

CHAPTER VI : MANAGEMENT OF SUBSIDIES

The Union budget provides for cash subsidies on certain items. In addition, there are various type of hidden subsidies which are not readily visible from the accounts.

6.1 Explicit subsidies

Subsidies provided by the Union Government during the last five years on major items were as under :-

Table 6.1(i) : Expenditure on major explicit subsidies

	<i>(Rupees in crore)</i>				
	1998-99	1997-98	1996-97	1995-96	1994-95
Food and sugar subsidy	9100	7900	6066	5377	5100
Subsidy on indigenous fertilizers	7473	6600	4743	4300	4075
Subsidy on imported fertilizers	333	1659	2184	3047	1166
Payment to manufactures/	3790	2596	1672	500	517
Agencies for concessional sale of decontrolled fertilizers					
Assistance for export promotion and market development	574	420	397	318	658
Interest subsidy	1769	445	680	58	111
Other subsidies	2065	1171	967	892	762
Total	25104	20791	16709	14492	12389

In absolute term food including sugar subsidy increased by Rs 4000 crore during 1998-99 over 1994-95, registering an increase of 78.43 *per cent*. Increase in food subsidy including sugar subsidy over the previous year alone was Rs 1200 crore, which constituted an increase of 15.19 *per cent*.

Over the period of five year subsidy on fertilisers (imported & indigenous) increased from Rs 5241 crore to Rs 7806 crore in 1998-99, an increase of 48.94 *per cent*.

During 1998-99, there was also increase in subsidy in concessional sale of decontrolled fertilisers by Rs 1194 crore and assistance for export promotion & market development by Rs 154 crore over the previous year.

Table 6.1 (ii) : Expenditure on subsidy with relation to BE*(Rupees in crore)*

	1998-99			1997-98			1996-97		
	BE	Actual	%age of increase	BE	Actual	%age of increase	BE	Actual	%age of increase
Food subsidy	9400	9100	--	7500	7900	5.33	5884	6066	3.09
Subsidy on indigenous fertilizers	6000	7473	24.55	5240	6600	25.95	4500	4743	5.40
Subsidy on imported fertilizers	1740	333	--	1950	1659	-	1648	2184	32.52
Payment to manufactures/Agency for concessional sale of decontrolled fertilizers	3000	3790	26.33	2000	2596	29.80	2224	1672	-
Assistance for export promotion and market development	500	574	14.80	440	420	-	460	397	-
Interest subsidy	40	1769	4322.50	34	445	1208.82	434	680	56.68
Other subsidy	2102	2065	--	1086	1171	7.83	1170	967	--
Total subsidy	22782	25104	10.19	18250	20791	13.92	16320	16709	2.38

Total subsidy during 1998-99 increased by 10.19 per cent over BE.

In absolute terms, expenditure on total subsidy during 1998-99 increased by Rs 4313 crore over the previous year. It also outstripped the budget estimates by Rs 2322 crore. As percentage of GDP, it was 1.42 *per cent* during this period.

As percentage of total revenue expenditure, the explicit subsidies jumped within one year from 7.48 in 1997-98 to 8.36 *per cent* in 1998-99.

6.2 Implicit subsidies

In addition to the above subsidies, explicitly provided in the budget, the Union Government is also bearing expenditure which are in the nature of implicit subsidies, some of which are interest or credit subsidy, tax subsidy, equity subsidy, regulatory subsidies, etc. Some of them are analysed below :

6.2.1 Budgetary support to nationalised banks

Budgetary support is provided to nationalised banks to increase their share capital. Presently, there are 19 nationalised banks substantially owned by the Union Government. Arrangements had been made with nationalised banks to re-invest the amount released towards share capital in Government securities, thereby ensuring that such investments have no budgetary impact. While Government receives dividends on investment in share capital of nationalised banks, it pays interest at 10 *per cent* to the banks on re-investment of the amount of share capital in Government securities.

The dividends received from the banks and interest paid by Government to banks on securities during the last five years was as under:-

The difference between the interest on re-investment of share capital and dividend by PSBs amounted to a hidden subsidy of Rs 894 crore.

Table 6.2.1 : Subsidy to nationalised banks*(Rupees in crore)*

Year	Total investment	Dividend received	Interest paid by the Government on reinvestment of share capital	Subsidy to nationalised banks (col. 4 - 3)
<i>(1)</i>	<i>(2)</i>	<i>(3)</i>	<i>(4)</i>	<i>(5)</i>
1998-99	13672.62	384.19	1277.99	893.80
1997-98	15846.36	314.52	1538.40	1223.88
1996-97	13146.21	209.77	1408.04	1198.27
1995-96	13673.68	104.15	1342.09	1237.94
1994-95	14753.73	14.35	631.79	617.44

The gap between the dividend received by the Union Government on its investments in nationalised banks and interest paid by it on securities issued to banks increased from Rs 617.44 crore in 1994-95 to Rs 893.80 crore in 1998-99 constituting 44.76 *per cent* increase. In other words, hidden subsidy is being provided to nationalised banks in the shape of interest on the securities issued to banks while the dividends received on the investment are abysmally low ranging between 0.10 to 2.81 *per cent*.

However, during 1998-99, the interest paid on securities issued to banks came down to Rs 330.08 crore as compared to previous year.

Similar comments were also made in Para 6.2.1 of Report No. 1 of 1999 of Comptroller and Auditor General of India but no reply has been received.

Detailed analysis of investments made and securities issued to nationalised banks have already been discussed in Chapter IV.

6.2.2 Subsidies to PSUs and Statutory Corporations in the form of equity

The trend of the investment made in PSUs and Statutory Corporations for the last five years was as under :

Table 6.2.2 : Subsidies to PSUs and Statutory Corporations*(Rupees in crore)*

Year	Total investment	Dividend received	Percentage of dividend to investment	Weighted average of coupon rate on Government's dated securities
1998-99	60099	2384	3.97	11.86
1997-98	57120	1820	3.19	12.01
1996-97	53194	1577	2.96	13.69
1995-96	49737	1216	2.44	13.75
1994-95	47070	824	1.75	11.90

It would be observed from the above that the percentage of dividend received from the PSUs and Statutory Corporations on investment made by Union Government ranged between 1.75 *per cent* and 3.97 *per cent* during 1994-99.

The revenue receipts were not sufficient to meet even revenue expenditure. Therefore, the Government has to borrow from the market to finance the capital expenditure of the Union Government. The investment in PSUs and Statutory Corporations is an expenditure of capital nature all of which are met through borrowings.

Investment in PSUs which paid negligible dividend also amounted to hidden subsidy.

During 1998-99, the average coupon rate on Government dated securities was 11.86 per cent. On the other hand, percentage of dividend received from PSUs and Statutory Corporations was merely 3.97 per cent during the same period.

Thus, the difference between the dividend received and interest paid on borrowed funds is in the form of hidden subsidy.

6.2.3 Subsidy on postal services

Department of post provides classical services and value added services to the consumers. During 1998-99, out of these services department of post maintained cost data in respect of 20 services, of which, 16 services were running in losses. The average per unit cost and per unit revenue realised from the different postal services during the year 1998-99 on the basis of projected traffic were as under:

Table 6.2.3 : Per unit gain/loss in operation of postal services

Sl. No.	Services	Per unit cost (In rupees.)	Per unit revenue (In rupees)	Unit loss (-) gain (+) (In rupees)	Traffic projected (In crore)	Total loss/gain (Rupees in crore)	
						Loss	Gain
(a)	Established services						
1.	Post card	3.3597	0.2500	(-) 3.1097	48.15	149.73	--
2.	Letter	3.7354	3.9278	(+) 0.1924	134.92	--	25.96
3.	Registered letter	20.6502	11.1667	(-) 9.4835	27.29	258.80	--
4.	Letter card (Inland)	3.2955	1.2917	(-) 2.0038	67.60	135.46	--
5.	Money order	28.7130	16.2341	(-) 12.4789	10.85	135.40	--
6.	Newspaper (Single)	3.8929	0.2645	(-) 3.6284	13.52	49.06	--
7.	Newspaper (Bundle)	7.9187	0.6647	(-) 7.2540	3.83	27.78	--
8.	Indian Postal Order	13.9195	0.9253	(-) 12.9942	2.49	32.36	--
9.	Printed card	3.3635	1.5000	(-) 1.8635	18.15	33.82	--
10.	Value payable letter and parcel	16.7661	2.8484	(-) 13.9177	1.11	15.45	--
11.	Other periodicals	8.4942	2.1323	(-) 6.3619	4.55	28.95	--
12.	Acknowledgement	2.8444	1.5833	(-) 1.2611	8.12	10.24	--
13.	Book packets etc.	6.3038	5.0390	(-) 1.2648	11.00	13.91	--
14.	Telegraphic MO	35.2868	18.2341	(-) 17.0527	0.24	4.09	--
15.	Printed books	7.0325	2.0368	(-) 4.9957	5.86	29.27	--
16.	Insured letter	30.1534	39.7778	(+) 9.6244	0.99	--	9.53
17.	Parcel	35.9468	27.2404	(-) 8.7064	6.19	53.89	
18.	Comp. Post Cards	3.9145	2.5833	(-) 1.3312	3.79	5.05	
(b)	Value added services						
19.	Speed post	22.3372	55.1300	(+) 32.7928	1.27	--	41.65
20.	Foreign Mail	9.3461	10.2061	(+) 0.8600	12.60	--	10.84
	Total					983.26	87.98

The department's net overall loss of Rs 895.28 crore on postal services including Speed Post/Foreign Mail during 1998-99 formed part of implicit subsidy provided to the consumers by the Postal Department.