

Public Finance

Revenue receipts in the first eight months of this fiscal have been Rs1,73,703 crore, representing a growth of 16.5 per cent (Table PF.1) over last year, and the highest since 1998.

In spite of this, total receipts at Rs 180,073 crore have registered a decline of seven per cent over last year because of a sharp decline in non-debt capital receipts, which went down from Rs 44,625 crore

during the same period last year to Rs 6,370 crore in April-November 2005.

Recovery of Loans was a meager Rs 6,359 crore. Compared to last year, this is a decline of 84.8 per cent. This sharp decline is due to the discontinuation of the debt swap scheme and because most high cost loans have already been paid back by the states.

Table PF.1: Central Government Finances (April-November, Rs Crore)

Revenue/Expenditure Heads	2003-04	2004-05	2005-06
Revenue Receipts	137084	149061	173703
Net Tax Revenue	90010	106669	130095
Non-Tax Revenue	47074	42392	43608
Non-Debt Capital Receipts	49311	44625	6370
Non-Debt Capital Receipts (Recovery of Loans)	47771	41719	6359
Non-Debt Capital Receipts (Other Receipts)	1540	2906	11
Total Receipts	186395	193686	180073
Non-Plan Expenditure	213474	195511	210638
Non-Plan Expenditure (On Revenue Accounts)	170726	177776	197888
Non-Plan Expenditure (On Revenue Accounts - Interest Payments)	69838	74625	75526
Non-Plan Expenditure (On Capital Account)	42748	17735	12750
Plan Expenditure	66577	68892	82384
Plan Expenditure (On Revenue Account)	43059	45233	62996
Plan Expenditure (On Capital Account)	23518	23659	19388
Revenue Expenditure (Plan and Non Plan)	213785	223009	260884
Capital Expenditure (Plan and Non Plan)	66266	41394	32138
Total Expenditure	280051	264403	293022
Fiscal Deficit	93656	70717	112949
Revenue Deficit	76701	73948	87181
Primary Deficit	23818	-3908	37423

Source: Controller General of Accounts

Other Receipts have also gone down — by 100 per cent. This is because disinvestment is an off-budget item and all proceeds from disinvestment will go to the National Investment Fund (NIF) for the revival of sick industries.

Gross tax revenue collection in the period April-November 2005-06 was Rs1,85,284 crore. This is 50.1 per cent of projected revenue collection for this fiscal. Although, 19.6 per cent growth is comparable to last year's growth of 19.9 per cent, it is below the targeted growth of 20.9 per cent.

Corporation Tax collection growth in April-November 2005-06 was only 17.1 per cent and far below the targeted growth of 33.2 per cent.

Income tax collection registered the highest growth since 2001-02. But it has been below the targeted growth of 30.1 per cent.

Both corporate and income tax collection will record higher growth by the end of December, after the advance tax payment date of December 15.

Customs receipts registered the highest growth since 2001-02 at 18.8 per cent, and way above the targeted growth of (-) 5.5 percent for 2005-06.

Excise collection grew by 7.9 per cent

for April-November 2005 period, well below the targeted growth of 20.7 per cent. What are reasons for laggard excise growth. Petroleum sector is major source of excise collection. Production of petroleum products declined by 0.7 per cent during April-November 2005 compared to same period last year. Rising exports and investment are good for macro economy but is bad for fiscal health. Rising exports and investment is affecting excise collection growth in last couple of years. During first half of this fiscal excise collection grew by 10.4 per cent over the last year (Table PF.3). Ratio of non-agricultural exports in value added of mining and manufacturing sector value added is growing at 3 to 4 percentage points every year. Tax foregone due to CENVAT on capital goods, refund and rebate and duty free exports are pushing growth of excise collection down.

Other taxes registered a large growth of 105.3 per cent, well above the targeted growth of 22.3 per cent. Non-tax revenue has also shown a growth of 2.9 per cent over the last fiscal and stands at Rs 43,608 crore.

In the aggregate, however, the growth of gross tax revenue has fallen short of the annual target of 20.9 per cent, whereas the

Tax foregone due to CENVAT on capital goods, refund and rebate and duty free exports are pushing down the growth of excise collection

Table PF.2: Tax Collection Growth (April-November, per cent)

Revenue Collection	2001-02	2002-03	2003-04	2004-05	2005-06	Growth Target for 2005-06
Gross Tax Revenue	-2.5	14.9	9.4	19.9	19.6	20.9
Net Corporation Tax	-5.4	18.7	31.7	53.0	17.1	33.2
Net Income Tax	2.9	10.7	7.5	12.9	22.1	30.1
Net Customs	-14.3	10.0	7.6	12.1	18.8	-5.5
Net Union Excise Duties	3.6	18.6	1.1	10.6	7.9	20.7
Net Other Taxes	26.2	14.7	39.4	39.8	105.3	22.3
Net Surcharge for Financing NCCF	-	-	5.2	-17.5	-4.9	-
Net Assignment to States	12.7	1.5	3.8	24.1	14.8	20.8
Net Tax Revenue	-9.2	20.8	12.0	18.5	22.0	21.1

Source: Controller General of Accounts

Table PF.3: Growth of Excise Collection, Non-agricultural Exports, IIP and Ratio of Non-agricultural Exports to Mining and Manufacturing GVA

Year	Growth of Non-agricultural Exports (Rupee-term, per cent)	Ratio of Non-agricultural Exports to Mining and Manufacturing GVA (per cent)	Excise Collection Growth (per cent)	IIP-Manufacturing Growth (per cent)
2001-02	2.6	49.1	5.7	2.7
2002-03	23.1	53.8	13.6	5.8
2003-04	16.2	56.7	10.3	7.0
2004-05	23.7	59.7	9.2	8.4
2005-06 (First Half)	17.4	60.5	10.4	8.5

net tax revenue (net of surcharge for financing NCCF and assignment to states) has grown at a marginally higher rate than the targeted annual growth of 21.1 per cent.

Total expenditure in the first eight months has been Rs 293,022 crore, which is a growth of 10.8 per cent over the same period last year. Expenditure on the revenue account has increased by 17 per cent but at the same time it has gone down by 22.4 per cent on capital account.

There has been an increase in both plan and non-plan expenditures. Total expenditure in first eight months of this fiscal as a percentage of the total budgeted expenditure is 57 per cent, the second highest in last nine years.

Plan expenditure in the first eight months of the FY 2005-06 was Rs 82,384 crore whereas non-plan expenditure was a huge Rs 210,638 crore, lower only to that of 2003-04 expenditure of Rs 213,474 crore.

Over the last year plan expenditure grew by 19.6 per cent and non-plan by 7.7 per cent. Within this, revenue expenditure grew by 39.3 per cent while capital expenditure declined by 18.1 per cent. Similarly, on the non-plan expenditure side, revenue expenditure grew by 11.3 per cent and capital expenditure declined by 28.1 per cent.

The fiscal deficit has shown a growth of 59.7 per cent. The revenue deficit grew by 17.9 per cent but the capital deficit was Rs 25,768 crore. In April-November 2004-05 there was a surplus of Rs 3,231 crore.

The fiscal deficit growth is higher than the revenue deficit because capital receipts have gone down sharply compared to last year.

Prognosis

Central government finances are under severe strain. With the committed expenditure in the form of the rural employment guarantee programme and Bharat Nirman, revenue growth has not been able to keep pace with expenditure growth. It is thus likely that the fiscal deficit will be higher than expected in the Budget.

However, with profitable public sector firms agreeing to pay special dividends to the government, the amount of slippage may be small. We expect the fiscal deficit to be 4.4 per cent of GDP.

In the forthcoming Budget we don't see any major changes in income tax rates. The same holds for excise duties. The major additional revenue earner will be the service tax. Eventually, when the GST becomes a reality, the excise duty and the services tax will be unified at the same rate.

Thus, service tax will go up from present 10 per cent to 16 per cent which is the highest excise rate. But this will be done in stages. We expect the service tax rate to be increased to 12 per cent in the forthcoming budget. There will be broadening of the service tax base as well.

There could be some decline in custom duties, too, for various well known reasons.

The service tax may go up from present 10 per cent to 12 per cent with broadening of the service tax net