

## 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 Jammu and Kashmir 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 Jammu and Kashmir. The layout of the Finance Accounts is depicted in *Appendix 1.1-Part B*.

## 1.1.1 Summary of Receipts and Disbursements

Table-1.1 summarises the finances of the Government of Jammu and Kashmir 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 Finance Accounts and other detailed statements.

Table 1.1: Summary of Receipts and Disbursements for the year 2006-07

(Rupees in crore)

Receipts			Disbursements				
2005-06		2006-07	2005-06	2006-07			
<b>Section-A: Revenue</b>							
<b>10315.15</b>	<b>I. Revenue Receipts</b>	<b>11182.03<sup>1</sup></b>	<b>9920.72</b>	<b>I. Revenue Expenditure</b>	<b>9781.00</b>	<b>833.05</b>	<b>10614.05</b>
1626.84	Tax Revenue	1798.97	3681.48	General Services	4650.23	3.30	4653.53
535.81	Non-Tax Revenue	632.53 <sup>1</sup>	2655.94	Social Services	2413.17	467.95	2881.12
1135.36	Share of Union Taxes/Duties	1413.43	3583.30	Economic Services	2717.60	361.80	3079.40
7017.14	Grants from Govt of India	7337.10 <sup>2</sup>					
<b>Section-B: Capital</b>							
-	II-Miscellaneous Capital Receipts	-	3019.76	II-Capital Outlay	110.19	2346.11	2456.30
35.76	III-Recoveries of Loans and Advances	2.04	53.15	III-Loans and Advances Disbursed			43.89
2536.33	IV-Public Debt Receipts	1543.81 <sup>3</sup>	1225.98	IV-Repayment of Public Debt			403.76
0.61	V-Contingency Fund	0.39	0.60	V- Appropriation to Contingency Fund			0.14
			0.04	V. Contingency Fund			
22632.47	VI-Public Account Receipts	25598.80 <sup>1</sup>	21297.49	VI-Public Account Disbursement			24785.47
82.20	Opening Balance	84.78	84.78	Closing Balance			108.24
<b>35602.52</b>	<b>Total</b>	<b>38411.85</b>	<b>35602.52</b>	<b>Total</b>			<b>38411.85</b>

<sup>1</sup> The figures vary with those depicted in the Finance Accounts due to misclassification of power receipts by the State Government.

<sup>2</sup> The figures vary with those depicted in the Finance Accounts due to misclassification by the State Government.

<sup>3</sup> Public Debt receipts and repayments exclude Ways and Means Advances and Overdraft.

Following are the significant changes during 2006-2007 over the previous year:

- Revenue receipts increased by Rs. 866.88 crore over the previous year. The increase was contributed by Tax revenue (Rs. 172.13 crore), Non-tax revenue (Rs. 96.72 crore), Grants-in-aid from Government of India (Rs. 319.96 crore) and State's share of Union Taxes and Duties (Rs. 278.07 crore).
- Revenue expenditure increased by Rs. 693.33 crore but the capital expenditure decreased by Rs. 563.46 crore.
- Recoveries and Disbursement of Loan and Advances decreased by Rs. 33.72 crore and Rs. 9.26 crore, respectively.
- Public debt receipts and repayments decreased by Rs. 992.52 crore and Rs. 822.22 crore, respectively.
- Public Account receipts and disbursements increased by Rs. 2,966.33 crore and Rs. 3,487.98 crore, respectively.
- The closing cash balance increased by Rs. 23.46 crore.

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

To ensure prudence in fiscal management and fiscal stability by progressive strengthening of revenue surplus, 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 Jammu and Kashmir Fiscal Responsibility and Budget Management (FRBM) Act was enacted on 9 August 2006. The Rules under the Act are, however yet to be framed (September 2007) by the Government. As the fiscal targets and the contents of other provisions of the Act were not made effective, they did not have any impact on the structure of the finances of the State during 2006-07. Due to non-implementation of FRBM Act, the State could not avail the debt waiver under DCRF<sup>4</sup>, linked to its fiscal performance and interest relief on loans received from GOI due to the State during 2005-06 and 2006-07.

## **1.2 Overview of Fiscal Situation of the State**

### **1.2.1 Trend in Fiscal Aggregates**

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

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<sup>4</sup> In pursuance of the recommendations of the Twelfth Finance Commission (TFC) for fiscal consolidation and elimination of revenue deficit of the State, Government of India formulated a scheme "The States' Debt Consolidation Relief Facility (DCRF)" under which, general debt relief is provided by consolidating and rescheduling at substantially reduced rate of interest, the Central loans granted to States on enacting the FRBM Act and debt waiver is granted based on fiscal performance, linked to the reduction of revenue deficit of State

**Table 1.2** (Rupees in crore)

2005-06	Major Aggregates	2006-07
<b>10315</b>	<b>1. Revenue receipts (2+3+4)</b>	<b>11182</b>
1627	2. Tax Revenue	1799
536	3. Non-tax Revenue	633
8152	4. Other Receipts	8750
<b>36</b>	<b>5. Non-Debt Capital Receipts</b>	<b>2</b>
36	6. Of which recovery of loans	2
<b>10351</b>	<b>7. Total Non-Debt Receipts (1+5)</b>	<b>11184</b>
<b>8839</b>	<b>8. Non-plan Expenditure (9+11+12)</b>	<b>9891</b>
8725	9. On Revenue Account	9781
1115	10. Of which interest payments	1787
114	11. On Capital Account	110
-	12. On Loans disbursed	-
<b>4155</b>	<b>13. Plan Expenditure (14+15+16)</b>	<b>3223</b>
1196	14. Revenue Account	833
2906	15. On Capital Account	2346
53	16. On Loans disbursed	44
<b>12994</b>	<b>17. Total Expenditure (8+13)</b>	<b>13114</b>
(+) 394	18. Revenue Surplus (+)/Deficit (-) (1-(9+14))	(+) 568
(-) 2643	19. Fiscal Surplus (+)/Deficit (-) ((1+5)-17)	(-) 1930
(-) 1528	20. Primary Surplus (+)/Deficit (-) (1+5)-(17-10)	(-) 143

During the current year revenue receipts increased by 8 per cent (Rs. 867 crore), while revenue expenditure increased by only 7 per cent (Rs. 693 crore) over the previous year, resulting in an increase of Rs. 174 crore in revenue surplus during 2006-07 from the level of Rs. 394 crore during 2005-06. Given the increase in the revenue surplus by Rs. 174 crore, a decrease of Rs. 34 crore in non-debt capital receipts and the net decrease of Rs. 573 crore in the capital expenditure/loans and advances disbursed during 2006-07 over the previous year, there was a decline of Rs. 713 crore in fiscal deficit in the current year. The decline in fiscal deficit accompanied by an increase of Rs. 672 crore in interest payments during 2006-07 over the previous year led to a decline of Rs. 1,385 crore in Primary deficit in 2006-07 from the level of Rs. 1,528 crore during 2005-06.

### 1.3 Methodology adopted for the assessment of Fiscal position

The trends in the major fiscal aggregates of receipts and expenditure as emerging from the Statements of Finance Accounts were analysed wherever necessary over the period 2001-02 to 2006-07 and observations have been made on their behaviour as per *Appendix 1.2 to 1.4* and time series data (*Appendix 1.5*). In its Restructuring Plan of State Finances, Twelfth Finance Commission (TFC) recommended the norms/ceiling for some fiscal aggregates and also made normative projections for others. In addition, TFC also recommended that all States enact the Fiscal Responsibility Act and draw their fiscal correction path accordingly for the five year period (2005-10) so that fiscal position of the State could be improved as committed in their respective FRBM Acts/Rules covering medium to long run period. The norms/ceilings prescribed by the TFC as well as its projections for fiscal aggregates along with the commitments/projections made by the State Governments in their budget statements laid in the legislature were used to make qualitative assessment of the trends and pattern of major fiscal aggregates during the current year. Assuming that Gross State Domestic Product (GSDP) is 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 debt and revenue and fiscal deficits have been presented as percentage to the GSDP at current market prices. The buoyancy coefficients for tax revenues, non-tax revenues, revenue expenditure etc, with reference to the base represented by GSDP have also been worked out to assess as to whether the mobilisation 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<sup>5</sup> as provided by Department of Economics and Statistics, Government of Jammu and Kashmir are given in Table-1.3.

**Table 1.3: Trends in Growth and Composition of GSDP**

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
GSDP (Rs. in crore)	18039	20326	22194	24265	26467	29115
Rate of Growth of GSDP (in per cent)	8.02	12.68	9.19	9.33	9.08	10.00

The key fiscal aggregates for the purpose have been grouped under four major heads: (i) Resources by Volume and Sources, (ii) Application of Resources, (iii) Assets and Liabilities, and (iv) Management of Deficits. 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*.

## **1.4 State Finances by Key Indicators**

### **1.4.1 Resources by Volumes and Sources**

Resources of the State Government consist of revenue and capital receipts. Revenue receipts comprise tax revenues, non-tax revenues, State's share of Union taxes and duties and grants-in-aid from the Central Government. Capital receipts comprise miscellaneous capital receipts like proceeds from disinvestments, recoveries of loans and advances, debts raised from internal sources viz., market loans, borrowings from financial institutions/commercial banks, etc. and loans and advances obtained from GOI as well as accruals from Public Account. Table-1.4 shows that total receipts of the State Government for the year 2006-07 were Rs. 38,327 crore. Of these, revenue receipts were Rs. 11,182 crore only, constituting 29 per cent of the total receipts. The balance 71 per cent came from borrowings and public account receipts.

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<sup>5</sup> The revised figures of GSDP provided by the Department of Economics and Statistics, Government of Jammu and Kashmir have been adopted. GSDP figures for 2005-06 are based on advanced estimates and for 2006-07 on preliminary estimates.

Table 1.4: Trends in Growth and Composition of Aggregate Receipts

(Rupees in crore)

Sources of State's receipts		2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
<b>I.</b>	<b>Revenue Receipts</b>	6489	7548	8212	8866	10315	11182
<b>II.</b>	<b>Capital Receipts</b>	1194	1472	1858	1818	2572	1546
	Public Debt Receipts	1062	1390	1854	1799	2536	1544
	Recovery of Loans and Advances	132	82	4	19	36	2
	Miscellaneous Capital Receipts	-	-	-	-	-	-
<b>III.</b>	<b>Contingency Fund</b>	0.35	-	1.33	0.49	0.61	0.39
<b>IV.</b>	<b>Public Account Receipts</b>	17615	16830	19049	19120	22632	25599
(a)	Small Savings, Provident Fund, etc.	604	609	712	698	895	991
(b)	Reserve Fund	132	136	167	151	495	411
(c)	Deposits and Advances	839	1169	820	1091	1938	1323
(d)	Suspense and Miscellaneous	46	143	339	308	331	315
(e)	Remittances	15994	14773	17011	16872	18973	22559
	<b>Total Receipts<sup>6</sup></b>	<b>25298</b>	<b>25850</b>	<b>29120</b>	<b>29804</b>	<b>35520</b>	<b>38327</b>

The total receipts of the State increased from Rs. 25,298 crore in 2001-02 to Rs. 38,327 crore in 2006-07. The recovery of loans and advances was dismal and it decreased by Rs. 34 crore during 2006-07 compared to previous year.

Remittances<sup>7</sup> constituted about 88 *per cent* of the total receipts under the Public Account. Within the Remittances, the cash remittances between treasuries and currency chests (Rs. 18,231 crore) constituted about 81 *per cent*. Taking into account the disbursement of remittances, the net increase in remittances during 2006-07 turned out to be Rs. 205 crore.

### 1.4.2 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 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-1.5.

<sup>6</sup> Rounded figures

<sup>7</sup> Include cash remittances and adjustments between officers rendering accounts to the same Accountant General/Accounts Officer

**Table 1.5: Revenue Receipts-Basic indicators**

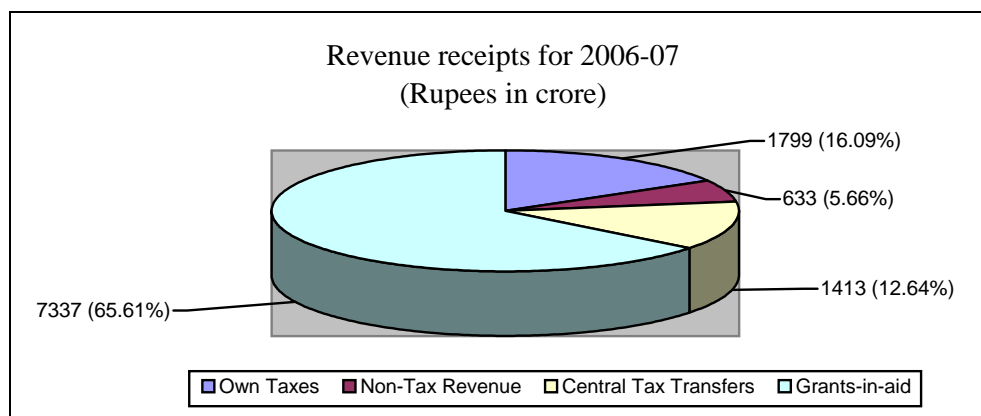
(Rupees in crore)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
<b>Revenue Receipts</b>	<b>6489</b>	<b>7548</b>	<b>8212</b>	<b>8866</b>	<b>10315</b>	<b>11182</b>
Own taxes ( <i>per cent</i> )	804 (12.39)	1033 (13.68)	1170 (14.25)	1351 (15.24)	1627 (15.77)	1799 (16.09)
Non-Tax Revenue ( <i>per cent</i> )	462 (7.12)	865 (11.46)	633 (7.71)	641 (7.23)	536 (5.20)	633 (5.66)
Central tax Transfers ( <i>per cent</i> )	576 (8.88)	685 (9.08)	817 (9.95)	934 (10.53)	1135 (11.00)	1413 (12.64)
Grants-in-aid ( <i>per cent</i> )	4647 (71.61)	4965 (65.78)	5592 (68.09)	5940 (67.00)	7017 (68.03)	7337 (65.61)
<b>Rate of Growth of Revenue Receipts (<i>per cent</i>)</b>	<b>14.65</b>	<b>16.32</b>	<b>8.80</b>	<b>7.96</b>	<b>16.34</b>	<b>8.41</b>
<b>Revenue Receipts/GSDP ratio</b>	<b>35.97</b>	<b>37.13</b>	<b>37.00</b>	<b>36.54</b>	<b>38.97</b>	<b>38.41</b>
<b>Buoyancy of Revenue receipts</b>	<b>1.83</b>	<b>1.29</b>	<b>0.96</b>	<b>0.85</b>	<b>1.80</b>	<b>0.84</b>
<b>Buoyancy of Own taxes</b>	<b>0.97</b>	<b>2.25</b>	<b>1.44</b>	<b>1.66</b>	<b>2.25</b>	<b>1.06</b>
<b>Revenue Buoyancy with reference to State's own taxes</b>	<b>1.89</b>	<b>0.57</b>	<b>0.66</b>	<b>0.51</b>	<b>0.80</b>	<b>0.80</b>
<b>GSDP Growth (<i>per cent</i>)</b>	<b>8.02</b>	<b>12.68</b>	<b>9.19</b>	<b>9.33</b>	<b>9.08</b>	<b>10.00</b>

**General Trends**

The revenue receipts have shown a progressive increase over the period 2001-07 with inter-year variations in the non-tax revenue and grants-in-aid. However, there was progressive increase in the share of own taxes and central tax transfers. The share of grants-in-aid in the total revenue receipts during 2001-02 to 2006-07 decreased by six *per cent* from 71.61 *per cent* in 2001-02 to 65.61 *per cent* in 2006-07, while the share of own tax revenue and Central tax transfers registered marginal increase of 3.70 and 3.76 *per cent* respectively. The share of non-tax revenue receipts during the same period decreased by 1.46 *per cent*. The increase of 8.41 *per cent* (Rs. 867 crore) in revenue receipts during 2006-07 was on account of increase in grants-in-aid from GOI (Rs. 320 crore) State's share in Union pool of taxes and duties (Rs. 278 crore) as well as State's own tax (Rs. 172 crore) and non-tax revenue collections (Rs. 97 crore). While 21.75 *per cent* of the revenue receipts during 2006-07 have come from State's own resources comprising tax and non-tax revenue, the Central tax transfers and grants-in-aid together contributed the remaining 78.25 *per cent* of the total revenue.

**Chart 1.1**



### Tax Revenue

The tax revenue has increased by 10.57 *per cent* from Rs. 1627 crore in 2005-06 to Rs. 1799 crore during 2006-07. The revenue from sales taxes not only contributed major share of tax revenue (64 *per cent*) but also increased by 14 *per cent* (Rs. 145 crore) over the previous year. However, State excise receipts declined marginally from Rs. 219 crore (2005-06) to Rs. 213 crore during 2006-07 due to less realisation of excise duty on liquor. Table-1.6 below shows the trend of tax revenue during 2001-07.

**Table 1.6: Tax Revenue**

(Rupees in crore)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Taxes on Sales, trade etc. <sup>8</sup>	409	536	674	804	1014	1159
State Excise	165	223	205	272	219	213
Taxes on Vehicles	28	34	38	42	49	64
Stamps and Registration	26	26	34	39	46	57
Land Revenue	8	3	3	11	4	3
Other Taxes*	168	211	216	183	295	303
<b>Total</b>	<b>804</b>	<b>1033</b>	<b>1170</b>	<b>1351</b>	<b>1627</b>	<b>1799</b>

\*Other Taxes includes taxes on goods and passengers and other taxes and duties on commodities and services.

### Non-Tax Revenue

The non-tax revenue increased from Rs. 462 crore in 2001-02 to Rs. 633 crore in 2006-07 with inter-year variations. The non-tax revenue, which constituted 5.66 *per cent* of the total revenue receipts increased by Rs. 97 crore during 2006-07 recording a growth rate of 18 *per cent* over the previous year. The increase was mainly due to increase of Rs. 95 crore<sup>9</sup> (25 *per cent*) in power receipts from Rs. 384 crore in 2005-06 to Rs. 479 crore in 2006-07.

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

**Table 1.7: Comparative statement of revenue receipts**

(Rupees in crore)

	Assessment made by TFC	Budget Estimates of 2006-07	Actuals
<b>Tax Revenue</b>	<b>1893</b>	1900	1799
<b>Non-Tax Revenue</b>	<b>312</b>	821	633
<b>Total</b>	<b>2205</b>	2721	2432

The receipts from own tax revenue at Rs. 1,799 crore during 2006-07 was less by 4.97 *per cent* and 5.32 *per cent* than the normative projection of Rs. 1,893 crore made by the TFC and Rs. 1,900 crore assessed in the budget estimates of the State Government respectively for 2006-07. The non-tax revenue at Rs. 633 crore was lower by 22.89 *per cent* relative to the budget estimates of the State Government, but significantly higher than the normative assessment of the TFC.

<sup>8</sup> Includes service tax also

<sup>9</sup> The figures vary with those depicted in the Finance Accounts due to misclassification of power receipts by the State Government

### **Central Tax Transfers**

The Central tax transfers increased by Rs. 278 crore over the previous year and constituted 13 *per cent* of the revenue receipts during the year 2006-07. The increase was mainly under corporation tax (Rs. 149.51 crore), customs duty (Rs. 65.97 crore) and taxes on income other than corporation tax (Rs. 57.87 crore).

### **Grants-in aid**

The details of grants-in-aid to the State by GOI are given in Table-1.8. The plan grants for State schemes have increased by Rs. 737 crore from Rs. 3,045 crore in 2005-06 to Rs. 3,782 crore in 2006-07. The non-plan grants, which are inclusive of non-plan revenue deficit grants (Rs. 2,446.64 crore) on the other hand declined by Rs. 468 crore mainly on account of decrease in grants under natural calamity contingency fund (Rs. 309.77 crore) and grants released under Article 275 (I) of the Constitution (Rs. 262.96 crore), which were counterbalanced by increase in grants for modernization of police (Rs. 63.15 crore) and grants under Central Road Fund (Rs. 47.56 crore).

**Table 1.8: Grants-in-aid from GOI**

	(Rupees in crore)					
	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Grants for State Plan Schemes	1931	2100	2701	3191	3045	3782
Non Plan grants	2524	2699	2659	2448	3484	3016
Grants for Central, Centrally Sponsored Plan Schemes and Special Plan Schemes	191	167	231	300	488	539
<b>Total</b>	<b>4646</b>	<b>4966</b>	<b>5591</b>	<b>5939</b>	<b>7017</b>	<b>7337<sup>10</sup></b>
Percentage of increase over previous year	22.46	6.89	12.59	6.22	18.15	4.56

### **Revenue Arrears**

The arrears of tax revenue at the end of March 2007 were Rs. 991.65 crore, which constituted 55 *per cent* of tax revenue of the State. Of these, Rs. 652.07 crore (66 *per cent*) were more than five years old. A disaggregated analysis of revenue arrears reveals that 95 *per cent* of pending arrears were related to sales tax (Rs. 943.48 crore) followed by taxes on goods and passengers (4 *per cent*) and State excise (0.4 *per cent*). Further, all the pending arrears relating to State excise (Rs. 3.59 crore), 65 *per cent* of sales tax arrears (Rs. 610.53 crore) and 85 *per cent* of arrears relating to taxes on goods and passengers (Rs. 37.73 crore) were reported to be more than five year old. Out of total sales tax arrears of Rs. 943.48 crore, recovery of Rs. 77.49 crore was stayed by courts/appellate authority, Rs. 177.37 crore were lying under amnesty and Rs. 667.19 crore were outstanding against Government Departments/corporations/SSI units/traders/non-existing units. Similarly out of total State

<sup>10</sup> The figures vary with those depicted in the Finance Accounts due to misclassification of grants-in-aid from the GOI by the State Government.



excise arrears of Rs. 3.59 crore, recovery of Rs. 0.13 crore was stayed by courts/appellate authority and Rs. 3.46 crore were proposed to be recovered as arrears of land revenue. As the pending revenue arrears constitute more than half of the revenue receipts of the State during 2006-07, special drive needs to be initiated by the State Government for their recovery, which would in turn provide a cushion to reduce the burden of fiscal liabilities of the State.

## **1.5 Application of Resources**

### **1.5.1 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, 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-1.9.

**Table 1.9: Total Expenditure-Basic Parameters**

(Rupees in crore)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Total Expenditure*	8095	8941	9703	10550	12994	13114
Revenue Expenditure	6823	7180	7754	8304	9921	10614
Capital Expenditure	1225	1421	1881	2180	3020	2456
Loans and advances	47	340	68	66	53	44
Rate of Growth of TE ( <i>per cent</i> )	7.26	10.45	8.52	8.73	23.17	0.92
TE/GSDP Ratio ( <i>per cent</i> )	44.87	43.99	43.72	43.48	49.10	45.04
Revenue Receipts/TE ratio ( <i>per cent</i> )	80.16	84.42	84.63	84.04	79.38	85.27
<b>Buoyancy of Total Expenditure with</b>						
GSDP (ratio)	0.91	0.82	0.93	0.94	2.56	0.09
Revenue Receipts (ratio)	0.50	0.64	0.97	1.10	1.42	0.11
<b>Buoyancy of Revenue Expenditure with</b>						
GSDP (ratio)	0.38	0.41	0.87	0.76	2.14	0.70
Revenue Receipts (ratio)	0.21	0.32	0.91	0.89	1.19	0.83
<b>Buoyancy of Capital Expenditure with</b>						
GSDP (ratio)	5.15	1.26	3.52	1.70	4.24	(-) 1.87
Revenue Receipts (ratio)	2.82	0.98	3.68	2.00	2.36	(-) 2.22

\*Total Expenditure includes Revenue Expenditure, Capital Expenditure and Loans & Advances

The total expenditure of the State has increased from Rs. 8,095 crore in 2001-02 to Rs. 13,114 crore in 2006-07 with annual oscillations ranging between 0.92 *per cent* and 23.17 *per cent*. In relative terms, capital and revenue expenditure components have increased by 100 *per cent* and 56 *per cent*, respectively during the period 2001-07. However, in absolute terms increases were of the order of Rs. 1,231 crore in capital expenditure and Rs. 3,791 crore in revenue account during the period under report. These trends indicate that increase in capital and revenue expenditure was in the ratio of 1:3 during the last six year period. Increase of Rs. 120 crore in total expenditure (0.92 *per cent*) during 2006-07 over the previous year has been due to increase of Rs. 693 crore in revenue expenditure and decrease of Rs. 564 crore under capital head,

accompanied by a marginal decrease of Rs. 9 crore in disbursement of loans and advances. Increase in revenue expenditure was mainly on account of increase in interest payments (Rs. 671 crore), police (Rs. 163 crore), pension and other retirement benefits (Rs. 92 crore) under General services, while the steep fall in capital expenditure was mainly due to decrease under Special area programme (Rs. 379 crore) and under energy (Rs. 212 crore). The capital expenditure during 2005-06 was in fact inclusive of one time advance of Rs. 380 crore for establishment of Ladakh Autonomous Hill Development Council Fund, while decline in energy sector was mainly on account of less capital expenditure on hydel projects. During the current year, 85 *per cent* of the total expenditure was met from revenue receipts and remaining 15 *per cent* from capital receipts and borrowed funds.

### **1.5.2 Trend 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 and Advances. Relative share of these components in total expenditure is indicated in Table-1.10.

**Table 1.10: Components of Expenditure-Relative Share**

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
General Services	37.40	35.91	35.46	31.71	28.78	35.92
<i>Of which, Interest Payments</i>	<i>12.93</i>	<i>12.25</i>	<i>12.84</i>	<i>10.45</i>	<i>8.58</i>	<i>13.63</i>
Social Services	24.02	23.40	23.86	24.13	25.49	28.29
Economic Services	38.00	36.89	39.98	43.53	45.32	35.45
Loans and Advances	0.58	3.80	0.70	0.63	0.41	0.34

(in *per cent*)

The movement of relative share of these components of expenditure indicated that all components of expenditure had inter-year variations. Expenditure on General Services including interest payments together accounted for 35.92 *per cent* during 2006-07. On the other hand, expenditure on Social and Economic Services during the same period together accounted for 63.74 *per cent* and was less as compared to 70.81 *per cent* during 2005-06. The expenditure incurred on Social and Economic Services decreased sharply by Rs. 842 crore (9 *per cent*) from Rs. 9,201 crore during 2005-06 to Rs. 8,359 crore during 2006-07 due to increase in interest payments by Rs. 672 crore which constituted 13.63 *per cent* during the current year. The total expenditure of Rs. 8,359 crore incurred on Social and Economic Services during 2006-07 comprised Rs. 2,399 crore of capital expenditure (28.70 *per cent*) and Rs. 5,960 crore of revenue expenditure (71.30 *per cent*) indicating that momentum in creating productive assets and infrastructure development could not be maintained during 2006-07.

### **1.5.3 Incidence of Revenue Expenditure**

Revenue expenditure had the predominant share in the total expenditure. Revenue expenditure is incurred to maintain the current level of services and payment for the past obligations and as such does not result in any addition to the State's infrastructure and service network. The overall revenue expenditure, its rate of

growth, ratio of revenue expenditure to GSDP and revenue receipts and its buoyancy are indicated in Table-1.11.

**Table 1.11: Revenue Expenditure-Basic Parameters**

(Rupees in crore)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Revenue Expenditure	6823	7180	7754	8304	9921	10614
<i>Of which,</i>						
Non-Plan Revenue Expenditure (NPRE)	6010	6284	6807	7239	8725	9781
Plan Revenue Expenditure (PRE)	813	896	947	1065	1196	833
Rate of Growth of						
NPRE (per cent)	2.11	4.56	8.32	6.35	20.53	12.10
PRE (per cent)	10.61	10.21	5.69	12.46	12.30	(-) 30.35
NPRE/GSDP (per cent)	33.32	30.92	30.67	29.83	32.97	33.59
NPRE as per cent of TE	74.24	70.28	70.15	68.62	67.15	74.58
NPRE as per cent of RR	92.62	83.25	82.89	81.65	84.59	87.48
NPRE as per cent of RE	88.08	87.52	87.79	87.17	87.94	92.15
<b>Buoyancy of Revenue Expenditure with:</b>						
GSDP (ratio)	0.38	0.41	0.87	0.76	2.14	0.70
Revenue Receipts (ratio)	0.21	0.32	0.91	0.89	1.19	0.83

Overall revenue expenditure of the State increased from Rs. 6,823 crore in 2001-02 to Rs. 10,614 crore in 2006-07, showing an increase of 56 per cent over the period. The non-plan revenue expenditure during the same period increased from Rs. 6,010 crore to Rs. 9,781 crore, showing an increase of 63 per cent. The share of NPRE in total revenue expenditure increased from 88 per cent in 2001-02 to 92 per cent in 2006-07. The rate of growth of non-plan revenue expenditure during 2006-07 was 12.10 per cent on account of increase in the expenditure by Rs. 373.55 crore (18 per cent) in Social Services and Rs. 1,008.39 crore (27.69 per cent) in General Services and decline in the expenditure by Rs. 325.41 crore (10.69 per cent) in Economic Services over the level of 2005-06. The non-plan revenue expenditure at Rs. 9,781 crore during 2006-07 is observed to be significantly higher than the normatively assessed level of Rs. 5,926 crore by the TFC for the State for the year 2006-07 (Table-1.12).

**Table 1.12: Non-Plan Revenue Expenditure: Actual vis-a-vis Normative Assessment by TFC**

(Rupees in crore)

Particulars	Assessed by the TFC	Budget estimates	Actual
Interest Payments	1531.22	1352.00	1786.63
Pension	762.92	760.06	1020.88
Other General Services	1079.05	2018.23	1842.72
Social Services	1868.49	2553.01	2413.17
Economic Services	684.74	3228.63	2717.60
<b>Total Non-plan Revenue Expenditure</b>	<b>5926.42</b>	<b>9911.93</b>	<b>9781.00</b>

The actual expenditure incurred on all five components of non-plan revenue expenditure was more than the assessment made by the TFC. In case of interest and pension payments, the expenditure exceeded the assessments made in the budget estimates 2006-07.

Plan revenue expenditure consistently increased from Rs. 813 crore in 2001-02 to Rs. 1,196 crore in 2005-06 and declined steeply by 30.35 *per cent* (Rs. 363 crore) during 2006-07 mainly on account of decline of Rs. 139.28 crore in the expenditure on Education and Rs. 104.10 crore on Agriculture and Allied Activities.

#### **1.5.4 Committed Expenditure**

**Expenditure on Salaries and wages:** The expenditure on salaries and wages increased from Rs. 3,119 crore in 2001-02 to Rs. 3,995 crore in 2006-07 as indicated in Table-1.13. Out of salary and wage expenditure of Rs. 3,995 crore during 2006-07, major part Rs. 1,729 crore (43 *per cent*) was incurred on Social Services. However, Rs. 1,162 crore (29 *per cent*) was incurred on General Services and Rs. 1,104 crore (28 *per cent*) on Economic Services.

**Table 1.13: 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	3119	3260	3174	3245	3724	3995 <sup>11</sup>
Of which						
<i>Non-plan</i>	<i>Details not available</i>		2487	2497	2838	3467
<i>Plan</i>			687	748	886	528
<i>As per cent</i> of GSDP	17.29	16.04	14.30	13.37	14.07	13.72
<i>As per cent</i> of Revenue Receipts	48.07	43.19	38.65	36.60	36.10	35.73

(Source: Departmental figures for the years 2001-02 to 2002-03 and VLC data of A&E office for the years 2003-04 to 2006-07)

Salaries and wages accounted for 13.72 *per cent* of GSDP and 35.73 *per cent* of the revenue receipts during 2006-07. Keeping in view the norms of the TFC that the total salary bill relative to revenue expenditure net of interest payments and pensions is not to exceed 35 *per cent*, the corresponding share in the State is estimated to be 51 *per cent* requiring attention of the Government for keeping the salary expenditure within the prescribed norm of TFC.

**Expenditure on pension payments:** Pension payments grew at the rate of 10 *per cent* from Rs. 929 crore during 2005-06 to Rs. 1,021 crore during 2006-07. The increase was mainly due to increased number of pensioners during 2006-07 in comparison to previous year. Year-wise break-up of expenditure incurred on pension payments during the years 2001-02 to 2006-07 is indicated in Table-1.14.

**Table 1.14: Expenditure on Pensions**

(Rupees in crore)						
Heads	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Expenditure on Pensions	556	593	677	731	929	1021
<i>As per cent</i> of GSDP	3.08	2.92	3.05	3.01	3.51	3.51
<i>As per cent</i> of Revenue Receipts	8.57	7.86	8.24	8.24	9.01	9.13

<sup>11</sup> Salaries: Rs. 3,957 crore; Wages: Rs. 38 crore

The ratio of pension payments to the GSDP and revenue receipts showed increasing trend during 2001-07. With the increase in number of retirees, the pension liabilities are likely to increase further in future.

**Interest payments:** Interest payments made and their ratio to revenue receipts and revenue expenditure during the period 2001-07 are detailed in Table-1.15.

**Table 1.15: Interest payments**

Year	Total Revenue Receipts	Interest payments	Percentage of interest payments with reference to	
			Revenue Receipts	Revenue Expenditure
	(Rupees in crore)			
2001-02	6489	1047	16.14	15.35
2002-03	7548	1095	14.51	15.25
2003-04	8212	1246	15.17	16.70
2004-05	8866	1103	12.44	13.28
2005-06	10315	1115	10.81	11.24
2006-07	11182	1787	15.98	16.84

The major source of borrowings is market loans at interest rates varying from 5.60 *per cent* to 14 *per cent*. The 60 *per cent* increase in interest payments during 2006-07 over the previous year was mainly due to increase in interest payment on market loans (Rs. 729 crore), interest on small savings, provident funds etc (Rs. 124 crore) and interest on special securities issued to National Small Savings Fund of the Central Government by the State Government (Rs. 51 crore). There was a marginal decrease of Rs. 24 crore on interest payments on loans and advances from Central Government due to adjustment of Rs. 10.94 crore charged in excess by the GOI. During 2006-07 interest payments accounted for 15.98 *per cent* of revenue receipts and 16.84 *per cent* of revenue expenditure.

## 1.6 Expenditure by Allocative priorities

### 1.6.1 Quality of Expenditure

The availability of better social and physical infrastructure in the State reflects its quality of expenditure. Therefore, the ratio of capital expenditure to total expenditure as well as to GSDP and the proportion of revenue expenditure being spent on running the existing social and economic services efficiently and effectively would determine the quality of expenditure. Higher the ratio of these components to total expenditure and GSDP, better is the quality of expenditure. Table-1.16 gives these ratios during 2001-07.

**Table 1.16: Indicators of Quality of Expenditure**

(Rupees in crore)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
<b>Capital Expenditure</b>	<b>1225</b>	<b>1421</b>	<b>1881</b>	<b>2180</b>	<b>3020</b>	<b>2456</b>
<b>Revenue Expenditure</b>	<b>6823</b>	<b>7180</b>	<b>7754</b>	<b>8304</b>	<b>9921</b>	<b>10614</b>
<i>Of which</i>						
Social and Economic Services	3838	4026	4381	5017	6239	5960
<i>Salary and wage* component</i>	<i>Details not available</i>		2081 (47.50)	2136 (42.58)	2436 (39.04)	2728 (45.77)
<i>Non-Salary and wage component</i>			2300 (52.50)	2881 (57.42)	3803 (60.96)	3232 (54.23)
<b>As per cent of Total Expenditure<sup>12</sup></b>						
Capital Expenditure	15.22	16.52	19.52	20.79	23.34	18.79
Revenue Expenditure	84.78	83.48	80.48	79.21	76.66	81.21
<b>As per cent of GSDP</b>						
Capital Expenditure	6.79	6.99	8.48	8.98	11.41	8.44
Revenue Expenditure	37.82	35.32	34.94	34.22	37.48	36.46

(\*Figures of wages are based on data from VLC)

The ratio of capital expenditure to total expenditure showed increasing trend during 2001-06 and declined in 2006-07 basically because the capital expenditure during 2005-06 was relatively high on account of one time expenditure on establishment of Ladakh Autonomous Hill Development Council (LAHDC) Fund under Special Areas Programme. The revenue expenditure continues to have a dominant share in total expenditure, which is 81.21 *per cent* in 2006-07. Within the revenue expenditure incurred on Social and Economic Services, the share of salary and wage component increased from 39.04 *per cent* in 2005-06 to 45.77 *per cent* in 2006-07 while the non-salary components declined from 60.96 *per cent* in 2005-06 to 54.23 *per cent* in 2006-07. These trends reveal that more focus needs to be given on maintenance of social and economic infrastructure.

### **1.6.2 Expenditure on Social Services**

Given the fact that the human development indicators such as access to basic education, health services and drinking water and sanitation facilities etc. have a strong linkage with eradication of poverty and economic progress, it would be prudent to make an assessment with regard to the expansion and efficient provision of these services in the State. Table-1.17 summarises the expenditure incurred by the State Government in expanding and strengthening the Social Services in the State during 2001-07.

<sup>12</sup>

Comprises revenue and capital expenditure only

Table 1.17: Expenditure on Social Services

(Rupees in crore)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
<b>Education, Sports, Art and Culture</b>						
<b>Revenue Expenditure</b>	<b>817.72</b>	<b>854.86</b>	<b>860.55</b>	<b>939.22</b>	<b>1066.30</b>	<b>1153.91</b>
<i>Of which</i>						
(a) <i>Salary and Wage* component</i>	<i>Details not available</i>		766.70	803.04	902.28	974.82
(b) <i>Non-Salary and Wage Component</i>	<i>Details not available</i>		93.85	136.18	164.02	179.09
<b>Capital Expenditure</b>	<b>47.10</b>	<b>48.01</b>	<b>79.05</b>	<b>93.06</b>	<b>117.43</b>	<b>142.81</b>
<b>Total</b>	<b>864.82</b>	<b>902.87</b>	<b>939.60</b>	<b>1032.28</b>	<b>1183.73</b>	<b>1296.72</b>
<b>Health and Family Welfare</b>						
<b>Revenue Expenditure</b>	<b>388.40</b>	<b>391.93</b>	<b>388.83</b>	<b>432.51</b>	<b>487.42</b>	<b>555.29</b>
<i>Of which</i>						
(a) <i>Salary and Wage Component</i>	<i>Details not available</i>		307.17	319.55	368.73	419.75
(b) <i>Non-Salary and Wage Component</i>	<i>Details not available</i>		81.66	112.96	118.69	135.54
<b>Capital Expenditure</b>	<b>43.28</b>	<b>40.10</b>	<b>44.31</b>	<b>66.30</b>	<b>87.11</b>	<b>184.03</b>
<b>Total</b>	<b>431.68</b>	<b>432.03</b>	<b>433.14</b>	<b>498.81</b>	<b>574.53</b>	<b>739.32</b>
<b>Water Supply, Sanitation, Housing and Urban Development</b>						
<b>Revenue Expenditure</b>	<b>288.69</b>	<b>326.31</b>	<b>335.71</b>	<b>359.62</b>	<b>431.46</b>	<b>488.24</b>
<i>Of which</i>						
(a) <i>Salary and Wage Component</i>	<i>Details not available</i>		163.67	173.76	205.82	219.28
(b) <i>Non-Salary and Wage Component</i>	<i>Details not available</i>		172.04	185.86	225.64	268.96
<b>Capital Expenditure</b>	<b>210.85</b>	<b>215.42</b>	<b>329.96</b>	<b>364.28</b>	<b>430.14</b>	<b>472.08</b>
<b>Total</b>	<b>499.54</b>	<b>541.73</b>	<b>665.67</b>	<b>723.90</b>	<b>861.60</b>	<b>960.31</b>
<b>Other Social Services</b>						
<b>Revenue Expenditure</b>	<b>179.18</b>	<b>188.02</b>	<b>242.49</b>	<b>264.58</b>	<b>670.76</b>	<b>683.68</b>
<i>Of which</i>						
(a) <i>Salary and Wage Component</i>	<i>Details not available</i>		54.75	50.48	55.69	62.25
(b) <i>Non-Salary and Wage Component</i>	<i>Details not available</i>		187.74	214.10	615.07	621.43
<b>Capital Expenditure</b>	<b>(-) 31.31</b>	<b>27.37</b>	<b>33.10</b>	<b>26.83</b>	<b>21.40</b>	<b>30.20</b>
<b>Total</b>	<b>147.87</b>	<b>215.39</b>	<b>275.59</b>	<b>291.41</b>	<b>692.16</b>	<b>713.89</b>
<b>Total (Social Services)</b>						
<b>Revenue Expenditure</b>	<b>1673.99</b>	<b>1761.12</b>	<b>1827.58</b>	<b>1995.93</b>	<b>2655.94</b>	<b>2881.12</b>
<i>Of which</i>						
(a) <i>Salary and Wage Component</i>	<i>Details not available</i>		1292.28	1346.83	1532.52	1676.10
(b) <i>Non-Salary and Wage Component</i>	<i>Details not available</i>		535.30	649.10	1123.42	1205.02
<b>Capital Expenditure</b>	<b>269.92</b>	<b>330.90</b>	<b>486.42</b>	<b>550.47</b>	<b>656.08</b>	<b>829.12</b>
<b>Grand Total</b>	<b>1943.91</b>	<b>2092.02</b>	<b>2314.00</b>	<b>2546.40</b>	<b>3312.02</b>	<b>3710.24</b>

(\*Figures of wages are based on data from VLC)

The allocation to social sector increased from Rs. 1943.91 crore in 2001-02 to Rs. 3,710.24 crore in 2006-07 indicating the Government commitment to improve social well being of the people. Expenditure on Social Sector during current year (Rs. 3,710.24 crore) accounted for 28.39 per cent of total expenditure and 44.38 per cent of developmental expenditure<sup>13</sup>. Expenditure on Education

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

increased by Rs. 112.99 crore over previous year while the expenditure on Health and Family Welfare has shown an increase of only Rs. 164.79 crore over previous year. Recognising the need to improve the quality of education and health services, TFC recommended that the non-plan salary expenditure under education and health and family welfare should increase only by five to six *per cent* while non-salary expenditure under non-plan heads should increase by 30 *per cent* per annum during the award period. However, trends in expenditure (both under plan and non-plan heads) reveal that the salary and wage component under education sector increased by 8.03 *per cent* over 2005-06 while non-salary and wage component increased by 9.19 *per cent*. Similarly, under Health and Family Welfare sector, the salary and wage component increased by 13.92 *per cent* while non-salary and wage component increased by 14.20 *per cent*. The expenditure pattern both in education and health services has not been as per the norms of the TFC which needs correction in the ensuing years.

### **1.6.3 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 revenue expenditure on Economic Services increased from Rs. 2,164.35 crore in 2001-02 to Rs. 3,079.40 crore in 2006-07, while the capital expenditure on Economic Services increased from Rs. 911.60 crore to Rs. 1,569.76 crore (Table-1.18) during the period.



Table 1.18: Expenditure on Economic Services

(Rupees in crore)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
<b>Agriculture, Allied Activities</b>						
Revenue Expenditure	470.71	479.33	472.76	514.79	575.41	597.55
Of which	Details not available					
(a) Salary and Wage* Component	Details not available		318.74	348.50	387.92	443.77
(b) Non-Salary and Wage Component	Details not available		154.02	166.29	187.49	153.78
Capital Expenditure	(-) 14.37	78.69	263.84	159.06	214.43	179.51
<b>Total</b>	<b>456.34</b>	<b>558.02</b>	<b>736.60</b>	<b>673.85</b>	<b>789.84</b>	<b>777.06</b>
<b>Irrigation and Flood Control</b>						
Revenue Expenditure	140.57	151.70	159.14	227.37	194.87	211.39
Of which	Details not available					
(a) Salary and Wage Component	Details not available		118.97	123.79	138.90	146.18
(b) Non-Salary and Wage Component	Details not available		40.17	103.58	55.97	65.21
Capital Expenditure	36.31	46.28	98.48	83.32	102.35	114.04
<b>Total</b>	<b>176.88</b>	<b>197.98</b>	<b>257.62</b>	<b>310.69</b>	<b>297.22</b>	<b>325.43</b>
<b>Power and Energy</b>						
Revenue Expenditure	994.08	1182.96	1417.43	1796.83	1875.24	1675.42
Of which	Details not available					
(a) Salary and Wage Component	Details not available		103.34	109.94	122.74	196.78
(b) Non-Salary and Wage Component	Details not available		1314.09	1686.89	1752.50	1478.64
Capital Expenditure	404.43	444.59	552.10	709.38	699.21	487.66
<b>Total</b>	<b>1398.51</b>	<b>1627.55</b>	<b>1969.53</b>	<b>2506.21</b>	<b>2574.45</b>	<b>2163.08</b>
<b>Transport</b>						
Revenue Expenditure	52.78	32.56	36.05	39.15	36.21	50.47
Of which	Details not available					
(a) Salary and Wage Component	Details not available		0.25	1.35	1.24	4.04
(b) Non-Salary and Wage Component	Details not available		35.80	37.80	34.97	46.43
Capital Expenditure	192.64	252.43	243.56	316.52	418.02	454.17
<b>Total</b>	<b>245.42</b>	<b>284.99</b>	<b>279.61</b>	<b>355.67</b>	<b>454.23</b>	<b>504.64</b>
<b>Other Economic Services</b>						
Revenue Expenditure	506.21	418.24	467.50	443.25	901.57	544.57
Of which	Details not available					
(a) Salary and Wage Component	Details not available		246.70	205.26	252.39	260.67
(b) Non-Salary and Wage Component	Details not available		220.80	237.99	649.18	283.90
Capital Expenditure	292.59	212.18	167.71	302.38	871.59	334.38
<b>Total</b>	<b>798.80</b>	<b>630.42</b>	<b>635.21</b>	<b>745.63</b>	<b>1773.16</b>	<b>878.95</b>
<b>Total (Economic Services)</b>						
Revenue Expenditure	2164.35	2264.79	2552.88	3021.39	3583.30	3079.40
Of which	Details not available					
(a) Salary and Wage Component	Details not available		788.00	788.84	903.19	1051.44
(b) Non-Salary and Wage Component	Details not available		1764.88	2232.55	2680.11	2027.96
Capital Expenditure	911.60	1034.17	1325.69	1570.66	2305.60	1569.76
<b>Grand total</b>	<b>3075.95</b>	<b>3298.96</b>	<b>3878.57</b>	<b>4592.05</b>	<b>5888.90</b>	<b>4649.16</b>

(\*Figures of wages are based on data from VLC)

The expenditure on Economic Services (Rs. 4,649.16 crore) during 2006-07 accounted for 35.57 per cent of the total capital and revenue expenditure (Rs. 13,070.35 crore). Expenditure on agriculture and allied activities, irrigation and flood control, energy and transport consumed more than 81 per cent of the total economic sector expenditure during 2006-07.

The trends in revenue and capital expenditure on Economic Services during the period 2001-06, reveal that the capital expenditure has consistently increased from Rs. 911.60 crore (30 *per cent*) in 2001-02 to Rs. 2,305.60 crore (39 *per cent*) in 2005-06. It however, declined to Rs. 1,569.76 crore (34 *per cent*) during 2006-07. On the other hand, revenue expenditure with inter-year fluctuations increased from Rs. 2,164.35 crore (70 *per cent*) to Rs. 3,079.40 crore (66 *per cent*) in 2006-07. Decrease of Rs. 735.84 crore in capital expenditure during 2006-07 over the previous year was mainly under the heads of Special Areas Programme (Rs. 379.09 crore), General Economic Services (Rs. 224.46 crore), Energy (Rs. 211.55 crore) and Agriculture (Rs. 34.92 crore). However, the decrease of Rs. 500.90 crore in revenue expenditure during 2006-07 over the previous year was mainly due to decrease of Rs. 253.41 crore on account of purchase of power. Of the revenue expenditure, the expenditure on salary and wages has moderately increased from Rs. 788 crore (31 *per cent*) in 2003-04 to Rs. 1,051.44 crore (34 *per cent*) in 2006-07 while its non-salary component has increased from Rs. 1,764.88 crore (79 *per cent*) to Rs. 2,027.96 crore (66 *per cent*) indicating allocative priorities towards their better quality.

#### **1.6.4 Financial Assistance by the State to Local Bodies and Other Institutions through respective Departments**

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-1.19.

**Table 1.19: Financial Assistance to Local Bodies and Other Institutions**

Name of the Department	(Rupees in crore)					
	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Education	76.02	76.77	43.11	79.34	78.24	88.01
Housing and Urban Development	61.62	65.96	71.66	78.60	118.30	135.49
Agriculture	40.40	40.66	36.74	47.81	51.04	72.90
Art and culture	4.52	3.50	3.31	14.71	5.44	7.32
General Administration	2.93	2.75	3.29	2.69	3.50	2.95
Industries	2.89	3.00	2.43	4.00	4.00	5.25
Tourism	2.66	3.87	2.41	5.34	3.43	5.06
Administration of Justice	1.22	1.65	0.92	1.60	1.91	1.63
Family welfare and Medical Health	0.55	1.14	0.70	0.82	0.48	0.44
Others	22.22	0.04	1.18	0.76	7.35	11.83
<b>Total</b>	<b>215.03</b>	<b>199.34</b>	<b>165.75</b>	<b>235.67</b>	<b>273.69</b>	<b>330.88</b>
Assistance as a percentage of Revenue expenditure	3.15	2.78	2.14	2.84	2.76	3.12

The total assistance of Rs. 330.88 crore in 2006-07 increased by 54 *per cent* over the level of 2001-02, and by 2 *per cent* as compared to the previous year mainly as a result of increased assistance for Agriculture, Education, Housing and Urban Development. Around 90 *per cent* of the financial assistance during 2006-07 was given by the State Government for Agriculture, Education, Housing and Urban Development. Financial assistance provided during the year included Rs. 128.46 crore paid to Municipal Committees/Local Bodies under Housing and Urban Development, Rs. 58.17 crore to two Agriculture Universities under Agriculture Research and Rs. 74.15 crore to Government aided Educational Institutions/Universities etc.

### 1.6.5 Delay in furnishing Utilisation Certificates

Financial Rules provide that where grants are given for specific purposes, Utilisation Certificates (UCs) should be obtained by departmental officers from the grantees and after verification, these should be forwarded to the Accountant General within 18 months from the date of their sanction unless specified otherwise.

In respect of grants paid up to 2005-06, 9809 UCs for an aggregate amount of Rs. 1,616.47 crore were awaited as on 30 September 2007. Department-wise break-up of UCs not received in respect of grants paid up to 2005-06 is given in *Appendix-1.6*. In the absence of UCs, it was not clear as to how the departmental officers satisfied themselves whether and to what extent the recipients utilised the grants for the purpose for which these were paid.

### 1.6.6 Non-submission of Accounts

In order to identify the Institutions which attract audit under Sections 14 and 15 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971, Government/Heads of Departments are required to furnish to Audit every year, detailed information about the financial assistance given to various Institutions, the purpose for which such assistance was sanctioned and the total expenditure of the Institutions. The particulars of 32 bodies/authorities whose 156 annual accounts for 2006-07 and earlier years were awaited are indicated in *Appendix-1.7*.

Four Autonomous Bodies mentioned below covered under Section 19 (3) and 20 (1) of the CAG's DPC Act had also not furnished the accounts for the period shown against each of them.

**Table 1.20**

S. No	Name of the Body	Period for which Accounts awaited	Number of Accounts
<b>Section 19 (3)</b>			
1.	Khadi and Village Industries Board	2004-05 to 2006-07	3
<b>Section 20 (1)</b>			
2.	Sher-e-Kashmir University of Agricultural Sciences and Technology, Kashmir	2006-07	1
3.	Sher-e-Kashmir University of Agricultural Sciences and Technology, Jammu	2005-06 to 2006-07	2
4.	Employees Provident Fund	1996-97 to 2006-07	11

### 1.7 Assets and Liabilities

In Government accounting system, comprehensive accounting of fixed assets like land and buildings owned by the Government is not done. However, Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred. *Appendix 1.4* 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 in this Appendix consist mainly of internal borrowings, loans and advances from the GOI, receipts from the Public

Account and Reserve Funds, the assets comprise mainly the capital outlay and loans and advances given by the State Government and cash balances. Appendix 1.4 shows that the liabilities and assets grew by 10 per cent and 13 per cent respectively. The liabilities of the State Government depicted in the Finance Accounts, however, do not include the pension and other retirement benefits payable to retired State employees, guarantees/letters of comforts issued by the State Government.

### **1.7.1 Financial Results of Irrigation Works**

The financial results of six irrigation projects with capital outlay of Rs. 151 crore showed that revenue realised during 2006-07 (Rs. 27.50 lakh) was only 0.18 per cent of the capital invested.

### **1.7.2 Incomplete Projects**

The department wise information pertaining to incomplete projects as on 31 March 2007 is given in Table-1.21.

**Table 1.21: Department-wise Profile of Incomplete Projects**

(Rupees in crore)

Department	Number of Incomplete Projects	Initial Budgeted cost	Revised <sup>14</sup> total cost of Projects	Cumulative actual expenditure as on 31 March 2007
Irrigation and Flood Control	19	110.38	374.87	233.19
Public Health Engineering	18	396.62	407.50	104.39
Sewerage and Drainage	2	304.85	446.67	42.32
Public Works	51	99.97	166.21	63.37
Power Development	96	380.32	788.41	439.07
<b>Total</b>	<b>186</b>	<b>1292.14</b>	<b>2183.66</b>	<b>882.34</b>

According to the information available in Appendix-IV of the Finance Accounts for the year 2006-07, there were 186 incomplete projects as of March 2007 in which Rs. 882.34 crore was blocked. Besides, there was cost over run of Rs. 313.92 crore in respect of 34 projects wherein expenditure of Rs. 431.19 crore was incurred (March 2007) against the original estimated cost of Rs. 117.27 crore. This showed that the Government spread its resources thinly without prioritisation, which failed to yield adequate return.

### **1.7.3 Departmental Commercial Undertakings**

Activities of quasi-commercial nature are performed by the Departmental Undertakings/Government Departments, which are required to prepare annually *proforma* accounts in prescribed formats showing the results of financial operations so that Government can assess their functioning. The Heads of Departments in Government are to ensure that the Undertakings, which are funded by the budgetary releases, prepare the accounts in time and submit the same to Accountant General for Audit. As of March 2007, preparation of 165 *proforma* accounts in respect of nine departmentally managed Government/Quasi

<sup>14</sup> Out of 186 incomplete projects the original cost of Rs. 699.12 crore in respect of 79 projects was revised to Rs. 1590.64 crore. For remaining 107 projects budgeted cost is indicated.

commercial undertakings (*Appendix 1.8*) was in arrears for periods ranging between one to 38 years.

#### 1.7.4 Investments and Returns

As on 31 March 2007, the State Government had invested Rs. 355.77 crore in its Statutory Corporations, Government Companies, Joint Stock Companies and Co-operative Societies (Table-1.22). Return on the investment made in these PSUs ranged between Rs. 13.34 crore and Rs. 21.22 crore during 2001-07. The return on investment amounting to Rs. 21.22 crore accrued to the State Government during 2006-07 was only from Jammu and Kashmir Bank Limited (Rs. 20.62 crore) and Rs. 60 lakh from the Jammu and Kashmir Cements Limited. With an average interest rate of 10.09 *per cent* paid by the Government on its borrowings, the return on these investments during 2006-07 was only 5.96 *per cent*.

**Table 1.22: Return on Investment**

Year	Investment at the end of the year	Return	Percentage return	Average rate of interest on Government borrowing	Difference between interest rate and return
	(Rupees in crore)				
2001-02	363.35	19.53	5.38	10.65	5.27
2002-03	375.27	13.34	3.56	9.64	6.08
2003-04	349.93	15.92	4.55	9.84	5.29
2004-05	347.82	26.28	7.56	8.10	0.54
2005-06	353.27	20.62	5.84	7.19	1.35
2006-07	355.77	21.22	5.96	10.09	4.13

The investment of Rs. 355.77 crore was held in 17 working companies (Rs. 180.48 crore), three working statutory corporations (Rs. 143.32 crore), three non-working companies (Rs. 2.57 crore), two Joint stock companies (Rs. 0.34 crore), 11 co-operative institutions (Rs. 28.96 crore) and one GOI undertaking (Rs. 0.10 crore). Out of 20 working PSUs, 15 PSUs in which the Government had invested Rs. 251.89 crore incurred losses and as per latest finalised accounts of these PSUs the accumulated losses aggregated Rs. 1,219.17 crore. The major loss making PSUs were J&K Industries Limited (Rs. 232.58 crore), J&K State Road Transport Corporation (Rs. 598.92 crore) and J&K State Financial Corporation (Rs. 192.50 crore).

#### 1.7.5 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 Parastatals. Total outstanding balance as on 31 March 2007 was Rs. 943.82 crore (Table-1.23) which included Rs. 860.54 crore on account of Economic Services, Rs. 61.16 crore on Social Services and Rs. 22.12 crore outstanding against the Government servants etc. Within economic sector, major part of the loan was outstanding against Industries and Minerals (Rs. 402.75 crore), Transport (Rs. 282.85 crore) and Energy (Rs. 85.05 crore). Interest received on such loans was meagre and it decreased from 0.42 *per cent* in 2001-02 to 0.20 *per cent* in 2006-07.

**Table 1.23: Average Interest received on Loans advanced by the State Government**

(Rupees in crore)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Opening Balance	599.93	515.25	773.37	837.13	884.58	901.97
Amount Advanced during the year	47.12	340.20	68.30	66.00	53.15	43.89
Amount repaid during the year	131.80	82.07	4.54	18.55	35.76	2.04
Closing Balance	515.25	773.37	837.13	884.58	901.97	943.82
Net Addition	(-) 84.68	258.12	63.76	47.45	17.39	41.85
Interest Received	2.36	1.03	1.09	1.27	1.24	1.88
Interest Received as <i>per cent</i> to Loans advanced	0.42	0.16	0.14	0.15	0.14	0.20
Average interest paid by the State ( <i>per cent</i> )	10.65	9.64	9.84	8.10	7.19	10.09
Difference between interest paid and received ( <i>per cent</i> )	10.23	9.48	9.70	7.95	7.05	9.89

Against the recovery of Rs. 35.76 crore during 2005-06, the recoveries during 2006-07 was only Rs. 2.04 crore which was mostly on account of loans to Government servants etc. The sharp decrease in repayment of loans during the year was due to less repayments under Economic Services under Agriculture and Allied Activities (Rs. 4 lakh) and nil repayments under other sectors.

### 1.7.6 Management of Cash Balances

It is generally desirable that the State's flow of resources should match its expenditure obligations. However, to take care of any temporary mismatches in the flow of resources and the expenditure obligations, the State Government had obtained temporary loan from Jammu and Kashmir Bank for its ways and means requirements. There was no improvement in management of cash balances during 2006-07. Despite revenue surplus for the past five years, the State Government had taken temporary loan from bank on all 365 days during 2006-07 and paid an interest of Rs. 183.51 crore on the overdraft.

**Table 1.24: Ways and Means advances and overdraft of the State**

(Rupees in crore)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
<b>Temporary loan/overdraft raised by the Government from J&amp;K Bank for its ways and means requirements</b>						
Taken in the year	6000.15	7212.35	8345.85	1114.20	11269.95	1104.62
Outstanding	1382.55	1381.10	1546.51	1726.85	2047.44	2129.90
Interest Paid	130.88	137.58	126.99	131.81	138.42	183.51
Number of Days	365	365	366	365	365	365

The amount of interest paid on the temporary loan/overdraft increased from Rs. 130.88 crore in 2001-02 to Rs. 183.51 crore during 2006-07 and there was an outstanding balance of Rs. 2,129.90 crore at the close of 2006-07.

## 1.8 Undischarged Liabilities

### 1.8.1 Fiscal Liabilities-Public Debt and Guarantees

There are two sets of liabilities namely, public debt and other liabilities. Public debt consists of internal debt of the State and is reported in the Annual Financial Statements under the Consolidated Fund-Capital 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. However, no such law has been passed by the State, to lay down any such limit. Other liabilities, which are a part of Public Account, include deposits under small savings scheme, provident funds and other deposits. Table-1.25 below gives the fiscal liabilities of the State, its rate of growth, ratio of these liabilities to GSDP, revenue receipts and to own resources as also the buoyancy of fiscal liabilities with respect to these parameters.

**Table 1.25: Fiscal Liabilities-Basic Parameters**

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
<b>Fiscal Liabilities* (Rupees in crore)</b>	<b>10443</b>	<b>12279</b>	<b>13038</b>	<b>14199</b>	<b>16801</b>	<b>18602</b>
Rate of Growth ( <i>per cent</i> )	13.22	17.58	6.18	8.90	18.33	10.72
Ratio of Fiscal Liabilities to						
GSDP ( <i>per cent</i> )	57.89	60.41	58.75	58.52	63.47	63.89
Revenue Receipt ( <i>per cent</i> )	160.93	162.68	158.77	160.15	162.88	166.36
Own Resources ( <i>per cent</i> )	824.88	646.95	723.13	712.80	776.75	764.88
Buoyancy of Fiscal Liabilities to						
GSDP (ratio)	1.65	1.39	0.67	0.95	2.02	1.07
Revenue Receipts (ratio)	0.90	1.08	0.70	1.12	1.12	1.28
Own resources (ratio)	2.70	0.35	- <sup>15</sup>	0.85	2.14	0.86

\* Includes internal debt, loans and advances from GOI and other obligations.

Overall fiscal liabilities of the State increased from Rs. 10,443 crore in 2001-02 to Rs. 18,602 crore in 2006-07. The growth rate was 10.72 *per cent* during 2006-07 over previous year. The ratio of fiscal liabilities to GSDP also increased from 57.89 *per cent* in 2001-02 to 63.89 *per cent* in 2006-07. The buoyancy of these liabilities with respect to GSDP during the year was 1.07 indicating that for each one *per cent* increase in GSDP, fiscal liabilities grew by 1.07 *per cent*. These liabilities stood at 1.66 times State's revenue receipts and 7.65 times its own resources.

### 1.8.2 Status of Guarantees–Contingent liabilities

Guarantees are liabilities contingent on the Consolidated Fund of the State in case of default by the borrower for whom the guarantee has been extended. As per Statement 6 of the Finance Accounts, the maximum amount for which guarantees were given by the State and outstanding guarantees at the end of year since 2001-02 is given in Table-1.26.

<sup>15</sup>

Own resources had a negative trend

**Table 1.26: Guarantees given by the Government of Jammu and Kashmir**

(Rupees in crore)

Year	Maximum amount guaranteed	Outstanding amount of Guarantees	Percentage of maximum amount guaranteed to total revenue receipts
2001-02	1774	1294	27.34
2002-03	1574	1231	20.85
2003-04	1969	1612	23.98
2004-05	2878	1914	32.46
2005-06	4720	1959	45.76
2006-07	3245	2565	29.02

Government has guaranteed loans raised by various Corporations and others, which at the end of 2006-07 stood at Rs. 2,565 crore. The outstanding amount of guarantees is in the nature of contingent liabilities, which were about 23 *per cent* of revenue receipts of the State. Although no law under Article 293 of the Constitution had been passed by the State legislature laying down the maximum limit within which Government may give guarantees on the security of the Consolidated Fund of the State, J&K FRBM Act, 2006 enacted by the Legislature has prescribed the ceiling limit on the amount of annual incremental risk weighted guarantees to 75 *per cent* of the Total Revenue Receipts (TRR) in the year preceding the current year or at 7.5 *per cent* of GSDP of the year preceding the current year, whichever is lower.

### **1.8.3 Debt Sustainability**

Debt sustainability is defined as the ability of the State to maintain a constant debt-GDP 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 stabilisation in terms of debt/GSDP ratio.

### **1.8.4 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-GDP 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 x 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 stabilise 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 stabilisation are indicated in Table-1.27.



**Table 1.27: Debt Sustainability-Interest Rate and GSDP Growth**

(In per cent)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Average Interest Rate	10.65	9.64	9.84	8.10	7.19	10.09
GSDP Growth	8.02	12.68	9.19	9.33	9.08	10.00
Interest spread	(-) 2.63	3.04	(-) 0.65	1.23	1.89	(-) 0.09
Opening balance of Outstanding Debt	9224	10443	12279	13038	14199	16801
Quantum Spread	(-) 242.59	317.47	(-) 79.81	160.37	268.36	(-) 15.12
Primary Deficit (-)/ Surplus (+) (Rs. in crore)	(-) 427	(-) 216	(-) 241	(-) 562	(-) 1528	(-) 143

Table-1.27 reveals that quantum spread together with primary deficit has been negative in four out of six years during 2001-02 to 2006-07 indicating oscillating debt-GSDP ratios during the period. The ratio of fiscal deficit to GSDP also fluctuated during the period 2001-07. These trends indicate the State needs to improve the fiscal imbalances for attaining and improving the debt sustainability position in the medium to long run.

### 1.8.5 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-1.28 indicates the resource gap as defined for the period 2001-07.

**Table 1.28: Incremental revenue receipts and Revenue Expenditure**

(Rupees in crore)

Period	Incremental				Resource Gap
	Non-Debt Receipts	Primary Expenditure	Interest Payments	Total Expenditure	
1	2	3	4	5 (3+4)	6 (2-5)
2001-02	947	270	278	548	(+) 399
2002-03	1009	798	48	846	(+) 163
2003-04	586	611	151	762	(-) 176
2004-05	669	990	(-) 143	847	(-) 178
2005-06	1466	2432	12	2444	(-) 978
2006-07	833	(-) 552	672	120	(+) 713

The persistent negative resource gap indicates the non-sustainability of debt while the positive resource gap strengthens the capacity of the State to sustain the debt. The debt sustainability of the State in term of the resource gap oscillated between the negative and positive phases during the period 2001-07. The positive resource gap between the period of two years (2001-03) turned negative again during 2003-06. However, during the current year it turned out to be positive indicating signs of improvement.

### 1.8.6 Net Availability of Funds

Another important indicator of debt sustainability is the net availability of funds after payment of the principal on account of earlier contracted liabilities and interest. Table-1.29 below gives the position of the receipts and repayment of internal debt and other fiscal liabilities of the State over the last six years.

**Table 1.29: Net Availability of Borrowed Funds**

(Rupees in crore)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
<b>Internal debt</b>						
Receipts	6470	811	9316	2409	13475	2557
Repayment (Principal+ Interest)	6225	606	8930	1722	12778	2562
Net Fund Available	245	205	386	687	697	(-) 5
Net Fund Available ( <i>per cent</i> )	3.79	25.27	4.14	28.52	5.17	(-) <sup>16</sup>
<b>Loans and Advances from GOI</b>						
Receipts	393	579	718	324	11	9
Repayment (Principal+ Interest)	846	739	1598	1070	375	355
Net Fund Available	(-) 453	(-) 160	(-) 880	(-) 746	(-) 364	(-) 346
Net Fund Available ( <i>per cent</i> )	(-) 115.27	(-) 27.63	(-) 122.56	(-) 230.25	(-) 3309.09	(-) 3844
<b>Other obligations<sup>17</sup></b>						
Receipts	1408	1756	1533	1765	3144	2525
Repayment (Principal+ Interest)	1028	1060	1527	1648	1990	2158
Net Fund Available	380	696	6	117	1154	367
Net Fund Available ( <i>per cent</i> )	26.99	39.64	0.39	6.63	36.70	14.53
<b>Total liabilities</b>						
Receipts	8271	3146	11567	4498	16630	5091
Repayments	8099	2405	12055	4440	15143	5076
Net receipts	172	741	(-) 488	58	1487	16
Net Funds Available ( <i>per cent</i> )	2.08	23.55	(-) 4.22	1.29	8.94	0.31

The net availability of funds on account of the internal debt loans and advances from Government of India and other obligations after providing for the interest and repayment varied from 8.94 *per cent* in 2005-06 to 0.31 *per cent* in 2006-07. During the current year the Government repaid internal debt of Rs. 1,293.37 crore; Government of India loans of Rs. 132.55 crore and also discharged other obligations of Rs. 1,863.69 crore along with interest of Rs. 1,786.63 crore as a result of which meagre borrowed funds were available for development purposes.

## 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-1.30.

**Table 1.30: Fiscal Imbalances-Basic Parameters**

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

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Revenue surplus (+)/Deficit (-)	(-) 334	(+) 368	(+) 458	(+) 562	(+) 394	(+) 568
Fiscal Deficit (-) /surplus (+)	(-) 1474	(-) 1311	(-) 1487	(-) 1665	(-) 2643	(-) 1930
Primary Deficit (-) /surplus (+)	(-) 427	(-) 216	(-) 241	(-) 562	(-) 1528	(-) 143
Revenue surplus (+)/Deficit (-)/GSDP	(-) 1.852	1.810	2.064	2.316	1.489	1.95
FD/GSDP	(-) 8.17	(-) 6.45	(-) 6.70	(-) 6.86	(-) 9.99	(-) 6.63
PD/GSDP	(-) 2.37	(-) 1.06	(-) 1.09	(-) 2.32	(-) 5.77	(-) 0.49
RD/FD	(-) 22.66	NA <sup>18</sup>	NA	NA	NA	NA

(Negative figures indicate deficit)

<sup>16</sup> Negligible

<sup>17</sup> Comprises small savings, provident fund, reserve fund and deposits

<sup>18</sup> Revenue surplus hence not applicable

Table-1.30 reveals that the revenue account experienced surplus over the period 2002-07. The revenue surplus of Rs. 568 crore during 2006-07 was higher by Rs. 174 crore as compared to revenue surplus of Rs. 394 crore realised during 2005-06. An increase of 8 *per cent* (Rs. 867 crore) in revenue receipts during 2006-07 in comparison to 7 *per cent* (Rs. 693 crore) in revenue expenditure resulted in an increase of Rs. 174 crore in revenue surplus during 2006-07. The increase in revenue expenditure was on account of increase in non-plan revenue expenditure under General Services (Rs. 1,008.39 crore) and Social Services (Rs. 373.55 crore) over the previous year.

The increase in revenue receipts during 2006-07 was on account of increase in tax revenue (Rs. 172 crore), non-tax revenue (Rs 97 crore), Central tax transfers (Rs. 278 crore) and Grants-in-aid (Rs. 320 crore). The increase in revenue surplus by Rs. 174 crore, decrease in non-debt capital receipts by Rs. 34 crore and net decrease of Rs. 573 crore in capital expenditure and loans and advances disbursed during 2006-07 over the previous year, resulted in a decline of Rs. 713 crore in fiscal deficit during the current year. The decline in fiscal deficit accompanied by an increase of Rs. 672 crore in interest payments during 2006-07 over the previous year led to a decline of Rs. 1,385 crore in primary deficit in 2006-07 from the level of Rs. 1,528 crore during 2005-06.

### 1.10 Quality of Deficit/surplus

The ratio of RD to FD and the decomposition of primary deficit into primary revenue deficit<sup>19</sup> and capital expenditure (including loans and advances) would indicate the quality of deficit in the State's 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 was around 22.66 *per cent* in 2001-02 indicating that significant portion of borrowed funds were being applied to meet the current expenditure requirements. The revenue deficit was completely wiped out in 2002-03 and revenue surplus was maintained throughout the period from 2002-03 to 2006-07. The revenue surplus however, peaked at Rs. 568 crore during the current year. This trajectory shows improvement in the quality of the deficit and during 2002-07 all borrowings (fiscal liabilities) were used in activities resulting in expansion in the asset backup of the State.

The bifurcation of the factors resulting in primary deficit or surplus of the State during the period 2001-07 reveals (Table-1.31) that the primary deficit during the period was on account of capital expenditure incurred and loans and advances disbursed by the State Government. In other words, non-debt receipts of the State were enough to meet the primary expenditure<sup>20</sup> requirements in the revenue account; in fact left some receipts to meet the expenditure under the capital account. The State had to borrow to meet the requirements under capital account during the period over primary expenditure. This indicates the extent to which the

<sup>19</sup> 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.

<sup>20</sup> 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.

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.

**Table-1.31: 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	6621	5776	1225	47	7048	(+) 845	(-) 427
2002-03	7630	6085	1421	340	7846	(+) 1545	(-) 216
2003-04	8216	6508	1881	68	8457	(+) 1708	(-) 241
2004-05	8885	7201	2180	66	9447	(+) 1684	(-) 562
2005-06	10351	8806	3020	53	11879	(+) 1545	(-) 1528
2006-07	11184	8827	2456	44	11327	(+) 2357	(-) 143

### **1.11 Fiscal Ratios**

The finances of a State should be sustainable, flexible and non-vulnerable. Table-1.32 below presents a summarised position of Government finances over 2001-07, with reference to certain key indicators that help assess the adequacy and effectiveness of available resources and their applications, highlight areas of concern and capture its important facts.

Table 1.32: Indicators of Fiscal Health

(In per cent)

Fiscal indicators	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
<b>I. Resource Mobilization</b>						
Revenue Receipts/GSDP	35.97	37.13	37.00	36.54	38.97	38.41
Revenue buoyancy	1.83	1.29	0.96	0.85	1.80	0.84
Own tax/GSDP	4.46	5.08	5.27	5.57	6.15	6.18
<b>II. Expenditure Management</b>						
Total Expenditure/GSDP	44.87	43.99	43.72	43.48	49.10	45.04
Total Expenditure/ Revenue Receipts	124.75	118.46	118.16	118.99	125.97	117.28
Revenue Expenditure/ Total Expenditure	84.29	80.30	79.91	78.71	76.35	80.94
Salary and Wage expenditure on Social and Economic Services/Revenue Expenditure	Details not available		26.84	25.72	24.55	25.70
Non-Salary/Wage expenditure on Social and Economic Services/Revenue Expenditure	Details not available		29.66	34.70	38.34	30.45
Capital Expenditure/ Total Expenditure <sup>21</sup>	15.22	16.52	19.52	20.79	23.34	18.79
Development expenditure/Total expenditure	62.38	62.68	64.29	68.08	71.10	63.96
Capital Expenditure on Social and Economic Services/Total Expenditure	14.60	15.27	18.68	20.10	22.80	18.29
Buoyancy of TE with RR	0.50	0.64	0.97	1.10	1.42	0.11
Buoyancy of RE with RR	0.21	0.32	0.91	0.89	1.19	0.83
<b>III. Management of Fiscal Imbalances</b>						
Revenue surplus (+) deficit (-) (Rs. in crore)	(-) 334	(+) 368	(+) 458	(+) 562	(+) 394	(+) 568
Fiscal deficit (Rs. in crore)	(-) 1474	(-) 1311	(-) 1487	(-) 1665	(-) 2643	(-) 1930
Primary Deficit (-)/surplus (+) (Rs. in crore)	(-) 427	(-) 216	(-) 241	(-) 562	(-) 1528	(-) 143
Revenue Deficit/Fiscal Deficit	22.66	NA <sup>22</sup>	NA	NA	NA	NA
<b>IV. Management of Fiscal Liabilities (FL)</b>						
Fiscal Liabilities/GSDP	57.89	60.41	58.75	58.52	63.47	63.89
Fiscal Liabilities/RR	160.93	162.68	158.77	160.15	162.88	166.36
Buoyancy of FL with RR	0.90	1.08	0.70	1.12	1.12	1.28
Buoyancy of FL with OR	2.07	0.35	- <sup>23</sup>	0.85	2.14	0.86
Primary deficit vis-a-vis quantum spread	(-) 669.59	101.47	(-) 320.81	(-) 401.63	(-) 1259.64	(-) 158.12
Net Funds Available	2.08	23.55	(-) 4.22	1.29	8.94	0.31
<b>V. Other Fiscal Health Indicators</b>						
Return on Investment	5.38	3.56	4.55	7.56	5.84	5.96
BCR (Rs. in crore)	(-) 1644	(-) 1002	(-) 1527	(-) 1865	(-) 1943	(-) 2920
Financial Assets/Liabilities	0.99	1.02	1.05	1.08	1.09	1.11

<sup>21</sup> Comprises revenue and capital expenditure only

<sup>22</sup> Revenue surplus hence not applicable

<sup>23</sup> Own resources had a negative growth

The ratio of own taxes to GSDP had shown continuous improvement in the six year period between 2001-07. Except for 2004-05, the ratio of revenue receipts to GSDP was on a rising trend during 2001-07, but revenue buoyancy fluctuated widely during this period. The total expenditure to revenue receipts showed a decreasing trend during 2001-07 except in 2005-06 when it increased sharply from 118.99 *per cent* in 2004-05 to 125.97 *per cent*. Although percentage of revenue expenditure to total expenditure showed a decreasing trend from 2001-02 to 2005-06, it again increased to 81 *per cent* (Rs. 10,614.05 crore) of total expenditure during 2006-07, which reveals that most of the expenditure was incurred on current consumption. Fiscal deficit, although fluctuated during the period 2001-07, its ratio to GSDP at 6.63 *per cent* during 2006-07 indicates fiscal imbalances still persist in the State. Though primary deficit reduced by Rs. 1,385 crore during 2006-07 from the previous year, however its continued prevalence indicated that State is unable to meet its primary expenditure out of its own resources and its reliance on borrowed funds also tends to continue over a period of time.

### **1.12 Conclusion**

The overall fiscal position of the State as reflected in terms of key parameters—revenue, fiscal and primary deficits—indicates improvement in the fiscal situation during 2006-07 over the previous year. The improvement in fiscal position of the State during the current year was mainly on account of increase of Rs. 833 crore in non-debt receipts of the State. There was only a marginal increase in the total expenditure during the current year due to decline of Rs. 564 crore in capital expenditure over previous year leading to improvement in the fiscal deficit of the State. Further, the revenue expenditure which has increased by 7 *per cent* (Rs. 693 crore) during 2006-07 was essentially on account of a steep increase of 12 *per cent* in non-plan revenue expenditure (Rs. 1,056 crore) which was counterbalanced by a decline of 30 *per cent* in plan revenue expenditure (Rs. 363 crore). The non-plan revenue expenditure of the State at Rs. 9,781 crore was significantly higher by 65 *per cent* than the normative assessment of TFC (Rs. 5,926 crore). The continued prevalence of fiscal deficit alongwith negative balance from current revenue might hamper the process of achieving debt stabilization and improving the debt sustainability of the State unless suitable measures are initiated by the State Government in medium and long run.