

Chapter 4

APPLICATION OF RESOURCES: EXPENDITURE

Total disbursements of the Union Government increased at an average annual trend growth rate of 15.37 *per cent* during 1992-2008. 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 increasing trend of share of debt payment and the declining trend of the actual expenditure which continued till 2006-07, reversed in 2007-08 while the shares of other two components exhibited a mixed trend over the period 1992-2008.

Revenue expenditure continued to be the dominant component of the total expenditure and its share increased consistently from an average of 80.50 *per cent* during the VIII Plan to 84.23 *per cent* in IX Plan (1997-2002) and further to an average of 87.27 *per cent* during the X Plan (2002-07) after reaching the peak level of 90.47 *per cent* in 2006-07. During the current year, its share declined to 85.10 *per cent* mainly on account of its relatively slower growth rate of 11.6 *per cent* over the previous year vis-à-vis a steep increase of 97.22 *per cent* in capital expenditure during the 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, subsidies, pensions, salary & wages and most of the grants-in-aid to States/Union Territories fall in this category.

The relative share of capital expenditure and loans and advances declined from an average of 19.50 *per cent* during the VIII Plan to an average of 12.73 *per cent* during the X Plan (2002-07) but increased to 14.90 *per cent* during 2007-08. The steep decline in the Loans and Advances during 2005-06 and 2006-07 was on account of acceptance of TFC recommendation regarding disintermediation of Central Government in borrowings by State Governments to finance their State Plans. The loans and advances disbursed by the Union Government has, however, indicated an increase of Rs. 1758 crore (17.55 *per cent*) in 2007-08 over the previous year mainly on account of an increase of Rs. 1741 crore in (35.58 *per cent*) in loans and advances to States. After recording a relatively low average growth rate of 5 *per cent* during 2005-06 and 2006-07, the capital expenditure increased by an ever highest rate of 97.22 *per cent* in 2007-08 mainly on account of steep increase in non-plan capital expenditure in the form of investment in general financial and trading institutions from Rs. (-) 4009 crore in 2006-07 to Rs. 45627 crore in 2007-08 as well as from Rs. 33828 crore to Rs. 37462 crore in defence services besides a fresh investment of Rs. 304 crore in agricultural financial institutions under non-plan heads. Despite of such a steep increase in capital expenditure during the current year, it was less than the level projected by TFC (Rs. 137524 crore) for 2007-08. The share of development expenditure and plan expenditure in total expenditure, however, exhibited relative stability over time. Further analysis of trends in government expenditure reveal that non plan expenditure far outweighs the plan expenditure and revenue expenditure completely overshadows capital 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 17.24 and 11.22 *per cent* respectively during 1992-2008. Expenditure on social and economic services was buoyant particularly during the last two years of X Plan (2002-07) period and the buoyancy continued during the current year. The trends in pattern of Union Government's expenditure 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 has also gone up during the last few years.

Application of Resources: Expenditure

4.1 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. 3274378 crore that it mobilised during 2007-08 to disbursements as shown in Table 4.1.

Table 4.1: Application of Resources

(Rupees in crore)

I	Resources available		3274378
II	Application of Resources		3044745
	a.	Repayment of Debt	1604110
		Internal Debt	1596617
		External Debt	7493
	b.	Discharge of liabilities on Public Account	425260
		Small Savings and Provident Fund	262064
		Reserve Fund	65377
		Deposits and Advances	85744
		Others	12075
	c.	Actual Expenditure	863575
		Revenue Expenditure	734861
		Capital Expenditure	116937
		Loans and Advances	11777
	d.	Share of the States in taxes	151800
		Appropriation to Contingency Fund	-
			0
III	Closing Cash Balances		229633

4.2 The repayments of debt and discharge of public account liabilities (Rs. 2029370 crore), interest payments (Rs. 179987 crore), assignment of mandated portion of its gross tax receipts to States (Rs. 151800 crore), grants-in-aid to states (Rs. 106333 crore) and closing cash balances (Rs. 229633 crore) took away nearly 82.4 *per cent* of its total resources. Government was, therefore, left with only about 17.6 *per cent* of its gross mobilisation to spend on its current activities.

Total Disbursement

4.3 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 4.2.

Report of the CAG on
Union Government Accounts 2007-08

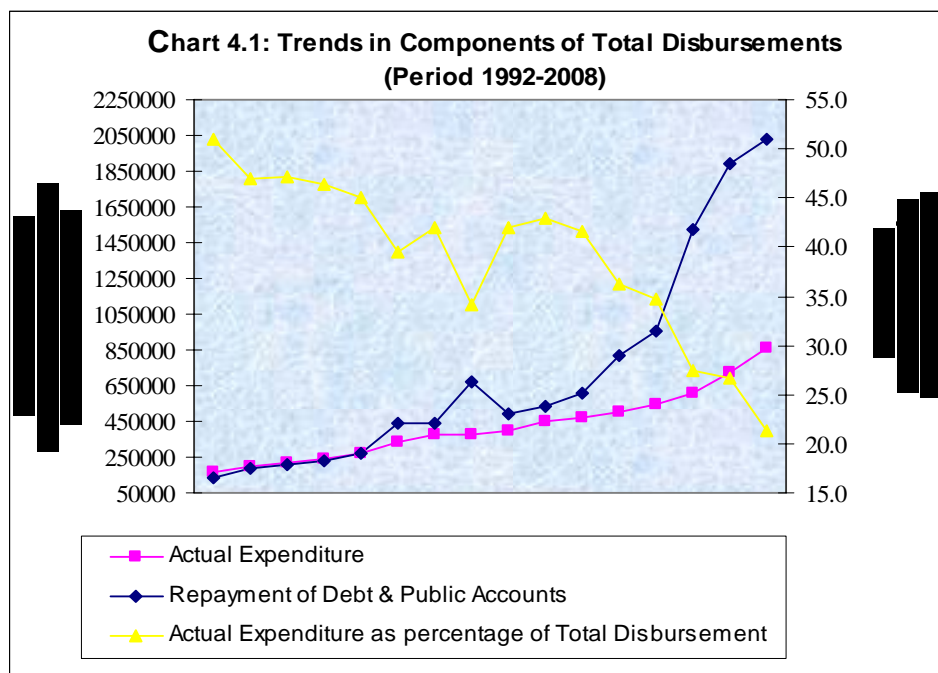
Table 4.2: Components of Total Disbursement

(Rupees in crore)

Period	Actual Expenditure	States' share in taxes	Repayment of Debt	Disbursement in Public Account	Total Disbursement	GDP (Market Price)
1992-2008	423868	47701	481865	232789	1186223	2224784
VIII Plan (1992-97)	220494	9435	126525	77261	433716	1037397
IX Plan (1997-02)	389316	29808	310011	207404	936539	1922332
X Plan (2002-07)	573852	83040	784611	375206	1816709	3216929
2002-03	476310	56122	339677	270224	1142333	2454561
2003-04	506817	65766	430963	391783	1395329	2754620
2004-05	549333	78595	556269	400388	1584585	3149412
2005-06	609249	94385	1115210	407255	2226099	3580344
2006-07	727552	120330	1480938	406380	2735200	4145810
XI Plan (2007-12)						
2007-08	863575	151800	1604110	425260	3044745	4713148
Average Annual Rate of Growth (in per cent)						
1992-2008	10.26	24.87	19.62	16.03	15.37	12.29
VIII Plan (1992-97)	11.77	21.86	20.90	14.32	14.84	16.72
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	14.00
2002-03	6.92	6.21	5.58	25.06	10.25	7.71
2003-04	6.40	17.18	26.87	44.98	22.15	12.22
2004-05	8.39	19.51	29.08	2.20	13.56	14.33
2005-06	10.91	20.09	100.48	1.72	40.48	13.68
2006-07	19.42	27.49	32.79	(-) 0.21	22.87	15.79
XI Plan (2007-12)						
2007-08	18.70	26.15	8.32	4.65	11.32	13.68

4.4 Total disbursements of the Union Government consistently increased from an average of Rs. 433716 crore during the VIII Plan (1992-1997) to Rs. 3044,745 crore in the current year. The average annual trend growth during 1992-2008 at 15.37 per cent was higher than the average rate of growth of GDP, which in the same period averaged 12.29 per cent. 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. The average annual growth rate of actual expenditure has always remained lower than the GDP growth rates except during the last two years while in case of state's share in Union taxes and duties it remained higher than the average growth rate of GDP during VIII, IX and X Plan periods as well as during the current year except in 2002-03 when overall sluggish growth rate of economy might have suppressed the mobilisation of resources through the taxes and other duties. The disbursements from Public Account were significantly higher than the average GDP growth rate during IX Plan (1997-2002) as well as in the first two years of the X Plan (2002-07), as a result of which average growth during the period 1992-2008 also turned out to be higher than the average growth rate of GDP for the period. The growth rates in repayment of debt vis-à-vis GDP growth rate reveal that except during the IX Plan (1997-2002) period and in the beginning of X Plan (2002-07), growth

rate of former remained significantly higher than the latter. 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 X Plan which continued during the current year. If all the four components of total disbursement in 1992-93 are set to 100, the index of the component of repayment of debt would have a value of 2237 as against a value of 735 for disbursements from public account. The other two components, actual expenditure and States' share in taxes would have a value of 505 and 2505 respectively. Chart 4.1 presents the graphical presentation of trends in various components of total disbursement during the period 1992-2008.



4.5 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 4.3 and Chart 4.2

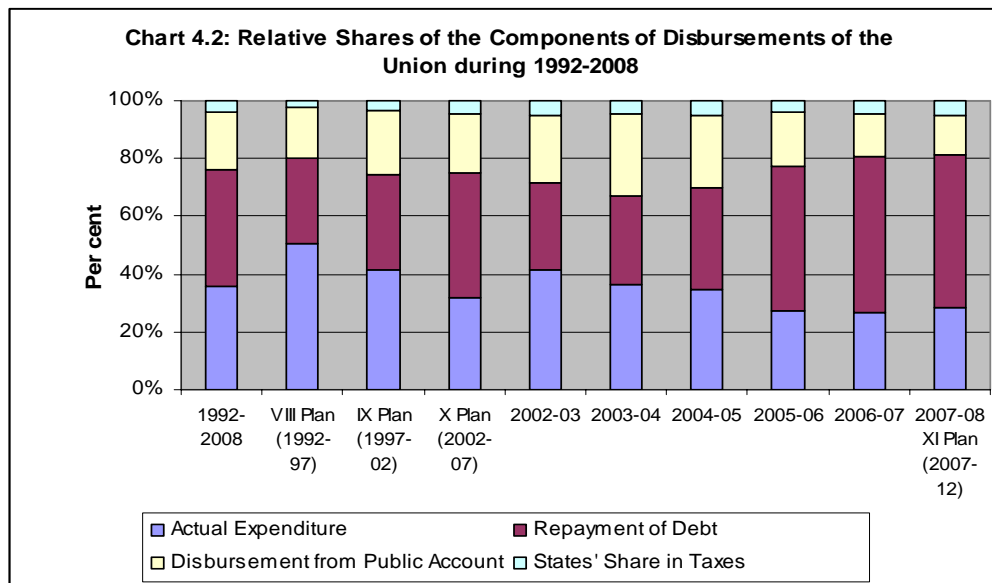
Table 4.3: Disbursement Components: Relative Share

Period	<i>(Per cent)</i>			
	Actual Expenditure	States' Share in Taxes	Repayment of Debt	Disbursement from Public Account
1992-2008	35.73	4.02	40.62	19.62
VIII Plan (1992-97)	50.84	2.18	29.17	17.81
IX Plan (1997-02)	41.57	3.18	33.10	22.15
X Plan (2002-07)	31.59	4.57	43.19	20.65
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

**Report of the CAG on
Union Government Accounts 2007-08**

(Per cent)

Period	Actual Expenditure	States' Share in Taxes	Repayment of Debt	Disbursement from Public Account
2006-07	26.60	4.40	54.14	14.86
XI Plan (2007-12)				
2007-08	28.36	4.99	52.68	13.97
Average Annual Rate of Shift in their Relative Shares				
1992-2008	(-) 4.43	8.24	3.69	(-) 0.58



4.6 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 50.84 *per cent* during the VIII Plan (1992-1997). During X Plan (2002-07), first year (2002-03) indicated an increase in the relative share of actual expenditure and after a deceleration trend till 2006-07 its share increased to 28.36 *per cent* in the current year. The deceleration trend after the VIII Plan is also reflected in its negative shift rate during 1992-2008. The relative share of expenditure on debt repayment exhibited the increasing trend during the periods covering VIII Plan (1992-97), IX Plan (1997-2002) and X Plan (2002-07) with relatively higher growth rate of more than 50 *per cent* during the last three years beginning from 2005-06, which finally converged into a positive annual average rate of shift in its long term trend during 1992-2008. Disbursements from public account indicated a long-term trend share of 19.62 *per cent* during 1992-2008. 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

Application of Resources: Expenditure

dated securities. The share of disbursement from public account since then declined to 25.27 *per cent* in 2004-05 and consistently further to 13.97 *per cent* in the current year as a result of which this component indicated a negative rate of shift during 1992-2008. The State's share in Union taxes and duties in actual expenditure of the Union Government has consistently increased from 2.18 in VIII Plan (1997-2002) to 4.57 during the X Plan (2002-07) resulting in positive rate of shift of 8.24 during the period (1992-2008), which was the highest amongst the other components of actual expenditure.

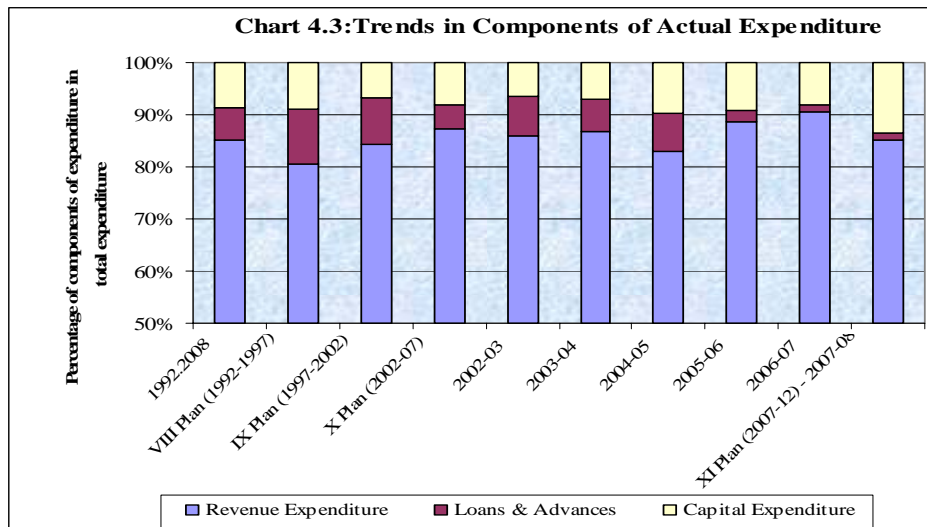
Actual Expenditure: Main Aggregates

4.7 Table 4.4 and Chart 4.3 present 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 4.4: Expenditure Components

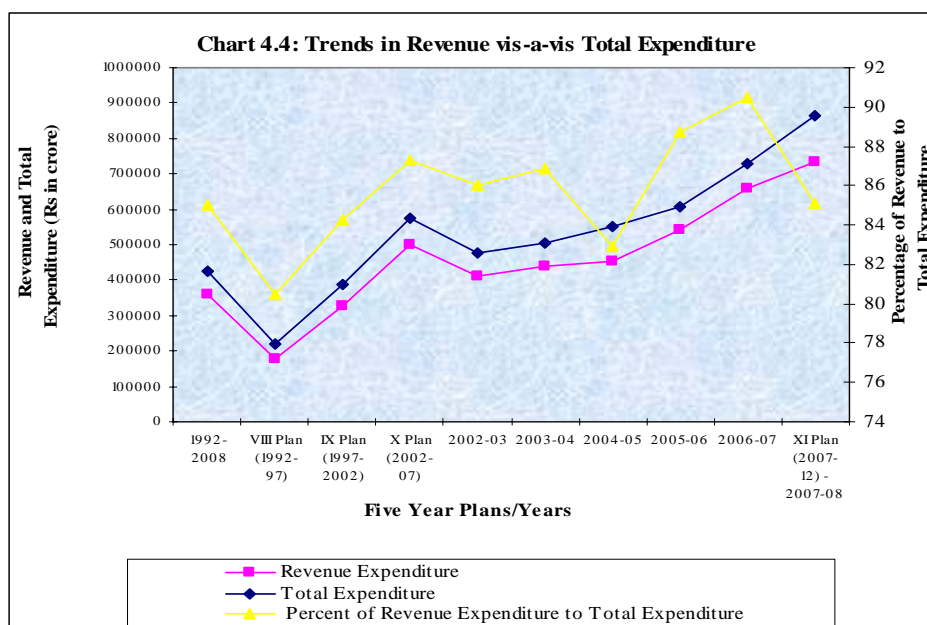
(Rupees in crore)

Period	Revenue Expenditure	Capital Expenditure	Loans & Advances	Total Expenditure	Revenue Expenditure/ Total Exp	Others/ Total Expenditure
1992-2008	360380	36301	27187	423868	85.02	14.98
VIII Plan (1992-97)	177497	19550	23447	220494	80.50	19.50
IX Plan (1997-02)	327922	26234	35160	389316	84.23	15.77
X Plan (2002-07)	500825	46993	26034	573852	87.27	12.73
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
2006-07	658240	59293	10019	727552	90.47	9.53
XI Plan (2007-12)						
2007-08	734861	116937	11777	863575	85.10	14.90
Average Annual Rate of Growth						
1992-2008	11.12	10.44	(-) 2.74	10.26	0.77	(-) 3.92
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		
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		
2006-07	21.75	5.66	(-) 19.80	19.42		
XI Plan (2007-12)						
2007-08	11.64	97.22	17.55	18.90		



4.8 Appendix-IV-A presents the figures of actual expenditure and its three sub-components during the period from 1992-93 to 2007-08. Revenue expenditure of the Union Government (net of the States' share in taxes) increased at an average annual rate of 11.12 *per cent* during 1992-2008, capital expenditure at a marginally lower rate of 10.44 *per cent* while disbursement of loans and advances had virtually declined and its rate of growth turned out to be (-) 2.74 *per cent* during this period. The average annual trend growth of the actual expenditure, which included all these three components, was 10.26 *per cent* during the period 1992-2008.

4.9 Revenue expenditure continued to be the dominant component of the total expenditure (Chart 4.4) and its share increased from an average of 80.50 *per cent* during the VIII Plan to 84.23 *per cent* in IX Plan (1997-2002) and further to an average of 87.27 *per cent* during the X Plan (2002-07) after reaching the peak level of 90.47 *per cent* during 2006-07. During the current year, its share declined to 85.10 *per cent* mainly on account of its relatively slower growth rate of 11.64 *per cent* over the previous year vis-à-vis a steep increase of 97.22 *per cent* in capital expenditure during the year - another integral component of actual expenditure of the Union Government. 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) with lowest share at 9.53 *per cent* during 2006-07. Despite the fact that the share of capital expenditure and loans and advances increased to 14.90 *per cent* during the current year solely on account of a steep increase in capital expenditure over the previous year, the long term trend of share of these two components exhibited a negative annual average shift rate of (-) 3.92 *per cent* during the period 1992-2008.



4.10 An increase of 11.64 per cent in revenue expenditure amounting to Rs. 76621 crore during 2007-08 over the previous year was reported largely on account of enhanced expenditure on Social Services by Rs 16139 crore (35.6 per cent); economic services by Rs. 14330 crore (6 per cent); interest payments by Rs 25707 crore (16.6 per cent) and on grants in aid to States by Rs. 17462 crore (19.6 per cent). The revenue expenditure of the Union Government at Rs 734861 crore during 2007-08 was 64 per cent more than the normative assessment made by TFC for the year after incorporating the debt relief recommended for the States linked to their fiscal performance. Its relative share had a positive shift rate of 0.77 per cent per annum during 1992-2008.

4.11 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) and further to an average of 19.61 per cent during the X Plan (2002-07). During the X Plan period, the annual rate of growth in capital expenditure oscillated widely from (-) 2.55 per cent in 2002-03 to 51.56 per cent in 2004-05. After recording a relatively low average growth rate of 5 per cent during 2005-06 and 2006-07, it increased by an ever highest rate of 97.22 per cent in 2007-08 mainly on account of steep increase in capital expenditure in the form of investment in general financial and trading institutions from Rs. (-) 4009 crore in 2006-07 to Rs. 45627¹ crore in 2007-08 (primarily on account of acquisition of RBI's stake in State Bank of India by the Union Government) as well as from Rs. 33828 crore to Rs. 37462 crore in defence services besides a fresh

¹ This amount includes Capital expenditure on account of acquisition cost of RBI's stake in SBI (Rs. 35531 crore) and subscription in the rights issue of equity share of SBI (Rs. 9996 crore).

**Report of the CAG on
Union Government Accounts 2007-08**

investment of Rs. 304 crore in agricultural financial institutions under non-plan heads. In addition, increases were also observed under plan heads and major increases were recorded under Water Supply, Sanitation, Housing and Urban Development (Rs. 739 crore: 91.68 *per cent*); Railways –Commercial Lines (Rs. 575 crore: 7.6 *per cent*); Satellite Systems (Rs. 453 crore: 2102 *per cent*) and Roads and Bridges (Rs. 942 crore: 21.93 *per cent*). Despite of such a steep increase in capital expenditure during the current year, it was less than the level projected by TFC (Rs. 137524 crore) for 2007-08 to attain the targeted level of 3.5 *per cent* of GDP by the terminal year (2009-10) of its award period.

4.12 Loans and advances, however, depicted a different picture with the rate of growth turning negative during the IX Plan and indicated further negative trend during the X Plan (2002-07). The steep decline in the Loans and Advances during 2005-06 and 2006-07 was on account of acceptance of TFC recommendation regarding disintermediation of Central 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. The loans and advances disbursed by the Union Government has, however, indicated an increase of Rs. 1758 crore (17.55 *per cent*) in 2007-08 over the previous year mainly on account of an increase of Rs. 1741 crore (35.58 *per cent*) in loans and advances to States and of Rs. 69 crore to Government Corporations and Non-Government Institutions including local funds and government servants which was partly offset by a decrease of Rs. 48 crore in loans to foreign governments during the year.

Revenue Expenditure: Trend and Components

4.13 Table 4.5 below gives the expenditure incurred on various components of revenue expenditure in terms of its major object-wise classification.

Table 4.5: Revenue Expenditure and its Components

(Rupees in crore)

Period	Revenue Expenditure	Pay & Allowances**	Interest Payments	Pensions*	Grants to States	Others
1992-2008	360380	31437	96012	17038	42186	173706
VIII Plan (1992-97)	177497	21620	44280	5661	20630	85306
IX Plan (1997-02)	327922	33432	91102	15852	32423	155114
X Plan (2002-07)	500825	36728	135860	25539	60676	242022
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	37263	141375	24750	72367	264882
2006-07	658240	39854	154280	39074	88871	336161
XI Plan (2007-12)						
2007-08	734861	44098	179987	37346	106333	367097

Application of Resources: Expenditure

(Rupees in crore)

Period	Revenue Expenditure	Pay & Allowances**	Interest Payments	Pensions*	Grants to States	Others
Average Annual Rate of Growth (per cent)						
1992-2008	11.12	5.39	11.87	15.86	11.89	11.23
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
X Plan (2002-07)	12.24	4.43	5.40	17.49	21.14	14.70
2002-03	9.06	6.08	9.11	0.80	1.55	12.33
2003-04	7.45	3.71	2.84	8.47	12.30	9.94
2004-05	3.52	11.86	2.22	16.34	11.34	(-) 0.10
2005-06	18.67	(-) 3.60	7.95	2.76	37.36	26.62
2006-07	21.75	6.95	9.13	57.87	22.81	26.91
XI Plan (2007-12)						
2007-08	11.64	10.65	16.46	(-) 4.42	19.65	9.20

* includes Miscellaneous General Services

** Notes:

- 1) The expenditure on pay and allowances up to 2001-02 is 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 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) For the years 2002-03, 2003-04 and 2004-05, actual figures are as per Brochure published by Pay Research Unit for Central Govt. civilian employees. The expenditure on pay and allowances for 2005-06 and 2006-07 and the revised estimates for 2007-08 are adopted as reported in Expenditure Budget (Volume II) of the relevant years.

4.14 All the components of revenue expenditure except pay and allowances had a double-digit trend growth during 1992-2008. Average annual rate of growth of these components, except grants to States and pensions, was 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 as well as in residual components of revenue expenditure grouped under 'Others'. 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. 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. Since the expenditure incurred for explicit subsidies as well as on compensation has

**Report of the CAG on
Union Government Accounts 2007-08**

increased steeply during the recent past, this residual component has assumed significance and recorded an increase of Rs. 157908 crore (75.5 per cent) from 2004-05 to 2007-08.

4.15 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 can there be a reduction in debt and future interest payments. The trend for the period 1992-2008 indicates that barring three years (2003-04, 2004-05, and 2007-08), Union Government continued to have primary deficit resulting in enhanced debt levels and increasing interest payments.

4.16 A significant part of revenue expenditure is 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 4.6). Committed expenditure in Table 4.6 is classified in two groups, viz. 'interest payments' and 'Others'. The residual category 'Others' comprises of expenditure on pay and allowances and pensions including expenditure on Miscellaneous General Services.

Table 4.6: 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
1992-2008	26.64	13.45	40.09	33.21	16.77	49.98	30.49	15.39	45.88
VIII Plan (1992-97)	24.95	15.37	40.32	29.81	18.36	48.17	28.04	17.27	45.31
IX Plan (1997-02)	27.78	15.03	42.81	36.12	19.54	55.66	33.79	18.28	52.06
X Plan (2002-07)	27.13	12.43	39.56	34.44	15.79	50.23	30.85	14.17	44.99
2002-03	30.41	12.79	43.21	41.55	17.48	59.03	36.45	15.33	51.79
2003-04	29.11	12.56	41.67	37.78	16.29	54.08	30.08	12.97	43.06
2004-05	28.75	13.77	42.52	34.75	16.65	51.40	29.39	14.08	43.47
2005-06	26.15	11.47	37.62	32.81	14.39	47.20	31.82	13.96	45.77
2006-07	23.44	11.99	35.43	29.36	15.02	44.39	28.33	14.49	42.82
XI Plan (2007-12)									
2007-08	24.49	11.08	35.58	27.71	12.54	40.26	25.76	11.66	37.42
Average Annual Rate of Shift in Shares									
1992-2008	0.68	(-) 2.30	(-) 0.38	0.91	(-) 2.07	-0.15	0.64	(-) 2.34	(-) 0.42

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

Expenditure: Plan and Non-Plan

4.17 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 4.7 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 4.8.

Table 4.7: Components of Expenditure - Plan & Non plan

(Rupees in crore)

Period	Plan				Non Plan			
	Total	Revenue	Capital*	Loans	Total	Revenue	Capital*	Loans & Advances
1992-2008	95774	65684	12761	17330	328094	294696	23541	9857
VIII Plan (1992-97)	48190	26749	8380	13061	172304	150748	11170	10386
IX Plan (1997-02)	78595	47089	10132	21373	310721	280833	16102	13786
X Plan (2002-07)	138676	101635	17960	19081	435176	399190	29033	6954
2002-03	111470	71569	14643	25258	364840	338022	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
2006-07	186060	158618	19414	8028	541492	499622	39879	1991
XI Plan (2007-12)								
2007-08	205082	173572	21806	9704	658493	561289	95131	2073
<i>Average Annual Rate of Growth (per cent)</i>								
1992-2008	11.33	14.64	7.70	0.37	9.96	10.35	11.96	(-) 8.97
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
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
2006-07	32.30	41.80	(-) 0.22	(-) 13.88	15.55	16.52	8.77	(-) 37.21
XI Plan (2007-12)								
2007-08	10.22	9.43	12.32	20.88	21.61	12.34	138.55	4.12

* 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.

Report of the CAG on
Union Government Accounts 2007-08

Table 4.8: Plan and Non-plan Expenditure: Relative Share

(Per cent)

Period	PE/TE	NPE/TE	PRE/PE	NPRE/NPE
1992-2008	22.60	77.40	68.58	89.82
VIII Plan (1992-97)	21.86	78.14	55.51	87.49
IX Plan (1997-02)	20.19	79.81	59.91	90.38
X Plan (2002-07)	24.17	75.83	73.29	91.73
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
2006-07	25.57	74.43	85.25	92.27
XI Plan (2007-12)				
2007-08	23.75	76.25	84.64	85.24

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

4.18 The share of plan expenditure in total expenditure exhibited relative stability during 1992-2008. As against an average of 21.86 *per cent* of total expenditure during VIII Plan (1992-97), its share only moderately improved to an average of 24.17 *per cent* during the X Plan (2002-07) after a marginal dip to 20.19 *per cent* during the IX Plan (1997-2002). The share of plan expenditure in total expenditure in fact varied within a narrow range of 23.4 to 25.6 *per cent* during the six year period from 2002-03 to 2007-08. This seemingly stable share, however, conceals the inter year and inter plan variations at aggregate and at its sub component levels.

4.19 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. The average growth rate decelerated marginally to 12.35 *per cent* during the X Plan (2002-07) and further to 10.22 *per cent* in 2007-08, the first year of XI Plan (2007-12) but growth rates of its sub components fluctuated widely during this period. Though the growth of non-plan expenditure was relatively higher at 12.98 *per cent* during VIII Plan (1992-97), a significant deceleration by almost 8 percentage points in its rate of growth was observed during the IX Plan. During the X Plan (2002-07) period, the average growth rate although picked up to 10.38 *per cent* which steeply increased to 21.61 *per cent* during the current year but as in case of plan expenditure, the components of non-plan expenditure fluctuated widely during the period. 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 1992-2008 was 0.922 and 0.922 respectively. In case of non-plan expenditure, the buoyancy coefficients were relatively lower at 0.811 and 0.810, respectively (Table 4.9), 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.

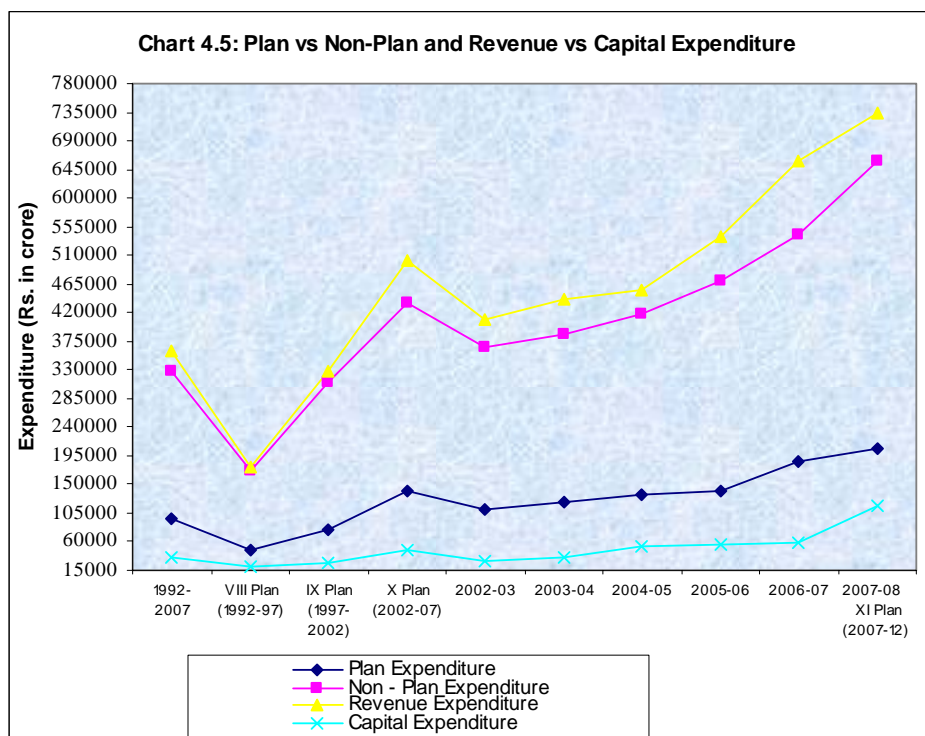
4.20 Both for plan and non-plan expenditure, the revenue component remained not only the most predominant, but it was also relatively the most buoyant throughout 1992-2008. The share of revenue component in plan expenditure, which averaged 55.51 *per cent* during VIII Plan gradually increased to 73.29 *per cent* during the X Plan (2002-07) with peak level of 85.25 *per cent* during 2006-07, which continued at marginally low level of 84.63 *per cent* during the current year. Although plan expenditure increased at moderate average rate of 7.64 *per cent* during the first four years of the X Plan (2002-07) but it sharply increased by 32.3 *per cent* during its last year mainly on account of a growth of 41.8 *per cent* in its revenue component in 2006-07 over the previous year. Given the higher base in 2006-07, an increase of Rs. 19022 crore (10.22 *per cent*) was recorded in plan expenditure of which Rs. 14954 crore (78.6 *per cent*) was contributed by increase in plan revenue expenditure; Rs. 2394 crore (12.58 *per cent*) by plan capital expenditure and the remaining through the increase in plan loans and advances. 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 during the last three years of the X Plan (2002-07).

4.21 Plan expenditure of capital nature and plan loans and advances recorded a much lower trend growth relative to its revenue component. Plan capital expenditure, which remained almost static during the last three years of X Plan (2002-07), increased by Rs. 2394 crore (12.32 *per cent*) during the current year. The increases were mainly under Water Supply, Sanitation, Housing and Urban Development (Rs. 739 crore: 91.8 *per cent*); Railways – Commercial Lines (Rs. 575 crore: 7.6 *per cent*); Satellite Systems (Rs. 453 crore: 2102 *per cent*) and Roads and Bridges (Rs. 942 crore: 21.93 *per cent*) which were partly offset by decline in plan capital outlay for power projects (Rs. 275 crore: 26 *per cent*) and in postal services (Rs. 194 crore: 68.81 *per cent*). Plan loans, which witnessed significant contraction since 2005-06, reflecting the dis-intermediation of Central Government in the raising of State domestic loans albeit with support to fiscally weak States, which are unable to raise resources directly due to the acceptance of the TFC recommendation, increased marginally by Rs. 1676 crore (20.88 *per cent*) during the current year.

4.22 The share of revenue component in non-plan expenditure increased from an average of 87.49 *per cent* during VIII Plan (1992-97) to 90.38 *per cent* during IX Plan (1997-2002) and further to an average of 91.73 *per cent* during the X Plan (2002-07) after reaching the peak level of 94 *per cent* in 2003-04. This component has, however, reduced significantly by 7 percentage

points from 92.27 in 2006-07 to 85.23 *per cent* during the current year essentially on account of a steep increase of 138.55 *per cent* in non-plan capital expenditure and loans and advances increasing its share 7.73 *per cent* to 14.77 *per cent* during this period. 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. 61667 crore in non-plan revenue expenditure during 2007-08, interest payments (Rs. 25707 crore) and defence revenue expenditure (Rs. 2799 crore) together contributed Rs. 28506 crore (46.23 *per cent*). Besides, increase in non-plan revenue expenditure on social and economic services largely on account of social welfare and nutrition (Rs. 9110 crore), food subsidies (Rs. 7314 crore), fertiliser subsidies including special bonds issued to fertiliser companies (Rs. 7800 crore) and agricultural financial institutions (Rs. 1215 crore) also resulted in buoyancy in overall non-plan revenue expenditure during 2007-08. The committed non-plan revenue expenditure on items such as interest payments, defence revenue expenditure, subsidies and salaries and pensions was observed to be not only higher than their respective budgetary estimates but also significantly exceeded the normative projections made by TFC for 2007-08. For instance, interest payments and defence revenue expenditure and pensions in 2007-08 were higher by TFC normative projections for the year by Rs. 32464 crore, Rs. 4792 crore and Rs 6344 crore, respectively.

4.23 Non-plan capital outlay has indicated a steep increase of Rs. 55252 crore (138.55 *per cent*) over the previous year and grew from Rs. 39879 crore in 2006-07 to Rs. 95131 crore in the current year. This step up in non-plan capital outlay was observed mainly on account of Union Government's enhanced investment in General Finance and Trading Institutions (Rs. 49636 crore); International Financial Institutions (Rs. 1594 crore) and in Agricultural Financial Institutions (Rs. 304 crore), which explain 93 *per cent* increase in this item during the current year. Adding incremental defence capital expenditure (Rs. 3634 crore), which is also of non-plan nature, explanatory power increases to almost 100 *per cent* for the steep increase in non-plan capital expenditure during the current year. Since the nature of these investments do not emerge from the Finance Accounts, it is difficult to make any observation on the quality of these investments as well as on the Union Government's fulfilment of the obligation under FRBM Act for encouraging the capital expenditure for productive assets for sustaining the fiscal correction in the medium to long run.



4.24 The trends in the composition of Union Government expenditure over the period 1992-2007, which has been increasing over the years (Chart 4.5), reveal that non-plan expenditure far outweighs the plan expenditure and revenue expenditure completely overshadows capital expenditure. 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.

Buoyancy of Expenditure

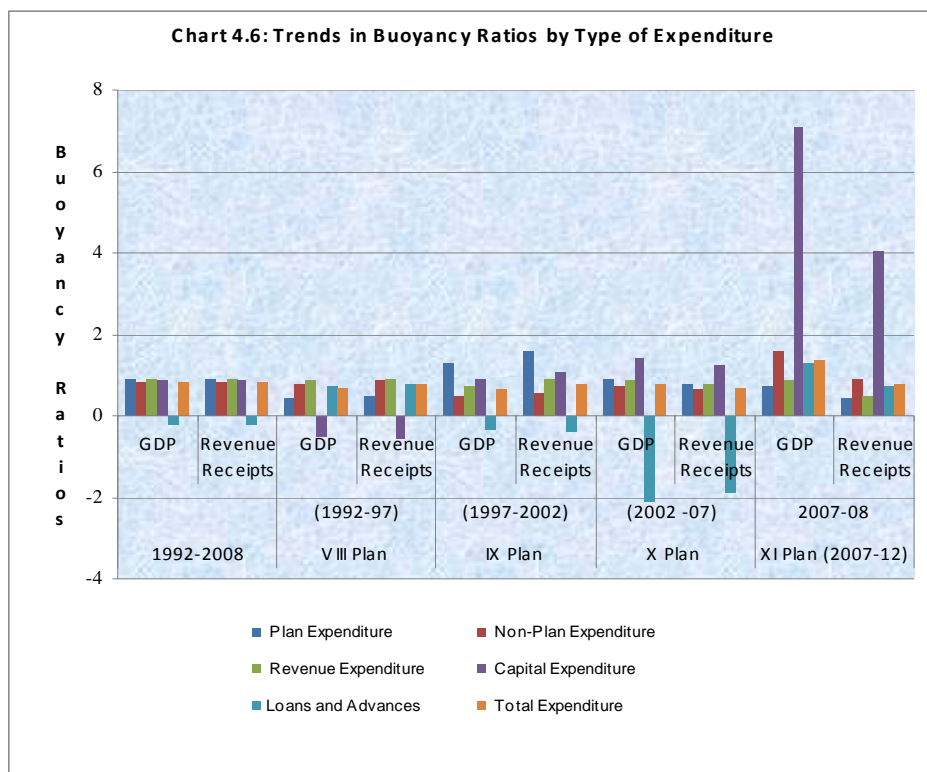
4.25 More important than the growth in nominal expenditure or its absolute volume is the buoyancy of its various components relative to the base. Table 4.9 below provides the average buoyancy ratios of various components of expenditure relative to revenue receipts and GDP separately for 1992-2008, VIII, IX and X Plan periods as well as for the first year of the XI Plan (2007-12)

Report of the CAG on
Union Government Accounts 2007-08

Table 4.9: Trends in Buoyancy of Expenditure with reference to GDP and Revenue Receipts

Type of expenditure	1992-2008		VIII Plan (1992-97)		IX Plan (1997-2002)		X Plan (2002-07)		XI Plan (2007-12) 2007-08	
	GDP	Revenue Receipts	GDP	Revenue Receipts	GDP	Revenue Receipts	GDP	Revenue Receipts	GDP	Revenue Receipts
Plan Expenditure	0.922	0.922	0.450	0.489	1.305	1.572	0.882	0.791	0.747	0.425
Non-Plan Exp	0.811	0.810	0.776	0.842	0.475	0.571	0.741	0.664	1.579	0.897
Revenue Expenditure	0.905	0.904	0.851	0.924	0.738	0.889	0.874	0.783	0.851	0.483
Capital Expenditure	0.850	0.849	-0.505	-0.548	0.892	1.074	1.400	1.255	7.104	4.037
Loans and Advances	-0.223	-0.223	0.712	0.773	-0.331	-0.399	-2.104	-1.886	1.282	0.729
Total Expenditure	0.835	0.835	0.704	0.764	0.641	0.771	0.776	0.695	1.366	0.776

4.26 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 conscious shift in favour of revenue expenditure-intensive programmes and schemes and systemic rigidity in non-plan revenue expenditure in the short term, as a result of which the moderation in rate of growth of total expenditure was achieved largely by squeezing capital expenditure and/or loans and advances. During 1992-2008, buoyancy of capital expenditure with GDP and revenue receipt has been relatively lower as compared to revenue expenditure. However, after deterioration in VIII Plan (1992-97), the buoyancy of capital expenditure improved during the IX Plan (1997-02) and exceeded the unity both with reference to GDP and revenue receipts during X Plan (2002-07) on account of enhanced capital expenditure both under plan and non-plan heads. The steep increase in buoyancy of capital expenditure during the current year was, however, primarily on account of sharp increase in Union Government investments both in domestic financial and trading institutions as well as in international financial institutions. The buoyancy of the non-plan expenditure both with regard to GDP and revenue receipts which was higher relative to the buoyancy of plan expenditure in the VIII Plan period took a turn around and buoyancy of the latter continued to exceed that of the former for the next decade (1997-2007) indicating the fact that expenditure management policy of the Central Government has aimed at containing non-developmental expenditure and providing adequately for priority spending on social development and infrastructure through a conscious shift in plan priorities during the decade. The buoyancy of non-plan expenditure with reference to both GDP and revenue receipts, however, exceeded the buoyancy of plan expenditure in 2007-08 mainly due to a steep increase in non-plan capital expenditure during the year. As regards the negative buoyancy ratios of loans and advances, Government accepted the recommendation of TFC for disintermediation by Union Government for loans to States, albeit support to fiscally weak States, which are unable to raise resources directly as a result of which disbursement of loans by Union government virtually declined during the recent years.



4.27 Buoyancy ratios by type of expenditure with reference to GDP and revenue receipts for the period 1992-2008 as well as separately for VIII, IX and X Plan periods and for the current year are also depicted in the Chart 4.6.

Management of Subsidies

4.28 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 4.10 presents a picture of the subsidies, which the government provided explicitly during the VIII, IX and X Plans on major items.

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

Report of the CAG on
Union Government Accounts 2007-08

Table 4.10: 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	6088	-	-	2405	13469	1.30	7.59
IX Plan (1997-02)	11199	11376	-	-	3516	26091	1.36	7.96
X Plan (2002-07)	23941	11017	5717	3971	2596	47242	1.47	9.43
2002-03	24176	7790	3225	5225	3592	44008	1.79	10.74
2003-04	25160	8521	3326	6292	1669	44968	1.63	10.22
2004-05	23280	10985	5142	2956	1976	44339	1.41	9.73
2005-06	23077	11863	6596	2683**	849	45068	1.26	8.34
2006-07	24014	15924^	10298	2699**	4894	57829	1.39	8.79
XI Plan (2007-12)								
2007-08	31328	19556	12934	2820	4387	70926	1.50	9.65

@ 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. 17263 crore, Rs. 24122 crore and Rs. 20554 crore issued during 2005-06, 2006-07 and 2007-08, 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. 7500 crore issued during 2007-08 to Fertiliser Companies as compensation towards fertiliser subsidy.

(A) As a percentage of GDP

(B) As a percentage of Revenue Expenditure

4.29 In absolute terms, explicit subsidies consistently increased from an average of Rs. 13469 crore during the VIII Plan (1992-1997) to Rs. 26091 crore during the IX Plan (1997-2002) and further to Rs. 47242 crore during the 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 1.47 in the X Plan (2002-07) primarily due to the substantial increase in expenditure on subsidies during the period. Further analysis of X Plan period revealed that the total expenditure on subsidies exhibited relative stability during first four years while trends in GDP indicated buoyant growth rates resulting relative decline in subsidies relative to GDP from 1.79 in 2002-03 to 1.26 in 2005-06. In subsequent years, steep increase in expenditure on subsidies by Rs. 12761 crore (28.32 per cent) in 2006-07 and further by Rs. 13097 crore (22.65 per cent) in 2007-08 even with buoyant GDP growth rates pushed the ratio upwards to 1.39 and 1.50, respectively, 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 an average of 9.43 per cent during the X Plan mainly on account of the fact that the petroleum subsidy is being paid despite the decision to dismantle the APM in the petroleum sector.

4.30 It is evident that food subsidy constitutes the dominant share varying from an average of 37 *per cent* during the VIII Plan to 51 *per cent* during the X Plan in total expenditure on subsidies. However, during 2006-07, due to steep increase in fertiliser subsidies and the subsidies clubbed under ‘others’, the share of food subsidy in total expenditure on subsidies declined to 42 *per cent* which however further pushed up to 44 *per cent* in 2007-08 due to sharp increase of Rs. 7314 crore (30.46 *per cent*) in food subsidies over the previous year. This component of subsidies also constituted 4.26 *per cent* of Union Government’s revenue expenditure during the current year. The food subsidy during the current year at Rs. 31328 crore exceeded significantly the constant level of Rs. 22000 crore per year recommended by TFC for the award period (2005-10). The subsidies on food and fertilisers together constituted nearly 90 *per cent* of total expenditure on subsidies during the current year. The total subsidy expenditure during the current year at Rs. 70926 crore is much above the level of Rs. 36157 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. It is, however, pertinent to mention that the trends in expenditure incurred on various subsidies presented in Table 4.10 pertains to ‘explicit subsidies’ only, for which allocations are made in Union Budgets of the respective years. These 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 presumably 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.

4.31 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 4.11 below gives the return on investment and outstanding advances and user charges as percentage to revenue expenditure for social and economic services.

**Report of the CAG on
Union Government Accounts 2007-08**

Table 4.11: Return on Investment and Advances and Recovery of User Charges (as a percentage of revenue expenditure for Social and Economic Services)

<i>(Per cent)</i>				
Period	Loans & Advances	Investment	Social Services	Economic Services
1992-2008	13.63	8.65	3.04	49.67
VIII Plan (1992-97)	11.23	2.35	9.57	57.13
IX Plan (1997-02)	14.15	5.30	3.59	55.80
X Plan (2002-07)	14.18	12.40	2.17	44.56
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	14.79	4.28	45.39
2006-07	11.49	14.67	1.03	40.32
XI Plan (2007-12)				
2007-08	15.68	14.79	1.21	45.92
Average Annual Rate of change in returns				
1992-2008	2.16	17.36	-14.88	-2.22
<i>Recovery of user charges is revenue receipts services as per cent to their revenue expenditure</i>				

4.32 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 further to an average of 12.40 during the X Plan (2002-07) with peak levels of 14.79 and 14.67 *per cent* during 2005-06 and 2006-07. During the current year, it climbed again to the previous peak of 14.79 *per cent* attained in 2005-06. 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 little over 14 *per cent* during IX Plan (1997-2002) and X Plan (2002-07) with peak level of 15.91 *per cent* during 2003-04. During the last three years of the X Plan (2002-07), the interest receipts of Union Government have virtually declined in absolute terms mainly on account of implementation of the debt swap scheme that resulted in a reduced corpus of outstanding loans with lower interest rates and consolidation and re-schedulement of outstanding loans at lower rate of interest under the scheme of DCRF recommended by the TFC. The interest receipts as *per cent* to outstanding loans has therefore consistently declined from 15.91 *per cent* in 2003-04 to 11.49 *per cent* in 2006-07. Taking a turnaround, the interest receipts have increased by Rs. 8059 crore (30.35 *per cent*) in 2007-08 over the previous year mainly on account of an increase of Rs. 2896 crore (77 *per cent*) in interest receipts on loans for State Plan Schemes and an increase of Rs. 1581 crore in interest receipts along with a premium of Rs. 2893 crore arising out of market stabilisation scheme during the year leading to sharp increase in return on Union Government loans and advances to 15.68 *per cent* which is quite close to the previous peak level in 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 8.65 *per cent* was marginally higher than the rate of interest (7.54 *per cent*) on government's borrowings. However, the rate of return on investment

witnessed a significant acceleration and had a positive shift rate of 17.36 *per cent* during 1992-2008. At the current levels, the return on investments exceeded the cost of raising resources by 6.55 percentage points.

4.33 In social and economic services, recovery rates (revenue receipt/revenue expenditure) witnessed a decelerating trend. In both of these 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 time increased collections under the head 'Information and Publicity' amounting to Rs. 1139 crore over the previous year. This ratio, however, declined steeply as expected to 1.03 *per cent* in the subsequent year which indicated an upsurge and increased to 1.21 in 2007-08. During the current year again, it seems that improvement in this ratio was the outcome of major increases in receipts recorded under the residual head '800-other receipts' of the major heads 'Housing' (Rs. 52 crore); 'Urban Development' (Rs. 115 crore) and 'Information and Publicity' (Rs. 93 crore) over the previous year.

4.34 The overall ratio of revenue receipts to revenue expenditure from economic services declined from 57.13 *per cent* during the VIII Plan (1992-97) to 44.56 *per cent* during the X Plan (2002-07). During the X Plan period, recovery of user charges however widely fluctuated from 51.37 *per cent* in 2004-05 to 40.32 *per cent* in 2006-07. During the current year, it indicated an upsurge and increased to 45.92 *per cent* mainly due to more receipts from railways and communications including postal receipts, power and petroleum which together contributed 95 *per cent* of total receipts from economic services during 2007-08. Notwithstanding the improvement in the current year, long term trend in recovery of user charges exhibited a negative shift rate during the period 1992-2008. 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

4.35 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

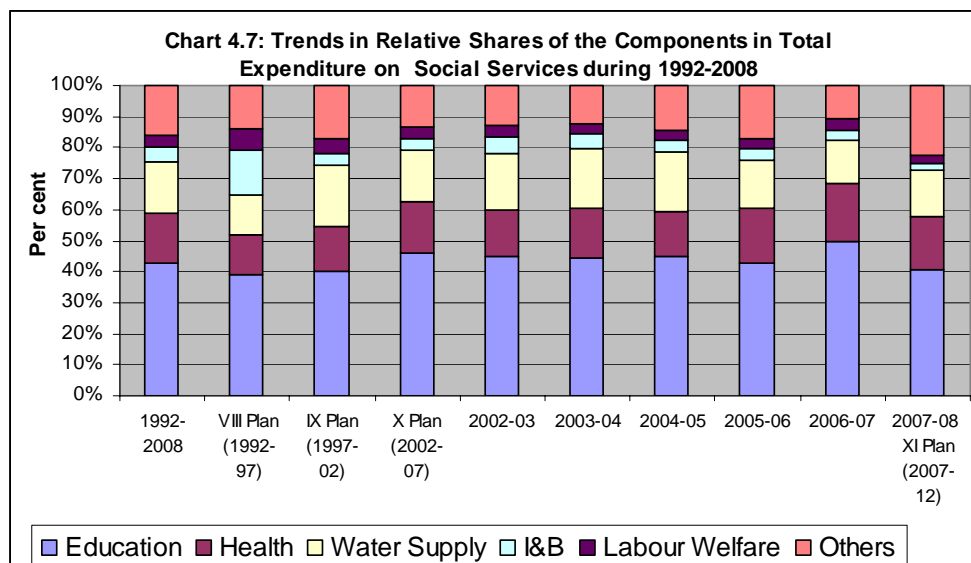
**Report of the CAG on
Union Government Accounts 2007-08**

considered developmental in nature. Table 4.12 and Chart 4.7 below indicate the trends in expenditure on social services and its various components as well as the in share of each component during the period 1992-2008.

**Table 4.12: 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
1992-2008	21308	9139	3342	3594	968	843	3422
VIII Plan (1992-97)	6903	2696	901	887	986	465	968
IX Plan (1997-02)	15998	6457	2227	3217	568	768	2761
X Plan (2002-07)	32634	14970	5379	5492	1272	1133	4389
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
2006-07	46494	23200	8510	6648	1389	1851	4896
XI Plan (2007-12)							
2007-08	63246	25606	10938	9523	1355	1653	14171
Average Annual Growth Rate (per cent)							
1992-2008	17.24	18.44	19.64	20.94	-	9.74	19.54
VIII Plan (1992-97)	19.61	16.02	11.39	35.64	12.93	9.52	36.63
IX Plan (1997-02)	7.96	11.38	19.15	12.90	0.00	10.68	25.93
X Plan (2002-07)	21.89	23.90	28.92	13.45	4.51	24.29	21.12
2002-03	33.94	30.10	7.04	1.46	(-) 137.58	(-) 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
2006-07	18.73	37.76	24.29	8.97	3.35	50.12	(-) 27.92
XI Plan (2007-12)							
2007-08	36.03	10.37	28.53	43.24	(-) 2.46	(-) 10.72	189.47



4.36 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 average Rs. 32634 crore during X Plan (2002-07) with the peak level of Rs. 46494 crore in 2006-07 which has further enhanced to Rs. 63246 crore during 2007-08, the first year of XI Plan (2007-12). The long-term trend rate of growth in expenditure on social services was 17.24 per cent (1992-2008), 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 too, the increase is mainly on account of enhanced budgetary allocations in social sector, in particular school education, women and child development, health and family welfare (National Rural Health Mission), rural employment, Integrated Child Development Scheme (ICDS), agriculture, waste land development, drinking water and for physical infrastructure including roads.

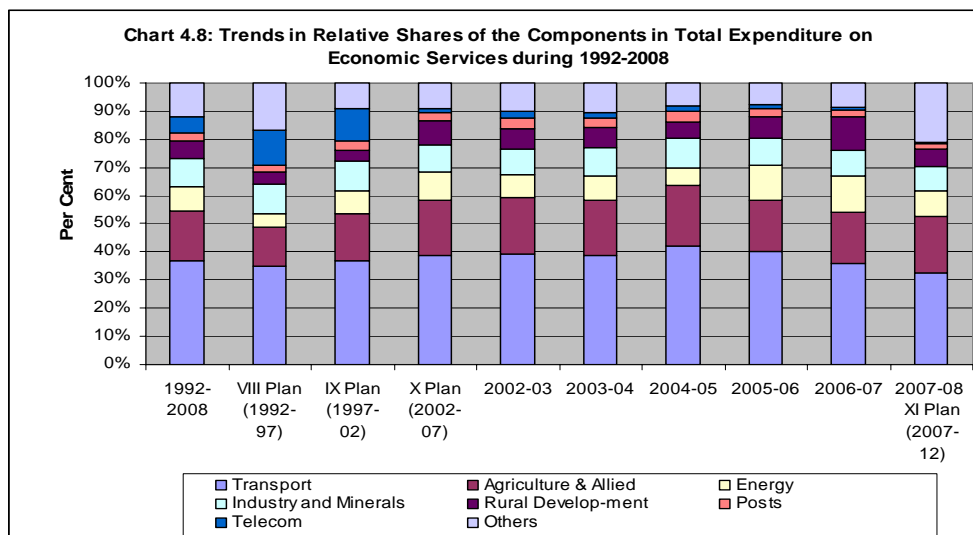
4.37 The trends in the expenditure on components of economic services as well as the variations in their relative shares during the period 1992-2008 are presented in Table 4.13 and Chart 4.8

**Report of the CAG on
Union Government Accounts 2007-08**

Table 4.13: 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
1992-2008	140791	25234	8969	12098	13752	51818	4073	7933	16914
VIII Plan (1992-97)	69161	9665	3263	3061	7229	24246	1598	8417	11682
IX Plan (1997-02)	121107	20048	5146	10158	12294	44714	3937	13554	11256
X Plan (2002-07)	192841	37275	16338	19394	18605	75063	6079	2995	17092
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
2006-07	270891	48376	32642	35315	24776	97615	6857	1983	23327
XI Plan (2007-12)									
2007-08	337115	68802	19772	30497	29389	108976	7097	2098	70484
Average Annual Growth Rate (Per cent)									
1992-2008	11.22	15.06	20.65	18.27	10.06	11.99	13.50	-9.92	6.60
VIII Plan (1992-97)	9.35	14.89	81.37	4.36	2.17	9.22	13.62	26.75	-9.69
IX Plan (1997-02)	6.36	18.28	2.79	1.23	8.78	14.26	19.11	-27.41	-5.55
X Plan (2002-07)	14.46	10.71	25.83	32.07	14.07	12.95	6.26	-11.50	6.91
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
2006-07	30.66	28.58	108.44	35.94	24.77	17.15	5.44	-29.85	49.93
XI Plan (2007-12)									
2007-08	24.45	42.22	-39.43	-13.64	18.62	11.64	3.50	5.79	202.15



4.38 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 average

Rs. 192841 crore during the X Plan (2002-07) after reaching the peak level of Rs. 270891 crore in 2006-07, which has further pushed up to Rs. 337115 crore during 2007-08, the first year of XI Plan (2007-12). The annual trend rate of growth of expenditure on economic services was 11.22 *per cent* during 1992-2008. 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 2005-06 and 2006-07 has resulted in buoyancy in total expenditure on economic services. Recognising the fact that development of agriculture and allied sectors is inevitable to sustain the high growth trajectory, expenditure on this sectors was enhanced to Rs. 48376 crore (28.58 *per cent*) in 2006-07 and further pushed up to Rs. 68802 crore (42.22 *per cent*) in the current year in view of the strategy outlined in XI Plan (2007-12). Besides the moderate growth in transport, industry and minerals, a steep increase in Union Government's investment in General Finance and Trading Institutions (Rs. 49636 crore); International Financial Institutions (Rs. 1594 crore) and in Agricultural Financial Institutions (Rs. 304 crore) led to an increase of Rs. 66224 crore (24.45 *per cent*) in expenditure on economic services.

4.39 There were, however, 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. The allocations to this sector, however, picked up during 2006-07 and 2007-08 following the strategy outlined in XI Plan (2007-12). 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 an average of 25.83 *per cent* during X Plan period with wild fluctuations. The expenditure on rural development sharply declined by Rs. 12870 crore (39.43 *per cent*) in 2007-08 over the previous year primarily on account of non-provisioning for interest payments on special securities issued to FCI in the current year which figured and amounted to Rs. 16200 crore in 2006-07. Expenditure on energy was growing only at moderate rate during VIII Plan and further dipped in IX Plan and exhibited large gyrations during X Plan period (2002-07). During 2005-06, steep increase was recorded largely on account of increased expenditure of the order of Rs. 16989 crore in petroleum sector essentially towards the settlement of the claims of oil companies under administrative pricing. During 2006-07 also, huge subsidies to oil marketing companies as well as payments to them as compensation aggregating Rs. 26877 crore resulted in a growth rate of 35.94 *per cent* in expenditure in energy sector over the already expanded base in the previous year. During the current year, a decline of Rs. 4613 crore

(13.64 *per cent*) in energy was mainly on account of less expenditure of Rs. 23377 crore towards the payment to OMCs for subsidies, settlement of their claims under APM and under-recoveries etc. The 'industry and minerals' with low growth rate of 2.17 *per cent* during VIII Plan increased to an average of 14.07 *per cent* during X Plan (2002-07) with inter year variations. An increase of Rs. 4613 crore (18.62 *per cent*) was registered under this head mainly on account of booking of Rs. 3500 crore as NPPE under 'fertiliser industries' for special bonds issued to fertiliser companies as compensation towards fertiliser subsidy besides normal increases under other industries. 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 which picked up during 2005-06 and 2006-07 and the momentum continued in the current year. A substantial increase by 19.76 *per cent* in 2005-06 was mainly on account of transfer of resources to Reserve Fund under 'Roads and Bridges'. During the current year also, apart from increase in transfer of resources to Reserve Fund under 'Roads and Bridges', higher expenditure on road works resulted in buoyant growth in the sector. 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.

4.40 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 7.286 *per cent* of GDP during 1992-2008. With 7.332 *per cent* of GDP being spent on social and economic services during the VIII Plan (1992-1997) declined to 7.132 *per cent* during IX Plan (1997-2002) and further to an annual average of 7.009 *per cent* during X Plan (2002-07). Expenditures on selected social and economic services relative to GDP are indicated in Table 4.14 and 4.15 respectively.

Table 4.14: Expenditure on Social Services (Revenue and Capital) Relative to GDP

(Per cent)

Period	Social Services	Education	Health & FW	WSS*	I&B**	Labour Welfare	Others
1992-2008	0.958	0.411	0.150	0.162	0.043	0.038	0.154
VIII Plan (1992-97)	0.665	0.260	0.087	0.085	0.095	0.045	0.093
IX Plan (1997-02)	0.832	0.336	0.116	0.167	0.030	0.040	0.144
X Plan (2002-07)	1.014	0.465	0.167	0.171	0.040	0.035	0.136
2002-03	0.889	0.401	0.129	0.165	0.048	0.031	0.115
2003-04	0.893	0.398	0.142	0.170	0.044	0.030	0.109
2004-05	0.988	0.444	0.142	0.190	0.039	0.032	0.141
2005-06	1.094	0.470	0.191	0.170	0.038	0.034	0.190
2006-07	1.121	0.560	0.205	0.160	0.034	0.045	0.118
XI Plan (2007-12)							
2007-08	1.342	0.543	0.232	0.202	0.029	0.035	0.301
Average Annual Rate of Shift in their Relative Shares							
1992-2007	4.410	5.475	6.545	7.705	-	-2.269	6.456

*Water Supply and Sanitation ** Information & Broadcasting

4.41 Expenditure on social services (excluding loans and advances in this sector) had a positive shift rate in their share relative to GDP during 1992-2008. A significant positive shift rate in case of water supply and sanitation sector indicates that making provision of drinking water supply to all the habitations and adequate sanitation facilities both in rural and urban areas, of late, 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, with 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 three years. Efforts towards reprioritisation of the outlays need to be continued for the expansion and strengthening of social services.

Table 4.15: 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
1992-2008	6.328	1.134	0.403	0.544	0.618	2.329	0.183	0.358	0.760
VIII Plan (1992-97)	6.667	0.932	0.315	0.295	0.697	2.337	0.154	0.811	1.126
IX Plan (1997-02)	6.300	1.043	0.268	0.528	0.640	2.326	0.205	0.705	0.586
X Plan (2002-07)	5.995	1.159	0.508	0.603	0.578	2.333	0.189	0.093	0.531
2002-03	6.276	1.267	0.478	0.494	0.569	2.461	0.221	0.142	0.644
2003-04	6.028	1.195	0.442	0.496	0.608	2.337	0.206	0.113	0.631
2004-05	5.267	1.155	0.301	0.314	0.561	2.209	0.189	0.114	0.425
2005-06	5.791	1.051	0.437	0.726	0.555	2.327	0.182	0.079	0.435
2006-07	6.534	1.167	0.787	0.852	0.598	2.355	0.165	0.048	0.563
XI Plan (2007-12)									
2007-08	7.153	1.460	0.420	0.647	0.624	2.312	0.151	0.045	1.495
Average Annual Rate of Shift in their Relative Shares									
1992-2008	-0.952	2.466	7.445	5.331	-1.987	-0.264	1.084	-19.780	-5.070

4.42 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 6.667 *per cent* of GDP during the VIII Plan (1992-1997) marginally to 6.3 *per cent* during IX Plan (1997-2002) and further to an annual average of 5.995 *per cent* during the X Plan (2002-07). During the X Plan period, it consistently improved since 2004-05 and increased to 7.153 *per cent* during the current year. Within the sphere of economic services; transport, industry and telecom sectors along with residual economic services classified under 'Others' had exhibited a negative rate of shift in their relative shares during 1992-2008. 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's priority for the sector particularly in the context of generating employment opportunities in rural areas.