

## II. FISCAL SITUATION

### Combined Government Finances: 2006-07

Combined Government finances were budgeted to improve in 2006-07, with key fiscal ratios placed 0.8-1.0 percentage points of GDP lower than in 2005-06, reflecting the improvement in the finances of both the Central and State Governments (Table 14). This was envisaged to be achieved through a reduction in expenditure (as percentage of GDP), particularly in the revenue account. The combined debt-GDP ratio was budgeted to decline from 78.5 per cent at end-March 2006 to 75.7 per cent at end-March 2007 (Chart 5).

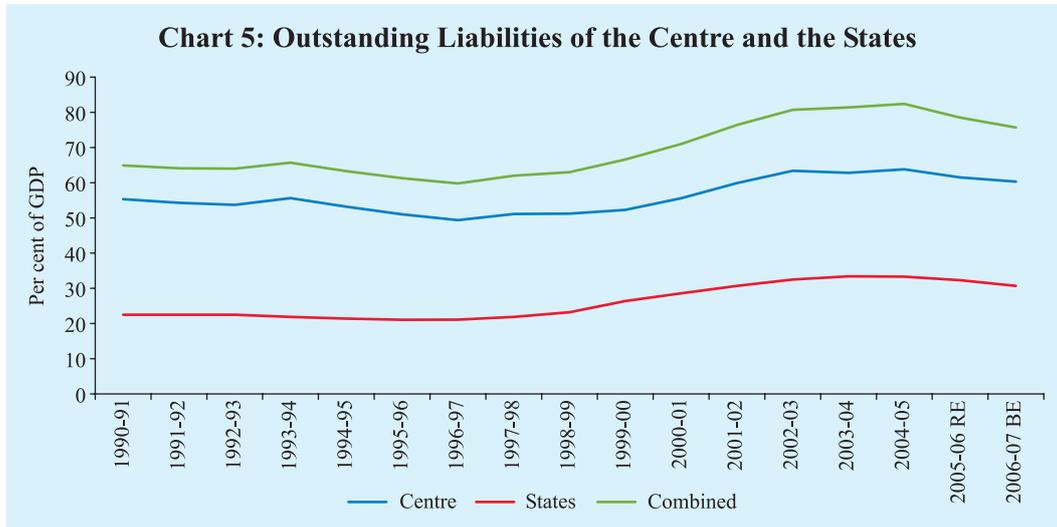
The combined fiscal deficit during 2006-07 was budgeted to be financed primarily from domestic resources. Market borrowings were budgeted to finance 52.4 per cent of the gross fiscal deficit (GFD) during 2006-07 (45.5 per cent a year ago) while other liabilities (small savings, provident funds, reserve funds and deposits and advances) were budgeted to finance 44.9 per cent (43.7 per cent in 2005-06). External assistance was budgeted to finance 3.2 per cent of the combined fiscal deficit during 2006-07 as compared with 2.9 per cent in 2005-06 (Chart 6).

**Table 14: Key Fiscal Indicators**

				(Per cent to GDP)
Year	Revenue Deficit	Gross Fiscal Deficit	Primary Deficit	
1	2	3	4	
<b>Centre</b>				
2003-04	3.6	4.5	-0.03	
2004-05	2.5	4.0	-0.04	
2005-06	2.6	4.1	0.4	
2006-07 BE	2.1	3.8	0.2	
2006-07 RE	2.0	3.7	0.1	
2007-08 BE	1.5	3.3	-0.2	
<b>States</b>				
2002-03	2.2	4.2	1.3	
2003-04	2.2	4.5	1.5	
2004-05	1.2	3.5	0.7	
2005-06 RE	0.5	3.2	0.7	
2006-07 BE	0.1	2.7	0.2	
<b>Combined</b>				
2002-03	6.6	9.6	3.1	
2003-04	5.8	8.5	2.1	
2004-05	3.7	7.5	1.4	
2005-06 RE	3.1	7.4	1.6	
2006-07 BE	2.2	6.4	0.8	

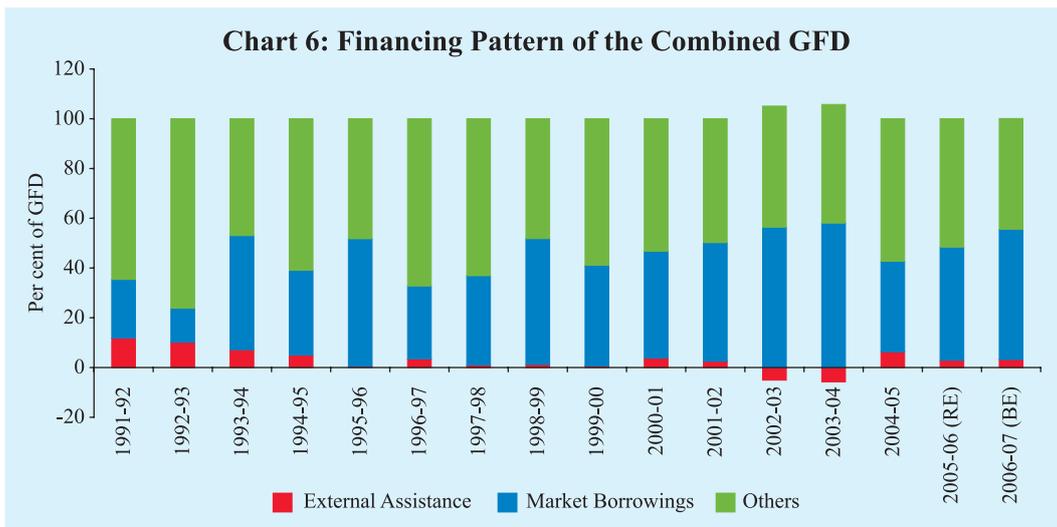
RE: Revised Estimates. BE: Budget Estimates.

**Note:** The fiscal ratios for finances of the Centre are from the Union Budget 2007-08. The fiscal ratios in respect of States and Combined finances for 2005-06 RE and 2006-07 BE are based on CSO's Quick Estimates and Advance Estimates, respectively.



**Centre's Fiscal Situation: 2006-07**

According to the revised estimates for 2006-07, the key deficit indicators of the Union Government, viz., revenue deficit, gross fiscal deficit and primary deficit, relative to GDP, were placed lower than the budgeted levels. This mainly reflected buoyancy in revenue receipts, which more than offset the increased expenditures, particularly, in respect of interest payments, fertiliser and interest subsidies, and non-defence capital outlay. The Government could, therefore, effect reduction of 0.1 percentage point of GDP in each of the three key fiscal indicators *vis-à-vis* the budgeted levels. The reductions in GFD and revenue deficit (RD), relative to GDP,



of 0.4 percentage points and 0.6 percentage points, respectively, during 2006-07 (RE) over 2005-06 were also more than the minimum thresholds of 0.3 percentage points and 0.5 percentage points of GDP, respectively, stipulated under the Fiscal Responsibility and Budget Management (FRBM) Rules, 2004. The fiscal consolidation process was, thus, resumed during 2006-07 after a pause in 2005-06.

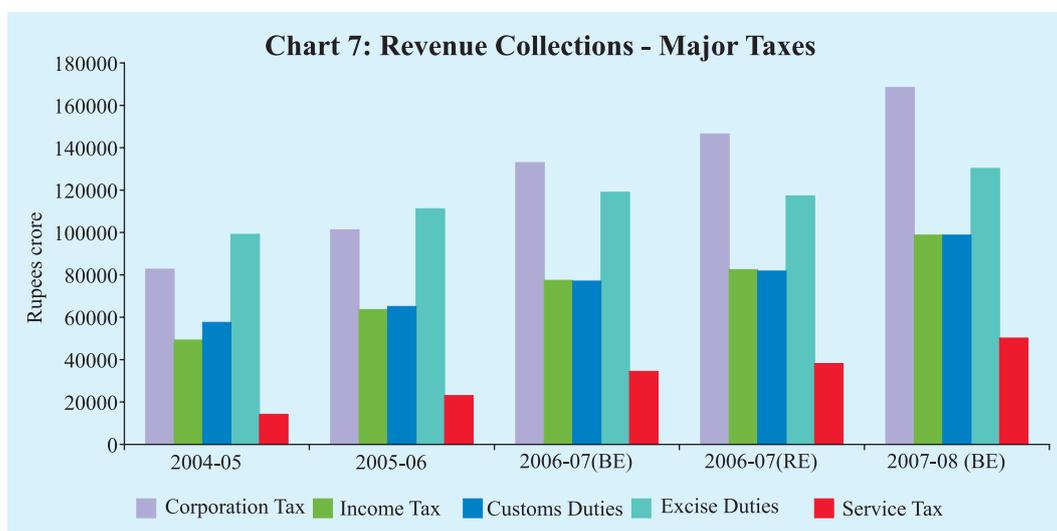
Revenue receipts in the revised estimates showed an increase of 4.9 per cent over the budgeted levels and were placed at 10.3 per cent of GDP. This was mainly on account of higher net tax revenue (5.7 per cent higher than budgeted) (Table 15), in turn, due to higher than budgeted collections in respect of personal income tax, corporation tax, customs duties and new taxes. However, collections under excise duties in the revised estimates were lower than the budget estimates (Chart 7). The collections under non-tax revenues were also better than the budget estimates on account of higher dividends and profits (10.7 per cent) and interest receipts (4.5 per cent). Among the capital receipts, recoveries of loans and advances were lower than budgeted, reflecting the impact of the debt waiver to the State Governments under the Twelfth Finance Commission (TFC) award.

The aggregate expenditure in the revised estimates for 2006-07 was 3.1 per cent higher than the budget estimates on account of higher revenue expenditure, particularly in interest payments, subsidies and grants to States (Table 16).

The total expenditure on subsidies at Rs.53,463 crore (1.3 per cent of GDP) in the revised estimates for 2006-07 was 15.7 per cent higher than the budgeted amount mainly on account of fertiliser and interest subsidies exceeding

**Table 15: Receipts of the Centre**

Item	(Amount in Rupees crore)				
	2005-06 (Accounts)	2006-07 (BE)	2006-07 (RE)	Variation (4 over 3)	
				Amount	Per cent
1	2	3	4	5	6
<b>1. Total Receipts (2+3)</b>	<b>5,06,123</b> <b>(14.2)</b>	<b>5,63,991</b> <b>(14.3)</b>	<b>5,81,637</b> <b>(14.2)</b>	<b>17,646</b>	<b>3.1</b>
2. Revenue Receipts (i+ii)	3,47,462 (9.7)	4,03,465 (10.2)	4,23,331 (10.3)	19,866	4.9
i) Tax Revenue (Net)	2,70,264 (7.6)	3,27,205 (8.3)	3,45,971 (8.4)	18,766	5.7
ii) Non-Tax Revenue	77,198 (2.2)	76,260 (1.9)	77,360 (1.9)	1,100	1.4
3. Capital Receipts	1,58,661 (4.4)	1,60,526 (4.1)	1,58,306 (3.9)	-2,220	-1.4
<i>of which:</i>					
Market Borrowings	1,06,241	1,13,778	1,10,500	-3,278	-2.9
Recoveries of Loans	10,645	8,000	5,450	-2,550	-31.9
Disinvestment Proceeds	1,581	3,840	528*	-3,312	-86.3
RE: Revised Estimates.	BE: Budget Estimates.				
* Represents bonus shares issued by Oil and Natural Gas Corporation (ONGC) Ltd.					
<b>Note :</b> Figures in parentheses are percentages to GDP.					

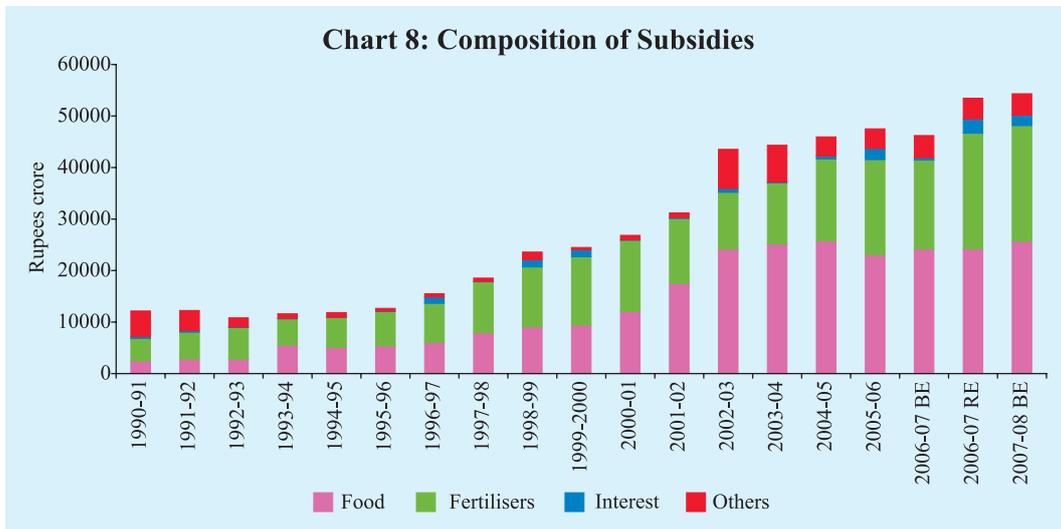


the budget estimates by Rs.5,199 crore (30.1 per cent) and Rs.2,320 crore (478.4 per cent), respectively (Chart 8). While fertilisers subsidies increased from Rs.17,253 crore in the budget estimates to Rs.22,452 crore in the revised estimates, interest subsidies increased from Rs.485 crore to Rs.2,805 crore. Fertiliser subsidies were higher than the budget estimates on account of increase in input costs and cost of imported fertiliser. Interest relief to debt stressed farmers

**Table 16: Aggregate Expenditure of the Centre**

Item	(Amount in Rupees crore)				
	2005-06 (Accounts)	2006-07(BE)	2006-07(RE)	Variation (4 over 3)	
				Amount	Per cent
1	2	3	4	5	6
<b>1. Total Expenditure (2+3 = 4+5)</b>	5,06,123 (14.2)	5,63,991 (14.3)	5,81,637 (14.2)	17,646	3.1
<b>2. Non-Plan Expenditure</b>	3,65,485 (10.2)	3,91,263 (9.9)	4,08,907 (10.0)	17,644	4.5
<i>of which:</i>					
Interest Payments	1,32,630 (3.7)	1,39,823 (3.5)	1,46,192 (3.6)	6,369	4.6
Defence Expenditure	80,549 (2.3)	89,000 (2.3)	86,000 (2.1)	-3,000	-3.4
Subsidies	47,520 (1.3)	46,213 (1.2)	53,463 (1.3)	7,250	15.7
<b>3. Plan Expenditure</b>	1,40,638 (3.9)	1,72,728 (4.4)	1,72,730 (4.2)	2	0.0
<b>4. Revenue Expenditure</b>	4,39,761 (12.3)	4,88,192 (12.4)	5,06,767 (12.4)	18,575	3.8
<b>5. Capital Expenditure</b>	66,362 (1.9)	75,799 (1.9)	74,870 (1.8)	-929	-1.2

RE : Revised Estimates. BE : Budget Estimates.  
**Note :** Figures in parentheses are percentages to GDP



and provision of interest subvention on short-term credit to farmers led to higher than budgeted interest subsidies.

#### *Financing of the Union Budget*

Gross and net market borrowings (dated securities and 364-day Treasury Bills excluding allocations under the Market Stabilisation Scheme) of the Centre for 2006-07 were budgeted at Rs.1,79,716 crore and Rs.1,13,778 crore, respectively. In the revised estimates, net market borrowings were placed lower at Rs.1,10,500 crore, thus, financing 72.5 per cent of GFD. Apart from market borrowings, drawdown of cash balances financed 7.2 per cent of GFD in the revised estimates as compared to nil percentage in the budget estimates. In the public account, deposits and advances, state provident funds and reserve funds financed 7.6 per cent, 3.3 per cent and 2.8 per cent, respectively, of GFD.

According to the Reserve Bank records, actual gross market borrowings by the Central Government through dated securities and 364-day Treasury Bills amounted to Rs.1,79,373 crore (net Rs.1,11,270 crore) during 2006-07. Gross market borrowings through dated securities by the Central Government amounted to Rs.1,46,000 crore (net Rs.1,06,916 crore) during 2006-07 as compared with Rs.1,31,000 crore (net Rs.98,370 crore) during the previous year (Table 17). Gross market borrowings through dated securities during 2006-07 were 94 per cent of the budget estimates, the same as that in the previous year. Of the 33 auctions held during 2006-07, 30 auctions were in respect of reissuance of existing securities. Three new securities of 10-year, 15-year and 30-year were issued to provide a benchmark in the secondary market. The total devolvement on the primary dealers (PDs) was Rs.5,604 crore.

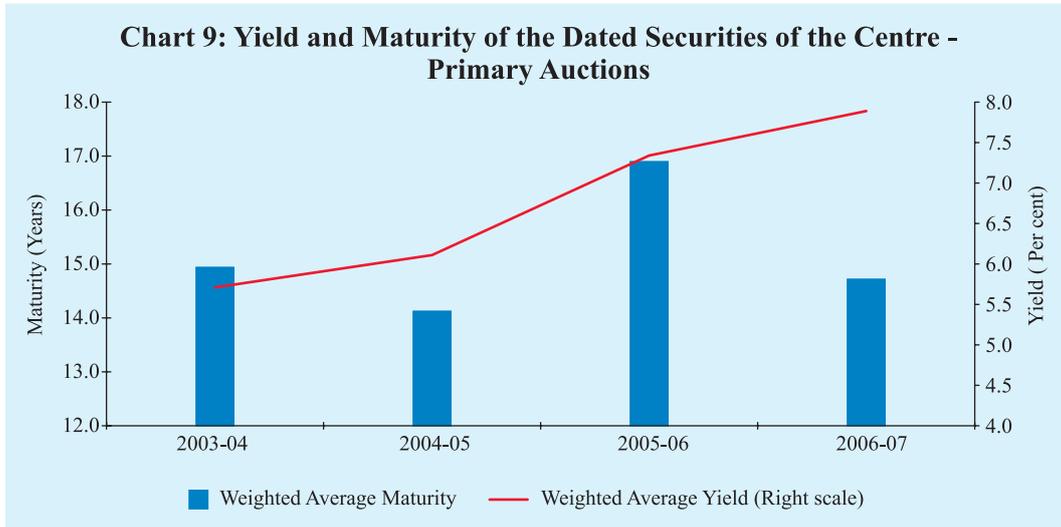
**Table 17: Central Government Securities Issued during 2006-07**

(Amount in Rupees crore/Maturity in years)							
Sr. No.	Borrowings as per Issuance Auction Calendar			Actual Borrowings			
	Date of Auction	Amount	Residual Maturity	Date of Auction	Amount	Residual Maturity	Yield (Per cent)
1	2	3	4	5	6	7	8
1.	April 3-12, 2006	5,000	10 -14	April 10, 2006	5,000	10.00	7.59
		3,000	20 and above	April 10, 2006	3,000	28.30	7.97
2.	April 18-25, 2006	6,000	5-9	April 25, 2006	6,000	6.02	7.06
		4,000	20 and above	April 25, 2006	4,000	26.34	8.00
3.	May 2-9, 2006	6,000	10-14	May 4, 2006	6,000	9.94	7.55
		4,000	20 and above	May 4, 2006	4,000	28.26	8.14
4.	May 16-24, 2006	5,000	15 -19	May 23, 2006	5,000	15.00	7.94
5.	June 1- 8, 2006	6,000	5-9	June 6, 2006	6,000	5.07	7.39
		4,000	20 and above	June 6, 2006	4,000	30.00	8.33
6.	June 15-24, 2006	5,000	15-19	June 22, 2006	5,000	7.81	7.92
				June 22, 2006#	4,000	14.92	8.46
7.	July 3-11, 2006	6,000	10-14	July 11, 2006	5,000	9.75	8.29
		4,000	20 and above	July 11, 2006	2,000	28.08	8.75
8.	July 17-25, 2006	5,000	15-19	July 27, 2006	4,000	3.79	7.69
9.	August 1-8, 2006	6,000	5-9	August 8, 2006	6,000	4.90	7.94
		3,000	20 and above	August 8, 2006	3,000	9.68	8.27
10.	August 14-22, 2006	5,000	10-14	August 18, 2006	5,000	10.40	8.12
		3,000	20 and above	August 18, 2006	3,000	29.79	8.72
11.	September 4-12, 2006	6,000	10-14	September 8, 2006	6,000	9.59	7.76
		3,000	20 and above	September 8, 2006	3,000	27.91	8.45
12.	October 6-13, 2006	6,000	10 -14	October 13, 2006	6,000	9.49	7.63
		3,000	20 and above	October 13, 2006	3,000	29.64	8.10
13.	November 3-10, 2006	6,000	5-9	November 3, 2006	6,000	5.49	7.50
		3,000	20 and above	November 3, 2006	3,000	27.76	8.02
14.	November 17-24, 2006	5,000	10-14	November 24, 2006	5,000	10.13	7.43
15.	December 1-8, 2006	6,000	5-9	December 8, 2006	5,000	7.35	7.31
		3,000	20 and above	December 8, 2006	4,000	29.49	7.63
16.	January 5-12, 2007	5,000	10-14	Not issued	-	-	-
		4,000	20 and above	January 12, 2007	4,000	29.39	8.24
17.	January 18-25, 2007	5,000	15-20	January 25, 2007	5,000	14.32	8.20
18.	February 2-9, 2007	6,000	5-9	February 9, 2007	6,000	7.18	7.88
		3,000	20 and above	February 9, 2007	3,000	29.32	8.19
19.	March 2-9, 2007	5,000	10-14	March 9, 2007	4,000	9.84	8.06
		3,000	20 and above	March 9, 2007	3,000	29.24	8.40

# : Not scheduled.

The weighted average yield of the dated securities issued during 2006-07 increased to 7.89 per cent from 7.34 per cent during the previous year. The weighted average maturity of the dated securities issued during the year, on the other hand, fell to 14.72 years from 16.90 years during 2005-06 (Chart 9).

With the Reserve Bank withdrawing from participation in the primary issuance of the Central Government securities with effect from April 1, 2006 in accordance with the FRBM Act, 2003, the Ways and Means Advances (WMA) arrangements were revised from 2006-07 in consultation with the Government. Under the previous arrangements, the limits of WMA were fixed on a half-yearly basis. For 2005-06, the limits were Rs.10,000 crore for the first half of the fiscal



year (April-September) and Rs.6,000 crore for the second half of the fiscal year (October-March). In order to facilitate the transition necessitated by the new FRBM provisions, under the revised arrangements, the limits for 2006-07 were fixed on a quarterly basis instead of half-yearly basis. Accordingly, the WMA limits for 2006-07 were placed at Rs.20,000 crore and Rs.10,000 crore for the first and second quarters, respectively, and Rs.6,000 crore each for the third and fourth quarters of the year. The Reserve Bank retained the flexibility to revise the limits in consultation with the Government of India taking into consideration the transitional issues and prevailing circumstances. Furthermore, interest rates on WMA and overdraft have been linked to the repo rate as against the Bank Rate hitherto, following emergence of the repo rate as the short-term reference rate. Accordingly, the interest rate on WMA is at the repo rate and that on overdraft is at repo rate *plus* two percentage points.

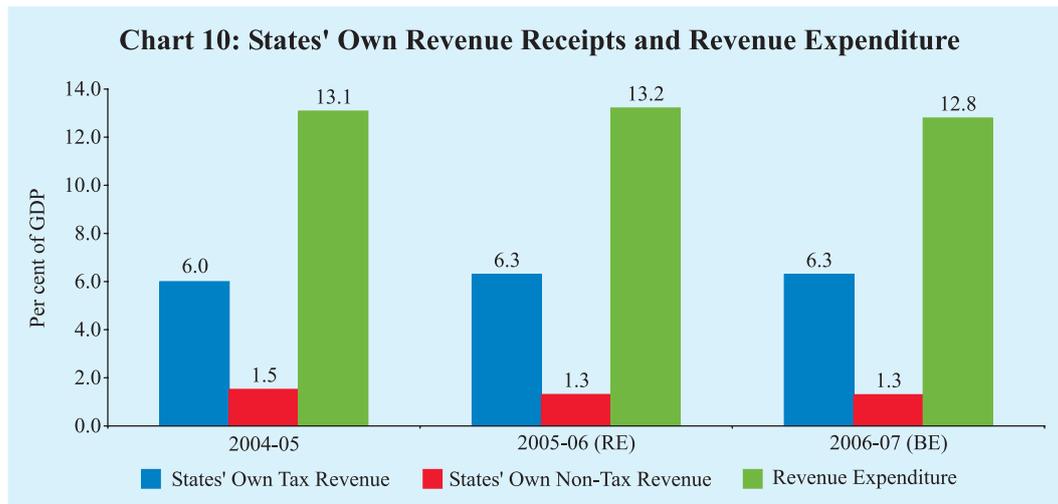
The Central Government took recourse to WMA on 39 days during 2006-07 as compared with only two days during 2005-06. The average WMA utilisation during 2006-07 was Rs.402 crore as compared with Rs.3 crore in the previous year. The peak WMA availed amounted to Rs.11,754 crore on June 6, 2006. The Central Government did not resort to overdraft during the year.

The surplus cash balances of the Centre which amounted to Rs.48,928 crore at end-March 2006 dwindled rapidly during April-May 2006. The Centre has, however, been maintaining surplus cash balance from August 8, 2006, mainly reflecting parking of surplus cash by the State Governments in the 14-day Intermediate Treasury Bills during the greater part of the year. The surplus balance rose to an intra-year high of Rs.77,473 crore on March 21, 2007, reflecting buoyancy in advance tax collections. As on March 31, 2007, the surplus balance amounted to Rs.50,092 crore. The daily surplus balance of the Central Government averaged Rs.28,022 crore during 2006-07 as compared with Rs.25,296 crore a year ago.

**State Finances: 2006-07**

Revenue deficit (RD) and gross fiscal deficit (GFD) of State Governments were budgeted at 0.1 per cent and 2.7 per cent, respectively, of GDP during 2006-07 - a reduction of 0.4 percentage points and 0.5 percentage points, respectively, over the previous year (Table 14). State budgets for 2006-07 reflect the efforts of the State Governments to pursue the process of fiscal correction and consolidation through the progressive enactment of Fiscal Responsibility Legislations (FRLs). The State Governments were aided in their effort by larger devolution and transfer through shareable Central taxes and grants under the TFC award. Furthermore, all States, barring Uttar Pradesh, have implemented value added tax (VAT) in lieu of sales tax, which is expected to provide buoyancy to the States' own tax revenue. Recognising that sustained fiscal correction lies in revenue augmentation, the State Governments in their budgets for 2006-07 laid stress on improvement in tax administration and streamlining and strengthening of tax and non-tax collections. For improving accountability of budget proposals, some States proposed to introduce 'Outcome Budget'. Several States announced introduction of new pension scheme based on defined contribution to restrict their rising pension obligations. The States also proposed to improve spending on education and health sector and implement the centrally sponsored scheme of rural employment guarantee scheme.

The fiscal correction in the revenue account during 2006-07 was proposed to be achieved primarily through containment of growth in revenue expenditure to 11.3 per cent in 2006-07 from 15.4 per cent in the previous year. As a proportion to GDP, revenue expenditure was envisaged to decline to 12.8 per cent during 2006-07 (BE) from 13.2 per cent in the previous year (Chart 10). Revenue receipts were budgeted to be maintained at the level of 12.7 per cent of GDP in 2006-07 (BE). States' own tax as well as own non-tax revenues, as percentage to GDP, at 6.3 per cent and 1.3 per cent, respectively, during 2006-07 (BE) would remain the same as



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a year ago. Higher grants coupled with the incentives provided by the TFC towards restructuring of State finances aided the States in their endeavour for fiscal correction and consolidation.

The decomposition of GFD of the State Governments reveals an improvement in the quality of fiscal consolidation, with the share of revenue deficit budgeted to decline substantially to 4.1 per cent in 2006-07 from 15.1 per cent in the previous year. Correspondingly, the share of capital outlay would move up from 74.9 per cent in 2005-06 (RE) to 88.0 per cent in 2006-07 (BE). As regards financing of GFD, securities issued to the National Small Savings Fund (NSSF) would continue to be the major source of financing, although its share would decline from 65.4 per cent to 53.1 per cent. Market borrowings with their share at 20.8 per cent (16.4 per cent during the previous year) would finance a larger share of GFD during 2006-07 (Table 18).

**Table 18: Decomposition and Financing Pattern of GFD of States**

(Per cent)						
Item	1990-95 (Average)	1995-2000 (Average)	2000-04 (Average)	2004-05	2005-06 (RE)	2006-07 (BE)
1	2	3	4	5	6	7
<b>Decomposition (1 to 4)</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
1. Revenue Deficit	24.7	44.8	56.3	33.3	15.1	4.1
2. Capital Outlay	55.3	43.3	36.7	56.3	74.9	88.0
3. Net Lending	20.0	12.2	7.0	10.3	10.0	8.8
4. Disinvestment	-	-0.2	-	-	-	-0.9
<b>Financing (1 to 11)</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
1. Market Borrowings	16.0	16.1	24.6	31.6	16.4	20.8
2. Loans from Centre	49.0	40.6	7.8	-10.8	1.9	4.4
3. Special Securities issued to NSSF/Small Savings	-	28.9*	35.4	62.2	65.4	53.1
4. Loans from LIC, NABARD, NCDC, SBI and other banks	1.8	2.8	4.9	-**	4.9	6.9
5. State Provident Fund	14.3	13.4	8.3	7.2	7.9	8.0
6. Reserve Funds	6.8	5.5	4.5	6.5	2.9	4.0
7. Deposits and Advances	9.8	9.8	3.4	7.4	-0.6	-1.1
8. Suspense and Miscellaneous	4.3	2.7	-0.4	-2.4	3.3	3.3
9. Remittances	-1.4	-3.6	0.6	1.1	0.8	1.8
10. Overall Surplus(+)/Deficit(-)	4.4	-2.6	1.1	9.6	4.9	3.6
11. Others	-5.0	9.5	9.8	-12.4 \$	-7.9	-4.7

BE: Budget Estimates. RE: Revised Estimates. - : Negligible/Not applicable.

\* : Pertains to 1999-2000 as the scheme was introduced from that year only. The sum of items will not be equal to 100 for 1995-2000 (Average).

\*\* : Tamil Nadu has shown a negative figure of Rs.1,376 crore under Loans from National Co-operative Development Corporation (NCDC) on account of adjustment of Tamil Nadu Industrial Development Corporation (TIDCO) bonds.

\$ : On account of Land Compensation and other bonds ( Rs.1,962 crore) issued by Government of Tamil Nadu.

**Notes** : 1. 'Others' is a residual item and includes, *inter alia*, Contingency Funds, Appropriation to Contingency Funds, Miscellaneous Capital Receipts, Inter-State Settlement, Land Compensation and Other Bonds and Loans from Financial Institutions other than those mentioned in the Table.

2. Due to the change in the accounting procedure from 1999-2000, Loans from the Centre exclude States' share in small saving collections which are shown under Securities issued to the NSSF under internal debt. Accordingly, repayments of small saving collections included in under repayments of Loans to the Centre are now shown under discharge of Internal Debt to have consistent accounting for receipts and expenditure.

3. Figures for 2004-05 (Accounts) in respect of Jammu & Kashmir and Jharkhand relate to Revised Estimates.

4. All financing items are on net basis.

**Source** : Budget Documents of State Governments.

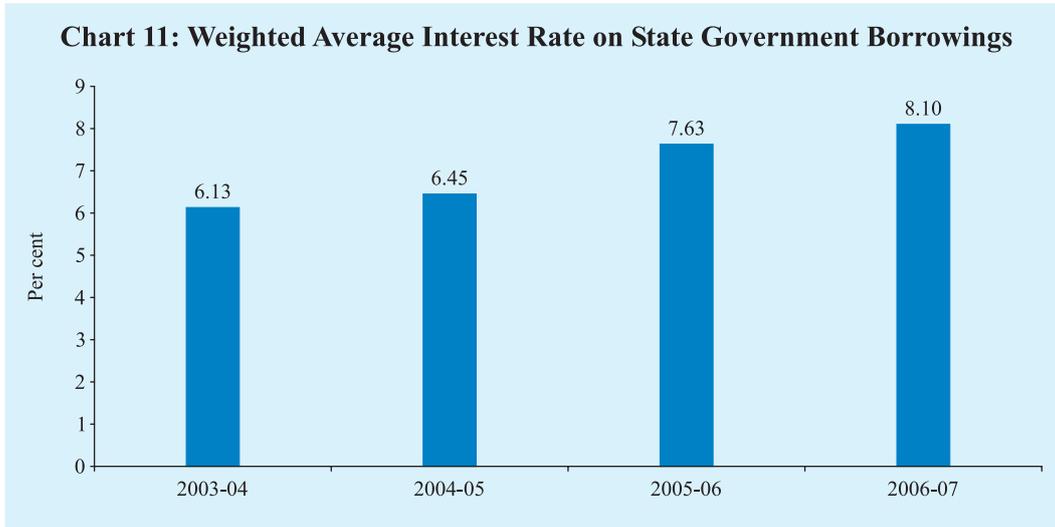
*Market Borrowings*

The provisional net allocation of market borrowings for all State Governments during 2006-07 was placed at Rs.17,243 crore. The gross allocation of market borrowings amounted to Rs.26,597 crore, including the additional allocation of Rs.2,803 crore and repayments of Rs.6,551 crore. During 2006-07, the States raised market loans amounting to Rs.20,825 crore (or 78.3 per cent of gross allocation) through auctions, with cut-off rates in the range 7.65-8.66 per cent (Table 19). The

**Table 19: Market Borrowings of State Governments during 2006-07**

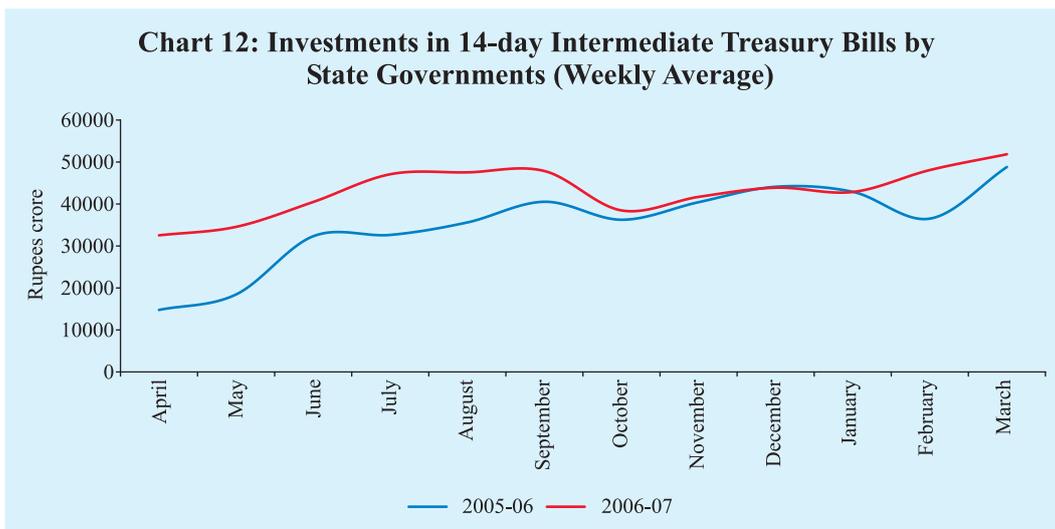
Item	Date	Cut-off Rate (Per cent)	Tenor (Years)	Amount Raised (Rupees crore)
1	2	3	4	5
<b>A. Tap Issues</b>	–	–	–	–
<b>B. Auctions (i to xii)</b>				<b>20,825</b>
i. First	April 27, 2006	7.65	10	300
ii. Second	May 11, 2006	7.89	10	500
		8.00	10	1,646
		7.95	10	881
		8.04	10	150
		7.96	10	130
		7.87	10	400
		7.91	10	500
		7.98	10	57
		8.05	10	15
		7.93	10	1,307
iii. Third	July 13, 2006	8.65	10	933
		8.66	10	300
		8.62	10	225
iv. Fourth	August 25, 2006	8.11	10	1,050
v. Fifth	October 17, 2006	7.99	10	153
		8.04	10	48
vi. Sixth	November 16, 2006	7.74	10	2,184
		7.80	10	91
		7.82	10	156
vii. Seventh	December 14, 2006	7.81	10	340
		7.89	10	166
		7.93	10	809
		7.94	10	455
		7.99	10	193
viii. Eighth	January 18, 2007	7.99	10	300
		7.99	10	100
		7.99	10	315
		7.96	10	500
ix. Ninth	February 2, 2007	7.95	10	200
x. Tenth	February 22, 2007	8.17	10	375
		8.10	10	47
		8.20	10	213
		8.19	10	300
		8.20	10	350
		8.19	10	500
		8.45	10	1,615
xi. Eleventh	March 13, 2007	8.38	10	212
		8.45	10	250
		8.40	10	470
		8.39	10	67
		8.39	10	70
		8.39	10	90
		8.32	10	300
		8.25	10	200
		8.32	10	414
		8.38	10	211
xii. Twelfth	March 23, 2007	8.35	10	738
<b>Grand Total (A+B)</b>				<b>20,825</b>

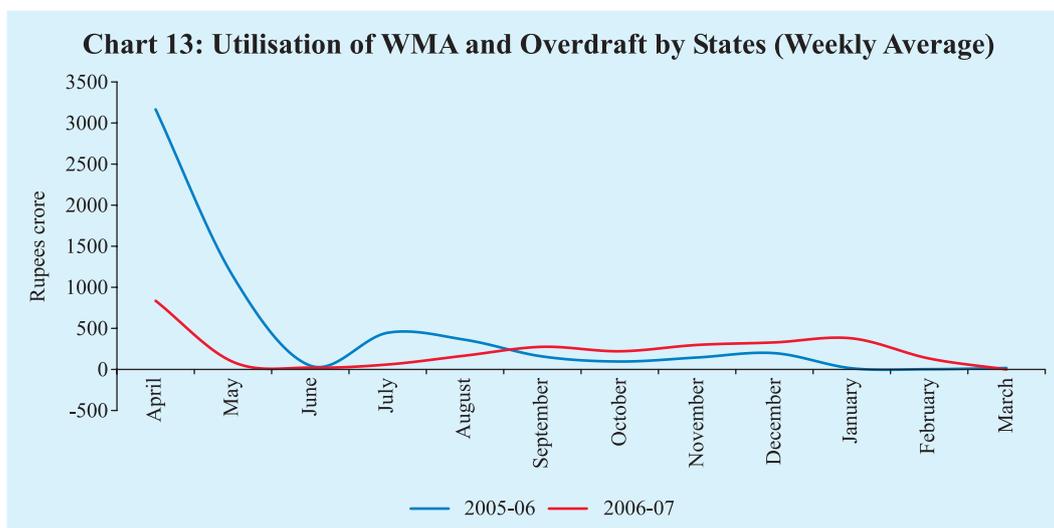
Source : Reserve Bank of India.



weighted average interest rate of market loans increased to 8.10 per cent during 2006-07 from 7.63 per cent during the previous year (Chart 11).

The liquidity position of the States remained comfortable during 2006-07. This was reflected in the weekly average investment by the States in the 14-day Treasury Bills which increased further during 2006-07 to Rs.43,075 crore from Rs.35,278 crore in the previous year (Chart 12). The surplus cash balances of the State Governments are automatically invested in 14-day Treasury Bills. The weekly average utilisation of WMA and overdraft by the States at Rs.234 crore in 2006-07 was lower than that of Rs.482 crore in 2005-06 (Chart 13).





Two States resorted to overdraft during 2006-07 as compared with eight States during the previous year.

### Fiscal Outlook: 2007-08

The Union Budget for 2007-08 proposes to continue the fiscal consolidation process, with the key deficit indicators, *viz.*, gross fiscal deficit (GFD), revenue deficit (RD) and primary deficit (PD), budgeted to be lower by 0.3-0.5 percentage points of GDP in 2007-08 than the previous year (Table 20). The Budget envisages a revenue-led fiscal consolidation along with reprioritisation of expenditure to augment allocations for improvement in the social and physical infrastructure, particularly in the rural areas so as to achieve a 'faster and more inclusive' growth process. The revenue deficit relative to GDP is budgeted to be reduced in 2007-08 by 0.5 percentage points, which is the minimum stipulated threshold limit under the FRBM Rule, 2004; therefore, a substantial correction in the revenue deficit of 1.5 percentage points would be required in 2008-09, the terminal year for meeting the FRBM target.

The gross tax-GDP ratio, which has been rising since 2002-03, is budgeted to improve from 11.4 per cent in 2006-07 (RE) to 11.8 per cent in 2007-08 (BE). This reflects expectations of high growth as well as the impact of measures taken to widen the tax base, rationalise exemptions and improve tax compliance (Table 21).

The budget estimates of total expenditure in the Union Budget 2007-08 include a sum of Rs.40,000 crore allocated for acquiring the Reserve Bank's equity holding in the State Bank of India (SBI). As this transaction is matched by the non-debt capital receipt of an equal amount, there would be no impact on the

Fiscal Situation

<b>Table 20: Union Budget 2007-08 at a Glance</b>				
(Amount in Rupees crore)				
Item	2006-07 (RE)	2007-08 (BE)	Growth rate ( per cent )	
			2006-07	2007-08
1	2	3	4	5
1. Revenue Receipts (i+ii)	4,23,331 (10.3)	4,86,422 (10.5)	21.8	14.9
i) Tax Revenue (Net)	3,45,971 (8.4)	4,03,872 (8.7)	28.0	16.7
ii) Non-Tax Revenue	77,360 (1.9)	82,550 (1.8)	0.2	6.7
2. Non-Plan Expenditure	4,08,907 (10.0)	4,35,421* (9.4)	11.9	6.5
of which:				
i) Interest Payments	1,46,192 (3.6)	1,58,995 (3.4)	10.2	8.8
ii) Defence Expenditure	86,000 (2.1)	96,000 (2.1)	6.8	11.6
iii) Subsidies	53,463 (1.3)	54,330 (1.2)	12.5	1.6
3. Plan Expenditure	1,72,730 (4.2)	2,05,100 (4.4)	22.8	18.7
4. Revenue Expenditure	5,06,767 (12.4)	5,57,900 (12.0)	15.2	10.1
5. Capital Expenditure	74,870 (1.8)	82,621* (1.8)	12.8	10.4
6. Total Expenditure	5,81,637 (14.2)	6,40,521* (13.8)	14.9	10.1
7. Revenue Deficit	83,436 (2.0)	71,478 (1.5)	-9.6	-14.3
8. Gross Fiscal Deficit	1,52,328 (3.7)	1,50,948 (3.3)	4.0	-0.9
9. Gross Primary Deficit	6,136 (0.1)	-8,047 (-0.2)	-55.6	-231.1

\* : Adjusted for an amount of Rs.40,000 crore on account of transactions relating to transfer of RBI's stake in SBI to the Government.

**Note :** Figures in parentheses are percentages to GDP

deficit indicators. Aggregate expenditure, after adjusting for this transaction, is budgeted to increase by 10.1 per cent in 2007-08. Growth in the revenue expenditure in 2007-08 is budgeted to decelerate to 10.1 per cent from 15.2 per cent in 2006-07 on account of containment of subsidies and deceleration in the growth of interest payments. The capital outlay (adjusted for transactions for purchasing stake in the SBI) is budgeted to increase by 15.3 per cent as compared with an increase of 18.4 per cent in 2006-07.

During 2007-08, net market borrowings (net of MSS) are budgeted to increase marginally from Rs.1,10,500 crore in 2006-07 (RE) to Rs.1,10,827 crore. Inclusive of repayments of Rs.76,942 crore, gross market borrowings, net of MSS, are placed at Rs.1,87,769 crore in 2007-08. Net market borrowings would finance

<b>Table 21: Gross Tax Revenues of the Centre</b>			
(Per cent to GDP)			
Year	Direct	Indirect	Total
1	2	3	4
1990-91	1.9	8.2	10.1
1991-92	2.3	8.0	10.3
1992-93	2.4	7.5	10.0
1993-94	2.4	6.5	8.8
1994-95	2.7	6.5	9.1
1995-96	2.8	6.5	9.4
1996-97	2.8	6.6	9.4
1997-98	3.2	6.0	9.1
1998-99	2.7	5.6	8.3
1999-00	3.0	5.8	8.8
2000-01	3.2	5.7	9.0
2001-02	3.0	5.2	8.2
2002-03	3.4	5.4	8.8
2003-04	3.8	5.4	9.2
2004-05	4.2	5.5	9.8
2005-06	4.6	5.6	10.3
2006-07 RE	5.6	5.8	11.4
2007-08 BE	5.8	6.1	11.8

73.4 per cent of GFD in 2007-08 as compared with 72.5 per cent in the revised estimates for 2006-07. Investments by the National Small Savings Fund (NSSF) in the special Central Government securities are budgeted to finance 7.0 per cent of GFD as against 2.0 per cent in the previous year. This reflects the reinvestment of redemption proceeds as well as investment from small savings collections in Central Government special securities following the policy decision to reduce the minimum obligation of the State Governments to borrow from the NSSF to 80 per cent of net collections from 100 per cent. External assistance is budgeted to finance 6.0 per cent of GFD as compared with 5.2 per cent of GFD in 2006-07.