

Chapter 1

UNION GOVERNMENT FINANCES – AN OVERVIEW

1.1 This chapter provides a broad perspective of the finances of the Union Government during 2004-05 and analyses critical changes in the major fiscal aggregates in the last two decades.

1.2 Table 1.1 summarises the position of the finances of the Union Government, covering its receipts, disbursements, deficits and borrowings (need and its accommodation) in the current year (2004-05).

Table 1.1 Summary of the current year's operation

(Rupees in crore)

Receipts		Derived parameters		Disbursements	
Consolidated Fund of India (CFI)					
Revenue Receipt	376871	Revenue Deficit	Revenue Expenditure	455571	
Misc. Capital Receipts	4424	78700	Capital Expenditure	53654	
Recovery of Loans	64240	Fiscal Deficit	Loans and Advances	40108	
Total Non-Debt Receipts	445535	103798	Total Expenditure	549333	
Public Debt	705289	Surplus in CFI	Public Debt	556269	
Total CFI	1150824	45222	Total CFI	1105602	
Public Accounts					
Small savings	284992		Small savings	263293	
Reserves & Sinking Fund	27074		Reserves & Sinking Fund	23374	
Deposits	73067		Deposits	76104	
Advances	27380		Advances	27889	
Suspense account	13668	Surplus in Public Account	Suspense account	9279	
Remittances	1326	27119	Remittances	449	
Total Public Account	427507	Increase in Cash	Total Public Account	400388	
Opening Cash	7407	72341	Closing Cash	79748	
Public Account Surplus (Demand)	27119		Deficit in (CFI)+ Increase in Cash		
Incremental Liabilities (Supply)	171382		Surplus of (Debt+ Small Savings+ RF+ Deposits)		
Incremental Liabilities (Demand)	171382		FD+ Increase in Cash +Net Disbursement of (Advances+ Suspense+ Remittances)		

1.3 The year 2004-05 ended with a surplus in both the Consolidated Fund of India and the Public account and the entire amount was used for increasing cash balances. This was in itself unique for two reasons. Firstly, in the history of Union Finances, this was the first year that witnessed a surplus in both Consolidated Fund and Public Account. Secondly, the proceeds of this surplus

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were used for increasing the cash balances of the Union government under Market Stabilisation Scheme primarily for sucking excess liquidity from the system as a price stabilisation measure. The year 2004-05 ended with a fiscal deficit of Rs. 103,798 crore. Fresh liabilities, which are accommodative flows for meeting this resource gap, however, exceeded the fiscal deficit by Rs. 67,584 crore because of a build up in cash balances.

Box 1.1 : Union Government funds and the Public Account	
<p>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.</p>	<p>Contingency Fund 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 to make advances to meet urgent unforeseen expenditure, pending authorisation by the 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.</p>
<p>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 moneys thus received are kept in the Public Account set up under Article 266(2) of the Constitution and the connected disbursements are also made therefrom.</p>	

1.4 The Union Budget presents three sets of figures: (a) actuals for the preceding year, (b) revised estimates for the current year, and (c) budget estimates of the forthcoming year. How close the actuals are to the budget estimates indicates the quality of fiscal marksmanship. Several reasons may account for the deviation of the actual realisation from the budget estimates. It may be because of unanticipated and random external event, or methodological inadequacies that may lead to under or over estimation of expenditure or revenue at the budget stage or it may at times be considered prudent to be conservative. Actual realisation of revenue and its disbursement depend on a variety of factors, some internal and others external. Table 1.2 provides a summary of budget estimates and actuals for some important fiscal parameters.

Table 1.2: Union Government Finances 2004-05 - budget and actuals

(Rupees in crore)

	Budget Estimates	2003-04 Actuals	2004-05		Deviation from Budget	Deviation* Per cent
			Actuals	Budget Estimates		
1	Total Receipts of the Union	1333505	1578331	1216370	361961	29.76
2	Revenue Receipts	339100	376871	380343	-3472	-0.92
	Tax revenue	188582	226363	235506	-9143	-3.88

Union Government Finances - An Overview

(Rupees in crore)

Budget Estimates	2003-04 Actuals	2004-05		Deviation from Budget	Deviation* Per cent
		Actuals	Budget Estimates		
Non-tax revenue	150518	150508	144837	5671	3.92
3 Miscellaneous Capital receipts	16953	4424	4000	424	0.11
4 Recovery of Loans and Advances	69827	64240	29625	34615	116.84
5 Public Debt receipt	538492	705289	507403	197886	39.00
6 Public Account Receipts	369133	427507	294999	132508	44.92
7 Total Disbursement of the Union	1329563	1505990	1169967	336023	28.72
8 Revenue Expenditure	440086	455571	456722	-1151	-0.25
9 Capital Expenditure	35401	53654	60718	-7064	-11.63
10 Loans and Advances	31330	40108	43143	-3035	-7.03
11 Repayment of Public Debt	430963	556269	342119	214150	62.59
12 Public Account Disbursement	391783	400388	267265	133123	49.81
13 Revenue Deficit	100986	78700	76379	2321	3.04
14 Fiscal Deficit	80937	103798	146615	-42817	-29.20

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

1.5 Revenue receipts fell short of the budget estimates by 0.92 per cent and better realisation of non-tax receipts was inadequate to compensate the shortfall in tax collections. Though the revenue expenditure was generally maintained at the budgeted levels, shortfall in tax collections relative to the budget estimates led to an increase in revenue deficit. Fiscal deficit, which represents overall resource gap of the government, however, was less than the budgeted figures by over 29 per cent. A more than 116 per cent increase in recovery of loans and advances, largely due to debt swaps, compared to the budget figures contributed to this sharp reduction. This, however, should be viewed as an one-time realisation because it led to an equal reduction in the assets base of the Union government. A decline in capital expenditure and loans and advances relative to the budget estimates also contributed to the reduction in fiscal deficit. With respect to public debt, though both receipts and disbursements (repayments) significantly exceeded the budgeted figures, the net impact of these in terms of increase in liabilities was less than the budget estimates. On the whole, while fiscal marksmanship was evident on revenue receipts and revenue expenditure side, deviations in other parameters relative to the budget estimates were quite significant.

Union Government Finances 1985-2005 - Some Key Parameters

Box 1.2 : Managing Funds : Constitutional Provisions

Article 266 (3) of the constitution of India provide that “No moneys out of the CFI or the Consolidated Fund of State shall be appropriated except in accordance with the law and for the purposes and in the manner provided in the Constitution”. This provision read with **Articles 112 and 114**, culminate in the Appropriation Act after the Demands for Grants of financial year are voted by the Lok Sabha, and the connected Appropriation Bill is passed by the Parliament and assented to by the President of India. Also, Sections 2 and 3 of the Appropriation Act provide as under:

From out of the CFI, there may be paid and applied sums not exceeding those specified in column 3 of the Schedule amounting in the aggregate towards defraying the several charges which will come in course of payment during the financial year in respect of the services specified in column 2 of the Schedule.

The sums authorized to be paid and applied from and out of the CFI by this Act shall be appropriated for the services and purposes expressed in the Schedule in relation to the said year.

1.6 Figures for revenue and fiscal deficits as indicated/derived from the Finance Accounts have continued to be different from those being depicted in Budget at a Glance and some of the papers accompanying Budget Documents. This difference has been due to inclusion/exclusion of some of the transactions on revenue and expenditure side. While these are indicated in the accompanying documents of Budget papers, it may nonetheless be important to indicate these upfront. Table 1.3 below provides the difference in revenue and fiscal deficit as indicated/derived in Finance Accounts and as depicted in Budget at a Glance along with the necessary reconciliation transactions.

Table 1.3: Reconciliation of Revenue and Fiscal Deficit as in Finance Accounts and in Budget at a Glance

	<i>(Rupees in crore)</i>			
	2001-02	2002-03	2003-04	2004-05
Deficits as per Finance Accounts				
Revenue Deficit	110303	109765	100986	78700
Fiscal Deficit	155833	134588	80937	103798
Deficit as per Budget at a Glance				
Revenue Deficit	100162	107880	98262	78338
Fiscal Deficit	140955	145072	123272	125202
Difference in the two Figures				
Revenue Deficit	10141	1885	2724	362
Fiscal Deficit	14878	(-) 10484	-42335	(-) 21404
Factors Explaining the Differences				
Securities Issued to RBI/UTI/IDBI/Others (Revenue Account)	10141	1885	2724	362
Securities Issued to IIBI/IFCI/RBI (Capital Expenditure)	4737	384	-110	(-) 88
Securities issued to IMF		1011	1262	415
Redemption of Securities issued to NSSF		(-) 13765	(-)46211	(-) 32675
Securities issued to Asset Management Trust				9000
Special securities issued to RBI				350

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(Rupees in crore)

	2001-02	2002-03	2003-04	2004-05
Conversion of interest receivable to equity				640
Investment in Nuclear Power Corporation				592
Combined Effect	14878	(-) 10485*	-42335	(-) 21404

* Difference due to rounding Summary of balances

1.7 A detailed analysis of the Union Government's 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.

Summary of balances

1.8 Statement 12 of the Finance Account provides a summary of cumulative outcome of the Government finances in terms of availability and use of resources. This statement read with statement 5 of the Finance Account is akin to a Balance Sheet of the government. Table 1.4 provides the summary of the government finances during 1985-86 and 2004-05, the base year of the analysis and the current year.

Table 1.4: Summary of Balances of Government Finances

(Rupees in crore)

Resource use				Resource availability			
	As on 31st March		CARG*		As on 31st March		CARG*
	1986	2005			1986	2005	
Capital Outlay	62064	487160	10.85	Internal Debt	71039	1275971	15.54
Loans & Advances	61766	230515	6.81	External Debt	18153	60877	6.24
Resource use in terms of functions				Small Savings	36859	263048	10.30
Social Services	3032	19933	9.87	Other Obligations	11433	92989	11.05
Agriculture & Allied	5596	9017	2.41	Fiscal Liabilities	137484	1692885	13.38
Irrigation and Energy	9122	58709	9.76	Cash Balances	-107	-79748	39.19
Industry & Minerals	32931	81079	4.41	Suspense Balances	-1260	-17920	14.20
Transport & Communication	19198	107859	9.01	Remittances	-1273	-2368	3.15
Other Economic Services	3012	69587	17.00	Advances	-511	-3349	9.86
Total Economic Services	69859	326251	8.01	Contingency Fund	50	50	0.00
General Services & Others	12219	210323	15.29	Availability of Funds	134383	1589550	13.15
Loans to States	38720	161168	7.39	Resource Gap	-10553	-871875	24.70
Total Assets	123830	717675	9.18	Resource Use	123830	717675	9.18

(*Cumulative Annual Rate of Growth)

1.9 While the net availability of funds of the Union government increased at an annual rate of 13.15 *per cent*, assets of the government comprising the capital expenditure and loans and advances increased at an average rate of 9.18 *per cent* only. This negative spread in the growth of resource availability and assets formation resulted in progressive decline in assets base of the Union government relative to its liabilities. Within the assets, capital expenditure, or the capital formation by the government directly witnessed a relatively higher growth during 1985-2005. “Loans and advances”, which is akin to capital formation through its parastatals increased at an average rate of 6.81 *per cent*. Investment or assets formation in agriculture and allied activities and industry and minerals recorded a much lower growth during this period. Investment in social services grew at 9.87 *per cent*. Expenditure on other economic services, which included investment/accommodation to financial institutions, witnessed relatively high growth. The other component, which grew faster than the average growth, was the expenditure on general services and others, including public works and defence. Resource gap measured as a difference between net availability of funds and resource use increased from around eight *per cent* of net funds availability as on 31 March 1986 to around 55 *per cent* as on 31 March 2005.

Box 1.3: 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 and indicated in Economic Survey 2004-2005 has been used. For the current year GDP estimates are as given by CSO in their Press Note released on 30th June 2005.

For tax revenue, buoyancy estimates are given. The buoyancy indicates the responsiveness of a tax to *per cent* age 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 1985-2005 has been indicated. Further, trend growth over the VIII Plan (1992-97) and the IX Plan (1997-2002) has 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 two most recent years, i.e. 2003-04 and 2004-05.

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 1985-2005 and Plan periods separately for the VIII and IX Plans. Annual ratios of the two most recent years have also been indicated.

Revenue Receipts

1.10 Table 1.5 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) during 1985-2005, the VIII and IX Plans (1992-1997 and 1997-2002 respectively) and the two most recent years.

Table 1.5: Key parameters of the Union Government revenue receipts

Period	<i>(Per cent)</i>						
	Gross Tax Revenue		Non-Tax Revenue		Total Revenue of the Union		GDP Growth
	A	B	A	B	A	B	
1985-2005	12.69	9.21	13.32	5.77	12.94	12.55	13.89
VIII Plan (1992-97)	15.89	9.32	14.66	5.94	15.61	12.71	16.54
IX Plan (1997-02)	9.00	8.68	8.00	6.06	8.12	12.40	10.43
2003-04	17.61	9.22	7.76	5.45	13.10	12.29	12.04
2004-05	19.90	9.82	-0.01	4.85	11.14	12.14	12.52

A: - Rate of growth

B: - Relative share as percentage to GDP

1.11 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. For over a decade between 1992-2002, the rate of growth of revenue receipts and its two components remained lower than the rate of growth of GDP. Though the rate of growth of non-tax receipts continued to remain sluggish, partly due to corporatisation of telecom services and setting up of Prasar Bharati, reversal of this trend of a negative spread between GDP growth and growth of tax receipts was witnessed in the last two years. The ratio of tax receipts to GDP which had declined to an average of 8.68 *per cent* during the IX Plan (1997-2002) increased to 9.82 *per cent* in 2004-05.

1.12 Tax revenue (inclusive of the States' share) of the Union had a buoyancy of 0.914 during 1985-2005 indicating that for each percentage point increase in GDP, increase in tax revenue was only 0.91 *per cent*. While direct taxes had buoyancy greater than one, lower buoyancy of indirect taxes (both customs and excise duties) that accounted for nearly three fourths of the total tax revenue resulted in overall lower buoyancy for the gross tax receipts. In non-tax receipts, while the average rate of interest on loans and advances was maintained above the average cost of borrowings, return on investment and recovery of user charges from social and economic services remained poor.

Expenditure

1.13 The Union Government's total expenditure (Table 1.6) also reflected a similar position. Rate of growth of total expenditure declined from a long-term average of 12.22 *per cent* (1985-2005) to 8.86 *per cent* during the IX Plan (1997-2002) and further to 8.39 *per cent* in the current year. Total expenditure-GDP ratio also declined from a trend average of 19.57 during 1985-2005 to 17.69 *per cent* in the current year. Capital expenditure witnessed significant volatility, but average annual growth of this component of expenditure remained lower. Last two years, however, witnessed a significant acceleration in growth of capital expenditure. Relative to GDP, its share

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fluctuated but the trend rate of shift in its relative share was negative. This was also true of loans and advances.

Table 1.6: Key parameters of the Union Government expenditure

(Per cent)

Period	Revenue Expenditure		Capital Expenditure		Loans and Advances		Total Expenditure	
	A	B	A	B	A	B	A	B
1985-2005	13.74	15.96	7.75	1.65	6.18	1.96	12.22	19.57
VIII Plan (1992-1997)	14.64	15.51	-8.44	1.89	11.91	2.26	11.87	19.66
IX Plan (1997-2002)	10.40	16.36	9.22	1.37	-3.42	1.84	8.86	19.56
2003-04	7.45	15.95	16.08	1.28	-13.51	1.14	6.40	18.36
2004-05	3.52	14.67	51.56	1.73	28.02	1.29	8.39	17.69

A: - Rate of growth

B: - Relative share as percentage of GDP

Fiscal imbalances

1.14 Fiscal imbalances not only continued to be persistent but also remained significant in volume. There was an increase in the revenue deficit/GDP ratio from an average of 2.80 *per cent* during the VIII Plan (1992-1997) to an average of 3.95 *per cent* during the IX Plan (1997-2002). Fiscal deficit-GDP ratio also increased from an average of 6.04 *per cent* during the VIII Plan to an average of 6.25 *per cent* during the IX Plan. There was, however, an improvement in these parameters in the last three years. The ratio of revenue deficit to GDP declined (from a peak of 4.80 *per cent* in 2001-02 to 2.53 *per cent* in 2004-05) by 2.27 percentage points in the last three years. Notwithstanding an increase in the ratio of fiscal deficit to GDP in the current year by 0.41 percentage points, compared to a ratio of 6.79 *per cent* in 2001-02, the terminal year of the IX plan, the current year ratio of 3.34 *per cent* represents a decline of 3.45 percentage points over three years, though more than half of this could be attributed to debt swap and accelerated recovery of loans and advances earlier given to the States. Since there was an one-to-one relationship between accelerated recovery and a decline in assets base, this cannot be taken as a sustainable route. Relatively higher growth of revenue receipts would, however, be needed to sustain this improvement otherwise it may become an one-time phenomenon. The more disturbing trend, however, was a continuous increase in the ratio of revenue deficit to fiscal deficit. Revenue deficit as a percentage of fiscal deficit increased from an average of 46.26 *per cent* of fiscal deficit during the VIII Plan (1992-1997) to 75.82 *per cent* in 2004-05. (Table 1.7)

Table 1.7: Ratio of Revenue and Fiscal Deficit to GDP

(Per cent)

Period	Revenue Deficit	Fiscal Deficit	Revenue Deficit as percentage to Fiscal Deficit
1985-2005	3.41	5.60	60.90
VIII Plan (1992-1997)	2.80	6.04	46.26
IX Plan (1997-2002)	3.95	6.25	63.26
2003-04	3.66	2.93	124.77
2004-05	2.53	3.34	75.82

Fiscal Liabilities

1.15 The broad parameters of the aggregate fiscal liabilities of the Union Government are presented in Table 1.8 below.

Table 1.8: Characteristics of the Union Government Fiscal Liabilities

(Per cent)

Period	Rate of Growth of Total Liabilities*	Total Liabilities/ GDP Ratio	Average Rate of Interest	Ratio of Assets to Liabilities
1985-2005	14.04	59.98	8.36	51.72
VIII Plan (1992-1997)	12.48	60.72	7.91	57.68
IX Plan (1997-2002)	11.85	59.08	9.06	50.90
2003-04	7.20	60.13	8.28	41.48
2004-05	9.86	58.71	7.89	39.36

* *Public Account liabilities since 1999-2000 exclude the liabilities on account of small savings to the extent of securities issued to NSSF by State Governments.*

1.16 During 1985-2005, the aggregate fiscal liabilities of the Union Government remained around 60 *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. The average rate of interest on the outstanding liabilities continued to move upwards from an average of 7.91 *per cent* during the VIII Plan (1992-1997) to an average of 9.06 *per cent* during the IX Plan (1997-2002). There was a deceleration in average interest rate to 8.28 *per cent* in 2003-04 and further to 7.89 *per cent* in the current year, which resulted in a decline of 133 basis points in interest rates in last three years. Interest rates on fiscal liabilities had remained largely below the rate of growth of GDP. Two factors, other than the administered interest rate structure which had prevailed for most part of these two decades, low interest

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rates on external debt, which except in 1991-92 never exceeded 4 *per cent* and other liabilities in the nature of sinking funds and deposits, which continued to attract much lower interest rates, sustained the lower rates. However, the quality of the use of the borrowed funds continued to be a concern. Larger revenue deficits continued to erode the assets back up for the aggregate liabilities of the Union Government, which declined to less than 40 *per cent* by 2004-05.