

CHAPTER-I

AN OVERVIEW OF THE FINANCES OF THE STATE GOVERNMENT

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1.1 Introduction

This Chapter discusses the financial position of the State Government, based on information contained in the Finance Accounts. The analysis is based on the trends in the receipts and expenditure, the quality of expenditure and the financial management of the State Government. In addition, the Chapter also contains a section on the analysis of financial performance of the Government, based on certain ratios and indices pertaining to some select indicators developed on the basis of the information contained in the Finance Accounts and other information furnished by the State Government. Some of the terms used in this Chapter are explained in the *Appendix - I*.

1.2 Financial position of the State

In the Government accounting system, comprehensive accounting of the fixed assets like land and buildings, etc., 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 by the Government. Exhibit-1 (Page 3) gives an abstract of such liabilities and the assets as on 31 March 2002, compared with the corresponding position on 31 March 2001. While the liabilities in this statement consist mainly of money owed by the State Government such as Internal Borrowings, Loans and Advances from the Government of India, receipts from the Public Accounts and Reserve Funds, the assets comprise mainly the Capital Outlay, Loans and Advances given by the State Government and the cash balances. It would be seen from Exhibit-I (Page 3) that while the liabilities grew by 19 *per cent*, the assets grew by 17 *per cent* during 2001-2002. The overall financial position of the Government is brought out in succeeding paragraphs.

1.3 Financial operations of the State Government

1.3.1 Exhibit-II (Page 4-5) details receipts and disbursements of the State Government. The revenue expenditure (Rs 8,656 crore) during the year exceeded the revenue receipts (Rs 7,600 crore) resulting in a revenue deficit of Rs 1,056 crore. The revenue receipts comprised of tax revenue (Rs 4,971 crore), non-tax revenue (Rs 1,666 crore), State's share of Union taxes and duties (Rs 450 crore) and grants-in-aid from the Central Government (Rs 513 crore). The main sources of tax revenue were Taxes on Sales, Trade,

etc. (Rs 2,945 crore : 59 *per cent*), State Excise (Rs 875 crore : 18 *per cent*), Taxes on Goods and Passengers (Rs 499 crore : 10 *per cent*) and Stamp Duty and Registration Fees (Rs 488 crore: 10 *per cent*). Non-tax revenue came mainly from Road Transport (Rs 411 crore: 25 *per cent*), Miscellaneous General Services (Rs 388 crore: 23 *per cent*), Interest Receipts (Rs 333 crore : 20 *per cent*) and Non-Ferrous Mining and Metallurgical Industries (Rs 140 crore: 8 *per cent*).

1.3.2 The net addition to Public Debt by the effect of remittance, suspense balance, etc. was Rs 3,068.96 crore. After meeting the capital expenditure (Rs 1,467.12 crore) and lending for development and other purposes (net) (Rs 216.47 crore), this generated a surplus of Rs 1,385.37 crore. After meeting the revenue deficit (Rs 1,055.95 crore), there was increase in cash balance by Rs 329.42 crore.

1.3.3 The financial operations of the State Government pertaining to its receipts and expenditure are discussed in the following paragraphs, with reference to the information contained in Exhibit-II (Page 4-5) and the time series data for the five year's period from 1997-98 to 2001-2002, presented in Exhibit-IV (Page 7).

1.4 Sources and application of funds

1.4.1 Exhibit-III (Page 6) gives the position of sources and application of funds during the current and the preceding year. The main sources of funds include the revenue receipts of the Government, recoveries of the Loans and Advances, Public Debt and the receipts in the Public Account. These are applied mainly on revenue and capital expenditure and lending for developmental purposes. The revenue receipts contribute the most significant source of funds for the State Government. Their relative share in total funds decreased from 74 *per cent* in 2000-2001 to 71 *per cent* in 2001-2002. The receipts in Public Debt increased from 13 *per cent* in 2000-2001 to 22 *per cent* in 2001-2002. The receipt in Public Account decreased from 11 *per cent* to 6 *per cent* in 2001-2002.

1.4.2 The funds were mainly applied to revenue expenditure, which remained significantly higher than the revenue receipts and led to revenue deficit of Rs 1,055.95 crore. The percentage of capital expenditure to total available funds decreased from 16 to 14 *per cent* in 2001-2002.

EXHIBIT-I**SUMMARISED FINANCIAL POSITION OF THE GOVERNMENT OF HARYANA****(Rupees in crore)**

As on 31 March 2001	Liabilities		As on 31 March 2002
4,057.74	Internal Debt		6,340.86
	1,761.72	Market Loans bearing interest	2,020.75
	5.42	Market Loans not bearing interest	6.56
	41.58	Loans from LIC	38.30
	2,225.19	Loans from other Institutions, etc.	3,690.59
	23.83	Ways and Means Advances	584.66
5,219.14	Loans and Advances from Central Government		5,334.21
	152.16	Pre 1984-85 Loans	130.71
	2,848.99	Non-plan Loans	2,775.39
	2,172.79	Loans for State Plan Schemes	2,382.39
	29.55	Loans for Central Plan Schemes	28.67
	15.65	Loans for Centrally Sponsored Plan Schemes	17.05
10.00	Contingency Fund		10.00
3,901.83	Small Savings, Provident Funds, etc.		4,307.06
412.61	Deposits		710.87
377.51	Reserve Funds		429.43
35.10	Remittance Balances		16.22
524.10	Suspense and Miscellaneous Balances		458.56
2.88	Cash in Treasuries and Local Remittances¹		2.44
294.41	Deposits with Reserve Bank¹		44.65
14,835.32	Total		17,654.30
As on 31 March 2001	Assets		As on 31 March 2002
9,045.45	Gross Capital Outlay		10,512.57
	2,843.73	Investments in shares of Companies, Corporations, etc.	2,905.97
	6,201.72	Other Capital Outlay	7,606.60
1,062.99	Loans and Advances		1,279.46
	187.68	Loans for Power Projects	259.72
	765.31	Other Development Loans	871.31
	110.00	Loans to Government Servants, etc.	148.43
0.34	Advances		0.57
123.74	Cash		202.95
	5.51	Departmental Balances	6.66
	0.07	Permanent Cash Imprest	0.08
	118.16	Cash Balance Investment and other Reserve	196.21
	Fund Investment		
4,602.80	Deficit on Government Accounts		5,658.75
	607.48	(i) Revenue Deficit of the Current Year	1,055.95
	3,995.32	(ii) Accumulated deficit up to preceding year	4,602.80
		(iii) Miscellaneous Government Account ²	
14,835.32	Total		17,654.30

¹ Included on liability side as the balances under "Cash in Treasuries and local remittances" and "Deposits with RBI" were in the negative.

² Rs 33,138 only.

EXHIBIT-II
ABSTRACT OF RECEIPTS AND DISBURSEMENTS FOR THE YEAR
2001-2002

(Rupees in crore)

Receipts				Disbursements			
2000-2001		2001-2002	2000-01		Non-Plan	Plan	2001-2002
6,573.89	Section A : Revenue						
	I. Revenue Receipts	7,600.55					
4,310.55	Tax Revenue	4,971.19	3,117.33	I. Revenue Expenditure			
1,439.39	Non Tax Revenue	1,666.07	2,506.30	General Services	3,452.29	33.90	3,486.19
345.81	State's share of Union Taxes and Duties	450.25	1,330.63	Social Services	1,995.00	729.79	2,724.79
88.14	Non-Plan Grants	158.66	290.91	Education, Sports, Art and Culture	1,265.42	210.73	1,476.15
226.36	Grants for State Plan Schemes	194.86	293.89	Health and Family Welfare	217.48	96.93	314.41
				Water Supply, Sanitation, Housing and Urban Development	278.94	31.51	310.45
163.64	Grants for Central Plan and Centrally Sponsored Plan Schemes	159.52	14.16	Information and Broadcasting	11.86	1.99	13.85
			33.69	Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes	15.89	23.25	39.14
			53.70	Labour and Labour Welfare	36.27	18.00	54.27
			486.48	Social Welfare and Nutrition	165.65	347.38	513.03
			2.84	Others	3.49	-	3.49
			1,542.81	Economic Services	1,980.92	433.90	2,414.82
			358.18	Agriculture and allied activities	260.52	132.13	392.65
			89.19	Rural Development	41.34	94.12	135.46
			325.45	Irrigation and Flood Control	290.72	134.04	424.76
			140.81	Energy	765.04	26.19	791.23
			25.32	Industry and Minerals	13.84	10.42	24.26
			578.24	Transport	595.59	22.49	618.08
			3.66	Science, Technology and Environment	0.35	3.10	3.45
			21.96	General Economic Services	13.52	11.41	24.93
			14.93	Grants-in-aid and Contributions	30.70	-	30.70
607.48	II. Revenue Deficit carried over to Section B	1,055.95					
7,181.37	Total Section A	8,656.50	7,181.37		7,458.91	1,197.59	8,656.50
	Section B - Others						
(-) 30.96	III. Opening Cash Balance including Permanent Advances and Cash Balance investment	(-)173.55	1,445.16	II. Capital Outlay	565.15	901.97	1,467.12
			30.07	General Services	-	50.67	50.67
			142.69	Social Services		191.19	191.19
			3.86	Education, Sports, Art and Culture	-	3.51	3.51
			7.36	Health and Family Welfare	-	7.51	7.51
			129.16	Water Supply, Sanitation, Housing and Urban Development	-	178.13	178.13
			0.45	Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes	-	0.70	0.70
			0.43	Social Welfare and Nutrition	-	0.21	0.21
			1.43	Others	-	1.13	1.13
			1,272.40	Economic Services	565.15	660.11	1,225.26
			607.66	Agriculture and allied activities	564.81	3.31	568.12
			322.46	Irrigation and Flood Control	-	354.68	354.68
			264.83	Energy	-	38.31	38.31
			4.45	Industry and Minerals	-	0.56	0.56
			71.00	Transport	0.34	259.55	259.89
			2.00	General Economic Services	-	3.70	3.70

Receipts				Disbursements			
2000-2001			2001-2002	2000-2001			2001-2002
69.51	IV. Recoveries of Loans and Advances		84.71	282.07	III. Loans and Advances Disbursed		301.18
0.87	From Power Projects	-		89.68	For Power Projects	72.04	
41.40	From Government Servants	49.28		71.32	To Government Servants	87.71	
27.24	From others	35.43		121.07	To others	141.43	
1,881.80	V. Public Debt Receipts		3,358.85	607.48	IV. Revenue Deficit brought down		1,055.95
1,563.30	Internal Debt other than Ways and Means Advances and Overdraft	2,459.43		757.05	V. Repayment of Public Debt		960.66
--	Net transaction under Ways and Means Advances and Overdraft	560.83 ³		479.06	Internal Debt other than Ways and Means Advances and Overdraft	737.14	
318.50	Loans and Advances from Central Government	338.59		85.58 ⁴	Net transaction under Ways and Means Advances and Overdraft	-	
4,478.11	VI. Public Accounts Receipts		4,913.65	192.41	Repayment of Loans and Advances to Central Government	223.52	
958.93	Small Savings, Provident Fund, etc.	996.76					
119.28	Reserve Funds	126.01		3,480.25	VI. Public Account Disbursements		4,242.88
1,130.25	Deposits and Advances	1,710.27		460.27	Small Savings, Provident Fund, etc.	591.53	
984.63	Suspense and Miscellaneous	284.36		64.52	Reserve Funds	74.08	
1,285.02	Remittances	1,796.25		1,140.00	Deposits and Advances	1,412.25	
				557.86	Suspense and Miscellaneous	349.89	
				1,257.60	Remittances	1,815.13	
				(-) 173.55	VII. Cash Balance at end		155.87
				(-) 2.88	Cash in Treasuries and Local Remittances	(-) 2.43	
				(-) 294.41	Deposits with Reserve Bank	(-) 44.65	
				5.58	Departmental Cash Balance including Permanent Advances, etc.	6.74	
				118.16	Cash Balance Investment	196.21	
6,398.46	Total - Section B		8,183.66	6,398.46	Total		8,183.66

³ Represents receipts: Rs 3,606.97 crore and repayments: Rs 3,046.14 crore.

⁴ Represents receipts: Rs 2,327.73 crore, repayments: Rs 2,413.31 crore.

EXHIBIT-III
SOURCES AND APPLICATION OF FUNDS

(Rupees in crore)

2000-2001	Sources	2001-2002
6,573.89	Revenue Receipts	7,600.55
69.51	Recoveries of Loans and Advances	84.71
1,124.75	Increase in Public debt	2,398.19
997.86	Net Receipts from Public Account -	670.77
	498.66 Increase in Small Savings, Provident Funds, etc. 405.23	
	(-) 9.75 Increase/Decrease (-) in Deposits and Advances 298.02	
	54.76 Increase in Reserve funds 51.93	
	426.77 Net effect of Suspense and Miscellaneous transactions (-) 65.53	
	27.42 Net effect of Remittance transactions (-) 18.88	
142.59	Decrease in cash balance	
8,908.60	Total	10,754.22
2000-2001	Application	2001-2002
7,181.37	Revenue expenditure	8,656.50
282.07	Lending for development and other purposes	301.18
1,445.16	Capital expenditure	1,467.12
--	Increase in cash balance	329.42
8,908.60	Total	10,754.22

Explanatory Notes for Exhibit I, II and III:

1. The abridged accounts in the foregoing statements have to be read with comments and explanations in the Finance Accounts.
2. Government accounts being mainly on cash basis, the deficit on Government account, as shown in Exhibit-I, indicates the position on cash basis, as opposed to accrual basis in commercial accounting. Consequently, items payable or receivable or items like depreciation or variation in stock figures etc., do not figure in the accounts.
3. Suspense and Miscellaneous balances include cheques issued but not paid, payments made on behalf of the State and other pending settlement etc.
4. There was a difference of Rs 2.87 crore (net credit) between the figures reflected in the accounts and that intimated by the RBI under "Deposits with Reserve Bank" (July 2002).

EXHIBIT-IV
TIME SERIES DATA ON STATE GOVERNMENT FINANCES

(Rupees in crore)

	1997-98	1998-99	1999-2000	2000-2001	2001-2002
Part A. Receipts					
1. Revenue Receipts	5,898	5,479	5,767	6,574	7,600
(i) Tax Revenue	2,369(40)	3,120(57)	3,518 (61)	4,311 (66)	4,971 (65)
Taxes on Sales, Trade, etc.	1,553(65)	1,599(51)	1,968 (56)	2,573 (60)	2,945 (59)
State Excise	50(2)	775(25)	765 (22)	841 (20)	875 (18)
Taxes on Vehicles	67(3)	71(2)	85 (2)	86 (2)	104 (2)
Stamps duty and Registration fees	302(13)	295(10)	310 (9)	419 (10)	488 (10)
Land Revenue	4	4	4	12	19
Taxes on goods and passengers	331(14)	316(10)	324 (9)	367 (8)	499 (10)
Taxes and duties on Electricity	40 (2)	45 (1)	46 (1)	1 (-)	29 (1)
Other Taxes	22 (1)	15 (1)	16 (1)	12 (-)	12
(ii) Non-Tax Revenue	2,631(45)	1,518(28)	1,259 (22)	1,439 (22)	1,666 (22)
(iii) State's share in Union taxes and duties	539(9)	480(9)	525 (9)	346 (5)	450(6)
(iv) Grants in aid from GOI	359(6)	361(6)	465 (8)	478 (7)	513 (7)
2. Misc. Capital Receipts	--	--	--	--	--
3. Total Revenue and Non debt capital receipt (1+2)	5,898	5,479	5,767	6,574	7,600
4. Recoveries of Loans and Advances	522	554	233	69	85
5. Public Debt Receipts	1,274	1,556	2,038	1,882	3,359
Internal Debt (excluding Ways & Means Advances and Overdrafts)	472 (37)	532 (34)	923 (45)	1,563 (83)	2,459(73)
Net transactions under Ways and Means Advances and Overdraft	--	18 (1)	91 (5)	--	561 (17)
Loans and Advances from Government of India ⁵	802 (63)	1,006 (65)	1,024 (50)	319 (17)	339 (10)
6. Total Receipts in the Consolidated Fund (3+4+5)	7,694	7,589	8,038	8,525	11,044
7. Contingency Fund Receipts	-	-	-	-	-
8. Public Accounts receipts	3,735	3,540	3,789	4,478	4,914
9. Total receipts of the State (6+7+8)	11,429	11,129	11,827	13,003	15,958
Part B. Expenditure					
10. Revenue Expenditure	6,617	7,019	6,952	7,181	8,656
Plan	645 (10)	769 (11)	901 (13)	992 (14)	1,197 (14)
Non-plan	5,972 (90)	6,250 (89)	6,051 (87)	6,189 (86)	7,459 (86)
General Services (including Interests payments)	3,261 (49)	2,778 (39)	2,903 (42)	3,117 (43)	3,486 (40)
Economic Services	1,779 (27)	2,155 (31)	1,791 (26)	1,543 (22)	2,415 (28)
Social Services	1,577 (24)	2,085 (30)	2,257 (32)	2,506 (35)	2,725 (32)
Grants-in-aid and contributions	-	1	1	15	30
11. Capital Expenditure	492	1,026	894	1,445	1,467
Plan	481 (98)	866 (84)	886 (99)	914 (63)	902 (61)
Non-plan	11 (2)	160 (16)	8 (1)	531 (37)	565 (39)
General Services	23 (5)	28 (3)	27(3)	30 (2)	51 (3)
Economic Services	339 (69)	849 (83)	702 (79)	1,272 (88)	1,225 (84)
Social Services	130 (26)	149 (14)	165 (18)	143 (10)	191 (13)
12. Disbursement of Loans and Advances	438	228	286	282	301
13. Total (10+11+12)	7,547	8,273	8,132	8,908	10,424
14. Repayments of Public Debt	476	437	543	757	961
Internal Debt (excluding Ways and Means Advances and Overdrafts)	241 (51)	191 (44)	377 (69)	479 (63)	737(77)
Net transactions under Ways and Means Advances and Overdraft	6 (1)	--	--	86 (11)	-
Loans and Advances from Government of India	229 (48)	246 (56)	166 (31)	192 (26)	224 (23)
15. Appropriation to Contingency Fund	-	-	-	-	-
16. Total disbursement out of Consolidated Fund (13+14+15)	8,023	8,710	8,675	9,665	11,385
17. Contingency Fund disbursements	-	-	-	-	-
18. Public Accounts disbursements	3,434	2,465	3,095	3,480	4,243
19. Total disbursement by the State (16+17+18)	11,457	11,175	11,770	13,145	15,628
Part C. Deficits					
20. Revenue Deficit (1-10)	719	1,540	1,185	607	1,056
21. Fiscal Deficit (3+4-13)	1,128	2,240	2,132	2,265	2,739
22. Primary Deficit (21-23))	308	1,243	775	773	1,115
Part D. Other data					
23. Interest Payments (included in revenue expenditure .)	820	997	1,357	1,492	1,624
24. Arrears of Revenue(Percentage of Tax & non-tax Revenue Receipts)	257 (5)	307 (7)	312 (7)	396 (7)	516(8)
25. Financial Assistance to local bodies etc.	314	381	411	512	668
26. Ways and Means Advances (WMA)/Overdraft availed (days)	29	154	245	281	299
27. Interest on WMA/Overdraft	0.36	0.94	3.66	4.38	7.15
28. Gross State Domestic Product (GSDP) ⁶	37,789	42,941	47,184	52,242	57,727
29. Outstanding Debt (year end)	8,063	10,199	12,249	13,928	17,004
30. Outstanding guarantees including interest (year end)	3,151	3,977	4,316	8,209	8,606
31. Maximum amount guaranteed (year end)	6,453	6,906	7,219	12,025	12,222
32. Number of incomplete projects	6	6	6	6	3
33. Capital blocked in incomplete projects	8.82	8.82	8.82	8.82	2.50

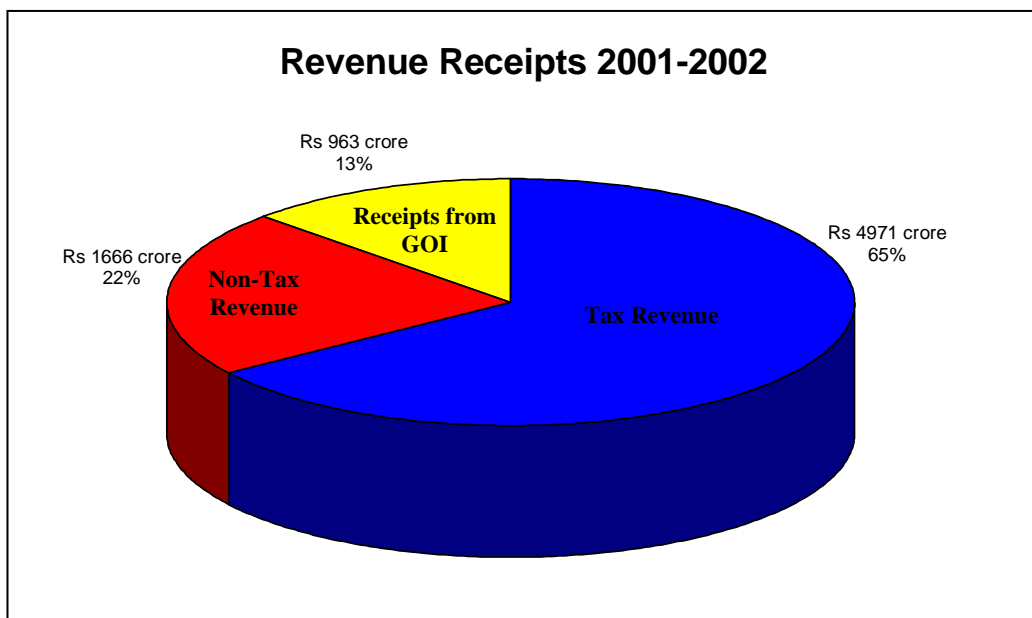
Note: Figures in brackets represent percentages (rounded) to total of each sub heading.

⁵ Includes Ways and Means Advances from GOI.

⁶ Source of GSDP : GSDP for 2001-2002 has been worked out by taking growth rate of 10.5 per cent on the basis of last four years average from 1997-98 to 2000-01.

1.5 Revenue receipts

1.5.1 The revenue receipts of the State have four components: own tax revenue, non-tax revenue, tax transfers from the Government of India (GOI) and the grants-in-aid. The relative share of these components are shown below. During 2001-02, the revenue receipts increased by 16 *per cent* over that of 2000-01.



Tax revenue

1.5.2 Tax revenue constitutes a major share (65 *per cent*) of the revenue receipts. The increase in own tax during 2001-02 (Rs. 4,971 crore) over 2000-01 (Rs 4,311 crore) was Rs 660 crore (15 *per cent*). The increase in tax revenue was mainly under taxes on Sales, Trade, etc. by Rs 371 crore, Stamp and Registration fees by Rs 69 crore and Taxes on Goods and Passenger Tax by Rs 132 crore. The increase under Taxes on Sales, Trade, etc. was attributable to increase in procurement price of wheat and its heavy arrival in the market, hike in prices of High Speed Diesel (HSD) and petrol, and effective check on tax evasion by introduction of Form ST-38 for regulating movement of goods in and out of the State. Similarly, the increase under Stamps and Registration fees and Taxes on Goods and Passenger Tax was due mainly to revision of rates for immovable properties and more registration of documents in the State and to imposition of Haryana Local Development Tax respectively.

Non-tax revenue

1.5.3 The share of non-tax revenue in total revenue receipts declined from Rs 2,631 crore (45 *per cent*) in 1997-98 to Rs 1,666 crore (22 *per cent*) in 2001-02. However, non-tax increased in 2001-02 over 2000-01 by Rs 227 crore (16 *per cent*). The increase was mainly under 'Miscellaneous General Services' (Rs 88 crore), 'Interest receipts' (Rs 97 crore) and

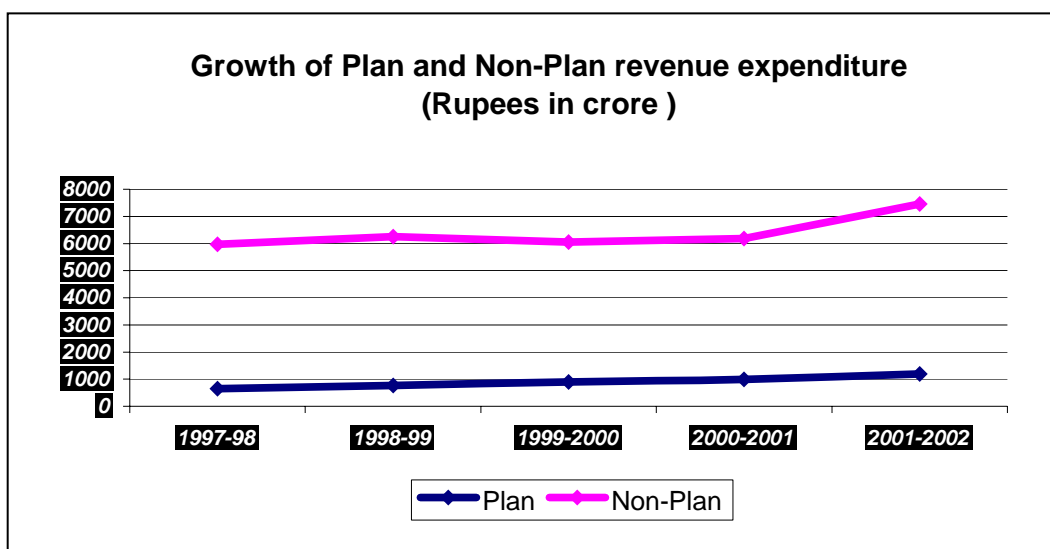
‘Non-Ferrous Mining Metallurgical Industries’ (Rs 35 crore) . While the increase under Miscellaneous General Services was due mainly to sale of more lottery tickets, under ‘Interest receipts’ it was due to more receipts from departmental commercial undertakings, Public sector /other undertakings and co-operative societies. The increase under ‘Non-Ferrous Mining Metallurgical Industries’ was attributable to higher bids in grant of mining lease by public auctions and strenuous efforts for recovery by departmental officers of Industries Department.

State's share of Union taxes and duties and grants-in-aid from the Central Government

1.5.4 The grants-in-aid from the Central Government increased by Rs 154 crore (43 per cent) during the period 1997-2002. During the year, the State's share of Union taxes and duties increased by Rs 104 crore (30 per cent) over the previous year. However, as a percentage of revenue receipts, these receipts (taken together) came down from 17 per cent in 1999-2000 to 13 per cent during 2001-2002. This was due to decrease in State's share of Union taxes and duties from 9 per cent in 1999-2000 to 6 per cent in 2001-02.

1.6 Revenue expenditure

1.6.1 The revenue expenditure increased from Rs 6,617 crore in 1997-98 to Rs 8,656 crore in 2001-2002 registering an increase of 31 per cent as detailed in Exhibit-IV (Page 7). During the year, revenue expenditure increased by Rs 1,475 crore (21 per cent) over 2000-2001. Growth of Plan and Non-Plan revenue expenditure is shown as under:



1.6.2 Sector-wise analysis shows that expenditure on ‘Social Services’ increased by 73 per cent from Rs 1,577 crore in 1997-98 to Rs 2,725 crore in 2001-2002. Expenditure under ‘General Services’ and ‘Economic Services’ increased by 7 per cent and 36 per cent respectively during the same period. However, during the year, expenditure on ‘General Services’ increased by

Rs 369 crore due mainly to increase in interest payments by Rs 132 crore and more expenditure under 'State lotteries' (Rs 88 crore) and on pension and other retirement benefits (Rs 86 crore). Similarly, expenditure on 'Social Services' increased by Rs 219 crore (9 per cent) during the year due to increased expenditure on general education (Rs 134 crore) and on water supply (Rs 38 crore). Expenditure on 'Economic Services' increased by Rs 872 crore during the year mainly due to release of enlarged assistance (Rs 764 crore) to Haryana Vidhyut Prasaran Nigam Limited (HVPNL) for rural electrification and large expenditure under Major Irrigation (Rs 65 crore).

Interest payments

1.6.3 Interest payments increased steadily by 98 per cent from Rs 820 crore in 1997-98 to Rs 1,624 crore in 2001-2002. During the year, interest payments consumed 33 per cent of tax revenue and constituted 19 per cent of revenue expenditure of the State Government. Increase of Rs 132 crore in interest payments during 2001-2002 as compared to 2000-2001 was 9 per cent mainly on Internal Debt. This is further discussed in the section on financial indicators at Para 1.11.2(ii).

Financial assistance to local bodies and other institutions

1.6.4 The quantum of assistance provided to different Bodies/Authorities etc., during the period of five years ending 2001-2002 was as follows:

Sr. No.	Bodies/ authorities, etc.	1997-98	1998-99	1999-2000	2000-2001	2001-2002
(Rupees in crore)						
1	Universities and Educational Institutions	101.55	102.12	130.43	167.48	215.59
2	Municipal Corporation and Municipalities	102.46	103.76	103.55	116.26	144.03
3	Zila Parishads and Panchayati Raj Institutions	1.44	2.67	4.97	9.78	35.77
4	Development Agencies	48.67	87.27	91.76	119.06	128.32
5	Hospitals and other Charitable Institutions	5.63	8.39	19.29	12.10	16.04
6	Other Institutions (including statutory bodies)	54.51	76.55	61.42	87.49	128.71
	Total	314.26	380.76	411.42	512.17	668.46
	Percentage of increase(+)/ decrease(-) over previous year	(-)21	21	8	24	31
	Assistance as a percentage of revenue receipts	5	7	7	8.	9
	Percentage of assistance to revenue expenditure	5	5	6	7	8

During 2001-2002, the quantum of assistance provided to different bodies/ authorities, etc. increased by 31 per cent over that of 2000-01.

Loans and Advances by the State Government

1.6.5 Government gives loans and advances to the Government companies, corporations, local bodies, autonomous bodies, co-operatives, non-Government institutions, etc. for developmental and non-developmental activities. During the years 1998-99 to 2001-2002, uncollected balance considerably increased (60 *per cent*) from Rs 797 crore to Rs 1,279 crore. Recovery of loans decreased by 85 *per cent* from Rs 554 crore to Rs 85 crore during the same period.

	1998-99	1999-2000	2000-2001	2001-2002
	(Rupees in crore)			
Opening balance	1,123	797	850	1,063
Amount advanced during the year	228	286	282	301
Amount repaid during the year	554	233	69	85
Closing balance	797	850	1,063	1,279
Net addition(+)/ reduction(-)	(-)326	(+)53	(+)213	(+)216
Interest received	7	7	9	8

1.7 Capital expenditure

Capital expenditure generally leads to asset creation. In addition, financial assets arise from money invested in institutions or undertakings outside Government i.e. public sector undertakings (PSUs), corporations, etc. and loans and advances. Capital expenditure had grown from Rs 492 crore in 1997-98 to Rs 1,467 crore in 2001-2002, an increase of Rs 975 crore (198 *per cent*) as a result of which its share in total expenditure⁷ had grown from 7 *per cent* in 1997-98 to 14 *per cent* in 2001-2002. It was even 17 *per cent* during 2000-2001. Exhibit-IV shows that most of the capital expenditure (84 *per cent*) was made on 'Economic Services' of which Rs 563.85 crore was spent on procurement and supply of foodgrains and Rs 74 crore was given as subsidy to Haryana State Minor Irrigation (Tubewells) Corporation. This expenditure, however, did not lead to any asset creation.

1.8 Quality of expenditure

1.8.1 Government spends money for different activities ranging from maintenance of law and order and regulatory functions to various developmental activities. The Government expenditure is broadly classified into plan and non-plan and revenue and capital. While the plan and capital expenditure is usually associated with asset creation, the non-plan and revenue expenditure is identified with expenditure on establishment, maintenance and services.

⁷ Revenue expenditure plus Capital expenditure.

1.8.2 Wastage in public expenditure, diversions of funds and funds blocked in incomplete projects would also impinge negatively on the quality of expenditure. Similarly, funds transferred to Deposit heads in the Public Account, after booking them as expenditure, can also to be considered as a negative factor in judging the quality of expenditure. As the expenditure was not actually incurred in the concerned year, it should be excluded from the figures of expenditure for that year for the purpose of financial achievements. Another possible indicator is the increase in the expenditure on General Services to the detriment of Economic and Social Services. The following table/lists out the trend in these indicators:

	1997-98	1998-99	1999-2000	2000-2001	2001-2002
1. Plan expenditure as a percentage of					
-Revenue expenditure	10	11	13	14	14
-Capital expenditure	98	84	99	63	61
2. Capital expenditure (Per cent of total expenditure)	7	13	11	17	14
3. Expenditure on General Services (Per cent)					
-Revenue	49	39	42	43	40
-Capital	5	3	3	2	3
	(Rupees in crore)				
4. Amount of wastages and diversion of funds, other irregularities, etc. detected during test audit	3.42	82.87	363	441	471
5. Non-remunerative expenditure on incomplete projects (Rs in crore)	8.82	8.82	8.82	8.82	2.50

It would be seen that the share of plan expenditure on capital side had decreased from 99 per cent in 1999-2000 to 61 per cent in 2001-2002 despite significant increase in the capital expenditure. Comments in Paragraph 1.7 also refers.

1.9 Financial Management

The issue of financial management in the Government should relate to efficiency, economy and effectiveness of its revenue and expenditure operations. Based on the findings of the test audit, subsequent chapters of this report deal extensively with these issues especially as they relate to the expenditure management in the Government. Some other parameters, which can be segregated from the accounts and other related financial information of the Government are discussed in this section.

1.9.1 Investments and returns

Investments by the Government are made out of the capital outlay to promote developmental, manufacturing, marketing and social activities. The sector-wise details of investments made and the number of concerns involved were as

under:

Sector	Number of concerns	Amount invested	
		As on 31.03.2002	During 2001-2002
		(Rupees in crore)	
Statutory Corporations	7	1,535.82	-
Government Companies	25	1,184.11	58.49
Joint Stock Companies	31	1.75	-
Co-operative Institutions	807	184.29	3.75 ⁸
Total	870	2,905.97	62.24

The details of investments and the returns realised during the last five years by way of dividend and interest were as follows:

Year	Investment at the end of the year	Return	Percentage of return	Rate of interest on Government borrowing (per cent)
	(Rupees in crore)			
1997-98	1,898.07	2.38	0.13	13.05 and 12.30
1998-99	2,224.32	2.21	0.10	12.15 and 12.50
1999-2000	2,568.20	7.78	0.30	11.85 and 12.25
2000-2001	2,843.73	1.81	0.06	10.52 and 12.00
2001-2002	2,905.97	0.40	0.01	8, 8.30, 9.45 and 10.35

Thus, while the Government was raising high cost borrowings, its investments in the Government companies, etc. fetched insignificant returns. As on 31 March 2002, 12⁹ Government Companies, in which the Government invested Rs 1,034.95 crore, were running under loss with accumulated losses of Rs 931.29 crore as per the accounts furnished by these companies for various years from 1996-97 to 2000-01. During 1967-1996 Haryana State Electricity Board (Statutory Corporation) where Rs 1,500 crore had been invested, has been restructured into four Government companies (1998) but the assets and liabilities were yet to be finalised and redistributed. The total accumulated losses in the Government companies is likely to increase when HSEB accounts and the assets and liabilities are finalised and redistributed.

1.9.2 Financial results of irrigation works

The financial results of 7 major irrigation projects with a capital outlay of Rs 307.91 crore at the end of March 2002 showed that revenue realised from these projects during 2001-2002 (Rs 60.07 crore) was only 19.51 per cent of

⁸ Includes investment of Rs 8.61 crore during the year and excludes Rs 4.86 crore being the capital retired during the year.

	Investment (Rupees in crore)	Loss	Year of Account
(i) Haryana Dairy Development Corporation Limited	5.57	6.74	2000-01
(ii) Haryana State Minor Irrigation (Tubewells) Corporation Limited	10.89	83.21	1996-97
(iii) Haryana State Handloom and Handicrafts Corporation Limited	2.65	5.89	1999-2000
(iv) Haryana Tanneries Limited.	0.67	10.55	2000-01
(v) Haryana Scheduled Castes and Finance Development Corporation Limited	25.96	6.17	1997-98
(vi) Haryana Backward Classes and Economically Weaker Section Kalyan Nigam Limited	8.51	3.12	1997-98
(vii) Haryana Vidyut Prasaran Nigam Limited	572.33	247.45	2000-01
(viii) Haryana Power Generation Limited	243.52	51.91	1999-2000
(ix) Dakshin Haryana Bijli Vitran Nigam Limited	66.80	254.78	2000-01
(x) Uttar Haryana Bijli Vitran Nigam Limited	96.07	257.44	2000-01
(xi) Pig Iron Project, Hisar	0.17	0.02	2000-01
(xii) Haryana State Small Industries and Export Corporation	1.81	4.01	2000-01
	1,034.95	931.29	

the capital outlay. After meeting the working and maintenance expenditure (Rs 92.46 crore) and interest charges (Rs 15.66 crore), the projects suffered a net loss of Rs 48.05 crore.

1.9.3 Incomplete projects

As of 31 March 2002, there were 3¹⁰ incomplete projects in which Rs 2.51 crore was blocked.

1.9.4 Arrears of revenue

The arrears of revenue increased by 101 *per cent* during five years (Exhibit-IV). Of the arrears of Rs 515.74 crore as of March 2002, Rs 168.70 crore (32 *per cent*) were pending for more than five years and pertain mainly to “Taxes on Sales, Trade, etc.” (Rs 113.91 crore), “Taxes and Duties on Electricity” (Rs 29.49 crore) and “State Excise” (Rs 10.28 crore). The overall increase in the arrears of revenue showed a slackening of the revenue collection efforts of the State Government and declining tax compliance.

1.9.5 Ways and means advances and overdraft

Under an agreement with the Reserve Bank of India, the State Government had to maintain with the Bank a minimum daily cash balance of Rs 1.14 crore. If the balance falls below the agreed minimum on any day, the deficiency is made good by taking ordinary and special ways and means advances (WMA)/overdraft (OD) from time to time. The limit was Rs 167 crore for ordinary and Rs 10.62 crore to Rs 11.01 crore for special ways and means advances during the year.

Analysis of ways and means advances and overdraft taken by the State Government and interest paid thereon showed that Government’s reliance on overdraft had increased alarmingly during 1997-2002:

Year	Ways and means advances			Overdraft		
	Advance taken during the year (gross)	Advance outstanding at the end of the year	Interest paid	Taken during the year (gross)	Outstanding at the end of the year	Interest paid
(Rupees in crore)						
1997-98	165.75	-	0.27	49.14	-	0.09
1998-99	497.89	18.41	0.66	579.55	-	0.28
1999-2000	1,211.78	109.41	2.09	656.07	-	1.57
2000-2001	1,563.46	23.83	1.28	764.26	-	3.10
2001-2002	2,642.96	178.01	6.35	964.01	406.65	0.80

This reflected significant mismatch between the receipts and disbursements of the Government.

¹⁰

- (i) Construction of Judicial complex of Safidon (Rs 1.04 crore);
- (ii) Construction of HL Bridge over Bagna Nadi Crossing, Kalpi Joli (Rs 0.87 crore) and
- (iii) Raising Side Drain and Retaining Wall on Karnal Assandh Jind Road (Rs 0.60 crore).

1.9.6 Deficit

1.9.6.1 Deficit in Government account is the gap between receipts and payments. The nature of deficit is an important indicator of the financial management process in the Government. Further, the ways of financing the deficit and the application of the funds raised for the purpose are important pointers to the fiscal prudence of the Government. The discussion in this section relates to three concepts of deficit viz., Revenue Deficit, Fiscal Deficit and Primary Deficit.

1.9.6.2 Revenue Deficit is the excess of revenue expenditure over revenue receipts. Fiscal Deficit is the excess of revenue and capital expenditure (including net loans) over the revenue receipts (including grants-in-aid). Primary deficit is fiscal deficit less interest payments. The following exhibit gives a break-up of the deficit in Government account during 2001-2002.

EXHIBIT-V

FINANCIAL OVERVIEW OF THE GOVERNMENT EXPENDITURE

(Rupees in crore)

CONSOLIDATED FUND(CF)				
Receipts	Amount		Disbursements	Amount
Revenue	7,600	Revenue deficit: 1056	Revenue	8656
Miscellaneous Capital receipts	-		Capital	1,467
Recovery of loans and advances	85		Loans and Advances disbursement	301
Sub-total	7,685	Gross fiscal deficit: 2,739	Sub Total	10,424
Public debt	6,405		Public debt repayments	4,007
Total	14,090	A: Deficit in CF:341	Total	14,431
PUBLIC ACCOUNT				
Small savings, PF etc.	997		Small savings, PF etc	592
Deposit and Advances	1,710		Deposit and Advances	1,412
Reserve Funds	126		Reserve Funds	74
Suspense and Miscellaneous.	284		Suspense and Miscellaneous	350
Remittances	1,796		Remittances	1,815
Total	4,913	B: Deficit in CF financed by Public Account: 670	Total	4,243
Increase in cash balance (B-A):329				

The table shows that the revenue deficit of Rs 1,056 crore was entirely met from borrowings. The Fiscal Deficit of Rs 2,739 crore was financed by net proceeds of the Public Debt (Rs 2,398 crore) and partly by the surplus from Public Account (Rs 670 crore).

1.9.6.3 Application of the borrowed funds (Fiscal Deficit)

The fiscal deficit represents total net borrowings of the Government. These borrowings are applied for meeting the revenue deficit (RD), for meeting the capital expenditure (CE) and for giving loans to various bodies for developmental and other purposes. The relative proportions of these applications would indicate the financial prudence of the State Government and also the sustainability of its operations because continued borrowing for revenue expenditure would not be sustainable in the long run. The following table shows the position in respect of the last five years:

Ratio	1997-98	1998-99	1999-2000	2000-2001	2001-2002
RD/FD	0.64	0.69	0.56	0.27	0.39
CE/FD	0.44	0.46	0.42	0.64	0.53
Net loans/FD	(-) 0.08	(-) 0.15	0.02	0.09	0.08
Total	1.00	1.00	1.00	1.00	1.00

It would be seen that 39 *per cent* of borrowed funds were applied during the year for meeting the revenue expenditure. However, the increase in capital expenditure was mainly due to non-plan capital expenditure on account of purchase of foodgrains from borrowed funds.

1.9.7 Guarantees given by the State Government

Guarantees are given by the State Government for due discharge of certain liabilities like repayment of loans, share capital, etc. raised by the statutory corporations, Government companies and cooperative institutions, etc. and payment of interest and minimum dividend by them. They constitute contingent liability of the State.

No law under Article 293 of the Constitution had been passed by the State Legislature laying down the maximum limits within which the Government may give guarantees on the security of the Consolidated Fund of the State. The amount of guarantees given by the Government increased from Rs 6,453 crore to Rs 12,222 crore (89 *per cent* increase) during 1997-2002 (Exhibit-IV). The amount guaranteed as at the end of the year was nearly 1.6 times more than the revenue receipts of the year. The guarantees were given mostly for Haryana State Financial Corporation, Other Statutory Corporations and Boards, Government Companies, Co-operative banks/societies, etc.

1.10 Public debt

1.10.1 The Constitution of India provides that a State may borrow within the territory of India, upon the security of the Consolidated Fund of the State within such limits, if any, as may from time to time, be fixed by an Act of Legislature of the State. No law had been passed by the State Legislature laying down any such limit. The details of the total liabilities of the State Government as at the end of the last five years are given in the

following table:

Year	Internal Debt	Loans and advances from Central Government	Total Public Debt	Other liabilities ¹¹	Total Debt	Ratio of Debt to GSDP
(Rupees in crore)						
1997-98	1,388.38	4,149.71	5,538.09	2,524.77	8,062.86	0.21
1998-99	1,747.92	4,908.98	6,656.90	3,542.03	10,198.93	0.24
1999-2000	2,384.98 (+) 674.10 ¹²	5,767.15 (-) 674.10 ¹²	8,152.13	4,096.77	12,248.90	0.26
2000-2001	4,057.74	5,219.14	9,276.88	4,651.26	13,928.14	0.27
2001-2002	6,340.86	5,334.21	11,675.07	5,328.62	17,003.69	0.29

During 1997-2002, the total liabilities of the Government had grown by 111 per cent. This was on account of 357 per cent growth in internal debt, 29 per cent growth in loans and advances from the Government of India and 111 per cent growth in other liabilities. During 2001-2002, the Government borrowed Rs 292.86¹³ crore from the open market at interest rates of 8, 8.30, 9.45 and 10.35 per cent per annum.

1.10.2 The amount of funds raised through debt, the amount of repayment and net funds available are given in the following table:

	1997-98	1998-99	1999-2000	2000-2001	2001-2002
(Rupees in crore)					
Internal Debt¹⁴					
-Receipt	472	532	923	1,563	2,459
-Repayment (principal + interest)	404	397	555	895	1,252
-Net funds available (per cent)	68(14)	135(25)	368(40)	668(43)	1,207(49)
Loans and Advances from GOI					
- Receipt during the year	802	1,006	1,024	319	339
- Repayment (principal+interest)	670	773	804	856	913
- Net funds available (per cent)	132(16)	233(23)	220(21)	(-) 537 ¹⁵ (-) 168	(-) 574 ¹⁵ (-) 169
Other liabilities					
- Receipt during the year	2,277	2,176	2,141	2,165	2,782
- Repayment + Interest paid	2,184	1,421	2,021	2,018	2,418
- Net funds available (per cent)	93(4)	755(35)	120(6)	147(7)	264(9)

It is seen that under GOI loans, there was net outflow. To meet this there was heightened borrowings.

¹¹ Other liabilities include small savings, provident funds, reserve funds and deposits, etc.

¹² Change in classification carried out as per correction slip No.373 dated 22.6.2000 issued by Controller General of Accounts.

¹³ Rs 292.86 crore includes Rs 2.39 crore of previous year.

¹⁴ These represent borrowings from market and institutional borrowings excluding Ways and Means Advances and Overdraft from Reserve Bank of India.

¹⁵ Represents repayments (including interest paid) more than the receipts.

1.11 Indicators of the financial performance

1.11.1 A Government may either wish to maintain its existing level of activity or increase its level of activity. For maintaining its current level of activity it would be necessary to know how far the means of financing are sustainable. Similarly, if the Government wishes to increase its level of activity it would be pertinent to examine the flexibility of the means of financing and finally, Government's increased vulnerability in the process. All the State Governments continue to increase the level of their activity primarily through Five Year Plans, which translate to annual development plans and are provided for in the State Budget. Broadly, it can be stated that non-plan expenditure represents Government maintaining the existing level of activity¹⁶, while plan expenditure entails expansion of activity. Both these activities require resource mobilization increasing Government's vulnerability. In short, financial health of a Government can be described in terms of sustainability, flexibility, vulnerability and transparency. These terms are defined as follows:

(i) Sustainability

Sustainability is the degree to which a Government can maintain existing programmes and meet existing creditor requirements without increasing the debt burden.

(ii) Flexibility

Flexibility is the degree to which a Government can increase its financial resources to respond to rising commitments by either expanding its revenues or increasing its debt burden.

(iii) Vulnerability

Vulnerability is the degree to which a Government becomes dependent on and therefore vulnerable to sources of funding outside its control or influence, both domestic and international.

(iv) Transparency

The issue of transparency concerns the issue of financial information provided by the Government. This consists of Annual Financial Statement (Budget) and the Accounts. As regards the budget, the important parameters are timely presentation indicating the efficiency of budgetary process and the accuracy of the estimates. As regards, accounts, timeliness in submission, for which milestones exist, and completeness of accounts would be the principal criterion.

1.11.2 Information available in Finance Accounts can be used to analyse sustainability, flexibility, and vulnerability and can be expressed in terms of

¹⁶ There are exceptions to this notably transfer of Plan to Non-plan at the end of Plan period.

certain indices/ratios worked out from the Finance Accounts. The list of such indices/ratios is given in the Annexure (Page 24). The following table indicates the behaviour of these indices/ratios over the period 1997-98 to 2001-2002.

	1997-98	1998-99	1999-2000	2000-2001	2001-2002
(1)	(2)	(3)	(4)	(5)	(6)
Sustainability					
BCR (Rs in crore)	(-) 402.00	(-) 1,085.00	(-) 717	(-) 6	(-) 213
Primary Deficit (PD) (Rs in crore)	308.00	1,243.00	775	773	1,115
Interest Ratio	0.103	0.154	0.208	0.198	0.178
Capital outlay/Capital receipts	0.29	0.39	0.36	0.67	0.49
Total Tax Receipts/GSDP	0.08	0.08	0.08	0.09	0.09
State Tax Receipts/GSDP	0.06	0.07	0.07	0.08	0.09
Return on Investment (<i>per cent</i>)	0.13	0.10	0.30	0.06	0.01
Flexibility					
BCR (Rs in crore)	(-) 402.00	(-) 1,085.00	(-) 717	(-) 6	(-) 213
Capital repayments/ Capital borrowings	0.37	0.28	0.28	0.36	0.34
State Tax Receipts/GSDP	0.06	0.07	0.07	0.08	0.09
Debt/GSDP	0.21	0.24	0.26	0.27	0.29
Vulnerability					
Revenue Deficit(RD) (Rs in crore)	719.00	1,540.00	1,185	607	1,056
Fiscal Deficit(FD) (Rs in crore)	1,128.00	2,240.00	2,132	2,265	2,739
Primary Deficit(PD) (Rs in crore)	308.00	1,243.00	775	773	1,115
PD/FD	0.27	0.55	0.36	0.34	0.41
RD/FD	0.64	0.69	0.56	0.27	0.39
Outstanding guarantees/revenue receipts	0.53	0.73	0.75	1.25	1.13
Assets/Liabilities	0.84	0.73	0.68	0.69	0.68

The implications of these indices/ratios for the State of the financial health of the State Government are discussed in the following paragraphs:

Sustainability

(i) Balance from current revenues (BCR)

BCR is defined as revenue receipts minus plan assistance grants minus non-plan revenue expenditure. A positive BCR shows that the State Government has surplus from its revenue for meeting plan expenditure.

The table shows that BCR continued to remain negative since 1997-98. This indicated that the State had no surplus from current revenues for funding its Annual Plans in these years. The position has worsened during the year in comparison to previous year. It is because of release of more assistance under Energy sector during the year.

(ii) Interest ratio

Interest ratio is the relativity between net interest outgo to revenue receipts excluding interest receipts. The higher the ratio the lesser the ability of the Government to service any fresh debt and meet its revenue expenditure from its revenue receipts.

In case of Haryana, interest ratio increased from 0.103 in 1997-98 to 0.178 in 2001-2002 indicating drop in availability of revenue receipts for programme spending and constituted 19 *per cent* of revenue expenditure during the year (Discussion in Paragraph 1.6.3 refers). Interest payments had increased during the year mainly on internal debts. Weighted average cost of debt as indicated by the ratio of interest payments to total outstanding debt is 10.5 *per cent*¹⁷ in 2001-2002 and is now very close to the rate of growth of GSDP and servicing of the loans is unsustainable.

(iii) Capital outlay/capital receipts

This ratio would indicate to what extent the capital receipts are applied for capital formation. A ratio of less than one would not be sustainable in the long run in as much as it would indicate that a part of the capital receipts was being diverted to unproductive revenue expenditure. On the contrary, a ratio of more than one would indicate that capital investments were being made from revenue surplus as well. The trend analysis of this ratio would throw light on the fiscal performance of the State Government. A rising trend would mean an improvement in the performance.

In case of Haryana, the ratio of capital outlay to capital receipts had been less than 1 indicating that in all these years part of capital receipts was used to meet revenue expenditure.

(iv) Tax receipts Vs Gross State Domestic Product (GSDP)

Tax receipts consist of State taxes and State's share of Central taxes. The latter can also be viewed as Central taxes paid by people living in the State. Tax receipts suggest sustainability. But the ratio of tax receipts to GSDP would have implications for the flexibility as well. While a low ratio would imply that the Government can tax more, and hence its flexibility, a high ratio may not only point to the limits of this source of finance but also its inflexibility.

Time series analysis shows that ratio of State tax receipts to the GSDP had ranged between 0.06 and 0.09. Further, in view of revenue deficits and low rate of State taxes, the State Government had to borrow heavily (which comes at a cost) for meeting its revenue expenditure.

¹⁷ Percentage of interest payments during 2001-2002 to the average of outstanding debt during current and previous year.

(v) Return on Investment (ROI)

The ROI is the ratio of the earnings to the capital employed. A high ROI suggests sustainability.

ROI in case of Government of Haryana was negligible. It decreased from 0.30 *per cent* in 1999-2000 to 0.01 *per cent* during 2001-2002. Poor returns are not sustainable, especially when the investments are funded from borrowings.

Flexibility

(vi) Capital repayments Vs Capital borrowings

This ratio would indicate the extent to which the capital borrowings are available for investment, after repayment of capital. The lower the ratio, the higher the availability of capital for investment.

In case of Haryana, this ratio had increased from 0.28 in 1999-2000 to 0.34 in 2001-2002 indicating decrease in availability of Capital for investments. It is also to be viewed in the context of increased borrowings in the recent years (vide comments in Paragraph 1.10.2) and the liability of repayment falling due in future. Consequently, pressure on the State revenues to meet high level of repayments will further increase in future.

(vii) Debt Vs Gross State Domestic Product (GSDP)

The GSDP is the total internal resource base of the State, which can be used to service debt. An increasing ratio of Debt/GSDP would signify a reduction in Government's ability to meet its debt obligations and therefore increasing risk for the lender.

In case of Haryana, this ratio increased from 0.21 in 1997-98 to 0.29 in 2001-2002, which shows that there was increase in the indebtedness of the Government. During the period debt of the State increased (on an average) faster than the rate of growth of GSDP which was unsustainable.

(viii) Revenue deficit/Fiscal deficit

The revenue deficit is the excess of revenue expenditure over revenue receipts and represents the revenue expenditure financed by borrowings, etc. Evidently, higher the revenue deficit, the more vulnerable is the State. Since fiscal deficit represents the aggregate of all the borrowings, the revenue deficit as a percentage of fiscal deficit would indicate the extent to which the borrowing of the Government are being used to finance non-productive revenue expenditure. Thus, higher the ratio the worse off is the State because that would indicate that the debt burden is increasing without adding to the repayment capacity of the State.

This ratio increased from 0.27 in 2000-2001 to 0.39 in 2001-2002 due mainly to increase in revenue expenditure by release of more subsidy under rural electrification in comparison to previous year. Further, large amount of fiscal

deficit was accounted for borrowings for purchase of food grains which were not capital expenditure in nature. It should also be seen in the context that fiscal deficit had shown increasing trend and had grown by 143 *per cent* during the period (1997-2002).

(ix) Primary deficit Vs Fiscal deficit

Primary deficit is the fiscal deficit minus interest payments. Less the value of the ratio less the availability of funds for capital investment.

In case of Haryana, this ratio was less than one in all the preceding five years, which was indicative of increased vulnerability since capital was being applied to meet revenue deficit rather than increasing the assets.

(x) Guarantees Vs Revenue receipts

Outstanding guarantees, including the letters of comfort issued by the Government, indicate the risk exposure of the State Government and should therefore be compared with the ability of Government to pay viz., its revenue receipts. Thus, the ratio of the total outstanding guarantees to total revenue receipts of the Government would indicate the degree of vulnerability of the State Government.

In case of Haryana, this ratio had been increasing since 1997-98. As a result guarantees significantly exceeded the revenue receipts. This trend shows an increase in the vulnerability of State's finances and higher risk exposure.

(xi) Assets Vs Liabilities

This ratio basically is related to financial assets and liabilities as indicated in Exhibit-I and points towards the solvency of Government. A ratio of more than one would indicate that the State Government is solvent (assets are more than the liabilities) while a ratio of less than one would be a contra indicator.

This ratio had remained less than one during 1997-2002 and has shown downward trend. This is indicative of increase in vulnerability since capital was being applied to revenue deficit rather than for increasing the assets.

Transparency

(xii) Budget

There was no delay in submission of budget proposals and their approval. The details are given in the following table:

Preparation	Month of submission	Month of approval
Budget	12 March 2001	14 March 2001
Supplementary	11 March 2002	11 March 2002

Chapter-II of this Report carries a detailed analysis of variations in the budget estimates and the actual expenditure as also of the quality of budgetary procedure and control over expenditure. It indicates defective budgeting and

inadequate control over expenditure, as evidenced by persistent resumptions (surrenders) of significant amounts every year vis-a-vis the final modified grant and a significant variation (excess/saving) between the final modified grant and actual expenditure as detailed below:

	Paragraph	Rs in crore
(i) Supplementary provisions	2.2	960.31
(ii) Excess of provision requiring regularisation for the period 1998-2002	2.3.1	3,982.48
(iii) Substantial savings	2.3.4(a)	779.73
(iv) Substantial excess	2.3.4(b)	1,523.58
(v) Surrender of funds on the last day of financial year	2.3.6	876.81

Conclusion

Increase in negative BCR and revenue deficit during the year should be seen in the context of increase in assistance to the Haryana Vidyut Prasaran Nigam Limited which was curtailed in 2000-2001. Restructuring of Haryana State Electricity Board into four companies by the State Government resulted in additional burden. Weighted average cost of debt as indicated by the ratio of interest payments to total outstanding debt is 10.5 *per cent* during the year which is very close to the rate of growth of GSDP. During the year, the interest payments increased by Rs 132 crore (9 *per cent*) over the previous year and consumed 33 *per cent* of tax revenue. Analysis also shows that during the period 1997-2002, the debt of the State had increased (on an average) at a rate faster than the rate of growth of GSDP. Thus, the State could not meet the existing requirements without increasing the debt burden which is unsustainable. Increase in fiscal deficit by Rs 474 crore (21 *per cent*) was mainly due to procurement of food grains under non-plan capital expenditure mainly financed by borrowings from the commercial banks. This however, did not lead to any asset creation. This indicates that the State finances had become vulnerable to heightened borrowings. Negligible returns on investment also showed weakness of State Government's finances. Defective budgeting and inadequate control over expenditure has given rise to excess expenditure over budget estimates, substantial savings, etc. This also is not favourable trend for the State finances.

Annexure
(Refer paragraph 1.11; page 21)
List of Indices/ratios and basis for their calculation

Indices/ratios		Basis for calculation
Sustainability		
Balance from the current revenue	B C R	Revenue Receipts minus all Plan grants (under Major Head 1601- 02,03,04) and Non-plan revenue expenditure
Primary Deficit	Primary Deficit	Fiscal Deficit minus interest payments
Interest Ratio		<u>Interest payments - Interest receipts</u> Revenue receipts - Interest receipts
Capital Outlay Vs Capital receipts	Capital Outlay	Capital expenditure as per Statement No 13 of the Finance Accounts
	Capital receipts	Miscellaneous capital receipts + Internal Loans* (net of Ways and Means Advances) + Loans and Advances from Government of India + Net receipts from small savings, PF etc. + Repayments received of loans advanced by the State Government – Loans advanced by the State Government
Total Tax Receipts Vs GSDP	Total Tax Receipts	State Tax receipts plus State's share of Union Taxes
State Tax Receipts Vs GSDP	State Tax Receipt	Statement No. 11 of Finance Account
Flexibility		
-Balance from current revenue		As above
-Capital repayments Vs Capital borrowings	Capital Repayments	Disbursements under Major heads 6003 and 6004 minus repayments on account of Ways and Means Advances/ Overdraft under both the major heads
	Capital Borrowings	Addition under Major Heads 6003 & 6004 minus addition on accounts of Ways and Means Advances/ overdraft under both the major heads
Incomplete Projects		Paragraph no. 1.9.3
-Total Tax Receipts Vs GSDP		As above
-Debt Vs GSDP	Debt	Borrowings and other obligations at the end of the year (Statement No. 4 of the Finance Accounts)
Vulnerability		
-Revenue Deficit		Revenue deficit = Revenue expenditure - Revenue receipts Fiscal deficit = Revenue expenditure + Capital expenditure (including net loans given) - Revenue receipts
-Fiscal Deficit		As above
-Primary Deficit Vs Fiscal Deficit	Primary Deficit	Exhibit IV
Total outstanding guarantees including letters of comfort Vs Total revenue receipts of the Government	Outstanding guarantees	Exhibit II
	Revenue Receipts	
Assets Vs Liabilities	Assets and Liabilities	Exhibit I

* Excluding Ways and Means Advances from RBI.