

# Chapter 1

## UNION GOVERNMENT FINANCES – AN OVERVIEW

An overview of the finances of the Union Government for the current year revealed that the year 2007-08 ended with a surplus of Rs. 99030 crore in the Consolidated Fund of India as against the deficit of Rs. 19244 crore in the previous year. The surplus in Public Account, however, decreased from Rs. 48639 crore in 2006-07 to Rs. 35721 crore during the year. These fiscal developments in Union Finances were mainly on account of an increase in net revenue receipts (23.61 *per cent*); miscellaneous capital receipts (7165.17 *per cent*) of the Union Government resulting into an increase in non-debt receipts (28.28 *per cent*) against an increase of (18.70 *per cent*) in total expenditure. Revenue expenditure continued to be the dominant component (85.10 *per cent*) of the total expenditure while capital expenditure witnessed significant volatility. After recording a relatively low average growth rate of 5 *per cent* during 2005-06 and 2006-07, it increased by an ever highest rate of 97.22 *per cent* in 2007-08 mainly on account of steep increase in capital expenditure in the form of investment in general financial and trading institutions. The revenue deficit and fiscal deficit relative to GDP at 1.81 and 3.50 *per cent*, respectively, were although higher than their budget estimates, respectively, by 0.31 and 0.20 percentage points but the fiscal correction during 2007-08 was higher than the minimum reductions of 0.3 *per cent* and 0.5 *per cent* (relative to GDP) for fiscal and revenue deficit, respectively, stipulated per year under the FRBM Rules, 2004. Furthermore, the Finance Accounts showed primary surplus of Rs. 15025 crore (which was, however, only 0.32 *per cent* of GDP) from the huge deficit of Rs. 28654 crore in 2006-07 reflecting containment of non-interest expenditure below the non-debt receipts. The continued 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 since 2003-04 and exhibited relative stability during the current year.

**1.1** The annual accounts of Union Government presented to the Parliament consist of Finance Accounts and Appropriation Accounts. Finance Accounts depicts the statements of receipts in and payments from the Consolidated Fund, Contingency Fund and Public Account, while Appropriation Accounts depicts the budget provision, expenditure and the resultant excess/savings under each grant/appropriation.

***Box 1.1 : Union Government funds and the Public Account***

<p><b><i>Consolidated Fund</i></b> 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><b><i>Contingency Fund</i></b> 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><b><i>Public Account</i></b> 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 there from.</p>	

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**1.2** This chapter provides a broad perspective of the finances of the Union Government during 2007-08 and analyses critical changes in the major fiscal aggregates during the period 1992-2008 encompassing VIII to X Plan periods and the first year of the XI Plan. 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 (2007-08).

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

*(Rupees in crore)*

Receipts		Derived Parameters	Disbursements	
<b>Consolidated Fund of India (CFI)</b>				
Revenue Receipt	649426	<b>Revenue Deficit 85435</b>	Revenue Expenditure	734861
Misc. Capital Receipts	38796		Capital Expenditure	116937
Recovery of Loans	10391		Loans and Advances	11777
Total Non-Debt Receipts	698613	<b>Fiscal Deficit 164962</b>	Total Expenditure	863575
Public Debt	1868102		Public Debt	1604110
Total CFI	2566715	<b>Surplus in CFI 99030</b>	Total CFI	2467685
<b>Contingency Fund</b>				
Receipts	0		Appropriation	0
<b>Public Accounts</b>				
Small savings	294333		Small savings	262064
Reserves & Sinking Fund	75771		Reserves & Sinking Fund	65377
Deposits	37622		Deposits	52525
Advances	32094		Advances	33219
Suspense account	18514		Suspense account	10585
Remittances	2647		Remittances	1490
Total Public Account	460981	<b>Surplus in Public Account 35721</b>	Total Public Account	425260
Opening Cash	94882	<b>Increase in Cash 134751</b>	Closing Cash	229633
Public Account Surplus (Demand)		35721	Increase in Cash - Surplus in (CFI)	
Incremental Liabilities (Supply)		291752	Surplus of (Debt+ Small Savings+ RF+ Deposits)	
Incremental Liabilities (Demand )		291752	Fiscal Deficit + Increase in Cash + Net Disbursement of (Advances+ Suspense+ Remittances)	

**1.3** The year 2007-08 ended with a surplus of Rs. 99030 crore in the Consolidated Fund of India as against the deficit of Rs. 19244 crore in the previous year. The surplus in Public Account, however, decreased from Rs. 48639 crore in 2006-07 to Rs. 35721 crore during the year. These fiscal developments in Union Finances were mainly on account of (a) an increase of

Rs. 136023 crore (18.70 *per cent*) in total expenditure as against an increase of Rs. 153995 crore (28.28 *per cent*) in non-debt receipts during 2007-08 over the previous year, (b) net increase of Rs. 223474 crore (13.59 *per cent*) in public debt receipts as against an increase of Rs. 123172 crore (8.32 *per cent*) in disbursement of public debt over the previous year and (c) decline of Rs. 14419 crore in receipts under deposits against an increase of Rs. 10708 crore in disbursements in 2007-08 over the previous year. A surplus of Rs. 99030 crore in CFI as well as of Rs. 35721 crore in public account resulted into an increase of Rs. 134751 crore in the cash balances of the Union at the end of the financial year 2007-08. An increase of Rs. 124033 crore in net revenue receipts (21.92 *per cent*) as against an increase of Rs. 76621 crore revenue expenditure (11.64 *per cent*) during 2007-08 over the previous year resulted in a decline of Rs. 47412 crore in revenue deficit of the Union Government in 2007-08 over the previous year. Given the decline in revenue deficit along with an increase of Rs. 29962 crore in non-debt capital receipts, a steep increase of Rs. 57644 crore in capital expenditure with a marginal increase of Rs. 1758 crore in disbursement of loans and advances led to only a moderate decline of Rs. 17972 crore in fiscal deficit during the current year. Fresh liabilities not only accommodated this resource gap but led to an emergence of surplus in CFI and in turn resulted in accretion to cash balances by Rs. 134751 crore at the end of current year.

**Box 1.2: Managing Funds: Constitutional Provisions**

Article 266 (3) of the constitution of India provides 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 authorised 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.

**1.4** 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 extent to which fiscal discipline was enforced during the year. Several reasons may account for the deviation of the actual realisation from the budget estimates. It may be because of unanticipated and unforeseen 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

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external. Table 1.2 provides a summary of budget estimates and actuals for some important fiscal parameters.

**Table 1.2: Union Government Finances 2007-08 - Budget and Actuals**

*(Rupees in crore)*

Budget Estimates		2006-07 Actual	2007-08		Deviation from Budget	Deviation* Per cent
			Actual	Budget Estimates		
1	Total Receipts of the Union	2644265	3027696	2732472	295224	10.80
2	Revenue Receipts	525393	649426	583647	65779	11.27
	Tax revenue	353182	441347	405672	35675	8.79
	Non-tax revenue	172211	208079	177976	30103	16.91
3	Miscellaneous Capital receipts	534	38796	41651	(-) 2855	(-) 6.85
4	Recovery of Loans and Advances	18691	10391	3030	7361	242.94
5	Public Debt receipt	1644628	1868102	1750984	117118	6.69
6	Public Account Receipts	455019	460981	353159	107822	30.53
7	Total Disbursement of the Union	2614870	2892945	2722471	170474	6.26
8	Revenue Expenditure	658240	734861	655625	79236	12.09
9	Capital Expenditure	59293	116937	115162	1775	1.54
10	Loans and Advances	10019	11777	9028	2749	30.45
11	Repayment of Public Debt	1480938	1604110	1611646	(-) 7536	(-) 0.47
12	Public Account Disbursement	406380	425260	331010	94250	28.47
13	Revenue Deficit	132847	85435	71978	13457	18.70
14	Fiscal Deficit	182934	164962	150948	14014	9.28

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

**1.5** Revenue receipts and revenue expenditure exceeded the budget estimates by 11.27 per cent and 12.09 per cent, respectively, resulting in an increase in revenue deficit by 18.70 per cent over the budgeted level envisaged for 2007-08. Fiscal deficit, which represents overall resource gap of the government, also exceeded budgeted figures by 9.28 per cent. A substantial increase in recovery of loans and advances (Rs. 7361 crore) against the budget estimates along with a moderate increase in their disbursements (Rs. 2749 crore) as well as in capital expenditure (Rs. 1775 crore) provided cushion for fiscal deficit and it increased by Rs. 14014 crore in 2007-08 relative to the budget estimates during the year. With respect to public debt, though receipts exceeded the budgeted figures, the disbursements (repayments) fell short. The net impact of these in terms of increase in liabilities was Rs. 124654 crore. On the whole, the impact of prudent fiscal policy was evident on revenue receipts but increased spending on social sectors and enhanced transfers to states

resulted in increased revenue expenditure. Besides, deviations in other parameters relative to the budget estimates were also quite significant.

### Inconsistencies between Finance Accounts and Budget Documents

**1.6** To ensure an effective Parliamentary financial control, it is imperative that the principles of recognition of expenditure and receipt are consistent in the Budget Documents and Finance and Appropriation Accounts. Figures for revenue and fiscal deficits as indicated/derived from the Finance Accounts have, however, 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 receipts 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 provides the difference in revenue and fiscal deficit as indicated/derived from the Finance Accounts and as depicted in Budget at a Glance along with the necessary reconciliation transactions for five year period from 2002-03 to 2006-07.

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

	<i>(Rupees in crore)</i>				
	2002-03	2003-04	2004-05	2005-06	2006-07
<b>Deficits as per Finance Accounts</b>					
Revenue Deficit	109765	100986	78700	109697	132847
Fiscal Deficit	134588	80937	103798	164927	182934
<b>Deficit as per Budget at a Glance</b>					
Revenue Deficit	107880	98262	78338	92299	80222
Fiscal Deficit	145072	123272	125202	146435	142573
<b>Difference in the two Figures</b>					
Revenue Deficit	1885	2724	362	17398	52625
Fiscal Deficit	(-) 10484	(-) 42335	(-) 21404	18492	40361
<b>Factors Explaining the Differences</b>					
Bonds issued to Oil Companies (Revenue Expenditure)		349		17263	24121
Securities issued to Food Corporation of India (FCI)					16200
Securities Issued to Unit Trust of India (UTI) (Revenue Exp)	1511	2375	362		
Securities Issued to /nationalised banks (Capital Expenditure)	384	(-) 110	(-) 88	500	
Securities issued to International Monetary Fund (IMF) omitted per contra from capital expenditure	1011	1262	415	595	40
Redemption of Securities issued to National Small Savings Fund (NSSF)	(-) 13765	(-) 46211	(-) 32675		
Securities issued to Asset Management Trust for Stressed Assets Stabilisation Fund (SASF) of Industrial Development Bank of India (IDBI)			9000		

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(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07
Securities issued to RBI (Revenue Expenditure)	374				
Securities issued to RBI to set off loans to Infrastructure Development Finance Company (IDFC) Ltd			350		
Conversion of interest receivable to equity in National Hydro Power Corporation (NHPC) and Tehri Hydro Development Corporation (THDC)			640		
Investment in Nuclear Power Corporation			592		
Adjustment of Write off of outstanding loans to state governments against recovery of loans					12304
Realisation of stressed assets of IDBI				134	
<b>Combined Effect</b>	<b>(-) 10485*</b>	<b>(-) 42335</b>	<b>(-) 21404</b>	<b>18492</b>	<b>52625</b>

\* Difference due to rounding of Summary of balances

**1.7** It is evident from the trends presented in Table 1.3 that the Union Government has been issuing securities as an integral component of restructuring plan of nationalised banks and other domestic financial institutions such as UTI, IDFC, IDBI as well as to IMF thereby creating extra budgetary liabilities. The extra-budgetary items have, however, become a significant component of liabilities in the recent past. The Central Government, besides providing explicit subsidies on petroleum, food and fertiliser, has also been periodically issuing special bonds to the oil marketing companies (since 1997-98), the FCI (in 2006-07) and fertiliser companies (in 2007-08) as compensation towards under-recoveries of their products. The Finance Accounts for 2006-07 placed the issuance of such securities at Rs. 40321 crore of which Rs. 24121 crore were issued to oil marketing companies and Rs. 16200 crore to FCI. The 'Budget at a Glance 2008-09' indicates revised estimates for 2007-08 for issuance of such securities at Rs. 18757 crore, of which Rs. 11257 crore were issued to oil marketing companies and Rs. 7500 crore to fertiliser companies *in lieu* of subsidies. The Finance Accounts for 2007-08, however placed the actual issuance of special securities to oil companies as compensation for under-recoveries and for settlement of contingent liabilities amounting to Rs. 20333 crore and Rs. 221 crore, respectively. The Government's outstanding liabilities on account of Petroleum Bonds has been consistently increasing and stood at Rs. 71288 crore as on 31 March, 2008. Special securities issued to fertiliser companies as compensation for fertiliser subsidy amounted to Rs. 7500 crore as indicated in Budget at a Glance for 2008-09.

**1.8** Union Government considers the issuance of these bonds/securities *per se* to be fiscal deficit neutral since they do not involve cash flow and are, therefore, not treated as part of budgetary expenditure/receipts. According to the existing accounting practice, the issuance of oil bonds and other similar bonds is reflected in the Annual Financial Statement (AFS) of the Union Budget under the public account and a matching transaction is shown under

revenue expenditure for settlement of claims with oil companies/fertiliser companies. These transactions are then netted out of the revenue account of the expenditure budget and the capital account of the receipts budget through the respective reconciliation statements. However, these bonds have fiscal implications as they add to the liability of the Government. Furthermore, as interest payments on such bonds are treated as part of the revenue expenditure, they affect the revenue deficit and, thereby, the fiscal deficit on a continuing basis. The net accretion to Public Account during the year is, thus, utilised as a resource to meet deficits in Consolidated Fund of the Government.

**1.9** The significant quasi-fiscal transactions to finance recurrent revenue expenditures through *de facto* borrowings not only create apprehensions about the quality of the fiscal consolidation process that is underway but raises the issue of transparency in fiscal operations and inter-generational equity in fiscal management and long term macroeconomic stability. Logically, fiscal deficit calculations presented to the Parliament in 'Budget at a glance' should reckon net effect of all such items taken to the Public Account. However, on being pointed out by CAG that the revenue and gross fiscal deficits were understated to the extent the Government incurred liabilities on account of oil, food and fertiliser bonds, the Union Budget 2008-09 for the first time explicitly reported the off-budget items as below the line items in the 'Budget at a Glance'. It was also recognised that there was need to bring these liabilities into the fiscal accounting and Thirteenth Finance Commission has been requested by the Union Government to suggest the suitable roadmap for accounting these off-budget liabilities. However, till such liabilities are fully reckoned in the budgeting process of the Union Government, inconsistency between revenue and fiscal deficits as reported in the Union Budget and as emerged from the audited Finance Accounts need to be appropriately disclosed and correct amount of the revenue and fiscal deficits reckoning all the off-budget liabilities should be reported by the Government in the Union Budget bringing transparency in the operations of these off-budget items.

### **Union Government Finances 1992-2008 - Some Key Parameters**

**1.10** A detailed analysis of the Union Government's finances covering revenue receipts, expenditure, fiscal imbalances and fiscal liabilities are contained in Chapters 3 to 6 of this Report. An overview of the key parameters is presented below.

#### **Summary of Balances**

**1.11** Statement 12 of the Finance Accounts 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 Accounts is akin to a Balance Sheet of the Government. Table 1.4 provides the summary of the Government finances during 1992-93 and 2007-08, the base year of the analysis and the current year.

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**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*
	1993	2008			1993	2008	
Capital Outlay	155291	723025	10.80	Internal Debt	199100	1799651	15.82
Loans & Advances	135672	219482	3.26	External Debt	42269	112031	6.72
<b>Resource use in terms of functions</b>				Small Savings	136802	339815	6.26
Social Services	6052	27752	10.69	Other Obligations	23752	126787	11.82
Agriculture & Allied	8740	9026	0.21	Fiscal Liabilities	401923	2378284	12.59
Irrigation and Energy	40364	65702	3.30	Cash Balances	(-) 1919	(-) 239641	37.99
Industry & Minerals	41174	87866	5.19	Suspense Balances	(-) 3819	(-) 10910	7.25
Transport & Communication	38370	149789	9.51	Remittances	(-) 3607	(-) 2890	(-) 1.47
Other Economic Services	25549	133443	11.66	Advances	(-) 1307	(-) 4467	8.54
Total Economic Services	154197	445826	7.34	Contingency Fund	50	500	16.60
General Services & Others	39160	322858	15.11	Availability of Funds	391321	2120876	11.93
Loans to States	91554	146071	3.17	<b>Resource Gap</b>	<b>(-) 100358</b>	<b>(-) 1178369</b>	17.86
Total Assets	290963	942507	8.16	Resource Use	290963	942507	8.16

(\*Cumulative Annual Rate of Growth)

**1.12** While the net availability of funds of the Union government increased at an annual rate of 11.93 *per cent*, assets of the government comprising the capital expenditure and loans and advances increased at an average rate of 8.16 *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 1993-2008. “Loans and advances”, which is akin to capital formation through its parastatals, increased at an average rate of 3.26 *per cent*. Investment or assets formation in agriculture and allied activities recorded a negligible (less than one *per cent*) growth rate of 0.21 *per cent* while irrigation and energy as well as industry and minerals recorded a relatively lower growth as compared to other sectors during this period. Investment in social and economic services grew at 10.69 *per cent* and 7.34 *per cent*, respectively, and within the economic services, the investment in transport and communication increased at a faster rate than its other components during this period. 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 25.65 *per cent* of net funds availability as on 31 March 1993 to around 55.73 *per cent* as on 31 March 2008.



**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 1999-2000 as base as published by the Central Statistical Organisation has been used. The GDP estimates for the current year are as given by CSO in their Press Note released on 30<sup>th</sup> May 2008.

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 1992-2008 has been indicated. Further, trend growth over the VIII Plan (1992-97), IX Plan (1997-2002) and the X Plan (2002-07) 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 rates have also been indicated for the five years of the X Plan (2002-07) as well as for 2007-08, the first year of the XI Plan (2007-12) to indicate the trends during the high growth rate regime.

For most series, ratios with respect to GDP have also been indicated. Akin to the growth rates, average ratios have been used for the period 1992-2008 and separately for the VIII, IX and X Plan periods. Annual ratios for the five years of the X Plan (2002-07) and the first year of XI Plan (2007-12) have also been indicated.

## Revenue Receipts

**1.13** 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 VIII Plan (1992-1997), IX Plan (1997-2002), separately for five years of the X Plan (2002-07) and for the first year of the XI Plan (2007-12). The trends in key parameters of the Union Government revenue receipts relative to GDP are also depicted in Chart 1.1

**Table 1.5: Key parameters of the Union Government revenue receipts**

Period	<i>(Per cent)</i>						GDP Growth
	Gross Tax Revenue		Non-Tax Revenue		Total Net Revenue of the Union		
	A	B	A	B	A	B	
1992-2008	13.65	9.89	9.67	5.25	10.86	12.99	12.29
<b>VIII Plan (1992-97)</b>	<b>15.89</b>	<b>9.31</b>	<b>14.66</b>	<b>5.92</b>	<b>15.02</b>	<b>14.32</b>	<b>16.72</b>
<b>IX Plan (1997-02)</b>	<b>9.00</b>	<b>8.64</b>	<b>8.00</b>	<b>6.03</b>	<b>4.65</b>	<b>13.12</b>	<b>10.33</b>
<b>X Plan (2002-07)</b>	<b>21.31</b>	<b>10.04</b>	<b>4.86</b>	<b>4.80</b>	<b>14.59</b>	<b>12.26</b>	<b>14.00</b>
2002-03	15.61	8.81	6.58	5.69	13.02	12.22	7.71
2003-04	17.61	9.23	7.76	5.46	13.10	12.31	12.23
2004-05	19.90	9.68	-0.01	4.78	11.14	11.97	14.33
2005-06	20.07	10.23	5.76	4.45	14.35	12.04	13.68
2006-07	29.32	11.42	8.19	4.15	21.92	12.67	15.79
<b>XI Plan (2007-12)</b>							
2007-08	25.27	12.58	20.83	4.41	23.61	13.78	13.68

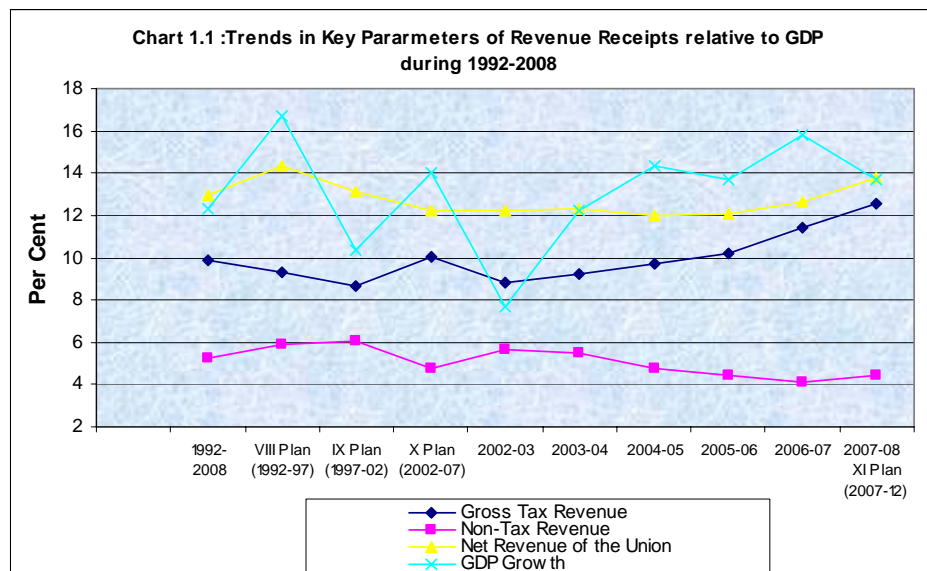
A: - Rate of growth

B: - Relative share as percentage to GDP

**1.14** The average annual rate of growth of revenue receipts (including the tax and non-tax receipts) was comparatively lower than the growth of GDP

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during the period 1992-2008. For over a decade from 1992 to 2002 encompassing the period of VIII and IX Five Year Plans, the rate of growth of revenue receipts and its two components remained lower than the rate of growth of GDP. It was only during the X Plan period (2002-07) that the average rate of the growth of the net revenue receipts of Union exceeded the average rate of growth of GDP indicating revenue buoyancy of more than a unity. The rate of growth in gross tax revenue increased consistently during the X Plan (2002-07) resulting in rising tax-GDP ratio. The ratio of tax receipts to GDP which had declined to an average of 8.64 *per cent* during the IX Plan (1997-2002) continued its rising trend and after crossing the 10 *per cent* for the first time in 2005-06 during the regime of economic reforms reached to the level of 12.58 *per cent* in the current year. The increasing buoyancy in tax revenue of the Union could, inter-alia, be attributed to the rationalisation of the tax structure and other taxation measures undertaken during the last few years.



**1.15** The average non tax receipts had indicated a lower growth rate during the IX Plan (1997-2002) and X Plan (2002-07) as compared to the VIII Plan (1992-1997). The rate of growth of non-tax receipts not only remained sluggish during the first two years of X Plan partly due to corporatisation of telecom services and setting up of Prasar Bharati but it turned negative during 2004-05 mainly due to significant reduction in the interest receipts of the Union during the year as a result of the debt swap scheme enabling pre-payment of high cost Central Government loans. The interest receipts continued to reflect negative growth rate during 2005-06 and 2006-07 on account of further consolidation and rescheduling of central loans to states under the award of Twelfth Finance Commission (TFC). Taking a turnaround, the interest receipts have increased by Rs. 8059 crore (30.35 *per cent*) in 2007-08 over the previous year mainly on account of an increase of Rs. 2896 crore

(77 per cent) in interest receipts on loans for State Plan Schemes and interest receipts along with a premium arising out of market stabilisation scheme during the year. The receipts from social services after reaching the unusually high level of Rs. 1643 crore in 2005-06 declined to the trend level of Rs. 467 crore in 2006-07. During the current year, receipts from social services have again increased by Rs. 275 crore (59 per cent). The increased collection under interest receipts, economic services and dividends and profits respectively by Rs. 8059 crore (30.35 per cent), Rs. 20532 crore (20.44 per cent) and Rs. 5190 crore (17.71 per cent) over the previous year resulted in an overall increase of Rs. 35868 crore (20.83 per cent) in non tax receipts during the current year.

## Expenditure

**1.16** The trends in Union Government's total expenditure and its components are presented in Table 1.6. Chart 1.2 also depicts the trends in total expenditure and its components relative to GDP during the period 1992-2008 encompassing the VIII Plan (1992-1997), IX Plan (1997-2002), separately for five years of the X Plan (2002-07) and for the first year of the XI Plan (2007-12). Rate of growth of total expenditure declined from an average of 11.77 per cent in VIII Plan (1992-1997) to 6.62 per cent during the IX Plan (1997-2002) and increased steeply during the last two years (2005-06 and 2006-07) of X Plan (2002-07) to 10.91 and 19.42 per cent, respectively, and the momentum continued in 2007-08, the first year of XI Plan (2007-12) resulting in a long term growth rate of 10.26 per cent during the period 1992-2008. Revenue expenditure, which grew at relatively higher average rate of 14.23 per cent during the VIII Plan (1992-97) declined to an average rate of 7.63 per cent during the IX Plan (1997-2002) but picked up again to an average rate of 12.24 per cent during the X Plan (2002-07) especially on account of its acceleration during 2005-06 and 2006-07. The pace of acceleration in revenue expenditure somewhat slowed down in 2007-08 and it increased only by 11.64 per cent during the year.

**Table 1.6: Key parameters of the Union Government expenditure**

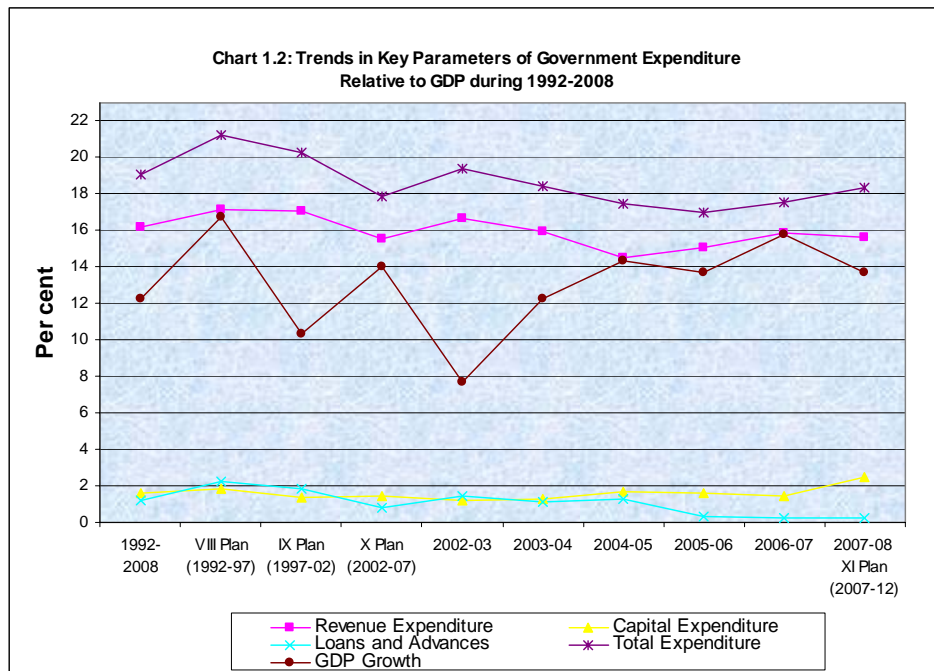
(Per cent)

Period	Revenue Expenditure		Capital Expenditure		Loans and Advances		Total Expenditure	
	A	B	A	B	A	B	A	B
1992-2008	11.12	16.20	10.44	1.63	(-) 2.74	1.22	10.26	19.05
<b>VIII Plan (1992-97)</b>	<b>14.23</b>	<b>17.11</b>	<b>(-) 8.44</b>	<b>1.88</b>	<b>11.91</b>	<b>2.26</b>	<b>11.77</b>	<b>21.25</b>
<b>IX Plan (1997-02)</b>	<b>7.63</b>	<b>17.06</b>	<b>9.22</b>	<b>1.36</b>	<b>(-) 3.42</b>	<b>1.83</b>	<b>6.62</b>	<b>20.25</b>
<b>X Plan (2002-07)</b>	<b>12.24</b>	<b>15.57</b>	<b>19.61</b>	<b>1.46</b>	<b>(-) 29.46</b>	<b>0.81</b>	<b>10.86</b>	<b>17.84</b>
2002-03	9.06	16.69	(-) 2.55	1.24	(-) 6.19	1.48	6.92	19.41
2003-04	7.45	15.98	16.08	1.29	(-) 13.51	1.14	6.40	18.40
2004-05	3.52	14.47	51.56	1.70	28.02	1.27	8.39	17.44
2005-06	18.67	15.10	4.59	1.57	(-) 68.85	0.35	10.91	17.02
2006-07	21.75	15.88	5.66	1.43	(-) 19.80	0.24	19.42	17.55
<b>XI Plan (2007-12)</b>								
2007-08	11.64	15.59	97.22	2.48	17.55	0.25	18.70	18.32

A: - Rate of growth

B: - Relative share as percentage of GDP

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**1.17** Capital expenditure witnessed significant volatility, but average annual growth of this component of expenditure at 10.44 per cent was marginally higher than that of total expenditure during the period 1992-2008. This component of total expenditure accelerated from negative rate of growth of 8.44 per cent during VIII Plan (1992-97) to 9.22 per cent during the IX Plan (1997-2002) and further to 19.61 per cent during the X Plan (2002-07) with inter-year variations. During the X Plan (2002-07), after attaining a significant acceleration in growth during 2003-04 and 2004-05, capital expenditure increased relatively at a lower pace during 2005-06 and 2006-07. During 2007-08, it increased by an ever highest rate of 97.22 per cent mainly due to steep increase in capital expenditure in the form of investment in general financial and trading corporations from (-) Rs. 4009 crore in 2006-07 to Rs. 45627 crore in 2007-08 as well as from Rs. 33828 crore to Rs. 37462 crore in defence services. Disbursement of loans and advances also exhibited an overall declining trend since IX plan (1997-2002). Steep decline since 2005-06 was on account of the fact that Union Government discontinued its role as an intermediary in future lending to States on the recommendations of TFC except for loans under externally aided projects. The loans and advances disbursed by the Union Government has, however, indicated an increase of Rs. 1758 crore (17.55 per cent) in 2007-08 over the previous year mainly on account of an increase of Rs. 1741 crore (35.58 per cent) in loans and advances to States.

## Fiscal imbalances

**1.18** Fiscal imbalances not only continued to be persistent but also remained significant in volume as reflected in the Table 1.7 below:

**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
1992-2008	3.20	4.90	65.43
<b>VIII Plan (1992-97)</b>	<b>2.79</b>	<b>6.03</b>	<b>46.26</b>
<b>IX Plan (1997-02)</b>	<b>3.94</b>	<b>6.23</b>	<b>63.26</b>
<b>X Plan (2002-07)</b>	<b>3.31</b>	<b>4.15</b>	<b>79.74</b>
2002-03	4.47	5.48	81.56
2003-04	3.67	2.94	124.77
2004-05	2.50	3.30	75.82
2005-06	3.06	4.61	66.51
2006-07	3.20	4.41	72.62
<b>XI Plan (2007-12)</b>			
2007-08	1.81	3.50	51.79

**1.19** There was an increase in the revenue deficit/GDP ratio from an average of 2.79 *per cent* during the VIII Plan (1992-1997) to an average of 3.94 *per cent* during the IX Plan (1997-2002) but the trend was reversed and it declined to 3.31 *per cent* during X Plan (2002-07). Similar trends were exhibited by the Fiscal deficit-GDP ratio which increased from an average of 6.03 *per cent* during the VIII Plan to an average of 6.23 *per cent* during the IX Plan but it declined to 4.15 *per cent* during the X Plan (2002-07) indicating a mixed trend in the behaviour of these parameters. The ratio of revenue deficit to GDP declined from 4.47 *per cent* in 2002-03 to 2.50 *per cent* in 2004-05 (by 1.97 percentage points) but it again increased thereafter and reached to 3.20 *per cent* in 2006-07. Similarly, the ratio of fiscal deficit to GDP which declined from 5.48 *per cent* in 2002-03 to 2.94 *per cent* in 2003-04, i.e. by 2.54 percentage points moved northwards again and increased to 4.41 *per cent* during 2006-07. The low revenue and fiscal deficit to GDP ratio especially during 2003-04 and 2004-05 could be attributed to the implementation of debt swap scheme and accelerated recovery of loans and advances earlier given to the States. In the wake of higher fiscal devolution to States as recommended by TFC and higher spending on social sectors, accelerated recovery of loans from States vis-à-vis disbursement of loans and decline in the pace of capital expenditure, the trends in 2005-06 and 2006-07 indicated that the fiscal correction was not in conformity with the targets prescribed under the FRBM Rules, 2004.

**1.20** The revenue and fiscal deficit to GDP ratios have declined steeply to 1.81 and 3.50 during 2007-08. These ratios remained higher than the budget estimates at 1.5 and 3.3, respectively, presented in the 'Budget at Glance-2007-08'. Notwithstanding the slippages in deficit indicators vis-à-vis their

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budget estimates, the fiscal deficit and revenue deficit, as percentages to GDP, at 3.50 *per cent* and 1.81 *per cent*, respectively, in 2007-08 as emerged from Finance Accounts for 2007-08 were lower by 0.91 and 1.39 percentage points than those in 2006-07. The fiscal correction during 2007-08, thus, turned out to be higher than the minimum reductions of 0.3 *per cent* and 0.5 *per cent* (relative to GDP) for fiscal and revenue deficit, respectively, stipulated per year under the FRBM Rules, 2004. Furthermore, the Finance Accounts showed primary surplus of Rs. 15025 crore (which was, however, only 0.32 *per cent* of GDP) from the huge deficit of Rs. 28654 crore in 2006-07 reflecting containment of non-interest expenditure below the non-debt receipts. Fiscal consolidation of the Central Government under the FRBM Act, 2003 has been revenue-led, underpinned by a significant increase in the tax-GDP ratio. The robust economic growth and macroeconomic stability, in general, resulted in higher than anticipated tax revenues as reflected by increasing tax-GDP ratio and created fiscal space for meeting the demand for resources during the current year.

### **Fiscal Liabilities**

**1.21** The broad parameters of the aggregate fiscal liabilities of the Union Government are presented in Table 1.8. During 1992-2008, the average annual aggregate total liabilities of the Union Government remained around 57.48 *per cent* of GDP. The average annual rate of growth in aggregate liabilities which was 12.17 *per cent* during the decade 1992-2002 encompassing the periods of VIII and IX Five year Plans declined to an average of 8.98 *per cent* during the X Plan (2002-07). However, growth rate in aggregate liabilities has exhibited the increasing tendency and reached the level of 10.98 and 13.33 *per cent* in 2006-07 and 2007-08 from relatively low growth rate of 7.98 *per cent* in 2005-06.

**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
1992-2008	11.28	57.48	8.34	45.61
VIII Plan (1992-97)	12.48	60.59	7.91	57.68
IX Plan (1997-02)	11.85	58.84	9.06	50.90
X Plan (2002-07)	8.98	57.10	8.09	40.26
2002-03	10.62	63.07	8.90	44.78
2003-04	7.20	60.25	8.28	41.48
2004-05	9.86	57.89	7.89	39.36
2005-06	7.98	54.99	7.75	39.32
2006-07	10.98	52.70	7.84	37.71
XI Plan (2007-12)				
2007-08	13.33	52.54	8.24	38.06

\* 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.

**1.22** The average rate of interest on the outstanding liabilities increased from an average rate 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) which declined to an average of 8.09 during X Plan (2002-07) with inter-year variations. There was a deceleration in average interest rate to 8.28 *per cent* in 2003-04 and further to 7.84 *per cent* in 2006-07 but it exhibited the increasing tendency in 2007-08 and reached the level of 8.24 *per cent* during the year. Interest rates on fiscal liabilities had remained largely below the rate of growth of GDP which has essentially been providing a cushion in sustaining the higher debt-GDP ratio. Apart from the administered interest rate structure which had prevailed in the beginning of the period, low interest 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 during the decade 1992-2002. Besides, soft interest rate regime both due to domestic and international forces has also resulted in lower interest rate structure in recent years. The tight monetary policy and management of liquidity resulted in an increasing tendency in average interest rate on aggregate liabilities especially on internal liabilities during the year. Larger revenue deficits continued to erode the assets back up for the aggregate liabilities of the Union Government, which consistently declined after remaining static at around 39 *per cent* during 2004-05 and 2005-06 declined to 37.71 *per cent* in 2006-07 and again exhibited relative stability during the current year.