

## CHAPTER I

### FINANCES OF THE STATE GOVERNMENT

#### Summary

In Karnataka, both revenue and fiscal deficits declined during 2003-04. The Balance from Current Revenue (BCR) became positive during 2003-04 indicating availability of resources from current revenue for programme spending after meeting the committed expenditure. While the ratio of revenue receipts to total expenditure was 74 *per cent* during 1999-2000, it was 82 *per cent* during the current year. Revenue of the State consisting of its own taxes and non-tax revenue, Central tax transfers and grants-in-aid from Government of India (GOI) increased by 61 *per cent* from Rs.12,906 crore in 1999-2000 to Rs.20,760 crore in 2003-04 with significant inter year variations in growth rates. During the current year, revenue receipts grew by 28 *per cent* due to an increase of 20 *per cent* in tax revenue, 131 *per cent* in non-tax revenue, 16 *per cent* in State's share in Union taxes and duties and 19 *per cent* in grants-in-aid from GOI. The increase in tax revenue (Rs.2,130 crore) was mainly due to increase in taxes on sales, trade, *etc.*, (Rs.1,175 crore), stamps and registration fees (Rs.241 crore), State excise (Rs.240 crore), taxes on vehicles (Rs.124 crore), *etc.* Arrears of revenue (Rs.3,104 crore) represented 20 *per cent* of tax and non-tax revenue receipts. Seventy five *per cent* of the revenue came from the State's own resources, while the Central tax transfers and grants-in-aid together contributed 25 *per cent* of the total revenue receipts.

Overall expenditure of the State increased by 46 *per cent* from Rs.17,327 crore in 1999-2000 to Rs.25,325 crore in 2003-04. The rate of growth was 20 *per cent* in 1999-2000 and declined thereafter to 13 *per cent* in 2003-04. The curtailment in the growth of expenditure was due to decline in the proportion of developmental expenditure in total expenditure from 66 *per cent* in 1999-2000 to 60 *per cent* in 2003-04. Revenue expenditure which constituted 84 *per cent* of total expenditure during 2003-04, grew by 13 *per cent* in 2003-04 over the previous year. Interest payment increased by 84 *per cent* from Rs.2,012 crore in 1999-2000 to Rs.3,710 crore in 2003-04 primarily due to continued reliance on borrowings for financing the deficit.

The Karnataka Fiscal Responsibility Act, 2002, (Act) which came into force from 1 April 2003, *inter alia*, provides for reducing revenue deficit to nil and fiscal deficit to not more than three *per cent* of the Gross State Domestic Product (GSDP) by March 2006, limiting the fiscal liabilities to not more than 25 *per cent* of the GSDP by March 2015 and ensuring greater transparency in fiscal operations.

The State Government managed to bring down the revenue deficit from Rs.2,646 crore in 2002-03 to Rs.525 crore in 2003-04 and fiscal deficit to just over three *per cent* of the GSDP by not providing funds (Rs.600 crore) towards waiver of electricity dues ordered in February 2004 and non-transfer of grants (Rs.381.21 crore) received towards Calamity Relief Fund to the Public Account. The ratio of fiscal liabilities to GSDP which was 25 *per cent* during 2000-01 increased to more than 30 *per cent* for the period 2001-04. The ratio would increase to 39 *per cent* taking into account the off-budget borrowings.

Though, it is not uncommon for a State to borrow for widening its infrastructure and for creating income generating assets, an ever increasing ratio of fiscal liabilities to GSDP together with a large revenue deficit could lead the State's finances into a debt trap. Measures like generation of additional internal resources through tax and non-tax revenue, realisation of arrears of revenue and curtailment of non-developmental expenditure through abolition of subsidies, *etc.*, are the best means available for the State to ensure fiscal stability and sustainability.

## 1.1 Introduction

The Finance Accounts of the Government of Karnataka are laid out in 19 statements, presenting receipts and disbursements, revenue as well as capital in the Consolidated Fund, transactions under the Contingency Fund and the Public Account (**Appendix 1.1-Part A**). The layout of the Finance Accounts is depicted in Box 1.

### Box 1

#### Layout of Finance Accounts

Statement No.1 presents the summary of transactions of the State Government – receipts and disbursements, revenue and capital, public debt receipts and disbursements, *etc.*, in the consolidated fund and transactions under contingency fund and public account and also offers explanation giving comparative summary of transactions, including cases of large and important variations.

Statement No.2 gives the summarised position of capital outlay outside revenue account showing progressive expenditure to the end of 2003-04.

Statement No.3 gives financial results of irrigation works and electricity schemes.

Statement No.4 indicates the summary of debt position of the State, which includes borrowings accounted under internal debt, Government of India loans, other obligations accounted under public account and servicing of debt.

Statement No.5 gives the summary of loans and advances given by the State Government during the year, repayments made, recoveries in arrears, *etc.*

Statement No.6 gives the summary of guarantees given by the Government for repayment of loans, *etc.*, raised by the statutory corporations, government companies, local bodies and other institutions.

Statement No.7 gives the summary of cash balances and investments made out of such balances.

Statement No.8 depicts the summary of balances under consolidated fund, contingency fund and public account as on 31 March 2004.

Statement No.9 shows the revenue and expenditure under different heads for the year 2003-04 as a *per cent* of total revenue/expenditure.

Statement No.10 indicates the distribution between the charged and voted expenditure during the year.

Statement No.11 indicates the detailed account of revenue receipts and capital receipts by minor heads.

Statement No.12 gives an account of revenue expenditure by minor heads under plan and non-plan, capital expenditure by major heads under plan and non-plan.

Statement No.13 depicts the detailed account of capital expenditure incurred during and to the end of 2003-04.

Statement No.14 shows the details of investment of the State Government in statutory corporations, government companies, other joint stock companies, co-operative banks and societies, *etc.* up to the end of 2003-04.

Statement No.15 depicts the capital and other expenditure (other than on revenue account) to the end of 2003-04 and the principal sources from which the funds were provided for that expenditure.

Statement No.16 gives the detailed account of receipts, disbursements and balances under heads of account relating to debt, contingency fund and public account.

Statement No.17 presents detailed account of debt and other interest bearing obligations of the Government.

Statement No.18 presents the detailed account of loans and advances given by the Government, the amount of loan repaid during the year, the balance as on 31 March 2004 and the amount of interest received during the year.

Statement No.19 gives the details of earmarked balances.

## 1.2 Trend of Finances with reference to previous year

Finances of the State Government during the current year compared to the previous year were as under:

(Rupees in crore)

2002-03	Serial Number	Major Aggregates	2003-04
16	1.	<b>Revenue Receipts (2+3+4)</b>	<b>20,7</b>
10	2.	Tax Revenue	12,5
1	3.	Non-Tax Revenue	2,9
4	4.	Other Receipts	5,2
	5.	<b>Non-Debt Capital Receipts</b>	
	6.	<i>Of which</i> Recovery of Loans	
17	7.	<b>Total Receipts (1+5)</b>	<b>20,8</b>
16	8.	<b>Non-Plan Expenditure (9+11+12)</b>	<b>17,9</b>
15	9.	On Revenue Account	17,7
3	10.	Interest Payments	3,7
	11.	On Capital Account	
	12.	Loans disbursed	1
6	13.	<b>Plan Expenditure (14+15+16)</b>	<b>7,3</b>
3	14.	On Revenue Account	3,5
2	15.	On Capital Account	2,9
	16.	Loans disbursed	8
22	17.	<b>Total Expenditure (8+13)</b>	<b>25,3</b>
5	18.	<b>Fiscal Deficit (17-1-5)</b>	<b>4,5</b>
2	19.	<b>Revenue Deficit (9+14-1)</b>	<b>5</b>
1	20.	<b>Primary Deficit(+)/Surplus(-) (18-10)</b>	<b>7</b>

## 1.3 Summary of Receipts and Disbursements for the year

Table 1 below summarises the finances of the State Government for the year 2003-04 covering receipts and disbursements under revenue, capital, public debt, contingency fund and public account as emerging from various statements of Finance Accounts.

**Table 1: Summary of Receipts and Disbursements for the year 2003-04**

(Rupees in crore)

2002-03	Receipts	2003-04	2002-03	Disbursements	2003-04		
<b>Section-A: Revenue</b>							
					<b>Non-Plan</b>	<b>Plan</b>	<b>Total</b>
<b>16,168.76</b>	<b>Revenue receipts</b>	<b>20,759.88</b>	<b>18,814.50</b>	<b>Revenue expenditure</b>	<b>17,731.99</b>	<b>3,552.72</b>	<b>21,284.71</b>
10,439.71	Tax revenue	12,570.21	7,112.12	General Services	9,035.56	3.57	9,039.13
1,277.67	Non-tax revenue	2,958.37	6,326.25	Social Services	4,788.55	2,176.49	6,965.04
2,786.20	Share of Union Taxes and Duties	3,244.73	4,802.42	Economic Services	3,279.04	1,372.66	4,651.70
1,665.18	Grants from Govt. of India	1,986.57	573.71	Grants-in-aid/Contributions	628.84	--	628.84
<b>Section-B: Capital</b>							
--	<b>Misc. Capital Receipts</b>	--	<b>2,936.00</b>	<b>Capital Outlay</b>	<b>99.24</b>	<b>2,930.15</b>	<b>3,029.39</b>
928.00	Recoveries of Loans and Advances	64.29	627.58	Loans and Advances disbursed	113.93	897.27	1,011.20
5,432.74	Public debt receipts*	7,988.33	1,695.95	Repayment of Public Debt*	3,441.43	--	3,441.43
7.89	Contingency Fund (recoupment)	--	--	Contingency Fund	8.23	32.29	40.52
27,879.38	Public account receipts	30,512.84	26,824.79	Public account disbursements	--	--	30,665.27
964.71	Opening Cash Balance	482.66	482.66	Closing Cash Balance	--	--	335.48
<b>51,381.48</b>	<b>Total</b>	<b>59,808.00</b>	<b>51,381.48</b>	<b>Total</b>	<b>21,394.82</b>	<b>7,412.43</b>	<b>59,808.00</b>

\* Excluding ways & means advances and overdraft

### 1.3.1 Budget Analysis

Budget papers, presented by the State Government, provide descriptions about projections or estimations of revenue and expenditure for a particular fiscal year. The importance of accuracy in estimation of revenues and expenditure is widely accepted in the context of effective implementation of fiscal policies for overall economic management. Wide variation between the estimates and the actuals which result in distortions in fiscal management are indicative of non-attainment and non-optimisation of desired fiscal objectives. The table below summarises the position of finances of the State Government covering the budget estimates and actuals for the year 2003-04 together with actuals for the previous year. There was a significant variation between budgeted figures and the actuals.

#### State Government Finances 2003-04 – Budget Estimates and Actuals

(Rupees in crore)

Budget Estimates	2002-03 Actuals	2003-04		Deviation from Budget	Deviation Per cent
		Budget Estimates	Actuals		
1 Total Receipts of the State Government (6+7)	50,408.88	41,679.57	59,325.34	17,645.77	42.3
2 Revenue Receipts	16,168.76	19,845.17	20,759.88	914.71	4.6
Tax revenue	10,439.71	12,588.38	12,570.21	(-)18.17	(-)0.1
Non-tax revenue	1,277.67	1,713.33	2,958.37	1,245.04	72.7
State's share of Union taxes and duties	2,786.20	3,044.76	3,244.73	199.97	6.6
Grants-in-aid from the Central Government	1,665.18	2,498.70	1,986.57	(-)512.13	(-)20.5
3 Recovery of Loans and Advances	928.00	100.50	64.29	(-)36.21	(-)36.0
4 Total revenue and Non Debt receipts (2+3)	17,096.76	19,945.67	20,824.17	878.50	4.4
5 Public Debt receipt (Excluding Ways & Means Advances/Over Draft)	5,432.74	6,422.90	7,988.33	1,565.43	24.4
6 Total receipts in the CFS (4+5)	22,529.50	26,368.57	28,812.50	2,443.93	9.3
7 Public Account Receipt	27,879.38	15,311.00	30,512.84	15,201.84	99.3
8 Total disbursement by the State Government (14+15)	50,898.82	41,611.92	59,432.00	17,820.08	42.8
9 Revenue Expenditure	18,814.50	21,980.49	21,284.71	(-)695.78	(-)3.2
General Services	7,112.12	8,392.62	9,039.13	646.51	7.7
Social Services	6,326.25	7,141.41	6,965.04	(-)176.37	(-)2.5
Economic Services	4,802.42	5,706.78	4,651.70	(-)1,055.08	(-)18.5
Grants-in-aid & contributions	573.71	739.68	628.84	(-)110.84	(-)15.0
10 Capital Expenditure	2,936.00	3,561.66	3,029.39	(-)532.27	(-)14.9
11 Loans and Advances	627.58	436.31	1,011.20	574.89	131.8
12 Total expenditure of the State Government (9+10+11)	22,378.08	25,978.46	25,325.30	(-)653.16	(-)2.5
13 Repayment of Public Debt	1,695.95	1,042.46	3,441.43	2,398.97	230.1
14 Total disbursement out of the CFS (12+13)	24,074.03	27,020.92	28,766.73	1,745.81	6.5
15 Public Account Disbursement	26,824.79	14,591.00	30,665.27	16,074.27	110.2
16 Revenue Deficit (9-2)	2,645.74	2,135.32	524.83	(-)1,610.49	(-)75.4
17 Fiscal Deficit (12-4)	5,281.32	6,032.79	4,501.13	(-)1,531.66	(-)25.4

The revenue receipts during 2003-04 exceeded the budget estimates by Rs.914.71 crore (five per cent). The actuals in respect of non-tax revenue were more than the budget estimates by Rs.1,245.04 crore (73 per cent). The grants-in-aid received from Central Government were 20 per cent (Rs.512.13 crore) less than the estimates. Under capital receipts, there was a short fall of Rs.36 crore (36 per cent) in recovery of loans and advances. Under public debt, the borrowings were more than the estimates by Rs.1,565.43 crore (24 per cent) while under the Public Account, the actuals

exceeded the estimates by nearly cent *per cent* indicating a serious aberration in assessment of resources.

On the expenditure front, the revenue expenditure fell short by Rs.695.78 crore (three *per cent*). However, various sectors of expenditure (excluding general services) revealed shortfall compared to the estimates ranging between two and 19 *per cent*. In respect of general services, the expenditure was more by Rs.646.51 crore (eight *per cent*). Capital expenditure fell short by Rs.532.27 crore (15 *per cent*). The loans disbursed were more than the estimates by Rs.574.89 crore (132 *per cent*). Under public debt, the repayment was more by Rs.2,398.97 crore (230 *per cent*). Disbursements under public account were more by Rs.16,074.27 crore (110 *per cent*).

Revenue deficit was less by Rs.1,610.49 crore and fiscal deficit by Rs.1,531.66 crore than that estimated in the budget.

#### **1.4 Audit Methodology**

Audit observations on the statements of Finance accounts for the year 2003-04 bring out the trends in major fiscal aggregates of receipts and expenditure, wherever necessary, show these in the light of time series data (statement IV) and periodic comparisons. Major fiscal aggregates like tax and non-tax revenue, revenue and capital expenditure, internal debt and loans and advances, *etc.*, have been presented as percentages to the Gross State Domestic Product (GSDP) at current market prices. For tax revenue, non-tax revenue, revenue expenditure, *etc.*, buoyancy projections have also been provided for a further estimation of the range of fluctuations with reference to the base represented by GSDP. The key indicators adopted for the purpose are (i) resources by volumes and sources, (ii) applications of resources (iii) assets and liabilities and (iv) management of deficits. Audit observations have also taken into account the cumulative impact of resource mobilisation efforts, debt servicing and corrective fiscal measures. 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 rational interpretation of fiscal aggregates.

In addition, this section also contains a paragraph on indicators of financial performance of the Government. Some of the terms used in the Chapter are explained in **Appendix 1.1-Part B**.

#### **1.5 State Finances by key indicators**

##### ***1.5.1 Resources by Volumes and Sources***

Resources of the State Government consist of revenue receipts and capital receipts. Revenue receipts consist of (i) State's own taxes such as taxes on sales, trade, *etc.*, excise duties, stamp duty, motor vehicles taxes, *etc.*, (ii) non-tax revenue, such as receipts from States' functions like judiciary, police, income from past investments, financial intermediation and user charges for the economic and social services provided by the State, (iii) State's share of Union taxes and duties (devolution of taxes collected by the Union

Government and transferred to the States in terms of the award of the Finance Commission), and (iv) grants-in-aid from the Central Government. Capital receipts comprise (i) debt receipts which create future repayment obligations, (ii) miscellaneous capital receipts such as proceeds from disinvestments and recovery of loans and advances, which lead to a reduction in State's asset base and (iii) accruals from public account.

Table 2 shows that the total receipts of the State Government for the year 2003-04 were Rs.59,325 crore of which, the revenue receipts were Rs.20,760 crore constituting about 35 *per cent* of the total receipts. The remaining came from public account accruals (51 *per cent*) and borrowings (14 *per cent*).

**Table 2 – Resources of Karnataka**

(Rupees in crore)	
<b>Revenue Receipts</b>	<b>20,759.88</b>
<b>Capital Receipts</b>	<b>8,052.62</b>
Recovery of Loans and Advances	64.29
Public Debt Receipts	7,988.33
<b>Public Account Receipts</b>	<b>30,512.84</b>
Small Savings, Provident Fund, etc.	1,421.73
Reserve Fund	395.65
Deposits and Advances	14,686.37
Suspense and Miscellaneous	11,308.39
Remittances	2,700.70
<b>Total Receipts</b>	<b>59,325.34</b>

### 1.5.2 Sources of Receipts -Trends

The sources of revenue under different heads and GSDP during 1999-2004 are indicated in Table 3.

**Table 3 – Sources of Receipts: Trends**

(Rupees in crore)						
Year	Revenue Receipts	Capital Receipts			Total Receipts	Gross State Domestic product
		Non-Debt Receipts	Debt Receipts	Accruals in Public Account		
1999-00	12,906	145	3,173	21,662	37,886	94,972
2000-01	14,823	101	3,371	24,797	43,092	1,04,492
2001-02	15,321	35	5,146	28,502	49,004	1,05,658
2002-03	16,169	928	5,433	27,879	50,409	1,13,929
2003-04	20,760	64	7,988	30,513	59,325	1,30,678

The percentage composition of revenue receipts in the total receipts went up from 34 *per cent* in 1999-2000 to 35 *per cent* during the year while that debt receipts went up from 8 to 14 *per cent*. Public account receipts though went up from Rs.21,662 crore to Rs.30,513 crore, in terms of percentage composition they went down from 57 to 51 *per cent* in total resources of the Government.

### 1.5.3 Revenue Receipts

Statement-11 of the Finance Accounts details the revenue receipts of the Government. Revenue receipts are linked to economic activity and GSDP is its natural base. Apart from the quantum and rate of growth of revenue

receipts, it is equally important to look at these receipts relative to this base and its expansion over time. Overall revenue receipts, their annual rate of growth, ratio of these receipts to GSDP and their buoyancy are indicated in Table 4.

**Table 4: Revenue Receipts – Basic Parameters**

(Amount Rupees in crore and others in *per cent*)

	1999-2000	2000-01	2001-02	2002-03	2003-04
<b>Revenue Receipts</b>	<b>12,906</b>	<b>14,823</b>	<b>15,321</b>	<b>16,169</b>	<b>20,760</b>
Own taxes*	60.0	61.0	64.3	64.6	60.5
Non-Tax Revenue*	12.5	11.2	7.2	7.9	14.3
Central Tax Transfers*	16.5	17.4	17.1	17.2	15.6
Grants-in-aid*	11.0	10.4	11.4	10.3	9.6
<b>Rate of Growth</b>	<b>14.9</b>	<b>14.8</b>	<b>3.4</b>	<b>5.5</b>	<b>28.4</b>
<b>Revenue Receipts/GSDP</b>	<b>13.6</b>	<b>14.2</b>	<b>14.5</b>	<b>14.2</b>	<b>15.9</b>
<b>Revenue Buoyancy</b>	<b>1.8</b>	<b>1.5</b>	<b>3.0</b>	<b>0.7</b>	<b>1.9</b>
<b>GSDP Growth</b>	<b>8.1</b>	<b>10.0</b>	<b>1.1</b>	<b>7.8</b>	<b>14.7</b>

\* As a percentage of revenue receipts

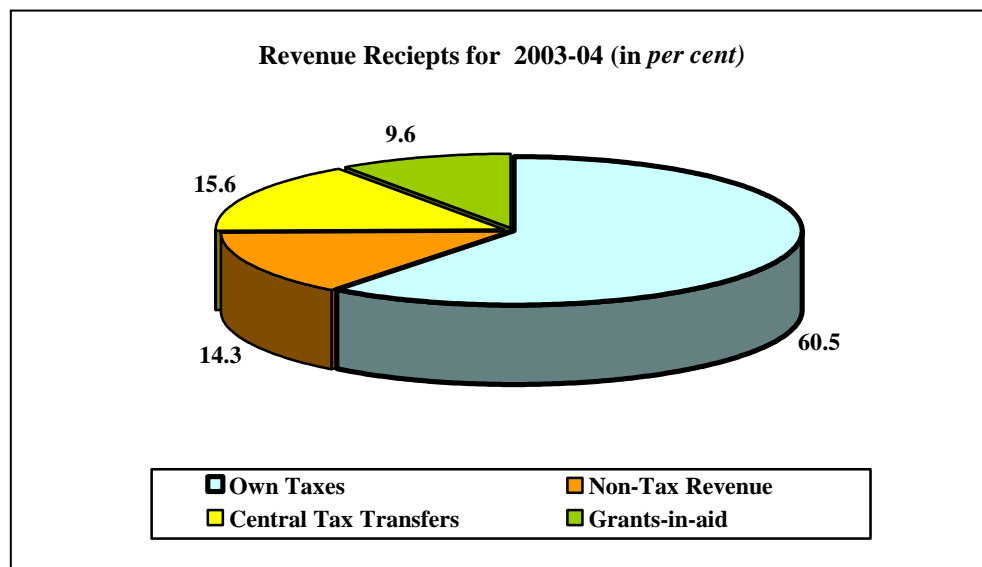
Overall revenue receipts of the State increased from Rs.12,906 crore in 1999-2000 to Rs.20,760 crore in 2003-04 (61 *per cent*). The tax revenue increased from Rs.7,744 crore in 1999-2000 to Rs.12,570 crore during 2003-04, an increase of Rs.4,826 crore (62 *per cent*). The increase (Rs.2,130 crore) in tax revenue during the current year over 2002-03 was mainly due to increase in taxes on sales, trade, *etc.* (Rs.1,175 crore), stamps and registration fees (Rs.241 crore), state excise (Rs.240 crore) and taxes on vehicles (Rs.124 crore), *etc.*

While around 75 *per cent* of the revenue had come from the State's own resources, Central tax transfers and grants-in-aid together contributed around 25 *per cent* of the total revenue during the year, thus indicating less dependence of the State on transfer of resources from the Central Government. The dependency ratio which is defined as the ratio of Central devolutions to own tax/non-tax receipts was 0.34 during 2003-04, lowest during the 1999-2004. Taxes on sales, trade, *etc.*, were the major source of State's own tax revenue having contributed 53 *per cent* of tax revenue followed by State excise (19 *per cent*) and stamps and registration fees (11 *per cent*) during the year. Of non-tax revenue, miscellaneous general services which include State lotteries (54 *per cent*), other general economic services (10 *per cent*), non-ferrous mining and metallurgical industries (8 *per cent*) and forestry and wild life (6 *per cent*) were principal contributors.

Revenue receipts grew by 28 *per cent* during the year 2003-04 on account of high growth rate in non-tax revenue (131 *per cent*) and tax revenue (20 *per cent*). The revenue receipts to GSDP ratio peaked to 16 *per cent* and the revenue buoyancy was about two in 2003-04.

The share of non-tax revenue witnessed a jump from 8 *per cent* in 2002-03 to 14 *per cent* in 2003-04 on account of increase in State lottery receipts. Though there had been an increase in State's share of Union taxes and duties, up from Rs.2,133 crore in 1999-2000 to Rs.3,245 crore during 2003-04, as a percentage of revenue receipts, it almost remained stagnant all these years. Contribution of grants-in-aid increased by 19 *per cent* in the current year over

previous year. Composition of revenue receipts during 2003-04 is indicated graphically below:



Arrears of revenue increased by 70 per cent from Rs.1,826 crore in 1999-2000 to Rs.3,104 crore at the end of 2003-04. The arrears of revenue were 20 per cent of the revenue receipts (tax and non-tax) during 2003-04. Of these, Rs.781 crore (25 per cent) were pending for more than five years and pertained to taxes on sales, trade, etc., entry tax, entertainment tax, agricultural income tax, professional tax, luxury tax and taxes and duties on electricity.

## 1.6 Application of Resources

### 1.6.1 Growth of Expenditure

Statement 12 of the Finance Accounts gives details of expenditure by minor heads. States raise resources to perform their sovereign functions, maintain their existing nature of delivery of social and economic services, extend the network of these services through capital expenditure and investments and discharge their debt servicing obligations. Overall expenditure of the State comprising the revenue expenditure, capital expenditure including loans and advances increased from Rs.17,327 crore in 1999-2000 to Rs.25,325 crore in 2003-04. The growth rate more than doubled during 2003-04 as compared to previous year mainly on account of increased growth of expenditure under revenue (13 per cent), and loans and advances (61 per cent). Total expenditure-GSDP ratio as percentage, ranged between 18 and 20 during the period 1999-2004. Ratio of revenue receipts to total expenditure went up from 74 per cent (1999-2000) to 82 per cent (2003-04) indicating that over three-fourths of the State's total expenditure was met from its current receipts and balance from borrowings.

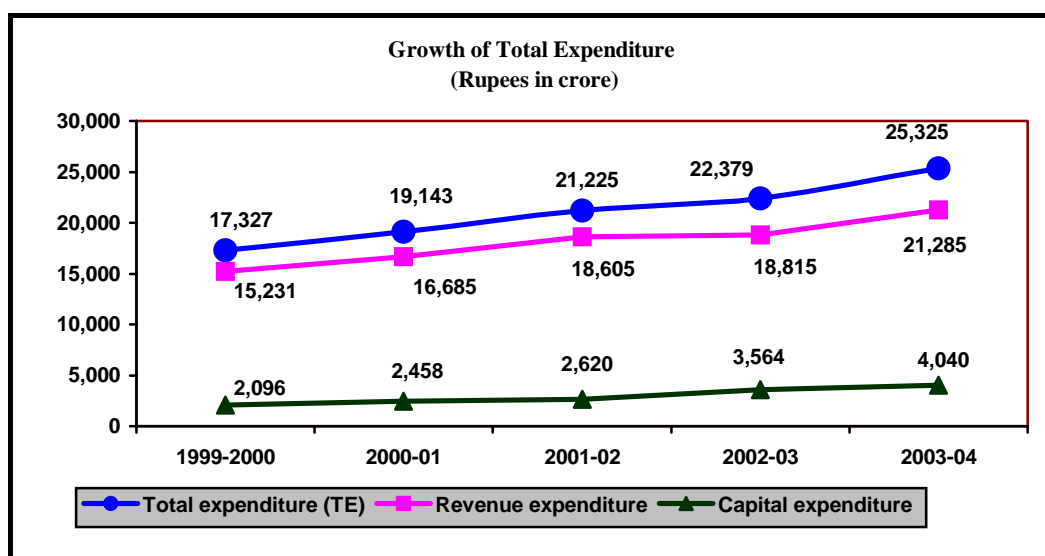


The total expenditure of the State, its annual growth, ratio of expenditure to GSDP and revenue receipts and its buoyancy in relation to GSDP and revenue receipts are indicated in Table 5 below followed by its graphic representation.

**Table 5: Total Expenditure – Basic Parameters**

(Amount Rupees in crore and others in *per cent*)

	1999-2000	2000-01	2001-02	2002-03	2003-04
Total Expenditure (TE)	17,327	19,143	21,225	22,379	25,325
Rate of Growth	19.7	10.5	10.9	5.4	13.2
TE/GSDP	18.2	18.3	20.1	19.6	19.4
Revenue Receipts/TE	74.5	77.4	72.2	72.2	82.0
<b>Buoyancy of Total Expenditure with</b>					
GSDP	2.4	1.0	9.7	0.7	0.9
Revenue Receipts	1.3	0.7	3.2	1.0	0.5



Capital expenditure includes disbursement of loans and advances

### 1.6.2 Components of Expenditure

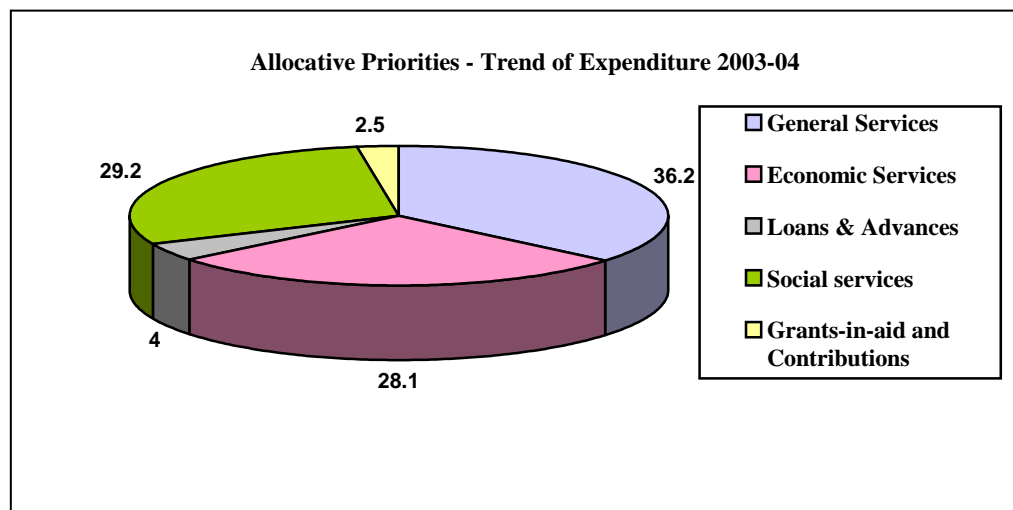
In terms of the activities, total expenditure is composed of expenditure on general services, social and economic services and loans and advances. The relative share of these components in total expenditure (including disbursements of loans and advances) is indicated in Table 6.

**Table 6: Components of Expenditure – Relative Share (in *per cent*)**

	1999-2000	2000-01	2001-02	2002-03	2003-04
General Services	31.1	29.7	29.5	32.1	36.2
Social Services	33.8	33.6	31.3	29.6	29.2
Economic Services	30.9	31.3	34.1	32.9	28.1
Grants-in-aid and Contributions	2.4	2.8	2.7	2.6	2.5
Loans and advances	1.8	2.6	2.4	2.8	4.0

The movement of relative share of these components of expenditure indicated that the share of social services in total expenditure declined from 34 *per cent* in 1999-2000 to 29 *per cent* in 2003-04 and that of economic services declined from 31 *per cent* to 28 *per cent*. Expenditure on general services including interest payments generalised as non-developmental, together accounted for nearly 36 *per cent* of total expenditure in 2003-04 as compared to about

31 per cent in 1999-2000. The components of expenditure during 2003-04 are indicated graphically below:



### 1.6.3 Incidence of Revenue Expenditure

In total expenditure, revenue expenditure had the predominant share. Revenue expenditure is incurred to maintain the current level of services/activities and does not represent any addition to the State's service network. Interest payments, pensions and salary fall under this category. Expenditure on maintenance of existing network of services and other overheads are its other components. Overall revenue expenditure of the State increased from Rs.15,231 crore in 1999-2000 to Rs.21,285 crore in 2003-04. Rate of growth of revenue expenditure had shown a fluctuating trend and ranged between one and 22 per cent during 1999-2004. Despite fluctuating growth rate, revenue expenditure – GSDP ratio varied between 16 and 18 per cent during the period. However, there was a decrease in the ratio of revenue expenditure to total expenditure from 88 per cent in 1999-2000 to 84 per cent in 2003-04. Overall revenue expenditure, its rate of growth, ratio of revenue expenditure to State's GSDP, revenue receipts and its buoyancy in relation to GSDP and revenue receipts are indicated in Table 7 below:

**Table 7: Revenue Expenditure – Basic Parameters**

(Amount Rupees in crore and others in per cent)

	1999-2000	2000-01	2001-02	2002-03	2003-04
Revenue Expenditure (RE)	15,231	16,685	18,605	18,815	21,285
Rate of Growth	22.4	9.6	11.5	1.1	13.1
RE/ GSDP	16.0	16.0	17.6	16.5	16.3
RE as per cent of TE	87.9	87.2	87.7	84.1	84.0
RE as per cent to Revenue Receipts	118.0	112.6	121.4	116.4	102.5
<b>Buoyancy of Revenue Expenditure with</b>					
GSDP	2.8	0.9	10.4	0.1	0.9
Revenue Receipts	1.5	0.6	3.4	0.2	0.5

The increase in revenue expenditure during the year was mainly due to more expenditure on miscellaneous general services (Rs.1273.71 crore), interest payments (Rs.418.11 crore), general education (Rs.210.30 crore), urban development (Rs.202.98 crore), relief on account of natural calamities (Rs.171.42 crore), pension and other retirement benefits (Rs.127.46 crore), etc.

Revenue expenditure accounted for 84 *per cent* of the total funds available during 2003-04. This was higher than the share of revenue receipts (82 *per cent*) in the total receipts of the State Government, which led to revenue deficit. Though the ratio of revenue expenditure to revenue receipts declined from a peak of 121 *per cent* in 2001-02 to 103 *per cent* in 2003-04, dependence of the State on borrowings, for meeting its current expenditure continued primarily due to the fact that salaries (Rs.5,364 crore), interest payments (Rs.3,710 crore), and pensions (Rs.1,901 crore) and subsidies (Rs.2,066 crore) consumed 63 *per cent* of total revenue receipts of the State during the year.

#### 1.6.4 High salary expenditure

Salaries alone accounted for about 26 *per cent* of the revenue receipts of the State. The expenditure on salaries increased from Rs.4,576 crore in 1999-2000 to Rs.5,364 crore in 2003-04 as indicated in Table 8 below:

**Table 8**

(Rupees in crore)

Heads	1999-2000	2000-01	2001-02	2002-03	2003-04
Salary expenditure*	4,575.53	4,629.97	4,974.87	4,090.70	5,363.52
As percentage of GSDP	4.8	4.4	4.7	4.3	4.1
As percentage of Revenue Receipts	35.5	31.2	32.5	30.6	25.8

\* Includes expenditure accounted under ZP Sector also

As could be seen from the table, salaries as a percentage of GSDP had declined marginally from five in 1999-2000 to four during 2003-04.

#### 1.6.5 Huge expenditure on pension payments

Pension payments increased by 24 *per cent* from Rs.1,539 crore in 1999-2000 to Rs.1,901 crore in 2003-04 while as a percentage of revenue receipts it declined from 11 *per cent* in 2002-03 to nine *per cent* in 2003-04 on account of a healthy growth of revenue receipts.

Year-wise breakup of expenditure incurred on pension payments during the years 1999-2000 to 2003-04 was as under:

**Table 9**

Year	Expenditure* (Rupees in crore)	Percentage to total revenue receipts
1999-2000	1,539	11.9
2000-01	1,583	10.7
2001-02	1,641	10.7
2002-03	1,773	11.0
2003-04	1,901	9.1

\*Excludes payment of pension accounted under various social sector schemes, etc.

With the increase in the number of retirees, the pension liabilities are likely to increase further in future. The State Government has not constituted any fund to meet the rising pension liabilities of the retiring State employees. Considering the rate at which pension liabilities are increasing, reforms in the existing pension schemes assume critical importance.

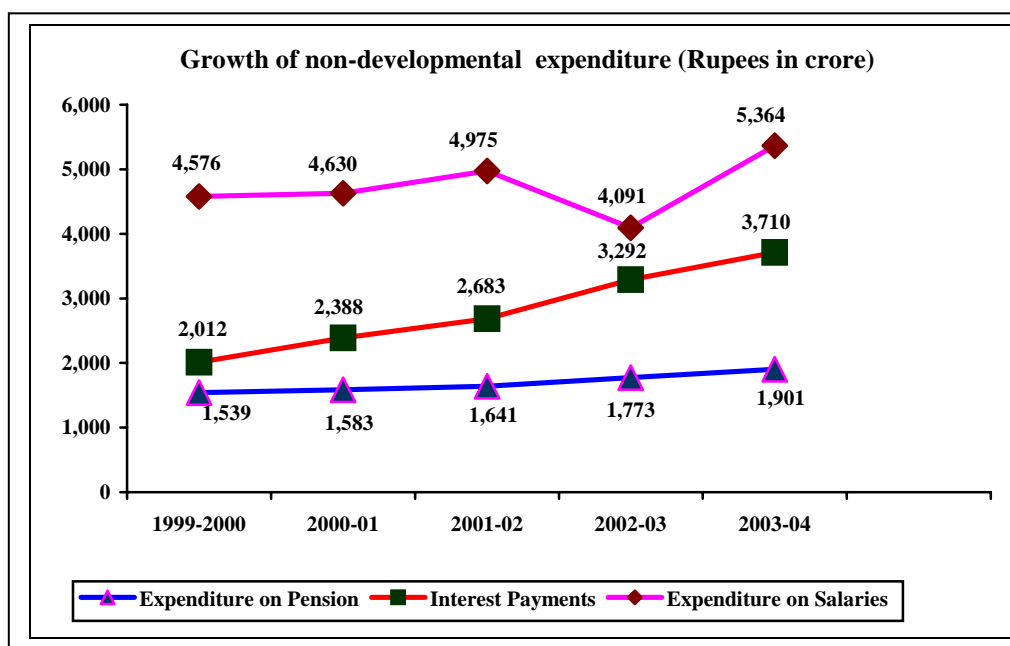
### 1.6.6 Interest payments

The Eleventh Finance Commission (August 2000) had recommended that as a medium term objective, States should endeavour to keep interest payments as a ratio to revenue receipts at 18 *per cent*. It was observed that interest payments as percentage of revenue receipts ranged between 16 and 20 during the last five years. During 2003-04, there was a decline of about three *per cent* compared to 2002-03 mainly on account of a healthy growth of revenue receipts during the year. In fact, interest payments now amount to 18 *per cent* of revenue receipts.

**Table 10**

Year	Interest Payment	Percentage of interest payment with reference to	
	(Rupees in crore)	Revenue Receipts	Revenue Expenditure
1999-2000	2,012	15.6	13.2
2000-01	2,388	16.1	14.3
2001-02	2,683	17.5	14.4
2002-03	3,292	20.4	17.5
2003-04	3,710	17.9	17.4

In absolute terms, interest payments increased steadily by 84 *per cent* from Rs.2,012 crore in 1999-2000 to Rs 3,710 crore in 2003-04 primarily due to continued reliance on borrowings for financing the fiscal deficit. The increase in interest payments during the year 2003-04 over previous year was mainly due to increased interest on Internal Debt (Rs.411.09 crore), loans received from Central Government (Rs.12.26 crore). Large interest payments, increasing year after year, due to continued reliance on borrowing for meeting the deficits crowd out the expenditure on primary education, health and social welfare schemes. A graphic representation of the progress of selected components of non-developmental expenditure is indicated below:



### 1.6.7 Subsidies by the Government

Though the finances of the State are under strain, Government has been paying subsidies to various Corporations, etc. The expenditure on subsidies stands accounted for below social and economic service sectors under revenue expenditure. During the last five years, Government paid the following subsidies under various schemes.

**Table 11 – Subsidies by the Government**

(Rupees in crore)

Sl. No.	Particulars	1999-2000	2000-01	2001-02	2002-03	2003-04
1.	Power	771	877	2,305	1,847	1,677
2.	Food	291	295	206	176	186
3.	Transport	35	48	145	64	29
4.	Industries	53	69	17	25	---
5.	Others	74	225	188	118	174
	<b>Total</b>	<b>1,224</b>	<b>1,514</b>	<b>2,861</b>	<b>2,230</b>	<b>2,066</b>
1.	Percentage increase (+)/ decrease (-) over previous year	24	24	89	-22	-7
2.	Percentage of subsidy to total revenue expenditure	8	9	15	12	10

During the current year, subsidies constituted 10 per cent of the revenue expenditure compared to 12 per cent in the previous year. The decrease was due to postponement of subsidy payments under power, food and transport sectors.

### 1.7 Expenditure by Allocative Priorities

The actual expenditure of the State in the nature of plan expenditure, capital expenditure and developmental expenditure emerging from Statement 12 of Finance Accounts, reflects the allocative priorities of the State. Higher the ratio of these components to total expenditure better is deemed to be the quality of expenditure. Table 12 below gives the percentage share of these components of expenditure in State's total expenditure (excluding disbursements of loans and advances).

**Table 12: Quality of Expenditure**

(per cent to total expenditure)

	1999-2000	2000-01	2001-02	2002-03	2003-04
Plan Expenditure	26.5	27.8	28.2	27.5	26.7
Capital Expenditure	10.5	10.5	10.2	13.5	12.5
Developmental Expenditure	65.9	66.7	67.0	64.3	59.7

Plan expenditure declined from 28 per cent of total expenditure in 2001-02 to 27 per cent in 2003-04. Capital expenditure increased from 10 per cent in 1999-2000 to 12 per cent in 2003-04. There was steady decline in the share of developmental expenditure from 2000-01.

Out of the developmental expenditure (Rs.14,518 crore) during the year, Social Services (Rs.7,392 crore) accounted for 51 *per cent*. Education, Sports, Art and Culture, Health and Family Welfare, Water Supply, Sanitation and Housing and Urban Development consumed about four-fifths (79 *per cent*) of the expenditure on social sector.

**Table 13: Social Service Sector Expenditure**

(Rupees in crore)

	1999-2000	2000-01	2001-02	2002-03	2003-04
Education, Sports, Art and Culture	3,015 (3.2)	3,489 (3.3)	3,506 (3.3)	3,571 (3.1)	3,771 (2.9)
Health and Family Welfare	977 (1.0)	1,005 (1.0)	1,086 (1.0)	1,004 (0.9)	996 (0.8)
Water Supply, Sanitation, Housing and Urban Development	808 (0.8)	782 (0.7)	769 (0.7)	743 (0.6)	1,083 (0.8)
<b>Total</b>	<b>4,800</b>	<b>5,276</b>	<b>5,361</b>	<b>5,318</b>	<b>5,850</b>

*Per cent to GSDP in brackets*

Economic Services (Rs.7,126 crore) accounted for 49 *per cent* of developmental expenditure. Energy (Rs.1,733 crore), Irrigation and Flood Control (Rs.2,061 crore) and Transport (Rs.822 crore) accounted for 65 *per cent* of the expenditure on economic sector:

**Table 14 Economic Service Sector Expenditure**

(Rupees in crore)

	1999-2000	2000-01	2001-02	2002-03	2003-04
Energy	788	939	2,337	1,907	1,733
Irrigation and flood control	1,807	1,986	1,716	2,235	2,061
Transport	522	695	778	819	822
<b>Total</b>	<b>3,117</b>	<b>3,620</b>	<b>4,831</b>	<b>4,961</b>	<b>4,616</b>

### 1.7.1 Financial assistance to local bodies and other institutions

Autonomous bodies and authorities are set up to discharge generally non-commercial functions of public utility services. These bodies/authorities by and large receive substantial financial assistance from Government. Government also provides substantial financial assistance to other institutions such as those registered under the respective State and Co-operative Societies Act, Companies Act, 1956, *etc.*, to implement certain programmes of the State Government. The grants are intended essentially for maintenance of educational institutions, hospitals, charitable institutions, construction and maintenance of schools and hospital buildings, improvement of roads and other communication facilities under municipalities and local bodies.

The quantum of assistance (Grant-in-aid) provided to various bodies in the last five years was as follows:

**Table 15: Financial assistance to local bodies and other institutions**

(Rupees in crore)

Description	1999-2000	2000-01	2001-02	2002-03	2003-04
Panchayat Samitis and Zilla Panchayats/Municipalities	4,591.43	4,867.29	4,461.63	5,160.08	5,207.76
Educational Institutions (including Universities)	411.08	586.31	499.85	646.99	603.16
Co-operative Societies and Co-operative Institutions	10.81	5.25	3.34	5.00	57.62
Other Institutions and bodies (including statutory bodies)	833.27	992.24	2,464.01	1,863.28	1,911.84
<b>Total</b>	<b>5,846.59</b>	<b>6,451.09</b>	<b>7,428.83</b>	<b>7,675.35</b>	<b>7,780.38</b>
Percentage growth over previous year	20	10	15	3	1
Revenue receipts	12,906.45	14,822.72	15,321.25	16,168.76	20,759.88
Assistance as a percentage of revenue receipts	45	44	48	47	37
Revenue expenditure	15,231.75	16,684.95	18,605.70	18,814.50	21,284.71
Percentage of assistance to revenue expenditure	38	39	40	41	37
Percentage of assistance to Panchayat Raj Institutions/ Municipalities, etc., to total assistance	79	75	60	67	67

A notable feature of the revenue expenditure of the State was that 37 to 41 *per cent* of it comprised assistance to local bodies, etc., during 1999-2004. The assistance rose from Rs.5,846.59 crore in 1999-2000 to Rs.7,780.38 crore in 2003-04. Compared to 2002-03, the assistance increased by a percentage point during the year. Assistance to Panchayat Raj Institutions/Municipalities accounted for 67 *per cent* of the total assistance during 2003-04. The salary component constituting major portion of the assistance rose from Rs.2,346.63 crore in 1999-2000 to Rs.2,726.16 crore during 2003-04. The assistance to other institutions and bodies included 'Assistance to Electricity Board' which is in the nature of subsidy (Rs.1,677 crore), commented at paragraph 1.6.7.

#### ***Delay in furnishing utilisation certificates***

The financial rules of Government require that where grants are given for specific purposes, certificates of utilisation are to be obtained by the departmental officers from the grantees and after verification, these should be forwarded to Accountant General (Accounts & Entitlement) within 18 months from the date of sanction of the grant unless specified otherwise.

Of 742 utilisation certificates due in respect of grants-in-aid of Rs.379.62 crore paid during 1986-87 to 2002-03, only 177 utilisation certificates for Rs.58.14 crore were furnished to the Accountant General by 31 March 2004 and 565 certificates for Rs.321.48 crore were in arrears. Department-wise and year-wise break up is given in **Appendix 1.2**.

### **Submission of accounts by Autonomous Bodies**

The status of submission of accounts by the autonomous bodies and presentation of Audit Reports thereon to the State Legislature as of November 2004 is given in **Appendix 1.3**.

#### **Audit arrangements**

Accounts of 103 bodies/authorities for the year 2002-03 attracted audit by Comptroller and Auditor General of India. Of these, 46 bodies/authorities were audited during 2003-04 (September 2004).

Five hundred and nine annual accounts of 168 bodies/authorities for 2002-03 and earlier years had not been received as of November 2004 by the Principal Accountant General (C&CA). The details are given in **Appendix 1.4**. Of these bodies/authorities, 143 accounts pertaining to 33 bodies/authorities did not submit their accounts for five years or more.

#### **1.7.2 Misappropriations, defalcations, etc.**

The position of cases of misappropriation, embezzlement, *etc.*, reported to Audit, disposed of during 2003-04 and outstanding as of March 2004 was as under:

	Number of cases	Amount (Rupees in lakh)
Cases reported between 1960-61 and 2002-03 and outstanding as on 1 April 2003	225	977.26
Cases reported during 2003-04	02	0.91
<b>Total</b>	<b>227</b>	<b>978.17</b>
Cases disposed of during 2003-04	07	4.28
<b>Cases outstanding as on 31 March 2004</b>	<b>220</b>	<b>973.89</b>

Department-wise details are given in **Appendix 1.5**.

## **1.8 Assets & Liabilities**

The Government accounting system does not attempt a comprehensive accounting of fixed assets, i.e. land, buildings, *etc.*, owned by the Government. However, the Government accounts do capture the financial liabilities of the Government and the assets created out the expenditure. Statement 16 read with details in Statement 17 of Finance Accounts shows the year-end balances under Debt, Deposit and Remittance heads from which the liabilities and assets are worked out. **Statement-I** presents an abstract of such liabilities and the assets as on 31 March 2004 compared with the corresponding position on 31 March 2003. While the liabilities in this statement consist mainly of money owed by the State Government such as internal borrowings, loans and advances from GOI, receipts in the Public Account and Reserve Fund, the assets comprise mainly the capital expenditure and loans and advances given by the State Government. The liabilities of Government depicted in the Finance Accounts, however, do not include pension, other retirement benefits



payable to retiring/retired State employees, guarantees/ letters of comforts issued by the State Government and borrowing through special purpose vehicles (termed 'off-budget borrowings'). Statement-I shows that while liabilities grew by 11 *per cent*, the assets increased by 14 *per cent*. However, a part of liabilities were without any asset backup. Statement-IV depicts the time series data on State Government finances for the period 1999-2004.

### 1.8.1 Incomplete projects

There were 70 incomplete projects/works as of 31 March 2004 in which Rs.9.76 crore were locked up. The initial cost of these projects/works was estimated at Rs.19.67 crore and the revised cost in respect of 68 works was not available. The details of these works are available in the additional statement of Finance Accounts for 2003-04.

### 1.8.2 Investments and Returns

Statement 14 of Finance accounts shows that as on 31 March 2004, Government had invested Rs.7,984.19 crore in Statutory Corporations, Government Companies, Joint Stock Companies and Co-operatives. Return on this investment was meagre and ranged between 0.2 to 0.4 *per cent* of investment during 1999-2004 as indicated in Table 17 below:

**Table 17: Return on Investment**

(Rupees in crore)

Year	Investment at the end of the year	Return	Percentage of return	Weighted interest rate on Government borrowing – Market Loans ( <i>per cent</i> )
1999-2000	3,565.73	12.0	0.3	9.8
2000-01	4,215.27	8.9	0.2	9.8
2001-02	4,840.34	10.6	0.2	9.1
2002-03	6,150.37	21.3	0.4	9.4
2003-04	7,984.19	18.0	0.2	9.4

During the year, the State Government invested Rs.1,835.48 crore in Government companies (Rs.1,831.64<sup>⊕</sup> crore) and cooperative institutions (Rs.2.18 crore). The investment of Rs.1,831.64 crore made in Government companies included amounts relating to discharge of liabilities (principal as well as interest) in respect of 11 companies (Rs.587.02 crore) towards off-budget borrowings. These were exhibited in the Finance Accounts (Statement No.13) as capital expenditure/investments, inflating capital expenditure to that extent.

<sup>⊕</sup> Difference of Rs.166.00 lakh released by Government, to the Karnataka State Police Housing Corporation for capital works during 1989-90 had been shown as investment in the company and is now rectified

### 1.8.3 Loans and Advances by State Government

In addition to investment, Government has also been providing loans and advances to Government Companies/Corporations, etc. Total outstanding balance of the loans advanced was Rs.5,202.95 crore as on 31 March 2004 (Table 18). Interest received against these advances increased from 0.5 per cent in 2002-03 to 1.9 per cent in 2003-04.

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

(Rupees in crore)

	1999-2000	2000-01	2001-02	2002-03	2003-04
Opening Balance	3,494.74	3,666.62	4,076.69	4,556.46	4,256.04
Amount advanced during the year	316.59	511.30	514.47	627.58	1,011.20
Amount repaid during the year	144.71	101.23	34.70	928.00	64.29
<b>Closing Balance</b>	<b>3,666.62</b>	<b>4,076.69</b>	<b>4,556.46</b>	<b>4,256.04</b>	<b>5,202.95</b>
Net Addition (+) / Reduction (-)	171.88	410.07	479.77	(-) 300.42	946.91
Interest Received ( Rupees in crore)	271.07	129.42	112.11	19.98	96.27
Interest received as <i>per cent</i> to outstanding loans and advances	7.4	3.2	2.5	0.5	1.9
Weighted interest	9.8	9.8	9.1	9.4	9.4
Difference between weighted interest and interest received	2.4	6.6	6.6	8.9	7.5

The outstanding loans and advances increased by Rs.946.91 crore from Rs.4,256.04 crore in 2002-03 to Rs.5,202.95 crore in 2003-04 which constituted increase of 22 per cent. Loans advanced during 2003-04 grew by 61 per cent over the previous year mainly on account of discharge of the liability of Karnataka Power Transmission Corporation Limited (KPTCL) of Rs.550.95 crore by the Government. Outstanding loans increased by 42 per cent over the five years period ending March 2004 indicating that these agencies were relying more on borrowing from the Government rather than raising their own resources for meeting their financial requirements. At the end of 2003-04 recovery of Rs.1,637.93 crore (Principal: Rs.675.05 crore; Interest: Rs.962.88 crore) was in arrears as detailed in Statement 5(ii) of Finance Accounts.

### 1.8.4 Management of Cash Balances

It is generally desirable that State's flow of resources should match its expenditure obligations. However, to take care of any temporary mismatches in the flow of resources and the expenditure obligations, a mechanism of Ways and Means Advances (WMA) from RBI has been put in place. The operative limits of normal and special ways and means advances for the year 2003-04 were as detailed in table 19 given below:

**Table 19**

(Rupees in crore)

Limits of Normal Ways and Means Advances		Limits of Special Ways and Means Advances	
Effective date	Amount	Effective date	Amount
2003-04 (With effect from 3 March 2003)	460.00	01-04-2003	23.47
		30-05-2003	211.31
		01-07-2003	211.32
		29-08-2003	23.49
		12-09-2003	117.41
		01-10-2003	117.21
		12-12-2003	23.29
		01-01-2004	22.89

During the year, the State used this mechanism for 163 days as against 170 days in the last year although it also borrowed Rs.2,778.90 crore from the market on seven occasions. Resorting to overdraft over and above the WMA limits is all the more not desirable. The State used over draft facilities on 33 occasions during the year as against only one occasion during the previous year.

**Table 20: Ways and Means Advances and Overdrafts of the State and Interest paid thereon**

(Rupees in crore)

	1999-2000	2000-01	2001-02	2002-03	2003-04
<b>Ways and Means Advances</b>					
Availed in the Year	79.93	-	735.88	4,045.45	4,623.92
Outstanding	-	-	-	-	--
Interest Paid	0.02	-	0.91	5.22	7.94
No. of days availed	04	-	40	170	163
<b>Overdraft</b>					
Availed in the Year	-	-	-	47.84	757.72
Outstanding	-	-	-	-	--
Interest Paid	-	-	-	0.01	0.90
Number of Days State was in Overdraft	-	-	-	1	33

### 1.8.5 Fiscal Liabilities

Statement 4 read with Statements 16 and 17 of Finance Accounts shows the year end balances under debt, deposit, and remittances from which the liabilities are worked out. There are two sets of liabilities namely, Public Debt and Other Liabilities. The public debt constitutes 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 to RBI and loans and advances from Central Government. The other liabilities which are shown are part of the Public Account include deposits under Small Savings Scheme, Provident Funds, and other Deposits.

The Constitution of India provides that 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 an Act of Legislature and give guarantees within such limits as may be fixed.

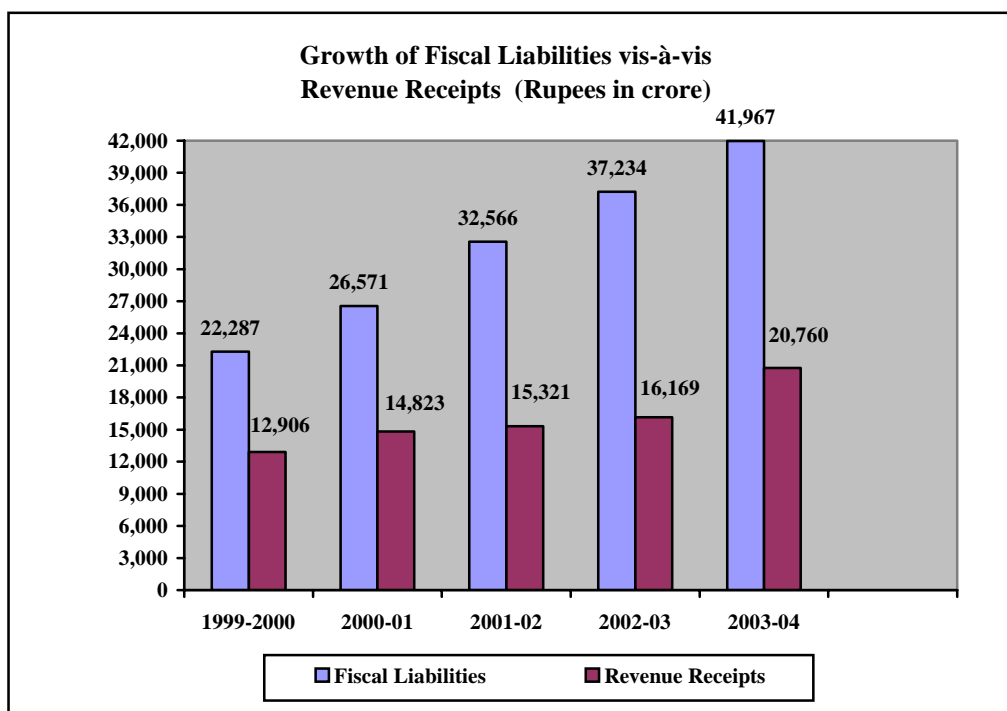
The Karnataka Fiscal Responsibility Act, 2002, which came into force from 1 April 2003, *inter alia*, aims to reduce the ratio of debt to GSDP to not more than 25 per cent by March 2015.

Table 21 and the graph below show the fiscal liabilities of the State, their rate of growth, ratio of these liabilities to GSDP, revenue receipts and own resources.

**Table 21: Fiscal Liabilities –Basic Parameters**

(Amount Rupees in crore and Ratios in per cent)

	1999-2000	2000-01	2001-02	2002-03	2003-04
Fiscal Liabilities	22,287	26,571	32,566	37,234	41,967
Rate of growth	19.7	19.2	22.6	14.3	12.7
<b>Ratio of Fiscal Liabilities to</b>					
GSDP	23.5	25.4	30.8	32.7	32.1
Revenue Receipts	172.7	179.3	212.6	230.3	202.1
Own Resources	238.2	248.3	297.5	317.7	270.3
<b>Buoyancy of Fiscal Liabilities to</b>					
GSDP	2.4	1.9	20.2	1.8	0.9
Revenue Receipts	1.3	1.3	6.7	2.6	0.4
Own Resources	1.8	1.3	9.9	2.0	0.4



It would be observed that fiscal liabilities of the State increased from Rs.22,287 crore in 1999-2000 to Rs.41,967 crore in 2003-04. Their ratio to GSDP increased from 23 per cent in 1999-2000 to 32 per cent in 2003-04.

Increasing liabilities raises the issue of their sustainability. Fiscal Liabilities are considered sustainable if the average rate of interest paid on these is lower than the rate of growth of GSDP. In case of Karnataka the years 2001-02 and

2002-03 showed the rate of interest exceeding the GSDP growth. GSDP growth-interest rate differential turned positive in 2003-04 as detailed in Table 22 below:

**Table 22: Debt Sustainability – Interest Rate and GSDP Growth**

	1999-2000	2000-01	2001-02	2002-03	2003-04
Weighted interest rate	9.8	9.8	9.1	9.4	9.4
GSDP growth (in per cent)	8.1	10.0	1.1	7.8	14.7
Interest spread	(-) 1.7	0.2	(-) 8.0	(-) 1.6	5.3

### 1.8.6 Net availability of borrowed 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 23 below gives the position of the receipt and repayment of internal debt and loans and advances from Government of India after providing for the interest and repayments.

**Table 23: Net availability of borrowed Funds**

(Rupees in crore)

	1999-2000	2000-01	2001-02	2002-03	2003-04
<b>Internal Debt</b> (excluding Ways & Means Advances and Overdraft)					
Receipts	2,244.92	2,295.58	2,969.48	3,888.52	6,531.33
Repayment (Principal + interest)	648.08 <sup>o</sup>	859.35	1,193.45 <sup>o</sup>	1,618.53 <sup>o</sup>	2,523.27 <sup>o</sup>
Net Fund Available	1,596.84	1,436.23	1,776.03	2,269.99	4,008.06
Net Fund Available (Per cent)	71	63	60	58	61
<b>Loans and Advances from Government of India</b> (excluding Ways & Means Advance)					
Receipt	927.72	1,075.65	2,176.88	1,544.22	1,457.00
Repayment (Principal + Interest)	1,498.62	1,652.09	1,799.41	2,932.84	4,196.92 <sup>*</sup>
Net Fund Available	(-) 570.90	(-) 576.44	377.47	(-) 1,388.62	(-) 2,739.92
Net Fund Available (Per cent)	-	-	17	-	-
<b>Total Public Debt</b>					
Receipt	3,172.64	3,371.23	5,146.36	5,432.74	7,988.33
Repayment (Principal + Interest)	2,146.70	2,511.44	2,992.86	4,551.37	6,720.19
Net Fund Available	1,025.94	859.79	2,153.50	881.37	1,268.14
Net Fund Available (Per cent)	32	26	42	16	16

<sup>o</sup> includes interest paid on Ways and Means Advances/Overdrafts availed from RBI amounting to Rs.two lakh, Rs.18 lakh, Rs.4.14 crore and Rs.8.85 crore during 1999-2000, 2001-02, 2002-03 and 2003-04 respectively.

<sup>\*</sup> includes Rs.24.14 crore of interest paid on Ways & Means Advances availed of from GOI.

### 1.8.7 Off-budget Borrowings

In addition to the liabilities shown in Table 21 (below paragraph 1.8.5), Government had guaranteed loans availed of by Government companies/corporations which at the end of 2003-04 stood at Rs.9,687 crore. These companies/corporations borrowed funds from the market/financial institutions for implementation of various State plan programmes projected outside the State budget. Although the estimates of the plan programmes of the State Government projected that funds for these programmes would be met out of resources of the companies/corporations outside the State budget, in reality, the borrowings of many of these concerns were ultimately the committed liabilities of the State Government termed 'off-budget borrowings'.

During 2003-04, the projected size of the State plan was Rs.9,780 crore, of which Rs.7,025 crore were met by resources from the State budget and the balance of Rs.2,755 crore was to be met from the resources of certain companies/corporations. In fact the volume of off-budget borrowing was only Rs.1,297 crore as detailed in the table below:

(Rupees in crore)

Company/Corporation	Borrowings up to 2002-03	Borrowings during 2003-04	Total	Repayment of principal
Krishna Bhagya Jala Nigam	5,703	346	6,049	696
Karnataka Neeravari Nigam	1,157	240	1,397	12
Karnataka Road Development Corporation	300	107	407	39
Karnataka State Industrial and Investment Development Corporation	37	89	126	21
Slum Clearance Board	109	74	183	16
Rajiv Gandhi Rural Housing Corporation	422	353	775	201
Karnataka State Electronics Development Corporation Limited (Mahithi Bonds)	60	-	60	-
Karnataka Residential Education Institution Society	76	20	96	5
Karnataka Police Housing Corporation	192	68	260	83
Karnataka Land Army Corporation	140	-	140	-
Karnataka Renewable Energy Development Limited	194	-	194	-
<b>Total</b>	<b>8,390</b>	<b>1,297</b>	<b>9,687</b>	<b>1,073</b>

Taking into account these off-budget borrowings of the State the total liabilities at the end of March 2004 work out to Rs.50,581 crore as against Rs.41,967 crore reflected in Table 21. In view of this, the ratio of fiscal liabilities to GSDP would increase to 39 *per cent* during the year.

### 1.8.8 Guarantees given by the State Government

The Karnataka Ceiling on Government Guarantees Act, 1999, provides for cap on outstanding guarantees at the end of any year to 80 *per cent* of the State's revenue receipts of the previous year excluding guarantees given to Krishna Bhagya Jala Nigam Limited (KBJNL). As per Statement 6 of the Finance Accounts, the maximum amount for which guarantees were given by the Government was Rs.21,225 crore and outstanding guarantees at the end of 2003-04 amounted to Rs.14,179 crore. The amount of outstanding guarantees increased by 44 *per cent* during 1999-2004. The outstanding guarantees at the end of 2003-04 excluding those given to KBJNL constituted 55 *per cent* of the revenue receipts for the year 2002-03.

## 1.9 Management of Deficits

### 1.9.1 Fiscal Imbalances

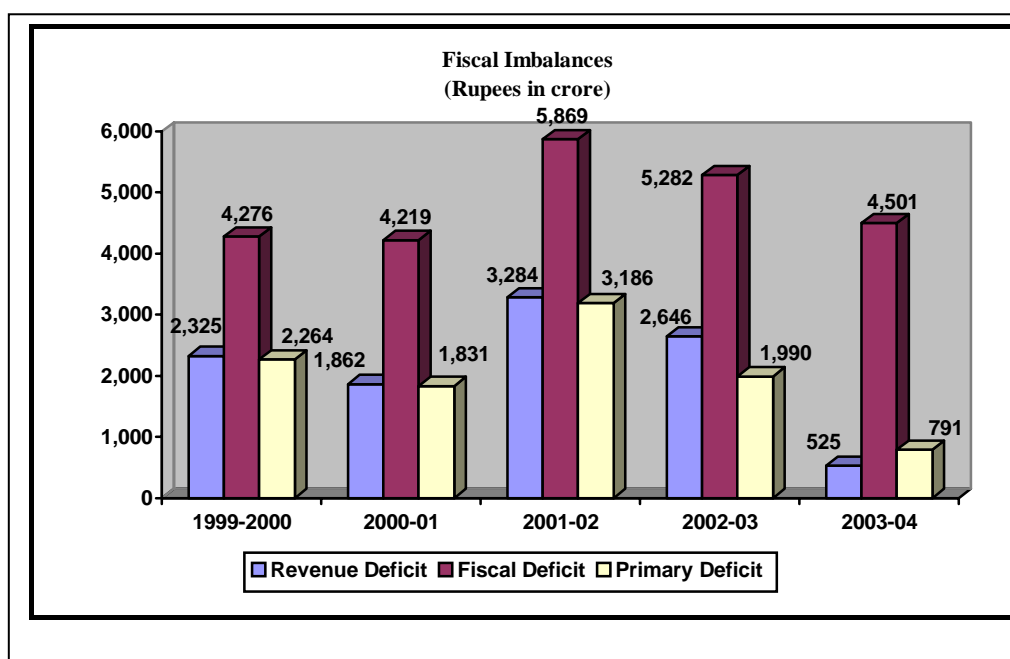
The deficits in Government accounts represent the gap between its receipts and expenditure. The nature of deficit is an indicator of the prudence of fiscal management of the Government. Further, the ways in which the deficit is financed and the resources so raised are applied, are important pointers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

The revenue deficit (Statement 1 of Finance Accounts) of the State, which is the excess of its revenue expenditure over revenue receipts, decreased from Rs.2,325 crore in 1999-2000 to Rs.525 crore in 2003-04. The fiscal deficit, which represents the total borrowing of the Government and its total resource gap, increased from Rs.4,276 crore in 1999-2000 to Rs.4,501 crore in 2003-04. State also had a primary deficit which decreased from Rs.2,264 crore in 1999-2000 to Rs.791 crore in 2003-04 as indicated in Table 24 and also through graphic representation.

**Table 24: Fiscal Imbalances – Basic Parameters**

(Amount Rupees in crore and Ratios in per cent)

	1999-2000	2000-01	2001-02	2002-03	2003-04
Revenue deficit (RD)	2,325	1,862	3,284	2,646	525
Fiscal deficit (FD)	4,276	4,219	5,869	5,282	4,501
Primary Deficit (PD)	2,264	1,831	3,186	1,990	791
RD/GSDP	2.4	1.8	3.1	2.3	0.4
FD/GSDP	4.5	4.0	5.5	4.6	3.4
PD/GSDP	2.4	1.8	3.0	1.7	0.6
RD/FD	54.4	44.1	56.0	50.1	11.7



### 1.9.2 Medium Term Fiscal Reforms Programme

The Eleventh Finance Commission (EFC) in its report (August 2000) laid down broad parameters of fiscal correction in the State Sector. Each State was required to draw up the Medium Term Fiscal Reforms Programme (MTFRP) to achieve the objective of zero revenue deficit. The MTFRP should form the basis of a Memorandum of Understanding (MOU) entered into between the State and the Ministry of Finance. Further, the EFC recommended an incentive fund from which grants were to be released to States based on their fiscal performance. On the basis of the recommendations of the EFC, the GOI created Fiscal Reforms Facility (2000-01 to 2004-05) to motivate the States to undertake MTFRP. Releases from the incentive fund will be based on a single

monitorable fiscal objective. Each State would be expected to achieve a minimum improvement of five *per cent* in the revenue deficit as a proportion of its revenue receipts each year till 2004-05, the base-year being the financial year 1999-2000.

The State Government formulated its Medium Term Fiscal Term Plan and entered into MOU with GOI in October 2001. The performance of the State with regard to the achievement of the fiscal objective is given in the table below.

**Table 25 - MTFRP – Performance of the State**

(Ratios in *per cent*)

	1999-2000 (base-year)	2000-01	2001-02	2002-03	2003-04
Revenue Deficit/Revenue Receipts	18.0	12.6	21.4	16.4	2.5
Improvement over previous year	-	5.4	(-)8.9	5.1	13.8

The State received incentive grant of Rs.217.23 crore for the years 2000-01 (Rs.32.29 crore), 2001-02 (Rs.56.17 crore), 2002-03 (Rs.60.80 crore) and 2003-04 (Rs.67.97 crore). The State was unable to reduce the revenue deficit for the year 2001-02. Nevertheless, it adhered to the agreed reforms programme and as envisaged in the supplemental report of the EFC, got entitled to the incentive grant of Rs.56.17 crore for the year.

The Government managed to bring down the revenue deficit for the year 2003-04 at least to the extent of Rs.981.21 crore by

- not providing Rs.600 crore towards waiver of electricity dues on irrigation pump sets ordered in February 2004.
- non-transfer of grants amounting to Rs.381.21 crore received from GOI towards Calamity Relief Fund from the Revenue Account to the Public Account during the year.

## 1.10 Fiscal Ratios

The finances of a State should be sustainable, flexible and non-vulnerable. Table 26 below presents a summarised position of Government Finances over a period 1999-2004, with reference to certain key indicators that help assess the adequacy and effectiveness of available resources and their application, highlight areas of concern and capture its important facets. The ratios of revenue receipts and State's own taxes to GSDP indicate the adequacy of its resources. The buoyancy of the revenue receipts indicates the nature of the tax regime and the State's increasing access to resources with increase in GSDP. Various ratios concerning the expenditure management of the State indicate quality of its expenditure and sustainability of these in relation to its resources mobilisation.

The ratio of developmental expenditure to total expenditure declined in 2003-04 as compared to 1999-2003. A near stagnant ratio indicates a tendency to meet deficits by borrowing instead of improving tax compliance and



coverage. Revenue buoyancy was healthy during 2003-04 while the ratio of own tax to GSDP increased marginally over the previous year.

**Table 26: Ratios of Fiscal Efficiency***(in per cent)*

<b>Fiscal Ratios</b>	<b>1999-2000</b>	<b>2000-01</b>	<b>2001-02</b>	<b>2002-03</b>	<b>2003-04</b>
<b>Resources Mobilisation</b>					
Revenue Receipts (RR)/GSDP	13.6	14.2	14.5	14.2	15.9
Revenue Buoyancy	1.8	1.5	3.0	0.7	1.9
Own Tax/GSDP	8.1	8.6	9.3	9.2	9.6
<b>Expenditure Management</b>					
Total Expenditure/GSDP	18.2	18.3	20.1	19.6	19.4
Revenue Receipts/ Total Expenditure	74.5	77.4	72.2	72.2	82.0
RE/Total Expenditure	87.9	87.2	87.7	84.1	84.0
Capital Expenditure (CE)	10.5	10.5	10.2	13.5	12.5
Development Expenditure/Total Expenditure (RE+CE)	65.9	66.7	67.0	64.3	59.7
Buoyancy of TE with RR	1.3	0.7	3.2	1.0	0.5
Buoyancy of RE with RR	1.5	0.6	3.4	0.2	0.5
<b>Management of Fiscal Imbalances</b>					
Revenue deficit (Rs. in crore)	2,325	1,862	3,284	2,646	525
Fiscal deficit (Rs. in crore)	4,276	4,219	5,869	5,282	4,501
Primary Deficit (Rs. in crore)	2,264	1,831	3,186	1,990	791
Revenue Deficit/Fiscal Deficit	54.4	44.1	56.0	50.1	11.7
<b>Management of Fiscal Liabilities</b>					
Fiscal Liabilities (FL)/GSDP	23.5	25.4	30.8	32.7	32.1
Fiscal Liabilities/RR	172.7	179.3	212.6	230.3	202.1
Buoyancy of FL with RR	1.3	1.3	6.7	2.6	0.4
Buoyancy of FL with own resources	1.8	1.3	9.9	2.0	0.4
Interest Spread	(-) 1.7	0.2	(-) 8.0	(-) 1.6	5.3
Net Fund Available	32	26	42	16	16
<b>Other Fiscal Health Indicators</b>					
Return on Investment (Rs. in crore)	12.0	8.9	10.6	21.3	18.0
BCR (Rs. in crore)	(-) 601	319	(-) 879	(-) 645	1,571
Financial Assets/Liabilities	0.8	0.8	0.7	0.7	0.7

### **1.11 Conclusion**

The BCR was positive during 2003-04 indicating availability of resources from current revenue for meeting plan expenditure. Revenue and fiscal deficits declined during the year mainly on account of a healthy growth in revenue receipts. However, the State Government managed to bring down the revenue deficit to the extent of Rs.981.21 crore by non-discharge of liability (Rs.600 crore) towards waiver of electricity dues ordered in February 2004 and non-transfer of grants (Rs.381.21 crore). Interest payments increased by Rs.418 crore during the year. Continued revenue and fiscal deficits year after year, together with low or no return on investments indicates that the State is gradually getting into a debt trap. The State's continuous low return on investments also indicates implicit subsidy and use of high cost borrowings for investments, which yield very little. The State Government tried to circumvent its budget constraints by borrowings through special purpose vehicles. The ratio of fiscal liabilities to GSDP crossed 30 *per cent* during the year which would increase further to 39 *per cent* taking into account the off-budget borrowings. Measures like generation of additional internal resources through tax and non-tax revenue, realisation of arrears of revenue and curtailment of non-developmental expenditure through abolition of subsidies, *etc.*, are the best means available for the State to ensure fiscal stability and sustainability.

**STATEMENT-I**  
**SUMMARISED FINANCIAL POSITION OF THE GOVERNMENT OF**  
**KARNATAKA AS ON 31 MARCH 2004**

(Rupees in crore)

As on 31.3.2003	<b>Liabilities</b>		As on 31.3.2004
<b>14,082.40</b>		<b>Internal Debt</b>	<b>19,833.32</b>
	7,047.32	Market Loans bearing interest	9,644.88
	3.19	Market Loans not bearing interest	8.48
	660.39	Loans from Life Insurance Corporation of India	782.45
	935.20	Loans from other Institutions	1,228.16
	5,436.30	Loans from RBI – Spl. Securities issued to National Small Savings fund of the Central Government.	8,169.35
<b>12,086.91</b>		<b>Loans and Advances from Central Government -</b>	<b>10,882.90</b>
	124.34	Pre 1984-85 Loans	87.10
	3,349.69	Non-Plan Loans	1,134.05
	8,417.27	Loans for State Plan Schemes	9,465.57
	51.50	Loans for Central Plan Schemes	47.69
	144.11	Loans for Centrally Sponsored Plan Schemes	148.49
<b>80.00</b>		<b>Contingency Fund</b>	<b>39.48</b>
<b>5,325.27</b>		<b>Small Savings, Provident Funds, etc.</b>	<b>5,884.29</b>
<b>4,031.29</b>		<b>Deposits</b>	<b>3,384.12</b>
<b>1,729.19</b>		<b>Reserve Funds</b>	<b>2,003.47</b>
<b>1,144.70</b>		<b>Suspense and Miscellaneous balances</b>	<b>829.23</b>
		<i>Shortfall with Reserve Bank Deposit</i>	--
<b>8.20</b>		<b>Remittances in transit <sup>◇</sup></b>	<b>1.72</b>
<b>38,487.96</b>		<b>Total</b>	<b>42,858.53*</b>
		<b>Assets</b>	
<b>22,434.83</b>		<b>Gross Capital Outlay on Fixed Assets -</b>	<b>25,464.22</b>
	6,149.01	Investments in shares of Companies, Corporations, etc.	7,982.83
	16,285.82	Other Capital Outlay	17,481.39
<b>4,256.03</b>		<b>Loans and Advances -</b>	<b>5,202.95</b>
	504.61	Loans for Power Projects	1,091.41
	3,661.51	Other Development Loans	4,015.13
	89.91	Loans to Government servants and Miscellaneous Loans	96.41
<b>8.81</b>		<b>Other Advances</b>	<b>9.62</b>
<b>29.93</b>		<b>Remittance balances</b>	<b>144.24</b>
<b>490.86</b>		<b>Cash -</b>	<b>337.20</b>
	3.76	Cash in treasuries	1.40
	3.06	Departmental Cash Balance including permanent Advances	5.04
	74.99	Deposits with Reserve Bank of India	13.22
	387.62	Cash Balance Investments	296.11
	21.43	Investment from earmarked funds	21.43
<b>11,267.50</b>		<b>Deficit on Government Accounts</b>	<b>11,700.30</b>
	8,697.16	Accumulated Deficit up to March 2003	11,267.50
	2,645.74	Add Revenue Deficit of the current year	524.83
	75.40	Deduct Other adjustments	92.03
<b>38,487.96</b>		<b>Total</b>	<b>42,858.53</b>

◇ This reflects an adjusting entry on account of remittances between Treasuries and Currency chest remaining unadjusted as on 31 March 2004

\* The liabilities shown above do not include off-budget borrowings and guarantees extended by the Government which are discussed separately in paragraphs 1.8.7 and 1.8.8

**STATEMENT-II**  
**ABSTRACT OF RECEIPTS AND DISBURSEMENTS FOR THE YEAR 2003-2004**

(Rupees in crore)

2002-2003	Receipts		2003-2004	2002-2003	Disbursements			2003-2004		
	Section-A:	Revenue			Non-plan	Plan	Total			
<b>16168.76</b>	<b>I.</b>	<b>Revenue receipts</b>	<b>20759.88</b>	<b>18814.50</b>	<b>I.</b>	<b>Revenue expenditure-</b>		<b>21284.71</b>		
10439.71	(i)	-Tax revenue 12570.21		<b>7112.12</b>		<b>General services</b>	<b>9035.56</b>	<b>3.57</b>	<b>9039.13</b>	
1277.67	(ii)	-Non-tax revenue 2958.37		3564.01		<b>Social Services-</b>				
				953.65		-Education, Sports, Art and Culture	3163.57	602.45	3766.02	
						-Health and Family Welfare	629.04	329.89	958.93	
2786.20	(iii)	-State's share of Union Taxes & Duties 3244.73		576.04		-Water Supply, Sanitation, Housing and Urban Development	79.83	714.39	794.22	
				19.26		-Information and Broadcasting	20.77	1.97	22.74	
420.55	(iv)	-Non-Plan grants 529.85		491.05		-Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes	166.62	240.98	407.60	
				64.22		-Labour and Labour Welfare	41.11	22.99	64.10	
570.17	(v)	-Grants for State Plan Schemes 795.58		625.01		-Social Welfare and Nutrition	662.76	263.82	926.58	
				33.01		-Others	24.85	--	24.85	
674.46	(vi)	-Grants for Central and Centrally sponsored Plan Schemes 661.14		<b>6326.25</b>		<b>Total</b>	<b>4788.55</b>	<b>2176.49</b>	<b>6965.04</b>	
						<b>Economic Services-</b>				
				1077.10		-Agriculture and Allied Activities	898.53	450.39	1348.92	
				522.55		-Rural Development	99.78	355.29	455.07	
				46.84		-Special Areas Programmes	0.15	19.37	19.52	
				206.73		-Irrigation and Flood Control	128.26	50.80	179.06	
				1906.92		-Energy	1676.99	56.06	1733.05	
				314.98		-Industry and Minerals	137.94	92.62	230.56	
				395.79		-Transport	263.93	47.50	311.43	
				7.80		-Science, Technology and Environment	0.01	12.30	12.31	
				323.71		-General Economic Services	73.45	288.33	361.78	
				<b>4802.42</b>		<b>Total</b>	<b>3279.04</b>	<b>1372.66</b>	<b>4651.70</b>	
				573.71		-Grants-in-aid and Contributions	628.84	--	628.84	
2645.74	<b>II.</b>	<b>Revenue deficit carried over to Section B</b>	<b>524.83</b>							
<b>18814.50</b>		<b>Total</b>	<b>21284.71</b>	<b>18814.50</b>		<b>Total</b>	<b>17731.99</b>	<b>3552.72</b>	<b>--</b>	<b>21284.71</b>
		<b>Section-B - Others</b>								
964.71	<b>III</b>	Opening Cash balance including Permanent Advances and Cash Balance Investments & investments from earmarked funds.	<b>482.66</b>							
Nil	<b>IV</b>	Miscellaneous Capital receipts	Nil	<b>2936.00</b>	<b>II</b>	<b>Capital Outlay-</b>	<b>99.24</b>	<b>2930.15</b>		<b>3029.39</b>
				<b>75.85</b>		<b>General Services-</b>	<b>12.50</b>	<b>115.93</b>	<b>128.43</b>	
						<b>Social Services-</b>				
				6.71		-Education, Sports, Art and Culture	0.23	5.08	5.31	
				50.47		-Health and Family Welfare	--	36.77	36.77	
				167.32		-Water Supply, Sanitation, Housing and Urban Development	4.34	284.47	288.81	
				1.01		-Information and Broadcasting	--	1.11	1.11	
				55.10		-Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes	--	88.35	88.35	

Receipts			Disbursements				
			13.62	-Social Welfare and Nutrition	--	6.82	6.82
			1.07	-Other Social Services	--	0.04	0.04
			<b>295.30</b>	<b>Total</b>	<b>4.57</b>	<b>422.64</b>	<b>427.21</b>
				<b>Economic Services-</b>			
			22.95	-Agriculture and Allied Activities	--	7.45	7.45
			0.10	-Rural Development	0.18	--	0.18
			2028.46	-Irrigation and Flood Control	82.02	1799.44	1881.46
			16.08	-Industry and Minerals	--	3.52	3.52
			423.08	-Transport	--	510.21	510.21
			74.18	-General Economic Services	(-)0.03	70.96	70.93
			<b>2564.85</b>	<b>Total</b>	<b>82.17</b>	<b>2391.58</b>	<b>2473.75</b>
<b>928.00</b>	<b>V. Recoveries of Loans and Advances-</b>	<b>64.29</b>	<b>627.58</b>	<b>III Loans and Advances disbursed-</b>			<b>1011.20</b>
878.35	-From Power Projects --		47.23	-For Power Projects		586.80	
10.19	-From Government Servants 8.41		3.67	-To Government Servants		1.52	
39.46	-From others 55.88		576.68	-To Others		422.88	
			<b>2645.74</b>	<b>IV Revenue deficit brought down</b>			<b>524.83</b>
<b>5432.74</b>	<b>VI Public debt receipts-</b>	<b>7988.33♦</b>	<b>1695.95</b>	<b>V Repayment of Public Debt-</b>			<b>3441.43</b>
3888.52	-Internal debt other than Ways and Means Advances and Overdraft 6531.33		286.76	-Internal debt other than Ways and Means Advances & Overdraft		780.42	
1544.22	-Loans and Advances from the Central Government 1457.00		1409.19	-Repayment of Loans and Advances to Central Government		2661.01	
<b>7.89</b>	<b>VII Contingency Fund (recoupment)</b>	<b>--</b>		<b>VI Expenditure from Contingency Fund</b>	<b>8.23</b>	<b>32.29</b>	<b>40.52</b>
<b>27879.38</b>	<b>VIII Public Account Receipts-</b>	<b>30512.84</b>	<b>26824.79</b>	<b>VII Public Account Disbursements-</b>			<b>30665.27</b>
1398.96	-Small Savings and Provident funds, etc. 1421.73		772.22	-Small Savings and Provident Funds etc.		862.71	
338.39	-Reserve funds 395.65		177.25	-Reserve Funds		121.37	
10605.99	-Suspense and Miscellaneous 11308.39		10496.28	-Suspense and Miscellaneous		11531.83	
2107.79	-Remittances 2700.70		2100.96	-Remittances		2815.01	
13428.25	-Deposits and Advances 14686.37		13278.08	-Deposits and Advances		15334.35	
			<b>482.66</b>	<b>VIII Cash Balance at end-</b>			<b>335.48</b>
			(-) 4.44	-Cash in Treasuries and Local Remittances		(-)0.32	
			74.99	-Deposits with Reserve Bank		13.22	
			3.06	-Departmental Cash Balance including Permanent Advances		5.04	
			387.62	-Cash Balance Investment		296.11	
			21.43	Investment from earmarked funds		21.43	
<b>35212.72</b>	<b>Total</b>	<b>39048.12</b>	<b>35212.72</b>	<b>Total</b>			<b>39048.12</b>

⊙ Includes expenditure of Rs.587 crore towards debt servicing obligations in respect of off-budget borrowings

◆ During the year, the State Government availed of Rs.5,381.64 crore of ways and means advances and overdraft from Reserve Bank of India and the entire amount was repaid during the year. Also, State Government availed of Rs.500 crore as ways and means advances from Government of India. The entire amount was also repaid during the same year.

**STATEMENT III  
SOURCES AND APPLICATIONS OF FUNDS**

(Rupees in crore)

2002-2003		Sources		2003-2004
16,168.76		<b>1. Revenue receipts</b>		20,759.88
928.00		<b>2. Recoveries of Loans and Advances</b>		64.29
3,736.79		<b>3. Increase in Public debt</b>		4,546.90
1,054.59		<b>4. Net receipts from Public account</b>		(-)152.43
	626.74	Increase in Small Savings, PF, etc	559.02	
	150.17	Increase in Deposits and Advances	(-)647.98	
	161.14	Increase in Reserve funds	274.28	
	109.71	Net effect of Suspense and Miscellaneous transactions	(-)223.44	
	6.83	Net effect of Remittance transaction	(-)114.31	
482.05		<b>5. Closing cash balance (Decrease)</b>		147.18
<b>22,370.19</b>		<b>Total</b>		<b>25,365.82</b>
		<b>Applications</b>		
18,814.50		<b>1. Revenue expenditure</b>		21,284.71
627.58		<b>2. Lending for development and other purposes</b>		1,011.20
2,936.00		<b>3. Capital expenditure (Net)</b>		3,029.39
(-) 7.89		<b>4. Net effect of Contingency fund transaction</b>		40.52
<b>22,370.19</b>		<b>Total</b>		<b>25,365.82</b>

**Explanatory Notes for Statement 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 Statement 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 others pending settlement, etc.
4. There was a difference of Rs.1,520.07 lakh (credit) between the figures reflected in the accounts and that intimated by the RBI under "Deposit with Reserve Bank". A net difference of Rs.1,087.77 lakh (credit) had since been reconciled and adjusted. The remaining difference of Rs.432.30 lakh (credit) is under reconciliation.

**STATEMENT IV**  
**TIME SERIES DATA ON STATE GOVERNMENT FINANCES**

(Rupees in crore)

	1999-2000	2000-2001	2001-2002	2002-03	2003-04
<b>Part.A – Receipts</b>	<b>12,906</b>	<b>14,823</b>	<b>15,321</b>	<b>16,169</b>	<b>20,760</b>
<b>1. Revenue Receipts</b>					
<b>(i) Tax Revenue</b>	<b>7,744 (60)</b>	<b>9,043 (61)</b>	<b>9,853 (64)</b>	<b>10,440(65)</b>	<b>12,570 (61)</b>
Taxes on Agricultural Income	35(-)	24 (-)	3 (-)	1 (-)	1 (-)
Taxes on Sales, Trade, etc.	4,683(60)	5,386 (60)	5,269 (53)	5,474 (52)	6,649 (53)
State Excise	1,215 (16)	1,523 (17)	1,977 (20)	2,094 (20)	2,334 (19)
Taxes on vehicles	449 (6)	502 (6)	712 (7)	676 (6)	800 (6)
Stamps and Registration fees	566 (7)	638 (7)	855 (9)	1,115 (11)	1,356 (11)
Land Revenue	39 (1)	43 (-)	50 (1)	60 (1)	68 (-)
Other Taxes	757 (10)	927 (10)	987 (10)	1,020 (10)	1,362 (11)
<b>(ii) Non Tax Revenue</b>	<b>1,611 (12)</b>	<b>1,660 (11)</b>	<b>1,094 (7)</b>	<b>1,278 (8)</b>	<b>2,958 (14)</b>
<b>(iii) State's share in Union taxes and duties</b>	<b>2,133 (17)</b>	<b>2,574 (17)</b>	<b>2,623 (17)</b>	<b>2,786 (17)</b>	<b>3,245 (15)</b>
<b>(iv) Grants in aid from Government of India</b>	<b>1,418 (11)</b>	<b>1,546 (11)</b>	<b>1,751 (12)</b>	<b>1,665 (10)</b>	<b>1,987 (10)</b>
<b>2. Miscellaneous Capital Receipts (non debt)</b>	Nil	Nil	Nil	Nil	Nil
<b>3. Total revenue &amp; Non debt capital receipts (1+2)</b>	<b>12,906</b>	<b>14,823</b>	<b>15,321</b>	<b>16,169</b>	<b>20,760</b>
<b>4. Recoveries of Loans and Advances</b>	145	101	35	928	64
<b>5. Public Debt Receipts</b>	3,173	3,371	5,146	5,433	7,988
Internal Debt (excluding Ways & Means Advances and Overdrafts)	2,245 (71)	2,295 (68)	2,969 (58)	3,889 (72)	6,531 (82)
Loans & Advances from Government of India *	928 (29)	1,076 (32)	2,177 (42)	1,544 (28)	1,457 (18)
<b>6. Total receipts in the Consolidated Fund (3+4+5)</b>	<b>16,224</b>	<b>18,295</b>	<b>20,502</b>	<b>22,530</b>	<b>28,812</b>
<b>7. Contingency Fund Receipts</b>	27	15	54	8	--
<b>8. Public Account Receipts</b>	21,662	24,797	28,502	27,879	30,513
<b>9. Total receipts of the State (6+7+8)</b>	<b>37,913</b>	<b>43,107</b>	<b>49,058</b>	<b>50,417</b>	<b>59,325</b>
<b>PART B. EXPENDITURE/DISBURSEMENT</b>					
<b>10. Revenue expenditure</b>	<b>15,231</b>	<b>16,685</b>	<b>18,605</b>	<b>18,815</b>	<b>21,285</b>
Plan	2,992 (20)	3,481 (21)	3,943 (21)	3,245 (17)	3,553 (17)
Non Plan	12,239 (80)	13,204 (79)	14,662 (79)	15,570 (83)	17,732 (83)
General Services (incl. Interest Payments)	5,333 (35)	5,634 (34)	6,215 (33)	7,112 (38)	9,039 (42)
Social Services	5,479 (36)	6,132 (37)	6,429 (35)	6,326 (34)	6,965 (33)
Economic Services	4,004 (26)	4,388 (26)	5,397 (29)	4,803 (25)	4,652 (22)
Grants-in-aid and Contributions	415 (3)	531 (3)	564 (3)	574 (3)	629 (3)
<b>11. Capital Expenditure</b>	<b>1,779</b>	<b>1,947</b>	<b>2,106</b>	<b>2,936</b>	<b>3,029</b>
Plan	1,517 (85)	1,705 (88)	1,899 (90)	2,734 (93)	2,930 (97)
Non Plan	262 (15)	242 (12)	207 (10)	202 (7)	99 (3)
General Services	50 (3)	48 (3)	52 (2)	76 (3)	128 (4)
Social Services	377 (76)	299 (15)	212 (10)	295 (10)	427 (14)
Economic Services	1,352 (21)	1,600 (82)	1,842 (88)	2,565 (87)	2,474 (82)
<b>12. Disbursement of Loans and Advances</b>	<b>317</b>	<b>511</b>	<b>514</b>	<b>628</b>	<b>1,011</b>
<b>13. Total (10+11+12)</b>	<b>17,327</b>	<b>19,143</b>	<b>21,225</b>	<b>22,379</b>	<b>25,325</b>
<b>14. Repayments of Public Debt</b>	491	521	712	1,696	3,441
Internal Debt (excluding Ways & Means Advances and Overdrafts)	147 (30)	101 (19)	231 (32)	287 (17)	780 (23)
Net transactions under Ways & Means Advances and Overdraft	-	-	-	-	--
Loans and Advances from Government of India *	344 (70)	420 (81)	481 (68)	1,409 (83)	2,661 (77)

<b>15. Appropriation to Contingency Fund</b>	-	-	-	-	--
<b>16. Total disbursement out of Consolidated Fund (13+14+15)</b>	17,818	19,664	21,937	24,075	28,766
<b>17. Contingency Fund disbursements</b>	15	53	8	-	41
<b>18. Public Account disbursements</b>	20,044	23,260	27,107	26,825	30,665
<b>19. Total disbursement by the State (16+17+18)</b>	37,877	42,977	49,052	50,900	59,472
<b>PART C. DEFICITS</b>					
<b>20. Revenue Deficit (1-10)</b>	2,325	1,862	3,284	2,646	525
<b>21. Fiscal Deficit (3+4-13)</b>	4,276	4,219	5,869	5,282	4,501
<b>22. Primary Deficit (21-23)</b>	2,264	1,831	3,186	1,990	791
<b>PART D. OTHER DATA</b>					
<b>23. Interest Payments (included in revenue expenditure)</b>	2,012	2,388	2,683	3,292	3,710
<b>24. Arrears of Revenue (Percentage of Tax &amp; Non-Tax Revenue Receipts)</b>	1,826 (20)	1,894 (18)	2,634 (24)	3,390 (29)	3,104 (20)
<b>25. Financial Assistance to local bodies, etc.</b>	5,847	6,451	7,429	7,635	7,780
<b>26. Ways and Means Advances/Overdraft availed (days)</b>	4	-	40	171	196
<b>27. Interest on WMA/Overdraft</b>	0.02	-	0.91	5.23	8.85
<b>28. Gross State Domestic Product (GSDP)</b>	94,972 <sup>*</sup>	1,04,492 <sup>*</sup>	1,05,658 <sup>⊙</sup>	1,13,929 <sup>⊕</sup>	1,30,678 <sup>⊕</sup>
<b>29. Outstanding Debt (year end)</b>	22,287	26,571	32,566	37,234	41,967
<b>30. Outstanding Guarantees (year end)</b>	9,829	13,004	12,279	13,314	14,179
<b>31. Maximum amount Guaranteed (year end)</b>	13,334	16,425	20,823	20,973	21,225
<b>32. Number of incomplete projects (as per material in Finance Accounts)</b>	112	97	103	35	70
<b>33. Capital blocked in incomplete projects</b>	3,894	3,295	4,814	6,141	8,813 <sup>♦</sup>

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

\* - Excludes Ways and Means Advances from GOI

♣ - Figures revised by Government

⊙ - Provisional

⊕ - Quick estimates

⊕ - GSDP figures for 2003-2004 have been adopted as in overview of budget for 2003-04.

♦ - This includes Rs.7,157 crore invested in Upper Krishna Project now executed by Krishna Bhagya Jala Nigam Limited, a Government Undertaking.

