

Chapter 1

AN OVERVIEW OF UNION FINANCES 2010-2011

The current year 2010-11 witnessed the growth rate of GDP increase to 8.8 *per cent* as compared to eight *per cent* for the previous year. The accounts for the financial year 2010-11 at the macro fiscal level indicate a healthy growth in revenue receipts, made possible primarily on account of a substantial increase in tax receipts after a period of low growth in the previous two years and also due to receipts from auction of spectrum. Revenue receipts increased by 32 *per cent* and stood at ₹ 9,32,686 crore. Increase in non-debt receipts coupled with a reduction in loans and advances given by the Union Government helped reduce the revenue and fiscal deficits. The preponderance of expenditure on grants-in-aid by the Government, both in the case of revenue expenditure and Plan expenditure, the spurt in expenditure on pension from ₹ 24,261 crore in 2007-08 to ₹ 57,405 crore in 2010-11, the very modest sums spent on capital expenditure other than on Defence and Transport characterized expenditure in the year. Plan expenditure revealed that in the 10 largest grants, most of the expenditure entailed release of grants-in-aid. There was also an increase in reliance on transfer of Central Plan assistance directly to States/district level autonomous bodies/implementing agencies, rather than to the State Governments. The time analysis of the expenditure of Civil Ministries revealed that there was lumping of expenditure in the month of March in the case of non-Plan expenditure 24 *per cent* of the total expenditure was incurred in March, while in the case of Plan expenditure it was 18 *per cent*. Debt and deficit indicators witnessed an improvement in the financial year 2010-11.

1.1 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, while the Appropriation Accounts depict the budget provision, expenditure and the resultant excess/savings under each grant/appropriation.

Box 1.1 : Union Government funds and the Public Account

<p>Consolidated Fund</p> <p>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</p> <p>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 her 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</p> <p>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. 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>	

1.1.1 The year 2010-11 was characterised by a recovery in economic growth as measured by a Gross Domestic Product (GDP)¹ growth of 8.8 *per cent* over the previous year. The major economic concerns during the year included high inflation (mainly due to increase in

¹As per a press note released by CSO on 31 May 2011, revised estimates of GDP at market prices at 2004-05 prices grew by 8.8 *per cent* over the previous year, while at current prices it grew by 20.2 *per cent*. Revised estimates of GDP have been adopted for purpose of comparability with previous years’ reports.

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food, fuel, metal and mineral prices) and lower industrial growth (electricity, gas, manufacturing, mining, and water supply). Against this backdrop, this chapter provides an analytical overview of the financial performance of the Union Government based on figures captured in the Finance Accounts. **Table 1.1** summarises the position of the Union Government's receipts, disbursements and borrowings for the year 2010-11.

Table 1.1: Summary of the current year's operations

(₹ in crore)

Receipts		Derived Parameters	Disbursements	
Consolidated Fund of India (CFI)				
Revenue Receipts	932686 (704523)	Revenue Deficit 253429 (352956)	Revenue Expenditure	1186115 (1057479)
Miscellaneous Capital Receipts	22846 (24581)		Capital Expenditure	140671 (100686)
Recovery of Loans	29253 (12733)		Loans and Advances	40641 (16115)
Total Non-Debt Receipts	984785 (741837)	Fiscal Deficit 382642 (432443)	Actual Expenditure	1367427 (1174280)
Public Debt	3177106 (3405327)		Public Debt	2814774 (3085792)
Total CFI	4161891 (4147164)	Deficit in CFI 20310 (Deficit 112908)	Total CFI	4182201 (4260072)
Contingency Fund				
Receipts	0		Appropriation	0
Public Account				
Small Savings	403485 (378377)		Small Savings	409615 (342105)
Reserves & Sinking Fund	120833 (101420)		Reserves & Sinking Fund	119886 (114998)
Deposits	105341 (102198)		Deposits	96979 (97849)
Advances	52360 (64855)		Advances	49290 (64006)
Suspense Account	18762 (9247)		Suspense Account	14209 (12022)
Remittances	6141 (4304)		Remittances	5800 (1153)
Total Public Account	706922 (660401)	Surplus in Public Account 11143 (Surplus 28268)	Total Public Account	695779 (632133)
Opening Cash	10616 (95256)	Decrease in Cash 9167 (84640)	Closing Cash	1449 (10616)
Public Account Surplus (Demand)		11143	Deficit in (CFI) (-) Decrease in Cash	
Incremental Liabilities (Supply)		365511	Surplus of (Debt+ Small Savings+ RF+ Deposits)	
Incremental Liabilities (Demand)		365511	Fiscal Deficit (-) Decrease in Cash (+) Net Disbursement of (Advances+ Suspense+ Remittances)	

Note: Figures in parenthesis indicate corresponding figures for 2009-10

There was reduction in deficit in the Consolidated Fund of India (CFI) as compared to the previous year. Increase in revenue receipts by 32 per cent contributed to a higher

receipts position compared to that of 2009-10. On the disbursement side, a considerable decrease in public debt repayment helped to contain the outgo from the CFI. These transactions are detailed in subsequent paragraphs of this chapter. There was no change in the Contingency Fund. In the case of the Public Account, where Government acts as a banker for public deposits, there was a reduced surplus this year, compared to the huge surplus last year. This was due to a considerable increase in outflows in small savings (20 *per cent*) and a five-fold increase in outward remittances. The closing cash balance was much lower than it was the previous year, which is taken as indicative of better cash management.

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

The main fiscal aggregates for the Union Government as a percentage of GDP and what was outlined by the Thirteenth Finance Commission report is tabulated as under:

Table 1.2 Summary of fiscal consolidation path for the Centre (Thirteenth Finance Commission)

(percentage of GDP)

Parameter	2010-11	2014-15	Actual performance as per Finance Accounts 2010-11
Revenue Deficit	3.2	-0.5	3.22
Non-Debt Capital Receipts	0.5	1.0	0.66
Capital Expenditure	3.0	4.5	1.99 ²
Fiscal Deficit	5.7	3.0	4.86
Debt (end of the year adjustment liabilities)	53.9	44.8	44.85

The non-debt capital receipts as a percentage of GDP exceed the target outlined by the Thirteenth Finance Commission of 0.5 for 2010-11 and approaching to path set for the year 2014-15. Capital expenditure fell considerably short of the targets visualized by the Thirteenth Finance Commission. The revenue deficit for the year 2010-11 is close to the target outlined by the Thirteenth Finance Commission. Debt as a percentage of GDP was contained at 44.85 for 2010-11.

1.2 RESOURCE GENERATION

An analysis of the revenue position (revenue receipts, capital receipts and gross accruals in the Public Account) indicates the following:

² For purposes of comparison, the actual capital expenditure in the Table conforms with the basis set out by Twelfth Finance Commission.

1.2.1 Revenue Receipts:

The year was characterised by a 32.5 *per cent* growth in gross revenue receipts (compared to the very low growth of 1.6 *per cent* in 2008-09 and 6.8 *per cent* in 2009-10). Due to a negative seven *per cent* growth in debt receipts, the share of gross revenue receipts in the total receipts increased from 17.5 *per cent* in the previous year to 22.6 *per cent* in the current year, indicating a fall in the dependence on debt to balance the budget.

Table 1.3: Share of receipts in GDP

(₹ in crore)

Year	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)	Net Debt Receipts @ (5)	Net Receipts from Treasury Bills (6)	Net Public Account Accruals (7)	Net Receipts (1+2+5+6+7)	Gross Receipts/GDP @@ (8)	Net Receipts /GDP @@ (9)
2007-08	801226	49187	1868102	460981	3179496	633418	29154	35721	1548706	64	31
2008-09	814026	14075	2395765	584478	3808344	671488	30033	68862	1598484	68	29
2009-10	869355	37314	3405327	660401	4972397	882979	-2995	28268	1814921	76	28
2010-11	1151989	52099	3177106	706922	5088116	855104	7432	11143	2077767	65	26

*Includes figures of taxes and duties assigned to States (₹2,19,303 crore for 2010-11)

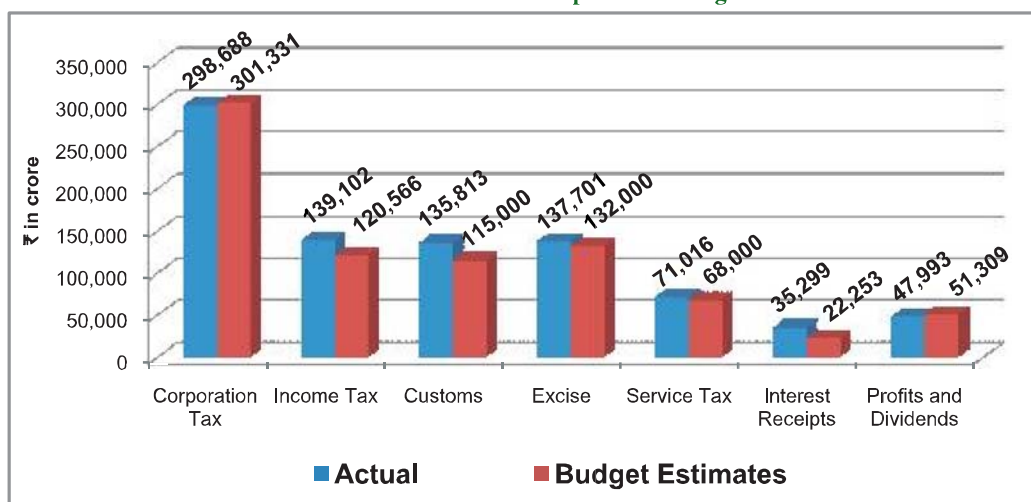
@These are gross debt receipts net of receipts from treasury bills and Ways and Means Advances from RBI.

@@The Central Statistical Organization (CSO), Ministry of Statistics and Programme Implementation Bureau Press Note dated 31 May, 2011 has indicated that the Revised Estimate figures for GDP at current prices/Market prices for the year 2010-11 is ₹78,75,627crore. The related figures for the years 2007-08, 2008-09 and 2009-10 are ₹49,47,857 crore, ₹55,82,623 crore and ₹ 65,50,271 respectively. Figures are continually being revised by CSO and this data is meant for an indicative comparison of fiscal performance with macro-economic performance.

Table 1.3 indicates that while gross receipts as a percentage of GDP presents a healthy picture, when effective or net receipts are considered, the share of receipts as a *per cent* of GDP ratio is only 26 and has been falling steadily since the beginning of the Eleventh Plan period.

1.2.2 Gap between Budget Estimates and Finance Accounts of key revenue related parameters

Formulating realistic budgetary estimates is vital for expenditure control and cash and debt management. **Chart 1.1** indicates that all taxes except corporation tax exceeded the budget projections. Receipts under income tax and customs exceeded budget estimates by 15 and 18 *per cent* respectively. Interest receipts also exceeded budget estimates by 59 *per cent*.

Chart 1.1 Deviation of actual receipts from 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**
X Plan (2002-07)							
Average	323047	87602	51720	60497	100210	17373	5645
XI Plan (2007-12)							
2007-08	593147	192911	102659	104119	123611	51302	18545
2008-09	605298	213395	106075	99879	108613	60941	16395
2009-10	624528	244725	122417	83324	102991	58422	12649
2010-11	793308	298688	139102	135813	137701	71016	10988
Average Annual Rate of Growth (per cent)							
X Plan (2002-07)	21.31	31.59	18.83	17.36	9.60	73.21	68.93
XI Plan (2007-12)							
2007-08	25.27	33.67	36.71	20.61	5.10	36.45	47.62
2008-09	2.05	10.62	3.33	(-4.07)	(-12.13)	18.79	(-11.59)
2009-10	3.18	14.68	15.41	(-16.58)	(-5.18)	(-4.13)	(-22.85)
2010-11	27.03	22.05	13.63	62.99	33.70	21.56	(-13.13)

* Service tax was introduced in 1994-95

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

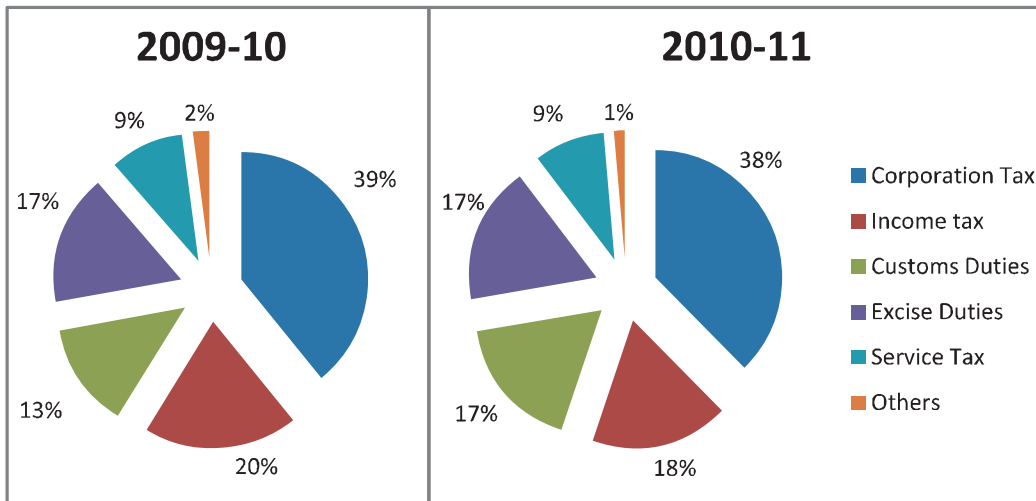
** Other taxes include Hotel Receipts Tax, Interest Tax, Wealth Tax, Gift Tax, Fringe Benefit Tax, Securities Transactions Tax, Banking Cash Transaction Tax etc.

While the overall tax revenue grew by 27 per cent in the current year, there was significant growth in indirect taxes. Customs duties grew by 63 per cent and excise

duties grew by over 34 *per cent*, reversing the negative growth trend of these taxes in the last two years. This, coupled with the high growth of corporation tax (22 *per cent*) and service tax (22 *per cent*), indicated a recovery in the business environment in the country. The gross tax revenue was buoyant. The growth of gross taxes was higher than the growth of GDP for the current year once again, indicating a reversal of the trend in the past two years of the economic slowdown.

It is evident from **Chart 1.2** below that during the years 2009-10 and 2010-11, corporation tax contributed the most towards the collection of tax revenue, with its share of total tax revenue remaining steady over the last two years. Share of customs duties with respect to the previous year recorded a significant growth, while the share of income tax as a percentage of total tax revenue witnessed a significant decline.

Chart 1.2: Components of tax revenue



1.2.4 Non-tax revenue

Table 1.5 shows that during the year 2010-11, the largest share of non-tax revenue (69 *per cent*) comes from user charges levied by various departments, which offer economic services to the general public. Interest receipts constituted 10 *per cent* of non-tax revenue, while dividends and profits accounted for around 14 *per cent*. There was considerable growth in non-tax revenue in the current year (46 *per cent*), mainly because of a phenomenal growth in tolls and revenue sharing agreements from roads and bridges (1697 *per cent* growth), from other communication services (659 *per cent* growth) and power sector receipts (13 *per cent* growth). There was negative growth in dividends and profits this year. This was mainly because the share of surplus profits from Reserve Bank of India showed a negative growth of 25 *per cent* compared to last year. Contributions from Railways and the share of profits from

nationalised banks showed a negative growth of 11 per cent and 16 per cent respectively when compared with those of the previous year.

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**
X Plan (2002-07) Average	154419	37023	24018	687	77953	14738
Relative share (per cent)	100	24	16	Negligible	50	10
XI Plan (2007-12)						
2007-08	208079	34612	34500	742	120998	17227
Relative share (per cent)	100	17	17	Negligible	58	8
2008-09	208728	30846	38608	540	118146	20588
Relative share (per cent)	100	15	19	Negligible	57	10
2009-10	244827	35849	50250	713	133038	24977
Relative share (per cent)	100	15	21	Negligible	54	10
2010-11	358681	35299	47993	814	248252	26323
Relative share (per cent)	100.00	10	14	Negligible	69	7
Average Annual Rate of Growth						
X Plan (2002-07)	4.86	(-) 13.56	8.65	16.07	13.07	5.59
XI Plan (2007-12)						
2007-08	20.83	30.35	17.71	58.89	20.44	11.75
2008-09	0.31	(-)10.88	11.91	(-)27.22	(-)2.36	19.51
2009-10	17.29	16.22	30.15	32.04	12.60	21.32
2010-11	46.50	(-)1.53	(-)4.49	14.17	86.60	5.39

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 Public Sector Enterprises and Government departments like Railways, Posts, Shipping etc.

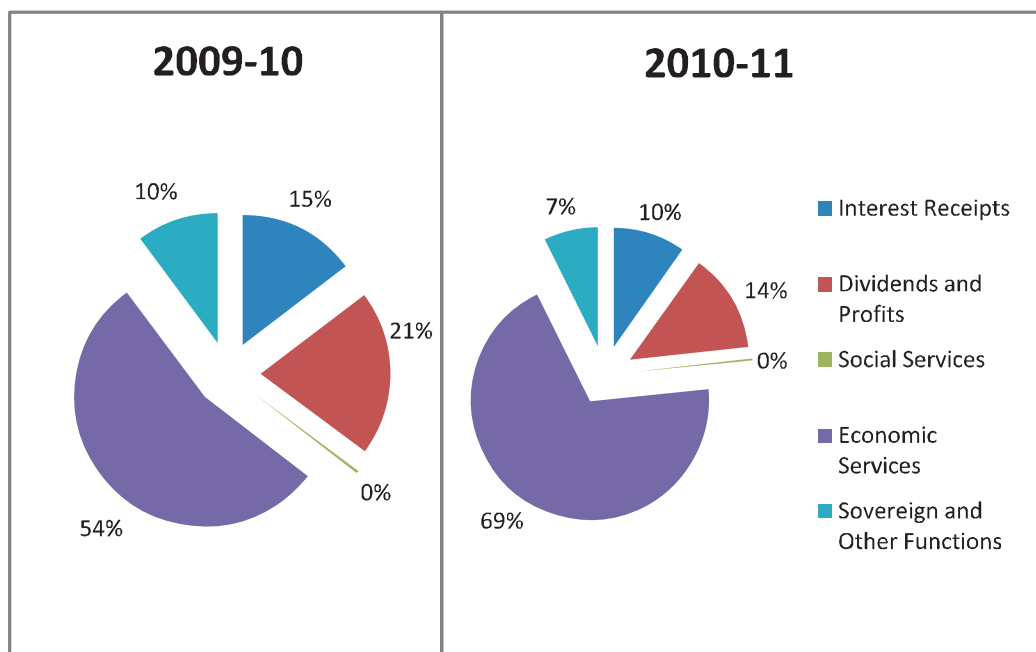
*** Fiscal services and other General Services (Police, Public Works, Stationery and Printing etc.)*

The increase in revenue on account of roads and bridges is mainly on account of tolls on roads levied in 2010-11 totalling ₹ 2,214 crore. These tolls were not levied during the earlier years.

The increase in revenue on account of other communication services is mainly on account of increase in the receipts of the Wireless and Planning Co-ordination Organisation from ₹ 3,810 crore in 2009-10 to ₹ 109,698 crore in 2010-11.

It is evident from **Chart 1.3** that during the years 2009-10 and 2010-11, receipts on economic services constituted a major chunk of non-tax revenue. The drastic increase in the share of non-tax receipts from economic services is on account of the auction of spectrum during 2010-11 and is to that extent, one-off in nature.

Chart 1.3: Components of non-tax revenue



1.2.5 Non-debt capital receipts

Non-debt capital receipts consist of miscellaneous capital receipts (disinvestment) and recovery of loans and advances. **Table 1.6** gives the details of non-debt capital receipts from disinvestment 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. This table also indicates that but for the year 2008-09, actual realisation of the proceeds from disinvestment far exceeded the budget estimates. In the first four years of the Eleventh Plan, actual recovery of loans and advances far exceeded the budget estimates.

Table 1.6: Realisation from disinvestment and recovery of loans during the Eleventh Plan Period

Period	Disinvestment			Recovery of Loans		
	Budget Estimates	Actual Realisation	Percentage of Realisation	Budget Estimates	Actual Realisation	Percentage of Realisation
	(<i>₹ in crore</i>)			(<i>₹ in crore</i>)		
2007-08	1651	4387	265.72	3030	10391	342.94
2008-09	1165	22	1.89	5993	13509	225.41
2009-10	1120	23599	2107.05	5720	12733	222.61
2010-11	40000	22277*	55.69	6624	29253	441.62

*Does not include receipts from bonus shares and other receipts aggregating ₹569 crore.

The break-up of disinvestment proceeds received during the year is given in **Table 1.7**.

Table 1.7: Disinvestment proceeds from sale of minority shareholdings in Central Public Sector Enterprises (CPSE) during 2010-11

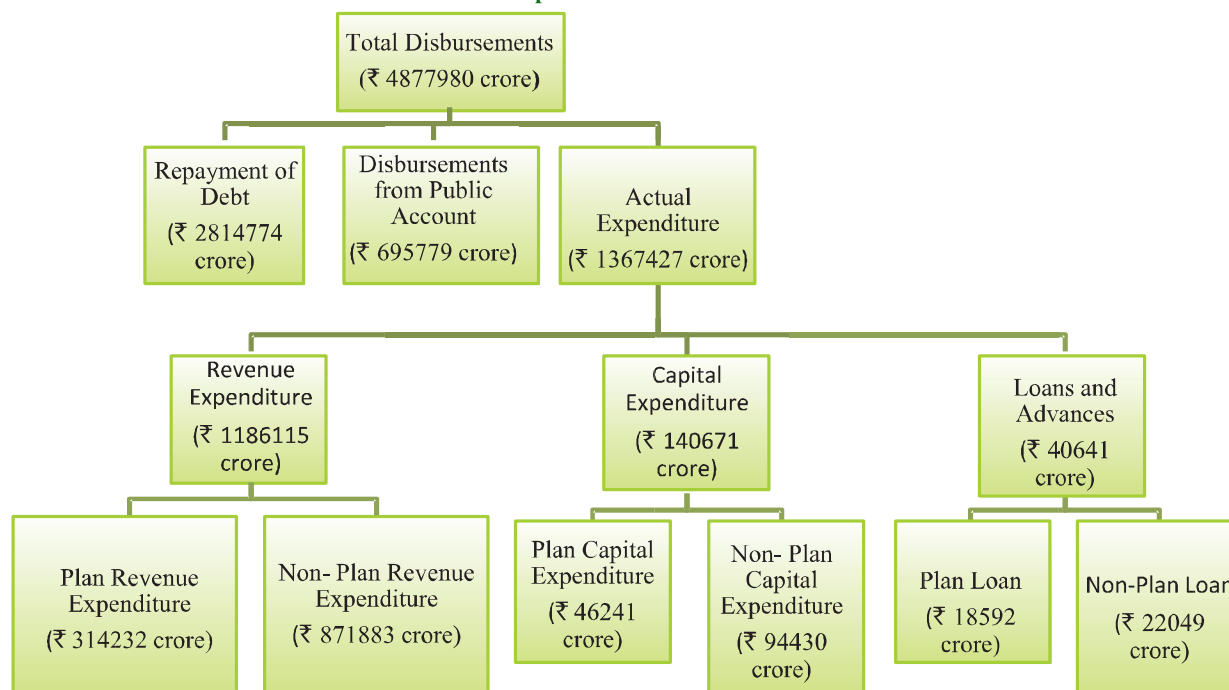
(₹ in crore)

S. No.	Name of CPSE	Value of realisation ³
1.	Coal India Limited	15199.44
2.	Engineer India Limited	959.65
3.	Manganese Ore India Limited	618.76
4.	Power Grid Corporation of India Limited	3721.17
5.	Shipping Corporation of India	582.45
6.	Satluj Jal Vidyut Nigam Limited	1062.74
7.	Krishak Bharti Co-operative	116.79
8.	Jessop & Company Limited	15.54
Total		22276.54

1.3 EXPENDITURE ANALYSIS

The aggregated disbursement of the Government of India from the Consolidated Fund of India and the Public Account was of the order of ₹ 48,77,980 crore. As depicted in **Box 1.2**, aggregate disbursement has three major components. Repayment of debt is the largest component of the total disbursements, accounting for 58 per cent of the total disbursements.

Box1.2: Components of Total Disbursements

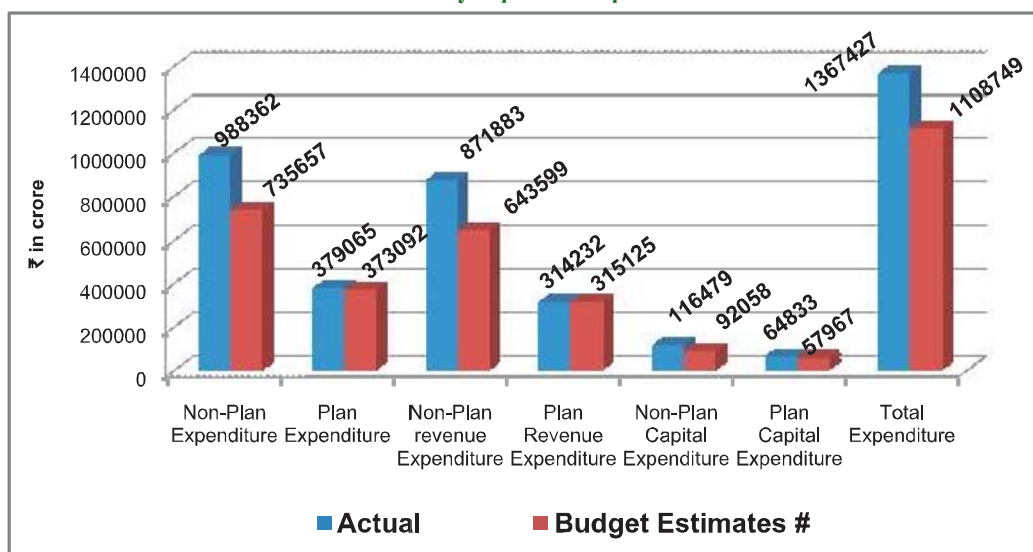


³As per information furnished by Controller General of Accounts and Union Finance Accounts 2010-11

In 2010-11, the total disbursements of the Government decreased by less than one *per cent*. In the current year, the Union Government disbursed 58 *per cent* of its expenditure in the form of debt repayments, 14 *per cent* towards payments in the Public Account and was left with just 28 *per cent* for current expenditure⁴. High debt repayment obligations resulted in less proportion of total expenditure being available for current operations.

As indicated in **Chart 1.4**, the total expenditure (excluding repayment of debt) increased by 23 *per cent* over the budget estimates, because non-Plan revenue expenditure increased by 35 *per cent* and non-Plan capital expenditure by nearly 27 *per cent*.

Chart 1.4: Comparison of Budget estimates (as per ‘Budget at a Glance’) and Finance Accounts 2010-11 on key expenditure parameters



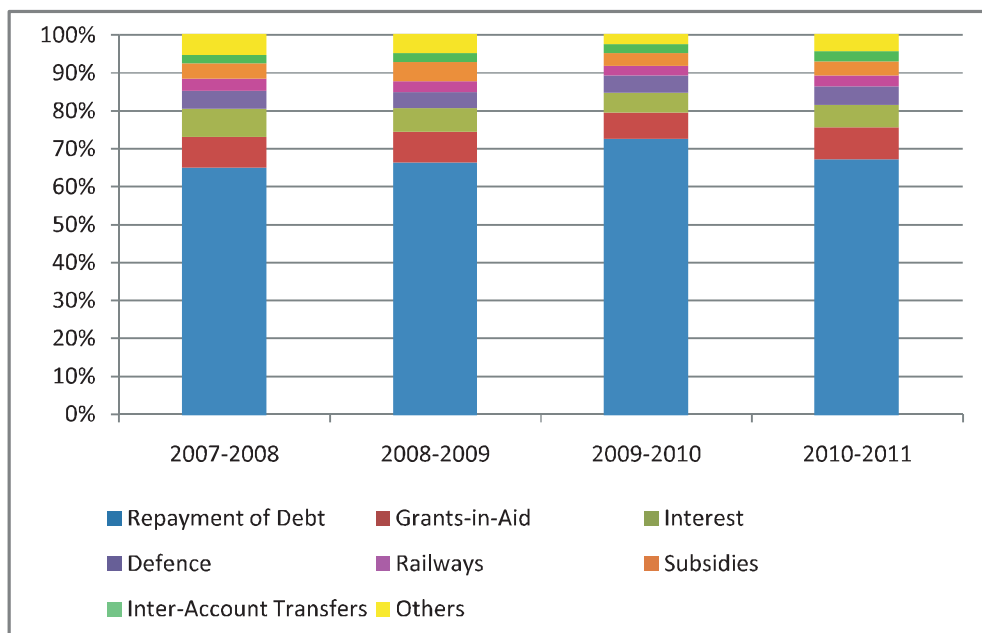
#As per ‘Budget at a Glance’.

Note: Plan and non-Plan capital expenditure include disbursement of loans and advances

Chart No 1.5 shows that the bulk of expenditure from the CFI is for the repayment of public debt. In 2010-11, over 65 *per cent* of the total expenditure from the CFI was towards repayment of public debt. Grants-in-aid (including grants for creation of capital assets), which stood at about 6.5 *per cent* of the Government’s expenditure in 2009-10 increased sharply by 21 *per cent* and constituted eight *per cent* of the Government’s expenditure in 2010-11.

⁴ During the Tenth Plan period, the Union Government had on an average, 33 *per cent* of the total expenditure available for current expenditure.

Chart 1.5: Break-up of expenditure from the Consolidated Fund of India



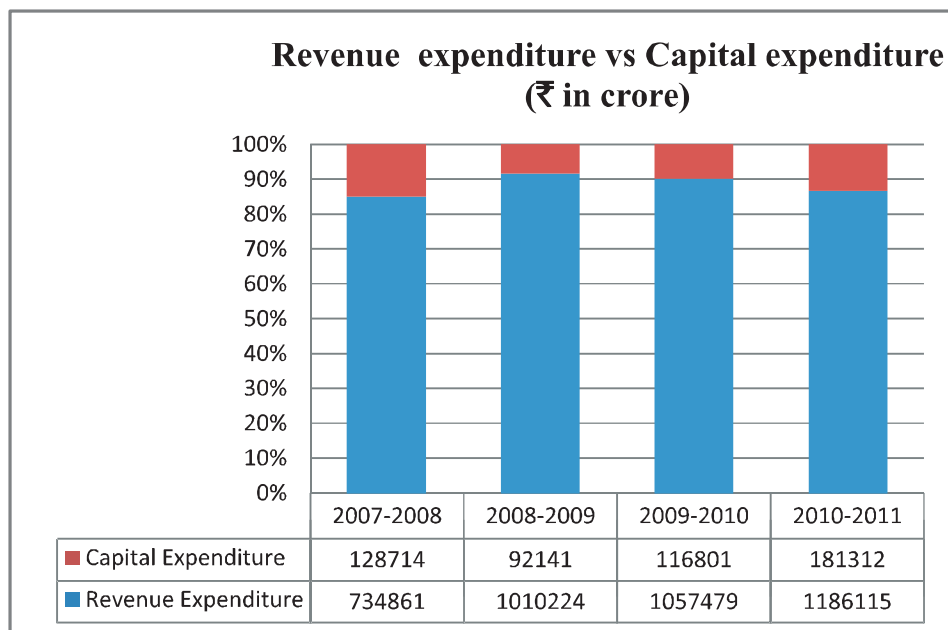
Note: Data extracted from 'e-lekha' portal. Does not include journal entries⁵

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 Governments' 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 shares, and loans and advances given by the Government. **Chart 1.6** shows the dominance of revenue expenditure over capital expenditure.

⁵e-lekha is the core accounting IT solution used by the Controller General of Accounts. Journal entries refer to accounting adjustments carried out after the close of accounts, but before the finalization of accounts.

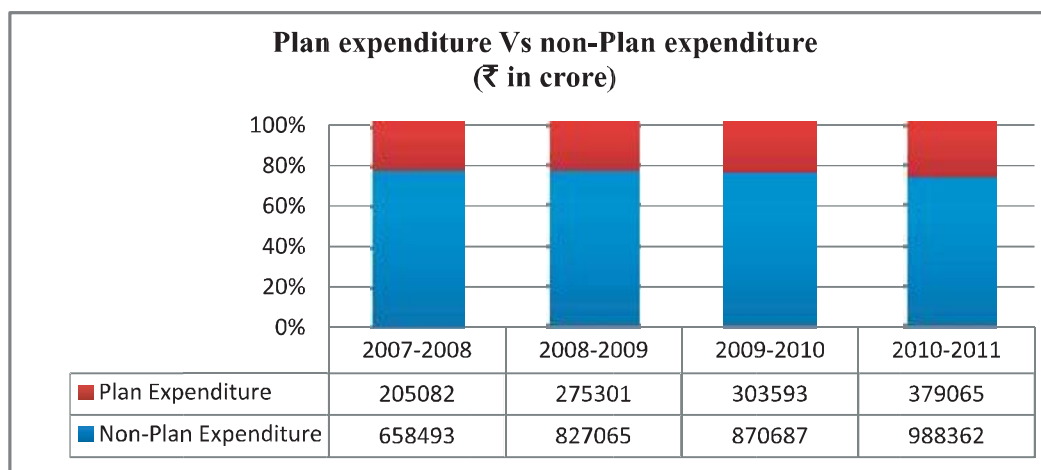
Chart 1.6: Comparison of revenue expenditure with capital expenditure



1.3.2 Plan and non-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 1.7** shows the break-up of the Government's Plan and non-Plan expenditure. In 2010-11, Plan expenditure as a proportion of actual expenditure increased from 25 *per cent* in 2009-10 to over 27 *per cent*. This was mainly due to a sharp 22 *per cent* increase in the expenditure on grants-in-aid (including grants-in-aid for capital creation).

Chart 1.7: Analysis of Plan expenditure and non-Plan expenditure

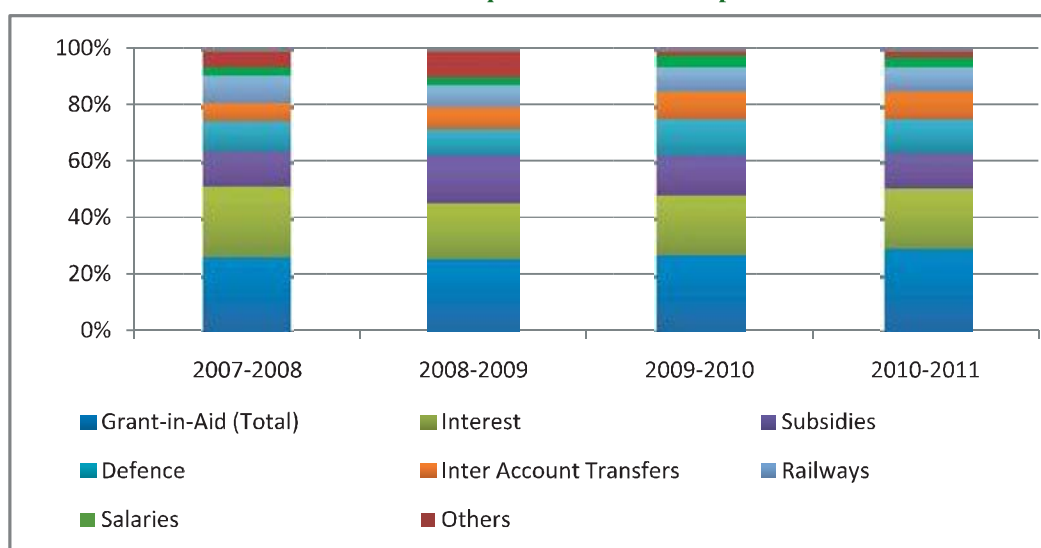


1.3.3 Analysis of Revenue expenditure

(a) Preponderance of Revenue expenditure

The 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 2010-11 was ₹ 11,86,115 crore. As shown in **Chart 1.8** below, grants-in-aid and subsidies have consistently shown a growth trend during the period 2007-11.

Chart 1.8: Main components of revenue expenditure



Note: Data extracted from 'e-lekha' portal. Does not include journal entries

During the Tenth Plan period, the average share of revenue expenditure to actual expenditure was around 87 *per cent*. The share of revenue expenditure increased to a high of around 92 *per cent* of expenditure in 2008-09, after which there was a gradual reduction to around 90 *per cent* in 2009-10 and around 87 *per cent* in the current year.

Committed and obligatory expenditure such as interest payments, pensions, salaries and defence-related expenditure take up a major share of revenue expenditure. During the Eleventh Plan period, interest payments grew at more than double the rate of growth during the Tenth Plan period, indicating greater reliance on debt to finance the budget. There was some moderation in the growth of interest payments in the current year (nine *per cent* compared to around 11.5 *per cent* in the previous two years). The Sixth Pay Commission award resulted in considerable growth in pay and allowances in 2008-09 (62 *per cent*) and in 2009-10 (38 *per cent*). However, in the current year, growth under this head was less than one *per cent*. Pension payments also had witnessed considerable growth in the past two years but the growth in the current year was of the order of one *per cent*. Defence expenditure, which accounts for around eight *per cent* of revenue expenditure, grew by two *per cent* in the current year.

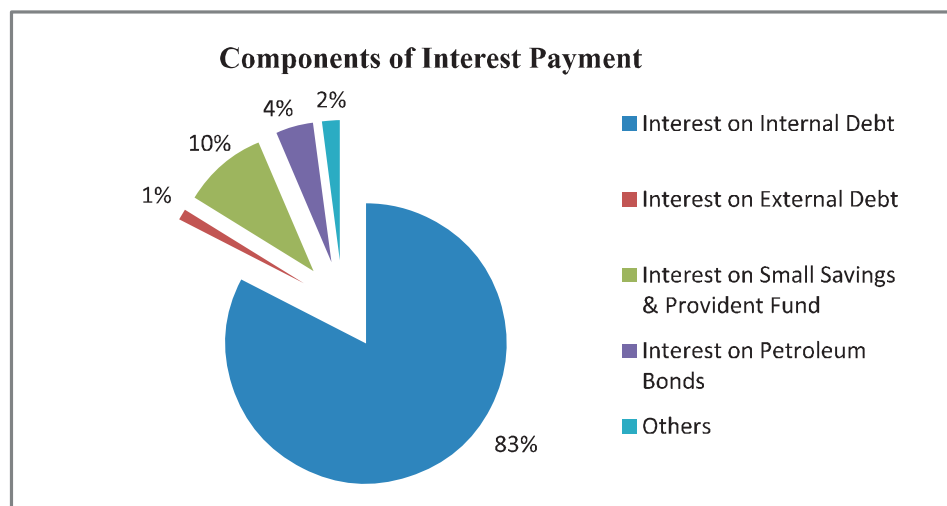
(b) Major components of Revenue expenditure

Grants-in-aid: Grants-in-aid both general and for capital creation are grants paid to State/Union Territory Governments, Foreign Governments or to bodies/authorities/entities outside the Consolidated Fund of India. Grants are to be utilised for the purpose for which they are sanctioned, with the remaining unutilised amounts to be surrendered or adjusted in the future in case of recurring grants. In the context of new models of public delivery, grants-in-aid have come to assume a role of centrality. **Chart 1.8** indicates the grants-in-aid as the most significant component of revenue expenditure for civil ministries. The proportion of grants-in-aid to revenue expenditure stood at 27 *per cent* in 2007-08, which increased further to 30 *per cent* in the current year.

Interest Payments: As per **Chart 1.8**, 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 and interest payment on borrowings under market stabilisation scheme. The proportion of interest payments to revenue expenditure stood at 24.5 *per cent* in 2007-08, which declined to 20 *per cent* in the current year.

As shown in **Chart 1.9**, interest payments on account of internal debt accounts for 83 *per cent* of the total interest payments.

Chart 1.9: Main components of interest expenditure



Subsidies: Subsidies connote an 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 1.8** presents a picture of the subsidies, which the Government provided explicitly during the Tenth Plan period and the first four years of the Eleventh Plan period. Total subsidies grew by 37 per cent in the current year over 2010-11.

Table 1.8: Explicit Subsidies in the Union Government Budget

(₹ in crore)

Period	Food	Fertilisers@	Fertilisers#	Petroleum Subsidy**	Others*	Total subsidies	Subsidies (A)	Subsidies (B)
Average Annual Values								
X Plan (2002-07)	23941^^	10969	5717	3971	2596	47194	1.42	9.42
XI Plan (2007-12)								
2007-08	31328	19556^	12934	2820	4288	70926	1.43	9.65
2008-09	43751	28048^	48555	2852	6502	129708	2.33	12.84
2009-10	58443	22184	39452	2951	6692	129722	1.98	12.27
2010-11	63844	24337	41500	38371	9695	177747	2.26	14.99

@ 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,

**Does not include petroleum bonds for ₹20,554 crore, ₹75,942 crore and ₹10,306 crore issued during 2007-08, 2008-09 and 2009-10 respectively, to oil companies in settlement of their claims under the Administered Price Mechanism and towards compensation for under-recoveries on account of sale of sensitive petroleum products. Does not include expenditure of ₹12,000 crore during 2009-10 towards compensation for under-recoveries on account of sale of sensitive petroleum products.

^Does not include the Special Bonds for ₹7,500 crore (₹3,500 crore for urea and ₹4,000 crore for decontrolled fertilisers) and ₹20,000 crore (₹3,000 crore for urea and ₹17,000 crore for decontrolled fertilisers) issued during 2007-08 and 2008-09, respectively, to fertiliser companies as compensation towards fertiliser subsidy.

(A) As a percentage of GDP

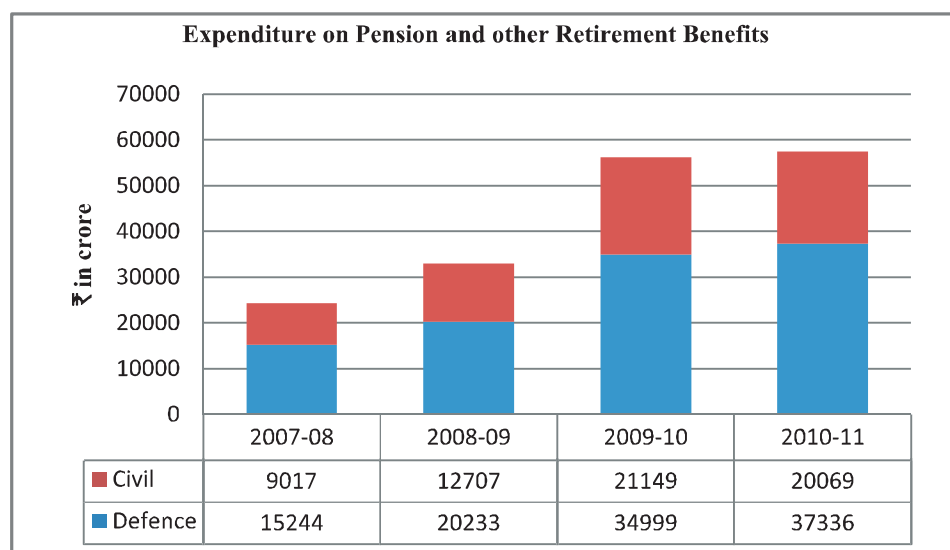
(B) As a percentage of Revenue expenditure

The reasons for the large increase in petroleum subsidies (₹ 35,420 crore) in 2010-11 is mainly attributable to (i) non-reckoning of subsidies of ₹ 12,000 crore in 2009-10 towards compensation for under-recoveries on account of sale of domestic LPG and kerosene (PDS) operations and increase by ₹ 12,694 crore in the current year towards the same purpose.

Total subsidies as a percentage of GDP was 2.26 percentage points in the current year as against 1.98 percentage points in 2009-10. Subsidies as a percentage of revenue expenditure increased by almost three percentage points in the current year over 2009-10.

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 its 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 1.8** pertain to 'explicit subsidies' only, for which allocations are made in Union Budgets of the respective years. These trends, therefore, present a partial picture as these are exclusive of the extra-budgetary liabilities created by the Union Government by issuing special bonds/securities to the concerned companies as compensation for under-recoveries of their products due to price control imposed by the Government in public interest. If these extra-budgetary liabilities are also treated as subsidies, the Union Government expenditure on subsidies would increase steeply and would more accurately represent the actual expenditure being incurred on subsidies.

Pension Payments: Expenditure on pensions and other retirement benefits increased from ₹ 24,261 crore in 2007-08 to ₹ 57,405 crore, registering a growth of 137 *per cent* in the four years. **Chart 1.10** shows the position for the period 2007-11. In the case of Defence pensions, during the four years under consideration, pension payments increased by 145 *per cent* and stood at ₹ 37,336 crore, which was 65 *per cent* of the total pension payments made by the Union Government. In the case of civil pensions, the rate of growth was 123 *per cent* during 2007-11.

Chart 1.10: Expenditure on Pensions and other Retirement Benefits for the period 2007-11


Defence Expenditure: The Defence sector revenue expenditure includes expenditure of the Army, Navy, Air Force, Ordnance Factories and the Ministry of Defence. In 2010-11, it stood at 12 *per cent* of the total revenue expenditure of the Central Government.

1.3.4 Analysis of Capital expenditure

Capital expenditure (including loans and advances), which is indicative of expenditure on asset creation, increased by ₹ 64,511 crore (55 *per cent*) over the previous year and stood at ₹ 1,81,312 crore in 2010-11. **Table 1.9** shows the departments/grants, which have witnessed large increases in capital expenditure.

Table 1.9: Cases of large increases in capital expenditure

<i>(₹ in crore)</i>				
Sl. No.	Grant	2009-10	2010-11	Growth (Percentage)
1.	27 Capital Outlay on Defence Services	51112	62056	21
2.	32 Department of Economic Affairs	4619	10726	132
3.	33 Department of Financial Services	3266	22551	590

As is evident from the table above, increase in defence capital expenditure and investment in general financial and trading institutions by the Ministry of Finance was largely responsible for the spurt in capital expenditure during 2010-11.

Chart 1.11: Allocation of Capital Expenditure – Major Sectors (Percentage)

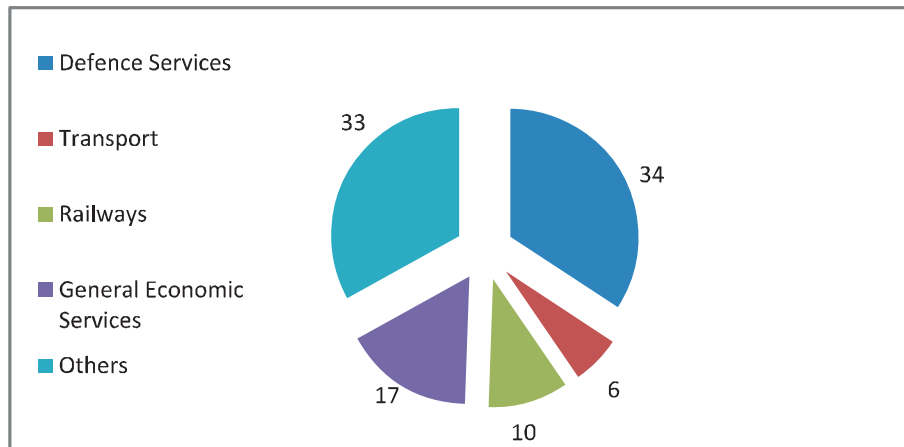


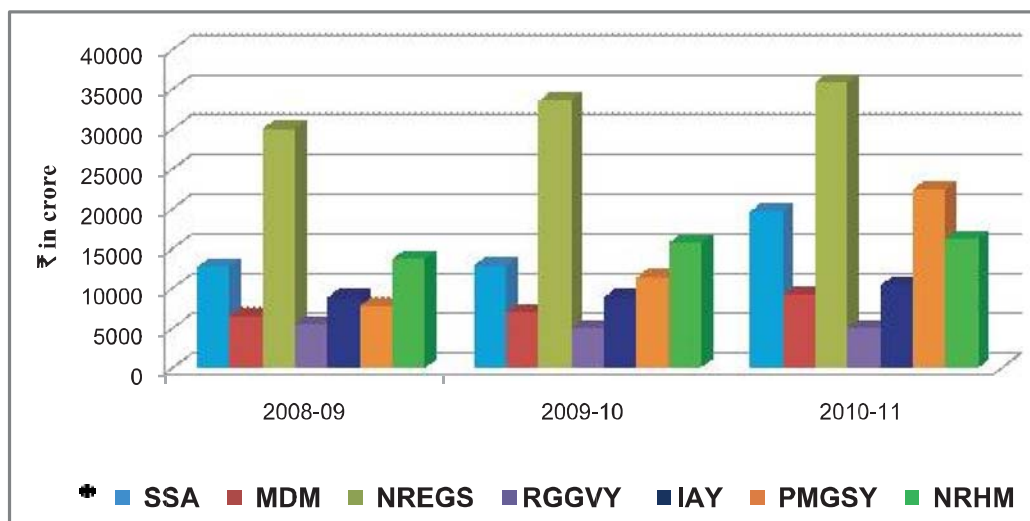
Chart 1.11 indicates that Defence Services, Transport, Railways and General economic services accounted for 67 *per cent* of the capital expenditure in the current year.

1.3.5 Analysis of Plan expenditure

The total Plan expenditure of the Union in 2007-08 was ₹ 2,05,082 crore, which increased to ₹ 3,03,593 crore during 2009-10. This further increased to ₹ 3,79,065 crore during 2010-11, being 27.27 *per cent* of the actual expenditure. The top 10 grants by expenditure, accounted for 75.4 *per cent* of the total Plan expenditure.

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 1.12** shows the actual expenditure on major flagship programmes during the period 2008-11.

Chart 1.12: Actual expenditure on major flagship programmes during the Eleventh Plan


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

The total expenditure on the seven flagship schemes shown above has increased from ₹ 83,849 crore in 2008-09 to ₹ 94,105 crore in 2009-10 and to ₹ 1,18,571 crore in 2010-11. It can be seen from **Chart 1.13** and from **Table 1.10** below that the PMGSY and SSA recorded the highest growth of 98 per cent and 53 per cent over the previous year in 2010-11.

Table 1.10: Major Flagship Programmes of the Government in the past three years- Actual expenditure versus Budget Estimates

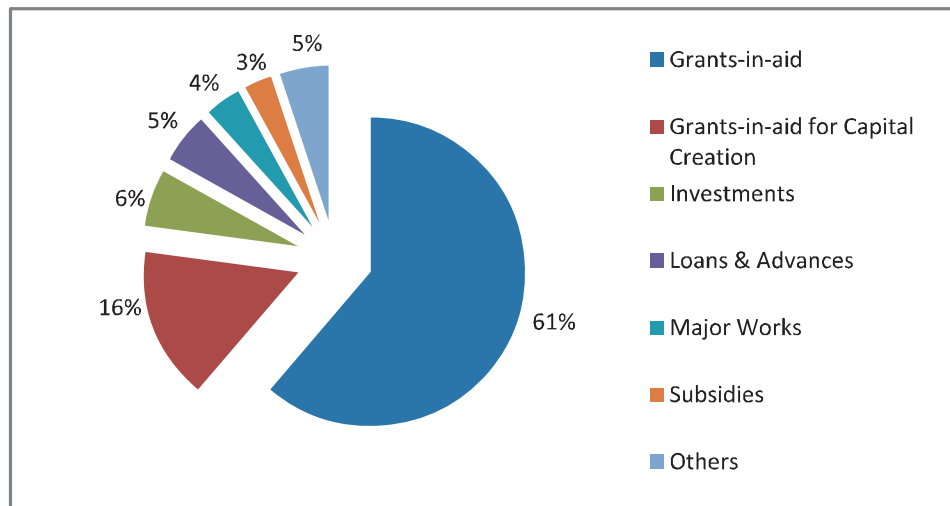
(₹ in crore)

Sl. No.	Programme	2008-09			2009-10			2010-11		
		BE	Actuals	Variation over BE (Percentage)	BE	Actuals	Variation over BE (Percentage)	BE	Actuals	Variation over BE (Percentage)
1	SSA	13100	12643	(-) 3.5	13100	12825	(-)2.10	15000	19637	30.9
2	MDM	8000	6531	(-) 18.4	8000	6932	(-)13.4	9440	9118	(-)3.4
3	NREGS	16000	29999	87.5	39100	33538	(-)14.2	40100	35841	(-)10.6
4	RGGVY	5055	5500	8.8	6300	5000	(-)20.64	5500	5000	(-)9.1
5	IAY	5400	8799	62.9	8800	8800	-	10000	10337	3.4
6	PMGSY	7530	7780	3.32	12000	11340	(-)5.5	12000	22400	86.7
7	NRHM	13838	12597	(-) 9.0	15534	15670	0.9	17138	16238	(-) 5.3

1.3.7 Major Components of Plan expenditure⁶

As can be seen from **Chart 1.13**, grants-in-aid, investments, loans and subsidies account for 95 per cent of Plan expenditure. Grants-in-aid during 2010-11 constituted 77 per cent of the total Plan expenditure in the case of civil ministries. Capital related Plan expenditure was as low as 15 per cent of the total Plan expenditure. Ministry-wise/grant-wise components of Plan expenditure are shown in **Appendix I-A**.

Chart 1.13: Components of Plan expenditure

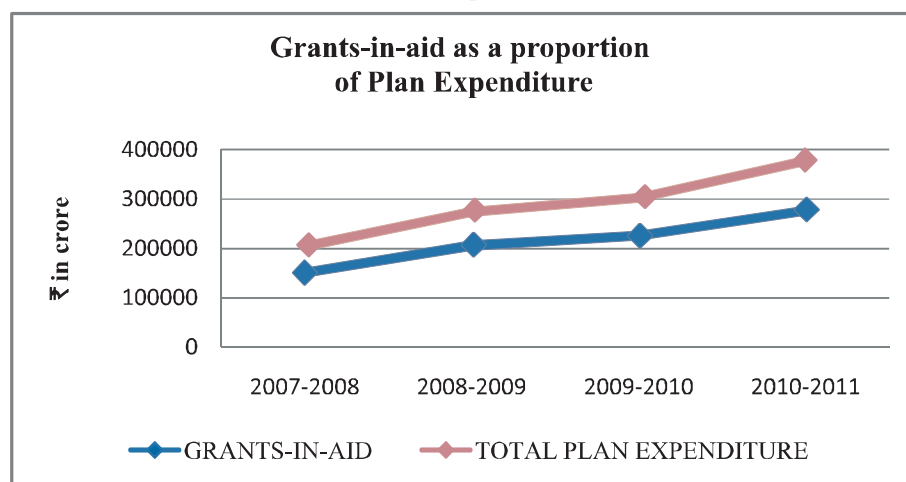


Note: Data extracted from 'e-lekha' portal (other than for grants pertaining to Posts, Telecommunications and Railways). Does not include journal entries. Excludes inter-account transfer and deduct recoveries

Chart No 1.14 shows grants-in-aid (including grants-in-aid for capital creation) as a proportion of the total Plan expenditure during the last four years. Grants-in-aid ranged between 77 and 79 per cent of the total Plan expenditure.

⁶Excluding grants pertaining to Posts, Telecommunication and Railways

Chart 1.14: Grants-in-aid (including grants-in-aid for capital creation) as a proportion of total Plan expenditure

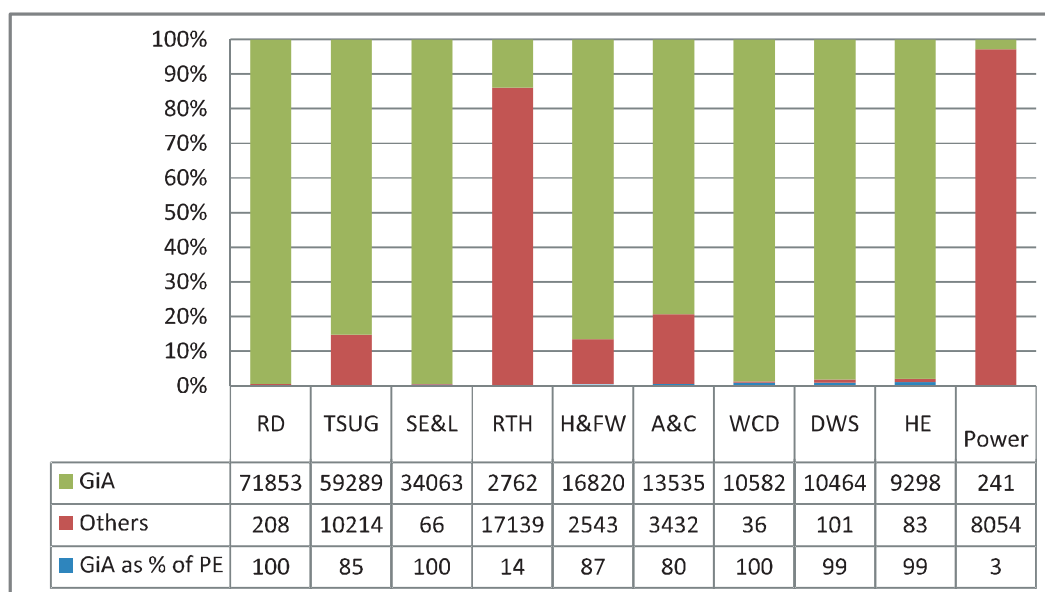


Note: Data extracted from 'e-lekha' portal (other than for grants pertaining to Posts, Telecommunications and Railways). Does not include journal entries.

1.3.8 Proportion of grants-in-aid in Plan expenditure in key Ministries

Chart 1.15 below shows the proportion of grants-in-aid within Plan expenditure for the 10 Ministries/Departments with the largest Plan expenditure in 2010-11.

Chart 1.15: Grants-in-aid (including grants-in-aid for capital creation) as a proportion of total Plan expenditure in key Ministries/Departments



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, DWS = Drinking Water Supply, HE = Higher Education

Note: Data extracted from 'e-lekha' portal (other than for grants pertaining to Posts, Telecommunications and Railways). Does not include journal entries.

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

1.3.9 Mode of delivery of Central Plan assistance to State/District level autonomous bodies/implementing agencies

Table 1.11 below indicates that the proportion of direct transfer of Central Plan assistance to total Plan expenditure has steadily increased from 26.71 *per cent* in 2007-08 to 32.24 *per cent* in 2010-11.

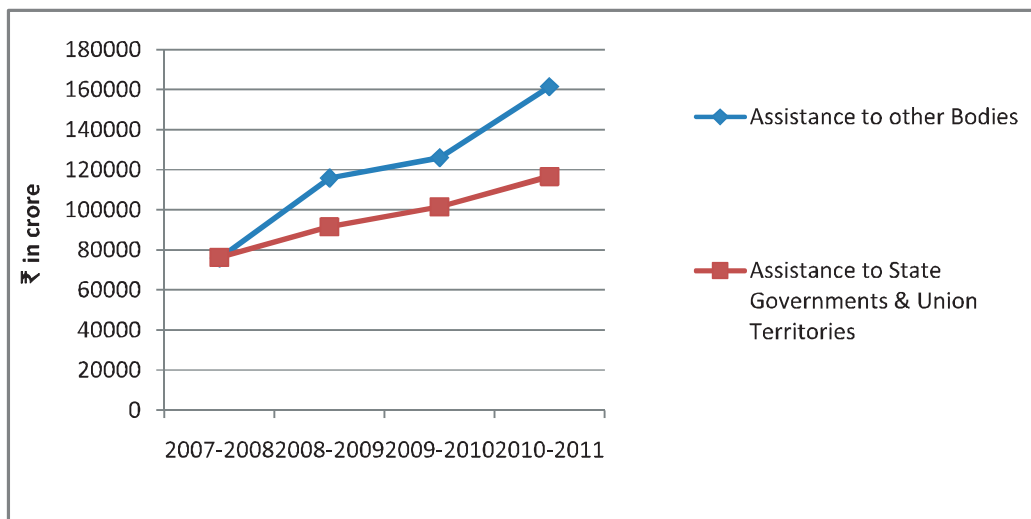
Table 1.11: Direct transfer of Central Plan assistance to State/District level autonomous bodies/implementing agencies

(₹ in crore)

Year	Amount of Direct Transfer (As in Expenditure Budget, Vol. I, Statement No.18)	Total Plan Expenditure	Percentage of Col. 2 to Col. 3
(1)	(2)	(3)	(4)
2007-08	54776	205082	26.71
2008-09	83224	275301	30.23
2009-10	90521	303593	29.82
2010-11	122198 (RE)	379065	32.24

Direct transfers vis-a-vis transfer through State Government: If the proportion of direct transfers is seen against the total amount of Plan grants-in-aid given by the Central Government, then in 2010-11, direct transfers stood at 58 *per cent* of the total Plan grants-in-aid. This is depicted in the chart (**Chart 1.16**) below. It is evident that transfers to bodies/authorities have become the more preferred method of resource transfer, compared to disbursement of grants to State Governments.

Chart 1.16 Proportion of direct transfers vs. transfers to States & Union Territories



Note: Data extracted from 'e-lekha' portal (other than for grants pertaining to Posts, Telecommunications and Railways). Does not include journal entries.

As seen from the chart above, the share of direct transfers in grants-in-aid has increased from 50 to 58 *per cent* in the last four years. A major concern repeatedly brought out by the Comptroller and Auditor General is that accounts of funds utilized by implementing agencies are not readily available and there is a need to ascertain whether there are unspent funds lying with these agencies. This issue has also been addressed in detail in Chapter-2.

1.3.10 Sectoral analysis of expenditure

Another way of analysing the overall expenditure of the Government could be in terms of expenditure of sectors viz. General Services, Social Services and Economic Services. **Table 1.12** shows the breakup of expenditure between these three services, as is evident from the table, expenditure on General and Economic Services was much larger than that on Social Services.

Table 1.12: Expenditure under various Services

(₹ in crore)

Period	General Services	Social Services	Economic Services
	(Revenue and Capital*)		
X Plan (2002-07)	259142	32634	192841
XI Plan (2007-12)			
2007-08	341459	63246	337115
2008-09	405086	90288	466578
2009-10	488154	103895	423181
2010-11	525494	125934	515607

General Services: It is evident from **Table 1.12** that the total expenditure of the Union Government on General Services, which includes administration and Defence, has increased from an average of ₹ 2,59,142 crore in the Tenth Plan period to ₹ 4,88,154 crore during 2009-10. In the current year, the expenditure was ₹ 5,25,494 crore. The increase in expenditure in 2010-11 over the previous year was mainly on account of substantial incremental expenditure in pension and other retirement benefits (₹ 1,257 crore), police (₹ 1,369 crore), Defence Services-Army (₹ 2,259 crore) and interest payments (₹ 20,923 crore).

Social Services: Expenditure of the Union Government on Social Services has increased from an average of ₹ 32,634 crore in the Tenth Plan period to ₹ 1,03,895 crore during 2009-10. In the current year, the expenditure was ₹ 1,25,934 crore.

Table 1.13: Expenditure (revenue and capital) on key sectors in Social Services

(₹ in crore)

Period	Education	Health
X Plan (2002-07)	14970	5379
XI Plan (2007-12)		
2007-08	25606	10938
2008-09	36499	14004
2009-10	41050	16260
2010-11	51382	19036
Average Annual Growth Rate (per cent)		
X Plan (2002-07)	23.90	28.92
XI Plan (2007-12)		
2007-08	10.37	28.53
2008-09	42.54	28.03
2009-10	12.47	16.11
2010-11	25.17	17.07

Table 1.13 above shows that within Social Services, the expenditure on the education sector saw a large increase from an average of ₹ 14,970 crore in the Tenth Plan period to ₹ 41,050 crore during 2009-10 and further to ₹ 51,382 crore in 2010-11. This was mainly on account of substantial incremental outlay of ₹ 6,812 crore in the current year in the SSA programme.

A moderate incremental expenditure was recorded in the current year in the health (₹ 2,776 crore) and water supply (₹ 4,221 crore) sectors over the previous year. Growth in the health sector was mainly on account of incremental outlay in the current year in education research and training in allopathy (₹ 255 crore), prevention and control of diseases (₹ 273 crore) and reproductive and child health programmes (₹ 329 crore). Growth in the water supply sector was mainly on account of incremental outlay in the current year in rural water supply programmes (₹ 2,634 crore) and the Indira Awas Yojana (₹ 1,537 crore).

Economic Services: The overall expenditure of the Union Government on Economic Services increased from an average of ₹ 1,92,841 crore in the Tenth Plan period to ₹ 4,23,181 crore during 2009-10 and further to ₹ 5,15,607 crore in 2010-11. **Table 1.14** shows the expenditure on major sectors within Economic Services.

Table 1.14: Expenditure (revenue and capital) on key sectors in Economic Services

(₹ in crore)

Period	Water Supply	Transport	Agriculture & Allied Activities	Energy
X Plan (2002-07)	5492	75063	37275	19394
XI Plan (2007-12)				
2007-08	9523	108976	68802	30497
2008-09	15980	121077	139319	88487
2009-10	20540	142722	117571	36066
2010-11	24761	170005	134582	48934
Average Annual Growth Rate (per cent)				
X Plan (2002-07)	13.45	12.95	10.71	32.07
XI Plan (2007-12)				
2007-08	43.24	11.64	42.22	(-)13.64
2008-09	67.81	11.1	102.49	190.15
2009-10	28.54	17.88	(-)15.61	(-)59.24
2010-11	20.55	19.12	14.47	35.68

As the above table shows, expenditure on agricultural and allied activities also increased from an average of ₹ 37,275 crore in the Tenth Plan period to ₹ 1,17,571 in 2009-10, which further increased to ₹ 1,34,582 crore in 2010-11. The increase in the current year was primarily on account of incremental outlay in manures and fertilisers (₹ 2,030 crore), import of fertilisers (₹ 1,851 crore), food subsidies (₹ 5,998 crore) and assistance to the Indian Council of Agricultural Research (₹ 1,527 crore).

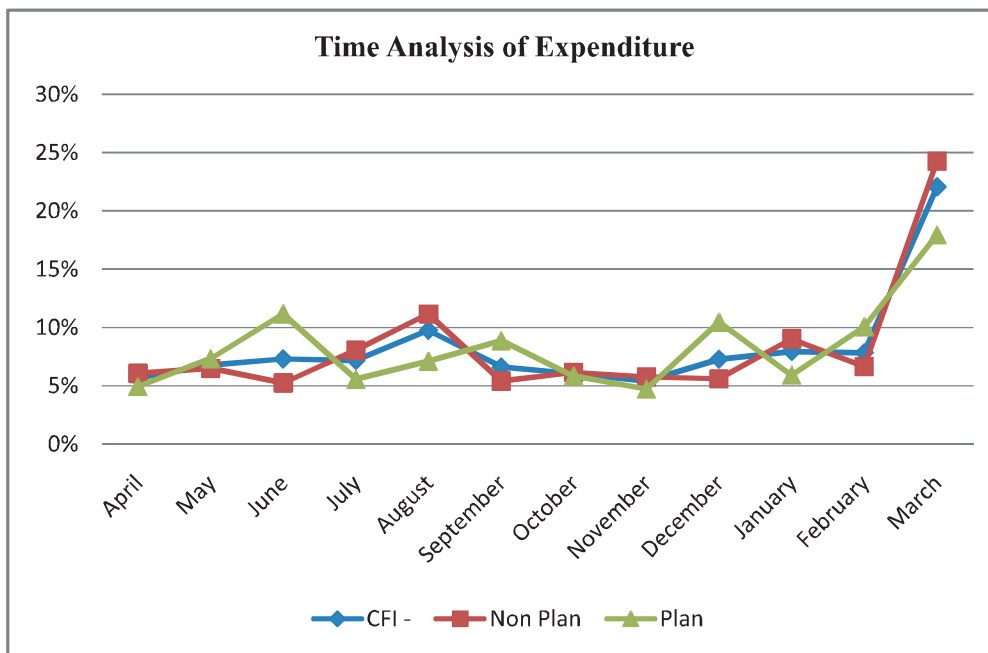
Expenditure on the energy sector increased from an average of ₹ 19,394 crore in the Tenth Plan period to ₹ 36,066 crore in 2009-10. In the current year, it further increased to ₹ 48,934 crore, mainly on account of incremental growth in payments to oil marketing companies as compensation for under recoveries in their domestic LPG and kerosene (Public Distribution System) operations (₹ 12,694 crore).

Expenditure on the transport sector increased from an average of ₹ 75,063 crore in the Tenth Plan period to ₹ 1,42,722 crore during 2009-10, which increased significantly to ₹ 1,70,005 crore in 2010-11. In the current year, the buoyancy in the transport sector was primarily on account of incremental outlay in PMGSY (₹ 11,060 crore), transfer to the Central Road Fund and the National Highways Permanent Bridges Fees Fund (₹ 3,823 crore), operating expenses-fuel (₹ 2,192 crore) and Appropriation to Funds (₹ 4,210 crore) in Indian Railways (Commercial Lines- working expenses).

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 1.17** below 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 1.17: Month-wise flow of expenditure



CFI=Consolidated Fund of India

Note: Data extracted from 'e-lekha' portal (other than for grants pertaining to Defence, Posts, Telecommunications and Railways). Does not include journal entries. Does not include expenditure on repayment of borrowings.

An analysis of the total expenditure of the Government from the Consolidated Fund of India for the Civil Ministries⁷ shows that 22 *per cent* of the total annual expenditure of 2010-11 was incurred in March 2011. The main reason for this was the sharp increase in non-Plan expenditure in March 2011. Non-Plan expenditure, which averaged between 5-10 *per cent* of the annual expenditure every month, showed a sharp increase in March 2011 to 24 *per cent* of the total non-Plan expenditure for the year. Plan expenditure showed quarterly peaks in the months of

⁷ Excluding Post and Telecommunications and repayment of debt

June, September and December of 2010 and March 2011 and showed a pronounced increase in March 2011 to 18 *per cent* of the total Plan expenditure.

Ministry/Department-wise time analysis: A disaggregated analysis in **Table 1.15** shows that in the case of 15 grants over 30 *per cent* of the total expenditure was incurred in March 2011. In the case of the Ministry of Textiles and the Department of Heavy Industry, 63 *per cent* and 60 *per cent* of the total expenditure of the year was incurred on the last day of March. A detailed Ministry-wise/grant-wise time analysis of expenditure is given in **Appendix I-B**.

Table 1.15: Analysis of the expenditure in March 2011

Grant No.	Grant Name	Total expenditure (₹ in crore)	Percentage of expenditure in March (including Supplementary Accounts)	Percentage of expenditure on last day of March
032	Department of Economic Affairs	16897	64	5
092	Ministry of Textiles	13046	64	63
049	Department of Heavy Industry	2109	60	60
072	Ministry of Petroleum and Natural Gas	38537	57	2
033	Department of Financial Services	57425	43	14
068	Ministry of Overseas Indian Affairs	68	49	31
073	Ministry of Planning	381	48	11
010	Ministry of Coal	451	41	2
041	Department of Revenue	15473	41	5
062	Law and Justice	855	37	31
016	Department of Consumer Affairs	702	34	10
006	Department of Chemicals and Petro-Chemicals	1229	34	2
056	Ministry of Housing and Urban Poverty Alleviation	828	32	13
027	Capital Outlay on Defence Services	62056	32	0
045	Ministry of Food Processing Industries	404	32	23

Note: Data extracted from 'e-lekha' portal (other than for grants pertaining to Defence, Posts, Telecommunications and Railways). Does not include journal entries.

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. Pay, DA, HRA, Rewards, Gratuity, etc.) on which expenditure is incurred. An examination of expenditure at the object head level in the Civil Ministries revealed that there was significant lumping of expenditure in the following cases in **Table 1.16**:

Table 1.16: Analysis of object head expenditure which took place in March 2011

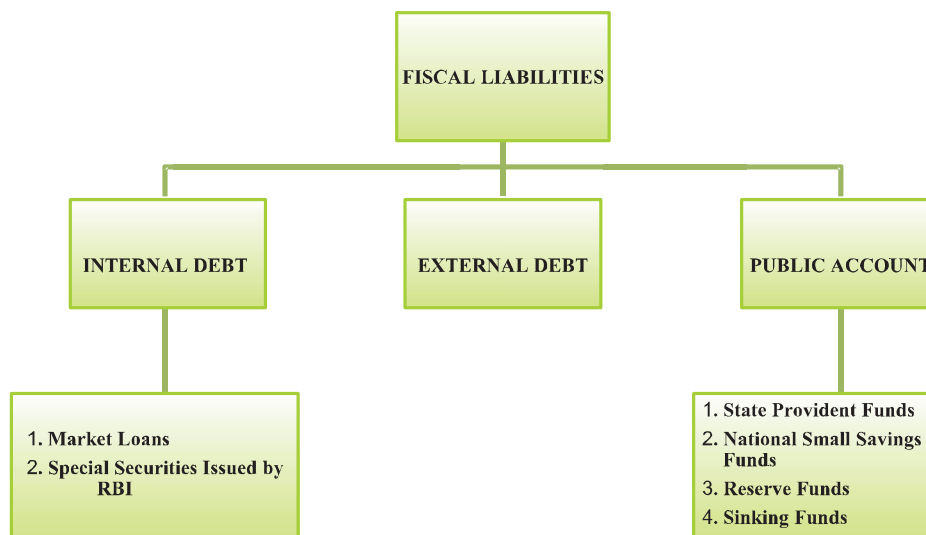
Object Head	Object Head Description	Total expenditure (₹ in crore)	Percentage of expenditure in March (including Supplementary Accounts)	Percentage of total expenditure on last day of March
64	Write-offs/losses	9118	99	99
63	Inter-Account Transfer	113943	88	32
54	Investments	48328	64	8
50	Other Charges	54596	43	1
26	Advertising and Publicity	1418	42	17
27	Minor Works	4932	38	8
55	Loans and Advances	53773	37	13
05	Rewards	28	35	12
42	Lump sum Provision	136	32	19
53	Major Works	19445	32	11
52	Machinery and Equipment	3278	31	10

Note: Data extracted from 'e-lekha' portal (other than for grants pertaining to Defence, Posts, Telecommunications and Railways). Does not include journal entries.

The Government should examine the reasons for lumping of expenditure, particularly in the case of investments, other charges, advertising and publicity, minor works, major works and machinery and equipment at the fag end of the financial year.

1.5 DEBT & DEFICIT INDICATORS

Box-1.3 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 Reforms and Budget Management Act, 2003 and also incentivised State Governments to set limits on their liabilities through fiscal reform legislations. Fiscal liabilities refer to liabilities under both the Consolidated Fund and the Public Accounts Fund. **Table 1.17** indicates that compared to the Tenth Plan average, total liabilities as a percentage of GDP has shown a falling trend. This is mainly because GDP growth has been much higher than the growth in total liabilities in recent years. The Thirteenth Finance Commission has recommended that the Union Government should reduce its debt stock to 44.8 *per cent* of GDP by 2014-15.

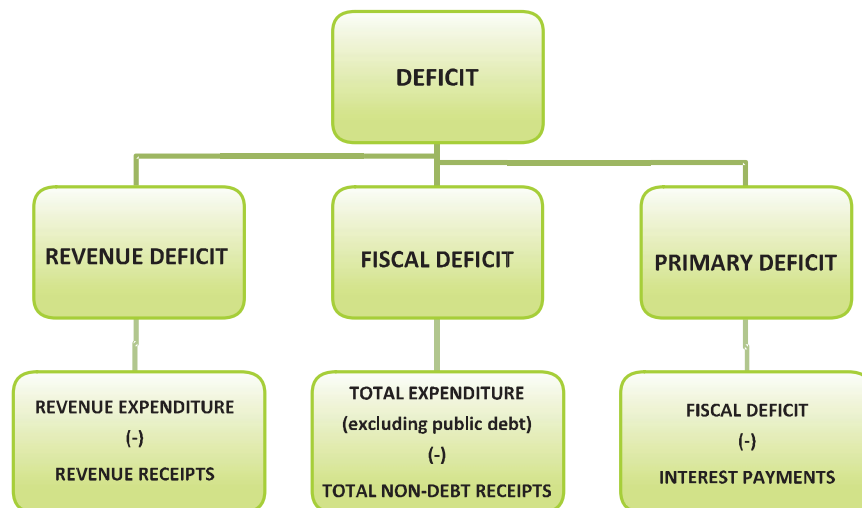
Table 1.17: Fiscal Liabilities

Period	(₹ in crore)					
	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)
X Plan Average (2002-07)	1274620 (38.42)	72715 (2.19)	368973 (11.12)	1716307 (51.74)	193395 (5.83)	1836987 (55.37)
XI Plan (2007-12)						
2007-08	1799651 (36.37)	112031 (2.26)	466602 (9.43)	2378284 (48.07)	210104 (4.25)	2476357 (50.05)
2008-09	2019841 (36.18)	123046 (2.20)	556235 (9.96)	2699122 (48.35)	264059 (4.73)	2840135 (50.87)
2009-10	2328339 (35.55)	134083 (2.05)	583279 (8.90)	3045701 (46.50)	249306 (3.81)	3160924 (48.26)
2010-11	2667115 (33.87)	157639 (2.00)	586458 (7.45)	3411212 (43.31)	278877 (3.54)	3532450 (44.85)

Note: figures in parenthesis show percentage of GDP

As on 31 March 2011, internal debt constituted around 94 *per cent* of the total public debt. Over 61 *per cent* interest paid on total debt raised inside India was from market loans bearing interest (of varying rates). Of the external debt, nearly 67 *per cent* share of interest paid by India during 2010-11 was towards loans from the International Development Association and loans from the Government of Japan.

Box- 1.4: Types of Deficits



1.5.1 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 1.18**.

Table 1.18: Revenue deficit and its Parameters

Period	Revenue Receipt	Revenue Expenditure	Revenue Deficit	Revenue Deficit as percentage of		
				GDP	Revenue Receipt	Revenue Expenditure
<i>(₹ in crore)</i>						
X Plan Average (2002-07)	394426	500825	106399	3.21	26.98	21.24
XI Plan (2007-12)						
2007-08	649426	734861	85435	1.73	13.16	11.63
2008-09	653847	1010224	356377	6.38	54.50	35.28
2009-10	704523	1057479	352956	5.39	50.10	33.38
2010-11	932686	1186115	253429	3.22	27.17	21.37

Table 1.18 indicates that in relation to GDP, on an average, the revenue deficit amounted to 3.2 *per cent* for the Tenth Plan period. In the current year, the position was similar to what it was in the Tenth Plan period but in the two years prior to this year, the revenue deficit had ballooned up primarily due to the Pay Commission awards and several demand boosting measures taken up as part of the counter-cyclical fiscal stimulus introduced by the Government. Similarly, the considerable improvement in the reduction of revenue deficit in the year 2010-11 can be attributed to a 32 *per cent* increase in revenue receipts.

1.5.2 Fiscal Deficit

Fiscal deficit is the excess of total expenditure over revenue receipts and non-debt capital receipts. It also indicates the total 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 1.19**.

Table 1.19: Fiscal Deficit and its Parameters

Period	Non-Debt Receipts	Total Expenditure	Fiscal Deficit	Fiscal Deficit as percentage of		
				GDP	Non-Debt Receipts	Total Expenditure
<i>(₹ in crore)</i>						
X Plan Average (2002-07)	440415	573852	133437	4.02	30.30	23.25
XI Plan (2007-12)						
2007-08	698613	863575	164962	3.33	23.61	19.10
2008-09	667922	1102366	434444	7.79	65.04	39.41
2009-10	741837	1174280	432443	6.60	58.29	36.83
2010-11	984785	1367427	382642	4.86	38.86	27.98

Fiscal deficit as a percentage of GDP, non-debt receipts and total expenditure was much lower on an average in the Tenth Plan period than it was in the current year. However, there was considerable improvement in these ratios compared to 2008-09 and 2009-10.

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 1.20** presents the movement of components of fiscal deficit over the Tenth Plan period as well as for the first four years of the Eleventh Plan.

Table 1.20: Components of fiscal deficit

(Per cent)

Period	Revenue Deficit	Net Capital Expenditure	Net Loans and Advances
X Plan (2002-07)	79.74	31.22	-10.96
XI Plan (2007-12)			
2007-08	51.79	47.37	0.84
2008-09	82.03	17.72	0.25
2009-10	81.62	17.60	0.78
2010-11	66.23	30.79	2.98

The deficit indicators for 2010-11 show a visible improvement over 2009-10.

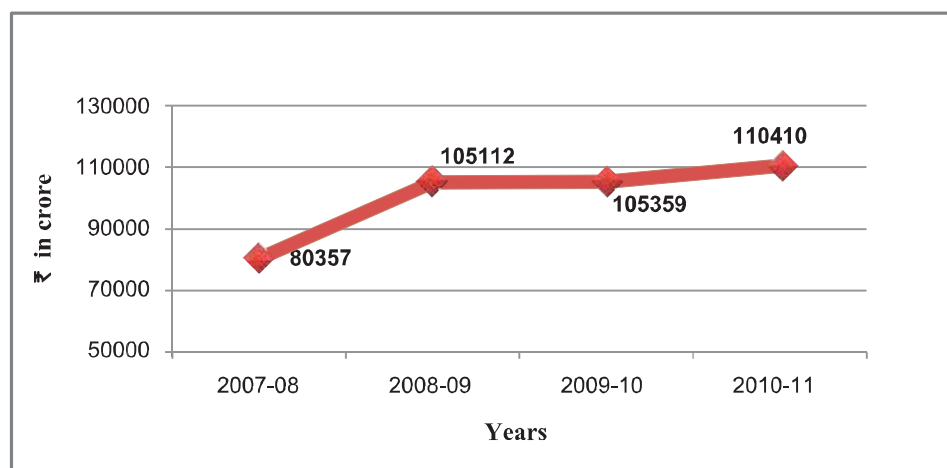
Table 1.21 below presents the targets set for the key fiscal parameters – revenue and fiscal deficits for the year 2010-11 in the Medium Term Fiscal Policy Statements (MTFPS) placed along with the budgets in earlier years. In the current year, both the revenue deficit and fiscal deficit were contained below the ceiling indicated in the budget estimates

Table 1.21: Outcome vis-à-vis Targets under FRBM Rules (As percentage of GDP)

Fiscal Indicator	Targets set in MTFPS 2008-09 for the year 2010-11	Targets set in MTFPS 2009-10 for the year 2010-11	BE in MTFPS 2010 -11	Actual Levels
Revenue Deficit	0.0	3.0	4.0	3.22
Fiscal deficit	3.0	5.5	5.5	4.86

1.5.3 External Debt: Unutilised committed external assistance

As on 31 March 2011, unutilised committed external assistance was of the order of ₹ 1,10,410 crore. **Chart 1.18** shows the year-wise total undrawn balance of external assistance from various sources. The sector-wise details from the office of the Controller of Aid Accounts and Audit indicates that there were large undrawn balances in the urban development, railways, water resources, power, environment and forestry sectors.

Chart 1.18: Unutilised committed external assistance


Commitment charges on undrawn external assistance are to be 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 1.22** indicates charges paid to various bodies/governments during the first four years of the Eleventh Plan period as commitment charges for rescheduling of drawal of assistance at later dates. This points towards continued inadequate planning, resulting in avoidable expenditure in the form of commitment charges amounting to ₹ 108.79 crore in 2010-11, of which ₹ 22.87 crore pertained to the Supercritical Power Station at Krishnapatnam in Andhra Pradesh.

Table 1.22: Commitment Charges

Year					(₹ in crore)
	ADB	Japan	Germany	IBRD	Total
2007-08	62.55	0.00	1.72	60.27	124.54
2008-09	62.62	0.00	4.17	50.58*	117.37
2009-10	53.26	0.00	5.57	27.28	86.11
2010-11	40.15	23.23	26.78	18.63	108.79

Source: Controller of Aid Accounts & Audit

ADB=Asian Development Bank

IBRD=International Bank for Re-construction and Development

*includes International Development Agency assistance

1.6 Growth in Contingent Liabilities of the Union Government

Under Article 292 of the Constitution, the Union Government may give guarantees within such limits, if any, as may be fixed by Parliament by law. The statement here shows the position, as on 31 March 2011, of guarantees 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 maximum amounts of guarantees for which the Government entered into agreements and sums guaranteed outstanding on 31 March 2011 were ₹ 1,60,611 crore and ₹ 1,51,292 crore, respectively.

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. **Table 1.23** and **Chart 1.19** give the position regarding the maximum amount of guarantees, sums guaranteed outstanding and external guarantees outstanding at the end of the financial years in the Tenth Plan period and the first four years of the Eleventh Plan period.

Chart: 1.19 Guarantees given by the Union Government

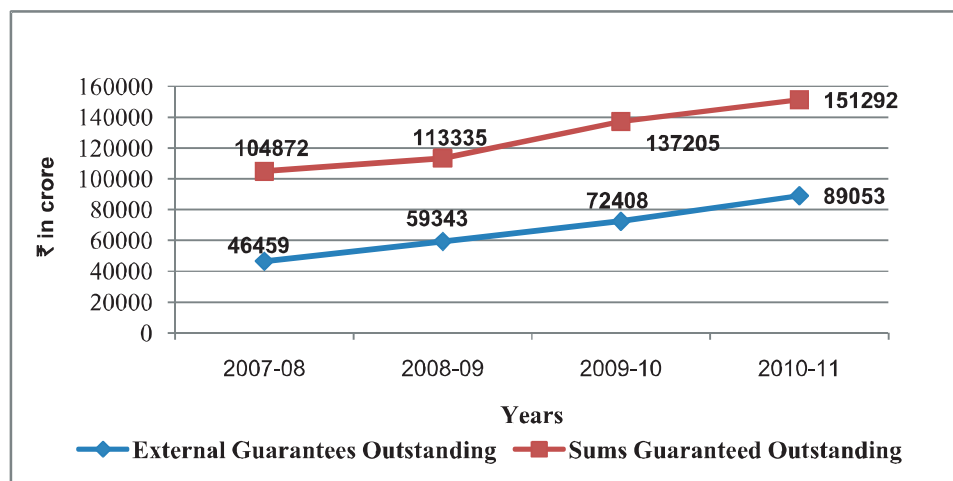


Table 1.23: Guarantees given by the Union Government

(₹ in crore)

Position at the end of the year	Maximum amount of guarantee	Sums Guaranteed Outstanding	External Guarantees Outstanding	Outstanding External Guarantees as a percentage of Total Outstanding Guarantees
(1)	(2)	(3)	(4)	(5)
2007-08	114001	104872	46459	44.30
2008-09	117659	113335	59343	52.36

Position at the end of the year	Maximum amount of guarantee	Sums Guaranteed Outstanding	External Guarantees Outstanding	Outstanding External Guarantees as a percentage of Total Outstanding Guarantees
2009-10	150437	137205	72408	52.76
2010-11	160611	151292	89053	58.86

Guarantees are usually given to enable borrowings from international agencies or to enable PSUs to borrow money from the market. In 2010-11, of the sums guaranteed as on 31 March, 2011 (₹ 1,51,292 crore), 59 *per cent* went towards loans from foreign lending institutions, 36 *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 five *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 main Ministries which were allotted guarantees by the Ministry of Finance were the Ministries/Departments of Consumer Affairs, Economic Affairs, Civil Aviation, Power and Steel. Updated maintenance of 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 should 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. In the year 2010-11, the guarantees given totalled ₹ 22,746 crore, which was 0.29 *per cent* of 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 1.92 *per cent* of the GDP in 2010-11 and 16.22 *per cent* of the revenue receipts that accrued to the Union Government in 2010-11.