

## CHAPTER – I: Finances of the State Government

### Profile of Arunachal Pradesh

Arunachal Pradesh, the largest State area-wise in the North-Eastern region, is a Special Category State<sup>1</sup> with a geographical area of about 83,743 sq km. It has a long international border with Bhutan in the West (160 km), China in the North and North-east (1080 km) and Myanmar in the East (440 km). It also shares common boundaries with Assam and Nagaland. Arunachal Pradesh provides shelter to 0.11 *per cent* population of the country. According to the Census of India, 2011, the population of the State stood at 13,83,727 (Male:7,13,912; Female: 6,69,815) and the density of population of the State was 17 persons per sq km. The state's literacy rate increased from 54.54 per cent (2001) to 65.38 per cent (2011), second lowest among states/UTs. As per data furnished by the Director of Economics & Statistics, Govt. of Arunachal Pradesh (August, 2013), Gross Domestic Product (GDP) of the State was ₹ 11,942.81 crore (Base Year 2004-05) and the estimated per capita GSDP of the State stood at ₹ 86,692 during 2012-13.

As per Gross State Domestic Product (GSDP)<sup>2</sup> series (Base Year 2004-05), there was a fluctuating trend in the growth rate of GSDP. While the growth of GSDP during 2008-09 was 18.24 *per cent*, and reached its peak in 2009-10 (31.43 *per cent*), it declined to 9.99 *per cent* in 2012-13. The average Compound Annual Growth Rate (CAGR) in respect of GSDP for Arunachal Pradesh between 2004-05 and 2012-13 was 16.63 *per cent*.

The State primarily depends on resources transferred by the Central Government as the State's own resources during 2008-13 contributed only about 10 to 24 *per cent* of the total revenue receipts. Outstanding fiscal liabilities of the State as a percentage to GSDP indicated a decreasing trend during 2008-13. It declined from its peak of 51.95 *per cent* in 2008-09 to 37.20 *per cent* in 2012-13.

### Growth and Composition of GSDP

Gross State Domestic Product (GSDP), a major fiscal indicator, is considered to be a key factor for assessing the performance of a State's economy. It is prepared based on an income generating approach that measures gross income generated by factors of production physically located within the geographical boundaries of the State and also represents the volume of goods and services produced within the State. As per the New GSDP series (August 2013) furnished by the Directorate of Economics & Statistics, Government of Arunachal Pradesh, the quick estimated GSDP for the State of Arunachal Pradesh was ₹ 11,942.81 crore during 2012-13, which was arrived at on

<sup>1</sup> The 5<sup>th</sup> Finance Commission (1969) accorded special status to 3 States on the basis of harsh terrain, backwardness and social problems prevailing in the States. Thereafter, the number of such states has increased to 11, including Arunachal Pradesh.

<sup>2</sup> GSDP is defined as the total income of the State or the market value of goods and services using labour and all other factors of production.

the basis of current prices, taking into account 2004-05 as base year. The Table below shows the trend of growth of GSDP for the last five years.

**Table-1.1: Trends in Gross State Domestic Product**

Particulars	2008-09	2009-10	2010-11	2011-12	2012-13
<b>Gross State Domestic Product<sup>3</sup></b> (₹ in crore)	5687.32	7474.45	9010.87	10858.85	11942.81
<b>Growth Rate of GSDP</b>	18.24	31.43	20.56	20.51	9.98

GSDP at current prices increased from ₹ 10858.85 crore in 2011-12 to ₹ 11942.81 crore in 2012-13, representing an increase of 9.98 *per cent*. Increase in the growth of GSDP during 2012-13 over the previous year was mainly due to increase of 14.49 *per cent* under Manufacturing, followed by 10.74 *per cent* under Electricity, Gas and Water Supply and 10.33 *per cent* under Agricultural & Allied Activities. The growth of GSDP during 2012-13 was also significantly below the projection made by the 13<sup>th</sup> FC. The average compound annual growth rate in respect of GSDP for Arunachal Pradesh between 2004-05 and 2012-13 was 16.63 *per cent*.

## 1.1 Introduction

This Chapter provides a broad perspective of finances of the Government of Arunachal Pradesh during the current year and analyses critical changes in major fiscal aggregates relative to the previous year, keeping in view the overall trend during the last five years. The analysis has been made based on the State Finance Accounts and information obtained from State Government. The structure of Government Accounts, lay-out of Finance Accounts, methodology adopted for assessment of the fiscal position and State Profile are shown in **Appendices 1.1.** and **1.2** of the Chapter, which briefly outline the Fiscal Responsibility and Budget Management (FRBM) Act of the Government, while **Appendix 1.3** presents the time series data on key fiscal variables/parameters and fiscal ratios relating to State Government finances for the period 2008-13.

### 1.1.1 Summary of Current Year Fiscal Transactions

**Table 1.2** presents a summary of the State Government's fiscal transactions during the current year (2012-13) *vis-à-vis* the previous year while **Appendix 1.4** provides details of receipts/disbursements and the overall fiscal position during the current year.

<sup>3</sup> 2008-09 to 2009-10 - Revised Estimates; 2010-11 - Provisional Estimates; 2011-12 - Quick Estimates and 2012-13 - Advance Estimates.

Table-1.2: Summary of Fiscal Transactions (Current Year)

(₹ in crore)

Receipts	2011-12	2012-13	Disbursements	2011-12	2012-13		
					Non-Plan	Plan	Total
<b>Section – A : Revenue</b>							
<b>Revenue Receipts</b>	<b>5499.06</b>	<b>5761.52</b>	<b>Revenue Expenditure</b>	<b>4417.86</b>	<b>3087.41</b>	<b>1698.83</b>	<b>4786.24</b>
Tax Revenue	317.65	316.50	General Services	1284.44	1380.76	42.70	1423.46
Non-tax Revenue	360.71	284.22	Social Services	1385.42	832.31	673.97	1506.28
Share of Union Taxes/Duties	838.97	957.93	Economic Services	1748.00	874.34	982.16	1856.50
Grants-in-aid from Govt. of India	3981.73	4202.87					
<b>Section – B : Capital</b>							
Miscellaneous Capital Receipts	...	...	Capital Outlay	2065.88	0.90	1205.38	1206.28
Recoveries of Loans & Advances	2.90	2.95	Loans & Advances Disbursed	9.69	2.98	0.97	3.95
Public Debt Receipts <sup>4</sup>	168.66	276.45	Repayment of Public Debt	137.33	...	166.64	166.64
Contingency Fund	...	...	Contingency Fund	...	...	...	...
Public Account Receipts	4224.65	4113.19	Public Account Disbursements	3954.68	...	...	3784.15
Opening Balance	1798.98	1108.81	Closing Balance	1108.81	...	...	1315.66
<b>Total</b>	<b>11694.25</b>	<b>11262.92</b>	<b>Total</b>	<b>11694.25</b>			<b>11262.92</b>

Following are the significant changes during 2012-13 over the previous year:

- **Revenue Receipts** increased by 4.77 per cent (₹ 262.46 crore) over the previous year. The increase was contributed by Grants-in-aid of ₹ 221.15 crore (5.55 per cent) from the Government of India (GoI) and State share of Union Taxes & Duties of ₹ 118.96 crore (14.18 per cent), which was partly offset by decrease under Tax Revenue of ₹ 1.15 crore (0.36 per cent) and Non-Tax Revenue of ₹ 76.49 crore (21.21 per cent).
- **Revenue Expenditure** increased by 8.34 per cent (₹ 368.38 crore) over the previous year. While 8.18 per cent (₹ 233.55 crore) of the increase was under Non-Plan heads, increase under Plan heads was 8.62 per cent (₹ 134.83 crore) over previous year. **Capital Expenditure** during the year decreased by 41.61 per cent (₹ 859.60 crore) over the previous year.
- **Recovery of Loans & Advances** during the current year increased by ₹ 0.05 crore and **Disbursement of Loans & Advances** decreased by ₹ 5.74 crore compared to the previous year.
- **Public Debt Receipts** increased by ₹ 107.79 crore over the previous year wholly due to increase in receipts under Internal Debt. **Repayment of Public Debt** also increased by ₹ 29.31 crore over the previous year.
- **Public Account Receipts** and **Disbursements** decreased by ₹ 111.46 crore and ₹ 170.53 crore respectively over the previous year.

<sup>4</sup> Includes Net Ways and Means Advances.

- The total inflow during 2012-13 was ₹ 10154.11 crore against ₹ 9895.27 crore in 2011-12, while the total outflow during 2012-13 was ₹ 9947.26 crore against ₹ 10585.45 crore during the previous year, registering an increase of 2.62 per cent in inflow and decrease of 6.03 per cent in outflow. During 2012-13, an increase in the cash balances by ₹ 206.85 crore (18.66 per cent) over the previous year was witnessed.

### 1.1.2 Review of the Fiscal Situation

Performance of the State during 2012-13 in terms of key fiscal targets set for selected parameters laid down in the Arunachal Pradesh Fiscal Responsibility and Budget Management (Amendment) Act, 2012 and the projections made in Medium Terms Fiscal Policy Statement (MTFPS) *vis-à-vis* achievements are given in **Table 1.3** below.

**Table-1.3**

**Trends in Major fiscal parameters/variables *vis-à-vis* projections for 2012-13**

Fiscal Parameters	2012-13		
	Targets as prescribed in FRBM Act	Projections made in MTFPS	Actuals
Revenue Surplus (₹ in crore)	Strive to remain Revenue Surplus during 2010-15	-	(+) ₹ 975.28
Revenue Surplus (as % of GSDP)	Strive to maintain in a consistent manner	23.12	8.17
Fiscal Deficit/GSDP (per cent)	Not more than 3 % by 2011-12	0.89	1.95
Total Outstanding Debt/GSDP (per cent)	58.2	39.24	38.66

The above Table indicates that though the State was able to achieve targets prescribed in the FRBM Act/MTFPS in respect of Revenue Surplus and Total Outstanding Debt as percentage of GSDP. While the ratio of Fiscal Deficit-GSDP (in percentage) surpassed the target fixed in the FRBM Act but failed to achieve the projection made in MTFPS.

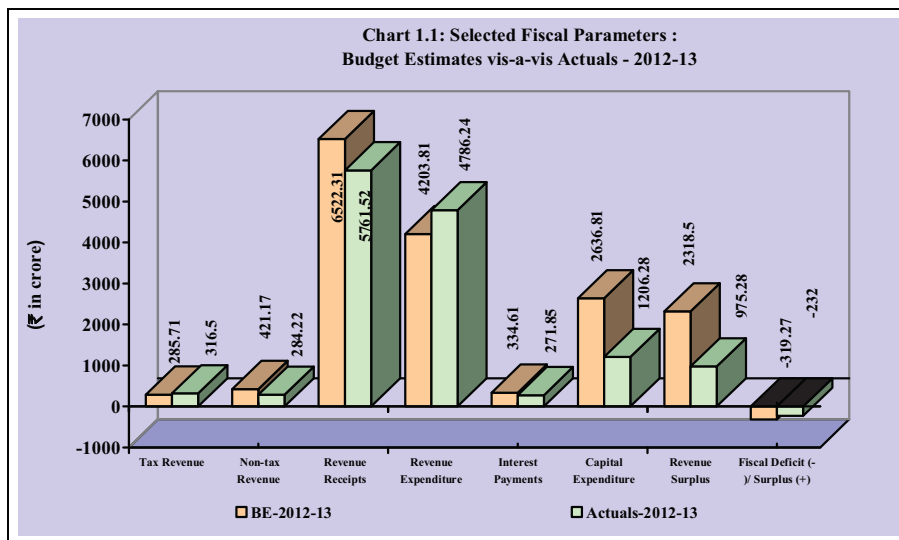
### 1.1.3 Budget Estimates and Actuals

Budget papers presented by the State Government provide descriptions of projections or estimations of revenue and expenditure for a particular 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 Budget Estimates are indicative of non-attainment and non-optimization of desired fiscal objectives due to various causes, some within and some beyond the control of the Government. **Table 1.4** presents the consolidated picture of State Finances during 2011-12 (Actuals) and 2012-13 (Budget Estimates, Revised Estimates and Actuals) and **Chart 1.1** presents the Budget Estimates and Actuals for some important fiscal parameters for 2012-13.

**Table-1.4: Variation in Major Items – Actuals of 2012-13 over 2011-12 and Budget Estimates/Revised Estimates with Actuals of 2012-13**

(₹ in crore)

Parameters	2011-12	2012-13		Percentage of Excess (+)/ Shortfall (-) with reference to			
	Actuals	Budget Estimates (BE) <sup>5</sup>	Revised Estimates (RE) <sup>5</sup>	Actuals	Actuals 2011-12	BE	RE
Tax Revenue	317.65	285.71	465.59	316.50	(-) 0.36	10.78	(-) 32.03
Non-Tax Revenue	360.71	421.17	428.89	284.22	(-) 21.21	(-) 32.52	(-) 33.73
REVENUE RECEIPTS	5499.06	6522.31	7290.90	5761.52	4.77	(-) 11.66	(-) 20.98
Non-debt Capital Receipts	2.90	3.50	3.50	2.95	1.72	(-) 15.71	(-) 15.71
REVENUE EXPENDITURE	4417.86	4203.81	5211.93	4786.24	8.34	13.85	(-) 8.17
Interest Payments	281.81	334.61	312.15	271.85	(-) 3.53	(-) 18.76	(-) 12.91
CAPITAL EXPENDITURE	2065.88	2636.81	3091.56	1206.28	(-) 41.61	(-) 54.25	(-) 60.98
Disbursement of Loans & Advances	9.69	4.46	4.57	3.95	(-) 59.24	(-) 11.43	(-) 13.57
REVENUE SURPLUS	1081.20	2318.50	2078.97	975.28	(-) 9.80	(-) 57.93	(-) 55.09
Fiscal Deficit (-)/ Surplus (+)	(-) 991.47	(-) 319.27	(-) 667.15	(-) 232.00	76.60	27.33	65.23



- In 2012-13, compared with the Budget Estimates and Revised Estimates, the actual **Revenue Receipts** fell short by 11.66 per cent, and 20.98 per cent. Compared with the Budget Estimates, the actual **Revenue Expenditure** exceeded by 13.85 per cent, but fell short of Revised Estimates by 8.17 per cent.
- Compared with the Budget and Revised Estimates, **Capital Expenditure** was less by 54.25 per cent and 60.98 per cent respectively. Compared to the previous year, Capital Expenditure decreased by ₹ 859.60 crore (41.61 per cent), mainly due to decrease of ₹ 96.95 crore (53.62 per cent) under General Services, ₹ 265.83 crore (48.72 per cent) under Social Services and ₹ 496.82 crore (37.09 per cent) under Economic Services.

<sup>5</sup> Net Estimates.

- **Revenue Surplus** (₹ 975.28 crore) during the year was less by 57.93 per cent (₹ 1343.22 crore) and 53.09 per cent (₹ 1103.69 crore) compared to the assessment made in the Budget and Revised Estimates respectively. Against the fiscal deficit of ₹ 319.27 crore and ₹ 667.15 crore, as assessed in the Budget and Revised Estimates, the year ended with a fiscal deficit of ₹ 232 crore.

The wide variation between Budget Estimates and Actuals indicated that the budgeting was unrealistic.

## 1.2 Resources of the State

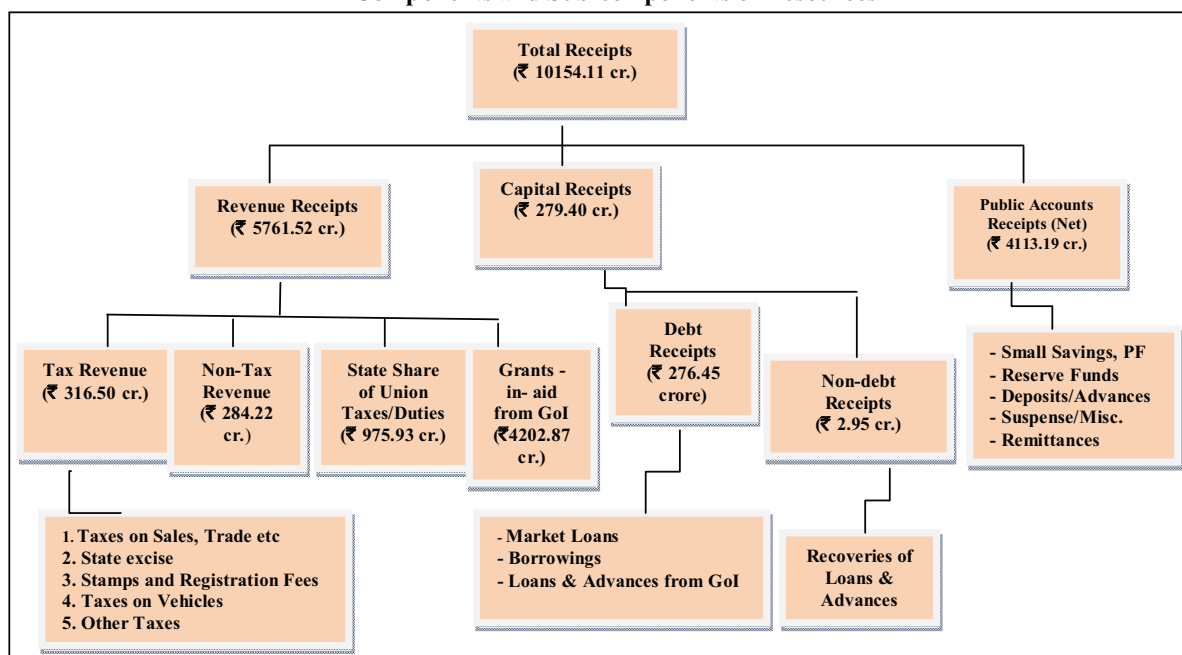
### 1.2.1 Resources of the State as per Annual Finance Accounts

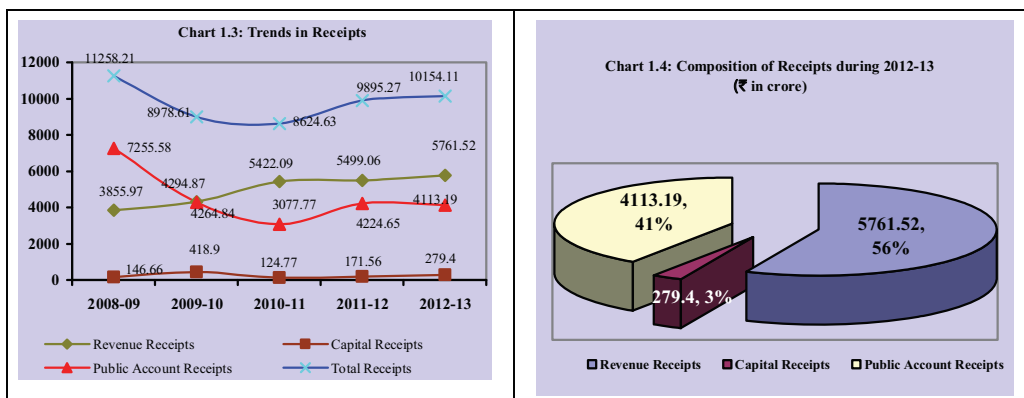
**Revenue** and **Capital** are the two streams of receipts that constitute resources of the State Government. Revenue Receipts consist of Tax Revenue, Non-tax Revenue, State share of Union Taxes & Duties and Grants-in-aid from the Government of India (GoI). Capital Receipts comprise of miscellaneous Capital Receipts such as proceeds from disinvestments, recoveries of loans & advances, debt receipts from internal sources (market loans, borrowings from financial institutions/commercial banks) and loans & advances from the GoI and accruals from Public Account. **Table 1.1** presents receipts and disbursements of the State during the current year as recorded in its Annual Finance Accounts while **Charts 1.2 & 1.3** depict trends in various components of receipts of the State during 2008-13. **Chart 1.4** depicts the composition of resources of the State during the current year.

The following Flow Chart shows the components and sub-components of resources.

**Chart-1.2**

**Components and Sub-components of Resources**





**Total Receipts** during the current year increased by ₹ 258.84 crore (2.62 per cent) over the previous year. Out of the total receipts, Revenue Receipts increased by 4.78 per cent (₹ 262.46 crore), followed by Capital Receipts by 62.86 per cent (₹ 107.84 crore).

**Total Receipts** of the State for 2012-13 was ₹ 10154.11 crore, of which ₹ 5761.52 crore (56.74 per cent) came from Revenue receipts and the remaining (43.26 per cent) from borrowings and Public Account. The total receipts of the State decreased by 9.81 per cent from ₹ 11258.21 crore in 2008-09 to ₹ 10154.11 crore in 2012-13.

**Revenue Receipts** increased by 49.42 per cent steadily from ₹ 3855.97 crore in 2008-09 to ₹ 5761.52 crore in 2012-13, whereas Public Debt Receipts, which create future repayment obligations, increased by 42.14 per cent from ₹ 143.88 crore in 2008-09 to ₹ 276.45 crore in 2012-13. Public Account receipts decreased from ₹ 7255.58 crore (64.45 per cent of total receipts) in 2008-09 to ₹ 4113.19 crore (40.51 per cent of total receipts) in 2012-13.

**Capital Receipts** increased by 90.51 per cent from ₹ 146.66 crore in 2008-09 to ₹ 279.40 crore in 2012-13.

### 1.2.2 Funds Transferred to State Implementing Agencies outside the State Budget

The Central Government transferred a sizeable quantum of funds directly to State Implementing Agencies<sup>6</sup> for implementation of various Schemes/Programmes in Social and Economic Sectors recognized as critical. As the funds were not routed through the State Budget/State Treasuries, the Annual Finance Accounts do not reflect the flow of such funds, and to that extent, the State receipts/expenditure and fiscal variables/parameters derived from the Annual Finance Accounts are underestimated. An illustrative position of Central funds transferred to State Implementing Agencies during 2012-13 for implementation of various Schemes is given in **Appendix 1.5**. The

<sup>6</sup> State Implementing Agency include any Organization/Institution, including non-Governmental Organizations which are authorized by the State Government to receive the funds from the GoI for implementing specific programmes in the State, e.g., State Implementing Society for SSA, State Health Mission for NRHM, etc.;

GoI directly transferred ₹ 1495.22 crore (approx.) to State Implementing Agencies during 2012-13. With this transfer, the total availability of State resources increased from ₹ 10994.25 crore to ₹ 12489.47 crore. The scheme-wise position involving substantial amount of Central funds is given in **Table 1.5**.

**Table-1.5: Funds Transferred directly to State Implementing Agencies**

(₹ in crore)		
Programme/Scheme	Implementing Agency in the State	Funds Transferred by GoI
Sarva Shiksha Abhiyan (SSA)	SSA Rajya Mission, Itanagar	437.65
PMGSY	Rural Road Development, Itanagar	455.18
National Rural Drinking Water Programme	SWSM, Arunachal Pradesh	223.22
MGNREGA	DRDA (District)	68.34
Grid Interactive Renewable Power	AP Energy Development Agency	35.25
National Rural Health Mission (NRHM)	AP State Health Society	38.66
Integrated Watershed Management Programme	DRDA (District)	20.44
Forward Linkages to NRHM, New Initiatives in NE	AP State Health Society	13.15
Rural Housing (IAY)	DRDA(District)	33.27
MPs Local Area Development Scheme (MPLAD)	DCs of West Siang, Lohit, & Lower Dibang Valley	15.00
<b>TOTAL</b>		<b>1325.31</b>

Source: Central Plan Scheme Monitoring System of CGA Website

Out of ₹ 1495.22 crore, ₹ 437.65 crore (29.27 per cent) was transferred to the Rajya Mission of Sarva Shiksha Abhiyan and ₹ 455.18 crore (30.44 per cent) to the Rural Road Development Agency. Unless uniform accounting practices are diligently followed by all these agencies and there is proper documentation and timely reporting of expenditure, it will be difficult to monitor the end use of these direct transfers.

### 1.3 Revenue Receipts

**Statement - 11** of the Finance Accounts details Revenue receipts of the Government. Revenue receipts consist of its own Tax and Non-tax revenues, Central Tax transfers and Grants-in-aid from GoI. Trends and composition of Revenue receipts over the period 2008-13 are presented in **Appendix 1.3** and depicted in **Charts 1.5** and **1.6** respectively. Trends in Revenue receipts relative to GSDP are presented in **Table 1.6**.



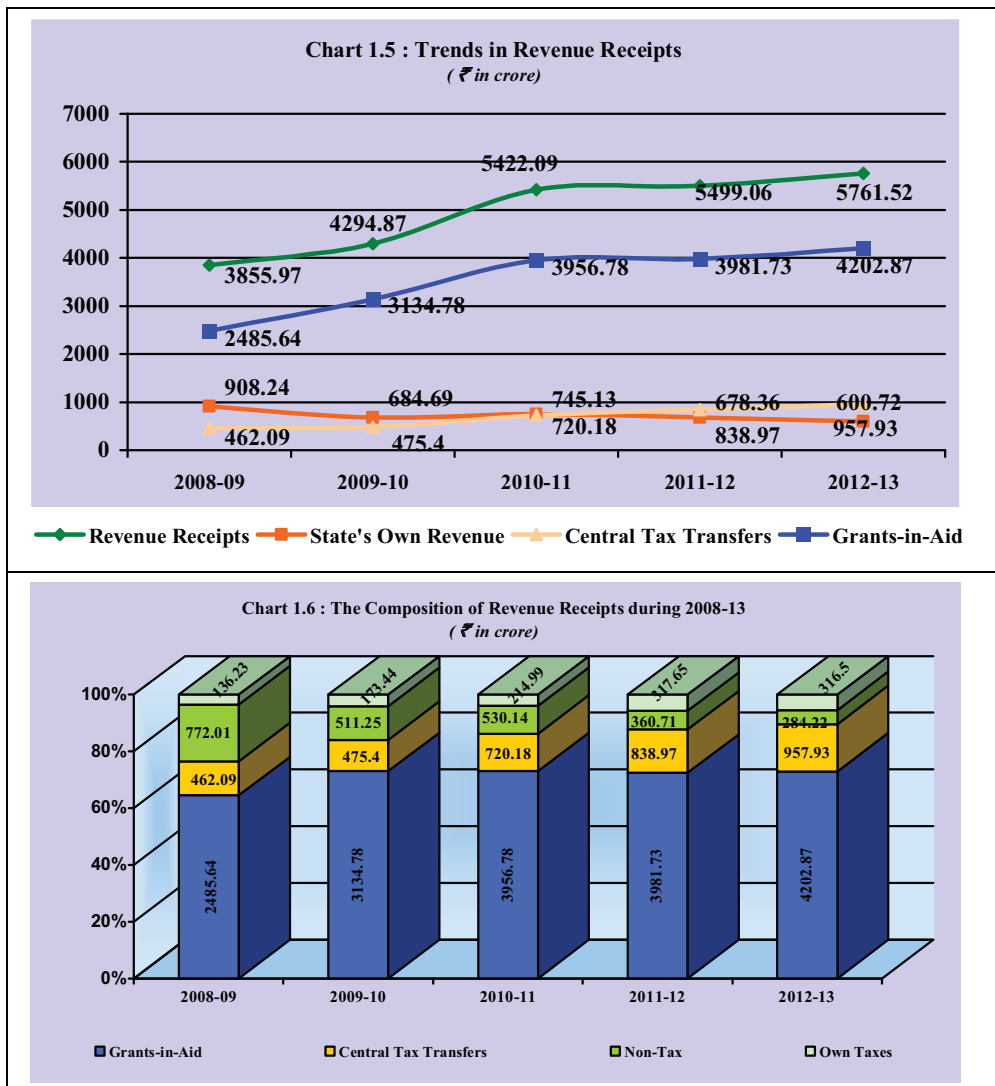


Table - 1.6: Trends in Revenue Receipts relative to GSDP

Particulars	2008-09	2009-10	2010-11	2011-12	2012-13
Revenue Receipts (RR) (₹ in crore)	3855.97	4294.87	5422.09	5499.06	5761.52
Rate of growth of Revenue Receipts (per cent)	28.40	11.38	26.25	1.42	4.78
Rate of growth of Own Taxes (per cent)	38.88	27.31	23.96	47.75	(-) 0.36
Revenue Receipts/GSDP (per cent)	67.80	57.46	60.17	50.64	48.24
<b>Buoyancy Ratio</b>					
Revenue Buoyancy Ratio with reference to GSDP	1.56	0.37	1.28	0.07	0.48
State's Own Taxes Buoyancy Ratio with reference to GSDP	2.13	0.87	1.17	2.33	(-) 0.04
State's Own Taxes Buoyancy Ratio with reference to Revenue Receipts	1.37	2.40	0.91	33.63	(-) 0.08

**Revenue Receipts** of the State increased by ₹ 1905.55 crore from ₹ 3855.97 crore in 2008-09 to ₹ 5761.52 crore in 2012-13. Tax revenue increased by ₹ 180.27 crore from ₹ 136.23 crore in 2008-09 to ₹ 316.50 crore in 2012-13, whereas Non-tax revenue decreased by ₹ 487.79 crore from ₹ 772.01 in 2008-09 to ₹ 284.22 crore in 2012-13. The Buoyancy Ratio of Revenue receipts with reference to GSDP increased due to significant decrease in the rate of growth of GSDP in 2012-13 compared to the previous year. The Buoyancy Ratio of the State's own Tax revenue with reference to GSDP decreased due to significant decrease in the growth rate of the State's own Tax revenue under Taxes on Sales, Trade, etc; (25.30 per cent).

The Buoyancy Ratio of the State's own taxes with reference to Revenue receipts indicates the pace of growth of its own taxes. State's own taxes Buoyancy Ratio with reference to Revenue Receipts during the current year was (-) 0.08. This was due to decline in both Tax and Non-tax revenue the current year compared to previous year.

### 1.3.1 State's Own Resources

As the State share in Central taxes and Grants-in-aid is determined on the basis of recommendations of the Finance Commission, the State's performance in mobilization of resources was assessed in terms of its own resources comprising own tax and non-tax sources.

The State's actual Tax and Non-tax receipts for 2012-13 vis-à-vis assessment made by 13<sup>th</sup> FC and MTFP (latest) are given in the table below:

Table-1.7

	13 <sup>th</sup> FC Projections	Budget Estimates	MTFP Projection	Actual
<b>Tax Revenue</b>	195.93	285.71	465.59	316.50
<b>Non-Tax Revenue</b>	409.98	421.17	428.89	284.22

(₹ in crore)

Tax Revenue was 61.54 per cent higher than the assessment made by the 13<sup>th</sup> FC and 10.78 per cent higher than the assessment made in the Budget Estimates for the year. Collection of Non-Tax Revenue during 2012-13 was lower than the assessments made by the 13<sup>th</sup> FC (30.67 per cent) and in the Budget Estimates (32.52 per cent). Both Tax and Non-Tax Revenue were lower than MTFP projections by 32.02 per cent and 33.73 per cent respectively.

#### 1.3.1.1 Tax Revenue

The gross collection in respect of major taxes and duties is given in **Table 1.8**

**Table-1.8: Tax Revenue**

(₹ in crore)

Heads	2008-09	2009-10	2010-11	2011-12	2012-13	% Increase (+) / Decrease (-) over Previous Year
Taxes on Sales, Trade, etc.;	105.68	130.23	168.24	216.36	161.62	(-) 25.30
State Excise	16.61	23.78	29.74	37.63	49.11	30.51
Taxes on Vehicles	7.76	13.07	11.76	12.41	13.37	7.82
Stamp & Registration Fees	1.25	1.88	1.86	2.24	3.05	36.16
Land Revenue	4.90	4.43	3.37	3.85	4.70	22.08
Taxes on Goods & Passengers	-	-	0.01	45.16	84.65	87.44
Other Taxes <sup>7</sup>	0.03	0.05	0.02	-	-	-
<b>TOTAL</b>	<b>136.23</b>	<b>173.44</b>	<b>214.99</b>	<b>317.65</b>	<b>316.50</b>	<b>(-) 0.36</b>

Tax Revenue decreased by 0.36 *per cent* during the current year (₹ 316.50 crore) over the previous year (₹ 317.65 crore). Revenue from Taxes on Sales, Trade, etc.; contributed to the major share of Tax revenue (51.06 *per cent*) and decreased by 25.30 *per cent* over the previous year. Taxes on goods and passengers State Excise and Taxes on Vehicles were the other major contributors in the State's Tax revenue. The Tax-GSDP ratio 2.65 during 2012-13 was lower than the projection (2.97 *per cent*) made by the 13<sup>th</sup> FC.

### 1.3.1.2 Non-tax Revenue

Table 1.9 shows the trends of Non-Tax Revenue during the period 2008-13.

**Table-1.9: Non-Tax Revenue**

(₹ in crore)

Heads	2008-09	2009-10	2010-11	2011-12	2012-13	% increase/ decrease over previous year
Fiscal Services	-	0.02	-	-	-	-
Interest Receipts, Dividends and Profits	34.80	40.02	111.35	48.71	40.32	(-) 17.22
General Services	28.45	23.09	17.67	19.84	27.77	39.97
Social Services	10.73	9.07	9.67	10.35	16.97	63.96
Economic Services	698.03	439.05	391.45	281.81	199.16	(-) 29.33
<b>Total</b>	<b>772.01</b>	<b>511.25</b>	<b>530.14</b>	<b>360.71</b>	<b>284.22</b>	<b>(-) 21.21</b>

Non-Tax Revenue (NTR), which constituted around 4.93 *per cent* of total revenue receipts, significantly decreased by ₹ 76.49 crore (21.21 *per cent*) during 2012-13 over the previous year. Around 70.07 *per cent* (₹ 199.16 crore) of Non-Tax Revenue during 2012-13 was received from Economic Services, and within this category, receipts under Power Sector alone contributed 56.78 *per cent* (₹ 113.07 crore). But receipts under Power Sector declined from its peak (₹ 609.74 crore) during 2008-09

<sup>7</sup> Other Taxes include taxes on professions, trades, callings and employment, taxes and duties on electricity and other taxes and duties on commodities and services.

to its lowest (₹ 113.07 crore) in 2012-13. Interest Receipts decreased by ₹ 8.39 crore (17.22 per cent) during 2012-13 compared to the previous year, mainly due to decrease in Interest Receipts on State/Union Territory Governments by ₹ 8.38 crore. However, the CAGR of Non-Tax Revenue for Arunachal Pradesh between 2003-04 and 2011-12 (14.68 per cent) significantly declined to 10 per cent between 2003-04 and 2012-13.

### 1.3.2 Grants-in-Aid

Details of Grants-in-aid from the GoI are given in **Table 1.10**.

**Table: 1.10: Grants-in-Aid from the GoI**

Particulars	(₹ in crore)				
	2008-09	2009-10	2010-11	2011-12	2012-13
Non-Plan Grants	454.97	505.76	836.29	850.18	<b>966.40</b>
Grants for State Plan Schemes	1664.36	2296.66	2616.44	2565.22	<b>2733.97</b>
Grants for Central Plan Schemes	52.18	66.43	47.59	30.74	<b>13.04</b>
Grants for Centrally Sponsored Schemes	248.81	142.39	378.31	352.96	<b>391.16</b>
Grants for Special Plan Schemes	65.33	123.54	78.15	182.63	<b>98.30</b>
<b>TOTAL</b>	<b>2485.65</b>	<b>3134.78</b>	<b>3956.78</b>	<b>3981.73</b>	<b>4202.87</b>
Percentage of increase (+)/decrease (-) over previous year	(+) 37.32	(+) 26.12	(+) 26.22	(+) 0.63	(+) 5.55

**Grants-in-aid** from the GoI increased by 5.55 per cent (₹ 221.14 crore) from ₹ 3981.73 crore in 2011-12 to ₹ 4202.87 crore in the current year. The increase was mainly due to increase in grants for State Plan Schemes by ₹ 168.75 crore (6.58 per cent) Non-plan Grants ₹ 116.22 (18.67 per cent) and grants for Centrally Sponsored Schemes ₹ 38.20 crore (10.83 per cent). The increase was partly offset by decrease in grants for Special Plan Schemes by ₹ 84.33 crore (46.18 per cent), and grants for Central Plan Schemes by ₹ 17.70 crore (57.58 per cent).

Non-Plan grants (₹ 966.40 crore) constituted 22.99 per cent of total grants during the year, of which 90.66 per cent (₹ 876.13 crore) was under the proviso to Article 275(1) of the Constitution. The remaining amount (₹ 90.27 crore) was released mainly as modernization of Police force (₹ 46.14 crore) and Indian Reserve Battalion related (₹ 6.38 crore).

### 1.3.3 Central Tax Transfers

**Central Tax Transfers** increased by 14.18 per cent (₹ 118.96 crore) over the previous year and constituted 16.63 per cent of Revenue receipts. The increase was mainly due to transfer of additional amount in Corporation Tax (₹ 13.92 crore), Service Tax (₹ 39.62 crore), Customs (₹ 13.75 crore), Union Excise Duties (₹ 14.07 crore) and Taxes on Income other than Corporation Tax (₹ 38.30 crore).

### 1.4 Capital Receipts

The details of Capital receipts during 2008-09 to 2012-13 are given in **Table 1.11**.

**Table-1.11: Trends in Growth and Composition of Receipts**

<i>(₹ in crore/Rate of Growth in per cent)</i>					
Sources of State's Receipts	2008-09	2009-10	2010-11	2011-12	2012-13
<b>Capital Receipts (CR)</b>	146.66	418.90	124.77	171.56	<b>279.40</b>
Miscellaneous Capital Receipts	-	-	-	-	-
Recovery of Loans & Advances	2.78	202.70	2.41	2.90	<b>2.95</b>
<b>Public Debt Receipts</b>	143.88	216.20	122.36	168.66	<b>276.45</b>
<i>Rate of growth of Non-debt Capital Receipts</i>	5.44	7191.37	(-) 98.81	20.33	<b>1.72</b>
<i>Rate of growth of Debt Capital Receipts</i>	(-) 50.57	50.26	(-) 43.40	37.84	<b>63.91</b>
<i>Rate of growth of CR</i>	(-) 50.12	185.63	(-) 70.21	37.50	<b>62.86</b>

**Public Debt Receipts** increased by ₹ 107.79 crore (63.91 percent) over the previous year. Internal Debt consisted of Market Loans (₹ 170 crore), loans from financial institutions (₹ 55.41 crore), Special Securities issued to National Small Savings Fund (₹ 41.99 crore) and Other Loans (₹ 9.05 crore).

*During the year, no Loans & Advances from the Central Government were received by Government of Arunachal Pradesh.*

### 1.5 Public Account Receipts

Receipts and disbursements in respect of certain transactions such as small savings, provident funds, reserve funds, deposits, suspense, remittances, etc., which do not form part of the Consolidated Fund, are kept in Public Accounts set up under Article 266(2) of the Constitution and are not subject to vote by the State Legislature. Here, the Government acts as a banker. After disbursements, the balance is the fund available for use with the Government.

**Table-1.12: Public Account Receipts**

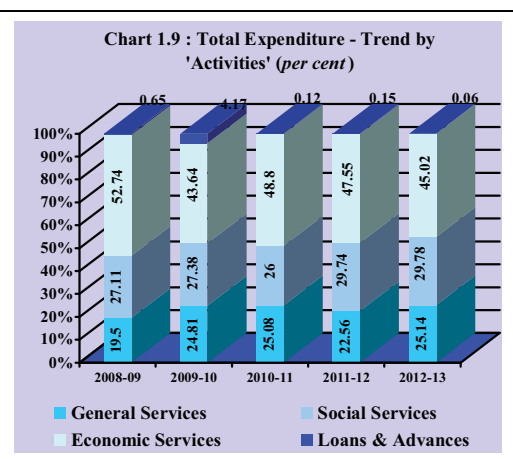
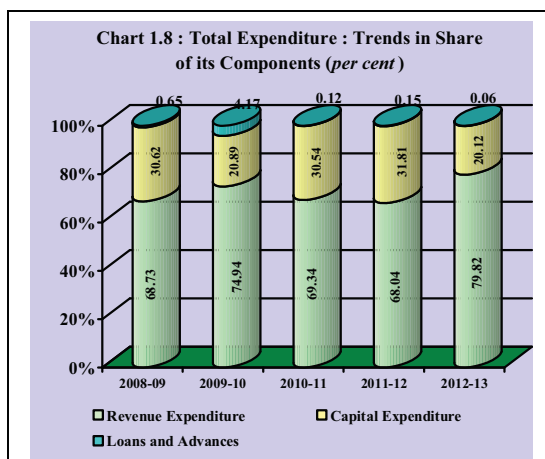
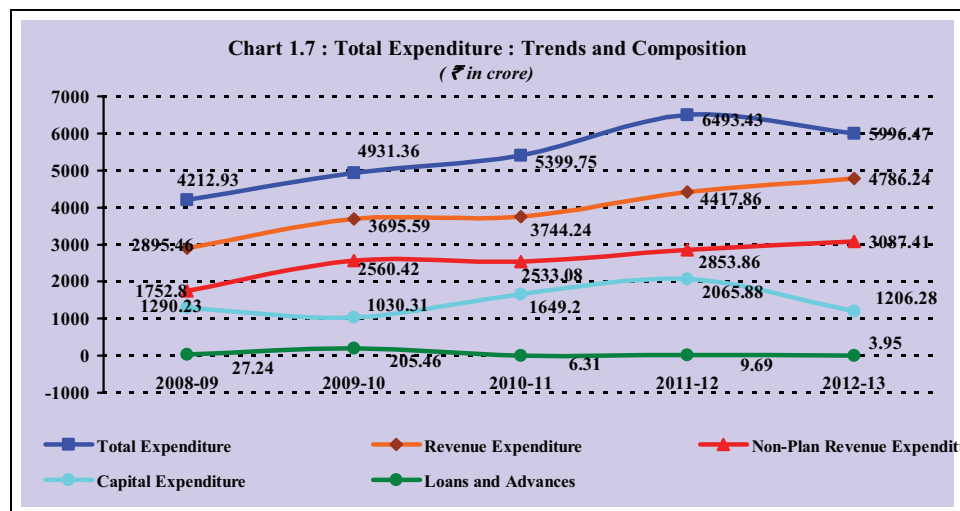
<i>(₹ in crore)</i>					
Sources of State's Receipts	2008-09	2009-10	2010-11	2011-12	2012-13
<b>PUBLIC ACCOUNT RECEIPTS</b>	<b>7255.58</b>	<b>4264.84</b>	<b>3077.77</b>	<b>4224.65</b>	<b>4113.19</b>
Small Savings, Provident Fund, etc.,	157.21	220.14	183.41	256.02	<b>278.81</b>
Reserve Funds	14.00	15.00	17.00	19.00	<b>20.00</b>
Deposits and Advances	533.44	540.38	650.90	940.44	<b>1032.07</b>
Suspense and Miscellaneous	3892.93	649.59	(-) 219.28	10.55	(-) <b>0.07</b>
Remittances	<b>2658.00</b>	<b>2839.74</b>	<b>2445.74</b>	<b>2998.64</b>	<b>2782.38</b>

## 1.6 Application of Resources

Analysis of allocation of expenditure at 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. Therefore, it is important to ensure that the ongoing fiscal correction and consolidation process at the State level is not at the cost of expenditure, especially expenditure directed towards development and Social sectors.

### 1.6.1 Growth and Composition of Expenditure

Chart 1.7 presents trends in total expenditure over 5 years (2008-13). The composition, both in terms of 'economic classification' and 'expenditure by activities,' are depicted in Charts 1.8 and 1.9 respectively.



The total expenditure of the State increased by ₹ 1783.54 crore (42.33 per cent) from ₹ 4212.93 crore in 2008-09 to ₹ 5996.47 crore in 2012-13. The total expenditure, its

annual growth rate, the ratio of expenditure to the State GSDP and to Revenue receipts and its buoyancy with respect to GSDP and Revenue receipts, are indicated in **Table 1.13**.

**Table 1.13; Total Expenditure – Basic Parameters**

Particulars	(₹ in crore)				
	2008-09	2009-10	2010-11	2011-12	2012-13
<b>Total Expenditure (TE) (₹ in crore)</b>	<b>4212.93</b>	<b>4931.36</b>	<b>5399.75</b>	<b>6493.43</b>	<b>5996.47</b>
Rate of Growth ( <i>per cent</i> )	39.70	17.05	9.50	20.25	(-) 7.65
TE/GSDP Ratio ( <i>per cent</i> )	74.08	65.98	59.92	59.80	50.21
RR/TE Ratio ( <i>per cent</i> )	91.53	87.09	100.41	84.69	96.08
<b>Buoyancy of Total Expenditure with reference to</b>					
<i>GSDP (ratio)</i>	2.18	0.54	0.46	0.99	(-) 0.77
<i>RR (ratio)</i>	1.40	1.50	0.36	14.26	(-) 1.60

The decrease of ₹ 496.96 crore (7.65 *per cent*) in total expenditure during 2012-13 over the previous year was mainly on account of decrease of ₹ 859.60 crore in Capital expenditure and ₹ 5.74 crore in Loans & Advances, which was offset by increase under Revenue Expenditure by ₹ 368.38 crore (8.34 *per cent*). While the share of Plan expenditure constituted around 48.45 *per cent* (₹ 2905.19 crore) of the total expenditure, the remaining 51.55 *per cent* (₹ 3091.28 crore) was Non-plan expenditure. The buoyancy of total expenditure to GSDP stood at (-) 0.77 in 2012-13 due to growth rate of total expenditure at a much slower pace compared to GSDP. Similarly, the Buoyancy Ratio of total expenditure to Revenue receipts stood at (-) 1.61, indicating increase in expenditure at a much slower pace than receipts.

In terms of activities, total expenditure comprises of expenditure on General Services, including Interest payments, Social & Economic Services, Grants-in-aid and Loans & Advances. Of the total expenditure in 2012-13, expenditure on General Services, including Interest payments, which are considered as non-developmental, together accounted for 25.14 *per cent*. On the other hand, expenditure on Social & Economic Services (Revenue & Capital) together accounted for 74.80 *per cent* during 2012-13. The relative share of Social Services increased from 29.74 *per cent* in 2011-12 to 29.78 *per cent* in 2012-13. The relative share of Economic Services was 45.02 *per cent* in 2012-13, which was lowest in the last 5 years, after reaching its peak in 2008-09 (52.74 *per cent*). Loans & Advances showed wide fluctuations during 2008-13 and stood at 0.06 *per cent* of the total expenditure during 2012-13.

### **1.6.2 Revenue Expenditure**

Revenue Expenditure is incurred to maintain the current level of services and payment of past obligations and does not result in any addition to the State's infrastructure and service network. The overall Revenue expenditure, its rate of growth, ratio of Revenue expenditure to GSDP and Revenue receipts and its buoyancy are indicated in **Table 1.14**.

**Table-1.14: Revenue Expenditure – Basic Parameters**

(₹ in crore)					
Particulars	2008-09	2009-10	2010-11	2011-12	2012-13
<b>Revenue Expenditure (RE)</b>	<b>2895.46</b>	<b>3695.59</b>	<b>3744.24</b>	<b>4417.86</b>	<b>4786.24</b>
<i>of which</i>					
Non-Plan Revenue Expenditure (NPRE)	1752.80 (60.54)	2560.42 (69.28)	2533.08 (67.65)	2853.86 (64.60)	3087.41 (64.51)
Plan Revenue Expenditure (PRE)	1142.66 (39.46)	1135.17 (30.72)	1211.16 (32.35)	1564.00 (35.40)	1698.83 (35.49)
<b>Rate of Growth of</b>					
RE (per cent)	28.14	27.63	1.32	17.99	8.34
NPRE (per cent)	44.16	46.08	(-) 1.07	12.66	8.18
PRE (per cent)	9.48	(-) 0.66	6.69	29.13	8.62
<b>Ratio (per cent) of</b>					
RE as percentage of TE	68.73	74.94	69.34	68.04	79.82
NPRE/GSDP (per cent)	30.82	34.26	28.11	26.28	25.85
NPRE as percentage of TE	41.61	51.92	46.91	43.95	51.49
NPRE as percentage of RR	45.46	59.62	46.72	51.90	53.59
<b>Buoyancy Ratio of Revenue Expenditure with...</b>					
GSDP	1.54	0.88	0.06	0.88	0.83
Revenue Receipts	0.99	2.43	0.05	12.67	1.74

(Figures in brackets represent percentages to Revenue Expenditure)

Revenue Expenditure constituted 68.04 per cent to 79.82 per cent of the total expenditure during 2008-13 and increased by 65.30 per cent from ₹ 2895.46 crore in 2008-09 to ₹ 4786.24 crore in 2012-13. The Non-Plan Revenue Expenditure (NPRE) during the same period increased from ₹ 1752.80 crore in 2008-09 to ₹ 3087.41 crore in 2012-13 - an increase of 76.14 per cent - outpacing the growth of Revenue Expenditure during the period. As a percentage of total Revenue Expenditure, NPRE also increased from 60.54 per cent in 2008-09 to 64.51 per cent in 2012-13. As a result, the share of Plan Revenue Expenditure (PRE) in the total Revenue Expenditure, which normally covers maintenance expenditure incurred on services decreased from 39.46 per cent during 2008-09 to 35.49 per cent during 2012-13.

Compared to previous years, NPRE during 2012-13 increased by ₹ 233.55 crore. The growth of 8.18 per cent in NPRE during 2012-13 against a growth of 12.66 per cent during the previous year was mainly due to increased expenditure on Education, Sports and Arts & Culture (₹ 41.43 crore), followed by Transport (₹ 86.17 crore). PRE increased by ₹ 134.84 crore (8.62 per cent) over the previous year. The growth of PRE was mainly due to increased expenditure on Education, Sports and Arts & Culture by ₹ 66.73 crore, followed by ₹ 46.58 crore on Special Areas Programme.

NPRE at ₹ 3087.41 crore during 2012-13, was around 43.33 per cent (₹ 933.42 crore) higher than the normatively assessed level of ₹ 2153.99 crore by the 13<sup>th</sup> FC (Table 1.15).



**Table 1.15: Actual Non-Plan Revenue Expenditure during 2012-13 vis-à-vis Normative Assessment by the 13<sup>th</sup> FC**

Sectors	13 <sup>th</sup> FC Assessment	Actuals
Salaries	884.65	1752.10
Interest Payments	272.61	271.85
Pension	192.91	330.70
Other General Services	153.11	174.34
Social Services	67.67	132.75
Economic Services	198.30	425.67
<b>TOTAL</b>	<b>2153.99</b>	<b>3087.41</b>

(₹ in crore)

During 2012-13, actual expenditure incurred on all other components except Interest Payments of NPRE was more than the assessments made by the 13<sup>th</sup> FC. The total NPRE during 2012-13 also exceeded the projection made by the State Government in the Budget (₹ 2674.19 crore) by 15.45 per cent (₹ 413.22 crore).

According to the recommendation of the 13<sup>th</sup> FC, 'the practice of diverting of Plan Assistance to meet Non-plan needs of Special Category States should be discontinued.' During 2012-13, Revenue receipts of Arunachal Pradesh, excluding Plan Assistance (₹ 3236.47 crore), was ₹ 2525.05 crore. Against this, NPRE during the year was ₹ 3087.41 crore. It was obvious that Plan assistance was diverted to Non-plan heads and that the State could not adhere to the recommendation of the 13<sup>th</sup> FC.

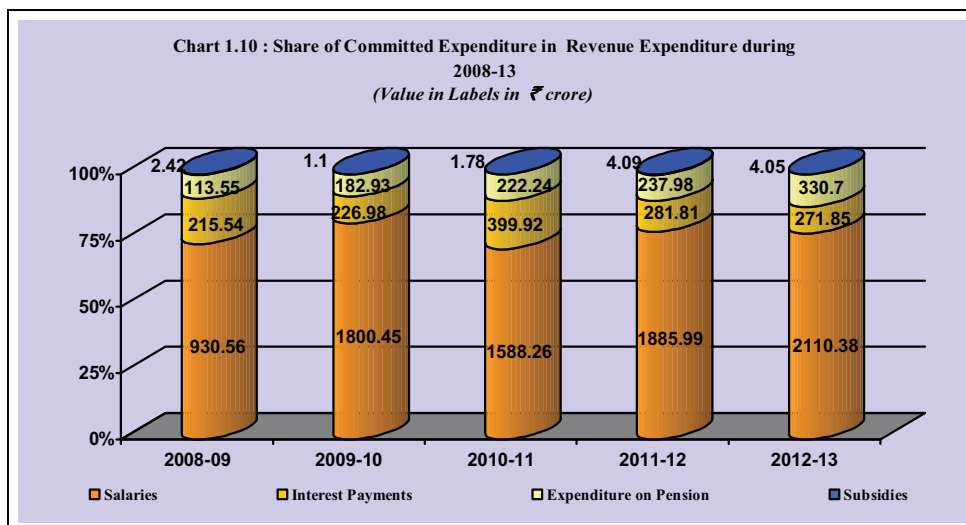
### 1.6.3 Committed Expenditure

Committed Expenditure of the State Government on Revenue Account mainly consists of Interest payments, expenditure on salaries, pensions and subsidies. **Table 1.16** and **Chart 1.10** present the trends in expenditure on these components during 2008-13.

**Table-1.16: Components of Committed Expenditure**

Components of Committed Expenditure	2008-09	2009-10	2010-11	2011-12	2012-13
Salaries	930.56	1800.45	1588.26	1885.99	2110.38
<i>of which</i>					
<i>Non-Plan Head</i>	812.55	1492.54	1368.19	1569.99	1752.10
<i>Plan Head</i>	118.01	307.91	220.07	316.00	358.28
Interest Payments	215.54	226.98	399.92	281.81	271.85
Expenditure on Pension and other Retirement Benefits	113.55	182.93	222.24	237.98	330.70
Subsidies	2.42	1.10	1.78	4.09	4.05
<b>TOTAL</b>	<b>1262.07</b>	<b>2211.46</b>	<b>2212.20</b>	<b>2409.87</b>	<b>2716.98</b>

(₹ in crore)



Overall Committed expenditure increased by ₹ 1454.91 crore from ₹ 1262.07 crore in 2008-09 to ₹ 2716.98 crore in 2012-13. Committed expenditure during 2012-13 constituted 56.77 per cent of Revenue expenditure and 47.16 per cent of Revenue receipts. Component-wise analysis is given as under:-

#### **Expenditure on Salaries**

During 2012-13, **Salaries** alone accounted for 36.63 per cent of Revenue receipts of the State. It increased by 11.90 per cent from ₹ 1885.99 crore in 2011-12 to ₹ 2110.38 crore in 2012-13, and also exceeded the projection made in the Macro-Economic Framework (MEF) Statement of March 2012 (₹ 1603.12 crore) by ₹ 507.26 crore. *The expenditure on Non-plan Salary component during 2012-13 (₹ 1752.10 crore) was almost double than the assessment made by the 13<sup>th</sup> FC for the State (₹ 884.65 crore).*

#### **Interest Payments**

**Interest Payments**, comprising of interest on Internal Debt, Small Savings, Provident Funds, etc., Loans & Advances from the Central Government and other obligations decreased by ₹ 9.96 crore from ₹ 281.81 crore in 2011-12 to ₹ 271.85 crore in 2012-13. *Interest Payments (₹ 271.85 crore) were lower than the projections of the year made by the 13<sup>th</sup> FC (₹ 272.61 crore) and the MEFS of March 2012 (₹ 334.61 crore).*

#### **Expenditure on Pension Payments**

**Pension Payments** (including other Retirement Benefits) indicated an increasing trend during the five year period (2008-13). Pension payments during the current year increased by ₹ 92.72 crore, an increase of 38.96 per cent over the previous year. A comparative analysis of actual pension payments and the assessment/projection made by the 13<sup>th</sup> FC and the State Government showed that actual Pension Payments exceeded the assessment made by the 13<sup>th</sup> FC by ₹ 137.79 crore and the projection made by the State Government in its Budget and MEF Statement for 2012-13 by ₹ 79.76 crore and ₹ 80.70 crore respectively, as shown in (Table 1.17).

**Table-1.17: Actual Pension Payments vis-à-vis Projection**

Year	Assessment made		Actuals	Excess over assessment made	
	by the 13 <sup>th</sup> FC	in Budget		by the 13 <sup>th</sup> FC	in Budget
2012-13	192.91	250.14	330.70	137.79 (71.42)	79.76 (31.78)

(Figures in brackets represent percentages)

**Subsidies**

**Table 1.16** shows that expenditure on payment of Subsidies decreased by 0.98 per cent from ₹ 4.09 crore in 2011-12 to ₹ 4.05 crore during the current year. It constituted 0.08 per cent of Revenue Expenditure. Major recipients of Subsidies in 2012-13 were Agriculture (₹ 3.71 crore) and Rural Development & Panchayati Raj (₹ 0.19 crore).

**1.6.4 Financial Assistance by the 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 previous years is presented in **Table 1.18**.

**Table-1.18: Financial Assistance to Local Bodies, etc.;**

Institutions	2008-09	2009-10	2010-11	2011-12	2012-13
University and Educational Institutions	47	3.45	8.42	3.95	6.85
Cultural Institutions/Voluntary Organizations for promotion of Arts & Culture	2.72	28.76	8.11	0.46	3.06
State Institute of Rural Development	-	-	0.50	0.20	0.60
Social Welfare	7.27	0.32	0.34	0.60	0.53
Food and Warehousing	44.97	36.12	22.13	18.57	3.65
Co-operation	-	-	2.10	1.27	0.75
Other Institutions	0.28	0.93	16.51 <sup>8</sup>	0.58	7.49
<b>TOTAL</b>	<b>102.24</b>	<b>69.58</b>	<b>58.11</b>	<b>25.63</b>	<b>22.93</b>
Assistance as percentage of RE	3.53	1.88	1.62	0.58	0.48

Financial assistance extended to Local Bodies and other Institutions with inter-year variations declined by 10.53 per cent from ₹ 25.63 crore in 2011-12 to ₹ 22.93 crore in 2012-13. The share of financial assistance in revenue expenditure also marginally decreased from 0.58 per cent in 2011-12 to 0.48 per cent during the current year. Other Institutions were the major recipients (around 32.66 per cent) of the financial assistance followed by University and Educational Institutions (around 29.87 per cent).

<sup>8</sup> Other Institutions included Local Bodies, Corporations, Urban Development Authorities, Town Development : Scientific Bodies (AP Science Centre Society).

## 1.7 Quality of Expenditure

The availability of better social and physical infrastructure in the State generally reflects the quality of expenditure. Improvement in the quality of expenditure basically involves three aspects, viz., adequacy (i.e. adequate provisions for providing public services); efficiency (expenditure use) and effectiveness (assessment of outlay-outcome relationships for select services) of expenditure. Analysis of expenditure data is dis-aggregated into Development and Non-development expenditure. All expenditure relating to Revenue Account, Capital Outlay and Loans & Advances is categorized into Social, Economic and General Services. Broadly, Social and Economic services constitute Development expenditure, while expenditure on General Services is treated as Non-development expenditure.

### 1.7.1 Efficiency of Expenditure Use

In view of the importance of public expenditure for social and economic development, it is important for the State Government to take appropriate expenditure rationalization measures and lay emphasis on provision of core public and merit goods<sup>9</sup>. Apart from improving allocation towards Development expenditure, the efficiency of expenditure use is also reflected by the ratio of Capital expenditure to Total expenditure (and/or GSDP) and proportion of Revenue expenditure being spent on operation and maintenance of existing social and economic services. The higher the ratio of these components to Total expenditure (and/or GSDP), the better would be the quality of expenditure. While **Table 1.19** presents the trend in Development expenditure relative to the aggregate expenditure of the State during the current year *vis-à-vis* budget and the previous years, **Table 1.20** shows details of Capital expenditure and components of Revenue expenditure incurred on maintenance of the selected social and economic services.

**Table-1.19: Development Expenditure**

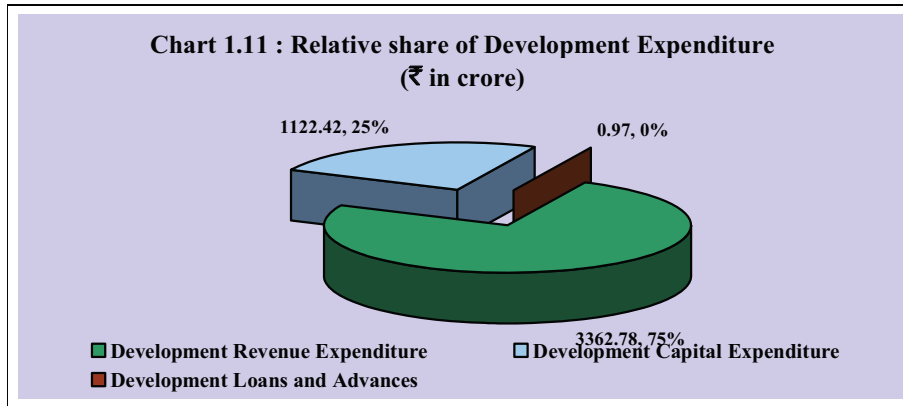
Components of Development Expenditure	2008-09	2009-10	2010-11	2011-12	2012-13	
					BE (Net)	Actuals
<b>Development Expenditure {(a) to (c)}</b>	3389.76 (80.46)	3706.17 (75.16)	4042.27 (74.86)	5024.44 (77.38)	3780.19	4486.17 (74.81)
<b>(a) Development Revenue Expenditure</b>	2121.22 (50.35)	2534.56 (51.40)	2479.01 (45.91)	3133.42 (48.26)	2952.52	3362.78 (56.08)
<b>(b) Development Capital Expenditure</b>	1243.01 (29.50)	967.90 (19.63)	1560.11 (28.89)	1885.07 (29.03)	826.81	1122.42 (18.72)
<b>(c) Development Loans &amp; Advances</b>	25.53 (0.61)	203.71 (4.13)	3.15 (0.06)	5.95 (0.09)	0.86	0.97 (0.01)

(Figures in brackets indicate percentage to Aggregate Expenditure)

Development expenditure decreased by 10.71 *per cent* over the previous year but exceeded the assessment made in the Budget Estimates by 18.68 *per cent*. The relative share of Development expenditure during 2012-13, given in **Chart 1.11**

<sup>9</sup> Appendix I.1.c.

below, showed that around 75 per cent of Development expenditure was incurred on Revenue account and only 25 per cent was utilized for Capital expenditure.



During the current year, Development Capital expenditure as a percentage of aggregate expenditure decreased to 18.72 per cent as compared to 29.03 per cent in 2011-12, but exceeded the budget projection by 35.75 per cent. This was a desirable improvement in the expenditure pattern. However, the predominant share of Revenue expenditure in Development expenditure indicated that more emphasis was given on maintenance of current level of services, which did not result in any addition to the State's infrastructure and service network. Thus, the expenditure pattern under this sector needs further correction in the ensuing year.

**Table-1.20: Efficiency of Expenditure Use in Selected Social and Economic Services**

*(In per cent)*

Social/Economic Infrastructure	2011-12		2012-13	
	Ratio of Capital Expenditure to Total Expenditure <sup>10</sup>	In Revenue Expenditure, the share of Salary	Ratio of Capital Expenditure to Total Expenditure <sup>11</sup>	Share of Salary in Revenue Expenditure
<b>SOCIAL SERVICES (SS)</b>	<b>28.25</b>	<b>55.91</b>	<b>15.66</b>	<b>56.34</b>
General Education	15.75	76.91	6.93	68.33
Technical Education, Sports and Arts & Culture	57.44	46.48	35.24	30.43
Health & Family Welfare	17.31	77.11	4.82	78.55
Water Supply & Sanitation, Housing and Urban Development	50.54	25.48	37.43	27.79
Other Social Services	21.11	28.62	13.86	38.12
<b>ECONOMIC SERVICES (ES)</b>	<b>43.38</b>	<b>33.52</b>	<b>31.22</b>	<b>34.86</b>
Agriculture & Allied Activities	6.84	32.38	3.38	40.11
Irrigation & Flood Control	28.62	23.06	13.90	29.05
Energy	36.16	27.64	30.01	32.72
Transport	72.13	40.62	52.37	30.31
Other Economic Services	39.01	38.41	28.25	37.28

<sup>10</sup> Total Revenue and Capital expenditure of services concerned.

### **Social Services**

Trends in Capital expenditure on Social Services revealed that the share of Capital expenditure to total expenditure during the period was 28.25 *per cent* in 2011-12 and 15.66 *per cent* in 2012-13, which indicated that Revenue expenditure was dominant. There was decline in the share of Capital expenditure to total expenditure on all components of Social Services over the previous year. Health & Family Welfare was the worst sufferer, as only 4.82 *per cent* of the total expenditure was incurred on Capital account during 2012-13, as against 17.31 *per cent* during the previous year.

Of the Revenue expenditure on Social Services, the share of Salary component increased from 55.91 *per cent* in 2011-12 to 56.34 *per cent* in 2012-13, implying more expenditure on salary components. The Non-salary and Wage expenditure on Social Services increased by 7.65 *per cent* during 2012-13 from ₹ 610.89 crore in 2011-12 to ₹ 657.65 crore in 2012-13. Within the priority Sectors, Non-salary and Wage components continued to have the dominant share under Technical Education, Sports, Arts & Culture, Water Supply, Sanitation, Housing and Urban Development. High Salary and Wage expenditure was observed under General Education (2011-12 : 76.91 *per cent* and 2012-13 : 68.33 *per cent*) and Health & Family Welfare Services (2011-12 : 77.11 *per cent*; 2012-13 : 78.55 *per cent*).

Expenditure on the Non-plan Salary component under both General Education and Health & Family Welfare Sectors during 2012-13 increased by 11.16 *per cent* and 6.11 *per cent* respectively. While the Non-plan Non-salary expenditure under General Education and Health & Family Welfare registered a decrease of 22.31 *per cent* and 11.73 *per cent* during 2012-13 over the previous year.

### **Economic Services**

Expenditure on Economic Services (including Loans & Advances) during 2012-13 (₹ 2700.13 crore) accounted for about 45.03 *per cent* of the total expenditure<sup>11</sup> and 60.18 *per cent* of Development expenditure during the year. Out of the total expenditure on Economic Services during the current year, 31.74 *per cent* (₹ 857.06 crore) was incurred on Transport, 20.50 *per cent* (₹ 553.65 crore) on Energy and 16.92 *per cent* (₹ 456.80 crore) on Agriculture & Allied Activities.

Trends in Revenue and Capital expenditure on Economic Services indicated that Capital expenditure on Economic Services decreased by 496.82 crore (37.09 *per cent*) from ₹ 1339.48 crore in 2011-12 to ₹ 840.66 crore in 2012-13. The share of Capital expenditure on Economic Services to the total Revenue and Capital expenditure on Economic Services during 2008-13 ranged between 37.84 and 43.66 *per cent*. Revenue expenditure on Economic Services also consistently increased from ₹ 1140.51 crore in 2008-09 to ₹ 1856.50 crore (62.77 *per cent*) in the current year. An increase of ₹ 108.50 crore (6.21 *per cent*) during 2012-13 over the previous year in

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<sup>11</sup> Revenue expenditure + Capital expenditure + Disbursement of Loans and Advances

Revenue expenditure was mainly due to the increase under Transport (₹ 118.41 crore), Energy (₹ 28.10 crore), Special Areas Programmes (₹ 46.57 crore), General Economic Services (₹ 10.13 crore), partly offset by decrease under Agriculture and Allied Services (₹ 54.31 crore), Irrigation & Flood Control (₹ 16.33 crore), Communication (₹ 9.09 crore) and Science, Technology & Environment (₹ 8.09 crore). Within Revenue expenditure on Economic Services, the Salary component constituted 33.52 per cent and 34.86 per cent during 2011-12 and 2012-13 respectively.

## 1.8 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 & 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 and recover its cost of borrowed funds, rather than bearing the same on its budget in the form of implicit subsidy, and take requisite steps to infuse transparency in financial operations. This section presents the broad financial analysis of investments and other Capital expenditure undertaken by the Government during the current year *vis-à-vis* previous years.

### 1.8.1 Investment and Returns

As per Statement 14 of the Finance Accounts for 2012-13, as of 31 March 2013, the State Government invested ₹ 224.18 crore in five Government Companies (₹ 9.04 crore) and 145 Co-operative Banks and Societies (₹ 215.14 crore). Details are given in Table 1.21.

Table-1.21: Return on Investment

Investment/Return/Cost of Borrowings	2008-09	2009-10	2010-11	2011-12	2012-13
<b>Investment at the end of the year (₹ in crore)</b>					
(i) Government Companies	9.04	9.04	9.04	9.04	9.04
(ii) Co-operative Bank/Societies	211.38	209.14	209.11	212.62	215.14
<b>TOTAL</b>	<b>220.42</b>	<b>218.18</b>	<b>218.15</b>	<b>221.66</b>	<b>224.18</b>
<b>Return (₹ in crore)</b>	-	-	-	-	-
<b>Return (per cent)</b>	-	-	-	-	-
<b>Average Rate of Interest on Government Borrowings (per cent)</b>	7.71	7.47	12.16	7.52	6.41
<b>Difference between Interest Rate and Return (per cent)</b>	7.71	7.47	12.16	7.52	6.41

During 2008-13, the average return on investment was nil, while the Government paid interest at an average rate of 6.41 to 12.16 per cent on its borrowings during the period.

### 1.8.2 Loans & Advances by the State Government

In addition to investments in Co-operative Societies, Corporations and Companies, the Government also provided Loans & Advances for other purposes, e.g., loans to Power Projects, Government servants, Tourism, etc;. **Table 1.22** shows outstanding Loans & Advances as on 31 March 2013 and Interest Receipts *vis-à-vis* Interest Payments during the last 5 years.

**Table-1.22: Average Interest received on Loans & Advances given by the State Government**

(₹ in crore)

Particulars	2008-09	2009-10	2010-11	2011-12	2012-13
<b>OPENING BALANCE</b>	<b>27.95</b>	<b>52.41</b>	<b>55.17</b>	<b>59.07</b>	<b>65.86</b>
Amount advanced during the year	27.24	205.46	6.31	9.69	3.95
Amount recovered during the year	2.78	202.70	2.41	2.90	2.95
<b>CLOSING BALANCE</b>	<b>52.41</b>	<b>55.17</b>	<b>59.07</b>	<b>65.86</b>	<b>66.86</b>
<i>Net Addition</i>	<b>24.46</b>	<b>2.76</b>	<b>3.90</b>	<b>6.79</b>	<b>1.00</b>
Interest Receipts	0.87	5.22	1.78	0.66	1.32
Interest received as <i>percentage</i> to outstanding Loans & Advances	2.17	9.70	3.12	1.06	1.99
Interest payments as <i>percentage</i> to outstanding fiscal liabilities of the State Government	7.71	7.28	12.16	7.52	6.41
Difference between Interest Payments and Receipts ( <i>percentage</i> )	5.54	(-) 2.23	8.98	6.46	4.42

Loans & Advances given by the State Government in 2012-13 decreased from ₹ 9.69 crore in 2011-12 to ₹ 3.95 crore. During 2008-13, recovery of Loans & Advances was ₹ 213.74 crore against ₹ 252.65 crore advanced during the period. The total outstanding Loans & Advances as on 31 March 2013 was ₹ 66.86 crore. Interest receipt of ₹ 1.32 crore on Loans & Advances by the Government of Arunachal Pradesh during 2012-13 constituted only 1.99 *per cent* of outstanding Loans & Advances at the end of 2012-13 (₹ 66.86 crore).

### 1.8.3 Cash Balances and Investment of Cash Balances

**Table 1.23** depicts Cash Balances and Investments made by the State Government out of Cash Balances during the year.



Table-1.23: Cash Balances and Investment of Cash Balances

Particulars	(₹ in crore)		
	As on 1 <sup>st</sup> April 2012	As on 31 March 2013	Increase(+)/ Decrease(-)
<b>Cash Balances<sup>12</sup></b>	<b>1108.81</b>	<b>1315.66</b>	<b>206.85</b>
<b>Investments from Cash Balances (a &amp; b)</b>	<b>874.34</b>	<b>1020.88</b>	<b>146.54</b>
a. GOI Treasury Bills	874.34	1020.88	146.54
b. GOI Stock/Securities	-	-	-
<b>Fund-wise break-up of Investment from Earmarked Balances (a &amp; b)</b>	<b>109.90</b>	<b>129.90</b>	<b>20.00</b>
a. Sinking Fund Investment Account	109.90	129.90	20.00
b. Other Development and Welfare Funds	-	-	-
<b>Interest realized on Investment of Cash Balances</b>	<b>48.04</b>	<b>37.23</b>	<b>(-) 10.81</b>

Cash Balances of the State Government at the end of the current year increased from ₹ 1108.81 crore in 2011-12 to ₹ 1315.66 crore in 2012-13. As of 31 March 2013, the State Government invested ₹ 1020.88 crore in GoI Treasury Bills. During 2012-13, Interest of ₹ 37.23 crore was earned on investment of Cash Balances. *The 13<sup>th</sup> FC recommended that States with large Cash Balances make efforts towards utilizing their Cash Balances before resorting to fresh borrowings.*

It is generally desirable that the State's flow of resources should match its expenditure obligations. However, to take care of any temporary mismatches in the flow of resources and expenditure obligations, a mechanism of Ways and Means Advances (WMA) – Ordinary and Special – from the Reserve Bank of India (RBI) has been put in place.

The Government did not have to resort to WMA during the current year or during 2008-13, indicating a comfortable position of Cash Balances of the State. However, there was a balance of WMA of ₹ 55.64 crore since March 2007 (Ordinary WMA - ₹ 50.24 crore; Special WMA - ₹ 5.40 crore).

## 1.9 Assets and Liabilities

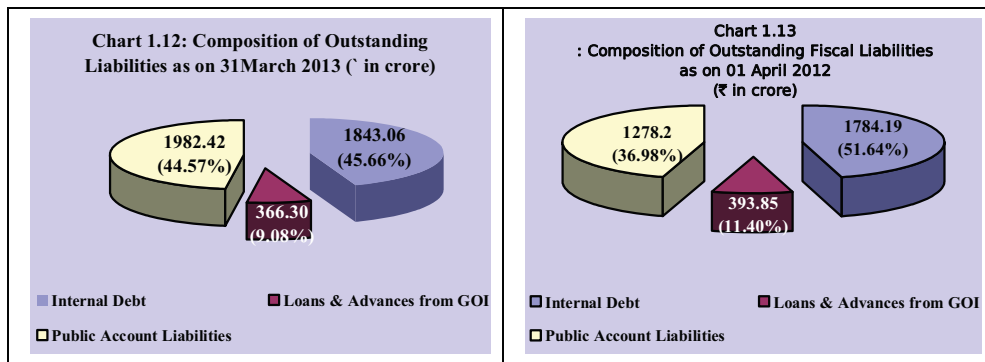
### 1.9.1 Growth and Composition of Assets and Liabilities

In the existing Government accounting system, comprehensive accounting of Fixed Assets like land and buildings owned by the Government is not done. However, Government accounts do capture financial liabilities of the Government and assets created out of expenditure incurred. **Appendix 1.4** gives an abstract of such liabilities and assets as on 31 March 2013, compared with the corresponding position on 31 March 2012. While liabilities in the Appendix consist mainly of internal borrowings, loans & advances from the GoI, receipts from Public Account and Reserve Funds, assets comprise mainly of Capital Outlay and Loans & Advances given by the State Government and Cash Balances.

<sup>12</sup> Excluding investment of Earmarked Funds.

### 1.9.2 Fiscal Liabilities

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 1.12** and **1.13**.



**Table 1.25** gives the fiscal liabilities of the State, their rate of growth, the ratio of these liabilities to GSDP to Revenue receipts and the State's own resources and also the buoyancy of fiscal liabilities with reference to these parameters.

**Table-1.24: Fiscal Liabilities – Basic Parameters**

Particulars	2008-09	2009-10	2010-11	2011-12	2012-13
Fiscal Liabilities <sup>13</sup> (₹ in crore)	2954.66	3119.05	3456.24	4036.15	4443.04
Rate of Growth (per cent)	11.98	5.56	10.81	16.78	10.08
<b>Ratio of Fiscal Liabilities to</b>					
GSDP (per cent)	51.95	41.73	38.36	37.17	37.20
Revenue Receipts (per cent)	76.63	72.62	63.74	73.40	77.12
Own Resources (per cent)	325.32	455.54	463.84	594.99	739.62
<b>Buoyancy of Fiscal Liabilities to</b>					
GSDP (ratio)	0.66	0.18	0.53	0.82	1.01
Revenue Receipts (ratio)	0.42	0.49	0.41	11.82	2.11
Own Resources (ratio)	0.59	(-) 0.23	1.22	(-) 1.87	(-) 0.88

Fiscal liabilities of ₹ 4443.04 crore during 2012-13 consisted of Internal Debt, e.g., Market Loans bearing interest, WMA, loans from financial institutions and special securities issued to the National Small Savings Fund, etc; (₹ 1980.43 crore), Loans & Advances from the Central Government: (₹ 338.74 crore), Public Account Liabilities, e.g. Small Savings, Provident Funds, Reserve Funds and Deposits, etc; (₹ 2123.87 crore). Overall fiscal liabilities of the State increased from ₹ 2954.66 crore in 2008-09 to ₹ 4443.04 crore in 2012-13. The growth rate in 2012-13 was 10.08 per cent over the previous year. The ratio of fiscal liabilities to GSDP increased from 37.17 per cent in 2011-12 to 37.20 per cent in 2012-13. These liabilities were around 77 per cent of Revenue receipts., The overall liabilities was about 3.25 times the state's own receipts

<sup>13</sup> Includes Internal Debt, Loans & Advances from Government of India, Small Savings, Reserve Funds Deposits and Provident Funds, etc;.

at end of 2008-09 whereas it was more than 7 times the state's own resources at the end of March 2012-13, which is matter of concern. This was due to the deteriorating trend of state's own resources, as a decline of 33.86 per cent was witnessed during the period 2008-13. The buoyancy of these liabilities with respect to GSDP during the year was 1.01, indicating that for each one per cent increase in GSDP, fiscal liabilities grew by 1.01 per cent.

As per the APFRBM Act (amended in December 2011), the State Government targeted to maintain the outstanding debt GSDP ratio at 58.2 per cent during 2011-12, 55.2 per cent during 2012-13 and 50.1 per cent during 2014-15 in line with the recommendation of the 13th FC. As seen from **Table 1.24** above, fiscal liabilities to GSDP ratio during 2012-13 was within the target spelt out in APFRBM Act.

During 1999-2000, the State Government constituted a 'Consolidated Sinking Fund' for redemption and amortization of Open Market Loans. In 2012-13, the Government appropriated ₹ 20 crore from Revenue and credited it to this fund for investment in Government of India Securities.

### 1.9.3 Status of Guarantees – Contingent Liabilities

Guarantees are liabilities contingent on the Consolidated Fund of the State in case of default by the borrower for whom the guarantee has been extended. As per the Finance Accounts, the maximum amount for which Guarantees were given by the State and outstanding Guarantees at the end of the year since 2008-09, are given in **Table 1.25**.

**Table-1.25: Guarantees given by the Government of Arunachal Pradesh**

Particulars	(₹ in crore)				
	2008-09	2009-10	2010-11	2011-12	2012-13
Maximum Amount Guaranteed	12.00	12.00	Information not furnished by the State Government	2.00	2.00
Outstanding Amount of Guarantees (incl. Interest)	0.61	0.61		1.55	1.55
Percentage of Maximum Amount Guaranteed to Total Revenue Receipts	0.31	0.28		0.04	0.04

The Government guaranteed loans to one Company, i.e., Arunachal Pradesh Industrial Development and Financial Corporation, Ltd. (APIDFCL), which at the end of 2012-13 stood at ₹ 1.55 crore. *No law under Article 293 of the Constitution was passed by the State Legislature laying down the maximum limit within which the Government may give guarantees on the security of the Consolidated Fund of the State.*

## 1.10 Debt Management

### 1.10.1 Debt Sustainability

Debt sustainability is defined as the ability of the State to maintain a constant Debt-GDP Ratio over a period of time and also embodies the concern about the ability

to service debts. 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 rise in fiscal deficit should match the increase in capacity to service debts.

Apart from the magnitude of debt of the State Government, it is important to analyze various indicators that determine debt sustainability of the State. This Section assesses the debt sustainability of the State Government in terms of Debt Stabilization<sup>14</sup>, sufficiency of Non-Debt Receipts,<sup>15</sup> net availability of Borrowed Funds,<sup>16</sup> burden of Interest Payments (measured by Interest payments to Revenue Receipts Ratio) and maturity profile of State Government securities. **Table 1.26** shows the debt sustainability of the State according to these indicators for the 5 year period from 2008-09 to 2012-13.

**Table-1.26: Debt Sustainability: Indicators and Trends**

Indicators of Debt Sustainability	(₹ in crore)				
	2008-09	2009-10	2010-11	2011-12	2012-13
Debt Stabilization (Quantum Spread + Primary Deficit)	139.20	506.74	671.08	(-) 260.69	184.34
Sufficiency of Non-debt Receipts (Resource Gap)	(-) 344.40	(-) 79.61	458.54	(-) 1016.22	759.47
Net Availability of Borrowed Funds	100.57	(-) 47.59	(-) 45.73	207.21	135.05
Burden of Interest Payments (IP/RR Ratio) (per cent)	5.59	5.28	7.38	5.12	4.72

The **Table** above shows that State Debt was stable during 2008-13 except in 2011-12.

Trends in Resource Gap indicate the oscillation between positive and negative magnitudes. Resource Gap was negative in 3 out of the 4 year period, indicating that incremental Non-debt receipts were not sufficient to meet incremental primary expenditure and Interest burden. However, the positive Resource Gap during 2012-13 indicated an increasing capacity of the State to sustain debt in medium to long run.

Debt Redemption Ratio fluctuated widely during 2008-13, which remained more than unity in 2009-10 and 2010-11, while during 2008-09, 2011-12 and 2012-13, the ratio was around 87, 84 and 93 *per cent* respectively. In the current year, against borrowed funds of ₹ 1560.76 crore, the Government repaid ₹ 1153.86 crore as Principal and Interest on Internal Debt (₹ 139.09 crore), Loans & Advances from the Central Government (₹ 27.55 crore) and other liabilities<sup>17</sup> (₹ 987.22 crore), as a result of which borrowed funds of ₹ 135.05 crore were available for development purposes.

<sup>14</sup> Appendix I.1.c.

<sup>15</sup> Appendix I.1.c.

<sup>16</sup> It indicates the extent to which the debt receipts are used in debt redemption indicating the net availability of borrowed funds.

<sup>17</sup> Small Savings, Provident Funds, Reserve Funds, Deposits, etc.

### 1.10.2 Market Borrowings

Market loans are most significant component of instruments which are used for financing the fiscal deficit of the Government. The borrowing requirement of the Government during the year is determined by the Fiscal deficit.

Under the provisions of Article 293(1) of the Constitution of India, the State Governments are empowered to borrow funds within the territory of India upon the security of the Consolidated Fund of the State within such limits, if any, as may from time to time be fixed by the Legislature of such State by law. However, Article 293(3) of the Constitution of India imposes restriction that a State may not without the consent of the Government of India raise any loan if there is still outstanding any part of a loan which has been made to the State by the Government of India or in respect of which a guarantee has been given by the Government of India.

Market loans are raised either by auction or are tapped as part of a multi-state debt issuance process using the RBI as agent, with a fixed interest rate payable half yearly and fixed maturity tenure.

#### 1.10.2.1 Position of Market Borrowing

The requirement of market borrowing which forms component of total borrowings of the State (which includes loans from NSSF, loans from Banks and Financial Institutions) are finalized at the time of the finalization of Annual Plan Financing by the Planning Commission each year. Once the Planning Commission approves the plan size and associated borrowings, proposal for market borrowings, etc. are sent to the Ministry of Finance, GOI for their approval. The borrowing is carried out in a phased manner throughout the year based on actual requirement of funds and market conditions. Before raising each tranche of loan from the market, the State Government has to obtain sanction from the Ministry of Finance, GOI for raising the loan.

The position of the borrowing limit, operating balances, borrowings / repayments together with closing balances, of open market loans, in respect of the State is brought out in the Table 1.27

**Table-1.27: Position of Market Borrowings**

Details	Amount (₹ in crore)					Total
	2008-09	2009-10	2010-11	2011-12	2012-13	
Opening balance	587.29	603.79	673.02	663.47	664.54	
Loan Raised	26.05	79.05	0.00	33.00	170.00	308.10
Repayments made	9.55	9.82	20.52	31.93	34.22	106.04
Outstanding Market loan on 31 March	603.79	673.02	663.47*	664.54	800.32	
Increase (+)/Decrease (-)	(+) 16.05	(+) 69.23	(-) 9.55	(+) 1.07	(+) 135.78	213.03
Percentage of increase/decrease in the outstanding market loan	(+) 2.73	(+)11.47	(-) 1.48	(+) 0.16	(+) 20.43	

Source: Departmental figures

\*Difference of ₹ 10.97 crore was not explained

It can be seen from the above table that during 2008-13, the State government borrowed ₹308.10 crore through open market borrowings and repaid ₹106.04 crore. Outstanding market loan as 31 March 2013 stood at ₹800.32 crore against the outstanding balance of ₹587.29 crore at the beginning of 2008-09, i.e. an increase of ₹213.03 crore (36.27 per cent). No loan was raised in 2010-11. In other four years, the net increase in borrowing from open market was lowest (0.16 per cent) in 2011-12, while the increase ranged between 2.73 per cent and 20.43 per cent during the remaining three years.

#### 1.10.2.2 Maturity Profile of Market Loans

During the period 2008-13, the State Government used Arunachal Pradesh Government Stock (securities) for raising Market loans. The instruments were sold through the Reserve Bank of India (RBI) by auction. The tenor of all the market loans raised by the State during the period was of 10 year maturity with varying interest rates payable half-yearly.

The total outstanding market loan as on 31 March 2013 was ₹ 800.32 crore. The maturity profile of market loans of the State payable in the next 6 years is shown in Table 1.28

**Table-1.28: Maturity trend of market loans**

Maturity year	Maturity amount (₹ in crore)	As a percent of Outstanding Market loans
2014-15	45.15	5.64
2015-16	68.87	8.61
2016-17	165.75	20.71
2017-18	184.69	23.08
2018-19	26.05	3.25
2019-20	79.05	9.88
<b>TOTAL</b>	<b>569.56</b>	<b>71.77</b>

Source: Departmental figures

It may be seen from the above table that in the next seven years, around 71.77 per cent (₹ 569.56 crore) is re-payable. During 2008-13, except for fiscal surplus of ₹ 24.75 crore during 2011-12, there was heavy fiscal deficits varying from ₹ 232.00 crore to ₹ 991.47 crore during the remaining four years. Thus, the Government will have to borrow further to discharge the expenditure obligations unless there is adequate fiscal surplus. Ideally, further borrowings in future should be made in such a way that there is no bunching of repayments in any particular year as that will cause undue stress on the State budget.

#### 1.10.2.3 Interest Rate Profile of Market Loans

The interest rate of market loans is set by the lender and incorporated in the loan conditions. The cut-off yield determined at the auction is the coupon rate percent per annum on the Stock sold at the auction. The position of interest rate profile of market loans raised during 2008-13 is given below.

**Table-1.29: Interest Rate Profile**

Rate of Interest (%)	Market loans raised during the year (₹ in crore)					
	2008-09	2009-10	2010-11	2011-12	2012-13	TOTAL
Below 7	-	-	-	-	-	-
7 – 7.99	-	-	-	-	-	-
8 – 8.99	26.05	79.05	-	-	170.00	275.10
9 – 9.99	-	-	-	33.00	-	33.00
10-10.99	-	-	-	-	-	-
<b>Total</b>	26.05	79.05	-	33.00	170.00	308.10
<b>Average Interest Rate</b>	8.47	8.29	-	9.02	8.70	-

Source: Departmental figures

It may be seen from the above table that a total of ₹308.10 crore was raised by the State Government as Market loans during four years (no loan raised during 2010-11) from 2008-13 with varying average interest rates ranging from 8.29 per cent (2009-10) to 9.02 per cent (2011-12).

The percentage of interest payments on market loan to revenue receipts varied widely from 0.80 per cent (2012-13) to 1.56 per cent (2009-10) as shown in table 1.30

**Table-1.30: Interest payments on market loan as a percentage of revenue receipts**

(Amount ₹ in crore)

Particulars	2008-09	2009-10	2010-11	2011-12	2012-13
Interest payable on Market loan	46.39	49.63	52.71	50.50	46.31
Revenue Receipts	3855.97	4294.87	5422.09	5499.06	5761.52
Interest payable as percentage of revenue receipts	1.20	1.56	0.97	0.92	0.80

Source: Finance Accounts

#### 1.10.2.4 Application of borrowings

Table 1.31 indicates the position of Revenue Surplus / Deficit, Fiscal Deficit, Market loan raised and Capital outlay during the period 2008-13.

**Table-1.31: Position of Revenue Surplus / Deficit, Fiscal Deficit, Market loan raised and Capital outlay during the period 2008-13**

(₹ in crore)

	2008-09	2009-10	2010-11	2011-12	2012-13
Revenue Surplus	960.51	599.28	1677.85	1080.20	975.28
Fiscal Surplus (+)/Deficit (-)	(-) 354.18	(-) 433.79	(+) 24.75	(-) 991.47	(-) 232.00
Market Loans Raised	26.05	79.05	-	33.00	170.00
Capital Outlay	1290.23	1030.31	1649.20	2065.88	1206.88

As could be seen from the above table, the State Government had maintained revenue surplus in all the years during the period 2008-13. Further, the capital outlay was always more than the market borrowings throughout the entire period. This implied that during these years, besides the borrowed funds a part of revenue surplus was used on capital outlay or for repayment of past loan obligations.

### 1.10.2.5 Consolidated Sinking Fund

The State Government constituted a reserve fund called Consolidated Sinking Fund to meet future repayment obligations of loans contracted in the past including Market Loans. As per the instructions of the RBI, the State was required to contribute a minimum of 0.5 per cent of their outstanding liabilities (internal debt plus public account) at the end of the previous year to the Consolidate Sinking Fund. During 2012-13, the State Government contribution was ₹20.00 crore, against the required amount of ₹20.18 crore (0.5 per cent of the total outstanding liabilities of the Government of Arunachal Pradesh as on 31<sup>st</sup> March, 2012, i.e. ₹4036.15 crore).

The State did not make projections to take care of asset liability matching through maturity profiling with revenue estimations to meet the liabilities during the review period.

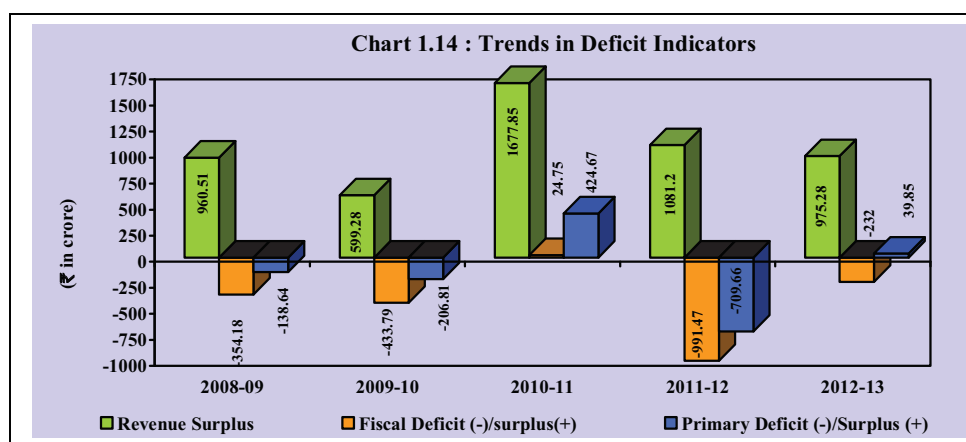
Though the steps taken by the State Government for redemption were encouraging, the fund in Consolidated Sinking Fund is just 2.92 per cent of total outstanding liabilities of the State at ₹4443.05 crore as of March 31 2013.

## 1.11 Fiscal Imbalances

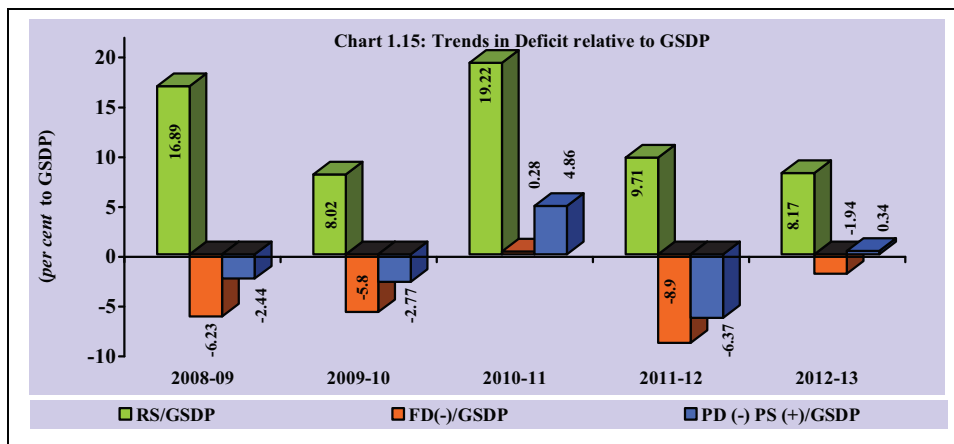
Three key fiscal parameters - revenue, fiscal and primary deficits - indicate the extent of overall fiscal imbalances in the finances of the State Government during a specified period. The deficit in Government accounts represents the gap between its receipts and expenditure. The nature of deficit is an indicator of the prudence of fiscal management of the Government. Further, the ways in which the deficit is financed and resources raised are applied are important pointers to its fiscal health. This Section presents trends, nature, magnitude, the manner of financing these deficits and also assessment of actual levels of revenue and fiscal deficits vis-à-vis targets set under FRBM Act/Rules for the financial year 2012-13.

### 1.11.1 Trends in Deficits

Charts 1.14 and 1.15 present the trends in deficit indicators over the period 2008-13.







**Chart 1.14** reveals that the State had Revenue Surplus during the period 2008-13, which after inter-year variations, decreased from ₹ 1081.20 crore in 2011-12 to ₹ 975.28 crore in the current year. Compared to 2011-12, Revenue Surplus in 2012-13 significantly decreased by ₹ 105.92 crore (9.80 *per cent*) due to marginal increase in Revenue receipts by ₹ 262.46 crore in 2012-13 and increase in Revenue expenditure by ₹ 368.38 crore in 2012-13. The fact was that the State's own resources contributed around 29.58 *per cent* (₹ 77.64 crore) in the incremental revenue receipt (₹ 262.46 crore) in 2012-13. Revenue Surplus in the current year was primarily on account of better growth in Grants-in-aid from GoI and State share in Union Taxes & Duties.

Fiscal deficit, which represents total borrowings of the Government and total Resource Gap, decreased from negative ₹ 991.47 crore in 2011-12 to negative ₹ 232 crore in 2012-13. The decrease in Capital expenditure (₹ 859.60 crore) partly offset by decrease in Revenue Surplus (₹ 105.92 crore) over the previous year, mainly led to a fiscal deficit of ₹ 232.00 crore in the current year.

As per recommendations of the 13<sup>th</sup> FC, *all Special Category States with base fiscal deficit of less than 3 per cent of GSDP in 2007-08, could incur a fiscal deficit of 3 per cent in 2011-12 and maintain it thereafter.* While the Government of Arunachal Pradesh was successful in restricting the fiscal deficit-GSDP Ratio in 2011-12, the State was unsuccessful in the current year as the Fiscal Deficit-GSDP Ratio in 2012-13 was 1.95 *per cent*.

The primary deficit of ₹ 709.66 crore, experienced by the State during 2011-12, took a turnaround in 2011-12 and resulted in a primary surplus of ₹ 39.85 crore. The decrease of ₹ 9.98 crore (3.54 *per cent*) in Interest payments in 2012-13 over the previous year and a fiscal deficit of ₹ 232.00 crore witnessed during the year, led to the primary surplus.

### 1.11.2 Components of Fiscal Deficit and its Financing Pattern

The financing pattern of fiscal deficit underwent a compositional shift as reflected in **Table: 1.32**

**Table 1.32: Components of Fiscal Deficit and its Financing pattern**

(₹ in crore)						
Sl No	Particulars	2008-09	2009-10	2010-11	2011-12	2012-13
<b>DECOMPOSITION OF FISCAL DEFICIT</b>						
<b>Fiscal Deficit (-)/Surplus (+)</b>		(-) 354.18	(-) 433.79	(+) 24.75	(-) 991.47	(-) 232.00
1.	Revenue Deficit (-)/Surplus (+)	960.51	599.28	1677.85	1081.20	975.28
2.	Net Capital Expenditure	1290.23	1030.31	1649.20	2065.88	1206.28
3.	Net Loans & Advances	(-) 24.46	(-) 2.76	(-) 3.90	(-) 6.79	(-) 1.00
<b>FINANCING PATTERN OF FISCAL DEFICIT</b>						
1.	Market Borrowings	14.09	66.82	(-) 12.93	(-) 1.34	133.37
2.	Loans from GoI	(-) 3.71	(-) 24.13	(-) 26.82	(-) 27.55	(-) 27.55
3.	Special Securities issued to NSSF	21.62	49.90	55.10	5.48	17.11
4.	Loans from Financial Institutions	48.43	12.78	20.51	54.73	(-) 13.12
5.	Small Savings, PF, etc.;	78.55	142.74	79.49	128.18	125.92
6.	Reserve Funds	14.00	15.00	17.00	19.00	20.00
7.	Deposits and Advances	153.45	(-) 85.40	218.01	281.45	70.32
8.	Suspense and Miscellaneous	2782.13	502.98	(-) 196.33	(-) 166.77	(-) 3.62
9.	Remittances	(-) 1.67	28.85	9.81	8.12	166.42
10.	Increase (-)/Decrease (+) in Cash Balances	(-) 2752.71	(-) 275.77	(-) 188.59	(+) 690.17	(-) 206.85
11.	Increase/Decrease in Ways & Means Advances	-	-	-	-	-
<b>Overall Deficit (1 to 11) (-)</b>		<b>(-) 354.18</b>	<b>(-) 433.79</b>	<b>24.75</b>	<b>(-) 991.47</b>	<b>(-) 232.00</b>

Fiscal Deficit decreased by ₹ 759.47 crore from ₹ 991.47 crore in 2011-12 to ₹ 232 crore in 2012-13. The fiscal deficit was mainly met out from increase in Remittances (₹ 116.42 crore), Small Savings, PF, etc; (₹ 125.92 crore) and Market Borrowings (₹ 133.37 crore).

### 1.11.3 Quality of Deficit/Surplus

The ratio of Revenue deficit to Fiscal deficit and decomposition of Primary deficit into Primary Revenue deficit and Capital expenditure (including Loans & Advances) would indicate the quality of deficit in the State's finances. The ratio of Revenue deficit to Fiscal deficit indicates the extent to which borrowed funds were used for current consumption. Further, a persistently high ratio of Revenue deficit to Fiscal deficit also indicates that the asset base of the State is continuously shrinking and a part of borrowings (fiscal liabilities) do not have any asset back-up. The bifurcation of Primary deficit (**Table 1.33**) would indicate the extent to which the deficit was on account of enhancement in Capital expenditure, which may be desirable to improve the productive capacity of the State's economy.

Table - 1.33

## Primary Deficit/Surplus – Bifurcation of Factors

(*₹ in crore*)

Year	Non-debt Receipt	Primary Revenue Expenditure	Capital Expenditure	Loans & Advances	Primary Expenditure	Primary Revenue Surplus	Primary Deficit (-)/ Surplus (+)
1	2	3	4	5	6 (3 + 4 + 5)	7 (2 - 3)	8 (2 - 6)
2008-09	3858.75	2679.92	1290.23	27.24	3997.39	1178.83	(-) 138.64
2009-10	4497.57	3468.61	1030.31	205.46	4704.38	1028.96	(-) 206.81
2010-11	5424.50	3344.32	1649.20	6.31	4999.83	2080.18	(+) 424.67
2011-12	5501.96	4136.05	2065.88	9.69	6211.62	1365.91	(-) 709.66
2012-13	5764.47	4514.39	1206.28	3.95	5724.62	1250.08	(+) 39.85

Analysis of factors resulting into Primary deficit or surplus of the State during 2008-13 revealed that in 3 out of the 5 years (2008-09, 2009-10 and 2011-12), the State experienced Primary deficit, which was on account of Capital expenditure incurred and Loans & Advances disbursed by the State Government. In other words, Non-debt receipts of the State were sufficient to meet Primary Revenue expenditure. But Non-debt receipts were not enough to meet expenditure requirements under Capital account and Loans & Advances during 2008-10 and 2011-12, resulting in Primary deficit. However, during 2010-11 and 2012-13, Non-debt receipts were sufficient to meet the expenditure requirement both under Revenue and Capital accounts, resulting in Primary surplus. Primary deficit of ₹ 709.66 crore during 2011-12 turned into primary surplus of ₹ 39.85 crore in the current year, mainly on account of significant increase in Non-Debt Receipts by ₹ 262.51 crore and decrease in Capital expenditure ₹ 859.60 crore, which was partly offset by increase in primary Revenue expenditure by ₹ 378.34 crore, which may not be desirable and needs improvement.

### 1.12 Conclusion and Recommendations

The fiscal position of the State viewed in terms of key fiscal parameters - Revenue Surplus, Fiscal Deficit and Primary Deficit - indicated that the State maintained Revenue Surplus during 2008-13, but Fiscal and Primary deficits showed fluctuating trends. Fiscal surplus of ₹ 24.75 crore in 2010-11 took a turnaround and resulted in Fiscal deficit of ₹ 991.47 crore in 2011-12 and again decreased to Fiscal deficit of ₹ 232 crore in 2012-13. Primary surplus of ₹ 424.67 crore in 2010-11 took a turnaround and resulted in primary deficit of ₹ 709.66 crore in 2011-12 but again turned in primary surplus of ₹ 39.85 crore.

#### Revenue Receipts

Revenue receipts during 2012-13 grew by 4.78 per cent (₹ 262.46 crore) over the previous year. Tax and Non-tax revenue receipts exceeded the normative assessment made by the 13<sup>th</sup> FC by about 61.68 per cent and 30.68 per cent respectively. Central Transfers, comprising of the State's share of Central taxes and Grants-in-aid from the GoI increased by ₹ 340.10 crore in 2012-13 and contributed about 90 per cent of the

Revenue receipts during the year. However, the State primarily depends on resources transferred by the Central Government. The State's own resources as a percentage of total receipts declined from its peak (23.56 *per cent*) in 2008-09 to its lowest (10.43 *per cent*) in 2012-13. This indicates that Central Transfers were the key to the increase in Revenue receipts of the State.

***The State should make efforts to increase its own resources and maintain Revenue Surplus in the ensuing years.***

#### ***Revenue and Total Expenditure***

Revenue expenditure of the State increased by 65.31 *per cent* from ₹ 2895.46 crore in 2008-09 to ₹ 4786.24 crore in 2012-13. This expenditure as a percentage of total expenditure, though increased to 79.82 *per cent* in 2012-13 from 68.04 *per cent* in 2011-12, averaged around 72 *per cent* during 2008-13, leaving inadequate resources for expansion of services and creation of assets. NPRE during the same period increased from ₹ 1752.80 crore in 2008-09 to ₹ 3087.41 crore in 2012-13, which was around 43 *per cent* (₹ 933.72 crore) higher than the normative level of ₹ 2153.99 crore assessed by the 13<sup>th</sup> FC for the year. Further, Salaries, Pensions, Interest payments and Subsidies continued to consume a major share of Revenue expenditure, accounting for more than 54 *per cent* in 2012-13. Development expenditure in 2012-13 decreased by 10.71 *per cent* over the previous year, but exceeded the assessment made in the Budget Estimates by 18.68 *per cent*. However, the relative share of Development expenditure in 2012-13, showed that 75 *per cent* of Development expenditure was incurred on Revenue account and only 25 *per cent* was utilized for Capital expenditure. A predominant share of Revenue expenditure in Development expenditure indicated that more emphasis was given on maintenance of the current level of resources, which did not result in any addition to the State's infrastructure and service network.

***The expenditure pattern of the State Government needs correction in the ensuing years. The Government should initiate suitable measures to compress components of Non-plan Revenue Expenditure and emphasize on provision of Development Capital Expenditure.***

#### ***Fiscal Correction Path***

During 2011-12, there was significant improvement in two major fiscal indicators, viz., fiscal deficit and primary deficit, but decrease in Revenue surplus. Decline in fiscal deficit in the last year indicated a stable fiscal position of the State. Prevalence of fiscal liabilities of the State over 2008-13, which stood at 37.20 *per cent* of the GSDP in 2012-13, appeared to be quite high, especially when compared with the limit prescribed by the 13<sup>th</sup> FC, i.e., steady reduction in augmented Debt Stock of States to less than 25 *per cent* of GDP by 2014-15.

During 2012-13, while the Government paid Interest at an average rate of 6.41 *per cent* on its borrowings during the period, the average Return on Investment in

Government Companies and Co-operative Societies was 'zero'. Cash Balances of the State at the end of 2012-13 increased to ₹ 1315.66 crore

Increasing fiscal liabilities, accompanied by no return on Government investments and inadequate interest cost recovery on loans & advances, may lead to an unsustainable fiscal situation in the medium to long-term time-frame.

*The State Government should make efforts to restrict its fiscal liabilities and also ensure proper Debt Management through advanced planning, which could minimize the need to hold large cash surpluses.*

#### ***Accounting of Funds Transferred to State Implementing Agencies***

The GoI has been transferring substantial amounts directly to the State Implementing Agencies for implementation of various Schemes/Programmes in the Social and Economic Sectors. As long as these funds remain outside the State budget, there is no agency monitoring their use and data is not readily available on how much is actually spent in a particular year.

*A system has to be put in place to ensure proper accounting of such funds and updated information should be validated by the State Government and the Accountant General.*