

**Economic Advisory Council to the Prime Minister  
Hall - E, Vigyan Bhavan, Maulana Azad Road  
New Delhi - 110011**

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**CENTRAL GOVERNMENT FINANCES**

**Revenue growth has been stronger than budgeted**

1. The revenue environment in 2006/07 has been strong, reflecting the continued buoyancy of economic growth and perhaps some improvement in both compliance and enforcement. Over the first 7 months (Apr-Oct 2006) of the year as compared to the corresponding period of last year, gross central tax central collections were higher by 29.8%, as against budget expectations of 20.5% (Table 1). In absolute terms, this implies that over the 7-month period, central tax revenues were higher than projected in gross terms by Rs. 15,250 crores, and *net* of devolution to the states by over Rs. 14,700 crores.

**Table -1  
Tax Collections - Comparative Picture 2005/06 and 2006/07**

Rs crore

	2005-06	2006-07	Full Year Increase	April -Oct.		7 Months
	Actual	BE		2005-06	2006-07	Increase
Corporation	99,433	133,010	33.8%	38,071	56,153	47.5%
Income	57,559	77,409	34.5%	25,658	32,964	28.5%
Customs	65,070	77,066	18.4%	37,204	48,859	31.3%
Excise	111,226	119,000	7.0%	49,166	52,657	7.1%
Others	33,700	35,688	5.8%	14,468	22,922	58.4%
Gross (excl surcharge)	366,988	442,153	20.5%	164,567	213,555	29.8%

2. The growth of service tax, corporation tax and customs duties has exceeded the budget expectations, but income tax collections have been lower. Even though growth in excise revenues is on track at 7%, this low growth rate should be a cause for concern when seen in the context of manufacturing output growth in the first half of over 12%.

**Table 2**  
**Summary of Central Government Finances**  
**Provisional Actual 2005/06, Budget Est. 2006/07 and Position up to Oct 2006**

	2005- 06 Prov.	2006- 07 B E	2005- 06 Apr - Oct	2006- 07	Change for	
					Year as Budgeted	7 months actual
Tax receipts (net)	269,992	327,205	116,297	155,660	21.2%	33.8%
Non-Tax receipts	73,891	76,260	38,612	40,814	3.2%	5.7%
<b>Revenue Receipts</b>	<b>343,883</b>	<b>403,465</b>	<b>154,909</b>	<b>196,474</b>	<b>17.3%</b>	<b>26.8%</b>
Plan Rev Exp.	111,892	143,762	54,007	63,107	28.5%	16.8%
Non-Plan Rev Exp	326,635	344,430	171,186	200,666	5.4%	17.2%
o/w Interest	131,757	139,823	62,243	74,150	6.1%	17.2%
<b>Non-Interest Non-Plan Rev Exp</b>	<b>194,878</b>	<b>204,607</b>	<b>107,943</b>	<b>126,516</b>	<b>5.0%</b>	<b>17.2%</b>
Non-interest Rev Exp.	306,770	348,369	161,950	189,623	13.6%	17.1%
<b>Total Revenue Exp.</b>	<b>438,527</b>	<b>488,192</b>	<b>187,942</b>	<b>230,683</b>	<b>10.9%</b>	<b>22.7%</b>
<b>Revenue deficit</b>	<b>94,644</b>	<b>84,727</b>	<b>70,284</b>	<b>67,299</b>	<b>-10.5%</b>	<b>-4.2%</b>
Cap. Exp. + Net Lending	53,284	67,799	21,795	19,801	27.2%	-9.1%
Total Expenditure	491,811	555,991	246,988	283,574	13.0%	14.8%
Other non debt capital receipts	1,580	3,840	11	0		
<b>Fiscal Deficit</b>	<b>146,348</b>	<b>148,686</b>	<b>92,068</b>	<b>87,100</b>	<b>1.6%</b>	<b>-5.4%</b>
Primary Deficit	14,591	8,863	28,825	12,950	-39.3%	-55.1%

### Expenditure profile is worrisome

3. Even though the revenue side of the budget is comforting, the expenditure side is a cause for concern on several fronts (Table 2):

- **Revenue expenditure is growing faster than it did last year.** Total revenue expenditure in the first seven months was 47.2 per cent of the full year estimate as compared to 42.8 per cent last year.
- **What is more disturbing is that desirable expenditure is slowing while non-desirable expenditure is accelerating.** Within the over-all revenue expenditure, plan revenue expenditure is lagging behind the projected growth rate while non-plan revenue expenditure is way ahead of the projected growth rate. Similarly, capital expenditure and net lending are also behind the budget trajectory.

- **The slippage in plan revenue expenditure for the first seven months as compared to the corresponding period of last year is of the order of Rs. 6,300 crores.** The under-spending on capital expenditure and net lending is of the order of Rs.7,900 crores.
- **Non-Plan revenue expenditure is expanding faster than budgeted.** For the seven-month period April - October, 2006, non-Plan revenue expenditure grew by 17.2 per cent compared to the corresponding period last year as against the growth rate of 5.4 per cent envisaged in the budget. In absolute terms, this translates to over-spending of the order of Rs.20,000 crores. This increase is accounted for by both higher interest payments as well as higher non-interest non-plan expenditure.
- **Subsidy bill is mounting.** It is very likely that the larger than the estimated increase in the non-plan non-interest revenue expenditure is fuelled by a burgeoning subsidy bill. It has been reported in the media that fertilizer subsidy is running at more than double that budgeted. The food subsidy bill is also likely to be well ahead of the budget trajectory. This increase in the subsidy bill does not take the oil sector subsidies into account because of the current practice of not acknowledging Oil Bonds as expenditure.
- **The higher interest outgo is also perplexing.** The interest paid out in the first seven months of the fiscal year is mostly on debt that was already contracted when the budget was drawn up. The large discrepancy between the estimated interest outgo and the actual is, therefore, quite surprising unless it is the case that some interest payments are front-loaded as compared to last year.

### **Cumulative Picture**

4. The cumulative picture of central finances that emerges after seven months of the fiscal year have gone by is that revenues are very buoyant. But the higher revenues have not gone towards higher spending on plan revenue expenditure or on capital expenditure; instead the higher revenues have financed larger non-plan revenue expenditure.

5. In quantitative terms, for the first seven-month period, the actuals as compared to the estimates as per the budget trajectory have been as follows. Revenues have been higher than projected by Rs.14,700 crores. Plan revenue expenditure has declined by Rs.6,300 crores. Capital expenditure and net lending have declined by Rs.7,900 crores. On the other hand, non-plan revenue expenditure is higher by nearly Rs.20,000 crores. Consequently, revenue deficit is off-track. Whereas revenue deficit is targeted to go down by 10.5 per cent compared to last year, after the first seven months, it is down only by 4.2 per cent.

6. Another way of looking at this mid-year fiscal profile is to see the projected increase in the ratio of revenue receipts to revenue expenditure with reference to the actuals (Table 3). This actual ratio is 1.18 as against the projected ratio of 1.59.

**Table 3**  
**Increase in Revenue Receipts As compared to Revenue Expenditure**

Growth over 2005/06	Full Year 2006/07 Projected	Apr-Oct 2006 Actual
(1) Revenue Receipts	17.3%	26.8%
(2) Revenue Expenditure	10.9%	22.7%
Ratio: (1)/(2)	1.59	1.18

### **Quality of Adjustment**

7. In summary, while revenues have expanded faster than projected, revenue expenditure has expanded even faster with the result that the revenue deficit is significantly off track. Even more worrying is the quality of expenditure adjustment. While plan revenue and capital expenditures are lagging behind projected levels, non-plan revenue expenditures, both interest and non-interest, are way ahead of the projected levels. Moving forward, meeting the FRBM targets is important; the quality of adjustment made to meet those targets is equally important.