

## CHAPTER IV : GROWTH OF EXPENDITURE

### 4.1 Trend of total expenditure

As against the 'total disbursements', which include the repayment of debt and public account payments, the term 'total expenditure' has been used in this Report to denote all expenditure, both revenue and capital, out of the Consolidated Fund of India, excluding the repayment of debt.

The total expenditure out of the Consolidated Fund of India of the Union Government, excluding the repayment of debt, during the last five years is given below. The figures of total expenditure of Union Government during the last 23 years since 1976-77 are given in Appendix III.

**Table 4.1(i) : Total expenditure of Union Government**

*(Rupees in crore)*

Year	Revenue			Capital			Loans and advances			Total		Grand total	As %age of GDP*
	Plan	Non plan	Total	Plan	Non plan	Total	Plan	Non plan	Total	Plan	Non plan		
1998-99	40550	259906	300456	8763	16437	25200	17936	28658	46594	67249	305001	372250	21.12
1997-98	35206	242526	277732	10126	10099	20225	16477	18994	35471	61809	271619	333428	21.32
1996-97	31668	194704	226372	7671	8033	15704	15737	13298	29035	55076	216035	271111	21.23
1995-96	29021	169281	198302	5786	11758	17544	12417	12393	24810	47224	193432	240656	21.91
1994-95	28304	149395	177699	10543	8723	19266	12932	10966	23898	51779	169084	220863	23.36

During 1998-99, the total expenditure of Rs 372250 crore of the Union Government in absolute term increased by Rs 38822 crore from Rs 333428 crore in 1997-98, which constituted an increase of 11.64 per cent over the previous year. During 1998-99, the plan expenditure was 18.07 per cent of the total expenditure, whereas the non-plan expenditure was 81.93 per cent. However, plan expenditure as percentage of total expenditure decreased by 0.47 percentage points in 1998-99 as compared to 1997-98.

Plan expenditure, out of which mostly assets are created/expenditure for social development are met, declined over the last five years to 18.07 per cent in

\* GDP : Rs 1762609 crore

1998-99 from 23.44 per cent in 1994-95 whereas non-plan expenditure which mostly comprises of establishment and maintenance expenditure increased to 81.93 per cent from 76.56 per cent over the same period.

### *Increase in total expenditure over five years*

**Increase in revenue receipts did not match the increase in expenditure, necessitating more dependence on borrowed funds.**

Over the five year period since 1994-95, the total expenditure increased from Rs 220863 crore to Rs 372250 crore, which constituted an increase of over 68.54 per cent, while the net revenue receipts during the same period increased by 64 per cent. In absolute terms while the total expenditure increased by Rs 151387 crore, the net revenue receipts increased by only Rs 93219 crore increasing further the dependence on borrowed funds by about Rs 58168 crore over the level of dependence on borrowed funds in 1994-95.

**The reduction in expenditure as percentage of GDP was attributed largely due to reduction in capital expenditure**

The total expenditure of Union Government declined from an average of 25.07 per cent of GDP during the period 1989-90 to 1993-94, to an average of 21.79 per cent between 1994-95 and 1998-99. This decline was achieved by (i) average reduction in expenditure in asset creation from 5.93 per cent in 1989-94 to 3.91 per cent in 1994-99 and (ii) compression in expenditure on General and Economic Services spending by Government in terms of GDP from 8.59 per cent to 8.34 per cent and 8.23 per cent to 6.69 per cent respectively during 1994-95 to 1998-99.

### *Gap between net total expenditure and net revenue receipt*

The resource gap between net total expenditure and net revenue receipt during the last five years was as under:-

**Table 4.1 (ii) Net expenditure and receipts**

*(Rupees in crore)*

Year	Net revenue expenditure <sup>▲</sup>	Capital expenditure	Net loans and advances	Total	Net revenue receipts <sup>¶</sup>	Net total expenditure (col. 5 - 6)	Col. 7 as %age of GDP
1	2	3	4	5	6	7	8
1998-99	275791	25200	33404	334395	215224	119171	6.76
1997-98	255286	20225	25875	301386	195853	105533	6.75
1996-97	204827	15704	20339	240870	172173	68697	5.38
1995-96	180291	17544	17811	215646	150560	65086	5.92
1994-95	161416	19266	17391	198073	130387	67686	7.16

The gap between the net total expenditure and net revenue receipts of the Union Government during 1998-99 was of Rs 119171 crore, but as percentage of GDP it more or less remained around the same level. In absolute terms, the gap widened by Rs 13638 crore over previous year, which was mainly due to increase in expenditure on pension and other retirement benefits (Rs 3176

<sup>▲</sup> Excludes states' share of union excise duties

<sup>¶</sup> Excludes States' share of union excise duties and assignment of income tax to states

crore), other general services (Rs 3454 crore), railway commercial lines working expenses (Rs 1929 crore) and interest payment (Rs 12245 crore), etc. which was partially offset by lower expenditure in a few other heads.

## 4.2 Distribution of total expenditure : Revenue, capital and loans

The percentage share of each component of expenditure in total expenditure in the corresponding year of the last two decades were as under:

**Table 4.2 (i) : Distribution of total expenditure**  
(As percentage of total expenditure)

Year	Revenue	Asset formation	Loans and advances	Total asset formation + loans and advances
1998-99	80.71	6.77	12.52	19.29
1988-89	74.22	11.01	14.77	25.78
1978-79	65.38	10.35	24.27	34.62

Share of expenditure on capital account including loans and advances decreased by 15 percentage points over last two decades.

Revenue expenditure as percentage of the total expenditure increased at the cost of capital expenditure.

Over the 1979-89 decade, the percentage share of expenditure for capital formation in the total expenditure increased from 10.35 per cent in 1978-79 to 11.01 per cent in 1988-89, while the share of the revenue expenditure increased from 65.38 per cent to 74.22 per cent.

In the next decade 1989-99, revenue expenditure registered an increase of 6.49 percentage points from 74.22 to 80.71 per cent.

On the other hand, expenditure on capital formation decreased by 4.24 percentage point from 11.01 to 6.77 per cent over the same period. The share of loan and advances also registered a decreasing trend. Its share in the total expenditure decreased from 24.27 per cent in 1978-79 to 14.77 per cent in 1988-89 and further to 12.52 per cent in 1998-99.

Trend of public expenditure on current and development components over the last two decades and during the last five years has been presented as under:

**Table : 4.2 (ii) Pattern of total expenditure***(In percentage)*

Year	1998-99	1997-98	1996-97	1995-96	1994-95	1988-89	1978-79
RDE/TRE	13.50	12.68	13.99	14.63	15.93	14.67	15.24
CDE/TCE	37.19	47.76	52.32	42.98	54.39	57.38	59.28
TRE/(TRE+TCE)	80.71	83.30	83.50	82.40	80.46	74.22	65.38

RDE= Revenue Development Expenditure TRE = Total Revenue Expenditure CDE = Capital Development Expenditure TCE= Total Capital Expenditure

It would be observed from the above table that the development component of both the revenue and capital expenditure (including loan) dwindled over the period. Over a period of two decades 1978-99, the plan component of revenue expenditure came down to 13.50 per cent from 15.24 per cent. On the other hand, plan component of capital expenditure fell drastically to 37.19 per cent from 59.28 per cent over the same period.

An important characteristic of public expenditure is the rising dominance of current expenditure as opposed to the capital component. Current expenditure, which implies revenue expenditure, absorbs as much as 80.71 per cent of total expenditure as against 65.38 per cent over a period of two decades 1978-99. Some of the reasons for ballooning of current expenditure are (i) uncontrolled expansion of subsidies, (ii) growth of borrowings leading to higher outgo on interest payment.

The growth of current expenditure has effected (i) a substantial drop in the rate of capital expenditure; (ii) a regime of high interest rate thereby fueling the inflationary trends

Some important items of revenue expenditure are discussed in the succeeding paragraphs.

### 4.3 Sectoral expenditure

In the accounts of Union Government, the transactions are accounted under various heads which, in turn, are grouped into sectors. The expenditure heads are grouped into General Services, Social Services and Economic Services. Specific functions or services are grouped in a sector. For example, Education, Sports, Art and Culture, Health and Family Welfare, Water Supply and Sanitation, Housing and Urban Development etc. are grouped under Social Services. Similarly, Agriculture, Rural Development, Irrigation and Flood Control, Energy, Industry and Mines, Transport Communication, Science, Technology and Environment, Tourism, Foreign Trade and Civil Supplies etc. are included in Economic Services. The General Services on the other hand include the expenditure on organs of State, Collection of Taxes on Commodities and Services, Fiscal Services, Interest Payments, Administrative Services, Defence Services and Pensions.

The sectoral classification, therefore, broadly indicates the expenditure on the group of specific functions and services. Grants-in-aid to State Governments represent a block of distinct expenditure, where detailed utilisation is reflected in the accounts of respective State Governments. These along with loans to State Governments have been analysed separately. A key trend has been movement towards providing services rather than creation of assets.

The sectorwise trend of the expenditure presented on the above basis is analysed in the succeeding paragraphs.

**Table 4.3 : Sectoral expenditure of Union Government**

*(Rupees in crore)*

Sector *	1998-99	1997-98	1996-97	1995-96	1994-95
General Services °	146968	124635	107335	93934	81208
As %age of total exp	39.48	37.38	39.59	39.03	36.77
As %age of GDP	8.34	7.97	8.40	8.55	8.59
Social Services	15255	12371	10040	8006	6189
As %age of total exp	4.10	3.71	3.70	3.33	2.80
As %age of GDP	0.87	0.79	0.78	0.73	0.65
Economic Services	117946	112540	84293	79165	77861
As %age of total exp	31.68	33.75	31.09	32.90	35.25
As %age of GDP	6.69	7.20	6.60	7.21	8.23

### **General Services**

In absolute terms, the expenditure on General Services increased from Rs 81208 crore in 1994-95 to Rs 146968 crore in 1998-99, which constituted an increase of 80.98 per cent, whereas the increase on Social Services and Economic Services was 146.49 per cent and 51.48 per cent respectively over the same period. As a proportion of the total expenditure, the share of expenditure on General Services increased from 36.77 per cent in 1994-95 to 39.48 per cent in 1998-99 but as percentage of GDP, it declined by 0.25 percentage point over the same period.

Of the total expenditure on General Services during 1998-99, interest payment accounted for 52.99 per cent while expenditure on Defence Services was 28.06 per cent.

### **Social Services**

The share of Social Services to total expenditure increased from 2.80 in 1994-95 to 4.10 per cent in 1998-99, and as percentage of GDP, it increased from 0.65 to 0.87 per cent.

**Expenditure on General Services as percentage of GDP declined from 8.59 to 8.27 over the five year period.**

\* This classification excludes loans to foreign Governments, U.T. Governments and revenue expenditure on account of grant-in-aid, which do not falls distinctly under any specific group  
 ° This classification includes loans to Government servants and miscellaneous

The expenditure on Education, which is a major component of social service, as percentage of total expenditure increased from 0.95 per cent in 1994-95 to 1.57 per cent in 1998-99. As a percentage of GDP also, it increased from 0.22 per cent to 0.33 per cent over the same period.

The expenditure on Health and Family Welfare increased from 0.42 per cent of total expenditure in 1994-95 to 0.50 per cent in 1998-99. But as a percentage of the GDP, it declined from 0.10 per cent in 1994-95 to 0.09 per cent in 1997-98 and increased to 0.10 per cent in 1998-99.

#### *Economic Services*

The share of Economic Services, which includes crucial infrastructure sectors like roads, coal, power etc. decreased from 35.25 per cent of total expenditure in 1994-95 to 31.68 per cent during 1998-99. As percentage of GDP, it dropped from 8.23 per cent to 6.69 per cent over the same period. In comparison to the previous year, spending on Economic Services decreased in relation to total expenditure by 2.07 percentage points and as a ratio to GDP it also dropped by 0.51 percentage point. The increase in expenditure during 1998-99 over the previous year was due to more expenditure in food storage and warehousing, power, industry, railway commercial lines, crop husbandry and other general economic services.

#### **4.4 Transfer to States/UT**

Union Government provides assistance to States/UTs in the shape of grants and loans, in addition to share of income tax and union excise duties to augment their resources. Assistance provided during the last five years was as under :-

**Table 4.4 : Transfer to States/UTs**

*(Rupees in crore)*

Year	Assignment of income tax	Share of excise duty	% age of total tax collected by Union Government transferred to states	Grants	Loans	Total transfer	Total (excluding share of income tax)	%age of Col.8 to total expenditure <sup>¥</sup>	Repayment of principal and interest by State Governments	Net transfer to States (Col 7-10)
1	2	3	4	5	6	7	8	9	10	11
1998-99	14480	24665	27.22	25829	40797	105771	91291	24.52	30718	75053
1997-98	13508	22446	25.83	30452	30461	96867	83359	25.00	24932	71935
1996-97	13516	21545	27.23	23545	24030	82636	69120	25.49	21622	61014
1995-96	11274	18011	26.33	21577	19627	70489	59215	24.61	17791	52698
1994-95	8560	16283	26.92	20297	18807	63947	55387	25.08	15677	48270

<sup>¥</sup> Please see table 4.1 (i) for total expenditure (Rs. 372250 crore) of the Union Government

**25 per cent of total expenditure of Union Government was 'transfer' to states.**

Total transfer of resources to States/UTs increased from Rs 63947 crore in 1994-95 to Rs 105771 crore in 1998-99, which constituted an increase of 65.40 per cent. During 1998-99, 24.52 per cent of the total expenditure of Union Government's transfer to states formed the receipt of the respective States/UTs Governments. This was in addition to transfer of Rs 14480 crore towards share of net proceeds of income tax assigned to states.

Net transfer to States/UTs net of repayment and interest payment increased from Rs 48270 crore in 1994-95 to Rs 75053 crore in 1998-99, which constituted an increase of 55.48 per cent.

**Rs 23788 crore was assigned to States/UTs as loan out of small savings collections**

Out of total loans of Rs 40797 crore disbursed to States/UTs during 1998-99, Rs 23788 crore constituting 58.31 per cent was the share of small savings collections, which formed part of the loans for non-plan schemes.

Borrowed money is being used for transfers and these transfers are increasingly used to finance revenue expenditure unlikely to increase State Governments' capacity to repay and this is putting the whole system to risk.

#### **4.5 Trend of revenue expenditure**

Revenue expenditure is for the normal day to day running of Government, departments and various services, interest charges on debt incurred by Government, subsidies, etc.

Broadly speaking, expenditure which does not result in creation of assets is treated as revenue expenditure. All grants given to State Governments and others are also treated as revenue expenditure even though some of the grants may be for creation of assets. The revenue expenditure over the last 23 years is indicated in Appendix III.

The trend of revenue expenditure for the last five years was as under:-

**Table 4.5 (i) : Revenue expenditure**

*(Rupees in crore)*

Year	Plan	Non-plan	Total	Increase over the previous year	Revenue expenditure as %age of GDP	Revenue expenditure as %age of total expenditure
1998-99	40550	259906	300456	22724	17.05	80.71
1997-98	35206	242526	277732	51360	17.76	83.30
1996-97	31668	194704	226372	28070	17.73	83.50
1995-96	29021	169281	198302	20603	18.05	82.40
1994-95	28304	149395	177699	25382	18.79	80.46

**Revenue expenditure and interest payment as percentage of GDP increased over the last five years.**

The revenue expenditure increased from Rs 277732 crore in 1997-98 to Rs 300456 crore in 1998-99, which constituted an increase of 8.18 per cent over the previous year. The non-plan revenue expenditure increased by 7.17 per cent in 1998-99 over the previous year, whereas the plan expenditure increased by 15.18 per cent over the same period. During the last five years, the revenue expenditure registered an increase of Rs 122757 crore, which constituted an increase of 69.08 per cent.

The revenue expenditure during 1998-99 as percentage of GDP came down from 17.76 to 17.05 per cent over the previous year. The interest payment component of the revenue expenditure increased from 4.20 to 4.42 per cent of the GDP over the same period.

The increase of Rs 22724 crore in revenue expenditure during 1998-99 over the previous year was mainly due to higher expenditure on interest payment (Rs 12245 crore), payment of States' share of excise duties (Rs 2219 crore), crop husbandry (Rs 624 crore), industries (Rs 1294 crore), food storage and warehousing (Rs 1261 crore), other general economic services (Rs 3455 crore), police (Rs 723 crore), pension and other retirement benefits (Rs 3176 crore), general education (Rs 1320 crore), miscellaneous general services (Rs 511 crore) and power (Rs 396 crore).

At the same time revenue expenditure decreased over the previous year in some areas. The major reductions were in election (Rs 222 crore) and relief on account of natural calamities (Rs 277 crore).



Major components of revenue expenditure for the last five years were as under:-

**Table 4.5 (ii) Major components of revenue expenditure**

*(Rupees in crore)*

	1998-99	1997-98	1996-97	1995-96	1994-95
Interest payments	77882	65637	59478	50045	44060
	(4.42)	(4.20)	(4.66)	(4.56)	(4.66)
Administrative services	8538	7352	5950	4959	4297
	(0.48)	(0.47)	(0.47)	(0.45)	(0.45)
Pensions and misc. general services	13694	10008	7234	6914	5198
	(0.78)	(0.64)	(0.57)	(0.63)	(0.55)
Defence services	31200	27302	21978	19854	17348
	(1.77)	(1.75)	(1.72)	(1.81)	(1.83)
Social services	14146	11633	9325	7348	5353
	(0.80)	(0.74)	(0.73)	(0.67)	(0.57)
Agriculture and allied activities	15183	12931	10435	9306	8629
	(0.86)	(0.83)	(0.82)	(0.85)	(0.91)
Rural development	5175	4914	4448	5643	4163
	(0.29)	(0.31)	(0.35)	(0.51)	(0.44)
Energy	2735	15305	1672	1396	1209
	(0.16)	(0.98)	(0.13)	(0.13)	(0.13)
Industry and mineral	10339	9126	7992	6259	5563
	(0.59)	(0.58)	(0.63)	(0.57)	(0.59)
Transport	32378	30938	26222	24056	21839
	(1.84)	(1.98)	(2.05)	(2.19)	(2.31)
Communications	21589	17463	14532	11902	9607
	(1.22)	(1.12)	(1.14)	(1.01)	(1.02)
General economic services	8239	4398	5358	4807	8173
	(0.47)	(0.28)	(0.42)	(0.44)	(0.86)
Grants-in-aid and contributions	51066	53267	45362	39840	36766
	(2.90)	(3.41)	(3.55)	(3.63)	(3.89)

Figures in bracket indicate percentage of GDP

#### 4.6 Interest payments

Government acts both as a borrower and a lender. Union Government provides loans and advances to State Governments, public sector undertakings, local bodies and Government servants, on which it charges interest at the rates prescribed from time to time.

On the other hand, to finance the gap between the revenue, capital expenditure including the net loans and advances and revenue receipts, the Union Government resorts to borrowings through market loans, issue of treasury bills, securities issued to international financial institutions, gold bonds etc. besides external borrowings. In addition, the Union Government also utilises as resource the net addition to the Public Account consisting of small savings, provident funds, reserve funds, deposits etc., which adds to the liability of the

Government. Interest is payable on the balances of internal and external debt and on the balances in the Public Account.

The interest payment discussed below is to be viewed in the background that while the Government also earns interest on loans provided by it, the interest earned is counted as and included in the revenue receipts and the gross figure of interest payment is material in the context of liability to pay interest and its impact on revenue and therefore on total expenditure.

The interest payment included in the revenue expenditure and interest receipts included in the revenue receipts since 1976-77 are indicated in Appendix IV.

**Growth in interest payment was higher than growth of revenue expenditure.**

Total interest payments by the Union Government increased from Rs 65637 crore in 1997-98 to Rs 77882 crore in 1998-99, which constituted an increase of 18.65 per cent. The increase in interest payment in comparison to previous year was substantial due to higher interest payment on internal debt, external debt, small savings, provident fund etc.

The total interest payment during 1998-99, consisted of Rs 39832 crore on internal debt, Rs 4364 crore on external debt, Rs 30584 crore on small savings, provident fund etc., Rs 444 crore on reserve fund and Rs 2658 crore on other obligations

The rise in interest payments over 1978-79 to 1998-99 is depicted below graphically :

#### 4.6.1 Rate of increase of interest payment on different accounts

The interest payments have nearly doubled every five years.

As can be seen from Appendix-IV, while the overall interest payment increased by 43 times over the two decades 1978-79 to 1998-99, the interest on internal debt increased by about 45 times, on external debt by 19 times and that on small savings and provident funds etc. by 47 times. The interest burden had near about doubled every five years.

The increase in the total interest payment is more prominent in absolute terms after 1986-87.

##### 4.6.1.1 Increase in average interest rate

Rise in average rate of interest has contributed to more rapid increase in interest payment.

Seen in the background of indebtedness of the Union Government analysed in Chapter VII of this Report, while the total liability of the Union Government consisting of internal and external debt, small savings, provident funds, deposits etc. has increased by about 20 times over the period 1978-79 to 1998-99, the increase in interest payment by 43 times is mainly attributable to higher rate of interest on borrowed funds, which has gone up from an average of around 4.21 per cent to 8.73 per cent during the same period. Most of the increase in the rate of interest was on internal borrowings, small savings, provident fund, reserve fund etc.

Almost the entire borrowed funds are applied towards interest payment.

It would also be seen from Appendix V that interest payment in 1978-79 constituted 30.54 per cent of fiscal deficit i.e. borrowed funds, which increased to 68.74 per cent in 1998-99. As percentage of GDP, it increased to 4.42 in 1998-99 from 1.76 per cent in 1978-79.

**Table 4.6.1.1 Interest payments**

(Rupees in crore)

Year	Interest payments	%age of total revenue expenditure	%age of total revenue receipts €	%age of GDP
1998-99	77882	25.92	32.47	4.42
1997-98	65637	23.63	30.07	4.20
1996-97	59478	26.27	30.70	4.66
1995-96	50045	25.24	29.69	4.56
1994-95	44060	24.79	30.04	4.66

Interest payment alone absorbs about 75 per cent of net tax revenue.

The interest payments are, thus, of principal importance constituting 26 per cent of the revenue expenditure and absorbing as much as 74.42 per cent of the Union Government's net tax revenues (i.e. exclusive of States' share of income tax and excise duties). They constitute presently about 4.42 per cent of GDP, which is more than the total expenditure on Defence Services (2.34 per cent of GDP) and also net transfer of resources to the States/UTs (4.26 per cent of GDP).

€ On Rs. 239889 crore for 1998-99 excluding share of net proceeds of taxes on income other than corporation tax assigned to states

#### 4.7 Grants-in-aid

An important component of the revenue expenditure comprises of Grants-in-aid to States, Union Territories and others. The Grants-in-aid paid during the last five years to States and UTs were as under :-

**Table 4.7: Grants-in-aid to States and Union Territories**

Year	States				UTs				<i>(Rupees in crore)</i>	
	Plan schemes	Centrally sponsored plan schemes & others	Non plan grants	Total	Plan schemes	Centrally sponsored plan schemes & others	Non plan grants	Total	Grand total	As %age of revenue expenditure
1998-99	12808	7708	4565	25081	202	51	495	748	25829	8.60
1997-98	11462	6710	11566	29738	168	37	509	714	30452	11.00
1996-97	10276	6775	6106	23157	153	46	189	388	23545	10.40
1995-96	8505	6768	6014	21287	147	49	94	290	21577	10.88
1994-95	10754	6880	2413	20047	118	43	89	250	20297	11.42

The grants to States and Union Territory Governments as percentage of revenue expenditure decreased from 11.00 per cent in 1997-98 to 8.60 per cent in 1998-99.

**Grants to States/UTs as percentage of revenue expenditure increased over the previous year.**

In addition to the above, grants are also released to statutory bodies and non-Government institutions by the Union Government. Detailed observations on working of these bodies are contained in CAG's Report No. 4 of 2000 on 'Other Autonomous Bodies' and 5 of 2000 - Scientific Departments.

#### 4.8 Utilisation certificates

The certificates of utilisation of grants are required to be submitted by the sanctioning authorities in the respective ministry or department to the Controller of Accounts. The purpose of furnishing the certificate is to ensure that grants had been properly utilised for the purpose for which they were sanctioned and where the grants released were conditional, the prescribed conditions had been fulfilled.

**UCs in respect of grants released up to 22 years ago were awaited.**

31858 utilisation certificates relating to Rs 7676.29 crore in respect of grants released up to September 1997 and due up to March 1999 from 25 ministries/departments were outstanding at the end of March 1999 as given in Appendix VI. It will be seen from the Appendix that utilisation certificates were outstanding for up to 22 years. The Ministries/Departments of Social, Justice and Empowerment, Environment and Forest and Ocean Development did not furnish the information about outstanding utilisation certificates.

Pending receipt of huge number of utilisation certificates involving Rs

7676.29 crore, the following Ministries/Departments released fresh grants of Rs 249.32 crore to the defaulting statutory bodies, non-Government organisations etc. during 1998-99 without insisting for the utilisation certificates in respect of grants released in the previous years:

**Table 4.8 : Fresh release of grants**

**(Rupees in crore)**

Sl. No.	Ministry/ Department	No of utilisation certificates outstanding as on 31.03.99	Amount	Amount of fresh grants released during 1998-99 without obtaining UCs of previous years
1.	Agriculture and Cooperation	355	116.68	64.21
2.	Fertilizers	23	15.25	10.00
3.	Statistics	01	0.10	1.25
4.	Surface Transport	02	0.17	0.40
5.	Commerce and Textiles	648	19.77	5.89
6.	Andaman & Nicobar Islands	02	3.56	11.49
7.	Space	273	5.15	2.82
8.	Urban Affairs and Employment	528	294.63	153.23
9.	Small Scale Industries and Agro Rural Industries	29	0.87	0.03
	<b>Total</b>			<b>249.32</b>

This indicated that the authorities releasing grants to statutory bodies, non-Government organisations, etc. released the fresh grants without ensuring that the previous grants were utilised for the purpose for which they were sanctioned.

The ministries/departments of Health and Family Welfare, Human Resource Development, Law, Justice and Supreme Court of India, Steel and Mines, Civil Supplies and Consumers Affairs and Rural Development did not furnish the information about fresh grants released during 1998-99 despite outstanding UCs for the previous years.

#### **4.9 Trend of capital expenditure**

Capital expenditure may be broadly defined as expenditure incurred with the object of increasing concrete assets of a material and permanent character. In addition, financial assets arise from moneys invested in institutions or commercial undertakings (i.e. PSU and Corporation) and loans and advances to States, Union Territories, Foreign Governments, etc. The capital expenditure booked in the accounts are net of expenditure met from recoveries/revenues and various reserves and development funds.

The trend of capital expenditure over the last five years was as under :

**Table 4.9 (i) : Capital expenditure**

*(Rupees in crore)*

Year	Capital expenditure			%age growth over the previous year	As %age of total expenditure	As %age of GDP
	Plan	Non-plan	Total			
1998-99	8763	16437	25200	24.60	6.77	1.43
1997-98	10126	10099	20225	28.79	6.06	1.29
1996-97	7671	8033	15704	(-) 10.49	5.79	1.23
1995-96	5786	11758	17544	(-) 8.94	7.29	1.60
1994-95	10543	8723	19266	(-) 21.84	8.72	2.04

Capital expenditure of the Union Government as booked in the Finance Accounts increased from Rs 20225 crore in 1997-98 to Rs 25200 crore in 1998-99 which constituted an increase of 24.60 per cent over the previous year. As a percentage of total expenditure and of GDP, it also increased by 0.71 and 0.14 percentage points respectively over the previous year. The non-plan capital expenditure increased by 62.76 per cent during 1998-99 over the previous year whereas the plan capital expenditure dipped by 13.46 per cent. Overall capital expenditure in real terms increased by Rs 4975 crore. Major increase in capital expenditure was mainly in power projects (Rs 279 crore), housing (Rs 99 crore), engineering industry (Rs 41 crore), railway commercial lines (Rs 195 crore), police (Rs 52 crore) health and family welfare (Rs 30 crore), water supply and sanitation (Rs 15 crore) urban development (Rs 64 crore), welfare of SC/ST/OBC (Rs 188 crore), fisheries (Rs 30 crore), non-conventional energy (Rs 297 crore), shipping (Rs 75 crore), atomic energy research (Rs 46 crore), space research (Rs 40 crore) and investment in international financial institutions (Rs 7480 crore).

Over the period of five years, plan expenditure decreased by 16.88 per cent whereas non plan expenditure increased by 88.43 per cent. The overall capital expenditure increased by 30.80 per cent over the same period.

The capital expenditure during 1998-99 does not include Rs 14041 crore, which was met from recoveries/revenues and various reserves and development funds.

**Major capital expenditure**

The major capital expenditure for the last five years was as under:-

**Table : 4.9 (ii) Major capital expenditure**

	<i>(Rupees in crore)</i>				
	1998-99	1997-98	1996-97	1995-96	1994-95
Roads and bridges	1650	1676	1157	829	928
	(0.09)	(0.11)	(0.09)	(0.08)	(0.10)
Power projects	2141	1862	1041	1038	1549
	(0.12)	(0.12)	(0.08)	(0.09)	(0.16)
Petroleum	--	--	74	1035	529
	--	--	(0.006)	(0.09)	(0.06)
Investment in general financial and trading institution	(-) 2099	2637	(-) 2	(-) 656	4865
	[-] (0.12)	(0.17)	[-] (0.0002)	[-] (0.06)	(0.51)
Railway commercial lines	2183	1988	1463	1140	1145
	(0.12)	(0.13)	(0.11)	(0.10)	(0.12)
Public works	214	204	234	197	298
	(0.01)	(0.01)	(0.02)	(0.02)	(0.03)
Defence	10036	9103	8508	8015	6819
	(0.57)	(0.58)	(0.67)	(0.71)	(0.72)
Housing	410	311	249	255	199
	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)
Investment in agricultural financial institution	253	300	300	330	260
	(0.01)	(0.02)	(0.02)	(0.03)	(0.03)
Atomic energy	354	415	407	445	469
	(0.02)	(0.03)	(0.03)	(0.04)	(0.05)
Investment in international financial institutions	7480	(-) 326	327	2914	45
	(0.42)	[-] (0.02)	(0.03)	(0.27)	(0.005)

(Figures in the brackets are as percentage of GDP)

From the above table, it would be seen that capital expenditure on roads and bridges increased in absolute terms from Rs 928 crore in 1994-95 to Rs 1650 crore in 1998-99. As percentage of GDP, it decreased from 0.10 per cent to 0.09 per cent over the same period.

In power projects, the capital expenditure increased from Rs 1549 crore in 1994-95 to Rs 2141 crore in 1998-99 and as percentage of GDP there has been a decrease of 0.04 percentage points over the same period.

During 1998-99, expenditure on investment in general financial and trading institutions, which involves investment in public sector undertakings, nationalised banks, was negative. One of the reasons for the negative expenditure was reduction of Government's investment in nationalised banks

to the tune of Rs 2574 crore to adjust the accumulated losses of the nationalised banks

Capital expenditure in railway commercial lines increased from Rs 1145 crore in 1994-95 to Rs 2183 crore in 1998-99. As percentage of GDP, it remained constant at 0.12 per cent over the same period.

In Defence, the capital expenditure increased from Rs 6819 crore in 1994-95 to Rs 10036 crore in 1998-99 and as percentage of GDP there has been a decrease of 0.15 percentage points over the same period.

Capital expenditure in the investment in international financial institutions increased from Rs 45 crore in 1994-95 to Rs 7480 crore in 1998-99. As percentage of GDP, it also increased from 0.005 per cent to 0.42 per cent over the same period.

Some items of capital expenditure have been analysed in the succeeding paragraphs.

#### **4.10 Investment and returns**

The details of investments by Government in statutory corporations, Government companies, other joint stock companies, co-operative banks and societies, international bodies etc. along with dividend received during the years 1994-95 to 1998-99 are given in Appendix VII.

##### **4.10.1 Total progressive investment**

The progressive total investment (excluding Reserve Bank of India) of the Government in statutory corporations, Government companies, other joint stock companies, co-operative banks and societies, international bodies etc. increased from Rs 83772.33 crore on 31 March 1998 to Rs 86196.52 crore on 31 March 1999.

##### **4.10.2 Dividend from Government companies and corporations**

The Union Government received a dividend of Rs 2383.57 crore during 1998-99 against the total investment of Rs 60098.78 crore in 244 Government companies and corporations, which was only 3.97 per cent of investment as on 31 March 1999. Out of 244 PSUs, 77 paid dividend to the Union Government which ranged between 0.04 and 131.76 per cent of the equity. The major contributors of dividend are Oil and Natural Gas Commission (Rs 343 crore), National Thermal Power Corporation (Rs 504 crore), Gas Authority of India (Rs 163 crore), Indian Oil (Rs 177 crore), Central Warehousing Corporation (Rs 55 crore), Indian Petro-chemicals Ltd. (Rs 59 crore), National Fertilizers Ltd. (Rs 50 crore), Power Finance Corporation (Rs 91 crore), Hindustan Petroleum (Rs 58 crore) and Bharat Petroleum (Rs 50 crore).

**Against the total investment of Rs 60099 crore in 244 PSUs the yield in dividend was only 3.97 per cent .**



Besides, as brought out in paragraph 3.3.1 Reserve Bank of India paid a dividend of Rs 5977.10 crore during 1998-99.

The number of PSUs, Ministry/Department-wise paying dividend as on 31 March 1999 is as under:

**Table : 4.10.2 Sector wise number of PSUs paying dividend**

S. No.	Name of the Ministry/ Department	Number of PSUs	Number of PSUs paying dividend
1.	Science & Technology	2	Nil
2.	Steel	16	9
3.	Civil Aviation & Tourism	5	2
4.	Food & Civil Supply	3	1
5.	Home Affairs	16	3
6.	Health and Family Welfare	3	2
7.	Petroleum and Natural Gas	14	12
8.	Agriculture	13	3
9.	Chemicals and Fertilizers	19	6
10.	Commerce	8	4
11.	Communication	5	4
12.	Defence	8	7
13.	Electronics	3	1
14.	Energy	13	6
15.	Environment and Forest	3	1
16.	Finance	2	Nil
17.	Food Processing	2	1
18.	Human Resource Development	1	1
19.	Industry	50	3
20.	Information and Broadcasting	2	2
21.	Planning	2	Nil
22.	Rural Areas and Employment	3	Nil
23.	Railways	10	Nil
24.	Space	1	1
25.	Surface Transport	10	2
26.	Textiles	10	2
27.	Urban Affairs and Employment	4	Nil
28.	Water Resources	3	1
29.	Welfare	8	1
30.	Atomic Energy	5	2
	<b>Total</b>	<b>244</b>	<b>77</b>

#### **4.10.3 Non compliance of directive by PSUs**

**17 PSUs did not pay dividend of Rs 261 crore in disregard of Government instruction.**

PSUs which register post-tax profit are required to pay 20 per cent of their post-tax profit as dividends. Seventeen PSUs, which together registered post tax profit of Rs 1303.49 crore in 1997-98 as indicated in Appendix VIII, did not pay dividend of Rs 260.70 crore in compliance to the directive of the Government.

Mention was also made in respect of Neyveli Lignite Corporation Ltd., Indian Railways Finance Corporation Ltd., Ircon International Ltd., Container Corporation of India Ltd, Rail India Technical and Economic Services, National Minorities Finance and Development Corporation, New Delhi, Cotton Corporation of India and Nuclear Corporation of India Ltd., Mumbai for non payment of dividend in Para 7.2.3 of Report No. 1 of 1999 of Comptroller and Auditor General of India.

It would thus appear that Government nominees of the Board of Directors of these PSUs were not ensuring that the minimum level of dividend as stipulated by the Government accrues to it. Besides, the Government has not taken effective steps to secure compliance to its own instructions.

Detailed observations on investments and returns in Government companies and corporations, to which the audit jurisdiction of the CAG extends, are contained in CAG's Reports on Public Enterprises.

#### **4.10.4 Dividend from State co-operative banks etc.**

The total dividend of Rs 41 crore on investment of Rs 2232 crore in State co-operative banks and other banks (excluding nationalised banks, Industrial Development Bank and Reserve Bank) in 1998-99 was 1.85 per cent as compared to 1.58 per cent in 1997-98. National Bank for Agriculture and Rural Development (NABARD) and Industrial Reconstruction Bank of India in which Rs 694 crore (Rs 550 crore and Rs 144 crore respectively) were invested up to 1998-99, also did not pay any dividend.

#### **4.11 Recapitalisation assistance to nationalized banks**

There are 19 nationalised banks (NB) in which Union Government investment in the form of share capital as on 31 March 1999 stood at Rs 13672.62 crore. Government's investment in the nationalised banks during last five years was as under:-

**Table 4.11 (i) : Recapitalisation assistance to nationalised banks***(Rupees in crore)*

Year	Investment in NBs as on 31 March	Investment during the year	Dividends received	%age of dividends to total investment	Securities issued to NBs by Union Government as on 31 March	Interest paid by the Government
1	2	3	4	5	6	7
1998-99	13672.62	400.00	384.19	2.81	19112.61	1277.99
1997-98	15846.36	2700.15	314.52	1.98	18712.61	1538.40
1996-97	13146.21	1509.00	209.77	1.60	16150.94	1408.04
1995-96	13673.68	850.00	104.15	0.76	15147.43	1342.09
1994-95	14753.73	4362.94	14.35	0.10	14297.44	631.79

**Government paid interest of Rs 1278 crore to banks on special securities but dividend received from them was only Rs 384 crore.**

Investment of the Union Government in nationalised banks decreased by 7.91 per cent from Rs 14753.73 crore in 1994-95 to Rs 13672.62 crore in 1998-99. Returns accruing to Government in the form of dividend from nationalised banks were below 1 per cent of total investment up to 1995-96 which rose to 1.60, 1.98 and 2.81 per cent during 1996-97, 1997-98 and 1998-99 respectively. The Government paid interest of Rs 1277.99 crore on total securities of Rs 19112.61 crore invested by the banks during 1998-99, which constituted 6.69 per cent.

As per RBI Report on Trend and Progress of Banking in India (1998-99), net profit earned by the nationalised banks during last two years was as under:-

**Table:- 4.11 (ii) Net profit by nationalised banks***(Rupees in crore)*

Year	Net Profit before adjusting interest income on recapitalisation assistance bond	Net Profit after adjusting interest income on recapitalisation assistance bond
1998-99	1792.43	(-) 167.43
1997-98	2569.90	867.97

It would be seen that substantial part of the income of nationalised banks are accruing from interest earned by them on recapitalisation assistance bond. While in 1997-98, it constituted 66 per cent of their net profit before adjusting this interest income, in the year 1998-99, there would have been loss of Rs 167.43 crore had the interest income on recapitalisation assistance bond was adjusted.

In April 1992, Reserve Bank of India introduced a prudential norm of income recognition, asset classification, provisioning requirements for non performing assets and depreciation on investments to be followed by Public Sector Banks. In the said norm, Public Sector Banks were required to achieve certain prescribed rate of Capital to Risk Assets Ratio. Banks with branches in foreign countries were required to achieve a CRAR of 8 per cent by March 1995 and

other banks by March 1996. By March 2000, the banks are required to achieve CRAR of 9 per cent. Since most of the PSBs started reporting losses due to the above norm of income recognition etc., it was not possible for them to achieve the prescribed level of CRAR because while calculating capital, the losses made by the banks were deducted. To enable the banks to achieve the prescribed CRAR, accumulated losses of the banks were written off by writing down Government's investment in banks and fresh capital was infused.

Losses of nationalised banks written off to date and fresh infusion of capital after the introduction of prudential norms were as under:-

**Table 4.11 (iii) : Investment in share capital and losses written off**

*(Rupees in crore)*

Year	Investment during the year	Losses written off	Name of the banks the capital investment in which were written down
1998-99	400.00	2573.74	Bank of Maharashtra (Rs 418.18 crore) Syndicate Bank (Rs 942.62 crore) Andhra Bank (Rs 243.37 crore) Canara Bank (Rs 507.10 crore) Punjab & Sind Bank (Rs 462.47 crore)
1997-98	2700.00	--	--
1996-97	1509.00	1532.00	Allahabad Bank (Rs 532 crore) Indian Overseas Bank (Rs 1000 crore)
1995-96	850.00	1506.21	Bank of India (Rs 1369.92 crore) Dena Bank (Rs 136.29 crore)
1994-95	4362.94	425.23	Punjab National Bank
1993-94	5700.00	Nil	--
<b>Total</b>	<b>15521.94</b>	<b>6037.18</b>	

Government had invested in all Rs 15521.94 crore in the share capital of the nationalised banks since 1993-94. It has also written down Rs 6037.18 crore of its subscribed share capital for adjustment of the losses of nationalised banks over the same period.

A statement showing bank-wise details of capital subscribed/written down during 1993-94 to 1998-99 is given in Appendix IX.

It would be observed from the Appendix -IX that from 1993-94 to 1998-99, Rs 564.19 crore, Rs 1764.52 crore, Rs 1447.87 crore and Rs 2300.96 crore have been invested in the Bank of Maharashtra, Uco Bank, United Bank of India and Indian Bank respectively. Despite recapitalisation assistance of such huge amount, the capital risk adequacy ratio of these banks except the Indian Bank during 1998-99 were below 10 per cent level. The CRAR of Indian Bank during 1998-99 was negative.

Despite regular funding from the Government, these banks have not been able to achieve the targeted CRAR on their own.

This adjustment at the one hand reduces the Government subscription in the capital base of nationalised banks and on the other, Government has to make fresh induction of capital in the shape of recapitalisation assistance. This scheme resulted in the depletion in the past investment made by the Government in the nationalised banks besides increasing the Government's liability on interest payments on account of recapitalisation bonds and low return in the shape of dividends. Thus, Union Government has to bear the cost for poor performance of the nationalised banks.

The difference between the investment made and special securities issued to the nationalised banks during the year and also the difference between the total investment and total special securities outstanding are discussed in Chapter VIII of this Report.

#### **4.12 Recapitalisation assistance to regional rural banks**

Regional rural banks form an integral part of rural financial development. At present there are 196 regional rural banks which are monitored and supervised by National Bank for Agriculture and Rural Development.

Union Government's total up to date investment in regional rural banks as on 31 March 1999 stood at Rs 1024.22 crore. To strengthen the capital base of regional rural banks, Union Government has been releasing capital through budgetary allocations.

Capital invested by Government in regional rural banks during the last five years was as under:-

**Table 4.12: Recapitalisation assistance to regional rural banks**

*(Rupees in crore)*

Year	Investment during the year	Up to date total investment	Dividend received
1998-99	152.65	1024.22	--
1997-98	200.00	871.57	--
1996-97	200.00	671.57	--
1995-96	244.57	471.57	--
1994-95	155.00	227.00	--
1993-94	3.25	72.00	--

Despite large investment in regional rural banks, no dividend accrued to Government since their inception.