

Chapter 3

APPLICATION OF RESOURCES: EXPENDITURE

3.1 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 applied total resources of Rs. 1395,329 crore that it mobilised during 2003-04 to disbursements as shown in Table 3.1.

Table 3.1: Application of Resources

(Rupees in crore)

I	Resources available		1402,736
II	Application of Resources		1395,329
a.	Repayment of Debt		430,963
	Internal Debt	405,519	
	External Debt	25,444	
b.	Discharge of liabilities on Public Account		391,783
	Small Savings and Provident Fund	266,475	
	Reserve Fund	19,397	
	Deposits and Advances	81,243	
	Others	24,668	
c.	Actual Expenditure		506,817
	Revenue Expenditure	440,086	
	Capital Expenditure	35,401	
	Loans and Advances	31,330	
d.	Share of the States in taxes		65,766
III	Closing Cash Balances		7,407

3.2 The repayments of debt and discharge of public account liabilities (Rs. 822,746 crore), interest payments (Rs. 128,114 crore) and assignment of mandated portion of its gross tax receipts to States (Rs. 65,766 crore) took away nearly 72 per cent of its total resources. Government was, therefore, left with only about 28 per cent of its gross mobilisation to spend on its current activities.

Total Disbursement

3.3 Aggregate disbursement of Union Government has four major components: actual expenditure; mandatory transfer of the proceeds from Union taxes to the States; repayment of debt and disbursements from public accounts. The relative movements across these expenditure groups are indicated in Table 3.2.

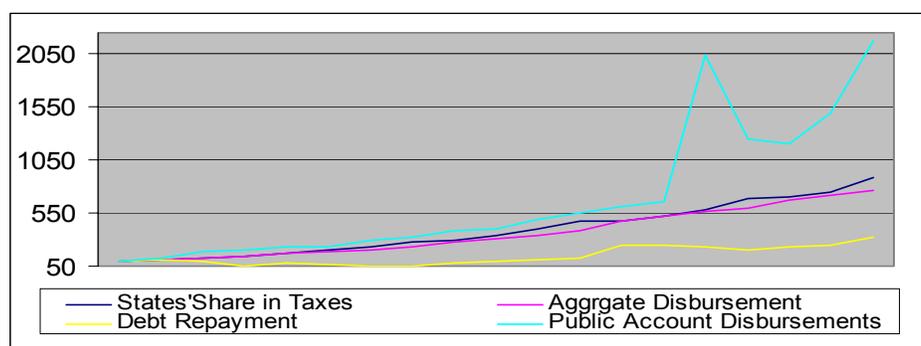
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Table 3.2: Components of Total Disbursement

(Rupees in crore)

Period	Actual Expenditure	States' share in taxes	Repayment of Debt	Disbursement in Public Account	Total Disbursement	GDP (Market Price)
1985-2004	240451	29374	193456	122671	585952	1213863
VIII Plan (1992-1997)	203539	26391	126525	77261	433716	1035315
IX Plan (1997-2002)	374502	44622	310011	207404	936539	1914401
2002-03	476310	56122	339677	270224	1142333	2469564
2003-04	506817	65766	430963	391783	1395329	2772194
Average Annual Rate of Growth (in per cent)						
1985-2004	12.47	12.99	9.18	17.19	11.79	14.14
VIII Plan (1992-1997)	11.87	14.41	20.90	14.32	14.84	16.54
IX Plan (1997-2002)	8.86	11.05	-2.34	22.05	7.00	10.43
2002-03	6.92	6.21	5.58	25.06	10.25	8.21
2003-04	6.40	17.18	26.87	44.98	22.15	12.25

3.4 Total disbursements of the Union Government increased from an average of Rs. 433,716 crore during the VIII Plan (1992-1997) to Rs. 1395,329 crore in the current year. The average annual trend growth during 1985-2004 at 11.79 *per cent* was, however, lower than the rate of growth of GDP, which in the same period averaged 14.14 *per cent*. Average annual growth rates during the VIII and IX Plans were also lower than GDP growth rates. The most recent two years, however, witnessed reversal of this trend and rate of growth of total disbursements exceeded the GDP growth. Trend growth rates of the three components of total disbursements, viz., actual expenditure, states' share in the Union taxes and debt repayment were lower than GDP growth. Disbursements from public account, however, had a trend growth higher than the growth of GDP. If all the four components of total disbursement in 1985-86 are set to 100, the index of the component of repayment of debt would have a value of 321 as against a value of 2170 for disbursements from public account. The other two components, actual expenditure and States' share in Taxes would have a value of 767 and 880 respectively. (Graph 1)



3.5 The relative share of the four components of aggregate disbursement showed wide fluctuation both on year-to-year basis and over Plan periods. (Table 3.3) Actual expenditure (indicating the expenditure on current operations covering revenue and capital expenditure and loans and advances) had a moderate positive rate of shift in its relative share during 1985-2004. Share of actual expenditure, however, reached its peak of 46.94 *per cent* during the VIII Plan (1992-1997) and since then witnessed a decelerating trend relative to other components. Its share declined to 36.32 *per cent* in the current year. Though the long-term trend of relative share of expenditure on debt repayment was negative, during the IX Plan (1997-2002), it had nearly converged to the trend. Share of expenditure on disbursements from public account indicated a long-term trend of 20.94 *per cent* during 1985-2004. Relative share of this component had initially declined to 17.81 *per cent* of aggregate disbursements during the VIII Plan (1992-1997) but later increased to an annual average of 22.15 *per cent* during the IX Plan (1997-2002) and further to 28.08 *per cent* in the current year- 2003-04.

Table 3.3: Disbursement Components: Relative Share

(per cent)

Period	Actual Expenditure	States' Share in Taxes	Repayment of Debt	Disbursement from Public Account
1985-2004	41.04	5.01	33.02	20.94
VIII Plan (1992-1997)	46.94	6.08	29.17	17.81
IX Plan (1997-2002)	39.99	4.76	33.10	22.15
2002-03	41.70	4.91	29.74	23.66
2003-04	36.32	4.71	30.89	28.08
Average Annual Rate of Shift in their Relative Shares				
1985-2004	0.60	1.07	-2.34	4.83

Expenditure: Main Aggregates

3.6 Table 3.4 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 over the Plan periods.

3.7 **Appendix-III-A** presents the figures of actual expenditure and its three sub-components during the last 19 years since 1985-1986. Revenue expenditure continued to be the dominant component of the total expenditure and its share increased from an average of 78.88 *per cent* during the VIII Plan to 86.83 *per cent* in 2003-04. Its relative share had a positive shift rate of 1.47 *per cent per annum* during 1985-2004. As against this, relative share of capital expenditure and loans and advances declined from an average of 21.12 *per cent* during the VIII Plan to 13.17 *per cent* in 2003-04. Revenue expenditure of the Union Government (net of the States' share in taxes) increased at an

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average annual rate of 14.12 *per cent* during 1985-2004. Capital expenditure and loans and advances, however, grew at a lower rate of 7.21 and 6.28 *per cent* respectively during this period. The average annual trend growth of the actual expenditure, which included all these three components, was 12.47 *per cent*. Capital expenditure witnessed a contraction during the VIII Plan (1992-1997) and recorded a negative growth. Average annual growth recovered to 9.22 *per cent* during the IX Plan (1997-2002). In the current year also there was a recovery in capital expenditure and it recorded a growth of 16.08 *per cent*. Loans and advances, however, depicted a different picture with rate of growth turning negative during the IX Plan and also in the recent two years.

Table 3.4: Expenditure Components

(Rupees in crore)

Period	Revenue Expenditure	Capital Expenditure	Loans & Advances	Total Expenditure	Revenue Expenditure/ Total Expenditure	Others/ Total Expenditure
1985-2004	195669	19856	24927	240451	81.38	18.62
VIII Plan (1992-1997)	160541	19550	23447	203539	78.88	21.12
IX Plan (1997-2002)	313109	26234	35159	374502	83.61	16.39
2002-03	409591	30497	36222	476310	85.99	14.01
2003-04	440086	35401	31330	506817	86.83	13.17
Average Annual Rate of Growth						
1985-2004	14.12	7.21	6.28	12.47	1.47	-5.10
VIII Plan (1992-1997)	14.64	-8.44	11.91	11.87	Average Annual Rate of Shift <i>(per cent)</i>	
IX Plan (1997-2002)	10.40	9.22	-3.42	8.86		
2002-03	9.06	-2.55	-6.19	6.92		
2003-04	7.45	16.08	-13.51	6.40		

Expenditure: Plan and Non-Plan

3.8 The Finance Accounts provide a further disaggregation of expenditure into plan and non-plan. Plan expenditure normally relates to incremental development 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, a faster 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 3.5 presents the growth and composition of Plan and non-Plan expenditure of the Union government.

Table 3.5: Components of Expenditure - Plan & Non plan

(Rupees in crore)

Period	Plan				Non Plan			
	Total	Revenue	Capital	Loans	Total	Revenue	Capital	Loans & Advances
1985-2004	55352	31356	9015	14981	185100	164313	10842	9945
VIII Plan (1992-1997)	48190	26749	8380	13061	155348	133792	11170	10386
IX Plan (1997-2002)	78595	47090	10132	21373	295907	266019	16102	13786
2002-03	111471	71570	14643	25258	364839	338021	15854	10964
2003-04	122281	78638	16913	26730	384536	361448	18488	4600
Average Annual Rate of Growth (per cent)								
1985-2004	10.45	14.26	4.44	8.21	13.16	14.09	10.60	1.96
VIII Plan (1992-1997)	7.53	11.48	-4.45	7.28	13.24	15.27	-11.36	18.27
IX Plan (1997-2002)	13.49	14.50	4.56	15.71	7.63	9.69	13.12	-29.30
2002-03	6.36	16.08	30.52	-20.90	7.09	7.68	-21.03	64.08
2003-04	9.70	9.88	15.50	5.83	5.40	6.93	16.61	-58.04

3.9 The share of plan expenditure in total expenditure remained nearly stagnant during 1985-2004. As against a long-term average of 23.02 *per cent* of total expenditure during 1985-2004, its share only moderately improved to 24.13 *per cent* in 2003-04. This seemingly stable share, however, conceals the inter year and inter plan variations at aggregate plan and at its sub component levels. The rate of growth of plan expenditure witnessed an acceleration of nearly six percentage points during the IX Plan (1997-2002), from an average of 7.53 *per cent* per annum during the VIII Plan (1992-1997) to 13.49 *per cent*. This acceleration was across its three sub components. Though the long-term trend growth of non-plan expenditure was relatively higher, deceleration in rate of growth was observed during the IX Plan and the first two years of the X plan.

3.10 Both for plan and non-plan expenditure, the revenue component remained not only the most predominant, but it was also relatively the most buoyant throughout 1985-2004. The share of revenue component in plan expenditure, which averaged 56.65 *per cent* during 1985-2004 increased to 64.31 *per cent* in 2003-04. Its share in non-plan expenditure increased from a trend average of 88.77 *per cent* during 1985-2004 to 94 *per cent* in 2003-04. Plan expenditure of capital nature and plan loans and advances recorded a much lower trend growth relative to its revenue component. Plan capital expenditure, however, gained significant acceleration in 2002-03 and 2003-04.

Buoyancy of Expenditure

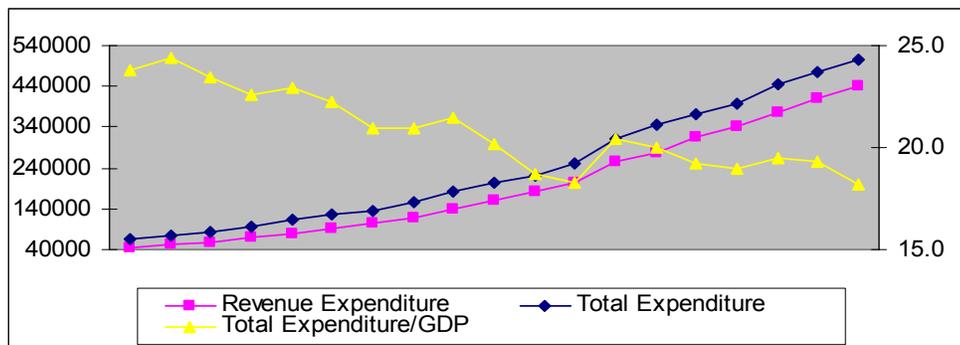
3.11 More important than the growth in nominal expenditure or its absolute volume is the buoyancy of its various components relative to the base. Table 3.6 below provides the buoyancy of various components of expenditure relative to revenue receipts and GDP. Relatively high buoyancy of revenue

expenditure compared with total expenditure both with regard to GDP and revenue receipts indicated that moderation in rate of growth of total expenditure was achieved largely by squeezing capital expenditure and/ or loans and advances. Buoyancy of capital expenditure with GDP and revenue receipt has been close to 0.5 as against the buoyancy of one or above for revenue expenditure. Similarly, buoyancy of the non plan expenditure both with regard to GDP and revenue receipts has been higher relative to the buoyancy of plan expenditure.

Table 3.6: Buoyancy of Expenditure- (1985-2004)

Type of expenditure	With GDP	With Revenue Receipt
Plan Expenditure	0.739	0.796
Non-Plan Expenditure	0.931	1.003
Revenue Expenditure	0.999	1.076
Capital Expenditure	0.510	0.550
Loans and Advances	0.444	0.479
Total Expenditure	0.882	0.950

3.12 Lower buoyancy of total expenditure with respect to GDP is also reflected in deceleration in the ratio of the total expenditure to GDP. Overall expenditure- GDP ratio declined from a peak of 24.4 *per cent* in 1986-87 to 18.3 *per cent* in 2003-04. The total expenditure–GDP ratio also had a negative annual shift rate of 1.5 during 1985-2004. If the revenue and total expenditure and revenue receipts in 1985-86 are set to 100, the index of these parameters in 2003-04 would be 1014, 767 and 896 respectively. This clearly indicates that the revenue expenditure during this period grew faster than the revenue receipts and also relative to the total expenditure. Absolute figures of revenue and total expenditure along with the total expenditure GDP ratio are depicted in the graph below.



Revenue Expenditure: Trend and Components

3.13 A significant part of revenue expenditure is mostly committed. Interest payments, pensions, salary & wages and most of the grants-in-aid to States/Union Territories fall in this category.

Application of Resources: Expenditure

3.14 Table 3.7 gives the expenditure incurred on various components of revenue expenditure in terms of its major object-wise classification. All the components of revenue expenditure had a double-digit trend growth during 1985-2004. Average annual rate of growth of these components, except grants to States and pensions, was also relatively higher during the VIII Plan (1992-1997). Deceleration in growth rates during the IX Plan (1997-2002) was particularly pronounced for salary & wages and other revenue expenditure. Rate of growth of interest payments also witnessed moderate deceleration during IX Plan. In the first two years of the X Plan (2002-03 and 2003-04), rate of growth of interest payments declined further, largely due to a general decline in interest rates for the internal loans. Expenditure on salary and wages of Central Government employees, including employees in defence and departmental undertakings, after recording a growth of 33.84 *per cent* in 1997-98, consequent upon the implementation of Fifth Pay Commission's recommendation, tapered off. Notwithstanding the wage increases in the post Pay Commission years, the trend growth of this component of revenue expenditure was lower than the GDP growth.

Table 3.7: Revenue Expenditure and its Components

(Rupees in crore)

Period	Revenue Expenditure	Salary	Interest Payments	Pensions*	Grants to States	Others
1985-2004	195669	25924	54617	8720	22394	84014
VIII Plan (1992-1997)	160541	21620	44280	5661	20630	68351
IX Plan (1997-2002)	313109	42783	91102	15852	32423	130949
2002-03	409591	45696	124573	19085	42136	178101
2003-04	440086	47612	128114	20702	47320	196338
Average Annual Rate of Growth (per cent)						
1985-2004	14.12	11.93	17.57	17.03	11.30	13.52
VIII Plan (1992-1997)	14.64	12.10	17.44	15.65	5.60	16.55
IX Plan (1997-2002)	10.40	5.25	14.90	17.07	11.06	8.34
2002-03	9.06	2.53	9.11	0.80	1.55	13.87
2003-04	7.45	4.19	2.84	8.47	12.30	10.24

* includes Miscellaneous General Services

Note:- The expenditure on salary in this and other tables is as given by the Pay Research Unit of the Department of Expenditure for the Civilian Staff and as indicated for the defence non civilian persons by the Defence Department. For 2002-2003 and 2003-04, the salary expenditure for the Civilian staff is based on Revised Estimates as given in the Budget as actual figures are still awaited.

3.15 It is necessary to study the composition of revenue expenditure in terms of committed and other liabilities and their relation over time with the revenue expenditure and revenue receipts. Table 3.8 provides these details. Committed expenditure here includes interest payments, salary and wages, pensions and miscellaneous expenditure.

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Table 3.8: Share of Committed Revenue Expenditure to Revenue Expenditure, Revenue Receipts and Non-Debt Receipts

(per cent)

Period	Revenue Expenditure			Revenue Receipts			Non-Debt Receipts		
	Interest	Others	Total	Interest	Others	Total	Interest	Others	Total
1985-2004	27.91	17.71	45.62	35.73	22.67	58.40	32.35	20.52	52.87
VIII Plan (1992-1997)	27.58	16.99	44.57	33.65	20.73	54.38	31.41	19.35	50.76
IX Plan (1997-2002)	29.10	18.73	47.83	38.38	24.70	63.08	35.75	23.01	58.76
2002-03	30.41	15.82	46.23	41.55	21.61	63.16	36.45	18.96	55.41
2003-04	29.11	15.52	44.63	37.78	20.15	57.93	30.08	16.04	46.12
Average Annual Rate of Shift in their Relative Shares									
1985-2004	3.02	-0.92	1.29	3.91	-0.06	2.16	3.74	-0.23	1.99

Note: Both revenue receipts and revenue expenditure are net of States' share in various taxes.

3.16 Total committed expenditure as defined above relative to revenue expenditure, revenue receipts and non-debt receipts (revenue receipts and non-debt capital receipts combined) had a positive shift rate indicating a general increase in their relative shares. But this positive shift rate in committed expenditure relative to the three parameters was due to the interest payments. Staff related expenses, which included salary & wages and pension had a negative shift rate in their relative shares.

Management of Subsidies

3.17 In any welfare state, it is not uncommon to provide subsidies/subventions and transfer payments to disadvantaged sections of the society and for merit goods¹. 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 3.9 presents a picture of the subsidies, which the government provided explicitly during the VIII and IX Plans and in the last two years on major items.

Table 3.9: Explicit Subsidies in the Union Government Budget

(Rupees in crore)

Period	Food and Sugar	Fertilizers	Export Promotion	Others*	Total subsidies	Subsidies ^(A)	Subsidies ^(B)
Average Annual Values							
VIII Plan (1992-1997)	4976	6088	571	1834	13469	1.32	8.55
IX Plan (1997-2002)	11199	11376	552	2964	26091	1.36	8.33
2002-03	24176	7790	493	11549	44008	1.80	10.74
2003-04	25160	8521	712	10575	44968	1.62	10.22

(A) As a percentage of GDP

(B) As a percentage of Revenue Expenditure

* Others include Petroleum subsidy, Interest subsidy, compensation for exchange loss etc.

¹ Primary education, health and family welfare and public distribution of essential commodities are examples of merit goods.

3.18 In absolute terms, explicit subsidies increased from an average of Rs. 13,469 crore during the VIII Plan (1992-1997) to an average of Rs. 26,091 crore during the IX Plan (1997-2002). Relative to GDP, subsidies marginally increased from 1.32 *per cent* during VIII Plan (1992-97) to an average of 1.36 *per cent* during the IX Plan (1997-2002). There was, however, an upsurge in subsidy payments in 2002-03 and an increase of over 38 *per cent* was recorded. This was largely due to an increase in subsidy on food and fertilizers. In the current year, while overall subsidies increased by little over two *per cent*, subsidy on food and fertilizers continued to grow faster. Subsidies and committed expenditure put together reached 55 *per cent* of total revenue expenditure and over 70 *per cent* of revenue receipt. As *per cent* to GDP, these expenditures together were 8.71 *per cent* of GDP.

3.19 In addition to explicit subsidies, the Union Government also bears expenditure in the nature of 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. Table 3.10 below gives the return on investment and outstanding advances and user charges as percentage to revenue expenditure for social and economic services.

Table 3.10: Return on Investment and Advances and Recovery of User Charges (as a percentage of revenue expenditure for Social and Economic Services)

Period	Advances	Investment	Social Services	Economic Services
1987-2004	12.84	4.88	4.87	53.48
VIII Plan (1992-1997)	11.23	2.35	9.57	57.22
IX Plan (1997-2002)	14.15	5.30	3.59	55.80
2002-03	15.11	8.83	2.03	43.07
2003-04	15.91	9.84	1.91	45.27
Average Annual Rate of change in returns				
1987-2004	4.71	12.58	-11.32	-1.06

(per cent)

(Recovery of user charges is revenue receipts from social and economic services as per cent to their revenue expenditure)

3.20 Average rate of return on government's investment (based on opening stock of investment) increased from an average of 2.35 *per cent* during the VIII Plan (1992-1997) to 9.84 *per cent* in 2003-04. This return is, however, based on book value of investment and not the net worth or market capitalization. Average rate of interest on its advances (opening balances) also increased from 11.23 *per cent* to 15.91 *per cent* during the same period. Though there was no implicit subsidy on government's financial intermediation as average rate of interest received exceeded the interest cost on its borrowings, trend rate of return on government's investment at 4.88 *per cent* fell significantly short of the rate of interest (8.28 *per cent*) on

government's borrowings. However, the rate of return on investment witnessed a significant acceleration and had a positive shift rate of 12.58 *per cent* during 1987-2004. At the current levels these exceeded the cost of raising resources. In social and economic services, recovery rates (revenue receipt/revenue expenditure) witnessed a decelerating trend. In economic services, which largely comprised earnings from railways, revenue receipts could meet only 45 *per cent* of revenue expenditure in 2003-04. Recovery rates also had a negative shift rate and had declined from 57.22 *per cent* during the VIII Plan (1992-1997) to 43-45 *per cent* in the recent two years. Deceleration in recovery of user charges was particularly sharp for social services and it declined from an average of 9.57 *per cent* during the VIII Plan (1992-1997) to 1.91 *per cent* in 2003-04. In both the social and economic services, revenue receipts fell short of the revenue expenditure, which is akin to the operating expenses. There was, therefore, no return on capital at charge or cumulative capital expenditure incurred on creation of this infrastructure.

Expenditure on Social and Economic Services

3.21 In terms of activities, overall expenditure could be considered as being composed of general services (which include administration and defence), social services and economic services. The latter two categories are also considered developmental in nature. Table 3.11 below indicates the trends in expenditure on social services and its various components.

Table 3.11: Expenditure (Revenue and Capital) on Social services - Trends and Composition

(Rupees in crore)

Period	Social Services	Education	Health	Water Supply	Information	Labour Welfare	Others
1987-2004	10550	4369	1485	1819	795	532	1550
VIII Plan (1992-1997)	6903	2696	901	887	986	465	968
IX Plan (1997-2002)	15998	6457	2227	3217	568	768	2761
2002-03	21810	9846	3164	4044	1170	764	2822
2003-04	24593	10965	3907	4669	1219	823	3010
Average Annual Growth Rate (per cent)							
1987-2004	15.17	15.30	15.84	24.10	0.00	10.10	19.01
VIII Plan (1992-1997)	19.61	16.02	11.39	35.64	12.93	9.52	36.63
IX Plan (1997-2002)	7.96	11.38	19.15	12.90	0.00	10.68	25.93
2002-03	33.94	30.10	7.04	1.46	0.00	-9.34	-30.23
2003-04	12.76	11.37	23.48	15.45	4.19	7.72	6.66

Note: Due to change in major heads, etc., expenditure on social services (Education, Sports, Art and Culture, Health and Family Welfare, Water Supply, Sanitation and Housing, Information and Broadcasting, Labour and Labour Welfare, others.) in 1985-87 has been omitted.

3.22 The overall expenditure of the Union Government on social services increased from an average of Rs. 6903 crore during the VIII Plan (1992-1997) to Rs. 24,593 crore in 2003-04. The long-term trend rate of growth in expenditure on social services was 15.17 *per cent* (1987-2004). There, however, was a sharp deceleration in these rates during the IX Plan and compared to the earlier plan, the squeeze was nearly 12 percentage points (from average annual growth of 19.61 *per cent* during the VIII Plan to an average of 7.96 *per cent* during the IX Plan). Within social services, expenditures on education, health and water supply and sanitation (including housing and urban development) were relatively buoyant. In the current year also, expenditure on health and water supply showed higher buoyancy.

3.23 The expenditure on components of economic services is indicated in Table 3.12 below.

Table 3.12: Expenditure (Revenue and Capital) on Economic Services- Trends and Composition

(Rupees in crore)

Period	Economic Services	Agriculture & Allied	Rural Development	Energy	Industry & Minerals	Transport	Posts	Telecom	Others
1987-2004	85893	13892	4110	6317	9241	31815	2577	7737	10204
VIII Plan (1992-1997)	69161	9665	3263	3061	7229	24246	1598	8417	11682
IX Plan (1997-2002)	121107	20048	5146	10158	12294	44714	3937	13554	11256
2002-03	154041	31101	11737	12118	13965	60415	5416	3486	15803
2003-04	166058	32911	12174	13664	16761	64379	5681	3102	17387
Average Annual Growth Rate (Per cent)									
1987-2004	11.72	15.95	25.09	11.25	7.68	11.90	14.15	6.61	7.59
VIII Plan (1992-1997)	9.35	14.89	81.37	4.36	2.17	9.22	13.62	26.75	-9.69
IX Plan (1997-2002)	6.36	18.28	2.79	1.23	8.78	14.26	19.11	-27.41	-5.55
2002-03	8.98	9.92	89.64	-28.90	4.40	5.69	4.82	-6.77	52.20
2003-04	7.80	5.82	3.72	12.76	20.02	6.56	4.89	-11.02	10.02

3.24 The overall expenditure on economic services increased from an average of Rs. 69,161 crore during the VIII Plan (1992-1997) to Rs. 166,058 crore in 2003-04. The annual trend rate of growth of expenditure on economic services was 11.72 *per cent* during 1987-2004. As in the case of social services, average annual growth rates witnessed deceleration during the IX Plan (1997-2002). This deceleration of 3-percentage points was relatively moderate for economic services. There were wide inter-year and inter services variations in the growth rates. Expenditure on agriculture and allied activities (including irrigation and flood control), rural development and postal services were relatively buoyant. However, in case of rural development, rate of growth of expenditure sharply declined from an average of 81.37 *per cent* during the VIII Plan (1992-1997) to an average of 2.79 *per cent* during the IX Plan (1997-2002). The growth of expenditure after being buoyant in 2001-02 and 2002-03 further slipped to 3.72 *per cent* in the current year. In energy

sector also, significant deceleration in growth was witnessed during the IX Plan, though a pick up in current year is visible after a negative growth in 2002-03. Negative growth in expenditure on telecommunication during the IX Plan and in the recent two years was expected consequent upon the corporatization of the operations of the department.

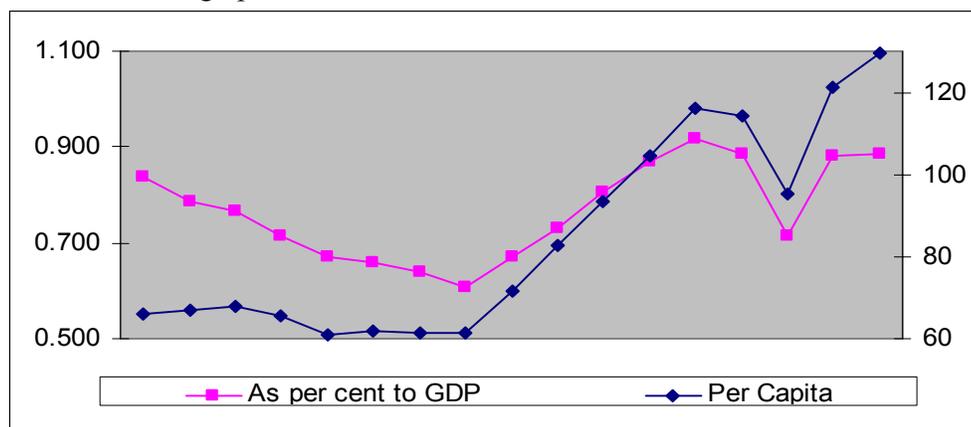
3.25 It is more important to look at the expenditure on social and economic services relative to GDP as that indicates the relative priorities assigned to these sectors and within these broad groups, priority given to a specific sector. Expenditure of the Union Government on social and economic services averaged 7.30 *per cent* of GDP during 1987-2004. It, however, declined to 6.88 *per cent* of GDP in 2003-04. Expenditure on selected economic and social services relative to GDP is indicated in Table 3.13.

**Table 3.13: Expenditure on Social and Economic Services (Revenue and Capital)
Relative to GDP**

Period	Social Services				Economic Services				
	Total	Education	Health	Others	Total	Agriculture & Rural Development	Energy	Transport	Others
1987-2004	0.80	0.33	0.11	0.36	6.50	1.36	0.48	2.41	2.25
VIII Plan (1992-1997)	0.67	0.26	0.09	0.32	6.68	1.25	0.30	2.34	2.79
IX Plan (1997-2002)	0.84	0.34	0.12	0.38	6.33	1.32	0.53	2.34	2.14
2002-03	0.88	0.40	0.13	0.36	6.24	1.73	0.49	2.45	1.57
2003-04	0.89	0.40	0.14	0.35	5.99	1.63	0.49	2.32	1.55
Average Annual Rate of Shift in Relative Share									
1987-2004	1.15	1.27	1.74	0.73	-1.88	2.82	-2.29	-1.72	-4.67

(per cent)

3.26 Expenditure on social services (excluding loans and advances in this sector) had a positive shift rate in their share relative to GDP during 1987-2004. Positive shift rate was also observed for two most important social services- education and health. However, despite a positive shift rate, overall allocation to social sectors was less than one *per cent* of GDP. Expenditure on social services relative to GDP and on per capita basis at 1993-94 prices is indicated in the graph below:



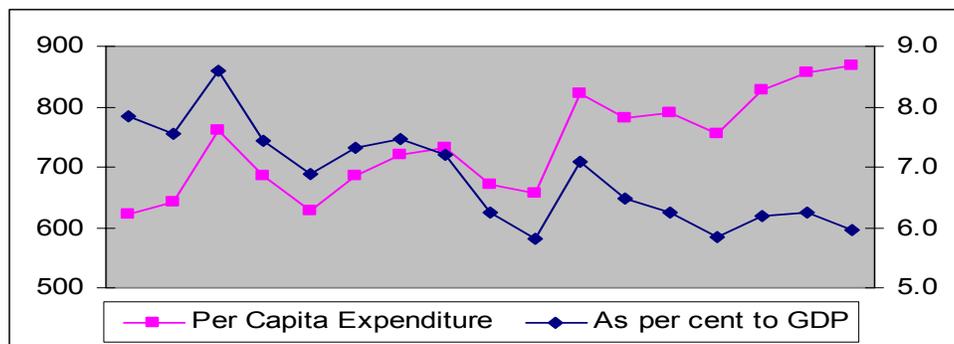
3.27 Expenditure on economic services had a negative rate of shift in their share relative to GDP. Overall share of expenditure on economic services relative to GDP declined from an average of 6.68 *per cent* of GDP during the VIII Plan (1992-1997) to 5.99 in 2003-04. Within economic services, transport, energy and other economic services had a negative rate of shift in their relative share. In case of agriculture and rural development, the share of their combined expenditure improved from an average of 1.25 *per cent* of GDP during the VIII Plan (1992-1997) to 1.63 in 2003-04.

3.28 Another way of looking at the expenditure on social and economic services is to analyse these in terms of expenditure per person. Table 3.14 below presents per capita expenditure on selected social and economic services at 1993-94 prices. To neutralise the inflationary impact and to make the expenditure series comparable over years, expenditure on social and economic services has been deflated by GDP deflator.

Table 3.14: Per Capita Expenditure on Social and Economic Services (Revenue and Capital) (In Rupees at 1993-94 prices)

Period	Social Services				Economic Services				
	Total	Educ- tion	Health	Others	Total	Agriculture & Rural Development	Energy	Trans- port	Others
1987-2004	85	35	12	38	735	141	54	271	270
VIII Plan (1992-1997)	68	27	9	32	693	126	31	243	293
IX Plan (1997-2002)	105	42	14	48	795	164	68	291	272
2002-03	121	55	18	49	855	238	67	335	215
2003-04	129	58	21	51	874	237	72	339	226
Average Annual Rate of Increase (<i>per cent</i>)									
1987-2004	4.92	5.04	5.53	4.48	1.78	6.65	1.35	1.94	-1.12

3.29 Per capita expenditure of the Union Government on social services at 1993-94 prices increased from an average of Rs. 68 during the VIII Plan (1992-1997) to Rs. 129 in 2003-04. Average annual rate of growth in per capita expenditure on social services was 4.92 *per cent* during 1987-2004.



3.30 In the case of economic services, per capita expenditure at constant 1993-94 prices increased from an average of Rs. 693 during the VIII Plan (1992-1997) to Rs. 874 in 2003-04. Per capita expenditure on economic services and expenditure on these services relative to GDP is also depicted in the graph above. Average annual trend rate of growth of per capita expenditure during 1987-2004 was 1.78 *per cent*. The expenditure on agriculture and rural development had the highest growth of 6.65 *per cent*, while energy and transport sectors recorded only a moderate growth.