

## II. FISCAL SITUATION

### Combined Government Finances: 2006-07

With the resumption of fiscal consolidation process at the Centre in terms of the Fiscal Responsibility and Budget Management (FRBM) Rules, 2004 and enactment of fiscal responsibility legislations by most of the States, public finances are budgeted to show improvement during 2006-07. Key deficit indicators of the Centre and States taken together are budgeted to decline by 0.7-0.9 per cent of GDP in 2006-07 on the back of buoyancy in tax collections and reprioritisation of expenditure towards development expenditure (Table 13).

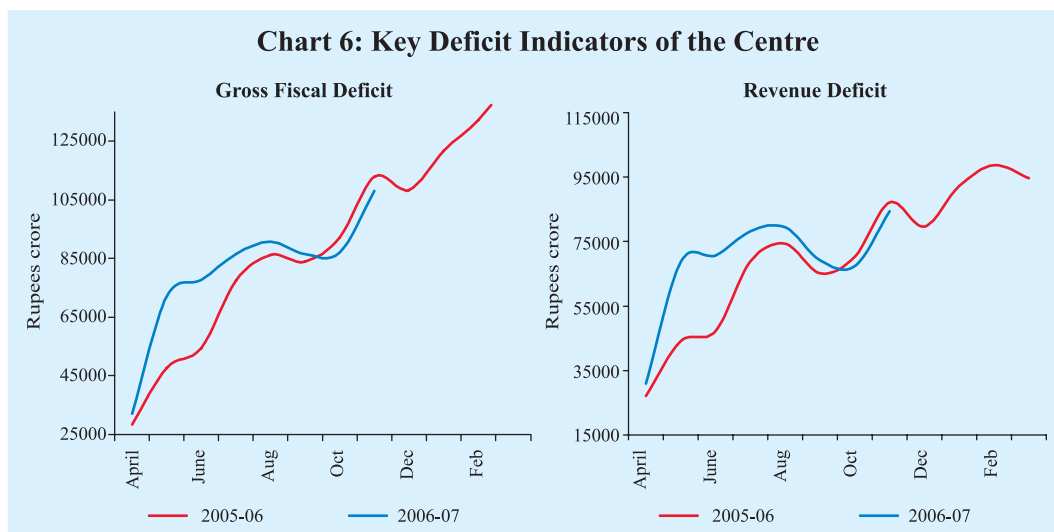
### Centre's Fiscal Situation

The Central Government finances for the first eight months (April-November) of the fiscal year 2006-07 show that fiscal deficit, as per cent of budget estimates (BE), was placed lower than that in the corresponding period of the previous year (Chart 6 and Table 14). Till September 2006, fiscal deficit (as per

Table 13: Key Fiscal Indicators			
(Per cent to GDP)			
Year	Primary Deficit	Revenue Deficit	Gross Fiscal Deficit
1	2	3	4
<b>Centre</b>			
2002-03	1.1	4.4	5.9
2003-04	-0.03	3.6	4.5
2004-05	0.06	2.5	4.01
2005-06 RE	0.5	2.6	4.1
	(0.4)	(2.7)	(4.1)
2006-07 BE	0.2	2.1	3.8
<b>States</b>			
2002-03	1.3	2.2	4.2
2003-04	1.5	2.2	4.5
2004-05	0.7	1.2	3.5
2005-06 RE	0.7	0.5	3.2
2006-07 BE	0.3	0.1	2.8
<b>Combined</b>			
2002-03	3.1	6.7	9.6
2003-04	2.1	5.8	8.5
2004-05	1.4	3.7	7.5
2005-06 RE	1.6	3.1	7.5
2006-07 BE	0.9	2.3	6.6

RE: Revised Estimates. BE: Budget Estimates.

**Note :** 1. Figures in parentheses are provisional accounts for 2005-06.  
2. Data in respect of States are provisional from year 2004-05 onwards.



cent to BE) was placed higher than a year ago. Revenue deficit during April-November 2006, as per cent of BE, however, continued to be higher than the previous year on account of increase in non-Plan expenditure which offset buoyant tax revenues. Contraction in non-defence capital outlay and loans and advances, however, moderated the impact on fiscal deficit.

**Table 14: Central Government Finances during April-November 2006**

Items	2006-07 (Budget Estimates) (Rupees crore)	April-November			
		Rupees crore		Per cent of Budget Estimates	
		2005	2006	2005	2006
1	2	3	4	5	6
1. Revenue Receipts (i+ii)	4,03,465	1,73,703	2,21,190	49.5	54.8
i) Tax Revenue (Net)	3,27,205	1,30,095	1,76,956	47.6	54.1
ii) Non-Tax Revenue	76,260	43,608	44,234	56.1	58.0
2. Non-Debt Capital Receipts	11,840	6,370	7,148	53.1	60.4
3. Non-Plan Expenditure	3,91,263	2,10,638	2,45,393	56.8	62.7
<i>of which:</i>					
i) Interest Payments	1,39,823	75,526	87,943	56.4	62.9
ii) Defence	89,000	37,617	43,184	45.3	48.5
iii) Major Subsidies	44,792	31,149	36,505	67.2	81.5
4. Plan Expenditure	1,72,728	82,384	91,146	57.4	52.8
5. Revenue Expenditure	4,88,192	2,60,884	3,05,673	58.4	62.6
6. Capital Expenditure	75,799	32,138	30,866	47.4	40.7
7. Total Expenditure	5,63,991	2,93,022	3,36,539	57.0	59.7
8. Revenue Deficit	84,727	87,181	84,483	91.5	99.7
9. Fiscal Deficit	1,48,686	1,12,949	1,08,201	74.7	72.8
10. Primary Deficit	8,863	37,423	20,258	217.6	228.6

**Source:** Controller General of Accounts, Ministry of Finance.

During April-November 2006, tax revenues, as per cent of BE, were higher than a year ago on account of impressive growth in income tax, corporation tax, customs duties and services tax. Receipts from new taxes - fringe benefit tax, securities transaction tax and banking cash transaction tax - also remained buoyant in the first eight months of 2006-07. Union excise duties, however, continued to show subdued growth. Non tax-revenues, as per cent of BE, were higher than a year ago on account of higher dividends and profits. Aggregate expenditure, as per cent of BE, was higher on account of sustained increase in non-Plan expenditure, particularly interest payments, subsidies and grants to States. Plan expenditure, in terms of budget estimates, declined under both the revenue and capital accounts. Capital outlay in the first eight months showed a modest increase on account of a rise in defence capital outlay.

#### *Mid-Year Review by Government of India*

The Central Government finances during the first half of the year (April-September 2006) exhibited stress with the key deficit indicators, as per cent of BE, being higher than their levels in the corresponding period of the previous year. The deficit indicators, *viz.*, the revenue and fiscal deficit fell short of the half yearly FRBM targets. In the document Mid-Year Review for 2006-07, as required under the FRBM Act, 2003, the Central Government contended that the accelerated pace of expenditure partly reflected front-loading of expenditures, particularly in the first quarter, to smoothen intra-year asymmetry in spending and avoid bunching of expenditures and parking of funds in the last quarter. The stress in the finances was also attributed to the acceleration in non-Plan expenditures in the second quarter. The Government is confident of evening out the mismatch in expenditure and receipts during the second half of the year. Buoyant economic growth is also expected to contribute towards augmenting the Government's revenue, thereby enabling it to meet the deficit targets set in the Budget.

#### *Financing of the Union Budget*

Net market borrowings (excluding allocations under the Market Stabilisation Scheme) of the Centre for 2006-07 are budgeted at Rs.1,13,778 crore, which would finance 76.5 per cent of the gross fiscal deficit in 2006-07 as compared with 69.2 per cent in the preceding year. Including repayment obligations of Rs.68,097 crore (as per Reserve Bank records), gross market borrowings of the Central Government work out to Rs.1,81,875 crore. During 2006-07 (up to January 22, 2007), the issuances of dated securities at Rs.1,25,000 crore were higher than the amount raised (Rs.1,15,000 crore) in the corresponding period of the preceding year (Table 15). Although the Central Government frontloaded its market borrowings by an additional Rs.4,000 crore on June 22, 2006, gross

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**Table 15: 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	8.33
		4,000	20 and above	June 6, 2006	4,000	30.00	7.39
6.	June 15-24, 2006	5,000	15-19	June 22, 2006	5,000	8.52	7.92
				June 22, 2006*	4,000	14.95	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	@	@	@	@
		4,000	20 and above	January 12, 2007	4,000	29.39	8.24

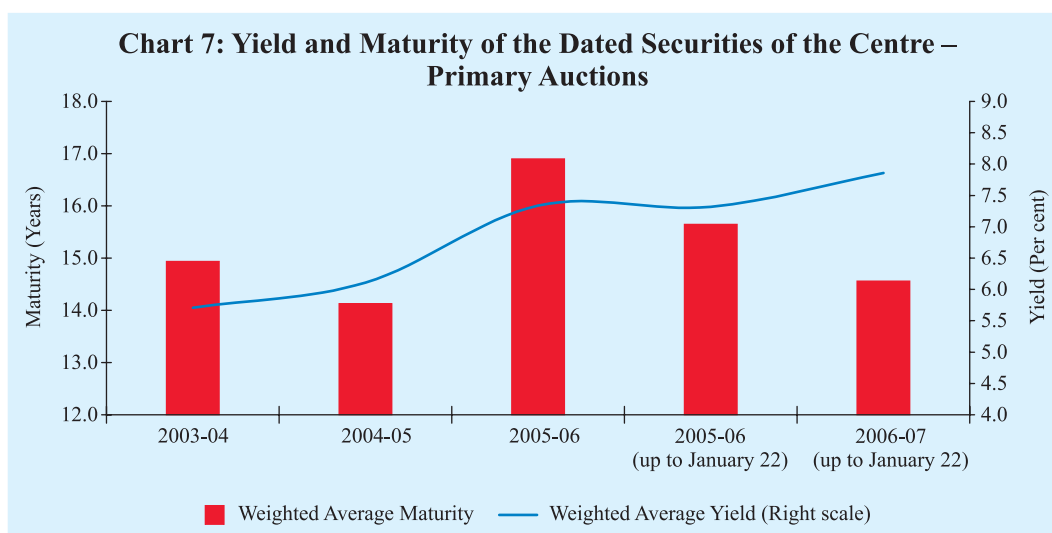
\*: Not scheduled. @ : Auction cancelled.

market borrowings during 2006-07 (up to January 22, 2007) were Rs.5,000 crore lower than the indicative issuance calendar reflecting (i) the reduction in the notified amounts from Rs.6,000 crore and Rs.4,000 crore (as per issuance auction calendar) to Rs.5,000 crore and Rs.2,000 crore, respectively, in the auctions held on July 11, 2006 and from Rs.5,000 crore to Rs.4,000 crore on July 27, 2006 and (ii) cancellation of the auction of Rs 5,000 crore scheduled for January 5-12, 2007 on a review of the Government's borrowing requirements. Furthermore, in the auction held on December 8, 2006, the notified amount of short tenor security

was reduced by Rs.1,000 crore, while that of the longer tenor security was increased by Rs.1,000 crore. During the year so far, 28 securities have been issued. While 25 securities were reissues, three new securities of 10-year, 15-year and 30-year maturity were issued to provide benchmarks in the respective segments. Gross and net market borrowings (including dated securities and 364-day Treasury Bills) raised by the Centre during 2006-07 up to January 22, 2007 amounted to 83.1 per cent and 80.4 per cent of the budget estimates as compared with 84.9 per cent and 82.7 per cent, respectively, a year ago.

The weighted average maturity of dated securities of the Central Government during 2006-07 (up to January 22, 2007) at 14.56 years was lower than that of 15.61 years in the corresponding period of the preceding year. The weighted average yield of the dated securities issued over the same period, on the other hand, increased to 7.86 per cent from 7.29 per cent (Chart 7). In this context, it may be noted that the secondary market yield on 10-year Central Government securities increased from 7.02 per cent during April-December 2005 to 7.76 per cent during April-December 2006.

The Central Government has taken recourse to ways and means advances (WMA) on 39 days during 2006-07 so far (up to January 22, 2007) as compared with only two days during the entire fiscal year 2005-06. The average WMA utilisation during 2006-07 (up to January 22, 2007) was Rs.533 crore as compared with Rs.4 crore in the corresponding period of the preceding year. The Central Government continued to maintain large cash surplus with the Reserve Bank. The average daily surplus balance of the Central Government with the Reserve Bank was Rs.23,077 crore during 2006-07 (up to January 22, 2007) as compared with Rs.21,817 crore during the corresponding period of the previous year.



## State Finances

### Financing of the States' Budgets

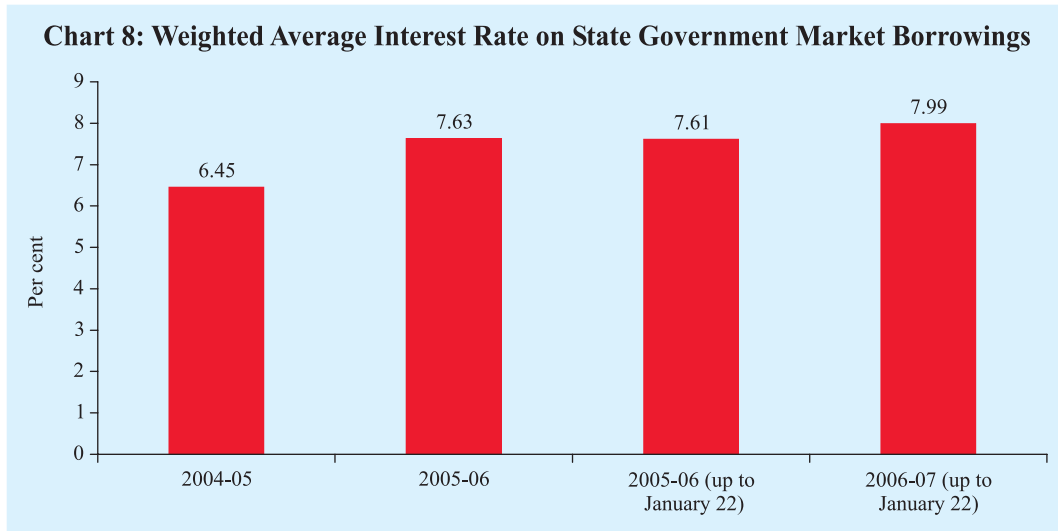
The provisional net allocation under market borrowing programme for State Governments is placed at Rs.17,242 crore during 2006-07. Taking into account additional allocations amounting to Rs.2,066 crore and repayments of Rs.6,551 crore, the gross allocation amounts to Rs.25,860 crore. During 2006-07 so far (up to January 22, 2007), the States have raised market loans amounting to Rs.14,204 crore (or 54.9 per cent of gross allocation) exclusively through auctions with cut-off rates in the range of 7.65-8.66 per cent (Table 16). Over the same period of 2006-07, the weighted average interest rate of market loans firmed up to 7.99 per cent from 7.61 per cent in the corresponding period of the previous year (Chart 8).

**Table 16: Market Borrowings of State Governments during 2006-07  
(up to January 22, 2007)**

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</b>				<b>14,204</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
		7.74	10	2,184
		7.80	10	91
vi. Sixth	November 16, 2006	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	7.96	10	500
		7.99	10	715
<b>Grand Total (A+B)</b>				<b>14,204</b>

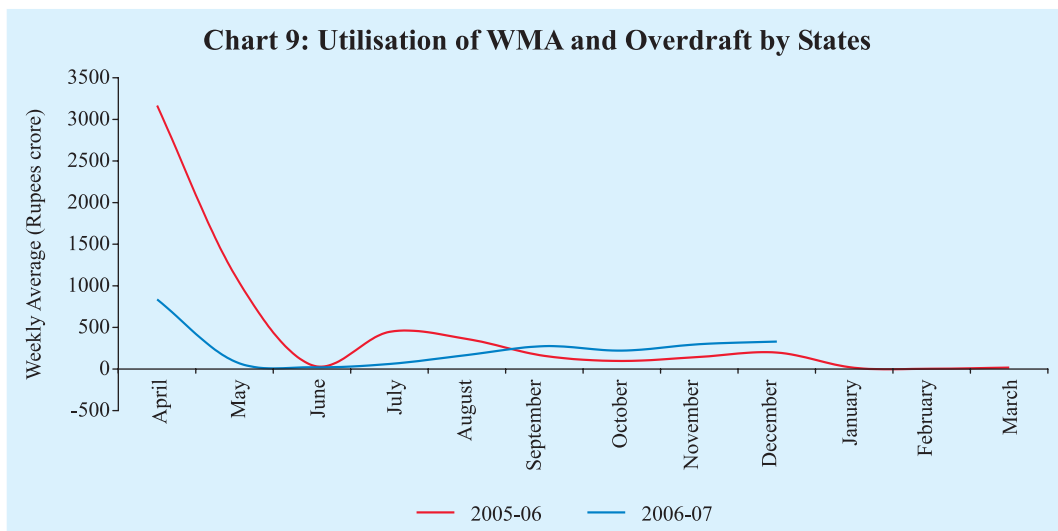
Source: Reserve Bank of India.

**Chart 8: Weighted Average Interest Rate on State Government Market Borrowings**



The liquidity position of the States has remained comfortable during 2006-07 so far. Notwithstanding the increase in WMA availment between September and November 2006, the weekly average utilisation of WMA and overdraft by the States at Rs.256 crore during April-December 2006 was lower than that of Rs.639 crore in the corresponding period of 2005 (Chart 9). Two States resorted to overdraft during 2006-07 (up to January 22, 2007) as compared with nine States during the corresponding period of the previous year. The cash surplus position of the State Governments has improved further during 2006-07 so far. This was reflected in an increase in their investments in 14-day Treasury Bills to Rs.41,567 crore

**Chart 9: Utilisation of WMA and Overdraft by States**



(weekly average) during April-December 2006 from Rs.32,789 crore in the corresponding period of the previous year (Chart 10). The surplus cash balances of State Governments are automatically invested in 14-day Treasury Bills.

