1: AN OVERVIEW OF UNION FINANCES 2014-15

1.1 Introduction

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 and payments from the Consolidated Fund, Contingency Fund and Public Account. The Appropriation Accounts depict expenditure compared with the amounts authorised by the Legislature and explanations for the resultant excesses/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 titled 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 made therefrom.

1.1.1 The year 2014-15 was marked by improvement in economic growth as measured by Gross Domestic Product (GDP)[1] with growth of 7.3 *per cent* as against 6.9 *per cent* in 2013-14.

Improvement was also observed on the fiscal front, with the fiscal deficit declining from 4.95 *per cent* of GDP in 2012-13 to 4.44 *per cent* in 2013-14 and 4.11 *per cent* in 2014-15. Much of this improvement, during 2014-15, has been achieved by a growth of 9.55 *per cent* in non-debt receipt and a subdued

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[1] As per a press note released by CSO on 29th May, 2015, estimates of GDP at constant prices (2011-12) grew by 7.3 *per cent* over the previous year, while at current prices, it grew by 10.5 *per cent*.

growth of 7.56 *per cent* in actual expenditure over the previous year's growth of 10.73 *per cent.*

An increase of ₹ 1,11,115 crore (9.12 *per cent*) in revenue receipt as against an increase of ₹ 1,20,040 crore (7.62 *per cent)* in revenue expenditure during 2014-15 over the previous year resulted in increase of revenue deficit by ₹ 8,925 crore. Further, fiscal deficit rose by ₹ 12,718 crore over the previous year owing to increased capital expenditure by ₹ 14,163 crore over the same period. Gross borrowing by the Government in the form of public debt during 2014-15 was higher by ₹ 2,23,230 crore over previous year.

A combined effect of deficit of ₹ 5,451 crore in Consolidated Fund of India (CFI) and a deficit of ₹ 72,393 crore in Public Account resulted in a decrease of ₹ 77,844 crore in the cash balance of the Union Government at the end of financial year 2014-15.

Table 1.1 summarises the position of the receipts, disbursements and borrowings of the Union Government for the year 2014-15.

Table 1.1: Summary of the current year's (2014-15) operations

(₹in crore)

Receipts		Derived Parameters	Disbursements	
Consolidated Fund of India (CFI)				
Revenue Receipts*	1328909 (1217794)	**Revenue Deficit 366228 (357303)**	Revenue Expenditure	1695137 (1575097)
Miscellaneous Capital Receipts	37740 (29368)		Capital Expenditure	172085 (168844)
Recovery of Loans	26547 (24549)		Loans and Advances	41922 (31000)
Total Non-Debt Receipts	1393196 (1271711)	**Fiscal Deficit 515948 (503230)**	Actual Expenditure	1909144 (1774941)
Public Debt	4218196 (3994966)		Public Debt	3707699 (3511291)
Total receipts into CFI	5611392 (5266677)	**Deficit in CFI 5451 (19555)**	Total expenditure from CFI	5616843 (5286232)
Contingency Fund				
Receipts	0		Appropriation	0
Public Account				
Small Savings	499555 (407541)		Small Savings	505402 (389826)
Reserves & Sinking Fund	147041 (127520)		Reserves & Sinking Fund	141932 (124057)
Deposits	131184 (113712)		Deposits	103498 (101028)
Advances	42238 (37895)		Advances	42380 (25035)
Suspense Account	28484 (2744)		Suspense Account	116525 (13110)
Remittances	2004 (3548)		Remittances	13162 (1182)

Total Public Account	850506 (692960)	**Deficit in Public Account 72393** (**Surplus 38722**)	Total Public Account	922899 (654238)
Opening Cash	87618 (68451)	**Decrease in Cash Balance 77844** (Increase **19167**)	Closing Cash	9774 (87618)
Public Account Deficit (Demand)		72393	Decrease in Cash Balance (-)Deficit in CFI	
Incremental Liabilities (Supply)		537445	Surplus of (Debt+ Small Savings+ Reserve Funds+ Deposits)	
Incremental Liabilities (Demand)		537445	Fiscal Deficit (-) Decrease in Cash (+) Net Disbursement of (Advances+ Suspense+ Remittances)	

**Excludes figures of taxes and duties assigned to States (₹3,37,808 crore for 2014-15 and ₹3,18,230 crore for 2013-14).*
Note: (1) Figures in parentheses indicate corresponding figures for 2013-14.
(2) Revenue Receipts and Revenue Expenditure for 2014-15 are understated by ₹ 5,332 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 of this report.

1.2 Resource Generation

Revenue and capital are two streams of receipts that constitute resource of the Union Government. Revenue receipts consist of tax revenue, non-tax revenue and Grants-in-aid from some external agencies. Capital receipts have two components - debt receipts, which create future repayment obligations and non-debt receipts, which constitute proceeds from disinvestment and recoveries of loans and advances, leading to reduction in the actual or potential asset base.

As can be seen from **Table 1.2**, Gross receipt to GDP ratio has shown a steady decline in the last four years and stood at 54.20 *per cent* of GDP during 2014-15. The year 2014-15 was characterised by a growth of only 8.51 *per cent* in gross revenue receipt as compared to 14 *per cent* in 2013-14. However, gross receipts increased by 8.28 *per cent* in 2014-15 over the previous year. Gross debt-receipt to gross receipt was 62.05 *per cent* for 2014-15 and was 63.64 *per cent* in 2013-14. Although, the share of debt receipts to gross receipts has been declining, still it is very high, indicating continued dependence on debt to balance the budget.

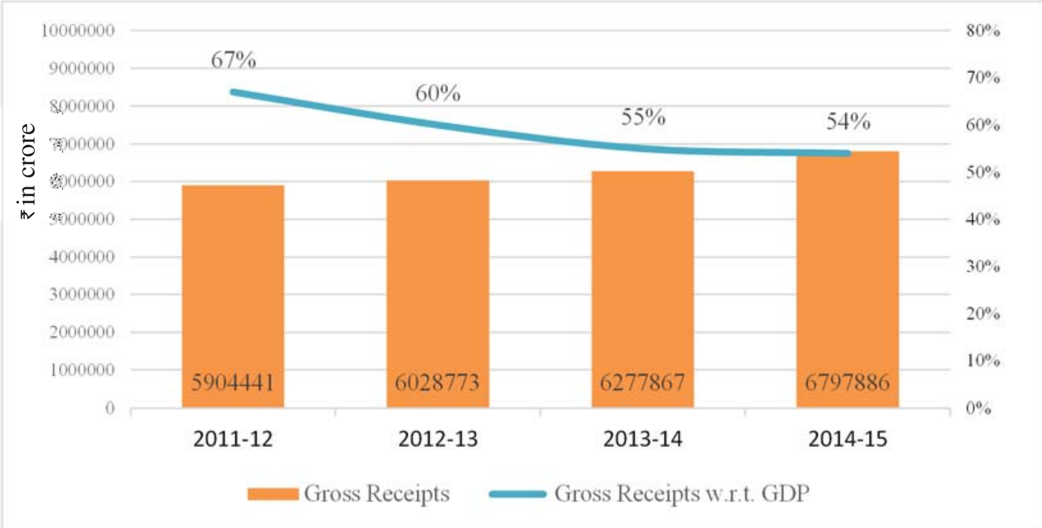
Table 1.2: Resources and GDP

(₹in crore)

Period	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) (5)	GDP at Current Prices (6)	Gross Receipts/GDP (7)
2011-12	1165691 (20)	54906 (1)	4063177 (69)	620667 (11)	5904441	8832012	66.85
2012-13	1347438 (22)	52513 (1)	3968038 (66)	660784 (11)	6028773	9988540	60.36
2013-14	1536024 (24)	53917 (1)	3994966 (64)	692960 (11)	6277867	11345056	55.34
2014-15	1666717 (25)	64287 (1)	4218196 (62)	848686 (12)	6797886	12541208	54.20

Includes figures of taxes and duties assigned to States (₹3,37,808 crore for 2014-15). Net revenue receipts to the Centre is ₹13,28,909 crore in 2014-15, as reflected in **Table 1.1.*
Note: (1) Figures in parentheses indicate percentage of Gross receipts.

Chart 1.1: Gross Receipts as percentage of GDP



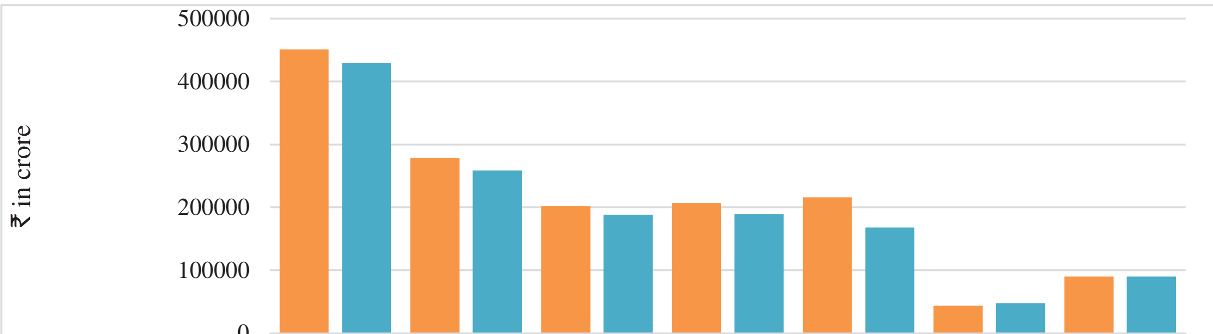
1.2.1 Revenue receipts

Revenue receipts comprising tax and non-tax receipts are the most important sources of revenue as no future payment obligations are created by these receipts. Various components of revenue receipts are discussed in succeeding paras.

1.2.2 Components of revenue receipts: Gap between Actuals and BE

Formulating realistic budgetary estimates is vital for expenditure control and cash & debt management. **Chart 1.2** indicates that actual tax revenue receipts were below the Budget Estimate (BE). The major shortfall were in respect of Service Tax (22.23 *per cent*) and Excise (8.39 *per cent)*. In the non-tax revenue sector, Interest Receipts exceeded (10.18 *per cent)* the Budget Estimates.

Chart 1.2 Actuals of key Revenue Components vis-a-vis BE: 2014-15



	Corporation Tax	Income Tax	Customs	Excise	Service Tax	Interest Receipts	Profits and Dividends
Budget Estimates	451005	278275	201819	206356	215973	43572	90229
Actuals	428925	258374	188016	189038	167969	48007	89861

1.2.3 Tax revenue

The growth of gross taxes remained lower than the growth of GDP since 2013-15. However, the growth in components of tax revenue sector resulted in overall growth of 9.32 *per cent* in gross tax revenue (**Table 1.3**).

Table 1.3: Components of tax revenue (gross)

(*₹ in crore*)

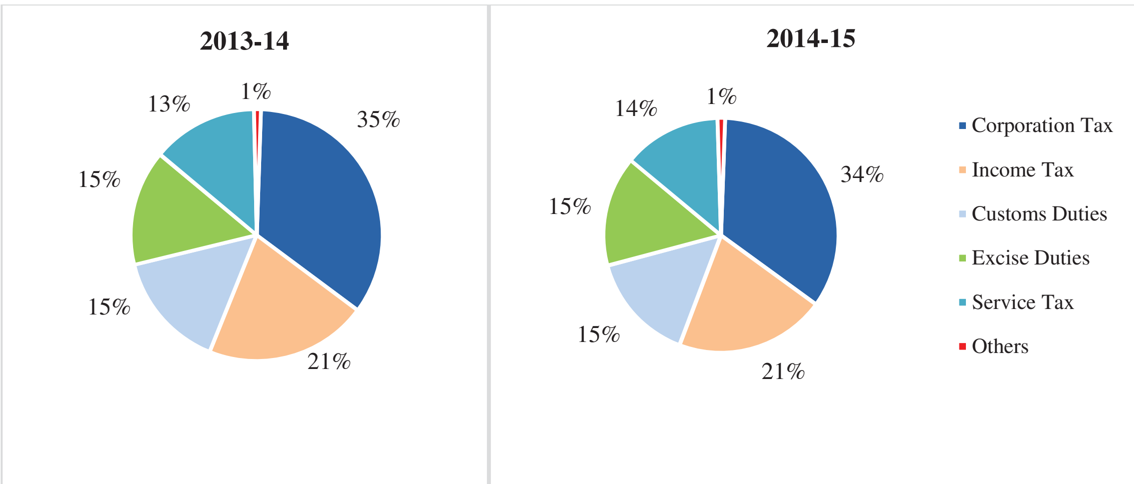
Period	Total Gross Tax Revenue#	Corporation Tax	Income Tax	Customs Duties	Excise Duties	Service Tax	Others*	GDP at current prices
2011-12	889118	322816	164525	149328	144901	97509	10039	8832012
2012-13	1036461	356326	196844	165346	175845	132601	9499	9988540
2013-14	1138996	394678	237870	172085	169455	154780	10128	11345056
2014-15	1245136	428925	258374	188016	189038	167969	12814	12541208
Annual Rate of Growth (*per cent*)								
2011-12	12.08	8.08	18.28	9.95	5.23	37.31	(-) 8.64	@
2012-13	16.57	10.38	19.64	10.73	21.36	35.99	(-)5.38	13.09
2013-14	9.89	10.76	20.84	4.08	(-)3.63	16.73	6.62	13.58
2014-15	9.32	8.68	8.62	9.26	11.56	8.52	26.52	10.54

 # 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.*
@ Figures not available due to change in base year of GDP to 2011-12.

The growth of Income Tax and Service Tax slowed down from 20.84 *per cent* and 16.73 *per cent* in 2013-14 to 8.62 *per cent* and 8.52 *per cent* respectively in current year. The rate of growth of Excise Duties was negative (- 3.63 *per* cent) in 2013-14 but increased to 11.56 *per cent* in 2014-15.

A comparison of relative shares of components of tax revenues during 2013-14 and 2014-15 (**Chart 1.3**) shows marginal increase in share of Service Tax (one *per cent*) and decrease in share of Corporation Tax (one *per cent*). The share of the rest of the components of tax revenue remained the same.

Chart 1.3: Components of tax revenue



1.2.4 Non-tax revenue

In 2014-15, the largest share of non-tax revenue (57.76 *per cent*) came from user charges levied by various departments, which offer economic services to the general public (**Table 1.4**). Interest receipts constituted 11.39 *per cent* of non-tax revenue, while dividends and profits accounted for 21.32 *per cent* (1.46 *per cent* lower than previous year). Annual growth rate of non-tax revenue decreased from 27.67 *per cent* in 2013-14 to 6.18 *per cent* in 2014-15. This was mainly due to significant decrease in receipts from dividends and profits (68.23 *per cent* in 2013-14 to -0.64 *per cent* in 2014-15) as well as lower growth in the receipts from economic services (23.29 *per cent* in 2013-14 to 6.96 *per cent* in 2014-15).

Receipts from social services witnessed growth of 387.75 *per cent* in 2012-13 over 2011-12 due to onetime large receipt of ₹ 3,594 crore from social security and welfare measures. It further exhibited a growth of 31.84 per cent in 2014-15 due to large receipt in the form of 'Licence Fee from DTH Operators' of ₹ 836.52 crore. However, relative share of social services receipts to non-tax revenue receipts remained negligible.

Table 1.4: Composition of Non-tax revenue (Share and growth trend)

(₹ in crore)

Period	Total Non-tax Revenue#	Interest Receipts	Dividends and Profits	Social Services	Economic Services	Sovereign and Other Functions**
2011-12	276573	40054	50609	988	158283	26639
Relative share *(per cent)*	100	14.48	18.30	0.36	57.23	9.63
2012-13	310977	38860	53762	4819	184662	28874
Relative share*(per cent)*	100	12.50	17.29	1.55	59.38	9.28
2013-14	397028	44027	90442	1316	227661	33582
Relative share*(per cent)*	100	11.09	22.78	0.33	57.34	8.46
2014-15	421582	48007	89861	1735	243512	38467
Relative share*(per cent)*	100	11.39	21.32	0.41	57.76	9.12
Annual Rate of Growth						
2011-12	(-)22.89	13.47	5.45	21.38	(-)36.24	1.20
2012-13	12.44	(-)2.98	6.23	387.75	16.67	8.39
2013-14	27.67	13.30	68.23	(-)72.69	23.29	16.31
2014-15	6.18	9.04	(-)0.64	31.84	6.96	14.55

 # includes Grant-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 Departmentally managed Government Undertakings, etc.
*** Fiscal services and General Services (Police, Public Works, Defence, Other Administrative Services, Grants-in-aid and Contributions etc.)*

Receipt from Economic Services is a major constituent of non-tax revenue since 2011-12. Under Economic Services, the main schemes/programme/functions responsible for the increase were (i) Indian Railways (Commercial Lines-Goods Earning) which increased from

₹ 93,788.29 crore in 2013-14 to ₹ 1,05,661.21 crore in 2014-15 (12.66 *per cent*), (ii) Tolls on Roads and Bridges, which increased from ₹ 5,144.67 crore in 2013-14 to ₹ 5,927.13 (15.21 *per cent*), (iii) 'Other General Economic Services' which increased from ₹ 3,368.47 crore in 2013-14 to ₹ 4,773.93 crore in 2014-15 (41.72 *per cent*) (iv) Other Services and Service fees (Postal Receipts) which increased from ₹ 6,139.61 crore in 2013-14 to ₹ 7,094.05 crore in 2014-15 (15.55 *per cent*) and (v) 'Coal and Lignite' which increased from ₹ 136.18 crore in 2013-14 to ₹ 6,179.26 crore in 2014-15 (4,437.57 *per cent*).

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 from State and Union Territory Governments, Foreign Governments, Government corporations, non-government institutions and government servants. During the period 2011-15, there was shortfall in miscellaneous capital receipts as compared to the BE. On the other hand, the recovery of loans and advances was higher than the BE during the same period, indicating deficiency in the formulation of the budget estimates (**Table 1.5**).

Table 1.5: Realisation from Non-Debt Capital Receipt

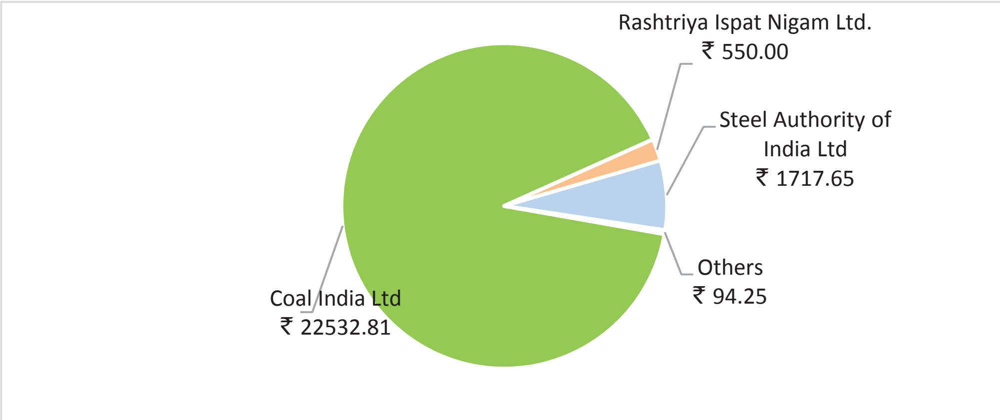
Period	Miscellaneous Capital Receipt			Recovery of Loans and Advances		
	BE	Actual*	Percentage of Actual to BE	BE	Actual	Percentage of Actual to BE
	(₹ in crore)			(₹ in crore)		
2011-12	40000	16471	41.18	26510	36818	138.88
2012-13	30000	25408	84.69	23095	26624	115.28
2013-14	55814	29368	52.62	22054	24549	111.31
2014-15	63425	37737	59.50	22817	26547	116.35

**Does not include receipts from bonus shares.*

Disinvestment constitutes the major portion of the miscellaneous capital receipt. **Chart 1.4** indicates that 91 *per cent* (₹ 22,532.81 crore) of the disinvestment proceeds of total ₹ 24,894.71 crore were contributed by Coal India Limited alone. Other major contributors were Steel Authority of India Ltd (₹ 1,717.65 crore, 7 *per cent*) and Rashtriya Ispat Nigam Ltd. (₹ 550.00 crore, 2 *per cent*), NTPC Ltd (₹ 48.16 crore), NALCO (₹ 12.45 crore), MECON (₹ 12.60 crore) etc.

Chart 1.4: Component of disinvestment proceeds

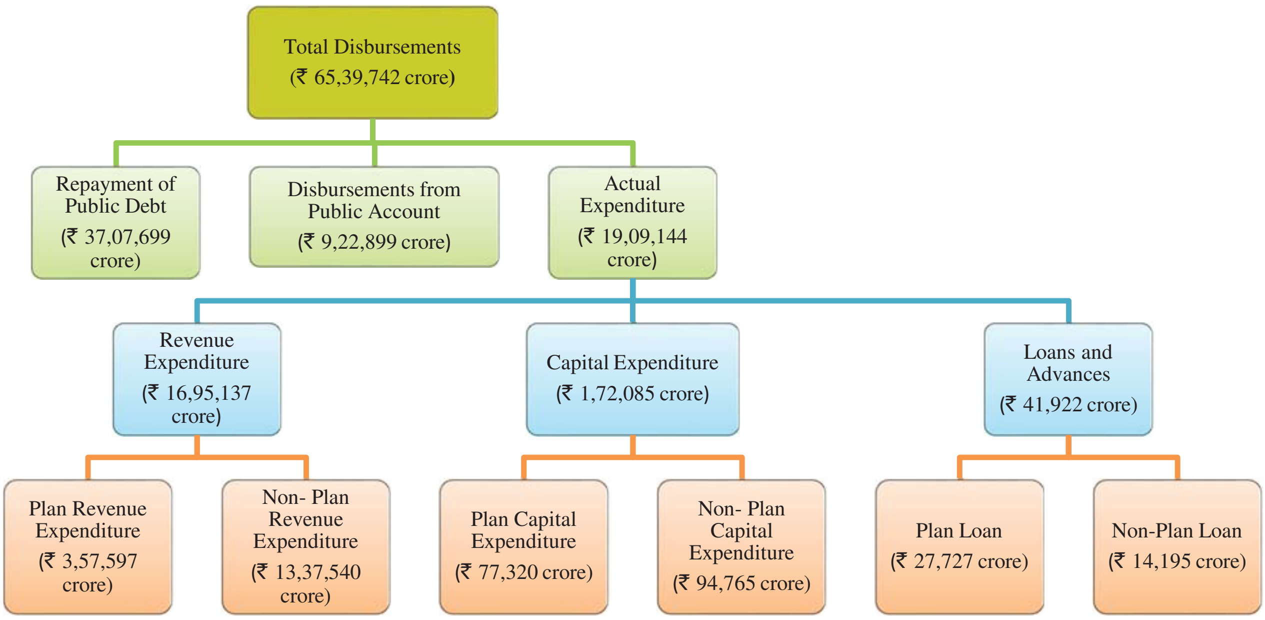
(₹ in crore)



1.3 Expenditure Analysis

The total disbursements from the Consolidated Fund of India (CFI) and the Public Account (PA) for 2014-15 was of the order of ₹ 65,39,742 crore.

Chart 1.5: Components of Total Disbursements



In 2014-15, the total disbursements of the Government increased by 10.09 *per cent* over the previous year's disbursements of ₹ 59,40,471 crore. Disbursement from CFI was 85.89 *per cent* (Repayments of public debt-56.70 *per cent* and actual expenditure-29.19 *per cent*). Remaining 14.11 *per cent* of disbursement was from PA **(Chart 1.5)**.

Share of various components of disbursements made by the Government is given in **Table 1.6**. Proportion of repayment of debt in the total disbursement has come down from 62.06 *per cent* during 2011-12 to 56.70 *per cent* in 2014-15. However, share of Public Account disbursement has increased from 11.61 *per cent* to 14.11 *per cent* during the same period. The share of actual expenditure has increased from 26.33 *per cent* to 29.88 *per cent* during 2011-12 to 2013-14 but decreased to 29.19 per cent in 2014-15. Revenue expenditure as a proportion of actual expenditure remained around 88 *per cent* during 2011-15. The proportion of Plan expenditure to actual expenditure has come down from 27.81 *per cent* in 2011-12 to 24.23 *per cent* in 2014-15.

Table 1.6: Share of various components of total Disbursement

(In *per cent*)

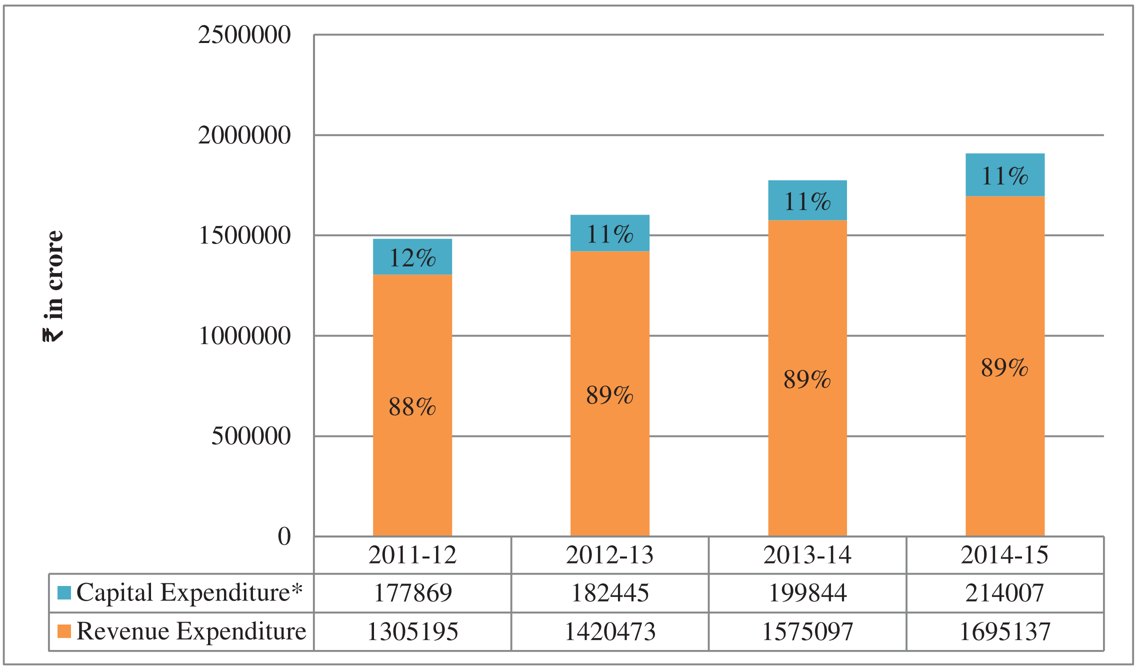
Particulars	2011-12	2012-13	2013-14	2014-15
Components of Total Disbursement				
Repayment of Debt	62.06	60.27	59.11	56.70
Disbursements from Public Account	11.61	11.54	11.01	14.11
Actual Expenditure (AE)	26.33	28.19	29.88	29.19
Components of Actual Expenditure				
Revenue Expenditure (RE)	88.01	88.62	88.74	88.79
Capital Expenditure (CE)	9.40	9.38	9.51	9.01
Loans and Advances (LA)	2.59	2.00	1.75	2.20
Components of Revenue Expenditure				
Plan Revenue Expenditure	25.57	23.18	22.39	21.10
Non- Plan Revenue Expenditure	74.43	76.82	77.61	78.90
Components of Capital Expenditure				
Plan Capital Expenditure	41.98	45.24	48.52	44.93
Non- Plan Capital Expenditure	58.02	54.76	51.48	55.07
Components of Loan Advances				
Plan Loan	52.35	51.13	60.24	66.14
Non-Plan Loan	47.65	48.87	39.76	33.86
Plan Expenditure *as percentage of AE*	27.81	25.80	25.54	24.23
Non-Plan Expenditure *as percentage of AE*	72.19	74.20	74.46	75.77

1.3.1 Revenue and Capital expenditure

Revenue expenditure is current expenditure, which does not result in creation of assets. This is meant for normal running of the Government and includes maintenance expenditure, interest payments, subsidies, 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 share capital, and loans & advances given by the Government. **Chart 1.6** shows the pre dominance of revenue expenditure over capital expenditure. In the year 2011-12 the share of capital expenditure was

12 *per cent* and revenue expenditure was at 88 *per cent*. However, in succeeding year the share of capital expenditure came down to 11 *per cent* and remained at the same level during 2012-15. Capital expenditure registered annual growth of 9.54 *per cent* in 2013–14 but ended with subdued growth of 7.09 *per cent* in 2014-15.

Chart 1.6: Comparison of Revenue expenditure with capital expenditure



**Includes Loans & Advances*

1.3.2 Analysis of Revenue expenditure

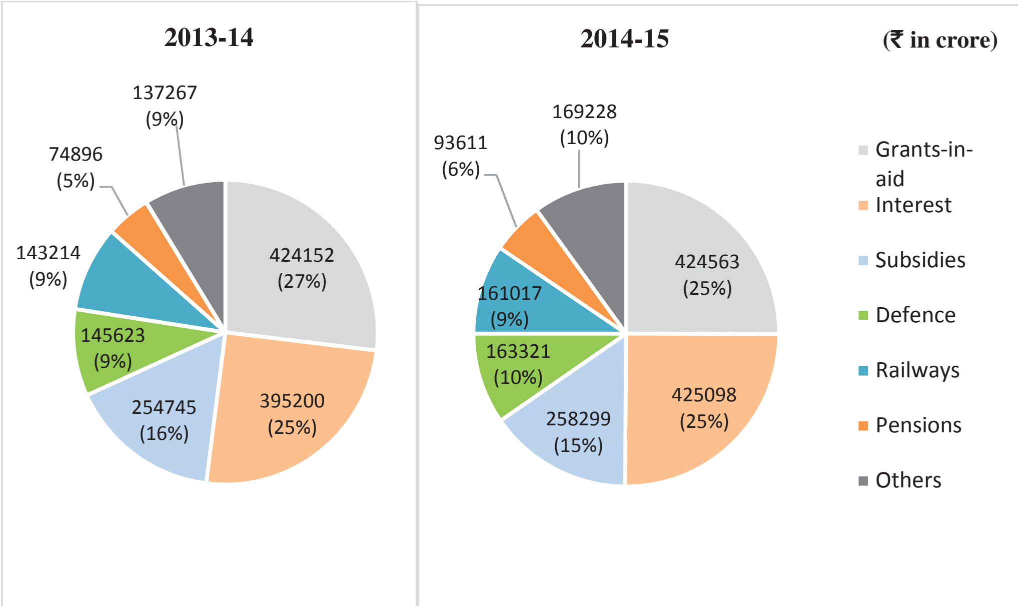
As details of component wise expenditure are not available in the Finance Accounts, e-lekha has been used for supplementing the analysis in some of the chapters of this Report. E-lekha being used at Pay and Accounts Offices and other offline interfaces, provides a system of core accounting with integration of daily, monthly and annual accounting process for value added reporting and monitoring mechanism.

The expenditure figures in Finance Accounts are shown net of recoveries and thus, the figures from e-lekha, wherever adopted, have been netted of recoveries. Data of a number of components derived from e-lekha were at variance with the data available in Finance Accounts due to non-updation of e-lekha in time.

The total revenue expenditure for the year 2014-15 was ₹ 16,95,137 crore which is 88.79 *per cent* of actual expenditure. The revenue expenditure grew by 7.62 *per cent* during 2014-15 as against 10.89 *per cent* over the previous year.

Expenditure on items such as interest payments, grants-in-aid, subsidies, pensions and revenue expenditure in Defence and Railways constitute major components (around 90 *per cent*) of total revenue expenditure, as depicted in **Chart 1.7**.

Chart 1.7: Major components of revenue expenditure



(a) Grants-in-aid: Grants-in-aid both for general purposes and capital creation are given to State/UT and Foreign Governments. Grants are also given to bodies/authorities/entities from the CFI for both the purposes and also for payment of salaries. 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. The proportion of Grants-in-aid to revenue expenditure decreased from 27 *per cent* to 25 *per cent* in 2014-15 over the previous year **(Chart 1.7)**.

(b) Interest Payments: Interest payments provide 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 etc. It also embraces expenditure on reduction or avoidance of debt. Interest payments are the second largest component of revenue expenditure **(Chart 1.7).** The proportion of interest payments to revenue expenditure stood at 21.99 *per cent* in 2011-12, which increased to 25.08 *per cent* in the current year (**Table 1.7**). The increasing share of interest payments is indicative of crowding out of other expenditures. The growth of interest payments in 2014-15 however remained at 7.57 *per cent,* well below the growth of 19.70 *per cent* in 2013-14.

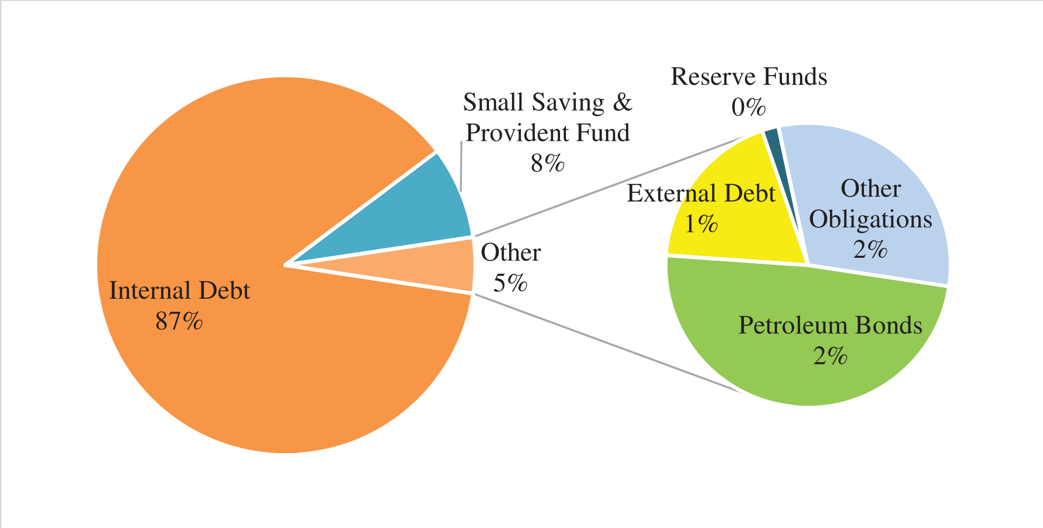
Table 1.7: Interest payment to revenue expenditure

(₹in crore)

Year	Revenue Expenditure (RE)	Interest Payments (IP)	Growth of IP	Share of IP to RE
2011-12	1305195	286982	11.98	21.99
2012-13	1420473	330171	15.05	23.24
2013-14	1575097	395200	19.70	25.09
2014-15	1695137	425098	7.57	25.08

Components of interest payments made in 2014-15 are shown in **Chart 1.8.** Interest payments on account of internal debt is 87 *per cent* (₹ 3,71,420 crore)of the total interest payments.

Chart 1.8: Main components of interest expenditure



Total Interest payment : ₹4,25,098 crore (Interest on Internal Debt: ₹3,71,420 crore, Interest on External Debt:₹ 3,766 crore, Interest on Small Savings & Provident Fund:₹33,478 crore, Interest on Petroleum Bonds:₹9,849 crore, Interest on Reserve Fund: ₹379 crore and Interest on other obligations:₹6,206 crore)

(c) Subsidies: Subsidies connote 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. 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 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. **Table 1.8** presents details of the subsidies, which the Government provided explicitly. The bulk of the expenditure under this head is towards food, fertilizer and petroleum subsidies. The total expenditure on subsidy has increased marginally by 1.40 *per cent* in 2014-15 over the previous year. However, the subsidies on food and urea grew by ₹ 25,671 crore (28 *per cent*) and ₹ 12,385 crore (33 *per cent*) respectively in 2014-15 over the said period. The subsidies on decontrolled fertilisers and petroleum witnessed negative growth of 30 *per cent* and 29 *per cent* respectively in 2014-15 over the previous year, enabling thereby to contain the total expenditure on subsidies.

As a percentage of GDP, the expenditure on subsidies has come down to 2.06 *per cent* in 2014-15 from 2.25 *per cent* in 2013-14. Likewise the share of expenditure on subsidies in revenue expenditure has come down to 15.24 *per cent* from 16.17 *per cent* over the same period.

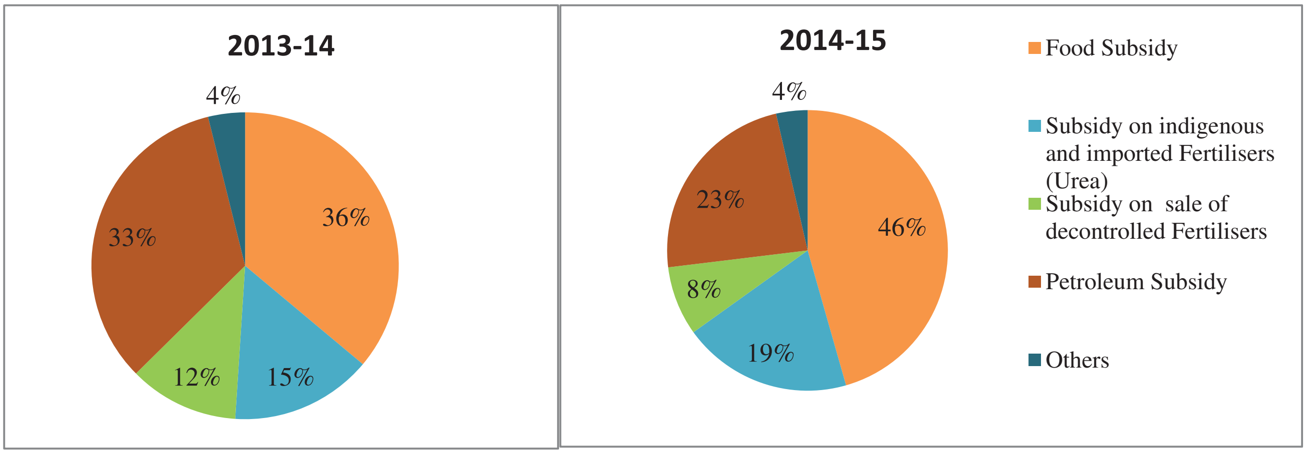
Table 1.8: Explicit Subsidies in the Union Government Budget

Period	Food	Fertilisers@ (Urea)	Fertilisers# (Decontrolled)	Petroleum Subsidy	Others*	Total subsidies	Subsidies (A)	Subsidies (B)
	(₹in crore)						*Percentage*	
2011-12	72822 (14)	33924 (39)	36108 (-13)	68481 (78)	6567 (-32)	217902 (23)	2.47	16.69
2012-13	85000 (17)	35132 (4)	30576 (-15)	96880 (41)	9591 (46)	257179 (18)	2.57	18.11
2013-14	92000 (8)	38038 (8)	29427 (-4)	85378 (-12)	9902 (3)	254745 (-1)	2.25	16.17
2014-15	117671 (28)	50423 (33)	20667 (-30)	60269 (-29)	9269 (-6)	258299 (1)	2.06	15.24

@ Indicates the subsidies given on indigenous and imported fertilisers (Urea)
 # Indicates subsidies given as concession on sale of decontrolled fertilisers.
Figures in parentheses indicate percentage of annual growth.
** Others include interest subsidy, grants given to NAFED, compensation for exchange loss, subsidy for Haj Charters, etc.*
(A) As a percentage of GDP *(B) As a percentage of Revenue expenditure*

Chart 1.9 below presents the share of various components of subsidies. The share of petroleum subsidies has decreased from 33 *per cent* in 2013-14 to 23 *per cent* in 2014-15. Similarly, the share of decontrolled fertilisers also registered a decline of four percentage points. However, the share of food subsidies has increased from 36 *per cent* to 46 *per cent* during the same period.

Chart 1.9: Components of explicit subsidies

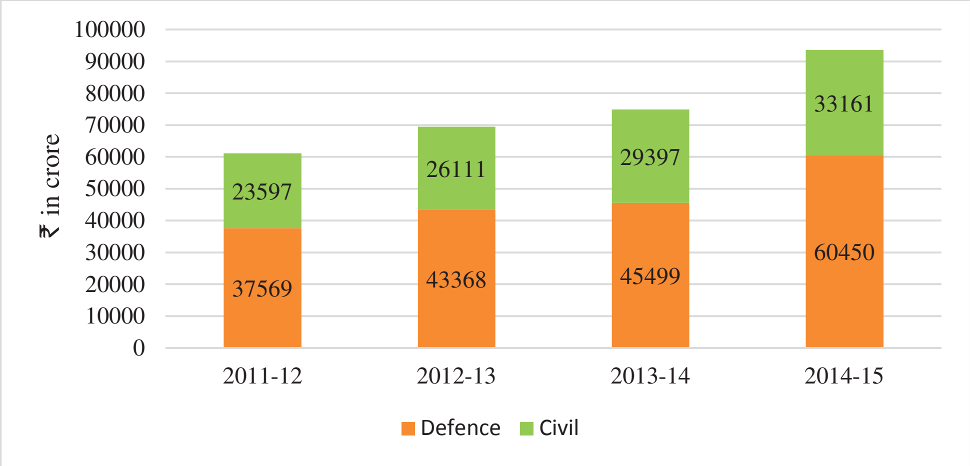


The receivables shown in the financial statements of the Corporation and Central Public Sector Undertakings working in the sectors of food, fertilisers and petroleum were correlated with the corresponding subsidy reimbursements made by the Union Government, in the absence of complete information from the Ministries concerned. The accounts of four CPSUs viz. National Fertilisers Ltd. (NFL), Fertilisers and Chemicals Travancore Ltd., Madras Fertilisers Ltd., Hindustan Petroleum Corporation Ltd., and Food Corporation of India (FCI) were examined and correlated during this exercise.

Based on this examination it emerged that an amount of ₹ 27,759 crore of subsidy claims (₹ 23,699 crore to FCI, and ₹ 4,060 crore to undertakings in the fertiliser and petroleum sectors) have not been paid by the Union Government during the financial year 2014-15, as depicted in **Annexure 1.1**. While arriving at the figure of ₹ 27,759 crore, the claims submitted to the Government during the last quarter of 2014-15 has been excluded. Had these claims of three quarters been paid during the financial year, the total expenditure on subsidies would have been ₹ 2,86,058 crore. Taking into account this figure, the expenditure on subsidies would have been 2.28 *per cent* of GDP in 2014-15, as against 2.06 *per cent*. Further, if outstanding subsidy claims are considered in totality including the past unpaid claims, but excluding the 4th quarter claims, amounting to ₹ 44,941 crore submitted during 2014-15, then total subsidy expenditure would have been ₹ 3,03,240 crore in 2014-15, which works out at 2.42 *per cent* of GDP. From **Annexure 1.1** it would be seen that in the case of FCI and NFL, the unpaid subsidy claims show a rising trend during the last five years period. It increased from ₹ 15,669 crore and ₹ 1,497 crore in 2010-11 to ₹ 58,654 crore and ₹ 4,975 crore in 2014-15 respectively.

(d) Pension Payments: Expenditure on pensions and other retirement benefits increased from ₹ 61,166 crore in 2011-12 to ₹ 93,611 crore in 2014-15, registering a growth of 53.04 *per cent* during four years period (**Chart 1.10**). In the case of defence pension, it increased by 60.90 *per cent* and stood at ₹ 60,450 crore. The civil pensions stood at ₹ 23,597 crore in 2011-12, which increased to ₹ 33,161 crore in 2014-15, registering a growth of 40.53 *per cent* during 2011-15. During the four years period, the defence pension payments oscillated between 60-65 percent of the total pension payments.

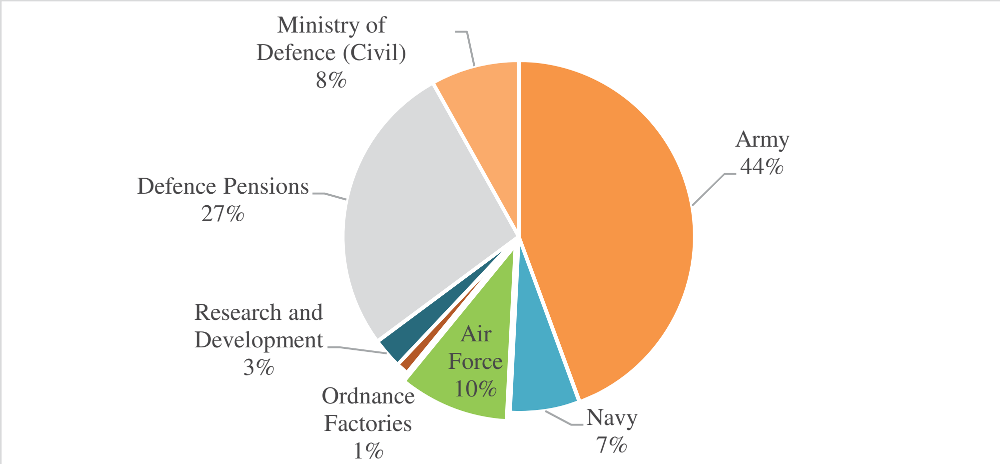
Chart 1.10: Expenditure on Pensions and other Retirement Benefits



(e) Defence Expenditure: The Defence revenue expenditure (₹ 2,23,771 crore) includes expenditure of Army (₹ 99,322 crore), Navy (₹ 14,352 crore), Air Force (₹ 22,685 crore), Ordnance Factories (₹ 2,550 crore), Research and Development (₹ 6,237 crore), Defence Pensions (₹ 60,450 crore) and the Ministry of Defence (₹ 18,175 crore)[2] as shown in the **Chart 1.11**. In 2014-15, the defence expenditure stood at 13.20 *per cent* of the total revenue expenditure of the Central Government as against 12.13 *per cent* during 2013-14. After excluding the Defence Pensions, the Defence revenue expenditure in 2014-15 was ₹ 1,63,321 crore (10 per cent) of total revenue expenditure.

[2] Source: Appropriation Accounts of Grant No.20–Ministry of Defence. This includes expenditure on Canteen Stores Department, J&K Light Infantry, Coast Guard Organisation, etc.

Chart 1.11: Revenue Expenditure on Defence

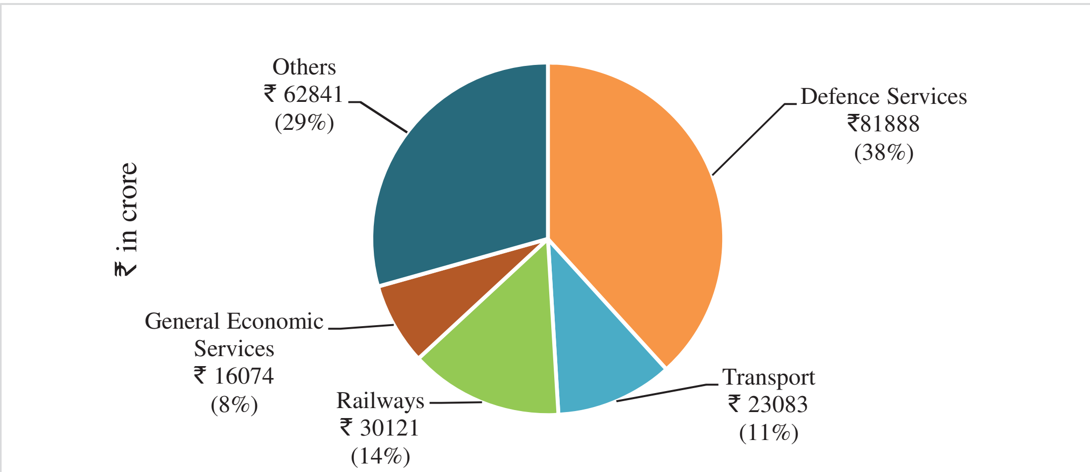


1.3.3 Analysis of Capital account expenditure

Capital account expenditure (including loans and advances) is incurred for asset creation or enhancing the utility of existing assets. The capital account expenditure increased by ₹ 14,163 crore (7.09 *per cent*) over the previous year and stood at ₹ 2,14,007 crore (including ₹ 41,922 crore towards loans and advances) in 2014-15 as against ₹ 1,99,844 crore in 2013-14 **(Chart 1.6)**. The share of capital expenditure in the actual expenditure has marginally decreased from 9.51 *per cent* in 2013-14 to 9.01 *per cent* in 2014-15 **(Table 1.6)**.

From **Chart 1.12** it would be observed that expenditure on defence services, transport, railways and general economic services accounted for 71 per cent of total capital expenditure.

Chart 1.12: Capital account expenditure in 2014-15 – Major Sectors



Out of capital expenditure of ₹ 16,074 crore under general economic services, major expenditure was incurred on following components.

(₹ in crore)

Major components of capital expenditure: Economic Services	Amount
Investment in Public Sector and Other Undertakings/Banks	7090
Subscription to International Monetary Fund	4619
Loans for other General Economic Services	2428
Investment in Asian Development Bank	263
Investment in International Bank for Reconstruction and Development	231
Total	**14631**

Under the category of other capital expenditure amounting to ₹ 62,841 crore, the major expenditure was incurred on following components.

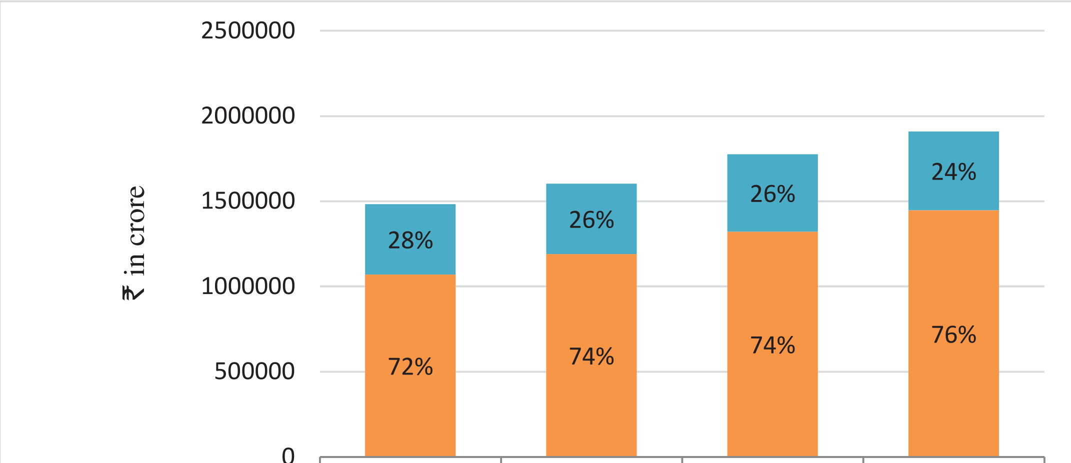
(₹ in crore)

Major components of other capital expenditure	Amount
Block loans for State Plan Scheme	11897
Advances to Food Corporation of India	10000
Loans for Power Projects (including loans of ₹7,726 crore against bonus debentures issued by the NTPC Ltd to the Union Government)	9060
Capital outlay on Police	6035
Loans to Municipal Corporations	4351
Advances to Bhutan	2113
Capital outlay on Urban Development	1780
Capital outlay on Public Works	1076
Loans for Engineering, Consumer and Telecommunications & Electronic Industries	1025
Capital outlay on Government Residential Building	1010
Capital outlay on Medical and Public Health	938
Investment and loans in Agricultural Financial Institutions	862
Capital outlay on Welfare of Weaker Sections	764
Total	**50911**

1.3.4 Analysis of 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. Non-plan expenditure, on the other hand, is normally for 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 1.13** shows that the plan expenditure as a proportion of actual expenditure was at 28 *per cent* during 2011-12 but declined to the level of 24 *per cent* in 2014-15.

Chart 1.13: Plan and non-Plan expenditure



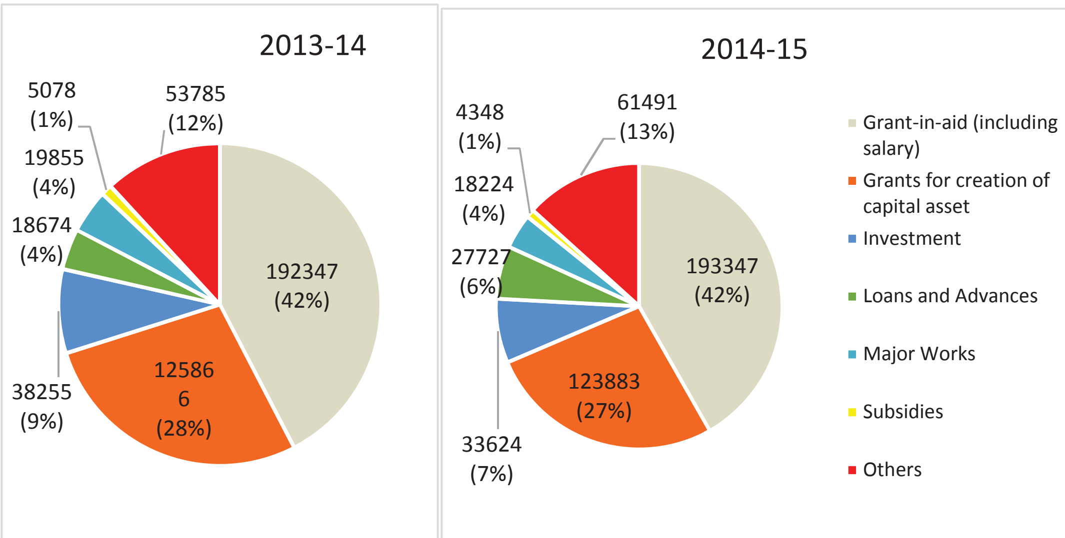
	2011-12	2012-13	2013-14	2014-15
Plan Expenditure	412394	413627	453327	462644
Non-Plan Expenditure	1070670	1189290	1321614	1446500

1.3.5 Major Components of Plan expenditure

As can be seen from **Chart 1.14**, Grants-in-aid, investments and loans account for 82 *per cent* of Plan expenditure in 2014-15. Grants-in-aid during 2014-15 as compared to 2013-14, decreased marginally from 70 *per cent* to 69 *per cent* of the total Plan expenditure.

Chart 1.14: Components of Plan expenditure

(₹in crore)



Source: 'e-lekha' data dump provided on 06 November 2015 with 59 journal entries.

1.3.6 Major flagship programmes of the Government – actual expenditure

The Union Government has been targeting key development priorities through flagship programmes. In July 2013, the Government reviewed the existing 137 Centrally Sponsored Schemes and restructured them into 66 Schemes, including 17 flagship programmes. Of the 17 flagship programmes, details of which are available on the website of Public Financial Management System (PFMS), Ministry of Finance, seven major programmes have been analysed in **Table 1.9**.

The expenditure on the seven flagship schemes has decreased from ₹ 1,13,824 crore in 2013-14 to ₹ 1,00,754 crore in 2014-15 (a decrease of 11.48 *per cent*). As can be seen from **Table 1.9**, expenditure on all major schemes have declined in 2014-15 as comparison to the previous year except in respect of PMGSY. In comparison to the BE 2014-15 all the schemes witnessed shortfall. Maximum shortfall of 44.13 per cent and 30.59 per cent were witnessed in RGGVY and IAY respectively.

Table 1.9: Plan Expenditure on Major Flagship Programmes of the Union Government

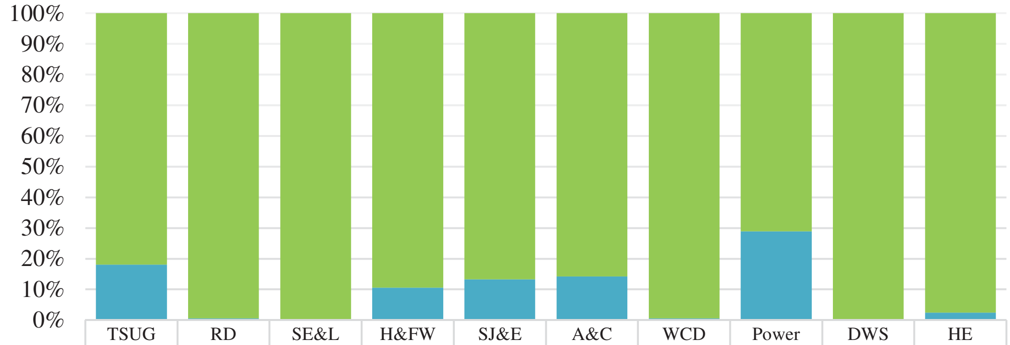
(₹ in crore)

		MGNREGS	SSA	MDM	NRHM	IAY	PMGSY	RGGVY	Total
2011-12	**BE**	40000	20413	10061	19838	10000	20000	6000	126312
	Actuals	29213	20841	9891	17983	9872	19342	2237	109379
	Variation over BE (in *per cent*)	(-)26.97	2.10	(-)1.69	(-)9.35	(-)1.28	(-)3.29	(-)62.72	(-)13.41
2012-13	**BE**	33000	24243	11643	22799	11075	24000	4900	131660
	Actuals	30274	23873	10849	18661	7869	8884	698	101108
	Variation over BE (in *per cent*)	(-)8.26	(-)1.53	(-)6.82	(-)18.15	(-)28.95	(-)62.98	(-)85.76	(-)23.21
2013-14	**BE**	33000	26358	12879	23148	15184	21700	4500	145769
	Actuals	32993	24802	10918	19385	12982	9805	2939	113824
	Variation over BE (in *per cent*)	(-)0.02	(-)5.90	(-)15.23	(-)16.26	(-)14.50	(-)54.82	(-)34.69	(-)21.91
2014-15	**BE**	34000	27349	12828	10254	16000	9852	5144	115427
	Actuals	32977	24068	10523	8468	11106	10738	2874	100754
	Variation over BE (in *per cent*)	(-)3.01	(-)12.00	(-)17.97	(-)17.42	(-)30.59	8.99	(-)44.13	(-)12.71

1.3.7 Proportion of Grants-in-aid in Plan expenditure in key Ministries

Chart 1.15 shows the proportion of Grants-in-aid within Plan expenditure for the 10 Ministries/Departments with the largest Plan expenditure in 2014-15.

Chart 1.15: 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	H&FW	SJ&E	A&C	WCD	Power	DWS	HE
GiA*	54071.52	66893.86	42383.91	23276.31	4626.69	16240.55	18338.42	3972.80	12051.84	12270.26
Others*	11897.32	369.46	94.69	2748.83	704.25	2694.66	97.76	1615.11	31.91	304.49
GiA as % of PE	81.97%	99.45%	99.78%	89.44%	86.79%	85.77%	99.47%	71.10%	99.74%	97.58%

** Amount ₹ in crore*

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, SJ&E = Social Justice and Empowerment, H&FW = Health and Family Welfare, A&C = Agriculture and Co-operation, WCD = Women and Child Development, DWS = Drinking Water and Sanitation, HE = Higher Education,

Source: 'E-lekha' data dump dated 06 November 2015 with 59 journal entries.

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

1.4 Compliance to Fiscal Responsibilities and Budget Management Act

Concerned over the deterioration in the fiscal situation, the Government enacted the Fiscal Responsibility and Budget Management (FRBM) Act in August 2003. The objective of Act was to institutionalize fiscal discipline, reduce Fiscal Deficit (FD), and improve macro-economic management and overall management of the public funds by moving towards a balanced budget. The Act was enacted to provide for the responsibility of the Central Government to ensure inter-generational equity in fiscal management and long term macro-economic stability. The FRBM Rules 2004 made under Section 8 of the Act came into force in July 2004.

To achieve these objectives, the Act stipulated targets for elimination of Revenue Deficit (RD) and reduction of FD to not more than 3 *per cent* of Gross Domestic Product (GDP) by March 2008. However, after an amendment to the Act (July 2004), these targets were shifted to March 2009. Further, in February 2009, due to global economic slowdown and adverse economic circumstances, the Government decided to suspend the FRBM targets. The revised FRBM Rules 2012, setting new targets for fiscal consolidation, were notified in May 2013.

Thirteenth Finance Commission (TFC) in its report (December 2009) had recommended that Centre may institute a process of independent review and monitoring of the implementation of FRBM process. Accordingly, one of the amendments to FRBM Act (May 2012) was introduction of a new Section (7A) which provides that "*the Central Government may entrust the Comptroller and Auditor General of India to review periodically as required, the compliance of the provisions of this Act and such reviews shall be laid before both Houses of Parliament*".

Major targets under the FRBM Act[3]are detailed below:

- Elimination of Effective Revenue Deficit (ERD) by 31st March 2015 which has been shifted to March 2018. Beginning with financial year 2013-14, the ERD shall be reduced each year by an amount equivalent to 0.8 *per cent* or more of GDP [4].
- Revenue Deficit (RD) of not more than two *per cent* of GDP by the 31 March 2015 which has been shifted to March 2018. The Central Government shall reduce RD by an amount equivalent to 0.6 *per cent* or more of the GDP, beginning with the FY 2013-14.
- The Government shall not give guarantees aggregating to an amount exceeding 0.5 *per cent* of the GDP in any financial year beginning with the FY 2004-05.
- Reduction of FD by an amount equivalent to 0.5 *per cent* or more of the GDP beginning with the FY 2013-14, so that FD is brought down to not more than 3 *per cent* of GDP at the end of 31st March 2017. In the Finance Bill, 2015 the target has been shifted to March 2018.
- The Government shall not assume additional liabilities (including external debt at current exchange rate) in excess of 9 *per cent* of GDP for the FY 2004-05 and in each subsequent financial year, the limit of 9 *per cent* of GDP shall be progressively reduced by at least one percentage point of GDP.

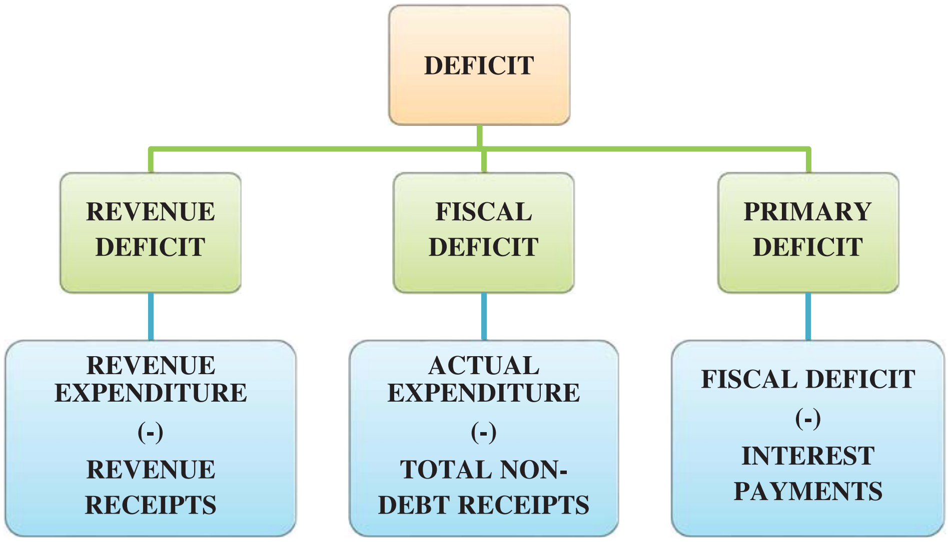
[3] Rule 3 of the FRBM Rules

[4] As per FRBM Rules GDP means Gross Domestic Product at current price.

1.4.1 Deficits

Generally three types of deficits (Box 1.2) are used to assess the financial position of a Government, which are i) Revenue Deficit, ii) Fiscal Deficit and iii) Primary Deficits.

Box 1.2: Types of Deficits



(a) Revenue Deficit

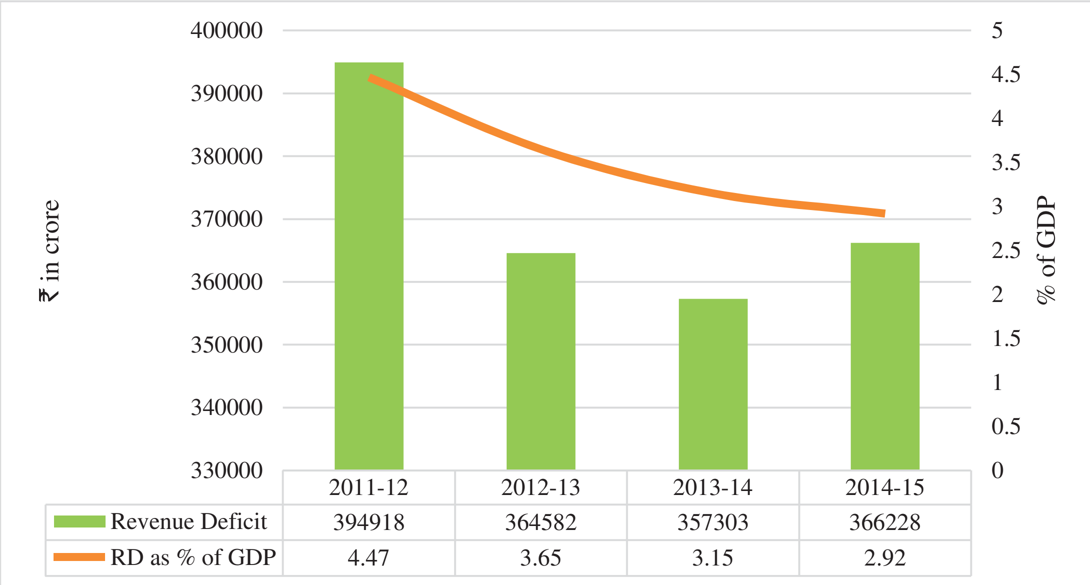
Revenue deficit represents the difference between revenue expenditure and revenue receipts. It leads to increase in borrowings without corresponding capital/asset formation. Borrowings resorted to meet revenue deficit, therefore, do not have any asset back-up and create an asset liability mismatch. For these reasons, revenue deficit is generally considered less desirable.

Table 1.10: Revenue deficit and its Parameters

Period	Revenue Receipt	Revenue Expenditure	Revenue Deficit	Revenue Deficit as percentage of		
	(₹ in crore)			Revenue Receipt	Revenue Expenditure	GDP
2011-12	910277	1305195	394918	43.38	30.26	4.47
2012-13	1055891	1420473	364582	34.53	25.67	3.65
2013-14	1217794	1575097	357303	29.34	22.68	3.15
2014-15	1328909	1695137	366228	27.56	21.60	2.92

Table 1.10 indicates that the revenue deficit was at the level of ₹ 3,94,918 crore in 2011-12. It exhibited a declining trend and reached at the level of ₹ 3,57,303 crore in 2013-14. However, revenue deficit increased to ₹ 3,66,228 crore in 2014-15. In relation to GDP, revenue deficit was at the level of 4.47 *per cent* in 2011-12 and declined to 2.92 *per cent* in 2014-15.

Chart 1.16 Revenue deficit and its percentage of GDP



(b) Fiscal Deficit

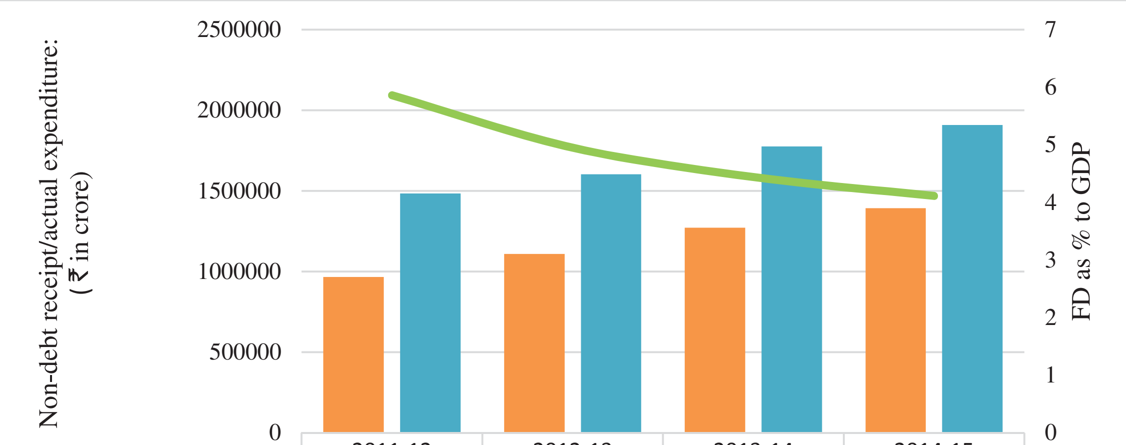
Fiscal deficit is the excess of actual expenditure over non-debt receipts. It also indicates the required borrowing of the Government and the increment to its outstanding debt. It normally represents the net incremental liabilities of the Government or its additional borrowings made to bridge the budgetary 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.

Table 1.11: Fiscal Deficit and its Parameters

Period	Non-Debt Receipts	Actual expenditure	Fiscal Deficit	Fiscal Deficit as percentage of		
	(*₹in crore*)			Non-Debt Receipts	Actual Expenditure	GDP
2011-12	965183	1483064	517881	53.66	34.92	5.86
2012-13	1108404	1602918	494514	44.61	30.85	4.95
2013-14	1271711	1774941	503230	39.57	28.35	4.44
2014-15	1393196	1909144	515948	37.03	27.03	4.11

Fiscal deficit stood at ₹ 5,17,881 crore in 2011-12, and further declined to ₹ 5,15,948 crore in 2014-15. As compared to 2013-14, the fiscal deficit increased by ₹ 12,718 crore in 2014-15. However, as percentage to GDP, the fiscal deficit witnessed a decreasing trend. It came down to 4.11 *per cent* of the GDP in 2014-15, as compared to the 5.86 *per cent* in 2011-12. Improvement in the ratio of fiscal deficit to the GDP during 2014-15 was mainly attributable to the increase of 9.55 *per cent* in total non-debt receipt against the increase of 7.56 *per cent* in actual expenditure.

Chart 1.17 Fiscal Deficit and its Parameters



	2011-12	2012-13	2013-14	2014-15
Non-Debt Receipt	965183	1108404	1271711	1393196
Actual Expenditure	1483064	1602918	1774941	1909144
FD as % of GDP	5.86	4.95	4.44	4.11

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 certain point.

Table 1.12: Share of Components of Fiscal Deficit

(In *per cent)*

Period	Revenue Deficit	Net Capital Expenditure	Net Loans and Advances
2011-12	76.26	23.44	0.30
2012-13	73.73	25.17	1.10
2013-14	71.00	27.72	1.28
2014-15	70.98	26.04	2.98

As can be seen from the above **Table 1.12,** the bulk of the fiscal deficit was towards financing the revenue deficit. The revenue deficit was 70.98 *per cent* of fiscal deficit in 2014-15 while capital expenditure accounted for 29.02 *per cent*. In the capital account expenditure, there was increased disbursement of loans and advances (by ₹ 10,922 crore) in the year 2014-15, as a result of which the share of net loans and advances in the fiscal deficit improved to 2.98 *per cent*. However, revenue deficit remained at the level of 71 *per cent* of fiscal deficit in 2013-14 and 2014- 15.

Table 1.13 presents the targets set for the key fiscal parameters – revenue and fiscal deficits for the year 2014-15 in the Medium Term Fiscal Policy Statement (MTFPS) placed along with the budgets in earlier years. In the budget of 2013-14, the targets of revenue and fiscal deficits for the year were increased by 0.7 and 0.3 *per cent*, which were further changed to 2.9 and 4.1 *per cent* of the GDP respectively in the budget estimates of 2014-15. Both the revenue and the fiscal deficits were at the targeted levels, as projected in the budget estimates 2014-15.

Table 1.13: Outcome vis-à-vis Targets under FRBM Rules (As percentage of GDP)

Fiscal Indicator	Targets set in MTFPS 2012-13 for the year 2014-15	Targets set in MTFPS 2013-14 for the year 2014-15	BE in MTFPS 2014-15	Actual
Revenue Deficit	2.0	2.7	2.9	2.92
Fiscal deficit	3.9	4.2	4.1	4.11

(c) Primary Deficit

Primary deficit is measured by subtracting the interest payments from fiscal deficit. It is a measure of current year's fiscal operation after excluding the liability of interest payment created due to borrowings undertaken in the past. The primary deficit as a percentage of GDP declined from 2.61 *per cent* in 2011-12 to 0.72 *per cent* in 2014-15 (**Table 1.14**).

Table 1.14: Primary Deficit

(₹in crore)

Year	Fiscal Deficit	Total Interest Payments*	Primary Deficit	As per cent of GDP
2011-12	517881	286982	230899	2.61
2012-13	494514	330171	164343	1.65
2013-14	503230	395200	108030	0.95
2014-15	515948	425098	90850	0.72

Includes expenditure on reduction or avoidance of debt.

1.5 Debt Management

While reliance on debt to balance the budget cannot be avoided, the Union Government **(Box 1.3)** prudently set limits on borrowings through the Fiscal Responsibilities and Budget Management (FRBM) Act, 2003. 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.

Box 1.3: Fiscal liabilities of Government of India

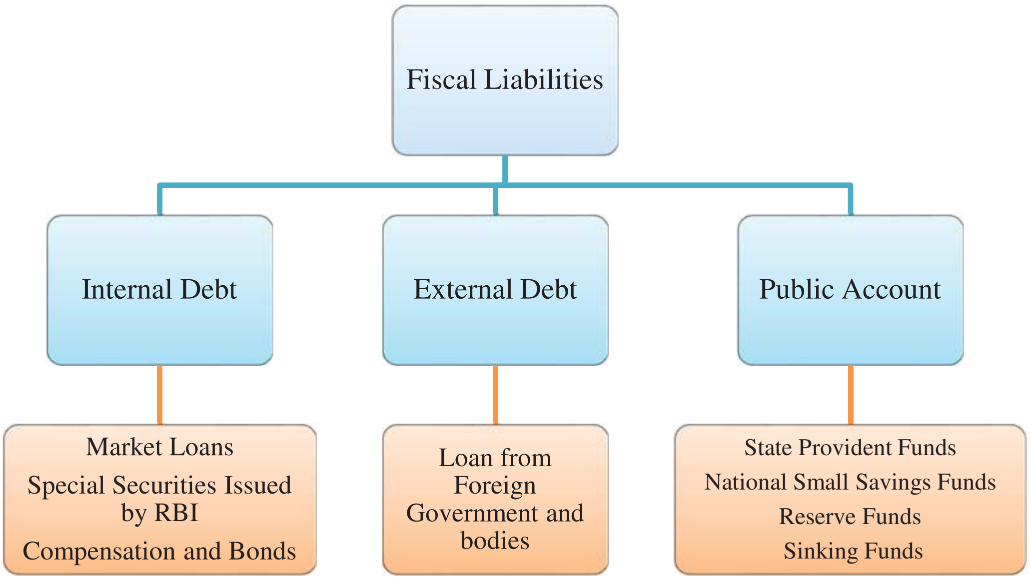


Table 1.15 presents the total liability of Government both at current rate of exchange and at the historic rate (the rate at which the debt was originally contracted).

Table 1.15: Public Debt

(₹ in crore)

Period	Internal Debt of Union Government (1)	External Debt (at historic rates) (2)	Public Account* (3)	Total liabilities (at historic rates) (1+2+3)	External Debt (at current rates) (4)	Total liabilities (at current rates) (1+3+4)
2011-12	3230622 (36.58)	170088 (1.93)	597765 (6.77)	3998475 (45.27)	322897 (3.66)	4151284 (47.00)
2012-13	3764566 (37.69)	177289 (1.77)	610016 (6.11)	4551871 (45.57)	332004 (3.32)	4706586 (47.12)
2013-14	4240767 (37.38)	184581 (1.63)	644060 (5.68)	5069408 (44.68)	374483 (3.30)	5259310 (46.36)
2014-15	4738291 (37.78)	197514 (1.57)	671010 (5.35)	5606815 (44.71)	366384 (2.92)	5775685 (46.05)

Note: figures in parentheses 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.*

The total liability at current rate as percentage of GDP has shown a declining trend. It has come down from 47 *per cent* in 2011-12 to 46.05 *per cent* in 2014-15. As on 31 March 2015, internal debt of ₹ 47,38,291 crore constituted around 96 *per cent* of the total public debt of ₹ 49,35,805 crore. However, reckoning the external debt at current rate of exchange, the ratio of internal debt constitute 93 *per* cent to the public debt of ₹ 51,04,675 crore. Of the three components of fiscal liabilities, except internal debt, the two other components registered continuous declining trend as percentage of GDP during the period

2011-15. However, the level of debt stock in 2014-15 was 46.05 *per cent* of the GDP, which surpassed the level of 44.8 *per cent* recommended by the 13th FC.

Additional liabilities amounting to ₹ 5,16,375 crore raised in 2014-15 was 4.12 *per cent* of the GDP.

Table 1.16: Growth of Total Liabilities and GDP

(₹ in crore)

Period	Total liabilities (at current rates)	Annual growth of total liabilities (in percent)	GDP at current prices	Annual growth of GDP (in percent)
2011-12	4151284	17.52	8832012	-
2012-13	4706586	13.38	9988540	13.09
2013-14	5259310	11.74	11345056	13.58
2014-15	5775685	9.82	12541208	10.54

**Figure of GDP growth for 2011-12 is not available due to change in base year of GDP to 2011-12.*

During 2012-13, the growth of debt stock (13.38 *per cent*) had been faster than GDP growth (13.09 *per cent*), indicating a worsening debt position **(Table 1.16)**. However, in subsequent two years the debt position improved. In 2013-14, the growth of debt stock was at 11.74 *per cent* as against the GDP's growth rate of 13.58 *per cent*. In 2014-15, it further improved with growth of debt stock at 9.82 *per cent* against the GDP growth of 10.54 *per cent*.

1.5.1 Understatement of Public Account liability

As on 31 March 2015, outstanding liability in Public Account had been reflected as ₹6,71,010 crore **(Table 1.15**). However, the outstanding liability in Public Account works out at ₹ 13,41,220 crore (₹ 11,52,363 crore is on account of Small Savings, Provident Funds, etc., and ₹ 1,88,857 crore as reserve funds and deposits). Of the outstanding liability of ₹ 11,52,363 crore on account of Small Savings, Provident Funds, etc., the liability of the Union Government has been brought down on account of investment by ₹ 5,43,499 crore in Special State Government Securities; ₹ 1,500 crore in India Infrastructure Finance Company Limited; ₹ 34,504 crore pertaining to Post Office Insurance Fund with Private Fund Managers; besides adjusting ₹ 90,708 crore of accumulated deficit in the operation of National Small Savings Funds (NSSF). After adjusting above investments and accumulated deficit in NSSF, the net Public Account liability has been shown as ₹ 6,71,010 crore in Union Finance Accounts, which is an understatement of Public Account liability. Taking into account the actual level of Public Account liability of ₹ 13,41,220 crore, the total outstanding liabilities of the Union Government as on 31 March 2015 at current rates stood at ₹ 64,45,895[5] crore, constituting 51.40 *per cent* of the GDP.

1.5.2 Total repayment of Debt

During 2014-15, the Government paid a sum of ₹ 3,71,420 crore as interest on internal debt **(Table 1.17)**. Over 83 *per cent* of interest paid on internal debt was interest on market loans (₹ 3,08,591 crore) bearing interest of varying rates. The interest paid on external debt was ₹ 3,766 crore. Nearly 86 *per cent* (₹ 3,241 crore) of interest on external debt was towards on loans from only four entities, i.e. loans from the International Development Association (IDA), Government of Japan, International Bank for Reconstruction and Development (IBRD) and Asian Development Bank (ADB).

Table 1.17: Debt receipt and Debt repayment

(₹ in crore)

Year	Payment of internal debt		Payment of external debt		Total repayment of debt	Total non-debt receipts
	Principal	interest	Principal	interest		
1	2	3	4	5	6 (2+3+4+5)	7
2011-12	3482343	242569	13586	3501	3741999	965183
2012-13	3410785	281891	16108	4019	3712803	1108404
2013-14	3493167	344893	18124	3880	3860064	1271711
2014-15	3687099	371420	20601	3766	4082886	1393196

Total repayment of debt was ₹ 37,41,999 crore (388 *per cent* of non-debt receipts) during 2011-12. Though in absolute term, it increased to ₹ 40,82,886 crore in 2014-15, however, as a percentage to non-debt receipts it decreased to 293 *per cent*. Further, the proportion of repayment of debt to revenue receipts was 411 *per cent* during 2011-12, which decreased to 307 *per cent* in 2014-15. Total repayment of debt increased by ₹ 2,22,822 crore during 2014-15 over the previous year, while the total non-debt receipts increased only by ₹ 1,21,485 crore over the same period.

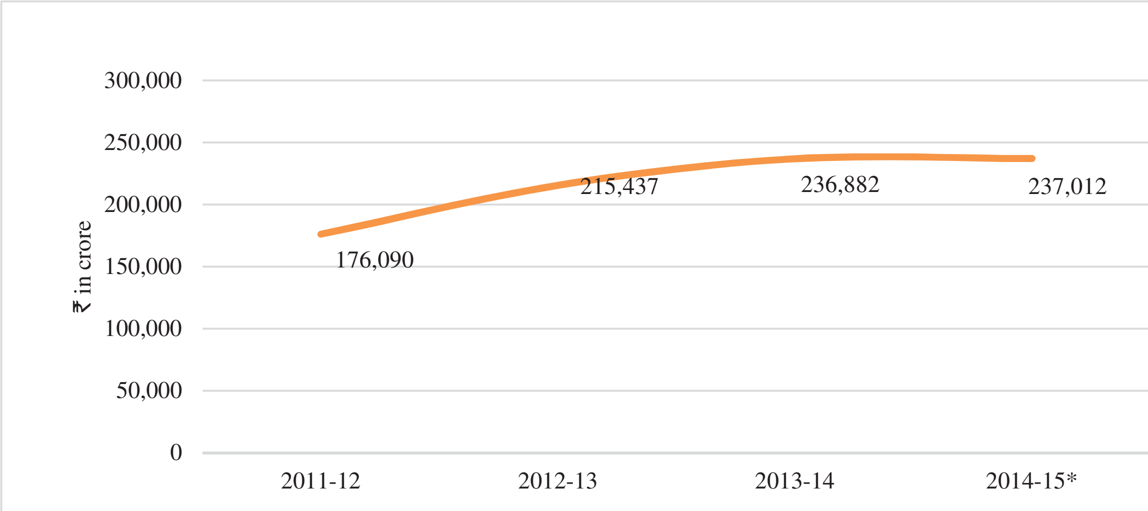
1.5.3 Unutilised committed external assistance

During 2014-15, the external debt at current rate has been reported at ₹ 3,66,384 crore, while unutilised committed external assistance was of the order of ₹ 2,37,012 crore as on 31 March 2015 (**Chart 1.18).** The sector-wise details obtained from the office of the Controller of Aid Accounts & Audit indicates that there were large undrawn balances of committed external assistance in the sectors of Urban Development (₹ 32,782 crore), Atomic Energy (₹ 31,312 crore), Roads (₹ 29,527 crore), Power (₹ 28,503 crore), Railways (₹ 25,130 crore), Water Supply and Sanitation (₹ 14,902 crore),

[5] Figure worked out as follows: Public Account (₹ 13,41,220 crore) + Internal Debt (₹ 47,38,291 crore) + External Debt at current rate (₹ 3,66,384 crore).

Water Resource Management (₹ 13,008 crore) and Environment and Forestry (₹ 10,949 crore).

Chart 1.18: Unutilised committed external assistance



** Figures for 2011-14 are actuals and figure for 2014-15 is provisional. These have been provided by the CAAA.*

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 1.18** indicates charges paid to various bodies/governments during the four years period as commitment charges for rescheduling the drawal of assistance at later dates. This points towards continued inadequate planning, resulting in avoidable expenditure in the form of commitment charges amounting to ₹ 110.53 crore in 2014-15.

Table 1.18: Commitment Charges

(₹in crore)

Year	ADB	Japan	Germany	IBRD	Total
2011-12	42.30	20.82	6.24	13.92	83.28
2012-13	47.18	25.67	7.43	12.24	92.52
2013-14	47.46	49.99	9.78	10.09	117.32
2014-15	49.21	46.11	8.47	6.74	110.53

Source: Controller of Aid Accounts & Audit
ADB=Asian Development Bank
IBRD=International Bank for Reconstruction and Development

1.5.4 Performance vis-a-vis recommendations of the Thirteenth Finance Commission

The major fiscal aggregates of the Union Government during the last three years of the award period as a percentage of Gross Domestic Product (GDP) compared with that outlined by the Thirteenth Finance Commission (13^{th} FC) are tabulated in **Table 1.19**.

Table 1.19: Recommended Fiscal Consolidation Path and Actual Performance

(Percentage of GDP)

Parameter	Recommended by the 13th FC			Actual Performance as per Finance Accounts		
	2012-13	2013-14	2014-15	2012-13	2013-14	2014-15
Revenue Deficit	1.2	0.0	-0.5	3.65	3.15	2.92
Non-Debt Capital Receipts	0.8	0.9	1.0	0.53	0.48	0.51
Capital Expenditure	3.8	3.9	4.5	1.83	1.76	1.71
Fiscal Deficit	4.2	3.0	3.0	4.95	4.44	4.11
Debt (end of the year adjusted liabilities)	50.5	47.5	44.8	47.12	46.36	46.05

As can be seen from the above table, none of the fiscal parameters were close to the targets set out by the 13th FC for 2014-15. The actual revenue deficit for the year 2014-15 was 2.92 *per cent* of GDP as against revenue surplus of 0.50 *per cent* of GDP as outlined by the 13th FC. Deterioration was evident in Capital Expenditure as compared with the previous year. The capital expenditure in 2014-15 was less than half of the target set by the 13th FC. Debt which remained below the recommended target till 2013-14, crossed the target of 44.8 *per cent* and stood at 46.05 *per cent* of GDP.

1.6 Growth in Contingent Liabilities of the Union Government

In terms of Article 292 of the Constitution, the Union Government may give guarantees within such limits, if any, as may be fixed by Parliament by law. Guarantees are 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, UTs, State Governments, local bodies, joint stock companies, co-operative institutions etc. These guarantees constitute a contingent liability on the CFI.

Guarantees assume significance in the context of growing requirement of investments for infrastructure development, and participation of private sectors in such projects. 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.

Guarantees are usually given to enable borrowings from international agencies or to enable PSUs to borrow money from the market. As stipulated in Rule 3(3) of the FRBM Rules, 2004, the Central Government shall 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. Further in compliance to Rule 6(1)(b) of FRBM Rules, 2004, the Central Government is required to make a disclosure with regard to guarantees at the time of presenting the annual financial statement in order to ensure greater transparency in its fiscal operation. **Chart 1.19** and **Table 1.20** give the position regarding the maximum amount of guarantees, sums guaranteed outstanding and external guarantees outstanding at the end of the financial years 2011-15. Of the sums guaranteed outstanding (₹ 2,94,700 crore) as on 31 March, 2015, 63 *per cent* was towards loans from foreign lending institutions, 26 *per cent* towards guarantees to RBI /banks/industrial financial etc. for repayment of principal and payment of interest, cash credit facility etc., and the remaining 11 *per cent* 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 in 2014-15 were the Ministries/Departments of Agriculture and Co-operation, Economic Affairs, Civil Aviation, Power, Telecommunications, New and Renewable Energy and External Affairs.

Chart 1.19: Guarantees given by the Union Government

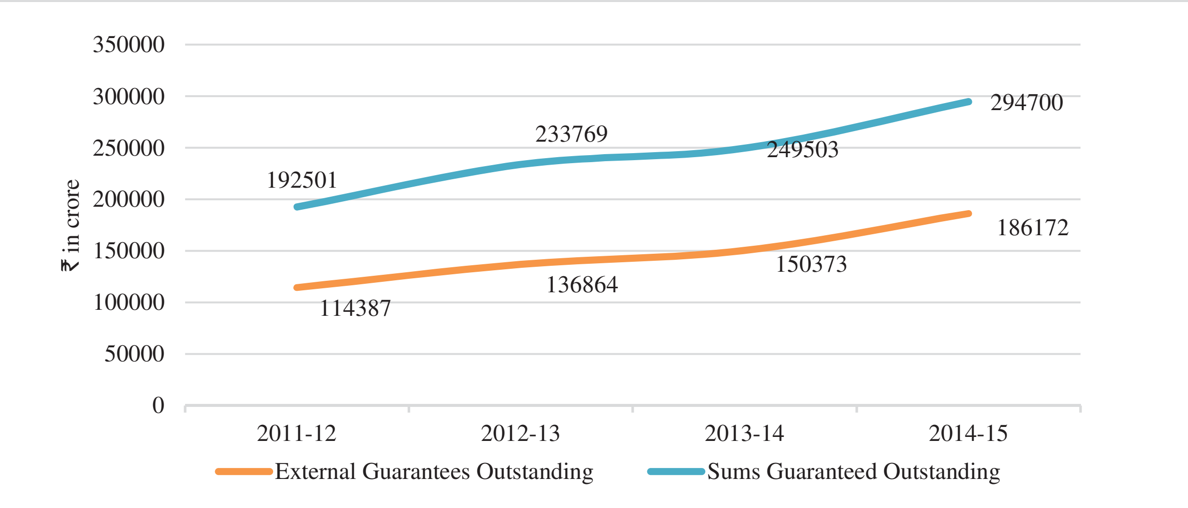


Table 1.20: Guarantees given by the Union Government

(₹in crore)

Year	Maximum amount of guarantee	Sums Guaranteed Outstanding (Total)	External Guarantees Outstanding	Outstanding External Guarantees as a percentage of Total Outstanding Guarantees
2011-12	203056	192501	114387	59.42
2012-13	242915	233769	136864	58.55
2013-14	270629	249503	150373	60.27
2014-15	305519	294700	186172	63.17

The total outstanding guarantees amounting to ₹ 2,94,700 crore as on 31 March 2015 stood at 2.35 *per cent* of the GDP and 22.18 *per cent* of revenue receipts that accrued to the Union Government in 2014-15.

In compliance to FRBM Act, the disclosure appended in receipt budget 2015-16, showed that the guarantees amounting to ₹ 59,879.29 crore had been committed/approved by the Ministry of Finance for the financial year 2014-15, which was 0.48 *per cent* of GDP, well within 0.5 *per cent* of GDP, whereas as per Union Finance Accounts the addition of guarantees during the year was ₹ 52,274.90 crore (0.42 *per cent* of GDP). However, net accretion of guarantees during the year 2014-15 was ₹ 41,456.13 crore, which was 0.33 *per cent* of GDP.

1.7 Conclusion

The year 2014-15 was marked by improvement in economic growth as estimates of GDP at constant prices (2011-12) grew by 7.3 *per cent* as against 6.9 *per cent* in 2013-14. However, the GDP at current prices grew at a slower pace of 10.54 *per cent* in 2014-15, against 13.58 per cent in 2013-14. The improvement in the current year was achieved by a growth of 9.55 *per cent* in non-debt receipt and lower growth of 7.56 per cent in actual expenditure, over the previous year's growth of 10.73 per cent. The non-debt receipt could have been even higher, had there not been shortfall of 40 *per cent* in achieving the disinvestment target. Improvement was also observed on the fiscal front, with the fiscal deficit declining from 4.44 per cent in 2013-14 to 4.11 per cent in 2014-15. Likewise revenue deficit also declined from 3.15 *per cent* in 2013-14 to 2.92 *per cent* in 2014-15 in relation to the GDP. The total liability at current exchange rate as percentage of GDP has also shown a declining trend. It has come down from 46.36 *per cent* in 2013-14 to 46.05 *per cent* in 2014-15, but it surpassed the level of 44.8 *per cent* recommended by the 13th Finance Commission for the relevant year. The growth of debt stock in 2014-15 at 9.82 *per cent* was also favourable in comparison to growth of GDP at 10.54 *per cent*.