

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 Chhattisgarh are laid out in nineteen statements, presenting receipts and expenditure, revenue as well as capital in the Consolidated Fund, Contingency Fund and Public Account of the State of Chhattisgarh. The layout of the Finance Accounts is depicted in *Appendix 1.1-Part B*.

1.1.1 Summary of Receipts and Disbursements

Table 1 Summarizes the finances of the Government of Chhattisgarh for the year 2006-07 covering revenue receipts and expenditure, capital receipts and expenditure and public account receipts/disbursements as emerging from **Statement-1** of the Finance Accounts and other detailed statements.

Table 1: Summary of Receipts and Disbursements for the Year 2006 -2007

(Rupees in crore)

| Receipts | | | | Disbursements | | | |
|---------------------------|---------------------------------------|---------------|---------------|--------------------------------------|---------------------------|-----------------------|------------------------|
| 2005-06 | | 2006-07 | 2005-06 | | 2006-07 | | |
| Section-A: Revenue | | | | | | | |
| 8,838 | I. Revenue Receipts | 11,453 | 7,457 | I. Revenue Expenditure | Non-plan 6,194 | Plan 2,608 | Total 8,802 |
| 4,052 | Tax Revenue | 5,046 | 2,186 | General Services | 2,629 | 10 | 2,639 |
| 1,229 | Non-tax Revenue | 1,451 | 2,848 | Social Services | 1,750 | 1,709 | 3,459 |
| 2,508 | Share of Union Taxes/ Duties | 3,199 | 2,090 | Economic Services | 1,358 | 870 | 2,228 |
| 1,049 | Grants from Govt of India | 1,757 | 333 | Grants-in-aid and contributions | 457 | 19 | 476 |
| Section-B: Capital | | | | | | | |
| - | II-Miscellaneous Capital Receipts | - | 1,497 | II-Capital Outlay | 29 | 2,169 | 2,198 |
| 18 | III-Recoveries of Loans and Advances* | 357 | 337 | III-Loans and Advances Disbursed* | 3 | 770 | 773 |
| 1,234 | IV-Public Debt Receipts# | 937 | 444 | IV-Repayment of Public Debt# | 219 | - | 219 |
| - | V-Contingency Fund | - | - | V- Appropriation to Contingency Fund | - | - | - |
| | | | | V. Contingency Fund | 3 | - | 3 |
| 10,807 | VI-Public Account Receipts | 13,982 | 10,551 | VI-Public Account Disbursement | 13,744 | - | 13,744 |
| 701 | Opening Balance | 1,312 | 1,312 | Closing Balance | 2,302 | - | 2,302 |
| 21,598 | Total | 28,041 | 21,598 | Total | 22,494 | 5,547 | 28,041 |

* Includes Inter State settlement of Rs 2 crore.

Excludes Ways and Means Advances and Overdraft.

Following are the significant changes during 2006-07 over the previous year:

- Revenue receipts grew by Rs 2,615 crore over the previous year. The increase was mainly contributed by tax revenue (Rs 994 crore), non-tax revenue (Rs 222 crore), State's share of union taxes and duties (Rs 691 crore) and grants-in-aid from Government of India (GOI) (Rs 708 crore).
- Revenue expenditure and capital expenditure increased by Rs 1,345 crore and Rs 701 crore respectively over the previous year.
- There was sharp increase in recovery of loans and advances during current year (Rs 357 crore) compared to the previous year (Rs 18 crore).
- Public Debt receipts decreased by Rs 297 crore over the previous year.
- Public Account receipts and disbursements increased by Rs 3,175 crore and Rs 3,193 crore respectively over the previous year.
- Cash balance of the State increased by Rs 990 crore over the previous 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 2**.

Table 2

(Rupees in crore)

| 2005-06 | Sl. No. | Major Aggregates | 2006-07 |
|--------------|------------|--|---------------|
| 8,838 | 1. | Revenue receipts (2+3+4) | 11,453 |
| 4,052 | 2. | Tax Revenue | 5,046 |
| 1,229 | 3. | Non-tax Revenue | 1,451 |
| 3,557 | 4. | Other Receipts | 4,956 |
| 18 | 5. | Non-Debt Capital Receipts | 357 |
| 18 | 6. | Of which recovery of loans | 355 |
| 8,856 | 7. | Total Receipts (1+5) | 11,810 |
| 5,478 | 8. | Non-plan Expenditure (9+11+12) | 6,226 |
| 5,449 | 9. | On Revenue Account | 6,194 |
| 962 | 10. | Of which interest payments | 1,026 |
| 4 | 11. | On Capital Account | 29 |
| 25 | 12. | On Loans disbursed | 3 |
| 3,813 | 13. | Plan Expenditure (14+15+16) | 5,547 |
| 2,008 | 14. | Revenue Account | 2,608 |
| 1,493 | 15. | On Capital Account | 2,169 |
| 312 | 16. | On Loans disbursed* | 770 |
| 9,291 | 17. | Total Expenditure (8+13) | 11,773 |
| (+) 1,381 | 18. | Revenue deficit(-)/Surplus(+) {1-(9+14)} | (+) 2,651 |
| (-) 435 | 19. | Fiscal Deficit (-)/Surplus (+) (1+5-17) | (+) 37 |
| (+)527 | 20. | Primary Deficit(-)/Surplus (+) (19-10) | (+) 1,063 |

* Includes Inter State settlement of Rs 2 crore

An increase of 29.6 per cent (Rs 2,615 crore) in Revenue Receipts during 2006-07 in comparison to increase of 18 per cent (Rs 1,345 crore) in Revenue Expenditure led to Revenue surplus for the State which was higher by Rs 1,270 crore from Rs 1,381 crore in 2005-06 to Rs 2,651 crore in 2006-07.

Given an increase of Rs 1,270 crore in revenue surplus, an increase of Rs 339 crore in non-debt capital receipts along with increase of Loans and Advances Disbursement by Rs 434 crore and increase of Rs 701 crore in capital expenditure, fiscal deficit of Rs 435 crore turned into fiscal surplus of Rs 37 crore. Given the fiscal surplus in 2006-07 and an increase of Rs 64 crore in interest payments resulted in increase of Rs 536 crore in primary surplus from Rs 527 crore in 2005-06 to Rs 1,063 crore in 2006-07.

As per the Twelfth Finance Commission (TFC) recommendations, State Government received an incentive of Rs 93.26 crore each in 2005-06 and in 2006-07 as debt waiver under DCRF¹ in view of its fiscal performance during the years. The relevant book adjustment would be effected in the next financial year. Had the book adjustment been made in the relevant years the non-tax revenue receipts would have increased to Rs 1,322 crore and Rs 1,544 crore during 2005-06 and 2006-07 respectively and revenue receipts would have increased to Rs 8,931 crore and Rs 11,546 crore respectively. Consequently the revenue surplus would have increased to Rs 1,474 crore in 2005-06 and Rs 2,744 crore in 2006-07, fiscal deficit would have decreased to Rs 342 crore in 2005-06 and fiscal surplus would have increased to Rs 130 crore in 2006-07, Public debt would have reduced to Rs 1,141 crore in 2005-06 and Rs 844 crore in 2006-07 and fiscal liabilities would have been reduced to Rs 13,180 crore in 2005-06 and Rs 14,020 crore in 2006-07.

1.2 Methodology adopted for assessment of Fiscal position

The trends in the major fiscal aggregates of receipts and expenditure as emerging from the statements of Finance Accounts were analyzed wherever necessary over the period 2001-07 and observations have been made on their behaviour. In its Restructuring Plan of state finances, the TFC recommended 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 a Fiscal Responsibility (FR) Act and draw their fiscal correction path accordingly for the five year period (2005-06 to 2009-10) so that fiscal position of the State could be improved as committed in their respective FR Act/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 Government in their FR Act and in other Statements required to be laid before the legislature under the Act were used to make qualitative assessment of the trends and pattern of major aggregates during the current year. Assuming that Gross State Domestic

¹ *In pursuance of the recommendations of the Twelfth Finance Commission (TFC) for fiscal consolidation and elimination of revenue deficit of the State, GOI formulated a scheme "The States' Debt Consolidation and Relief Facility (DCRF) (2005-06 to 2009-10)" under which general debt relief is provided by consolidating and rescheduling debt at substantially reduced rate of interest on the Central loans granted to States when they enact the FRBM Act and debt waiver is granted based on fiscal performance, linked to the reduction of revenue deficit of the State.*

Product (GSDP)² is a good indicator of the performance of the State's economy, major fiscal aggregates like tax and non-tax revenue, revenue and capital expenditure, internal and external debt and revenue and fiscal deficits have been presented as percentage to the GSDP at current market prices. The buoyancy coefficients for tax revenue, non-tax revenues, revenue expenditure etc, with reference to the base represented by GSDP have also been worked out to assess as to whether the mobilization of resources, pattern of expenditure etc, are keeping pace with the change in the base or these fiscal aggregates have also been affected by factors other than GSDP. The trends in the growth of GSDP as provided by Directorate of Economic and Statistics, Government of Chhattisgarh are given in **Table 3**.

Table 3: Trends in Growth of GSDP

| | 2001-02 | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 |
|---|---------|---------|---------|-------------------|-------------------|----------------------|
| GSDP (Rs in crore) | 29,545 | 31,588 | 38,610 | 45,999 (Quick) | 51,921 (Quick) | 57,782 (Advanced) |
| Rate of Growth of GSDP (in per cent) | * | 6.91 | 22.23 | 19.14 | 12.87 | 11.29 |

Source : Directorate of Economic and Statistics, Government of Chhattisgarh.

* Not considered as the State was created on 1st November 2000.

The key fiscal aggregates for the purpose have been grouped under four major heads: (i) Trends and composition of Aggregates (ii) Application of Resources (iii) Assets and Liabilities and (iv) Management of Deficits (**Appendices-1.2 to 1.5**). 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 Chhattisgarh Fiscal Responsibility and Budget Management (FRBM) Act, 2005

To ensure prudence in fiscal management and fiscal stability by progressive elimination of revenue deficit, reduction in fiscal deficit, prudent debt management consistent with fiscal sustainability, greater transparency in fiscal operations of the Government and conduct of fiscal policy in a medium term framework and for matters connected therewith or incidental thereto, the Chhattisgarh Fiscal Responsibility and Budget Management (FRBM) Act, 2005 was enacted. To give effect to the fiscal management principles as laid down in the Act, and /or the rules framed (February 2006) thereunder, the following fiscal targets were prescribed for the State Government:

- By the 31st day of March 2009, the State Government shall take appropriate measures to eliminate the revenue deficit. The State shall make every endeavour to maintain nominal revenue surplus in each financial year beginning with 2005-06 but however, under no circumstance, the State should exceed revenue deficit as below:-

² GSDP is defined as the total income of the State or the market value of goods and services produced within the territory of the State using labour and all other factors of production.

| Year | Amount (Rupees in crore) |
|-------------------|--------------------------|
| 2005-06 | 253.20 |
| 2006-07 | 168.80 |
| 2007-08 | 84.40 |
| 2008-09 and after | Zero revenue deficit; |

- the State Government shall reduce fiscal deficit every year beginning with financial year 2005-06 by an amount at least equivalent to one fourth of what actual fiscal deficit as a percentage of GSDP exceeds three *per cent* in the financial year 2004-05, so that fiscal deficit is brought down to not more than three *per cent* of GSDP at the end of March 2009;
- the State Government shall not give new guarantees, in any financial year beginning with the financial year 2005-06, in excess of 1.5 *per cent* of GSDP in nominal terms or 0.5 *per cent* on risk weighted basis, whichever is lower; and
- the State Government shall not assume additional total liabilities in excess of five *per cent* of GSDP for any financial year beginning with 2005-06.

1.2.1.1 Fiscal Policy Statements 2006-07

As prescribed in the Act, the State Government laid a Macroeconomic Framework Statement (MFS), a Medium Term Fiscal Policy Statement (MTFPS) and a Fiscal Policy Strategy Statement (FPSS) along with the budget before the legislature during 2006-07. The State projected in the MTFPS Non-Plan revenue expenditure (NPRE) to be Rs 6,712 crore, Revenue Surplus as Rs 1,200 crore, Fiscal Deficit as Rs 1,439 crore and Primary Deficit as Rs 290 crore.

1.2.1.2 Mid-Term Review of Fiscal Situation

The performance of the State during 2006-07 in terms of key fiscal targets laid down in FRBM Act 2005 is given in **Table 4**.

Table 4: Trends in Major Fiscal Parameters/Variables vis-à-vis projection for 2006-07
(Rupees in crore and others in per cent)

| Fiscal variables | 2006-07 | | |
|--|-----------------------|-----------------|-------------------|
| | FRBM Act | Budget Estimate | Actual |
| Revenue deficit (-)/Surplus (+) (Rs in crore) | (-) 168.80 | (+) 1,200 | (+)2,651 |
| Revenue deficit (-) or surplus (+)/Revenue Receipts (in per cent) | - | (+) 11.11 | 23.14 |
| Fiscal deficit (FD) (Rs in crore) | - | 1438.75 | (+)37 |
| FD/GSDP ratio (in per cent) | 3.00 (by 2008-09) | 3.00 | 0.00 ³ |
| Ratio of incremental Fiscal Liabilities to GSDP(in Per cent) | Less than 5 per cent | --- | 1.45 |
| Ratio of total outstanding debt liabilities to GSDP (in per cent) | NA | 29.96 | 24.42 |

The comparative position presented in the Table above reveals that the State has achieved the targets for revenue and fiscal deficits as laid down in the FRBM Act, 2005 as well as in budget estimate for the year 2006-07. The State has achieved fiscal targets as laid down in the FRBM Act much before the

³ The State achieved surplus during 2006-07.

timeline indicated therein with the current year ending in revenue surplus of Rs 2,651 crore and fiscal surplus of Rs 37 crore. The increase of Rs 1,451 crore in revenue surplus relative to budget estimate was mainly on account of enhanced revenue receipts (Rs 656 crore). Despite the higher projected total expenditure by the Government in budget estimate, it experienced fiscal surplus of Rs 37 crore as compared to projected fiscal deficit (Rs 1,438 crore) due to steep increase of revenue surplus (Rs 1,451 crore) over the budget estimate of Rs 1,200 crore.

As per the FRBM Act the ratio of incremental fiscal liabilities to GSDP was not to exceed five *per cent* which was well within the limit (1.45 *per cent*) during the period. The ratio of outstanding debt liabilities to GSDP during 2006-07 was 24.42 *per cent* which was within the budget estimate of 29.96 *per cent*. As a result, the State Government received an incentive of Rs 93.26 crore as debt relief from the Government of India under Debt Consolidation and Relief Facility for the year 2006-07.

1.3 Trends and Composition of Aggregate Receipts

The aggregate receipts of the State Government consist of revenue receipts and capital receipts, revenue receipts consist of tax revenue, non-tax revenue, State's share of union taxes and duties and grants-in-aid from the GOI. Capital receipts comprise miscellaneous capital receipts such as proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources (market loans, borrowings from financial institutions/commercial banks) and loans and advances from GOI as well as accruals from the Public Account. **Table 5** shows that the total receipts of the State Government for the year 2006-07 were Rs 26,729 crore. Of these, the revenue receipts were Rs 11,453 crore, constituting 43 *per cent* of the total receipts. The balance came from capital receipts, borrowings and public account receipts.

Table 5: Trends in growth and composition of Aggregate Receipts

| Sources of State's receipts | 2001-02 | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 |
|--------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| I Revenue Receipts | 4,376 | 5,417 | 5,959 | 7,249 | 8,838 | 11,453 |
| II Capital Receipts | 1,004 | 1,632 | 2,443 | 1,925 | 1,252 | 1,294 |
| Recovery of Loans and Advances* | 9 | 19 | 11 | 15 | 18 | 357 |
| Public Debt Receipts | 995 | 1,632 | 2,432 | 1,910 | 1,234 | 937 |
| Miscellaneous Capital Receipts | - | - | - | - | - | - |
| III Contingency Fund Receipts | - | - | - | - | - | - |
| IV Public Account Receipts | 5,620 | 6,924 | 7,071 | 9,295 | 10,807 | 13,982 |
| a. Small Savings, Provident Fund etc | 428 | 375 | 474 | 449 | 380 | 409 |
| b. Reserve Fund | 149 | 256 | 158 | 301 | 247 | 405 |
| c. Deposits and Advances | 902 | 1,058 | 771 | 900 | 1,020 | 1,675 |
| d. Suspense and Miscellaneous | 2,785 | 3,389 | 3,612 | 5,428 | 6,581 | 7,904 |
| e. Remittances | 1,356 | 1,846 | 2,056 | 2,217 | 2,579 | 3,589 |
| Total Receipts | 11,000 | 13,973 | 15,473 | 18,469 | 20,897 | 26,729 |

* including inter-state settlement

The bulk of the total receipts of the State during 2006-07 was contributed by public account receipts (52 *per cent*) followed by revenue receipts (43 *per cent*) and public debt receipts (4 *per cent*). The revenue and capital (including Public Account receipts) receipts constituted 43 and 57 *per cent* of total receipts respectively. The total receipts of the State increased from Rs 11,000 crore in 2001-02 to Rs 26,729 crore in 2006-07. The Debt capital receipts which create future repayment obligation decreased from Rs 995 crore in

2001-02 to Rs 937 crore in 2006-07. The recovery of loans and advances has improved by Rs 339 crore over the previous year. Suspense & Miscellaneous and Deposits & Advances constitute about 57 and 12 per cent respectively of the total receipts under Public Account.

1.3.1 Revenue Receipts

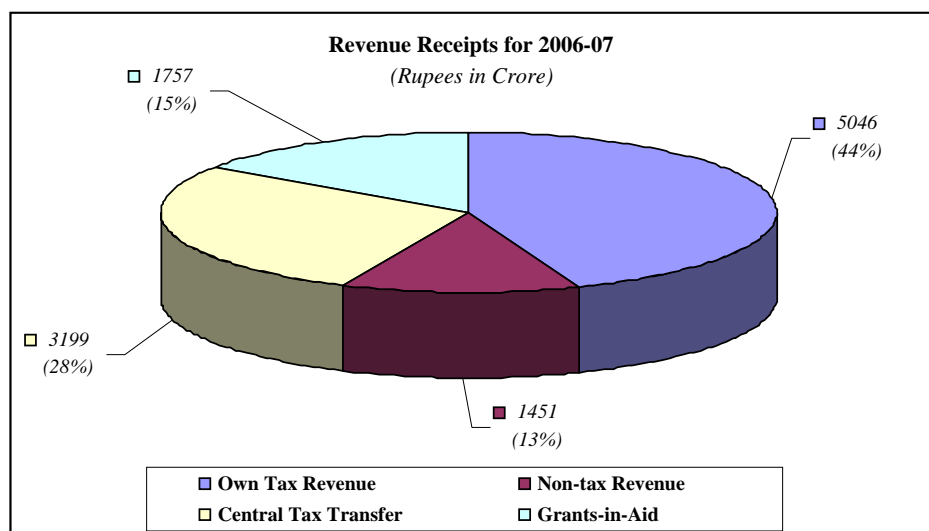
Statement No. 11 of the Finance Accounts details the revenue receipts of the Government. The revenue receipts consist of its own tax and non-tax revenues, central tax transfers and grants-in-aid from the GOI. The overall revenue receipts, its annual rate of growth, ratio of these receipts to the State's Gross Domestic Product (GDP) and its buoyancies are indicated in **Table 6**.

Table 6: Revenue Receipts-Basic indicators

| | (Rupees in crore) | | | | | |
|---|-------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| | 2001-02 | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 |
| Revenue Receipts | 4,376 | 5,417 | 5,959 | 7,249 | 8,838 | 11,453 |
| Own taxes (<i>per cent</i>) | 1,993 (45.5) | 2,327 (43.0) | 2,588 (43.4) | 3,228 (44.5) | 4,052 (45.8) | 5,046 (44.1) |
| Non-Tax Revenue (<i>per cent</i>) | 722 (16.5) | 957 (17.7) | 1,124 (18.9) | 1,244 (17.2) | 1,229 (13.9) | 1,451 (12.7) |
| Central tax Transfers (<i>per cent</i>) | 1,176 (26.9) | 1,350 (24.9) | 1,570 (26.3) | 1,876 (25.9) | 2,508 (28.4) | 3,199 (27.9) |
| Grants-in-aid (<i>per cent</i>) | 485 (11) | 783 (14.5) | 677 (11.4) | 901 (12.4) | 1,049 (11.9) | 1,757 (15.3) |
| Rate of Growth of Revenue Receipts (<i>per cent</i>) | * | 23.8 | 10.0 | 21.6 | 21.9 | 29.6 |
| Revenue Receipts/GSDP ratio | 14.8 | 17.15 | 15.43 | 15.76 | 17.02 | 19.82 |
| Buoyancy of Revenue receipts | * | 3.44 | 0.45 | 1.13 | 1.70 | 2.62 |
| Buoyancy of Own taxes | * | 2.42 | 0.5 | 1.29 | 1.98 | 2.17 |
| Revenue Buoyancy with reference to State's own taxes | * | 1.42 | 0.9 | 0.88 | 0.86 | 1.20 |
| GSDP Growth (<i>per cent</i>) | * | 6.91 | 22.23 | 19.14 | 12.87 | 11.29 |

* Not considered as the State was created on 1st November 2000.

Chart 1.1



The revenue receipts of the State increased from Rs 4,376 crore in 2001-02 to Rs 11,453 crore in 2006-07 at an annual average rate of 21 per cent. The revenue receipts increased by 29.6 per cent during 2006-07 mainly on account of increase in State's own resources, central transfers comprising of State's share in Union pool of taxes and duties and grants-in-aid from the GOI. While 57 per cent of the revenue receipts during 2006-07 have come from the States own resources comprising tax and non-tax revenue, the central tax transfers and grants-in-aid together contributed 43 per cent of the total revenue. An increase of Rs 2,615 crore in the revenue receipts in 2006-07 was primarily due to 25 per cent (Rs 994 crore) increase in tax revenue, 18 per cent (Rs 222 crore) increase in non-tax revenue and 28 per cent (Rs 691 crore) increase in State share in Union taxes and duties from Government of India. Revenue Buoyancy increased from 1.70 in 2005-06 to 2.62 during 2006-07 due to steep increase in revenue receipts and marginal decline in rate of growth of GSDP.

Tax Revenue: The tax revenue increased by 25 per cent (Rs 994 crore) during the current year (Rs 5,046 crore) over previous year (Rs 4,052 crore). **Table 7** below shows the trends and composition of Tax Revenue during 2001-07.

Table 7: Tax Revenue

| | <i>(Rupees in crore)</i> | | | | | |
|-------------------------------|--------------------------|--------------|--------------|--------------|--------------|--------------|
| | 2001-02 | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 |
| Taxes on Sales, Trade etc. | 940 | 1,102 | 1,299 | 1,674 | 2,089 | 2,843 |
| State Excise | 314 | 362 | 402 | 458 | 635 | 707 |
| Stamps and Registration Fees | 121 | 148 | 171 | 248 | 313 | 390 |
| Taxes on Goods and Passengers | 196 | 252 | 230 | 287 | 395 | 302 |
| Other Taxes | 422 | 463 | 486 | 561 | 620 | 804 |
| Total | 1,993 | 2,327 | 2,588 | 3,228 | 4,052 | 5,046 |

The revenue from taxes on sales, trade etc. increased by Rs 754 crore over the previous year due to effective action for recovery; State Excise recorded an increase of Rs 72 crore due to increase in sale of alcohol and control over illegal activities and increase in processing fees.

Non-Tax Revenue: The main sources of non-tax revenue are non-ferrous mining and metallurgical industries 56 per cent (Rs 813 crore), forestry and wild life 14 per cent (Rs 206 crore), major, medium and minor irrigation eight per cent (Rs 115 crore). Non-Tax revenue increased by 18 per cent (Rs 222 crore) from Rs 1,229 crore in 2005-06 to Rs 1,451 crore in 2006-07 mainly due to increase of revenue in the form of royalty in non-ferrous mining and metallurgical industries (Rs 92 crore) and sale of water for irrigation and domestic purpose from major, medium and minor irrigation projects (Rs 69 crore).

The actual receipts under State's tax and non-tax revenue vis-à-vis assessment made by TFC and the State Government in its Budget estimate are given below:

| | <i>(Rupees in crore)</i> | | |
|-----------------------------|--------------------------|------------------|--------|
| | Assessments made by TFC | Budget Estimates | Actual |
| State's Tax Revenue | 3,901 | 4,796 | 5,046 |
| State's Own Non-Tax Revenue | 1,402 | 1,469 | 1,451 |

The tax revenue as well as the non- tax revenue receipts in 2006-07 exceeded normative assessments made by TFC by 29.35 per cent and by 3.49 per cent respectively. In case of tax revenue, actual realization exceeded the assessments made by the State Government in its Budget estimates for 2006-07 but realization was less in case of non-tax revenue.

Central tax transfers: The increase in central tax transfers by Rs 691 crore (28 per cent) from Rs 2,508 crore in 2005-06 to Rs 3,199 in 2006-07 was primarily due to increase in Corporation Tax Rs 306 crore (44 per cent), Taxes on Income other than Corporation Tax Rs 118 crore (24 per cent), Customs Rs 135 crore (28 per cent) and Service Tax Rs 122 crore (66 per cent).

Grants-in-aid: The increase in Grants-in-aid by Rs 708 crore (67 per cent) from Rs 1,049 crore in 2005-06 to Rs 1,757 crore in 2006-07 was mainly due to increase of Rs 125 crore (56 per cent) in Non-Plan Grants, Rs 331 crore (63 per cent) in grants for State Plan Schemes and Rs 135 crore (675 per cent) in grants for Central Plan Schemes (**Table 8**). Under Non-Plan grants the major contribution was for Calamity Relief Fund (Rs 150 crore). Under Grants for State Plan Schemes, increase was in grants towards block grants Rs 281 crore and other grants Rs 120 crore. Under Central Plan schemes, increase was in grants for Roads and Bridges Rs 73 crore, Forest and Wild Life-Rs 13 crore and Grant for civil Supplies Schemes-Rs six crore.

Table 8: Grants-in-aid from GOI

| | <i>(Rupees in crore)</i> | | | | | |
|---|--------------------------|---------------|---------------|---------------|-----------------|-----------------|
| | 2001-02 | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 |
| Grants for State Plan Schemes | 148.03 | 263.69 | 308.33 | 441.72 | 525.48 | 856.39 |
| Non Plan Grants | 180.88 | 195.15 | 135.09 | 182.32 | 224.95 | 350.44 |
| Grants for Central, Centrally Sponsored Plan Schemes and Special Plan Schemes | 155.47 | 324.55 | 233.54 | 276.81 | 298.80 | 550.57 |
| Total | 484.38 | 783.39 | 676.96 | 900.85 | 1,049.23 | 1,757.40 |
| Percentage of increase/ decrease over previous year | * | 62 | (-)14 | 33 | 16 | 67 |

* Not-considered as the State was created on 1st November 2000

Revenue Arrears: The arrears of revenue as on 31 March 2007 in respect of some principal heads of revenue amounted to Rs 299.35 crore, of which Rs 216.50 crore (72 per cent) were outstanding for more than five years.

Arrears were mainly in respect of Commercial Tax (Rs 156.51crore), State Excise (Rs 19.93 crore), Taxes on duties of electricity (Rs 10.51crore), Taxes on Vehicles (Rs 5.77 crore), Stamps and Registration Fees (Rs 2.87 crore), Geology and Mining (Rs 1.84 crore) and Water Resource Department (Rs 101.92 crore).

1.4 Application of Resources

1.4.1 Growth of Expenditure

Statement No. 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, and 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 5,502 crore in 2001-02 to Rs 11,773 crore in 2006-07. The total expenditure of the State, its trend and annual growth, ratio of expenditure to the State's GDP and revenue receipts and its buoyancy with regard to GSDP and revenue receipts are indicated in **Table 9**.

Table 9: Total Expenditure-Basic Parameters

| | 2001-02 | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 |
|---|---------|---------|---------|---------|---------|---------|
| Total Expenditure* (Rupees in crore) | 5,502 | 6,409 | 8,174 | 8,495 | 9,291 | 11,773 |
| Rate of Growth (<i>per cent</i>) | ** | 16.5 | 27.5 | 3.9 | 9.4 | 26.7 |
| Revenue Expenditure | 4,945 | 5,530 | 6,600 | 7,103 | 7,457 | 8,802 |
| Capital Expenditure | 476 | 820 | 1,016 | 1,279 | 1,497 | 2,198 |
| Loans and Advance# | 81 | 59 | 558 | 113 | 337 | 773 |
| TE/GSDP Ratio (<i>per cent</i>) | 18.6 | 20.3 | 21.2 | 18.47 | 17.9 | 20.4 |
| Revenue Receipts/TE ratio (<i>per cent</i>) | 79.5 | 84.5 | 72.9 | 85.3 | 95.1 | 97.3 |
| Buoyancy of Total Expenditure with | | | | | | |
| GSDP (ratio) | ** | 2.38 | 1.24 | 0.20 | 0.73 | 2.36 |
| Revenue Receipts (ratio) | ** | 0.69 | 2.75 | 0.18 | 0.4 | 0.90 |

* Total Expenditure includes Revenue Expenditure, Capital Expenditure and Loans & Advances disbursed.

** Not considered as the State was created on 1st November 2000.

Includes Inter State settlement

Out of total expenditure of Rs 11,773 crore, revenue expenditure shared 75 *per cent* (Rs 8,802 crore) and capital expenditure including Loans and Advances disbursed shared 25 *per cent* (Rs 2,971 crore). The total expenditure during the current year increased by Rs 2,482 crore over the previous year of which revenue expenditure contributed Rs 1,345 crore and capital expenditure contributed Rs 701 crore (mainly on account of Rs 676 crore under Plan head) and increase in repayment of loans and advance by Rs 436 crore. Of the total expenditure, Rs 6,226 crore was incurred under Non-Plan with an increase of Rs 748 crore and Rs 5,547 crore under Plan head with an increase of Rs 1,734 crore over the previous year. During the current year, 97 *per cent* (Rs 11,453 crore) of total expenditure was met from revenue receipts and the remaining from recoveries of loans and advances. The State was still left with Rs 37 crore of fiscal surplus. The buoyancy of total expenditure to GSDP stood at 2.36 in 2006-07 indicating tendency to spend more than the increase in income and higher elasticity of total expenditure with respect to GSDP.

The capital expenditure of Rs 2,198 crore was less by Rs 433 crore as assessed in the budget estimate by State Government. The increase in capital expenditure by Rs 701 crore from Rs 1,497 crore during 2005-06 to Rs 2,198 crore during 2006-07 was mainly due to an increase of expenditure in Transport Rs 268 crore, Rural development Rs 110 crore, Irrigation and Flood control Rs 89 crore and Agriculture and Allied activities Rs 55 crore.

Trends in Total Expenditure by Activities

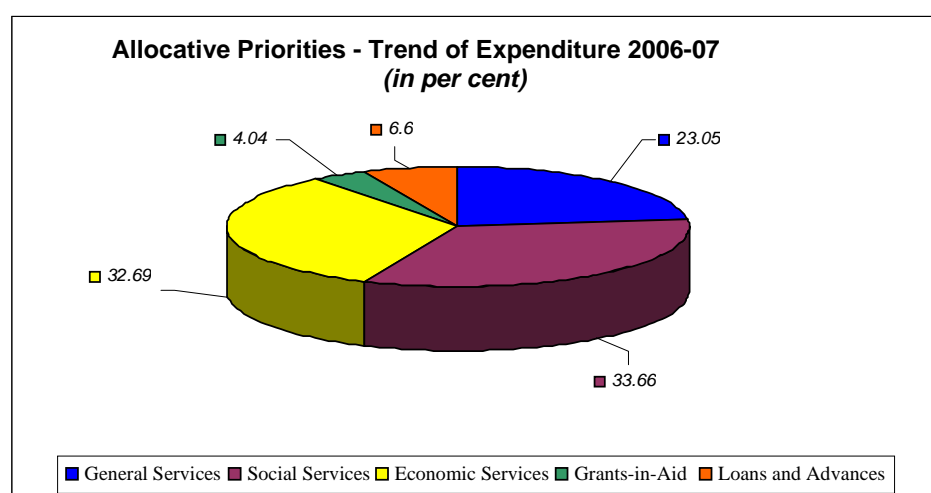
In terms of the activities, total expenditure could be considered as being composed of expenditure on general services, interest payments, social and

economic services and loans & advances. Relative share of these components in total expenditure is indicated in **Table 10**.

Table 10 : Components of Total Expenditure-Relative Share

| | <i>(in per cent)</i> | | | | | |
|-----------------------------------|----------------------|--------------|--------------|--------------|--------------|-------------|
| | 2001-02 | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 |
| General Services | 32.1 | 29.0 | 26.6 | 29.7 | 23.8 | 23.05 |
| <i>Of which Interest Payments</i> | <i>13.29</i> | <i>12.64</i> | <i>12.89</i> | <i>13.56</i> | <i>10.34</i> | <i>8.71</i> |
| Social Services | 36.7 | 34.7 | 30.0 | 31.6 | 34.6 | 33.66 |
| Economic Services | 27.3 | 32.9 | 33.3 | 34.4 | 34.4 | 32.69 |
| Grants-in-aid | 2.4 | 2.5 | 3.2 | 3.0 | 3.6 | 4.04 |
| Loans and Advances | 1.5 | 0.9 | 6.8 | 1.3 | 3.6 | 6.6 |

Chart 1.2



The non-developmental expenditure during 2006-07 (general services including interest payments) accounted for 23 *per cent*, the developmental expenditure (on social and economic services) accounted for 66 *per cent* and loans and advances and Grants-in-aid accounted for 11 *per cent* of the total expenditure. The share of expenditure on general services including interest payments showed a broad overall decreasing trend during 2001-07 but the share of development expenditure showed an oscillating trend and ranged between 63 and 69 *per cent* over the period. There was an increasing trend in relative share of expenditure on Grants-in-aid and loans and advances.

1.4.2 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 past obligations and as such does not result in any addition to the State's infrastructure and service network. The overall revenue expenditure, its rate of growth, ratio of revenue expenditure to GSDP and revenue receipts and its buoyancy are indicated in **Table 11**.

Table 11 : Revenue Expenditure-Basic Parameters

| | (Rupees in crore) | | | | | |
|--|-------------------|---------|---------|---------|---------|---------|
| | 2001-02 | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 |
| Revenue Expenditure | 4,945 | 5,530 | 6,600 | 7,103 | 7,457 | 8,802 |
| <i>Of which</i> | | | | | | |
| Non-Plan Revenue Expenditure (NPRE) | 3,928 | 4,260 | 5,059 | 5,483 | 5,449 | 6,194 |
| Plan Revenue Expenditure (PRE) | 1,017 | 1,270 | 1,541 | 1,620 | 2,008 | 2,608 |
| Rate of Growth and Ratios (Per cent) | | | | | | |
| Rate of Growth of RE | * | 11.83 | 19.35 | 7.62 | 4.98 | 18.04 |
| Rate of Growth NPRE | * | 8.45 | 18.76 | 8.38 | (-)0.62 | 13.67 |
| Rate of Growth PRE | * | 24.88 | 21.34 | 5.13 | 23.95 | 29.88 |
| NPRE/GSDP (per cent) | 13.3 | 13.5 | 13.1 | 11.91 | 10.49 | 10.72 |
| NPRE as per cent of TE | 71.4 | 66.47 | 61.9 | 64.54 | 58.65 | 52.62 |
| NPRE as per cent of RR | 89.76 | 78.64 | 84.9 | 75.60 | 61.65 | 54.08 |
| Buoyancy of Revenue Expenditure with: | | | | | | |
| GSDP (ratio) | * | 1.71 | 0.87 | 0.40 | 0.39 | 1.60 |
| Revenue Receipts (ratio) | * | 0.5 | 1.93 | 0.35 | 0.23 | 0.61 |

* Not considered as the State was created on 1st November 2000.

Revenue expenditure of the State has increased by 78 per cent from Rs 4,945 crore in 2001-02 to Rs 8,802 crore in 2006-07 of which non-plan revenue expenditure increased by 58 per cent and plan expenditure increased by 156 per cent during the period. The share of NPRE in total revenue expenditure declined from 79 per cent in 2001-02 to 70 per cent in 2006-07. The rate of growth of NPRE in 2006-07 (13.67 per cent) was mainly on account of increase in the expenditure by Rs 447 crore (20 per cent) in General Services, Rs 179 crore (11 per cent) in Social Services and Rs 124 crore (37 per cent) in Grants-in-aid over the level of 2005-06. The share of plan revenue expenditure which normally covers the maintenance expenditure incurred on services has increased by Rs 1,591 crore during 2001-07 keeping its share in total revenue expenditure between 21 to 30 per cent during the period.

The actual non-plan revenue expenditure vis-à-vis assessments made by TFC and the State Government in the Budget estimates is given below:

| | (Rupees in crore) | | |
|------------------------------|-------------------------|---|--------|
| | Assessments made by TFC | Assessments made by State Government in Budget estimate | Actual |
| Non-plan revenue expenditure | 5,363 | 6,712 | 6,194 |

The actual NPRE was more than the normative assessment made by TFC by Rs 831 crore and less than the assessment made by the State Government in budget estimate for the year 2006-07 by Rs 518 crore.

1.4.3 Committed Expenditure

Expenditure on Salaries and wages: The expenditure on salaries and wages increased from Rs 1,953 crore in 2001-02 to Rs 2,534 crore in 2006-07 as indicated in **Table 12**.

Table 12: Expenditure on Salaries and Wages

(Rupees in crore)

| Heads | 2001-02# | 2002-03# | 2003-04 | 2004-05 | 2005-06 | 2006-07 |
|----------------------------------|-----------------|----------------|-----------------|-----------------|-----------------|----------------|
| Expenditure on Salary and wages* | 1,953.16 | 1,947.05 | 2,061.68 | 2,118.56 | 2,339.01 | 2,534.16 |
| Of which | | | | | | |
| <i>Non-plan Head</i> | <i>1,619.86</i> | <i>1,615.7</i> | <i>1,708.91</i> | <i>1,782.26</i> | <i>1,888.50</i> | <i>2030.83</i> |
| <i>Plan Head</i> | <i>333.30</i> | <i>331.35</i> | <i>352.77</i> | <i>336.30</i> | <i>450.51</i> | <i>503.33</i> |
| As per cent of GSDP | 6.61 | 6.16 | 5.34 | 4.60 | 4.50 | 4.39 |
| As per cent of Revenue Receipts | 44.63 | 35.94 | 34.6 | 29.22 | 26.46 | 22.13 |

* Source: VLC figure from A&E office.

Figures of 2001-02 and 2002-03 have been revised as previously the figure didn't include wages.

Salaries and wages accounted for four *per cent* of State's GDP and 22 *per cent* of the revenue receipts during 2006-07. Eighty *per cent* of the total expenditure on salaries and wages was incurred under non-plan heads and 20 *per cent* under plan heads. The total salary bill relative to revenue expenditure net of interest payments and pensions was 35 *per cent* which was as per norms of TFC.

Expenditure on pension payments: Pension payments grew by one *per cent* from Rs 540 crore during 2005-06 to Rs 546 crore during 2006-07. Year-wise break-up of expenditure incurred on pension payments during 2001-07 is indicated in **Table 13**.

Table 13: Expenditure on Pensions

(Rupees in crore)

| Heads | 2001-02 | 2002-03 | 2003-04 | 2004-05 | 2005-06** | 2006-07** |
|---------------------------------|---------|---------|---------|---------|-----------|-----------|
| Expenditure of Pensions | 457.22 | 390.57 | 456.01 | 539.73 | 540.18 | 546.08 |
| As per cent of GSDP | 1.55 | 1.24 | 1.18 | 1.17 | 1.04 | 0.94 |
| As per cent of Revenue Receipts | 10.45 | 7.21 | 7.65 | 7.44 | 6.11 | 4.77 |

** The figure for pension payments appearing in the Finance Accounts of 2005-06 and 2006-07 are Rs 461.57 and Rs 624.69 respectively. Rs 78.61 crore could not be included in the pension payment for the year 2005-06 due to late receipt of intimation of Chhattisgarh share of payment booked by the Madhya Pradesh Government and was included in the year 2006-07. This amount has been adjusted in the figures of the two years and taken as Rs 540.18 crore and Rs 546.08 crore for the purpose of comparison.

The ratio of pension payments to the State's GDP and revenue receipts was 0.94 *per cent* and 4.77 *per cent* respectively during 2006-07. Its ratio with GSDP showed declining trend during 2001-07, whereas with respect to the revenue receipts it oscillated between 10.45 *per cent* to 4.77 *per cent* during 2001-07. The expenditure on pensions (Rs 546.08 crore) during 2006-07 was much lower than the assessment made by the State Government in its Medium Term Fiscal Policy Statement (Rs 730.99 crore). The estimated yearly pension liabilities by 2015-16 have been worked out to Rs 3,003.21 crore by estimating growth @ 17 *per cent* per year in the Medium Term Fiscal Policy Statement. State Government has assumed the 17 *per cent* growth on the basis of last three years growth whereas the actual increase in pension payment for last three years was only 13 *per cent*.

Interest payments: Interest payments made and their ratio to revenue receipts and revenue expenditure during the period 2001-2007 are detailed in **Table 14**.

Table 14: Interest payments

| Year | Total Revenue Receipts (Rupees in crore) | Interest payments | Percentage of interest payments with reference to | |
|---------|---|-------------------|---|---------------------|
| | | | Revenue Receipts | Revenue Expenditure |
| 2001-02 | 4,376 | 731 | 16.7 | 14.8 |
| 2002-03 | 5,417 | 810 | 15.0 | 14.6 |
| 2003-04 | 5,959 | 1,054 | 17.7 | 16.0 |
| 2004-05 | 7,249 | 1,152 | 15.9 | 16.2 |
| 2005-06 | 8,838 | 962 | 10.9 | 12.9 |
| 2006-07 | 11,453 | 1,026 | 9.0 | 11.7 |

Interest payments increased from Rs 962 crore during 2005-06 to Rs 1,026 crore during 2006-07 however, the share of interest payments with respect to revenue receipts decreased from 11 *per cent* to nine *per cent* which was well within the TFC norm of less than 15 *per cent*. The interest payments was on internal debts (Rs 645 crore), loans raised from the Central Government (Rs 176 crore) and other obligations (Rs 85 crore).

Subsidy: The details of subsidies given by the State Government are given in **Table 15**.

Table 15 : Subsidies

| Year* | Amount (Rupees in crore) | Percentage increase(+)/decrease(-) over previous year | Percentage of subsidy in total expenditure |
|---------|-----------------------------|--|---|
| 2005-06 | 502.32 | NA | 5.41 |
| 2006-07 | 361.07 | (-)28.12 | 3.07 |

* Data for the years 2001-02 to 2004-05 not available.

The total amount of subsidy decreased by 28 *per cent* (Rs 141 crore) from Rs 502 crore in 2005-06 to Rs 361 crore in 2006-07. The percentage of subsidy in total expenditure also reduced from 5.41 *per cent* in 2005-06 to 3.07 *per cent* in 2006-07. The decrease in subsidy was mainly due to sharp decrease of subsidy of Rs 154.46 crore under food, housing and warehousing. However, there was increase of subsidy Rs 19.42 crore in power sector during 2006-07 over the previous year.

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 the ratio of capital expenditure to total expenditure as well as to GSDP and the proportion of revenue expenditure being spent on running efficiently and effectively the existing social and economic services would determine the quality of expenditure. Higher the ratio of these components to total expenditure and GSDP better is the quality of expenditure. **Table 16** gives these ratios during 2001-07.

Table 16: Indicators of Quality of Expenditure

| | <i>(Rupees in crore)</i> | | | | | |
|---|--------------------------|---------|---------|---------|---------|---------|
| | 2001-02 | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 |
| Capital Expenditure | 476 | 820 | 1,016 | 1,279 | 1,497 | 2,198 |
| Revenue Expenditure | 4,945 | 5,530 | 6,600 | 7,103 | 7,457 | 8,802 |
| <i>Of which</i> | | | | | | |
| Social and Economic Services with | 3,065 | 3,530 | 4,186 | 4,357 | 4,938 | 5,687 |
| <i>Salary and wage component</i> | 1,569 | 1,558 | 1,636 | 1,675 | 1,849 | 1,995 |
| <i>Non-Salary and wage component</i> | 1,496 | 1,972 | 2,550 | 2,682 | 3,089 | 3,692 |
| As per cent of Total Expenditure⁴ | | | | | | |
| Capital Expenditure | 8.78 | 12.91 | 13.34 | 15.26 | 16.72 | 19.98 |
| Revenue Expenditure | 91.22 | 87.09 | 86.66 | 84.74 | 83.28 | 80.02 |
| As per cent of GSDP | | | | | | |
| Capital Expenditure | 1.61 | 2.60 | 2.63 | 2.78 | 2.88 | 3.80 |
| Revenue Expenditure | 16.74 | 17.51 | 17.09 | 15.44 | 14.36 | 15.23 |

While the ratio of capital expenditure to total expenditure showed an increasing trend during 2001-07 and the share of revenue expenditure to total expenditure continued to decrease from 91 *per cent* in 2001-02 but revenue expenditure retained a dominant share in the total expenditure, which was 80 *per cent* in 2006-07. There was a sharp increase of 47 *per cent* (Rs 701 crore) in capital expenditure over the previous year, which was 20 *per cent* of total expenditure. The increasing share of capital expenditure in total expenditure during 2001-07 indicates the priorities accorded by the State Government to creating productive assets and developing social and economic infrastructure in the State.

Within the revenue expenditure incurred on social and economic services, the share of salary and wage component declined from 51 *per cent* in 2001-02 to 35 *per cent* in 2006-07 while the share of non-salary component increased from 49 *per cent* in 2001-02 to 65 *per cent* in 2006-07. This indicates State is focusing expenditure in social and economic services and their maintenance and delivery.

1.5.2 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 17** summarizes the expenditure incurred by the State Government in expanding and strengthening of social services in the State during 2001-07.

⁴ Comprises Revenue and Capital Expenditure only.

Table 17: Expenditure on Social Services

(Rupees in crore)

| | 2001-02 | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 |
|--|----------------|----------------|----------------|----------------|----------------|----------------|
| Education, Sports Art and Culture | | | | | | |
| Revenue Expenditure | 695.44 | 744.25 | 932.40 | 1136.41 | 1224.07 | 1408.07 |
| <i>Of which</i> | | | | | | |
| (a) <i>Salary and Wage Component</i> | 569.23 | 565.22 | 624.13 | 663.56 | 680.91 | 714.08 |
| (b) <i>Non-Salary and Wage Component</i> | 126.21 | 179.03 | 308.27 | 472.85 | 543.16 | 693.99 |
| Capital Expenditure | 2.05 | 6.22 | 37.02 | 53.28 | 77.26 | 133.85 |
| Health and Family Welfare | | | | | | |
| Revenue Expenditure | 231.54 | 251.91 | 258.37 | 277.60 | 292.87 | 341.97 |
| <i>Of which</i> | | | | | | |
| (a) <i>Salary and Wage Component</i> | 170.89 | 175.62 | 185.71 | 193.60 | 200.68 | 223.58 |
| (b) <i>Non-Salary and Wage Component</i> | 60.65 | 76.29 | 72.66 | 84.00 | 92.19 | 118.39 |
| Capital Expenditure | 12.41 | 19.62 | 33.71 | 38.62 | 38.48 | 75.63 |
| Water Supply, Sanitation, Housing and Urban Development | | | | | | |
| Revenue Expenditure | 197.67 | 233.44 | 243.12 | 228.22 | 311.51 | 577.62 |
| <i>Of which</i> | | | | | | |
| (a) <i>Salary and Wage Component</i> | 32.33 | 32.31 | 33.33 | 34.72 | 37.25 | 49.98 |
| (b) <i>Non-Salary and Wage Component</i> | 165.34 | 210.13 | 209.79 | 193.50 | 274.26 | 527.64 |
| Capital Expenditure | 56.18 | 47.80 | 44.12 | 50.73 | 43.07 | 114.48 |
| Other Social Services | | | | | | |
| Revenue Expenditure | 790.10 | 856.85 | 834.58 | 788.72 | 1019.28 | 1131.24 |
| <i>Of which</i> | | | | | | |
| (a) <i>Salary and Wage Component</i> | 409.32 | 396.56 | 380.11 | 362.31 | 396.70 | 715.53 |
| (b) <i>Non-Salary and Wage Component</i> | 380.78 | 460.29 | 454.47 | 426.41 | 622.58 | 415.71 |
| Capital Expenditure | 35.82 | 63.18 | 70.61 | 113.09 | 208.51 | 179.01 |
| Total (Social Services) | | | | | | |
| Revenue Expenditure | 1914.75 | 2086.45 | 2268.47 | 2430.95 | 2847.73 | 3458.90 |
| <i>Of which</i> | | | | | | |
| (a) <i>Salary and Wage Component</i> | 1181.77 | 1169.71 | 1223.28 | 1254.19 | 1315.54 | 1703.17 |
| (b) <i>Non-Salary and Wage Component</i> | 732.98 | 916.74 | 1045.19 | 1176.76 | 1532.19 | 1755.73 |
| Capital Expenditure | 106.46 | 136.82 | 185.46 | 255.72 | 367.32 | 502.97 |
| Grand Total | 2021.21 | 2223.27 | 2453.93 | 2686.67 | 3215.05 | 3961.87 |

The expenditure on social services increased from Rs 2,021 crore in 2001-02 to Rs 3,962 crore in 2006-07 and it constituted 36 *per cent* of the total revenue and capital expenditure (Rs 11,000 crore) during 2006-07. Expenditure on education, health services and water supply, sanitation, housing & urban development etc consumed 67 *per cent* of the total social services expenditure during 2006-07.

The trends in revenue and capital expenditure on social services during the period 2001-07 reveal that the share of capital expenditure remained within the range of 5-13 *per cent*, which indicated that the revenue expenditure was dominant. Of the revenue expenditure on social services, the share of salary and wage component has declined from 62 *per cent* in 2001-02 to 49 *per cent*

in 2006-07 implying more expenditure on non-salary components indicating a move towards providing better quality of services. However, the share of salary and wage component has increased from 46 *per cent* in 2005-06 to 49 *per cent* in 2006-07. The non-salary and wage expenditure on social services has increased by 140 *per cent* during 2001-07 from Rs 733 crore to Rs 1,756 crore in 2006-07. Recognizing the need to improve quality of education and health services, TFC recommended that non-plan expenditure under education and health and family welfare should increase by five to six *per cent* while non-salary expenditure under non-plan heads should increase by 30 *per cent* per annum during award period. However the non-plan expenditure (salary & wages) in education increased by 4.87 *per cent* which is very close to five *per cent* and in health and family welfare the increase was 11.41 *per cent* which was more than the recommendations of TFC of six *per cent* but the non-salary & wages expenditure under education grew by 27.77 *per cent* and in public health and family welfare the expenditure increased by 28.42 *per cent* which are slightly less than the TFC norm of 30 *per cent*.

1.5.3 Expenditure on Economic Services

The expenditure on economic services includes all such expenditure that promotes directly or indirectly, productive capacity within the State's economy. The expenditure on economic services (Rs 3,848 crore) during 2006-07 accounted for 35 *per cent* of the total capital and revenue expenditure (Rs 11,000 crore). Of this, Agriculture and Allied activities, Irrigation and Flood Control, Energy and Transport consumed nearly 74 *per cent* of the total economic sector expenditure during 2006-07 (**Table 18**).

Table 18: Expenditure on Economic Services

| | 2001-02 | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 |
|--|---------|---------|---------|---------|---------|---------|
| <i>(Rupees in crore)</i> | | | | | | |
| Agriculture, Allied Activities | | | | | | |
| Revenue Expenditure | 467.37 | 656.92 | 1041.06 | 965.57 | 989.88 | 910.73 |
| <i>Of which</i> | | | | | | |
| (a) <i>Salary and Wage Component</i> | 251.30 | 253.34 | 269.12 | 271.76 | 349.13 | 362.15 |
| (b) <i>Non-Salary and Wage Component</i> | 216.07 | 403.58 | 771.94 | 693.81 | 640.75 | 540.58 |
| Capital Expenditure | 18.87 | 23.18 | 23.34 | 34.64 | 26.30 | 80.64 |
| Irrigation and Flood Control | | | | | | |
| Revenue Expenditure | 84.35 | 158.83 | 132.62 | 120.51 | 123.00 | 136.24 |
| <i>Of which</i> | | | | | | |
| (a) <i>Salary and Wage Component</i> | 52.72 | 54.14 | 58.48 | 59.34 | 68.42 | 75.35 |
| (b) <i>Non-Salary and Wage Component</i> | 31.63 | 104.69 | 74.14 | 61.17 | 54.58 | 60.89 |
| Capital Expenditure | 204.19 | 365.88 | 417.24 | 621.49 | 547.07 | 636.41 |
| Power and Energy | | | | | | |
| Revenue Expenditure | 82.43 | 86.22 | 93.43 | 153.97 | 136.68 | 183.49 |
| <i>Of which</i> | | | | | | |
| (a) <i>Salary and Wage Component</i> | - | - | - | - | - | - |
| (b) <i>Non-Salary and Wage Component</i> | 82.43 | 86.22 | 93.43 | 153.97 | 136.68 | 183.49 |
| Capital Expenditure | - | - | - | - | 25.00 | 0.02 |

| | 2001-02 | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Transport | | | | | | |
| Revenue Expenditure | 131.38 | 181.70 | 172.04 | 161.62 | 161.65 | 230.52 |
| <i>Of which</i> | | | | | | |
| (a) <i>Salary and Wage Component</i> | - | - | - | - | 24.29 | 44.69 |
| (b) <i>Non-Salary and Wage Component</i> | 131.38 | 181.70 | 172.04 | 161.62 | 137.36 | 185.83 |
| Capital Expenditure | 101.12 | 246.59 | 311.80 | 284.38 | 403.98 | 672.25 |
| Other Economic Services | | | | | | |
| Revenue Expenditure | 385.06 | 359.39 | 478.08 | 523.95 | 678.64 | 767.08 |
| <i>Of which</i> | | | | | | |
| (a) <i>Salary and Wage Component</i> | 83.06 | 80.46 | 84.91 | 89.87 | 91.80 | 97.51 |
| (b) <i>Non-Salary and Wage Component</i> | 302.00 | 278.93 | 393.17 | 434.08 | 586.84 | 669.57 |
| Capital Expenditure | 25.53 | 28.10 | 55.85 | 53.63 | 99.67 | 231.03 |
| Total (Economic Services) | | | | | | |
| Total Revenue Expenditure | 1,150.59 | 1,443.06 | 1,917.23 | 1,925.62 | 2,089.85 | 2,228.06 |
| <i>Of which</i> | | | | | | |
| (a) <i>Salary and Wage Component</i> | 387.08 | 387.94 | 412.51 | 420.97 | 533.64 | 579.70 |
| (b) <i>Non-Salary and Wage Component</i> | 763.51 | 1,055.12 | 1,504.72 | 1,504.65 | 1,556.21 | 1,648.36 |
| Total Capital Expenditure | 349.71 | 663.75 | 808.23 | 994.14 | 1,102.02 | 1,620.35 |

The revenue expenditure on economic services increased from Rs 1,151 crore in 2001-02 to Rs 2,228 crore in 2006-07 while the capital expenditure on economic services increased from Rs 350 crore to Rs 1,620 crore.

The trends in revenue and capital expenditure on economic services during the period 2001-07 reveal that the capital expenditure has consistently increased from Rs 349.71 crore (23 per cent) in 2001-02 to Rs 1,620.35 crore (42 per cent) in 2006-07 while revenue expenditure increased from Rs 1,150.59 crore (77 per cent) to Rs 2,228.06 crore (58 per cent) in 2006-07 but its share in the total expenditure has declined. An increase of Rs 518 crore in capital expenditure during 2006-07 over the previous year was mainly on account of increases under the heads Transport (Rs 268 crore), Irrigation and flood control (Rs 89 crore) and Agriculture and Allied activities (Rs 55 crore). Of the revenue expenditure, the expenditure on salary and wages has increased from Rs 387 crore (34 per cent) in 2001-02 to Rs 580 crore (26 per cent) in 2006-07 and the non-salary component has increased from Rs 764 crore (66 per cent) to Rs 1,648 crore (74 per cent) indicating allocative priorities towards better quality and maintenance.

1.5.4 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 six-year period 2001-07 is presented in **Table 19**.

Table 19: Financial Assistance to Local Bodies and Other Institutions

(Rupees in crore)

| Sl. No. | Assistance for | 2001-02 | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 |
|---|--|---------------|---------------|----------------|----------------|----------------|----------------|
| 1. | Education | 86.75 | 89.94 | 118.06 | 145.87 | 143.00 | 75.91 |
| 2. | Power /Energy | 64.25 | 65.00 | 88.27 | 146.72 | 165.67 | 572.13 |
| 3 | Agriculture | 15.60 | 16.46 | 12.16 | 15.13 | 22.67 | 25.31 |
| 4 | Urban Administration and Development* | 7.72 | 8.24 | 24.60 | 23.69 | 22.29 | 289.72 |
| 5 | Municipal Corporations and Municipalities* | 179.91 | 215.96 | 331.16 | 319.74 | 426.99 | 581.59 |
| 6 | Panchayat Raj Institutions* | 345.03 | 398.58 | 485.04 | 517.28 | 660.74 | 857.10 |
| 7 | Other institutions | 2.03 | 4.96 | 0.86 | 27.27 | 484.24 | 219.79 |
| Total | | 701.29 | 799.14 | 1060.15 | 1195.70 | 1925.60 | 2621.55 |
| Percentage increase(+)/ decrease (-) over previous year | | # | 13.95 | 32.66 | 12.79 | 61.04 | 36.14 |
| Assistances as a percentage of revenue receipts | | 16.03 | 14.75 | 17.79 | 16.49 | 21.79 | 22.89 |
| Percentage of assistance to revenue expenditure | | 14.18 | 14.45 | 16.06 | 16.83 | 25.82 | 29.78 |

* *Source : Appropriation Accounts*

Not considered as Chhattisgarh was created on 1st November 2000.

There was a decrease in the grants released for education during 2006-07 by Rs 67 crore due to less release of grants for technical education and higher education. There was increasing trend in grants released to power sector, the sharp increase to Rs 572.13 crore in 2006-07 from Rs 165.67 crore in 2005-06 was on account of release of excess grants for free electricity supply, electrification of pump sets and for electrification work to Chhattisgarh State Electricity Board. There was an increase of Rs 154.60 crore in grants to Municipal Corporations and Municipalities.

Grants-in-aid rules and sanctions issued by Departments provide that grants for a specific purpose should be utilized in full during the financial year. Balance, if any, should be returned to the Government at the earliest. However, the grants released during the year 2006-07 to various institutions/bodies were not utilized in full. Out of the total release of Rs 2,621.55 crore an amount of Rs 220.82 crore remained unspent (**Appendix-1.6**). Department wise breakup of non-utilisation of grants is not furnished by Government.

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, Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred. **Appendix-1.2** gives an abstract of such liabilities and the assets as on 31 March 2007, compared with the corresponding position on 31 March 2006. While the liabilities consist mainly of internal borrowings, loans and advances from the Government of India, 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-1.5** depicts the time series data on the State Government finances for the period 2001-07.

1.6.1 Financial Results of Irrigation Works

The financial results of 20 major and medium irrigation projects with capital outlay of Rs 2,145.74 crore showed that revenue realized during 2006-07 (Rs 85.18 crore) was only four *per cent* of the capital invested.

1.6.2 Incomplete Projects

The information regarding completion of 63 incomplete irrigation projects as on 31 March 2007 relating to Water Resources Department is awaited from the department.

1.6.3 Investments and Returns

As on 31 March 2007, the State Government had invested Rs 159.64 crore in its 11 Statutory Corporations, one Government Company, two Joint Stock Companies and Co-operative Societies (**Table 20**). The return on this investment was not available for the last three years.

Table 20: Return on Investment

| Year | Investment at the end of the year | Return | Average rate of interest on Government borrowing | Difference between interest rate and return |
|---------|-----------------------------------|--------|--|---|
| | <i>(Rupees in crore)</i> | | | |
| 2001-02 | 15.29 | 5.00 | -- | |
| 2002-03 | 35.94 | 25.57 | 9.72 | 15.85 |
| 2003-04 | 56.94 | 34.82 | 10.34 | 24.48 |
| 2004-05 | 87.86 | - | 9.85 | - |
| 2005-06 | 103.24 | - | 7.54 | - |
| 2006-07 | 159.64 | - | 7.49 | - |

The investment was made by Chhattisgarh State after its formation in November 2000; hence the percentage of return cannot be assessed as the investments made prior to formation of State have not been apportioned so far between the two States.

1.6.4 Loans and Advances by State Government

In addition to investment in Co-operatives, Corporations and Companies, Government has also been providing support in terms of loans and advances to many of these institutions/organizations. Total outstanding loans and advances as on 31 March 2007 was Rs 1,604.61 crore (**Table 21**). Interest received against these loans and advances was 6.12 *per cent* during 2006-07 as against 5.20 *per cent* in previous year.

Table 21: Average Interest received on Loans advanced by the State Government

| | <i>(Rupees in crore)</i> | | | | | |
|--|--------------------------|---------|---------|---------|--------------------|----------|
| | 2001-02 | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 |
| Opening Balance | 138.33 | 184.34 | 223.58 | 770.62 | 868.87 | 1,188.43 |
| Amount Advanced during the year | 49.52 | 57.70 | 557.68 | 113.04 | 337.48 | 771.13 |
| Amount repaid during the year | 3.51 | 18.46 | 10.64 | 14.79 | 17.92 | 354.95 |
| Closing Balance | 184.34 | 223.58 | 770.62 | 868.87 | 1,188.43 | 1,604.61 |
| Net Addition | 46.01 | 39.24 | 547.04 | 98.25 | 319.56 | 416.18 |
| Interest Received | 0.03 | 31.54 | # | 45.81 | 53.66 ⁵ | 85.50 |
| Interest Received as <i>per cent</i> to Loans advanced | 0.02 | 15.46 | - | 5.6 | 5.2 | 6.12 |
| Average interest rate (in <i>per cent</i>) paid on borrowings by State Government | -- | 9.72 | 10.34 | 9.85 | 7.54 | 7.49 |
| Difference between interest paid and received (<i>per cent</i>) | -- | 5.74 | -- | (-)4.25 | (-)2.34 | (-) 1.37 |

Not furnished by State Government.

⁵ The figure was wrongly depicted as Rs 5.49 crore in Finance Accounts which has now been corrected as Rs 53.66 crore.

The increase in loans and advances during the year over the previous year was due to sharp increase of Rs 511.67 crore in urban development and Rs 199.60 crore in food storage and warehousing.

1.6.5 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 State Government availed neither WMA nor overdraft during 2001-07.

1.7 Undischarged Liabilities

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 Account. 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 receipts.

Table 22 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 22: Fiscal Liabilities-Basic Parameters

| | 2001-02 | 2002-03 | 2003-04 | 2004-05 | 2005-06 ⁶ | 2006-07 |
|--------------------------------------|---------|---------|---------|---------|----------------------|---------|
| Fiscal Liabilities (Rupees in crore) | 7,421 | 9,245 | 11,144 | 12,240 | 13,273 | 14,113 |
| Rate of Growth (<i>per cent</i>) | * | 24.6 | 20.5 | 9.8 | 8.4 | 6.3 |
| Ratio of Fiscal Liabilities to | | | | | | |
| GSDP (<i>per cent</i>) | 25.12 | 29.27 | 28.86 | 26.61 | 25.56 | 24.42 |
| Revenue Receipt (<i>per cent</i>) | 169.6 | 170.7 | 187.0 | 168.9 | 150.2 | 123.2 |
| Own Resources (<i>per cent</i>) | 273.3 | 281.52 | 300.2 | 273.7 | 251.3 | 217.2 |
| Buoyancy of Fiscal Liabilities with | | | | | | |
| GSDP (ratio) | * | 3.55 | 0.92 | 0.51 | 0.65 | 0.56 |
| Revenue Receipt (ratio) | * | 1.03 | 2.05 | 0.45 | 0.38 | 0.21 |
| Own resources (ratio) | * | 1.17 | 1.57 | 0.48 | 0.46 | 0.27 |

* Not considered as the State was created on 1st November 2000.

Overall fiscal liabilities of the State increased from Rs 7,421 crore in 2001-02 to Rs 14,113 crore in 2006-07. The growth rate was 6.3 *per cent* during 2006-07 over the previous year. The ratio of fiscal liabilities to GSDP also decreased from 25.12 *per cent* in 2001-02 to 24.42 *per cent* in 2006-07 due to increase of GSDP during 2006-07. These liabilities stood at 1.23 times State's

⁶ Total liabilities for 2005-06 have been reassessed to Rs 13,273.18 crore due to proforma transfer of Rs 3.28 crore to Chhattisgarh from Madhya Pradesh.

revenue receipts and 2.17 times its own resources at the end of 2006-07. The buoyancy of these liabilities with respect to GSDP showed oscillating trend but reduced from 3.55 in 2002-03 to 0.56 during the year indicating that for each one *per cent* increase in GSDP, fiscal liabilities grew by 0.56 *per cent*.

The State Government has created and maintained a sinking fund since 2001-02 by transferring three *per cent* of non-refundable market loan. No expenditure has been made out of sinking fund since its creation. The total balance available at the end of March 2007 was Rs 446.94 crore. The total balance of the sinking fund was invested in the securities of the GOI.

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. As per Statement 6 of the Finance Accounts, the maximum amount for which guarantees were given by the State and outstanding guarantees at the end of year since 2001-02 is given in **Table 23**.

Table 23: Guarantees given by the Government of Chhattisgarh

(Rupees in crore)

| Year | Maximum amount guaranteed | Outstanding amount of Guarantees |
|---------|---------------------------|----------------------------------|
| 2001-02 | 508 | 466 |
| 2002-03 | 309 | 266 |
| 2003-04 | 807 | 295 |
| 2004-05 | 1,343 | 620 |
| 2005-06 | 1,782 | 855 |
| 2006-07 | 2,483 | 486 |

Government has guaranteed loans raised by various Corporations and others, which at the end of 2006-07 stood at Rs 486 crore. The outstanding amount of guarantees is in the nature of contingent liabilities, which were about 4 *per cent* of revenue receipts of the State. Chhattisgarh FRBM Act (Amendment), 2006 enacted by the Legislature has prescribed that State Government shall not give new guarantees, in any financial year beginning with financial year 2005-06 in excess of 1.5 *per cent* of GSDP in nominal terms or 0.5 *per cent* of GSDP on risk weighted basis whichever is lower. During 2006-07 State Government has given guarantees worth Rs 701 crore, which is 1.21 *per cent* of GSDP.

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 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 Stabilisation

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 24**.

Table 24: Debt Sustainability-Interest Rate and GSDP Growth

| | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 |
|--|----------------------|----------|----------|---------|-----------|
| | <i>(In per cent)</i> | | | | |
| Average Interest Rate | 9.72 | 10.34 | 9.85 | 7.54 | 7.49 |
| GSDP Growth | 6.91 | 22.23 | 19.14 | 12.87 | 11.29 |
| Interest spread | (-) 2.81 | 11.89 | 9.29 | 5.33 | 3.8 |
| Outstanding debt (Rs in crore) | 7,421 | 9,245 | 11,144 | 12,240 | 13,273 |
| Quantum Spread (Rs in crore) | (-) 208.17 | 1,099.23 | 1,035.00 | 652.90 | 504.15 |
| Primary Deficit(-)/ Surplus(+) (Rs in crore) | (-) 163 | (-) 1150 | (-) 79 | (+) 527 | (+) 1,063 |

The trends in **Table 24** reveal that quantum spread together with primary deficit was negative only in 2002-03 and 2003-04 resulting in an increase of fiscal liabilities to GSDP ratio from 25 *per cent* in 2001-02 to 29 *per cent* in 2002-03. The sum of quantum spread and primary deficit remained positive since 2004-05 leading to a consistent decline in fiscal liabilities to GSDP ratio which has reached to 24 *per cent* in 2006-07. These trends along with the behavior of fiscal deficit-GSDP ratio during the period indicate tendency towards debt stabilization and an improvement in the capacity of the State to sustain the 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 25** indicates the resource gap as defined for the period 2001-07.

Table 25: Incremental revenue receipts and revenue expenditure

| Period | Incremental | | | | Resource Gap |
|---------|-------------------|---------------------|-------------------|-------------------|--------------|
| | Non-Debt Receipts | Primary Expenditure | Interest Payments | Total Expenditure | |
| 1 | 2 | 3 | 4 | 5 (3+4) | 6 (2-5) |
| 2002-03 | 1,051 | 828 | 79 | 907 | 144 |
| 2003-04 | 534 | 1,521 | 244 | 1,765 | (-)1,231 |
| 2004-05 | 1,294 | 223 | 98 | 321 | 973 |
| 2005-06 | 1,592 | 986 | (-)190 | 796 | 796 |
| 2006-07 | 2,954 | 2,418 | 64 | 2482 | 472 |

The persistent negative resource gap indicates the non-sustainability of debt while the positive resource gap would improve the capacity of the State to sustain the debt. **Table 25** reveals that incremental receipts were adequate to cover the incremental primary expenditure except in the year 2003-04 and thus

the State experienced the negative resource gap. During subsequent years while non-debt receipts consistently increased but the incremental primary expenditure as well as interest payments was either marginal or negative resulting in positive resource gap during the period 2004-07. These trends indicate the improvement in the debt sustainability which is corroborated by the declining fiscal liabilities to GSDP ratio during the last three years (2004-07).

1.8.3 Net Availability of Borrowed Funds

The debt sustainability of the State also depends on (i) the ratio of the debt redemption (Principal + Interest Payments) 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 increased productivity of the economy in general which may result in increase in Government revenue.

Table 26 gives the position of the receipts and repayment of internal debt and other fiscal liabilities of the State as well as the net availability of the borrowed funds over the last five years.

Table 26: Net Availability of Borrowed Funds

(Rupees in crore)

| | 2001-02 | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 |
|------------------------------------|-----------|-----------|------------|-----------|-----------|-----------|
| Internal debt | | | | | | |
| Receipt | 653.17 | 1179.19 | 1977.60 | 1480.61 | 1178.07 | 881.84 |
| Repayment (Principal+ Interest) | 341.51 | 417.09 | 588.53 | 860.14 | 918.45 | 850.81 |
| Net Fund Available | (+)311.66 | (+)762.10 | (+)1389.07 | (+)620.47 | (+)259.62 | (+)31.03 |
| Net Fund Available (per cent) | (+)48 | (+)65 | (+)70 | (+)42 | (+)22 | (+)4 |
| Loans and Advances from GOI | | | | | | |
| Receipt | 340.86 | 434.12 | 454.39 | 429.20 | 56.28 | 55.13 |
| Repayment (Principal+ Interest) | 501.13 | 754.39 | 1096.61 | 1392.45 | 374.14 | 188.89 |
| Net Fund Available | (-)160.27 | (-)320.27 | (-)642.22 | (-)963.25 | (-)317.86 | (-)133.76 |
| Net Fund Available (per cent) | (-)47 | (-)74 | (-)141 | (-)224 | (-)565 | (-)243 |
| Other obligations | | | | | | |
| Receipt | 428.45 | 374.74 | 473.30 | 449.19 | 379.39 | 409.28 |
| Repayment (Principal+ Interest) | 455.82 | 430.69 | 577.93 | 650.07 | 520.08 | 604.70 |
| Net Fund Available | (-)27.37 | (-)55.95 | (-)104.63 | (-)200.88 | (-)140.69 | (-)195.42 |
| Net Fund Available (per cent) | (-)6 | (-)15 | (-)22 | (-)45 | (-)37 | (-)48 |
| Total liabilities | | | | | | |
| Receipt | 1422.48 | 1988.05 | 2905.29 | 2359 | 1613.74 | 1346.25 |
| Repayments | 1298.46 | 1602.17 | 2263.07 | 2902.66 | 1812.67 | 1644.40 |
| Net Fund Available | (+)124.02 | (+)385.88 | (+)642.22 | (-)543.66 | (-)198.93 | (-)298.15 |
| Net Funds Available (per cent) | (+)9 | (+)19 | (-)22 | (-)23 | (-)12 | (-)22 |

No funds were available on account of the internal debt and loans and advances from the GOI and other obligations after providing for the interest

and repayment during 2006-07. During the year the Government repaid internal debt of Rs 851 crore, Government of India loans of Rs 189 crore and also discharged other obligations of Rs 605 crore along with interest of Rs 1,026 crore as a result of which no borrowed funds were available. During the year, in view of the large cash balances, the focus of the Government seems to be on discharging the past debt obligations both on account of principal and interest payments on loans raised from the market as well as from the Government of India.

1.9 Management of Deficits

The deficit in Government accounts represents the gap between its receipts and expenditure. The nature of the 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 so raised and applied are important pointers to its fiscal health.

1.9.1 Trends in Deficits

The trends in fiscal parameters depicting the position of fiscal equilibrium in the State are presented in **Table 27**.

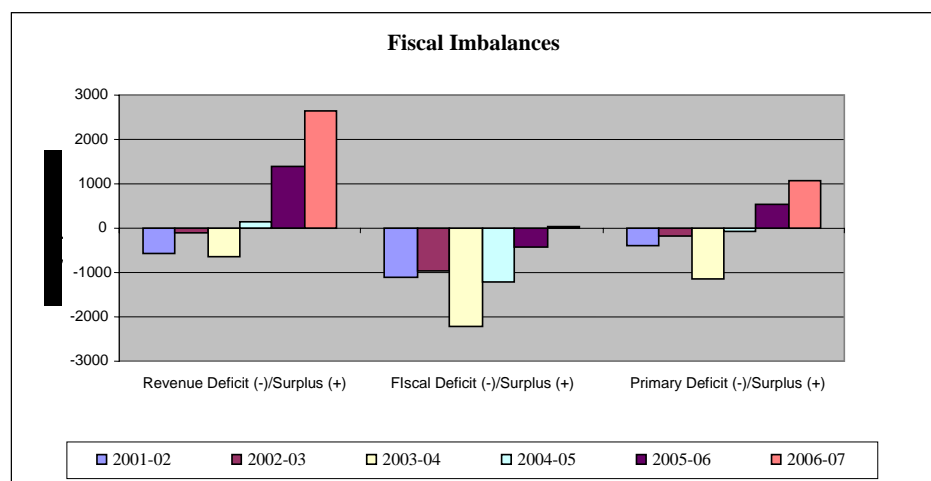
Table 27: Fiscal Imbalances-Basic Parameters

(Value in Rupees in crore and ratio in per cent)

| Parameters | 2001-02 | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 |
|---------------------------------|-----------|----------|-----------|-----------|----------|----------|
| Revenue surplus (+)/Deficit (-) | (-)569 | (-)113 | (-)641 | (+)146 | (+)1,381 | (+)2,651 |
| Fiscal Deficit (-)/Surplus (+) | (-) 1,117 | (-) 973 | (-) 2,204 | (-) 1,231 | (-) 435 | (+)37 |
| Primary Deficit (-)/Surplus (+) | (-) 386 | (-) 163 | (-) 1150 | (-) 79 | (+)527 | (+)1,063 |
| RD/GSDP | (-)1.93 | (-)0.36 | (-)1.66 | (+)0.32 | (+)2.66 | (+)4.59 |
| FD/GSDP | (-) 3.78 | (-) 3.08 | (-) 5.71 | (-) 2.68 | (-) 0.84 | (+)0.06 |
| PD/GSDP | (-) 1.31 | (-) 0.52 | (-) 2.98 | (-) 0.17 | (+)1.01 | (+)1.84 |
| RD/FD | 50.94 | 11.6 | 29.08 | - | - | - |

(Negative figures indicate deficit)

Chart 1.3



The revenue deficit of the State which indicates the excess of its revenue expenditure over revenue receipts at Rs 569 crore in 2001-02 was replaced by a revenue surplus of Rs 2,651 crore in 2006-07. The revenue surplus during 2006-07 increased by 92 *per cent* (Rs 1,270 crore) over 2005-06. The fiscal deficit, which represents the total borrowings of the Government and its total resource gap, decreased from Rs 1,117 crore in 2001-02 to Rs 435 crore in 2005-06 and was turned into fiscal surplus of Rs 37 crore in 2006-07. The State also had a primary deficit of Rs 386 crore in 2001-02 which turned into a primary surplus of Rs 527 crore in 2005-06 and Rs 1,063 crore in 2006-07.

The TFC has recommended elimination of revenue deficit by 2008-09 and reducing fiscal deficit to three *per cent* of GSDP, which the State has already achieved. The State also complied with the annual targets of maintaining revenue surplus beginning with the year 2005-06 and bringing down fiscal deficit to three *per cent* of GSDP as laid down in the FRBM Act.

1.9.2 Quality of Deficit/Surplus

The ratio of RD to FD and the decomposition of primary deficit into primary revenue deficit⁷ 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 RD to FD shows a declining trend during 2001-02 to 2006-07 except during 2003-04. The revenue deficit was wiped out during 2004-05 and surplus continued till 2006-07.

The bifurcation of the factors resulting into primary deficit or surplus of the State during the period 2001-05 reveals (**Table 28**) that throughout this period, the primary deficit was on account of capital expenditure incurred and loans and advances disbursed by the State Government. During 2005-07 the non-debt receipts of the State were enough to meet the primary expenditure⁸ requirements in the revenue account, rather left some receipts to meet the expenditure under the capital account and the surplus non-debt receipts were enough to meet the expenditure requirement under capital account resulting in primary surplus during 2005-06 and 2006-07. This indicates the extent to which the primary deficit has been on account of enhancement in capital expenditure which may be desirable to improve the productive capacity of the State's economy.

⁷ *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.*

⁸ *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.*

Table 28: Primary deficit/Surplus – Bifurcation of factors.

(Rupees in crore)

| Year | Non-debt receipts | Primary revenue expenditure | Capital expenditure | Loans and Advances | Primary Expenditure | Primary Revenue deficit(-) / surplus (+) | Primary deficit(-) / surplus (+) |
|---------|-------------------|-----------------------------|---------------------|--------------------|---------------------|--|----------------------------------|
| 1 | 2 | 3 | 4 | 5 | 6(3+4+5) | 7(2-3) | 8(2-6) |
| 2001-02 | 4,385 | 4,214 | 476 | 81 | 4,771 | (+)171 | (-)386 |
| 2002-03 | 5,436 | 4,720 | 820 | 59 | 5,599 | (+)716 | (-)163 |
| 2003-04 | 5,970 | 5,546 | 1,016 | 558 | 7,120 | (+)424 | (-)1,150 |
| 2004-05 | 7,264 | 5,951 | 1,279 | 113 | 7,343 | (+)1,313 | (-)79 |
| 2005-06 | 8,856 | 6,495 | 1,497 | 337 | 8,329 | (+)2,361 | (+)527 |
| 2006-07 | 11,810 | 7,776 | 2,198 | 773 | 10,747 | (+)4,034 | (+)1,063 |

1.10 Fiscal Ratios

The finances of a State should be sustainable, flexible and non-vulnerable.

Table 29 below presents a summarized position of Government finances over 2001-2007, with reference to certain key indicators that help assess the adequacy and effectiveness of available resources and their applications, highlights areas of concern and captures its important facts.

Table 29 : Indicators of Fiscal Health

(In per cent)

| Fiscal indicators | 2001-02 | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 |
|---|----------|---------|----------|----------|----------|-----------|
| I. Resource Mobilization | | | | | | |
| Revenue Receipt/GSDP | 14.81 | 17.15 | 15.43 | 15.76 | 17.02 | 19.82 |
| Revenue buoyancy | * | 3.44 | 0.45 | 1.13 | 1.70 | 2.62 |
| Own tax/GSDP | 6.75 | 7.37 | 6.7 | 7.02 | 7.80 | 8.73 |
| II. Expenditure Management | | | | | | |
| Total Expenditure/GSDP | 18.6 | 20.3 | 21.2 | 18.47 | 17.89 | 20.4 |
| Revenue Receipts/Total Expenditure | 79.5 | 84.5 | 72.9 | 85.3 | 95.1 | 97.3 |
| Revenue Expenditure/Total Expenditure | 89.9 | 86.3 | 80.7 | 83.6 | 80.3 | 74.8 |
| Salary and Wage expenditure on Social and Economic Services/Revenue Expenditure | 31.73 | 28.17 | 24.79 | 23.58 | 24.8 | 25.94 |
| Non-Salary/Wage expenditure on Social and Economic Services/Revenue Expenditure | 30.25 | 35.66 | 38.64 | 37.76 | 41.42 | 38.67 |
| Capital Expenditure/ Total Expenditure | 8.65 | 12.79 | 12.43 | 15.06 | 16.11 | 18.67 |
| Development Expenditure/Total Expenditure | 8.29 | 12.49 | 12.16 | 14.71 | 15.81 | 18.04 |
| Buoyancy of TE with RR (in per cent) | * | 69.3 | 275.24 | 18.10 | 42.75 | 90.30 |
| Buoyancy of RE with RR (in per cent) | * | 49.7 | 193.38 | 35.2 | 22.7 | 60.96 |
| III. Management of Fiscal Imbalances | | | | | | |
| Revenue surplus (+) deficit (-) (Rs in crore) | (-) 569 | (-) 113 | (-) 641 | (+) 146 | (+) 1381 | (+) 2651 |
| Fiscal deficit (Rs in crore) | (-) 1117 | (-) 973 | (-) 2204 | (-) 1231 | (-) 435 | (+) 37 |
| Primary Deficit (Rs in crore) | (-) 386 | (-) 163 | (-) 1150 | (-) 79 | (+) 527 | (+) 1063 |
| Revenue Deficit/Fiscal Deficit | 0.51 | 0.12 | 0.29 | 0.12 | 3.17 | (+) 71.65 |

| Fiscal indicators | 2001-02 | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 |
|--|---------|---------|---------|---------|---------|---------|
| IV. Management of Fiscal Liabilities (FL) | | | | | | |
| Fiscal Liabilities/GSDP | 25.12 | 29.27 | 28.86 | 26.61 | 25.56 | 24.42 |
| Fiscal Liabilities/RR | 169.6 | 170.7 | 187 | 168.9 | 150.2 | 123.2 |
| Buoyancy of FL with RR | | 1.03 | 2.05 | 0.45 | 0.38 | 0.21 |
| Buoyancy of FL with OR | * | 1.17 | 1.57 | 0.48 | 0.46 | 0.27 |
| Interest spread | * | (-)2.81 | 11.89 | 9.29 | 5.33 | 3.80 |
| Net Funds Available (<i>per cent</i>) | (+)9 | (+)19 | (-)22 | (-)23 | (-)12 | (-)22 |
| V. Other Fiscal Health Indicators | | | | | | |
| Return on Investment | 5.0 | 25.57 | 34.82 | - | - | - |
| BCR (Rs in crore) | 105 | 612 | 414 | 1,255 | 2,615 | 3,902 |
| Financial Assets/Liabilities | 0.38 | 0.47 | 0.49 | 0.57 | 0.70 | 0.90 |

* Not considered as the State was created on 1st November 2000.

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 with increase in GSDP. The ratio of revenue receipts to GSDP was on a rising trend during the period except in 2003-04. The ratio of revenue receipts to GSDP during the current year was 20 *per cent*, an increase of three percentage points over the previous year. During 2001-07 the ratio of own taxes to GSDP had showed continued improvement except in the year 2003-04 when it declined marginally.

The various ratios concerning expenditure management of the State indicate quality of expenditure and sustainability of these in relation to its resource mobilization efforts. The total expenditure to GSDP increased during 2001-02 to 2003-04 and decreased during 2004-05 and 2005-06 but again increased during 2006-07. Revenue expenditure to total expenditure showed a decreasing trend over the six-year period 2001-2007 except in 2004-05. Revenue surplus and fiscal surplus during the year 2006-07 indicated an improvement in fiscal position of the State. The balance from current revenue also been positive since 2001-02 and a significant growth of Rs 1,287 crore over the previous year indicates ample funds available for creation of assets.

1.11 Conclusion

During 2006-07 the overall fiscal position of Chhattisgarh as reflected in terms of key parameters- revenue, fiscal and primary deficits indicates significant improvement over the previous year. The improvement in fiscal position of the State may however be seen in view of the fact that little more than 53 *per cent* of the incremental revenue receipts of the State during 2006-07 (Rs 2,615 crore) are contributed by the central transfers comprising of State's share in central taxes and duties and grants-in-aid from the Union of India. The expenditure pattern of the State reveals that the revenue expenditure continued to share the dominant proportion in the total expenditure of the State which was around 75 *per cent* during 2006-07 leaving inadequate resources for expansion of services and creation of assets. Moreover, within the revenue expenditure, non-plan revenue expenditure in 2006-07 was significantly higher than the normative assessment of TFC for the State for the year and the four components – expenditure on salaries and wages, pension liabilities, interest payments and subsidies – constitute about 72 *per cent* of the NPPE

during 2006-07. These trends in expenditure indicate the need for changing allocative priorities. The continued prevalence of fiscal deficit in the finance accounts of the State except a marginal surplus of Rs 37 crore in the current year indicates the reliance on the borrowed funds resulting in increasing fiscal liabilities of the State. The increasing fiscal liabilities accompanied with negligible rate of return on government investments and inadequate interest cost recovery on loans and advances might put a fiscal stress in the State in medium to long run unless suitable measures are initiated to compress the non plan revenue expenditure and to mobilize the additional resources both through the tax and non tax sources in ensuing years. The State of Chhattisgarh, comprising 16 districts of the composite State of Madhya Pradesh, came into existence on 1st November 2000. The process of apportionment of pre November 2000 assets and liabilities of the composite State of Madhya Pradesh and other financial adjustments to be done in each case with reference to the provisions of the Madhya Pradesh Re-organization Act, 2000 is not yet complete. A realistic picture of the financial position of the State will emerge only after completion of this process.