

## Chapter 3

### APPLICATION OF RESOURCES: EXPENDITURE

**3.1** The Union Government raises resources to perform its sovereign functions, maintain its existing network of delivery of social and economic services, extend the network of these services through capital expenditure and investments and discharge its debt servicing obligations. The government applied total resources of Rs. 1664,333 crore that it mobilised during 2004-05 to disbursements as shown in Table 3.1.

**Table 3.1: Application of Resources**

			<i>(Rupees in crore)</i>
I	Resources available		1664,333
II	Application of Resources		1584,585
	a.	<b>Repayment of Debt</b>	556,269
		Internal Debt	549,167
		External Debt	7,102
	b.	<b>Discharge of liabilities on Public Account</b>	400,388
		Small Savings and Provident Fund	263,293
		Reserve Fund	23,374
		Deposits and Advances	103,993
		Others	9,728
	c.	<b>Actual Expenditure</b>	549,333
		Revenue Expenditure	455,571
		Capital Expenditure	53,654
		Loans and Advances	40,108
	d.	<b>Share of the States in taxes</b>	78,595
III	Closing Cash Balances		79,748*

*\* Inclusive of amounts under the Market Stabilisation Scheme.*

**3.2** The repayments of debt and discharge of public account liabilities (Rs. 956,657 crore), interest payments (Rs. 130,958 crore), assignment of mandated portion of its gross tax receipts to States (Rs. 78,595 crore), grants in aid to states (Rs. 52,686 crore) and closing cash balances (Rs. 79,748 crore) took away nearly 78 per cent of its total resources. Government was, therefore, left with only about 22 per cent of its gross mobilisation to spend on its current activities.

### **Total Disbursement**

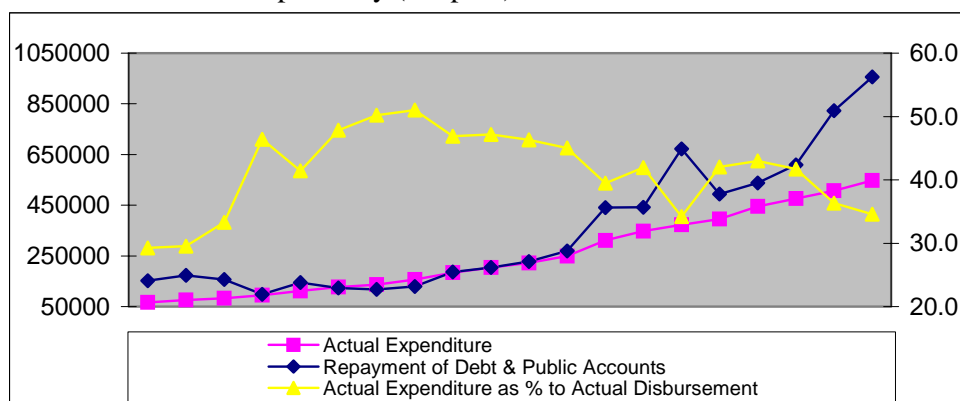
**3.3** Aggregate disbursement of Union Government has four major components: actual expenditure inclusive of the grants in aid to the States; mandatory transfer of the proceeds from Union taxes to the States; repayment of debt and disbursements from public accounts. The relative movements across these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

**Table 3.2: Components of Total Disbursement**

(Rupees in crore)

Period	Actual Expenditure	States' share in taxes	Repayment of Debt	Disbursement in Public Account	Total Disbursement	GDP (Market Price)
1985-2005	255895	31835	211597	136557	635884	1307525
VIII Plan (1992-1997)	203539	26391	126525	77261	433716	1035315
IX Plan (1997-2002)	374502	44622	310011	207404	936539	1914401
2003-04	506817	65766	430963	391783	1395329	2760025
2004-05	549333	78595	556269	400388	1584585	3105512
<b>Average Annual Rate of Growth (in per cent)</b>						
1985-2005	12.22	12.94	9.73	17.17	11.92	13.89
VIII Plan (1992-1997)	11.87	14.41	20.90	14.32	14.84	16.54
IX Plan (1997-2002)	8.86	11.05	-2.34	22.05	7.00	10.43
2003-04	6.40	17.18	26.87	44.98	22.15	12.04
2004-05	8.39	19.51	29.08	2.20	13.56	12.52

**3.4** Total disbursements of the Union Government increased from an average of Rs. 433,716 crore during the VIII Plan (1992-1997) to Rs. 1584,585 crore in the current year. The average annual trend growth during 1985-2005 at 11.92 *per cent* was, however, lower than the rate of growth of GDP, which in the same period averaged 13.89 *per cent*. Average annual growth rates during the VIII and IX Plans were also lower than GDP growth rates. The most recent two years, however, witnessed reversal of this trend and rate of growth of total disbursements exceeded the GDP growth. Trend growth rates of the three components of total disbursements, viz., actual expenditure, states' share in the Union taxes and debt repayment were lower than GDP growth. Disbursements from public account, however, had a trend growth higher than the growth of GDP. If all the four components of total disbursement in 1985-86 are set to 100, the index of the component of repayment of debt would have a value of 414 as against a value of 2217 for disbursements from public account. The other two components, actual expenditure and States' share in Taxes would have a value of 828 and 1052 respectively (Graph 1).



**3.5** The relative share of the four components of aggregate disbursement showed wide fluctuation both on year-to-year basis and over Plan periods (Table 3.3). Actual expenditure (indicating the expenditure on current operations covering revenue and capital expenditure and loans and advances) had a moderate positive rate of shift in its relative share during 1985-2005. Share of actual expenditure, however, reached its peak of 46.94 *per cent* during the VIII Plan (1992-1997) and since then witnessed a decelerating trend relative to other components. Its share declined to 34.67 *per cent* in the current year. Though the long-term trend of relative share of expenditure on debt repayment was negative, during the IX Plan (1997-2002), it had nearly converged to the trend. Disbursements from public account indicated a long-term trend share of 21.48 *per cent* during 1985-2005. Relative share of this component had initially declined to 17.81 *per cent* of aggregate disbursements during the VIII Plan (1992-1997) but later increased to an annual average of 22.15 *per cent* during the IX Plan (1997-2002) reaching its peak of 33.76 *per cent* in 1999-2000 consequent upon the creation of NSSF and conversion of balances of small savings to dated securities. The share of disbursement from public account was 25.27 *per cent* in the current year 2004-05. This component of disbursement had a significant positive rate of shift of 4.70 *per cent*.

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

Period	<i>(Per cent)</i>			
	Actual Expenditure	States' Share in Taxes	Repayment of Debt	Disbursement from Public Account
1985-2005	40.24	5.01	33.28	21.48
VIII Plan (1992-1997)	46.94	6.08	29.17	17.81
IX Plan (1997-2002)	39.99	4.76	33.10	22.15
2003-04	36.32	4.71	30.89	28.08
2004-05	34.67	4.96	35.11	25.27
<b>Average Annual Rate of Shift in their Relative Shares</b>				
1985-2005	0.27	0.91	-1.95	4.70

### **Expenditure: Main Aggregates**

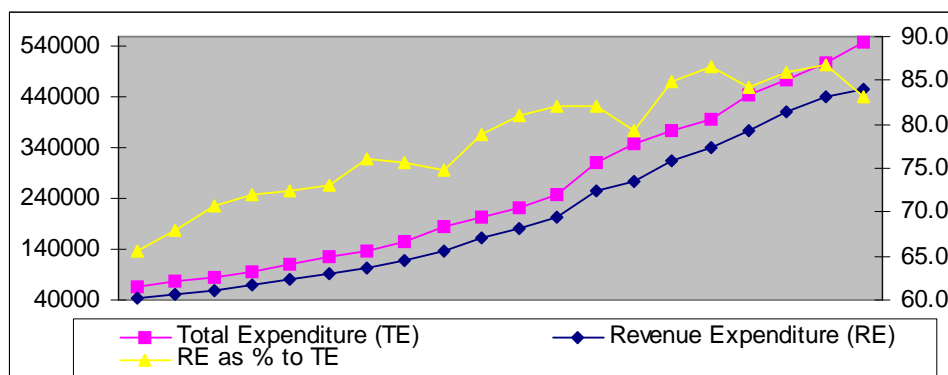
**3.6** Table 3.4 presents a summary of the actual expenditure of the Union government (excluding repayment of debt and disbursement from public account, which are discussed separately in the chapter on Fiscal Liabilities) and the observed trend growth rates of its various components over the Plan periods.

**Table 3.4: Expenditure Components**

(Rupees in crore)

Period	Revenue Expenditure	Capital Expenditure	Loans & Advances	Total Expenditure	Revenue Expenditure/ Total Expenditure	Others/ Total Expenditure
1985-2005	208664	21546	25686	255895	81.54	18.46
VIII Plan (1992-1997)	160541	19550	23447	203539	78.88	21.12
IX Plan (1997-2002)	313109	26234	35159	374502	83.61	16.39
2003-04	440086	35401	31330	506817	86.83	13.17
2004-05	455571	53654	40108	549333	82.93	17.07
<b>Average Annual Rate of Growth</b>						
1985-2005	13.74	7.79	6.18	12.22	1.35	-4.70
VIII Plan (1992-1997)	14.64	-8.44	11.91	11.87	Average Annual Rate of Shift (per cent)	
IX Plan (1997-2002)	10.40	9.22	-3.42	8.86		
2003-04	7.45	16.08	-13.51	6.40		
2004-05	3.52	51.56	28.02	8.39		

**3.7 Appendix-III-A** presents the figures of actual expenditure and its three sub-components during the last 20 years since 1985-86. Revenue expenditure continued to be the dominant component of the total expenditure and its share increased from an average of 78.88 per cent during the VIII Plan to 82.93 per cent in 2004-05. Its relative share had a positive shift rate of 1.36 per cent per annum during 1985-2005. As against this, relative share of capital expenditure and loans and advances declined from an average of 21.12 per cent during the VIII Plan to 17.07 per cent in 2004-05. Revenue expenditure of the Union Government (net of the States' share in taxes) increased at an average annual rate of 13.74 per cent during 1985-2005. Capital expenditure and loans and advances, however, grew at a lower rate of 7.79 and 6.18 per cent respectively during this period. The average annual trend growth of the actual expenditure, which included all these three components, was 12.22 per cent. Capital expenditure witnessed a contraction during the VIII Plan (1992-1997) and recorded a negative growth. Average annual growth recovered to 9.22 per cent during the IX Plan (1997-2002). In the last two years, however, there was a recovery in capital expenditure. Loans and advances, however, depicted a different picture with the rate of growth turning negative during the IX Plan and fluctuating between negative and positive growth in the recent two years.



### Expenditure: Plan and Non-Plan

**3.8** The Finance Accounts provide a further disaggregation of expenditure into plan and non-plan. Plan expenditure normally relates to incremental developmental expenditure on new projects or schemes and involves both revenue and capital expenditure. Non-plan expenditure, on the other hand, is normally devoted to maintaining the levels of services already achieved. However, in both plan and non-plan expenditure, increase in capital expenditure relative to revenue expenditure is considered qualitatively more desirable as it leads to the extension of the social and economic infrastructure network and capital formation by the Government. Table 3.5 presents the growth and composition of Plan and non-Plan expenditure of the Union government.

**Table 3.5: Components of Expenditure - Plan & Non plan**

*(Rupees in crore)*

Period	Plan				Non Plan			
	Total	Revenue	Capital	Loans	Total	Revenue	Capital	Loans & Advances
1985-2005	59231	34163	9533	15535	196665	174501	12014	10150
VIII Plan (1992-1997)	48190	26749	8380	13061	155348	133792	11170	10386
IX Plan (1997-2002)	78595	47090	10132	21373	295907	266019	16102	13786
2003-04	122281	78638	16913	26730	384536	361448	18488	4600
2004-05	132932*	87494	19372	26066	416401	368077	34282	14042
<b>Average Annual Rate of Growth (per cent)</b>								
1985-2005	10.50	14.16	5.01	8.01	12.81	13.65	11.01	2.34
VIII Plan (1992-1997)	7.53	11.48	-4.45	7.28	13.24	15.27	-11.36	18.27
IX Plan (1997-2002)	13.49	14.50	4.56	15.71	7.63	9.69	13.12	-29.30
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	205.24

\* 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.

**3.9** The share of plan expenditure in total expenditure remained nearly stagnant during 1985-2005. As against a long-term average of 23.15 per cent of total expenditure during 1985-2005, its share only moderately improved to 24.20 per cent in 2004-05. This seemingly stable share, however, conceals the inter year and inter plan variations at aggregate plan and at its sub component levels. The rate of growth of plan expenditure witnessed an acceleration of nearly six percentage points during the IX Plan (1997-2002), from an average of 7.53 per cent per annum during the VIII Plan (1992-1997) to 13.49 per cent. This acceleration was across its three sub components. Though the long-

term trend growth of non-plan expenditure was relatively higher, deceleration in rate of growth was observed during the IX Plan. In the last three years coinciding with the first three years of the X Plan (2002-05), growth rates, particularly at the level of sub components fluctuated widely. Overall trend growth of both plan and non-plan expenditure was, however, less than the growth of GDP and revenue receipt. Buoyancy of plan expenditure with GDP and revenue receipt during 1985-2005 was 0.756 and 0.811 respectively. In case of non-plan expenditure, though the buoyancy coefficients were significantly higher, these were still below one (Buoyancy of non-plan expenditure for GDP and revenue receipt was 0.922 and 0.990 respectively).

**3.10** Both for plan and non-plan expenditure, the revenue component remained not only the most predominant, but it was also relatively the most buoyant throughout 1985-2005. The share of revenue component in plan expenditure, which averaged 57.68 *per cent* during 1985-2005 increased to 65.82 *per cent* in 2004-05. Its share in non-plan expenditure increased from a trend average of 88.73 *per cent* during 1985-2005 to 94 *per cent* in 2003-04, though it got moderated to the trend level in the current year. Plan expenditure of capital nature and plan loans and advances recorded a much lower trend growth relative to its revenue component. Plan capital expenditure, however, gained significant acceleration in 2003-04 and 2004-05.

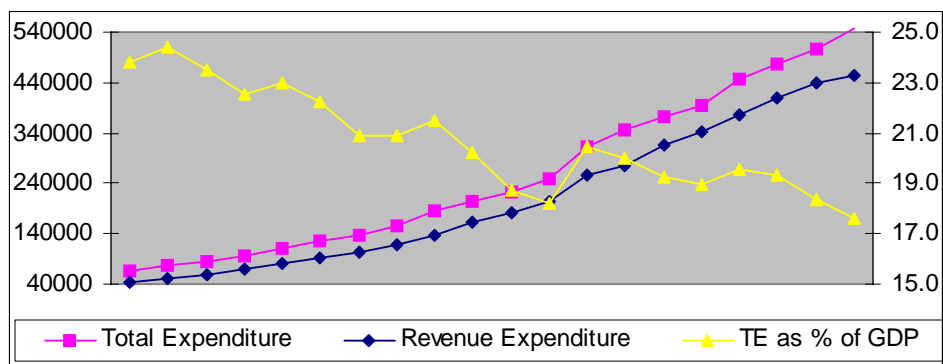
### Buoyancy of Expenditure

**3.11** More important than the growth in nominal expenditure or its absolute volume is the buoyancy of its various components relative to the base. Table 3.6 below provides the buoyancy of various components of expenditure relative to revenue receipts and GDP. Relatively high buoyancy of revenue expenditure compared with total expenditure both with regard to GDP and revenue receipts indicated that moderation in rate of growth of total expenditure was achieved largely by squeezing capital expenditure and/or loans and advances. Buoyancy of capital expenditure with GDP and revenue receipt has been between 0.5 and 0.6 as against the buoyancy of close to one for revenue expenditure. Similarly, buoyancy of the non-plan expenditure both with regard to GDP and revenue receipts has been higher relative to the buoyancy of plan expenditure.

**Table 3.6: Buoyancy of Expenditure- (1985-2005)**

Type of expenditure	With GDP	With Revenue Receipt
Plan Expenditure	0.756	0.811
Non-Plan Expenditure	0.922	0.990
Revenue Expenditure	0.989	1.062
Capital Expenditure	0.558	0.599
Loans and Advances	0.445	0.478
Total Expenditure	0.880	0.944

**3.12** Lower buoyancy of total expenditure with respect to GDP is also reflected in deceleration in the ratio of the total expenditure to GDP. Overall expenditure to GDP ratio declined from a peak of 24.4 per cent in 1986-87 to 17.69 per cent in 2004-05. Absolute figures of revenue and total expenditure along with the total expenditure GDP ratio are depicted in the graph below.



### Management of Subsidies

**3.13** In any welfare state, it is not uncommon to provide subsidies/subventions and transfer payments to disadvantaged sections of the society and for merit goods<sup>1</sup>. If the impact of the subsidies is in lowering the price of goods or inputs, which in turn makes these products affordable to target groups or/and encourages/facilitates greater production, such subsidies may be welfare-stimulating. Table 3.7 presents a picture of the subsidies, which the government provided explicitly during the VIII and IX Plans and in the last three years on major items.

**Table 3.7: Explicit Subsidies in the Union Government Budget**

(Rupees in crore)

Period	Food and Sugar	Fertilisers	Export Promotion	Others*	Total subsidies	Subsidies <sup>(A)</sup>	Subsidies <sup>(B)</sup>
<b>Average Annual Values</b>							
VIII Plan (1992-1997)	4976	6088	571	1834	13469	1.32	8.55
IX Plan (1997-2002)	11199	11376	552	2964	26091	1.36	8.33
2002-03	24176	7790	493	11549	44008	1.80	10.74
2003-04	25160	8521	712	10575	44968	1.63	10.22
2004-05	23280	10985	686	9388	44339	1.43	9.73

(A) As a percentage of GDP

(B) As a percentage of Revenue Expenditure

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

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

**3.14** In absolute terms, explicit subsidies increased from an average of Rs. 13,469 crore during the VIII Plan (1992-1997) to an average of Rs. 26,091 crore during the IX Plan (1997-2002). Relative to GDP, subsidies marginally increased from 1.32 *per cent* during VIII Plan (1992-97) to an average of 1.36 *per cent* during the IX Plan (1997-2002). In the last three years, the total amount of subsidies given by the Union government were generally stable resulting in a deceleration in their share relative to GDP and revenue expenditure.

**3.15** In addition to explicit subsidies, the Union Government also bears expenditure in the nature of implicit subsidies. Budgetary support to financial institutions and Banks, inadequate returns from its investment in PSUs and inadequate recovery of user charges from the social and economic services that are provided by the government, fall in the category of implicit subsidies. Table 3.8 below gives the return on investment and outstanding advances and user charges as percentage to revenue expenditure for social and economic services.

**Table 3.8: Return on Investment and Advances and Recovery of User Charges (as a percentage of revenue expenditure for Social and Economic Services)**

*(Per cent)*

Period	Loans & Advances	Investment	Social Services	Economic Services
1985-2005	12.96	5.72	4.36	53.26
VIII Plan (1992-1997)	11.23	2.35	9.57	57.22
IX Plan (1997-2002)	14.15	5.30	3.59	55.80
2003-04	15.91	9.84	1.91	45.27
2004-05	14.30	13.29	1.49	51.37
<b>Average Annual Rate of change in returns</b>				
1987-2005	4.36	13.31	-11.78	-1.00

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

**3.16** 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 13.29 *per cent* in 2004-05. This return is, however, based on book value of investment and not the net worth or market capitalisation. The average rate of interest on its loans and advances (opening balances) also increased from 11.23 *per cent* to 14.30 *per cent* during the same period. Though there was no implicit subsidy on government's financial intermediation as the average rate of interest received exceeded the interest cost on its borrowings, the trend rate of return on government's investment at 5.72 *per cent* fell significantly short of the rate of interest (8.36 *per cent*) on government's borrowings. However, the rate of return on investment witnessed a significant acceleration and had a positive shift rate of 13.31 *per cent* during 1987-2005. At the current levels these exceeded the cost of raising



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resources. In social and economic services, recovery rates (revenue receipt/revenue expenditure) witnessed a decelerating trend. In both the social and economic services, revenue receipts fell short of the revenue expenditure, which is akin to the operating expenses. There was, therefore, no return on capital at charge or cumulative capital expenditure incurred on creation of this infrastructure.

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

**3.17** In terms of activities, overall expenditure could be considered as being composed of general services (which include administration and defence), social services and economic services. The latter two categories are also considered developmental in nature. Table 3.9 below indicates the trends in expenditure on social services and its various components.

**Table 3.9: Expenditure (Revenue and Capital) on Social services - Trends and Composition**

*(Rupees in crore)*

Period	Social Services	Education	Health	Water Supply	Information	Labour Welfare	Others
1987-2005	11693	4904	1651	2051	819	558	1710
VIII Plan (1992-1997)	6903	2696	901	887	986	465	968
IX Plan (1997-2002)	15998	6457	2227	3217	568	768	2761
2003-04	24593	10965	3907	4669	1219	823	3010
2004-05	31115	13997	4465	5997	1237	994	4425
<b>Average Annual Growth Rate (per cent)</b>							
1987-2005	15.26	15.56	15.91	23.56	0.00	9.85	18.69
VIII Plan (1992-1997)	19.61	16.02	11.39	35.64	12.93	9.52	36.63
IX Plan (1997-2002)	7.96	11.38	19.15	12.90	0.00	10.68	25.93
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

**3.18** The overall expenditure of the Union Government on social services increased from an average of Rs. 6903 crore during the VIII Plan (1992-1997) to Rs. 31,115 crore in 2004-05. The long-term trend rate of growth in expenditure on social services was 15.26 per cent, (1987-2005) higher than GDP, revenue receipt and revenue expenditure. There, however, was a sharp deceleration in these rates during the IX Plan and compared to the earlier plan, the squeeze was nearly 12 percentage points (from average annual growth of 19.61 per cent during the VIII Plan to an average of 7.96 per cent during the IX Plan). Expenditure on social services were particularly buoyant in the current year. Within social services, expenditure on education, health and water supply and sanitation (including housing and urban development) was

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relatively buoyant. In the current year also, expenditure on Education and water supply showed higher buoyancy.

**3.19** The expenditure on components of economic services is indicated in Table 3.10 below.

**Table 3.10: Expenditure (Revenue and Capital) on Economic Services - Trends and Composition**

(Rupees in crore)

Period	Economic Services	Agriculture & Allied	Rural Development	Energy	Industry and Minerals	Transport	Posts	Telecom	Others
1987-2005	90337	15141	4408	6516	9709	33913	2764	7506	10381
VIII Plan (1992-1997)	69161	9665	3263	3061	7229	24246	1598	8417	11682
IX Plan (1997-2002)	121107	20048	5146	10158	12294	44714	3937	13554	11256
2003-04	166058	32911	12174	13664	16761	64379	5681	3102	17387
2004-05	165885	36366	9478	9897	17664	69578	5940	3579	13383
<b>Average Annual Growth Rate (Per cent)</b>									
1987-2005	11.31	15.70	23.78	10.74	7.78	11.74	13.87	4.59	6.84
VIII Plan (1992-1997)	9.35	14.89	81.37	4.36	2.17	9.22	13.62	26.75	-9.69
IX Plan (1997-2002)	6.36	18.28	2.79	1.23	8.78	14.26	19.11	-27.41	-5.55
2003-04	7.80	5.82	3.72	12.76	20.02	6.56	4.89	-11.02	10.02
2004-05	-0.14	10.50	-22.15	-27.57	5.39	8.08	4.56	15.38	-23.03

**3.20** The overall expenditure on economic services increased from an average of Rs. 69,161 crore during the VIII Plan (1992-1997) to Rs. 165,885 crore in 2004-05. The annual trend rate of growth of expenditure on economic services was 11.31 *per cent* during 1987-2005. 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 the current year, largely because of a decline in expenditure on rural development and energy sectors. There were wide inter-year and inter services variations in the growth rates. Expenditure on agriculture and allied activities (including irrigation and flood control) and rural development were relatively buoyant. 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) and a negative 22.15 *per cent* in the current year. Negative growth in expenditure on telecommunication during the IX Plan was expected consequent upon the corporatisation of the operations of the department. Expenditure base for the telecommunication services had shrunk to about a

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quarter in 2003-04. The current year's growth was, therefore, on a narrow base.

**3.21** It is more important to look at the expenditure on social and economic services relative to GDP as that indicates the relative priorities assigned to these sectors and within these broad groups, priority given to a specific sector. Expenditure of the Union Government on social and economic services together averaged 7.18 *per cent* of GDP during 1987-2005. It, however, declined to 6.34 *per cent* of GDP in 2004-05. Expenditure on selected economic and social services relative to GDP is indicated in Table 3.11.

**Table 3.11: Expenditure on Social and Economic Services (Revenue and Capital)  
Relative to GDP**

(Per cent)

Period	Social Services				Economic Services				
	Total	Education	Health	Others	Total	Agriculture & Rural Development	Energy	Transport	Others
1987-2005	0.82	0.35	0.12	0.36	6.36	1.38	0.46	2.39	2.13
VIII Plan (1992-1997)	0.67	0.26	0.09	0.32	6.68	1.25	0.30	2.34	2.79
IX Plan (1997-2002)	0.84	0.34	0.12	0.38	6.33	1.32	0.53	2.34	2.14
2003-04	0.89	0.40	0.14	0.35	6.02	1.63	0.50	2.33	1.56
2004-05	1.00	0.45	0.14	0.41	5.34	1.48	0.32	2.24	1.31
<b>Average Annual Rate of Shift in Relative Share</b>									
1987-2005	1.47	1.73	2.04	0.94	-2.01	2.69	-2.51	-1.63	-5.08

**3.22** Expenditure on social services (excluding loans and advances in this sector) had a positive shift rate in their share relative to GDP during 1987-2005. Positive shift rate was also observed for two most important social services - education and health. However, despite a positive shift rate, overall allocation to social sectors was less than one *per cent* of GDP.

**3.23** Expenditure on economic services had a negative rate of shift in their share relative to GDP. Overall share of expenditure on economic services relative to GDP declined from an average of 6.68 *per cent* of GDP during the VIII Plan (1992-1997) to 5.34 in 2004-05. Within economic services, transport, energy and other economic services had a negative rate of shift in their relative share. In case of agriculture and rural development, the share of their combined expenditure improved from an average of 1.25 *per cent* of GDP during the VIII Plan (1992-1997) to 1.48 *per cent* in 2004-05.