

Interest Payments : Non Development Expenditure

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Interest payments is an important constituent of the non development expenditure of Government of India. Interest payments are a committed charge on government revenue and curtail its budgetary maneuverability. The growth of interest payments is directly linked to the increasing reliance on borrowings for financing public investments. According to Long Term Fiscal Policy “this is a cost which has to be borne, if private savings have to be mobilized for investment in the public sector.”

Public Sector’s own saving now finance only about 16 percent of its investment and the remaining is financed by borrowings, mainly from domestic private sector. Consequently, Indian public debt, as a proportion of GDP, is now over 60 percent, raising the interest burden to more than half of non-plan revenue spending. The interest burden can be reduced only in the long run by wiping out the revenue deficit and generating internal resources by public sector undertakings.

Table : 1.1

Revenue Expenditure and Components on Non-Development Expenditure.

Year	Revenue Exp.	Of Which		
		Defence Expenditure	Interest Payments	Subsidies
1970-71	3130	1052	606	94
1971-72	3968	1347	670	104
1972-73	4538	1439	776	205
1973-74	4777	1481	882	361
1974-75	5677	1920	1001	419
1975-76	6978	2251	1228	470
1976-77	8270	2347	1488	947
1977-78	9108	2386	1646	1287
1978-79	10082	2614	1984	1475

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1979-80	11803	3094	2292	1821
1980-81	14410	3278	2004	2028
1981-82	15408	3844	3195	1941
1982-83	18742	4494	3938	2262
1983-84	22251	5189	4795	2902
1984-85	27691	6324	5974	4038
1985-86	33924	7021	7512	4706
1986-87	40860	9179	9246	5451
1987-88	46174	8861	11251	15980
1988-89	54106	9558	14278	17732
1989-90	64210	10194	17757	10474
1990-91	73516	10874	21498	12158
1991-92	82292	11442	26596	12253
1992-93	92702	12109	31075	10824
1993-94	108169	14978	36741	11605
1994-95	122112	16426	44066	11854
1995-96	139861	18841	50045	12666
1996-97	158933	20997	59478	15499
1997-98	180335	26174	65637	18540
1998-99	216461	29861	77882	23359
1999-00	249078	35216	90249	24487
2000-01	277839	37238	99114	26838
2001-02	301611	38059	107460	31207
2002-03 (RE)	341648	41088	115663	44618
2003-04 (BE)	366227	44347	123223	49907

RE: Revised Estimates

BE: Budget Estimate

Source : Budget Documents of the Government of India.

This item of non-development expenditure has grown both on account of growing debt obligations of Government of India and rising level of interest rates. As the tables 1.1 indicate, there has been rapid growth under this head of public expenditure both in absolute and percentage terms. It was only Rs. 45 crores in 1950-51 which rose to Rs. 2004 crores by 1980-81 and to Rs. 21498 crores by 1990-91. Thus

in 40 years span it increased by more than 475 times. Interest payments rose to Rs. 90249 crore in 1999-2000.

In percentage terms, it was only 5 percent of the total public expenditure in 1950-51, but increased to 11.7 percent in 1970-71. It jumped to 20.4 percent of total expenditure in 1990-91. Its rapid increase continued in the decade of reforms and interest payments became 30 percent of total expenditure in 2001-01.

As a proportion of total non-plan expenditure, it was 19.6 percent in 1980-81, but rose to 27.94 percent in 1990-91 and to more than 40 percent of the total non-plan expenditure by 2000-01. Correspondingly their share in total expenditure increase from 12.4% to 26.8%. This is highly alarming development. The only way to contain this growth is reduction government's borrowing. This in turn necessitates greater resource mobilization on the one hand and economy in expenditure on the other. As a percent of GDP, interest payments was 1.7 percent of GDP in 1975-76. It rose to 2.1 percent of GDP in 1980-81 and 4.31 percent of GDP in 1991-92. It has always been higher than 4 percent of GDP and it has been increasing year by year.

One can draw two conclusions from the growing rate of non-development expenditure. Firstly, there have been expansion in the administrative activity, budgetary growth of defence expenditure, debt service charges as well as relief works. This is one set or type of reasons for the growth of non-development expenditure. Second conclusion is related to its impact on the economy. in a developing economy like India, Such mounting increase of the non-developing expenditure tells upon the health of the economy, as at the budget front it faces the problem of fiscal deficit, which began to become severe from 1980s and this fiscal deficit went up to more than 7-8 percent of GDP. The economy which has completed five decades of planned economic development, such a problem naturally calls upon the health of the economy particularly in terms of increase in money supply and rise in inflationary pressure in the economy. Such a situation may not be continued for periods to come and it should be checked at least at a reasonable level.

Particularly after second half of 1980s, the situation became alarming and the Government of India made repeated pronouncements to stem the tide of burgeoning expenditure, but due to certain political compulsions the Government failed to cut or contain such non-development expenditure, particularly subsidy. During 1980s itself,

although there has been rising trend in both development and non-development expenditure but non-development expenditure has risen rapidly over the years. The share of non-development expenditure has on an average been about 60 percent.

Growing Interest Payments-The magnitude of growing interest payments can be judged by increasing amount of interest burden in terms of percentage of tax revenue, total revenue, non-plan expenditure, revenue expenditure non development expenditure, total expenditure and most significantly in terms of percent of GDP. All these indicators of growing interest payments have been summarized in Tables 1.2. Table 1.2 shows growing interest payments year-wise.

Table-1.2
Indicators of Growing Interest Payments.

% of GDP	% of Tax Revenue	% of Revenue Receipts	% to Total Revenue	% of Non-Plan Expenditure	% of Revenue Expenditure	% of Total Expenditure	% of Non development Expenditure
2	3	4	5	6	7	8	9
2.1	27.8	20.9	13.2	19.6	18.0	11.7	26.4
2.2	27.7	21.3	13.4	22.6	20.7	12.6	25.3
2.4	30.3	22.6	13.5	22.6	21.0	12.8	24.8
2.5	31.1	24.3	14.1	23.9	21.5	13.5	26.1
2.8	33.8	25.5	14.9	23.8	21.6	13.7	32.2
2.9	35.5	26.8	15.9	22.9	22.1	14.3	35.9
3.2	38.0	27.9	16.9	23.2	22.6	14.6	35.5
3.4	40.2	30.4	18.0	25.5	24.4	16.5	37.2
3.6	42.3	32.7	19.4	26.9	26.4	18.0	40.2
3.9	46.3	33.9	21.6	27.2	27.6	19.1	43.3
4.0	50.0	39.1	22.8	27.9	29.2	20.4	43.5
4.3	53.1	40.3	25.4	33.1	32.3	23.8	48.2
4.4	57.5	41.9	28.1	36.1	33.5	25.3	51.3
4.5	68.7	48.7	28.1	37.4	33.9	25.9	49.9
4.6	65.3	48.4	27.6	38.8	36.1	27.4	53.5
4.3	61.1	45.4	29.7	37.9	35.8	28.1	50.7
4.4	63.5	47.1	31.6	37.9	37.4	29.6	53.0
4.3	68.6	49.0	28.1	40.3	36.4	28.3	51.4
4.5	74.4	52.1	27.8	37.9	35.8	27.9	51.8
4.7	70.3	49.7	30.3	36.6	36.2	30.3	50.7
4.7	75.5	51.5	30.5	40.9	35.7	30.5	50.3
NA	80.4	53.3	29.6	41.1	35.6	29.6	49.9
NA	70.0	48.9	28.7	40.0	33.0	28.7	48.8

Source : Hand Book of Statistics on Indian Economy, R.B.I.

