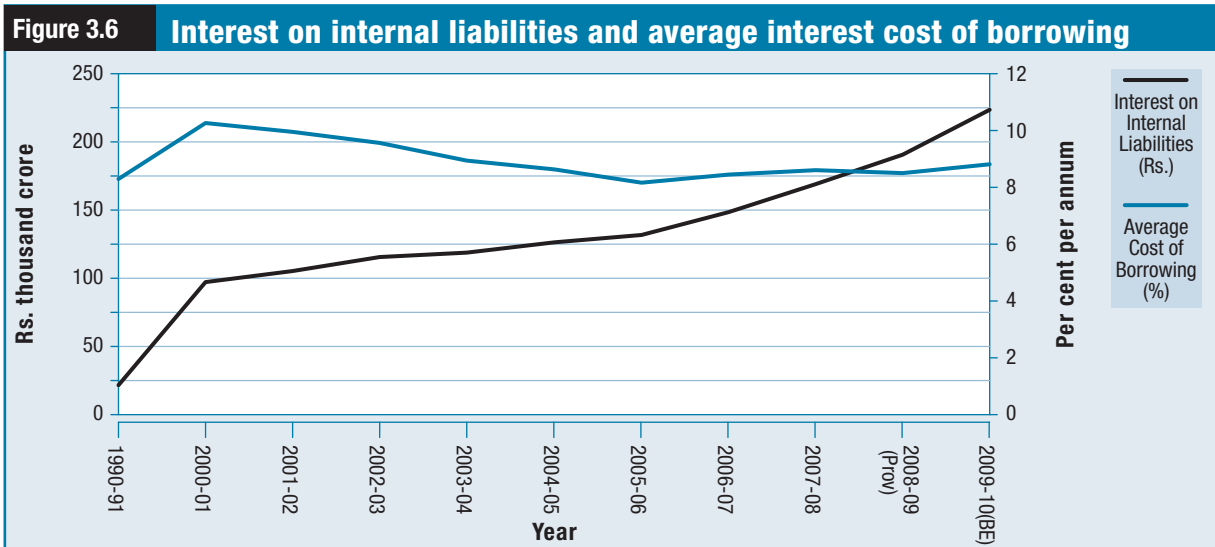
	Out-standing internal liabilities	Interest on internal liabilities	Average cost of borrowings (per cent per annum)
	(Rs. crore)		
2004-05	16,03,785	1,24,126	8.5
2005-06	17,52,404	1,29,474	8.1
2006-07	19,67,870	1,46,405	8.4
2007-08	22,47,104	1,67,102	8.5
2008-09(RE)	25,37,848	1,88,535	8.4
2009-10(BE)	28,94,434	2,21,198	8.7

SUBSIDIES

3.25 The global commodity price shock (particularly in crude petroleum) that preceded the global financial crisis in 2008-09 led to a burgeoning of the subsidy bill and a sharp rise in the below-the-line issuance of bonds to oil and fertilizer companies. A major part of the supplementary demand for grants that were approved by Parliament in 2008-09 was

Source : Union Budget documents.

- Notes: 1. Average cost of borrowings is the percentage of interest payment in year “t” to outstanding liabilities in year “t-1”.
 2. Outstanding internal liabilities exclude National Small Saving Fund loans to States, with no interest liability on the part of the Centre.



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devoted to payments to oil and fertilizer companies who had to be compensated for the less than full pass through in the administered prices of oil and fertilizers. As a proportion of GDP, major budgetary subsidies rose from 1.6 per cent in 2003-04 to 2.2 per cent in 2008-09 (provisional) and were budgeted at 1.7 per cent in 2009-10 (BE) (Figure 3.7). Besides, the above below-the-line issuance of oil and fertilizer bonds was of the order of 1.7 per cent of GDP in 2008-09. The Budget for 2009-10, recognizing the importance of institutional reforms, announced the intention to move towards a nutrient-based subsidy regime in respect of fertilizers and ultimately towards direct cash transfers and the setting up of an expert to advise on a viable and sustainable system of pricing for petroleum products. Work on operationalization of the former is being attempted by the Department of Fertilizers and the Report of the latter containing the recommendations on petroleum subsidies has been submitted on February 3, 2010.

SUPPLEMENTARY DEMAND FOR GRANTS

3.26 The first batch of Supplementary Demands for Grants approved by Parliament in December 2009 included 61 Grants and two Appropriations. Total gross additional expenditure approved by Parliament is Rs 30,942.6 crore. This involves a net cash outgo aggregate of Rs 25,725.2 crore and technical supplementary involving gross additional expenditure, matched by savings of the ministries/departments or by enhanced receipts/recoveries aggregates of Rs 5,216.7 crore. Besides, token provision of Rs 73 lakh is being sought, one lakh for each item of expenditure, for enabling reappropriation of savings

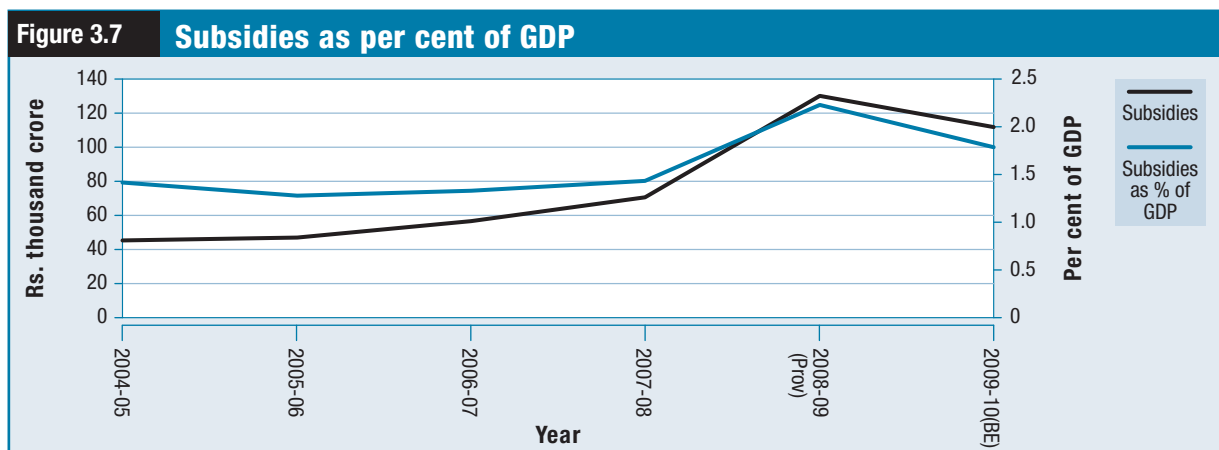
in cases involving New Service or New Instrument of Service. The main items entailing cash outgo included fertilizer subsidies (Rs 3,000 crore); food subsidy (Rs 3,459 crore); and pensions (including defence pension) (Rs 6,743 crore).

CENTRAL PLAN OUTLAY

3.27 Central Plan outlay of Rs 3,88,078 crore was envisaged in 2008-09 (RE) comprising gross budgetary support of Rs 2,04,128 crore (52.6 per cent) and internal and extra budgetary resources (IEBR) of Central public-sector enterprises (CPSEs) of Rs 1,83,950 crore. The Budget for 2009-10 raised the Central Plan outlay by 15.4 per cent over 2008-09 (RE) to reach Rs 4,47,921 crore. The outlay was composed of budgetary support of Rs 2,39,840 crore and IEBR of CPSEs of Rs 2,08,081 crore. The broad sector-wise allocations for important sectors included energy (25.8 per cent); social services (23.2 per cent); transport (21.1 per cent); communication (3.7 per cent); rural development (11.6 per cent); industry and minerals (8.0 per cent); agriculture and allied activities (2.4 per cent); and irrigation and flood control (0.1 per cent). Central assistance to State and UT Plans in 2009-10 (BE) is placed at Rs 85,309 crore, a growth of 8.2 per cent over 2008-09 (RE).

GOVERNMENT DEBT

3.28 Typically, the fiscal responsibility rules world over are anchored in balanced budget and debt targets with clear differences in framework across advanced economies and developing countries. In India, under the FRBMA, the rule focused on incremental assumption of liabilities. By and large this rule was adhered to in the post-FRBMA period;



since 2008-09, there has been a rise in the assumption of net incremental liabilities as a result of the expansionary fiscal policy stance. As a result, with the revised GDP series (2004-05) released by the CSO, the ratio of outstanding liabilities to the GDP after falling from a level of 61.6 per cent in 2004-05 to 56.3 per cent in 2008-09(RE), has risen marginally to 56.7 per cent in 2009-10(BE)(Table 3.6). Internal debt, mainly market borrowings, continued to be the main component of outstanding liabilities (Figure 3.8).

ECONOMIC AND FUNCTIONAL CLASSIFICATION

3.29 While the national accounts data give broad magnitudes of the aggregate Government consumption expenditure and capital formation, the economic and functional classification (EFC) of the Central Government budget provides details specific to the Centre. The classification of financial transactions in the annual budget is designed to facilitate discussion and voting on demand for grants and is to be seen in the context of accountability to Parliament through institutional arrangements. The EFC reclassifies the expenditures and receipts of the Central Government by economic and functional categories making them amenable to larger macroeconomic analysis, particularly the influence of the budget on the various sectors of the economy. Of the total expenditure of the Centre, consumption expenditure remained in the range of 3.5 per cent to 2.7 per cent of GDP in the period 1997-98 to 2007-08. Gross capital formation, after rising to a level of 2.9 per cent of the GDP in 2007-08 declined to 2.5 per cent of GDP in 2008-09 and was budgeted at the same level i.e. 2.5 per cent of GDP in 2009-10.

The Budget for 2009-10 placed the ratio of consumption expenditure to total expenditure at 22 per cent and the ratio of gross capital formation to total expenditure at 15.2 per cent. However, as about 34.4 per cent of the total expenditure is classified as unallocable, the real economy- wide impact needs to be reckoned for this purpose.

3.30 The share of salaries and wages within consumption expenditure was envisaged at 46.7 per cent in 2009-10 (BE), which was lower than the 47.7 per cent in 2008-09 (RE). The share of grants to total expenditure was 35.8 per cent in 2009-10 (BE) as against 35.3 per cent in 2008-08 (RE). A significant effect of the global recession and economic/fiscal stimulus announced by the Government is evident in the increase in dissavings of the Central Government from Rs (-)13,674 crore in 2007-08 to Rs 1,64,293 crore in 2008-09 (RE). Dissavings were budgeted at Rs 2,07,747 crore in 2009-10. As a proportion of GDP, dissavings of the Central Government were placed at 2.9 per cent in 2008-09 (RE) and at 3.4 per cent in 2009-10 (BE) (Table 3.7).

FISCAL OUTCOME

3.31 The twin global shocks and the resultant slowdown in the economy led to a policy response of fiscal expansion in the latter half of 2008-09, which continued through the current year. While, traditionally fiscal outcome is assessed in terms of Budget Estimates and year-on-year variations in key fiscal indicators in relation to the trend with particular focus on deficit levels, given the expansionary stance, it would be appropriate to focus on fiscal marksmanship in the current conjuncture.

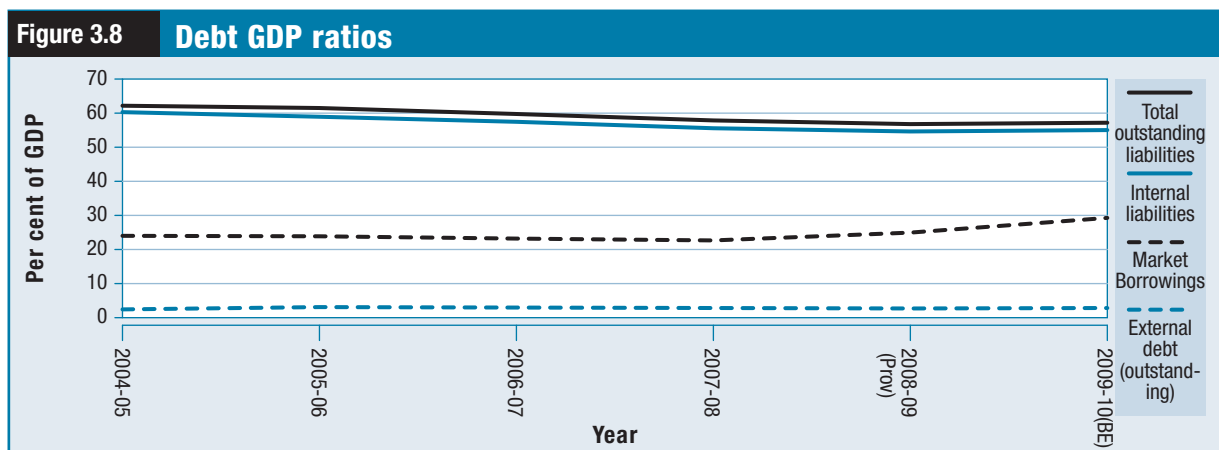


Table 3.6 : Outstanding liabilities of the Central Government

	(end-March)					
	2004-05	2005-06	2006-07	2007-08	2008-09 (RE)	2009-10 (BE)
	(Rs. crore)					
1. Internal Liabilities #	19,33,544	21,65,902	24,35,880	27,25,394	30,14,441	33,57,772
(a) Internal Debt	12,75,971	13,89,758	15,44,975	18,08,359	20,14,451	23,56,940
(i) Market Borrowings	7,58,995	8,62,370	9,72,801	10,92,468	13,58,940	17,66,897
(ii) Others	5,16,976	5,27,388	5,72,174	7,15,891	6,55,511	5,90,043
(b) Other Internal Liabilities	6,57,573	7,76,144	8,90,905	9,17,035	9,99,990	10,00,832
2. External Debt (Outstanding)*	60,878	94,243	1,02,716	1,12,031	1,21,634	1,37,680
3. Total Outstanding Liabilities (1+2)	19,94,422	22,60,145	25,38,596	28,37,425	31,36,075	34,95,452
4. Amount due from Pakistan on Account of Share of Pre-partition Debt	300	300	300	300	300	300
5. Net Liabilities (3-4)	19,94,122	22,59,845	25,38,296	28,37,125	31,35,775	34,95,152
	(As per cent of GDP)					
1. Internal Liabilities	59.7	58.4	56.9	55.1	54.1	54.5
(a) Internal Debt	39.4	37.5	36.1	36.5	36.1	38.2
(i) Market Borrowings	23.4	23.3	22.7	22.1	24.4	28.7
(ii) Others	16.0	14.2	13.4	14.5	11.8	9.6
(b) Other Internal Liabilities	20.3	20.9	20.8	18.5	17.9	16.2
2. External Debt (Outstanding)*	1.9	2.5	2.4	2.3	2.2	2.2
3. Total Outstanding Liabilities	61.6	61.0	59.3	57.3	56.3	56.7
Memorandum Items						
(a) External Debt (Rs crore)@ (as Per Cent of GDP)	1,91,182 5.9	1,94,078 5.2	2,01,204 4.7	2,10,083 4.2	2,64,076 4.7	2,80,122 4.5
(b) Total outstanding Liabilities (adjusted) (Rs crore)	21,24,726	23,59,980	26,37,084	29,35,477	32,78,517	36,37,894
(as Per Cent of GDP)	65.6	63.7	61.6	59.3	58.8	59.0
(c) Internal Liabilities (Non-RBI)## (as Per Cent of GDP)	17,71,117 54.7	19,69,106 53.1	22,17,671 51.8	24,71,396 49.9	27,07,443 48.6	30,60,774 49.7
(d) Outstanding Liabilities (Non-RBI) ## (Rs crore)	19,62,299	21,63,184	24,18,875	26,81,479	29,71,519	33,40,896
Outstanding Liabilities (Non-RBI) (as Per Cent of GDP)	60.6	58.4	56.5	54.2	53.3	54.2
(e) Contingent Liabilities of Central Government (Rs crore)	1,07,957	1,10,626	1,09,826	1,04,872	n.a.	n.a.
Contingent Liabilities of Central Government (as Per Cent of GDP)	3.3	3.0	2.6	2.1	n.a.	n.a.
(f) Total Assets (Rs crore)	10,83,422	11,94,446	13,39,119	15,71,668	15,80,300	16,71,532
Total Assets (as Per Cent of GDP)	33.4	32.2	31.3	31.8	28.3	27.1

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 2004-05, the rates prevailing at the end of March 2005 and so on.

Internal debt includes net borrowing of Rs 64,211 crore for 2004-05, Rs 29,062 crore for 2005-06, Rs 62,974 crore for 2006-07 Rs 1,70,554 crore for 2007-08, Rs 88,773 crore for 2008-09(RE) and Rs 40,737 crore for 2009-10(BE) under the Market Stabilisation Scheme.

This includes marketable dated securities held by the RBI.

Note : The ratios to GDP at current market prices are based on the CSO's National Accounts 2004-05 series.

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

(As per economic and functional classification of the Central Government budget)

	2004-05	2005-06	2006-07	2007-08	2008-09 (RE)	2009-10 (BE)
	(Rs. crore)					
I. Total Expenditure	4,63,831	5,01,083	5,70,185	6,88,908	8,87,032	10,00,019
II. Gross Capital Formation out of Budgetary Resources of the Central Government	92,855	84,757	87,885	1,43,892	1,40,085	1,52,119
(i) Gross Capital Formation by the Central Government	27,396	34,450	36,487	43,652	55,973	63,364
(ii) Financial Assistance for Capital Formation in the Rest of the Economy	65,459	50,307	51,398	1,00,240	84,112	88,755
III. Gross Savings of the Central Government	-60,378	-61,431	-33,918	13,674	-1,64,293	-2,07,747
IV. Gap(II-III)	1,53,233	1,46,188	1,21,803	1,30,218	3,04,378	3,59,866
<i>Financed by</i>						
a. Draft on other Sectors of the Domestic Economy	1,35,918	1,09,799	1,10,801	1,18,180	2,82,424	3,41,683
(i) Domestic Capital Receipts	2,08,259	1,30,687	1,06,284	1,45,351	2,52,440	3,41,683
(ii) Budgetary Deficit/Draw Down of Cash Balance	-72,341	-20,888	4,517	-27,171	29,984	0
b. Draft on Foreign Savings	17,315	36,389	11,002	12,038	21,954	18,183
	(As per cent of GDP)					
I. Total Expenditure	14.3	13.5	13.3	13.9	15.9	16.2
II. Gross Capital Formation out of Budgetary Resources of Central Government	2.9	2.3	2.1	2.9	2.5	2.5
(i) Gross Capital Formation by the Central Government	0.8	0.9	0.9	0.9	1.0	1.0
(ii) Financial Assistance for Capital Formation in the Rest of the Economy	2.0	1.4	1.2	2.0	1.5	1.4
III. Gross Savings of the Central Government	-1.9	-1.7	-0.8	0.3	-2.9	-3.4
IV. Gap(II-III)	4.7	3.9	2.8	2.6	5.5	5.8
<i>Financed by</i>						
a. Draft on Other Sectors of Domestic Economy	4.2	3.0	2.6	2.4	5.1	5.5
(i) Domestic Capital Receipts	6.4	3.5	2.5	2.9	4.5	5.5
(ii) Budgetary Deficit/Draw Down of Cash Balance	-2.2	-0.6	0.1	-0.5	0.5	0.0
b. Draft on Foreign Savings	0.5	1.0	0.3	0.2	0.4	0.3
	(increase over previous year)					
II. Gross Capital Formation out of Budgetary Resources of the Central Government	12.5	-8.7	3.7	63.7	-2.6	8.6
Memorandum Items	(Rs crore)					
1 Consumption Expenditure	1,05,692	1,16,305	1,21,609	1,31,396	1,72,637	2,19,553
2 Current Transfers	2,59,529	2,97,267	3,56,560	4,08,676	5,55,958	5,98,836
	(As per cent of GDP)					
1 Consumption Expenditure	3.3	3.1	2.8	2.7	3.1	3.6
2 Current Transfers	8.0	8.0	8.3	8.3	10.0	9.7

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 domestic capital receipts include loan repayments to the Central Government.
- (ii) Consumption expenditure is the expenditure on wages and salaries and commodities and services for current use.
- (iii) Interest payments, subsidies, pension, etc. are treated as current transfers.
- (iv) Gross capital formation and 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 to Departmental Commercial Undertakings, loans written off, etc. are excluded from the current account. In the capital account, expenditure financed out of Railways, Posts & Telecommunications' own funds, etc. is included.
- (vi) The ratios to GDP at current market prices are based on the CSO's National Accounts 2004-05 series.

54 Economic Survey 2009-10

3.32 On the revenue side, the Budget for 2009-10 estimated growth in gross tax revenue at 5.1 per cent composed of a 9.4 per cent growth in direct taxes and an envisaged growth of almost the same level in indirect taxes. As per the data on Union Government accounts released by the Controller General of Accounts (CGA) for the year (April-December 2009), gross tax revenue has declined by 2.5 per cent, composed of a 13.2 per cent growth in direct taxes and 20.4 per cent decline in indirect taxes. The declining trend in revenue collection from indirect taxes, which started in 2008-09, continues in the current fiscal on account of the duty reductions

carried out between December 2008 and February 2009; that is the across-the-board excise duty reduction by 4 percentage points on December 7, 2008 on non-petroleum products; further reduction of the 10 per cent rate to 8 per cent on February 24, 2009; and reduction of service tax rate from 12 per cent to 10 per cent, are now showing their full impact on revenue collection during 2009-10. However, on a month-on-month basis, the decline in gross tax revenues is getting moderated. Though, year-on-year non-tax revenue grew by 23.7 per cent in (April-December) 2009-10, it constituted only 58.2 per cent of the BE (Table 3.8). There is likely to be a shortfall

Table 3.8 : Central Government finances

1	Budget Estimate 2009-10	April-December		Col.4 as per cent of 2009-10 (BE)	Per cent change over 2008-09
		2008-09	2009-10		
	2	3	4	5	6
	(Rs crore)				
1. Revenue Receipts	6,14,497	3,75,937	3,89,271	63.3	3.5
Gross Tax Revenue	6,41,079	4,26,795	4,16,094	64.9	-2.5
Tax (Net to Centre)	4,74,218	3,09,927	3,07,591	64.9	-0.8
Non-Tax	1,40,279	66,010	81,680	58.2	23.7
2. Capital Receipts	4,06,341	2,21,279	3,18,269	78.3	43.8
<i>of which:</i>					
Recovery of Loans	4,225	2,974	3,983	94.3	33.9
Other Receipts	1,120	43	4,306	384.5	9,914.0
Borrowings and other Liabilities	4,00,996	2,18,262	3,09,980	77.3	42.0
3. Total Receipts (1+2)	10,20,838	5,97,216	7,07,540	69.3	18.5
4. Non-Plan Expenditure (a)+(b)	6,95,689	4,26,419	4,97,381	71.5	16.6
(a) Revenue Account	6,18,834	4,03,758	4,60,970	74.5	14.2
<i>of which:</i>					
Interest Payments	2,25,511	1,23,735	1,30,005	57.6	5.1
Major Subsidies	1,05,579	1,03,239	96,740	91.6	-6.3
Pensions	34,980	21,487	37,465	107.1	74.4
(b) Capital Account	76,855	22,661	36,411	47.4	60.7
5. Plan Expenditure (i)+(ii)	3,25,149	1,70,797	2,10,159	64.6	23.0
(i) Revenue Account	2,78,398	1,46,009	1,79,555	64.5	23.0
(ii) Capital Account	46,751	24,788	30,604	65.5	23.5
6. Total Expenditure (4)+(5)=(a)+(b)	10,20,838	5,97,216	7,07,540	69.3	18.5
(a) Revenue Expenditure	8,97,232	5,49,767	6,40,525	71.4	16.5
(b) Capital Expenditure	1,23,606	47,449	67,015	54.2	41.2
7. Revenue Deficit	2,82,735	1,73,830	2,51,254	88.9	44.5
8. Fiscal Deficit	4,00,996	2,18,262	3,09,980	77.3	42.0
9. Primary Deficit	1,75,485	94,527	1,79,975	102.6	90.4

Source: CGA, Ministry of Finance.

in the non-tax revenues on account of delay in realization of spectrum auction proceeds. While direct taxes could partially compensate for the decline in excise, overall revenue marksmanship may take a knock.

3.33 On the expenditure side, the CGA data reveal that total expenditure in April-December grew by 18.5 per cent (as against the 15.8 per cent growth envisaged by the BE) and as a proportion of the BE for the year was placed at 69.3 per cent. Plan expenditure grew by 23.0 per cent and was at 64.6 per cent of the BE in April-December 2009. Non-Plan expenditure grew by 16.6 per cent (as against the growth of 14.8 per cent envisaged by the BE) and as a proportion of BE for the year was placed at 71.5 per cent. Growth in two components, namely pensions and subsidies, has been faster than envisaged by the BE. Fiscal and revenue deficits were placed at 77.3 per cent and 88.9 per cent of the BE respectively reflecting the developments in revenue and expenditure in tandem (Table 3.9).

THE REPORT OF THE THIRTEENTH FINANCE COMMISSION (TFC)

3.34 The TFC was constituted in terms of the Presidential Order November 13, 2007 to make recommendations relating to tax devolution between the Centre and States; grants-in-aid to States; and measures needed to augment the Consolidated Fund of a State to supplement the resources of the Panchayats and Municipalities. In addition to the

above, the Commission has also been mandated to review the state of finances of the Union and States, keeping in view, in particular, the operation of the States' Debt Consolidation and Relief Facility 2005-2010 introduced by the Central Government on the basis of the recommendations of the Twelfth Finance Commission, and suggest measures for maintaining a stable and sustainable fiscal environment consistent with equitable growth. Subsequently, the Commission was given additional terms of reference including the mandate to review the roadmap for fiscal adjustments and suggest a suitably revised one with a view to maintaining the gains of fiscal consolidation through 2010 to 2015 particularly considering the need to bring the liabilities of the Central Government on account of oil, food and fertilizer bonds into the fiscal accounting, and the impact of various other obligations of the Central Government on the deficit targets. The TFC has since submitted its Report.

COLLECTION RATES

Trends in revenue collection in 2009-10

3.35 Assessment of the levels of protection in emerging economies with large differential in schedule and effective rates of tariffs through headline measures could be misleading and in such cases alternative measures like collection rates could be useful. Collection rates, which also include additional duties and special additional duties, have declined over the years and rule below-peak non-agricultural

Table 3.9 : Trends in cumulative finances of Central Government for 2009-10

	(Rs. crore)									
	2009-10 BE	April	April- May	April- June	April- July	April- August	April- Sept.	April- Oct.	April- Nov.	April- Dec.
1. Revenue Receipts	6,14,497	11,846	32,178	71,995	1,05,378	1,57,198	2,44,471	2,84,479	3,07,125	3,89,271
Per Cent of BE		1.9	5.2	11.7	17.1	25.6	39.8	46.3	50.0	63.3
2. Capital receipts	4,06,341	54,371	90,989	1,24,976	1,59,866	1,86,125	2,04,377	2,52,382	3,14,547	3,18,269
3. Total Receipts	10,20,838	66,217	1,23,167	1,96,971	2,65,244	3,43,323	4,48,848	5,36,861	6,21,672	7,07,540
Per Cent of BE		6.5	12.1	19.3	26.0	33.6	44.0	52.6	60.9	69.3
4. Non Plan Expenditure	6,95,689	46,632	86,242	1,42,185	1,94,868	2,45,275	3,22,070	3,88,837	4,47,995	4,97,381
Per Cent of BE		6.7	12.4	20.4	28.0	35.3	46.3	55.9	64.4	71.5
5. Plan Expenditure	3,25,149	19,585	36,925	54,786	70,376	98,048	1,26,778	1,48,024	1,73,677	2,10,159
Per Cent of BE		6.0	11.4	16.8	21.6	30.2	39.0	45.5	53.4	64.6
6. Total Expenditure	10,20,838	66,217	1,23,167	1,96,971	2,65,244	3,43,323	4,48,848	5,36,861	6,21,672	7,07,540
Per Cent of BE		6.5	12.1	19.3	26.0	33.6	44.0	52.6	60.9	69.3
7. Revenue Expenditure	8,97,232	62,205	1,13,141	1,79,585	2,40,156	3,12,283	4,09,454	4,91,273	5,65,027	6,40,525
Per Cent of BE		6.9	12.6	20.0	26.8	34.8	45.6	54.8	63.0	71.4
8. Revenue Deficit	2,82,735	50,359	80,963	1,07,590	1,34,778	1,55,085	1,64,983	2,06,794	2,57,902	2,51,254
Per Cent of BE		17.8	28.6	38.1	47.7	54.9	58.4	73.1	91.2	88.9
9. Fiscal Deficit	4,00,996	54,158	90,758	1,24,302	1,58,554	1,82,290	1,97,775	2,45,075	3,06,221	3,09,980
Per Cent of BE		13.5	22.6	31.0	39.5	45.5	49.3	61.1	76.4	77.3

Source: CGA, Ministry of Finance.

Table 3.10 : Collection rates for selected import groups*

Sl. No.	Commodity Group	2004-05	2005-06	2006-07	2007-08	2008-09 (Prov.)
1	Food Products	22	32	23	19	4
2	POL	10	6	5	6	3
3	Chemicals	22	20	22	22	16
4	Man-made fibres	39	34	28	30	17
5	Paper & newsprint	7	9	10	10	8
6	Natural fibres	11	13	12	13	6
7	Metals	26	25	24	24	17
8	Capital goods	16	13	14	16	13
9	Others	6	5	6	6	4
10	Non POL	12	12	12	13	9
11	Total	11	10	10	10	7

Source : Department of Revenue, Ministry of Finance.

Notes: * Collection rate is defined as the ratio of revenue collection (basic customs duty + countervailing duty) to value of imports (in per cent) unadjusted for exemptions, expressed in percentage.

Sl. No. 1 includes cereals, pulses, tea, milk and cream, fruits, vegetables, animal fats and sugar.

Sl. No. 3 includes chemical elements, compounds, pharmaceuticals, dyeing and colouring materials, plastic and rubber.

Sl. No. 5 includes pulp and waste paper, newsprint, paperboards and manufactures and printed books.

Sl. No. 6 includes raw wool and silk.

Sl. No. 7 includes iron and steel and non-ferrous metals.

Sl. No. 8 includes non-electronic machinery and project imports, electrical machinery.

basic customs duties (Table 3.10 and Figure 3.9). Exemptions, both general and specific, are a major reason for the difference between headline tariffs and collection rates. Besides, reduction in excise duty rates has also affected customs duty collection on account of reduced revenue from additional customs duty, commonly known as CVD on imports.

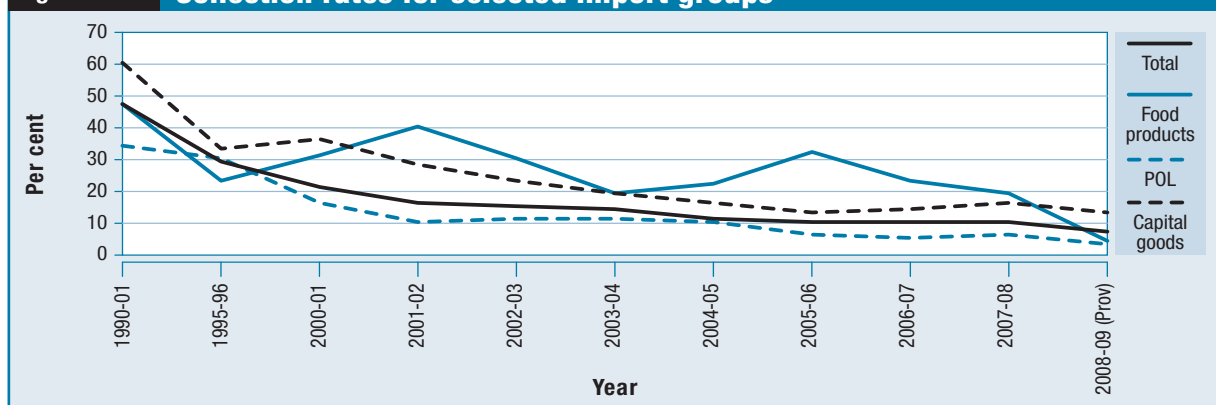
PERFORMANCE OF THE DEPARTMENTAL ENTERPRISES OF THE CENTRAL GOVERNMENT

Railways

3.36 With a freight loading of 833.3 million tonnes in 2008-09, Indian Railways achieved an

incremental loading of 39.4 million tonnes over the 2007-08 level. The freight movement of the Railways was impacted by the slowdown in the economy in the second half of fiscal 2008-09 and the year-end achievement was short of the revised target by around 17 million tonnes. However, freight revenues for the fiscal were placed at Rs 53,433 crore reflecting a growth of 12.6 per cent over the 2007-08 level. The overall traffic revenues for 2008-09 were placed at Rs 79,837 crore, which implied a growth of 11.4 per cent over 2007-08. Taking into account a clearance of Rs 25 crore from traffic outstanding, the gross traffic receipts of the Railways for 2008-09 were placed at Rs 79,862 crore.

Figure 3.9 Collection rates for selected import groups



3.37 Ordinary working expenses at Rs 54,349 crore in 2008-09 grew by 32.5 per cent. This higher growth rate in ordinary working expenses is primarily attributable to increase in staff cost on account of implementation of the Sixth Central Pay Commission award including payment of 40 per cent arrears. The total working expenses including appropriations to Depreciation Reserve Fund and Pension Fund at Rs 71,839 crore reflect an increase of 31.9 per cent over the previous year. Taking into account the net variations of the miscellaneous receipts and miscellaneous expenditure, Railways' net revenues in 2008-09 work out to Rs 9,175 crore.

3.38 Railways fully discharged the dividend liability for 2008-09, which amounted to Rs 4,718 crore. After payment of total dividend from the net revenues earned, Railways in 2008-09 generated a net surplus of Rs 4,457 crore. Lower growth of traffic revenues on account of the slowdown in the economy coupled with a sharp rise in staff cost due to implementation of the Sixth Central Pay Commission award adversely affected the financial health of the Railways in 2008-09. Thus the operating ratio deteriorated to 90.5 per cent from 75.9 per cent in the previous year. The net revenues as a proportion of capital-at-charge and investment from capital fund for the fiscal worked out to 8.8 per cent.

3.39 The Plan outlay for 2008-09 stood at Rs 36,856 crore including internally generated resources of Rs 18,942 crore, that is 51 per cent of the total outlay and market borrowings of Rs 7,804 crore by the Indian Railway Finance Corporation which also included borrowings of Rail Vikas Nigam Limited amounting to Rs 293 crore. Apart from strengthening of the golden quadrilateral under the National Rail Vikas Yojana, certain important projects and work on dedicated freight corridors are in progress. Railways has also started work on setting up of some mega workshops to meet its rolling stock requirements. Railways is also modernizing and upgrading its systems to augment rail services.

Department of posts

3.40 Gross receipts of the Department of Posts in 2008-09 were Rs 5,862 crore. Net working expenses during the year were Rs 9,455 crore, resulting in a deficit of Rs 3,593 crore. In BE 2009-10, gross receipts are budgeted to go up to Rs 6,136 crore and net working expenses estimated at Rs 11,768 crore. The deficit is thus projected to be Rs 5,632 crore.

3.41 India Posts is the largest postal network in the world, with one post office serving 7,174 people and covering an area of approximately 21.2 sq. km. It provides access to postal services at affordable prices to all citizens in the country through its vast network, which has grown from 23,344 post offices at the time of Independence to 1,55,035 post offices as on March 31, 2008. Of the total, 1,39,173 post offices are in rural areas and 15,862 in urban areas. Rapid economic development led to increasing demand for postal services. To cater to this, India Posts plans to open 400 new post offices in rural areas and relocate 300 post offices to areas with greater demand for postal services in 2010-11. India Posts has introduced franchisee outlets to cater to this demand where it is not possible to open departmental post offices. So far, 850 franchised outlets have been opened and 3,200 more are planned in 2010-11. The Department of Posts has launched 'Project Arrow', a pilot project to lay the foundation for a comprehensive, long-term transformation of India Posts. The project aims at providing fast, reliable and efficient postal services to the customers, transforming India Posts into a vibrant and responsive organization with a clear focus on social obligations as well. Out of a total of 25,531 departmental post offices, 12,604 post offices have been computerized. Of these, 1,304 have so far been networked through leased lines with the National Data Centre. The Department of Posts has been given the responsibility to disburse wages to NREGS beneficiaries through Post Office Savings Bank accounts. Nearly 4 crore NREGS accounts have been opened up to November 2009, and the amount disbursed in this financial year alone to more than Rs 5,600 crores. The Department of Posts has been assisting other public authorities under the Central Government in implementing the Right to Information (RTI) Act by providing services of its designated Central Assistant Public Information Officers.

Broadcasting

3.42 Prasar Bharati, a public service broadcaster gives due priority to matters of national importance as determined by the Government of the day. Total expenditure of Prasar Bharati in 2008-09 was Rs 2,518.9 crore excluding charges on account of space segment, spectrum charges and interest and depreciation costs. Total receipts were Rs 1,261.3 crore (gross) and Rs 1,096.8 crore (net) in 2008-09. Prasar Bharati has taken a number of steps to increase revenue generation through aggressive

marketing and content improvement. Nine marketing divisions functioning at Mumbai, Delhi, Kolkata, Chennai, Kochi, Guwahati, Hyderabad, Bangalore and Thiruvananthapuram cater to the advertising needs of All India Radio and Doordarshan through a single-window facility. Introducing digital technology including Digital Terrestrial Transmission (DTT) and television on mobile, expansion of Direct to Home (DTH) service of DD-Direct+ to 97 free-to-air channels would further improve Doordarshan services. Digitalization of transmitters, studios and connectivity would cover 70 per cent of the total population of India under All India Radio Network. Prasar Bharati is the host broadcaster during the forthcoming Commonwealth Games to be held in New Delhi in 2010. As such, Prasar Bharati will be providing coverage to various sports events as per international standards for relay by the member countries of the Commonwealth. Commonwealth Games 2010 will give Prasar Bharati an opportunity to introduce modern high definition television (HDTV) technology to cover sports events. However, a resource gap continues to exist and a budget of Rs 2,079.1 crore (including the Commonwealth Games) has been allocated in 2009-10 (BE) to cover the resource gap of Prasar Bharti.

FINANCES OF STATE GOVERNMENTS

3.43 Following the adoption of fiscal responsibility legislations (FRLs), the combined finances of the States exhibited a faster than anticipated turnaround in 2005-06 with the level of fiscal deficit at 2.4 per cent of the GDP. There were, however, large variations amongst States with Assam having a fiscal surplus of 0.6 per cent of the gross State domestic product (GSDP) and Mizoram having a high fiscal deficit of 14.7 per cent of the GSDP in 2005-06. States combined posted a revenue surplus in 2006-07. The record of fiscal consolidation of the States combined was indeed remarkable and was facilitated by the growth in their own revenues following the successful adoption of State-level value-added tax (VAT), the buoyancy in Central taxes, the higher levels of transfers and the scheme of Debt Consolidation and Waiver linked to fiscal consolidation.

3.44 In 2008-09, there was a growth of 15.3 per cent in States' own tax revenues and 26.6 per cent in non-tax receipts (Table 3.11). However, with higher levels of disbursements, which grew by 26 per cent, fiscal deficit went up to a level of 2.6 per cent of the

GDP but was still well below the 3.0 per cent level mandated by the FRLs (Figure 3.10). With the relaxation in State-level fiscal targets to obviate the adverse impact of the global crisis, revenue deficit of 0.6 per cent of the GDP and fiscal deficit of 3.2 per cent of the GDP has been budgeted in 2009-10.

STATE-LEVEL REFORMS

3.45 The Debt Consolidation and Relief Facility (DCRF) has two components: (i) consolidation of Central loans (from the Ministry of Finance) contracted till March 31, 2004 and outstanding as on March 31, 2005 and (ii) provision of interest relief and grant of debt waiver to States based on their fiscal performance. Consolidation of Central loans has given interest relief to States. Debt waiver is granted to States based on their fiscal performance, for which an assessment is made annually. Benefits under the DCRF helped States by easing debt and interest pressures and also incentivized States to follow the path of fiscal correction. The Government of India relaxed the fiscal deficit target for States for 2009-10 from 3 per cent to 4 per cent of States' respective GSDP, to enable States to borrow up to 4 per cent of their GSDP as projected under the DCRF guidelines, to undertake capital expenditure.

3.46 So far, Central loans to 26 out of 28 States have been consolidated to the extent of Rs 1,13,601.1 crore. Debt consolidation provided interest relief to these 26 States to the extent of Rs 4,392 crore, Rs 3,995 crore, Rs 3,903 crore, Rs 3,452.6 crore and Rs 2,945.7 crore in 2005-06, 2006-07, 2007-08, 2008-09 and 2009-10 respectively as against the Twelfth Finance Commission's (TFC) estimates of Rs 4,562 crore, Rs 4,256.8 crore, Rs 3,937.8 crore, Rs 3,492.7 crore and Rs 3,000.16 crore respectively. The difference is due to the fact that consolidations have been carried out for these States over five years as and when FRBMAs were enacted in line with the recommendations laid down by the TFC in this regard.

3.47 The second component of the DCRF is debt waiver. Consolidated debt of 15 States in 2005-06 amounting to Rs 3,984.4 crore was waived; for 2006-07 debt of 23 States amounting to Rs 5,007.5 crore was waived; and for 2007-08, debt of 23 States amounting to Rs 5,514.0 crore was waived; for 2008-09 debt of 20 States to the extent of Rs 5,153.8 crore was waived; and for 2009-10 debt of eight States amounting to Rs 2,379.7 crore was waived. Thus,

Table 3.11 : Receipts and disbursements of State Governments*

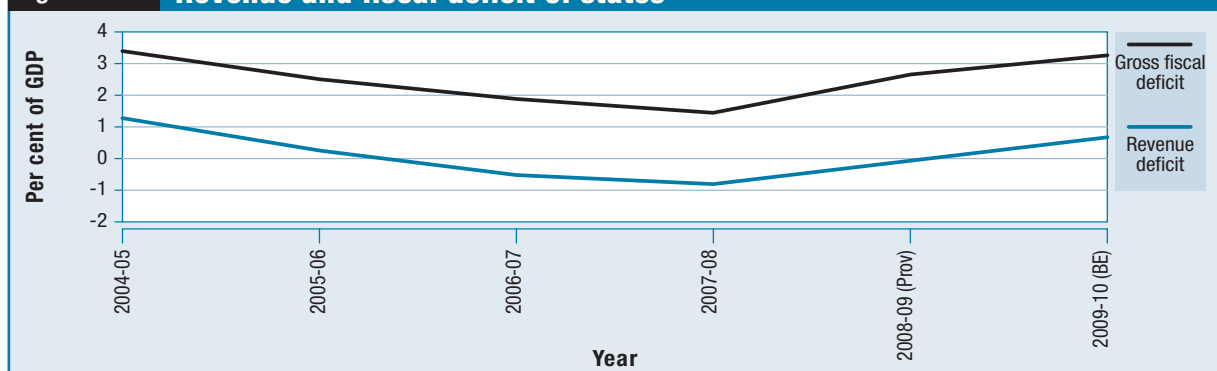
	2004-05	2005-06	2006-07	2007-08	2008-09 (RE)	2009-10 (BE)
(Rs crore)						
I. Total Receipts(A+B)	5,63,660	5,95,629	6,73,604	7,47,365	9,05,382	10,02,710
A. Revenue Receipts (1+2)	3,63,512	4,31,022	5,30,555	6,10,262	7,22,055	7,85,046
1. Tax Receipts	2,60,577	3,06,332	3,72,841	4,34,232	4,99,132	5,47,368
of which:						
State's Own Tax Revenues	1,82,027	2,12,307	2,52,548	2,84,169	3,27,711	3,63,511
2. Non-tax Receipts	1,02,935	1,24,690	1,57,714	1,76,030	2,22,923	2,37,678
of which:						
Interest Receipts	8,648	9,380	11,825	12,643	16,551	12,989
B. Capital Receipts	2,00,148	1,64,607	1,43,049	1,37,103	1,83,327	2,17,664
of which:						
Recovery of Loans & Advances	8,039	8,904	7,579	7,798	11,666	4,906
II. Total Disbursements(a+b+c)	5,53,427	5,61,682	6,57,281	7,31,680	9,21,673	10,34,426
a) Revenue	4,02,670	4,38,034	5,05,699	5,66,856	7,14,718	8,22,104
b) Capital	1,34,235	1,09,224	1,37,793	1,51,006	1,90,316	1,98,599
c) Loans and Advances	16,522	14,424	13,789	13,818	16,639	13,723
III. Revenue Deficit	39,158	7,012	-24,856	-43,406	-7,337	37,058
IV. Gross Fiscal Deficit	1,07,774	90,084	77,508	68,572	1,43,924	1,97,186
(As per cent of GDP)						
I. Total Receipts(A+B)	17.4	16.1	15.7	15.1	16.2	16.3
A. Revenue Receipts (1+2)	11.2	11.6	12.4	12.3	13.0	12.7
1. Tax Receipts	8.0	8.3	8.7	8.8	9.0	8.9
of which:						
States' Own Tax Revenues	5.6	5.7	5.9	5.7	5.9	5.9
2. Non-tax Receipts	3.2	3.4	3.7	3.6	4.0	3.9
of which:						
Interest Receipts	0.3	0.3	0.3	0.3	0.3	0.2
B. Capital Receipts	6.2	4.4	3.3	2.8	3.3	3.5
of which:						
Recovery of Loans & Advances	0.2	0.2	0.2	0.2	0.2	0.1
II. Total Disbursements(a+b+c)	17.1	15.2	15.3	14.8	16.5	16.8
a) Revenue	12.4	11.8	11.8	11.5	12.8	13.3
b) Capital	4.1	2.9	3.2	3.1	3.4	3.2
c) Loans and Advances	0.5	0.4	0.3	0.3	0.3	0.2
III. Revenue Deficit	1.2	0.2	-0.6	-0.9	-0.1	0.6
IV. Gross Fiscal Deficit	3.3	2.4	1.8	1.4	2.6	3.2

Source: Reserve Bank of India.

* Data from 2007-08 pertains to 27 State Governments, of which two are Vote on Accounts.

- Notes: 1. The ratios to GDP at current market prices are based on the CSO's National Accounts 2004-05 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.

Figure 3.10 Revenue and fiscal deficit of states



60 Economic Survey 2009-10

from 2005 to 2009, States have been granted debt waivers for an aggregate amount of Rs 22,039.4 crore and interest relief of Rs 18,688.5 crore.

VAT

3.48 VAT has been successfully introduced by all the States. The introduction of VAT by States resulted in good growth in State's own tax revenue in the last few years. During 2008-09, growth in tax revenue in 33 VAT States/UTs was 14.4 percent in the revenue from VAT items. Under the specific scheme evolved for the purposes to facilitate introduction of VAT, the Central Government compensated the revenue losses at the rate of 100 percent of revenue loss during 2005-06, 75 percent during 2006-07 and 50 percent during 2007-08. An amount of Rs 2,558 crore has already been released to States till December 31, 2009 in the financial year 2009-10, so far. A total amount of Rs.17,364 crore has been released to the states so far under this scheme.

Central sales tax reforms

3.49 Central Government in consultation with the Empowered Committee of State Finance Ministers (Empowered Committee of State Finance Ministers) chalked out the roadmap for phasing out Central Sales Tax (CST) to coincide with the introduction of the proposed GST, which included the critical component of compensating the States for 5th resultant revenue losses. The scheme finalized in consultation with the Empowered Committee of States provides for new revenue generating measures for States as the primary source of compensation. It also provides for meeting 100 percent of the residuary losses to a State, if any, thereafter, through the budgetary resources of the Centre. An amount of Rs.5,979 crore has been released to the States till December 31, 2009 in financial year 2009-10. A total amount of Rs.10,098 crore has been released to the States so far on account of CST compensation claims of States for financial years 2007-08 and 2008-09.

GST

3.50 In the Budget for 2007-08, an announcement was made to the effect that GST would be introduced from April 1, 2010, and that the Empowered Committee of State Finance Ministers would work with the Central Government to prepare a road map for introduction of GST. The Empowered Committee of State Finance Ministers prepared a report on a

model and road map for GST. The comments of Government of India on the proposed design of GST have been sent to the Empowered Committee of State Finance Ministers in January 2010. A joint group of officers has been constituted to prepare draft Constitutional bill, CGST legislation, model SGST legislation and rules required to introduce GST (Box 3. 2).

Box 3.2 : First Discussion Paper on GST in India

Design

Some of the key features of the proposed model as proposed by the Discussion Paper are as follows:

- The GST is to have two components—Central GST and State GST – with separate rates, reflecting revenue considerations and acceptability. This dual GST model would be implemented through multiple statutes (one for the CGST and an SGST statute for every State).
- The Central GST and the State GST would apply to all transactions of goods and services (with some specified exceptions).
- The Central GST and State GST are to be paid to the accounts of the Centre and the States separately.
- Cross-utilization of input tax credit (ITC) between the Central GST and the State GST not to be allowed except in the case of inter-State supply of goods and services under the Inter-State Goods and Service Tax (IGST) model.
- Uniform State GST threshold of gross annual turnover of Rs10 lakh both for goods and services for all the States and Union Territories to be adopted with adequate compensation for States (particularly north-eastern region States and special category States) where lower threshold had prevailed in the VAT regime.
- Each taxpayer to be allotted a PAN-linked taxpayer identification number with a total of 13/15 digits.

The proposed GST, as per the Discussion Paper, subsumes the following taxes/duties of the Centre: central excise; additional excise duties; service tax; additional and special additional customs duties; surcharges and cesses. The following State taxes and levies would also be subsumed under the GST: VAT / sales tax; entertainment tax (unless it is levied by local bodies); luxury tax; taxes on lottery, betting and gambling; State cesses and surcharges in so far as they relate to supply of goods and services; entry tax not in lieu of octroi.

GST Rate Structure

A two-rate structure –a lower rate for necessary items and goods of basic importance and a standard rate for goods in general – proposed with a special rate for precious metals and a list of exempted items. Exports would be zero-rated. The GST will be levied on imports with necessary Constitutional Amendments.

CONSOLIDATED GENERAL GOVERNMENT

3.51 The full picture of public finances and their impact on the macroeconomy is best analysed through the levels of deficits in the consolidated General Government. As a proportion of the GDP, revenue receipts of the consolidated General Government rose from a level of 19.0 per cent in

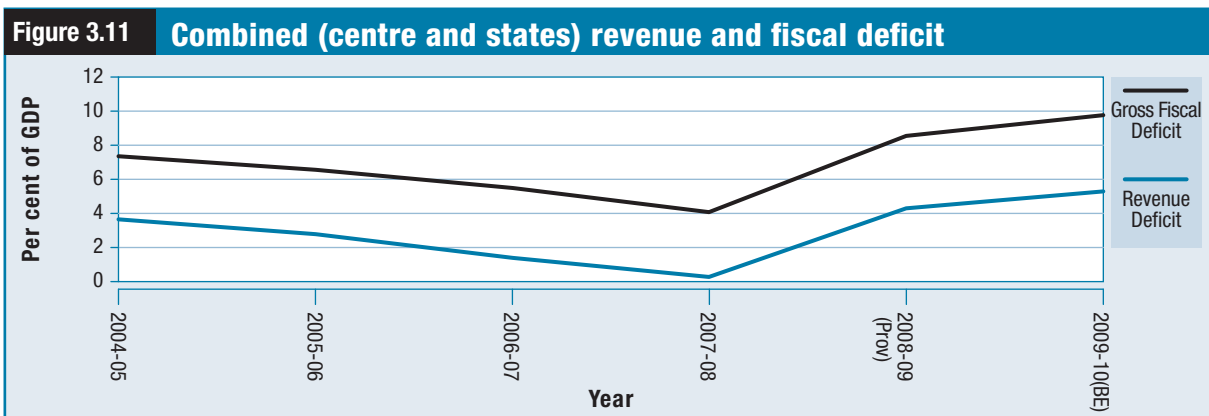
2004-05 to reach a level of 21.2 per cent in 2007-08. They were budgeted at 20.5 per cent in 2009-10(BE). With total disbursements remaining at more or less the same levels in four years ending 2007-08, the combined revenue and fiscal deficit came down (Table 3.12). In fact the combined levels of deficit were much lower than the levels (sum of Centre and States) mandated by the FRBMA and State-level FRLs. Reflecting the overall expansion

Table 3.12 : Receipts and disbursements of consolidated General Government

	2004-05	2005-06	2006-07	2007-08	2008-09 (RE)	2009-10 (BE)
	(Rs crore)					
I. Total Receipts(A+B)	8,88,345	10,14,689	11,25,499	13,11,589	16,42,815	18,39,239
A. Revenue Receipts (1+2)	6,15,644	7,07,054	8,77,075	10,48,406	11,66,470	12,65,947
1. Tax Receipts	4,92,481	5,76,596	7,24,023	8,73,779	9,65,102	10,21,585
2. Non-tax Receipts	1,23,163	1,30,458	1,53,052	1,74,627	2,01,368	2,44,362
of which:						
Interest Receipts	19,223	18,735	21,744	22,590	23,738	20,614
B. Capital Receipts	2,72,701	3,07,635	2,48,424	2,63,183	4,76,345	5,73,292
of which:						
a) Disinvestment Proceeds	4,424	1,590	2,440	45,750	7,881	3,336
b) Recovery of Loans & Advances	14,968	11,651	-773	4,710	13,238	6,582
II. Total Disbursements(a+b+c)	8,69,757	9,59,855	11,09,174	12,95,903	16,59,109	18,70,955
a) Revenue	7,30,405	8,06,366	9,32,441	10,57,569	14,00,408	15,85,740
b) Capital	1,13,304	1,32,585	1,57,316	2,19,853	2,34,906	2,64,796
c) Loans and Advances	26,048	20,904	19,417	18,481	23,795	20,419
III. Revenue Deficit	1,14,761	99,312	55,366	9,163	2,33,938	3,19,793
IV. Gross Fiscal Deficit	2,34,721	2,39,560	2,30,432	1,97,037	4,71,520	5,95,090
	(As per cent of GDP)					
I. Total Receipts(A+B)	27.4	27.4	26.3	26.5	29.5	29.8
A. Revenue Receipts (1+2)	19.0	19.1	20.5	21.2	20.9	20.5
1. Tax Receipts	15.2	15.6	16.9	17.7	17.3	16.6
2. Non-tax Receipts	3.8	3.5	3.6	3.5	3.6	4.0
of which:						
Interest Receipts	0.6	0.5	0.5	0.5	0.4	0.3
B. Capital Receipts	8.4	8.3	5.8	5.3	8.5	9.3
of which:						
a) Disinvestment Proceeds	0.1	0.0	0.1	0.9	0.1	0.1
b) Recovery of Loans & Advances	0.5	0.3	0.0	0.1	0.2	0.1
II. Total Disbursements(a+b+c)	26.9	25.9	25.9	26.2	29.8	30.4
a) Revenue	22.5	21.8	21.8	21.4	25.1	25.7
b) Capital	3.5	3.6	3.7	4.4	4.2	4.3
c) Loans and Advances	0.8	0.6	0.5	0.4	0.4	0.3
III. Revenue Deficit	3.5	2.7	1.3	0.2	4.2	5.2
IV. Gross Fiscal Deficit	7.2	6.5	5.4	4.0	8.5	9.7

Source : Reserve Bank of India.

Note : The ratios to GDP at current market prices are based on CSO's National Accounts 2004-05 series.



to stimulate demand, fiscal and revenue deficit for 2009-10 (BE) is placed at 9.7 and 5.2 per cent of the GDP (Figure 3.11).

OUTLOOK

3.52 Based on the trends available for April-December 2009, there is likely to be a shortfall in revenue receipts on account of the large decline in indirect taxes like customs and excise and the likely lower-than-budgeted non-tax revenues. With some expenditure restraint, as a proportion of the GDP, it might still be possible to contain the deficit at budgeted levels. While the current year's performance is relevant mainly in the context of fiscal marksmanship given the expansionary stance, it is the medium-term prospect that is really

important. The largely structural nature of fiscal deficits in India, the levels of recovery in the economy and the sustainability of the recovery without fiscal stimulus call for resumption of the process of fiscal consolidation in a gradual manner. The Report of the Thirteenth Finance commission has provided an assessment of the state of public finances and the broad direction of fiscal consolidation by the Centre and States. Going forward, the nature of the fiscal consolidation – whether it should rely on revenue growth, which is in turn linked to the growth recovery, or on greater expenditure cuts— are important in the traditional incremental adjustment process; but lasting fiscal consolidation could accrue with reforms in the design and delivery of Plan schemes, outcome focus of expenditure and institutional reforms.