Public Finance

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The provisional estimate of the fiscal deficit of the central government in 2004-05 puts it at 4.1 per cent of GDP at market prices, down by about 0.4 percentage points from the figure presented in the Budget for 2005-06. This decline was achieved mainly by better than expected performance of non-tax revenue collection and expenditure compression. A decline in the fiscal deficit and thus revenue deficit implies that for the year 2004-05, the government was able to meet the FRBM target.

The centre's net tax revenue estimates are now Rs. 2,24,857 crore, Rs. 947 crore lower than the revised estimates. However, non-tax revenues are higher than revised estimates by Rs. 5,230 crore. Total provisional receipts are higher than revised estimates by Rs. 3,913 crore. Total expenditure is lower by Rs. 7,343 crore as compared to revised estimates. Continuing the trend observed from the early 1990s, capital expenditure bears the major burnt of expenditure compression. Provisional revenue expenditure is lower than the revised estimates by Rs. 1,324 crore but the decline in capital expenditure is Rs. 6,019 crore. Table PF.1 provides a summary of the central government finances.

Table PF.1: Central Government Accounts (Rs. Crore)

Revenue/Expenditure Heads	2004-05 (Revised Estimate)	2004-05 (Provisional Estimate)	2005-06 (Budget Estimates)
Revenue Receipt	300904	305187	351200
- Net Tax Revenue	225804	224857	273466
- Non-tax Revenue	75100	80330	77734
Non Debt Capital Receipt	65656	65286	12000
- Recovery of Loans	61565	60862	12000
- Other Receipts	4091	4424	0
Total Receipts	366560	370473	363200
Non-plan Expenditure	368404	366288	370847
- Revenue account	296396	297249	330530
- Interest Payment	125905	126540	133945
- Capital account	72008	69039	40317
Plan Expenditure	137387	132160	143497
- Revenue account	89673	87496	115982
- Capital account	47714	44664	27515
Revenue Expenditure	386069	384745	446512
Capital Expenditure	119722	113703	67832
Total Expenditure	505791	498448	514344
Fiscal Deficit	139231	127975	151144
Revenue Deficit	85165	79558	95312
Primary Deficit	13326	1435	17199

Source: Central Budget and Controller General of Accounts.

Status of Central Government Finances

Revenue receipts in the first two months of this fiscal have been Rs. 11,944 crore (Table PF.2) resulting in 51 per cent growth over last year, which is much higher than growth achieved in the last two years during same period. 2003-04 and 2004-05 were very good years for revenue collection, and 51 per cent growth is indeed commendable. Another noticeable point of this increase is that it is achieved by higher growth in net tax revenue collection (up from 2.4 per cent decline last year to 83.5 per cent growth this year). Although it is too early to say that this kind of growth in tax revenue collection will continue, there are sufficient reasons to believe that it will. The index of industrial production (IIP), which depicted declining trends in the months of February and March, bounced back with 9.6 per cent growth in April-May 2005 and, more importantly, the manufacturing sector grew by 10.5 per cent. Infrastructure industries with 26.7 per cent weight in IIP grew by 5.6 per cent in May 2005. Similarly, both domestic production and import of capital goods is on an upward path, which suggest that the kind of industrial recovery/growth that we have witnessed over last couple of years would continue this fiscal too.

After a lot of debate, the corporate sector has accepted the fringe benefit tax (FBT) and employee pay packages are being reworked. It is expected that the FBT would contribute more revenue than expected to the kitty of the government. As per one estimate, the government is expected to collect around Rs. 9,000 crore from the fringe benefit tax.

Non-debt capital receipts declined to Rs. 190 crore from Rs. 13,479 crore in the last fiscal. The recovery of loans due to the debt

Revenue receipts in the first two months of this fiscal have been Rs 11,944 crore resulting in a 51 per cent growth over last year, which is much higher than the growth achieved in the last two years

Table PF.2: Central Government Accounts (April-May, Rs. Crore)

Revenue/Expenditure Heads	2003-04	2004-05	2005-06
Revenue Receipts	7436	7909	11944
Net Tax Revenue	4835	4720	8659
Non-Tax Revenue	2601	3189	3285
Non-Debt Capital Receipts	4100	13479	190
Non-Debt Capital Receipts (Recovery of Loans)	4079	13377	189
Non-Debt Capital Receipts (Other Receipts)	21	102	1
Total Receipts	11536	21388	12134
Non-Plan Expenditure	37042	46786	46788
Non-Plan Expenditure (On Revenue Accounts)	34711	42556	45268
Non-Plan Expenditure (On Revenue Accounts - Interest Payments)	14198	19860	21167
Non-Plan Expenditure (On Capital Account)	2331	4230	1520
Plan Expenditure	8635	13584	12949
Plan Expenditure (On Revenue Account)	5055	9165	10830
Plan Expenditure (On Capital Account)	3580	4419	2119
Revenue Expenditure (Plan and Non Plan)	39766	51721	56098
Capital Expenditure (Plan and Non Plan)	5911	8649	3639
Total Expenditure	45677	60370	59737
Fiscal Deficit	34141	38982	47603
Revenue Deficit	32330	43812	44154
Primary Deficit	19943	19122	26436

Source: Control General of Accounts

swap scheme was Rs. 13,377 crore in the first two months, which declined to Rs. 189 crore this fiscal. As a result, total receipts declined to Rs. 12,134 crore in the first two months of this fiscal from Rs. 21,388 crore last year.

Total expenditure in the first two months of this fiscal declined to Rs. 59,737 crore from Rs. 60,370 crore last year. The decline in expenditure is mainly due to the decline in plan expenditure, and within plan expenditure it is capital expenditure that experienced a decline of Rs. 2,300 crore in the first two months alone.

Despite a better performance in revenue receipts, the fiscal health of the central government does not look better as compared to last year. The fiscal deficit in the first two months of this fiscal increased by 22.1 per cent as compared 14.2 per cent growth last year. A better revenue collection performance is reflected in a nearly stagnant revenue deficit. The revenue deficit in the first two months of this fiscal increased by 0.8 per cent only as compared to a 35.5 per cent growth last year.

Prognosis

Early signs about the fiscal health of the central government from the first two months portray a rosy picture for the full year. If the trend reflected by industrial growth continues in the same way as we have experienced in the last couple of years, the prospects for 2005-06 looks good. With initial hiccups, the rainfall has covered the entire country two weeks early. There are expectations that the July rain - the crucial month for kharif production - will be normal, ensuring that this year would turn out to be a normal agricultural year. With more purchasing power with rural folks, demand for manufactured products and services are expected to increase, which is good news for government for tax collection. With basic metal prices cooling down, everything depends on highly volatile crude oil prices, which does not show any sign of declining. With oil marketing companies not allowed to increase retail prices in line with increase in global crude prices, their profitability is going down, which means no or low non-tax revenue from these companies in the form of dividend to the government.

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