

Chapter 1

UNION GOVERNMENT FINANCES – AN OVERVIEW

An overview of the finances of the Union Government for the year 2005-06 revealed a deficit in the Consolidated Fund of India as compared to the surplus in previous year and a decline in the surplus in Public Account. This deterioration was mainly on account of an increase in total expenditure accompanied with a decline in non-debt receipts; a reduction in loan recovery receipts of Union and a significant reduction in interest bearing deposits over the previous year. An increase in non-tax revenue receipts over and above the budget estimates compensated the marginal shortfall in tax collections and resulted in overall better realization of revenue receipts during the year. While impact of prudent fiscal policy was evident on revenue receipts but the increased spending on social sectors also resulted in increased revenue expenditure. Capital expenditure witnessed significant volatility but after attaining a significant acceleration in its growth during 2003-04 and 2004-05, showed a deceleration during the current year. Fiscal imbalances not only continued to be persistent but also remained significant in volume. The revenue deficit and fiscal deficit as per cent to GDP at 3.11 and 4.67 respectively during 2005-06 were higher by 0.58 and 1.33 percentage points than their levels in 2004-05. In the wake of higher fiscal devolution to States as recommended by TFC and higher spending on social sectors, these trends indicated a slowdown of the Union Government in its fiscal correction in terms of targets prescribed under the FRBM Rules, 2004. The negative spread in the growth of resource availability and assets formation resulted in progressive decline in assets base of the Union government relative to its liabilities. The increasing trend was observed in outstanding suspense balances under various minor heads of the Union Government reflecting lack of coordination between the RBI and the Government as well as within various Ministries/Departments of the Government. If these amounts remain uncleared, and the balance under the Suspense Heads keeps on accumulating, the resultant position would not reflect a correct appreciation of the state of Government Accounts.

1.1 This chapter provides a broad perspective of the finances of the Union Government during 2005-06 and analyses critical changes in the major fiscal aggregates during the period 1985-2006.

1.2 Table 1.1 summarises the position of the finances of the Union Government, covering its receipts, disbursements, deficits and borrowings (need and its accommodation) in the current year (2005-06).

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Table 1.1 Summary of the current year's operation

(Rupees in crore)

Receipts		Derived parameters	Disbursements	
Consolidated Fund of India (CFI)				
Revenue Receipt	430940	Revenue Deficit 109697	Revenue Expenditure	540637
Misc. Capital Receipts	1581		Capital Expenditure	56119
Recovery of Loans	11801		Loans and Advances	12493
Total Non-Debt Receipts	444322	Fiscal Deficit 164927	Total Expenditure	609249
Public Debt	1262363		Public Debt	1115210
-	-		Appropriation to Contingency Fund	450
Total CFI	1706685	Deficit in CFI 18224	Total CFI	1724909
Contingency Fund				
Receipts	450		-	-
Public Accounts				
Small savings	291276		Small savings	278943
Reserves & Sinking Fund	36715		Reserves & Sinking Fund	31822
Deposits	48825		Deposits	37246
Advances	26672		Advances	26626
Suspense account	6552		Suspense account	32085
Remittances	729		Remittances	533
Total Public Account	410769	Surplus in Public Account 3514	Total Public Account	407255
Opening Cash	79748	Decrease in Cash 14260	Closing Cash	65488
Public Account Surplus (Demand)		3514	Deficit in CFI - Decrease in Cash - Appropriation to Contingency Fund	
Incremental Liabilities (Supply)		175958	Surplus of (Debt+ Small Savings+ RF+ Deposits)	
Incremental Liabilities (Demand)		175958	FD - Decrease in Cash +Net Disbursement of (Advances+ Suspense+ Remittances)	

1.3 The year 2005-06 ended with a deficit of Rs. 18224 crore in the Consolidated Fund of India as compared to the surplus of Rs. 45222 crore in previous year. While the Public Account maintained a surplus during 2005-06, it declined from Rs. 27119 crore in 2004-05 to Rs. 3514 crore during the year. These fiscal developments in Union Finances took place during the year were mainly on account of (a) an increase in total expenditure by Rs. 59916 crore accompanied with a decline in non-debt receipts by Rs. 1213 crore, (b) a reduction of Rs. 52439 crore in loan recovery receipts of Union over the previous year essentially due to swapping of high cost loans taken by States from the central government with fresh securities bearing lower interest rates till 2004-05 and further consolidation and reschedulement of central loans to

states contracted till March 2004 for a fresh term of 20 years under the award of Twelfth Finance Commission, (c) a decline of Rs. 1867 crore in the surplus position in Public Debt Account in 2005-06 over the previous year and (d) a decline of Rs. 16738 crore in receipts under Public Account mainly due to a significant reduction of Rs. 25540 crore in interest bearing deposits over the previous year. The fiscal deficit at Rs. 164927 crore during 2005-06 is more by Rs. 61129 crore over the previous year. Fresh liabilities, which are accommodative flows for meeting this resource gap, however, exceeded the fiscal deficit by Rs. 11,031 crore because of a build up in cash balances.

Box 1.1 : Union Government funds and the Public Account	
<p>Consolidated Fund All revenues received by the Union government, all loans raised by issue of treasury bills, internal and external loans and all moneys received by the Government in repayment of loans shall form one consolidated fund entitled the "Consolidated Fund of India" established under Article 266 (1) of the Constitution of India.</p>	<p>Contingency Fund The Contingency Fund of India established under Article 267 (1) of the Constitution is in the nature of an imprest placed at the disposal of the President to enable him to make advances to meet urgent unforeseen expenditure, pending authorisation by the Parliament. Approval of the legislature for such expenditure and for withdrawal of an equivalent amount from the Consolidated Fund is subsequently obtained, whereupon the advances from the Contingency Fund are recouped to the Fund.</p>
<p>Public Account Besides the normal receipts and expenditure of Government which relate to the Consolidated Fund, certain other transactions enter Government Accounts, in respect of which Government acts more as a banker. Transactions relating to provident funds, small savings, other deposits, etc. are a few examples. The public moneys thus received are kept in the Public Account set up under Article 266(2) of the Constitution and the connected disbursements are also made therefrom.</p>	

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

Table 1.2: Union Government Finances 2005-06 - budget and actuals

Budget Estimates		2004-05 Actuals	2005-06		Deviation from Budget	Deviation* Per cent
			Actuals	Budget Estimates		
1	Total Receipts of the Union	1578331	2117454	1553637	563817	36.29
2	Revenue Receipts	376871	430940	427426	3514	0.82

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(Rupees in crore)

Budget Estimates	2004-05 Actuals	2005-06		Deviation from Budget	Deviation* Per cent
		Actuals	Budget Estimates		
Tax revenue	226363	271766	275066	-3300	-1.20
Non-tax revenue	150508	159174	152360	6814	4.47
3 Miscellaneous Capital receipts	4424	1581	0	1581	-
4 Recovery of Loans and Advances	64240	11801	13525	-1724	-12.75
5 Public Debt receipt	705289	1262363	747035	515328	68.98
6 Public Account Receipts	427507	410769	365650	45119	12.34
7 Total Disbursement of the Union	1505990	2132164	1542207	589957	38.25
8 Revenue Expenditure	455571	540637	522740	17897	3.42
9 Capital Expenditure	53654	56119	62537	-6418	-10.26
10 Loans and Advances	40108	12493	7177	5316	74.07
11 Repayment of Public Debt	556269	1115210	601477	513733	85.41
12 Public Account Disbursement	400388	407255	347377	59878	17.24
13 Revenue Deficit	78700	109697	95314	14383	15.09
14 Fiscal Deficit	103798	164927	151144	13783	9.12

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

1.5 Revenue receipts exceeded the budget estimates marginally by 0.82 per cent mainly due to an increase in non-tax revenue receipts by 4.47 per cent which compensated the marginal shortfall in tax collections and resulted in overall better realization of revenue receipts during the year. However, an increase of 3.42 per cent in revenue expenditure relative to the budget estimates led to an increase in revenue deficit by 15 per cent over the budgeted level envisaged for 2005-06. Fiscal deficit, which represents overall resource gap of the government, however, also exceeded budgeted figures by over 9 per cent. A substantial decline in recovery of loans and advances and sale proceeds of Government equity in Public Sector Companies led to an increase in fiscal deficit both from the level of previous year as well as the budget estimates for 2005-06. With respect to public debt, though both receipts and disbursements (repayments) significantly exceeded the budgeted figures, the net impact of these in terms of increase in liabilities was only Rs. 1595 crore, marginally higher than the budget estimates. On the whole, the impact of prudent fiscal policy was evident on revenue receipts but the emphasis on increased spending on social sectors also resulted in increased revenue expenditure. Besides, deviations in other parameters relative to the budget estimates were also quite significant.

Union Government Finances 1985-2006 - Some Key Parameters

Box 1.2 : Managing Funds : Constitutional Provisions

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

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

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

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

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

	<i>(Rupees in crore)</i>				
	2001-02	2002-03	2003-04	2004-05	2005-06
Deficits as per Finance Accounts					
Revenue Deficit	110303	109765	100986	78700	109697
Fiscal Deficit	155833	134588	80937	103798	164927
Deficit as per Budget at a Glance					
Revenue Deficit	100162	107880	98262	78338	92299
Fiscal Deficit	140955	145072	123272	125202	146435
Difference in the two Figures					
Revenue Deficit	10141	1885	2724	362	17398
Fiscal Deficit	14878	(-) 10484	(-)42335	(-) 21404	18492
Factors Explaining the Differences					
Securities Issued to RBI/UTI/IDBI/Others (Revenue Account)	10141	1885	2724	362	-
Securities Issued to IIBI/IFCI/RBI/NB (Capital Expenditure)	4737	384	(-)110	(-) 88	500
Securities issued to IMF	-	1011	1262	415	595
Redemption of Securities issued to NSSF	-	(-) 13765	(-) 46211	(-) 32675	-
Securities issued to Asset Management Trust	-	-	-	9000	-
Special securities issued to RBI	-	-	-	350	-

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(Rupees in crore)

	2001-02	2002-03	2003-04	2004-05	2005-06
Conversion of interest receivable into equity	-	-	-	640	-
Investment in Nuclear Power Corporation	-	-	-	592	-
Securities issued to Oil Companies	-	-	-	-	17263
Realisation of stressed assets of IDBI	-	-	-	-	134
Combined Effect	14878	(-) 10485*	(-)42335	(-) 21404	18492

* Difference due to rounding Summary of balances

1.7 As per receipt and expenditure figures appearing in Annual Financial Statement, the revenue and fiscal deficits worked out to be Rs. 109,697 crore and Rs. 164,927 crore respectively. The figures of Annual Financial Statement agree with the Union Government Finance Accounts figures. However, Budget at a Glance reported the deficits at Rs. 92,299 crore and Rs. 146,435 crore respectively.

1.8 A detailed analysis of the Union Government's finances covering revenue receipts, expenditure, fiscal imbalances and fiscal liabilities are contained in Chapters 2 to 5 of this Report. An overview of the key parameters is presented below.

Summary of Balances

1.9 Statement 12 of the Finance Account provides a summary of cumulative outcome of the Government finances in terms of availability and use of resources. This statement read with statement 5 of the Finance Account is akin to a Balance Sheet of the government. Table 1.4 provides the summary of the government finances during 1985-86 and 2005-06, the base year of the analysis and the current year.

Table 1.4: Summary of Balances of Government Finances

(Rupees in crore)

Resource use				Resource availability			
	As on 31st March		CARG*		As on 31st March		CARG*
	1986	2006			1986	2006	
Capital Outlay	62064	543047	11.46	Internal Debt	71039	1389758	16.03
Loans & Advances	61766	231035	6.82	External Debt	18153	94243	8.58
Resource use in terms of functions				Small Savings	36859	275380	10.58
Social Services	3032	22581	10.56	Other Obligations	11433	109462	11.96
Agriculture & Allied	5596	8787	2.28	Fiscal Liabilities	137484	1868843	13.94
Irrigation and Energy	9122	60856	9.95	Cash Balances	-107	-65488	37.83
Industry & Minerals	32931	83161	4.74	Suspense Balances	-1260	-17557	14.08
Transport & Communication	19198	122270	9.70	Remittances	-1273	-2172	2.71
Other Economic Services	3012	72974	17.28	Advances	-511	-3302	9.78

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Total Economic Services	69859	348048	8.36	Contingency Fund	50	500	12.20
General Services & Others	12219	245429	16.18	Availability of Funds	134383	1780824	13.79
Loans to States	38720	158024	7.29	Resource Gap	-10553	-1006742	25.60
Total Assets	123830	774082	9.60	Resource Use	123830	774082	9.60

(*Cumulative Annual Rate of Growth)

1.10 While the net availability of funds of the Union government increased at an annual rate of 13.79 *per cent*, assets of the government comprising the capital expenditure and loans and advances increased at an average rate of 9.60 *per cent* only. This negative spread in the growth of resource availability and assets formation resulted in progressive decline in assets base of the Union government relative to its liabilities. Within the assets, capital expenditure, or the capital formation by the government directly witnessed a relatively higher growth during 1985-2006. “Loans and advances”, which is akin to capital formation through its parastatals increased at an average rate of 6.82 *per cent*. Investment or assets formation in agriculture and allied activities and industry and minerals recorded a much lower growth as compared to other sectors during this period. Investment in social services grew at 10.56 *per cent*. Expenditure on other economic services, which included investment/accommodation to financial institutions, witnessed relatively high growth. The other component, which grew faster than the average growth, was the expenditure on general services and others, including public works and defence. Resource gap measured as a difference between net availability of funds and resource use increased from around eight *per cent* of net funds availability as on 31 March 1986 to around 56.53 *per cent* as on 31 March 2006.

Box 1.3: Reporting Parameters

Fiscal aggregates like tax and non-tax revenue, revenue and capital expenditure, internal and external debt and revenue and fiscal deficits have been presented as percentage to the GDP at current market prices. The New GDP series with 1993-94 as base as published by the Central Statistical Organisation has been used. The GDP estimates for the current year are as given by CSO in their Press Note released on 31st May 2006.

For tax revenue, buoyancy estimates are given. The buoyancy indicates the responsiveness of a tax to *percentage* changes in the tax base. Here, buoyancies have been calculated with reference to the GDP series mentioned above.

For most series a trend growth during 1985-2006 has been indicated. Further, trend growth over the VIII Plan (1992-97) and the IX Plan (1997-2002) has also been indicated. While calculating these growth rates, the first year of the Plan has been taken as the base year to estimate inter Plan growth rates. This process eliminates the “low base bias” of the year immediately preceding the plan. Annual growth rates have also been indicated for the first four years of the X Plan (2002-07)

For most series, ratios with respect to GDP have also been indicated. As in case of growth rates, average ratios have been used for the period 1985-2006 and separately for the VIII and IX Plan periods. Annual ratios for the first four years of the X Plan (2002-07) have also been indicated.

Revenue Receipts

1.11 Table 1.5 indicates the rate of growth and relative share as percentage to GDP of the tax, non-tax and total revenue receipts (net of share of the States in Union taxes) during 1985-2006, the VIII and IX Plans (1992-1997 and 1997-2002 respectively) and the four years of the Tenth Five Year Plan (2002-07).

Table 1.5: Key parameters of the Union Government revenue receipts

Period	<i>(Per cent)</i>						GDP Growth
	Gross Tax Revenue		Non-Tax Revenue		Total Net Revenue of the Union		
	A	B	A	B	A	B	
1985-2006	12.81	9.35	12.84	5.62	12.95	12.51	13.72
VIII Plan (1992-97)	15.89	9.32	14.66	5.94	15.61	12.71	16.54
IX Plan (1997-02)	9.00	8.68	8.00	6.06	8.12	12.40	10.43
X Plan (2002-07)							
2002-03	15.61	8.76	6.58	5.66	13.02	12.14	8.21
2003-04	17.61	9.22	7.76	5.45	13.10	12.29	11.76
2004-05	19.90	9.82	-0.01	4.85	11.14	12.14	12.52
2005-06	20.07	10.37	5.76	4.51	14.35	12.20	13.72

A: - Rate of growth

B: - Relative share as percentage to GDP

1.12 The average annual trend rate of growth of revenue receipts (including the tax and non-tax receipts) was comparatively lower than the growth of GDP during the period 1985-2006. For over a decade from 1992 to 2002 encompassing the period of Eighth and Ninth Five Year Plans, the rate of growth of revenue receipts and its two components remained lower than the rate of growth of GDP. The rate of growth of non-tax receipts not only remained sluggish during the first two years of Tenth Plan partly due to corporatization of telecom services and setting up of Prasar Bharati but it turned into negative during 2004-05 mainly due to significant reduction in the interest receipts of the Union during the year as a result of the debt swap scheme enabling pre-payment of high cost Central Government loans. However, a comparison of budget estimates and actual receipts of non-tax revenue during the last three years from 2003-2004 to 2005-06 reveals that the actual receipts of non-tax revenue exceeded the budget estimates mainly due to increased collection *vis-à-vis* budget estimates under 'Economic Services' and 'Income from dividends'. It is pertinent to mention that during 2005-06, receipts from social services increased by more than three times from Rs. 451 crore in 2004-05 to Rs. 1643 crore in 2005-06 essentially on account of increased collections under the head 'Information and Publicity'. The increased collections from social services together with an increase of 12 *per cent* in receipts from 'Economic Services' led to an increase of 6 *per cent* in non-tax revenue receipts during 2005-06 over the previous year. The rate of growth in gross tax revenue increased consistently during the first four years of the Tenth Plan resulting in rising tax-GDP ratio. The ratio of tax receipts to GDP which had declined to an average of 8.68 *per cent* during the IX Plan (1997-2002) continued its rising trend and for the first time crossed 10 *per*

cent in 2005-06 during the regime of economic reforms. The increasing buoyancy in tax revenue of the Union could, inter-alia, be attributed to the rationalisation of the tax structure and other taxation measures undertaken during the last few years.

1.13 Tax revenue (inclusive of the States' share) of the Union had a buoyancy of 0.933 during 1985-2006 indicating that for each percentage point increase in GDP, increase in tax revenue was only 0.93 *per cent*. While buoyancy of direct taxes together comprising corporate and personal income tax was greater than one, lower buoyancy of indirect taxes (both customs and excise duties) that accounted for nearly 48 *per cent* of the total tax revenue during 2005-06 resulted in overall lower buoyancy for the gross tax receipts. In non-tax receipts, while the average rate of interest on loans and advances was maintained above the average cost of borrowings, return on investment and recovery of user charges from social and economic services remained poor.

Expenditure

1.14 The Union Government's total expenditure (Table 1.6) also reflected a similar position. Rate of growth of total expenditure declined consistently from a long-term average of 12.02 *per cent* (1985-2006) to 8.86 *per cent* during the IX Plan (1997-2002) and further to 6.4 *per cent* in 2003-04. Growth in total expenditure picked up in 2004-05 and reached to the level of 10.91 *per cent* in 2005-06. Total expenditure-GDP ratio also declined from a trend average of 19.66 during Eighth Plan (1992-97) to 19.56 during Ninth Plan (1997-2002) and declined in subsequent years to reach to the level of 17.25 in the current year. Capital expenditure witnessed significant volatility, but average annual growth of this component of expenditure remained lower. This component of total expenditure, after attaining a significant acceleration in growth during 2003-04 and 2004-05, again indicated a deceleration trend during the current year. Relative to GDP, its share fluctuated but the trend rate of shift in its relative share was negative. Disbursement of loans and advances also exhibited an overall declining trend since IX plan (1997-2002). Steep decline during 2005-06 was on account of the fact that Union Government discontinued its role as an intermediary in future lending to States from the current year on the recommendations of TFC.

Table 1.6: Key parameters of the Union Government expenditure

(Per cent)

Period	Revenue Expenditure		Capital Expenditure		Loans and Advances		Total Expenditure	
	A	B	A	B	A	B	A	B
1985-2006	13.52	15.88	8.18	1.64	4.43	1.77	12.02	19.29
VIII Plan (1992-1997)	14.64	15.51	-8.44	1.89	11.91	2.26	11.87	19.66
IX Plan (1997-2002)	10.40	16.36	9.22	1.37	-3.42	1.84	8.86	19.56
X Plan (2002-07)								
2002-03	9.06	16.59	-2.55	1.23	-6.19	1.47	6.92	19.29

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2003-04	7.45	15.95	16.08	1.28	-13.51	1.14	6.40	18.36
2004-05	3.52	14.67	51.56	1.73	28.02	1.29	8.39	17.69
2005-06	18.67	15.31	4.59	1.59	-68.85	0.35	10.91	17.25

A: - Rate of growth

B: - Relative share as percentage of GDP

Fiscal imbalances

1.15 Fiscal imbalances not only continued to be persistent but also remained significant in volume as reflected in the table below:

Table 1.7: Ratio of Revenue and Fiscal Deficit to GDP

(Per cent)

Period	Revenue Deficit	Fiscal Deficit	Revenue Deficit as percentage to Fiscal Deficit
1985-2006	3.37	5.49	61.47
VIII Plan (1992-1997)	2.80	6.04	46.26
IX Plan (1997-2002)	3.95	6.25	63.26
X Plan (2002-07)			
2002-03	4.44	5.45	81.56
2003-04	3.66	2.93	124.77
2004-05	2.53	3.34	75.82
2005-06	3.11	4.67	66.51

There was an increase in the revenue deficit/GDP ratio from an average of 2.80 *per cent* during the VIII Plan (1992-1997) to an average of 3.95 *per cent* during the IX Plan (1997-2002). Fiscal deficit-GDP ratio also increased from an average of 6.04 *per cent* during the VIII Plan to an average of 6.25 *per cent* during the IX Plan. The first four years of the Tenth Plan (2002-07) indicated a mixed trend in the behaviour of these parameters. The ratio of revenue deficit to GDP declined from 4.44 *per cent* in 2002-03 to 2.53 *per cent* in 2004-05 (by 1.91 percentage points) but it again increased to 3.11 *per cent* in the current year. The ratio of fiscal deficit to GDP ratio which declined from 5.45 *per cent* in 2002-03 to 2.93 in 2003-04, i.e. by 2.52 percentage points has indicated a tendency to move northwards during the last two years. The low fiscal deficit to GDP ratio especially during 2003-04 and 2004-05 could be attributed to the implementation of debt swap scheme and accelerated recovery of loans and advances earlier given to the States. The revenue deficit and fiscal deficit as *per cent* to GDP at 3.11 and 4.67 respectively during 2005-06 were higher by 0.58 and 1.33 percentage points than their levels in 2004-05. In the wake of higher fiscal devolution to States as recommended by TFC and higher spending on social sectors, these trends indicated a pause by the Union Government in its fiscal correction in terms of targets prescribed under the FRBM Rules, 2004. Given the fact that there was a one-to-one relationship between accelerated recovery and a decline in assets base, this cannot be taken as a sustainable route to achieve the FRBM targets, therefore relatively higher growth of revenue receipts would be needed to sustain the prescribed fiscal correction. The more disturbing trend, however, was a

continuous increase in the ratio of revenue deficit to fiscal deficit. Revenue deficit as a percentage of fiscal deficit increased from an average of 46.26 *per cent* of fiscal deficit during the VIII Plan (1992-1997) to 66.51 *per cent* in 2005-06, of course with inter-year variations.

Fiscal Liabilities

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

Table 1.8: Characteristics of the Union Government Fiscal Liabilities

<i>(Per cent)</i>				
Period	Rate of Growth of Total Liabilities*	Total Liabilities/ GDP Ratio	Average Rate of Interest	Ratio of Assets to Liabilities
1985-2006	13.74	59.46	7.93	45.96
VIII Plan (1992-1997)	12.48	60.72	7.91	57.68
IX Plan (1997-2002)	11.85	59.08	9.06	50.90
X Plan (2002-07)				
2002-03	10.62	62.69	8.90	44.78
2003-04	7.20	60.13	8.28	41.48
2004-05	9.86	58.71	7.89	39.36
2005-06	7.98	55.75	7.75	39.32

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

1.17 During 1985-2006, the average annual aggregate total liabilities of the Union Government remained around 59.46 *per cent* of GDP. The average annual rate of growth in aggregate liabilities which was 12 *per cent* during the decade 1992-2002 encompassing the periods of Eighth and Ninth Five year Plans declined to an average of 8.92 *per cent* during the first four years of the Tenth Plan (2002-07). Despite this decelerating trend, the ratio of liabilities to GDP increased in first year of the Tenth Plan mainly because the GDP growth itself witnessed a deceleration in nominal terms. The ratio, however significantly declined during the last two years due to combined effect of the decline in rate of growth in aggregate liabilities and robust average growth rate of 13 *per cent* in GDP during these years. The average rate of interest on the outstanding liabilities continued to move upwards from an average rate of 7.91 *per cent* during the VIII Plan (1992-1997) to an average of 9.06 *per cent* during the IX Plan (1997-2002). There was a deceleration in average interest rate to 8.28 *per cent* in 2003-04 and further to 7.75 *per cent* in the current year, which resulted in a decline of 147 basis points in interest rates during the last five years from 2001-02 to 2005-06. Interest rates on fiscal liabilities had remained largely below the rate of growth of GDP which has essentially been providing a cushion in sustaining the higher debt-GDP ratio. Apart from the administered interest rate structure which had prevailed for most part of these

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two decades, low interest rates on external debt, which except in 1991-92 never exceeded 4 *per cent* and other liabilities in the nature of sinking funds and deposits, which continued to attract much lower interest rates, sustained the lower rates during the decade 1992-2002. Besides, soft interest rate regime both due to domestic and international forces has also resulted in lower interest rate structure in recent years. However, the quality of the use of the borrowed funds continued to be a concern. Larger revenue deficits continued to erode the assets back up for the aggregate liabilities of the Union Government, which consistently declined and remained static at 39 *per cent* during 2004-05 and 2005-06.

Outstanding Suspense balances of the Union Government

Introduction

1.18 Government Accounts are kept on cash basis and most of its transactions take place by cheques drawn on accredited Public Sector Banks, which also receive money on behalf of the Government. Reserve Bank of India is the main banker of the Government and other authorised banks function as its agents while handling Government transactions. Transactions through banks have their final impact on government cash balance in the course of time. Transactions of receipts and expenditure, which cannot at once be taken to a final head of account owing to lack of information about the nature of the transaction or for any other reason, are to be booked temporarily under different Suspense Heads. These Suspense Heads are to be cleared by (-) Debit or (-) Credit as the case may be on receipt of the relevant details/information. If these amounts remain uncleared, the balance under the Suspense Heads would go on accumulating and would not reflect a correct appreciation of the state of Government Accounts. The position of Suspense balances under some of the important suspense heads for the last five years are given below:

Table 1.9: Outstanding balances under major suspense heads

(Rupees in crore)

Heads of account	Net Balance as on 31 March					
	2002	2003	2004	2005	2006	
Suspense (PAO Suspense)	Dr. 565.12	Dr. 1145.03	Dr. 1170.86	Dr. 1565.50	Dr. 599.22	
Suspense Accounts (Civil)	Dr. 289.94	Dr. 650.41	Dr. 682.75	Dr. 698.75	Dr. 705.78	
Suspense Accounts (Postal)	Cr. 7.47	Dr. 172.12	Dr. 509.10	Dr. 1086.65	Dr. 692.80	
Suspense Accounts (Defence)	Cr. 643.73	Cr. 360.24	Dr. 304.40	Dr. 289.62	Dr. 1795.00	
Suspense Accounts (Railways)	Dr. 568.02	Dr. 565.96	Dr. 857.58	Dr. 1046.74	Dr. 860.48	
Suspense Accounts (Telecom)	Dr. 658.92	Dr. 660.30	Dr. 680.91	Dr. 630.30	Dr. 642.34	
Public Sector Bank Suspense	Cr. 51.91	Dr. 537.48	Dr. 2524.20	Dr. 1044.58	Dr. 962.72	
Suspense Account for purchases abroad	Dr. 697.45	Dr. 501.07	Dr. 473.31	Dr. 1082.73	Dr. 1008.98	
Reserve Bank Suspense (HQ)	Cr. 172.26	Cr. 173.20	Dr. 72.69	Dr. 73.90	Dr. 65.81	
Reserve Bank Suspense (CAO)	Cr. 8.69	Cr. 20.75	Cr. 246.06	Cr. 248.64	Cr. 239.33	
Cash settlement Suspense	Dr. 206.97	Dr. 228.80	Dr. 233.20	Dr. 237.20	Dr. 302.18	
Others	Dr. 1196.73	Dr. 1182.14	Dr. 1174.62	Dr. 1195.01	Dr. 1164.42	
Total	Dr. 3299.09	Dr. 5089.12	Dr. 8437.56	Dr. 8702.42	Dr. 8560.40	

From the above table it would be seen that suspense balances under various suspense heads have been gradually increasing and total suspense balances have increased from Rs. 3299.09 crore (Dr) at the end of March 2002 to Rs. 8560.40 crore (Dr.) on 31st March 2006. A review of the operation of Suspense Accounts and the position of outstanding balances in some of the regularly operated minor heads of Suspense Accounts was carried out by audit and its findings are summarised below:

1.19 PAO Suspense

This minor head is operated for the settlement of inter-departmental and inter-governmental transactions arising in the books of PAO under the Union Government; PAO of the Union Territories and Accountants General. Transactions under this minor head represent either recoveries effected or payments made by an Account Officer on behalf of another Accounts Officer against whom the minor head "PAO Suspense" has been operated. Credit under the head is cleared by 'minus credit' when cheque is issued by the Accounts Officer in whose books initial recovery was accounted for. Debit under 'PAO Suspense' is cleared by 'minus debit' on receipt and realisation of cheque/demand from the Accounts Officer on whose behalf payment was made.

In March 1999 the outstanding balances under PAO suspense amounted to Rs. 10.11 crore (Dr.) which had increased to Rs. 599.22 crore (Dr.) in March 2006. The outstanding balances on 31st March 2006 were mainly in respect of Ministry of Supply: Rs. 903.12 crore (Dr.); CBDT (Revenue): Rs. 146.14 crore (Dr.) and Ministry of External Affairs: Rs. 229.56 crore (Dr.) and Ministry of Finance (Deptt. of Expenditure): Rs. 567.26 (Cr.) indicating the payments made/received by these departments on behalf of other PAOs which are yet to be recovered/paid by them. However, in the Department of Economic Affairs it was observed that during the financial year 2005-06 clearance of Rs. 58.34 crore (Dr.) was made by one PAO against another for 'nil' outstanding debit balance resulting in creation of adverse balance. The heavy and continuous growth in the PAO suspense and the presence of adverse balances indicate lack of proper communication between different PAOs for clearing these balances.

1.20 Suspense Account (Civil)

This transitory minor head is operated for the accounting of transactions, which for the want of certain information/documents viz. vouchers, challans etc. cannot be taken to the final head of expenditure or receipt. This minor head is credited for recording receipts and debited for expenditure incurred. On receipt of the requisite information/documents etc, the minor head is cleared by minus debit or minus credit by per contra debit or credit to the concerned major/sub-major/minor heads of accounts.

Although in the last three years, the net balances in the Union Government Finance Accounts under this minor head - 'Suspense Account (Civil)' has

remained between Rs. 650 to Rs. 700 crore (Dr.) the real magnitude of the outstanding balance on 31st March 2006 was Rs. 1021.06 crore (Dr.) and Rs. 315.28 crore (Cr.) indicating that Receipts and Expenditures of Rs. 1336.34 crore which are required to be handled individually for settlement have not been booked to their final head of accounts.

1.21 Public Sector Bank Suspense

In the Government accounting system, the Public Sector Banks conduct Government business on behalf of the Reserve Bank of India which is the official banker of the Union Government. When a cheque is issued in payment of a bill, the amount is normally debited to the final head of account. Whenever a cheque is encashed by a Public Sector Bank, it initially pays the amount from its own cash balance and then claims reimbursement from the Central Accounts Section (CAS), RBI Nagpur which maintains the account of each Ministry/Department. Similarly, when Government receipts are paid into a Public Sector Bank, it passes on the proceeds to the Central Accounts Section, RBI Nagpur. As there is a time lag in booking of a Government transaction carried out by the bank, in Government cash balances, the minor head 'Public Sector Bank Suspense' is operated in Government books to account for the transactions awaiting settlement. On receipt of accounts from RBI (CAS), Nagpur the original booking under PSB Suspense is cleared by (-) credit/(-) debit, as the case may be.

The net outstanding PSB Suspense balance for the year ending 31st March 2006 amounted to Rs. 962.72 crore (Dr.) and the major departments against whom these balances were outstanding were CBEC: Rs. 908.87 crore (Dr.) and Central Pension Accounting Office (CPAO): Rs. 296.04 crore (Dr.). In respect of the CPAO under Ministry of Finance it was observed that the net outstanding PSB suspense balances shown was actually adverse balances of Rs. (-) 1.63 crore (Dr.) and Rs. (-) 297.25 crore (Cr). The CPAO attributed reasons for non-clearance of these adverse balances to the failure of the designated banks, which made pension payments to Central Civil Pensioners, Freedom Fighters and claimed reimbursements from RBI CAS Nagpur, not sending the pension payment scrolls in time or sending partial or incomplete scrolls to CPAO. This indicated poor coordination between the CPAO and the designated bank branches and inadequate monitoring of timely receipt of Bank Scrolls.

1.22 Reserve Bank Suspense, Central Accounts Office

This minor head is operated in the books of Union Government for payments of loans, grants-in-aid, share of income tax, share of Union excise duty to the State Governments. When the payment is authorised, the respective expenditure head is debited and credit is afforded to this head. On receipts of monthly statements of accounts from RBI adjusting the account of Union Government, the minor head is minus credited by crediting 8675-Deposits with RBI-101-Central Civil. At the time of repayment of loan and payment of interest thereon by the State Government, this head is debited by crediting the

loans/interest head. On receipt of monthly statement of accounts from RBI (CAS) Nagpur the head is minus debited per contra debit to 8675-101 Deposits with RBI-101-Central Civil. The outstanding RBI (CAO) suspense balances were outstanding mainly against the Department of Economic Affairs, Ministry of Finance which had a suspense balance of Rs. 253.29 crore (Cr.) for the year ending 31st March 2006. The balance was outstanding in the accounts since 2003-04. This balance is the net effect of debit and credit transactions of Rs. 61817.95 crore and Rs. 62071.24 crore in the suspense heads RBI (HQ) and RBI (CAO) respectively during the year. The department did not furnish any reply about the nature, details, period and the efforts made by it to clear these balances.

1.23 Suspense Accounts for purchase abroad

The minor head suspense accounts for purchases abroad is operated in the books of Controller of Aid Accounts and Audit (CAA&A), Ministry of Finance (Deptt. of Economic Affairs). The government makes direct payment for imports financed out of foreign loans and credit and an equal amount is kept under the suspense head till the payment is received from the importers. The debit balance under this head indicates the amount, which is yet to be recovered from the importers, although the Government has already made the payment for these imports.

In 2005-06 the suspense account balance for purchases abroad was Rs. 1008.98 crore. Major debtors for the year ending 31st March 2006¹ were Pyrites, Phosphates & Chemicals Ltd. (Rs. 24.95 crore); Pawan Hans Ltd. (Rs. 57.44 crore); Delhi Metro Rail Corporation (Rs. 23.91 crore); Coal India Ltd. (Rs. 21.08 crore); Helicopter Corporation of India Ltd. (Rs. 67.24 crore) and three Government Ministries (Rs. 155.49 crore). It was also observed that Rs. 206 crore was outstanding from different organisations since 1997. A list showing the details of amounts outstanding since 1997 in respect of major importers is given at Appendix-I-A. It is noticed from the information made available by the Department that purchases have been made on behalf of various importers when the payments for the purchase of earlier years were still due from them. Concrete steps need to be taken up by CAA&A for recovery of the outstanding amounts.

1.24 Impact of Suspense balances in Government accounts

In the Finance Accounts of the Union Government netted figures of debits and credits appear as opening and closing balances under the various minor heads. The real magnitude of the outstanding under a particular minor head can only be gauged by going through the outstanding balances lying under the debit and credit side which ultimately are required to be handled individually for settlement. For the year ending 31st March 2006, the actual outstanding position under some of the suspense heads was as below:

¹ Position as on 9th August 2006.

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Table 1.10: Impact of Suspense balances in Government accounts

(Rupees in crore)

Minor head	Debit	Credit	Net balance shown in the Finance Accounts as on 31 st March 2006		Actual suspense balance outstanding
PAO Suspense	1720.37	1121.15	Dr.	599.22	2841.52
Suspense Accounts (Civil)	1021.06	315.28	Dr.	705.78	1336.34
Public Sector Bank Suspense	1812.38	849.66	Dr.	962.72	2662.04
Reserve Bank Suspense (Hq)	261.29	195.48	Dr.	65.81	456.77
Reserve Bank Suspense (CAO)	73.22	312.55	Cr.	239.33	385.77

As a result of this netting, the magnitude of outstanding suspense balances under these minor heads are weighted by the net balances they reflect in the Finance Accounts of that particular year. Netting the figures, divert the attention from the enormity of the situation that the Suspense Accounts actually reflect.

Suspense balances particularly those under the heads, which await final classification due to one reason or other, indicate those amounts, which are yet to be accounted for under the appropriate functional heads. Therefore, to the extent these exist in accounts, the Appropriation and Finance Accounts are incomplete and affect functional expenditure under various service heads quantitatively. In turn, the savings and excesses with reference to the approved provisions are also affected.

Conclusion

All balances under suspense heads ought to be reviewed at short intervals in consultation with the respective PAOs, PSBs and RBI so that it is ensured that no item remains unadjusted longer than reasonably necessary to bring about its clearance in accordance with the rules applicable to each case. There is, therefore, an urgent need to clear these outstanding balances expeditiously and classify them in the appropriate heads of accounts.