

Chapter 4

APPLICATION OF RESOURCES: EXPENDITURE

The critical importance of Government expenditure in an emerging economy like India cannot be overstated. The major observations relating to Union expenditure emanating from the Finance Accounts for 2008-09 are as follows:

- **Growth in committed expenditure at the cost of funds for current operations:** Increased reliance on borrowed funds for funding expenditure over the years has led to more committed expenditure of the Government and relatively less funds for current operations. The repayments of debt (Rs. 21,64,560 crore) and discharge of Public Account liabilities (Rs. 5,15,616 crore), interest payments (Rs. 2,00,580 crore), assignment of mandated portion of its gross tax receipts to States (Rs. 1,60,179 crore), grant-in-aid to States (Rs. 1,21,702 crore) and closing cash balances (Rs. 95,256 crore) meant that only around 19 *per cent* of the total resources was actually spent during the year for the current operations of the Union Government. *(Para 4.1)*
- **Growth in States' share of taxes over the years:** States' share in taxes showed the maximum percentage growth for every percentage growth of GDP in the post-liberalization period among all components of total disbursement. This can be attributed to recommendations of successive Finance Commissions. *(Para 4.2.1)*
- **Higher growth in total disbursements vis a vis GDP growth:** The average annual trend growth of total disbursements during 1992-2009 at 15.84 *per cent* was higher than the average rate of growth of GDP, which in the same period averaged 12.31 *per cent*, indicating the crucial role of the Government sector in the economic development of the country. A sharp change in the pattern has been observed in the year 2008-09, where total disbursements grew by around 30 *per cent* compared to the GDP growth of 12.67 *per cent*. This is because of very high growth in actual expenditure (27.65 *per cent* growth over the previous year), repayment of debt (34.94 *per cent* growth) and disbursement in Public Account (21.24 *per cent*). *(Para 4.2.2)*
- **Relationship between growth in actual expenditure and GDP growth:** The average annual growth rate of actual expenditure (total disbursements net of States' share in taxes, repayment of debt and disbursement in Public Account) has remained lower than the GDP growth rates during the previous three Plan periods and also for the entire period of 17 post-liberalization years viz. 1992-2009. In 2007-08 and 2008-09, growth in actual expenditure has been higher than growth in GDP and this difference was much more marked in 2008-09, when the Government provided a variety of fiscal incentives to stimulate the economy. *(Para 4.2.2)*
- **Dominant share of revenue expenditure over capital expenditure:** During the post-liberalization period, the average share of revenue expenditure to actual expenditure was around 84 *per cent*. This share increased dramatically to around 92 *per cent* in 2008-09 (Para 4.4). For every one *per cent* growth in actual expenditure during 1992-2009, there has been a 4.47 *per cent* negative shift in the proportion of capital expenditure and loans as a proportion of actual expenditure, while there has been a positive shift of nearly one *per cent* in the share of revenue expenditure to actual expenditure. *(Para 4.3.1)*
- **Dominant share of non-Plan expenditure over Plan expenditure:** The trends in the composition of Union Government expenditure over the period 1992-2009, which has been increasing over the years, reveal that non-Plan expenditure far outweighs the Plan expenditure. *(Para 4.5.2)*
- **Relatively low buoyancy of capital expenditure:** For the entire period, 1992-2009, the growth in capital expenditure was lower than the growth of both GDP as well as revenue receipts. For every one *per cent* growth in GDP, capital expenditure grew only by 0.862 *per cent* and for every one *per cent* growth in revenue receipts, capital expenditure grew only by 0.856 *per cent*. In 2008-09, there was a negative growth of

2.66 *per cent* for every *per cent* growth of GDP and negative growth of over 21 *per cent* for every *per cent* growth of revenue receipts. **(Para 4.6.4)**

- **Buoyancy of actual expenditure:** For the entire period, 1992-2009, the growth in actual expenditure was lower than the growth of both GDP as well as revenue receipts. For every one *per cent* growth in GDP, actual expenditure grew only by 0.874 *per cent* and for every one *per cent* growth in revenue receipts, actual expenditure grew only by 0.868 *per cent*. In 2007-08, the growth in actual expenditure was much higher than that of GDP growth but lower than growth in revenue receipts. In 2008-09, actual expenditure growth was 2.18 times the growth of GDP and 17.31 times the growth of revenue receipts, due to various fiscal stimulus programmes. **(Para 4.6.6)**
- **Growth in subsidies:** Food subsidies grew by 39.65 *per cent* while the petroleum subsidy grew by 1.13 *per cent* over the previous year. Subsidies given on indigenous and imported fertilizers increased by 43 *per cent* while the growth in subsidies given to farmers on sale of decontrolled fertilizers was a phenomenal 275 *per cent*. Other subsidies grew by 51.6 *per cent*. As a result, there was an overall growth in total subsidies by around 83 *per cent*. Total subsidies as a percentage of GDP increased by almost 1 percentage point in 2008-09. Subsidies as a percentage of revenue expenditure increased by 3.19 percentage points in 2008-09 over 2007-08. **(Para 4.7)**
- **Deviation in actual expenditure compared to Budget Estimates:** There has been a 47 *per cent* increase in actual expenditure in the year 2008-09 over what was estimated in the Budget. The deviation was much higher in non-Plan expenditure (63 *per cent*) compared to Plan expenditure (13 *per cent*). Non-Plan capital expenditure was lower by 16 *per cent* than what was estimated in the budget. A look at the estimates of the Twelfth Finance Commission for the year 2008-09 and the actual figures also shows wide variations especially in subsidies (259 *per cent* higher than what was estimated) and in non-Plan revenue expenditure (121 *per cent* higher than what was estimated). **(Para 4.10)**

4.1 Overview of Union Expenditure 2008-09: The Union Government raises resources to perform its sovereign functions, maintain its existing network of delivery of social and economic services, extend the network of these services through capital expenditure and investments and discharge its debt servicing obligations. The Government's total resource availability was Rs. 40,37,977 crore for the year 2008-09, of which Rs. 39,42,721 crore was disbursed during the year, leaving a closing cash balance of Rs. 95,256 crore (Table 4.1).

The repayments of debt (Rs. 21,64,560 crore) and discharge of Public Account liabilities (Rs. 5,15,616 crore), interest payments (Rs. 2,00,580 crore), assignment of mandated portion of its gross tax receipts to States (Rs. 1,60,179 crore), grant-in-aid to States (Rs. 1,21,702 crore) and closing cash balances (Rs. 95,256 crore) meant that only around 19 *per cent* of the total resources was actually available during the year for the current operations of the Union Government.

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Table 4.1: Application of Resources

(Rupees in crore)

I	Resources available		4037977
II	Application of Resources		3942721
	a.	Repayment of Debt	2164560
		Internal Debt	2154553
		External Debt	10007
	b.	Discharge of liabilities on Public Account	515616
		Small Savings and Provident Fund	269605
		Reserve Fund	121565
		Deposits and Advances	108921
		Others	15525
	c.	Actual Expenditure	1102366
		Revenue Expenditure	1010224
		Capital Expenditure	77556
		Loans and Advances	14586
	d.	Share of the States in taxes	160179
		Appropriation to Contingency Fund	-
III	Closing Cash Balances		95256

4.2 Total Disbursement- Composition and Trends

Aggregate disbursement of Union Government has four major components (Box 4.1) viz. actual expenditure (revenue expenditure, capital expenditure and loans and advances), *inclusive of the grants-in-aid to the States*; mandatory transfer of the proceeds from Union taxes to the States as recommended by the Finance Commission and approved by Parliament; repayment of debt and disbursements from Public Account. The relative movements across these expenditure groups are indicated in Table 4.2.

BOX 4.1: COMPONENTS OF TOTAL DISBURSEMENTS

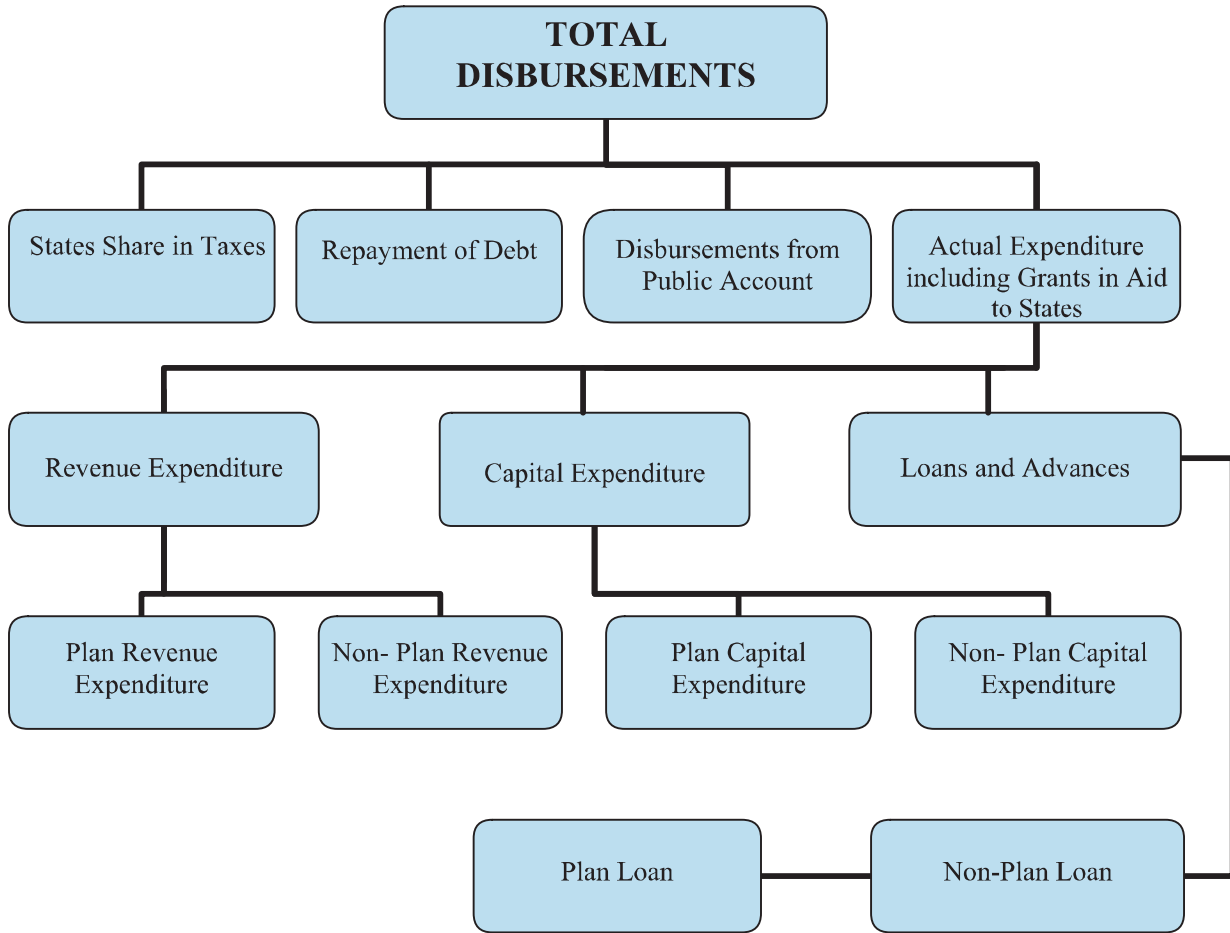


Table 4.2: Components of Total Disbursement

(Rupees in crore)

Period	Actual Expenditure	States' share in taxes	Repayment of Debt	Disbursement in Public Account	Total Disbursement	GDP (Market Price)
1992-2009 (Average)	463780	54317	580847	249426	1348370	2407994
Relative share	34	4	43	19	100	
VIII Plan (1992-97) (Average)	220494	9435	126525	77261	433716	1040918
Relative share	51	2	29	18	100	
IX Plan (1997-02) (Average)	389316	29808	310011	207404	936539	1922332
Relative share	42	3	33	22	100	
X Plan (2002-07) (Average)	573852	83040	784611	375206	1816709	3214901
Relative share	32	5	43	21	100	

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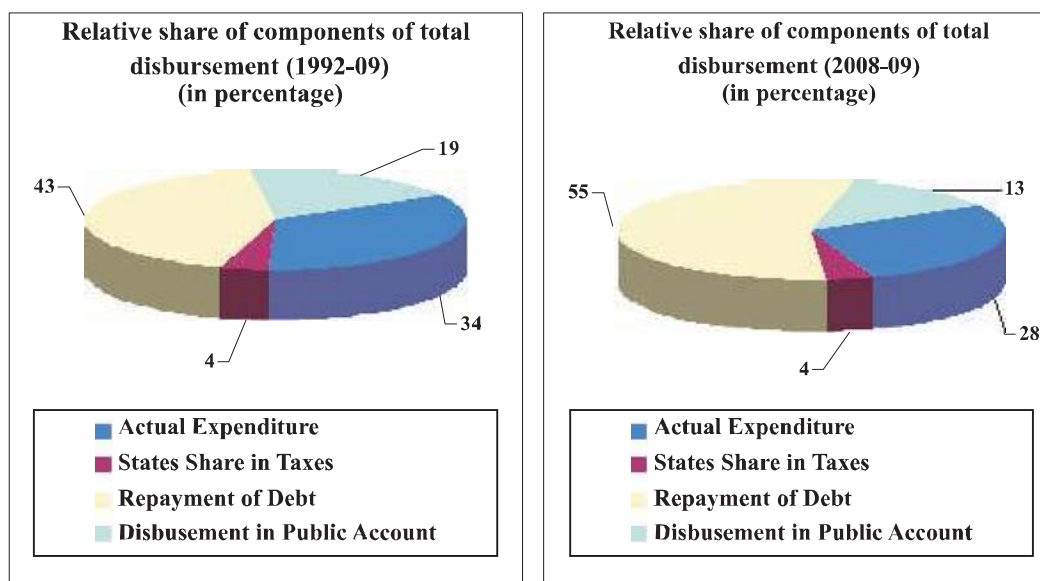
(Rupees in crore)

Period	Actual Expenditure	States' share in taxes	Repayment of Debt	Disbursement in Public Account	Total Disbursement	GDP (Market Price)
XI Plan (2007-12)						
2007-08	863575	151800	1604110	425260	3044745	4723400
Relative share	28	5	53	14	100	
2008-09	1102366	160179	2164560	515616	3942721	5321753
Relative share	28	4	55	13	100	
Average Annual Rate of Growth (in per cent)						
1992-2009	10.75	24.42	20.49	15.50	15.84	12.31
VIII Plan (1992-97)	11.77	21.86	20.90	14.32	14.84	16.53
IX Plan (1997-02)	6.62	49.19	-2.34	22.05	7.00	10.33
X Plan (2002-07)	10.86	20.76	47.63	8.92	24.77	13.93
XI Plan (2007-12)						
2007-08	18.70	26.15	8.32	4.65	11.32	14.39
2008-09	27.65	5.52	34.94	21.24	29.49	12.67
Annual average rate of shift in shares (1992-2009)	-4.39	7.39	4.02	-0.29		

*The Central Statistical Organisation (CSO), Ministry of Statistics and Programme Implementation's Press Note dated 29th May, 2009 has indicated that the Revised Estimate figures for GDP at current prices is Rs 53,21,753 crores. Figures are continually being revised by CSO and this data is meant for an indicative comparison of fiscal performance with macro-economic performance.

Note: Figures indicating relative shares have been rounded off to the nearest integer and hence, the total may not always add to 100. Negligible refers to figures where the share of the sub component is less than 0.5% of Non Tax revenue.

Chart 4.1 Relative share of various components of total disbursement during the period 1992-2009 and 2008-09.



4.2.1 Composition of total disbursement: In the year 2008-09, the largest share (55 *per cent*) of total disbursements went towards repayment of debt. The share of actual expenditure was 28 *per cent*. When seen in the perspective of the trend in the post-liberalization period of 1992-2009, there has been a growth in the share of repayment of debt (55 *per cent* in 2008-09 compared to 43 *per cent* for the 17 years period under consideration) and a considerable fall in the share of actual expenditure (28 *per cent* compared to the trend share of 34 *per cent*). For every one *per cent* growth in total disbursements during the 17 year period, there has been four *per cent* increase in the share of debt repayments and a matching four *per cent* decrease in the share of actual expenditure. Disbursements from Public Account indicated a long-term trend share of around 19 *per cent* during 1992-2009. Relative share of this component was 18 *per cent* of aggregate disbursements during the VIII Plan which later increased to an annual average of 22 *per cent* during the IX Plan reaching its peak of 33.76 *per cent* in 1999-2000 consequent upon the creation of NSSF and conversion of balances of small savings to dated securities. The share of disbursement from Public Account since then declined over the years to around 14 *per cent* in 2007-08 and 13 *per cent* in 2008-09, as a result of which, the share of this component in the total disbursement basket had a negative rate of shift (0.29 *per cent*) during 1992-2009.

The States' share in Union taxes and duties in actual expenditure of the Union Government has consistently increased from two *per cent* in VIII Plan (1997-2002) to four *per cent* during the X Plan (2002-07) resulting in positive rate of shift of 7.39 during the period (1992-2009). Among all components of total disbursement, it is this account that showed the maximum percentage growth for every percentage growth of GDP in the post-liberalization period and can be attributed to recommendations of successive Finance Commissions.

4.2.2 Growth Trends in total disbursements and its components: The average annual trend growth during 1992-2009 at 15.84 *per cent* was higher than the average rate of growth of GDP, which in the same period averaged 12.31 *per cent*, indicating the crucial role of the Government sector in the economic development of the country. Average annual growth rates of total disbursement during the VIII and IX Plans were in fact lower than GDP growth rates. X Plan (2002-07) has witnessed reversal of this trend and rate of growth of total disbursements exceeded the GDP growth. In the first year of the XI Plan (2007-12), growth of total disbursements was 11.32 *per cent* and therefore lower than the corresponding GDP growth rate. A sharp change in the pattern has been observed in the year 2008-09, where total disbursements grew by around 30 *per cent* compared to the GDP growth of 12.67 *per cent*.

The average annual growth rate of actual expenditure (total disbursements net of States' share in taxes, repayment of debt and disbursement in Public Account) has remained lower than the GDP growth rates during the previous three Plan periods and also when we consider the entire period of 17 post-liberalization years viz.1992-2009. In 2007-08 and 2008-09, growth in actual expenditure has been higher than growth in GDP and this difference was much more marked in 2008-09, when the Government provided a variety of fiscal incentives to stimulate the economy. These are discussed in detail in Para 4.3.

The average growth of disbursements from Public Account was significantly higher than the average GDP growth rate during the IX Plan period (over 22 *per cent* growth compared to the 10 *per cent* average growth of GDP). This trend was reversed during the X Plan period and the first year of the XI Plan period, when the growth in disbursement in Public Account was much less than the growth in the corresponding GDP. However, in the year 2008-09, there was a considerable growth in this account (over 21 *per cent*) compared to the 12.67 *per cent* growth of GDP. This is because disbursements from Reserve Fund increased from Rs 65,377 crore in 2007-08 to Rs 1,21,565 crore in 2008-09 (increase of 85.95 *per cent*). Further, in 2008-09, there was a 27 *per cent* increase in disbursements of Deposits and advances.

The average annual growth rates in repayment of debt vis-à-vis average GDP growth rate during the three earlier Plan periods reveal that except during the IX Plan period, growth rate of former remained significantly higher than the latter. This trend reversed itself in the first year of the XI Plan but during 2008-09, once again, growth in repayment of debt was significantly higher at nearly 35 *per cent* compared to the GDP growth rate of 12.67 *per cent*. This was on account of higher repayment of internal debt from Rs 15,96,617 crore in 2007-08 to Rs 21,54,553 crore in 2008-09. Redemption of petroleum bonds during the year amounted to Rs 13,343 crore.

4.3 Actual expenditure: Main Aggregates

Table 4.3 presents a summary of the actual expenditure of the Union Government (excluding repayment of debt and disbursement from Public Account, which are discussed separately in the chapter on fiscal liabilities) and the observed trend growth rates of its various components over the Plan periods.

Table 4.3 Relative share and growth trends of components of expenditure

(Rupees in crore)

Period	Revenue Expenditure	Capital Expenditure	Loans & Advances	Actual Expenditure	Revenue Expenditure/ Actual Exp	Others/ Actual Expenditure
1992-2009(Average)	398606	38728	26445	463780	84.30	15.70
VIII Plan (1992-97) (Average)	177497	19550	23447	220494	80.50	19.50
IX Plan (1997-02) (Average)	327922	26234	35160	389316	84.23	15.77
X Plan (2002-07) (Average)	500825	46993	26034	573852	87.27	12.73
XI Plan (2007-12)						
2007-08	734861	116937	11777	863575	85.10	14.90
2008-09	1010224	77556	14586	1102366	91.64	8.36
Average Annual Rate of Growth						
1992-2009	11.66	10.60	(-) 3.31	10.75	0.82	-4.47
VIII Plan (1992-97)	14.23	(-) 8.44	11.91	11.77	Average Annual Rate of Shift (per cent)*	
IX Plan (1997-02)	7.63	9.22	(-) 3.42	6.62		
X Plan (2002-07)	12.24	19.61	(-) 29.46	10.86		
XI Plan (2007-12)						
2007-08	11.64	97.22	17.55	18.70		
2008-09	37.47	-33.68	23.85	27.65		

* the change in the proportion of a particular sub component of expenditure in the actual expenditure basket during the period 1992-2009.

4.3.1 : Dominant share of revenue expenditure in actual expenditure

The bulk of actual expenditure goes towards revenue expenditure, which does not usually result in fresh creation of assets for the Government and is meant for normal running and maintenance of Government machinery. During the post-liberalization period, the average share of revenue expenditure to actual expenditure was around 84 per cent. The share of revenue expenditure increased to around 92 per cent of the actual expenditure in 2008-09 (further details in Para 4.4). Against these trends in revenue expenditure, the relative share of capital expenditure and loans and advances declined from an average of 19.5 per cent during the VIII Plan to 15.77 per cent in IX Plan (1997-2002) and further to an average of 12.73 per cent during the X Plan (2002-07). This share rose to nearly 15 per cent in 2007-08 but sharply reduced to around eight per cent in 2008-09. For every one per cent growth in actual expenditure during the 17 year period under consideration, there has been a 4.47 per cent negative shift in capital expenditure and loans taken together, while there has been a positive shift of nearly one per cent in the share of revenue expenditure. The steep decline in the Loans and Advances in recent years (2005-06 onwards) has been on account of acceptance of Twelfth Finance Commission recommendation regarding disintermediation of Central

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Government in borrowings by State Governments to finance their State Plans. The States, therefore, raised the loan component of Central Plan assistance directly from the market without budgetary intermediation of the Central Government.

The predominance of revenue expenditure has been primarily on account of a conscious shift in plan priorities in favour of revenue expenditure-intensive programmes and schemes and systemic rigidity in non-Plan revenue expenditure in the short term, particularly arising from committed and obligatory expenditure such as interest payments, pensions, salaries and defence. Moreover, the central support to the states development activities whether through central assistance or Centrally Sponsored Schemes is classified as revenue expenditure, regardless of the purpose for which it is used by the States and other implementing agencies. There is a divergence in the treatment of accounting heads between revenue and capital by different government agencies and needs to be standardized to make the data consistent, dependable and comparable.

4.4 Revenue expenditure: Trend and components

Table 4.4 shows the expenditure incurred on various components of revenue expenditure in terms of its major object-wise classification.

Table 4.4: Revenue expenditure and its components

(Rupees in crore)

Period	Revenue Expenditure	Pay & Allowances**	Interest Payments	Pensions*	Grants to States	Others
1992-2009 (Average)	398606	33667	102163	18727	46863	197185
Relative Share	100	8	26	5	12	49
VIII Plan (1992-97) (Average)	177497	21620	44280	5661	20630	85306
Relative share	100	12	25	3	12	48
IX Plan (1997-02) (Average)	327922	33432	91102	15852	32423	155114
Relative share	100	10	28	5	10	47
X Plan (2002-07) (Average)	500825	36728	135860	25539	60676	242022
Relative share	100	7	27	5	12	48
XI Plan (2007-12)						
2007-08	734861	44361	179987	37346	106333	366834
Relative share	100	6	24	5	14	50
2008-09	1010224	71726	200580	45747	121702	570469
Relative share	100	7	20	5	12	56
Average Annual Rate of Growth (per cent)						
1992-2009	11.66	6.26	11.67	15.75	12.46	12.12
VIII Plan (1992-97)	14.23	12.10	17.44	15.64	5.60	15.29
IX Plan (1997-02)	7.63	-2.09	14.90	17.07	11.06	4.35

Application of Resources: Expenditure

(Rupees in crore)

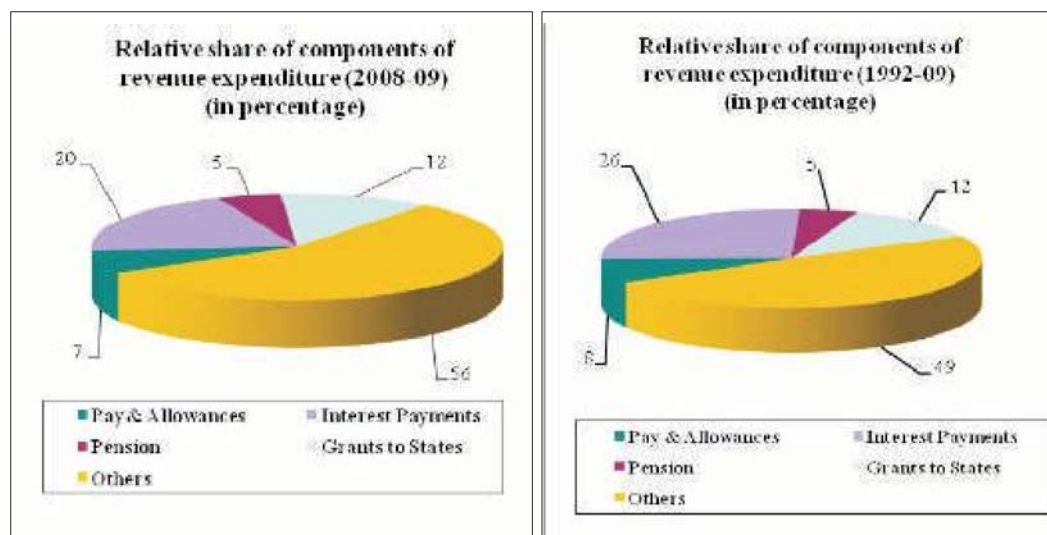
Period	Revenue Expenditure	Pay & Allowances**	Interest Payments	Pensions*	Grants to States	Others
X Plan (2002-07)	12.24	4.43	5.40	17.49	21.14	14.70
XI Plan (2007-12)						
2007-08	11.64	11.31	16.66	(-) 4.42	19.65	9.12
2008-09	37.47	61.69	11.44	22.50	14.45	55.51

* includes Miscellaneous General Services (expenditure on running the Government departments)

** Notes:

- 1) The expenditure on pay and allowances up to 2001-02 is as per the brochure published by Pay Research Unit of the Department of Expenditure for the Central Government civilian employees including the employees of the Union Territories and non-civilian employees of Defence Department. From 2002-03, figures do not include expenditure on pay and allowances of non-civilian employees of Defence.
- 2) Expenditure on pay and allowances do not include travelling allowance, productivity-linked bonus, ad-hoc bonus, encashment of earned leaves and honorarium.
- 3) The expenditure on pay and allowances are adopted as reported in Expenditure Budget (Volume I) of the relevant years.

Chart 4.2 Relative share of components of revenue expenditure during the period 1992-2009 and 2008-09.



4.4.1 Relative share of various sub-components of revenue expenditure:

On an average, during the post-liberalization period, the category “other expenditure” accounted for the largest share viz. 49 per cent of revenue expenditure. The residual components of revenue expenditure grouped under ‘Others’ includes *inter-alia* the explicit subsidies given for food, fertilisers and petroleum products etc., as well as the compensation given for under recoveries to corporations and companies involved in supply of these products. Over the three earlier Plans, the share of this sub-component

remained more or less stable but during the first two years of the XI Plan, the share rose to 50 *per cent* of total revenue expenditure in 2007--08 and 56 *per cent* in 2008-09. Interest payments constituted the next significant share amounting to around 26 *per cent* on an average for the 17 year period under consideration. The share of interest payments, however, fell in the first two years of the XI Plan to 24 and 20 *per cent* of the total revenue expenditure. In absolute terms, interest payments increased from Rs 1,79,987 crore in 2007-08 to Rs 2,00,580 crore in 2008-09. However, the share of interest payments in revenue expenditure declined on account of increased spending on other components of revenue expenditure.

4.4.2: Growth trends of various sub-components of revenue expenditure: All the components of revenue expenditure except pay and allowances had a double-digit trend growth during 1992-2009. Notwithstanding the wage increases in the post Pay Commission years, the trend growth of Pay and Allowances (6.26 *per cent*) was lower than the GDP growth (12.31 *per cent*)¹. Since the expenditure incurred for explicit subsidies as well as on compensation has increased steeply during the recent past, this residual component 'others' has assumed significance and recorded a growth of 55.51 *per cent* in the current year as compared to the trend growth rate of just 12.12 *per cent* for the post-liberalization years. The steep growth in this component in the current year can be attributed mainly to increased expenditure on crop husbandry of Rs. 53,650 crore towards manures and fertilisers and issue of Special bonds to Fertiliser Companies as compensation towards fertiliser subsidy; on food, storage and warehousing of Rs. 12,698 crore towards food subsidies; on rural employment of Rs. 21,163 crore; on petroleum of Rs. 55,456 crore towards payment to oil companies in settlement of their claims under administrative pricing and compensation for under recoveries on account of sale of sensitive petroleum products.

Rate of growth of interest payments also witnessed moderate deceleration during IX Plan and further to an average of 5.40 *per cent* during the X Plan (2002-07). The rate of growth of interest payments declined largely due to a general decline in interest rates for the internal loans. Despite a soft interest rate regime prevailing during the X Plan period, interest payments have continued to rise mainly due to spiralling outstanding debt during the period. Curtailing interest payments requires a reduction in current deficits especially primary deficits so that interest payments reduce in the future. Technically, only if the government is able to generate primary surpluses (*viz. if the revenue receipts plus non-debt capital receipts are higher than expenditure net of interest payments*) can there be a reduction in debt and future interest payments.

¹ Please see Table No. 3.2 of Chapter 3 for GDP trend growth rate.

4.5 Expenditure: Plan and non-Plan

The Finance Accounts provide a further dis-aggregation of expenditure into Plan and non-Plan. Plan expenditure normally relates to incremental developmental expenditure on new projects or schemes and involves both revenue and capital expenditure. Non-Plan expenditure, on the other hand, is normally devoted to maintaining the levels of services already achieved. However, in both Plan and non-Plan expenditure, increase in capital expenditure relative to revenue expenditure is considered qualitatively more desirable as it leads to the extension of the social and economic infrastructure network and capital formation by the Government. Table 4.5 presents the growth and composition of Plan and non-Plan expenditure of the Union government while the trends in the relative share of Plan and non-Plan expenditure in total expenditure are given in Table 4.6.

Table 4.5: Growth in Plan & non-Plan expenditure

(Rupees in crore)

Period	Plan				Non Plan			
	Total	Revenue	Capital	Loans	Total	Revenue	Capital	Loans & Advances
1992-2009 Average	106335	75630	13664	17040	357445	322976	25064	9405
VIII Plan (1992-97) Average	48190	26749	8380	13061	172304	150748	11170	10386
IX Plan (1997-02) Average	78595	47089	10132	21373	310721	280833	16102	13786
X Plan (2002-07) Average	138676	101635	17960	19081	435176	399190	29033	6954
XI Plan (2007-12)								
2007-08	205082	173572	21806	9704	658493	561289	95131	2073
2008-09	275301	234774	28123	12404	827065	775450	49433	2182
<i>Average Annual Rate of Growth (per cent)</i>								
1992-2009	11.92	15.37	8.20	-0.19	10.42	10.85	12.00	-9.81
VIII Plan (1992-97)	7.53	11.48	-4.45	7.28	12.98	14.72	(-) 11.36	18.27
IX Plan (1997-02)	13.49	14.50	4.56	15.71	4.90	6.51	13.12	(-) 29.30
X Plan (2002-07)	12.35	21.46	7.30	(-) 28.44	10.38	9.99	28.78	(-) 31.50
XI Plan (2007-12)								
2007-08	10.22	9.43	12.32	20.88	21.61	12.34	138.55	4.12
2008-09	34.24	35.26	28.97	27.82	25.60	38.16	-48.04	5.26

4.5.1 Growth trends in Plan and non-Plan expenditure: Table 4.5 indicates that for the period 1992-2009, Plan expenditure grew by nearly 12 per cent while non-Plan expenditure grew by 10.42 per cent. In 2008-09, the growth in Plan expenditure over the previous year was 34.24 per cent (higher than the trend growth rate of 12 per cent) and that of non-Plan expenditure was 25.60 per cent (higher than the trend growth rate of 10.42 per cent). Plan Loans witnessed significant contraction since 2005-06, reflecting the dis-intermediation of Central Government in the raising of State domestic loans

due to the acceptance of the Twelfth Finance Commission recommendation. In the case of Plan Loans, compared to the negative trend growth (-0.2 per cent) for the post-liberalization period (1992-2009), there was a significant growth in 2008-09 (27.82 per cent) over the previous year. Higher Plan loan assistance was provided for the social sector, local bodies, and power projects.

4.5.2 Relative share of Plan and non-Plan expenditure in total expenditure: The trends in the composition of Union Government expenditure over the period 1992-2009, which has been increasing over the years, reveal that non-Plan expenditure far outweighs the Plan expenditure and revenue expenditure completely overshadows capital expenditure. Table 4.6 indicates that there was a marginal increase in the relative share of Plan expenditure in the total expenditure basket in 2008-09 (24.97 per cent) compared to the trend share of 22.93 per cent.

Table 4.6: Plan and non-Plan Expenditure: Relative Share

Period	PE/TE	NPE/TE	PRE/PE	NPRE/NPE
1992-2009 (Average)	22.93	77.07	71.12	90.36
VIII Plan (1992-97) (Average)	21.86	78.14	55.51	87.49
IX Plan (1997-02) (Average)	20.19	79.81	59.91	90.38
X Plan (2002-07) (Average)	24.17	75.83	73.29	91.73
XI Plan (2007-12)				
2007-08	23.75	76.25	84.64	85.24
2008-09	24.97	75.03	85.28	93.76

Note: PE = Plan Expenditure, NPE = Non-plan Expenditure, PRE = Plan Revenue Expenditure, NPRE = Non-plan Revenue Expenditure and TE = Total Expenditure

Table 4.6 indicates that on an average for the post-liberalization period, for both Plan and non-Plan expenditure, the revenue component remained the most dominant (71.12 and 90.36 per cent respectively). In comparison with the trend rate, for the year 2008-09, the share of Plan revenue expenditure in Plan expenditure was (85.28 per cent) while the share of non-Plan revenue expenditure in non-Plan expenditure was higher (93.76 per cent). The step up in revenue component of Plan expenditure was largely due to increase in Plan grants to States and also to meet the expenditure commitments under critical social sectors including rural employment, education and health. The increased spending in the socially oriented areas such as rural employment, rural roads, rural water supply, integrated child development services, 'Sarva Shiksha Abhiyan', 'National Rural Health Mission', 'National Horticulture Mission', micro irrigation, and agro and rural industries led to a significant increase in revenue component of the Plan expenditure in recent years.

4.6 Buoyancy of expenditure

The growth in expenditure should be compared to growth in other fiscal variables as well as with macro-economic variables in order to be a meaningful statistic. In this para, the growth in various types of expenditure (column 1 of Table 4.7) are compared with GDP growth rate (since this is a good indicator of the macro-economic development of a country) and with revenue receipts (to understand the gap between expenditure and revenue). Table 4.7 provides the following insights:

4.6.1 Buoyancy of Plan expenditure: For the entire period, 1992-2009, the growth in Plan expenditure as a proportion of total expenditure was marginally lower than the growth of both GDP as well as revenue receipts. For every one *per cent* growth in GDP, Plan expenditure grew only by 0.969 *per cent* and for every one *per cent* growth in revenue receipts, Plan expenditure grew only by 0.962 *per cent*. In 2007-08, the growth in Plan expenditure was much lower than that of GDP growth as well as growth in revenue receipts. This trend was reversed in 2008-09 when Plan expenditure growth was 2.70 times the growth of GDP and 21.43 times the growth of revenue receipts, due to various fiscal stimulus programmes.

4.6.2 Buoyancy of non-Plan expenditure: For the entire period, 1992-2009, the growth in non-Plan expenditure was lower than the growth of both GDP as well as revenue receipts. For every one *per cent* growth in GDP, non-Plan expenditure grew only by 0.847 *per cent* and for every one *per cent* growth in revenue receipts, non-Plan expenditure grew only by 0.842 *per cent*. In 2007-08, the growth in non-Plan expenditure was much higher than that of GDP growth but was less than the growth in revenue receipts. In 2008-09, non-Plan expenditure growth was 2.02 times the growth of GDP and 16.02 times the growth of revenue receipts. The main reasons for this was that in 2008-09, non-Plan revenue expenditure grew by 38.16 *per cent* over the previous year and non-Plan capital expenditure declined by 48.04 *per cent*. Non-Plan Loans and Advances grew by over five *per cent* in the current year.

4.6.3 Buoyancy of revenue expenditure: For the entire period, 1992-2009, the growth in revenue expenditure was marginally lower than the growth of both GDP as well as revenue receipts. For every one *per cent* growth in GDP, revenue expenditure grew only by 0.948 *per cent* and for every one *per cent* growth in revenue receipts, revenue expenditure grew only by 0.942 *per cent*. In 2007-08, the growth in revenue expenditure was much lower than that of GDP growth as well as growth in revenue receipts. This trend was reversed in 2008-09, revenue expenditure growth was 2.96 times the growth of GDP and

23.46 times the growth of revenue receipts, due to various fiscal stimulus programmes.

4.6.4 Buoyancy of capital expenditure: For the entire period, 1992-2009, the growth in capital expenditure was lower than the growth of both GDP as well as revenue receipts. For every one *per cent* growth in GDP, capital expenditure grew only by 0.862 *per cent* and for every one *per cent* growth in revenue receipts, capital expenditure grew only by 0.856 *per cent*. In 2008-09, there was a negative growth of 2.66 *per cent* for every *per cent* growth of GDP and negative growth of nearly 21.08 *per cent* for every *per cent* growth of revenue receipts.

4.6.5 Buoyancy of Loans and Advances: For the entire period, 1992-2009, the growth in Loans and Advances showed negative buoyancy compared to GDP and revenue receipts. For every one *per cent* growth in GDP, Loans and Advances declined by 0.269 *per cent* and for every one *per cent* growth in revenue receipts, Loans and Advances declined by 0.267 *per cent*. This trend was reversed in 2007-08, when the growth in Loans and Advances was much higher than that of GDP growth but lower than growth in revenue receipts. In 2008-09, there was a significant growth of 1.88 *per cent* in Loans and Advances for every *per cent* growth of GDP and an even more marked growth of nearly 15 *per cent* for every *per cent* growth of revenue receipts.

4.6.6 Buoyancy of actual expenditure: For the entire period, 1992-2009, the growth in actual expenditure was lower than the growth of both GDP as well as revenue receipts. For every one *per cent* growth in GDP, actual expenditure grew only by 0.874 *per cent* and for every one *per cent* growth in revenue receipts, actual expenditure grew only by 0.868 *per cent*. In 2007-08, the growth in actual expenditure was much higher than that of GDP growth but lower than growth in revenue receipts. In 2008-09, Actual expenditure growth was 2.18 times the growth of GDP and 17.31 times the growth of revenue receipts, due to various fiscal stimulus programmes.

Table 4.7: Trends in Buoyancy of expenditure with reference to GDP and Revenue receipts

(Per cent)

Type of Expenditure	1992-2009		2007-08		2008-09	
	GDP	Revenue Receipts	GDP	Revenue Receipts	GDP	Revenue Receipts
Plan Expenditure	0.969	0.962	0.710	0.425	2.703	21.432
Non-Plan Expenditure	0.847	0.842	1.501	0.897	2.021	16.024
Revenue Expenditure	0.948	0.942	0.809	0.483	2.958	23.456
Capital Expenditure	0.862	0.856	6.756	4.037	-2.658	-21.080
Loans and Advances	-0.269	-0.267	1.219	0.729	1.883	14.930
Total Expenditure	0.874	0.868	1.299	0.776	2.183	17.309

4.7 Management of Subsidies

In any welfare state, it is not uncommon to provide subsidies/subventions and transfer payments to disadvantaged sections of the society by making provision of merit goods² at subsidized prices. If the impact of the subsidies is in lowering the price of goods or inputs, which in turn makes these products affordable to target groups or/and encourages/facilitates greater production, such subsidies may be welfare-stimulating. Table 4.8 presents a picture of the subsidies, which the government provided explicitly during the VIII, IX, X and XI Plans on major items.

Table 4.8: Explicit Subsidies in the Union Government Budget

(Rupees in crore)

Period	Food	Fertilisers@	Fertilisers#	Petroleum Subsidy**	Others*	Total subsidies	Subsidies (A)	Subsidies (B)
Average Annual Values								
VIII Plan (1992-97)	4976	5375	708	0	2405	13464	1.29	7.59
IX Plan (1997-02)	11199	8247	3942	0	3516	26904	1.40	8.20
X Plan (2002-07)	23941^^	10969	5717	3971	2596	47194	1.47	9.42
XI Plan (2007-12)								
2007-08	31328	19556^	12934	2820	4288	70926	1.50	9.65
2008-09	43751	28048^	48555	2852	6502	129708	2.44	12.84

@ Indicates the subsidies given on indigenous and imported fertilisers (Urea)

indicates the subsidies given as concession to farmers on the sale of decontrolled fertilisers.

* Others include Interest subsidy, grants given to NAFED, compensation for exchange loss, subsidy for Haj Charters etc,

**Does not include petroleum bonds for Rs. 17,263 crore, Rs. 24,122 crore, Rs. 20,554 crore and Rs. 75,942 crore issued during 2005-06, 2006-07, 2007-08 and 2008-09, respectively, to Oil Companies in settlement of their claims under Administered Price Mechanism and towards compensation for under recoveries on account of sale of sensitive petroleum products

^Does not include the Special Bonds for Rs. 7,500 crore and Rs. 20,000 crore issued during 2007-08 and 2008-09, respectively, to Fertiliser Companies as compensation towards fertiliser subsidy.

^^ Does not include the Special Securities for Rs. 16,200 crore issued during 2006-07 to Food Corporation of India..

(A) As a percentage of GDP

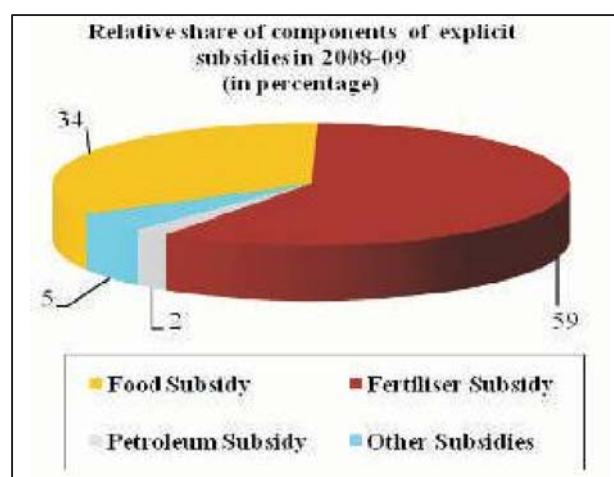
(B) As a percentage of Revenue expenditure

Subsidies are dispensed not only explicitly, i.e. through the budget but also by providing subsidised public services to the people. These kinds of subsidies are generally termed as implicit subsidies. Budgetary support to financial institutions and banks, inadequate returns from its investment in PSUs and inadequate recovery of user charges from the social and economic services that are provided by the government fall in the category of implicit subsidies. Subsidies presented in Table 4.8 pertains to 'explicit subsidies' only, for which allocations are made in Union Budgets of the respective years. These

² Primary education, health and family welfare and public distribution of essential commodities are examples of merit goods.

trends, therefore, present the partial picture as these are exclusive of the extra-budgetary liabilities created by the Union Government by issuing the special bonds/securities to the concerned companies as compensation for under recoveries of their products due to price control imposed by the government in the public interest. If extra-budgetary liabilities created by the Union Government by issuing special bonds/securities are also treated as subsidies, the Union government expenditure on subsidies would increase steeply and likely to present the actual expenditure being incurred on subsidies.

Chart 4.3 Relative share of components of explicit subsidies in 2008-09.



In 2008-09, food subsidies grew by 39.65 *per cent* while the petroleum subsidy grew by 1.13 *per cent* over the previous year. As regards fertiliser subsidies, the concession given on decontrolled fertilisers (Di-Ammonium Phosphate, Muriate of Potash, Single Super Phosphate etc) increased by a phenomenal 275 *per cent* over the year to touch Rs. 48,555 crore, becoming the single largest element of explicit subsidy in the Union Government budget; this is without including the special bonds issued to fertiliser companies. By contrast, the explicit subsidy on imported and indigenous urea grew by a relatively lower 43 *per cent* to Rs. 28,048 crore in 2008-09. Other subsidies grew by 51.6 *per cent*. As a result, there was an overall growth in total subsidies by around 83 *per cent*. Total subsidies as a percentage of GDP increased by almost 1 percentage point in 2008-09. Subsidies as a percentage of revenue expenditure increased by 3.19 percentage points in 2008-09 over 2007-08.

4.8 Quality of expenditure

The availability of better infrastructure in the social, educational and health sector in the country generally reflects the quality of its expenditure. In view of the importance of public expenditure on development heads from the point of view of social and economic development, it is important for the Government to take appropriate expenditure rationalization measures and lay emphasis on provision of core public goods and services which will enhance the welfare of the citizens. Apart from improving the allocation towards development expenditure, particularly in view of the fiscal space being created on account of decline in debt servicing in recent years, the efficiency of expenditure use is also reflected by the ratio of capital expenditure (CE) to total expenditure (and/or GDP). The higher the ratio of CE to actual expenditure, the better would be the quality of expenditure.

Table:4.9 Key Parameters

(Rupees in crore)

Years	GDP	AE*	AE/GDP	DE*	% of DE/AE	SSE*	% of SSE/AE	CE	% of CE/AE
1992-1993	752591	171000	22.72	59635	34.87	4920	2.88	20586	12.04
1993-1994	865805	198841	22.97	69697	35.05	5492	2.76	24650	12.40
1994-1995	1015764	220863	21.74	79193	35.86	6137	2.78	19266	8.72
1995-1996	1191813	240656	20.19	82256	34.18	7964	3.31	17544	7.29
1996-1997	1378617	271110	19.67	89542	33.03	10004	3.69	15704	5.79
1997-1998	1527158	333428	21.83	120324	36.09	12263	3.68	20225	6.07
1998-1999	1751199	372250	21.26	128113	34.42	15161	4.07	25200	6.77
1999-2000	1952036	399577	20.47	138645	34.70	17785	4.45	29023	7.26
2000-2001	2102313	395834	18.83	140804	35.57	18496	4.67	25426	6.42
2001-2002	2278952	445491	19.55	157638	35.39	16284	3.66	31295	7.02
2002-2003	2454561	476310	19.41	175851	36.92	21810	4.58	30497	6.40
2003-2004	2754620	506817	18.40	190651	37.62	24593	4.85	35401	6.98
2004-2005	3149407	549333	17.44	197000	35.86	31115	5.66	53654	9.77
2005-2006	3586744	609249	16.99	246491	40.46	39160	6.43	56119	9.21
2006-2007	4129173	727552	17.62	317385	43.62	46494	6.39	59293	8.15
2007-2008	4723400	863575	18.28	400361	46.36	63246	7.32	116937	13.54
2008-2009	5321753	1102366	20.71	556866	50.52	90288	8.19	77556	7.04

AE = Actual Expenditure including expenditure on loans and advances, DE = Developmental Expenditure (Sum of expenditure on Economic and Social Sector services), SSE = Social Services Expenditure and CE = Capital Expenditure

* Excluding expenditure on loans and advances

Note:- In addition to the expenditure mentioned in Table No. 4.9 , the Union Govt. gives loans and advances for social services purposes.

Table 4.9 indicates that the actual expenditure of the Union Government as a percentage of GDP was above 20 per cent during the period 1992-93 to 1999-2000 (with the sole exception of the year 1996-97, when the ratio was marginally below 20 per cent). In the current decade however, actual expenditure as a proportion of GDP remained below 20 per cent, except for the current year, when it amounted to 20.71 per cent. The proportion of

development expenditure to actual expenditure reached an all time high of 50.52 *per cent* in the current year due to the various fiscal stimulus packages introduced by the Government. Similarly, the ratio of SSE to AE was also the highest in the current year compared to the earlier years of the post-liberalization period. In the case of capital expenditure, however, the early nineties as well as the previous fiscal year (2007-08) had a higher proportion of AE spent of asset creation, but during the current year, there was a significant fall in the share of CE to AE. In general, capital expenditure should be given greater priority by the Government as it leads to productive asset creation, which can in turn increase employment and income opportunities for the people, thus leading to a virtuous cycle of development. Hence, it is more advisable to use borrowed funds to fund capital expenditure and restrict revenue expenditure to revenue receipts.

4.9 Major Flagship Programmes of the Government – Actual expenditure in past three years:

Sarva Siksha Abhiyan (SSA): This programme aims at providing useful and relevant elementary education for all children in the age group of 6 to 14 years by 2010. Table 4.10 indicates that in 2008-09, the actual expenditure under this scheme increased by 10.12 *per cent*, which was much higher than the 5.47 *per cent* growth in actual expenditure in 2007-08 over the previous year. However, the amount of Rs 12,643 crore actually spent for the year was less than the Budget estimate of Rs 13,100 crore by 3.49 *per cent*.

Mid Day Meal Scheme (MDMS): This scheme aims to boost enrollment, attendance, retention and learning levels of primary and upper primary school children and also improve their nutritional status. Table 4.10 indicates that in 2008-09, the actual expenditure under this scheme increased by 11.99 *per cent*, which was marginally higher than the 11.49 *per cent* growth in actual expenditure in 2007-08 over the previous year. However, the amount of Rs. 6,531 crore actually spent for the year was less than the Budget estimate of Rs. 10,176 crore by 36 *per cent*.

National Rural Employment Guarantee Scheme (NREGS): This scheme aims to enhance livelihood security in rural areas by providing at least 100 days of guaranteed wage employment. Table 4.10 indicates that in 2008-09, the actual expenditure under this scheme increased by a phenomenal 136.94 *per cent*, which was much higher than the 45.63 *per cent* growth in actual expenditure in 2007-08 over the previous year. An amount of Rs 29,999 crore was actually spent for the year and this was more than the Budget estimate of Rs 16,000 crore by 87.5 *per cent*.

Rajeev Gandhi Grameen Vidyutikaran Yojana (RGGVY): This is part of the Bharat Nirman Programme and aims at providing rural electrification to rural houses within a period of four years starting from 2005. Table 4.10 indicates that in 2008-09, the actual expenditure under this scheme increased by 40.56 *per cent*, which was higher than the 30.43 *per cent* growth in actual expenditure in 2007-08 over the previous year.

Indira Awas Yojana (IAY) (Rural Housing): This scheme aims at providing assistance for construction of dwelling units and upgrading existing kutcha houses in rural areas. Table 4.10 indicates that in 2008-09, the actual expenditure under this scheme increased by 126.49 *per cent*, which was much higher than the 33.51 *per cent* growth in actual expenditure in 2007-08 over the previous year.

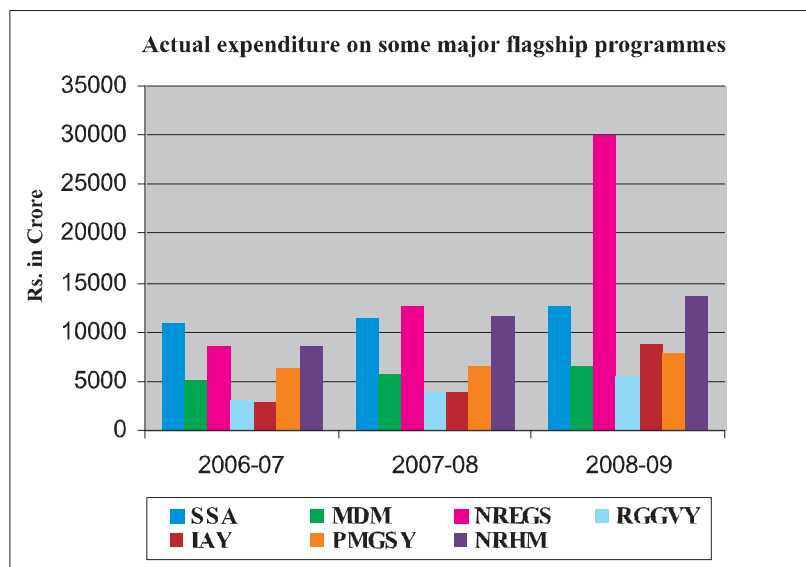
Pradhan Mantri Gram Sadak Yojana (PMGSY): This scheme was launched by the Government of India to provide connectivity to unconnected rural habitations as part of a poverty reduction strategy. Table 4.10 indicates that in 2008-09, the actual expenditure under this scheme increased by 19.69 *per cent*, which was much higher than the 3.67 *per cent* growth in actual expenditure in 2007-08 over the previous year.

National Rural Health Mission (NRHM): The Mission has been launched to provide health care facilities in the rural areas of the entire country with special focus on 18 States. The main aim of NRHM is to provide affordable, accountable, effective and reliable primary health care facilities especially to the poor and vulnerable sections of the population. Table 4.10 indicates that in 2008-09, the actual expenditure under this scheme increased by 17.51 *per cent*, which was much lower than the 35.33 *per cent* growth in actual expenditure in 2007-08 over the previous year.

Table 4.10: Some Major Flagship Programmes of the Government in the past three years– Actual expenditure

<i>(Rupees in crore)</i>				
S.no.	Programme	2006-07	2007-08	2008-09
1	Sarva Siksha Abhiyan (SSA)	10886	11481	12643
2	Mid Day Meal Scheme (MDM)	5231	5832	6531
3	National Rural Employment Guarantee Scheme (NREGS)	8694	12661	29999
4	RGGVY (Rural Electricity)	3000	3913	5500
5	Indira Awas Yojana (IAY)	2910	3885	8799
6	Rural Roads (PMGSY)	6270	6500	7780
7	National Rural Health Mission (NRHM)	8584	11617	13651

Chart 4.4 Actual expenditure on some major flagship programmes during 2006-07, 2007-08 and 2008-09.



4.10 A Comparison of Budget Estimates (as per budget at a glance) and Finance Accounts 2008-09 on Key Expenditure Parameters:

Table-4.11 Budget estimates

(Rupees in crore)

Parameter	Actuals	Budget Estimates# (BE)	Percentage deviation from BE	Estimates of Twelfth Finance Commission (TFC)	Percentage deviation from TFC estimates
1. Non-Plan Expenditure	827065	507498	(+) 63	-	-
A. Non-Plan Revenue expenditure	775450	448352	(+) 73	350132	(+) 121
<i>Of which</i>					
(a) Interest Payments	200580	190807	(+) 4	152234	(+) 32
(b) Subsidies	129906	71431	(+) 82	36157	(+) 259
B. Non-Plan Capital expenditure	49433	59146	(-) 16	-	-
2. Plan Expenditure	275301	243386	(-) 13	-	-
A. Plan Revenue Expenditure	234774	209767	(+) 12	133714	(+) 76
B. Plan Capital Expenditure	28123	33619	(-)16	-	-
3. Total Expenditure (1+2)*	1102366	750884	(+) 47	651716	(+) 69

* Excludes expenditure matched by receipts.

#As per budget at a glance.

Table 4.11 indicates that there has been a 47 *per cent* increase in actual expenditure in the year 2008-09 over what was estimated in the Budget. The deviation was much higher in non-Plan expenditure (63 *per cent*) compared to Plan expenditure (13 *per cent*). Non-Plan capital expenditure was lower by 16 *per cent* than what was estimated in the budget. A look at the estimates of the Twelfth Finance Commission for the year 2008-09 and the actual figures also shows wide variations especially in subsidies (259 *per cent* higher than what was estimated) and in non-Plan revenue expenditure (121 *per cent* higher than what was estimated).

4.11 Since the Government is increasingly relying on debt funds to finance the Budget, it is vital to control revenue expenditure. The need to contain revenue deficit in relation to GDP has been discussed in chapter 5. A proper harmonization of what constitutes revenue expenditure across Central Ministries (as well as the States) is essential to track the growth of this component over the years. A huge increase in subsidies, as has happened in 2008-09, can deter the achievement of the fiscal correction path.