

## Chapter 3

### APPLICATION OF RESOURCES: EXPENDITURE

**The government has access to only 31 per cent of its mobilised resources for non-interest expenditures.**

**3.1** In this Report, ‘total disbursements’ include repayment of debt and public account payments, and the term ‘total expenditure’ denotes all expenditures, both revenue and capital, out of the Consolidated Fund of India, excluding the repayment of debt and public account payments. The government applied total resources of Rs 942,985 crore that it mobilized during 2000-01, to disbursements as shown in Table 3.1.

**Table-3.1: Application of Resources**

			<i>(Rs in crore)</i>
I	Resources available		942,985
II	Application of Resources		941,787
	a.	<b>Repayment of Debt</b>	269,512
		Internal Debt	259,689
		External Debt	9,823
	b.	<b>Discharge of liabilities on Public Account</b>	
		Small Savings and Provident Fund	126,464
		Reserve Fund	21,378
		Deposits	59,873
		Others	17,038
	c.	<b>Actual Expenditure</b>	395,834
		Revenue Expenditure	342,647
		Capital Expenditure	25,426
		Loans and Advances	27,761
	d.	<b>Share of the States' in taxes</b>	51,688
III	Increase in Cash Balances		1,198
	a.	Closing Cash Balances	3,853
	b.	Opening Cash Balances	2,655

**3.2** The repayments of debt and discharge of Public Account liabilities accounted for 52.5 per cent of these resources, amounting to Rs 494,265 crore. After deducting interest payments amounting to Rs 103,224 crore and

**The CAG's Report on  
Union Government Accounts 2000-01**

providing for the States' share of the taxes, the government was left with only about 31 *per cent* of the mobilised resources for other expenditures.

**Total Disbursement: Trends**

**3.3** During the last sixteen years, total disbursement of the Union Government increased from Rs 225,948 crore in 1985-86 to Rs 941,787 crore in 2000-01, at a trend rate of 10.83 *per cent* per annum. However, relative movements across the major expenditure groups and over different plan periods have been uneven as indicated in Table 3.2.

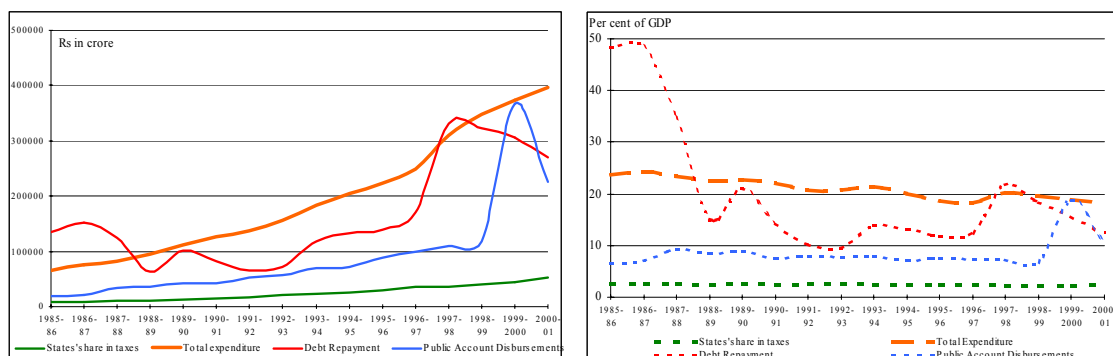
**Table 3.2: Components of Total Disbursement**

*(Rs in crore)*

	Total Expenditure	States' share in taxes	Repayment of Debt	Disbursement in Public Account	Total Disbursement	GDP (Market Price)
85-86	66112	7471	134312	18053	225948	277991
1995-96	222645	29285	139246	89381	480557	1188012
1997-98	310982	35954	331050	109704	787690	1522441
1998-99	347585	39145	322679	118876	828285	1758276
1999-2000	372619	43481	305088	367612	1088800	1956997
2000-01	395834	51688	269512	224753	941787	2166869
<b>Average Annual Trend Rate of Growth (in per cent)</b>						
1985-2001	13.10	13.85	8.24	17.44	11.68	15.21
VII Plan (1985-90)	13.55	14.73	-13.22	24.61	1.24	15.28
VIII Plan (1992-97)	11.87	14.41	20.90	14.32	14.84	16.54
IX Plan (1997-2001)	8.26	12.68	-6.51	38.83	8.43	12.37
<b>Annual Rate of Growth (in per cent)</b>						
1998-99	11.77	8.88	-2.53	8.36	5.15	15.49
1999-2000	7.20	11.08	-5.45	209.24	31.45	11.30
2000-01	6.23	18.87	-11.66	-38.86	-13.50	10.72

**3.4** Total disbursements recorded their lowest average annual growth of 1.24 *per cent* during the VII Plan (1985-90). During this period, application of resources for the purpose of repayment of debt actually declined at an average annual rate of 13.22 *per cent*. Growth of total disbursement, however, significantly accelerated to 14.84 *per cent* during the VIII Plan (1992-97). During the first four years of the IX Plan (1997-2001), increase in total disbursement averaged 8.43 *per cent* per annum. Overall growth in total

## Application of Resources: Expenditure



disbursement has remained lower than the growth in GDP. The only component of disbursement, which has grown faster than GDP, has been the disbursement from public account. Total expenditure of the Union government has a long-term trend growth of 13.10 *per cent* during 1985-2001. There was, however, a continuous deceleration in this growth.

**3.5** In the current year, total disbursement recorded a negative growth of 13.50 *per cent*. But this negative growth must be seen in context of a sharp increase of 31.45 *per cent* in total disbursement in 1999-2000, due to the creation of NSSF and issue of the special securities by the Union government for the net outstanding balances of small savings.

**3.6** The relative share of various expenditure components changed over the plans as would be seen from Table 3.3.

**Table 3.3: Disbursement Components: Relative Share (*per cent*)**

	Total Expenditure	States' Share in Taxes	Repayment of Debt	Disbursement from Public Account
1985-2001	42.01	5.10	35.82	17.07
VII Plan (1985-90)	35.99	4.11	47.28	12.63
VIII Plan (1992-97)	47.29	6.10	28.76	17.85
IX Plan (1997-2001)	39.42	4.69	34.41	21.48
<b>Annual Relative Share</b>				
1998-99	41.96	4.73	38.96	14.35
1999-2000	34.22	3.99	28.02	33.76
2000-01	42.03	5.49	28.62	23.86

**3.7** The share of total expenditure, which had increased from an average of 35.99 *per cent* of total disbursement during 1985-90 to an average of 47.29 *per cent* during 1992-97, declined to an average of 43.68 during 1997-2001. A similar trend is exhibited by the disbursement on account of the share of the States' in Union taxes. Conversely, the combined share of disbursement from Public account and repayment of debt increased to an average of around 55 *per cent* during 1997-2001, from an average of around 47 *per cent* during 1992-97. In 2000-01, the ratio between the total expenditure including the share of the States' in the Union taxes and discharge of debt was 48:52, more or less similar to the trend ratio of 47:53.

**3.8** The various components of expenditure as percent to GDP show a declining trend. Total expenditure/GDP ratio declined from an average of 23.44 *per cent* during the VII Plan (1985-90) to 19.38 *per cent* during the IX Plan (1997-2001). It further declined to 18.27 *per cent* in 2000-01.

**Table 3.4: Components of Disbursement as percentage to GDP**

	<b>Total Expenditure</b>	<b>States' Share in Taxes</b>	<b>Repayment of Debt</b>	<b>Disbursement from Public Account</b>	<b>Total Disbursements</b>
1985-2001	21.09	2.54	20.06	8.51	52.20
VII Plan (1985-90)	23.44	2.67	33.54	8.04	67.70
VIII Plan (1992-97)	19.91	2.56	12.13	7.51	42.11
IX Plan (1997-2001)	19.38	2.30	17.03	10.78	49.49
<b>Annual Relative Share</b>					
1998-99	19.77	2.23	18.35	6.76	47.11
1999-2000	19.04	2.22	15.59	18.78	55.64
2000-01	18.27	2.39	12.44	10.37	43.46

**3.9** Total disbursement/GDP ratio shows a sharp deceleration from an average of 67.70 *per cent* during 1985-90 to an average of 42.11 *per cent* in 1992-97. This deceleration, as was indicated in the previous chapter, was due to a negative growth in capital receipt and disbursement during 1985-90. Disbursement/GDP ratio also shows wide annual fluctuations during 1997-2001. Increase in this ratio in 1999-2000, was, however, due to the creation of NSSF.

**3.10** In 1997-98, to overcome temporary mismatches in receipts and disbursements, Ways and Means Advances (WMA) were introduced. Though accruals and disbursements of WMA were of short-term nature and generally self-liquidating within the year, their inclusion in receipts and disbursements have a tendency of inflating them. Overall disbursement, after netting the WMA disbursements, its share as percentage to GDP and the relative share of disbursement on account of debt and public account repayments are indicated in Table 3.5.

**Table- 3.5: Revised Disbursement and its share to GDP**

Year	Total Disbursement	WMA Disbursement	Revised Disbursement	Total Debt Disbursement/ Revised Disbursement	Revised Disbursement/ GDP
	<i>(Rs in crore)</i>			<i>(per cent)</i>	
1997-98	787690	15239	772451	55.09	50.74
1998-99	828285	91215	737070	47.53	41.92
1999-2000	1088800	127032	785547	47.03	40.14
2000-01	941787	126887	814900	45.08	37.61

*Note- In computing the revised expenditure in 1999-2000, issue of securities of Rs 176,221 crore to NSSF has also been ignored.*

**3.11** With the neutralization of the impacts of WMA and the NSSF, total disbursements become more aligned, showing a positive growth in 2000-01. The total disbursement/GDP ratio declined to 37.61 *per cent* in 2000-01 and an average of 42.60 *per cent* during 1997-2001 from the earlier level of 43.46 *per cent* and 49.49 *per cent* respectively. The ratio between the total expenditure including the share of the States' in taxes and the disbursement for debt also improves to an average of 51:49 during 1997-2001 and to a level of 55:45 in the current year.

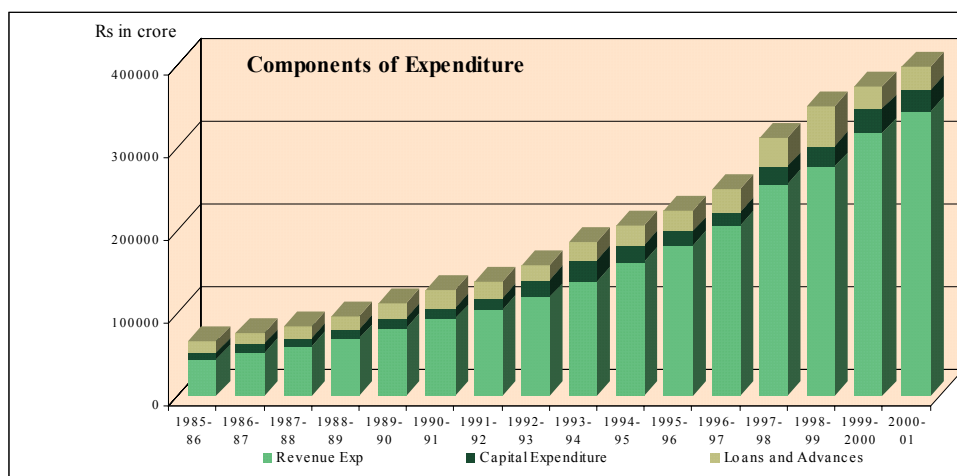
### **Expenditure: Main Aggregates**

**3.12** Table 3.6 presents a summary of the total expenditure of the Union government (excluding repayment of debt) and the observed trend growth rates over the plan periods.

**The CAG's Report on  
Union Government Accounts 2000-01**

**Table 3.6: Expenditure Components (Rs in crore)**

	Revenue Expenditure	Capital Expenditure	Loans & Advances	Total Expenditure
1985-86	43407	8900	13805	66112
1995-96	180291	17544	24810	222645
1997-98	255286	20225	35471	310982
1998-99	275791	25200	46594	347585
1999-2000	316237	29023	27359	372619
2000-01	342647	25426	27761	395834
<b>Average Annual Trend Growth rate (per cent)</b>				
1985-2001	14.94	7.13	7.03	13.10
VII Plan (1985-90)	16.49	8.87	6.01	13.55
VIII Plan (1992-97)	14.64	-8.44	11.91	11.87
IX Plan (1997-2001)	10.74	8.63	-11.91	8.26
<b>Annual Rate of Growth (per cent)</b>				
1998-99	8.03	24.60	31.36	11.77
1999-2000	14.67	15.17	-41.28	7.20
2000-01	8.35	-12.39	1.47	6.23



**3.13** Appendix-II presents the figures of total expenditure during the last 25 years since 1976-77. Total expenditure of the Union Government (net of the States' share in taxes) increased nearly six times in the last sixteen years, recording an average annual trend growth of 13.10 *per cent*. Capital expenditure, however, grew at a lower rate of only 7.13 *per cent* during this period. Comparison of the relative growth rates over the three plan periods indicate that while revenue expenditure had

a positive growth, there were fluctuations in the growth of capital expenditure and loans and advances. The rate of growth of revenue expenditure also decelerated over the plans. It declined from an average of 16.49 *per cent* per annum during 1985-90 to an average of 14.64 *per cent* during 1992-97 and further to an average of 10.74 *per cent* during 1997-2001. Rate of growth of both capital expenditure and loans and advances remained lower than the overall expenditure growth, and more particularly in comparison to the growth in revenue expenditure. Over all growth in aggregate expenditure was moderated due to a comparatively lower growth of these components. During 1992-97, capital expenditure recorded a negative growth of 8.44 *per cent* per annum. Growth rates, however, became positive during 1997-2001. Loans and advances also witnessed a negative growth during 1997-2001. This was; however, due to shift to direct disbursement of the States' share of small savings collections from NSSF since 1999-2000, which were earlier routed through the Consolidated Fund.

**3.14** In 2000-01, capital expenditure again declined. The decline was due to decline in investment in General Financial and Trading Institutions from Rs 3058 crore in 1999-2000 (to Unit Trust of India for SUS-99) to Rs 12 crore in 2000-01. There was also a decline in investment in International financial Institutions from Rs 1854 crore in 1999-2000 to Rs 564 crore in 2000-01.

**While all categories of Union government expenditure have shrunk compared to their ratio with GDP in 1985-90, the decline in the capital expenditure was most worrisome.**

**3.15** Total expenditure continued to decelerate relative to GDP over the plans, from 23.44 *per cent* on an average during VII Plan (1985-90) to an average of 19.38 *per cent* during first four years of IX Plan (1997-2001).

**Table 3.7: Expenditure as percentage to GDP**

	Net Revenue Expenditure	Capital Expenditure	Loans & Advances	Aggregate Expenditure
1985-2001	16.02	2.20	2.87	21.09
VII Plan (1985-90)	16.34	3.03	4.07	23.44
VIII Plan (1992-97)	15.59	2.03	2.29	19.91
IX Plan (1997-2001)	16.11	1.35	1.91	19.38
<b>Annual Relative Percentage Shares</b>				
1998-99	15.69	1.43	2.65	19.77
1999-2000	16.16	1.48	1.40	19.04
2000-01	15.81	1.17	1.28	18.27

**3.16** As would be seen from Table 3.7, while the decline in the revenue expenditure was only moderate over the plans, (net revenue expenditure actually increased to an average of 16.11 *per cent* of GDP during 1997-2001 from an average of 15.59 *per cent* during 1992-97) it was relatively sharp for both capital expenditure and loans and advances. These two components together declined from 7.10 *per cent* of GDP during 1985-90 to an average of 3.26 *per cent* during 1997-2001, a decline of over 40 *per cent*. Both capital expenditure and loans and advances reached the lowest level to GDP of 1.17 and 1.28 *per cent* respectively in 2000-01. These two components became the variable of adjustment in the wake of fall in tax revenue relative to GDP.

**The overall government expenditure, while declining has steadily tilted towards non-asset forming revenue expenditures, which in 2000-01 accounted for 87 *per cent* of the total expenditure.**

**3.17** Table 3.8 presents the relative share of the three components of expenditure over time. While the share of revenue expenditure increased continuously from an average of 72.90 *per cent* during 1987-92 to an average of 83.22 during 1997-2001, the share of capital expenditure and loans and advances declined. The shift towards revenue expenditure was further pronounced in first four years of IX Plan, reaching a level of 86.56 *per cent* in 2000-01. Capital expenditure now accounts for a meagre 6.42 *per cent* of aggregate expenditure and loans and advances another 7.01 *per cent*.

**Table 3.8: Components of Expenditure - Relative share (*per cent*)**

	Revenue Expenditure	Capital Expenditure	Loans & Advances	Total Expenditure
1985-2001	76.45	10.21	13.34	100.00
VII Plan (1985-90)	69.76	12.90	17.34	100.00
VIII Plan (1992-97)	78.46	10.02	11.52	100.00
IX Plan (1997-2001)	83.22	6.99	9.79	100.00
<b>Annual Relative Percentage Shares</b>				
1998-99	79.34	7.25	13.41	100.00
1999-2000	84.87	7.79	7.34	100.00
2000-01	86.56	6.42	7.01	100.00

**3.18** Decline in relative share of capital expenditure indicates that the current consumption of the Union Government is vouching priority over capital formation. This, over the time may adversely affect the future income



generating capacity of the economy and may accentuate infrastructural bottlenecks.

### Expenditures: Plan and Non-Plan

**Capital component of plan expenditure during several years was dismally low. In the overall decline of capital expenditure, the decline in its plan component was sharper.**

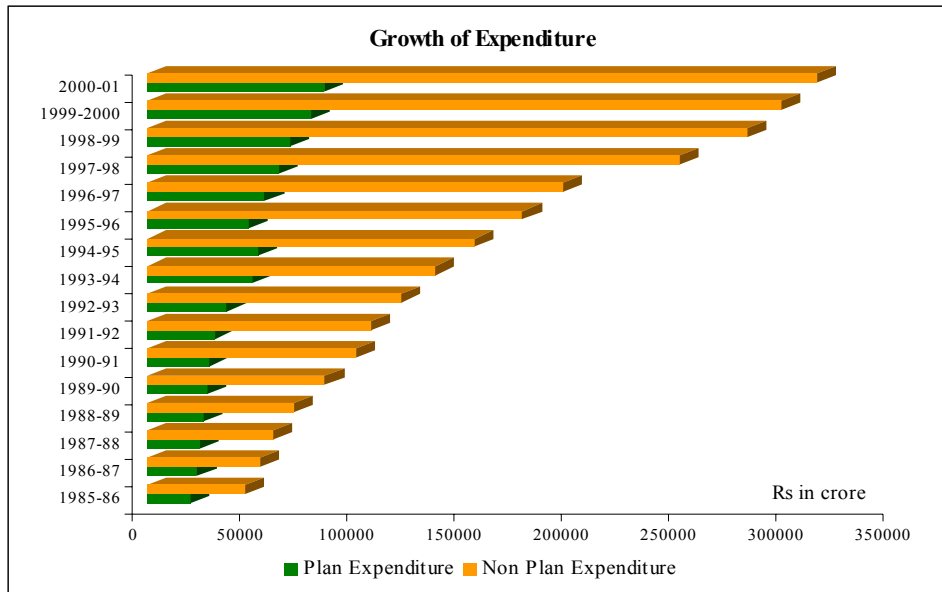
**3.19** Plan expenditure normally relates to incremental development expenditure and involves both revenue and capital expenditure. It is desirable, however, that the share of capital expenditure should be sustained in plan expenditure. Non-plan expenditure, on the other hand, is normally devoted to maintaining the levels of services already achieved. Table 3.9 presents the growth and composition of plan and non-plan expenditure of the Union government.

**Table 3.9: Components of Expenditure - Plan & Non plan**

*(Rs in crore)*

	Plan Expenditure				Non-Plan Expenditure			
	Total	Revenue	Capital	Loans	Total	Revenue	Capital	Loans
1985-86	20308	6960	6685	6663	45804	36447	2215	7142
1995-96	47224	29021	5786	12417	175421	151270	11758	12393
1997-98	61809	35206	10126	16477	249173	220080	10099	18994
1998-99	67249	40550	8763	17936	280336	235241	16437	28658
1999-2000	76213	46831	9400	19982	296406	269406	19623	7377
2000-01	82897	51204	11153	20540	312937	291443	14273	7221
<b>Average Annual Trend Growth Rate (in per cent)</b>								
1985-2001	<b>9.86</b>	<b>14.34</b>	<b>3.08</b>	<b>7.52</b>	<b>14.19</b>	<b>15.05</b>	<b>11.93</b>	<b>5.57</b>
VII Plan (1985-90)	8.22	15.07	-1.23	9.00	15.72	16.75	29.64	2.61
VIII Plan (1992-97)	7.53	11.48	-4.45	7.28	13.24	15.27	-11.36	18.27
IX Plan (1997-2001)	10.58	13.52	3.67	8.00	7.67	10.28	12.92	-34.68
<b>Annual Rate of Growth (per cent)</b>								
1998-99	8.80	15.18	-13.46	8.85	12.51	6.89	62.76	50.88
1999-2000	13.33	15.49	7.27	11.41	5.73	14.52	19.38	-74.26
2000-01	8.77	9.34	18.65	2.79	5.58	8.18	-27.26	-2.11

**The CAG's Report on  
Union Government Accounts 2000-01**



**3.20** Over the longer period, the lower average annual growth of plan expenditure is apparent. The average annual growth of plan expenditure at 9.86 *per cent* during 1985-2001 is significantly lower than the non-plan growth of 14.19 *per cent* over the same period. There was, however, some acceleration in the overall growth in plan expenditure during the Ninth Plan. But despite this acceleration, rate of growth of the capital expenditure and loans and advances was much lower, indicating worsening of their relative position. Non-plan expenditure, on the other hand, increased at a much faster rate. Within the non-plan expenditure, revenue expenditure registered an even higher relative growth. Both non-plan capital expenditure and loans and advances recorded a negative growth in 2000-01. The decline in loans and advances was, however, due to the disbursement of small savings collection to the States through NSSF.

**3.21** Table 3.10 indicates the components of plan and non-plan expenditure relative to GDP.

**Table 3.10: Plan & Non plan Expenditure as percentage to GDP**

	Plan Expenditure				Non-Plan Expenditure			
	Total	Revenue	Capital	Loans	Total	Revenue	Capital	Loans
1985-2001	5.21	2.51	1.14	1.56	15.88	13.51	1.06	1.31
VII Plan (1985-90)	6.77	2.63	1.89	2.26	16.66	13.71	1.14	1.81
VIII Plan (1992-97)	4.77	2.62	0.86	1.29	15.14	12.97	1.17	1.00
IX Plan (1997-2001)	3.90	2.34	0.54	1.02	15.47	13.76	0.81	0.90
<b>Annual Relative Percentage Shares</b>								
1998-99	3.82	2.31	0.50	1.02	15.94	13.38	0.93	1.63
1999-2000	3.89	2.39	0.48	1.02	15.15	13.77	1.00	0.38
2000-01	3.83	2.36	0.51	0.95	14.44	13.45	0.66	0.33

**3.22** Plan capital expenditure now accounts for a mere 0.5 *per cent* of GDP, and even after the inclusion of loans and advances, the combined share increases to 1.46 *per cent*. The deceleration in their share is evident across the three sub periods coinciding with each of the three plans. Though there was a moderate deceleration in the share of non-plan expenditure, deceleration was more pronounced for capital expenditure and loans and advances.

**3.23** Examination of the relative share of the various components of plan and non-plan expenditure over the three plans reconfirms the continuing deceleration in plan expenditure and its capital component. The overall share of plan expenditure in aggregate expenditure declined from an average of 28.86 *per cent* during 1985-90 to 20.15 *per cent* during 1997-2001. There was a marginal increase in its share to 20.94 *per cent* in 2000-01. As against that, the share of non-plan expenditure increased from 71.14 *per cent* to 79.85 *per cent* over the same time frame, as indicated in Table 3.11.

**Table 3.11: Plan & Non Plan Expenditure- Relative Share**

	Plan Expenditure				Non-Plan Expenditure			
	Total	Revenue	Capital	Loans	Total	Revenue	Capital	Loans
1985-2001	24.41	50.25	20.34	29.40	75.59	85.19	6.68	8.13
VII Plan (1985-90)	28.86	39.05	27.56	33.39	71.14	82.29	6.84	10.87
VIII Plan (1992-97)	23.86	55.40	17.46	27.14	76.14	85.75	7.63	6.62
IX Plan (1997-01)	20.15	60.12	13.80	26.08	79.85	89.07	5.27	5.66
<b>Annual Relative Percentage Shares</b>								
1998-99	19.35	60.30	13.03	26.67	80.65	83.91	5.86	10.22
1999-2000	20.45	61.45	12.33	26.22	79.55	90.89	6.62	2.49
2000-01	20.94	61.77	13.45	24.78	79.06	93.13	4.56	2.31

**3.24** Within the plan expenditure, the share of capital expenditure and loans and advances declined from around 61 *per cent* to 40 *per cent* over the three plans. Non-plan expenditure depicts a similar pattern, with the share of non plan revenue expenditure inching up to 93.13 *per cent* in 2000-01 and capital expenditure and loans and advances declining to a level under 7 *per cent*.

**3.25** In 2000-01, rate of growth of plan expenditure decelerated to 8.77 *per cent* compared to a trend rate of 9.86 *per cent* during 1985-2001. The deceleration was even sharper compared to the growth of 13.33 *per cent* in 1999-2000. Plan expenditure as percentage to GDP, declined to 3.83 *per cent* in 2000-01, as compared to a long-term trend of 5.21 *per cent* during 1985-2001. The overall share of plan expenditure in total expenditure declined to 20.94 *per cent* in 2000-01, compared to a trend share of 24.41 *per cent* during 1985-2001. Moreover, the distinction between plan and non-plan expenditure is getting blurred, especially for the loans and advances given to the States.

### **Sectoral Expenditure**

**3.26** Table 3.12 shows the movement of expenditure in general, social, and economic services. The trend growth rate for expenditure in general services was higher than the rate of growth of social and economic services. There was, however, a considerable increase in allocation for social services during VIII and IX Plan, with average annual growth moving up sharply from 5.19 *per cent* in 1985-90 to in the range of 15-18 *per cent* plus thereafter. But the

growth again slipped to 4.22 *per cent* in 2000-01. The deceleration in growth of expenditure for economic services in the current year was also equally significant.

**Table 3.12: Sectoral Expenditure**

*(Rs in crore)*

	Social Services	Economic Services	General Services	Interest Payments	General Services net of Interest Payments
1985-86	3463	24942	20166	7512	12654
1995-96	8006	79165	93934	50045	43889
1997-98	12371	112540	124635	65637	58998
1998-99	15255	117946	146968	77882	69086
1999-2000	17919	125706	176843	94593	82250
2000-01	18675	127005	188890	103224	85666
<b>Average Annual trend Rate of Growth (<i>per cent</i>)</b>					
1985-2001	12.33	12.23	15.82	19.11	13.06
VII Plan (1985-90)	5.19	14.04	17.96	24.05	14.04
VIII Plan (1992-97)	18.42	8.93	14.86	17.44	12.03
IX Plan (1997-2001)	14.99	4.36	15.40	16.80	13.81
<b>Annual Rate of Growth (<i>per cent</i>)</b>					
1998-99	23.31	4.80	17.92	18.66	17.10
1999-2000	17.46	6.58	20.33	21.46	19.05
2000-01	4.22	1.03	6.81	9.12	4.15

*Note: The sectoral classification excludes loans to foreign governments, state and union territory governments and revenue expenditure on account of grants-in-aid, which do not fall under any specific groups. Under general services, loans to the government employees have been included.*

**3.27** Interest payments have become the most significant component of expenditure under general services. Within general services, share of interest payments increased from around 35 *per cent* in 1985-86 to around 55 *per cent* in 2000-01. It has been the fastest growing component of expenditure with a trend growth of 19.11 *per cent* during 1985-2001.

**3.28** An attempt has been made to view the trend in expenditure in these sectors relative to GDP and also in per capita terms at both the current prices and 1993-94 prices. The sectoral expenditure/GDP ratio is indicated in Table 3.13.

**Table 3.13 Sectoral Expenditure as percentage to GDP**

	Social Services	Economic Services	General Services	Interest Payments	General Services net of Interest Payments
1985-2001	0.87	7.63	8.19	3.96	4.22
VII Plan (1985-90)	1.12	8.72	8.03	3.18	4.85
VIII Plan (1992-97)	0.67	7.30	8.07	4.27	3.80
IX Plan (1997-2001)	0.86	6.60	8.57	4.58	3.99
<b>Annual Relative Sectoral Share as percentage to GDP</b>					
1998-99	0.87	6.71	8.36	4.43	3.93
1999-2000	0.92	6.42	9.04	4.83	4.20
2000-01	0.86	5.86	8.72	4.76	3.95

**3.29** The ratio of expenditure for economic services to GDP suffered net erosion from an average of 8.72 *per cent* during 1985-90 to 5.86 *per cent* in 2000-01. In social services, the ratio of 0.87 *per cent* during 1985-90 appeared to be getting restored, but it was still significantly lower than the ratio of 1.12 reached during the VII Plan (1985-1990). Overall sectoral trends in social and economic services are in conformity with a continuous decline in the total expenditure relative to GDP. Interest payments, on the other hand witnessed an increasing trend and increased from an average of 3.18 *per cent* to GDP during 1985-90 to 4.58 *per cent* during 1997-2001. Interest payments GDP ratio further increased to 4.76 *per cent* in 2000-01.

**3.30** Table 3.14 gives the expenditure of the Union Government on social, economic and general services per capita at both the current prices and at constant 1993-94 prices.

**Table 3.14: Per Capita Sectoral Expenditure (Rupees)**

	Social Services	Economic Services	General Services	Social Services	Economic Services	General Services
	At Current Prices			At 1993-94 Prices		
1985-2001	87	758	429	85	747	416
VII Plan (1985-90)	51	407	226	90	707	394
VIII Plan (1992-97)	77	813	426	69	743	388
IX Plan (1997-2001)	163	1228	751	108	817	497
<b>Annual Per Capita Expenditure</b>						
1998-99	156	1210	709	105	813	476
1999-2000	181	1268	830	117	821	537
2000-01	185	1261	851	114	776	523

**3.31** Expenditure of the Union Government on social services at constant 1993-94 prices averaged Rs 84.9 per person during 1985-2001, which increased to 107.7 during 1997-2001, after a sharp contraction to an average of Rs.69.1 per capita during 1992-97. Per capita expenditure on economic services increased moderately, average annual growth being less than one *per cent*. Per capita expenditure on general services net of interest payments also increased over the plans, both at current prices and at constant 1993-94 prices.

### **Revenue Expenditure: Trend and Components**

**3.32** A significant part of revenue expenditure is transfer payments which are mostly committed. Interest payments, pensions, salary and wages and grants-in-aid to states and union territories fall in this category. A part of the revenue expenditure is on account of the operating expenses of the departmental undertakings as their revenues are reckoned on gross basis.

**3.33** Table 3.15 gives the expenditure incurred on various components of revenue expenditure. Except for pensions and interest payments, average trend growth of other components was comparatively low. Expenditure on salary recorded the highest growth of 33.84 *per cent* in 1997-98, consequent upon the implementation of the report of the Fifth Pay Commission. Growth has since tapered off. In fact, it became negative in 2000-01 (RE), due to some reduction in staff strength and partly due to the fact that earlier years had included some of the arrear payments consequent to pay revision after the implementation of the Fifth Pay Commission recommendations.

**The CAG's Report on  
Union Government Accounts 2000-01**

**Table 3.15: Revenue Expenditure and its Components**

*(Rs in crore)*

	Revenue Expenditure	Salary	Interest Payments	Pensions*	Grants to States	Others
1985-86	43407	7454	7512	1350	6704	20387
1996-96	180291	23929	50045	6914	21287	78116
1997-98	255286	36229	65637	10008	29738	113674
1998-99	275791	41847	77882	13694	25081	117287
1999-2000	316237	45169	94593	18129	29012	129334
2000-01	342647	41168	103224	18496	36789	142970
<b>Average Annual Trend Rate of Growth (per cent)</b>						
1985-2001	14.94	13.09	19.11	18.09	11.57	14.05
VII Plan (1985-90)	16.49	13.73	24.05	25.00	8.52	16.06
VIII Plan (1992-97)	14.64	12.10	17.44	15.65	5.60	16.55
IX Plan (1997-2001)	10.74	4.71	16.80	23.65	8.15	8.17
<b>Average Annual Rate of Growth (per cent)</b>						
1998-99	8.03	15.51	18.66	36.83	-15.66	3.18
1999-2000	14.67	7.94	21.46	32.39	15.67	10.27
2000-01	8.35	-8.86	9.12	2.02	26.81	10.54

\* includes Miscellaneous General Services

Note:- The expenditure on Salary is as given by the Pay Research Unit of the Department of Expenditure for the Civilian Staff and as indicated for the defence non civilian persons by the Defence Department.

**3.34** Table 3.16 indicates the ratio of various components of revenue expenditure relative to GDP. Contrary to common perception, expenditure on salary relative to GDP declined over the plan periods. After reaching a level of 2.38 per cent in 1997-98, it witnessed a gradual decline since then. Interest payments on the other hand, increased relative to GDP and emerged as the most important component of revenue expenditure.

**Table 3.16: Components of Revenue Expenditure Relative to GDP (per cent)**

	Revenue Expenditure	Salary	Interest Payments	Pensions*	Grants to States	Others
1985-2001	<b>16.02</b>	<b>2.34</b>	<b>3.96</b>	<b>0.63</b>	<b>2.07</b>	<b>7.01</b>
VII Plan (1985-90)	16.34	2.67	3.18	0.58	2.30	7.61
VIII Plan (1992-97)	15.59	2.11	4.27	0.55	2.05	6.61
IX Plan (1997-2001)	16.11	2.24	4.58	0.80	1.64	6.84
<b>Annual Revenue Expenditure /GDP Share (per cent)</b>						
1998-99	15.69	2.38	4.43	0.78	1.43	6.67
1999-2000	16.16	2.31	4.83	0.93	1.48	6.61
2000-01	15.81	1.90	4.76	0.85	1.70	6.60

\* includes Miscellaneous General Services



**3.35** 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 and revenue receipts. Table 3.17 provides these details. Committed expenditure includes interest payments, salary and wages and pensions and miscellaneous expenditure. For both revenue receipts and revenue expenditure, the share of the States' in the tax receipts of the Union Government has been excluded.

**Table 3.17: Share of Committed Revenue Expenditure to Revenue Expenditure, Revenue Receipts and Non-Debt Receipts (*per cent*)**

	Revenue Expenditure	Revenue Receipts	Non Debt Receipts
1985-2001	<b>43.34</b>	<b>53.16</b>	<b>49.19</b>
VII Plan (1985-90)	39.30	46.04	42.13
VIII Plan (1992-97)	44.47	54.43	50.70
IX Plan (1997-2001)	47.42	61.19	57.28
<b>Annual Percentages</b>			
1998-99	48.38	61.99	56.95
1999-2000	49.93	62.02	58.72
2000-01	47.54	63.62	59.24

**3.36** The increase in the share of the three committed liabilities over the plans is apparent. However, this was largely due to an increase in interest payments over the years, which is discussed below.

### Interest Payments

**3.37** Appendix-III presents the figures of total interest payments during the last 25 years. Interest payments increased nearly fourteen times from Rs 7,512 crore in 1985-86 to Rs 103,224 crore by 2000-01. In 2000-01, the increase in interest payments was a moderate 9.12 *per cent*. Relatively, it was the fastest growing component of expenditure. Some salient characteristics of interest payments are indicated in Table 3.18.

**Table 3.18: Selected Characteristics of Interest Payments (*per cent*)**

	Annual Growth Rates	As per cent to			
		GDP	Revenue Expenditure	Revenue Receipts	Non-Debt receipts
1985-2001	19.11	3.96	24.81	30.50	28.25
VII Plan (1985-90)	24.05	3.18	19.43	22.77	20.84
VIII Plan (1992-97)	17.44	4.27	27.40	33.54	31.24
IX Plan (1997-2001)	16.80	4.58	28.50	36.79	34.44
<b>Annual Features</b>					
1998-99	18.66	4.43	28.24	36.19	33.24
1999-2000	21.46	4.83	29.91	37.15	35.18
2000-01	9.12	4.76	30.13	40.32	37.54

**3.38** Interest payments increased from an average of 3.18 *per cent* of GDP during 1985-90 to 4.76 *per cent* by 2000-01. Interest payments now account for over 30 *per cent* of revenue expenditure and over 40 *per cent* of the revenue receipts. The mounting interest burden, with a declining current revenue/GDP ratio has accentuated the problems of fiscal management. It also resulted in a vicious circle of higher interest payments, increasing borrowings and curtailment of capital and revenue/income generating expenditure.

### Management of Subsidies

**3.39** Management of subsidies is one of the most complex issues of the government finances. Subsidies account for a significant share of government expenditure and are generally advocated for merit goods. The general impact of the subsidies is to lower the price of goods or inputs, which in turn makes it more affordable and encourages greater production and consumption.

**3.40** Table 3.19 presents a view of the subsidies, which the government provided explicitly during the VIII and IX Plans on major items.

**Table 3.19: Explicit Subsidies in the Union Government Budget**

	Food and Sugar	Fertilizers	Export Promotion and Market Development	Others	Total subsidies	Subsidies/GDP	Subsidies/Revenue Expenditure
1992-97	4976	6088	571	1834	13469	1.32	8.55
1997-2001	9624	12197	536	2263	24619	1.32	8.27
<b>Annual Values</b>							
1998-99	9100	11596	573	3517	24786	1.41	8.99
1999-2000	9435	13463	520	2491	25909	1.31	8.19
2000-01	12060	13811	621	1784	28276	1.27	8.25

**3.41** In absolute terms, explicit subsidies increased from an average of Rs 13,469 crore during 1992-97 to an average of Rs 24,619 crore during 1997-2001. Relative to GDP, subsidies continued to be an average of 1.32 per cent of GDP during the Eighth and Ninth Plan, indicating that there was no reduction in scale of the subsidies so far.

**3.42** In addition to explicit subsidies, the Union Government also bears expenditure, which is 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.

**3.43** CAG's Report No. 1 of 2001, Union Report (Civil), had mentioned the need for the government to activate the follow up action on the points raised in its Discussion Paper in May 1997. The government must consider appropriate revision of user charges in areas of education, agriculture, irrigation, industries, power and transportation and subsidy on food, so that the distortions in the economy because of maladministration of subsidies are contained.