

CHAPTER-I

FINANCES OF THE STATE GOVERNMENT

Summary

Revenue receipts (Rs 17837 crore) during 2005-06 showed an increase of 14 per cent as against 21 per cent increase in revenue expenditure (Rs 17756 crore) over the previous year, although percentage of own resources of State Government in revenue receipts declined from 27 per cent (2001-02) to 23 per cent in 2005-06. Central tax transfers & grants-in-aid contributed nearly 77 per cent of the revenue receipts. Grants-in-aid from the Central Government increased by 19 per cent in 2005-06 over the previous year. The growth of Central Tax Transfers decreased from 20 per cent in 2004-05 to 14 per cent in 2005-06..

Among the sources of tax revenue, Sales Tax (49 per cent), Stamps and Registration Fees (14 per cent), State Excise (nine per cent) and Taxes on vehicles (eight per cent) were the principal contributors. Of non-tax revenue sources, non-ferrous/mining and metallurgical industries (19 per cent) and interest receipts (41 per cent) were principal contributors.

Overall expenditure of the State increased from Rs 16971 crore in 2004-05 to Rs 21588 crore in 2005-06 at a growth of 27 per cent. Revenue expenditure (Rs 17756 crore) constituted 82 per cent of total expenditure. The fiscal liabilities (Rs 46495 crore) increased during 2005-06 with a growth of nine per cent over previous year and stood at three times the revenue receipts.

Interest payments increased by five per cent from Rs 3474 crore in 2004-05 to Rs 3649 crore in 2005-06 primarily due to continued reliance on borrowings for financing the deficit.

Reduced revenue surplus along with increase in capital expenditure (Rs 2084 crore) in the current year resulted in increase of fiscal deficit. The fiscal deficit which represents the total borrowings of the Government and its total resource gap increased by 198 per cent. The positive balance from current revenue was mainly due to the increase in State share of Central taxes and non-plan grants-in-aid from Government of India. Reduction in revenue surplus in comparison to previous year was mainly due to increase in expenditure under Social and Economic Sector.

The ratio of fiscal liabilities to GSDP was 77 per cent and showed an increasing trend indicating unsustainability of the debt of the State together with rising debts / GSDP ratio.

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 Bihar 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 of the State of Bihar. 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 summarises the finances of the Government of Bihar for the year 2005-06 covering revenue receipts and expenditure, capital receipts and expenditure and public accounts receipts/disbursements as emerging from Statement-1 of Finance Accounts and other detailed statements.

Table-1: Summary of receipts and disbursements for the year 2005-06
(Rupees in crore)

2004-05	Receipts	2005-06	2004-05	Disbursements	2005-06		
Section-A: Revenue					Non Plan	Plan	Total
15714.14	Revenue receipts	17836.71	14638.41	Revenue expenditure	15020.05	2735.95	17756.00
3347.39	Tax revenue	3561.10	7803.48	General services	8107.38	415.41	8522.79
417.79	Non-tax revenue	522.30	4794.98	Social services	5450.16	1411.76	6861.92
9117.13	Share of Union Taxes/Duties	10420.59	2035.67	Economic services	1458.31	908.78	2367.09
2831.83	Grants from Government of India	3332.72	4.28	Grants-in-aid and Contributions	4.20		4.20
Section-B: Capital							
	Misc Capital Receipts		1204.52	Capital Expenditure	23.24	2060.66	2083.90
14.83	Recoveries of Loans and Advances	50.86	1127.84	Loans and Advances disbursed	1645.74	102.08	1747.82
7622.58	Public debt receipts*	3770.37	3083.72	Repayment of Public Debt*			980.76
	Contingency Fund			Contingency Fund			
4092.67	Public Account receipts	5694.52	5519.18	Public Account disbursements			4414.87
-352.08	Opening Cash Balance	1518.47	1518.47	Closing Cash Balance			1887.58
27092.14	Total	28870.92	27092.14	Total			28870.92

* Excluding Ways and Means Advances and Overdraft

Growth rate of revenue receipt during 2005-06 over the previous year was 14 *per cent* which was primarily due to 14 *per cent* increase in State share of Union Taxes and Duties and 18 *per cent* growth in the Grants-in-aid from Government of India. Revenue Receipt of the State increased by Rs 2123 crore of which share of Union Taxes (Rs 1303 crore) was the major contributor. Revenue Expenditure also increased by Rs 3118 crore of which increase in expenditure on Social Services (Rs 2067 crore), Economic Services (Rs 332 crore) and General Services (Rs 719 crore) were the major contributors.

1.1.2 The Fiscal Responsibility and Budget Management (FRBM) Ordinance, 2006

The Ordinance for Fiscal Responsibility and Budget Management (FRBM) was issued promulgated in February 2006, which (became Act in April 2006. The Ordinance envisaged that the) to provide for the responsibility of the State Government is responsible to ensure prudence in fiscal management and fiscal stability; and to enhance the scope for improving social and physical infrastructure and human development by progressive elimination of revenue deficit, reduction in fiscal deficit, prudent debt management consistent with fiscal sustainability, greater transparency in fiscal operation of the government and conduct of fiscal policy in a medium term framework.

To give effect to fiscal management objectives laid down in the Act, the State Government shall, *inter- alia*,

- (a) Beginning from financial year 2006-07 and in case there being revenue deficit, reduce revenue deficit/Gross State Domestic Product ratio every year by at least 0.1 *per cent* depending upon the economic situation, eliminate revenue deficit by 2008-09 and generate revenue surplus thereafter.

- (b) Beginning from financial year 2006-07 reduce fiscal deficit/Gross State Domestic Product ratio by at least 0.3 per cent per year, if it is more than 3three percent and to not more than 3 percent by 2008-09.

Provided that revenue deficit and fiscal deficit may exceed the limits specified under this section due to unforeseen circumstances arising out of internal disturbance or natural calamity or such other exceptional grounds as the State Government may specify,

Provided further that a statement in respect of the ground or grounds specified in the first proviso shall be placed before the House or Houses of the Legislature, as soon as may be after such deficit amount exceeds the aforesaid targets.

As per the fiscal management objectives laid down in the Act, the State Government should:

- Take appropriate measures to eliminate the revenue deficit by 2008-09
- Build up adequate revenue surplus and contain the fiscal deficit at three *per cent* of Gross State Domestic Product (GSDP) from 2008-09
- Utilize such surplus for discharging the liabilities in excess of the assets or for funding capital expenditure

In pursuance of the recommendation of the Twelfth Finance Commission (TFC) Government of India formulated scheme of "The State Debt Consolidation and Relief Facility (DCRF)" for the period 2005-06 to 2009-10 with condition that this facility will be available to the States from the year they enact the Fiscal Responsibility legislation. With the enactment of this Act, central loans amounting to Rs 7968.69 crore released up to 31.03.2004 was consolidated at interest rate of 7.50 *per cent* to be payable in 20 years.

Bihar has not got the debt waiver of Rs 1926 crore because one of the conditions for the debt write off was that fiscal deficit should be contained to the level of 2004-05. Against that target, the fiscal deficit in 2005-06 was Rs 3700 crore (6.10 per cent) and the plan size of Rs 8250 crore for 2006-07 as approved by Planning Commission envisaged FD- GSDP ratio of 6.20 *per cent*.

The State Government has requested Ministry of Finance to allow States to avail of debt waiver facility as long as they adhere to their fiscal target leading to FD / GSDP ratio of three *per cent* in 2008-09.

1.1.3 Fiscal Policy Statement(s) 2005-06

As the Ordinance for Fiscal Responsibility and Budget Management (FRBM) was promulgated passed in February 2006, contained instructions that State Government will submit statementthe Fiscal Policy Statements required to be laid before the legislature along with the Budget by the State government in accordance with the Ordinance were not laid s of fiscal policy along with Budget for 2005-06. . The Budget for 2005-06 was already passed before issuance of the Act.

1.1.4 Road map to achieve the fiscal targets as laid down in FRBM Act/Rules

The State Government has developed 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**). The achievement under outcome indicators is also indicated for 2004-05 and 2005-06.

1.2 Overview of Fiscal Situation of the State

1.2.1 Trends in Fiscal Aggregates

The fiscal position of the State Government during the current year as compared to the previous year is given in Table 2.

Table 2

(Rupees in crore)

2004-05	Sr. No.	Major Aggregates	2005-06
15714	1.	Revenue Receipts (2+3+4)	17837
3347	2.	Tax Revenue (Net)	3561
418	3.	Non-Tax Revenue	522
11949	4.	Other Receipts	13754
15	5.	Non-Debt Capital Receipts	51
15	6.	<i>Of which</i> Recovery of Loans	51
15729	7.	Total Receipts (1+5)	17888
13495	8.	Non-Plan Expenditure	16689
12642	9.	On Revenue Account	15020
3474	10.	<i>Of which</i> Interest Payments	3649
35	11.	On Capital Account	23
818	12.	On Loans disbursed	1646
3476	13.	Plan Expenditure	4899
1996	14.	On Revenue Account	2736
1170	15.	On Capital Account	2061
310	16.	On Loans disbursed	102
16971	17.	Total Expenditure (13+8)	21588
(+)1076	18.	Revenue Deficit (9+14-1)	(+)81
(-)1242	19.	Fiscal Deficit (17-1-5)	(-)3700
(+)2232	20.	Primary Deficit (19-10)	(-)51

Revenue surplus decreased from Rs 1076 crore in 2004-05 to Rs 81 crore in 2005-06 due to increase in Non-Plan expenditure (19 *per cent*) and Plan expenditure (37 *per cent*) on revenue account. Apart from a substantial decline in revenue surplus, increase in Fiscal Deficit (198 *per cent*) was mainly due to a little more than 24100 *per cent* increase in loans disbursements under non-plan expenditure and 7641 *per cent* increase in plan capital expenditure over the previous year. Fiscal deficit was alarmingly high 6.10 *per cent* of GSDP as against TFC projection of three *per cent*.

1.3 Audit Methodology

Audit observations on the Statements of Finance Accounts for the year 2005-06 bring out the trends in the major fiscal aggregates of receipts and expenditure; wherever necessary analyze 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 Gross State Domestic Product (GSDP) at current market prices. The New GSDP series with 1993-94 as base as published by the Director of Statistics and Evaluation, Planning and Development Department, of the State Government, have 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 mobilization 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 consist of 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 Public Account. **Table-3** shows that total receipt of the State Government for the year 2005-06 were Rs 27352.46 crore. Of these, the revenue receipts were Rs 17836.71 crore, constituting 65 *per cent* of the total receipts. The balance came from borrowings and receipts from Public Account.

Table-3: Resources of Bihar

		(Rupees in crore)
I	Revenue Receipts	17836.71
II	Capital Receipts	3821.23
	Recovery of Loans and Advances	50.86
	Public Debt Receipts	3770.37
	Miscellaneous Capital Receipts	--
III	Contingency Fund	--
IV	Public Account Receipts	5694.52
a.	Small Savings, Provident Fund <i>etc</i>	1087.66
b.	Reserve Fund	439.62
c.	Deposits and Advances	1886.05
d.	Suspense and Miscellaneous	211.45
e.	Remittances	2069.74
	Total Receipts	27352.46

1.4.2 Revenue Receipts

Statement-11 of the Finance Accounts details the revenue receipts of the Government. The revenue receipts consist of its own tax and non-tax revenues, central tax transfers and grants-in-aid from GOI. Overall revenue receipts, its annual rate of growth, ratio of these receipts to the GSDP and its buoyancies are indicated in **Table-4**.

Table-4: Revenue Receipts - Basic Parameters

(Rupees in crore)

	2001-02	2002-03	2003-04	2004-05	2005-06
Revenue Receipts (RR)	9839	10968	12456	15714	17837
Own Taxes (<i>per cent</i>)	2319(24)	2761(25)	2890(23)	3347(21)	3561(20)
Non-Tax Revenue (<i>per cent</i>)	287(3)	261(2)	320(3)	418(3)	522(3)
Central Tax Transfers (<i>per cent</i>)	6177(63)	6549(60)	7628(61)	9117(58)	10421(58)
Grants-in-aid (<i>per cent</i>)	1057(11)	1397(13)	1618(13)	2832(18)	3333(19)
Rate of growth of RR (<i>per cent</i>)	(-)11.97	11.47	13.57	26.16	13.51
RR/GSDP (<i>per cent</i>)	20.90	20.63	23.82	27.50	29.43
Revenue Buoyancy of RRs w.r.t. GSDP(ratio)	*	0.89	*	2.82	2.23
Buoyancy of State's own resources w.r.t. GSDPtaxes Buoyancy (ratio)	0.26	1.48	*	1.71	1.06
Buoyancy of Revenue Buoyancy with RRs w.r.t. state's own taxesreference to State's own taxes (ratio)	0.69	0.61	2.91	1.65	2.11
GSDP Growth (<i>per cent</i>)	0.26	12.89	(-)1.62	9.27	6.06

* Denotes negative buoyancy

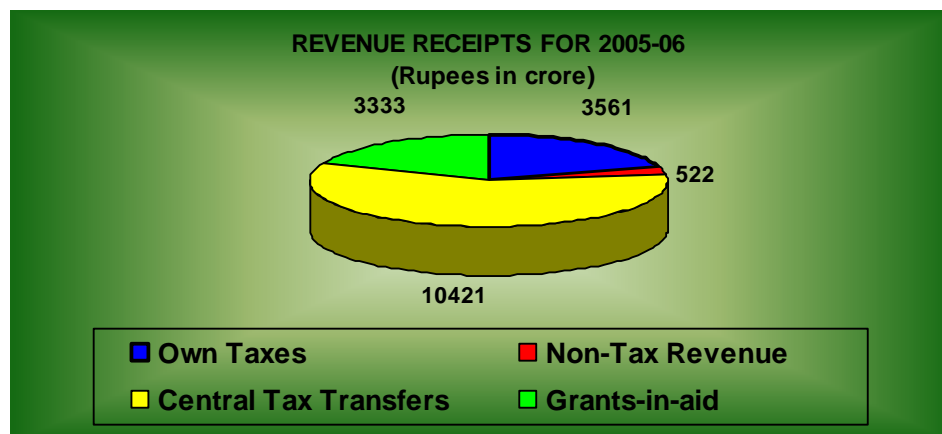
General Trends:

While on average around 23 *per cent* of revenue receipts have come from own resources, Central Tax Transfers and Grants-in-aid together contributed nearly 77 *per cent* of total revenue.

Tax Revenue: Sales tax (49 *per cent*) was the major source of the State tax revenue followed by stamp and registration fees (14 *per cent*) and taxes on vehicles (eight *per cent*). Own tax realization of Rs 3561 crore was Rs 373 crore below the projected realization of Rs 3934 crore for 2005-06 in fiscal correction path, growth of own tax revenue was merely 6.39 *per cent* against 15 *per cent* annual increase in forecast period by TFC.

Non-Tax Revenue: Of non-tax revenue sources mining and metallurgical industries (19 *per cent*) and interest receipts (41 *per cent*) (mainly due to interest realised on investment of cash balance of Rs 168.81 crore) were the principal contributors. There was also increase in Non-Tax-Revenue from Education, Sports, Art and Culture (Rs 25.64 crore) and Social Security and Welfare (Rs 6.46 crore). However, there was decline in realisation of Non-Tax Revenue from Police, Public Service Commission, Irrigation and other Administrative Services during the year.

Central Tax Transfers: Central Tax Transfer increased by 14 per cent in comparison to last year.



Grants-in-aid: Increase in Grants-in-aid in comparison to last year was 17.69 per cent. Non-Plan Grants and Grants for Central Plan increased by Rs 51721.209 and Rs 79.66 crore but, Grants for State Plan and Centrally Sponsored Program reduced by Rs 87.24 and 8.62 crore respectively. The non-plan grants for 2005-06 are inclusive of sector-specific grants of Rs 443.99 crore and Rs 289.30 crore for education and health sectors respectively recommended by TwFC for the state for 2005-06.

1.4.3 Sources of Receipts

The source of receipts under different heads as well as GSDP during 2001-06 is indicated in Table 5 below:

Table-5: Source 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		
2001-02	9839	13	3758	--	7719	21329	47090
2002-03	10968	16	4190	--	5584	20758	53161
2003-04	12456	10	5069	--	7440	24975	52299P
2004-05	15714	15	7623	--	4092	27444	57145Q
2005-06	17837	51	3770	--	5695	27353	60607A

P-provisional, Q-quick, A-advance

The relative share of revenue receipt ranged between 46 to 65 per cent showed an increasing trend (except in 2003-04) and capital receipt decreased from 54 to 35 per cent during 2001-06. Debt receipts of the State showed an increasing trend except during 2005-06 where debt decreased to 49 per cent in comparison to previous year.

1.5 Application of resources

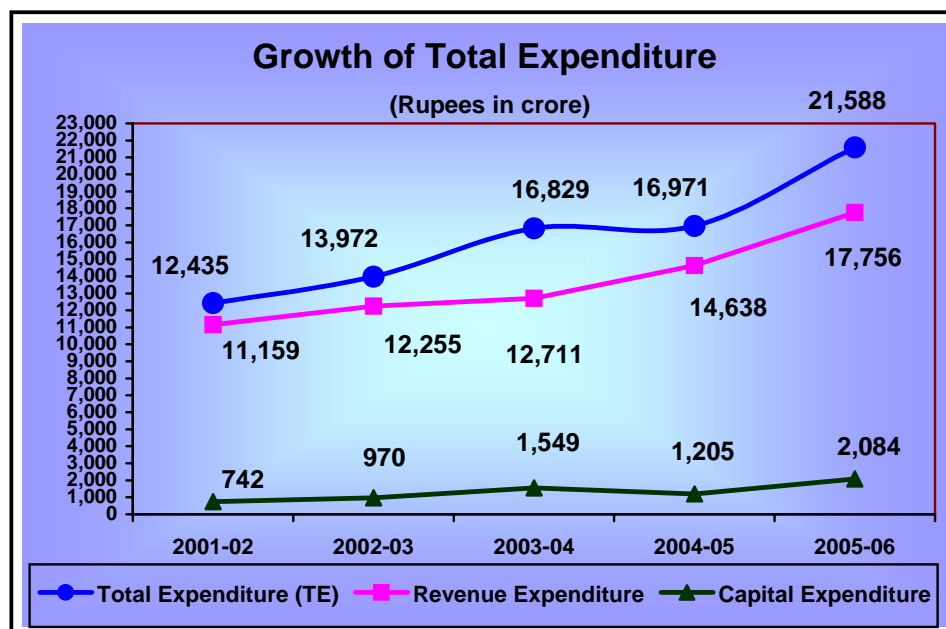
1.5.1 Growth of Expenditure

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 12435 crore in 2001-02 to Rs 21588 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-6**.

Table-6: Total Expenditure – Basic Parameters

	2001-02	2002-03	2003-04	2004-05	2005-06
Total expenditure (TE)** (Rupees in crore)	12435	13972	16829	16971	21588
Rate of Growth (<i>per cent</i>)	(-)18.53	12.36	20.45	0.84	27.21
TE/GSDP Ratio (<i>per cent</i>)	26.41	26.28	32.18	29.70	35.62
RR/TE Ratio (<i>per cent</i>)	79.12	78.50	74.02	92.59	82.62
Buoyancy of Total Expenditure with reference to:					
GSDP (ratio)	*	0.96	*	0.09	4.49
RR (ratio)	1.55	1.08	1.51	0.03	2.01

** Total expenditure includes revenue expenditure, capital expenditure and loans and advances. * Denotes negative buoyancy.



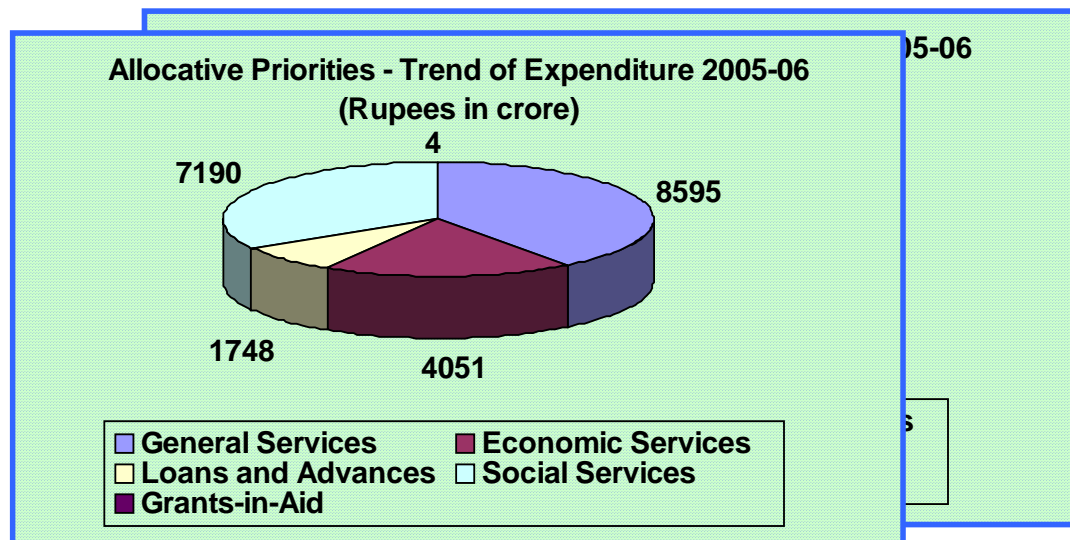
Total expenditure of the State increased by 27.21 per cent during 2005-06 over the previous year. Increase of expenditure by 45.78 per cent on social services, 54.96 per cent in loans and advances disbursed and 72.95 per cent in capital expenditure were the main factors responsible for sharp increase in expenditure. During 2005-06 revenue receipts accounted for 82.62 per cent of the total expenditure.

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-7**.

Table-7: Components of Expenditure – Relative Share

(in per cent)

	2001-02	2002-03	2003-04	2004-05	2005-06
General Services	51.00	47.63	42.77	46.38	39.81
Of which					
Interest payments	41.58	45.97	46.59	44.52	42.81
Social Services	28.75	29.04	24.93	29.06	33.31
Economic Services	15.94	17.96	17.01	17.89	18.776
Grants-in-aid	0.02	0.02	0.02	0.02	0.02
Loans and Advances	4.29	5.35	15.27	6.65	8.10



The movement of the relative shares of these components of expenditure indicated that while the share of social services in total expenditure increased from 28.75 *per cent* in 2001-02 to 33.31 *per cent* in 2005-06, the relative share of general services decreased from 51.00 *per cent* to 39.81 *per cent* during the period of which interest payment oscillated between 41.58 and 46.59 *per cent*. Loans and advances increased from 4.29 *per cent* to 8.10 *per cent* during the same period. The share of economic services showed increased by 2.823 *per cent* from 15.94 to 18.767 *per cent* during the period.

1.5.2 Incidence of Revenue expenditure

Revenue expenditure had the predominant share in the total expenditure. 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 States infrastructure and service network. The overall revenue expenditure, its rate of growth, ratio of revenue expenditure to GSDP and to revenue receipts and its buoyancy are indicated in **Table-8**.

Table-8: Revenue Expenditure: Basic Parameters

(Rupees in crore)

	2001-02	2002-03	2003-04	2004-05	2005-06
Revenue Expenditure (RE)	11159	12255	12711	14638	17756
Of which					
Non-Plan Revenue Expenditure (NPRE)	10292 (92)	10901 (89)	11627 (91)	12642 (86)	15020 (85)
Plan Revenue Expenditure (PRE)	867 (8)	1354 (11)	1084 (9)	1996 (14)	2736 (15)
Rate of Growth (<i>per cent</i>)					
NPRE	(-)18.76	5.92	6.66	8.73	18.81
PRE	3.33	56.17	(-)19.94	84.13	37.07
NPRE/GSDP (<i>per cent</i>)	21.86	20.51	22.23	22.12	24.78
NPRE as <i>per cent</i> of TE	82.77	78.02	69.09	74.49	69.58

	2001-02	2002-03	2003-04	2004-05	2005-06
NPRE as <i>per cent</i> of RR	104.59	99.39	93.34	80.45	84.21
Buoyancy of Revenue Expenditure with					
GSDP (ratio)	*	0.76	*	1.63	3.51
Revenue Receipts (ratio)	1.45	0.86	0.27	0.58	1.58

* Denotes buoyancy in negative. Figures in bracket show percentage with RE

Revenue expenditure of the State increased from Rs 11159 crore in 2001-02 to Rs 17756 crore in 2005-06. Non-Plan Revenue Expenditure (NPRE) as well as Plan Revenue Expenditure (PRE) increased from Rs 10292 crore in 2001-02 to Rs 15020 crore in 2005-06 and Rs 867 crore in 2001-02 to Rs 2736 crore in 2005-06 respectively. Growth Rate of NPRE increased from (-)18.76 *per cent* in 2001-02 to 18.81 *per cent* in 2005-06 whereas PRE increased from 3.33 to 37.07 *per cent* during the period. NPRE as *per cent* of Revenue Receipt decreased from 104.59 *per cent* in 2001-02 to 84.21 *per cent* in 2005-06. Percentage of the NPRE with GSDP ranged between 20.51 to 24.78 *per cent* during the period. Non-plan revenue expenditure (Rs 15020 crore) was Rs 933 crore below the projection of Rs 15953 crore made in fiscal correction path. Non-Plan Revenue Expenditure as percentage of revenue expenditure decreased from 92 to 85 *per cent* whereas Plan expenditure increased from 8 to 15 *per cent* during the period.

1.5.3 Committed Expenditure

Expenditure on Salaries

Table-9: Expenditure on Salaries

(Rupees in crore)

Heads	2001-02	2002-03	2003-04	2004-05	2005-06
Expenditure on Salaries	5275.89	5073.07	5019.88	5005.36	5783.35
Of which					
Non-Plan Head	4958.55	4748.05	4467.59	4564.16	5152.79
Plan Head	317.34	325.02	552.29	441.20	630.56
As <i>per cent</i> of GSDP	11.20	9.54	9.60	8.76	9.54
As <i>per cent</i> of RR	53.62	46.25	40.30	31.85	32.42
As <i>per cent</i> of RE	47.28	41.40	39.49	34.19	32.57

Salary alone accounted for nearly 32 *per cent* of the Revenue Receipt of the State. Salary expenses as *per cent* to GSDP ranged between 8.76 to 11.20 *per cent* during the period 2001-02 to 2005-06. Salary expenditure under Non-Plan head increased from Rs 4959 to Rs 5153 crore during 2001-02 to 2005-06 whereas under Plan head it increased from Rs 317 to Rs 631 crore during the period. An increase of Rs 778 crore (15.5 *per cent*) in salary expenditure during 2005-06 was mainly due to enhancements in various allowances of government employees including dearness, house rent and compensatory allowance on account of merger of dearness allowance equivalent to 50 *per cent* of basic pay. Besides, a substantial step up in the rates of dearness allowance during 2005-06 to clear the previous backlog also enhanced the level of salary expenditure during 2005-06. Total salary bill relative to revenue expenditure net of interest payments and pension was 50 *per cent* and the State Government need to initiate appropriate measures to reduce it to level of against TFC target of 35 *per cent* as recommended by the Twelfth Finance

Commission to restructure the finances of the State as per its Plan during the Award period..

Pension Payments

Table 10: Expenditure on Pensions

(Rupees in crore)

Heads	2001-02	2002-03	2003-04	2004-05	2005-06
Expenditure on Pensions	2273	2049	2269	2325	2456
As per cent of GSDP	4.83	3.85	4.34	4.07	4.05
As per cent of RR	23.10	18.68	18.22	14.80	13.77

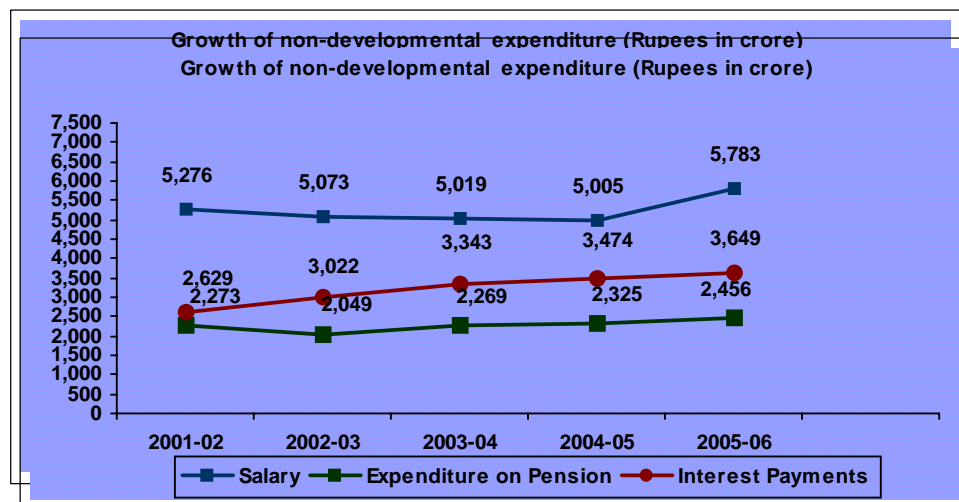
Pension payment increased from Rs 2273 crore in 2001-02 to Rs 2456 crore in 2005-06. Pensions liability of the State is likely to be increased further when the two years moratorium on date of retirement will come to an end (March 2007). Growth rate of expenditure on pension was below 10 per cent as against 10 per cent growth projected by the Twelfth Finance Commission. Government forecasted expenditure of Rs 2748 crore on provisions calculated on the basis of trend growth rate which was Rs 292 crore above the actual expenditure (Rs 2456 crore) of 2005-06. The State Government has also implemented new contributory pension scheme on the Central pattern to reduce the long term liabilities on pension account which was applicable to the employees joining on or after 1st September 2005.

Interest payments

Table-11: Interest payments

Year	Total Revenue Receipts (Rupees in crore)	Interest Payments	Percentage of Interest payments with reference to	
			Total Revenue Receipts	Revenue Expenditure
2001-02	9839	2629	26.72	23.56
2002-03	10968	3022	27.55	24.66
2003-04	12456	3343	26.84	26.30
2004-05	15714	3474	22.11	23.73
2005-06	17837	3649	20.46	20.55

In absolute terms, interest payments increased steadily by 38.80 per cent from Rs 2629 crore in 2001-02 to Rs 3649 crore in 2005-06 primarily due to continued reliance on borrowings for financing the deficit. The interest payment consumed 89 per cent of the State's own revenue. The increasing interest payments had adversely affected both development expenditure and social welfare schemes.



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 quality of expenditure. **Table 12** gives these ratios during 2001-06.

Table 12 – Indicators of Quality of Expenditure

	<i>(Rupees in crore)</i>				
	2001-02	2002-03	2003-04	2004-05	2005-06
Capital Expenditure	742	970	1549	1205	2084
Revenue Expenditure	11159	12255	12711	14638	17756
<i>Of which</i>					
Social and Economic Services with	5557	6568	7058	7968	11241
(i) Salary Component	2398 (43)	2934 (45)	3824 (54)	3699 (46)	4304 (38)
(ii) Non-Salary Component	3159 (57)	3634 (55)	3234 (46)	4269 (54)	6937 (62)
As per cent of Total Expenditure					
Capital Expenditure	6	7	11	8	11
Revenue expenditure	94	93	89	92	89
As per cent of GSDP					
Capital Expenditure	1.58	1.82	2.96	2.11	3.44
Revenue Expenditure	23.70	23.05	24.30	25.62	29.30

(Figures in bracket denote percentage expenditure with Development Expenditure share of salary and non-salary component in total revenue expenditure incurred on social and economic services.)

Revenue expenditure of the State crowded constituted a dominant share of the total expenditure ranging between 89 to 94 *per cent* during the period 2001-02 to 2005-06 resulting in nominal restricting the share of expenditure on capital account from of 6 to 11 *per cent* . on capital account. Capital expenditure (Rs 2084 crore) was Rs 1223 crore below the estimate (Rs 3307 crore) projected in the Fiscal Correction Path which was 3.44 *per cent* of GSDP against seven *per cent* projection of TFC indicating the need for corrective measures to achieve the projected target by the TFC indicated in FCP. The revenue expenditure incurred on social and economic services Development expenditure increased from Rs 5557 crore in 2001-02 to Rs 11241 crore in 2005-06. Although the expenditure incurred both on salary and non-salary components have increased during the period but the share of non-salary component remained consistently higher except in the year 2003-04. A significant increase in expenditure incurred on non-salary component was observed during 2005-06 as its share in revenue expenditure on social and economic services increased from 54 *per cent* in 2004-05 to 62 *per cent* in 2005-06. Growth rate of Development expenditure during 2005-06 was 41 *per cent* over 2004-05. Expenditure on non-salary component increased only from 57 *per cent* in 2001-02 to 62 *per cent* in 2005-06.

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 13** summarises the expenditure incurred by the State Government in expanding and strengthening of social services in the State during 2001-06.

Table 13: Expenditure on Social Services

(Rupees in crore)

	2001-02	2002-03	2003-04	2004.-05	2005-06
Education, Sports, Art and Culture					
Revenue Expenditure (RE)	2478.13	2703.51	2821.76	3142.23	4393.96
<i>Of which</i>					
(a) Salary Component	1305.33 (94.18)	1729.02 (99.42)	2126.25 (98.21)	2128.60 (99.34)	2326.50 (99.91)
(b) Non-Salary Component	1172.80	974.49	695.51	1013.63	2067.46
Capital Expenditure (CE)	23.57	46.69	54.16	17.59	29.14
Sub Total (R E + C E)	2501.70	2750.20	2875.92	3159.82	4423.10
Health and Family Welfare					
Revenue Expenditure	518.62	553.30	534.25	607.47	876.94
<i>Of which</i>					
(a) Salary Component	292.97 (59.73)	297.74 (72.48)	476.23 (63.23)	459.29 (69.28)	618.75 (66.56)
(b) Non-Salary Component	225.65	255.56	58.02	148.18	258.19

	2001-02	2002-03	2003-04	2004-05	2005-06
Capital Expenditure	2.72	18.34	4.78	21.94	137.91
Sub Total (R E + C E)	521.34	571.64	539.03	629.41	1014.85
Water Supply, Sanitation, Housing and Urban Development					
Revenue Expenditure	136.33	219.11	200.49	251.09	407.49
<i>Of which</i>					
(a) Salary Component	63.46 (100)	55.03 (100)	72.51 (100)	73.40 (99.46)	80.16 (92.06)
(b) Non-Salary Component	72.87	164.08	127.98	177.69	327.33
Capital Expenditure	17.00	75.02	75.74	69.64	124.20
Sub Total (R E + C E)	153.33	294.13	276.23	320.73	531.69
Other Social Services					
Revenue Expenditure	399.14	439.79	476.93	794.19	1183.53
<i>Of which</i>					
(a) Salary Component	199.10 (48.74)	111.56 (58.04)	190.89 (54.97)	210.52 (60.19)	330.19 (36.36)
(b) Non-Salary Component	200.04	328.23	286.04	583.67	853.34
Capital Expenditure	0.20	2.07	28.76	28.11	37.18
Sub Total (R E + C E)	399.34	441.86	505.69	822.30	1220.71
Total (Social Services)					
Revenue Expenditure	3532.22	3915.71	4033.43	4794.98	6861.92
<i>Of which</i>					
(a) Salary Component	1860.86 (84.04)	2193.35 (93.66)	2865.88 (89.57)	2871.81 (91.68)	3355.60 (87.49)
(b) Non-Salary Component	1671.36	1722.36	1167.55	1923.17	3506.32
Capital Expenditure	43.49	142.12	163.44	137.28	328.43
Grand Total (R E + C E)	3575.71	4057.83	4196.87	4932.26	7190.35

(Figures in bracket indicate non-plan salary component as a percentage of salary component)

Expenditure of the State on social services ranged between 2930 to 36 *per cent* of the total expenditure during 2001-02 to 2005-06. Out of the expenditure on Social Services, 62 to 70 *per cent* was incurred on Education, Sports, Art and Culture. Expenditure on Health and Family Welfare ranged between 13 to 14 *per cent* and on Water Supply, Sanitation, Housing and Urban Development between four to seven *per cent*. Expenditure on salary ranged between 47 to 68 *per cent* of the expenditure on these components during 2001-02 to 2004-05. (Trends in salary and non-salary components need to be discussed)

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 States' economy. The expenditure on Economic Services (Rs 4051 crore) accounted for 20.42 *per cent* of the total expenditure (Table 14). Of this, Agriculture and Allied activities, Irrigation and Flood Control, Energy and Transport accounted for nearly 60.26 *per cent* of the expenditure.

Table-14: Expenditure on Economic Sector

(Rupees in crore)

	2001-02	2002-03	2003-04	2004-05	2005-06
--	---------	---------	---------	---------	---------

	2001-02	2002-03	2003-04	2004-05	2005-06
Agriculture, Allied Activities					
Revenue Expenditure (RE)	260.58	249.29	248.66	396.84	410.45
<i>Of which</i>					
(a) Salary Component	118.09	126.86	173.20	173.33	191.49
(b) Non-Salary Component	(97.38)	(89.07)	(94.69)	(92.89)	(92.43)
Capital Expenditure (CE)	142.49	122.43	75.46	223.51	218.96
	NIL	5.67	5.67	10.32	93.19
Sub Total (RE + CE)	260.58	254.96	254.33	407.16	503.64
Irrigation and Flood Control					
Revenue Expenditure (RE)	324.30	356.74	319.09	473.02	482.77
<i>Of which</i>					
(a) Salary Component	140.42	189.59	247.61	242.28	265.93
(b) Non-Salary Component	(98.99)	(100)	(92.08)	(91.22)	(91.00)
Capital Expenditure(CE)	183.88	167.15	71.48	230.74	216.84
	299.95	309.88	521.36	442.52	591.46
Sub Total (RE + CE)	624.25	666.62	840.45	915.54	1074.23
Power & Energy					
Revenue Expenditure (RE)	13.72	36.66	1.15	1.74	1.42
<i>Of which</i>					
(a) Salary Component	--	--	--	--	--
(b) Non-Salary Component	13.72	36.66	1.15	1.74	1.42
Capital Expenditure(CE)	10.73	--	300.39	26.50	302.01
Sub Total (RE + CE)	24.45	36.66	301.54	28.24	303.43
Transport					
Revenue Expenditure	127.75	194.08	204.61	224.61	285.01
<i>Of which</i>					
(a) Salary Component	0.62	190.98	85.01	83.63	107.45
(b) Non-Salary Component	(100)	(99.49)	(98.81)	(99.22)	(100)
Capital Expenditure	127.13	3.10	119.60	140.98	177.56
	34.40	90.97	61.53	144.06	274.99
Sub Total (RE + CE)	162.15	285.05	266.14	368.67	560.00
Other Economic Services					
Revenue Expenditure	576.07	926.70	724.67	939.47	1187.44
<i>Of which</i>					
(a) Salary Component	278.24	69.47	284.31	198.92	251.60
(b) Non-Salary Component	(54.63)	(92.13)	(85.47)	(94.51)	(91.41)
Capital Expenditure	297.83	857.23	440.36	740.55	938.84
	338.63	340.18	474.55	376.18	421.90
Sub Total (RE + CE)	914.70	1266.88	1199.22	1315.65	1609.34
Total (Economic Services)					
Revenue Expenditure	1302.42	1763.47	1498.18	2035.68	2367.09
<i>Of which</i>					
(a) Salary Component	537.37	576.90	790.13	698.16	816.47
(b) Non-Salary Component	(75.74)	(96.55)	(91.00)	(93.53)	(92.59)
	765.05	1186.57	708.05	1337.52	1550.62

	2001-02	2002-03	2003-04	2004-05	2005-06
	679.80	746.70	1363.50	999.58	1683.55
Capital Expenditure					
Grand Total (RE + CE)	1982.22	2510.17	2861.68	3035.26	4050.64

(Figures in bracket indicate non-plan salary component as a percentage of salary component)

Total expenditure of the State on Economic Services in Revenue account ranged between Rs 1302 to Rs 2367 crore and in Capital account from Rs 680 to Rs 1684 crore during 2001-02 to 2005-06 of which salary payment ranged between 20 to 28 *per cent* during 2001-02 to 2005-06.

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 years period 2001-06 is presented in Table 15:

Table-15: Financial Assistance

(Rupees in crore)

	2001-02	2002-03	2003-04	2004-05	2005-06
Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.)	369.13	461.13	545.94	564.99	803.65
Municipal Corporations and Municipalities	28.99	99.98	83.71	117.91	277.56
Zilla Parishads and Other Panchayati Raj Institutions	106.60	292.34	133.92	2.63	3.75
Development Agencies	12.87	34.81	3.87	110.15	18.56
Hospital and Other Charitable Institutions	--	--	--	5.00	3.00
Other Institutions	47.05	133.45	20.99	12.68	3.92
Total	564.64	1021.71	788.43	813.36	1110.44
Assistance as per percentage of RE	5.06	16.10	6.20	5.56	6.25

Assistance given by the State ranged between five to six *per cent* of RE between the period 2000-01 to 2005-06 except 16 *per cent* in the year 2002-03.

1.6.5 Delay in furnishing utilisation certificates

Of the 770 utilisation certificates (UC) due in respect of grants and loans aggregating Rs 2928.94 crore paid up to 2005-06, 722 UCs for an aggregate amount of Rs 2764.16 crore were in arrears. Details of department-wise break-up of outstanding UCs are given in **Appendix VI**.

1.6.76 Abstract of performance of the autonomous bodies

The audit of accounts of three bodies in the State has been entrusted to the Comptroller and Auditor General of India. The status of entrustment of audit, rendering of accounts to audit, issuance of Separate Audit Report and its placement in the Legislature is indicated in **Appendix VII**.

1.7 Assets and Liabilities

In the Government accounting system, comprehensive accounting of fixed assets like land and buildings owned by the Government is not done. However, the Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred. **Appendix II** gives an abstract of such liabilities and the assets as on 31 March 2006, compared with the corresponding position 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 the 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 2001-2006.

1.7.1 Financial Results of Irrigation Works

The financial results of Irrigation works are reflected in Statement 3 of the Finance Accounts of the Government which show no productive work during 2005-06. On four completed canals Government incurred an amount of Rs 3.76 crore as Capital Outlay up to 2005-06, revenue realization from these canals was Rs 3.82 crore whereas Government incurred an expense of Rs 8.29 crore on maintenance charges (including interest on capital outlay) during 2005-06. Working expense of Rs 8.29 crore resulted in excess of Rs 4.47 crore of expenditure over revenue receipt.

1.7.2 Incomplete projects

The departmentproject-wise information pertaining to incomplete projects as on 31st March 2006 is given in the **Table 16**.

Table 16: Department-Project wise Profile of Incomplete Projects

Sl. No.	Name of the project/scheme	Expenditure up to 2005-06 (Rupees in crore)
1	Kosi Project	389.15
2	Gandak Project Phase II	47.50
3	North Koel Project	836.11*
4	Durgawati Reservoir	361.09*
5	Sone Canal Modernisation Project	745.54*
6	Nakti Reservoir Scheme	14.01
Total :		2393.40

* Figure provided by the department

1.7.3 Departmental Commercial Undertakings

Activities of *quasi*-commercial nature are performed by departmental undertakings of certain Government departments. These undertakings are required to prepare annually Proforma accounts in prescribed format showing the results of financial operations so that Government can assess the results of their working. The department-wise position of arrears in preparation of *pro*

forma accounts and the investment made by the Government are given in **Appendix VIII and IX** respectively.

1.7.4 Investments and returns

As of 31 March 2006, Government had invested Rs 805.64 crore in Statutory Corporations, Rural Banks, Joint Stock Companies and Co-operatives (**Table 17**). The return on this investment was zero *per cent* in the last six five years while the Government paid interest at the average rate of 8.71 20 to 9.59 *per cent* on its borrowings during 2001 to 2005-06.

Table-17: Return on Investment

Year	Investment at the end of the year	Return	Percentage of return	Average rate of interest on government borrowing
	(Rupees in crore)			<i>per cent</i>
2001-02	686.67	0.01	NIL	8.71
2002-03	694.34	0.02	NIL	9.00
2003-04	700.01	0.04	0.01	9.00
2004-05	708.66	0.04	NIL	9.59
2005-06	805.64	0.04	NIL	8.20

At the end of the year 2005-06 Government invested Rs 105.63 crore in Statutory Corporations, Rs 338.80 crore in Government Companies ,and in Rs 3.88 crore in Joint Stock Companies, Rs 357.33 crore and in Co-operative Banks & Societies (44 *per cent* of total investment). Return from these investments was merely Rs 0.04 crore as against Rs 66.06 crore worked out on average interest rate of 8.20 *per cent* on Government borrowings. During the year out of total investment (Rs 96.99 crore) Government invested Rs 85 crore in the cooperative sector which was in contravention of the guidelines of revival package of the Government of India. The investment proved to be unfruitful as the intended purpose of serving 14 DCCBs outside the purview of Section 11(2) of Banking Regulation Act could not be achieved.

1.7.5 Loans and advances by State Government

In addition to investments in Co-operative societies, Corporation 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 13574 crore (**Table 18**). Interest received against these loans advanced was 1.59 *per cent* during 2005-06 as against 0.63 *per cent* in previous year.

Table-18: Average Interest Received on Loans Advanced by the State Government

	(Rupees in crore)				
	2001-02	2002-03	2003-04	2004-05	2005-06
Opening Balance	6952.84	7473.60	8205.21	10763.68	11876.69
Amount advanced during the year	533.71	747.19	2568.92	1127.84	1747.82
Amount repaid during the year	12.95	15.58	1045.00	14.83	50.86
Closing Balance	7473.60	8205.21	10763.68	11876.69	13573.65
Net addition	520.76	731.61	2558.47	1113.01	1696.96
Interest Received	11.75	53.01	23.08	75.06	216.07
Interest received as <i>per cent</i> to outstanding Loans and advances	0.16	0.65	0.21	0.63	1.59

Loans and advances made by the Government ranged between Rs 533.78 71 to and Rs 2568.92 crore during 2001-02 to 2005-06. Loans for Power Projects consumed 99 *per cent* of total loans and advances (Rs 1735.27 crore) paid by the Government during 2005-06.

1.7.6 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 the expenditure obligations, a mechanism of Ways and Means Advances (WMA) from the Reserve Bank of India has been put in place. Bihar had the WMA limit of Rs 380 crore from April 1, 2005. Special WMA not exceeding Rs 20.37 crore with effect from 1 April 2005, Rs 20.15 crore with effect from 1 July 2005, Rs 19.92 crore with effect from 1 October 2005, Rs 13.18 crore with effect from 11 October 2005, Rs 20.35 crore with effect from 13 October 2005 and Rs 20.17 crore with effect from 1 January 2006 were made available against security of Government of India held by the State Government with effect from March 2005.

Ways and Means Advances and Overdrafts availed, the number of occasions it was availed and interest paid by the State is detailed in **Table 19**.

Table-19: Ways and Means and Overdrafts of the State

(Rupees in crore)

	2001-02	2002-03	2003-04	2004-05	2005-06
Ways and Means Advances					
Availed in the Year	2593.23	7.12	1708.45	3.50	NIL
Number of Occasions	79	NIL	40	1	
Outstanding WMAs, if any	NIL	NIL	NIL	NIL	NIL
Interest Paid	7.86	0.13	3.71	negligible	NIL
Number of Days	106	1	49	3	NIL
Overdrafts					
Availed in the year	3229.53	NIL	1142.89	NIL	NIL
Number of Occasions	99	NIL	5	NIL	NIL
Number of Days	123	NIL	44	NIL	NIL
Interest Paid	3.94	NIL	1.42	NIL	NIL

1.8 Undischarged Liabilities

The total liabilities of the State means the liabilities under the Consolidated Fund of the State and the Public Account of the State and shall also include borrowings by the Public Sector Undertaking and the special purpose vehicles and other equivalent instruments including guarantees where principal and/or interest are to be serviced out of the State Budget.

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-20 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-20: Fiscal Liabilities – Basic Parameters

	2001-02	2002-03	2003-04	2004-05	2005-06
Fiscal Liabilities # (Rupees in crore)	31883	35249	37453	42483	46495
Rate of Growth (<i>per cent</i>)	12.09	10.56	6.25	13.43	9.44
Ratio of Fiscal Liabilities to					
GSDP (<i>per cent</i>)	67.71	66.31	71.61	74.34	76.72
Revenue Receipts (<i>per cent</i>)	324.01	321.38	300.68	270.35	260.67
Own Resources (<i>per cent</i>)	1223.45	1166.41	1166.76	1128.37	1138.75
Buoyancy of Fiscal Liabilities to					
GSDP (ratio)	46.93	0.82	*	1.45	1.56
Revenue Receipts (ratio)	*	0.92	0.46	0.51	0.70
Own Resources (ratio)	*	0.66	1.01	0.78	1.12

* Denotes buoyancy in negative. # Includes Internal Debt, Loans and Advances from GOI, Debt from Small Savings and Other Obligations (excludes Ways and Means Advance and Contingency Fund).

Overall fiscal liabilities of the State increased from Rs 31883 crore in 2001-02 to Rs 46495 crore in 2005-06. The growth rate decreased by 3.99 *per cent* during 2005-06 over previous year. The ratio of fiscal liabilities to GSDP increased from 67.71 *per cent* in 2001-02 to nearly 76.72 *per cent* in 2005-06. These liabilities stood at 260.67 *times* 2.61 times the revenue receipts and 1138.75 *times* 11.39 times of the States own resources as at the end of 2005-06. The buoyancy of these liabilities with respect to GSDP during the year was 1.56 *per cent*. Rising debt – GSDP ratio during 2001-06 indicated that debt was unsustainable.

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. The Government has not fixed any explicit ceiling on given guarantees given upon the Security of the Consolidated Fund of the State. No fund like "guarantee redemption fund" has been created so far.

As per the 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 2001-02 is given in **Table 21**.

Table-21: Guarantees given by the Government of Bihar

(Rupees in crore)

Year	Max amount guaranteed	Outstanding amount of guarantees	Percentage of maximum amount guaranteed to revenue receipt
2001-02	(a)	209.21	--
2002-03	(a)	393.44	--

2003-04	1531.08	470.72	12.29
2004-05	1531.08	473.44	9.74
2005-06	1531.08	604.87	8.58

(a) Indicates information not available

Amount of guarantees outstanding increased from Rs 209.21 crore during 2001-02 to Rs 604.57 87 crore in the year 2005-06. Major recipients of such guarantees were Co-operative Bank & Societies (Rs 170 crore), Bihar State Financial Corporation (Rs 179 crore) and Bihar State Electricity Board (Rs 139 crore).

No Act was passed by the Government fixing any limit for guarantees. No mechanism was put in place by the Government for monitoring to avoid any incidence of losses on account of such guarantees.

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.

The net funds available on account of the internal debt, loans and advances from Government of India and other obligations after providing for the interest and repayments oscillated from (-)9 per cent to 19 per cent during the period 2001-02 to 2005-06.

The net fund available was Rs 626 crore (10 per cent) in 2005-06. Total debt receipt ranged between Rs 5863 crore to Rs 10907 crore during 2001-02 to 2005-06.

Table-22 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-22: Net Availability of Borrowed Funds

(Rupees in crore)

	2001-02	2002-03	2003-04	2004-05	2005-06
Internal Debt					
Receipt	2681	2935	4249	5969	3769
Repayment (Principal + Interest)	987	923	1766	2047	2485
Net Fund Available	1694	2012	2483	3922	1284
Net Fund Available (<i>per cent</i>)	63	69	58	66	34
Loans and Advances from GOI					
Receipt	1077	1255	820	1654	2
Repayment (Principal + Interest)	1926	3195	3894	3881	1512
Net Fund Available	(-)849	(-)1940	(-)3074	(-)2227	(-)1510
Net Fund Available (<i>per cent</i>)	(-)79	(-)155	(-)375	(-)135	(-)755

	2001-02	2002-03	2003-04	2004-05	2005-06
Other obligations					
Receipt	2105	3137	3119	3284	2283
Repayment (Principal + Interest)	1859	2629	3303	3199	1431
Net Fund Available	246	508	(-)184	85	852
Net Fund Available (<i>per cent</i>)	12	16	(-)6	3	37
Total Liabilities					
Receipt	5863	7327	8188	10907	6054
Repayment (Principal + Interest)	4772	6747	8963	9127	5428
Net Fund Available	1091	580	(-)775	1780	626
Net Fund Available (<i>per cent</i>)	19	8	(-)9	16	10.34

1.8.5 Debt Sustainability

The 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* x rate spread), debt sustainability condition states that if quantum spread together with primary deficit is zero, debt-GSDP ratio would be constant or sustainable. On the other hand, if PD>QS, debt-GSDP ratio would be rising and if PD<QS, it would be falling. The trends in Table 23 reveal that in three out of five year period during 2001-06, the sum of primary deficit and quantum spread is negative indicating rising debt-GSDP ratio and deteriorating situation of debt sustainability in the State.

Table-23: Debt Sustainability–Interest Rate and GSDP Growth

(in *per cent*)

	2001-02	2002-03	2003-04	2004-05	2005-06
Weighted Interest Rate	8.71	9.00	9.20	8.69	8.20
GSDP Growth	0.26	12.89	(-)1.62	9.27	6.06
Interest spread	(-)8.46	3.89	(-)10.82	0.57	(-)2.14
Quantum Spread (Rs in crore)	(-) 2466.25 1816	1245.169 39	(-) 3721.482 856	225.8317 8	(-))911.057 23
Primary Deficit (Rs in crore)	46	34	(-)1020	2232	(-)51

During 2001-06, primary deficit has remained higher than quantum spread indicating that debt was not sustainable.

1.9 Management of deficits

The deficit in the Government accounts represents the gap between its receipts and expenditure. The nature of deficit is an indicator of the prudence of fiscal management of the Government. Further, the ways in which the deficit is financed and the resources raised are applied are important pointers to its fiscal health.

The revenue deficit of the State which indicates the excess of its revenue expenditure over revenue receipts increased from Rs (-)1320 crore in 2001-02 to Rs (+)81 crore in 2005-06. The fiscal deficit, which represents the total borrowing of the Government and its total resource gap, increased from Rs (-) 2583 crore in 2001-02 to Rs (-)3700 crore in 2005-06. The State had a primary surplus of Rs (+)46 crore in 2001-02 which turned to deficit of Rs 51 crore in 2005-06 as indicated in **Table-24**.

The ratio of revenue deficit to fiscal deficit was (-)2.19 *per cent* during 2005-06 indicating that entire borrowed funds were used for current consumption. As proportion to GSDP, the revenue deficit had reached 0.13 *per cent* and fiscal deficit had reached (-)6.10 *per cent* in 2005-06. High ratio of revenue deficit to fiscal deficit also indicated that the asset base of the State was continuously shrinking and increasingly a part of borrowings (fiscal liabilities) were not having any asset backup.

Table-24: Fiscal Imbalances: Basic Parameters

Parameters	2001-02	2002-03	2003-04	2004-05	2005-06
Revenue deficit (Rupees in crore)	(-)1320	(-)1287	(-)255	(+)1076	(+)81
Fiscal deficit (Rupees in crore)	(-)2583	(-)2988	(-)4363	(-)1242	(-)3700
Primary deficit (Rupees in crore)	(+)46	(+)34	(-)1020	(+)2232	(-)51
RD/GSDP (<i>per cent</i>)	(-)2.80	(-)2.42	(-)0.49	(+)1.88	(+)0.13
FD/GSDP (<i>per cent</i>)	(-)5.48	(-)5.62	(-)8.34	(-)2.17	(-)6.10
PD/GSDP (<i>per cent</i>)	(+)0.10	(+)0.06	(-)1.95	(+)3.91	(-)0.08
RD/FD (<i>per cent</i>)	(+)51.08	(+)43.07	(+)5.84	*	*

* During 2004-06 State had revenue surplus

The Year 2004-05 was an exceptional year as the State had a revenue surplus of Rs 1076 crore and fiscal deficit of Rs 1242 crore. This was primarily due to enhanced central transfers and grants-in-aid from GOI combined with decline in capital expenditure from Rs 1549 crore (2003-04) to Rs 1205 crore (2004-05). The State Government in its background note on the fiscal situation of the State (March 2006) had stated that low spending was due to Assembly elections in the last quarter of the financial year.

Due to increase in expenditure in 2005-06 fiscal deficit with GSDP increased from Rs 1242 crore (2.17 *per cent*) to Rs 3700 crore (6.10 *per cent*) in 2005-06.

1.10 Fiscal Ratios

The finances of a State should be sustainable, flexible and non-vulnerable. **Table-25** below presents a summarized position of Government finances over 2001-2006, with reference to certain key indicators that help to assess the adequacy and effectiveness of available resources and their applications, highlights areas of concern and captures its important facets.

Table-25: Indicators of Fiscal Health (in *per cent*)

Fiscal Indicators	2001-02	2002-03	2003-04	2004-05	2005-06
1	2	3	4	5	6
I Resource Mobilization					
Revenue Receipt/GSDP	20.90	20.63	23.82	27.50	29.43
Revenue Buoyancy	(-)46.43	0.89	(-)8.37	2.82	2.23
Own Tax / GSDP	4.92	5.19	5.53	5.86	5.88
II Expenditure Management					
Total Expenditure/GSDP	26.41	26.28	32.18	29.70	35.62
Total Expenditure/Revenue Receipts	79.12	78.50	74.02	92.59	82.62
Revenue Expenditure/Total Expenditure	89.74	87.71	75.53	86.25	82.25
Salary expenditure on Social and Economic Services / Revenue Expenditure	21.49	22.61	28.76	24.39	24.62
Non-Salary expenditure on Social and Economic Services / Revenue Expenditure	21.83	23.74	14.75	22.28	28.48
Capital Expenditure/Total Expenditure	6	7	11	8	11
Capital Expenditure on Social and Economic Services/Total Expenditure.	6.08	6.72	10.71	7.18	10.14
Buoyancy of TE with RR	1.55	1.08	1.51	0.03	2.01
Buoyancy of RE with RR	1.45	0.86	0.27	0.58	1.58
III Management of Fiscal Imbalances					
Revenue deficit (Rs in crore)	(-)1320	(-)1287	(-)255	(+)1076	(+)81
Fiscal deficit (Rs in crore)	(-)2583	(-)2988	(-)4363	(-)1242	(-)3700
Primary Deficit (Rs in crore)	(+)46	(+)34	(-)1020	(+)2232	(-)51
Revenue Deficit/Fiscal Deficit	51	43	6	(-)87	(-)2
IV Management of Fiscal Liabilities					
Fiscal Liabilities/GSDP	67.71	66.31	71.61	74.34	76.72
Fiscal Liabilities/RR	324.01	321.38	300.68	270.35	260.67
Buoyancy of FL with RR	(-) 1.01	0.92	0.46	0.51	0.70
Buoyancy of FL with Own Receipt	(-) 0.47	0.66	1.01	0.78	1.12
Primary deficit vis-à-vis quantum spread	2420.25	1279.16	4741.48	2457.83	962.05
Net Funds Available	1091	580	(-) 775	1780	626
V Other Fiscal Health Indicators					
Return on Investment	0.01	0.02	0.04	0.04	0.04
Balance from Current Revenue (Rs in crore)	(-)1246	(-)1039	(-)638	924	685.02
Financial Assets/Liabilities	72	72	72	78	80

1.11 Conclusion

The overall fiscal position of the State as reflected in terms of key parameters – revenue, fiscal and primary deficits – indicates a mixed trend during the period 2001-06. The state experienced deterioration in fiscal

position during 2005-06 in terms of these key fiscal parameters from a situation of significant improvement in 2004-05 when revenue and primary accounts showed surplus and fiscal deficit indicated a steep decline over the previous year. A turnaround in fiscal position in 2004-05 was primarily due to the enhanced central transfers and grants-in-aid from GOI combined with decline in capital expenditure and accumulation of huge cash balances towards the end of year. The deterioration in revenue account in 2005-06 was mainly due to increase in Non-Plan revenue expenditure (19 *per cent*) and Plan revenue expenditure (37 *per cent*). Apart from a substantial decline in revenue surplus, increase in Fiscal Deficit (198 *per cent*) was mainly due to a little more than 100 *per cent* increase in disbursements of loans under non-plan head and 76 *per cent* increase in plan capital expenditure over the previous year. The revenue receipts continued to be significantly contributed by central transfers during 2005-06 and states own sources improved only marginally. The state therefore needs to take steps to improve the buoyancies in its own resources in combination with maintaining the growth in non-plan revenue expenditure as per the norms in order to have sustained improvement in its fiscal imbalances. The allocations of outlays need to be reprioritized keeping in view the fiscal management objectives laid down in FRBM Act 2006. The increasing debt liabilities of the State reflected mainly in terms of ratio of fiscal liabilities to GSDP also need to be contained for ensuring sustained fiscal stability in the State. State.

The areas of concern in State finances are that State's own resources have declined from 27 *per cent* in 2001-02 to 23 *per cent* in 2005-06. Fiscal liabilities of Rs 46495 crore was 77 *per cent* of GSDP which was alarmingly high. Rising debt GSDP ratio and higher primary deficit relative to quantum spread indicated that debt was unsustainable.

Capital Expenditure was merely 3.44 *per cent* of GDP against 7 *per cent* recommended by the TFC. Fiscal deficit was alarmingly 6.10 *per cent* against 3 *per cent* of recommended by TFC. Expense on salary net of interest and pension payments was 50 *per cent* of revenue expenditure against 35 *per cent* recommended by the TFC. Effective and corrective measures are required so that target up to 2009-10 as fixed by the TFC could be achieved.