

CHAPTER - I

FINANCES OF THE STATE GOVERNMENT

This chapter provides a broad perspective of the finances of the Government of Gujarat during the current year and analyses critical changes in the major fiscal aggregates relative to the previous year, keeping in view the overall trends during the last five years. The structure of Government Accounts and the layout of the Finance Accounts are shown in **Appendix 1.1**. The methodology adopted for the assessment of the fiscal position of the State is given in **Appendix 1.2**.

1.1 Summary of Current Year's Fiscal Transactions

Table 1.1 presents the summary of the State Government's fiscal transactions during the current year (2008-09) vis-à-vis the previous year while **Appendix 1.4** provides details of receipts and disbursements as well as the overall fiscal position during the current year.

Table 1.1 Summary of Fiscal Operations

(Rupees in crore)

2007-08	Receipts	2008-09	2007-08	Disbursements	2008-09		
					Non Plan	Plan	Total
Section-A: Revenue							
35,689.85	Revenue receipts	38,675.71	33,539.51	Revenue expenditure	27,653.38	11,088.08	38,741.46
21,885.57	Tax revenue	23,557.03	13,654.46	General services	13,063.73	321.59	13,385.32
4,609.32	Non-tax revenue	5,099.32	11,800.66	Social services	8,802.51	6,129.63	14,932.14
5,426.09	Share of Union Taxes/Duties	5,725.86	7,937.06	Economic services	5,619.61	4,636.86	10,256.47
3,768.87	Grants from Government of India	4,293.50	147.33	Grants-in-aid and Contributions	167.53	..	167.53
Section-B: Capital							
94.87	Misc. Capital Receipts	20.60	6,801.03	Capital Outlay	19.80	10,199.96	10,219.76
213.60	Recoveries of Loans and Advances	181.11	428.76	Loans and Advances disbursed	71.66	282.09	353.75
8,611.10	Public Debt receipts**	10,306.11	1,934.28	Repayment of Public Debt*	*	*	2,604.91
2.51	Contingency Fund	9.94	9.94	Contingency Fund	*	*	33.97
42,311.37	Public Account receipts	49,626.36	40,032.22	Public Account disbursements	*	*	47,284.61
9,360.09	Opening Cash Balance	13,537.65	13,537.65	Closing Cash Balance	--	--	13,119.02
96,283.39	Total	1,12,357.48	96,283.39	Total			1,12,357.48

(Source: Finance Accounts for the years 2007-08 and 2008-09) * Bifurcation of Plan and Non-Plan not available

** Excluding net transactions under ways and means advances and overdrafts.

The following are the significant changes during 2008-09 over the previous years:

- ✍ Revenue receipts grew by 8.37 per cent (Rs. 2,986 crore) over the previous year. The increase was due to increase in the State's own tax revenue (Rs. 1,671 crore), increase in non-tax revenue (Rs. 490 crore), State's share of Union taxes and duties (Rs. 300 crore) and grants from the Government of India (GOI) (Rs. 525 crore).
- ✍ Revenue expenditure increased by Rs. 5,202 crore (15.51 *per cent*) mainly due to increase in expenditure on Social Services by Rs. 3,131 crore and on Economic Services by Rs.2,319 crore.
- ✍ Capital expenditure increased by Rs. 3,419 crore (50.27 *per cent*) whereas the disbursement of loans and advances declined by Rs. 75 crore (17.49 *per cent*).
- ✍ Receipts under Public Debt increased by Rs. 1,695 crore (19.68 *per cent*) against an increase of Rs. 671 crore in payments (34.67 *per cent*).
- ✍ Public Account receipts and payments increased by Rs. 7,315 crore (17.28 *per cent*) and Rs. 7,252 crore (18 *per cent*) respectively.
- ✍ The cash balance at the end of the year decreased by Rs. 419 crore.

Review of the fiscal situation

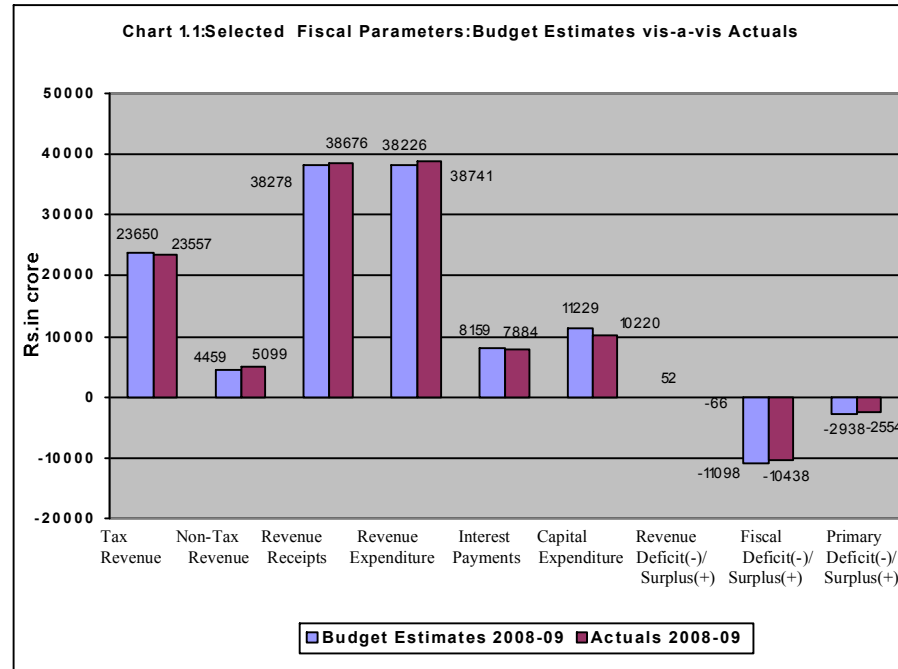
As per the Gujarat Fiscal Responsibility Act, 2005 (FRBM Act), in line with the recommendations of the Twelfth Finance Commission, the State Government had agreed for elimination of the Revenue deficit by end of 2007-08 and reduction of the Fiscal deficit to not more than three *per cent* of the Gross State Domestic Product (GSDP) by 31 March 2009. Similarly, the target of the ratio of Public Debt to GSDP was 30 *per cent*. Total outstanding guarantees were to be capped at Rs. 16,000 crore by 2007-08. Though the State had achieved the above targets by 2006-07, during 2008-09, the State had a revenue deficit of Rs.66 crore (0.02 *per cent* of GSDP). The ratio of public debt to GSDP at 24.04 *per cent* during the current year remained, however, within the limit of 30 *per cent* prescribed under the Act.

Budget Analysis

Budget papers presented by the State Government provide descriptions of the projections or estimations of revenue and expenditure for a particular fiscal year. The importance of accuracy in the estimation of revenue and expenditure is widely accepted in the context of effective implementation of

fiscal policies for overall economic management. Deviations from the budget estimates are indicative of non-attainment and non-optimisation of the desired fiscal objectives, due to a variety of causes, some within the control of Government and some outside. The year 2008-09 was one in which there was a large scale economic slow-down, which adversely affected the attainment of targets.

Chart 1.1 Presents the budget estimates and actuals of some important fiscal parameters.



During 2008-09, compared to the budget estimates, the tax revenue was less by Rs. 93 crore though there was an increase in revenue receipts by Rs. 398 crore. Against an estimated revenue surplus of Rs. 52 crore, the financial year ended with a revenue deficit of Rs. 66 crore. However, the primary deficit was only Rs. 2,554 crore against the estimate of Rs. 2,938 crore.

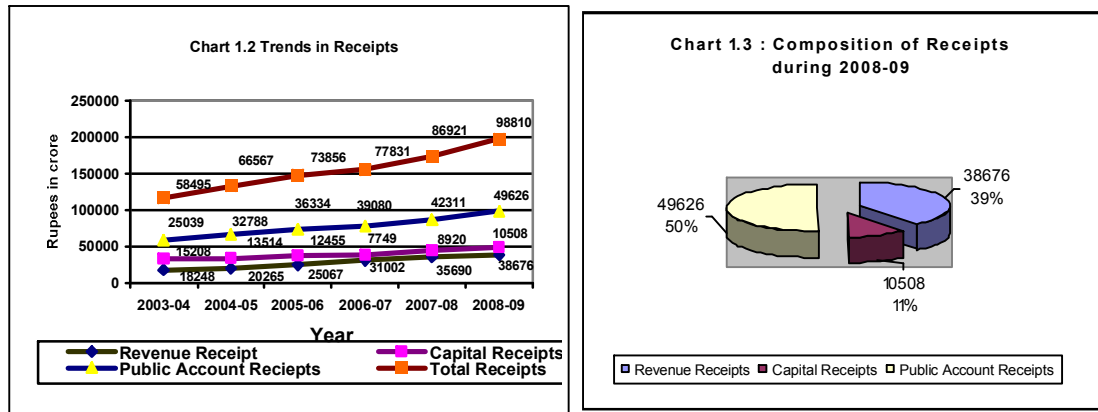
For the welfare of building and other construction workers who are the most vulnerable segment of the unorganized labour sector, the State Government constituted (December 2004) the Building and Other Construction Workers' Welfare Board (Board) under the Buildings and Other Construction Workers' Welfare Cess Act, 1996. Under this Act, the State Government collected labour cess of Rs. 102.46 crore (Rs. 0.15 crore in 2005-06; Rs. 22.10 crore in 2006-07; Rs. 30.77 crore in 2007-08 and Rs. 49.44 crore in 2008-09), but no part of the receipts was transferred to the Welfare Board for spending on social security schemes meant for building and other construction workers.

Revenue expenditure reflected a slight variation of 1.35 per cent over the budget estimates due to increase in expenditure under social and economic services. As a result, the targeted revenue surplus of Rs. 52 crore was not achieved. Instead, there was a revenue deficit of Rs. 66 crore. Though capital expenditure of Rs. 10,220 crore showed a significant increase (50.27 per cent) over the previous year, it fell short of the budget estimates of Rs. 11,229 crore by 8.98 per cent.

1.2 Resources of the State

1.2.1 Resources of the State as per Annual Finance Accounts

Revenue and capital are the two streams of receipts that constitute the resources of the State Government. Revenue receipts consist of tax revenues, non-tax revenues, State's share of Union taxes and duties and grants-in-aid from the Government of India. Capital receipts comprise miscellaneous capital receipts such as proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources (market loans, borrowings from financial institutions/commercial banks) and loans and advances from GOI as well as accruals from the Public Account. **Table 1.1** presents the receipts and disbursements of the State during the current year as recorded in its Annual Finance Accounts while **Chart 1.2** depicts the trends in various components of the receipts of the State during 2003-09. **Chart 1.3** depicts the composition of resources of the State during the current year.



The relative share of Revenue receipts and Public Account receipts which stood at 31 per cent and 43 per cent of the total receipts in 2003-04 increased to 39 per cent and 50 per cent in 2008-09; while that of Capital receipts declined from 26 per cent in 2003-04 to 11 per cent in 2008-09. During the period, the State's tax revenue increased from Rs. 11,173 crore in 2003-04 to Rs. 23,557 crore in 2008-09, but the percentage of tax receipts to revenue receipts remained the same at 61 per cent.

1.2.2 Funds transferred to State Implementing Agencies outside the State Budget

The Central Government has been transferring a sizeable quantum of funds directly to State implementing agencies¹ for the implementation of various schemes/programmes in social and economic sectors, which are recognized as critical. As these funds are not routed through the State Budget/State Treasury System, the Annual Finance Accounts do not capture the flow of these funds and to that extent, the State's receipts and expenditure as well as other fiscal variables/ parameters derived from them are underestimated.

¹ State implementing agencies includes any organization/institutions including non-Governmental organizations which are authorized by the State Government to receive funds from the Government of India for implementing specific programmes in the State, e.g. State Implementation Society for SSA, State Health Mission for NRHM etc.

The funds directly transferred to State implementing agencies are presented in **Table 1.2**

Table-1.2: Funds transferred directly to State implementing agencies

(Rs. in crore)

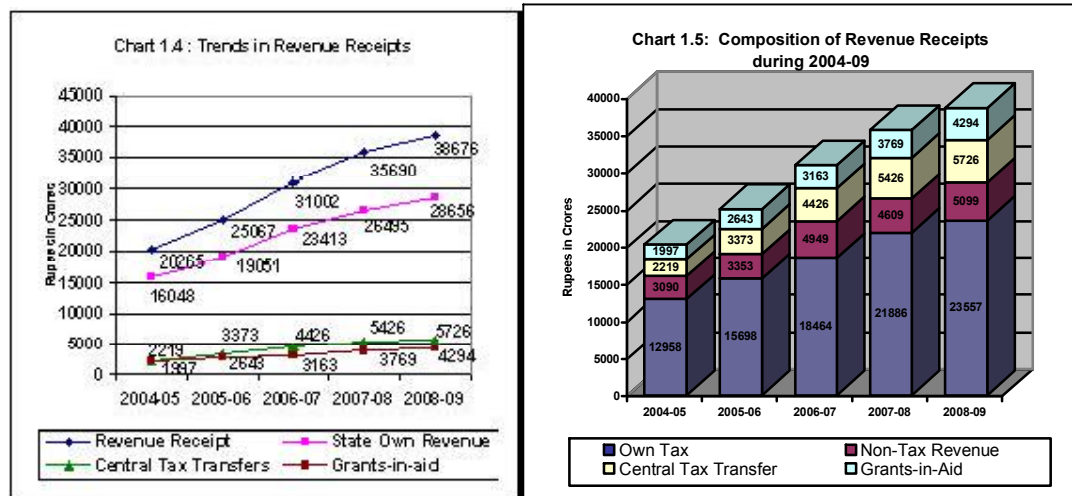
Programme/Scheme	Implementing Agency in the State	2008-09
Integrated Watershed Management Programmes DPAP DDP IWDP DLR	DRDA	33.32
National Rural Employment Guarantee Scheme	DRDA	59.70
Swaranjayanti Gram Swarozgar Yojana	DRDA	21.95
DRDA Administration RD	DRDA	5.66
Rural Housing	DRDA	124.28
Sarva Shiksha Abhiyan	Gujarat Council of Primary Education	254.33
National Rural Health Mission	State Health Society	184.41
Rashtriya Krishi Vikas Yojana, Accelerated Rural Water Supply Programme, Pradhan Mantri Gram Sadak Yojana, Micro Irrigation, National Institute of Technology, Integrated Textile Park, etc.	NGOs & other institutions	1,177.00
Total		1,860.65

(Source: e-lekha portal of the Controller General of Accounts, Ministry of Finance, Government of India.)

Out of Rs. 1,860.65 crore transferred to State implementing agencies, it was seen that Rs. 1,177 crore was transferred to NGOs and others. Direct transfer of funds from the Union to the State implementing agencies ran the risk of improper utilisation of funds by these agencies. Unless uniform accounting practices are followed by all these agencies with proper documentation and timely reporting of expenditure, it would be difficult to monitor the end use of these direct transfers.

1.3 Revenue Receipts

Statement-11 of the Finance Accounts details the revenue receipts of the Government. The revenue receipts consist of the State's own tax and non-tax revenues, Central tax transfers and grants-in-aid from GOI. The trends and composition of revenue receipts over the period 2004-09 are presented in **Appendix 1.3** and also depicted in **Charts 1.4** and **1.5** respectively.



During the period, the State's own tax revenue, non-tax revenue, Central tax transfers and grants-in-aid increased at an annual average growth rate of 20, 16, 40 and 29 *per cent* respectively. In 2008-09, these components grew at 7.6, 10.6, 5.5 and 13.9 *per cent* respectively. Thus the rate of growth in respect of all components of revenue was lower during 2008-09.

The trends in revenue receipts relative to GSDP are presented in **Table 1.3** below:

Table 1.3: Trends in Revenue Receipts relative to GSDP

	2004-05	2005-06	2006-07	2007-08	2008-09
Revenue Receipts (RR) (Rupees in crore)	20265	25067	31002	35690	38676
Rate of growth of RR (<i>per cent</i>)	11.05	23.70	23.68	15.12	8.37
R R/GSDP (<i>per cent</i>)	10.72	11.05	11.80	11.63	10.69
Buoyancy Ratios²					
Revenue Buoyancy w.r.t. GSDP	0.88	1.19	1.50	0.90	0.47
State's own Tax Buoyancy w.r.t. GSDP	1.28	1.06	1.12	1.10	0.43
Revenue Buoyancy with reference to State's own taxes	0.69	1.12	1.34	0.82	1.10

(Source : Finance Accounts for the years 2004-05 to 2008-09)

The GSDP at current prices was estimated to increase from Rs. 3,06,813 crore in 2007-08 to Rs. 3,61,846 crore in 2008-09, representing an increase of 17.94 *per cent*. However, the rate of growth of revenue receipts showed a declining trend despite the increase in GSDP, indicating that the State's aim to widen the tax base and to augment its revenues could not be achieved. Revenue buoyancy widely fluctuated during the period with reference to the growth rate of GSDP. In 2006-07, the growth rate of revenue receipts was 1.5 times the GSDP growth rate. However, in the next two years, the low growth rate of revenue receipts relative to GSDP pushed the revenue buoyancy ratio down. The revenue buoyancy ratio was even lower at 0.47 in 2008-09.

1.3.1 State's Own Resources

As the State's share in Central taxes and grants-in-aid is determined on the basis of recommendations of the Finance Commission, collection of Central tax receipts, Central assistance for Plan schemes etc., the State's performance in mobilization of additional resources should be assessed in terms of its own resources comprising revenue from its own tax and non-tax sources. The gross collection in respect of major taxes and duties as well as the components of non-tax receipts, the expenditure incurred on their collection and the percentage of such expenditure to the gross collection during the years 2004-05 to 2008-09 along with the respective all-India average are presented in **Appendix 1.5**.

The percentage of expenditure on collection under State excise for 2006-07 and 2007-08 and taxes on vehicles and taxes on goods and passengers for 2007-08 was higher than the all - India average.

² Buoyancy ratio indicates the elasticity or degree of responsiveness of a fiscal variable with respect to a given change in the base variable. For instance, for 2008-09, revenue buoyancy at 1.10 implies that revenue receipts tend to increase by 1.10 percentage points, if the GSDP increases by one *per cent*.

The main components of revenue raised by the State during 2004-09 are given in the **Table 1.4:**

Table 1.4 : Main components of revenue**(Rupees in crore)**

Sr. No.	Revenue Head	2004-05	2005-06	2006-07	2007-08	2008-09		Percentage increase(+) or decrease(-) with reference to BE
						Budget Estimates	Actuals	
Tax Revenue								
1	Sales tax/VAT	8,308.62	10,561.34	12,817.46	15,104.54	17,023	16,810.65	(-)1.25
2	State excise	47.09	48.06	41.94	47.20	50	48.71	(-)2.58
3	Stamp duty and Registration fees	962.80	1,153.16	1,425.03	2,018.43	1,658	1,728.50	(+)4.25
4	Taxes and duties on electricity	1,829.07	1,899.68	2,087.77	2,046.52	2,260	2,369.91	(+) 4.86
5	Taxes on vehicles and taxes on goods and passengers	1,221.04	1,310.27	1,197.11	1,461.29	1,650.40	1,551.01	(-)6.02
6	Others	589.08	725.60	895.32	1,207.17	1,008.20	1,048.25	(+)3.97
Total		12,957.70	15,698.11	18,464.63	21,885.57	23,649.60	23,557.03	(-)0.39
Non-Tax Revenue								
1	Interest receipts	469.72	130.91	283.07	329.88	207	567.81	(+)174.30
2	Non-ferrous mining and metallurgical industries	1,422.42	1,880.18	2,173.76	2,082.14	2,347.80	1,559.82	(-)333.56
3	Major and medium irrigation projects	207.09	248.62	330.61	452.82	461.15	455.77	(-)1.16
4	Medical and Public Health	48.87	53.83	66.68	66.25	82.78	126.50	(+)52.81
5	Police	48.85	71.28	90.66	86.24	99.75	77.44	(-)22.36
6	Others	893.55	968.55	2,004	1,591.98	1,260.11	2,311.98	(+)83.47
Total		3,090.50	3,353.37	4,948.78	4,609.31	4,458.59	5,099.32	(+)14.37
Grand Total		1,60,48.20	19,051.48	23,413.41	26,494.88	28,108.19	28,656.35	(+)1.95

(Source: Finance Accounts and Annual Financial Statements (Budget) of State Government)

The sales tax revenue during the year was less by Rs.213 crore than the budget estimates though there was an increase of 11.29 *per cent* over the previous year. Taxes and duties on electricity showed an increase of Rs. 323.39 crore during the year and was 4.86 *per cent* more than the budget estimates. In the Medical and Public Health Department also, there was an increase in the revenue receipts by Rs. 60.25 crore, indicating an increase of 90.94 *per cent* over the previous year's revenue and 52.81 *per cent* over the budget estimates. There was a decline of Rs.289.93 crore (14.36 *per cent*) in stamp duty and registration fees over the previous year. As regards revenue from non-ferrous mining and metallurgical industries, the decline was of Rs.522.32 crore. Receipts under this component were less by 33.56 *per cent* compared to the budget estimates.

As per the Medium Term Fiscal Policy Statement (MTFPS), tax revenue was expected to grow at an annual rate of 10.1 *per cent* over the budget estimates of 2006-07 (base year). Against the projected revenue of Rs.23,649.60 crore, the State could realize Rs.23,557.03 crore from this component. Likewise, non-tax revenue (Rs.5,099.32 crore) also exceeded the projections (Rs.4,458.59 crore) by 14.37 *per cent*, representing an increase of 1.95 *per cent* over the projected revenue.

1.3.2 Loss of Revenue due to Evasion of Taxes

Details of cases of evasion of tax detected by the departments and the additional demands raised by them are given in the **Table 1.5**.

Table 1.5 : Cases of evasion of tax detected and additional demands raised

Sr. No.	Nature of duty	No. of cases pending as on 31 March 2008	No. of cases detected during 2008-09	No. of cases in which assessments completed and additional demands raised		No. of cases pending finalization as on 31 March 2009
				No. of cases	Amount (Rupees in crore)	
1	Sales tax/VAT	780	204	266	926.11	718
2	Motor vehicles tax	69,161	26,634	26,511	24.66	69,284
3	Stamp duty and Registration fees	1,11,773	30,547	32,280	34.27	1,10,040

(Source: Office of the Principal Accountant General (C&RA), Ahmedabad)

The number of cases pending finalization at the end of the financial year remained more or less same as at the beginning of the year. Effective steps need to be taken to clear the backlog in assessments so as to avoid loss of revenue.

1.3.3 Revenue Arrears

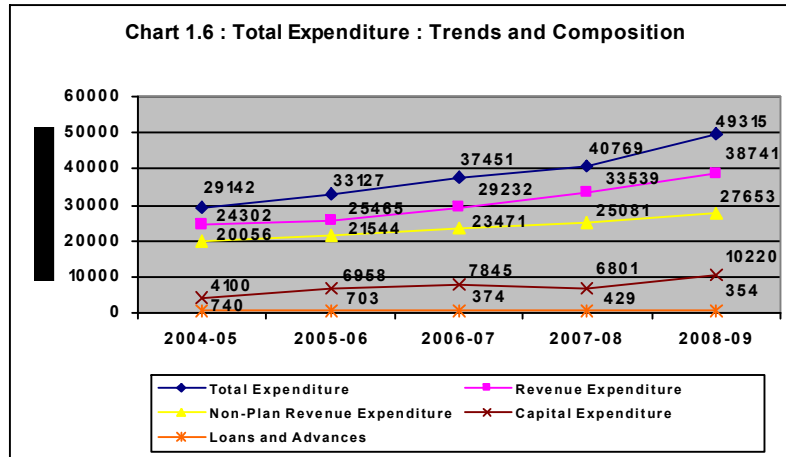
As on 31 March 2009, revenue arrears amounted to Rs. 9,609.38 crore (sales tax : Rs. 8,853.90 crore; electricity duty : Rs. 675.41 crore; taxes on vehicles: Rs. 80.07 crore), out of which Rs. 3,162.62 crore was outstanding for more than five years (sales tax: Rs.2,839.06 crore; electricity duty: Rs.277.36 crore; taxes on vehicles: Rs.46.20 crore). Recovery proceedings for Rs.3,057.45 crore (sales tax : Rs.2,440.40 crore; electricity duty : Rs.617.05 crore) were stayed by judicial authorities and sales tax recovery amounting to Rs. 454.52 crore was proposed to be written off.

1.4 Application of Resources

Analysis of the allocation of expenditure at the State Government level assumes significance since major expenditure responsibilities are entrusted with them. Within the framework of fiscal responsibility legislations, there are budgetary constraints in raising public expenditure financed by deficit or borrowings. It is, therefore, important to ensure that the ongoing fiscal correction and consolidation process at the State level is not at the cost of expenditure, especially the expenditure directed towards development of social sector.

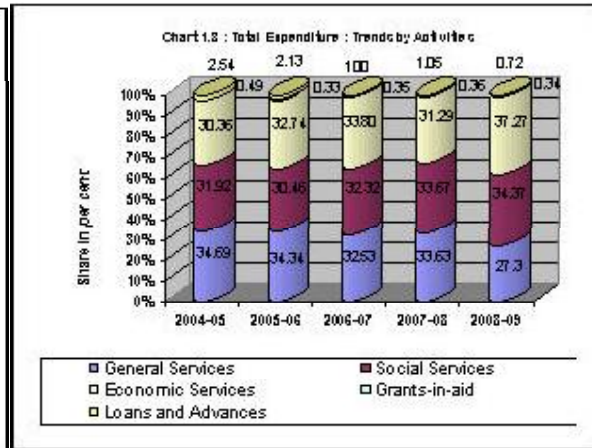
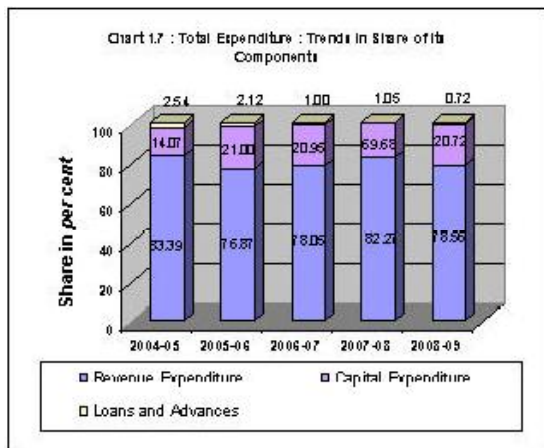
1.4.1 Growth and Composition of Expenditure

Chart 1.6 presents the trends in total expenditure over a period of five years (2004-09) and its composition both in terms of 'economic classification' and 'expenditure by activities' is depicted in **Charts 1.7 and 1.8** respectively.



The total expenditure during 2008-09 increased by Rs.8,546 crore (20.96 per cent) over the previous year. The increase in revenue expenditure by Rs. 5,202 crore (15.51 per cent) and capital expenditure by Rs.3,419 crore (50.27 per cent), offset by decrease in disbursement of loans and advances by Rs.75 crore resulted in an overall increase in expenditure. The increase in capital expenditure was mainly due to increase in expenditure on irrigation and flood control by Rs.3,250 crore (100 per cent) over the previous year, of which Rs.2,916 crore represented investment in Sardar Sarovar Narmada Nigam Limited.

The revenue expenditure was 78.56 per cent of the total expenditure, of which 71.38 per cent was the Non-Plan component. The Non-Plan expenditure (including loans and advances) increased by 10.32 per cent against the projected rate of 4.9 per cent in the Medium Term Fiscal Policy Statement. The revenue expenditure increased by 15.51 per cent over the previous year. The Medium Term Fiscal Policy Statement envisaged 10 per cent increase per year in the capital expenditure. Against this, the increase registered in 2008-09 was of Rs.3,418.73 crore (50.27 per cent) which was mainly due to increase of Rs.3,303.70 crore (96.63 per cent) on economic services, particularly in respect of irrigation and flood control which accounted for 95 per cent of the total increase.



The relative share of expenditure under General Services declined from 34.69 per cent in 2004-05 to 27.30 per cent in 2008-09; while that of Social Services increased from 31.92 per cent to 34.37 per cent. Under Economic Services, the increase was noticeable from 30.36 per cent in 2004-05 to 37.27 per cent in 2008-09.

1.4.2 Committed Expenditure

The committed expenditure of the State Government on revenue account mainly consists of interest payments, expenditure on salaries and wages, pensions and subsidies. **Table 1.6** and **Chart 1.9** present the trends in the expenditure on these components during 2004-09.

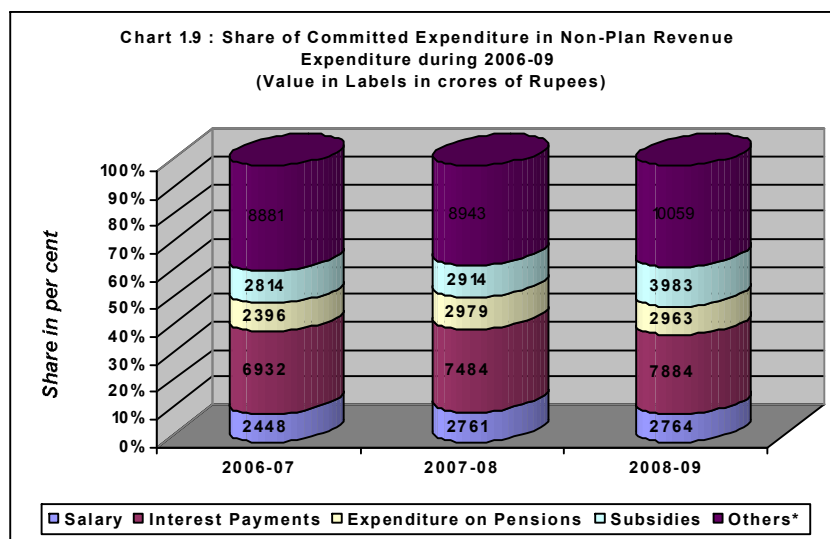
Table-1.6: Components of Committed Expenditure

(Rupees in crore)

Components of Committed Expenditure	2004-05	2005-06	2006-07	2007-08	2008-09
Salaries, of which	3,587 (17.7)	3,624 (14.5)	2,669 (8.6)	3,119 (8.7)	3,189 (8.2)
Non-Plan Head	3,322	3,362	2,448	2,761	2,764
Plan Head*	265	262	221	358	425
Interest Payments	6,079 (30)	6,143 (24.5)	6,932 (22.4)	7,484 (21)	7,884 (20.4)
Expenditure on Pension	1,892 (9.3)	2,101 (8.4)	2,396 (7.7)	2,979 (8.3)	2,963 (7.7)
Subsidies	3,372 (16.6)	2,761 (11)	2,814 (9.1)	2,914 (8.2)	3,983 (10.3)
Total committed expenditure	14,930	14,629	14,811	16,496	18,019
Other components, i.e. other than committed expenditure	9,372 (46.2)	10,836 (43.2)	14,421 (46.5)	17,043 (47.8)	20,722 (53.6)
Total Revenue Expenditure	24,302	25,465	29,232	33,539	38,741

*Plan head includes Salaries and Wages under Centrally Sponsored Schemes.
Figures in parentheses indicate percentage to Revenue Receipts

(Source: Finance Accounts for the year 2004-05 to 2008-09 of the State)



* Others represent Non-Plan Revenue Expenditure other than committed expenditure

The expenditure on salaries under the Non-Plan head decreased from Rs.3,322 crore in 2004-05 to Rs.2,764 crore in 2008-09. As a percentage of revenue receipts, the expenditure on salaries decreased marginally from 8.74 per cent in 2007-08 to 8.24 per cent in 2008-09. It was also 11.43 per cent of the revenue expenditure (net of pensions and interest payments) and within the limit of 35 per cent as recommended by the Twelfth Finance Commission (TFC). The amount spent on subsidies increased from Rs.3,372 crore in 2004-05 to Rs.3,983 crore in 2008-09, mainly due to increase in subsidy to the energy sector (subsidy in fuel prices and power purchase adjustment charges). Expenditure on pensions increased from Rs.2,396 crore in 2006-07 to Rs.2,963 crore in 2008-09. The State implemented the new Defined Pension Contribution Scheme for its employees, to contain its revenue expenditure. As a percentage of revenue receipts, the expenditure on pensions which was 9.3 per cent in 2004-05 came down gradually to 7.7 per cent in 2008-09.

Interest payments increased by Rs.400 crore over the previous year, representing a growth rate of 5.34 per cent. The State Government envisaged increasing the share of market borrowing through the auction route. The State had been availing of loans from NABARD under the Rural Infrastructure Development Fund (RIDF) to contain the interest payments on borrowings. The average rate of borrowing progressively declined from 9.08 per cent in 2004-05 to 7.80 per cent in 2008-09. The percentage of interest payments to revenue receipts was 20.4 per cent during 2008-09, which would further fall to about 15 per cent by 2009-10 in keeping with the recommendations of TFC.

1.4.3 Financial Assistance by State Government to local bodies and other institutions

The quantum of assistance provided by way of grants and loans to local bodies and others during the current year relative to the previous years is presented in **Table 1.7**.

Table 1.7: Financial Assistance to Local Bodies etc.

(Rupees in crore)

Financial Assistance to Institutions	2004-05	2005-06	2006-07	2007-08	2008-09
Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.)	84	92	367	4,793*	5,028
Municipal Corporations and Municipalities	823	263	621	1,094*	334
Zilla Parishads and Other Panchayati Raj Institutions	1,816	2,026	2,668	518*	528
Other Institutions	481	1,100	2,112	1,025*	2,574
Total	3,204	3,481	5,768	7,430	8,464
Assistance as per percentage of RE	13.18	13.67	19.73	20.38	21.85

(Source : Office of the Accountant General (A&E), Rajkot)

Financial assistance to local bodies and other institutions increased from Rs.3,204 crore in 2004-05 to Rs. 8,464 crore in 2008-09, which included payment of grants-in-aid to Municipal Corporations/Municipalities on account of abolition of octroi in November 2006. As a percentage of the revenue expenditure, the increase was from 13.18 to 21.85. Assistance to educational institutions showed a quantum jump from Rs.84 crore in 2004-05 to Rs.5,028 crore in 2008-09. As a percentage of the revenue expenditure, the increase was from 0.35 to 12.98.

* Figures differ from last year's report on account of corrections.

1.5 Quality of Expenditure

The availability of better social and physical infrastructure in the State generally reflects the quality of its expenditure. The improvement in the quality of expenditure basically involves three aspects, viz., adequacy of the expenditure (i.e. adequate provisions for providing public services); efficiency of expenditure use and its effectiveness.

1.5.1 Adequacy of Public Expenditure

The expenditure responsibilities relating to the social sector and the economic infrastructure are largely assigned to the State Governments in accordance with the provisions laid down in the Constitution. Thus in order to enhance social development levels in the States, it is essential to increase expenditure on key social services like, education, health etc. Low levels of spending on any sector by a particular State may be either due to the low fiscal priority attached by the State Government to those sectors or on account of the low fiscal capacity of the State Government or due to both working together. Low fiscal priority (ratio of expenditure category to aggregate expenditure) would be attached to a particular sector if it was below the national average while low fiscal capacity would be reflected if the State's per capita expenditure was below the national average even after having a fiscal priority that was more than or equal to the national average. **Table 1.8** analyses the fiscal priority and fiscal capacity of the State Government with regard to development expenditure, social sector expenditure and capital expenditure during the current year.

Table-1.8: Fiscal Priority and Fiscal Capacity of the State in 2005-06 and 2008-09

Fiscal Priority of the State	AE/GSDP	DE/AE	SSE/AE	CE/AE
All States/National Average* (Ratio) 2005-06	19.50	61.44	30.41	14.13
Gujarat's Average (Ratio)2005-06	16.68	65.33	30.46	21.00
All States/National Average* (Ratio) 2008-09	19.16	67.68	33.90	16.87
Gujarat's Average (Ratio) 2008-09	13.63	72.21	34.42	20.72
Fiscal Capacity of the State	DE	SSE	CE	
All States Average Per Capita Expenditure 2005-06	3,010	1,490	692	
Gujarat's Per Capita Expenditure (Amount in Rs.) in 2005-06	3,971	1,852	1,277	
Adjusted Per Capita** Expenditure (Amount in Rs.) in 2005-06	NR	NR	NR	
All States Average per capita expenditure 2008-09	5,030	2,520	1,254	
Gujarat's Per Capita Expenditure (Amount in Rs.) in 2008-09	6,248	2,978	1,793	
Adjusted Per Capita** Expenditure (Amount in Rs.) in 2008-09	NR	NR	NR	
*As per cent of GDP				
**Calculated as per the methodology explained in Appendix 1.2				
AE: Aggregate Expenditure DE: Development Expenditure SSE: Social Sector Expenditure				
CE: Capital Expenditure NR: No adjustment required since the State is giving adequate fiscal priority.				
Population of Gujarat 5.45 crore in 2005-06 and 5.70 crore in 2008-09.				
# Development Expenditure includes Development Revenue Expenditure, Development Capital Expenditure and Loans and Advances disbursed.				
Source: (1) For GSDP, the information was collected from the State's Directorate of Economics and Statistics. (2) Population figures were taken from Projection 2001-2026 of the Registrar General & Census Commissioner, India (Website: http://www.censusindia.gov.in) Population = Average of projected population for 2005 and 2006. Data for Arunachal Pradesh has not been included in All States/National Average (Ratios).				

In **Table 1.8**, we are comparing the fiscal priorities given to various categories of expenditure and the fiscal capacity of the State in 2005-06 (the first year of the Award Period of the Twelfth Finance Commission) and the current year, i.e. 2008-09. Despite the State Government spending less than the national average (AE/GSDP ratio for Gujarat is lower than the average of all the States for both years), the Government gave adequate fiscal priority to Development Expenditure (DE), Social Sector Expenditure (SSE) and Capital Expenditure (CE) since DE/AE, SSE/AE and CE/AE in the case of Gujarat was higher than the national average.

In 2005-06 as well as in 2008-09, the per capita expenditure of DE, SSE and CE was higher than the national average, despite the AE/GSDP ratio being lower for Gujarat. This means that the absorptive capacity³ in Gujarat was relatively high. While the State's per capita expenditure in all categories viz, DE, SSE and CE remained above the national average in 2008-09, it was observed that in the case of SSE and CE, Gujarat was closer to the national averages in the current year compared to 2005-06. In 2005-06, the SSE and CE were 24.30 *per cent* and 84.53 *per cent* higher than the national average but were only 18.17 *per cent* and 42.98 *per cent* higher in 2008-09 respectively. This means that the per capita expenditure in other States is catching up with Gujarat.

1.5.2 Efficiency of Expenditure Use

In view of the importance of public expenditure on development heads from the point of view of social and economic development, it is important for the State Governments to take appropriate expenditure rationalization measures and lay emphasis on provision of core public and merit goods⁴. Apart from improving the allocation towards development expenditure⁵, particularly in view of the fiscal space being created on account of decline in debt servicing in recent years, the efficiency of expenditure use is also reflected by the ratio of capital expenditure to total expenditure (and/or GSDP) and the proportion of revenue expenditure being made on operation and maintenance of the existing social and economic services. The higher the ratio of these components to the total expenditure (and/or GSDP), the better would be the quality of expenditure. While **Table 1.9** and **Chart 1.9(A)** present the trends in development expenditure relative to the aggregate

³ Absorptive capacity in this case refers to the ability of a State to implement a developmental scheme in such a way that with given resources, there is maximum benefit to the people. This is usually achieved when the designs of schemes are well planned with a careful risk mitigation strategy in place; administrative costs are low; operation, maintenance, monitoring and control mechanisms are in place etc. so that the State is able to achieve effectively targeted outcomes.

⁴ Core public goods are goods which all citizens enjoy in common in the sense that each individual's consumption of such goods leads to no subtractions from any other individual's consumption of those goods, e.g. enforcement of law and order, security and protection of our rights; pollution free air and other environmental goods, road infrastructure etc. Merit goods are commodities that the public sector provides free or at subsidized rates because an individual or society should have them on the basis of some concept of need, rather than the ability and willingness to pay the government and therefore wishes to encourage their consumption. Examples of such goods include the provision of free or subsidized food for the poor to support nutrition, delivery of health services to improve quality of life and reduce morbidity, providing basic education to all, drinking water and sanitation etc.

⁵ The analysis of expenditure data disaggregated into development and non-development expenditure. All expenditure relating to Revenue Account, Capital Outlay and Loans and Advances is categorized into Social Services, Economic Services and General Services. Broadly, the Social and Economic Services constitute development expenditure, while expenditure on General Services is treated as non-development expenditure.

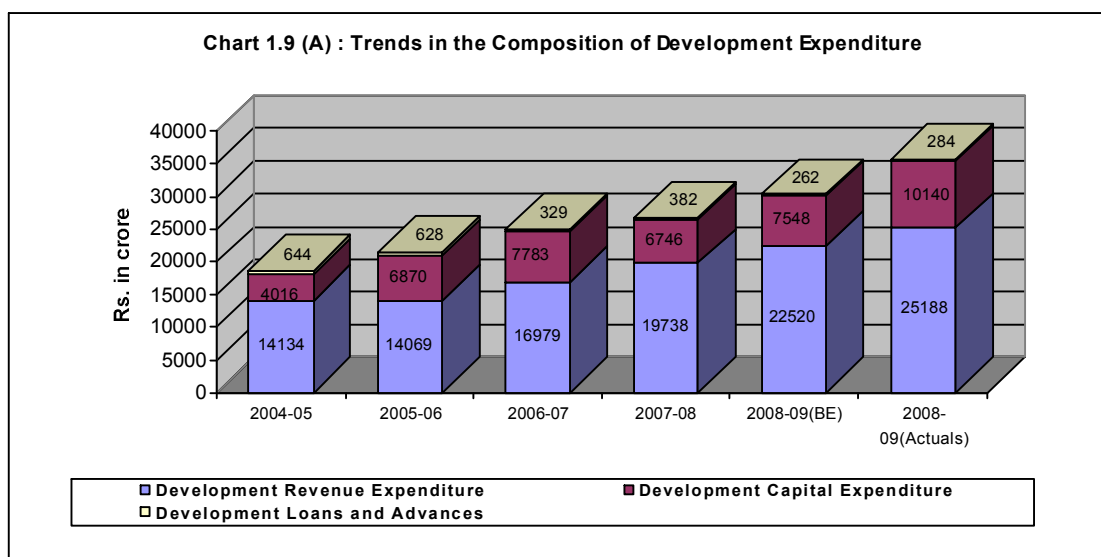
expenditure vis-à-vis budget estimates during the current year, i.e. 2008-09 and development expenditure relative to the aggregate expenditure in previous years, **Table 1.10** provides the details of capital expenditure and the components of revenue expenditure incurred on the maintenance of selected social and economic services.

Table-1.9: Development Expenditure

(Rupees in crore)

Components of Development Expenditure	2004-05	2005-06	2006-07	2007-08	2008-09	
					BE	Actuals
Development Expenditure (a to c)	18,794 (64.5)	21,567 (65.1)	25,091 (67)	26,866 (65.9)	30,330 (61.3)	35,612 (72.2)
a. Development Revenue Expenditure	14,134 (48.5)	14,069 (42.5)	16,979 (45.3)	19,738 (48.4)	22,520 (45.5)	25,188 (51.1)
b. Development Capital Expenditure	4,016 (13.8)	6,870 (20.7)	7,783 (20.8)	6,746 (16.6)	7,548 (15.3)	10,140 (20.6)
c. Development Loans and Advances	644 (2.2)	628 (1.9)	329 (0.9)	382 (0.9)	262 (0.5)	284 (0.6)

Figures in parentheses indicate percentage of aggregate expenditure
(Source : Finance Accounts and Annual Financial Statement (Budget) of the State Government)



Development expenditure of the State comprised revenue and capital expenditure including loans and advances on socio-economic services. The development expenditure increased from Rs.18,794 crore in 2004-05 to Rs.35,612 crore in 2008-09. As a percentage of total expenditure, the total development expenditure of the State increased from 64.5 in 2004-05 to 72.2 in 2008-09. The capital expenditure component increased from Rs.4,016 crore in 2004-05 to Rs.10,140 crore in 2008-09, showing an average yearly increase of 30.5 per cent. The percentage of development capital expenditure to the aggregate expenditure during the current year, i.e. 2008-09 was 20.6 per cent whereas it accounted for 51 per cent under the revenue expenditure component.

**Table 1.10 : Efficiency of expenditure under selected Social and Economic Services
(Per cent)**

Social/Economic Infrastructure	2007-08		2008-09	
	Share of CE to TE	In RE, the share of Salaries	Share of CE to TE	In RE, the share of Salaries
Social Services (SS)				
General Education	5.06	4.30	4.10	4.24
Health and Family Welfare	6.49	38.35	10.77	34.67
Water Supply, Sanitation, Housing and Urban Development	26.70	0.45	20.02	0.52
Total (SS)	14.04	8.13	11.88	6.77
Economic Services (ES)				
Agri & Allied Activities	9.27	17.27	12.39	14.27
Irrigation and Flood Control	83.93	25.81	89.54	26.39
Power & Energy	18.06	-	10.01	-
Transport	32.50	1.52	30.75	1.58
Total (ES)	36.72	6.95	43.57	6.08
Total (SS+ES)	25.11	7.66	28.47	6.49
TE: Total expenditure in the concerned subsector; CE: Capital Expenditure; RE: Revenue Expenditure. Operations & Maintenance figures not available except in respect of Water Supply, Sanitation, Housing and Urban Development (1.48 per cent), Irrigation and Flood Control (22.26 per cent) and Transport (30.65 per cent) for the year 2008-09 (Source : Finance Accounts of the State)				

The percentage of capital expenditure to the total expenditure for social and economic services increased from 25.11 in 2007-08 to 28.47 in 2008-09, indicating improvement in the efficiency of expenditure. The improvement was evident in the irrigation and flood control sector. However, in the social service sector, due to lower priority to capital expenditure, there were decreases in the share of capital expenditure as a percentage of total expenditure under Water Supply, Sanitation and Housing and Urban Development.

Expenditure on Social services

Capital expenditure on Social Services increased in absolute terms from Rs.1,926.98 crore in 2007-08 to Rs.2,016.96 crore in 2008-09 (4.67 per cent). However, there was a decrease in the share of capital expenditure to total expenditure under Social Services from 14.04 per cent to 11.88 per cent.

It was observed that lower priority to capital expenditure was mainly under General Education, Water Supply, Sanitation and Housing and Urban Development where capital expenditure as a percentage of the total expenditure reduced from 5.06 per cent and 26.70 per cent to 4.10 per cent and 20.02 per cent respectively.

The share of salaries in revenue expenditure under Social Services decreased from 8.13 per cent in 2007-08 to 6.77 per cent in 2008-09 mainly on account of decrease in the share of salaries under Health and Family Welfare from 38.55 per cent to 34.67 per cent.

Expenditure Economic Services

Capital expenditure on Economic Services increased from Rs.4,818.91 crore in 2007-08 to Rs.8,122.61 crore in 2008-09, registering a growth rate of 68.5 per cent. The percentage of capital expenditure to total expenditure increased from 36.72 to 43.57. The increase was mainly due to priority to capital expenditure under Irrigation and Flood Control that increased from 83.93 per cent to 89.54 per cent.

The share of salaries under revenue expenditure in Economic Services decreased from 6.95 per cent to 6.08 per cent, mainly on account of decrease in the share of salaries under Agriculture and Allied Activities from 17.27 per cent to 14.27 per cent.

1.6 Financial Analysis of Government Expenditure and Investments

In the post-FRBM framework, the State is expected to keep its fiscal deficit (and borrowings) not only at low levels but also meet its capital expenditure/ investment (including loans and advances) requirements. In addition, in a transition to complete dependence on market-based resources, the State Government needs to initiate measures to earn adequate returns on its investments, recover its cost of borrowed funds rather than bearing the same on its budget in the form of implicit subsidies and take requisite steps to infuse transparency in financial operations. This section presents a broad financial analysis of investments and other capital expenditure undertaken by the Government during the current year vis-à-vis the previous years.

1.6.1 Financial Results of Irrigation Works

At the end of March 2009, Rs.1,649.62 crore was spent on 33 Major and Medium Irrigation Projects which were treated as completed. The revenue realized during the year was Rs.118.40 crore, against which the maintenance expenditure was Rs.88.84 crore, indicating a revenue surplus of Rs.29.56 crore. When compared with the investment, the return was a mere 1.79 per cent.

1.6.2 Incomplete projects

At the end of March 2009, there were 266 incomplete capital works involving Rs. 1,218.16 crore. The department-wise details of incomplete works, each costing Rs. five crore or more, are given in **Table 1.11**.

Table 1.11: Department-wise Profile of Incomplete Works

(Rs. in crore)

Department	No. of Incomplete Works	Initial Budgeted Cost	Cumulative Actual expenditure as on 31.3.2009
Roads and Buildings	12	267.29	245.26
Narmada, Water Resources, Water Supply and Kalpsar	14	173.5	144.14
Total	26	440.79	389.40

(Source : Finance Accounts of the State)

The main reasons for the delays in completing the works were (i) changes/revisions in design, (ii) non-availability of land, (iii) contractors

abandoning the works, (iv) non-receipt of approvals for extra items of work, (v) flood damages, and (vi) delays in providing power supply.

1.6.3 Investment and returns

As of 31 March 2009, Government invested Rs.26,542 crore in Statutory Corporations, Rural Banks, Joint Stock Companies and Co-operatives (Table 1.12). The average return on these investments was 0.68 per cent in the last three years while the Government paid at least 7.80 per cent as interest on its borrowings during 2007-2009.

Table-1.12: Return on Investment

Investment/Return/Cost of Borrowings	2004-05	2005-06	2006-07	2007-08	2008-09
Investment at the end of the year (Rs. in crore)	12,739	15,199	18,515	21,117	26,542
Return (Rs. in crore)	35,82	139,58	354.79	47.57	49.40
Return (per cent)	0,28	0,92	1.92	0.23	0.19
Average rate of interest on Govt. borrowing (per cent)	9,08	8,06	8.19	8.12	7.80
Difference between interest rate and return (per cent)	8,80	7,14	6.27	7.89	7.61

(Source: Finance Accounts of the State)

Out of Rs.5,425 crore invested during 2008-09, Rs.5,229 crore was invested in the Sardar Sarovar Narmada Nigam Limited, a State-owned Government Company, executing the multi-purpose Narmada Project.

There are 71 Government Companies and Statutory Corporations (57 working and 14 non-working) in the State, whose paid-up capital aggregated Rs.34,217.73 crore. Based on the latest accounts finalized, the return on investment was only Rs.4,421.27 crore, representing 12.92 per cent on the paid up capital. Considering that the capital employed was Rs.1,11,119.68 crore, the return was a mere 3.98 per cent.

1.6.4 Loans and advances by State Government

In addition to investments in co-operative societies, Corporations and Companies, Government has also been providing loans and advances to many of these institutions/ organizations. Table 1.13 presents the outstanding loans and advances as on 31 March 2009 and interest receipts vis-à-vis interest payments during the last three years.

Table-1.13: Average Interest Received on Loans Advanced by the State Government (Rupees in crore)

Quantum of Loans/Interest Receipts/ Cost of Borrowings	2006-07	2007-08	2008-09
Opening Balance	4,665	4,241	4,456
Amount advanced during the year	374	429*	354
Amount repaid during the year	798	214	181
Closing Balance	4,241	4,456*	4,629
<i>Of which</i> Outstanding balance for which terms and conditions have been settled			
Net addition	(-)424	214	173
Interest Receipts	42	66	180
Interest receipts as percentage of outstanding Loans and advances	0.91	1.56	3.89
Interest payments as percentage of outstanding fiscal liabilities of the State Government	8.19	8.12	7.46
Difference between interest payments and interest receipts (per cent)	(-)7.28	(-)6.56	(-)3.57

(Source: Finance Accounts of the State)

* 'Previous year figures differ due to correction'.

The quantum of loans advanced during the year decreased from Rs.429 crore in 2007-08 to Rs.354 crore in 2008-09, a decline of 17.48 *per cent*. Repayments also decreased from Rs.214 crore in 2007-08 to Rs.181 crore in 2008-09 (15.42 *per cent*), resulting in increase in the outstanding balance from Rs. 4,456 crore in 2007-08 to Rs.4,629 crore in 2008-09. The difference between interest payments and interest receipts decreased from 7.28 *per cent* in 2006-07 to 3.57 *per cent* in 2008-09. The major recipients of loans and advances were the (i) Social Sector – Welfare of SC/ST/OBC (Rs.23 crore), (ii) Economic Sector- (a) Industries and Mines were given Rs.110 crore, out of which Rs.50 crore were given to Public Sector Engineering Industries and Rs.60 crore to Industrial Finance Institutions, (b) Transport was given Rs.145 crore, out of which Rs.117 crore were given to PSUs in the road transport sector.

1.6.5 Cash Balances and Investment of Cash Balances

Details of cash balances and investments made by the State Government during the year are shown in **Table 1.14**.

Table-1.14: Cash Balances and Investment of Cash Balances

Particulars	(Rs. in crore)		
	As on 1 April 2008	As on 31 March 2009	Increase/ Decrease
Cash Balances	13,537.65	13,119.02	(-)418.63
Investments from Cash Balances in GOI Treasury Bills	9,229.17	8,465.87	(-)763.30
Funds-wise Break-up of Investment from Earmarked balances (a to c)			
a. Sinking Fund	3,266.27	3,466.27	(+)200.00
b. Development and Welfare Fund	3.38	3.38	--
c. General and other Reserve Funds	1,057.50	1,057.50	--
d. Investment in Misc. Deposits	0.34	0.34	--
Interest realized	263.16	387.31	(+)124.15

(Source: Finance Accounts of the State)

During 2008-09, the State Government did not avail of any Ways and Means Advance for maintenance of its minimum cash balance.

As seen from the above table, the interest amount realised from investment in GOI treasury bills was higher by Rs. 124.15 crore during the year as compared to the previous year.

1.7 Assets and Liabilities

1.7.1 Growth and Composition of Assets and Liabilities

In the existing Government accounting system, comprehensive accounting of fixed assets like land and buildings owned by the Government is not done. However, the Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred.

Appendix 1.4 gives an abstract of such liabilities and assets as on 31 March 2009, compared with the corresponding position on 31 March 2008. While

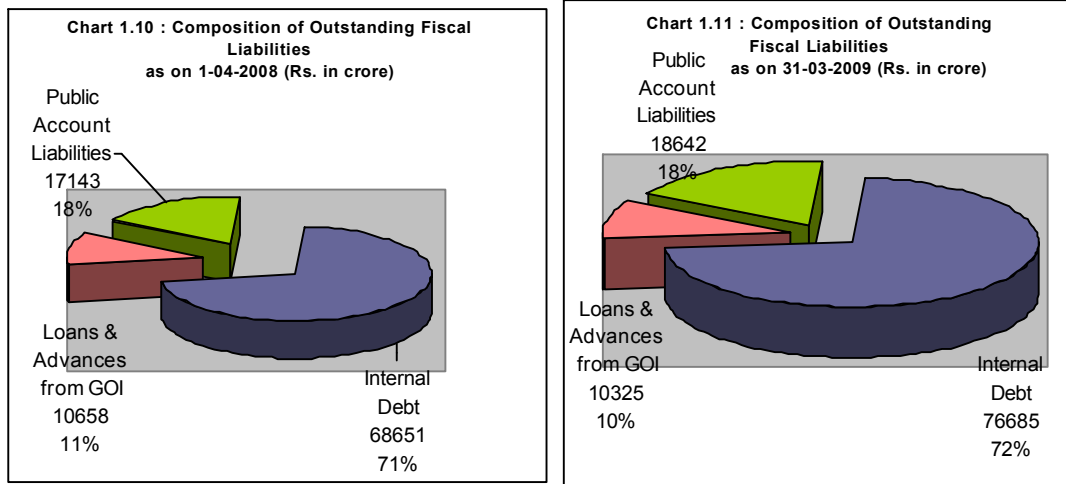
the liabilities in this Appendix consist mainly of internal borrowings, loans and advances from the GOI, receipts from the Public Account and Reserve Funds, the assets comprise mainly the capital outlay and loans and advances given by the State Government and cash balances.

As per the Statement under the Gujarat Fiscal Responsibility Act, 2005, the State Government liabilities comprise the following components -

- (i) Special Securities issued to the National Small Savings Fund, (ii) Loans and Advances from Central Government, (iii) Market Loans, (iv) Loans from Financial Institutions/Banks, (v) Ways and Means Advances/Over Draft from RBI, (vi) Small Savings, Provident Fund of Government Employees etc., (vii) Pension Liabilities, (viii) Reserve Fund/Deposits & Provident Fund of other employees, (ix) Other Liabilities.

1.7.2 Fiscal Liabilities

The trends in outstanding fiscal liabilities of the State are presented in **Appendix 1.3**. However, the composition of fiscal liabilities during the current year vis-à-vis the previous year is presented in **Charts 1.10** and **1.11**.



The outstanding fiscal liability has shown a steady increase over the years and from Rs.71,083 crore at the end of 2004-05 to Rs.1,05,652 crore as at the end of 2008-09. The composition of fiscal liability at the end of March 2009 remained the same as that of the previous year with Internal Debt accounting for 72 per cent, Public Account Liabilities for 18 per cent and Loans and Advances from Government of India for 10 per cent. The fiscal liability represented 351 per cent of the revenue receipts at the end of 2004-05, which was reduced to 273 per cent at the end of 2008-09.

1.7.3 Status of Guarantees – Contingent liabilities

Guarantees are liabilities contingent on the Consolidated Fund of the State in cases of defaults by borrowers for whom the guarantees have been extended. As per Statement 6 of the Finance Accounts, the maximum amount for which guarantees were given by the State and the outstanding guarantees for the last three years is given in **Table 1.15**.

Table-1.15: Guarantees given by the Government of Gujarat

(Rupees in crore)

Guarantees	2006-07	2007-08	2008-09
Maximum amount guaranteed	12,983	11,843	10,562
Outstanding amount of guarantees	12,448	11,308	10,027
Percentage of maximum amount guaranteed to total revenue receipts	42	33	27
Ceiling limit on Government guarantees under Gujarat State Guarantees Act 1963	20,000	20,000	20,000

(Source : Finance Accounts of the State)

The Gujarat Fiscal Responsibility Act, 2005 prescribed limitation of outstanding guarantees within the limit (Rs.20,000 crore) prescribed in the Gujarat State Guarantees Act, 1963. The outstanding guarantees of Rs.10,027 crore comprised (i) guarantees given for raising of working capital by a Corporation (Rs.16.30 crore) and (ii) loans and advances raised by State Corporations and Statutory Bodies (Rs.3,679.62 crore), Joint Stock Companies (Rs.5,456.10 crore), Municipal Corporations, Municipalities, etc. (Rs.473.52 crore), Co-operative Banks and Societies (Rs.356.09 crore) and Others (Rs.45.15 crore). The outstanding guarantees accounted for 26 per cent of the revenue receipts (Rs.38,676 crore) of the State Government and were within the ceiling limit prescribed under the Act. Gujarat State Guarantees Redemption Fund set up in February 2006 to take care of any contingent liabilities arising out of State Government guarantees, had a balance of Rs.761.19 crore at the end of 2008-09.

1.8 Debt Sustainability

Apart from the magnitude of debt of the State Government, it is important to analyze the various indicators that determine the debt sustainability⁶ of the State. This section assesses the sustainability of debt of the State Government in terms of debt stabilization⁷; sufficiency of non-debt receipts⁸; net availability of borrowed funds⁹; burden of interest payments (measured by interest payments to revenue receipts ratio) and the maturity profile of State Government securities. **Table 1.16** analyzes the debt sustainability of the State according to these indicators for the period of three years beginning from 2006-07.

⁶Debt sustainability is defined as the ability of the State to maintain a constant debt-GSDP ratio over a period of time and also embodies the concern about the ability to service its debt. Sustainability of debt therefore, also refers to sufficiency of liquid assets to meet current or committed obligations and the capacity to keep a balance between costs of additional borrowings with returns from such borrowings. It means that the rise in fiscal deficit should match the increase in capacity to service the debts.

⁷A necessary condition for stability states that if the rate of growth of economy exceeds the interest rate or cost of public borrowings, the debt-GSDP ratio is likely to be stable provided primary balances are either zero or positive or moderately negative. Given the rate spread (GSDP growth rate-interest rate) and quantum spread (Debt x rate spread), debt sustainability condition states that if quantum spread together with primary deficit is zero, debt-GSDP ratio would be constant or debt would stabilize eventually. On the other hand, if primary deficit together with quantum spread turns out to be negative, the debt-GSDP ratio would be rising. In case it is positive, the debt-GSDP ratio would eventually be falling.

⁸Adequacy of incremental non-debt receipts of the State to cover incremental interest liabilities and incremental primary expenditure. Debt sustainability could be significantly facilitated if the incremental non-debt receipts could meet the incremental interest burden and the incremental primary expenditure.

⁹Defined as the ratio of debt redemption (Principal + Interest Payments) to total debt receipts and indicates the extent to which the debt receipts are used in debt redemption, indicating the net availability of borrowed funds.

Table 1.16: Debt Sustainability: Indicators and Trends

(Rupees in crore)

Indicators of Debt Sustainability	2004-05	2005-06	2006-07	2007-08	2008-09
Debt Stabilization (Quantum Spread +/- Primary Deficit/Surplus)	(-)449	8,348	7,468	10,332	7,226
Sufficiency of Non-debt Receipts (Resource Gap)	(+)451	(+)2,423	(+)620	(+)878	(-)5,667
Net Availability of Borrowed Funds	2,835	4,141	(-)327	996	1,317
Burden of Interest Payments (IP/RR Ratio)	0.30	0.25	0.22	0.21	0.20
Maturity Profile of State Debt (In Years)					
0 – 1				2,896	5,253
1 – 3				7,031	8,600
3 – 5				10,831	11,875
5 – 7				10,516	9,430
7 and above				48,035	51,852

(Source: Finance Accounts of the State)

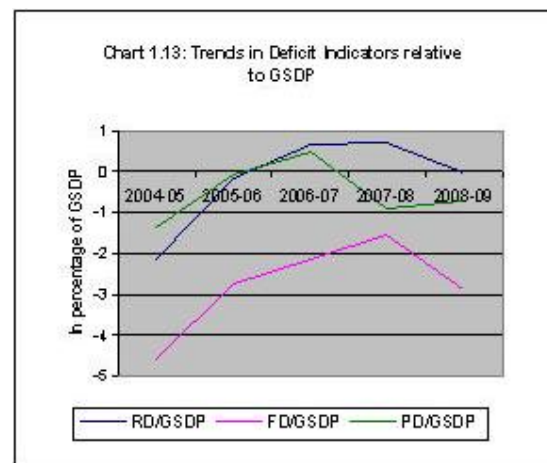
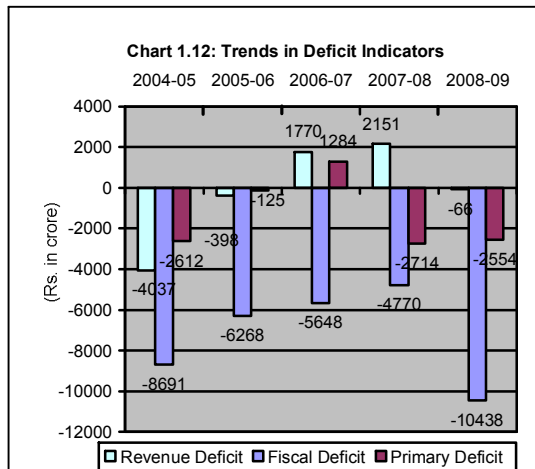
The quantum spread together with the primary deficit have been positive from 2005-06 to 2008-09 which is indicative that the State's debt is sustainable. The trend in net availability of borrowed funds is also in favourable condition. As regards repayment of debts, large amounts of repayments to the extent of 14 *per cent* of the State debt would be taking place in the next three to five years.

1.9 Fiscal Imbalances

Three key fiscal parameters - revenue, fiscal and primary deficits - indicate the extent of overall fiscal imbalances in the finances of the State Government during a specified period. The deficit in the Government accounts represents the gap between its receipts and expenditure. The nature of deficit is an indicator of the prudence of fiscal management of the Government. Further, the ways in which the deficit are financed and the resources raised are applied are important pointers to its fiscal health. This section presents trends, nature, magnitude and the manner of financing these deficits and also the assessment of actual levels of revenue and fiscal deficits vis-à-vis targets set under FRBM Act/Rules for the financial year 2008-09.

1.9.1 Trends in Deficits

Charts 1.12 and 1.13 present the trends in deficit indicators over the period 2004-09.



- ? The State had a revenue surplus of Rs.1,770 crore and Rs. 2,151 crore during 2006-07 and 2007-08. However, it turned into a revenue deficit of Rs.66 crore in 2008-09, though the MTFPS targeted a revenue surplus of Rs.52 crore.
- ? The fiscal deficit increased from Rs.5,648 crore in 2006-07 to Rs.10,438 crore in 2008-09 against Rs.7,767 crore projected in the MTFPS (34 per cent increase).
- ? Revenue receipts increased by 8.37 per cent but revenue expenditure increased by 15.51 per cent, resulting in a revenue deficit.
- ? Despite increase in the revenue receipts for the year 2008-09 as against the revenue surplus in the previous year, due to much higher increase in expenditure (mainly on account of increase in Social Service and Economic Service expenditure), there was revenue deficit during the current year.

1.9.2 Components of Fiscal Deficit and its Financing Pattern

The financing pattern of the fiscal deficit has undergone a compositional shift as reflected in the **Table 1. 17**.

Table 1.17: Components of Fiscal Deficit and its Financing Pattern

(Rs. in crore)

	Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
Decomposition of Fiscal Deficit						
1	Revenue Deficit/ Surplus(-/+)	(-4,037	(-)398	(+)1,770	(+)2,151	(-)66
2	Net Capital Expenditure	4,094	6,950	7,842	6,706	10,199
3	Net Loans and Advances	560	(-)1,078	(-)424	215	173
Financing Pattern of Fiscal Deficit*						
1	Market Borrowings	1,840	353	(-)446	6,137	7,618
2	Loans from GOI	(-)2,777	136	(-)564	(-)345	(-)332
3	Special Securities issued to NSSF**	8,658	8,459	5,473	424	(-)74
4	Loans from Financial Institutions	(-)166	587	715	460	490
5	Small Savings, PF etc.	230	258	285	436	320
6	Deposits and Advances	865	459	830	1,353	798
7	Suspense and Miscellaneous	446	(-)760	451	(-)330	663
8	Remittances	4	9	(-)223	3	(-)22
9	Others	-				
10	Overall Surplus/Deficit	(+)409	(+)3,233	(+)873	(+)3,368	(-)977
Figures in brackets indicate the percentage of GSDP. *All these figures are net of disbursements/outflows during the year. ** NSSF: National Small Savings Fund. (Source : Finance Accounts of the State)						

A redeeming feature of the fiscal deficit is that Government primarily borrows to finance capital expenditure. With a view to bringing down the cost of borrowing as envisaged in the Fiscal Policy Strategy Statement (FPSS), the fiscal deficit was mainly financed by increased market borrowings of Rs.1,481 crore rather than obtaining loans from the National Small Savings Fund which carried a higher rate of interest.

1.9.3 Quality of Deficit/Surplus

The ratio of revenue deficit to fiscal deficit and the decomposition of primary deficit into primary revenue deficit and capital expenditure (including loans and advances) would indicate the quality of deficit in the State's finances. The ratios of revenue deficit to fiscal deficit indicate the extent to which borrowed funds were used for current consumption. Further, persistently high ratios of revenue deficit to fiscal deficit also indicate that the asset base of the State was continuously shrinking and a part of the borrowings (fiscal liabilities) did not have any asset backup. The bifurcation of the primary deficit (**Table 1.18**) would indicate the extent to which the deficit had been on account of enhancement in capital expenditure, which may have been desirable to improve the productive capacity of the State's economy.

Table 1.18: Primary deficit/Surplus – Bifurcation of factors

(Rupees in crore)

Year	Non-debt Receipts	Primary Revenue Expenditure	Capital Expenditure	Loans and Advances	Primary Expenditure	Primary Revenue Deficit (-) / Surplus (+)	Primary Deficit (-) / Surplus (+)
1	2	3	4	5	6 (3+4+5)	7 (2-3)	8 (2-6)
2004-05	20,451	18,223	4,100	740	23,063	(+)2,228	(-)2,612
2005-06	26,859	19,322	6,958	704	26,984	(+)7,537	(-)125
2006-07	31,803	22,300	7,845	374	30,519	(+)9,503	(+)1,284
2007-08	35,999	26,055	6,801	429	33,285	(+)9,944	(+)2,714
2008-09	38,877	30,857	10,220	354	41,431	(+)8,020	(-)2,554

(Source: Finance Accounts of the State)

During the period 2004-05 to 2008-09, primary expenditure increased from Rs.23,063 crore to Rs.41,431 crore (increase of 79.64 *per cent*) against the increase of non-debt receipts from Rs.20,451 crore to Rs.38,877 crore (increase of 90.10 *per cent*). During the years 2006-07 and 2007-08, the non-debt receipts covered the primary expenditure, resulting in surpluses. In the current year, there was a primary deficit of Rs.2,554 crore due to an increase of 50.27 *per cent* in capital expenditure, without a commensurate increase in non-debt receipts.

1.9.4 State's Own Revenue and Deficit Correction

It is worthwhile to observe the extent to which deficit correction is achieved by the State on account of improvement in its own resources. This is an indicator of the durability of the corrections in deficit indicators. **Table 1.19** presents the changes in revenue receipts of the State and the corrections of the deficit during the last three years.

Table-1.19: Change in Revenue Receipts and Corrections of Deficit
(Per cent of GSDP)

Parameters	2006-07	2007-08	2008-09	
			BE	Actual
Revenue Receipts (a to d)	11.80	11.63	10.58	10.69
a. State's Own Tax Revenue	7.03	7.13	8.21	6.51
b. State's Own Non- tax Revenue	1.88	1.50	1.23	1.41
c. State's Share in Central Taxes and Duties	1.68	1.77	NA	1.58
d. Grants-in-Aid	1.20	1.23	1.14	1.19
Revenue Expenditure	11.13	10.93	10.56	10.71
Revenue Deficit/Surplus	(+) 0.67	(+) 0.70	(+) 0.014	(-) 0.018
Fiscal Deficit/Surplus	(-) 2.15	(-) 1.55	(-) 0.13	(-) 2.88

(Source: Finance Accounts of the State)

Though the State was able to achieve revenue surplus during the years 2006-07 and 2007-08, it had a revenue deficit during the year 2008-09. Revenue receipts as a percentage of GSDP declined during the year. Fiscal deficit as a percentage of GSDP increased during the year.

1.10 Conclusion and Recommendations

Conclusion

The State achieved the target as laid down in the FRBM Act to reduce revenue deficit to zero by 31 March 2008, but there was a revenue deficit of Rs.66 crore during the current year. The State managed to keep the fiscal deficit at less than three *per cent* of the estimated GSDP.

The Non-Plan expenditure increased by 10.32 *per cent* against the projected rate of 4.9 *per cent* in the Medium Term Fiscal Policy Statement. The revenue expenditure increased by 15.51 *per cent* over the previous year.

The Medium Term Fiscal Policy Statement envisaged a 10 *per cent* increase per year in the capital expenditure. Against this, the State registered a significant increase of 50.27 *per cent* during the year.

Government of India transferred Rs.1,860.65 crore to State implementing agencies during the year. It was seen that a major portion i.e. Rs.1,177 crore went to NGOs and other institutions. Direct transfer of funds from the Union to the State implementing agencies ran the risk of improper utilization of funds by these agencies.

The number of tax evasion cases pending finalization as at the end of the year remained more or less the same as at the beginning of the year. As on 31 March 2009, revenue arrears amounted to Rs. 9,609.38 crore (sales tax : Rs. 8,853.90 crore; electricity duty : Rs. 675.41 crore and taxes on vehicles: Rs. 80.07 crore), out of which Rs. 3,162.62 crore was outstanding for more than five years (sales tax: Rs.2,839.06 crore; electricity duty: Rs.277.36 crore; taxes on vehicles: Rs.46.20 crore).

The expenditure on salaries under the Non-Plan head decreased from Rs.3,322 crore in 2004-05 to Rs. 2,764 crore in 2008-09. The amount spent on subsidies increased from Rs. 3,372 crore in 2004-05 to Rs. 3,983 crore in 2008-09; mainly due to increase in subsidy to the energy sector (subsidies for fuel prices and power purchase adjustment charges). Expenditure on pensions increased from Rs. 2,396 crore in 2006-07 to Rs. 2,963 crore in 2008-09. The State implemented the new Defined Pension Contribution Scheme for its employees to contain its revenue expenditure.

As of 31 March 2009, Government had invested Rs.26,542 crore in Statutory Corporations, Rural Banks, Joint Stock Companies and Co-operatives. The average return on this investment was 0.68 *per cent* in the last three years while the Government paid at least 7.80 *per cent* as interest on its borrowings during 2007-2009. Considering the capital employed (Rs.1,11,119.68 crore) in 71 Government Companies and Statutory Corporations, the return was a mere 3.98 *per cent*.

The outstanding fiscal liability showed a steady increase over the years and from Rs.71,083 crore at the end of 2004-05, it increased to Rs. 1,05,652 crore at the end of 2008-09. The composition of fiscal liability at the end of March 2009 remained the same as that of the previous year with internal debts amounting to 72 *per cent*.

The quantum of loans advanced during the year decreased from Rs.429 crore in 2007-08 to Rs.354 crore in 2008-09, a decline of 17.48 *per cent*. Repayments also declined from Rs.214 crore in 2007-08 to Rs.181 crore in 2008-09 (15.42 *per cent*), resulting in an increase in the outstanding balance from Rs.4,456 crore in 2007-08 to Rs.4,629 crore in 2008-09.

At the end of March 2009, there were 266 incomplete capital works involving Rs.1,218.16 crore.

Recommendations

Non- achievement of targets under Medium Term Fiscal Policy

Although the State achieved the target laid down in the FRBM Act to reduce revenue deficit to zero by 31 March 2008 and to maintain that level or to generate surplus thereafter, it could not sustain the same as there was a revenue deficit of Rs.66 crore during the current year. The revenue expenditure was 78.56 *per cent* of the total expenditure, of which 71.38 *per cent* was the Non-Plan component. Non-Plan expenditure increased by 10.32 *per cent* against the projected rate of 4.9 *per cent* in the Medium Term Fiscal Policy (MTFP) Statement. The revenue expenditure increased by 15.51 *per cent* over the previous year. While this is understandable in a year where there was an economic slowdown, there is a case for bringing down the Non-Plan expenditure further in line with the MTFP Statement in future so as to ensure the continued achievement of targets.

Building up of capacity with particular emphasis on returns on investments from Government companies, etc.

The fiscal liabilities of the State Government over the years increased from Rs. 71,083 crore at the end of 2004-05 to Rs. 1,05,652 crore as of 2008-09. An amount of Rs. 34,217.73 crore was invested as paid up capital in Government Companies and Statutory Corporations, however, the return on investment was only Rs. 4,421.27 crore, representing 12.92 per cent on paid up capital.

Although, it is not uncommon for the State to borrow from market for creating and strengthening its social and economic infrastructure, but low productivity coupled with negligible rate of return on Government investments as well as on loans and advances disbursed in relation to cost of borrowed funds borne by the State Government continued to remain main cause of concern. There is a need to initiate suitable measures to compress the Non Plan revenue expenditure and to mobilize the additional resources both through the tax and non tax sources and to clear the back-log in assessments so as to avoid loss of revenue. Apart from this, the State has 266 incomplete capital works as of 31 March 2009. Therefore adequate priority is to be given for project planning which would include simplification of procedures related to activities like acquisition of land for the projects and in the implementation mechanism so as to adequately address overcoming inadequacies and to avoid further time and cost overruns.