

## Chapter 1

### UNION GOVERNMENT FINANCES – AN OVERVIEW

**1.1** This chapter provides a broad perspective of the finances of the Union Government during the year 2001-02 and analyses critical changes in major fiscal aggregates in the context of prevalent trends over three Plan periods viz. from the VII Plan to the last year of the IX Plan (1985-2002).

**1.2** Table 1.1 summarises some key fiscal parameters relative to GDP during VII Plan (1985-90) and IX Plan (1997-2002) and in the last two years.

**Table- 1.1: Broad Fiscal Parameters relative to GDP (*per cent*)**

	1985-90	1997-2002	Change	2000-2001	2001-2002	Change
Total Expenditure	23.44	19.62	-3.82	18.96	19.44	0.48
Revenue Expenditure	16.34	16.36	0.02	16.41	16.39	-0.02
Capital Expenditure	3.03	1.37	-1.66	1.22	1.37	0.15
Loans and Advances	4.07	1.89	-2.18	1.33	1.69	0.36
<b>Major Components of Revenue expenditure</b>						
Salary and Pensions	3.25	3.05	-0.20	3.10	2.67	-0.43
Interest Payments	3.18	4.72	1.54	4.94	4.98	0.04
<b>Components of Revenue receipts</b>						
Tax Revenue	10.53	8.70	-1.83	9.03	8.16	-0.87
Non Tax Revenue	6.09	6.08	-0.01	5.71	5.72	0.01
Total Revenue to the Union	13.95	12.45	-1.50	12.26	11.58	-0.68
Non Debt Capital receipts	1.30	0.90	-0.40	0.91	1.06	0.15
<b>Fiscal imbalances</b>						
Revenue deficit	2.39	3.91	1.52	4.15	4.81	0.66
Fiscal deficit	8.19	6.27	-1.92	5.79	6.80	1.01

**Box 1.1: Reporting Parameters**

Fiscal aggregates like tax and non-tax revenue, revenue and capital expenditure, internal and external debt, and revenue and fiscal deficits have been presented as percentage to the GDP at current market prices. The New GDP series with 1993-94 as base as published by the Central Statistical Organisation has been used. Data up to 1999-2000 are final estimates. For 2000-2001 estimates have been used. Since the provisional estimates of 2001-02 did not indicate the GDP at market prices, the same was estimated using the rate of growth reported for GDP at factor cost. Past revisions in GDP data as indicated by CSO in National Accounts Statistics 2002 have also been incorporated.

For tax revenue, buoyancy estimates are given. The buoyancy indicates the responsiveness of a tax to percentage changes in the tax base. Here, buoyancies have been calculated with reference to the GDP series mentioned above.

For most series a Trend growth during 1985-2002 has been indicated. Further, trend growth over three Plans, i.e. the VII Plan (1985-90); VIII Plan (1992-97) and IX Plan (1997-2002) have also been indicated. While calculating these growth rates the first year of the Plan has been taken as the base year to estimate inter Plan growth rates. This process eliminates the "low base bias" of the year immediately preceding the plan. Annual growth has been indicated for the three most recent years, i.e. 1999-2000, 2000-01 and 2001-02.

For most series, ratios with respect to GDP have also been indicated. As in the case of growth rates, average ratios have been used for the period 1985-2002 and Plan periods separately for VII, VIII and IX Plans. Annual ratios of the three most recent years have also been indicated.

For per capita expenditure on Social and Economic services, mid- year estimates of population as given by National Accounts Statistics, 2002 have been used. For converting the expenditure at 1993-94 prices GDP deflators have been used.

**Finances of the Union Government: 2001-02**

***Box 1.2: Union Government Funds and the Public Account***

***Consolidated Fund***

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 entitled 'The Consolidated Fund of India' established under Article 266(1) of the Constitution of India

***Contingency Fund***

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 to make advances to meet urgent unforeseen expenditure, pending authorisation by Parliament. 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.

***Public Account***

Besides the normal receipts and expenditure of Government which relate to the Consolidated Fund, certain other transactions enter Government Accounts, in respect of which Government acts more as a banker. Transactions relating to provident funds, small savings, other deposits, etc. are a few examples. The public monies thus received are kept in the Public Account set up under Article 266(2) of the Constitution and the related disbursements are made from it.

**1.3** Table 1.2 summarises the position of the finances of the Union Government covering the budget estimates and actuals in terms of revenue receipts, capital receipts, public account receipts, and total disbursements. There was a significant variation between the budgeted figures and the actuals.

**1.4** The imbalance in the revenue account was reflected in a revenue deficit, which was Rs 110,303 crore (4.81 *per cent* of GDP) as against the budgeted figure of Rs 78,821 crore. The overall imbalance resulted in a fiscal deficit, which was Rs 155,833 crore (6.80 *per cent* of GDP) as against the estimated fiscal deficit of Rs 116,314 crore. Over 70 *per cent* of the fiscal deficit was utilised to meet the revenue deficit. Tax and non-debt capital receipts also underperformed in comparison to budgetary expectations. While the deviation in revenue expenditure was moderate (1.05 *per cent*), capital expenditure fell significantly short (-23 *per cent*) of budget estimates.

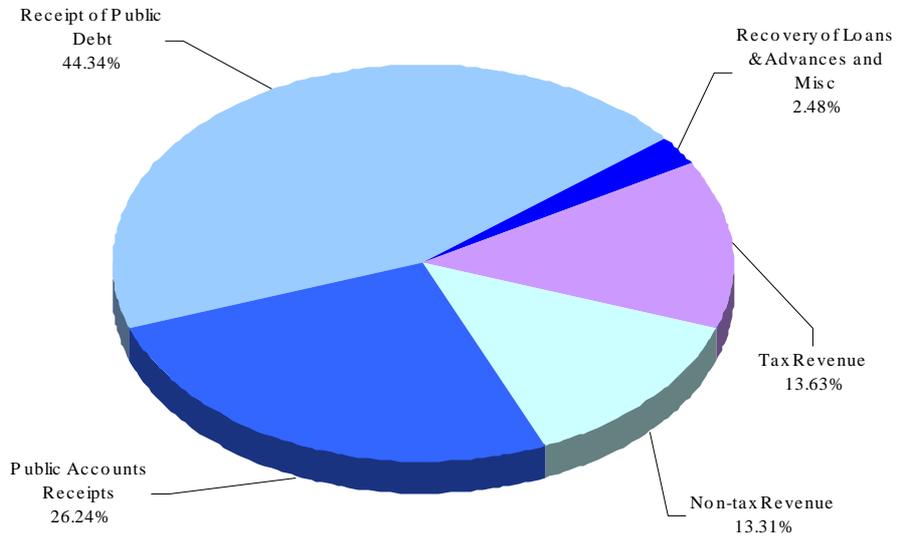
**Table 1.2: Union Government Finances 2001-02 - Budget and Actual**

*(Rupees in crore)*

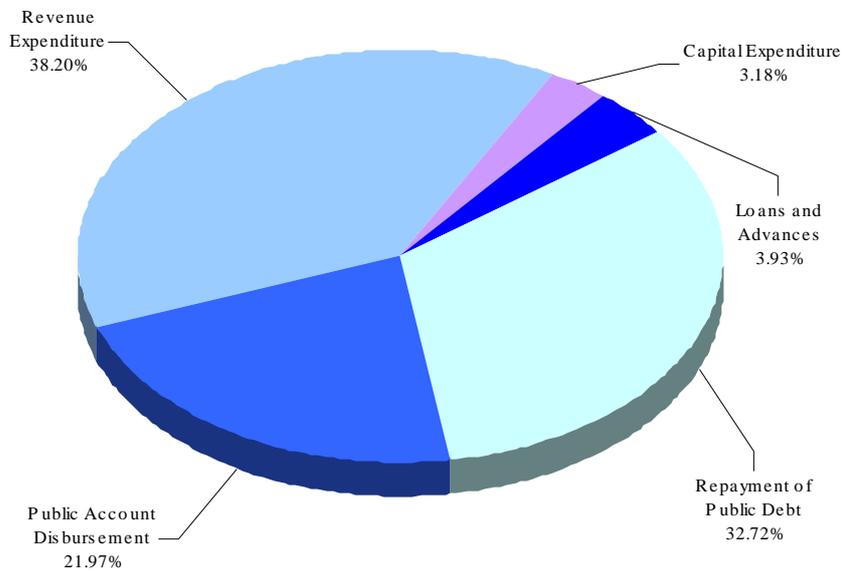
	Budget Estimates	2000-01 Actuals	2001-2002		Deviation from Budget	Deviation* Per cent
			Budget Estimates	Actuals		
1	Total Receipts of the Union Government (7+8)	891297	886928	984787	97859	11.02
2	Revenue Receipts	256036	292857	265279	(-)27578	(-)9.42
	Tax revenue	136915	165031	134219	(-)30812	(-)18.67
	Non-tax revenue	119121	127826	131060	3234	2.53
3	Miscellaneous Capital receipts	2125	12000	3646	(-)8354	(-)69.62
4	Recovery of Loans and Advances	16799	17488	20733	3245	18.56
5	Total revenue and Non Debt receipts (2+3+4)	274960	322345	289658	(-)32687	(-)10.17
6	Public Debt receipt	366461	374723	436689	61966	16.54
7	Total receipts in the CFI (5+6)	641421	697068	726347	29279	4.20
8	Public Account Receipt	249876	189860	258440	68580	36.12
9	Total disbursement by the Union Government (15+16)	890099	886928	983292	96364	10.86
10	Revenue Expenditure	342647	371678	375582	3904	1.05
11	Capital Expenditure	25426	40647	31295	(-)9352	(-)23.00
12	Loans and Advances	27761	26334	38614	12280	46.63
13	Total expenditure of the Union Government (10+11+12)	395834	438659	445491	6832	1.56
14	Repayment of Public Debt	269512	285151	321725	36574	12.83
15	Total disbursement out of the CFI (13+14)	665346	723810	767216	43406	6.00
16	Public Account Disbursement	224753	163118	216076	52958	32.47
17	Revenue Deficit (10-2)	86611	78821	110303	31482	39.94
18	Fiscal Deficit (13-5)	120874	116314	155833	39519	33.98

- Deviation is estimated as (Budget Estimates-Actuals)/Budget Estimates x 100

### Receipts



### Disbursements



***Box No.1.3: Finance Accounts***

**Finance Accounts of the Union Government** present the accounts of receipts and disbursements of the Union for the year. Finance Accounts contain seventeen statements, as discussed below:

**Statement No 1** depicts major headwise details of entire receipts into and expenditures from the Consolidated Fund, Contingency Fund and Public Account, disclosing thereby the opening and closing cash balances

**Statement No 2** indicates the summary of debt position, which includes borrowings from internal debt, external debt and other obligations such as Small savings, Provident Funds, Reserve Funds, etc.

**Statement No 3** contains the summary of loans and advances granted by the Government to States/ UTs/ Foreign Government, etc.

**Statement No 4** reflects the guarantees given by the Union Government for repayment of borrowings and payment of interest thereon.

**Statement No 5** reflects the summary of balances on which Government has a liability to repay the money received or has a claim to recovery of the amount paid. The balance also represents transactions pending for adjustment such as suspense and remittance

**Statement No 6** details the percentage of receipts realised / expenditure incurred under different revenue heads in relation to total revenue receipts /expenditure.

**Statement No 7** indicates apportionment of total expenditure (Revenue and Capital) under charged and voted expenditure.

**Statement No 8** gives the detailed accounts of revenue and capital receipts up to the minor heads of accounts

**Statement No 9** gives the detailed accounts of revenue and capital expenditure up to the minor heads of accounts. It also indicates the details of plan, non- plan, charged and voted expenditure

**Statement No 10** gives the detailed accounts of capital expenditure upto the minor head for the current year and progressive capital expenditure booked to the end of the year.

**Statement No 11** shows the investments made by the Union Government in statutory corporations, Government Companies, Joint Stock Companies etc.

**Statement No 12** shows the service/activitywise progressive capital expenditure incurred upto the year and during the year.

**Statement No. 13** contains details of transactions relating to Debt, Deposit and Remittances by minor head.

**Statement No. 14** shows the minor headwise details of internal debt, external debt and other interest bearing obligations of government.

**Statement No. 14A** shows the loanwise details of internal debt raised, discharged and outstanding at the end of the year.

**Statement No. 15** gives the details of loans advanced and recovered during the year together with the closing balances.

**Statement No. 16** contains the details of the National Small Savings Fund.

## Union Government Finances 1985-2002 - Some Key Parameters

**1.5** A detailed analysis of the Union Government finances covering revenue receipts, expenditure, fiscal imbalances and fiscal liabilities are contained in Chapters 2 to 5 of this Report. An overview of the key parameters is presented below.

### Revenue Receipts

**1.6** Table 1.3 indicates the rate of growth and relative share as percentage to GDP of the tax, non-tax and total revenue receipts (net of share of the States in union taxes) over the Plan periods.

**Table 1.3: Key Parameters of the Union Government Revenue Receipts**

*(per cent)*

Year	Tax Revenue		Non-Tax Revenue		Total Revenue to the Union		GDP Growth
	A	B	A	B	A	B	
1985-2002	12.99	9.60	14.72	5.99	13.68	13.07	14.76
VII Plan (1985-90)	15.97	10.53	15.21	6.09	15.88	13.95	15.28
VIII Plan (1992-97)	15.89	9.34	14.66	5.97	15.61	12.74	16.54
IX Plan (1997-2002)	9.00	8.70	8.00	6.08	8.12	12.45	10.51
<b>Annual Values</b>							
1999-2000	19.44	8.70	14.25	6.55	18.29	13.19	10.84
2000-01	9.81	9.03	-5.70	5.71	0.57	12.26	8.21
2001-02	-0.82	8.16	10.02	5.72	3.61	11.58	9.73

*A:- Rate of Growth*

*B:- Relative Share as percentage to GDP*

**1.7** It would be observed that the average annual trend rate of growth of revenue receipts (including the tax and non-tax receipts) was comparatively lower than the growth of GDP. There was a deceleration in the growth rates over the Plans. As a result, the ratio of tax receipts to GDP declined from a trend average of 9.60 *per cent* (1985-2002) to 8.70 *per cent* during 1997-2002. Total revenue receipts to the Union as percentage to GDP also reached its peak at an average of 13.95 *per cent* during 1985-90 and then declined to an average of 12.45 *per cent* in 1997-2002. The decline was even sharper in the current year with revenue to GDP ratio reaching 11.58 *per cent*.

**1.8** Tax revenue (inclusive of the States' share) of the Union witnessed a buoyancy of 0.888 during 1985-2002 indicating that for each percentage point increase in GDP, increase in tax revenue was only 0.88 *per cent*. While direct taxes had a buoyancy greater than one, a lower buoyancy of indirect taxes

(both customs and excise duties), which accounted for nearly three fourths of the total tax revenue, resulted in an overall lower buoyancy for the gross tax receipts.

### Expenditure

**1.9** The Union Government's total expenditure (Table 1.4) also reflected a similar position. Rate of growth of total expenditure peaked to an average of 13.55 *per cent* during 1985-90, which gradually decelerated to 8.86 *per cent* during 1997-2002. Loans and advances registered a negative trend growth of 3.42 *per cent* during 1997-2002 compared to earlier periods, despite a robust growth of 39.09 *per cent* in the current year. Developmental expenditure (expenditure on social and economic services), capital expenditure and Plan expenditure had a lower buoyancy of 0.94, 0.54 and 0.76 respectively with reference to the non-debt receipts of the government. Union government's Balance from the Current Revenue (BCR) turned negative in the VIII and IX Plans resulting in its meeting its Plan expenditure from borrowings only.

**Table 1.4: Key Parameters of the Union Government Expenditure**

*(per cent)*

	Revenue Expenditure		Capital Expenditure		Loans and Advances		Total Expenditure	
	A	B	A	B	A	B	A	B
1985-2002	14.70	16.10	7.24	2.16	7.04	2.81	12.95	21.06
VII Plan (1985-90)	16.49	16.34	8.87	3.03	6.01	4.07	13.55	23.44
VIII Plan (1992-97)	14.64	15.59	-8.44	2.03	11.91	2.29	11.87	19.91
IX Plan (1997-2002)	10.40	16.36	9.22	1.37	-3.42	1.89	8.86	19.62
<b>Annual Values</b>								
1999-2000	14.67	16.39	15.17	1.50	-41.28	1.42	7.20	19.31
2000-01	8.35	16.41	-12.39	1.22	1.47	1.33	6.23	18.96
2001-02	9.61	16.39	23.08	1.37	39.09	1.69	12.54	19.44

A: - Rate of Growth

B:- Relative Share as percentage to GDP

### Fiscal Imbalances

**1.10** Revenue and fiscal deficits of the Union Government over the years showed diverging trends. While there was an increase in the revenue deficit/GDP ratio from an average of 2.39 *per cent* during 1985-90 to an average of 3.91 *per cent* during 1997-2002 (revenue deficit/GDP ratio reached 4.81 *per cent* during the current year), fiscal deficit as percentage to GDP declined from an average of 8.19 *per cent* during 1985-90 to an average of

6.27 *per cent* during 1997-2002 as indicated in Table 1.5. The revenue deficit accounted for an increasingly higher share of the overall fiscal deficit.

**Table 1.5: Ratio of Revenue and Fiscal Deficit to GDP**

	Revenue Deficit	Fiscal Deficit	Revenue Deficit as % to Fiscal Deficit
1985-2002	3.03	6.91	45.36
VII Plan (1985-90)	2.39	8.19	29.43
VIII Plan (1992-97)	2.85	6.22	45.91
IX Plan (1997-2002)	3.91	6.27	62.42
<b>Annual Values</b>			
1999-2000	3.19	5.38	59.41
2000-01	4.15	5.79	71.65
2001-02	4.81	6.80	70.78

### Fiscal Liabilities

**1.11** During 1985-2002, the aggregate fiscal liabilities of the Union Government remained a little over 58 *per cent* of GDP. Though the rate of growth in aggregate liabilities indicated a decelerating trend, the ratio of liabilities to GDP did not benefit from this deceleration as in the later period GDP growth itself witnessed a deceleration in nominal terms. In the last three years, the fiscal liabilities to GDP ratio significantly worsened. Further, average rate of interest on the outstanding liabilities continued to move upwards from an average of 7.02 *per cent* during 1985-90 to an average of 9.02 *per cent* during 1997-2002. The average interest rate remained at 9.22 *per cent* in 2000-01 and 2001-02.

**Table 1.6: Characteristics of the Union Government Fiscal Liabilities**

	Rate of Growth of Total Liabilities	Total Liabilities/ GDP Ratio ( <i>per cent</i> )	Average Rate of Interest	Ratio of Debt Repayment* / Debt Receipts ( <i>per cent</i> )
1985-2002	15.62	58.25	7.99	92.94
VII Plan (1985-90)	18.04	53.57	7.02	89.44
VIII Plan (1992-97)	12.48	61.39	7.84	92.67
IX Plan (1997-02)	11.85	58.94	9.02	94.48
<b>Annual Values</b>				
1999-2000	10.62	58.04	9.34	98.41
2000-01	10.57	59.33	9.22	97.02
2001-02	12.97	61.09	9.22	91.72

\* Debt repayment includes the principal and interest paid during the period

### A Macro Economic Perspective: Some Broad Indicators

**1.12** The Indian economy has been undergoing structural shifts with the share of agriculture and allied activities in GDP declining from an average of 34.14 *per cent* during 1985-90 to an average of 25.60 *per cent* during 1997-2001 (Table 1.7). As against this, the share of services has gone up from 45.39 *per cent* during 1985-90 to 52.32 *per cent* during 1997-2001.

**Table 1.7: Relative Sectoral Shares (*per cent* to GDP)**

	Agriculture and Allied	Industry	Services
1985-2001	30.37	21.42	48.21
VII Plan (1985-90)	34.14	20.47	45.39
VIII Plan (1992-97)	29.91	21.86	48.23
IX Plan (1997-2001)	25.60	22.08	52.32
<b>Annual Relative share</b>			
1999-2000	25.24	21.59	53.17
2000-01	24.22	22.06	53.71

*Source: National Accounts Statistics 2002*

**1.13** The tax planning of the government does not seem to have adequately responded to these changes in the Indian economy. While the incidence of major central taxes like excise duty and corporation tax was the highest on the industrial sector, its contribution to GDP was around 20-22 *per cent* during the period 1985-2001. The services sector has not only constituted the largest segment of GDP, it has also witnessed the highest and the steadiest growth rate and offers itself as a more buoyant and less volatile source of tax revenue. However, its potential has remained largely untapped.

### Macro Indicators of the Five Year Plans (1985-2001)

**1.14** The targets and achievement in terms of some key macro indicators for the VII, VIII and IX Plans are indicated in Table 1.8.

**Table 1.8: Macro Economic Targets & Achievements (*per cent*)**

Plan Period		GDP Growth (%)	Domestic Savings	Capital Formation *	Current Account Deficit	Implicit ICOR
<b>VII 1985-90</b>	ACTUAL	5.93	20.37	23.27	2.18	3.95
(1984-85 base)	TARGET	<b>5.00</b>	<b>23.70</b>	<b>25.3</b>	<b>1.60</b>	<b>5.10</b>
<b>VIII 1992-97</b>	ACTUAL	6.74	23.48	23.42	1.20	3.47
(1991-92 base)	TARGET	<b>5.60</b>	<b>21.60</b>	<b>23.20</b>	<b>1.60</b>	<b>4.10</b>
<b>1997-2001</b>	ACTUAL	5.52	22.53	22.58	1.08	4.09
(1996-97 base)	TARGET	<b>6.50</b>	<b>26.10</b>	<b>28.20</b>	<b>2.10</b>	<b>4.30</b>

(\* Unadjusted for errors and omissions)

*Source: National Accounts Statistics-2002 and relevant Plan Documents*

**1.15** During the VII and VIII Plans, GDP growth exceeded the Plan targets. In the IX Plan, in the first four years, there was a shortfall in achievement of the growth target. One of the contributing factors to this deceleration was a decline in the capital formation by the public sector and its negative savings.

**Table 1.9: Ratio of Savings and Capital Formation to GDP (*per cent*)**

	Gross Domestic Savings	Gross Capital Formation	Public Sector Savings	Public Sector Capital Formation	Current Account Deficit
1985-2001	22.24	23.07	1.27	8.52	1.51
VII Plan (1985-90)	20.37	23.27	2.39	10.11	2.18
VIII Plan (1992-97)	23.48	23.42	1.52	8.04	1.20
IX Plan (1997-2001)	22.84	22.53	-0.55	6.85	0.86
<b>Relative Annual share</b>					
1999-2000	23.17	23.28	-0.90	7.13	0.88
2000-01	23.39	22.90	-1.65	7.09	0.44

**1.16** Public sector saving as percentage to GDP declined from an average of 2.39 *per cent* during 1985-90 to (-) 0.55 *per cent* during 1997-2001. Public sector capital formation also similarly declined from an average of 10.11 *per cent* of GDP to an average of 6.85 *per cent* over the same period. The current account deficit continued to supplement domestic savings and to facilitate larger capital formation. However, the continuous build up of foreign exchange reserves during the IX Plan did not let the current account deficit get reflected in increased capital formation, constraining the GDP growth to that extent.