

CHAPTER – I
FINANCES OF THE STATE GOVERNMENT

1.1 Introduction

The accounts of the State Government are kept in three parts (i) Consolidated Fund, (ii) Contingency Fund and (iii) Public Account (**Appendix 1.1-Part A**). The Finance Accounts of the Government of Arunachal Pradesh are laid out in nineteen statements, presenting receipts and expenditure, revenue as well as capital, in the Consolidated Fund, Contingency Fund and the Public Accounts. The lay out of the Finance Accounts is depicted in **Appendix 1.1-Part B**.

1.1.1 Summary of Receipts and Disbursements

Table 1.1 summarises the finances of the Government of Arunachal Pradesh for the year 2005-06 covering revenue receipts and expenditure, capital receipts and expenditure and public account receipts/disbursements as emerging from Statement-1 of Finance Accounts and other detailed statements.

Table 1.1: Summary of receipts and disbursements for the year 2005-06

(Rupees in crore)

2004-05	Receipts	2005-06	2004-05	Disbursements	2005-06		
					Non-Plan	Plan	Total
Section – A : Revenue							
1501.84	Revenue receipts	1849.41	1509.64	Revenue expenditure	943.98	723.67	1667.65
50.11	Tax revenue	62.09	489.02	General services	471.26	17.47	488.73
170.20	Non-tax revenue	202.36	472.67	Social services	166.49	404.56	571.05
191.95	Share of Union taxes/duties	272.15	547.95	Economic services	306.23	301.64	607.87
1089.58	Grants-in-aid from Government of India	1312.81	...	Grants-in-aid and Contributions			
Section – B: Capital							
...	Miscellaneous Capital Receipts		375.07	Capital Outlay	(-)1.07	438.68	437.61
2.61	Recoveries of Loans and Advances	2.82	5.97	Loans and Advances disbursed			3.68
215.30	Public Debt receipts ¹	714.07	57.95	Repayment of Public Debt			250.55
...	Contingency Fund		...	Contingency Fund			...
1208.86	Public Account receipts	1425.12	1082.82	Public Account disbursements			1387.92
4.00	Earmarked Fund						
(-)130.78	Opening Cash Balance	(-)229.62	(-)229.62	Closing Cash Balance			14.39
2801.83	Total	3761.80	2801.83	Total			3761.80

¹ Excluding Ways and Means Advances and Overdraft

The bulk of the total receipts of the State during 2005-06 were contributed by revenue receipts (46.33 *per cent*) followed by Public Account receipts (35.70 *per cent*). The overall revenue receipts increased from Rs.1501.84 crore in 2004-05 to Rs.1849.41 crore (23.14 *per cent*) in 2005-06. The total disbursements of the State during the year consists of revenue expenditure (44.50 *per cent*) followed by Public Account disbursements (37.04 *per cent*) and repayment of public debt (6.69 *per cent*). The revenue expenditure of the State grew by 10.47 *per cent* and increased from Rs.1509.64 crore in 2004-05 to 1667.65 crore in 2005-06. The closing cash balance of the current year (Rs.14.39 crore) significantly improved from a negative balance of Rs.229.62 crore mainly due to reduction in the minus balance under “deposit with Reserve Bank and other banks” by Rs.139.08 crore and increase in cash in treasuries and remittances by Rs.19.63 crore. There was also an increase in investment of earmarked funds by Rs.12.00 crore.

1.1.2 Fiscal Responsibility and Budget Management (FRBM) Act, 2006

The State Government enacted (March 2006) the Arunachal Pradesh Fiscal Responsibility (APFR) Act, 2006 to ensure prudence in fiscal management and fiscal stability by progressive elimination of revenue deficit, reduction in fiscal deficit, prudent debt management consistent with fiscal sustainability, greater fiscal transparency in fiscal operations of the Government and conduct of fiscal policy in a medium term framework. The Act set the following fiscal targets for the State Government:

- reduce revenue deficit to nil within a period of four financial years beginning from 1st April 2005;
- reduce revenue deficit as a percentage of Gross State Domestic Product (GSDP) in each of the financial years beginning from 1st April 2005;
- reduce fiscal deficit to not more than three *per cent* of the estimated GSDP within a period of five financial years beginning from 1st April 2005.

1.1.3 Fiscal Policy Statement(s) 2005-06

As prescribed in the Act, the State Government has to lay before the Legislature, the Medium Term Fiscal Plan along with the annual budget. As the APFR Act was enacted in March 2006, the State Government had not laid any such plan in the Legislature during 2005-06 and 2006-07 budgets.

1.1.4 Roadmap to Achieve the Fiscal Targets as laid down in APFR Act/Rules

In pursuance of the recommendations of the Twelfth Finance Commission (TFC), the State Government enacted the APFR Act in March 2006 and also drawn its own Fiscal Correction Path (FCP) indicating the milestones of outcome indicators with target dates of implementation during the period from

2004-05 to 2009-10 (**Appendix 1.2**). In FCP, the State Government indicated revised estimates for 2005-06 and projections for ensuing years.

1.1.5 Mid-Term Review of Fiscal Situation

To enforce compliance with the fiscal principles and targets laid down in the FRBM Act, 2006, the Finance Department of the State Government is to review every half year the trends in receipts and expenditure including the fiscal indicator targets set for the current financial year and place before the State Legislature a statement containing the outcome of such review. However, the State Government is yet to enforce the provision of the Act in this regard as no mid term review has been undertaken even during the current year 2006-07.

1.2 Overview of Fiscal Situation of the State

1.2.1 Trends of Fiscal Aggregates

The fiscal position of the State Government during the current year as compared to the previous year is given in **Table 1.2**.

Table 1.2

(Rupees in crore)

2004-05	Sl.No.	Major Aggregates	2005-06
1501.84	1	Revenue Receipts (2+3+4)	1849.41
50.11	2	Tax Revenue (Net)	62.09
170.20	3	Non-Tax Revenue	202.36
1281.53	4	Other Receipts	1584.96
2.61	5	Non-Debt Capital Receipts	2.82
2.61	6	<i>Of which</i> recovery of Loans	2.82
1504.45	7	Total Receipts (1+5)	1852.23
936.70	8	Non-Plan Expenditure	943.71
930.62	9	On Revenue Account	943.98
146.90	10	<i>Of which</i> Interest Payments	156.45
2.96	11	On Capital Account	(-)1.07
3.12	12	On Loans disbursed	0.80
953.98	13	Plan expenditure	1165.23
579.02	14	On Revenue Account	723.67
372.11	15	On Capital Account	438.68
2.85	16	On Loans disbursed	2.88
1890.68	17	Total Expenditure (13+8)	2108.94
(-)7.80	18	Revenue Deficit/Surplus {1-(9+14)}	(+)181.76
(-)386.23	19	Fiscal Deficit (17-1-5)	(-)256.71
(-)239.33	20	Primary Deficit (19-10)	(-)100.26

The total non-debt receipts of the State increased from 1504.45 crore in 2004-05 to Rs.1852.23 crore in 2005-06 and the total expenditure of the State

increased from Rs.1890.68 crore in 2004-05 to Rs.2108.94 crore in 2005-06. The State had a revenue surplus of Rs.181.76 crore and fiscal and primary deficit of Rs.256.71 crore and Rs.100.26 crore respectively during 2005-06.

1.3 Audit methodology

Audit observations on the Statements of Finance Accounts for the year 2005-06 bring out the trends in major fiscal aggregates of receipts and expenditure and wherever necessary, analyse them in the light of time series data (**Appendix – II to V**) and periodic comparisons. Major fiscal aggregates like tax and non-tax revenue, revenue and capital expenditure, internal and external debt, and revenue and fiscal deficits have been presented as percentage to the GSDP at current market prices. The new GSDP series with 1993-94 as base as published by the Director of Economics and Statistics of the State Government has been used. For tax revenues, non-tax revenues, revenue expenditure etc, buoyancy projections have also been provided for a further estimation of the range of fluctuations with reference to the base represented by GSDP. The key indicators adopted for the purpose are (i) resources by volume and sources, (ii) application of resources, (iii) assets and liabilities and (iv) management of deficits. Audit observations also take into account the cumulative impact of resource mobilisation efforts, debt servicing and corrective fiscal measures. The overall financial performance of the State Government as a body corporate has been presented by the application of a set of ratios commonly adopted for the relational interpretation of fiscal aggregates. In addition, selected indicators of financial performance of the Government are also listed in this section; some of the terms used in this context are explained in **Appendix 1.1-Part C**.

1.4 State Finances by key Indicators

1.4.1 Resources by Volumes and Sources

Resources of the State Government consist of revenue receipts and capital receipts. Revenue receipts comprise tax revenues, non-tax revenues, State's share of Union taxes and duties and grants-in-aid from the Government of India (GOI). 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 1.3** shows that the total receipts of the State Government for the year 2005-06 were Rs.3991.42 crore. Of these, revenue receipts were Rs.1849.41 crore, constituting 46.33 *per cent* of the total receipts. The balance came from borrowings and receipts from Public Account.

Table 1.3: State Resources**(Rupees in crore)**

I.	Revenue Receipts		1849.41
II.	Capital Receipts		716.89
	Recovery of Loans and Advances	2.82	
	Public Debt Receipts	714.07	
	Miscellaneous Capital Receipts	-	
III.	Contingency Fund Receipts		-
IV.	Public Account Receipts		1425.12
	(a) Small Savings, Provident Fund <i>etc.</i>	129.45	
	(b) Reserve Fund	16.92	
	(c) Deposits and Advances	147.08	
	(d) Suspense and Miscellaneous	51.06	
	(e) Remittances	1080.61	
	Total Receipts*		3991.42

* Excluding the opening cash balance of (-) Rs.229.62 crore.

Out of the total receipts under Public Account, remittances constitute about 76 per cent. While 89 per cent (Rs.958.85 crore) of the remittances have come from Public Works remittances, Forest remittances constituted 8 per cent (Rs.86.37 crore). Public Works remittances mainly consisted of security deposit and earnest money deposits from contractors.

1.4.2 Revenue Receipts

Statement-11 of the Finance Accounts details the revenue receipts of the Government. The revenue receipts of the State comprise mainly its own tax and non-tax revenues, Central tax transfers and grants-in-aid from GOI. Overall revenue receipts, their annual rate of growth, ratio of these receipts to the GSDP and its buoyancy are indicated in **Table 1.4**.

Table 1.4: Revenue Receipts-Basic Parameters**(Rupees in crore)**

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Revenue Receipts (RR)	961.41	1085.30	1108.29	1576.36	1501.84	1849.41
Own Taxes	20.63 (2.15)	30.89 (2.85)	37.26 (3.36)	43.73 (2.77)	50.11 (3.34)	62.09 (3.36)
Non-Tax Revenue	63.65 (6.62)	70.91 (6.53)	76.30 (6.88)	120.57 (7.65)	170.20 (11.33)	202.36 (10.94)
Central Tax Transfers	115.67 (12.03)	90.93 (8.38)	121.68 (10.98)	160.60 (10.19)	191.95 (12.78)	272.15 (14.72)
Grants-in-aid	761.46 (79.20)	892.57 (82.24)	873.05 (78.77)	1251.46 (79.39)	1089.58 (72.55)	1312.81 (70.99)
Rate of growth of RR (<i>per cent</i>)	(-)4.71	12.89	2.12	42.23	(-)4.73	23.14

(Rupees in crore)

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
RR/GSDP (per cent)	53.91	55.89	56.47	69.68	61.10	69.38
Buoyancy ratio of Revenue Receipts with reference to GSDP	(-)0.499	1.451	1.971	2.766	(-)0.546	2.742
Rate of growth of own taxes	48.63	49.73	20.62	17.36	14.59	23.91
Buoyancy ratio of State's own taxes with reference to GSDP	5.158	5.602	19.187	1.137	1.685	2.833
Buoyancy of Revenue Receipts with reference to State's own Taxes	(-)0.096	0.259	0.102	2.432	(-)0.324	0.967
GSDP Growth (per cent)	9.43	8.88	1.07	15.27	8.66	8.44

Figures in brackets indicate the percentage share in Revenue Receipts in corresponding years.

The revenue receipts of the State increased from Rs.961.41 crore in 2000-01 to Rs.1849.41 crore (92.36 per cent) in 2005-06. While 14.30 per cent of the revenue receipts during 2005-06 have come from the State's own resources comprising tax and non-tax revenue receipts, Central tax transfers and grant-in-aid together contributed 85.70 per cent of the total revenue. Buoyancy ratio of revenue receipts with respect to GSDP during 2005-06 was 2.742 against a negative figure of 0.546 during the previous year due to substantial growth in revenue receipts during the year (23.14 per cent from a negative 4.73 per cent during 2004-05).

Tax Revenue

The percentage share of tax revenue in revenue receipts moved in a narrow range of 2.15 per cent in 2000-01 to 3.36 per cent in 2005-06. Tax revenue has increased from Rs.50.11 crore in 2004-05 to Rs.62.09 crore (23.91 per cent) in 2005-06. Sales tax was the major contributor (77 per cent) of the State's own tax revenue followed by State excise (15 per cent) and taxes on vehicles (4 per cent). State's own tax revenue was Rs.62.09 crore against Rs.96.29 crore as assessed by the State Government in its FCP for 2005-06. The receipts from tax revenue during 2005-06 were Rs.44.83 crore less than the normative projection of Rs.106.92 crore made by the TFC.

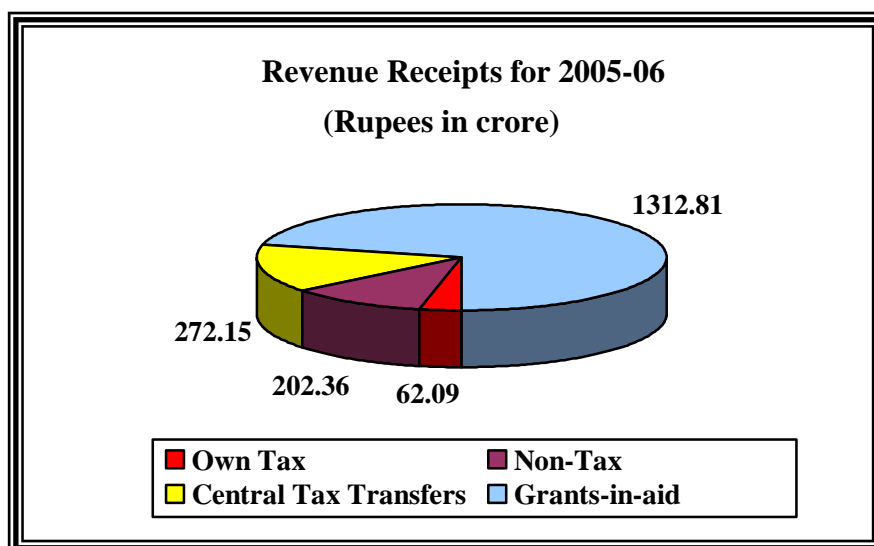
Non-Tax Revenue

The share of non-tax revenue has increased from 6.62 per cent in 2000-01 to 10.94 per cent in 2005-06. Non-tax revenue of Rs.202.36 crore mainly came from Power (44 per cent), Administrative Services (15 per cent) and Non-Ferrous Mining and Metallurgical Industries (12 per cent). However, non-tax revenue during 2005-06 was Rs.120.74 crore higher than the normative projection of Rs.81.62 crore made by the TFC.

Grants-in-aid

The State Government received Rs.726.39 crore in 2005-06 as grants for State Plan schemes against Rs.613.88 crore received during 2004-05. There was

also increase in centrally sponsored scheme grants by Rs.21.86 crore. There was sharp increase in non-plan grants from Rs.299.64 crore in 2004-05 to Rs.388.50 crore in 2005-06 inclusive of Rs.271.84 crore for meeting the non-plan revenue deficit as recommended by the TFC.



1.4.3 Sources of Receipts

The source of receipts under different heads as well as GSDP during 2000-06 is indicated in *Table 1.5*.

Table 1.5: Sources of Receipts: Trends

(Rupees in crore)

Year	Revenue Receipts	Capital Receipts				Total Receipts	Gross State Domestic Product
		Non-Debt Receipts	Debt Receipts	Contingency Fund Receipts	Accruals in Public Account		
2000-01	961.41	1.60	116.14	...	875.54	1954.69	1783.44
2001-02	1085.30	1.86	139.99	...	947.58	2174.73	1941.78
2002-03	1108.29	2.24	143.08	...	1513.88	2767.49	1962.65
2003-04	1576.36	2.35	305.98	...	958.09	2842.78	2262.29
2004-05	1501.84	2.61	215.30	...	1208.86	2928.61	2458.20
2005-06	1849.41	2.82	714.07	...	1425.12	3991.42	2665.67

Revenue receipts increased from Rs.961.41 crore in 2000-01 to Rs.1849.41 crore in 2005-06. The non-debt receipts and debt receipts during the last six year period 2000-06 indicated inter year variations. The debt receipts increased from Rs.215.30 crore in 2004-05 to Rs.714.07 crore in 2005-06 on account of receipts of more loans and advances/overdrafts from the GOI/Reserve Bank of India (RBI).

1.5 Application of resources

1.5.1 Growth of expenditure

Statement-12 of the Finance Accounts depicts the detailed revenue expenditure by minor heads and capital expenditure by major heads. States raise resources to perform their sovereign functions, maintain their existing nature of delivery of social and economic services, to extend the network of these services through capital expenditure and investments and to discharge their debt service obligations. The total expenditure of the State increased from Rs.1246.61 crore in 2000-01 to Rs.2108.94 crore in 2005-06. Total expenditure, its annual growth rate and 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 1.6**.

Table 1.6: Total Expenditure-Basic Parameters

(Total expenditure in Rupees in crore and others in per cent)

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Total Expenditure (TE) ^(a) (Rupees in crore)	1246.61	1335.96	1324.41	1828.75	1890.68	2108.94
Rate of Growth (per cent)	13.43	7.17	(-)0.86	38.08	3.39	11.54
TE/GSDP ratio (per cent)	69.90	68.80	67.48	80.84	76.91	79.11
RR/TE ratio (per cent)	77.12	81.24	83.68	86.20	79.43	87.69
Buoyancy of Total Expenditure with reference to:						
GSDP (ratio)	1.424	0.807	(-)0.804	2.494	0.391	1.367
RR (ratio)	(-)2.851	0.556	(-)0.408	0.902	(-)0.71	0.499

(a) Total expenditure includes revenue expenditure, capital expenditure and loans and advances.

The total expenditure of the State has increased from Rs.1246.61 crore in 2000-01 to Rs.1890.68 crore in 2005-06. The rate of growth of total expenditure during 2005-06 was 11.54 per cent against 3.39 per cent during the preceding year. In relative terms, the capital and revenue expenditure components have increased by 65.60 per cent and 70.23 per cent respectively during 2000-06. However, in absolute terms, increases were of the order of Rs.173.36 crore in capital expenditure and Rs.688.03 crore in revenue account during 2005-06 relative to 2000-01.

1.5.2 Trends in Total expenditure by Activities

In terms of the activities, total expenditure could be considered as being composed of expenditure on general services including interest payments, social and economic services, grants-in-aid and loans and advances. Relative share of these components in total expenditure is indicated in **Table 1.7**.

Table 1.7: Components of Expenditure-Relative Share

	(in per cent)					
	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
General Services	27.91	26.90	28.90	26.77	26.63	23.94
Of which Interest payments	9.68	8.16	9.47	8.44	7.77	7.42
Social Services	27.39	29.50	27.67	27.86	28.80	31.35
Economic Services	44.48	43.23	43.21	45.12	44.25	44.54
Loans & Advances	0.22	0.37	0.22	0.25	0.32	0.17

The movement of relative share of these components of expenditure indicated that all components of expenditure had inter-year variations. But expenditure on general services and interest payments which are considered as non-developmental, together accounted for 23.94 *per cent* in 2005-06 as against 26.63 *per cent* in 2004-05. On the other hand, development expenditure i.e., expenditure on social and economic services together accounted for 75.94 *per cent* in 2005-06 as against 73.05 *per cent* in 2004-05. This indicates that there was decrease in non-developmental expenditure and increase in developmental expenditure in comparison to the previous years.

1.5.3 Incidence of revenue expenditure

Of the total expenditure, revenue expenditure formed predominant share. Revenue expenditure is incurred to maintain the current level of services and payment for the past obligations and as such 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 1.8*.

Table: 1.8: Revenue Expenditure-Basic Parameters

	(Rupees in crore)					
	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Revenue Expenditure (RE)	979.62	1029.55	1031.37	1391.90	1509.64	1667.65
<i>Of which</i>						
Non-Plan Revenue Expenditure (NPRE)	608.18	575.07	608.90	841.18	930.62	943.98
Plan Revenue Expenditure (PRE)	371.44	454.48	422.47	550.72	579.02	723.67
Rate of Growth (<i>per cent</i>)						
NPRE	12.69	(-)5.44	5.88	38.15	10.63	1.44
PRE	24.38	22.36	(-)7.04	30.36	5.14	24.98
NPRE/GSDP (<i>per cent</i>)	34.10	29.61	31.02	37.18	37.85	35.41
NPRE as <i>per cent</i> of TE	48.78	43.04	45.97	45.99	49.22	44.76
NPRE as <i>per cent</i> of RR	63.25	52.98	54.94	53.36	61.96	51.04
Buoyancy of Revenue Expenditure with						
GSDP (ratio)	1.802	0.574	0.164	2.290	0.917	1.240
Revenue Receipts (ratio)	(-)3.607	0.396	0.083	0.828	(-)1.789	0.452

The revenue expenditure of the State increased from Rs.979.62 crore in 2000-01 to Rs.1667.65 crore in 2005-06. The increase of Rs.158.01 crore (10.47 *per cent*) in revenue expenditure during 2005-06 over that of 2004-05 was due to the increase of Rs.98.42 crore (20.81 *per cent*) in social services and Rs.59.92 crore (10.94 *per cent*) in economic services. The increase in capital expenditure by Rs.62.54 crore during 2005-06 as compared to the previous year was due to increase of Rs.1.54 crore (10.60 *per cent*) in general services, Rs.18.32 crore (25.48 *per cent*) in social services and Rs.42.68 crore (14.79 *per cent*) in economic services. Out of the total revenue expenditure of Rs.1667.65 crore, non-plan revenue expenditure was Rs.943.98 crore (56.61 *per cent*) whereas plan revenue expenditure was Rs.723.67 crore (43.39 *per cent*). The NPRES increased from Rs.930.62 crore in 2004-05 to Rs.943.98 crore (1.44 *per cent*) in 2005-06. Although the growth rate of NPRES remained static during the years 2004-05 and 2005-06 under education, sports, arts and culture; health and family welfare; growth rate in agriculture and allied activities, transport, communication, irrigation decreased during 2005-06. The PRES increased from Rs.579.02 crore in 2004-05 to Rs.723.67 crore (24.98 *per cent*) in 2005-06. The increase in plan expenditure was due to the increase in PRES under education, sports, art and culture (Rs.1.15 crore); water supply, sanitation, housing and urban development (Rs.27.41 crore); social welfare and nutrition (Rs.64.28 crore); agriculture and allied activities (Rs.40.95 crore) and irrigation and flood control (Rs.10.42 crore). The buoyancy ratio of revenue expenditure with GSDP decreased from 1.802 in 2000-01 to 1.240 in 2005-06 with large inter-year variations.

1.5.4 Committed Expenditure

Expenditure on Salaries and Wages

Table 1.9: Expenditure on salaries

	(Rupees in crore)					
Heads	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Expenditure on Salaries & Wages	396.89	433.75	445.73	505.09	549.67	575.43
Non-Plan Head	NA	309.77	327.03	370.03	398.24	420.91
Plan Head*	NA	123.98	118.70	135.06	151.43	154.52
As a per cent of GSDP	22.25	22.40	22.71	22.33	22.36	21.59
As a per cent of RR	41.28	40.08	40.22	32.04	36.60	31.11

* Plan Head also includes the salaries and wages paid under centrally sponsored schemes.

Salaries accounted for 21.59 *per cent* of GSDP and 31.11 *per cent* of revenue receipts in the State during 2005-06. The salary expenditure under non-plan increased by 4.69 *per cent* over the previous year. Expenditure of Rs.575.43 crore on salaries during 2005-06 was less by Rs.38.57 crore (6.28 *per cent*) than assessed (Rs.614 crore) by the State Government in its FCP. While the norm stipulated by the TFC was that the total salary bill relative to revenue expenditure, net of interest payments and pensions should not exceed 35 *per cent*, the share of salary bill in the State is estimated to be 40 *per cent* requiring attention of the Government to move towards the norm prescribed by TFC.

Pension Payments

Table 1.10: Expenditure on Pensions

(Rupees in crore)

Heads	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Expenditure on Pensions	47.50	54.16	60.13	65.93	70.34	70.75
As per cent of GSDP	2.66	2.79	3.06	2.91	2.86	2.65
As per cent of RR	4.94	4.99	5.43	4.18	4.68	3.83

Sources: Information furnished by AG (A&E)

Pension payments have increased from Rs.47.50 crore in 2000-01 to Rs.70.75 crore in 2005-06 (48.95 per cent). Pension payments during 2005-06 constituted 3 per cent of GSDP and 4 per cent of revenue receipts. Pension payment during 2005-06 have increased marginally by Rs.0.41 crore relative to 2004-05. However, it was Rs.0.34 crore less as compared to the FCP for the year 2005-06.

Interest payments

Interest payments, their ratio to revenue receipts and revenue expenditure during the period 2000-06 are detailed in *Table 1.11*.

Table 1.11: Interest payments

Year	Revenue Receipts	Interest payments	Percentage of interest payments with reference to	
			Revenue Receipts	Revenue Expenditure
(Rupees in crore)				
2000-2001	961.41	120.68	12.55	12.32
2001-2002	1085.30	108.99	10.04	10.59
2002-2003	1108.29	125.40	11.31	12.16
2003-2004	1576.36	141.92	9.00	10.20
2004-2005	1501.84	146.90	9.78	9.76
2005-2006	1849.41	156.45	8.46	9.38

Interest payments increased by 29.64 per cent from Rs.120.68 crore in 2000-01 to Rs.156.45 crore in 2005-06 primarily due to ever increasing borrowings. The interest payments during 2005-06 were on internal debt (Rs.45.75 crore), loans received from the Central Government (Rs.71.67 crore) and small savings, provident fund, etc. (Rs.36.99 crore).

The major sources of borrowings of the State Government were (i) Loans from the Centre, (ii) Loans from Market, (iii) Loans from Banks and Financial institutions and (iv) Loans from Small Savings and Provident Fund.

Subsidies

Table 1.12: Subsidies

Year	Amount (Rupees in crore)	Percentage of increase (+)/decrease (-) over previous year	Percentage of subsidy in total expenditure
2000-2001	19.94	--	--
2001-2002	21.57	(-)7.56	1.61
2002-2003	22.00	(+)1.99	1.66
2003-2004	30.96	(+)40.73	1.69
2004-2005	19.37	(-)37.44	1.02
2005-2006	19.85	(+)2.48	0.94

Sources: Information furnished by the Finance Department, Government of Arunachal Pradesh

During the current year, subsidies constituted 0.94 per cent of the total expenditure indicating a decrease of Rs.0.09 crore during the period 2000-06.

1.6 Expenditure by allocative priorities

1.6.1 Quality of expenditure

The availability of better social and physical infrastructure in the State reflects its quality of expenditure. Therefore, ratio of capital expenditure to total expenditure as well as to GSDP and proportion of revenue expenditure being spent on running efficiently and effectively the existing social and economic services would determine the quality of expenditure. Higher the ratio of these components to total expenditure and GSDP, better is the quality of expenditure. *Table 1.13* gives these ratios during 2000-06.

Table 1.13: Indicators of Quality of Expenditure

	(Rupees in crore)					
	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Capital Expenditure	264.25	301.51	290.06	433.35	375.07	437.61
Revenue Expenditure	979.62	1029.55	1031.37	1391.90	1509.64	1667.65
<i>Of which</i>						
Social and Economic Services with	647.58	692.22	666.81	953.70	1020.62	1178.92
(i) Salary & Wage Component	NA	267.53 (38.65)	277.42 (41.60)	312.77 (32.80)	327.60 (32.10)	350.17 (29.70)
(ii) Non-Salary & Wage Component	NA	424.69 (61.35)	389.39 (58.40)	640.93 (67.20)	693.02 (77.99)	828.75 (70.30)
As per cent of Total Expenditure^(a)						
Capital Expenditure	21.24	22.65	21.95	23.74	19.90	20.79
Revenue Expenditure	78.76	77.35	78.05	76.26	80.10	79.27
As per cent of GSDP						
Capital Expenditure	14.82	15.52	14.77	19.15	15.25	16.42
Revenue Expenditure	54.92	53.02	52.54	61.52	61.41	62.56

(a) Total expenditure excludes Loans and Advances

The share of revenue and capital expenditure in total expenditure remained almost stable at 79 per cent and 21 per cent respectively during the period 2000-06. However, within the revenue expenditure incurred on social and economic services, the share of salary component has declined from 38.65 per cent to 29.70 per cent during the period with inter-year variations, while that of non-salary component has increased from 61.35 per cent to 70 per cent during the period 2001-06. This indicates that the State is gradually picking up momentum in creating productive assets and developing social and economic infrastructure.

1.6.2 Expenditure on Social Services

Given the fact that the human development indicators such as access to basic education, health services and drinking water and sanitation facilities, etc., have a strong linkage with eradication of poverty and economic progress, it would be prudent to make an assessment with regard to the expansion and efficient provision of these services in the State. **Table 1.14** summaries the expenditure incurred by the State Government in expanding and strengthening of social services in the State during 2000-06.

Table 1.14: Expenditure on Social Services

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
(Rupees in crore)						
Education, Sports, Art and Culture						
Revenue Expenditure	142.88	164.87	154.15	182.88	204.34	216.07
<i>Of which</i>						
<i>(a) Salary & Wage Component</i>	NA	118.88	120.29	134.51	137.51	148.42
<i>(b) Non-Salary & Wage component</i>	NA	45.99	33.86	48.37	66.83	67.65
Capital Expenditure	10.46	18.34	11.44	15.78	19.58	24.34
Total	153.34	183.21	165.59	198.66	223.92	240.41
Health and Family Welfare						
Revenue Expenditure	57.08	61.77	58.72	67.51	77.07	70.83
<i>Of which</i>						
<i>(a) Salary & Wage Component</i>	NA	44.26	47.43	52.11	56.25	60.46
<i>(b) Non-Salary & Wage component</i>	NA	17.51	11.29	15.40	20.82	10.37
Capital Expenditure	6.27	5.90	4.09	8.77	16.93	5.09
Total	63.35	67.67	62.81	76.28	94.00	75.92
Water Supply, Sanitation, Housing and Urban Development						
Revenue Expenditure	54.22	62.20	60.67	86.95	124.19	153.26
<i>Of which</i>						
<i>(a) Salary & Wage Component</i>	NA	7.78	8.15	8.79	9.27	10.13
<i>(b) Non-Salary & Wage component</i>	NA	54.42	52.52	78.16	114.92	143.13
Capital Expenditure	25.42	21.20	21.79	19.61	29.55	44.80
Total	79.64	83.40	82.46	106.56	153.74	198.06
Other Social Services						
Revenue Expenditure	44.42	53.66	54.22	95.94	67.07	130.89
<i>Of which</i>						
<i>(a) Salary & Wage Component</i>	NA	1.58	1.67	2.18	2.50	1.70
<i>(b) Non-Salary & Wage component</i>	NA	52.08	52.77	93.76	64.57	129.19

(Rupees in crore)						
	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Capital Expenditure	0.74	6.17	1.32	13.43	5.83	15.98
Total	45.16	69.83	55.54	109.37	72.90	146.87
Total (Social Services)						
Revenue Expenditure	298.60	342.50	327.76	433.28	472.67	571.05
<i>Of which</i>						
(a) Salary & Wage Component	NA	172.50	177.54	197.59	205.53	220.71
(b) Non-Salary & Wage component	NA	170.00	150.22	235.69	267.14	350.34
Capital Expenditure	42.89	51.61	38.64	57.59	71.89	90.21
Grand Total	341.49	394.11	366.40	490.87	544.56	661.26

The expenditure on social services increased from Rs.341.49 crore in 2000-01 to Rs.661.26 crore in 2005-06 and it constituted 31.41 *per cent* of the total revenue and capital expenditure (Rs.2105.26 crore) during 2005-06. Expenditure on education, health services and drinking water and sanitation facilities etc., comprised 78 *per cent* of the total social sector expenditure during 2005-06.

The trend in revenue and capital expenditure on social services during the period 2000-06 reveals that the share of capital expenditure remained within the range of 10.57 to 13.64 *per cent* which indicates that revenue expenditure constituted a dominant share of the total expenditure incurred on social services. Within the revenue expenditure, salary and wage component and non-salary component constituted 38.65 *per cent* and 61.35 *per cent* respectively during the period 2005-06.

As regards the priority sectors of education and health services, though the expenditure (revenue and capital) under general education during 2005-06 increased by 7.36 *per cent* from Rs.223.92 crore in 2004-05 to Rs.240.41 crore in 2005-06, expenditure under health sector declined by 19.23 *per cent* indicating a deterioration in provision of health services.

1.6.3 Expenditure on Economic Services

The expenditure on economic services includes all such expenditures as to promote directly or indirectly, productive capacity within the State's economy. The expenditure on economic services (Rs.939.20 crore) accounted for 44.61 *per cent* of the total expenditure (**Table 1.15**). Of this, agriculture and allied activities, irrigation and flood control, energy and transport consumed nearly 71.47 *per cent* of the expenditure.

Table 1.15: Expenditure on Economic Services

(Rupees in crore)						
	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Agriculture, Allied Activities						
Revenue Expenditure	141.76	144.50	135.83	208.40	179.55	204.44
<i>Of which</i>						
(a) Salary & Wage Component	NA	67.58	71.83	78.86	85.77	90.31
(b) Non-Salary & Wage component	NA	76.92	64.00	129.54	93.78	114.13
Capital Expenditure	3.15	5.69	5.18	6.40	4.84	22.55

(Rupees in crore)

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Total	144.91	150.19	141.01	214.80	184.39	226.99
Irrigation and Flood Control						
Revenue Expenditure	46.34	43.18	45.49	59.57	39.43	45.25
<i>Of which</i>						
(a) <i>Salary & Wage Component</i>	NA	7.67	8.00	9.77	10.23	10.84
(b) <i>Non-Salary & Wage component</i>	NA	35.51	37.49	49.80	29.20	34.41
Capital Expenditure	6.28	5.47	4.92	17.65	3.86	5.87
Total	52.62	48.65	50.41	77.22	43.29	51.12
Power & Energy						
Revenue Expenditure	20.16	16.37	14.33	25.00	105.55	103.23
<i>Of which</i>						
(a) <i>Salary & Wage Component</i>	NA	7.64	7.96	8.78	9.14	10.34
(b) <i>Non-Salary & Wage component</i>	NA	8.73	6.37	16.22	96.41	92.89
Capital Expenditure	86.92	91.67	112.63	170.36	149.41	124.09
Total	107.08	108.04	126.96	195.36	254.96	227.32
Transport						
Revenue Expenditure	46.83	45.43	43.01	81.76	58.58	70.29
<i>Of which</i>						
(a) <i>Salary & Wage Component</i>	NA	11.17	10.93	16.47	15.62	16.61
(b) <i>Non-Salary & Wage component</i>	NA	34.26	32.08	65.29	42.96	54.13
Capital Expenditure	94.03	98.81	74.64	106.91	85.92	95.48
Total	140.86	144.24	117.65	188.67	144.50	165.77
Other, Economic Services						
Revenue Expenditure	93.89	100.24	100.39	145.69	164.84	184.66
<i>Of which</i>						
(a) <i>Salary & Wage Component</i>	NA	0.97	1.16	1.30	1.31	1.36
(b) <i>Non-Salary & Wage component</i>	NA	99.27	99.23	144.39	165.53	183.30
Capital Expenditure	15.10	26.14	35.95	59.36	44.62	83.34
Total	108.99	126.38	136.35	205.05	209.46	268.00
Total (Economic Services)						
Revenue Expenditure	348.98	349.72	339.05	520.42	547.95	607.87
<i>Of which</i>						
(a) <i>Salary & Wage Component</i>	NA	95.03	99.88	115.18	122.07	129.46
(b) <i>Non-Salary & Wage component</i>	NA	254.69	239.17	405.24	425.88	478.41
Capital Expenditure	205.48	227.78	233.23	360.68	288.65	331.33
Grand Total	554.46	577.50	572.37	881.10	836.60	939.20

The trends in revenue and capital expenditure of economic services during the period 2000-06 showed inter-year fluctuations. While revenue expenditure during 2005-06 increased by Rs.59.92 crore over the previous year, the capital expenditure increased by Rs.42.68 crore compared to 2004-05. Of the revenue expenditure, the expenditure on salary and wages has moderately increased from Rs.122.07 crore in 2004-05 to Rs.129.46 crore in 2005-06 (6.05 per cent) while its non-salary component has increased from Rs.425.88 crore in 2004-05 to Rs.478.41 crore in 2005-06 (12.33 per cent of the revenue expenditure under economic services) indicating allocative priorities towards better quality and maintenance.

1.6.4 Financial Assistance to local bodies and other institutions

The quantum of assistance provided by way of grants and loans to local bodies and others during the five year period 2000-06 is presented in **Table 1.16**.

Table 1.16: Financial Assistance

	(Rupees in crore)					
	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Universities and Educational Institutions	3.79	8.01	10.12	15.89	24.43	16.49
Cultural Institutions/voluntary organizations for promotion of Art and Culture	0.46	0.27	0.12	0.21	0.09	5.21
State Institute of Rural Development	2.22	0.15	8.46	16.03	0.85	24.36
Social Welfare	0.42	0.90	0.50	0.46	0.70	0.15
Warehousing Corporations	-	-	0.77	4.77	-	4.94
Co-operation	-	0.36	-	-	-	--
Zila Parishads/Village Panchayats etc.	-	-	-	-	0.48	--
Others Institutions	1.28	0.77	2.43	27.42	15.04	15.79
Total	8.17	10.46	22.40	64.78	41.59	66.95
Percentage of increase (+)/decrease (-) over previous year	(-) 40.97	28.03	114.15	189.20	(-) 35.80	(+) 60.95
Assistance as a percentage of revenue expenditure	0.83	1.02	2.17	4.65	2.75	4.02

Source: Information furnished by the AG (A&E)

During 2005-06 financial assistance of Rs.66.94 crore was paid to various institutions as compared to Rs.8.17 crore paid in 2000-01. The total assistance during 2005-06 had gone up by 719 *per cent* over the level of 2000-01. The assistance to institutions as a percentage of revenue expenditure had increased from 0.83 *per cent* in 2000-01 to 4.02 *per cent* in 2005-06. The assistance to institutions during 2005-06 had increased by 61 *per cent* compared to previous year due to an increase of Rs.5.12 crore in assistance to cultural institutes and to State Institute of Rural Development by Rs.23.51 crore.

1.6.6 Non-submission of accounts

In order to identify the institutions which attract audit under Sections 14 and 15 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 (DPC Act), the Government/Heads of the Department are required to furnish to Audit every year detailed information about the financial assistance given to various institutions, the purpose of assistance granted and the total expenditure of the institutions. Information for the year 2005-06 was called for in May 2006 from 19 institutions, but the reply was awaited from 13 institutions as of November 2006.

1.6.7 Abstract of performance of the autonomous bodies

The audit of accounts of the North Eastern Regional Institute of Science and Technology (NERIST) in the State has been entrusted to the Comptroller and Auditor General of India under section 20(i) of CAG's (DPC) Act, 1971 upto

the year 2006-07. The status of rendering of accounts to audit, issuance of Separate Audit Report and its placement in the Legislature is indicated below:

Table: 1.17

Name of Body	Year upto which accounts due	Year upto which accounts submitted	Year upto which audit report issued	Year upto which audit report placed before Parliament
North Eastern Regional Institute of Science and Technology ² (NERIST), Nirjuli	2005-06	2005-06	2004-05	Upto 2001-02. Information regarding placement of Report for the years 2002-03, 2003-04 and 2004-05 are awaited from the Ministry

1.6.8 Misappropriations, losses, defalcations, etc

State Government reported 38 cases of misappropriation, defalcation, etc involving Government money amounting to Rs.896.13 crore upto the period June 2006 on which final action was pending. The department-wise break up of pending cases is given in **Appendix – VI**.

1.7 Assets and liabilities

In Government accounting system, comprehensive accounting of fixed assets like land and buildings owned by the Government is not done. However, Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred. **Appendix – II** gives an abstract of such liabilities and the assets as on 31 March 2006, compared with the corresponding position as on 31 March 2005. 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 capital outlay and loans and advances given by the State Government and cash balances. **Appendix – V** depicts the time series data on State Government finances for the period 2000-06.

1.7.1 Incomplete projects

As per information contained in Appendix II of Finance Accounts, the State Government incurred Rs.26.64 crore as of 31 March 2006 on 345 incomplete projects. The projects remained incomplete for paucity of funds.

1.7.2 Investments and returns

As of 31 March 2006, Government had invested Rs.27.77 crore in Statutory Corporations, Rural Banks, Joint Stock Companies and Co-operatives (**Table 1.18**). The return on this investment was nil in the last three years while

² Audit of Institution has been entrusted to Comptroller and Auditor General of India from 2002-03 to 2006-07.

the Government paid interest at the average rate of 7.60 to 14.01 *per cent* on its borrowings during 2000-06.

Table 1.18: Return on Investment

Year	Investment at the end of the year	Return	Percentage of return	Average rate of interest on government borrowing	Difference between interest rate and return
	(Rupees in crore)			(per cent)	
2000-01	12.71	0.0001	0.00	14.01	14.01
2001-02	15.24	0.0034	0.02	10.68	10.66
2002-03	16.08	0.0028	0.02	10.81	10.79
2003-04	16.13	0.00	0.00	10.32	10.32
2004-05	16.23	0.00	0.00	8.90	8.90
2005-06	27.77	0.00	0.00	7.60	7.60

The increase in investment during 2005-06 was due to investment of Rs.10.53 crore in Arunachal Pradesh Co-operative Apex Bank Ltd., during 2005-06.

1.7.3 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. Total outstanding loans and advances as on 31 March 2006 was Rs.25.47 crore (**Table 1.19**). Interest received against these loans advanced was 1.56 *per cent* during 2005-06 as against 2.14 *per cent* in previous year.

During the year 2005-06, loan and advances of Rs.3.68 crore was disbursed to various institutions (Rs.2.88 crore) and government servants (Rs.0.80 crore). Out of Rs.0.39 crore, interest received from government servants was Rs.0.30 crore and the balance of Rs.0.09 crore was received from other institutions.

Table 1.19: Average interest received on loans advanced by the State Government

	(Rupees in crore)					
	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Opening balance	15.17	16.31	19.35	20.09	21.25	24.61
Amount advanced during the year	2.74	4.90	2.98	3.50	5.97	3.68
Amount repaid during the year	1.60	1.86	2.24	2.35	2.61	2.82
Closing balance	16.31	19.35	20.09	21.25	24.61	25.47
Net addition	1.14	3.04	0.74	1.15	3.36	0.86
Interest received	0.00	0.69	0.33	0.35	0.49	0.39
Interest received as <i>per cent</i> to outstanding Loans & Advances	0.0006	3.87	1.67	1.69	2.14	1.56
Weighted interest rate (<i>per cent</i>) paid on borrowing by State Government	14.01	10.68	10.81	10.32	8.90	7.60
Difference between weighted interest rate paid and received (<i>per cent</i>)	14.004	6.81	9.13	8.62	6.76	6.04

1.7.4 Management of cash balances

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 RBI has been put in place. The operative limit for Normal Ways and Means Advances is reckoned as the three year average of revenue receipts and the operative limit for Special Ways and Means Advances is fixed by RBI from time to time depending on the holding of Government securities. Ways and Means Advances and Overdrafts availed, the number of occasions these were availed and interest paid by the State is detailed in *Table 1.20*.

Table 1.20: Ways and Means and Overdrafts of the State

	(Rupees in crore)					
	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Ways and Means Advances						
Availed in the year	13.36	14.73	27.39	--	146.65	42.20
Outstanding WMAs, if any	--	--	--	--	55.40	88.70
Interest paid	--	.03	.04	--	0.24	0.21
Number of days	01	05	28	--	74	59
Overdraft						
Availed in the year	--	--	--	--	45.22	201.50
Number of days	--	--	--	--	6	35
Interest paid	--	--	--	--	40.91	0.90

1.8 Undischarged liabilities

1.8.1 Fiscal Liabilities - Public Debt and Guarantees

There are two sets of liabilities namely, public debt and other liabilities. Public debt consists of internal debt of the State and is reported in the Annual Financial Statements under the Consolidated Fund - Capital Accounts. It includes market loans, special securities issued by RBI and loans and advances from the Central Government. The Constitution of India provides that a State may borrow, within the territory of India, upon the security of its Consolidated Fund, within such limits, as may from time to time, be fixed by the Act of its Legislature and give guarantees within such limits as may be fixed. Other liabilities, which are a part of public account, include deposits under small savings scheme, provident funds and other deposits.

Table 1.21 gives the fiscal liabilities of the State, its rate of growth, ratio of these liabilities to GSDP, to revenue receipts and to own resources as also the buoyancy of fiscal liabilities with respect to these parameters.

Table 1.21: Fiscal Liabilities- Basic Parameters

(Rupees in crore)

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Fiscal Liabilities (Rupees in crore)	945.66	1094.49	1226.53	1524.81	1777.54	2337.20
Rate of Growth (<i>per cent</i>)	21.70	15.74	12.06	24.32	16.57	31.49
Ratio of Fiscal Liabilities to						
GSDP (<i>per cent</i>)	53.02	56.37	62.49	67.40	72.31	87.68
Revenue Receipts (<i>per cent</i>)	98.36	100.85	110.67	96.73	118.36	126.38
Own resources (<i>per cent</i>)	1122.05	1075.14	1080.07	928.06	806.84	883.80
Buoyancy of Fiscal Liabilities to						
GSDP (ratio)	2.301	1.773	13.243	1.022	1.914	3.730
Revenue Receipts (ratio)	(-) 4.607	1.246	6.684	0.576	(-) 3.506	1.360
Own resources (ratio)	5.179	0.757	1.361	0.456	0.486	1.571

Overall fiscal liabilities of the State increased from Rs.945.66 crore in 2000-01 to Rs.2337.20 crore in 2005-06. The growth rate was 31.49 *per cent* during 2005-06 over the previous year. The ratio of fiscal liabilities to GSDP also increased from 53.02 *per cent* in 2000-01 to nearly 87.68 *per cent* in 2005-06. These liabilities stood at 1.263 times the revenue receipts and 37.642 times of the State's own resources at the end of 2005-06. The fiscal liabilities had grown faster than the State's GSDP. The buoyancy of these liabilities with respect to GSDP during the year indicates that for each one *per cent* increase in GSDP, fiscal liabilities grew by 3.730 *per cent*.

1.8.2 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 Statement-6 of the Finance Accounts, the maximum amount for which guarantees were given by the State and outstanding guarantees at the end of year since 2000-01 is given in **Table 1.22**.

Table 1.22: Guarantees given by the Government of A.P.

(Rupees in crore)

Year	Max amount guaranteed	Outstanding amount of guarantees	Percentage of maximum amount guaranteed to total revenue receipts
2000-01	2.00	0.55	0.20
2001-02	--	--	--
2002-03	--	--	--
2003-04	27.34	20.36	1.73
2004-05	14.00	7.96	0.93
2005-06	24.00	5.56	1.29

Government had guaranteed loans raised by various corporations and others, which at the end of 2005-06 stood at Rs.5.56 crore which were 1.29 *per cent* of revenue receipts. No law under Article 293 of the constitution had been passed by the State Legislature laying down the maximum limit within which Government may give guarantees on the security of the Consolidated Fund of

the State. The APFRBM Act also did not indicate any limit for the purpose. The State Government is yet to implement the recommendations of the TFC by setting up a guarantee redemption fund through earmarked guarantee fees.

1.8.3 Debt Sustainability

Debt sustainability is defined as the ability to maintain a constant debt-GDP ratio over a period of time. In simple terms, public debt is considered sustainable as long as the rate of growth of income exceeds the interest rate or cost of public borrowings subject to the condition that the primary balance is either positive or zero. Given the rate spread (GSDP growth rate - interest rate) and quantum spread (Debt* rate spread), debt sustainability condition states that if quantum spread together with primary deficit is zero, debt-GDP ratio would be constant or sustainable. On the other hand, if PD is greater than QS, debt-GDP ratio would be rising and if PD is less than QS, it would be falling. Fiscal liabilities are considered sustainable if the average interest paid on these liabilities is lower than the rate of growth of GSDP. However, in the case of Arunachal Pradesh, the average interest rate of fiscal liabilities being 10.39 per cent, was more than the average rate of growth of GSDP by 1.76 per cent.

Table 1.23: Debt Sustainability-Interest Rate and GSDP Growth

(in per cent)

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Weighted Interest Rate	14.01	10.68	10.81	10.32	8.90	7.60
GSDP Growth	9.43	8.88	1.07	15.27	8.66	8.44
Outstanding debt	945.66	1049.49	1226.53	1524.81	1777.54	2337.20
Interest Spread	(-) 4.58	(-) 1.80	(-) 9.74	4.95	(-) 0.24	0.84
Quantum Spread (Rs. in crore)	(-) 43.31	(-) 19.70	(-) 119.46	75.48	(-) 4.27	(+) 19.63
Primary Deficit (Rs. in crore)	(-) 162.92	(-) 139.81	(-) 88.48	(-) 108.12	(-) 239.33	(-) 100.26

The trends in **Table 1.23** reveal that in four out of six years during 2000-06, the interest spread was negative. The year 2005-06, however, experienced a positive interest spread against a negative figure during previous year mainly due to sharp decline in weighted interest rate during the year. The weighted interest rate declined in the current year to 7.60 per cent from 8.90 per cent during previous year despite increase in the fiscal liabilities due to the fact that most of the increase in the fiscal liabilities did not involve any payment of interest during the current year. An analysis of the primary deficit *vis-à-vis* quantum spread reveals that their sum turns out to be negative in six years during 2000-06 indicating rising debt-GSDP ratio and deteriorating debt position of the state.

1.8.4 Net Availability of Funds

Another important indicator of debt sustainability is the net availability of funds after the payment of the principal on account of earlier contracted liabilities and interest.

Table 1.24 below gives the position of the receipt and repayment of internal debt and other fiscal liabilities of the State over the last five years.

Table 1.24: Net availability of Borrowed Funds

(Rupees in crore)

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Internal Debt						
Receipts	73.00	85.85	103.45	189.79	239.72	589.17
Repayment (Principal + Interest)	38.39	53.65	75.99	66.99	175.44	159.97
Net fund available	34.61	32.20	27.46	122.80	64.28	429.20
Net fund available (<i>per cent</i>)	47.41	37.51	26.54	64.70	26.81	72.85
Loans & Advances from GOI						
Receipts	56.50	68.87	67.02	116.19	71.14	203.24
Repayment (Principal + Interest)	64.77	74.89	88.47	251.88	87.78	286.34
Net Fund available	(-) 8.27	(-) 6.02	(-) 21.45	(-) 135.69	(-) 16.64	(-) 83.10
Net Fund available (<i>per cent</i>)	(-) 14.64	(-) 8.74	(-) 32.01	(-) 116.78	(-) 23.39	(-) 40.89
Other obligations						
Receipts	145.63	136.71	220.73	317.88	210.57	248.48
Repayment (Principal + Interest)	124.02	123.05	180.08	188.65	152.39	191.38
Net Fund available	21.61	13.66	40.65	129.23	58.18	57.10
Net Fund available (<i>per cent</i>)	14.84	9.99	18.42	40.65	27.63	22.98
Total Liabilities						
Receipts	275.13	291.43	391.20	623.86	521.43	1040.89
Repayment (Principal + Interest)	227.18	251.59	344.54	507.52	415.61	637.69
Net Fund available	47.95	39.84	46.66	116.34	105.82	403.20
Net Fund available (<i>per cent</i>)	17.43	13.67	11.93	18.65	20.29	38.74

During 2005-06, the net fund availability was 38.74 *per cent* as against the debt receipt Rs.1040.89 crore. Government used Rs.637.69 crore on repayment of principal and interest on debt. Availability of funds under internal debt increased from a level of 47.41 *per cent* in 2000-01 to 72.85 *per cent* in 2005-06. Loans and advances received from GOI have been increased from Rs.56.50 crore in 2000-01 to Rs.203.24 crore in 2005-06 (259.72 *per cent*). Interest on previous loans formed the major part of repayment of Rs.286.34 crore which resulted in negative net availability of funds from loan from GOI in 2005-06.

1.9 Management of deficits

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 the resources raised are applied are important pointers to its fiscal health. The revenue deficit of the State indicates the excess of its revenue expenditure over its revenue receipts. There was revenue surplus of Rs.181.76 crore in 2005-06 against the revenue deficit of Rs.7.80 crore in the previous year. An increase of 23.14 *per cent* (Rs.347.57 crore) in revenue

receipts during 2005-06 largely on account of Central transfers relative to 10.47 *per cent* (Rs.158.01 crore) in revenue expenditure resulted in an increase of revenue surplus during 2005-06.

Fiscal deficit, which represents the total borrowings of the Government and its total resource gap, has indicated an improvement of Rs.129.52 crore during the current year. Despite an increase of Rs.62.54 crore in capital expenditure, the improvement in fiscal deficit was largely on account of a revenue surplus of Rs.189.56 crore during 2005-06 over the previous year. The huge revenue surplus during the year has also improved the primary deficit by Rs.139.07 crore although interest payments have increased only marginally by Rs.9.55 crore during 2005-06 over the previous year as indicated in *Table 1.25*.

Table 1.25: Fiscal Imbalances: Basic Parameters

Parameters	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Revenue deficit/Revenue surplus (RD/RS (Rupees in crore))	(-) 18.21	(+) 55.75	(+) 76.92	(+) 184.46	(-) 7.80	(+) 181.76
Fiscal deficit (Rupees in crore)	(-) 283.60	(-) 248.80	(-) 123.88	(-) 250.04	(-) 386.23	(-) 256.71
Primary deficit (Rupees in crore)	(-) 162.92	(-) 139.81	(-) 88.48	(-) 108.12	(-) 239.33	(-) 100.26
RD/GSDP (<i>per cent</i>)	(-) 1.02	(+) 2.87	(+) 3.92	(+) 8.15	(-) 0.32	(+) 6.82
FD/GSDP (<i>per cent</i>)	(-) 15.90	(-) 12.81	(-) 10.90	(-) 11.05	(-) 15.71	(-) 9.63
PD/GSDP (<i>per cent</i>)	(-) 9.14	(-) 7.20	(-) 4.51	(-) 4.78	(-) 9.74	(-) 3.76
RD/FD (<i>per cent</i>)	6.42	(-) 22.41	(-) 35.96	(-) 73.77	(+) 2.02	(-) 70.80

1.10 Fiscal ratios

The finances of a State should be sustainable, flexible and non-vulnerable. *Table 1.26* below presents a summarised position of Government finances over 2000-05, with reference to certain key indicators that help assess the adequacy and effectiveness of available resources and their applications, and highlights areas of concern and captures its important facts.

Table 1.26: Indicators of fiscal health (in *per cent*)

Fiscal Indicators	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
I. Resource Mobilisation						
Revenue Receipts/GSDP	53.91	55.89	56.47	69.68	61.10	69.38
Revenue Buoyancy	(-) 0.499	1.451	1.971	2.766	(-) 0.546	2.742
Own Tax/GSDP	1.16	1.59	1.90	1.93	2.04	2.32
II. Expenditure Management						
Total Expenditure/GSDP	69.90	68.80	67.48	80.84	76.91	79.11
Total Expenditure/Revenue Receipts	129.66	123.10	119.50	116.01	125.89	114.03
Revenue Expenditure/Total Expenditure	78.58	77.06	77.87	76.11	79.85	79.07
Salary & Wage expenditure on Social and Economic Services/Revenue Expenditure	NA	25.99	26.41	22.47	21.71	20.99
Non-Salary & Wage expenditure on Social and Economic Services/Revenue Expenditure	NA	41.25	37.75	46.05	45.91	49.70
Capital Expenditure/Total Expenditure	21.19	22.56	21.90	23.69	19.83	20.75
Capital Expenditure on Social and Economic Services/Total Expenditure	19.92	20.92	20.53	22.87	19.06	19.99

Fiscal Indicators	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Buoyancy of TE with RR	(-) 2.851	0.556	(-) 0.408	0.902	(-) 0.716	0.499
Buoyancy of RE with RR	(-) 3.607	0.396	0.083	0.828	(-) 1.789	0.452
III. Management of Fiscal Imbalances						
Revenue Deficit/Surplus (RD/RS) (Rupees in crore)	(-) 18.21	(+ 55.75)	(+ 76.92)	(+ 184.96)	(-) 7.80	(+ 181.76)
Fiscal Deficit (Rupees in crore)	283.60	248.80	213.88	250.04	386.23	256.71
Primary Deficit (Rupees in crore)	162.92	139.81	88.48	108.12	239.33	100.26
(RD/RS)/Fiscal Deficit	(+ 6.42)	(-) 22.41	(-) 35.96	(-) 73.77	(+ 2.02)	(-) 70.80
IV. Management of Fiscal Liabilities						
Fiscal Liabilities/GSDP	53.02	56.37	62.49	67.40	72.31	87.68
Fiscal Liabilities/RR	98.36	100.85	110.67	96.73	118.36	126.38
Buoyancy of FL with RR	(-) 4.607	1.246	6.684	0.576	(-) 3.506	1.360
Buoyancy of FL with Own Receipt	5.179	0.757	1.361	0.456	0.486	1.571
Primary Deficit <i>vis-a-vis</i> Quantum Spread (Rupees in crore)	(-) 206.23	(-) 159.51	(-) 207.94	(-) 32.64	(-) 243.60	(-) 80.63
Net Funds available (<i>per cent</i>)	17.43	13.67	11.93	18.65	20.29	38.74
V. Other Fiscal Health Indicators						
Return on Investment	0.00	0.02	0.02	0.00	0.00	0.00
Balance from Current Revenue (Rupees in crore)	(-) 238.74	(-) 135.58	(-) 131.33	(-) 209.87	(-) 211.31	(-) 7.81
Financial Assets/Liabilities	3.16	2.76	2.46	2.50	2.27	2.09

The ratio of revenue receipts to GSDP and the ratio of own taxes to GSDP showed rising trend respectively during 2000-06. Various ratios concerning expenditure indicate the quality of expenditure and sustainability in relation to resources. Revenue expenditure is on the rise over the six year period 2000-06 and comprises 79.08 *per cent* of total expenditure in 2005-06 leaving little scope for capital formation or asset creation.

1.11 Conclusion

The trends in key fiscal parameters – revenue deficit (RD), fiscal deficit (FD) and primary deficit (PD) – indicated substantial improvement in the fiscal position of the State during the year. However, given the fact that about 85 *per cent* of the State’s revenue receipts were contributed by Central transfers comprising State’s share in Union pool of taxes and duties and grants-in-aid, the improvement in the fiscal position during the year was essentially on account of an increase of Rs.303.43 crore in Central transfers. This indicates a reliance of the State on Central transfers and also a position towards making the efforts to improve the resource mobilisation through domestic sources consisting of tax revenue and non-tax revenue sources. The consistent increase in fiscal liabilities of the State accompanied by negative quantum spread (QS) together with continuous primary deficit resulted in ever increasing debt/GSDP ratio and indicates towards vulnerable debt position of the State. The compression of NPRES alongwith raising the buoyancy of domestic resources seem to be an inevitable option to address the fiscal problem and other development requirements of the State in medium to long run.