

# 1: AN OVERVIEW OF UNION FINANCES 2013-14

## 1.1 Introductory

The annual accounts of the Union Government presented to the Parliament, consist of Finance Accounts and Appropriation Accounts. The Finance Accounts depict the statements of receipts into and payments from the Consolidated Fund, Contingency Fund and Public Account. The Appropriation Accounts depict expenditure compared with the amounts authorised by the Legislature and explanations for the resultant excesses/savings under each grant/appropriation.

### Box 1.1: Union Government Funds and the Public Account

|                   |   |
|-------------------|---|
| Consolidated Fund | <ul style="list-style-type: none"><li>• All revenues received by the Union Government, all loans raised by issue of treasury bills, internal and external loans and all moneys received by the Government in repayment of loans shall form one Consolidated Fund titled the “Consolidated Fund of India” established under Article 266 (1) of the Constitution of India.</li></ul>  |
| Contingency Fund  | <ul style="list-style-type: none"><li>• The Contingency Fund of India established under Article 267 (1) of the Constitution is in the nature of an imprest placed at the disposal of the President to enable him/her to make advances to meet urgent unforeseen expenditure, pending authorisation by the Parliament.</li><li>• Approval of the Legislature for such expenditure and for withdrawal of an equivalent amount from the Consolidated Fund is subsequently obtained, whereupon the advances from the Contingency Fund are recouped to the Fund.</li></ul> |
| Public Account    | <ul style="list-style-type: none"><li>• Besides the normal receipts and expenditure of Government, which relate to the Consolidated Fund, certain other transactions enter Government Accounts, in respect of which the Government acts more as a banker. Transactions relating to provident funds, small savings, other deposits, etc. are a few examples.</li><li>• The public moneys, thus, received are kept in the Public Account, set up under Article 266(2) of the Constitution and the connected disbursements are made therefrom.</li></ul>                 |

**1.1.1** The year 2013-14 was marked by improvement in economic growth as measured by Gross Domestic Product (GDP)<sup>1</sup>, growth of 6.9 *per cent* as against 5.1 *per cent* in 2012-13. The Central Statistics Office (CSO) released a new GDP series that entailed shifting the base year from 2004-05 to 2011-12. The key estimate for the level of GDP for 2011-12 is actually 2 *per cent* lower than previously estimated<sup>2</sup>.

Improvement was also observed on the fiscal front, with the fiscal deficit declining from 5.86 *per cent* of GDP in 2011-12 to 4.95 *per cent* in 2012-13 and 4.44 *per cent* in 2013-14. Much of this improvement, during 2013-14, has been

<sup>1</sup>As per a press note released by CSO on 30<sup>th</sup> January, 2015, estimates of GDP at constant prices (2011-12) grew by 6.9 *per cent* over the previous year, while at current prices, it grew by 13.6 *per cent*.

<sup>2</sup> Economic Survey 2014-15.

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achieved by a growth of 14.73 *per cent* in non-debt receipt and a subdued growth of 10.73 *per cent* in actual expenditure over the previous year.

Against this backdrop, this chapter provides an analytical overview of the financial performance of the Union Government based on the figures contained in the Finance Accounts. **Table 1.1** summarises the position of the receipts, disbursements and borrowings of the Union Government for the year 2013-14.

**Table 1.1: Summary of the current year's operations**

(₹ in crore)

| Receipts                         |                      | Derived Parameters  |   | Disbursements        |  |
|----------------------------------|----------------------|---|---|----------------------|--|
| Consolidated Fund of India (CFI) |                      |   |   |                      |  |
| Revenue Receipts*                | 1217794<br>(1055891) | <b>Revenue Deficit</b><br><b>357303</b><br><b>(364582)</b>        | Revenue Expenditure   | 1575097<br>(1420473) |  |
| Miscellaneous Capital Receipts   | 29368<br>(25889)     |   | Capital Expenditure   | 168844<br>(150382)   |  |
| Recovery of Loans                | 24549<br>(26624)     |   | Loans and Advances  | 31000<br>(32063)     |  |
| Total Non-Debt Receipts          | 1271711<br>(1108404) | <b>Fiscal Deficit</b><br><b>503230</b><br><b>(494514)</b>         | Actual Expenditure  | 1774941<br>(1602918) |  |
| Public Debt                      | 3994966<br>(3968038) |   | Public Debt   | 3511291<br>(3426893) |  |
| Total receipts into CFI          | 5266677<br>(5076442) | <b>Deficit in CFI</b><br><b>19555</b><br><b>(Surplus 46631)</b>   | Total expenditure from CFI  | 5286232<br>(5029811) |  |
| Contingency Fund                 |                      |   |   |                      |  |
| Receipts                         | 0                    |   | Appropriation   | 0                    |  |
| Public Account                   |                      |   |   |                      |  |
| Small Savings                    | 407541<br>(381315)   |   | Small Savings   | 389826<br>(375092)   |  |
| Reserves & Sinking Fund          | 127520<br>(117117)   |   | Reserves & Sinking Fund   | 124057<br>(117529)   |  |
| Deposits                         | 113712<br>(113974)   |   | Deposits  | 101028<br>(107536)   |  |
| Advances                         | 37895<br>(33424)     |   | Advances  | 25035<br>(37140)     |  |
| Suspense Account                 | 2744<br>(11832)      |   | Suspense Account  | 13110<br>(16275)     |  |
| Remittances                      | 3548<br>(3122)       |   | Remittances   | 1182<br>(2831)       |  |
| Total Public Account             | 692960<br>(660784)   | <b>Surplus in Public Account</b><br><b>38722</b><br><b>(4381)</b> | Total Public Account  | 654238<br>(656403)   |  |
| Opening Cash                     | 68451<br>(17439)     | <b>Increase in Cash Balance</b><br><b>19167</b><br><b>(51012)</b> | Closing Cash  | 87618<br>(68451)     |  |
| Public Account Surplus (Supply)  |                      | 38722   | Deficit in CFI (+) Increase in Cash Balance   |                      |  |
| Incremental Liabilities (Supply) |                      | 517537  | Surplus of (Debt+ Small Savings+ Reserve Funds+ Deposits)                                     |                      |  |
| Incremental Liabilities (Demand) |                      | 517537  | Fiscal Deficit (+) Increase in Cash (-) Net Disbursement of (Advances+ Suspense+ Remittances) |                      |  |

\*Excludes figures of taxes and duties assigned to States (₹ 3,18,230 crore for 2013-14, ₹ 2,91,547 crore for 2012-13).

Note: (1) Figures in parenthesis indicate corresponding figures for 2012-13.

(2) Revenue Receipts and Revenue Expenditure for 2013-14 are understated by ₹ 6,598 crore due to incorrect depiction of expenditure incurred on interest on refunds of taxes as 'deduct revenue' instead of expenditure. For details, please refer para 4.1 of this report.

An increase of ₹ 1,61,903 crore (15.33 *per cent*) in net revenue receipt as against an increase of ₹ 1,54,624 crore (10.89 *per cent*) in revenue expenditure during 2013-14 over the previous year helped in reducing the revenue deficit of Union Government by ₹ 7,279 crore in 2013-14 over the previous year. However, fiscal deficit rose by ₹ 8,716 crore over the previous year owing to increased capital expenditure by ₹ 17,399 crore over the same period. Gross borrowing by the Government in the form of public debt during 2013-14 was higher by ₹ 26,928 crore over previous year.

A combined effect of deficit of ₹ 19,555 crore in Consolidated Fund of India (CFI) as well as a surplus of ₹ 38,722 crore in Public Account resulted in an increase of ₹ 19,167 crore in the cash balances of the Union Government at the end of financial year 2013-14.

### 1.1.2 Performance in the current year on key financial parameters in comparison to recommendations of the Thirteenth Finance Commission

The major fiscal aggregates for the Union Government as a percentage of Gross Domestic Product (GDP) compared with that outlined by the Thirteenth Finance Commission (13<sup>th</sup> FC) are tabulated as under:

**Table 1.2: Recommended fiscal consolidation path and actual performance  
(Percentage of GDP)**

| Parameter                                   | Recommended by the Thirteenth Finance Commission |         |         |         | Actual performance as per Finance Accounts |         |         |
|---|--|---------|---------|---------|--|---------|---------|
|   | 2011-12  | 2012-13 | 2013-14 | 2014-15 | 2011-12                                    | 2012-13 | 2013-14 |
| Revenue Deficit                             | 2.3  | 1.2     | 0.0     | -0.5    | 4.47                                       | 3.65    | 3.15    |
| Non-Debt Capital Receipts                   | 0.6  | 0.8     | 0.9     | 1.0     | 0.62                                       | 0.53    | 0.48    |
| Capital Expenditure                         | 3.1  | 3.8     | 3.9     | 4.5     | 2.01                                       | 1.83    | 1.76    |
| Fiscal Deficit                              | 4.8  | 4.2     | 3.0     | 3.0     | 5.86                                       | 4.95    | 4.44    |
| Debt (end of the year adjusted liabilities) | 52.5   | 50.5    | 47.5    | 44.8    | 47.00                                      | 47.12   | 46.36   |

As can be seen from the above table, none of the financial parameters other than Debt were close to the targets set out by the 13<sup>th</sup> FC for 2013-14. The revenue deficit for the year 2013-14 was 3.15 *per cent* of GDP as against its complete elimination as outlined by the 13<sup>th</sup> FC. Deterioration was evident in non-debt Capital Receipt and Capital Expenditure also as compared with the previous year. The capital expenditure in current year was less than half of the target set by the 13<sup>th</sup> FC. Debt in current year stood at 46.36 *per cent* of GDP which was below the recommended target of 47.5 *per cent* and also witnessed 76 basis points reduction over the previous year.

## 1.2 Resource Generation

Revenue and Capital are two streams of receipts that constitute resource of the Union Government. Revenue receipts consist of tax revenue, non-tax revenue

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and Grants-in-aid from some external agencies. Capital receipts have two components - debt receipts, which create future repayment obligations and non-debt receipts, which constitute proceeds from disinvestment and recoveries of loans and advances, leading to reduction in the actual or potential asset base.

As can be seen from **Table 1.3**, Gross Receipt to GDP ratio has shown a steady decline in the last three years and stood at 55.34 *per cent* of GDP during 2013-14. The year 2013-14 was characterised by a growth of only 14 *per cent* in gross revenue receipt as compared to 15.59 *per cent* in 2012-13. However, gross receipts increased by 4.13 *per cent* in 2013-14 over the previous year. Gross debt-receipt to Gross receipt was 63.64 *per cent* for 2013-14 and was 65.82 *per cent* in 2012-13, indicating continued dependence on debt to balance the budget.

**Table 1.3: Resources and GDP**

(₹ in crore)

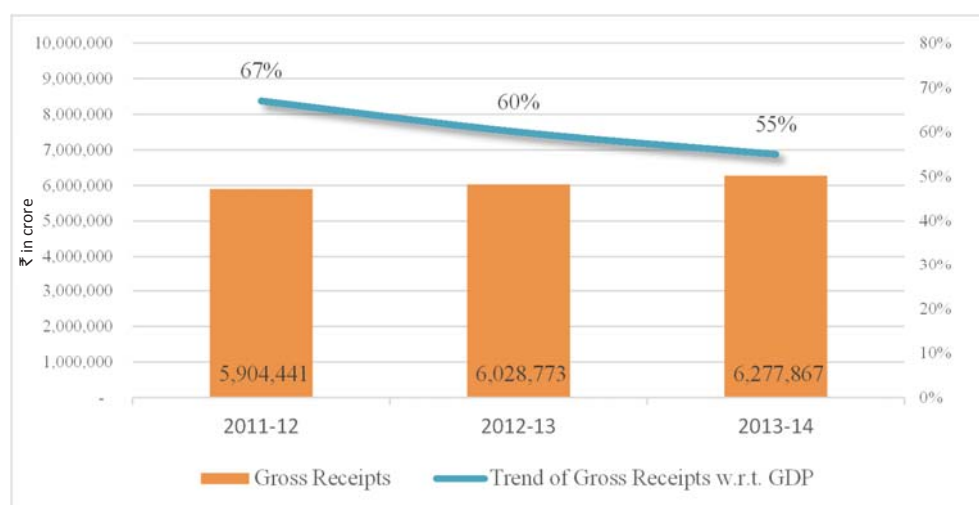
| Period  | Gross Revenue Receipts* (1) | Non-debt Capital Receipts (2) | Gross Debt Receipts (3) | Gross Accruals into Public Account (4) | Gross Receipts (1+2+3+4) (5) | GDP@ (6) | Gross Receipts/GDP (7) |
|---------|-----------------------------|-------------------------------|-------------------------|--|------------------------------|----------|------------------------|
| 2011-12 | 1165691<br>(20%)            | 54906<br>(1%)                 | 4063177<br>(69%)        | 620667<br>(11%)                        | 5904441                      | 8832012  | 66.85                  |
| 2012-13 | 1347438<br>(22%)            | 52513<br>(1%)                 | 3968038<br>(66%)        | 660784<br>(11%)                        | 6028773                      | 9988540  | 60.36                  |
| 2013-14 | 1536024<br>(24%)            | 53917<br>(1%)                 | 3994966<br>(64%)        | 692960<br>(11%)                        | 6277867                      | 11345056 | 55.34                  |

\*Includes figures of taxes and duties assigned to States (₹ 3,18,230 crore for 2013-14). Exclusion of this component gives net revenue receipts of ₹ 12,17,794 crore reflected in **Table 1.1**.

Note: (1) Figures in parenthesis indicate percentage of Gross receipts.

@Source: Central Statistical Office (CSO), Ministry of Statistics and Programme Implementation Press Note dated 30<sup>th</sup> January 2015.

**Chart 1.1: Gross Receipts and trend with respect to GDP**



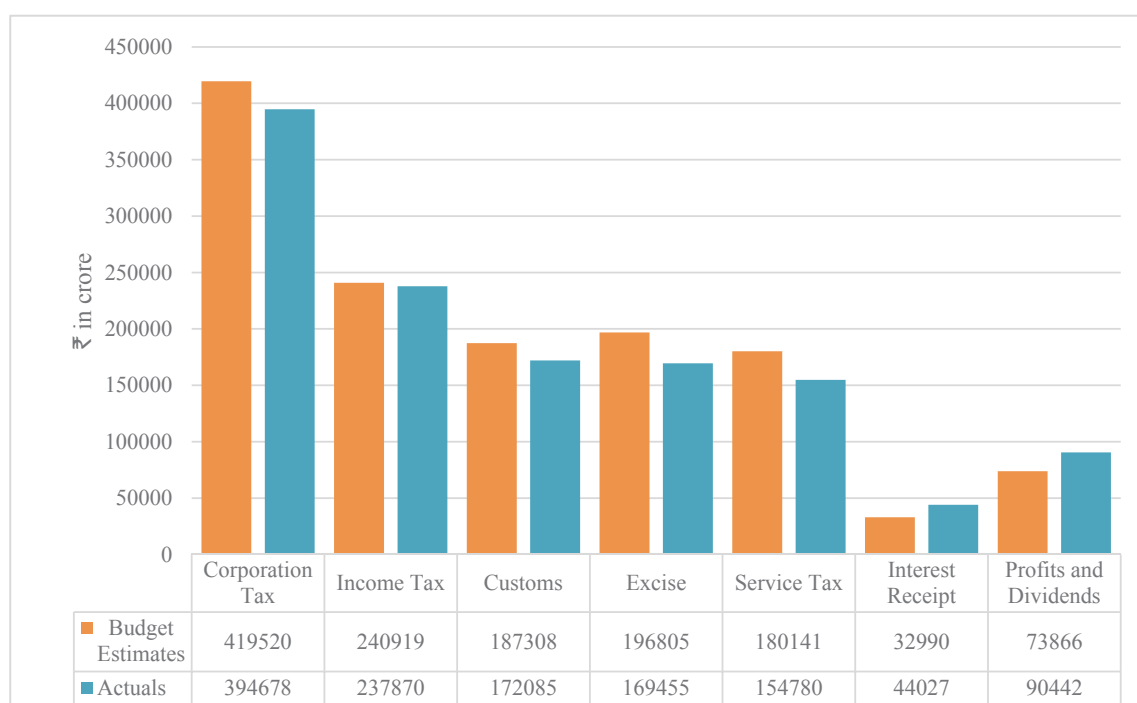
### 1.2.1 Revenue receipts

Revenue receipts with the broad components of tax and non-tax receipts are the most important sources of revenue as no future payment obligations are created by these receipts. Various components of revenue receipts are discussed in succeeding paras.

### 1.2.2 Gap between Budget Estimates and Actuals of key revenue components

Formulating realistic budgetary estimates is vital for expenditure control and cash and debt management. **Chart 1.2** indicates that gross receipts from tax revenue components were below the estimated level. Particularly, excise and service tax lagged behind the Budget Estimate (BE) by 13.90 *per cent* and 14.08 *per cent* respectively. Receipts from interest and profits and dividends in non-tax revenue sector exceeded the BE by 33.46 *per cent* and 22.44 *per cent* respectively.

**Chart 1.2 Actuals of key revenue components vis-a-vis budget estimates**



### 1.2.3 Tax revenue

**Table 1.4: Components of tax revenue (gross)**

(₹ in crore)

| Period  | Total Gross Tax Revenue# | Corporation Tax | Income Tax | Customs Duties | Excise Duties | Service Tax | Others*  | GDP      |
|---|--------------------------|-----------------|------------|----------------|---------------|-------------|----------|----------|
|   |                          |                 |            |                |               |             |          |          |
| 2011-12   | 889118                   | 322816          | 164525     | 149328         | 144901        | 97509       | 10039    | 8832012  |
| 2012-13   | 1036461                  | 356326          | 196844     | 165346         | 175845        | 132601      | 9499     | 9988540  |
| 2013-14   | 1138996                  | 394678          | 237870     | 172085         | 169455        | 154780      | 10128    | 11345056 |
| <b>Average Annual Rate of Growth (per cent)</b> |                          |                 |            |                |               |             |          |          |
| 2011-12   | 12.08                    | 8.08            | 18.28      | 9.95           | 5.23          | 37.31       | (-) 8.64 | --@      |
| 2012-13   | 16.57                    | 10.38           | 19.64      | 10.73          | 21.36         | 35.99       | (-)5.38  | 13.09    |
| 2013-14   | 9.89                     | 10.76           | 20.84      | 4.08           | (-)3.63       | 16.73       | 6.62     | 13.58    |

# Includes figures of taxes/duties assigned to States/UTs.

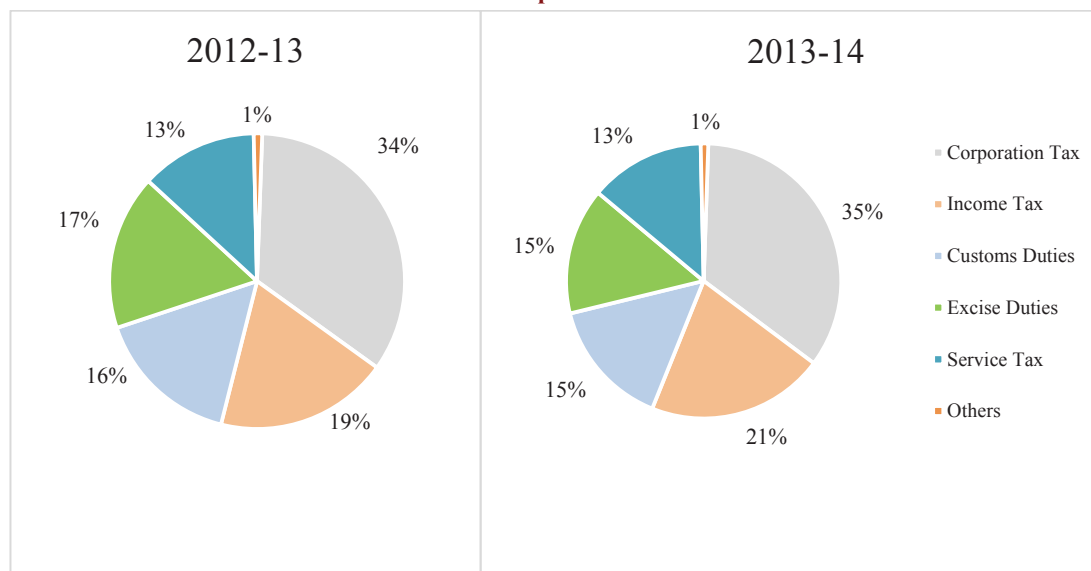
\* Other taxes include Hotel Receipts Tax, Interest Tax, Wealth Tax, Gift Tax, Fringe Benefit Tax, Securities Transactions Tax, Banking Cash Transaction Tax etc.

@ Figure not available due to change in base year of GDP to 2011-12.

As can be seen from **Table 1.4**, despite a declining trend in rate of growth of excise duties from 21.36 *per cent* in 2012-13 to (-) 3.63 *per cent* in 2013-14, the growth in other components of tax revenue sector resulted in overall growth of 9.89 *per cent* in gross tax revenue. The growth of gross taxes was lower than the growth of GDP for the current year, indicating a reversal of the trend in the last year. Income tax and corporation tax continued to maintain the secular growth trend during 2011-14. The rate of growth of income tax (20.84 *per cent*) exceeded the rate of growth of tax revenue (9.89 *per cent*) in 2013-14. It also surpassed the rate of growth of GDP during last three consecutive years. The growth of service tax slowed down from 35.99 *per cent* in 2012-13 to 16.73 *per cent* in current year.

A comparison of relative shares of components of tax revenues during 2012-13 and 2013-14 as brought out in **Chart 1.3** shows a marginal increase in shares of income tax (two *per cent*) and corporation tax (one *per cent*). On the other hand there was a decrease in share of excise duty (two *per cent*) and customs duty (one *per cent*).

**Chart 1.3: Components of tax revenue**



#### 1.2.4 Non-tax revenue

**Table 1.5** shows that during the year 2013-14, the largest share of non-tax revenue (57 per cent) came from user charges levied by various departments, which offer economic services to the general public. Interest receipts constituted 11 per cent of non-tax revenue, while dividends and profits accounted for around 23 per cent. Annual rate of growth of non-tax revenue increased from 12.44 per cent in 2012-13 to 27.67 per cent in 2013-14. This was mainly due to significant increase (68.23 per cent) in receipts from dividends and profits as well as growth in the receipts of almost all components except social services over the previous year.

Receipts from social services witnessed growth of 387.75 per cent in 2012-13 over 2011-12 due to one time large receipt of ₹ 3,594 crore from social security and welfare measures but it declined by 72.69 per cent in 2013-14. Relative share of social services receipts to non-tax revenue receipts remained negligible.

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**Table 1.5: Non-tax revenue- relative composition of sub-components and trends**

(₹ in crore)

| Period                               | Total Non-tax Revenue# | Interest Receipts | Dividends and Profits | Social Services | Economic Services | Sovereign and Other Functions** |
|--------------------------------------|------------------------|-------------------|-----------------------|-----------------|-------------------|---------------------------------|
| 2011-12                              | 276573                 | 40054             | 50609                 | 988             | 158283            | 26639                           |
| Relative share (per cent)            | 100                    | 15                | 18                    | Negligible      | 57                | 10                              |
| 2012-13                              | 310977                 | 38860             | 53762                 | 4819            | 184662            | 28874                           |
| Relative share(per cent)             | 100                    | 13                | 17                    | 2               | 59                | 9                               |
| 2013-14                              | 397028                 | 44027             | 90442                 | 1316            | 227661            | 33582                           |
| Relative share(per cent)             | 100                    | 11                | 23                    | Negligible      | 57                | 9                               |
| <b>Average Annual Rate of Growth</b> |                        |                   |                       |                 |                   |                                 |
| 2011-12                              | (-)22.89               | 13.47             | 5.45                  | 21.38           | (-)36.24          | 1.20                            |
| 2012-13                              | 12.44                  | (-)2.98           | 6.23                  | 387.75          | 16.67             | 8.39                            |
| 2013-14                              | 27.67                  | 13.30             | 68.23                 | (-)72.69        | 23.29             | 16.31                           |

Note: Figures indicating relative shares have been rounded off to the nearest integer and hence, the total may not always add to 100. Negligible refers to figures where the share of the sub-component is less than 0.5 per cent of non-tax revenue.

# includes Grants-in-aid and contributions by International Agencies.

Social Services: include education, health, water supply, sanitation, social security etc.

Economic Services: include dairy development, animal husbandry, fisheries, forestry, plantation, food storage and warehousing, agricultural and rural development programmes, user charges for irrigation, provision of energy, receipts of departmentally managed Government Undertakings, etc.

\*\* Fiscal services and General Services (Police, Public Works, Defence, Others Administrative services, Grants-in-aid and Contributions etc.)

During 2013-14, receipts from dividends and profits was estimated at ₹ 73,866 crore, further scaled up to ₹ 88,188 crore at revised estimates stage, but actuals translated at ₹ 90,442 crore, leading to a growth of 68.23 per cent over the previous year. Under Economic Services, the main schemes/programme/functions responsible for the increase were (i) 'Profit Petroleum' which increased from ₹ 9,366.61 crore in 2012-13 to ₹ 11,368.67 crore in 2013-14 (21.37 per cent), (ii) Roads and Bridges – Tolls on Roads which increased from ₹ 3,894 crore in 2012-13 to ₹ 5,144.67 crore in 2013-14 (32.12 per cent), (iii) Other Communication Services which increased from ₹ 18,902 crore in 2012-13 to ₹ 40,113.76 crore in 2013- 14 (112.22 per cent).

### 1.2.5 Non-debt capital receipts

Non-debt capital receipts consist of miscellaneous capital receipts (bonus shares, disinvestment etc.) and recovery of loans and advances. **Table 1.6** gives the details of non-debt capital receipts from miscellaneous capital receipts and recovery of loans and advances given by the Union Government to State and Union Territory Governments, Foreign Governments, Government corporations, non-government institutions and government servants. During 2012-13, the receipts from miscellaneous capital receipts, mostly disinvestment were closer to BE as compared to the current year. Recovery of loans, as in the previous years remained higher than the BE, indicating deficiency in the formulation of the estimates.



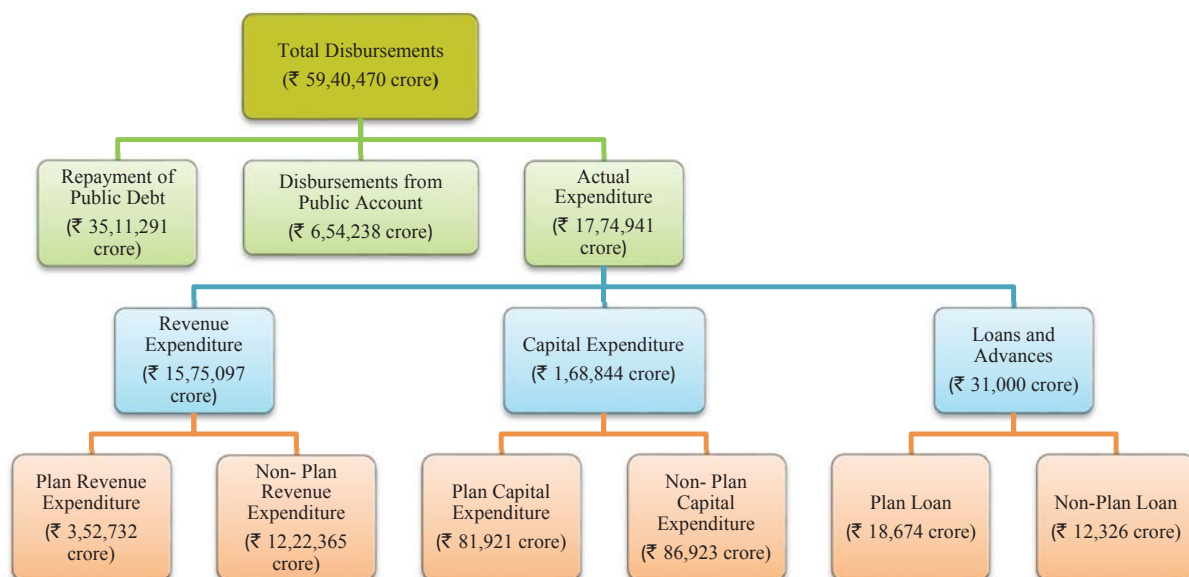
**Table 1.6: Realisation from Non-Debt Capital Receipt**

| Period  | Miscellaneous Capital Receipt |                         |                        | Recovery of Loans and Advances |                        |                        |
|---------|-------------------------------|-------------------------|------------------------|--------------------------------|------------------------|------------------------|
|         | Budget Estimates (BE)         | Actual* Realisation(AR) | Percentage of AR to BE | Budget Estimates(BE)           | Actual Realisation(AR) | Percentage of AR to BE |
|         | ( <i>₹ in crore</i> )         |                         |                        | ( <i>₹ in crore</i> )          |                        |                        |
| 2011-12 | 40000                         | 16471                   | 41.18                  | 26510                          | 36818                  | 138.88                 |
| 2012-13 | 30000                         | 25408                   | 84.69                  | 23095                          | 26624                  | 115.28                 |
| 2013-14 | 55814                         | 29368                   | 52.62                  | 22054                          | 24549                  | 111.31                 |

\*Does not include receipts from bonus shares.

### 1.3 Expenditure Analysis

The total disbursements of the Government of India from the Consolidated Fund of India and the Public Account for 2013-14 was of the order of ₹ 59,40,470 crore. As depicted in **Chart 1.4**, total disbursement has three major components.

**Chart 1.4: Components of Total Disbursements**


In 2013-14, the total disbursements of the Government increased by 4.47 per cent over the previous year's disbursements of ₹ 56,86,214 crore. Disbursement from CFI was 88.99 per cent (Repayments of public debt 59.11 per cent and actual expenditure 29.88 per cent). Remaining 11.01 per cent of disbursement was from public account.

**Table 1.7** shows the share of major components of disbursements made by the Government. As can be seen from the table, components of total disbursement witnessed an improvement during 2011-14. Proportion of repayment of debt in the total disbursement has reduced from 62.06 per cent during 2011-12 to 59.11 per cent in 2013-14. This consequently increased the share of actual expenditure

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from 26.33 *per cent* to 29.88 *per cent*. Public Account disbursement was stable at around 11 *per cent* during 2011-14. Revenue expenditure as a proportion of actual expenditure remained around 88 *per cent* during 2011-14. The proportion of Plan expenditure to actual expenditure has reduced from 27.81 *per cent* during 2011-12 to 25.54 *per cent* in 2013-14.

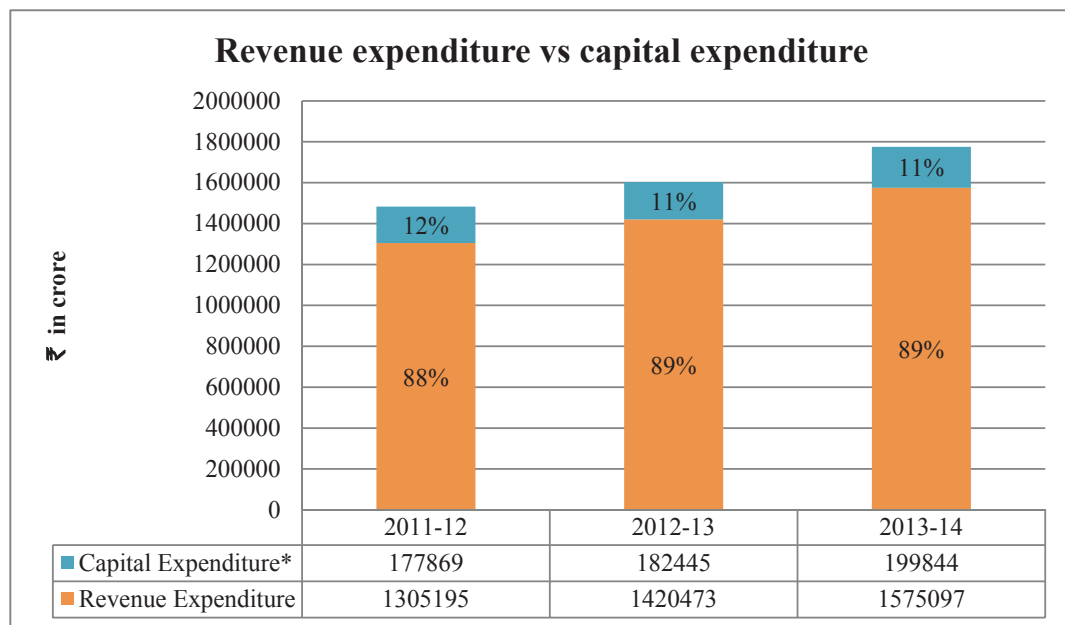
**Table 1.7: Share of various components of total disbursement**

| Particulars                                     | 2011-12 | 2012-13 | 2013-14 |
|---|---------|---------|---------|
| Total Disbursements (TD) (in <i>per cent</i> )  | 100.00  | 100.00  | 100.00  |
| <b>Components of TD as percentage of TD</b>     |         |         |         |
| Repayment of Debt                               | 62.06   | 60.27   | 59.11   |
| Disbursements from Public Account               | 11.61   | 11.54   | 11.01   |
| Actual Expenditure (AE)                         | 26.33   | 28.19   | 29.88   |
| <b>Components of AE as percentage of AE</b>     |         |         |         |
| Revenue Expenditure (RE)                        | 88.01   | 88.62   | 88.74   |
| Capital Expenditure (CE)                        | 9.40    | 9.38    | 9.51    |
| Loans and Advances (LA)                         | 2.59    | 2.00    | 1.75    |
| <b>Components of RE as percentage of RE</b>     |         |         |         |
| Plan Revenue Expenditure                        | 25.57   | 23.18   | 22.39   |
| Non-Plan Revenue Expenditure                    | 74.43   | 76.82   | 77.61   |
| <b>Components of CE as percentage of CE</b>     |         |         |         |
| Plan Capital Expenditure                        | 41.98   | 45.24   | 48.52   |
| Non-Plan Capital Expenditure                    | 58.02   | 54.76   | 51.48   |
| <b>Components of LA as percentage of LA</b>     |         |         |         |
| Plan Loan                                       | 52.35   | 51.13   | 60.24   |
| Non-Plan Loan                                   | 47.65   | 48.87   | 39.76   |
| <b>Plan Expenditure as percentage of AE</b>     | 27.81   | 25.80   | 25.54   |
| <b>Non-Plan Expenditure as percentage of AE</b> | 72.19   | 74.20   | 74.46   |

### 1.3.1 Revenue and Capital expenditure

Revenue expenditure is current expenditure, which does not result in the creation of assets. This is meant for normal running of the Government and includes maintenance expenditure, interest payments, subsidies and transfers etc. Grants given to State Governments or other bodies or authorities are also treated as revenue expenditure. Capital expenditure consists of payments for acquisition of assets, investment in share capital, and loans & advances given by the Government. **Chart 1.5** shows the pre dominance of revenue expenditure over capital expenditure. In the year 2011-12 the share of capital expenditure was 12 *per cent* and revenue expenditure was at 88 *per cent*. However, in succeeding year the share of capital expenditure came down to 11 *per cent* and remained at the same level in 2013-14. In absolute terms, after a negative growth of 1.90 *per cent* in 2011-12, it registered annual growth of 9.54 *per cent* in 2013 - 14.

**Chart 1.5: Comparison of Revenue expenditure with capital expenditure**



*\*includes Loans & Advances*

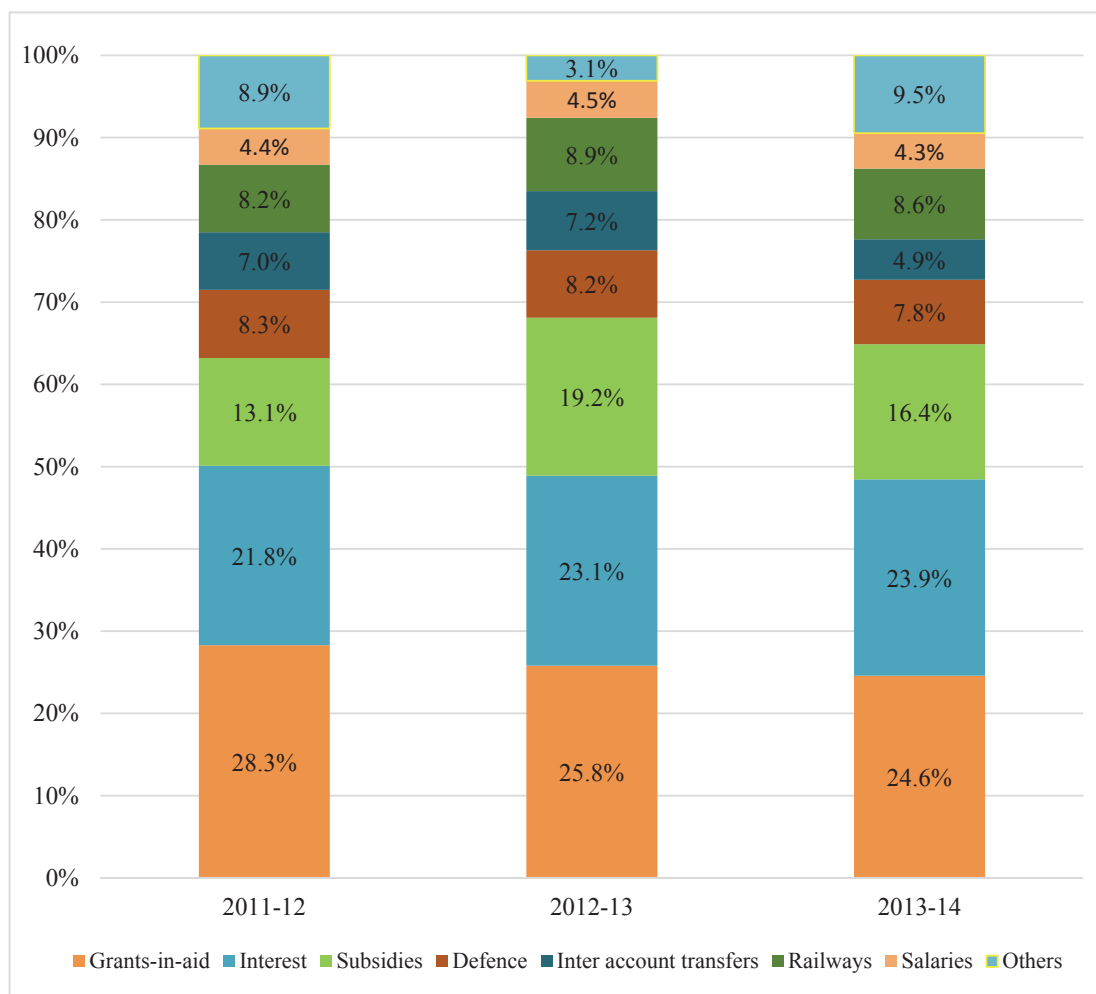
During 2012-13, the share of revenue expenditure to actual expenditure was around 88.62 *per cent*, which further increased marginally to 88.74 *per cent* during 2013 - 14.

### **1.3.2 Analysis of Revenue expenditure**

#### **(a) Preponderance of Revenue expenditure**

As noted above, bulk of Government expenditure goes towards revenue expenditure, which does not usually result in fresh creation of assets for the Government and is meant for normal running and maintenance of Government machinery. The total revenue expenditure for the year 2013-14 was ₹ 15,75,097 crore. As shown in **Chart 1.6**, nearly two-third of the revenue expenditure was towards three components viz., Grants-in-aid, interest payments and subsidies.

**Chart 1.6: Major components of revenue expenditure**



Source: 'e-lekha' data dump provided on 24 November 2014. Does not include journal entries.

Note: Owing to misclassification, subsidies amounting to ₹ 65,000 crore have not been reckoned under subsidies during 2011-12. For expenditure on 'Interest', figures under object head '45' below major heads '2048' and '2049' have only been taken. 'Defence' excludes civil grants pertaining to Ministry of Defence. 'Others' netted of 'Deduct recoveries'.

The revenue expenditure grew by 10.89 per cent during the current year as against 8.83 per cent during 2012-13. Committed and obligatory expenditure such as interest payments, pensions, salaries and defence-related expenditure constitute a major share of revenue expenditure.

### **(b) Major components of Revenue expenditure**

**Grants-in-aid:** Grants-in-aid both for general purposes and capital creation are given to State/Union Territory Governments and Foreign Governments. Grants are also given to bodies/authorities/entities from the Consolidated Fund of India for both the purposes and also for payment of salaries. Grants are to be utilised for the purpose for which they are sanctioned, with the remaining unutilised amounts to be surrendered or adjusted in future in case of recurring grants. In

the context of new models of public delivery, Grants-in-aid have become the most significant component of revenue expenditure for civil ministries as evident from **Chart 1.6**. The proportion of Grants-in-aid to revenue expenditure was as high as 28.3 *per cent* in 2011-12 but has come down to 24.6 *per cent* in 2013-14.

**Interest Payments:** As per **Chart 1.6**, interest payments are the second largest component of revenue expenditure. It provides for payment of interest on public debt, both internal and external and other interest bearing liabilities of the Government, which include insurance and pension funds, provident funds, reserve funds, deposits, interest on special securities issued to various Central Public Sector Enterprises etc. It also embraces expenditure on reduction or avoidance of debt. As per **Table 1.8**, the proportion of interest payments to revenue expenditure stood at 21.99 *per cent* in 2011-12, which increased to 25.09 *per cent* in the current year. The increasing share of interest payments is indicative of crowding out of other expenditure. The growth of interest payment in 2013-14 was 19.70 *per cent* against the growth of 15.05 *per cent* in 2012-13.

**Table 1.8: Interest payment to revenue expenditure in the Union Government Finance Accounts**

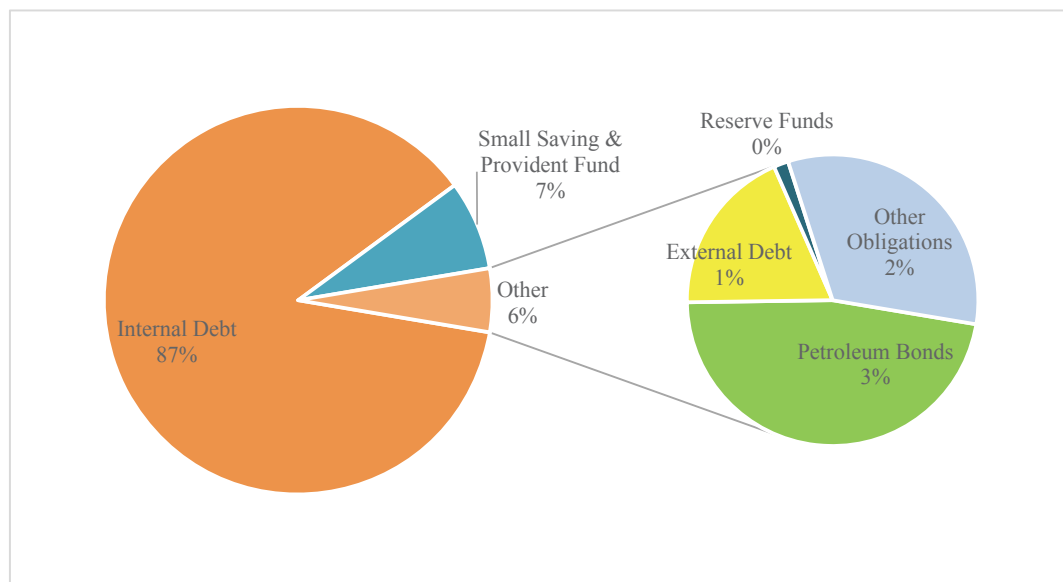
*(₹ in crore)*

| Sl. No. | Interest payment* | Revenue expenditure | Proportion of interest payments to revenue expenditure |
|---------|-------------------|---------------------|--|
| 2011-12 | 286982            | 1305195             | 21.99  |
| 2012-13 | 330171            | 1420473             | 23.24  |
| 2013-14 | 395200            | 1575097             | 25.09  |

\*Includes expenditure on reduction or avoidance of debt.

As shown in **Chart 1.7**, interest payments on account of internal debt (₹ 3,44,893 crore) is 87 *per cent* of the total interest payments.

**Chart 1.7: Main components of interest expenditure**



Source: Union Government Finance Accounts 2013-14.

Total Interest payment (including servicing of Debt) : ₹ 3,95,200 crore; Interest on Internal Debt: ₹ 3,44,893 crore, Interest on External Debt: ₹ 3,880 crore, Interest on Small Savings & Provident Fund: ₹ 29,426 crore, Interest on Petroleum Bonds: ₹ 9,849 crore, Interest on Reserve Fund: ₹ 342 crore and Interest on other obligations: ₹ 6,810 crore

**Subsidies:** Subsidies connote economic benefit (such as a tax allowance or duty rebate) or financial aid (such as a cash grant or soft loan) provided by a Government to reduce the market price of an item below its cost of production. **Table 1.9** presents a picture of the subsidies, which the Government provided explicitly. The bulk of the expenditure under this head is towards food, fertilizer and petroleum subsidies.

**Table 1.9: Explicit Subsidies in the Union Government Budget**

| Period  | Food       | Fertilisers@<br>(Urea) | Fertilisers#<br>(Decontrolled) | Petroleum<br>Subsidy | Others* | Total<br>subsidies | Subsidies<br>(A) | Subsidies<br>(B) |
|---------|------------|------------------------|--------------------------------|----------------------|---------|--------------------|------------------|------------------|
|         | ₹ in crore |                        |                                |                      |         |                    | Percentage       |                  |
| 2011-12 | 72822      | 33924                  | 36108                          | 68481                | 6567    | 217902             | 2.47             | 16.69            |
| 2012-13 | 85000      | 35132                  | 30576                          | 96880                | 9591    | 257179             | 2.57             | 18.11            |
| 2013-14 | 92000      | 38038                  | 29427                          | 85378                | 9902    | 254745             | 2.25             | 16.17            |

@ Indicates the subsidies given on indigenous and imported fertilisers (Urea)

# indicates the subsidies given as concession to farmers on the sale of decontrolled fertilisers.

\* Others include interest subsidy, grants given to NAFED, compensation for exchange loss, subsidy for Haj Charters, etc.

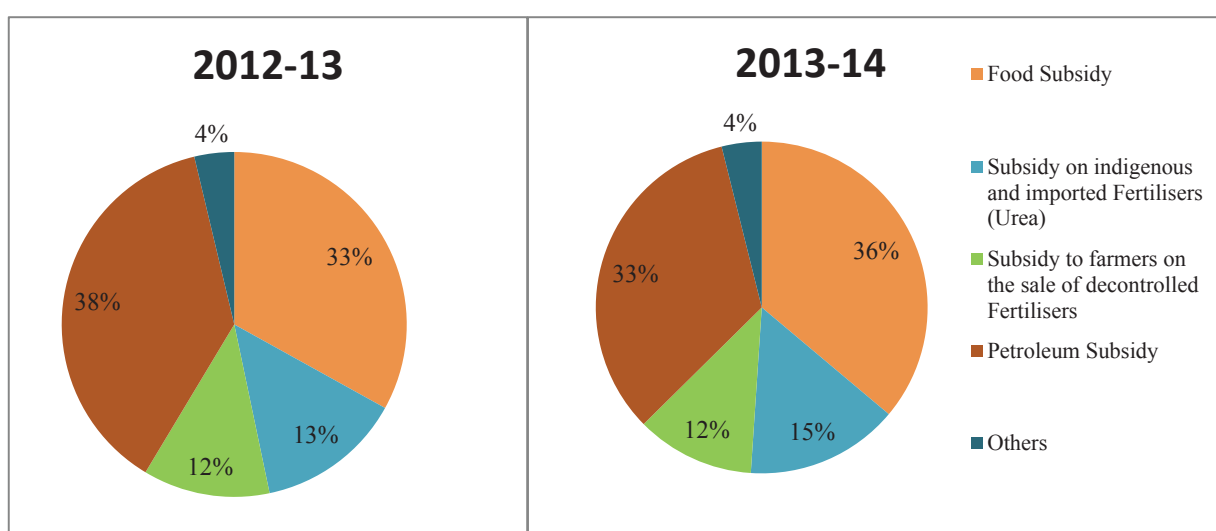
(A) As a percentage of GDP

(B) As a percentage of Revenue expenditure

Subsidies on decontrolled fertilisers and petroleum had decreased by ₹ 1,149 crore and ₹ 11,502 crore respectively in 2013-14 over previous year.

The components of explicit subsidies provided by the Government during 2013-14 and 2012-13 are also depicted in pie **Chart 1.8**. As seen from the **Chart 1.8** and the **Table 1.9**, subsidies have decreased marginally from an average 2.57 *per cent* of the GDP during 2012-13 to 2.25 *per cent* in 2013-14. In 2013-14 the explicit subsidies provided by the Government formed 2.25 *per cent* of GDP. The share of fertilisers (decontrolled) subsidies remained at the level of 12 *per cent* in 2012-13 and 2013-14. The share of petroleum subsidies has decreased from 38 *per cent* to 33 *per cent*. However, the share of food subsidies on the other hand has increased from 33 *per cent* to 36 *per cent*.

**Chart 1.8: Components of explicit subsidies**

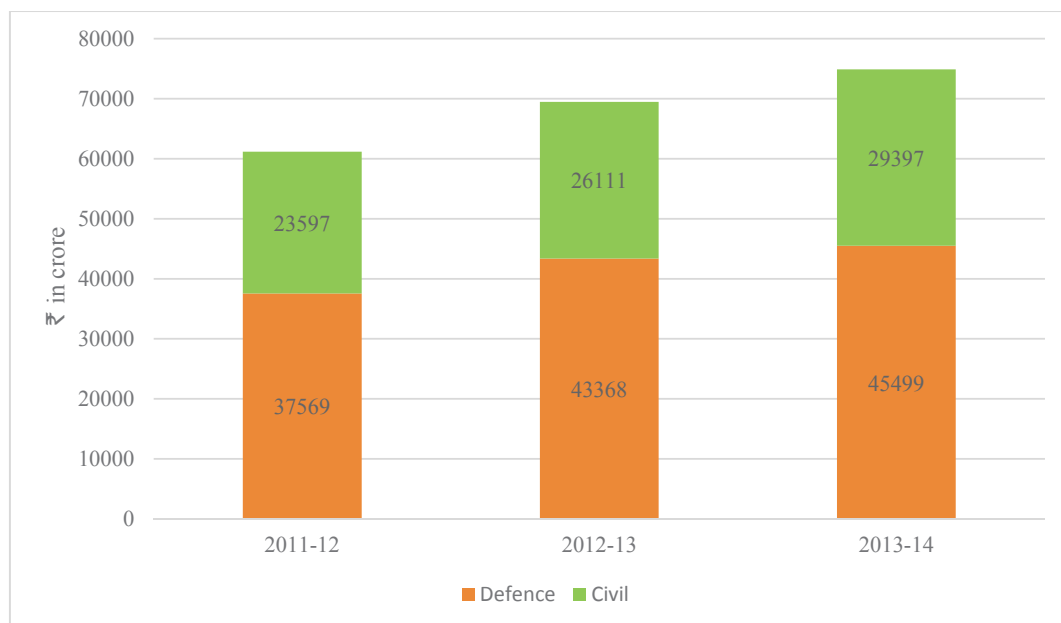


Subsidies are dispensed not only explicitly, i.e. through the Budget, but also by providing subsidised public services to the people. These kinds of subsidies are generally termed as implicit subsidies. Budgetary support to financial institutions and banks, inadequate returns from investment in PSUs and inadequate recovery of user charges from the social and economic services that are provided by the Government fall in the category of implicit subsidies. Subsidies presented in **Table 1.9** pertain to ‘explicit subsidies’ only, for which allocations are made in Union Budgets of the respective years.

**Pension Payments:** Expenditure on pensions and other retirement benefits increased from ₹ 61,166 crore in 2011-12 to ₹ 74,896 crore in 2013-14, registering a growth of 22.45 *per cent* in 2011-14. **Chart 1.9** shows the position for the period 2011-14. In the case of Defence pensions, during the last three years under consideration, pension payments increased by 21.11 *per cent* and stood at ₹ 45,499 crore. Defence pension payments comprised 61-62 *per cent* of the total pension payments made by the Union Government during the three year period. The civil pensions stood at ₹ 23,597 crore in 2011-12, which

increased to ₹ 29,397 crore in 2013-14, registering a growth of 24.58 *per cent* during the period under consideration (i.e. 2011-14).

**Chart 1.9: Expenditure on Pensions and other Retirement Benefits**

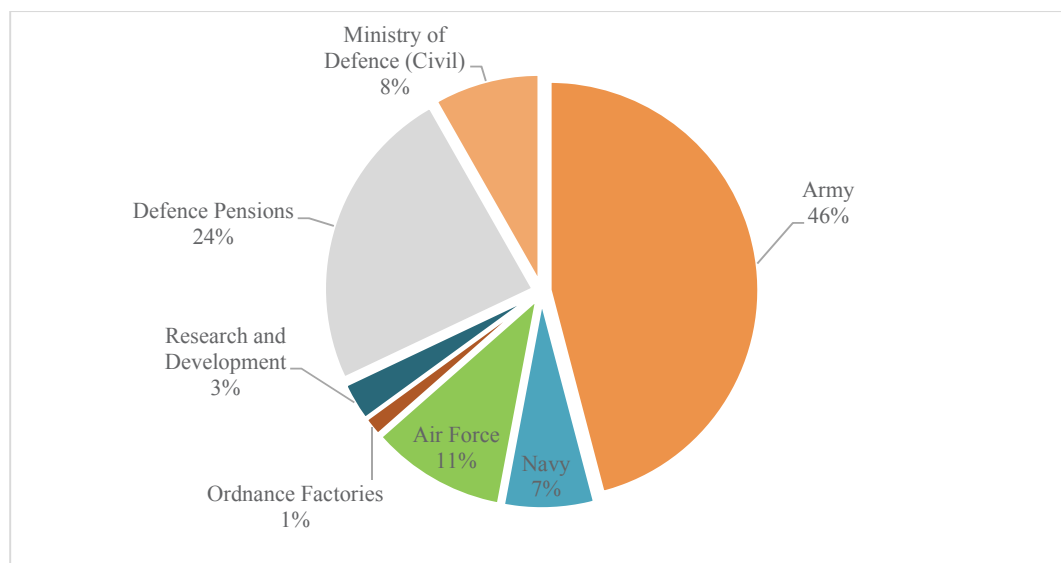


**Defence Expenditure:** The Defence sector revenue expenditure includes expenditure of the Army (₹ 87,751 crore), Navy (₹ 13,472 crore), Air Force (₹ 20,160 crore), Ordnance Factories (₹ 2,811 crore), Research and Development (₹ 5,696 crore), Defence Pensions (₹ 45,499 crore) and the Ministry of Defence (₹ 15,733 crore)<sup>3</sup> as shown in the **Chart 1.10**. In 2013-14, it stood at 12.13 *per cent* of the total revenue expenditure of the Central Government.

<sup>3</sup> Source :- Appropriation Accounts of Grant-20 – Ministry of Defence



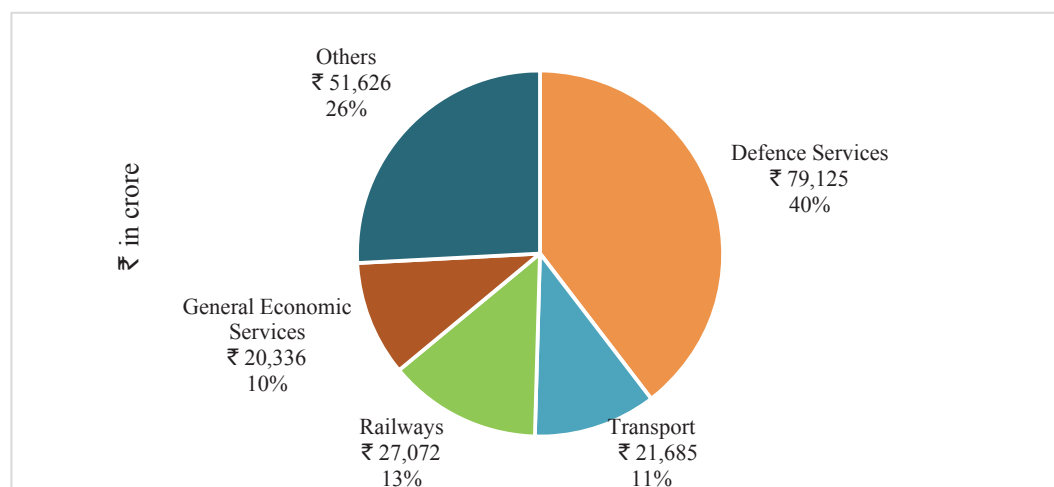
**Chart 1.10: Revenue expenditure on Defence for the period 2013-14**



### 1.3.3 Analysis of Capital account expenditure

Capital account expenditure (including loans and advances), which is indicative of expenditure on asset creation or enhancing the utility of existing assets, increased by ₹ 17,399 crore (9.54 per cent) over the previous year and stood at ₹ 1,99,844 crore (including ₹ 31,000 crore towards loans and advances) in 2013-14. The share of capital expenditure in the total expenditure has marginally increased from 9.38 per cent in 2012-13 to 9.51 per cent in 2013-14 (Table 1.7). However, the share of loans and advances by the Union Government decreased from 2 per cent to 1.75 per cent of total expenditure.

**Chart 1.11: Capital account expenditure in 2013-14 – Major Sectors**



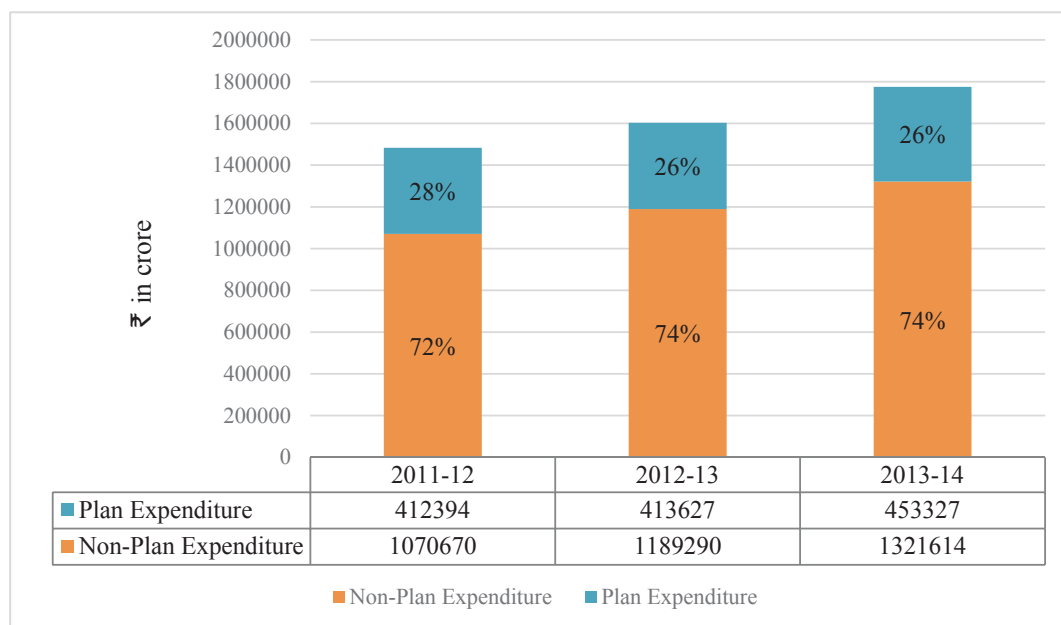
**Chart 1.11** indicates that Defence Services, Transport, Railways and General Economic Services accounted for 74 per cent of the capital expenditure in the current year.

- Under General Economic Services, the expenditure of ₹ 16,100 crore (79 *per cent*) was as investment in ‘Public Sector and Other Undertakings, Banks’, ₹ 279 crore (1.37 *per cent*) as Investment in the Asian Development Bank and ₹ 231 crore (1.14 *per cent*) as Investment in the International Bank for Reconstruction and Development.
- In case of ‘Others’, the major chunk of expenditure was mainly attributable to Block loans under loans for State Plan scheme (₹ 11,000 crore) and loans to Local Bodies, Municipalities etc. under Urban Development (₹ 4,633 crore).

### **1.3.4 Analysis of Plan expenditure**

The Finance Accounts provide a further dis-aggregation of expenditure into Plan and Non-plan. Plan expenditure normally relates to incremental developmental expenditure on new projects or schemes and involves both revenue and capital expenditure. Non-plan expenditure, on the other hand, is normally devoted to maintaining the levels of services already achieved. However, in both Plan and Non-plan expenditure, increase in capital expenditure relative to revenue expenditure is considered qualitatively more desirable as it leads to the extension of the social and economic infrastructure network and capital formation by the Government. **Chart 1.12** shows the break-up of the Government’s Plan and Non-plan expenditure. Plan expenditure as a proportion of actual expenditure was at 28 *per cent* during 2011-12 but declined to the level of 26 *per cent* in 2013-14.

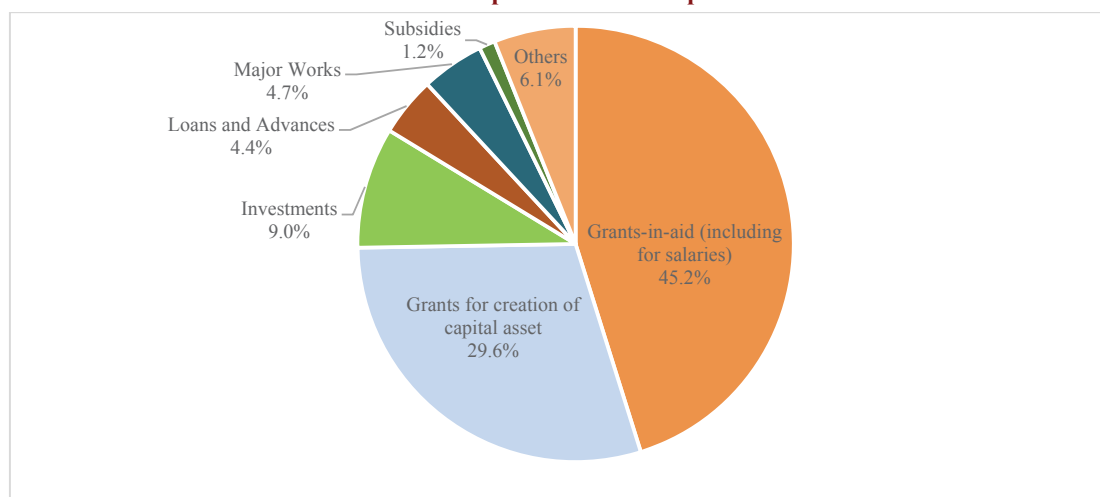
**Chart 1.12: Analysis of Plan expenditure and non-Plan expenditure**



### 1.3.5 Major Components of Plan expenditure

As can be seen from **Chart 1.13**, expenditure on Grants-in-aid, investments, loans and subsidies account for 89 *per cent* of Plan expenditure. Expenditure on Grants-in-aid during 2013-14 as compared to 2011-12, remained constant at 75 *per cent* of the total Plan expenditure in the case of civil ministries. Ministry-wise/Grant-wise components of Plan expenditure are shown in **Annexure 1.1**.

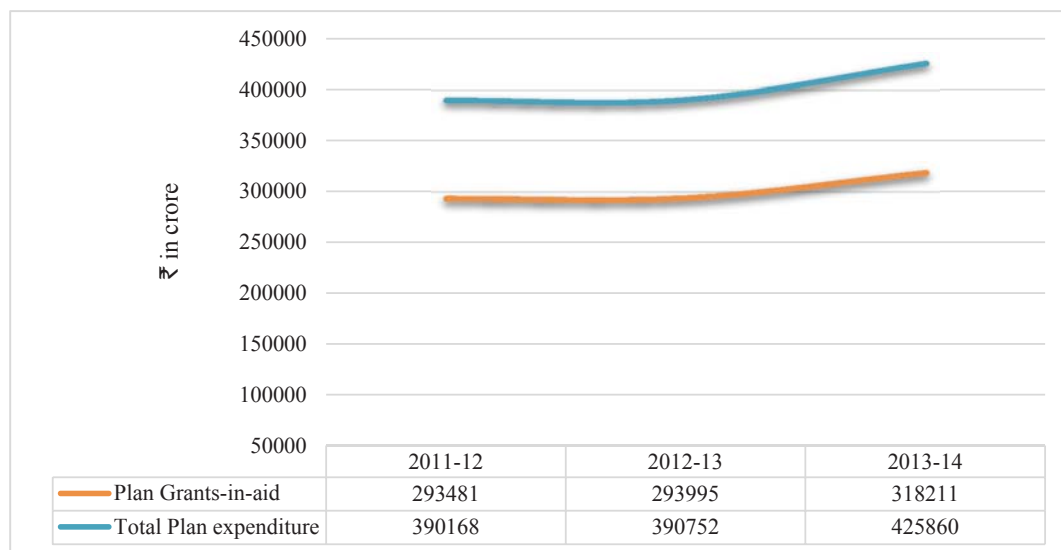
**Chart 1.13: Components of Plan expenditure**



Source: 'e-lekha' data dump provided on 24 November 2014 (other than for grants pertaining to Defence (nos. 22 to 27), Posts (no.13), Railways and Appropriation-Repayment of Debt (no.37)). Does not include journal entries, 'inter-account transfer' (OH-63) and 'deduct recoveries' (OH-70).

**Chart 1.14** shows plan Grants-in-aid (including Grants-in-aid for capital creation and for salary) as a proportion of the total Plan expenditure during 2011-12 which 75.22 per cent, and declined to 74.72 per cent in 2013-14.

**Chart 1.14: Plan Grants-in-aid as a proportion of total Plan expenditure**



*Source: 'e-lekha' data dump provided on 24 November 2014 (other than for grants pertaining to Defence, Posts and Railways). Does not include journal entries.*

### **1.3.6 Major flagship programmes of the Government – actual expenditure in the past three years**

The Union Government has been targeting key development priorities through flagship programmes. **Chart 1.15** shows the actual expenditure on major flagship programmes during the period 2011-14.

**Chart 1.15: Actual expenditure on major flagship programmes**



SSA= Sarva Siksha Abhiyan, MDM= Mid-Day Meal Scheme, MGNREGS= Mahatma Gandhi National Rural Employment Guarantee Scheme, RGGVY= Rajiv Gandhi Gramin Vidytikaran Yojana, IAY= Indira Awas Yojana, PMGSY= Pradhan Mantri Gram Sadak Yojana, NRHM= National Rural Health Mission

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The expenditure on the seven flagship schemes shown in **Table 1.10** has decreased from ₹ 1,09,379 crore in 2011-12 to ₹ 1,01,108 crore in 2012-13 and then increased to ₹ 1,13,824 crore in 2013-14 (4.06 *per cent* over 2011-12). As can be seen from **Chart 1.15** and **Table 1.10**, all major schemes registered an increase in expenditure when compared to the previous year. However, the expenditure on these schemes decreased in comparison to the BE during 2013-14 and the maximum shortfall of 54.82 *per cent* has reported in PMGSY.

**Table 1.10: Plan Expenditure on Major Flagship Programmes of the Union Government**

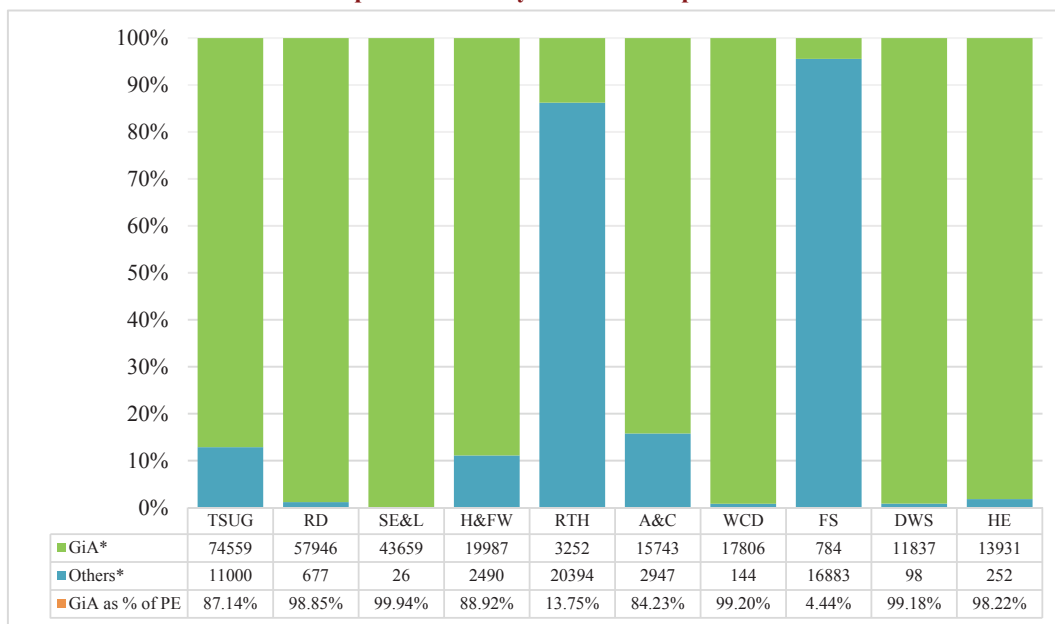
(₹ in crore)

|         |   | SSA     | MDM      | MGNREGS  | RGVY     | IAY      | PMGSY    | NRHM     | Total    |
|---------|---|---------|----------|----------|----------|----------|----------|----------|----------|
| 2011-12 | BE                                      | 20413   | 10061    | 40000    | 6000     | 10000    | 20000    | 19838    | 126312   |
|         | Actuals                                 | 20841   | 9891     | 29213    | 2237     | 9872     | 19342    | 17983    | 109379   |
|         | Variation over BE (in <i>per cent</i> ) | 2.10    | (-1.69)  | (-26.97) | (-62.72) | (-1.28)  | (-3.29)  | (-9.35)  | (-13.41) |
| 2012-13 | BE                                      | 24243   | 11643    | 33000    | 4900     | 11075    | 24000    | 22799    | 131660   |
|         | Actuals                                 | 23873   | 10849    | 30274    | 698      | 7869     | 8884     | 18661    | 101108   |
|         | Variation over BE (in <i>per cent</i> ) | (-1.53) | (-6.82)  | (-8.26)  | (-85.76) | (-28.95) | (-62.98) | (-18.15) | (-23.21) |
| 2013-14 | BE                                      | 26358   | 12879    | 33000    | 4500     | 15184    | 21700    | 23148    | 145769   |
|         | Actuals                                 | 24802   | 10918    | 32993    | 2939     | 12982    | 9805     | 19385    | 113824   |
|         | Variation over BE (in <i>per cent</i> ) | (-5.90) | (-15.23) | (-0.02)  | (-34.69) | (-14.50) | (-54.82) | (-16.26) | (-21.91) |

### 1.3.7 Proportion of Grants-in-aid in Plan expenditure in key Ministries

**Chart 1.16** shows the proportion of Grants-in-aid within Plan expenditure for the 10 Ministries/Departments with the largest Plan expenditure in 2013-14.

**Chart 1.16: Grants-in-aid (including Grants-in-aid for capital creation) as a proportion of total Plan expenditure in key Ministries/Departments**



\* Amount ₹ in crore

Note: GiA=Grants-in-aid; PE=Plan Expenditure, RD=Rural Development, TSUG = Transfers to States and Union Territories Governments, SE&L = School Education and Literacy, RTH = Road Transport and Highways, H&FW = Health and Family Welfare, A&C = Agriculture and Co-operation, WCD = Women and Child Development, FS= Financial Services, DWS = Drinking Water Supply, HE = Higher Education,

Source: 'e-lekha' data dump dated 24 November 2014. Does not include journal entries. Excludes object heads for 'inter-account transfer' and 'deduct recoveries'.

As is evident, almost the entire Plan expenditure in the Ministries/Departments of Rural Development, School Education and Literacy, Women and Child Development, Drinking Water Supply and Higher Education involved disbursement of Grants-in-aid to bodies/authorities/State Governments.

### 1.3.8 Break-up of expenditure from the Consolidated Fund of India (e-lekha data)

As details of component wise expenditure are not available in the Finance Accounts, e-lekha has been used for supplementing some of the analyses in the succeeding paragraphs. e-lekha being used at Pay and Accounts Offices and other offline interfaces, provides a system of core accounting with integration of daily, monthly and annual accounting process for value added reporting and monitoring mechanism.

The expenditure figures in Finance Accounts are shown net of recoveries and thus, the figures from e-lekha, wherever adopted, have been netted of recoveries. Data of a number of components derived from e-lekha were at variance with the data available in Finance Accounts due to non-updation of e-lekha in time.

The largest component of expenditure from the Consolidated Fund of India (CFI) was towards the repayment of public debt. As can be seen from **Chart 1.17**, the share of repayment of public debt has decreased marginally from 68 *per cent* in 2012-13 to 65 *per cent* in 2013-14 of the total expenditure from CFI.

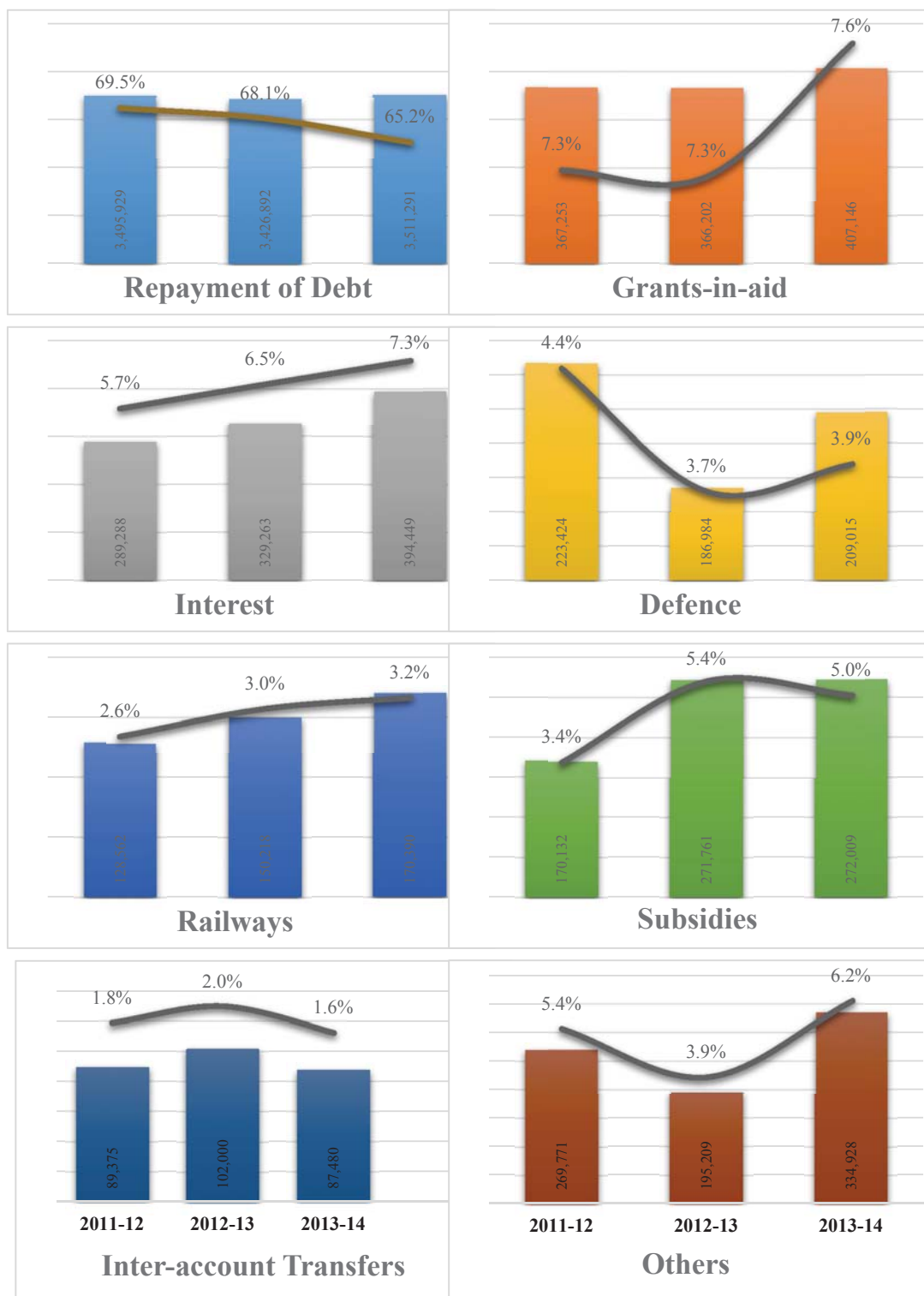
Expenditure on Defence increased from ₹ 1,86,984 crore in 2012-13 to ₹ 2,09,015 in 2013-14. Its share in total expenditure also increased marginally from 3.7 *per cent* to 3.9 *per cent* in this period. Details of Revenue expenditures of Defence services are depicted in **Chart 1.10**

Owing to misclassification of ‘subsidies’ of ₹ 65,000 crore in 2011-12 (as pointed out in C&AG’s Report No.1 of 2013) to ‘other charges’, the share and expenditure on subsidies was seen as drastically increasing in year 2012-13. The expenditure on subsidies marginally rose and stood at ₹ 2,72,009 crore in 2013- 14.

In the case of Railways the aggregate expenditure had been rising continuously from 2.6 *per cent* in 2011-12 to 3.2 *per cent* in 2013-14.



Chart 1.17: Break-up of expenditure from the Consolidated Fund of India

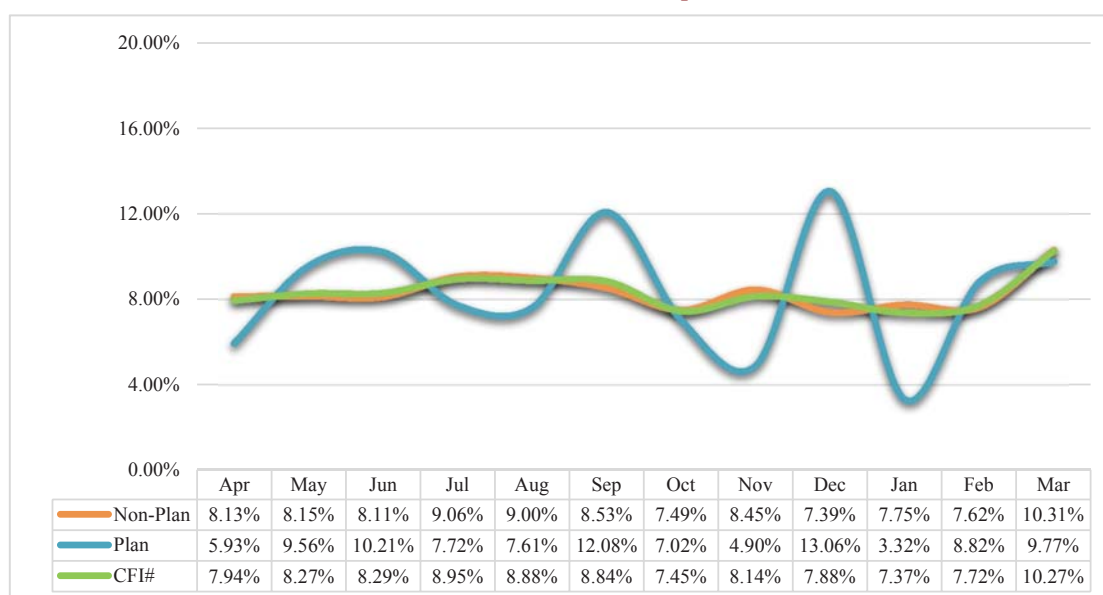


Source: 'e-lekha' data dump provided on 24 November 2014. Does not include journal entries. Notes: **Amount in Chart is ₹ in crore.** Trend line depicts the per cent share in total expenditure from CFI. Owing to misclassification, subsidies of ₹65,000 crore has not been reckoned under 'Subsidies' during 2011-12. For expenditure on 'Interest', figures under object head '45' below major heads '2048' and '2049' have only been taken. 'Defence' excludes civil grants pertaining to Ministry of Defence. 'Others' netted of 'deduct recoveries'.

### 1.4 Time Analysis of Expenditure

An important aspect of expenditure management is avoidance of lumping of expenditure towards the end of the year. The Ministry of Finance issued instructions to Ministries/Departments in September 2007 to restrict expenditure during the month of March and the last quarter of the financial year to 15 per cent and 33 per cent, respectively, of the budgeted estimates. **Chart 1.18** brings out how the total expenditure and within it, the Plan and non-Plan expenditure (for Ministries/Departments other than Defence, Railways and Posts & Telecommunications) have been disbursed through the financial year.

**Chart 1.18: Month-wise flow of expenditure**



# CFI=Consolidated Fund of India (percentages of month-wise expenditure may not tally with Annexure 1.2 due to non-inclusion of 'inter-account transfer' in this chart)

Source: 'e-lekha' data dump provided on 24 November 2014 (other than for grants pertaining to Defence (Nos. 22 to 27), Posts (No.13), Railways and Appropriation-Repayment of Debt (No.37)). Does not include journal entries, 'inter-account transfer' (OH-63) and 'deduct recoveries' (OH 70).

An analysis of the total expenditure of the Government from the Consolidated Fund of India for the Civil Ministries<sup>4</sup> shows that 10 per cent and 25 per cent of the total annual expenditure was incurred in March 2014 and last quarter of the year 2013-14. Both Plan and Non-Plan expenditure showed an increase in March 2014. Plan expenditure showed quarterly peaks in the months of June, September and December of 2013 and showed a pronounced increase in March 2014 to 10 per cent of the total Plan expenditure. Non-Plan expenditure, which averaged between 7 to 9 per cent of the annual expenditure every month,

<sup>4</sup> Excluding Posts (Grant No. 13), Defence (Grant Nos. 22 to 27) and Repayment of debt (Grant No. 37).

showed a moderate increase in March 2014 to 10 *per cent* of the total non-Plan expenditure for the year.

**Ministry/Department-wise time analysis:** A disaggregated analysis in **Table 1.11** shows that in the case of nine grants, over 22 *per cent* of the total expenditure was incurred in March 2014. In the case of the Department of Revenue 80 *per cent* of the total expenditure of the year was incurred in March 2014. A detailed Ministry-wise/Grant-wise time analysis of expenditure is given in **Annexure 1.2**.

**Table 1.11: Analysis of expenditure incurred in March 2014**

(₹ in crore)

| Grant No. | Grant Name                                    | Total expenditure | Expenditure in March (including Supplementary Accounts) | Percentage of expenditure in March (including Supplementary Accounts) | Expenditure on last day of March | Percentage of expenditure on last day of March |
|-----------|---|-------------------|---|---|----------------------------------|--|
| 42        | Department of Revenue                         | 2553.37           | 2037.65   | 80  | 1994.91                          | 78   |
| 10        | Ministry of Coal                              | 1329.45           | 318.81  | 24  | 245.33                           | 18   |
| 45        | Department of Disinvestment                   | 26.90             | 12.71   | 47  | 2.28                             | Negligible                                     |
| 51        | Department of Heavy Industry                  | 1377.19           | 500.81  | 36  | 229.71                           | 17   |
| 88        | Department of Shipping                        | 1870.20           | 578.78  | 31  | 8.11                             | Negligible                                     |
| 12        | Department of Industrial Policy and Promotion | 1343.08           | 347.04  | 26  | 8.36                             | 1  |
| 05        | Nuclear Power Schemes                         | 4057.38           | 1060.52   | 26  | NA                               | NA   |
| 61        | Ministry of Information and Broadcasting      | 2828.22           | 630.69  | 22  | 448.62                           | 16   |
| 70        | Ministry of Overseas Indian Affairs           | 84.80             | 18.82   | 22  | 11.54                            | 14   |

*Note: Data extracted from 'e-lekha' portal dated 24 November 2014 (other than for grants pertaining to Defence, Posts and Railways). Excluding figures of "Inter account Transfer" and "Deduct Recoveries". Does not include journal entries.*

A further analysis in respect of Ministries where a significant amount was incurred on last day of the financial year revealed:

- That out of ₹ 2,037.65 crore incurred by the Department of Revenue in March 2014, an amount of ₹ 1,981.04 crore, was incurred under the object head 'Grants-in-aid'.

**Object head-wise time analysis:** As per the coding pattern of the Union Government Accounts, a sub-head represents the schemes, a detailed head represents the sub-schemes and the object head denotes the final heads (e.g. Salary, Wages, Pensionary Charges, Rewards etc.) on which expenditure is incurred. An examination of expenditure at the object head level in the Civil

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Ministries revealed that there was significant lumping of expenditure at the end of the financial year in a number of object heads. In some of the object heads where substantial expenditure was incurred in the month of March 2014 have been depicted in **Table 1.12**:

**Table 1.12: Analysis of expenditure on object heads booked in March 2014**

(₹ in crore)

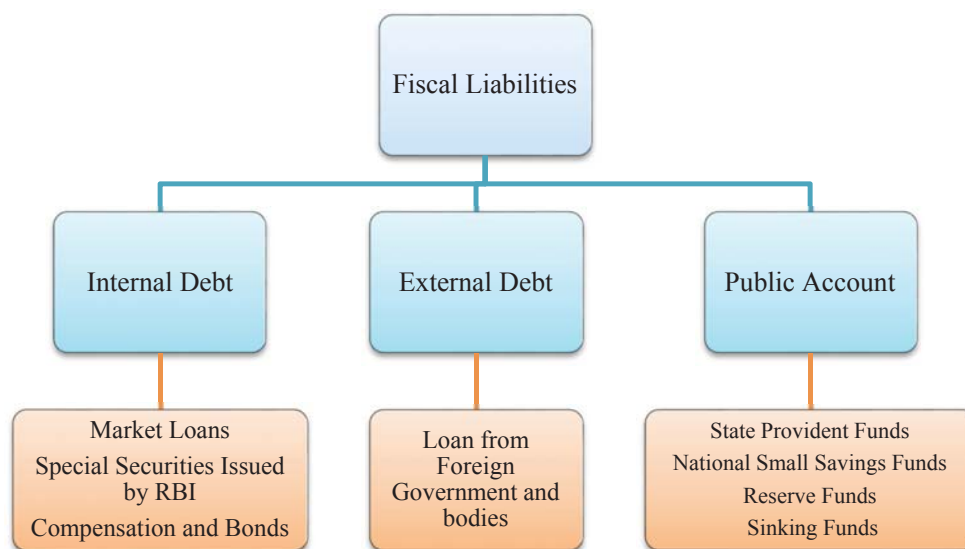
| Object Head | Object Head Description    | Total expenditure | Expenditure in March | Percentage of expenditure in March | Expenditure on last day of March | Percentage of total expenditure on last day of March |
|-------------|----------------------------|-------------------|----------------------|------------------------------------|----------------------------------|--|
| 63          | Inter-Account Transfer     | 87557.56          | 50680.46             | 58                                 | 10573.59                         | 12   |
| 05          | Rewards                    | 58.76             | 27.31                | 46                                 | 6.90                             | 12   |
| 28          | Professional Services      | 3541.97           | 1532.71              | 43                                 | 78.48                            | 2  |
| 52          | Machinery and Equipment    | 4444.48           | 1455.49              | 33                                 | 142.19                           | 3  |
| 26          | Advertising and Publicity  | 1866.85           | 587.87               | 31                                 | 199.25                           | 11   |
| 51          | Motor Vehicles             | 500.54            | 136.60               | 27                                 | 35.41                            | 7  |
| 30          | Other Contractual Services | 2063.38           | 513.96               | 25                                 | 24.38                            | 1  |
| 27          | Minor Works                | 5427.20           | 1304.70              | 24                                 | 434.17                           | 8  |
| 25          | Clothing and Tentage       | 593.62            | 132.22               | 22                                 | 22.88                            | 4s   |

*Note: Data extracted from 'e-lekha' portal dated 24 November 2014. Excludes grants pertaining to Defence (Grant Nos. 22 to 27), Posts (Grant No. 13), and Railways. Does not include journal entries.*

The Government needs to examine the reasons for lumping of expenditure, particularly in the case of professional services, machinery and equipment, advertising and publicity and minor works at the end of the financial year.

## 1.5 Debt & Deficit Indicators

**Box 1.2: Fiscal liabilities of Government of India**

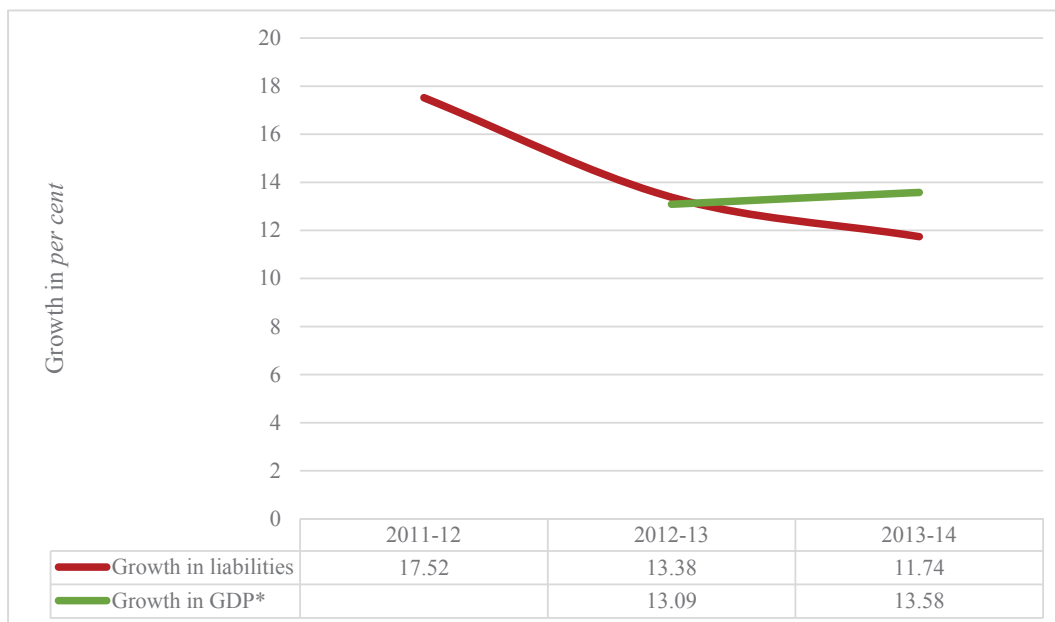


While reliance on debt to balance the budget cannot be avoided, the Union Government prudently set limits on borrowings through the Fiscal Responsibilities and Budget Management (FRBM) Act, 2003 and has also incentivised State Governments to set limits on their liabilities through fiscal reform legislations. The FRBM rules stipulate that the Central Government shall not assume additional liabilities (including external debt at current exchange rate) in excess of 9 *per cent* of GDP for the financial year 2004-05 and in each subsequent financial year the limit of 9 *per cent* of GDP was to be progressively reduced by at least one percentage point of GDP. Additional liabilities amounting to ₹ 5,52,724 crore raised in 2013-14 was 4.87 *per cent* of the GDP, which do not conform to the requirement of fiscal legislation. Since no minimum limits for additional borrowing has been prescribed under the FRBM legislation, there appears to be some lacuna in the legislation requiring attention.

**Table 1.13** presents the total liability of Government both at current rate of exchange and at the historic rate (the rate at which the debt was originally contracted). The total liability at current rate as percentage of GDP has shown a declining trend. It has come down from 47 *per cent* in 2011-12 to 46.36 *per cent* in 2013-14. During 2012-13, the growth of debt stock had been faster than GDP growth indicating a worsening debt position. In 2013-14, the growth of debt stock was at 11.74 *per cent* as against the GDP's growth rate of 13.6 *per cent*. The level of debt stock in 2013-14 was 46.36 *per cent* of the GDP, well below the level of 47.5 *per cent* recommended by the Thirteenth Finance Commission for the relevant year.

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**Chart 1.19 Percentage Growth in Total Liabilities vs Growth in GDP**



\*Figure of GDP growth for 2011-12 not available due to change in base year of GDP to 2011-12.

**Table 1.13: Fiscal Liabilities**

(₹ in crore)

| Period   | Internal Debt of Union Government | External Debt (at historic rates) | Public Account*  | Total liabilities (at historic rates) | External Debt (at current rates) | Total liabilities (at current rates) |
|--|-----------------------------------|-----------------------------------|------------------|---------------------------------------|----------------------------------|--------------------------------------|
|  | (1)                               | (2)                               | (3)              | (1+2+3)                               | (4)                              | (1+3+4)                              |
| 2011-12  | 3230622<br>(36.58)                | 170088<br>(1.93)                  | 597765<br>(6.77) | 3998475<br>(45.27)                    | 322897<br>(3.66)                 | 4151284<br>(47.00)                   |
| 2012-13  | 3764566<br>(37.69)                | 177289<br>(1.77)                  | 610016<br>(6.11) | 4551871<br>(45.57)                    | 332004<br>(3.32)                 | 4706586<br>(47.12)                   |
| 2013-14  | 4240767<br>(37.38)                | 184581<br>(1.63)                  | 644060<br>(5.68) | 5069408<br>(44.68)                    | 374483<br>(3.30)                 | 5259310<br>(46.36)                   |
| Average Annual Rate of Shift in Relative Share |                                   |                                   |                  |                                       |                                  |                                      |
| 2011-14  | 1.09                              | -8.09                             | -8.42            | -0.65                                 | -4.98                            | -0.69                                |

Note: figures in parenthesis show percentage of GDP

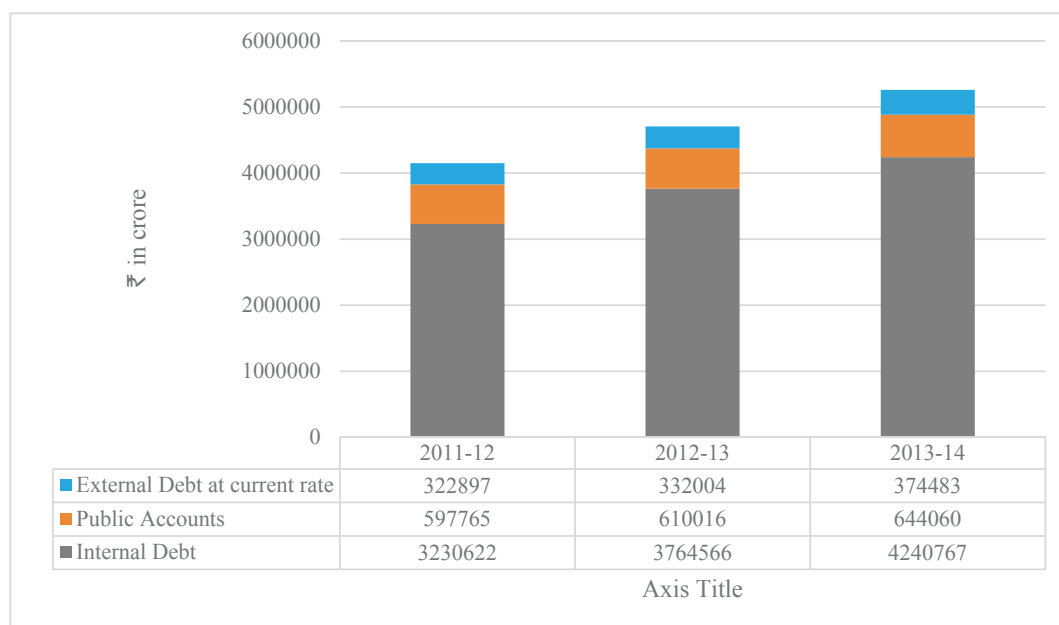
\*Public Account liabilities since 1999-2000 exclude the liabilities on account of small savings to the extent invested in Special State Government Securities.

As on 31 March 2014, outstanding liability in Public Account had been reflected as ₹ 6,44,059.71 crore. However, the outstanding liability in Public Account works out at ₹ 12,68,854.39 crore, ₹ 11,12,803.27 crore on account of Small Savings, Provident Funds, etc., and ₹ 1,56,051.12 crore in the earmarked funds and deposits, which is merged with general cash balance of the Government. Of the outstanding liability of ₹ 11,12,803.27 crore on account of Small Savings, Provident Funds, etc., adjustment relating to investment of ₹ 5,19,145.06 crore in Special State Government Securities; ₹ 1,500 crore in India Infrastructure Finance Company Limited; ₹ 24,773.56 crore pertaining to Post Office

Insurance Fund with Private Fund Managers; and ₹ 79,376.06 crore of accumulated deficit in the operation of National Small Savings Funds had been made in the Union Finance Accounts to arrive at the net Public Account liability of ₹ 6,44,059.71 crore. Viewed in this background, the total outstanding liabilities of the Union Government as on 31 March 2014 at current rates stood at ₹ 58,84,104.65 crore, constituting 51.86 *per cent* of GDP.

As on 31 March 2014, internal debt of ₹ 42,40,767 crore constituted around 95.83 *per cent* of the total public debt of ₹ 44,25,348 crore. During the current financial year, Government has paid a sum of ₹ 3,44,893 crore as interest on internal debt. Over 82 *per cent* (₹ 2,84,444 crore) of interest paid on internal debt constituted interest on market loans bearing interest of varying rates. Of the interest paid on external debt (₹ 3,880 crore), nearly 86 *per cent* (₹ 3,319.51 crore) share of interest paid by India during 2013-14 was towards loans from only four entities, i.e. loans from the Government of Japan, International Development Association (IDA), International Bank for Reconstruction and Development (IBRD) and Asian Development Bank (ADB).

**Chart 1.20 Component of Fiscal liabilities**



It is evident from **Chart 1.20**, that the three components of fiscal liabilities registered continuous growth during the period 2011-14 but the annual growth particularly of external debt varied over the period. While the annual average rate of shift in the ratio of internal debt-GDP was 1.09 *per cent* with significant negative shift rates i.e. (-)8.42 *per cent* and (-)4.98 *per cent* for the other two components (**Table 1.13**).

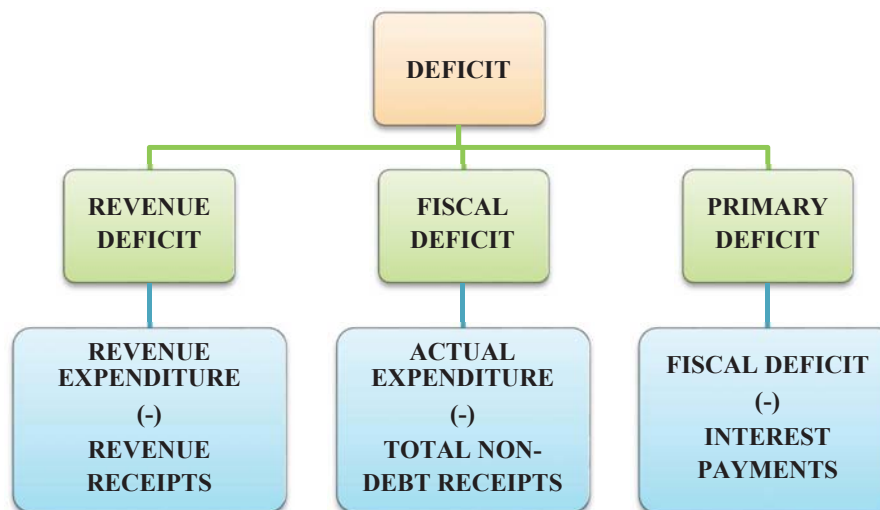
**Table 1.14: Non-debt receipt and servicing of public debt**

| Year    | Repayment of Principal of internal debt | Payment of interest on internal debt | Repayment of Principal of external debt | Payment of interest on external debt | Cost of servicing of public debt | Total non-debt receipts |
|---------|---|--------------------------------------|---|--------------------------------------|----------------------------------|-------------------------|
| 2011-12 | 3482343                                 | 242569                               | 13586                                   | 3501                                 | 3741999                          | 965183                  |
| 2012-13 | 3410785                                 | 281891                               | 16108                                   | 4019                                 | 3712803                          | 1108404                 |
| 2013-14 | 3493167                                 | 344893                               | 18124                                   | 3880                                 | 3860064                          | 1271711                 |

**Table 1.14** shows that the servicing of public debt was ₹ 37,41,999 crore or 388 per cent of non-debt receipts during 2011-12 which decreased to 304 per cent in 2013-14. Further, the proportion of servicing of public debt to revenue receipts was 411 per cent during 2011-12, which has decreased to 317 per cent in 2013-14. In absolute terms, during 2013-14, the servicing of public debt increased by ₹ 1,47,261 crore while the total non-debt receipts increased by ₹ 1,63,307 crore as compared to the previous year.

### 1.5.1 Types of Deficit

**Box 1.3: Types of Deficits**



#### (a) Revenue Deficit

Revenue deficit represents the difference between revenue expenditure and revenue receipts. Revenue deficit leads to increase in borrowings without corresponding capital/asset formation. Borrowings resorted to meet revenue deficit, therefore, do not have any asset back-up and create an asset liability mismatch. For these reasons, revenue deficit is considered generally less desirable. Trends in revenue deficit and some of its key parameters are indicated in **Table 1.15**.

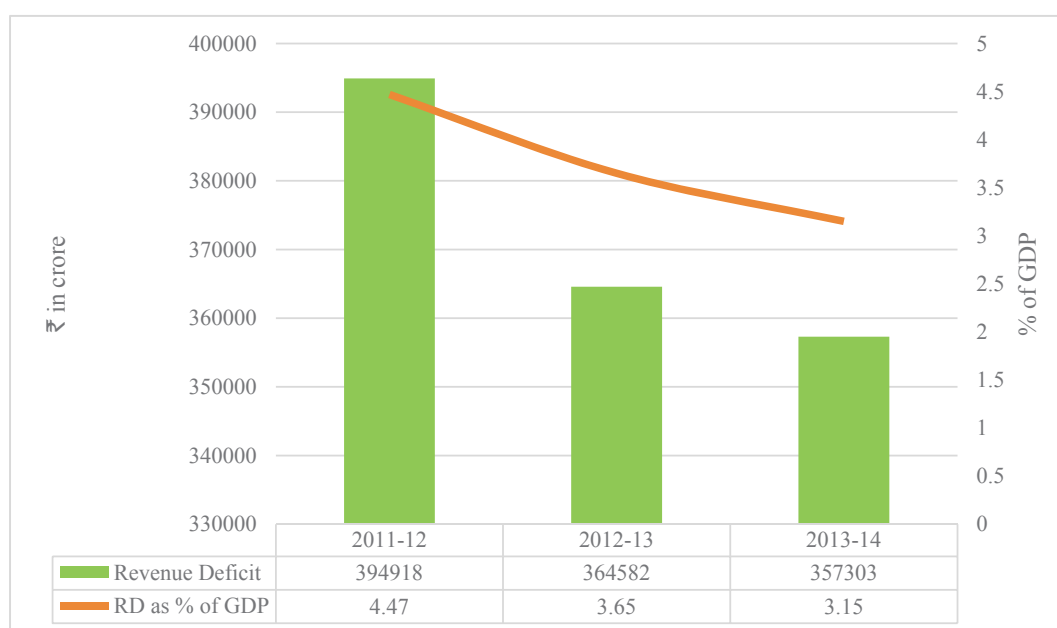


**Table 1.15: Revenue deficit and its Parameters**

| Period       | Revenue Receipt | Revenue Expenditure | Revenue Deficit | Revenue Deficit as percentage of |                 |                     |
|--------------|-----------------|---------------------|-----------------|----------------------------------|-----------------|---------------------|
|              |                 |                     |                 | GDP                              | Revenue Receipt | Revenue Expenditure |
| (₹ in crore) |                 |                     |                 |                                  |                 |                     |
| 2011-12      | 910277          | 1305195             | 394918          | 4.47                             | 43.38           | 30.26               |
| 2012-13      | 1055891         | 1420473             | 364582          | 3.65                             | 34.53           | 25.67               |
| 2013-14      | 1217794         | 1575097             | 357303          | 3.15                             | 29.34           | 22.68               |

**Table 1.15** indicates that the revenue deficit was at the level of ₹ 3,94,918 crore in 2011-12 and since then, it exhibited a declined trend and reduced to the level of ₹ 3,57,303 crore in 2013-14. The improvement in revenue deficit in the year 2013-14 was attributed to a 15.33 *per cent* increase in revenue receipts and 10.89 *per cent* increase in revenue expenditure over previous year.

In relation to GDP, revenue deficit reached to the level of 4.47 *per cent* in 2011-12. The ratio however, witnessed decelerating trend and reached to 3.15 *per cent* in 2013-14.

**Chart 1.21 Revenue deficit and its percentage of GDP**


### (b) Fiscal Deficit

Fiscal deficit is the excess of actual expenditure over non-debt receipts. It also indicates the required borrowing of the Government and the increment to its outstanding debt. It normally represents the net incremental liabilities of the Government or its additional borrowings made to bridge the budgetary gap between revenue and expenditure. The shortfall can be met either by additional public debt (internal or external) or by the use of surplus funds from the Public

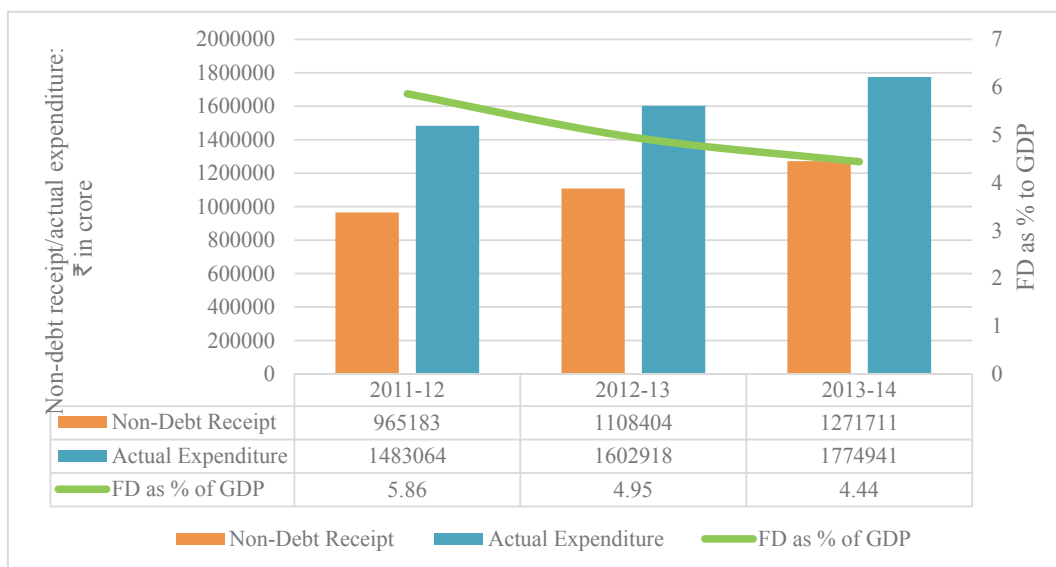
Account. Fiscal deficit trends along with the trends of the deficit relative to key fiscal parameters are indicated in **Table 1.16**.

**Table 1.16: Fiscal Deficit and its Parameters**

| Period  | Non-Debt Receipts | Actual expenditure | Fiscal Deficit | Fiscal Deficit as percentage of |                   |                    |
|---------|-------------------|--------------------|----------------|---------------------------------|-------------------|--------------------|
|         |                   |                    |                | GDP                             | Non-Debt Receipts | Actual Expenditure |
|         |                   |                    |                |                                 |                   |                    |
| 2011-12 | 965183            | 1483064            | 517881         | 5.86                            | 53.66             | 34.92              |
| 2012-13 | 1108404           | 1602918            | 494514         | 4.95                            | 44.61             | 30.85              |
| 2013-14 | 1271711           | 1774941            | 503230         | 4.44                            | 39.57             | 28.35              |

Fiscal deficit stood at ₹ 5,17,881 crore in 2011-12. The current year saw an improvement as the fiscal deficit was 4.44 *per cent* of the GDP as compared to the 4.95 *per cent* in 2012-13. Improvement in the ratio of fiscal deficit to the GDP during current year was mainly attributable to the increase of 14.73 *per cent* in total non-debt receipt against the increase of 10.73 *per cent* in actual expenditure.

**Chart 1.22 Fiscal Deficit and its Parameters**



If the bulk of fiscal deficit is for sustaining capital expenditure or for providing financial accommodation to entities for capital formation, such deficits may be considered desirable up to a point. **Table 1.17** presents the movement of components of fiscal deficit for the periods 2011-14.

**Table 1.17: Components of fiscal deficit**

(*In per cent*)

| Period  | Revenue Deficit | Net Capital Expenditure | Net Loans and Advances |
|---------|-----------------|-------------------------|------------------------|
| 2011-12 | 76.26           | 23.44                   | 0.30                   |
| 2012-13 | 73.73           | 25.17                   | 1.10                   |
| 2013-14 | 71.00           | 27.72                   | 1.28                   |

As can be seen from the above **Table 1.17** the bulk of the fiscal deficit was towards financing the revenue deficit. During 2011-14, there were improvements in the relative share of the net capital expenditure as a component of fiscal deficit. Net capital expenditure accounted for 29 *per cent* of fiscal deficit in 2013-14 and 71 *per cent* towards revenue deficit. The trend reveals that the interest payment, salary and pension payment (components of committed expenditure) absorb a major share of current revenue of the Government (non-debt receipt), these were 47.49 *per cent* of the total non-debt receipts for 2013-14.

**Table 1.18** presents the rolling targets set for the key fiscal parameters – revenue and fiscal deficits for the year 2013-14 in the Medium Term Fiscal Policy Statement (MTFPS) placed along with the budgets in earlier years. In the budget of 2012-13, the targets of revenue and fiscal deficits for the current year were increased by 0.7 and 1.0 *per cent*, which were further increased to 3.3 and 4.8 *per cent* respectively in the budget estimates of 2013-14. In actual terms, both the revenue deficit and the fiscal deficit were below the ceiling as indicated in the budget estimates 2013-14.

**Table 1.18: Outcome vis-à-vis Targets under FRBM Rules (As percentage of GDP)**

| Fiscal Indicator | Targets set in MTFPS 2011-12 for the year 2013-14 | Targets set in MTFPS 2012-13 for the year 2013-14 | BE in MTFPS 2013-14 | Actual Levels |
|------------------|---|---|---------------------|---------------|
| Revenue Deficit  | 2.1   | 2.8   | 3.3                 | 3.15          |
| Fiscal deficit   | 3.5   | 4.5   | 4.8                 | 4.44          |

### (c) Primary Deficit

Primary deficit is measured by subtracting the interest payments from fiscal deficit. It is a measure of current year's fiscal operation after excluding the liability of interest payment created due to borrowings undertaken in the past. The trend of primary deficit for last three years is shown in **Table 1.19**.

**Table 1.19: Primary Deficit**

| Year    | Fiscal Deficit | Total Interest Payments* | Primary Deficit | (₹ in crore)       |
|---------|----------------|--------------------------|-----------------|--------------------|
|         |                |                          |                 | As per cent of GDP |
| 2011-12 | 517881         | 286982                   | 230899          | 2.61               |
| 2012-13 | 494514         | 330171                   | 164343          | 1.65               |
| 2013-14 | 503230         | 395200                   | 108030          | 0.95               |

\*Includes expenditure on reduction or avoidance of debt.

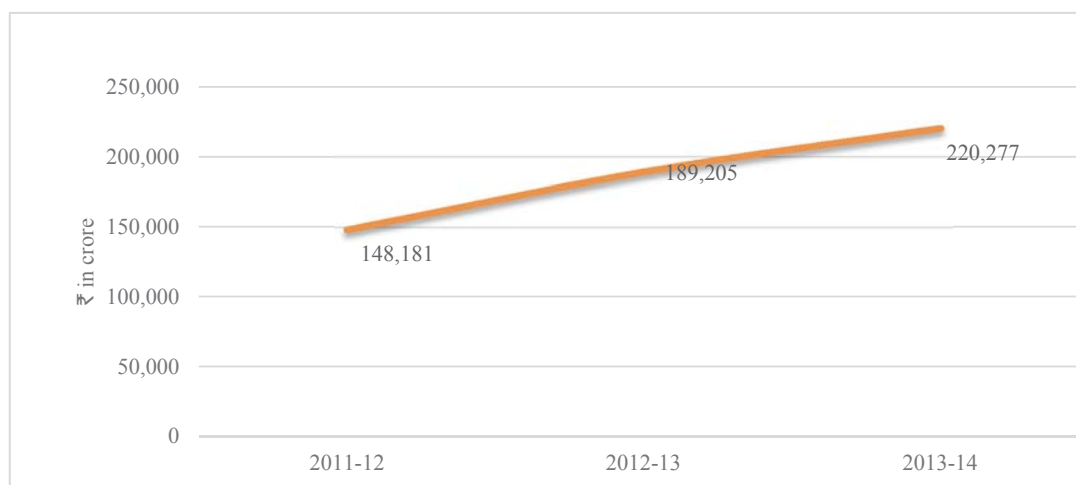
### 1.5.2 External Debt: Unutilised committed external assistance

As on 31 March 2014, unutilised committed external assistance was of the order of ₹ 2,20,277 crore. **Chart 1.23** shows the year-wise total undrawn balance of

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external assistance from various sources. The sector-wise details from the office of the Controller of Aid Accounts & Audit indicates that there were large undrawn balances from committed external assistance in urban development (₹ 39,661 crore), atomic energy (₹ 30,110 crore), roads (₹ 28,586 crore), railways (₹ 20,275 crore), power (₹ 17,112 crore), water resource management (₹ 12,520 crore) and environment and forestry (₹ 11,634 crore).

**Chart 1.23: Unutilised committed external assistance**



Commitment charges on undrawn external assistance are paid on the amount of principal rescheduled for drawal on later dates. As there is no distinct head in the accounts for reflecting the payment of commitment charges, it is shown under the head 'interest obligation'. **Table 1.20** indicates charges paid to various bodies/governments during the three years period as commitment charges for rescheduling of drawal of assistance at later dates.

**Table 1.20: Commitment Charges**

| (₹ in crore) |       |       |         |       |        |
|--------------|-------|-------|---------|-------|--------|
| Year         | ADB   | Japan | Germany | IBRD  | Total  |
| 2011-12      | 42.30 | 20.82 | 6.24    | 13.92 | 83.28  |
| 2012-13      | 47.18 | 25.67 | 7.43    | 12.24 | 92.52  |
| 2013-14      | 47.46 | 49.99 | 9.78    | 10.09 | 117.32 |

Source: Controller of Aid Accounts & Audit

ADB=Asian Development Bank

IBRD=International Bank for Reconstruction and Development

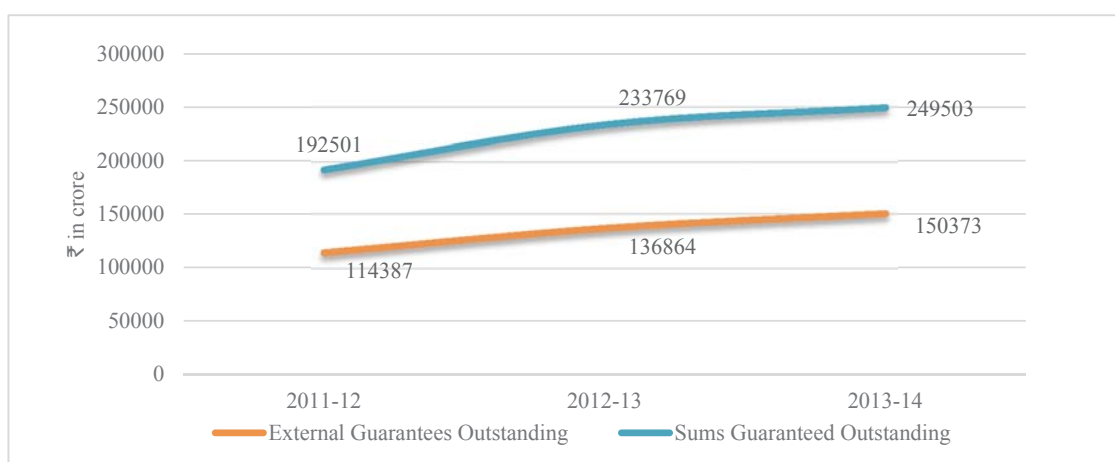
This points towards continued inadequate planning, resulting in avoidable expenditure in the form of commitment charges amounting to ₹ 117.32 crore in 2013-14.

## 1.6 Growth in Contingent Liabilities of the Union Government

In terms of Article 292 of the Constitution, the Union Government may give guarantees within such limits, if any, as may be fixed by Parliament by law. Guarantees are given by the Union Government for (i) repayment of borrowings and payment of interest thereon, (ii) repayment of share capital and payment of minimum dividend, (iii) payment against agreements for supplies of materials and equipment on credit basis, etc., on behalf of Government companies/corporations, Railways, Union Territories, State Government, local bodies, joint stock companies, co-operative institutions etc. These guarantees constitute a contingent liability on the CFI. The sums guaranteed outstanding as on 31 March 2014 was ₹ 2,49,503 crore.

Contingent liabilities of the Union Government arise because all risks cannot be anticipated upfront. While guarantees do not form part of debt as conventionally measured, in the eventuality of default, they have the potential of aggravating the debt position of the Government. The issue of guarantees assumes significance in the context of the growing investment needs for infrastructure, participation by the private sector in such projects and the increasing probability of these guarantees being invoked. **Chart 1.24** and **Table 1.21** give the position regarding the maximum amount of guarantees, sums guaranteed outstanding and external guarantees outstanding at the end of the financial years 2011-14.

**Chart: 1.24 Guarantees given by the Union Government**



**Table 1.21 : Guarantees given by the Union Government**

(₹ in crore)

|         | Maximum amount of guarantee | Sums Guaranteed Outstanding | External Guarantees Outstanding | Outstanding External Guarantees as a percentage of Total Outstanding Guarantees |
|---------|-----------------------------|-----------------------------|---------------------------------|---|
| 2011-12 | 203056                      | 192501                      | 114387                          | 59.42   |
| 2012-13 | 242915                      | 233769                      | 136864                          | 58.55   |
| 2013-14 | 270629                      | 249503                      | 150373                          | 60.27   |

Guarantees are usually given to enable borrowings from international agencies or to enable PSUs to borrow money from the market. In 2013-14, of the sums guaranteed outstanding as on 31 March, 2014 (₹ 2,49,503 crore), 60 *per cent* went towards loans from foreign lending institutions, 29 *per cent* went towards guarantees to RBI /banks/industrial financial etc. for repayment of principal and payment of interest, cash credit facility etc. and the remaining 11 *per cent* went towards guarantees for repayment of share capital, payment of minimum annual dividend and repayment of bonds, loans, debentures/counter guarantees etc. The major Ministries/Departments for whom guarantees were given by the Ministry of Finance were the Ministries/Departments of Consumer Affairs, Food and Public Distribution, Economic Affairs, Civil Aviation, Power, Telecommunications, New and Renewable Energy, External Affairs and Steel. Maintenance of upto date guarantee registers by Ministries becomes critical in determining the extent of risk to the Government.

As stipulated in Rule 3(3) of the FRBM Rules, 2004, the Central Government shall not give guarantees aggregating to an amount exceeding 0.5 *per cent* of the GDP in any financial year beginning with the financial year 2004-05. Further in compliance to Rule 6(1)(b) of FRBM Rules, 2004, the Central Government is required to make a disclosure with regard to guarantees at the time of presenting the annual financial statement in order to ensure greater transparency in its fiscal operation. As per this disclosure appended in the Receipt Budget 2014-15, guarantees amounting to ₹ 55,062.03 crore had been committed/approved by the Ministry of Finance for the financial year 2013-14, which is 0.49 *per cent* of the GDP. At the end of any financial year, guarantees, which are outstanding, have to be carried over for future years as they can be invoked at any time. Risk assessment of the likelihood of outstanding guarantees being invoked in a particular year therefore becomes critical while deciding the maximum amount of guarantee in any particular year.

The total outstanding guarantees were 2.20 *per cent* of the GDP in 2013-14 and 20.49 *per cent* of the revenue receipts that accrued to the Union Government in 2013-14.