Chapter 1

AN OVERVIEW OF UNION FINANCES 2011-2012

1.1 Introductory

The annual accounts of the Union Government presented to the Parliament, consist of Finance Accounts and Appropriation Accounts. The Finance Accounts depict the statements of receipts into and payments from the Consolidated Fund, Contingency Fund and Public Account, 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	
Consolidated Fund All revenues received by the Union Government, all loans raised by issue of treasury bills, internal and external loans and all moneys received by the Government in repayment of loans shall form one Consolidated Fund entitled the "Consolidated Fund of India" established under Article 266 (1) of the Constitution of India.	***Contingency Fund*** The Contingency Fund of India established under Article 267 (1) of the Constitution is in the nature of an imprest placed at the disposal of the President to enable him/her to make advances to meet urgent unforeseen expenditure, pending authorisation by the Parliament. Approval of the legislature for such expenditure and for withdrawal of an equivalent amount from the Consolidated Fund is subsequently obtained, whereupon the advances from the Contingency Fund are recouped to the Fund.
Public Account Besides the normal receipts and expenditure of Government, which relate to the Consolidated Fund, certain other transactions enter Government Accounts, in respect of which 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.	

1.1.1 The year 2011-12 was characterised by deterioration in economic growth as measured by a Gross Domestic Product (GDP)[1] growth of 6.9 *per cent* over the previous year. The major economic concerns during the year included a weakening in industrial growth, high inflation (driven by non-food manufacturing items) and an adverse global economic environment.

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.

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[1]As per a press note released by CSO on 31 May 2012, revised estimates of GDP at market prices at 2004-05 prices grew by 6.9 *per cent* over the previous year, while at current prices it grew by 15.4 *per cent*. Revised estimates of GDP have been adopted for purpose of comparability with previous years' reports.

Table 1.1 summarises the position of the Union Government's receipts, disbursements and borrowings for the year 2011-12.

Table 1.1: Summary of the current year's operations

(₹in crore)

Receipts		Derived Parameters	Disbursements	
Consolidated Fund of India (CFI)				
Revenue Receipts*	910277 (932686)	**Revenue Deficit 394918** (253429)	Revenue Expenditure	1305195 (1186115)
Miscellaneous Capital Receipts	18088 (22846)		Capital Expenditure	139465 (140671)
Recovery of Loans	36818 (29253)		Loans and Advances	38404 (40641)
Total Non-Debt Receipts	965183 (984785)	**Fiscal Deficit 517881** (382642)	Actual Expenditure	1483064 (1367427)
Public Debt	4063177 (3177106)		Public Debt	3495929 (2814774)
Total receipts into CFI	5028360 (4161891)	**Surplus in CFI 49367** (Deficit 20310)	Total expenditure from CFI	4978993 (4182201)
Contingency Fund				
Receipts	0		Appropriation	0
Public Account				
Small Savings	372828 (403485)		Small Savings	358502 (409615)
Reserves & Sinking Fund	108076 (120833)		Reserves & Sinking Fund	102402 (119886)
Deposits	92993 (105341)		Deposits	93552 (96979)
Advances	35290 (52360)		Advances	40209 (49290)
Suspense Account	4894 (18762)		Suspense Account	56477 (14209)
Remittances	6586 (6141)		Remittances	2901 (5800)
Total Public Account	620667 (706922)	**Deficit in Public Account 33376** (Surplus11143)	Total Public Account	654043 (695779)
Opening Cash	1449 (10616)	**Increase in Cash 15991** (Deficit 9167)	Closing Cash	17440 (1449)
Public Account Deficit (Demand)		33376	Surplus in (CFI) (-) Increase in Cash	
Incremental Liabilities (Supply)		586689	Surplus of (Debt+ Small Savings+ RF+ Deposits)	
Incremental Liabilities (Demand)		586689	Fiscal Deficit (+) Increase in Cash (+) Net Disbursement of (Advances+ Suspense+ Remittances)	

**Excludes figures of taxes and duties assigned to States (₹2,55,414 crore for 2011-12).*

Note: (1) Figures in parenthesis indicate corresponding figures for 2010-11.

(2) Revenue Receipts and Revenue Expenditure for 2011-12 are understated by ₹6,494 crore due to incorrect depiction of expenditure incurred on interest on refunds of taxes as 'deduct revenue' instead of expenditure. For details, please refer para 4.2 and 4.3.

As seen from the above table, there was surplus in the Consolidated Fund of India (CFI) as compared to a deficit in the previous year. The surplus was achieved despite a 1.99 *per cent* decline in non-debt receipts and increase by ₹1,15,637 crore (8.46 *per cent*) in the actual expenditure of the Government. The main contributors to the surplus were a substantial increase of ₹ 8,86,071 crore (27.89 *per cent*) in the public debt receipts of the Government and decrease of ₹ 3,443 crore in capital expenditure (including loans and advances). 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 deficit this year, compared to the surplus last year.

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 Gross Domestic Product (GDP) and what was outlined by the Thirteenth Finance Commission (13th FC) report is tabulated as under:

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

(percentage of GDP)

Parameter	2011-12	2014-15	Actual performance as per Finance Accounts	
			2010-11	2011-12
Revenue Deficit	2.3	-0.5	3.30	4.46
Non-Debt Capital Receipts	0.6	1.0	0.68	0.62
Capital Expenditure	3.1	4.5	2.36	2.01[2]
Fiscal Deficit	4.8	3.0	4.99	5.85
Debt (end of the year adjustment liabilities)	52.5	44.8	46.03	46.88

As can be seen from the above table, except for non-debt capital receipts, none of the other financial parameters were close to the targets set out by the 13th FC for 2011-12. In fact, the revenue deficit for the year 2011-12 is nearly double the target outlined by the 13th FC. Disturbingly, when the fiscal parameters are compared with the previous year, a deterioration is evident in all the five parameters.

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

1.2 Resource Generation

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

1.2.1 Revenue Receipts:

The year was characterised by a marginal growth of 1.19 *per cent* in gross revenue receipts (compared to the very high growth of 32.51 *per cent* in 2010-11). Due to 27.89 *per cent* growth in gross debt receipts, the share of gross revenue receipts in the gross receipts decreased from 22.64 *per cent* in the previous year to 19.74 *per cent* in the current year, indicating a rise 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	77	28
2010-11	1151989	52099	3177106	706922	5088116	855104	7432	11143	2077767	66	27
2011-12	1165691	54906	4063177	620667	5904441	1276101	(-)5300	(-)33376	2458022	67	28

**Includes figures of taxes and duties assigned to States (₹ 2,55,414 crore for 2011-12). Exclusion of this component gives net revenue receipts of ₹ 9,10,277 crore reflected in Table 1.1.*

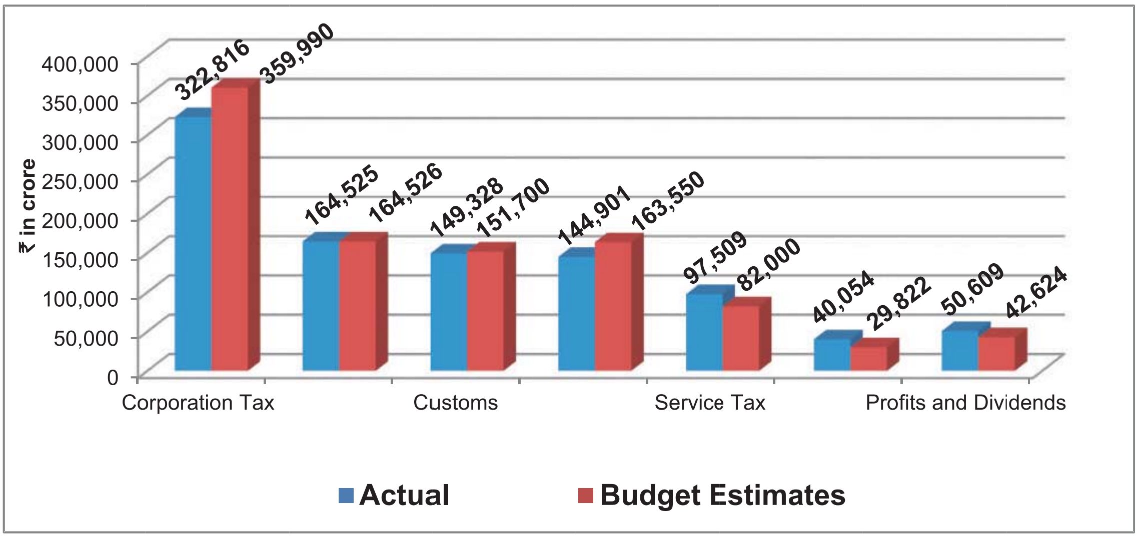
@These are gross debt receipts net of receipts from 14 days treasury bills and Ways and Means Advances from RBI.

@@The Central Statistical Organization (CSO), Ministry of Statistics and Programme Implementation Bureau Press Note dated 31 May, 2012 has indicated that the Revised Estimate figures for GDP at current prices/Market prices for the year 2011-12 is ₹ 88,55,797 crore. The related figures for the years 2007-08, 2008-09 , 2009-10 and 2010-11 are ₹ 49,47,857 crore, ₹ 55,82,623 crore, ₹ 64,57,352 crore and ₹ 76,74,148 crore respectively. Figures are continually being revised by CSO and this data is meant for an indicative comparison of fiscal performance with macro-economic performance.

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 service tax fell short of the budget projections. Receipts under both service tax and profit & dividend exceeded budget estimates by 19 *per cent*. Interest receipts also exceeded budget estimates by 34 *per cent*. In case of receipts related to income tax and customs, the actual receipts were very close to the budget estimates.

Chart 1.1 Deviation of gross actual receipts from Budget estimates



1.2.3 Tax revenue

Table 1.4: Components of tax revenue (gross)

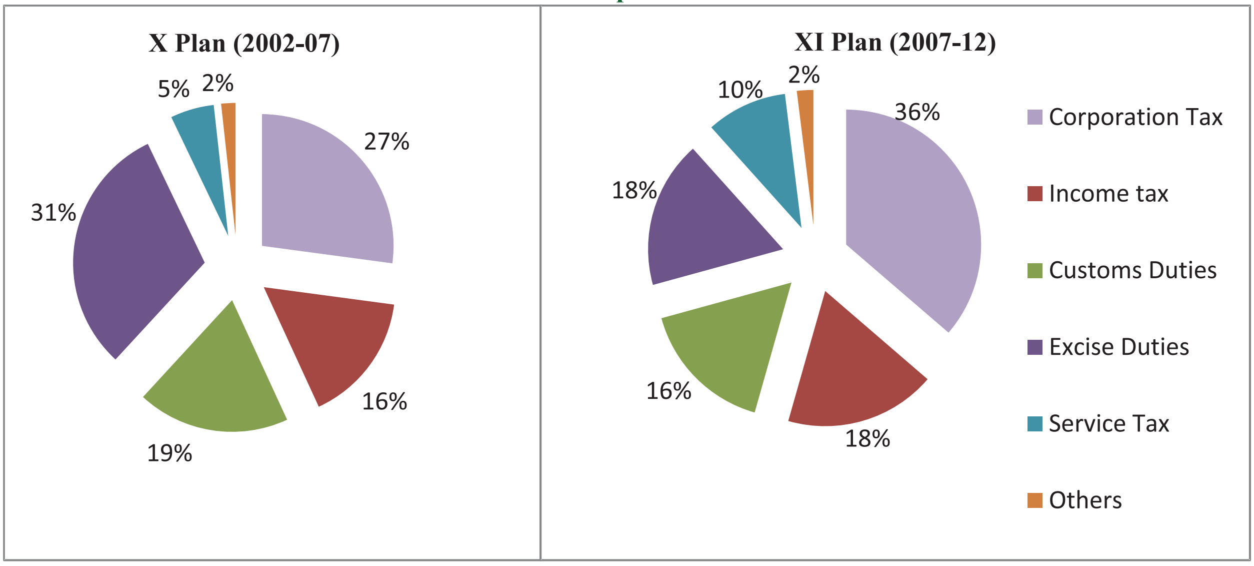
(₹ in crore)

Period	Total Gross Tax Revenue#	Corporation Tax	Income Tax	Customs Duties	Excise Duties	Service Tax	Others*	GDP
X Plan (2002-07) Average	**323047**	**87602**	**51720**	**60497**	**100210**	**17373**	**5645**	**3317483**
XI Plan (2007-12) Average	**701080**	**254507**	**126956**	**114493**	**123563**	**67838**	**13723**	**6703555**
2007-08	593147	192911	102659	104119	123611	51302	18545	4947857
2008-09	605298	213395	106075	99879	108613	60941	16395	5582623
2009-10	624528	244725	122417	83324	102991	58422	12649	6457352
2010-11	793308	298688	139102	135813	137701	71016	10988	7674148
2011-12	889118	322816	164525	149328	144901	97509	10039	8855797
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**	14.18
XI Plan (2007-12)	**11.41**	**14.64**	**12.91**	**10.83**	**5.71**	**15.46**	**(-)15.02**	15.98
2007-08	25.27	33.67	36.71	20.61	5.10	36.45	47.62	15.50
2008-09	2.05	10.62	3.33	(-)4.07	(-)12.13	18.79	(-)11.59	12.83
2009-10	3.18	14.68	15.41	(-)16.58	(-)5.18	(-)4.13	(-)22.85	15.67
2010-11	27.03	22.05	13.63	62.99	33.70	21.56	(-)13.13	18.84
2011-12	12.08	8.08	18.28	9.95	5.23	37.31	(-) 8.64	15.40

 # 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.*

As can be seen from **Table 1.4**, while the overall tax revenue grew by 12.08 *per cent* in the current year, there was significant growth in service tax, which grew by 37.31 *per cent*. The growth of gross taxes was lower than the growth of GDP for the current year, indicating a reversal of the trend in the last year. If the rate of growth of taxes is compared with GDP across the Tenth and Eleventh Plan period, it is seen that the rate of growth of tax in the Eleventh Plan has been slower than the rate of growth of GDP. This was due to significant slowdown in the rate of growth of collection of service tax, corporation tax and income tax.

Chart 1.2: Components of tax revenue



The comparison of the relative shares of tax revenues during the Tenth Plan and Eleventh Plan period as brought out in **Chart 1.2** above shows significant increase in share of corporation tax (by nine *per cent*) and of service tax (by five *per cent*); on the other hand there was a decrease in share of excise of duties (by 13 *per cent)*.

1.2.4 Non-tax revenue

Table 1.5 shows that during the year 2011-12, the largest share of non-tax revenue (57 *per cent*) comes from user charges levied by various departments, which offer economic services to the general public. Interest receipts constituted 15 *per cent* of non-tax revenue, while dividends and profits accounted for around 18 *per cent*. There was significant negative growth in non-tax revenue in the current year (22.89 *per cent*). This was mainly due to the drastic reduction in receipts from economic services (36.24 *per cent*) on account of decline in the receipts of the Wireless and Planning Co-ordination Organisation from ₹ 1,09,698 crore in 2010-11 to ₹ 5,183 crore in 2011-12.

When the relative share of the component of non-tax revenue in the Tenth Plan (2002-07) is compared with that of Eleventh Plan (2007-12), it is seen that the share of economic services has increased from 50 to 60 *per cent*, while there has been a matching decline in the share of interest receipts from 24 to 14 *per cent*. The share of dividends and profits has been nearly constant in two Plan periods.

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

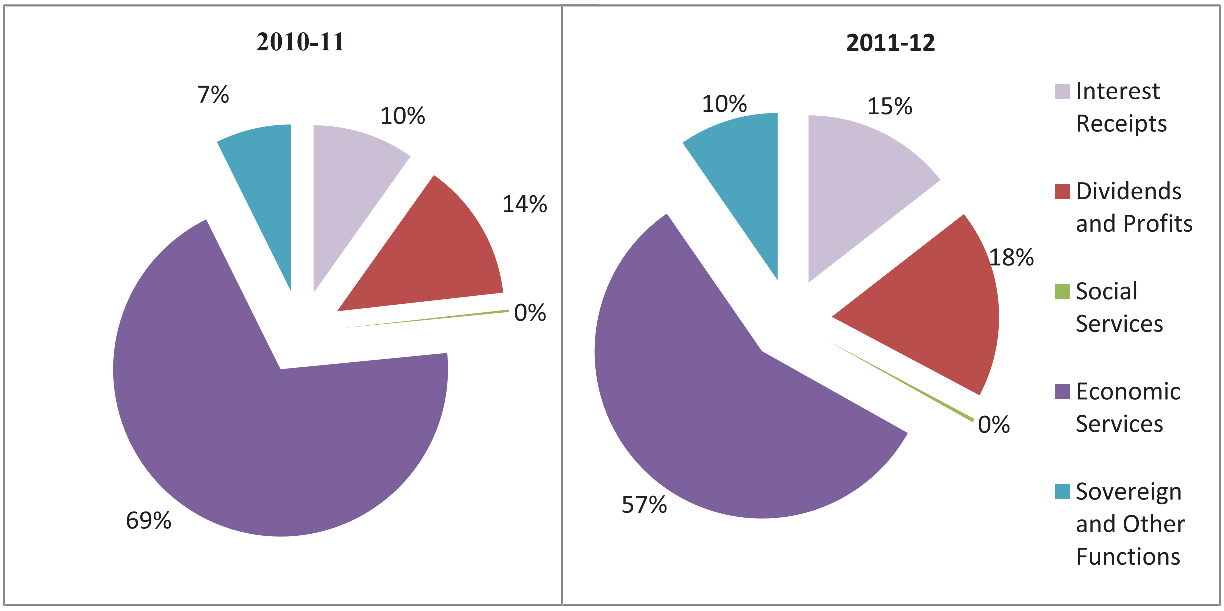
(₹ in crore)

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) Average	**259378**	**35332**	**44392**	**759**	**155743**	**23151**
Relative share *(per cent)*	**100**	**14**	**17**	**Negligible**	**60**	**9**
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	10	14	Negligible	69	7
2011-12	276573	40054	50609	988	158283	26639
Relative share *(per cent)*	100	15	18	Negligible	57	10
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)	**11.75**	**4.36**	**10.34**	**10.33**	**13.65**	**11.82**
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
2011-12	(-)22.89	13.47	5.45	21.38	(-)36.24	1.20

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 relative shares of the components of non-tax revenue have been depicted in **Chart 1.3** below. It is evident that during the years 2010-11 and 2011-12, receipts on economic services constituted a major chunk of non-tax revenue.

Chart 1.3: Components of non-tax revenue



1.2.5 Non-debt capital receipts

Non-debt capital receipts consist of miscellaneous capital receipts (bonus shares, disinvestment etc.) and recovery of loans and advances. **Table 1.6** gives the details of non-debt capital receipts from 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. As the table indicates in the last two years, i.e., 2010-11 and 2011-12, the actual realisation from disinvestments were significantly lower than the budget estimates. However, during the Eleventh Plan period, actual recovery of loans and advances exceeded the budget estimates consistently.

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

Period	Disinvestment			Recovery of Loans		
	Budget Estimates (BE) (₹ *in crore*)	Actual Realisation(AR) (₹ *in crore*)	Percentage of AR to BE	Budget Estimates(BE) (₹ *in crore*)	Actual Realisation(AR) (₹ *in crore*)	Percentage of AR to BE
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
2011-12	40000	14027*	35.07	16510	36818	223.00

**Does not include receipts from bonus shares and other receipts aggregating ₹ 4,060 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 2011-12

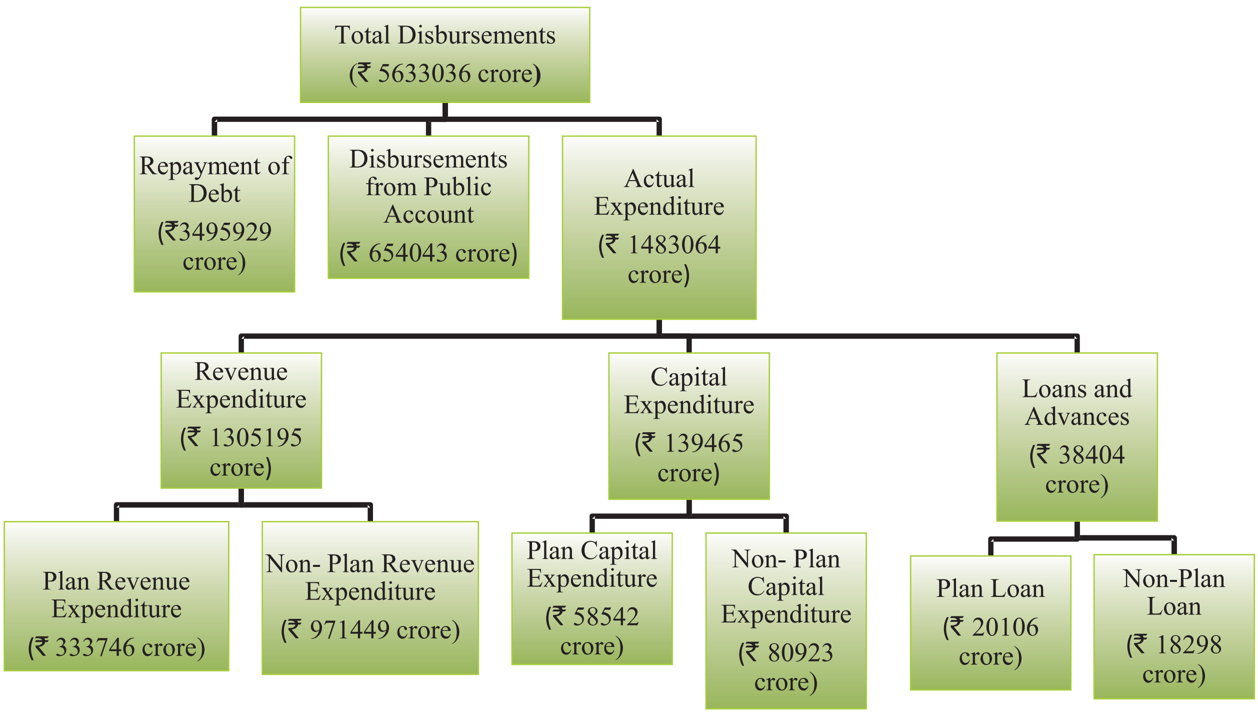
(₹ in crore)

Sl. No.	Name of CPSE	Value of realisation[3]
1.	Oil and Natural Gas Commission	12749.50
2.	Finance Corporation Limited	1144.55
3.	Vishakhapatnam Steel Project	100.00
4.	Cochin Shipyard Ltd.	20.00
5.	Metallurgical & Engineering Consultants Ltd.	12.60
6.	Slaughter House Corporation	0.71
	Total	**14027.36**

1.3 Expenditure Analysis

The total disbursements of the Government of India from the Consolidated Fund of India and the Public Account was of the order of ₹ 56,33,036 crore. As depicted in **Box 1.2,** total disbursement has three major components. Repayment of debt is the largest component of the total disbursements, accounting for 62 *per cent* of the total disbursements.

Box1.2: Components of Total Disbursements

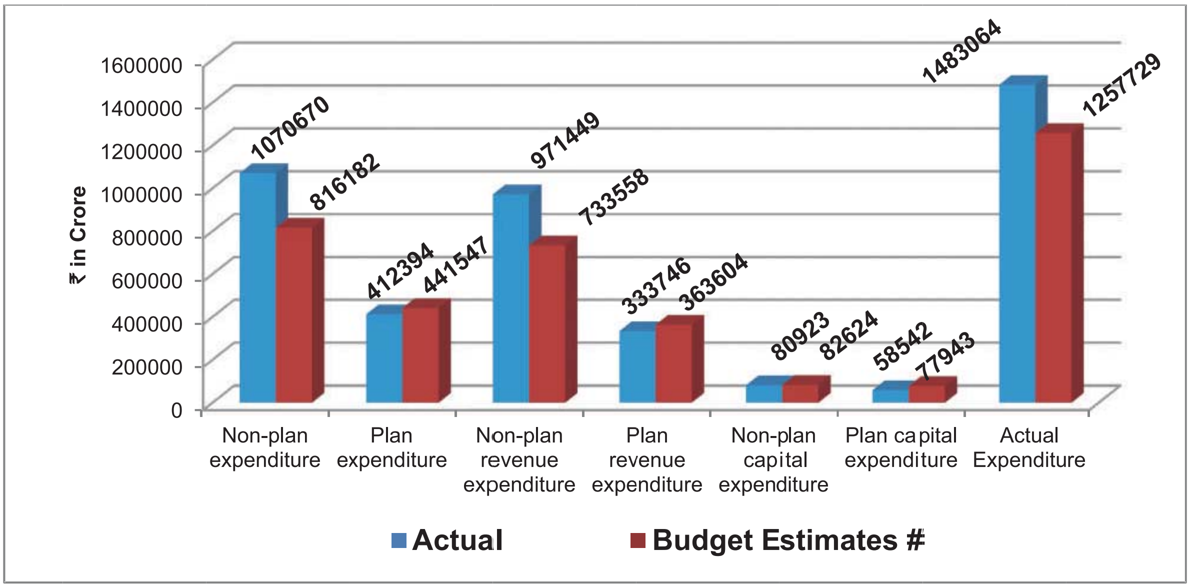


[3] As per information furnished by Controller General of Accounts and Union Finance Accounts 2011-12

In 2011-12, the total disbursements of the Government increased by 15.48 *per cent*. In the current year, the Union Government disbursed 62 *per cent* of its expenditure in the form of debt repayments, 12 *per cent* towards payments in the Public Account and was left with just 26 *per cent* for actual expenditure. High debt repayment obligations resulted in less proportion of actual expenditure being available for current operations.

When compared to the budget estimates**,** the actual expenditure was 18 *per cent* higher than the budget estimates. As can be seen from **Chart 1.4**, the excess non-Plan revenue expenditure was single-handedly responsible for the excess in actual expenditure.

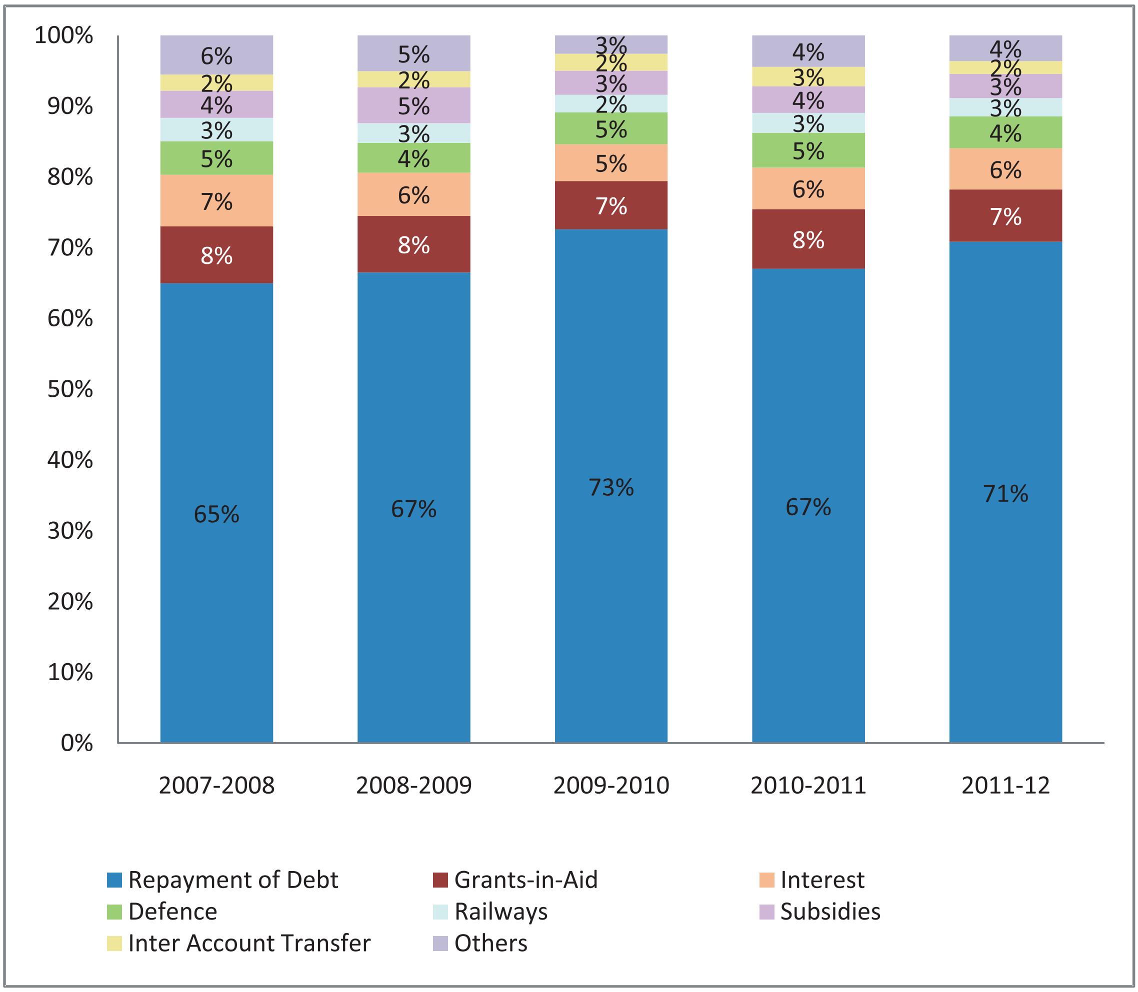
Chart 1.4: Comparison of Budget estimates (as per 'Budget at a Glance') and Finance Accounts 2011-12 on key expenditure parameters



#As per 'Budget at a Glance'.
Note: Plan and non-Plan capital expenditure include disbursement of loans and advances

Chart No 1.5 shows break-up of expenditure from the Consolidated Fund of India (CFI). As can be seen from the chart, the bulk of expenditure from CFI was towards repayment of public debt. The relative share of repayment of public debt increased from 67 *per cent* in 2010-11 to 71 *per cent* in 2011-12. On the other hand, the share of grants-in-aid (including grants-in-aid for creation of capital assets and for salary declined by one *per cent* and stood at seven *per cent* of the CFI in 2011-12.

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



Note: Data extracted from 'e-lekha'[4] *portal. Does not include journal entries. Owing to misclassification, subsidies of ₹65,000 crore has not been reckoned.*

Table 1.8 below, shows the shares of major components of disbursements made by the Government. As can be seen from the table, proportion of repayment of debt in the total disbursement has increased from 45.26 *per cent* during the Tenth Plan period to 59.63 *per cent* in the Eleventh Plan period. This consequently reduced the share of actual expenditure from 33.10 *per cent* to 27.13 *per cent*. Revenue expenditure as a proportion of actual expenditure has increased marginally from 87.27 *per cent* to 88.37 *per cent*. The

[4]e-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.

proportion of Plan expenditure to actual expenditure has increased marginally from 24.17 *per cent* in the Tenth Plan to 26.30 *per cent* in the Eleventh Plan.

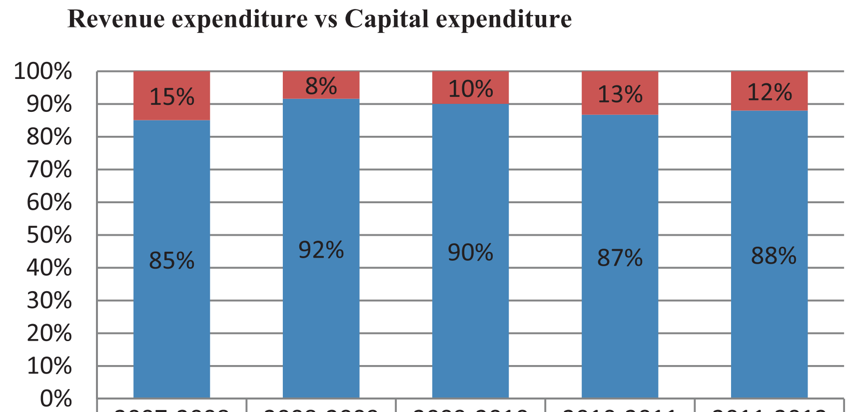
Table 1.8: Components of total disbursement during the Tenth and Eleventh Plan periods

Particulars	**X Plan (2002-07)**	**XI Plan (2007-12)**
Total Disbursements (TD) (in ***per cent***)	100.00	100.00
Components of TD as percentage of TD		
Repayment of Debt	45.26	59.63
Disbursements from Public Account	21.64	13.24
Actual Expenditure (AE)	33.10	27.13
Components of AE as percentage of AE		
Revenue Expenditure (RE)	87.27	88.37
Capital Expenditure (CE)	8.19	9.60
Loans and Advances (LA)	4.54	2.03
Components of RE as percentage of RE		
Plan Revenue Expenditure	20.29	24.75
Non- Plan Revenue Expenditure	79.71	75.25
Components of CE as percentage of CE		
Plan Capital Expenditure	38.22	32.98
Non- Plan Capital Expenditure	61.78	67.02
Components of LA as percentage of LA		
Plan Loan	73.29	61.97
Non-Plan Loan	26.71	38.03
Plan Expenditure *as percentage of AE*	24.17	26.30
Non-Plan Expenditure *as percentage of AE*	75.83	73.70

1.3.1 Revenue and Capital expenditure

Revenue expenditure is current expenditure, which does not result in the creation of assets. This is meant for normal running of the Government and includes maintenance expenditure, interest payments, subsidies and transfers etc. Grants given to State Governments or other bodies or authorities are also treated as revenue expenditure. Capital expenditure consists of payments for acquisition of assets, investment in shares, and loans and advances given by the Government. **Chart 1.6** shows the dominance of revenue expenditure over capital expenditure.

Chart 1.6: Comparison of revenue expenditure with capital expenditure



(₹ in crore)

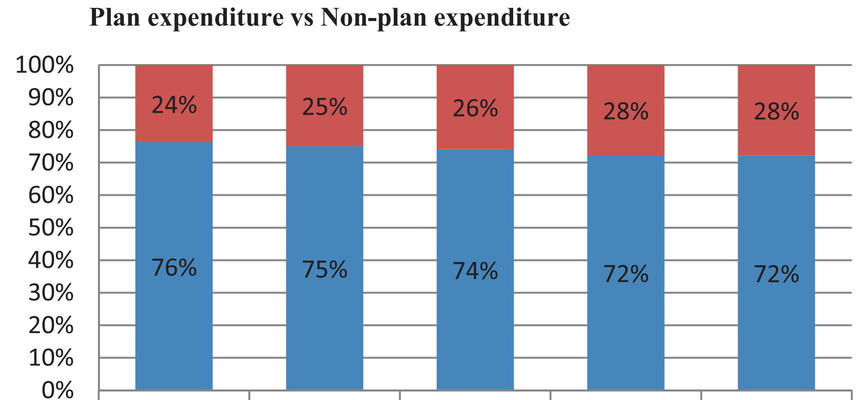
	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012
Capital expenditure*	128714	92141	116801	181312	177869
Revenue expenditure	734861	1010224	1057479	1186115	1305195

**includes Loans & Advances*

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. Plan expenditure as a proportion of actual expenditure remained stable at around 28 *per cent* in 2010-11 and 2011-12.

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



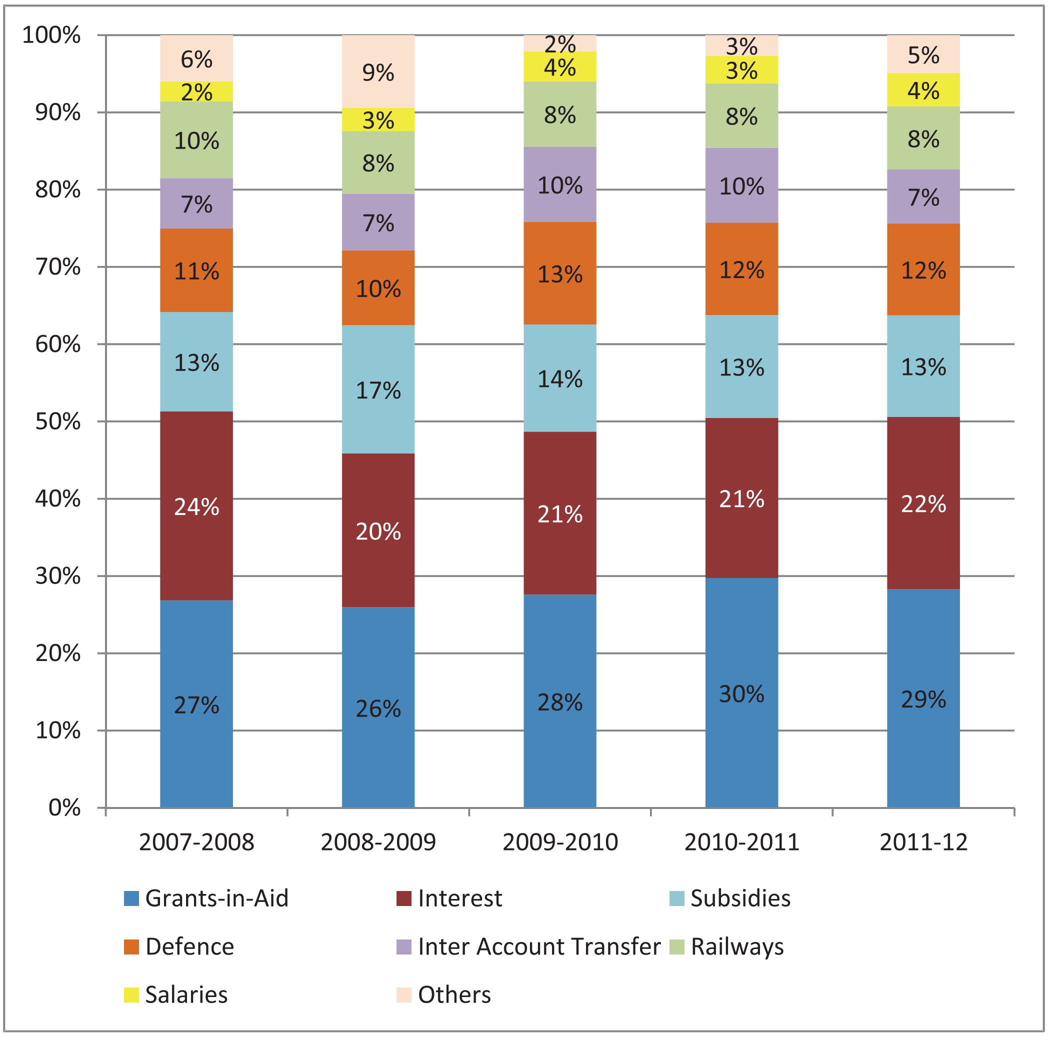
(₹ in crore)	2007-2008	2008-2009	2009-2010	2010-2011	2011-12
Plan expenditure	205082	275301	303593	379065	412394
Non-plan expenditure	658493	827065	870687	988362	1070670

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 2011-12 was ₹ 13,05,195 crore. As shown in **Chart 1.8** below, nearly two-thirds of the revenue expenditure was towards three components viz., grants-in-aid, interest payments and subsidies.

Chart 1.8: Main components of revenue expenditure



Note: Data extracted from 'e-lekha' portal. Does not include journal entries. Owing to misclassification, subsidies of ₹65,000 crore has not been reckoned.

During the Tenth Plan period, the average share of revenue expenditure to actual expenditure was around 87 *per cent,* which increased to an average of around 88 *per cent* during the Eleventh Plan period. 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 87 *per cent* in 2010-11 and 88 *per cent* in the current year.

The revenue expenditure grew by 10.04 *per cent* during the current year as against 12.16 *per cent* during 2010-11. 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 average rate of 11.98 *per cent*, which was more than double the rate of growth during the Tenth

Plan period (5.40 *per cent*), indicating greater reliance on debt to finance the budget. There was a substantial growth of interest payments in the current year (17 *per cent*). The Sixth Pay Commission award resulted in considerable growth in pay and allowances in 2008-09 (62 *per cent*). However, in the current year, growth under this head was 11 *per cent*. Defence expenditure, which accounts for around eight *per cent* of revenue expenditure, grew by 12 *per cent* in the current year.

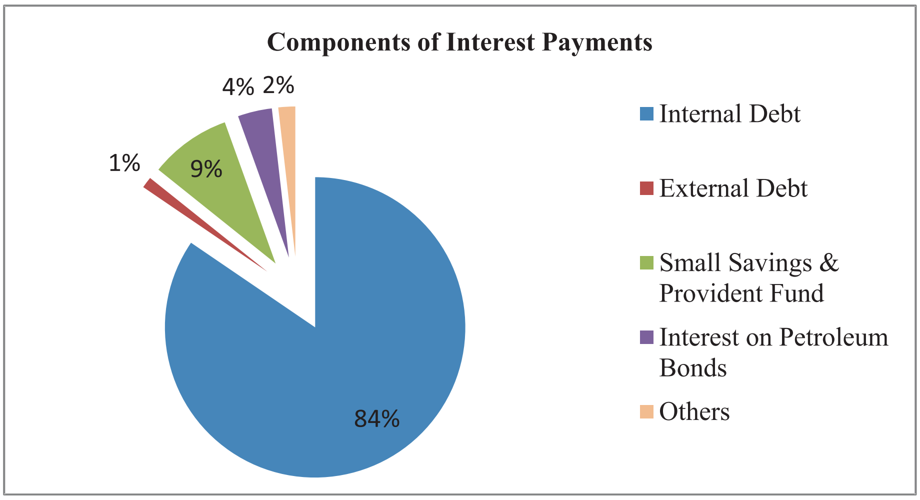
(b) Major components of Revenue expenditure

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 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 to 29 *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 22 *per cent* in the current year.

As shown in **Chart 1.9**, interest payments on account of internal debt (₹ 2,42,569 crore) is 84 *per cent* of the total interest payments (₹ 2,86,982 crore).

Chart 1.9:Main components of interest expenditure



Source: Union Government Finance Accounts 2011-12.
Total Interest payment: ₹2,86,982 crore; Internal Debt: ₹2,42,569 crore , External Debt:₹3,501 crore, Small Savings & Provident Fund:₹25,110 crore, Interest on Petroleum Bonds:₹10,551 crore, Others:₹5,251 crore

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 1.9** presents a picture of the subsidies, which the Government provided explicitly during the Tenth Plan period and the Eleventh Plan period. In the current year, total subsidies grew by nearly 23 *per cent* over 2010-11.

Table 1.9: Explicit Subsidies in the Union Government Budget

(₹in crore)

Period	Food	Fertilisers@ (Urea)	Fertilisers# (Decontrolled)	Petroleum Subsidy**	Others*	Total subsidies	Subsidies (A)	Subsidies (B)
X Plan (2002-07) Average	**23941^^**	**10969**	**5717**	**3971**	**2596**	**47194**	**1.42**	**9.42**
XI Plan (2007-12) Average	**54038**	**25610**	**35710**	**23095**	**6749**	**145202**	**2.17**	**13.71**
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	2.01	12.27
2010-11	63844	24337	41500	38371	9695	177747	2.32	14.99
2011-12	72822	33924	36108	68481	6567	217902	2.46	16.69

@ 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.*

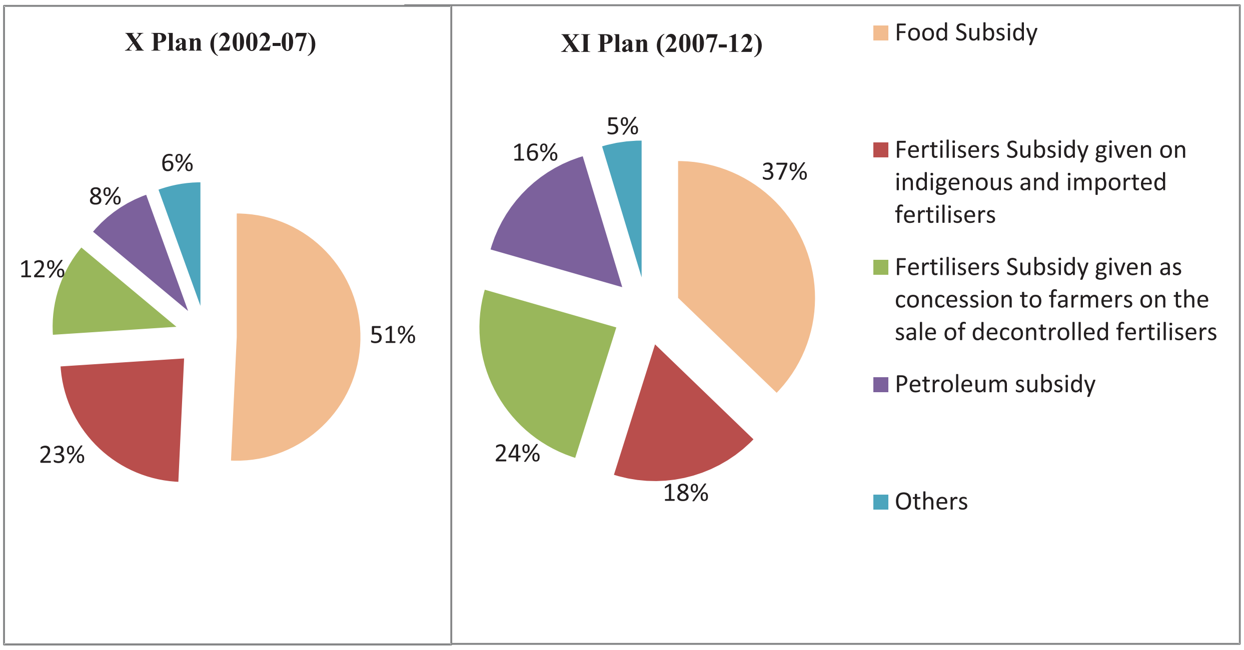
^Does not include the Special Bonds for ₹7,500 crore (₹3,500 crore for urea and ₹4,000 crore for decontrolled fertilisers) and ₹20,000 crore (₹3,000 crore for urea and ₹17,000 crore for decontrolled fertilisers) issued during 2007-08 and 2008-09, respectively, to fertiliser companies as compensation 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 (₹ 30,110 crore) in 2011-12 is mainly attributable to a steep increase by ₹ 30,000 crore towards compensation for under-recoveries on account of sale of domestic LPG and kerosene (PDS) operations.

The components of explicit subsidies provided by the Government in the Tenth Plan and Eleventh Plan are also depicted in pie **Chart 1.10** below. As seen from the chart and the table above, subsidies have increased significantly from an average 1.42 *per cent* of the GDP in Tenth Plan to 2.17 *per cent* in the Eleventh Plan. In fact, if the expenditure on petroleum bonds and fertilizer bonds for the years 2007-08, 2008-09 and 2009-10 are to be reckoned as subsidy, the subsidies as percentage of GDP in the eleventh plan increases from 2.17 *per cent* to 2.57 *per cent.* In 2011-12 the explicit subsidies provided by the Government formed 2.46 *per cent* of GDP. The share of food subsidies has declined from 51 *per cent* in the Tenth Plan to 37 *per cent* in the Eleventh Plan. The share of petroleum subsidies on the other hand has doubled from 8 *per cent* to 16 *per cent*.

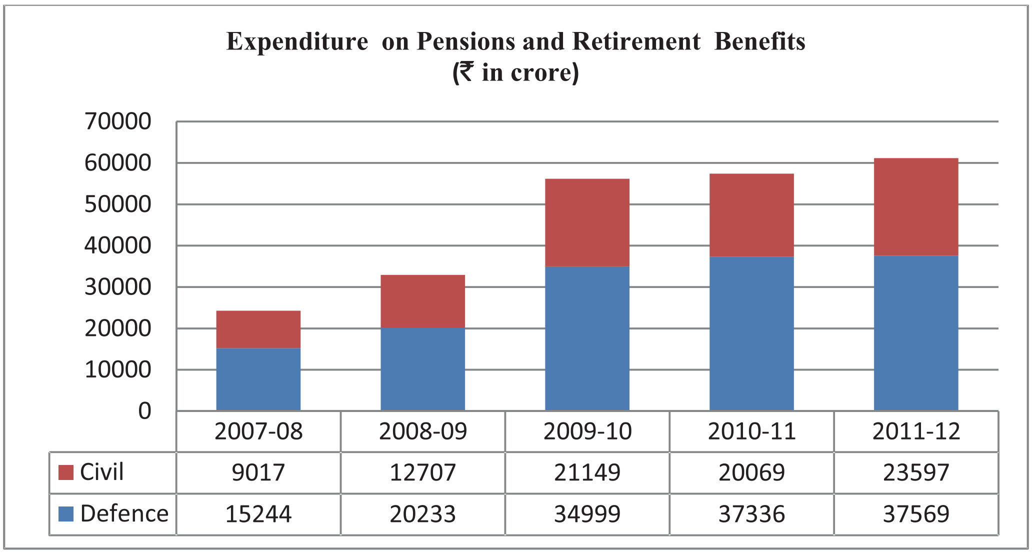
Chart 1.10: Components of explicit subsidies



Subsidies are dispensed not only explicitly, i.e. through the budget but also by providing subsidised public services to the people. These kinds of subsidies are generally termed as implicit subsidies. Budgetary support to financial institutions and banks, inadequate returns from 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 1.9** 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 ₹ 61,166 crore, registering a growth of 152 *per cent* in the Eleventh Plan period. **Chart 1.11** shows the position for the period 2007-12. In the case of Defence pensions, during the Eleventh Plan period under consideration, pension payments increased by 146 *per cent* and stood at ₹ 37,569 crore, which was 61 *per cent* of the total pension payments made by the Union Government. The civil pensions stood at ₹ 9,017 crore, which increased to ₹ 23,597 crore registering a growth of 162 *per cent* in the Eleventh Plan period.

Chart 1.11: Expenditure on Pensions and other Retirement Benefits for the period 2007-12

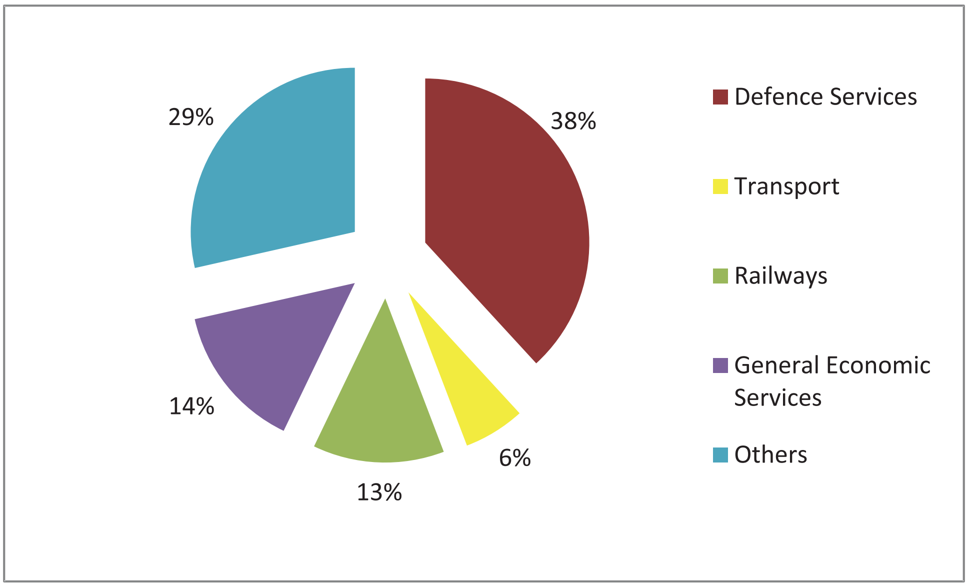


Defence Expenditure: The Defence sector revenue expenditure includes expenditure of the Army (₹ 71,795 crore), Navy (₹ 12,059 crore), Air Force (₹ 17,322 crore), Ordnance Factories (₹ 1,127 crore), Research and Development (₹ 5,321 crore), Defence Pension (₹ 37,569 crore) and the Ministry of Defence (₹ 14,920 crore). In 2011-12, 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 or enhancing the utility of existing assets, decreased by ₹ 3443 crore (2 *per cent*) over the previous year and stood at ₹ 1,77,869 crore in 2011-12.

Chart 1.12: Allocation of Capital Expenditure – Major Sectors (Percentage)



Defence Services: ₹67,902 crore, Transport: ₹10,713 crore, Railways: ₹23,013 crore, General Economic Services: ₹25,480 crore and Others: ₹50,761crore

Chart 1.12 indicates that Defence Services, Transport, Railways and General economic services accounted for 71 *per cent* of the capital expenditure in the current year.

- Under General Economic Services the expenditure was mainly attributable to ₹ 12,095 crore (i.e. 47 *per cent*) invested in 'Public Sector Undertakings', ₹ 4,054 crore (16 *per cent*) subscribed to the International Monetary Fund and ₹ 7,270 crore (more than 28 *per cent*) for loans advanced for Other General Economic Services.
- In case of 'Others', the major chunk of expenditure is mainly attributable to loans and advances to State Governments (₹ 10,016 crore), loans for procurement operations of Food Corporation of India under Targeted/ Public Distribution System 'Food storage and Warehousing' (₹ 10,000 crore), 'Capital outlay on Police' (₹ 5,524 crore) and loans for Delhi/Bangalore/Kolkata/Chennai Metro Rail Corporation Urban Development (₹ 3,463 crore).

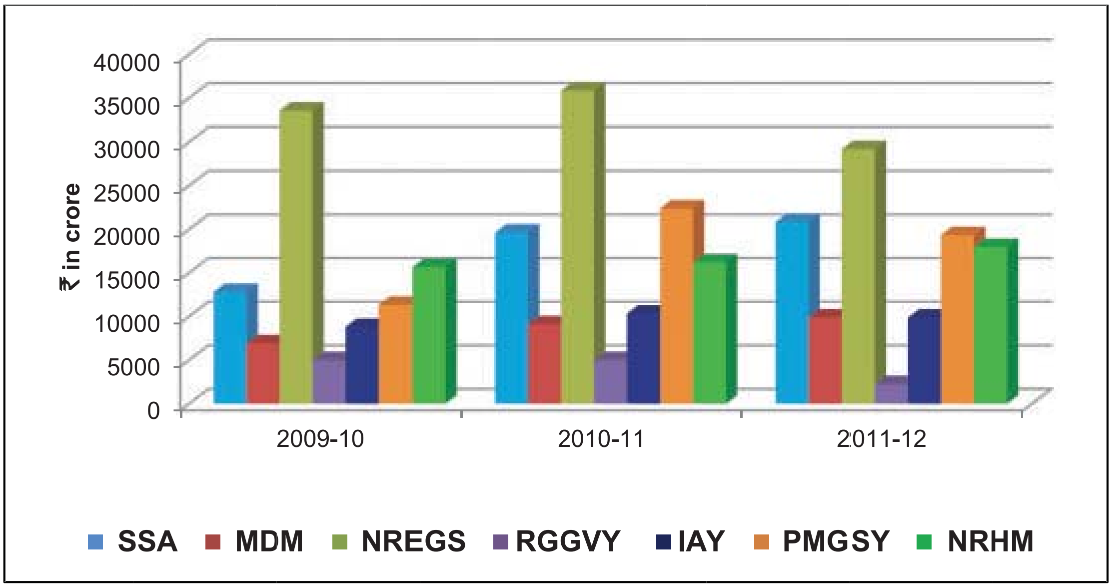
1.3.5 Analysis of Plan expenditure

The total Plan expenditure of the Union in 2007-08 was ₹ 2,05,082 crore, which increased to ₹ 3,79,065 crore during 2010-11. This further increased to ₹ 4,12,394 crore during 2011-12, being 27.81 *per cent* of the actual expenditure. The top 10 grants (**Chart 1.16**) by expenditure, accounted for 71.6 *per cent* of the total Plan expenditure of the Union Government in 2011-12. As was noted earlier, the plan expenditure of the Government increased from 24.17 *per cent* of actual expenditure in the Tenth Plan to 26.30 *per cent* in the Eleventh Plan.

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 1.13** shows the actual expenditure on major flagship programmes during the period 2009-12.

Chart 1.13: Actual expenditure on major flagship programmes during the Eleventh Plan



** SSA=Sarva Siksha Abhiyan, MDM=Mid-Day Meal Scheme, MGNREGS= Mahatma Gandhi 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 expenditure on the seven flagship schemes shown above has increased from ₹ 93,143 crore in 2009-10 to ₹ 1,18,649 crore in 2010-11 and then decreased to ₹109,379 crore in the current year. As can be seen from **Chart 1.13** and **Table 1.10**, major schemes like MGNREGS, RGGVY, IAY and PMGSY saw a decrease in expenditure when compared to the previous year and also in comparison to the Budget estimates.

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

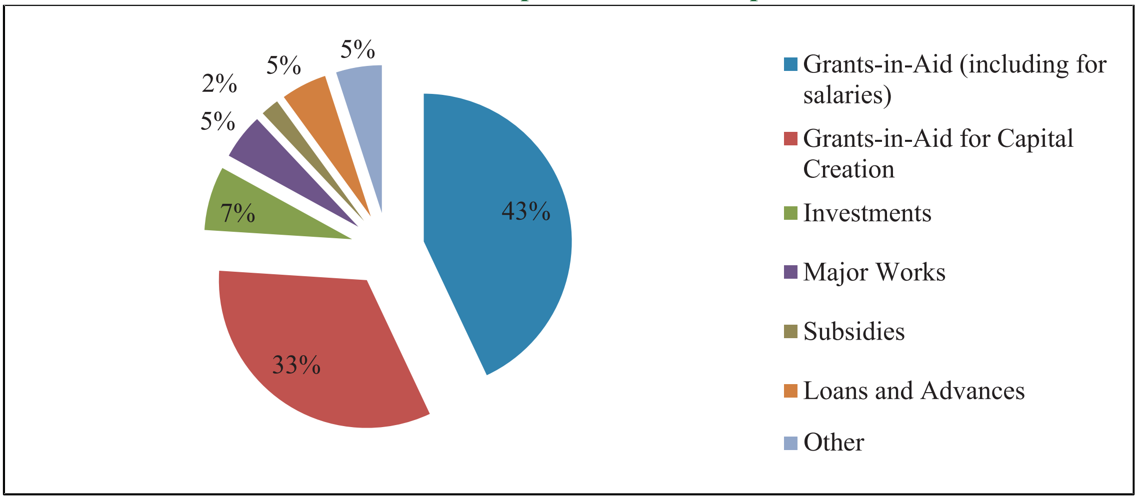
(₹ in crore)

Sl.No.	Programme	2009-10			2010-11			2011-12		
		BE	Actuals	Variation over BE (Percentage)	BE	Actuals	Variation over BE (Percentage)	BE	Actuals	Variation over BE (Percentage)
1	SSA	13100	12825	(-)2.10	15000	19637	30.90	20413	20841	2.10
2	MDM	8000	6932	(-)13.40	9440	9118	(-)3.40	10061	9891	(-)1.69
3	NREGS	39100	33538	(-)14.20	40100	35841	(-)10.60	40000	29213	(-)26.97
4	RGGVY	6300	5000	(-)20.64	5500	5000	(-)9.10	6000	2237	(-)62.72
5	IAY	8800	8800	-	10000	10337	3.40	10000	9872	(-)1.28
6	PMGSY	12000	11340	(-)5.50	12000	22400	86.70	20000	19342	(-)3.29
7	NRHM	15534	15670	(-)0.90	17138	16238	(-) 5.30	19838	17983	(-)9.35
	Total	**102834**	**93143**		**109178**	**118649**		**126312**	**109379**	

1.3.7 Major Components of Plan expenditure[5]

As can be seen from **Chart 1.14**, grants-in-aid, investments, loans and subsidies account for 89 *per cent* of Plan expenditure. Grants-in-aid during 2011-12 constituted 76 *per cent* of the total Plan expenditure in the case of civil ministries. Capital related Plan expenditure was as low as 12 *per cent* of the total Plan expenditure. Ministry-wise/grant-wise components of Plan expenditure are shown in **Annex I-A.**

Chart 1.14: Components of Plan expenditure

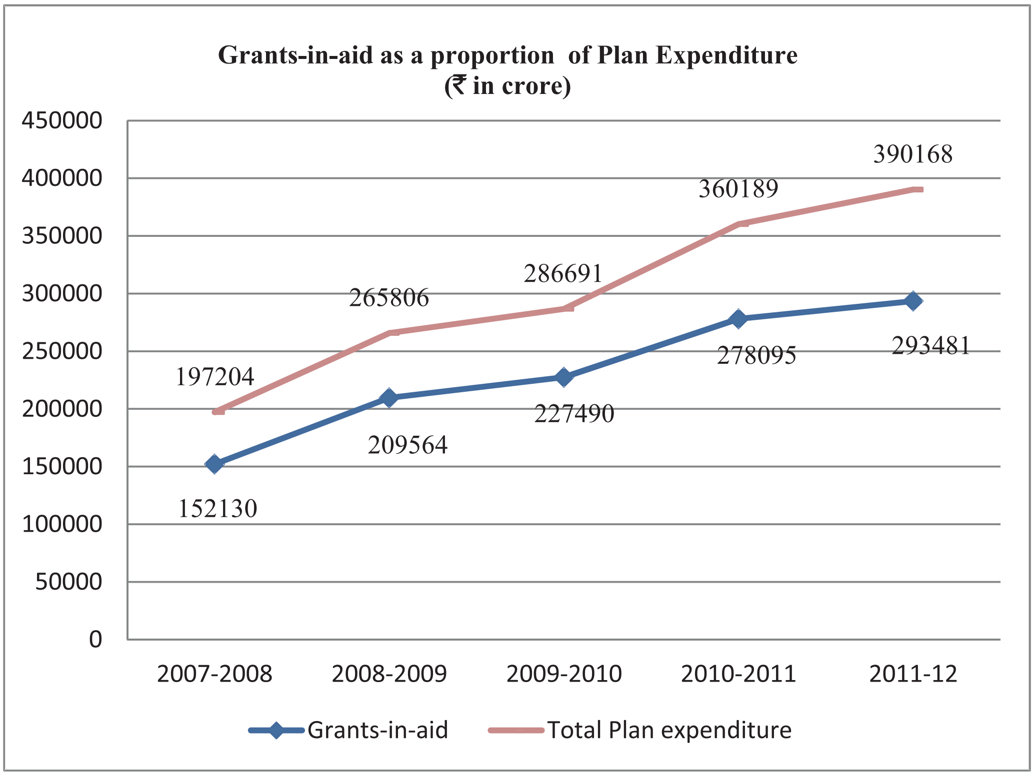


Note: Data extracted from 'e-lekha' portal (other than for grants pertaining to Posts and Railways). Does not include journal entries.

[5]Excluding grants pertaining to Posts and Railways

Chart No 1.15 shows grants-in-aid (including grants-in-aid for capital creation and for salary) as a proportion of the total Plan expenditure during the Eleventh Plan period. Grants-in-aid ranged between 75 and 79 *per cent* of the total Plan expenditure.

Chart 1.15: Grants-in-aid (including grants-in-aid for capital creation and for salary) as a proportion of total Plan expenditure

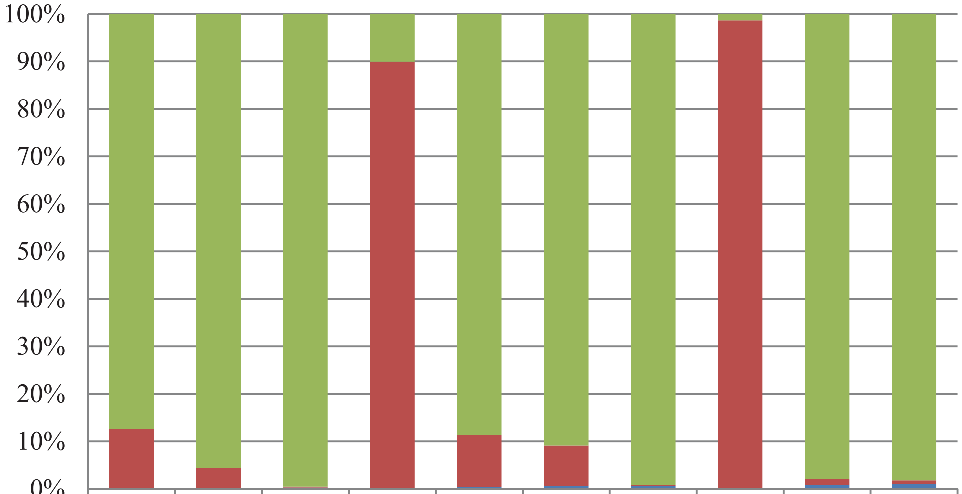


Note: Data extracted from 'e-lekha' portal (other than for grants pertaining to Posts and Railways). Does not include journal entries.

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

Chart 1.16 below shows the proportion of grants-in-aid within Plan expenditure for the 10 Ministries/Departments with the largest Plan expenditure in 2011-12.

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



	TSUG	RD	SE&L	RTH	H&FW	A&C	WCD	FS	HE	DWS
GiA*	70080	61493	38003	2220	18403	15101	15565	200	12480	9915
Others*	9996	2726	77	19809	2262	1423	27	14297	165	78
GiA as % of PE	87.52	95.75	99.80	10.08	89.05	91.39	99.83	1.38	98.70	99.22

** Amount ₹ in crore*

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

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

As is evident, almost the entire Plan expenditure in the Ministries/Departments of Secondary Education and Literacy, Women and Child Development, Drinking Water Supply and Rural Development 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 slightly increased from 26.71 *per cent* in 2007-08 to 26.47 *per cent* in 2011-12.

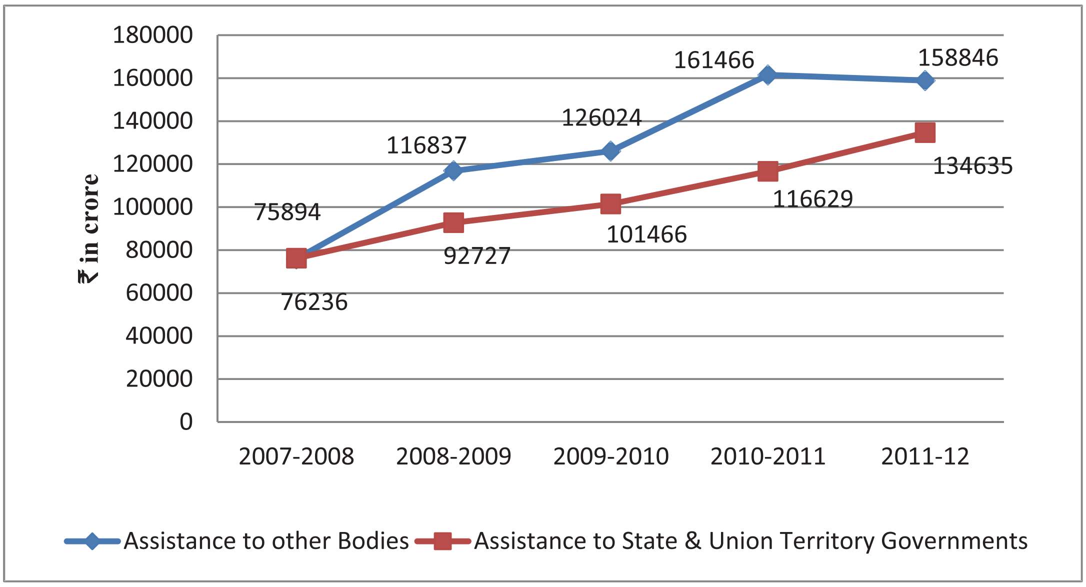
Table 1.11: Direct transfer of Central Plan assistance to State/District level Autonomous bodies/implementing agencies

(₹ 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	118740	379065	31.32
2011-12	109173	412394	26.47

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 2011-12, direct transfers stood at 54 *per cent* of the total Plan grants-in-aid. This is depicted in the chart **(Chart 1.17)** below. It is evident that transfers to bodies/authorities have become the preferred method of resource transfer, compared to disbursement of grants to State Governments.

Chart 1.17 Proportion of direct transfers vs. transfers to States & Union Territories



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

As seen from the chart above, the share of direct transfers in grants-in-aid was 55.05 *per cent* during the Eleventh Plan period. 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 discussed in detail in Chapter-6.

1.3.10 Object head-wise analysis of expenditure for the last five years

A Grant or Appropriation is distributed by standard objects under which it shall be accounted for. Each standard object, against which the provision for expenditure appears, constitutes a primary unit of Appropriation. This primary unit of Appropriation is called Object Head.

Five object heads on which largest expenditure was incurred during the past five years are given in **Table 1.12** below and trend of expenditure is shown in **Chart 1.18** following the table. Repayment of borrowings and grants-in-aid showed the largest growth in the period depicted.

Table 1.12: Five object heads on which largest expenditure was made during 2007-12

(₹ in crore)

Object Head	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012
56-Repayment of Borrowings	16,04,110	21,64,561	30,85,792	28,02,774	34,95,929
Grants-in-Aid[6]	1,97,947	2,64,606	2,91,447	3,52,648	3,67,254
45- Interest	1,79,870	2,00,973	2,22,777	2,45,701	2,89,288
33- Subsidies	94,523	1,67,461	1,46,437	1,57,817	1,70,132*
63-Inter Account Transfer	56,444	73,663	1,02,074	1,13,943	89,436

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

** this figure does not include ₹65000 crore misclassified as Other Charges.*

[6]This includes all expenditure on three object heads viz. 31-Grants-in-Aid General, 35- Grants for creation of capital Assets, 36- Grants-in-Aid Salaries.

Chart: 1.18 Trend Analysis for five largest object heads during 2007-12

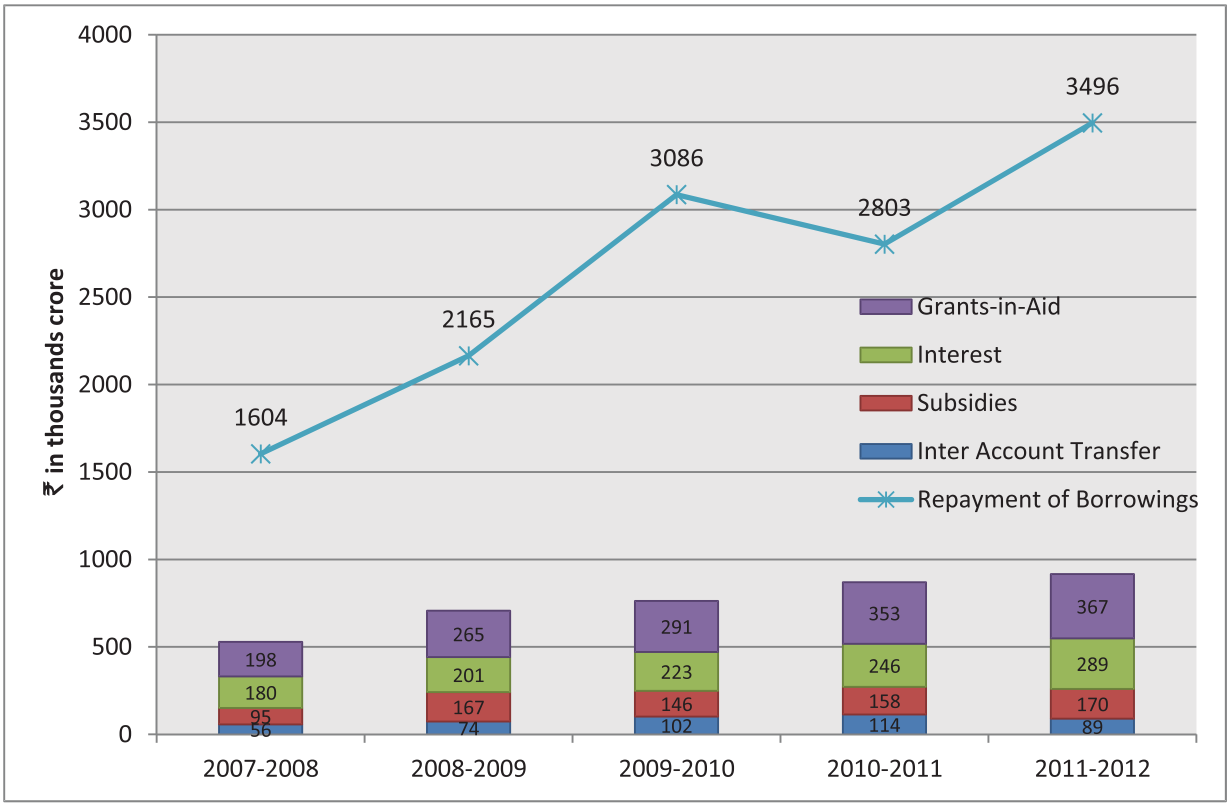


Chart 1.18 shows that single largest component of expenditure of Government of India is on repayment of its borrowings. Expenditure on repayment of borrowings almost doubled from ₹ 16,04,111 crore in year 2007-08 to ₹ 34,95,929 crore in year 2011-12. Other large components of expenditure of Union Government were on Grants-in-aid, Interest, Subsidies and Inter-account Transfer.

Object heads which recorded largest increases in booking of expenditure in 2011-12 over the previous years are given in table below:

Table 1.13: Five object heads which recorded largest increase over the previous year in 2011-12

(₹ in crore)

Object head	Exp in 2010-11	Exp in 2011-12	Growth in *Per cent*
12-Foreign Travel Expenses	394.33	1,080.97	174%
42-Lumpsum Provision	135.69	312.74	130%
22-Arms and Ammunitions	985.47	1,584.85	61%
50-Other Charges	54,595.71	79,423.84	45%
20-Other Administrative Expenses	645.69	927.87	44%

A further analysis revealed that:

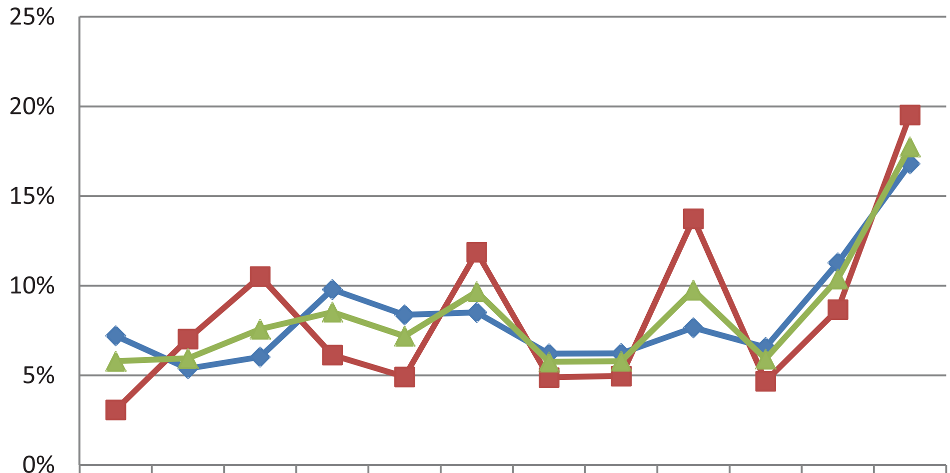
- Expenditure on foreign travel increased by 174 *per cent* i.e. from ₹394.33 crore in year 2010-11 to ₹ 1,080.97 crore in the year 2011-12. A ministry/grant wise analysis reveals that in Grant related to Cabinet, expenses on foreign travel increased from ₹ 51.68 crore in year 2010-11 to ₹ 677.54 crore in year 2011-12 thus contributing in the overall nearly three fold increase in one year. As noted in para no. 4.19, the expenditure on foreign travel also includes an expenditure of ₹381.28 crore on payment for maintenance of aircraft used for VVIP travel which was incorrectly classified as foreign travel expenditure.

- Expenditure on lump sum provision increased from ₹ 135.69 crore in year 2010-11 to ₹ 312.74 crore in year 2011-12. The main reason of this was booking of ₹ 300 crore expenditure on lump sum provision by Department of Economic Affairs in year 2011-12. As per instructions contained in Delegation of Financial Power Rules, 1978 lump sum provision should not exceed ₹ 10 lakh and in all other cases break-up of expenditure must be given.
- It was seen that more than 98 *per cent* of the expenditure on Arms and Ammunitions was recorded in the grant related to Police in both the years, which increased from ₹ 981 crore in 2010-11 to ₹ 1,571 crore in 2011-12.
- The Ministry of Petroleum and Natural Gas and the grant relating to Pensions significantly contributed to increase of 45 *per cent* booking in expenditure under object head '50-Other Charges'. In 2011-12 the expenditure includes an amount of ₹ 65,000 crore which has been incorrectly classified as 'Other Charges' instead of 'Subsidy' as discussed in para no. 4.19.
- In case of object head relating to Other Administrative Expenses the increase was 44 *per cent* over the previous year which was spread across all the grants.

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 1.19** 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 1.19: Month-wise flow of expenditure



	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Non-Plan	7%	5%	6%	10%	8%	9%	6%	6%	8%	7%	11%	17%
Plan	3%	7%	11%	6%	5%	12%	5%	5%	14%	5%	9%	20%
CFI#	6%	6%	8%	9%	7%	10%	6%	6%	10%	6%	10%	18%

CFI=Consolidated Fund of India
Note: Data extracted from 'e-lekha' portal (other than for grants pertaining to Defence, Posts, Railways and grant no.37 i.e. Appropriation-Repayment of Debt). Does not include journal entries, 'inter-account transfer' and 'deduct recoveries'.
 # percentages of month-wise expenditure from CFI may not tally with Annex I-B due to non-inclusion of 'inter-account transfer' in this chart

An analysis of the total expenditure of the Government from the Consolidated Fund of India for the Civil Ministries[7] shows that 18 *per cent* and 34 *per cent* of the total annual expenditure was incurred in March 2012 and last quarter of the year 2011-12. The main reason for this was the sharp increase in Plan expenditure in March 2012. Plan expenditure showed quarterly peaks in the months of June, September and December of 2011 and showed a pronounced increase in March 2012 to 20 *per cent* of the total Plan expenditure. Non-Plan expenditure, which averaged between 5 to 11 *per cent* of the annual expenditure every month, showed a sharp increase in March 2012 to 17 *per cent* of the total non-Plan expenditure for the year.

Ministry/Department-wise time analysis: A disaggregated analysis in **Table 1.14** shows that in the case of 16 grants over 23 *per cent* of the total expenditure was incurred in March 2012. In the case of the Department of Financial Services and the Department of Economic Affairs, 67 *per cent* and 56 *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 **Annex I-B.**

[7] Excluding Posts (Grant No. 13), Defence (Grant Nos. 22 to 27) and Repayment of debt (Grant No. 37).

Table 1.14: Analysis of the expenditure in March 2012

Grant No.	Grant Name	Total expenditure (₹ *in crore*)	Expenditure in March (including Supplementary Accounts) (₹ *in crore*)	Percentage of expenditure in March (including Supplementary Accounts)	Expenditure on last day of March (₹ *in crore*)	Percentage of expenditure on last day of March
033	Department of Financial Services	20824	15692	75%	14044	67%
032	Department of Economic Affairs	21455	12632	59%	11963	56%
082	Department of Rural Development	106841	52608	49%	43370	41%
088	Ministry of Shipping	1664	758	46%	699	42%
075	Ministry of Power	7091	3187	45%	2321	33%
074	Ministry of Planning	1330	437	33%	181	14%
073	Ministry of Petroleum and Natural Gas	70101	22740	32%	1	0%
069	Ministry of Indian Overseas Affairs	78	21	27%	6	8%
015	Department of Information Technology	2075	559	27%	399	19%
081	Ministry of Road Transport and Highways	38280	9919	26%	8632	23%
035	Transfer to States and Union Territories	136895	35191	26%	33125	24%
093	Ministry of Textiles	5057	1225	24%	791	16%
100	Lakshadweep	894	215	24%	133	15%
010	Ministry of Coal	402	96	24%	63	16%
053	Cabinet	1030	243	24%	146	14%
056	Transfer to Union Territory Governments	1489	349	23%	168	11%

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

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

- Out of ₹43,370 crore incurred by the Department of Rural Development on the last day of the March 2012, an amount of ₹43,316 crore, constituting 99.87 *per cent* was incurred on the three object heads viz. Inter Account Transfer (₹ 42,578 crore), Grants for creation of Capital Assets (₹ 551 crore) and Grants-in-Aid General (₹ 187 crore).

- Similarly, out of ₹ 14,044 crore incurred by the Department of Financial Services on the last day of the March 2012, an amount of ₹ 13,902 crore, constituting 98.98 *per cent* was incurred on the three object heads viz. Investments (₹ 13,095 crore which included ₹12,000 crore for recapitalisation of Public Sector Banks, ₹1,000 crore as subscription of share capital of NABARD and ₹95 crore as equity capital of LIC), Inter Account Transfer (₹ 625 crore) and Subsidies (₹ 182 crore which includes ₹127 crore as one *per cent* interest subvention on housing loans and ₹55 crore on interest subvention for providing short term credit to farmers)

- Similarly, out of ₹ 11,963 crore incurred by the Department of Economic Affairs on the last day of the March 2012, an amount of ₹ 10,754 crore, constituting 89.89 *per cent*, was incurred on the three object heads viz. Loans and Advances (₹7,270 crore as loan to IMF under New Arrangements to Borrow), Investments (₹ 2,468 crore including ₹2,445 crore for African Development Bank), and Subsidies (₹ 1,016 crore as subsidy to Railways towards dividend relief).

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 1.15**:

Table 1.15: Analysis of expenditure on object heads booked in March 2012

Object Head	Object Head Description	Total expenditure (₹ *in crore*)	Expenditure in March (including Supplementary Accounts) (₹ *in crore*)	Percentage of expenditure in March (including Supplementary Accounts)	Expenditure on last day of March (₹ *in crore*)	Percentage of total expenditure on last day of March
64	Write off/Losses	2779	2689	97%	2689	97%
36	Grants-in-aid salaries	2049	1903	93%	1872	91%
63	Inter account Transfer	90975	*66131	73%	*66239	73%
54	Investments	35800	17734	50%	16815	47%
05	Rewards	37	17	45%	4	11%
60	Other Capital Expenditure	1789	739	41%	5	Negligible
25	Clothing and Tentage	448	171	38%	36	8%

* Expenditure figure of last day exceeds the expenditure figure for the month of March due to some entries made on account of recoveries during the month.

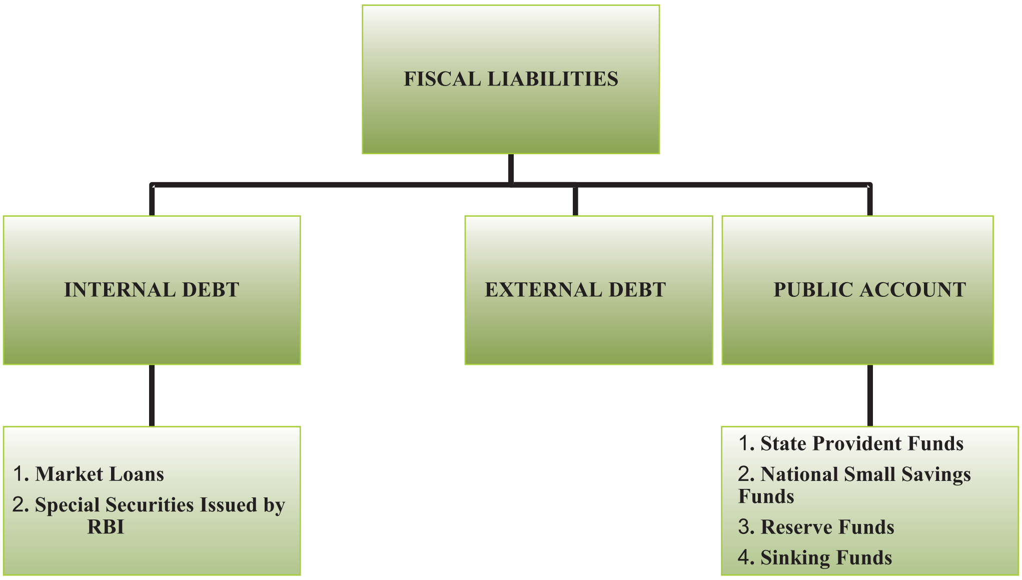
Object Head	Object Head Description	Total expenditure (₹ *in crore*)	Expenditure in March (including Supplementary Accounts) (₹ *in crore*)	Percentage of expenditure in March (including Supplementary Accounts)	Expenditure on last day of March (₹ *in crore*)	Percentage of total expenditure on last day of March
16	Publications	411	147	36%	48	12%
42	Lump sum Provision	313	106	34%	45	14%
50	Other Charges	79445	24721	31%	875	1%
26	Advertising and Publicity	1558	486	31%	136	9%
53	Major Works	21266	6348	30%	4326	20%
20	Other Administrative Expenses	928	275	30%	17	2%

Note: Data extracted from 'e-lekha' portal (other than for grants pertaining to Defence (Gr-22 to 27), Posts (Gr-13), and Railways. Does not include journal entries.

The Government should examine the reasons for lumping of expenditure, particularly in the case of investments, other Capital expenditure, advertising and publicity, major works and other administrative expenses at the 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 (FRBM) Act, 2003 and also incentivised State Governments to set limits on their liabilities through fiscal reform legislations. The FRBM rules stipulate that the Central Government shall not assume additional liabilities (including external debt at current exchange rate) in excess of 9 *per cent* of GDP for the financial year 2004-05 and in each subsequent financial year the limit of 9 *per cent* of GDP was to be progressively reduced by at least one percentage point of GDP. **Table 1.16** 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 1.16: Fiscal Liabilities

(₹ in crore)

Period	Internal Debt of Union Government	External Debt (at historic rates)	Public Account*	Total liabilities (at historic rates)	External Debt (at current rates)	Total liabilities (at current rates)
X Plan(2002-07) Average	**1274620 (38.42)**	**72715 (2.19)**	**368973 (11.12)**	**1716307 (51.74)**	**193395 (5.83)**	**1836987 (55.37)**
XI Plan (2007-12) Average	**2409114 (35.94)**	**139377 (2.08)**	**558068 (8.32)**	**3106559 (46.34)**	**265049 (3.95)**	**3232230 (48.22)**
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 (36.06)	134083 (2.08)	583279 (9.03)	3045701 (47.17)	249306 (3.86)	3160924 (48.95)
2010-11	2667115 (34.75)	157639 (2.05)	586458 (7.64)	3411212 (44.45)	278877 (3.63)	3532450 (46.03)
2011-12	3230622 (36.48)	170088 (1.92)	597765# (6.75)	3998475 (45.15)	322897 (3.65)	4151284 (46.88)

Note: figures in parenthesis show percentage of GDP

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

 # As on 31.3.2012, Public Account liabilities stood at ₹ 11,16,542 crore, which includes ₹ 5,17,277 crore invested in special State Government securities and ₹ 1,500 crore invested in IIFCL from 2007-08.

As on 31 March 2012, internal debt constituted around 95 *per cent* of the total public debt. During the financial year, Government has paid a sum of ₹ 2,42,569 crore as interest on internal debt. Over 78 *per cent* (₹ 1,89,416 crore) of interest paid on internal debt constituted interest on market loans bearing interest (of varying rates). Of the interest paid on external debt (₹ 3,501 crore), nearly 68 *per cent* (₹ 2,382 crore) share of interest paid by India during 2011-12 was towards loans from the International Development Association and loans from the Government of Japan.

Table 1.17: Debt receipt and Debt repayment

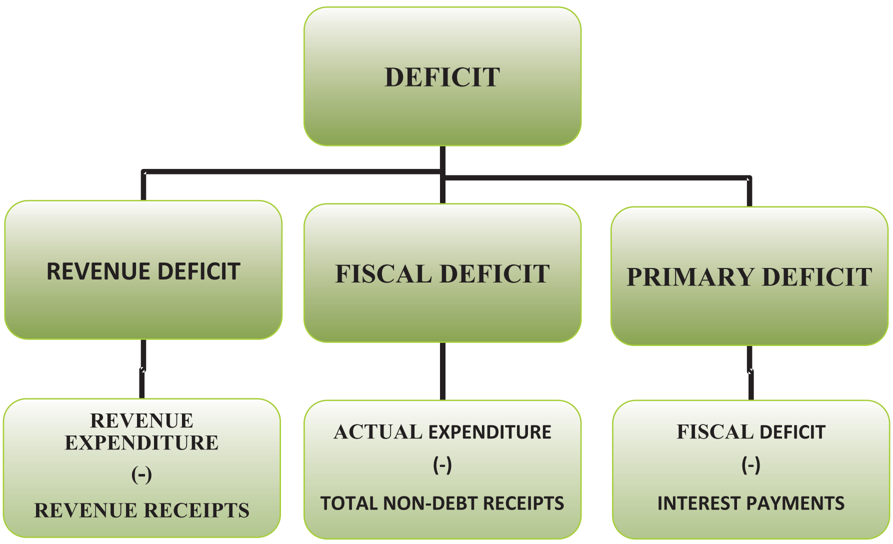
(₹ in crore)

Year	Repayment of Principal of internal debt	Repayment of interest on internal debt	Repayment of Principal of external debt	Repayment of interest on external debt	Total repayment of debt	Total non-debt receipts
2007-08	1596617	146800	7493	3927	1754837	698613
2008-09	2154553	164164	10007	4195	2332919	667922
2009-10	3074652	180504	11139	3629	3269924	741837
2010-11	2802999	201841	11774	3156	3019770	984785
2011-12	3482343	242569	13586	3501	3741999	965183

Table 1.17 shows the quantum of repayment of debt (principal and interest) vis-a-vis the non-debt receipts of the Government for the period 2007-08 to 2011-12. Repayment of debt was 251 *per cent* of non-debt receipts during 2007-08 and increased to 388 *per cent* in 2011-12. Further, the proportion of total repayment of debt to revenue receipts was to the extent of 270 *per cent* during 2007-08, which has increased to 411 *per cent* in 2011-12

1.5.1 Revenue Deficit

Box- 1.4: Types of Deficits



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		
	(₹ *in crore*)			GDP	Revenue Receipt	Revenue Expenditure
X Plan (2002-07) Average	**394426**	**500825**	**106399**	**3.21**	**26.98**	**21.24**
XI Plan (2007-12) Average	**770152**	**1058775**	**288623**	**4.31**	**37.48**	**27.26**
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	5.47	50.10	33.38
2010-11	932686	1186115	253429	3.30	27.17	21.37
2011-12	910277	1305195	394918	4.46	43.38	30.26

Table 1.18 indicates that in relation to GDP, on an average, the revenue deficit in the Eleventh Plan at 4.31 *per cent* was significantly higher than that in the Tenth Plan (3.21 *per cent*). Also, as seen from the table the revenue deficit increased in 2011-12 after showing a decline in 2010-11. The deterioration in revenue deficit in the year 2011-12 can be attributed to a 10.04 *per cent* increase in revenue expenditure and 2.40 *per cent* decrease in revenue receipts.

1.5.2 Fiscal Deficit

Fiscal deficit is the excess of actual expenditure over non-debt 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	Actual expenditure	Fiscal Deficit	Fiscal Deficit as percentage of		
	(₹ *in crore*)			GDP	Non-Debt Receipts	Actual Expenditure
X Plan (2002-07) Average	**440415**	**573852**	**133437**	**4.02**	**30.30**	**23.25**
XI Plan (2007-12) Average	**811668**	**1198142**	**386474**	**5.77**	**47.61**	**32.26**
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	6.70	58.29	36.83
2010-11	984785	1367427	382642	4.99	38.86	27.98
2011-12	965183	1483064	517881	5.85	53.66	34.92

Just as in case of revenue deficit, the average fiscal deficit in the Eleventh Plan at 5.77 *per cent* was higher than in the Tenth Plan. The current year saw deterioration in the fiscal deficit as compared to the previous year.

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 Eleventh Plan period

Table 1.20: Components of fiscal deficit

(Per cent)

Period	Revenue Deficit	Net Capital Expenditure	Net Loans and Advances
X Plan (2002-07) Average	**79.74**	**31.22**	**(-)10.96**
XI Plan (2007-12) Average	**74.68**	**24.35**	**0.97**
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
2011-12	76.26	23.44	0.30

As can be seen from the above table the net capital expenditure in 2011-12 showed a significant decline over 2010-11.

Table 1.21 below presents the targets set for the key fiscal parameters – revenue and fiscal deficits for the year 2011-12 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 much above the ceiling indicated in the budget estimates

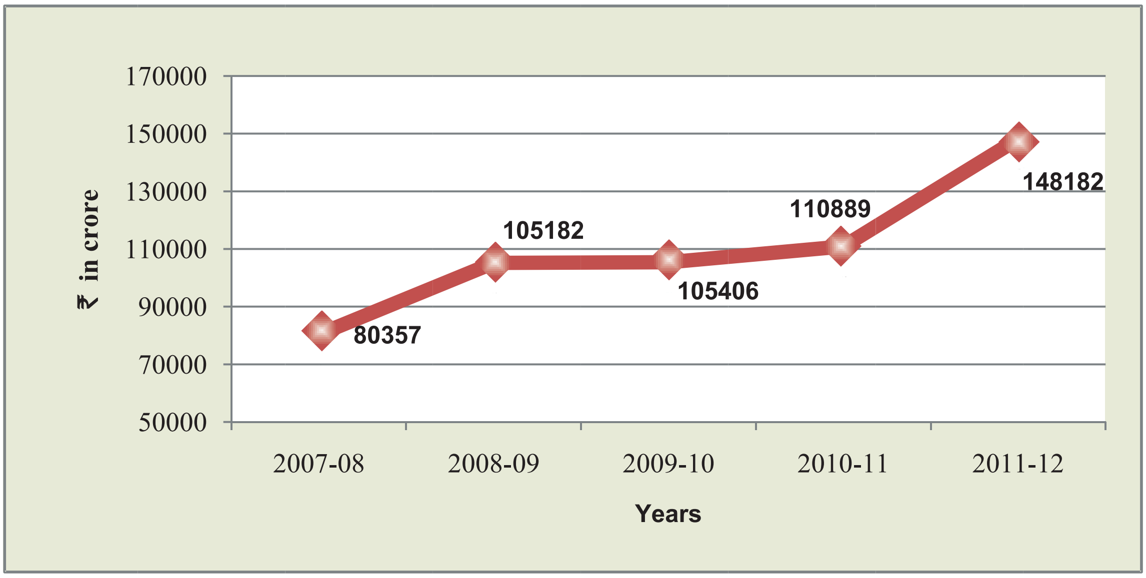
Table 1.21: Outcome vis-à-vis Targets under FRBM Rules (As percentage of GDP)

Fiscal Indicator	Targets set in MTFPS 2009-10 for the year 2011-12	Targets set in MTFPS 2010-11 for the year 2011-12	BE in MTFPS 2011-12	Actual Levels
Revenue Deficit	1.5	3.4	3.4	4.46
Fiscal deficit	4.0	4.8	4.6	5.85

1.5.3 External Debt: Unutilised committed external assistance

As on 31 March 2012, unutilised committed external assistance was of the order of ₹1,48,182 crore. **Chart 1.20** 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 (₹ 30,786 crore), roads (₹ 19,984 crore), water resources (₹ 12,945 crore), power (₹ 14,365 crore), environment and forestry (₹ 12,078 crore).

Chart 1.20: Unutilised committed external assistance



Commitment charges on undrawn external assistance are paid on the amount of principal rescheduled for drawal on later dates. As there is no distinct head in the accounts for reflecting the payment of commitment charges, it is shown under the head 'interest obligation'. **Table 1.22** indicates charges paid to various bodies/governments during 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 ₹ 83.29 crore in 2011-12.

Table 1.22: Commitment Charges

(₹ in crore)

Year	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
2011-12	42.30	20.82	6.24	13.92	83.29

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 2012, 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 2012 were ₹ 2,03,056 crore and ₹ 1,92,501crore, 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 1.21** 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 Eleventh Plan period.

Chart: 1.21 Guarantees given by the Union Government

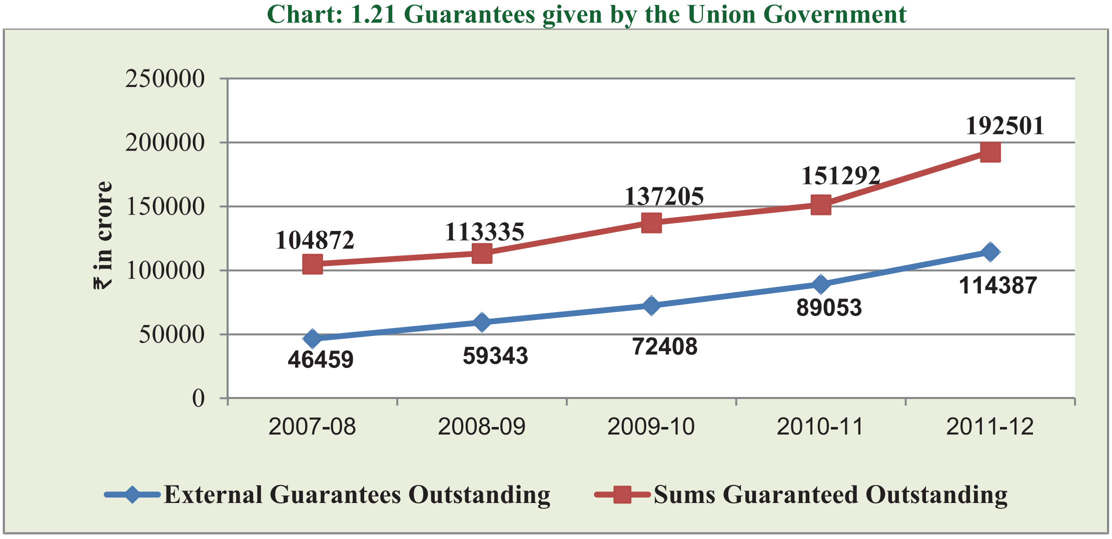


Table 1.23: Guarantees given by the Union Government

(₹ in crore)

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
2009-10	150437	137205	72408	52.76
2010-11	160611	151292	89053	58.86
2011-12	203056	192501	114387	59.42

Guarantees are usually given to enable borrowings from international agencies or to enable PSUs to borrow money from the market. In 2011-12, of the sums guaranteed outstanding as on 31 March, 2012 (₹ 1,92,501 crore), 59 *per cent* went towards loans from foreign lending institutions, 35 *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 six *per cent* went towards guarantees for repayment of share capital, payment of minimum annual dividend and repayment of bonds, loans, debentures/counter guarantees etc. The major Ministries/Departments for whom guarantees were given by the Ministry of Finance were the Ministries/Departments of Consumer Affairs, 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, this percentage is worked out on the basis of net accretion of guarantees. In the year 2011-12, the guarantees given totalled ₹ 40,219 crore, which was 0.45 *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 (₹ 1,92,501 crore) were 2.17 *per cent* of the GDP in 2011-12 and 21.15 *per cent* of the revenue receipts that accrued to the Union Government in 2011-12.