

## Chapter 3

### APPLICATION OF RESOURCES: EXPENDITURE

Total disbursements of the Union Government increased at an average annual trend growth rate of 12.34 per cent during 1985-2006. Aggregate disbursement of Union Government has four major components: actual expenditure inclusive of the grants in aid to the States; mandatory transfer of the proceeds from Union taxes to the States; repayment of debt and disbursements from public accounts. The relative share of the four components of aggregate disbursement showed wide fluctuation both on year-to-year basis and over Plan periods. The share of actual expenditure has gradually declined while the shares of other three components exhibited a mixed trend over the period 1985-2006.

Revenue expenditure continued to be the dominant component of the total expenditure and its share increased consistently from an average of 78.88 per cent during the VIII Plan to an average of 86.19 per cent during the first four years of X Plan (2002-07) after reaching the peak level of 88.74 per cent during the current year. A significant part of revenue expenditure is mostly committed, i.e. that part of the expenditure over which the Government has very little discretion. Interest payments, pensions, salary & wages and most of the grants-in-aid to States/Union Territories fall in this category. Explicit subsidies is another component of revenue expenditure which have consistently increased from an average of Rs. 13,469 crore during the VIII Plan (1992-1997) to an average of Rs. 44596 crore during the first four years of X Plan (2002-07). The subsidies on food and fertilizers together constituted more than 92 per cent of total expenditure on subsidies during the current year. The total subsidy expenditure during the current year at Rs. 45068 crore is above the level of Rs. 38,530 crore recommended by the TFC for the year.

Against these trends in revenue expenditure, relative share of capital expenditure and loans and advances declined from an average of 21.12 per cent during the VIII Plan to an average of 13.81 per cent during the first four years of X Plan (2002-07) with lowest share at 11.26 per cent during the current year. The steep decline in the Loans and Advances during 2005-06 is on account of acceptance of TFC recommendation regarding disintermediation of Central Government in borrowings by State Governments to finance their State Plans. Further analysis of trends in government expenditure reveal that non plan expenditure far outweighs the plan expenditure and revenue expenditure completely overshadows capital expenditure. Buoyancy of capital expenditure with GDP and revenue receipt has been round 0.6 during 1985-2006 as against the buoyancy of close to one 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.

In terms of activities, overall expenditure of the Government is composed of general services, social services and economic services. The overall expenditure on social and economic services has increased at the long term rate of growth of 15.48 and 11.25 per cent respectively during 1987-2006. Expenditure on social and economic services was buoyant particularly during the X Plan (2002-07) period. The trends in pattern of Union Government's expenditure during the X Plan period reveal increased spending on areas such as rural employment, education, health and drinking water supply and sanitation. Besides, expenditure on infrastructure facilities like rural roads, housing and rural electrification have also gone up during the last few years.

**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. 2292,037 crore that it mobilised during 2005-06 to disbursements as shown in Table 3.1.

**Table 3.1: Application of Resources**

			<i>(Rupees in crore)</i>
I	Resources available		2292,037
II	Application of Resources		2226,549
	a.	<b>Repayment of Debt</b>	1115,210
		Internal Debt	1108,212
		External Debt	6,998
	b.	<b>Discharge of liabilities on Public Account</b>	407,255
		Small Savings and Provident Fund	278,943
		Reserve Fund	31,822
		Deposits and Advances	63,872
		Others	32,618
	c.	<b>Actual Expenditure</b>	609249
		Revenue Expenditure	540,637
		Capital Expenditure	56,119
		Loans and Advances	12,493
	d.	<b>Share of the States in taxes</b>	94,385
	3	Appropriation to Contingency Fund	450
II	Closing Cash Balances		65488

**3.2** The repayments of debt and discharge of public account liabilities (Rs. 1522,465 crore), interest payments (Rs. 141,375 crore), assignment of mandated portion of its gross tax receipts to States (Rs. 94,385 crore), grants in aid to states (Rs. 72,367 crore) and closing cash balances (Rs. 65,488 crore) took away nearly 83 *per cent* of its total resources. Government was, therefore, left with only about 17 *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 inclusive of the grants in aid to the States; 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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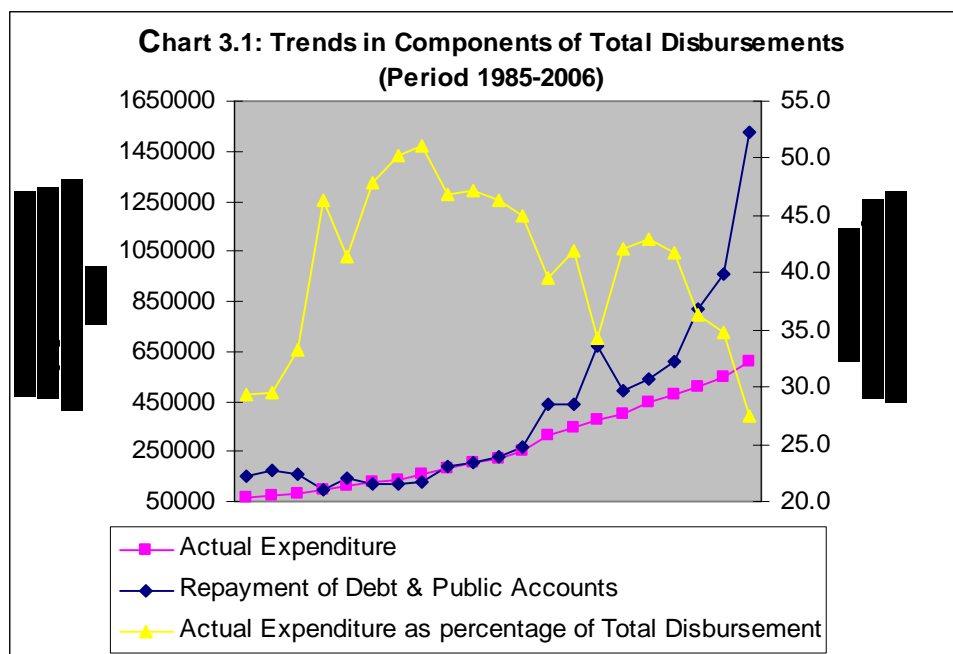
**Table 3.2: Components of Total Disbursement**

*(Rupees in crore)*

Period	Actual Expenditure	States' share in taxes	Repayment of Debt	Disbursement in Public Account	Total Disbursement	GDP (Market Price)
1985-2006	272721	34814	254626	149447	711608	1413723
VIII Plan (1992-1997)	203539	26391	126525	77261	433716	1035315
IX Plan (1997-2002)	374502	44622	310011	207404	936539	1914401
<b>X Plan (2002-07)</b>						
2002-03	476310	56122	339677	270224	1142333	2469564
2003-04	506817	65766	430963	391783	1395329	2760025
2004-05	549333	78595	556269	400388	1584585	3105512
2005-06	609249	94385	1115210	407255	2226099	3531451
<b>Average Annual Rate of Growth (in per cent)</b>						
1985-2006	12.02	12.99	11.01	16.95	12.34	13.72
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
<b>X Plan (2002-07)</b>						
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	11.76
2004-05	8.39	19.51	29.08	2.20	13.56	12.52
2005-06	10.91	20.09	100.48	1.71	40.48	13.72

**3.4** Total disbursements of the Union Government consistently increased from an average of Rs. 433,716 crore during the VIII Plan (1992-1997) to Rs. 2226,099 crore in the current year. The average annual trend growth during 1985-2006 at 12.34 *per cent* was lower than the rate of growth of GDP, which in the same period averaged 13.72 *per cent*. Average annual growth rates of expenditure during the VIII and IX Plans were also lower than GDP growth rates. Tenth Plan (2002-07) so far has witnessed reversal of this trend and rate of growth of total disbursements exceeded the GDP growth. The average annual growth rate of actual expenditure has always remained lower than the GDP growth rates while in case of disbursements from Public Account it was higher with an exception during VIII Plan and last two years of X Plan when this component indicated a marginal growth at an average rate of about 2 *per cent* only. The growth rates in other two components vis-à-vis GDP growth rate indicated the mixed trends during the period. Except in case of disbursements from the Public Account, growth rates in other components of total disbursements indicated an upsurge during the last two years of the Tenth Plan, acceleration being relatively higher during the current year. 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 836 as against a value of 2256 for disbursements from public account. The other two components, actual expenditure and States' share in Taxes would have a value of 921 and 1263 respectively. Chart 3.1 presents the graphical presentation of

trends in various components of total disbursement during the period 1985-2006.



**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 as detailed in the table below:

**Table 3.3: Disbursement Components: Relative Share**

(Per cent)

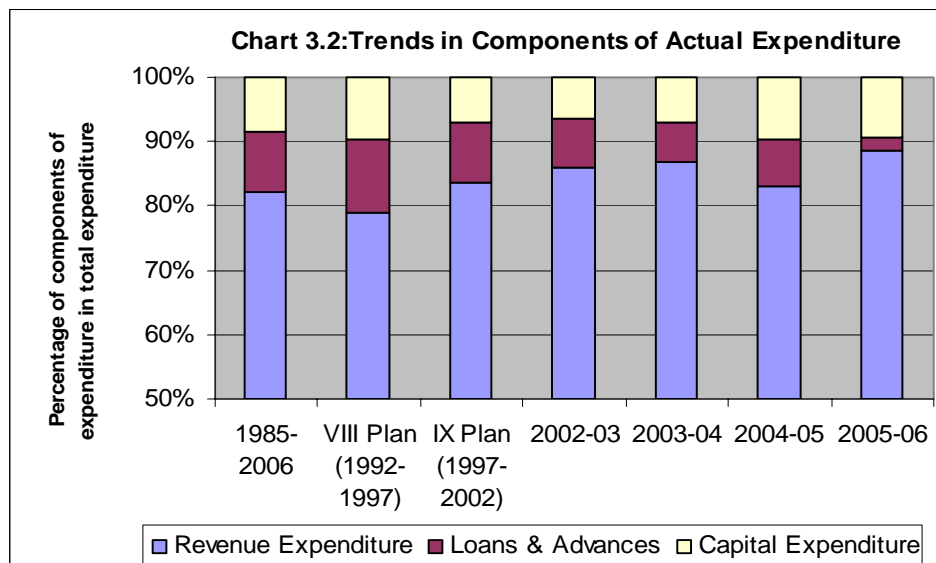
Period	Actual Expenditure	States' Share in Taxes	Repayment of Debt	Disbursement from Public Account
1985-2006	38.32	4.89	35.78	21.00
VIII Plan (1992-1997)	46.94	6.08	29.17	17.81
IX Plan (1997-2002)	39.99	4.76	33.10	22.15
<b>X Plan (2002-07)</b>				
2002-03	41.70	4.91	29.74	23.66
2003-04	36.32	4.71	30.89	28.08
2004-05	34.67	4.96	35.11	25.27
2005-06	27.37	4.24	50.10	18.29
<b>Average Annual Rate of Shift in their Relative Shares</b>				
(1985-2006)	-0.29	0.58	-1.19	4.10

**3.6** The share of actual expenditure (indicating the expenditure on current operations covering revenue and capital expenditure and loans and advances) witnessed a decelerating trend during the IX Plan (1997-02) from its peak level of 46.94 per cent during the VIII Plan (1992-1997). During X Plan (2002-07), first year (2002-03) indicated a slight increase in the relative share of actual expenditure but thereafter deceleration trend continued and its share

declined to 27.37 *per cent* in the current year. The deceleration trend after the VIII Plan is also reflected in its negative shift rate during 1985-2006. The relative share of expenditure on debt repayment exhibited the mixed trends during the periods covering VIII Plan (1992-97), IX Plan (1997-2002) and X Plan (2002-07) which finally converged into a negative annual average rate of shift in its long term trend during 1985-2006. Disbursements from public account indicated a long-term trend share of 21 *per cent* during 1985-2006. Relative share of this component was 17.81 *per cent* of aggregate disbursements during the VIII Plan (1992-1997) which later increased to an annual average of 22.15 *per cent* during the IX Plan (1997-2002) 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 to 25.27 *per cent* in 2004-05 and further to 18.29 *per cent* in the current year. Despite the decline in its share during the last two years, this component had a significant positive rate of shift of 4.10 *per cent* during 1985-2006 although it indicated a declining trend.

### Expenditure: Main Aggregates

3.7 Table 3.4 and Chart 3.2 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.



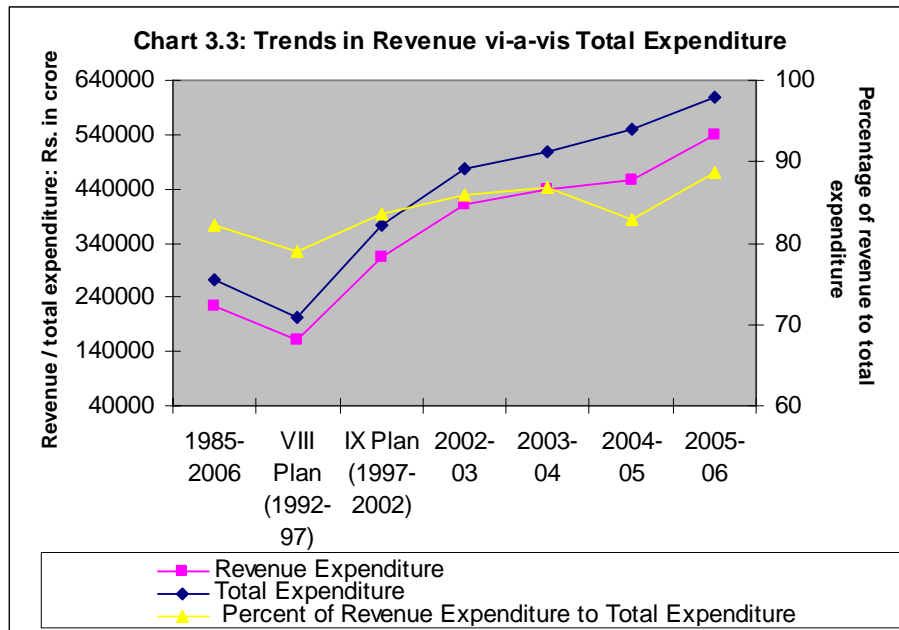
Application of Resources: Expenditure

Table 3.4: Expenditure Components

(Rupees in crore)

Period	Revenue Expenditure	Capital Expenditure	Loans & Advances	Total Expenditure	Revenue Expenditure/ Total Exp	Others/ Total Expenditure		
1985-2006	224472	23192	25057	272721	82.31	17.69		
VIII Plan (1992-1997)	160541	19550	23447	203539	78.88	21.12		
IX Plan (1997-2002)	313109	26234	35159	374502	83.61	16.39		
<b>X Plan (2002-07)</b>								
2002-03	409591	30497	36222	476310	85.99	14.01		
2003-04	440086	35401	31330	506817	86.83	13.17		
2004-05	455571	53654	40108	549333	82.93	17.07		
2005-06	540637	56119	12493	609249	88.74	11.26		
<b>Average Annual Rate of Growth</b>								
1985-2006	13.52	8.18	4.43	12.02	1.34	-4.83		
VIII Plan (1992-1997)	14.64	-8.44	11.91	11.87	Average Annual Rate of Shift (per cent)			
IX Plan (1997-2002)	10.40	9.22	-3.42	8.86				
<b>X Plan (2002-07)</b>								
2002-03	9.06	-2.55	-6.19	6.92				
2003-04	7.45	16.08	-13.51	6.40				
2004-05	3.52	51.56	28.02	8.39				
2005-06	18.67	4.59	-68.85	10.91				

**3.8** Appendix-III-A presents the figures of actual expenditure and its three sub-components during the period from 1985-86 to 2005-06. Revenue expenditure continued to be the dominant component of the total expenditure (Chart 3.3) and its share increased from an average of 78.88 *per cent* during the VIII Plan to 83.61 *per cent* in IX Plan (1997-2002) and further to an average of 86.12 *per cent* during the first four years of X Plan (2002-07) after reaching the peak level of 88.74 *per cent* during the current year. An increase of 18.67 *per cent* in revenue expenditure amounting to Rs. 85,066 crore during 2005-06 over the previous year was reported largely on account of enhanced expenditure on economic services by Rs. 39894 crore (27.12 *per cent*), grants in aid to State and UT Governments by Rs. 19804 crore (36.76 *per cent*) and on general services by Rs. 17064 crore (7.66 *per cent*). The revenue expenditure during 2005-06 was 3.42 *per cent* higher than budget estimates which itself was 35.40 *per cent* more than the normative assessment made by TFC for Central Government for the year after incorporating the debt relief recommended for the States. Its relative share had a positive shift rate of 1.34 *per cent per annum* during 1985-2006.



**3.9** Against these trends in revenue expenditure, relative share of capital expenditure and loans and advances declined from an average of 21.12 per cent during the VIII Plan to 16.39 per cent in IX Plan (1997-2002) and further to an average of 13.88 per cent during the first four years of X Plan (2002-07) with lowest share at 11.26 per cent during the current year. The capital expenditure during the current year was less than its budget estimates of Rs. 62537 crore which itself was fixed at much below the level projected by TFC for 2005-06 to move ahead to attain the targeted level of 3.5 per cent of GDP by the terminal year (2009-10) of its award period. Revenue expenditure of the Union Government (net of the States' share in taxes) increased at an average annual rate of 13.52 per cent during 1985-2006. Capital expenditure and loans and advances, however, grew at a lower rate of 8.18 and 4.43 per cent respectively during this period. The average annual trend growth of the actual expenditure, which included all these three components, was 12.02 per cent during the period 1985-2006.

**3.10** 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). The first year of the X Plan (2002-07) however again witnessed a contraction in capital expenditure but there was a substantial step up during the next two years and the large base built up during 2004-05 resulted in a decline in growth rate in the current year. Loans and advances, however, depicted a different picture with the rate of growth turning negative during the IX Plan and indicating further negative trend during the X Plan (2002-07) period so far. The steep decline in the Loans and Advances during 2005-06 is on account of acceptance of TFC 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. This mechanism has been put in place from the year 2005-06 on the basis of recommendations of TFC.

### Revenue Expenditure: Trend and Components

**3.11** Table 3.5 below gives the expenditure incurred on various components of revenue expenditure in terms of its major object-wise classification.

**Table 3.5: Revenue Expenditure and its Components**

*(Rupees in crore)*

Period	Revenue Expenditure	Pay & Allowances**	Interest Payments	Pensions*	Grants to States	Others
1985-2006	224472	25888	62384	10215	26216	99769
VIII Plan (1992-1997)	160541	21620	44280	5661	20630	68351
IX Plan (1997-2002)	313109	42783	91102	15852	32423	130949
<b>X Plan (2002-07)</b>						
2002-03	409591	33317	124573	19085	42136	190480
2003-04	440086	34554	128114	20702	47320	209396
2004-05	455571	38653	130958	24085	52686	209189
2005-06	540637	37870	141375	24750	72367	264275
<b>Average Annual Rate of Growth (per cent)</b>						
1985-2006	13.52	8.58	16.89	16.68	11.22	13.23
VIII Plan (1992-1997)	14.64	12.10	17.44	15.65	5.60	16.55
IX Plan (1997-2002)	10.40	-2.09	14.90	17.07	11.06	8.34
<b>X Plan (2002-07)</b>						
2002-03	9.06	6.15	9.11	0.80	1.55	12.32
2003-04	7.45	3.71	2.84	8.47	12.30	9.93
2004-05	3.52	11.86	2.22	16.34	11.34	-0.10
2005-06	18.67	-2.03	7.95	2.76	37.36	26.33

\* includes Miscellaneous General Service

\*\*Notes:

- 1) The expenditure on pay and allowances up to 2001-02 as per 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 expenditures of 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) For the years 2002-03, 2003-04 and 2004-05, actual figures as per Brochure published by Pay Research Unit for Central Govt. Civilian Employees. Expenditure on pay and allowances for 2005-06 are revised estimates as actual figures are still awaited.

**3.12** All the components of revenue expenditure except pay and allowances had a double-digit trend growth during 1985-2006. Average annual rate of growth of these components, except grants to States and pensions, was



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relatively higher during the VIII Plan (1992-1997). Deceleration in growth rates during the IX Plan (1997-2002) was particularly pronounced for pay and allowances which have witnessed contraction and residual components of revenue expenditure grouped under 'Others'. Rate of growth of interest payments also witnessed moderate deceleration during IX Plan. During the X Plan (2002-07) so far, rate of growth of interest payments declined further to an average of 5.53 *per cent*, 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 so that interest payments reduce in the future. Technically, only if the government is able to generate primary surpluses can there be a reduction in debt and future interest payments. However, due to continued prevalence of primary deficits, the debt levels continued to increase resulting in increasing interest payments during the period. Expenditure on pay and allowances of Central Government employees, including civil 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 in subsequent years and on average registered a decline during IX Plan period. 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.

**3.13** A significant part of revenue expenditure is mostly committed, i.e. that part of the expenditure over which the Government has very little discretion. Interest payments, pensions, salary & wages and most of the grants-in-aid to States/Union Territories fall in this category. 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, revenue receipts and non-debt receipts (Table 3.6). Committed expenditure in Table 3.6 is classified in two groups, viz. 'interest payments' and 'Others'. The residual category 'Others' comprise of expenditure on pay and allowances and pensions including expenditure on Miscellaneous General Services.

**Table 3.6 Share of committed Revenue Expenditure to total Revenue Expenditure, Revenue Receipts and Non-Debt Receipts**

(Per cent)

Period	Revenue Expenditure			Revenue Receipts			Non-Debt Receipts		
	Interest Payments	Others	Total	Interest Payments	Others	Total	Interest Payments	Others	Total
1985-2006	27.79	16.08	43.87	35.29	20.42	55.71	31.97	18.50	50.47
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
<b>X Plan (2002-07)</b>									
2002-03	30.41	12.79	43.20	41.55	17.48	59.03	36.45	15.33	51.78
2003-04	29.11	12.56	41.67	37.78	16.29	54.07	30.08	12.97	43.05
2004-05	28.75	13.77	42.52	34.75	16.65	51.40	29.39	14.08	43.47

**Application of Resources: Expenditure**

(Per cent)

Period	Revenue Expenditure			Revenue Receipts			Non-Debt Receipts		
	Interest Payments	Others	Total	Interest Payments	Others	Total	Interest Payments	Others	Total
2005-06	26.15	11.58	37.73	32.81	14.53	47.34	31.82	14.09	45.91
Average Annual Rate of Shift in Shares									
1985-2006	2.43	-2.57	0.38	3.06	-1.97	1.00	2.92	-2.11	0.86

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

**Expenditure: Plan and Non-Plan**

**3.14** The Finance Accounts provide a further disaggregation 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 3.7 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 3.8.

**Table 3.7: Components of Expenditure - Plan & Non plan**

(Rupees in crore)

Period	Plan				Non Plan			
	Total	Revenue	Capital	Loans	Total	Revenue	Capital	Loans & Advances
1985-2006	63107	37863	10005	15239	209614	186609	13187	9818
VIII Plan (1992-1997)	48190	26749	8380	13061	155348	133792	11170	10386
IX Plan (1997-2002)	78595	47090	10132	21373	295907	266019	16102	13786
<b>X Plan (2002-07)</b>								
2002-03	111471	71570	14643	25258	364839	338021	15854	10964
2003-04	122281	78638	16913	26730	384536	361448	18488	4600
2004-05	132932	87494	19372	26066	416401	368077	34282	14042
2005-06	140637	111858	19457	9322	468612	428779	36662	3171
<b>Average Annual Rate of Growth (per cent)</b>								
1985-2006	10.48	14.27	5.37	6.31	12.56	13.36	11.39	0.64
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
<b>X Plan (2002-07)</b>								
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
2004-05	8.71	11.26	14.54	-2.48	8.29	1.83	85.43	205.26
2005-06	5.80	27.85	0.44	-64.24	12.54	16.49	6.94	-77.42

\* The Capital expenditure in Finance Accounts does not include the redemption of securities issued to NSSF. This also results in variation in fiscal deficits, which is explained in Table 1.3.

**Table 3.8: Plan and Non-plan Expenditure: Relative Share**

Period	PE/TE	NPE/TE	PRE/PE	NPPE/NPE
1985-2006	23.14	76.86	60.00	89.02
VIII Plan (1992-1997)	23.68	76.32	55.51	86.12
IX Plan (1997-2002)	20.99	79.01	59.91	89.90
<b>X Plan (2002-07)</b>				
2002-03	23.40	76.60	64.20	92.65
2003-04	24.13	75.87	64.31	94.00
2004-05	24.20	75.80	65.82	88.39
2005-06	23.08	76.92	79.54	91.50

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

**3.15** The share of plan expenditure in total expenditure remained nearly stagnant during 1985-2006. As against an average of 23.68 *per cent* of total expenditure during VIII Plan (1992-97), its share only moderately improved to 24.20 *per cent* in 2004-05 but it declined by 1.12 percentage points in the current year reaching even below the trend average for the period 1985-2006. This seemingly stable share, however, conceals the inter year and inter plan variations at aggregate plan and at its sub component levels.

**3.16** 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 at 13.24 *per cent* during VIII Plan (1992-97), a significant deceleration by almost 6 percentage points in its rate of growth was observed during the IX Plan. During the first four years of the X Plan (2002-06), the growth rates, particularly at the level of sub components fluctuated widely. Overall trend growth of both plan and non-plan expenditure was, however, less than the growth of GDP and revenue receipt. Buoyancy of plan expenditure with GDP and revenue receipt during 1985-2006 was 0.763 and 0.815 respectively. In case of non-plan expenditure, the buoyancy coefficients were significantly higher at 0.915 and 0.977 respectively (Table 3.9), but remained less than one reflecting the fact that their average growth rates were still lower than the growth rates of GDP and revenue receipts during the period, although marginally.

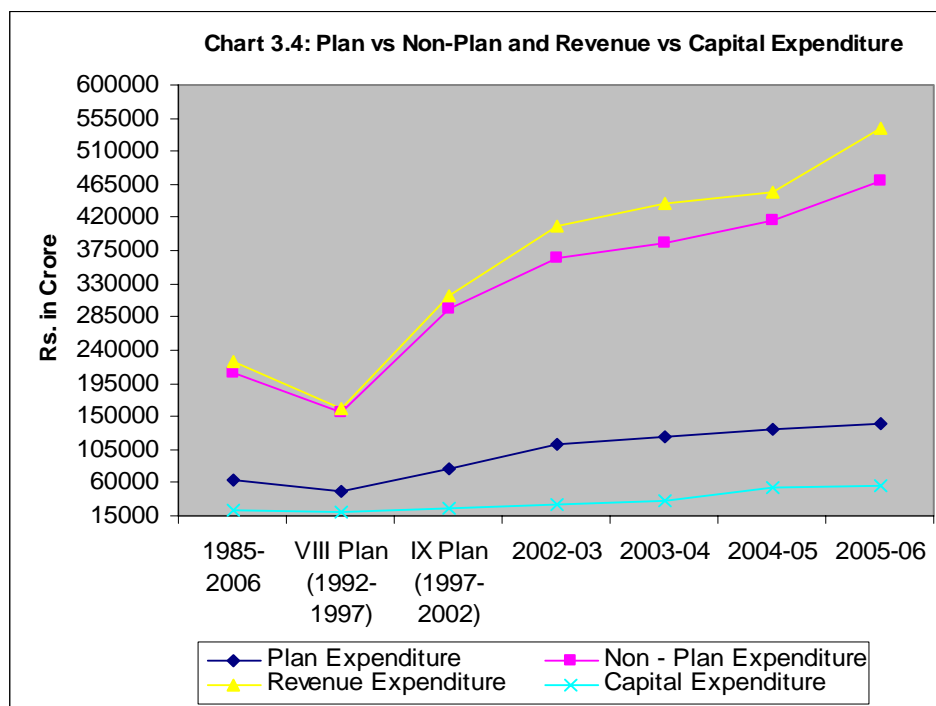
**3.17** Both for plan and non-plan expenditure, the revenue component remained not only the most predominant, but it was also relatively the most buoyant throughout 1985-2006. The share of revenue component in plan expenditure, which averaged 55.51 *per cent* during VIII Plan gradually increased to 65.82 *per cent* in 2004-05 and further climbed to 79.54 *per cent* during the current year. Although plan expenditure increased at moderate rate of 5.80 *per cent* during 2005-06 but its revenue component increased by 27.85

*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 social sectors. In terms of sectors/programmes, major increases were in Rural Employment, Rural Roads, Rural Water Supply, Integrated Child Development Services, Reproductive and Child Health, Immunisation, Medical Education, Rural Family Welfare Services, Nutritional Support to Primary Education, Sarva Shiksha Abhiyan, National Horticulture Mission, Micro Irrigation, and Agro and Rural Industries. Plan expenditure of capital nature and plan loans and advances recorded a much lower trend growth relative to its revenue component. Plan capital expenditure although gained significant acceleration during the first three years of X Plan (2002-07) but in the current year it remained almost static at the level of 2004-05. Plan loans also witnessed significant contraction during the current year reflecting the dis-intermediation of Central Government in the raising of State domestic loans due to the acceptance of the TFC recommendation.

**3.18** The share of revenue component in non-plan expenditure increased from an average of 86.12 *per cent* during VIII Plan (1992-97) to 89.9 *per cent* during IX Plan (1997-2002) and further to an average of 91.64 *per cent* during the first four years of X Plan (2002-07) after reaching the peak level of 94 *per cent* in 2003-04. Interest payments, defence revenue expenditure, subsidies and pensions form the major component of the non plan revenue expenditure of the Central Government. Of the total increase of Rs. 60702 crore in non plan revenue expenditure during 2005-06, interest payments, defence revenue expenditure, subsidies and pensions together contributed Rs. 16495 crore (27.17 *per cent*) followed by Rs. 15692 crore (25.85 *per cent*) in the form of non plan grants in aid to States and UT Governments. Besides, increase in non plan revenue expenditure on social and economic services by Rs. 27723 crore over the previous year also resulted in buoyancy in overall non plan revenue expenditure during 2005-06. The expenditure on interest payments, defence revenue expenditure, subsidies and pensions were not only higher than their respective budgetary estimates but also significantly exceeded the normative projections made by TFC for 2005-06 respectively by Rs. 5556 crore, Rs. 4695 crore, Rs. 6538 crore and Rs. 8183 crore during the year. Non plan capital outlay which mainly consists of capital expenditure under defence services registered a significant decline in its growth rate during 2005-06 over the previous year largely on account of slow pace of defence capital expenditure during the course of the year.

**3.19** The trends in the composition of Union Government expenditure over the period 1985-2006, which has been increasing over the years (Chart 3.4), reveal that non plan expenditure far outweighs the plan expenditure and revenue expenditure completely overshadows capital expenditure. The predominance of plan revenue expenditure has been mainly on account of the fact that central support to the states development activities whether through central assistance or centrally sponsored schemes are classified as revenue

expenditure regardless of the purpose for which they are used by the States and other implementing agencies.



### Buoyancy of Expenditure

**3.20** More important than the growth in nominal expenditure or its absolute volume is the buoyancy of its various components relative to the base. Table 3.9 below provides the average buoyancy ratios of various components of expenditure relative to revenue receipts and GDP separately for 1985-2006, VIII and IX Plan periods as well as for the first four years of the X Plan.

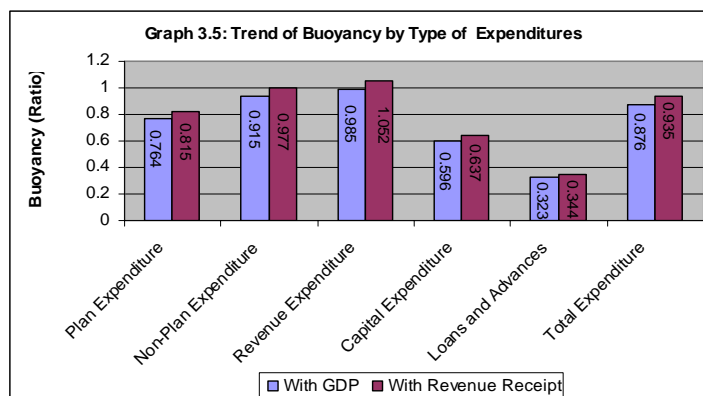
**Table 3.9: Trends in Buoyancy of Expenditure with reference to GDP and Revenue Receipts**

Type of expenditure	1985-2006		VIII Plan (1992-97)		IX Plan (1997-2002)		X Plan (2002 -07) (Four Years)	
	GDP	Revenue Receipts	GDP	Revenue Receipts	GDP	Revenue Receipts	GDP	Revenue Receipts
Plan Expenditure	0.764	0.815	0.455	0.489	1.294	1.572	0.662	0.592
Non-Plan Exp	0.915	0.977	0.800	0.859	0.732	0.889	0.721	0.646
Revenue Expenditure	0.985	1.052	0.885	0.950	0.997	1.211	0.837	0.750
Capital Expenditure	0.596	0.637	-0.510	-0.548	0.884	1.074	1.508	1.350
Loans and Advances	0.323	0.344	0.720	0.773	-0.328	-0.399	-1.310	-1.173
Total Expenditure	0.876	0.935	0.718	0.770	0.850	1.032	0.706	0.632

**3.21** Relatively higher buoyancy ratios during the IX Plan period were essentially on account of lower growth rates in GDP and revenue receipts. The relatively higher 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. During 1985-2006, buoyancy of capital expenditure with GDP and revenue receipt has been between 0.5 and 0.6 as against the buoyancy of close to one 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.

**3.22** Buoyancy ratios by type of expenditure with reference to GDP and revenue receipts for the period 1985-2006 are also depicted in the Chart 3.5.



### Management of Subsidies

**3.23** In any welfare state, it is not uncommon to provide subsidies/subventions and transfer payments to disadvantaged sections of the society and also in the form of making provision of merit goods<sup>1</sup> 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 3.10 presents a picture of the subsidies, which the government provided explicitly during the VIII and IX Plans and during the first four years of the X Plan on major items.

**Table 3.10: Explicit Subsidies in the Union Government Budget**

*(Rupees in crore)*

Period	Food	Fertilizers@	Fertilizers#	Petroleum Subsidy	Others*	Total subsidies	Subsidies (A)	Subsidies (B)
<b>Average Annual Values</b>								
VIII Plan (1992-97)	4976	6088	-	-	2405	13469	1.30	8.39
IX Plan (1997-2002)	11199	11376	-	-	3516	26091	1.36	8.33
2002-03	24176	7790	3225	5225	3592	44008	1.78	10.74
2003-04	25160	8521	3326	6292	1669	44968	1.63	10.22
2004-05	23280	10985	5142	2956	1976	44339	1.43	9.73
2005-06	23077	11863	6596	2683	849	45068	1.28	8.34

@ 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 and compensation for exchange loss etc

(A) As a percentage of GDP

(B) As a percentage of Revenue Expenditure

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

**3.24** In absolute terms, explicit subsidies consistently increased from an average of Rs. 13,469 crore during the VIII Plan (1992-1997) to Rs. 26091 crore during the IX Plan (1997-2002) and further to an average of Rs. 44596 crore during the first four years of X Plan (2002-07). Relative to GDP, subsidies marginally increased from 1.30 *per cent* during VIII Plan (1992-97) to an average of 1.36 *per cent* during the IX Plan (1997-2002). This ratio further increased to 1.78 in the first year of X Plan due to the combined impact of substantial increase in expenditure on subsidies and relatively poor performance of economy reflected in GDP growth rate during the year. In subsequent years, although expenditure on subsidies indicated minor variations but buoyant GDP growth rates pushed the ratio southwards gradually during these years. Subsidies shared about 8 *per cent* of total revenue expenditure during the decade of 1992-2002 coinciding the periods of VIII and IX Plans which increased to about 10 *per cent* during the X Plan (2002-07) so far mainly because of petroleum subsidy being paid despite the decision to dismantle the APM in the petroleum sector.

**3.25** It is evident that food subsidy constitutes the dominant share varying from an average of 37 *per cent* during the VIII Plan to 56 *per cent* in 2003-04 in total expenditure on subsidies. This component of subsidies also constituted 4.27 *per cent* of Central government's revenue expenditure during the current year. Although food subsidy during the current year was kept almost at last year's level but it exceeded the level of Rs. 22000 crore per year recommended by TFC. The subsidies on food and fertilizers together constituted more than 92 *per cent* of total expenditure on subsidies during the current year. The total subsidy expenditure during the current year at Rs. 45,068 crore is much above the level of Rs. 38,530 crore recommended by the TFC for the year. As the medium term outlook does not appear to favour a severe compression in expenditure on subsidies, efforts need to be made for better targeting of all the subsidies.

**3.26** Subsidies are dispensed not only explicitly, i.e. through the budget but also in a covert form 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. Table 3.11 below gives the return on investment and outstanding advances and user charges as percentage to revenue expenditure for social and economic services.

**Table 3.11: Return on Investment and Advances and Recovery of User Charges (as a percentage of revenue expenditure for Social and Economic Services)**

*(Per cent)*

Period	Loans & Advances	Investment	Social Services	Economic Services
1985-2006	11.96	5.21	6.68	52.34
VIII Plan (1992-1997)	11.23	2.35	9.57	57.22
IX Plan (1997-2002)	14.15	5.30	3.59	55.80
<b>X Plan (2002-07)</b>				
2002-03	15.11	8.83	2.03	43.07
2003-04	15.91	9.84	1.91	45.27
2004-05	14.30	13.29	1.49	51.37
2005-06	13.36	18.78	4.28	45.39
<b>Average Annual Rate of change in returns</b>				
1985-2006	3.93	14.24	-10.46	-1.14

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

**3.27** 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 5.30 *per cent* during IX Plan (1997-2002) and to an annual average of 12.69 during the first four years of X Plan (2002-07) with peak level of 18.78 *per cent* during the current year. This return is, however, based on book value of investment and not the net worth or market capitalisation. The average rate of interest on its loans and advances (opening balances) also increased from 11.23 *per cent* to 14.15 *per cent* during IX Plan (1997-2002) and to an annual average of 14.67 during the first four years of X Plan (2002-07) with peak level of 15.91 *per cent* during 2003-04. Though there was no implicit subsidy on government's financial intermediation as the average rate of interest received exceeded the interest cost on its borrowings, the trend rate of return on government's investment at 5.21 *per cent* fell significantly short of the rate of interest (7.93 *per cent*) on government's borrowings. However, the rate of return on investment witnessed a significant acceleration and had a positive shift rate of 14.24 *per cent* during 1985-2006. At the current levels, the return on investments significantly exceeded the cost of raising resources (7.75 *per cent*).

**3.28** In social and economic services, recovery rates (revenue receipt/revenue expenditure) witnessed a decelerating trend. In both the social and economic services, revenue receipts fell short of the revenue expenditure, which is akin to the operating expenses. The public expenditure incurred in creation and strengthening of social infrastructure especially in expansion of educational and health care facilities has increased manifold during recent years with only nominal user charges made applicable. As a result, the ratio of revenue receipts from social services to revenue expenditure incurred on providing these services consistently declined from 9.57 *per cent* during the VIII Plan (1992-97) to 1.49 *per cent* in 2004-05. A significant increase in this ratio was observed during 2005-06 essentially on account of seemingly one



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time increased collections under the head 'Information and Publicity' amounting to Rs. 1139 crore during the current year over the previous year. The overall ratio of revenue receipts to revenue expenditure from economic services declined from 57.22 *per cent* during the VIII Plan (1992-97) to 45.39 *per cent* in 2005-06 and thus exhibited a negative shift rate during the period 1985-2006. The recovery rate was, however 100 *per cent* of the revenue expenditure for Railways (as the surplus from the operations of railways was transferred to Railway Development Reserve Fund, revenue exactly matched the expenditure). The recovery also exceeded 100 *per cent* in Telecommunication sector because consequent upon the corporatization of MTNL and BSNL, the revenue from Telecommunication sector consisted of license fees and there was no requirement as earlier to incur any expenditure on operation and maintenance of services.

### **Expenditure on Social and Economic Services**

**3.29** 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 3.12 below indicates the trends in expenditure on social services and its various components.

**Table 3.12: Expenditure (Revenue and Capital) on Social services - Trends and Composition**

*(Rupees in crore)*

Period	Social Services	Education	Health	Water Supply	I&B	Labour Welfare	Others
1987-2006	13138	5532	1924	2264	847	594	1978
VIII Plan (1992-1997)	6903	2696	901	887	986	465	968
IX Plan (1997-2002)	15998	6457	2227	3217	568	768	2761
<b>X Plan (2002-07)</b>							
2002-03	21810	9846	3164	4044	1170	764	2822
2003-04	24593	10965	3907	4669	1219	823	3010
2004-05	31115	13997	4465	5997	1237	994	4425
2005-06	39160	16841	6847	6101	1344	1233	6794
<b>Average Annual Growth Rate (per cent)</b>							
1987-2006	15.48	15.82	16.48	22.80	0.00	9.88	18.94
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
<b>X Plan (2002-07)</b>							
2002-03	33.94	30.10	7.04	1.46	0.00	-9.37	-30.23
2003-04	12.76	11.37	23.48	15.45	4.19	7.72	6.66
2004-05	26.52	27.65	14.28	28.44	1.48	20.78	47.01
2005-06	25.86	20.32	53.35	1.73	8.65	24.04	53.54

**3.30** The overall expenditure of the Union Government on social services has consistently increased from an annual average of Rs. 6903 crore during the VIII Plan (1992-1997) to Rs. 15998 crore during IX Plan (1997-2002) and further to an annual average Rs. 29170 crore during the first four years of X Plan (2002-07) with the peak level of Rs. 39160 crore during the current year. The long-term trend rate of growth in expenditure on social services was 15.48 *per cent* (1987-2006) higher than GDP, revenue receipt and revenue expenditure. However, there 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). Expenditure on social services was particularly buoyant during the X Plan (2002-07). Within social services, expenditure on rural employment, education, health and water supply and sanitation (including housing and urban development) were relatively buoyant. In the current year also, expenditure on Education and health showed higher buoyancy.

**3.31** The expenditure on components of economic services is indicated in Table 3.13 below.

**Table 3.13: Expenditure (Revenue and Capital) on Economic Services - Trends and Composition**

*(Rupees in crore)*

Period	Economic Services	Agriculture & Allied	Rural Development	Energy	Industry and Minerals	Transport	Posts	Telecom	Others
1987-2006	96495	16324	5000	7540	10243	36514	2961	7260	10653
VIII Plan (1992-97)	69161	9665	3263	3061	7229	24246	1598	8417	11682
IX Plan (1997-2002)	121107	20048	5146	10158	12294	44714	3937	13554	11256
<b>X Plan (2002-07)</b>									
2002-03	154041	31101	11737	12118	13965	60415	5416	3486	15803
2003-04	166058	32911	12174	13664	16761	64379	5681	3102	17387
2004-05	165885	36366	9478	9897	17664	69578	5940	3579	13383
2005-06	207331	37622	15660	25978	19857	83325	6503	2827	15559
<b>Average Annual Growth Rate (Per cent)</b>									
1987-2006	11.25	15.32	23.41	11.90	7.93	11.75	13.60	2.71	6.82
VIII Plan (1992-97)	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
<b>X Plan (2002-07)</b>									
2002-03	8.98	9.92	89.64	-28.90	4.40	5.69	4.82	-6.77	52.21
2003-04	7.80	5.82	3.72	12.76	20.02	6.56	4.89	-11.02	10.02
2004-05	-0.10	10.50	-22.15	-27.57	5.39	8.08	4.56	15.38	-23.03
2005-06	24.98	3.45	65.22	162.48	12.42	19.76	9.48	-21.01	16.26

**3.32** The overall expenditure on economic services increased significantly from an average Rs. 69161 crore during the VIII Plan (1992-1997) to Rs. 121107 crore during IX Plan (1997-2002) and further to an annual average

Rs. 173329 crore during the first four years of X Plan (2002-07) reaching the peak level of Rs. 207331 crore during the current year. The annual trend rate of growth of expenditure on economic services was 11.25 *per cent* during 1987-2006. As in the case of social services, the average annual growth rates witnessed deceleration during the IX Plan (1997-2002). This deceleration of three percentage points was relatively moderate for economic services. Growth rates further turned negative in 2004-05, largely because of a decline in expenditure on rural development and energy sectors. However, a turnaround in these two sectors during the current year has resulted in buoyancy in total expenditure on 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) were relatively buoyant during VIII and IX Plans period but the rate of growth declined significantly during X Plan period with mixed trend. However, in case of rural development, the 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) which further jumped to 65.22 *per cent* in the current year with wild fluctuation during X Plan period. Expenditure on energy was growing only at moderate rate during VIII Plan and further dipped in IX Plan and exhibited large gyrations during first four years of X Plan. During the current year, steep increase was recorded largely on account of increased current expenditure of the order of Rs. 16989 crore in petroleum sector essentially towards the settlement of the claims of oil companies under administrative pricing. The 'industry and minerals' with low growth rate during VIII Plan increased to 12.42 *per cent* in the current year with inter year variations. The expenditure on transport sector indicated buoyancy in IX Plan over the VIII Plan period but thereafter increased at moderate rate during the first three years of the X Plan. A substantial increase by 19.76 *per cent* during the current year was mainly on account of transfer of resources to Reserve Fund under 'Roads and Bridges'. The trends in pattern of Union Government's expenditure during the last few years especially during the X Plan period reveal that the fiscal policy has laid emphasis on increased spending on social and economic sectors with focus on the areas such as rural employment, education and health. Besides, to make the growth process all inclusive expenditure on infrastructure facilities like rural roads, housing and rural electrification have also been stepped up during the last few years.

**3.33** It is more important to look at the expenditure on social and economic services relative to GDP which 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 together averaged 7.755 *per cent* of GDP during 1987-2006. With 7.347 *per cent* of GDP being spent on social and economic services during the VIII Plan (1992-1997) declined to 7.162 *per cent* during IX Plan (1997-2002) and further to an annual average of 6.84 *per cent* during the first four years of X Plan (2002-07). Expenditures on selected social and economic services relative to GDP are indicated in Table 3.14 and 3.15 respectively.

Application of Resources: Expenditure

**Table 3.14: Expenditure on Social Services (Revenue and Capital) Relative to GDP**  
(Per cent)

Period	Social Services	Education	Health & FW	WSS*	I&B**	Others
1987-2006	0.929	0.391	0.136	0.160	0.060	0.182
VIII Plan (1992-1997)	0.667	0.260	0.087	0.086	0.095	0.138
IX Plan (1997-2002)	0.836	0.337	0.116	0.168	0.030	0.184
<b>X Plan (2002-07)</b>						
2002-03	0.883	0.399	0.128	0.164	0.047	0.145
2003-04	0.891	0.397	0.142	0.169	0.044	0.139
2004-05	1.002	0.451	0.144	0.193	0.040	0.174
2005-06	1.109	0.477	0.194	0.173	0.038	0.227
<b>Average Annual Rate of Shift in their Relative Shares</b>						
1987-2006	1.825	2.121	2.706	8.277	0.00	4.872

\*Water Supply and Sanitation \*\* Information & Broadcasting

**3.34** Expenditure on social services (excluding loans and advances in this sector) had a positive shift rate in their share relative to GDP during 1987-2006. A significant positive shift rate in case of water supply and sanitation sector indicates that of late making provision of drinking water supply to all the habitations and adequate sanitation facilities both in rural and urban areas has assumed significance in schematic allocations and expenditures of the Government. Positive shift rate was also observed for two most important social services - education and health. However, the positive shift rates, overall allocation to social sectors has been less than one *per cent* of GDP in the past and it has merely crossed this limit during the last two years. Efforts towards reprioritization of the outlays need to be continued for the expansion and strengthening of social services.

**Table 3.15: Expenditure on Economic Services (Revenue and Capital) Relative to GDP**  
(Per cent)

Period	Economic Services	Agri-culture	Rural Devt	Energy	Industry and minerals	Transport	Post	Telecom	Others
1987-2006	6.826	1.155	0.354	0.533	0.725	2.583	0.209	0.514	0.754
VIII Plan (1992-97)	6.680	0.934	0.315	0.296	0.698	2.342	0.154	0.813	1.128
IX Plan (1997-02)	6.326	1.047	0.269	0.531	0.642	2.336	0.206	0.708	0.588
<b>X Plan (2002-07)</b>									
2002-03	6.238	1.259	0.475	0.491	0.565	2.446	0.219	0.141	0.640
2003-04	6.017	1.192	0.441	0.495	0.607	2.333	0.206	0.112	0.630
2004-05	5.342	1.171	0.305	0.319	0.569	2.240	0.191	0.115	0.431
2005-06	5.871	1.065	0.443	0.736	0.562	2.360	0.184	0.080	0.441
<b>Average Annual Rate of Shift in their Relative Shares</b>									
1987-2006	-1.908	1.678	8.814	-1.336	-4.845	-1.469	0.168	-9.438	-5.570

**3.35** 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) marginally to 6.326 *per cent* during IX Plan (1997-2002) and further to an annual average of 5.867 *per cent* during the first four years of X Plan (2002-07). Within economic services, transport, industry and

energy along with residual economic services classified under 'Others' indicated a negative rate of shift in their relative shares during 1987-2006. The expenditure on agriculture and allied activities including irrigation and flood control has sustained the expenditure amounting to nearly one *per cent* of GDP throughout the period largely on account of increasing expenditure incurred for irrigation projects. A significant positive shift in rural development reflects the Government overwhelming priorities for the sector particularly in the context of generating employment opportunities in rural areas.