

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 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. The lay out of the Finance Accounts is depicted in *Appendix 1.1-Part B*.

1.1.1 Summary of Receipts and Disbursements

Table No. 1 summarizes the finances of the Government of Bihar for the year 2007-08 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 No. 1
Summary of Receipts and Disbursements for the Year 2007-08

(Rupees in crore)

| 2006-07 | Receipts | 2007-08 | 2006-07 | Disbursements | 2007-08 | | |
|--------------------|--|-----------|-----------|--|-----------|----------|-----------|
| Section-A: Revenue | | | | | Non-Plan | Plan | Total |
| 23,083.19 | I. Revenue Receipts | 28,209.72 | 20,585.05 | I. Revenue Expenditure | 18,758.89 | 4,803.98 | 23,562.87 |
| 4,033.08 | Tax revenue | 5,086.17 | 8,643.03 | General Services | 8,965.58 | 286.39 | 9,251.97 |
| 511.28 | Non-tax revenue | 525.59 | 7,917.21 | Social Services | 7,066.71 | 2,801.28 | 9,867.99 |
| 13,291.72 | Share of Union Taxes/ Duties | 16,766.29 | 4,020.81 | Economic Services | 2,721.59 | 1,716.31 | 4,437.90 |
| 5,247.11 | Grants from Government of India | 5,831.67 | 4.00 | Grants-in-aid / Contributions | 5.01 | - | 5.01 |
| Section-B: Capital | | | | | | | |
| - | II. Miscellaneous Capital Receipts | | 5,211.13 | II. Capital Outlay | 113.06 | 5,990.72 | 6,103.78 |
| 7.40 | III. Recoveries of Loans and Advances | 26.16 | 315.32 | III. Loans and Advances disbursed | 77.94 | 194.76 | 272.70 |
| 2,357.86 | IV. Public Debt receipts* | 1,611.90 | 1,024.98 | IV. Repayment of Public Debt | | | 1,631.85 |
| | V. Contingency Fund | | | V. Contingency Fund | | | - |
| 9,224.07 | VI. Public Account receipts | 12,837.48 | 8,016.04 | VI. Public Account disbursements | | | 10,333.58 |
| 1,887.58 | Opening Cash Balance | 1,407.58 | 1,407.58 | Closing Cash Balance | | | 2,188.06 |
| 36,560.10 | Total | 44,092.84 | 36,560.10 | Total | | | 44,092.84 |

* Excluding Ways and Means Advances and Overdraft

Following are the significant changes during 2007-08 over previous year;

- Revenue receipts grew by Rs 5,127 crore (22.21 per cent) over the previous year. The increase is mainly contributed by State's share of Union Taxes and Duties (Rs 3,475 crore), Grants from Government of India (Rs 585 crore) and Tax revenue (Rs 1,053 crore).
- The recovery of loans and advances increased from Rs 7.40 crore in 2006-07 to Rs 26.16 crore (253.51 per cent) in 2007-08. As against the

decrease in disbursement of loans and advances by Rs 42.62 crore (13.52 per cent) during the year.

- The total expenditure of the State has increased by Rs 3,828 crore (14.67 per cent) during 2007-08 over the previous year, of which capital expenditure contributed Rs 893 crore (23.33 per cent), revenue expenditure shared Rs 2,978 crore (77.79 per cent) but the increase was offset by decrease in disbursement of loans and advances by Rs 43 crore (1.12 per cent) during the year.
- Public Debt receipts decreased by Rs 746 crore (31.64 per cent) over previous year mainly due to decrease in Internal Debt by Rs 1,211 crore which was offset by increase in Loan from GOI by Rs 465 crore. Repayment of public debt on the other hand has increased by Rs 607 crore (59.22 per cent) over the previous year level of Rs 1,025 crore.
- Public Account disbursements increased by Rs 2,318 crore (28.91 per cent) over previous year as against the increase of Rs 3,613 crore (39.17 per cent) in Public Account receipts during the year.
- The net impact of the above fiscal transactions of the State was reflected in terms of increase of Rs 780 crore (55.45 per cent) in its cash balances as on 31 March 2008 from the level of opening balance of Rs 1,408 crore in the beginning of the current year.

1.1.2 State Fiscal Position by Key Indicators

The fiscal position of the State Government as reflected by the key fiscal indicators during the current year as compared to the previous year is given in **Table No. 2.**

Table No. 2
Fiscal Position of State Government
(Rupees in crore)

| 2006-07 | Sl. No. | Major Aggregates | 2007-08 |
|-----------|---------|---|-----------|
| 23,083 | 1. | Revenue Receipts (2+3+4) | 28,210 |
| 4,033 | 2. | Tax Revenue (Net) | 5,086 |
| 511 | 3. | Non-Tax Revenue | 526 |
| 18,539 | 4. | Other Receipts | 22,598 |
| 7 | 5. | Non-Debt Capital Receipts | 26 |
| 7 | 6. | <i>Of Which</i> Recovery of Loans | 26 |
| 23,090 | 7. | Total Receipts (1+5) | 28,236 |
| 16,714 | 8. | Non-Plan Expenditure (9+11+12) | 18,950 |
| 16,520 | 9. | On Revenue Account | 18,759 |
| 3,416 | 10. | <i>Of which</i> Interest Payments | 3,707 |
| 78 | 11. | On Capital Account | 113 |
| 116 | 12. | On Loans disbursed | 78 |
| 9,397 | 13. | Plan Expenditure (14+15+16) | 10,989 |
| 4,065 | 14. | On Revenue Account | 4,804 |
| 5,133 | 15. | On Capital Account | 5,991 |
| 199 | 16. | On Loans disbursed | 194 |
| 26,111 | 17. | Total Expenditure (13+8) | 29,939 |
| (+) 2,498 | 18. | Revenue Deficit (-)/ Surplus (+) (1-9-14) | (+) 4,647 |
| (-) 3,021 | 19. | Fiscal Deficit (-)/ Surplus (+) (7-17) | (-) 1,703 |
| (+) 395 | 20. | Primary Deficit (-)/ Surplus (+) (10-19) | (+) 2,004 |

Table No. 2 shows that revenue receipts increased by Rs 5,127 crore (22.21 *per cent*) during 2007-08 while revenue expenditure increased by Rs 2,978 crore (14.47 *per cent*) over the previous year resulting in an increase of Rs 2,149 crore in revenue surplus during 2007-08 over the previous year level of Rs 2,498 crore. Given the increment of Rs 2,149 crore in revenue surplus during 2007-08 and an increase of Rs 19 crore under non-debt capital receipts accompanied with an increase of Rs 850 crore in capital expenditure together with disbursement of loans and advances resulted in decline of Rs 1,318 crore in fiscal deficit during 2007-08 from Rs 3,021 crore in 2006-07. The decline in fiscal deficit alongwith an increase of Rs 291 crore in interest payments led to a steep increase in primary surplus of Rs 2,004 crore in 2007-08 from the surplus of Rs 395 crore in 2006-07.

1.2 Methodology adopted for the assessment of Fiscal position

The trends in the major fiscal aggregates of receipts and expenditure as emerged from the Statements of Finance Accounts are analyzed wherever necessary over the period of last five years and observations are made on their behavior. In its Restructuring Plan of State finances, the Twelfth Finance Commission (TFC) recommended the norms/ceilings for some fiscal aggregates and also made normative projections for others. In addition, TFC also recommended that all States are required to enact the Fiscal Responsibility Acts and draw their fiscal correction path accordingly for the five year period (2005-06 to 2009-10) so that fiscal position of State could be improved as committed in their respective FR Acts/Rules during medium to long run. The norms/Ceilings prescribed by the TFC as well as its projections for fiscal aggregates along with the commitments/projections made by the State Governments in their Fiscal Responsibility Acts and in other Statements required to be laid in the legislature under the Act are used to make qualitative assessment of the trends and pattern of major fiscal aggregates during the current year. Assuming that Gross State Domestic Product (GSDP) is the good indicator of the performance of the State's economy, major fiscal aggregates like tax and non-tax revenue, revenue and capital expenditure, internal debt and revenue and fiscal deficits have been presented as percentage to the GSDP at current market prices.

The revised GSDP series with 1999-00 as base, published by the Directorate of Economics and Statistics of the State Government, have been used in estimating these percentages and buoyancy ratios. The trends in growth and composition of GSDP for last five years are presented in **Table No. .3**.

Table No. - 3
Trends in Growth of GSDP

(Rupees in crore)

| Estimates | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 |
|--|---------|---------|---------|-----------|--------------|
| Gross State Domestic Product (GSDP) | 66,253 | 73,221 | 80,157 | 98,957(P) | 1,05,148 (Q) |
| Rates of Growth (<i>per cent</i>) | | | | | |
| GSDP | 1.93 | 10.52 | 9.47 | 23.45 | 6.26 |

Source: Directorate of Economics and Statistics, Government of Bihar revised all GSDP figures in August 2008.
P-Provisional Q-Quick

The buoyancy coefficients for tax revenues, non-tax revenues, revenue expenditure etc. with reference to the base represented by GSDP have also been worked out to assess whether the mobilization of resources, pattern of expenditure etc. are keeping pace with the change in the base or these fiscal aggregates are also affected by factors other than GSDP. The key fiscal aggregates for the purpose are grouped under four major heads: (i) Trends of aggregate receipts and disbursement, (ii) Application of Resources, (iii) Assets and Liabilities and (iv) Management of Deficits (**Appendix 1.2 to 1.4**). 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. The definitions of some of the selected terms used in assessing the trends and pattern of fiscal aggregates are given in **Appendix 1.1-Part C**.

1.2.1 The Fiscal Responsibility and Budget Management (FRBM) Act, 2006

The State has enacted Fiscal Responsibility and Budget Management (FRBM) Act in April 2006. The Act envisaged that the State Government is responsible to ensure prudence in fiscal management and fiscal stability, to enhance the scope for improving social and physical infrastructure and human resources development by progressive elimination of revenue deficit, reduction in fiscal deficit, prudent debt management consistent with fiscal sustainability, greater transparency in fiscal operations of the Government and conduct of fiscal policy in a medium term framework.

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

- (i) Beginning from financial year 2006-07 and in case there being revenue deficit, reduce revenue deficit/GSDP ratio every year by at least 0.1 *per cent* depending upon the economic situation and eliminate revenue deficit by 2008-09 and generate revenue surplus thereafter.
- (ii) Beginning from financial year 2006-07 reduce fiscal deficit/GSDP ratio every year by at least 0.3 *per cent* if it is more than three *per cent* and to not more than three *per cent* by 2008-09.

1.2.2 Roadmap to achieve the Fiscal Targets as laid down in FRBM Act/Rules

The State Government has evolved its Own Fiscal Correction Path indicating the actuals for 2004-05 and 2005-06 and the projections for the period from 2006-07 to 2009-10 for the selected outcome indicators (**Appendix 1.2**). The State Government projected the revenue surplus at Rs 1,310 crore and Fiscal Deficit at Rs 4,159 crore in its FCP for the year 2007-08.

1.2.2.1 Fiscal Policy Statement

As required under Para 5 of FRBM Act, Fiscal Policy Statement for 2007-08 along with the working plan of fiscal policy was prepared and laid before the house by the State Government (March 2007) wherein revenue surplus of Rs 3,483 crore (BE) and fiscal deficit of Rs 3,159 crore was projected for 2007-08.

1.2.2.2 Mid-term Review of Fiscal Situation

In compliance to section 11.1 of FRBM Act 2006, Finance Department is required to review every quarter the trends in receipts and expenditure in relation to the budget and place the outcome of such reviews before the Legislative Assembly. The State Government submitted the performance Fiscal Policy Report for the first and second quarter before the house in December 2007 while the review up to third quarter was placed before the house in March 2008. The performance of the State against the original budget estimates in terms of key fiscal parameters indicated in the Mid-Term review up to third quarter is summarized in the following Table.

Table No. 4
Performance of the State in terms of key Fiscal Parameters

(Rupees in crore)

| Key fiscal variables | BE for 2007-08 | Performance (up to third quarter) | Achievement of BE up to 3 rd quarter (in per cent) |
|------------------------------|----------------|-----------------------------------|---|
| Revenue Expenditure | 21,291.21 | 18,983.04 | 89.16 |
| Non-plan Revenue Expenditure | 18,543.41 | 13,365.04 | 72.07 |
| Plan Revenue Expenditure | 5,414.32 | 4,921.08 | 90.89 |
| Revenue Receipt | 27,441.03 | 16,238.26 | 59.17 |
| Own Tax Receipt | 4,969.97 | 3,177.01 | 63.92 |
| Non Tax Receipt | 396.25 | 164.02 | 41.39 |
| Loans and Advances disbursed | 279.67 | 10.23 | 3.66 |

1.2.2.3 Fiscal Performance

The performance of the State in terms of key fiscal variables vis-à-vis targets laid down in FRBM/TFC as well as in Fiscal Correction Path (FCP) and Mid Term Fiscal Policy Statement (MTFPS) is given in **Table No. 5**.

Table No. 5
Performance of the State in terms of key Fiscal variables

(Rupees in crore)

| Key fiscal variable | Targets for 2007-08 laid in | | | Actual |
|--|---------------------------------|----------|-----------|----------|
| | FRBM/TFC | FCP | MTFPS | |
| Revenue Deficit (-) / Revenue Surplus(+) / GSDP# | 0.00 (31.3.09) | (+)1.54 | (+)3.31 | (+)4.42 |
| Fiscal Deficit (-) / GSDP# | Not more than 3% (31.3.2009) | (-) 4.48 | (-) 3.40 | (-) 1.62 |
| Non Plan Revenue Expenditure | 17,006* | 18,665 | 18,543.41 | 18,759 |
| State Own Tax Revenue | 6,430* | 5,020 | 4,969.97 | 5,086 |
| State Own Non Tax Revenue | 1,162* | 353 | 396.25 | 526 |
| Fiscal Liabilities/GSDP# Ratio | 30.80 | 61.52 | 53.78 | 48.49 |

* TFC Assessment/Norms

GSDP at current prices is adopted to estimate the deficit indicators in MTFPS.

The trends in major fiscal parameters/ variables vis-à-vis projections made in FRBM Act/TFC as well as in State's FCP and the budget for the 2007-08 present in the above table reveals that the State has achieved the targets for revenue and fiscal deficits as laid down in State's FRBM Rules, 2007 as well as in its projections for the year 2007-08. The State has achieved deficit targets as laid down in the FRBM Act/Rules and TFC much before the timeline indicated in them with the current year ending in a revenue surplus of Rs 4,647 crore and Fiscal deficit at Rs 1,703 crore which was 1.62 per cent of GSDP. However, in terms of fiscal variables such as the State's own tax and Non-tax revenue as well as debt-GSDP ratio, its performance remained far below the assessment /norms of TFC although it exceeded the State's own projections made in FCP and MTFP for the year 2007-08.

1.3 Trends and Composition of Aggregate Receipts

The aggregate receipts of 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 mainly of 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 No. 6** shows that the total receipts of the State Government for the year 2007-08 were Rs 42,685 crore. Of these, the revenue receipts were Rs 28,210 crore, constituting 66.09 per cent of total receipts. The balance came from capital receipts (3.84 per cent) and receipts from Public Account (30.07 per cent).

Table No. 6
Trends in Growth and Composition of Aggregate Receipts

| <i>(Rupees in crore)</i> | | | | | |
|--------------------------------------|---------------|---------------|---------------|---------------|---------------|
| Sources of State's Receipts | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 |
| I Revenue Receipts | 12,456 | 15,714 | 17,837 | 23,083 | 28,210 |
| II Capital Receipts | 5,079 | 7,637 | 3,821 | 2,365 | 1,638 |
| Recovery of Loans and Advances | 10 | 15 | 51 | 7 | 26 |
| Public Debt Receipts | 5,069 | 7,622 | 3,770 | 2358 | 1,612 |
| Miscellaneous Capital Receipts | -- | -- | -- | -- | -- |
| III Contingency Fund | -- | -- | -- | -- | -- |
| IV Public Account Receipts | 7,440 | 4,093 | 5,694 | 9,224 | 12,837 |
| a. Small Savings, Provident Fund etc | 987 | 1,198 | 1,087 | 1,012 | 1,084 |
| b. Reserve Fund | -- | 189 | 440 | -- | 392 |
| c. Deposits and Advances | 3,154 | 3,129 | 1,886 | 3,014 | 4,484 |
| d. Suspense and Miscellaneous | 2,079 | (-)1,661 | 211 | 160 | 190 |
| e. Remittances | 1,220 | 1,238 | 2,070 | 5,038 | 6,687 |
| Total Receipts | 24,975 | 27,444 | 27,352 | 34,672 | 42,685 |

The total receipts of the State increased from Rs 24,975 crore in 2003-04 to Rs 42,685 crore in 2007-08. The Public Debt (capital receipts) which create future repayment obligation decreased from Rs 5,069 crore in 2003-04 to Rs 1,612 crore in 2007-08. Public Account receipt also increased from Rs 9,224 crore in 2006-07 to Rs 12,837 crore in 2007-08. Sharp increase in public account receipts during the year was mainly attributed to increase in Deposits and Advances from Rs 3,014 crore to Rs 4,484 crore and Remittances from Rs 5,038 crore to Rs 6,687 crore. However if the receipts

under these heads are deducted from the disbursements, the net increase during the year amounts to Rs 1,700 crore under Deposits and Advances and Rs 618 crore under remittances.

1.3.1 Revenue Receipts

Statement-11 of the Finance Accounts details the revenue receipts of the Government. Overall revenue receipts, its annual rate of growth, ratio of these receipts to the GSDP and its buoyancies are indicated in **Table No. 7**.

Table No. 7
Revenue Receipts - Basic Parameters

(Rupees in crore and percentages in bracket)

| | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 |
|--|------------|------------|-------------|-------------|-------------|
| Revenue Receipts (RR) | 12,456 | 15,714 | 17,837 | 23,083 | 28,210 |
| Own Taxes | 2,890 (23) | 3,347 (21) | 3,561 (20) | 4,033 (17) | 5,086 (18) |
| Non-Tax Revenue | 320 (3) | 418 (3) | 522 (3) | 511 (2) | 526 (2) |
| Central tax Transfers | 7,628 (61) | 9,117 (58) | 10,421 (58) | 13,292 (58) | 16,766 (59) |
| Grants-in-aid | 1,618 (13) | 2,832 (18) | 3,333 (19) | 5,247 (23) | 5,832 (21) |
| Rate of Growth of RR (<i>per cent</i>) | 13.57 | 26.16 | 13.51 | 29.41 | 22.21 |
| Revenue Receipt/GSDP (<i>per cent</i>) | 18.80 | 21.46 | 22.25 | 23.33 | 26.83 |
| Revenue Buoyancy (ratio) ¹ | 7.03 | 2.49 | 1.43 | 1.25 | 3.55 |
| State's own resources Buoyancy (ratio) | 3.22 | 1.64 | 0.89 | 0.48 | 3.75 |
| Revenue Buoyancy with reference to State's own taxes (ratio) | 2.91 | 1.65 | 2.13 | 2.23 | 0.85 |
| GSDP Growth (<i>per cent</i>) | 1.93 | 10.52 | 9.47 | 23.45 | 6.26 |

General Trends

The revenue receipts have shown a progressive increase over the period 2003-08. Within its own sources, the share of tax revenue revealed a declining trend while share of non-tax revenue remained almost static during the period. Similarly, within the central transfers, the share of grants-in-aid gradually increased and though the share of central tax transfers contributed a lion's share in State receipts it exhibited relative stability during the period. Revenue receipts and State's own buoyancy ratios with reference to GSDP have increased sharply, primarily due to decline in rate of growth of GSDP from 23.45 *per cent* in 2006-07 to a moderate rate of 6.26 *per cent* in 2007-08. Revenue buoyancy with reference to state own tax revenue however sharply declined to 0.85 *per cent* during the current year.

Tax Revenue: The Tax Revenue has increased by 26.11 *per cent* during the current year (Rs 5,086 crore) over previous year (Rs 4,033 crore). **Table No. 8** presents the trends in Tax Revenue during 2003-08. Sales tax (49.84 *per cent*) was the major source of the State tax revenue followed by Stamp and Registration fees (12.86 *per cent*), taxes on State Excise (10.33 *per cent*) and

¹ *Buoyancy ratio indicates the elasticity or degree of responsiveness of a fiscal variable with respect to a given change in the base variable. For instance revenue buoyancy at 0.852 during 2007-08 implies that revenue receipts tend to increase by 0.85 percentage points if the GSDP increases by one per cent.*

taxes on vehicle (5.37 per cent). Percentage realization on Land Revenue remained same.

A steep increase in revenue from sales tax was on account of additional sales tax levied on specific items for their sale amounting to Rs 250 crore and in case of excise duties it was on account of implementation of the Minimum Guaranteed Quota (MGQ) system for sale of alcohol in the State.

Table No. 8
Tax Revenue

(Rupees in crore)

| | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 |
|--------------------------------|---------|---------|---------|---------|---------|
| Land Revenue | 34 | 33 | 55 | 75 | 82 |
| Stamps and Registration | 418 | 429 | 505 | 455 | 654 |
| State Excise | 240 | 272 | 319 | 382 | 525 |
| Sales Tax | 1,637 | 1,891 | 1,734 | 2,081 | 2,535 |
| Taxes on Vehicles | 209 | 213 | 302 | 181 | 273 |
| Other Taxes * | 352 | 509 | 646 | 859 | 1,017 |
| Total | 2,890 | 3,347 | 3,561 | 4,033 | 5,086 |

* Other Taxes: includes taxes on income and expenditure, taxes on immovable property other than agricultural land, taxes on goods and passengers, taxes on duties and electricity, other taxes on duties and commodities and services.

Non Tax Revenue: The Non-Tax Revenue which constituted 1.86 per cent of total revenue receipts increased by Rs 15 crore over the previous year. Non-Tax-Revenue of Rs 526 crore in 2007-08 comprises mainly of income from Non-Ferrous Mining and Metallurgical Industries (Rs 178.66 crore: 34.03 per cent), Interest realized on investment of cash balance, Dividends and Profits (Rs 170.71 crore: 32.70 per cent). During 2007-08, major increases were noticed under major heads non-ferrous metallurgical industries (Rs 51 crore) and Police (Rs 12.94 crore) which were partly offset by decreases under the major heads 'Miscellaneous General Services (Rs 17.86 crore), Social Security and Welfare (Rs 16.04 crore), Other Administrative Services (Rs 8.28 crore) and Education, Sports and Culture (Rs 6.69 crore) during the year.

The actual Revenue receipts in the year vis-à-vis assessments made by TFC/State Government are given in **Table No. 9**.

Table No. 9
Actual Revenue receipts /assessment by TFC/State Government

(Rupees in crore)

| | Assessments made by TFC | Assessments made by State Government in Fiscal Correction Path | Actuals |
|------------------------|-------------------------|--|---------|
| | (1) | (2) | (3) |
| Tax Revenue | 6,430 | 5,020 | 5,086 |
| Non-Tax Revenue | 1,162 | 353 | 526 |

Tax revenue/Non-Tax Revenue of the State was far below the normative projections made by TFC. Although Non-Tax Revenue was merely 45 per cent of the TFC projection for the year it exceeded the State's own projection made in FCP.

Central Tax Transfers: The Central Tax Share transfers increased by Rs 3,474 crore over the previous year and constituted 59 *per cent* of revenue receipts. The increase was mainly under corporation tax (Rs 1,172.73 crore), Taxes on Income other than Corporation Tax (Rs 1,052.35 crore) Customs Duties (Rs 576.66 crore), Service tax (Rs 399.02 crore) and Union Excise Duty (Rs 272.51 crore)

Grants-in-aid: The Grants-in aid from GOI increased from Rs 5,247 crore in 2006-07 to Rs 5,832 crore in the current year. The increase was mainly under State Plan Scheme (Rs 468.59 crore), Centrally Sponsored Schemes (Rs 385.33 crore), with decrease in Non-Plan grants & other grants (Rs 178.34 crore) and Central Plan Scheme (Rs 91.03 crore). The increase in centrally sponsored schemes during 2007-08 was mainly on account of enhanced grants under Elementary Education (Rs 357.87 crore) and Soil and Water Conservation (Rs 279.16 crore) which were partly offset by decrease in General Education (Rs 231.47 crore). A fall in central plan schemes was observed due to release of lower grants under the residual head 'others' from Rs 115.09 crore in 2006-07 to Rs 13.63 crore in 2007-08. Details of Grants in aid from GOI are given in **Table No. 10**

Table No 10
Grants-in-aid from GOI

(Rupees in crore)

| | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|
| Grants for State plan schemes | 1,169.28 | 1,642.90 | 1,555.66 | 2,445.24 | 2,913.83 |
| Non Plan grants | 151.56 | 683.99 | 1,201.08 | 1,683.41 | 1,505.08 |
| Grants for Central Schemes | 45.95 | 10.33 | 89.99 | 144.29 | 53.26 |
| Grants for Central and Centrally Sponsored Schemes | 250.83 | 494.61 | 485.99 | 974.17 | 1,359.50 |
| Total | 1,617.62 | 2,831.83 | 3,332.72 | 5,247.11 | 5,831.67 |
| Percentage of increase over previous year | 15.77 | 75.06 | 17.69 | 57.44 | 11.14 |

As per the recommendations of TFC Sector Specified non-plan grants of Rs 532.36 crore for Education, Rs 359.66 crore for Health, Rs 89.90 crore for Buildings (public works) and Rs 77.34 crore for Roads and Bridges were to be released by GOI during the years. However, only 50 *per cent* as first installment for education, health and buildings was released during the year as State Government failed to fulfill the requisite conditions for the release of subsequent installments of grants under these sectors. Pre-condition for release of grants-in-aid under these sectors was that B.E. under NPPE for 2007-08 and actual of 2005-06 for NPPE of the relevant head should not be less than the projected normal expenditure as prescribed plus actual release of the grants for 2005-06. As there was short fall in actual of 2005-06 for NPPE of Education, Health and Building Sector for Rs 43.55 crore, Rs 31.78 crore and Rs 9.75 crore respectively, the subsequent installment of the grants-in-aid for 2007-08 was with held by GOI.

Revenue Arrears: As on 31 March 2008 Rs 1,596.08² crore were pending for realization of revenue out of which Rs 673.85 crore were outstanding for more than five years.

1.4 Application of Resources

1.4.1 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 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 16,829 crore in 2003-04 to Rs 29,939 crore in 2007-08. 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 No. 11**.

Table No. 11
Total Expenditure - Basic Parameters

(Rupees in crore and other figures in per cent)

| | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 |
|---|---------|---------|---------|---------|---------|
| Total Expenditure (TE)** Rupees | 16,829 | 16,971 | 21,588 | 26,111 | 29,939 |
| Rate of Growth | 20.45 | 0.84 | 27.21 | 20.95 | 14.66 |
| TE/GSDP Ratio | 25.40 | 23.18 | 26.93 | 26.39 | 28.47 |
| Revenue Receipts/TE Ratio | 74.02 | 92.59 | 82.62 | 88.40 | 94.22 |
| Buoyancy of Total Expenditure with | | | | | |
| GSDP (ratio) | 10.60 | 0.08 | 2.87 | 0.89 | 2.34 |
| Revenue Receipts (ratio) | 1.51 | 0.03 | 2.01 | 0.71 | 0.66 |

** Total expenditure includes revenue expenditure, capital expenditure and loans & advances

The total expenditure during the current year has increased by Rs 3,828 crore over the previous year of which revenue expenditure shared Rs 2,978 crore, capital expenditure Rs 893 crore accompanied with a decrease in disbursement of loans and advances by Rs 43 crore during the year. In terms of Plan and Non-plan, the Non-plan expenditure (Revenue and Capital) increased by Rs 2,236 crore and Plan expenditure by Rs 1,592 crore during the year. Non-plan expenditure mainly increased under Health and Family Welfare (Rs 162 crore), Education, Sports, Art and Culture (Rs 557 crore), Water supply, Sanitation, Housing and Urban Development (Rs 132 crore), Social Welfare and Nutrition (Rs 646 crore) and Agriculture and Allied activities (Rs 170 crore). The increases in plan expenditure during 2007-08 over the previous year were observed mainly under Transport (capital: Rs 638 crore); Rural

² Taxes on sales trades etc. Rs 916.08 crore, Taxes on Vehicle Rs 112.56 crore, Land Revenue Rs 133.94 crore, State Excise Rs 14.34 crore, Taxes on Duties on Electricity Rs 3.69 crore, Entry Tax Rs 40.75 crore, Entertainment Tax Rs 3.31 crore, Taxes on Sugarcane Rs 15.34 crore, Water Rates Rs 190.68 crore and Mines and Minerals Rs 165.39 crore.

Development (revenue: Rs 304 crore, Capital: Rs 207 crore). During the current year, 94.22 *per cent* of total expenditure was met from revenue receipts and the remaining from capital receipts and borrowed funds. The buoyancy of total expenditure to GSDP ratio stood at 2.34 in 2007-08 indicating a tendency to spend more than the increase in income and higher elasticity of total expenditure with respect to GSDP.

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 service, grants-in-aid and loans and advances. Relative share of these components in total expenditure is indicated in **Table No. 12**.

Table No.12
Components of Expenditure – Relative Share

(Figures in per cent)

| | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 |
|-------------------------------|---------|---------|---------|---------|---------|
| General Services | 42.77 | 46.38 | 39.81 | 33.70 | 31.64 |
| Of which Interest Payments | 46.59 | 44.52 | 42.81 | 38.83 | 39.13 |
| Social Services | 24.93 | 29.06 | 33.31 | 32.60 | 35.63 |
| Economic Services | 17.01 | 17.89 | 18.76 | 32.48 | 31.80 |
| Loans and Advances | 15.27 | 6.65 | 8.10 | 1.21 | 0.91 |
| Grants-in-aid | 0.02 | 0.02 | 0.02 | 0.02 | 0.02 |

The movement of relative shares of these components of expenditure indicate that while the share of social services in total expenditure increased from 24.93 *per cent* (2003-04) to 35.63 *per cent* (2007-08), except 2006-07, the relative share of Economic services increased from 17.01 *per cent* to 32.48 *per cent* with minor decrease of 0.68 *per cent* during the year 2007-08. Disbursement of loans and advances decreased from 15.27 *per cent* to 0.91 *per cent* during the year. Relative shares of Grants-in-aid almost remained the same (0.02 *per cent*) during the period. Share of General Services which was a dominating portion of total expenditure (46.38 *per cent*) in 2004-05 showed diminishing trend and was only 31.64 *per cent* of the total expenditure during 2007-08.

1.4.2 Incidence of Revenue expenditure

Revenue expenditure had the predominant share in the total expenditure. Non-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 to revenue receipts and its buoyancy are indicated in **Table No. 13**

Table No. 13
Revenue Expenditure - Basic Parameters

(Rupees in crore)

| | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 |
|---|----------------|----------------|----------------|----------------|----------------|
| Revenue Expenditure (RE) Of which | 12,711 | 14,638 | 17,756 | 20,585 | 23,563 |
| Non-Plan Revenue Expenditure (NPRE) | 11,627 (91) | 12,642 (86) | 15,020 (85) | 16,520 (80) | 18,759 (80) |
| Plan Revenue Expenditure (PRE) | 1,084 (9) | 1,996 (14) | 2,736 (15) | 4,065 (20) | 4,804 (20) |
| Rate of Growth (<i>per cent</i>) | | | | | |
| R. E. | 3.72 | 15.16 | 21.30 | 15.93 | 14.47 |
| NPRE | 6.66 | 8.73 | 18.81 | 9.99 | 13.55 |
| PRE | (-)19.94 | 84.13 | 37.07 | 48.57 | 18.18 |
| RE/TE <i>per cent</i> | 76 | 86 | 82 | 79 | 79 |
| NPRE/GSDP (<i>per cent</i>) | 17.55 | 17.27 | 18.74 | 16.69 | 17.84 |
| NPRE as <i>per cent</i> of TE | 69.09 | 74.49 | 69.58 | 63.27 | 62.66 |
| NPRE as <i>per cent</i> of RR | 93.34 | 80.45 | 84.21 | 71.57 | 66.50 |
| Buoyancy of Revenue Expenditure with | | | | | |
| GSDP (ratio) | 1.93 | 1.44 | 2.25 | 0.68 | 2.31 |
| Revenue Receipts (ratio) | 0.27 | 0.58 | 1.58 | 0.54 | 0.65 |

(Total Expenditure includes Loan & Advances)

Revenue expenditure of the State increased from Rs 12,711 crore in 2003-04 to Rs 23,563 crore in 2007-08. The share of Non-Plan Revenue Expenditure indicated a declining tendency during 2003-07 but continued to occupy a dominant proportion of revenue expenditure (80 *per cent*) during 2007-08. Of the total increase of Rs 2,978 crore in revenue expenditure over the previous year, the increase under Non-Plan Revenue Expenditure and Plan Revenue Expenditure was Rs 2,239 crore and Rs 739 crore respectively during the year. Major increase in NPRE was observed under drinking water (Rs 459 crore) and assistance to flood affected areas (Rs 322 crore); Elementary Education (Rs 815.62 crore), partly offset by decrease in expenditure for maintenance of school building (Rs 331.50 crore). The increase under PRE was attributed to mainly expenditure on repairs and reconstruction of houses due to natural calamities (Rs 422 crore) and Rural Development Programmes (Rs 304 crore).

Non-plan revenue expenditure (Rs 18,759 crore) exceeded not only the TFC assessment (Rs 17,006 crore) by Rs 1,753 crore but also the projections made in FCP (Rs 18,665 crore) and the Budget (Rs 18,543 crore) by Rs 94 crore and Rs 216 crore respectively during the current year.

1.4.3 Committed expenditure

1.4.3.1 Expenditure on Salaries

The trends in expenditure on salaries both under plan and non-plan heads are presented in **Table No. 14**

Table No. 14
Expenditure on salaries

(Rupees in crore)

| Heads | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 |
|----------------------------------|----------|----------|----------|----------|----------|
| Expenditure on salaries of which | 5,019.88 | 5,005.36 | 5,783.35 | 6,016.21 | 6,469.53 |
| Non-Plan Head | 4,467.59 | 4,564.16 | 5,152.79 | 5,538.57 | 5,914.81 |
| Plan Head | 552.29 | 441.20 | 630.56 | 477.64 | 554.72 |
| As a percentage of GSDP | 7.58 | 6.48 | 7.22 | 6.08 | 6.15 |
| As a percentage of RR | 40.30 | 31.85 | 32.42 | 26.06 | 22.93 |
| As a percentage of RE | 39.49 | 34.19 | 32.57 | 29.23 | 27.46 |

Salary alone accounted for nearly 22.93 *per cent* of the Revenue Receipt of the State. Salary expenditure under Non-Plan head increased from Rs 4468 crore in 2003-04 to Rs 5,915 crore in 2007-08 whereas under Plan head it oscillated between Rs 441 to Rs 631 crore during the period. An increase of Rs 453 crore (7.53 *per cent*) in salary expenditure during 2007-08 was mainly due to enhancements in various allowances of Government employees. Total salary bill under non-plan heads as compared to non-plan revenue expenditure net of interest payments and pension was 48.23 *per cent* which was significantly more than the norms of 35 *per cent* as recommended by TFC.

1.4.3.2 Pension Payments

Table No. 15
Expenditure on Pensions

(Rupees in crore)

| Heads | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 |
|----------------------------|---------|---------|---------|---------|---------|
| Expenditure on Pensions | 2,269 | 2,325 | 2,456 | 2,497 | 2,789 |
| Rate of growth | 10.74 | 2.47 | 5.63 | 1.67 | 11.69 |
| As <i>per cent</i> of GSDP | 3.42 | 3.18 | 3.06 | 2.52 | 2.65 |
| As <i>per cent</i> of RR | 18.22 | 14.80 | 13.77 | 10.82 | 9.89 |
| As <i>per cent</i> of RE | 17.85 | 15.88 | 13.88 | 12.13 | 11.84 |

Pension payment increased from Rs 2,269 crore in 2003-04 to Rs 2,789 crore in 2007-08, which was well within the projected expenditure Rs 3,259 crore in its fiscal correction path for 2007-08 as well as assessment made by TFC (Rs 3,239.81 crore). 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 1 September 2005. The increase in pension payment (Rs 292 crore)

during 2007-08 over previous year was attributed mainly due to end of two years moratorium on date of retirement (March 2007) declared by the Government.

1.4.3.3 Interest payments

The trends of expenditure on interest payments, in terms of revenue receipts and revenue expenditure during 2003-08 are presented in **Table No. 16**

Table No. 16

Interest Payments

| Year | Total Revenue Receipts | Total Revenue Expenditure | Interest payments | Percentage of interest payment with reference to | |
|---------|--------------------------|---------------------------|-------------------|--|---------------------|
| | <i>(Rupees in crore)</i> | | | Revenue Receipts | Revenue Expenditure |
| 2003-04 | 12,456 | 12,711 | 3,343 | 26.84 | 26.30 |
| 2004-05 | 15,714 | 14,638 | 3,474 | 22.11 | 23.73 |
| 2005-06 | 17,837 | 17,756 | 3,649 | 20.46 | 20.55 |
| 2006-07 | 23,083 | 20,585 | 3,416 | 14.80 | 16.59 |
| 2007-08 | 28,210 | 23,563 | 3,707 | 13.14 | 15.73 |

In absolute terms, interest payments increased from Rs 3,343 crore in 2003-04 to Rs 3,707 crore in 2007-08. The main component of interest payment include the internal debt (Rs 2475.22 crore), interest on small savings, provident fund etc. (Rs 579.64 crore) and interest on loan advances from Central Government (Rs 640.62 crore). Interest payments remained lower than the projections made in FCP (Rs 4,400 crore) and TFC (Rs 4,536.10 crore) for the year 2007-08. Interest payments relative to revenue receipts were also less than the norm of 15 *per cent* prescribed by TFC.

1.5 Expenditure by Allocative Priorities

1.5.1 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 No. 17** gives these ratios during 2003-08.

Table No. 17
Indicators of Quality of Expenditure

(Rupees in crore)

| | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 |
|---|---------------|---------------|---------------|----------------|----------------|
| Capital Expenditure | 1,549 | 1,205 | 2,084 | 5,211 | 6,104 |
| Revenue Expenditure | 12,711 | 14,638 | 17,756 | 20,585 | 23,563 |
| Of which Social and Economic Services with | 7,058 | 7,968 | 11,241 | 16,994 | 20,187 |
| (i) Salary Component | 3,824 (54) | 3,699 (46) | 4,304 (38) | 4,110 (24) | 4,378 (22) |
| (ii) Non Salary Component | 3,234 (46) | 4,269 (54) | 6,937 (62) | 12,884 (76) | 15,809 (78) |
| As per cent of total expenditure (excluding loan and advances) | | | | | |
| Capital Expenditure | 11 | 8 | 11 | 20 | 21 |
| Revenue Expenditure | 89 | 92 | 89 | 80 | 79 |
| As per cent of GSDP | | | | | |
| Capital Expenditure | 2.34 | 1.65 | 2.60 | 5.27 | 5.81 |
| Revenue Expenditure | 19.19 | 19.99 | 22.15 | 20.80 | 22.41 |

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

Revenue expenditure of the State constituted a dominant share of the total expenditure ranging between 79 to 92 *per cent* during 2003-08 thus restricting the share of expenditure on capital account from eight to 21 *per cent*. The revenue expenditure incurred on social and economic services increased from Rs 7,058 crore in 2003-04 to Rs 20,187 crore in 2007-08, within the revenue expenditure, the share of salary component has gradually declined from 54 *per cent* in 2003-04 to 22 *per cent* in 2007-08 while the share of non-salary component has correspondingly increased from 46 to 78 *per cent* during this period. Assuming that capital expenditure is incurred on creating physical and social infrastructure and non salary component of revenue expenditure on efficient running and maintenance of social and economic services, then trends presented in the table would tend to indicate improvement in quality of development expenditure in state during the period.

1.5.2 Expenditure on Social Services

Given the fact that human resources 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. *Appendix 1.5* summarizes the expenditure incurred by the State Government in expanding and strengthening of social services in the State during 2003-08.

The allocation to social sector increased from Rs 4,197 crore in 2003-04 to Rs 10,667 crore in 2007-08 indicating the Government commitment to improve social well being of the society. Expenditure on Social Sector during current year (Rs 10,667 crore) accounted for 35.96 *per cent* of total

expenditure and 52.84 per cent of developmental expenditure³. Under Social sector expenditure on Education, Sports, Art and Culture was Rs 5,553.27 crore (52.06 per cent), Health and Family Welfare Rs 1,387.03 crore (13 per cent), Water Supply, Sanitation, Housing and Urban Development Rs 1,052.72 crore (9.87 per cent) and on other Social Services Rs 2,673.89 crore during the year. Expenditure on education has increased by Rs 194 crore (16.82 per cent) over previous year while the expenditure on health and family welfare has shown an increase of Rs 234 crore (20.32 per cent) over previous year. Recognising the need to improve the quality of education and health services, TFC recommended that the non-plan salary expenditure under education and health and family welfare should increase only by five to six per cent while non-salary expenditure under non-plan heads should increase by 30 per cent per annum during the award period. However, trends in expenditure revealed that increase in salary expenses on Education was 1.30 and 4.57 per cent during 2006-07 and 2007-08 over the corresponding previous years while in Health sector it was (-) five and two per cent during the same period. Similarly increase in non-salary expenses was 40 and four per cent in education and 54 and 35 per cent in health sector during the year 2006-07 and 2007-08. The unevenness in expenditure pattern of these priority sectors might affect the development in these sectors if continued to persist in future.

1.5.3 Expenditure on Economic Services

The expenditure on economic services includes all such expenditure as to promote directly or indirectly, productive capacity within the States' economy. The expenditure on Economic Services (Rs 9,520 crore) accounted for 32.09 per cent of the total expenditure and 47.16 per cent of developmental expenditure (**Appendix I.6**). Agriculture and Allied Activities, Irrigation and Flood Control, Energy and Transport accounted for nearly 60.47 per cent of the Economic Services expenditure.

The trends in revenue and capital expenditure on Economic services indicate that capital expenditure increased by 278.74 per cent from Rs 1,364 crore (47.65 per cent of total expenditure) in 2003-04 to Rs 5,082 crore (53.38 per cent) in 2007-08 except a dip in 2004-05. On the other hand revenue expenditure increased steadily by 196.22 per cent from Rs 1,498 crore (52.35 per cent) in 2003-04 to Rs 4,438 crore (46.62 per cent) in 2007-08. An increase of Rs 622 crore (13.95 per cent) during 2007-08 over previous year under capital expenditure led to the increase in its share in total expenditure incurred on economic services from 52.59 per cent in 2006-07 to 53.38 per cent in 2007-08 suppressing the share of revenue expenditure to 47.41 per cent and 46.62 per cent respectively. Within the revenue expenditure, the share of salary component consistently decreased from 53 per cent in 2003-04 to 22 per cent during 2007-08 and the share of non salary component has correspondingly increased from 46 per cent to 78 per cent during the period.

³ *Development expenditure is defined as the total expenditure made on social and economic services.*

1.5.4 Financial Assistance to local bodies and other Institutions

The quantum of assistance provided by way of the grants and loans to local bodies and others during the five years period 2003-08 is presented in **Table No. 18**

Table No. 18
Financial Assistance to local bodies and other institutions

(Rupees in crore)

| | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 |
|--|---------------|---------------|-----------------|-----------------|----------------|
| Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.) | 545.94 | 564.99 | 803.65 | 845.17 | 808.58 |
| Municipal Corporations and Municipalities | 83.71 | 117.91 | 277.56 | 141.13 | 209.40 |
| Zila Parishads and other PR Institutions | 133.92 | 2.63 | 3.75 | 6.50 | 13.16 |
| Development Agencies | 3.87 | 110.15 | 18.56 | 3.20 | 1.88 |
| Hospital and Other Charitable Institutions | -- | 5.00 | 3.00 | -- | 5.00 |
| Other Institutions | 20.99 | 12.68 | 3.92 | 21.23 | 95.35 |
| Total | 788.43 | 813.36 | 1,110.44 | 1,017.23 | 1133.37 |
| Assistance as per percentage of Revenue Expenditure | 6.20 | 5.56 | 6.25 | 4.94 | 4.81 |

Assistance given by the State marginally varied within the range of 4.80 to 6.20 *per cent* of revenue expenditure during the period 2003-08. It is observed that major proportion of financial assistance was given to education institutions including aided schools, colleges and universities primarily for the salary and other allowances for the teachers and other employees. It was also observed that assistance given to other institutions have steeply increased from Rs 21.23 crore in 2006-07 to Rs 95.53 crore in 2007-08. Amongst the others, Industrial Area Development Authority was the major beneficiary of the enhanced assistance during the current year especially for the land acquisition for setting up industries in the State.

1.5.5 Delay in furnishing utilization certificates

Of the 21,206 utilization certificates (UCs) due in respect of grants aggregating to Rs 4,849.23 crore paid upto 2007-08, 21,176 UCs (99.86 *per cent*) for an aggregate amount of Rs 4,627.20 crore (95.43 *per cent*) were in arrears. Details of outstanding UCs are given in **Appendix 1.7**.

1.5.6 Abstract of performance of the autonomous bodies

The audit of accounts of Bihar State Housing Board and Bihar Khadi and Village Industries Board, 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 indicated in **Appendix 1.8**.

1.6 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 1.9** gives an abstract of such liabilities and the assets as on 31 March 2008, compared with the corresponding position on 31 March 2007. 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 of the capital outlay, loans and advances given by the State Government and cash balances. In real terms the assets grew by Rs 7,919 crore (18.20 *per cent*) and liabilities increased by Rs 3,272 crore (6.48 *per cent*) over previous year. **Appendix 1.10** depicts the time series data on State Government finances for the period 2003-08.

1.6.1 Incomplete capital works

26 capital works, detailed in Appendix – IV of Finance Accounts, were taken up during 2006-08 at the cost of Rs 8,325.87 crore were to be completed during 2007-08 were left incomplete even after incurring an expenditure of Rs 3,271.20 crore (39.29 *per cent*) during the year.

1.6.2 Investments and returns

As of 31 March 2008, Government had invested Rs 828.68 crore (Rs 105.63 crore in Statutory Corporations, Rs 349.17 crore in Government Companies, Rs 3.88 crore in Joint Stock Companies and Rs 370 crore in Co-operative Banks & Societies).

Return from these investments was merely Rs 0.04 crore per annum against investment between Rs 700.01 crore and Rs 821.10 crore in 2003-07 and Rs 3.19 crore against investment of Rs 828.68 crore in 2007-08 which was merely 0.38 *per cent* while the Government paid interest at the average rate of 7.15 to 9.59 *per cent* on its borrowings during 2003-08. Earning from investment made in these Companies/Corporations and/or their accumulated losses could not be assessed as their accounts were not finalised and information on same was not provided by Government.

1.6.3 Loans and advances by State Government

Government has been providing loans and advances to Government Servants, institutions/organizations. The total outstanding loans and advances as on 31 March 2008, was Rs 14,128 crore (**Table No. 19**).

Table No. 19
Average Interest Received on Loans Advanced by the State Government

(Rupees in crore)

| | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 |
|---------------------------------|-----------|-----------|-----------|-----------|-----------|
| Opening Balance | 8,205.21 | 10,763.68 | 11,876.69 | 13,573.65 | 13,881.57 |
| Amount advanced during the year | 2,568.92 | 1,127.84 | 1,747.82 | 315.32 | 272.70 |
| Amount repaid during the year | 10.45 | 14.83 | 50.86 | 7.40 | 26.16 |
| Closing Balance | 10,763.68 | 11,876.69 | 13,573.65 | 13,881.57 | 14,128.10 |
| Net addition | 2,558.47 | 1,113.01 | 1,696.96 | 307.92 | 246.54 |

Major recipients of Government loan of Rs 272.70 crore during 2007-08 was power projects (Rs 237.23 crore) consumed 87 *per cent* of total loans and advances paid by the Government during 2007-08. Government was making loans and advances to power sector without ensuring their refund and interest payments obligations thereon. No repayment of loan from power sector was received during the year 2007-08. Loans amounting to Rs 11,853 crore was pending with Power Sector against total outstanding loan of Rs 14,128 crore.

1.6.4 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 the expenditure obligations, a mechanism of Ways and Means Advances (WMA) ordinary and special from the Reserve Bank of India has been put in place. The operative limit for Normal Ways and Means Advances is reckoned on the three year average of revenue receipts and the operative limit for Special Ways and Means Advances is fixed by Reserve Bank of India from time to time depending on the holding of Government securities. Bihar had the WMA limit of Rs 425 crore from April 1, 2007. Special WMA limit oscillated between Rs 19.01 crore to Rs 589.85 crore during the year against securities of the Government of India held by the State Government. State have to avail Special ways & means advances at the rate of one *per cent* below Bank rate before availing Normal ways and means advances.

No Ways and Means Advance and Overdraft was availed by the Government during last three years (2005-08).

1.7 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.

1.7.1 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. However, no law has been passed in the State to lay down any such limit. Other liabilities, which are a part of public account, include deposits under small savings scheme, provident funds and other deposits.

Table No. 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 well as buoyancy of fiscal liabilities with respect to these parameters.

Table No. 20
Fiscal Liabilities- Basic Parameters

(Rupees in crore and ratios in per cent)

| | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 |
|---|----------|----------|----------|----------|---------|
| Fiscal Liabilities ⁴ | 37,453 | 42,483 | 46,495 | 49,089 | 50,989 |
| Rate of Growth | 6.25 | 13.43 | 9.44 | 5.58 | 3.87 |
| Ratio of Fiscal Liabilities to | | | | | |
| GSDP | 56.53 | 58.02 | 58.00 | 49.61 | 48.49 |
| Revenue Receipt | 300.68 | 270.35 | 260.67 | 212.66 | 180.75 |
| Own Resources | 1,166.76 | 1,128.37 | 1,138.75 | 1,080.30 | 908.57 |
| Buoyancy of Fiscal Liabilities with reference to | | | | | |
| GSDP | 3.24 | 1.28 | 1.00 | 0.24 | 0.62 |
| Revenue Receipt | 0.46 | 0.51 | 0.70 | 0.19 | 0.17 |
| Own resources | 1.01 | 0.78 | 1.12 | 0.49 | 0.16 |

Overall fiscal liabilities of the State increased from Rs 37,453 crore in 2003-04 to Rs 50,989 crore in 2007-08. Fiscal Liabilities of the State comprised Consolidated Fund liabilities and Public Account liabilities. The Consolidated Fund liability (Rs 35,045 crore) comprised of market loan (Rs 26,769 crore) and loan from Government of India (Rs 8,276 crore). The Public Account liabilities (Rs 15,944 crore) comprise of Small Savings, Provident Funds (Rs 9,429 crore) and other obligation (Rs 6,515 crore). The rate of growth of fiscal liabilities decreased from 5.58 (2006-07) to 3.87 per cent during 2007-08 and the ratio of GSDP increased from 56.53 per cent in 2003-04 to 58.02 per cent in the year 2004-05 but it decreased to 48.49 per cent during the year 2007-08. These liabilities stood at 1.81 times the revenue receipts and 9.09 times of states own resources at the end of 2007-08.

⁴ Includes internal debt, Loans and advances from GOI, Debt from Small savings, Provident fund and other obligations (excludes Ways and Means Advance and Contingency Fund).

The buoyancy of these liabilities with respect to GSDP during the year was 0.62 per cent. Government has not constituted any fund like "Sinking Fund" for amortization of loans raised by the Government.

1.7.2 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 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 2003-04 is given in **Table No.21**.

Table No. 21

Guarantees given by the Government of Bihar

(Rupees in crore)

| | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 |
|--|----------|----------|----------|----------|---------|
| Maximum amount guaranteed | 1,531.08 | 1,531.08 | 1,531.08 | 1,537.73 | 1537.73 |
| Outstanding guarantees | 470.72 | 473.44 | 604.87 | 607.76 | 516.31 |
| Revenue receipts | 12,456 | 15,714 | 17,837 | 23,083 | 28210 |
| Percentage of maximum amount guaranteed to Revenue Receipt | 12.29 | 9.74 | 8.58 | 6.66 | 5.45 |

The amount of guarantees outstanding increased from Rs 470.72 crore during 2003-04 to Rs 607.76 crore in the year 2006-07 but decreased to Rs 516.31 crore during the year. Major recipients of such guarantees were Co-operative Bank & Societies (Rs 170 crore), Bihar State Financial Corporation (Rs 128 crore) and Bihar State Electricity Board (Rs 139 crore). The decline in outstanding guarantees (Rs 92 crore) was on account of fall in sum of guarantees given to Bihar State Financial Corporation for repayment of loans/overdrafts etc and the payment of interest thereupon during the current year.

1.8 Debt Sustainability

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

1.8.1 Debt Stabilization

A necessary condition for stability states that if the rate of growth of economy exceeds the interest rate or cost of public borrowings. The debt-GSDP ratio is likely to be stable provided primary balances are either zero or positive or are moderately negative. 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-GSDP ratio would be constant or debt would stabilize eventually. On the other hand, if primary deficit together with quantum spread turns out to be negative, debt-GSDP ratio would be rising and in case it is positive, debt-GSDP ratio would eventually be falling. Trends in fiscal variables indicating the progress towards the debt stabilization are indicated in **Table No. 22**.

Table No. 22

Debt Sustainability–Interest Rate and GSDP Growth

(Figures in per cent)

| | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 |
|---|-----------|-----------|---------|----------|---------|
| Average Interest Rate (per cent) | 9.00 | 9.59 | 8.20 | 7.15 | 7.15 |
| GSDP Growth (per cent) | 1.93 | 10.52 | 9.47 | 23.45 | 6.26 |
| Interest spread (per cent) | -7.07 | +0.93 | +1.27 | +16.30 | -0.89 |
| Quantum Spread (Rs in crore) | -2647.93 | +395.09 | +590.49 | +8001.51 | -453.80 |
| Primary Deficit (-)/ Surplus(+) (Rs in crore) | -1,020.00 | +2,232.00 | -51.00 | +395.00 | +2,004 |

It is evident from the Table No. 22 above that there is large fluctuation in Primary deficit as well as in quantum spread during 2003-08. The debt-GSDP ratio remained almost static around 57-58 per cent till 2005-06 despite the huge primary surplus as well as positive quantum spread during the year. However, during 2006-07 and 2007-08, emergence of large amounts of primary surplus suppressed the debt-GSDP ratio to around 49 per cent during these years. In view of the large fluctuations in the trends of fiscal and primary deficits as well as in ratio of fiscal deficit with GSDP during the period 2003-08, it would be premature to infer about the debt stability of the State as well as about its capacity to sustain higher debt in the ensuing years.

1.8.2 Sufficiency of Non-debt Receipts

Another indicator for debt stability and its sustainability is the adequacy of incremental non-debt receipts of the State to cover the incremental interest liabilities and incremental primary expenditure. The debt sustainability could be significantly facilitated if the incremental non-debt receipts could meet the incremental interest burden and the incremental primary expenditure. **Table No 23** indicates the resource gap as defined for the period 2003-08.

Table No. 23
Incremental revenue receipts and expenditure

(Rupees in crore)

| Period | Incremental | | | | Resource Gap |
|---------|-------------------|---------------------|-------------------|-------------------|--------------|
| | Non-Debt Receipts | Primary Expenditure | Interest Payments | Total Expenditure | |
| 1 | 2 | 3 | 4 | 5 (3+4) | 6 (2-5) |
| 2003-04 | 1,482 | 2,536 | 321 | 2,857 | -1,375 |
| 2004-05 | 3,263 | 11 | 131 | 142 | 3,121 |
| 2005-06 | 2,159 | 4,442 | 175 | 4,617 | -2,458 |
| 2006-07 | 5,202 | 4,756 | -233 | 4,523 | 679 |
| 2007-08 | 5,146 | 3,537 | +291 | 3,828 | 1,318 |

The persistent negative resource gap indicates the non-sustainability of debt while the positive resource gap strengthens the capacity of the State to sustain the debt. **Table No. 23** reveals that incremental receipts were not adequate to cover even the incremental primary expenditure during the year 2003-04 and 2005-06. Thus the State experienced the negative resource gap during the year while non debt receipts increased steeply but the incremental primary expenditure as well as interest payments were marginal resulting in huge positive resource gap in 2006-07 as well as in the current year, mainly due to either marginal increase (7.07 per cent) in 2006-07 or decrease (25.63 per cent) in 2007-08 in primary expenditure. These trends indicate the unstable position of the State with regard to its debt sustainability which is corroborated by the high fiscal liabilities to GSDP ratio during the period 2003-08.

1.8.3 Net Availability of Funds

The debt sustainability of the State also depends on (i) the ratio of the debt redemption (Principal + Interest payment) to total debt receipts and (ii) application of available borrowed funds. The ratio of debt redemption to debt receipts indicates the extent to which the debt receipts are used in debt redemption indicating the net availability of borrowed funds. The solution to the Government debt problem lies in application of borrowed funds, i.e. they are (a) not being used for financing revenue expenditure; and (b) being used efficiently and productively for capital expenditure which either provides returns directly or results in increase productivity of the economy in general which may result in increase in government revenue.

Table No. 24 gives the position of the receipt and repayment of internal debt and other fiscal liabilities of the State over the last five years.

Table No. 24
Net Availability of Borrowed Funds

(Rupees in crore)

| | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 |
|--|----------|----------|----------|---------|-----------|
| Internal Debt | | | | | |
| Receipt | 4,249 | 5,969 | 3,769 | 2,355 | 1,144 |
| Repayment (Principal + Interest) | 1,766 | 2,047 | 2,485 | 3,168 | 3,679 |
| Net Fund Available | 2,483 | 3,922 | 1,284 | (-) 813 | (-) 2,535 |
| Net Fund Available (<i>per cent</i>) | 58 | 66 | 34 | (-) 35 | (-) 222 |
| Loans and Advances from GOI | | | | | |
| Receipt | 820 | 1654 | 2 | 3 | 468 |
| Repayment (Principal + Interest) | 3894 | 3881 | 1512 | 744 | 1069 |
| Net Fund Available | (-)3,074 | (-)2,227 | (-)1,510 | (-)741 | (-)601 |
| Net Fund Available (<i>per cent</i>) | (-)375 | (-)135 | (-)755 | (-)247 | (-)128 |
| Other obligations | | | | | |
| Receipt | 3,119 | 3,284 | 2,283 | 2,956 | 4,807 |
| Repayment (Principal + Interest) | 3,303 | 3,199 | 1,431 | 2,094 | 3,167 |
| Net Fund Available | (-)184 | 85 | 852 | 862 | 1,640 |
| Net Fund Available (<i>per cent</i>) | (-)6 | 3 | 37 | 29 | 34 |
| Total Liabilities | | | | | |
| Receipt | 8,188 | 10,907 | 6,054 | 5,314 | 6,419 |
| Repayment (Principal + Interest) | 8,963 | 9,127 | 5,428 | 6,006 | 7,915 |
| Net Fund Available | (-)775 | 1780 | 626 | (-)692 | (-)1,496 |
| Net Fund Available (<i>per cent</i>) | (-)9 | 16 | 10.34 | (-)13 | (-)23 |

The debt redemption ratio exceeded the Unity in 2003-04 and again in 2006-07 and 2007-08 indicating the fact that repayment of past debt obligations exceeded the fresh debt receipts thereby using even the available resources for past debt obligations. Even during other years under review, the ratio remained 84-90 *per cent* reiterating the fact that major chunk of the fresh debt receipts were being used to discharge the State's past debt obligations. For example, during 2007-08, the net fund available on account of the internal debt, was (-) 2,535 crore whereas under GOI loans and advances net fund available in this account turned to (-) 128 crore during the year. 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 (-) 23 *per cent* to 16 *per cent* during the period 2003-04 to 2007-08. The net fund available was Rs (-) 1,496 crore (23 *per cent*) in 2007-08.

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 and applied are important pointers to its fiscal health.

1.9.1 Trends in Deficits

The State experienced revenue deficit in 2003-04 which turned into revenue surplus in 2004-05 and since then the State has maintained the surplus (**Table No. 25**) although with wide variations. The revenue surplus has steeply increased from Rs 2,498 crore in 2006-07 to Rs 4,647 crore in 2007-08 due to the fact that the revenue receipts increased by Rs 5,127 crore (22.21 *per cent*) during 2007-08 while revenue expenditure increased by Rs 2,978 crore (14.47 *per cent*) over the previous year resulting in an increase of Rs 2,149 crore in revenue surplus in 2007-08. The consistent increase in revenue surplus during the period 2005-08 may however be keeping in view the fact that 77-81 *per cent* of revenue receipts of the State is contributed by central transfers comprising of States' share in Union pool of taxes and duties and grants-in-aid from the GOI during these. During the current year, around 79 *per cent* of the incremental revenue receipts were contributed by the increase in Central transfers relative to previous year.

Despite an increase of Rs 893 crore (23.33 *per cent*) in capital expenditure during 2007-08 over the previous year, the sharp increase in revenue surplus led to the decrease of Rs 1318 crore (43.60 *per cent*) during the current year. Relative to GSDP, fiscal deficit has declined from 3.05 *per cent* in 2006-07 to 1.62 *per cent* during the current year which was well within the norm of FRBM Act and /or TFC target to be achieved by 2008-09. An improvement in fiscal deficit position accompanied by an increase in interest payments (Rs 291 crore) enhanced the primary surplus from Rs 395 crore in 2006-07 to Rs 2004 crore during the current year.

Table No. 25

Fiscal Imbalances: Basic Parameters

(Rupees in crore)

| Parameters | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 |
|--|----------|----------|----------|----------|-----------|
| Revenue deficit (-)/ Revenue Surplus (+) | (-)255 | (+)1,076 | (+)81 | (+)2,498 | (+)4,647 |
| Fiscal deficit | (-)4,363 | (-)1,242 | (-)3,700 | (-)3,021 | (-)1,703 |
| Primary deficit (-)/Primary Surplus (+) | (-)1,020 | (+)2,232 | (-)51 | (+)395 | (+)2004 |
| RD-RS/GSDP (<i>per cent</i>) | (-)0.38 | (+)1.47 | (+)0.10 | (+)2.52 | (+)4.42 |
| FD/GSDP (<i>per cent</i>) | (-)6.59 | (-)1.70 | (-)4.62 | (-)3.05 | (-)1.62 |
| PD-PS/GSDP (<i>per cent</i>) | (-)1.54 | (+)3.05 | (-)0.06 | (+)0.40 | (+)1.91 |
| RD-RS/FD (<i>per cent</i>) | (+)5.84 | (-)86.63 | (-)2.19 | (-)82.69 | (-)272.87 |

The ratio of RD to FD and the decomposition of Primary deficit into primary revenue deficit⁵ and capital expenditure (including loans and advances) would indicate the quality of deficit in the States' finances. The ratio of revenue deficit to fiscal deficit indicates the extent to which borrowed funds were used for current consumption. The ratio of revenue deficit to fiscal deficit was six

⁵ Primary revenue deficit defined as gap between non interest revenue expenditure of the state and its non-debt receipts indicates the extent to which the non-debt receipts of the State are able to meet the primary expenditure incurred under revenue account.

per cent in 2003-04 and thereafter State's continuously experience the revenue surplus during 2004-08.

1.9.2 Quality of Deficit/Surplus

The bifurcation of the factors resulting into primary deficit or surplus of the State during the period 2003-08 reveals uneven result (Table No. 26).

Table No. 26
Primary deficit /surplus - Bifurcation of factors

| Year | Non-debt receipts (NDR) | Primary revenue expenditure (PRE) | Capital expenditure | Disbursement of Loans and Advances | Primary Expenditure | NDR vis-à-vis PRE | Primary deficit (-) / surplus (+) |
|---------|-------------------------|-----------------------------------|---------------------|------------------------------------|---------------------|-------------------|-----------------------------------|
| 1 | 2 | 3 | 4 | 5 | 6(3+4+5) | 7 (2-3) | 8 (2-6) |
| 2003-04 | 12,466 | 9,368 | 1,549 | 2,569 | 13,486 | (+) 3,098 | (-) 1,020 |
| 2004-05 | 15,729 | 11,164 | 1,205 | 1,128 | 13,497 | (+) 4,565 | (+) 2,232 |
| 2005-06 | 17,888 | 14,107 | 2,084 | 1,748 | 17,939 | (+) 3,781 | (-) 51 |
| 2006-07 | 23,090 | 17,169 | 5,211 | 315 | 22,695 | (+) 5,921 | (+) 395 |
| 2007-08 | 28,236 | 19,856 | 6,104 | 272 | 26,232 | (+)8,380 | (+)2,004 |

Non-debt receipts of the State were enough to meet the primary expenditure⁶ requirements in the revenue account and actually left some receipts to meet the expenditure under the capital account. The surplus non debt receipts were however not enough to meet the expenditure requirements under capital account resulting in primary deficit in 2003-04 and 2005-06. However, non-debt receipts exceeded the primary expenditure during 2004-05, 2006-07 and 2007-08 resulting in the primary surplus during these years. This indicates the extent to which the primary deficit has been on account of enhancement in capital expenditure which may be required to improve the productive capacity of the State's economy.

1.10 Fiscal Ratios

The finances of a State should be sustainable, flexible and non-vulnerable. *Appendix 1.11* presents a summarized position of Government finances over 2003-08, 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.

The ratios of revenue receipts and State's own taxes to GSDP indicate the adequacy of resources. The buoyancy of the revenue receipts indicates the nature of the tax regime and the State's increasing access to resources. Revenue receipts are comprised not only of the tax and non-tax resources of the State but also the transfers from Union Government. The ratio of revenue receipts to GSDP showed continued improvement year after year and was 26.83 per cent during 2007-08 with an increase of about two and half per cent over the previous year. The improvement in this ratio was attributable mainly

⁶ Primary expenditure of the State defined as the total expenditure net of the interest payments indicates the expenditure incurred on the transactions undertaken during the year.

to the fact that around 80 *per cent* of the revenue receipts were contributed by central transfers during the period 2003-08. The ratio of the State's own taxes to GSDP also improved from 4.36 *per cent* in 2003-04 to 4.84 *per cent* in 2007-08 with minor inter-year variations. Despite these improvements, the ratio to GSDP at five was less than the projection in the FCP (6.69 *per cent*) and the Budget (6.49 *per cent*) for the current year.

Various ratios concerning the expenditure management of the State indicate the quality of its expenditure and its sustainability in relation to its resource mobilization efforts. The revenue expenditure as a *per cent* to total expenditure remained dominant and varied within a range of 76 to 86 *per cent* during 2003-08 and stood at 78.70 *per cent* during the current year. The higher buoyancy ratio of total expenditure as compared to that of revenue expenditure with respect to revenue receipts also indicated the propensity of the State Government to create assets by resorting to, inter alia, capital expenditure. Although ratio of capital expenditure to total expenditure remained relatively low during 2003-06 it picked up steeply in 2006-07 and increased to 21 *per cent* during the year. The ratio of revenue receipts to total expenditure indicated an increasing tendency but continued to be less than 100 *per cent* indicating that a part of the total expenditure is met through borrowed funds. This is also reflected by the decreasing ratio of financial liabilities to revenue receipts. Increasing proportion of plan and capital expenditure in the total expenditure also indicates improvement in both development and quality of expenditure.

The fiscal position of the state viewed in terms of fiscal indicators has shown a significant improvement in the current year. A sharp increase in Balance from Current Revenue (BCR) from (+) Rs 2,996 crore (2006-07) to (+) Rs 5,124 crore during 2007-08 indicates the availability of funds for plan and development purposes. The steep increase in revenue surplus as well as in capital expenditure along with significantly high level of loans and advances resulted in a consistent increase in the ratio of assets to fiscal liabilities from 0.72 in 2003-04 to 0.96 in 2007-08 thus leaving only four *per cent* of fiscal liabilities without any asset back up during the current year.

1.11 Conclusions

The state experienced improvement in its fiscal position during 2007-08 in terms of key fiscal parameters (Revenue, Fiscal, Primary deficit/Surplus) relative to their values in 2006-07. Relative to GSDP, the fiscal deficit has declined from 3.05 *per cent* in 2006-07 to 1.62 *per cent* during the current year which was well within the norm of the FRBM Act and/or TFC target to be achieved by 2008-09. The improvement in the fiscal position of the State should however be considered keeping in view the fact that a significant share (varying between 74 to 81 *per cent*) of the revenue receipts of the State is contributed by central transfers comprising of States' share of taxes and duties and grants-in-aid from the GOI during the period 2003-08 and during the current year, around 79 *per cent* of the incremental revenue receipts were contributed by the increase in Central transfers relative to previous year. The expenditure pattern of the State reveals that the revenue expenditure as a

percentage to total expenditure was around 80 *per cent* during the period 2003-08 with inter year variations leaving inadequate resources for expansion of services and creation of assets. Although the share of NPRE in revenue expenditure indicated a declining trend it still continued to account for 80 *per cent* of the revenue expenditure during the current year which at Rs 18,759 crore significantly exceeded the TFC assessment (Rs 17,006 crore) for the year although it only marginally exceeded the State's projections in its FCP (Rs 18,665 crore) and the Budget (Rs 18,543 crore) for the year. Moreover, within the NPRE, salary expenditure, pension and interest payments-constituted about 69 *per cent* during 2007-08. These trends in expenditure indicate the need for changing allocative priorities. The increasing fiscal liabilities due to continued prevalence of fiscal deficit accompanied with negligible rate of return on government investments and inadequate interest recovery on loans and advances might lead to a situation of unsustainable debt in the medium to the long run unless suitable measures are initiated to compress the non plan revenue expenditure and to mobilize additional resources both through the tax and non tax sources in the ensuing years. Moreover, fiscal liabilities relative to GSDP at 48.49 *per cent* in 2007-08 appear to be on the high side especially in view of the TFC norms which is required to be contained to 31 *per cent* by the end of 2009.