

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

In terms of the Madhya Pradesh Reorganization Act 2000 (No.28 of 2000) 16¹ districts of the erstwhile State of Madhya Pradesh formed the new State of Chhattisgarh on 1 November 2000, 'the appointed day'. The apportionment of assets and liabilities of the composite State of Madhya Pradesh immediately prior to the appointed day as also the other financial adjustments are being carried out in each case in accordance with the provisions of the Act *ibid*. The actual progress achieved in this direction is indicated in **Appendix-1.2**.

1.1.1 Summary of Receipts and Disbursements

Table-1 summarises the finances of the Government of Madhya Pradesh for the year 2006-07 covering revenue receipts and expenditure, capital receipts and expenditure and public accounts receipts/disbursements as emerging from Statement-1 of Finance Accounts and other detailed statements.

Table-1: Summary of receipts and disbursements for the year 2006-07

(Rupees in crore)

2005-06	Receipts	2006-07	2005-06	Disbursements	2006-07		
Section-A: Revenue							
					Non-Plan	Plan	Total
20596.79	I. Revenue receipts	25694.28	20563.47	I. Revenue expenditure	16910.53	5452.08	22362.61
9114.70	Tax revenue	10473.13	7593.11	General services	8602.36	(-0.25)	8602.11
2208.20	Non-tax revenue	2658.46	6658.34	Social Services	4650.13	2926.35	7576.48
6341.35	Share of Union Taxes/Duties	8088.54	5194.70	Economic Services	2567.09	2313.08	4880.17
2932.54	Grants from Govt. of India	4474.15	1117.32	Grants-in-aid / Contributions	1090.95	212.90	1303.85
Section-B: Capital							
--	II Misc. Capital Receipts	9.19²	6623.28	II Capital Outlay	314.54	4855.40	5169.94
2851.98	III. Recoveries of Loans and Advances	28.12	834.45	III Loans and Advances disbursed	689.39	263.68	953.07
5160.65	IV Public debt receipts	4602.97	953.96	IV Repayment of Public Debt	--	-	1731.53
29037.68	V Public account receipts	32225.38	28095.77	V Public account disbursements	--	-	30768.82
--	VI Inter State Settlement	1.11	--	VI. Inter State Settlement	--	-	1.33
--	VII Contingency Fund	68.15	8.14	VII Appropriation to Contingency Fund	--	-	60.00
259.84	Opening Cash Balance	827.87	827.87	Closing Cash Balance	--	-	2409.77
57906.94	Total	63457.07	57906.94	Total	17914.46	10571.16	63457.07

¹ Baster, Bilaspur, Dantewara, Dhamtari, Durg, Janjgir-Champa, Jashpur, Kanker, Kawardha, Korba, Korja, Mahasamund, Raigarh, Raipur, Rajnandgaon and Surguja.

² Indicates deposit of investment amount of retirement capital by the Co-operative Bank and credited to Major Head-4000.

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

- Revenue Receipts have increased by Rs.5,097 crore mainly due to increase in Share of Union Taxes and duties (Rs.1747 crore), grants from Government of India (Rs.1,541 crore), Tax Revenue (Rs.1,358 crore) and Non Tax Revenue (Rs.450 crore).
- Revenue expenditure increased by Rs.1,799 crore while there was a decrease of Rs.1,453 crore in Capital Expenditure.
- The recovery of loans and advances sharply reduced to Rs.28 crore during current year from Rs.2,852 crore in the previous year. During 2005-06, Finance Accounts had shown a recovery of Rs.2,749.36 crore from MPSEB and indicated an adjustment of the amount as investment in successor companies during the year. Disbursement of loans and advances by State Government increased by Rs.119 crore mainly on account of energy sector (Rs.476 crore), which was partly offset by decrease in loans under Miscellaneous General Services (Rs.299 crore).
- Public debt receipts decreased by Rs.558 crore over previous year mainly due to decline in internal debt by Rs.695 crore which was partly offset by increase in loans and advances by Government of India. Repayment of Public debt increased by Rs.778 crore mainly on account of increased repayments of (a) Loans and Advances from the GOI (Rs.328 crore), (b) Loans from the National Agricultural Credit Fund of the RBI (Rs.65 crore), (c) Market Loans (Rs.40 crore) and (d) repurchase of Power Bonds (Rs.314 crore).
- Public Account Receipts increased by Rs.3,188 crore and disbursement increased by Rs.2,673 crore resulting in net increase of Rs.515 crore in Public Account receipts.
- As a result of inflow/outflow of the funds stated above, the cash balances of the State at the close of 2006-07 increased by Rs.1,582 crore over the previous year.

1.1.2 State Fiscal Position by Key Indicators

The fiscal position of the State Government as reflected by key fiscal indicators during the current year as compared to the previous year is given in **Table 2.**

Table 2

(Rupees in crore)

2005-06	Sl. No	Major Aggregates	2006-07
20597	1.	Revenue Receipts (2+3+4)	25694
9115	2.	Tax Revenue	10473
2208	3.	Non-Tax Revenue	2658
9274	4.	Other Receipts	12563
2852	5.	Non-Debt Capital Receipts	37
2852	6.	<i>Of which</i> Recovery of Loans	28
23449	7.	Total Receipts (1+5)	25731
20070	8.	Non-Plan Expenditure (9+11)	17915
16351	9.	On Revenue Account	16911
3422	10.	Of which, Interest Payments	4029
3719	11.	On Capital Account	1004
796	12.	Of which Loans disbursed	689
7950	13.	Plan Expenditure (14+15)	10571
4212	14.	On Revenue Account	5452
3738	15.	On Capital Account	5119
38	16.	Of which Loans disbursed	264
28020	17.	Total Expenditure (8+13)	28486
(+)34	18.	Revenue surplus (+)/deficit (-) (1- 9-14)	(+)3331
(-)4571	19.	Fiscal surplus (+)/ Deficit(-) (1+ 5 - 17)	(-)2755
(-)1149	20.	Primary surplus(+)/ Deficit (-) (1+5 - 17-10)	(+)1274

An increase of 24.75 per cent (Rs.5,097 crore) in revenue receipts during 2006-07 in comparison to that of only 8.75 per cent (Rs.1,799 crore) in revenue expenditure resulted in an increase in revenue surplus from Rs.34 crore in 2005-06 to Rs.3,331 crore in 2006-07. Given an increase of Rs.3,297 crore in revenue surplus during the year, a sharp decline in non-debt capital receipts by Rs.2,815 crore; a decline of Rs.1,453 crore in capital expenditure along with an increase of Rs.119 crore in disbursement of loans and advances led to an improvement Rs.1,816 crore in fiscal deficit in 2006-07 over the previous year. Given the decline in fiscal deficit (Rs.1,816 crore) and increase in interest payments (Rs.607 crore), primary deficit of Rs.1,149 crore in 2005-06 converted into primary surplus of Rs.1,274 crore in 2006-07.

The improvement in fiscal position of the State in terms of the revenue surplus during 2006-07 should however be assessed keeping in view the fact that debt waiver of Rs.726.12 crore booked in the Finance Accounts of 2006-07 is inclusive of Rs.363.06 crore pertaining to 2005-06.

1.2 Methodology adopted for the assessment of Fiscal position

The trends in the major fiscal aggregates of receipts and expenditure as emerged from the Statements of Finance Accounts are analyzed wherever necessary over the period from 2001-02 to 2006-07 and observations are made on their behavior. 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 are required to enact the Fiscal Responsibility Acts and draw their fiscal correction path accordingly for the five year period (2005-06 to 2009-10) so that fiscal position of State could be

improved as committed in their respective FRBM Acts/Rules during medium to long run. The norms/ceilings prescribed by the TFC as well as its projections for fiscal aggregates along with the commitments/projections made by the State Governments in their Fiscal Responsibility Acts and in other Statements is required to be laid before the legislature under the Act and has been used to make qualitative assessment of the trends and pattern of major fiscal aggregates during the current year. Assuming that GSDP is the good indicator of the performance of the State's economy, major fiscal aggregates like tax and non-tax revenue, revenue and capital expenditure, internal debt and revenue and fiscal deficits have been presented as percentage to the Gross State Domestic Product (GSDP)³ 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 mobilization of resources, pattern of expenditure etc, are keeping pace with the change in the base or these fiscal aggregates are also affected by factors other than GSDP. The new GSDP series with 1993-94 as base (**Table- 3**) as published by the Directorate of Economics and Statistics of the State Government have been used in estimating these percentages and buoyancy ratios.

Table 3: Gross State Domestic Product (GSDP) – Growth Trends

Estimates	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Gross State Domestic Product (GSDP)# (Rupees in crore)	86792	86405	102267	108903(P)*	117820(Q)*	131091(A)*
Rates of Growth GSDP (per cent)	10.46	(-).0.45	18.36	6.49	8.19	11.26

GSDP estimates for the period 2001-02 to 2005-06 are as revised by the Directorate of Economics and Statistics, Government of MP. As a result percentage ratio/buoyancies of various parameters with reference to GSDP have also been revised accordingly.

* *A- Advance estimates; Q-Quick estimates; P-Provisional estimates*

The key fiscal aggregates for the purpose are grouped under four major heads: (i) Trends and composition of aggregate receipts, (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**.

The summarised financial position of the Government i.e. assets and liabilities, abstracts of receipts and disbursements for the year 2006-07, sources and application of funds and time series data is given in **Appendix 1.2, 1.4, 1.5, 1.6 and 1.11**.

³ *GSDP is defined as the total income of the State at current prices or the market value of goods and services produced using labour and all other factors of production.*

1.2.1 The Fiscal Responsibility and Budget Management (FRBM) Act, 2005

The State Government has enacted the Madhya Pradesh Rajkoshiya Uttardayitva Avam Budget Prabandhan Adhiniyam, 2005 (Fiscal Responsibility and Budget Management (FRBM) Act 2005) which came into force from 1 January 2006 to ensure prudence in fiscal management and fiscal stability by progressive elimination of revenue deficit, reduction in fiscal deficit, prudent debt management consistent with fiscal sustainability, greater transparency in fiscal operations of the Government and conduct of fiscal policy in a medium term framework and for matters connected therewith or incidental thereto. To give effect to the fiscal management objectives as laid down in the Act, and/or the rules framed (30 January 2006) thereunder the following fiscal targets were prescribed for the State Government:

- reduce revenue deficit in each of the financial year so as to eliminate it by 31 March 2009 and generate revenue surplus thereafter;
- reduce fiscal deficit in each of the financial year so as to bring it down to not more than three *per cent* of GSDP by 31 March 2009;
- ensure that within a period of 10 years, i.e. as on the 31 March 2015, total liabilities do not exceed 40 *per cent* of the estimated GSDP for that year; and
- limit the annual incremental guarantees so as to ensure that the guarantees do not exceed 80 *per cent* of the total revenue receipts in the year preceding the current year.

Provided that revenue deficit and fiscal deficit may exceed the limits specified under this section due to ground(s) of shortfall in the Central tax devolutions in relation to the budgetary estimates of the Union of India and/or unforeseen demands on the finances of the State Government arising out of internal disturbance or natural calamity or such other exceptional grounds as the State Government may specify.

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

In accordance with the provisions of the FRBM Act 2005, State Government has placed the (a) Macro-Economic framework Statement, (b) Medium Term Fiscal Policy Statement and (c) Fiscal policy strategy statement along with the Budget for 2006-07. The actuals for 2004-05, RE for 2005-06 and BE for 2006-07 for select indicators were presented in MTFPS (**Appendix 1.3**).

In terms of an incentive scheme of TFC, a reward for fiscal performance was built into the debt-write off package under DCRF⁴. According to the scheme, the quantum of write off of repayment of GOI loans after consolidation and

4 *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 and Relief Facility (DCRF) (2005-06 to 2009-10)" 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 MPFRBM Act and debt waiver is granted based on fiscal performance, linked to the reduction of revenue deficits of State.*

reschedulement will be linked to the absolute amount by which revenue deficit is reduced in each successive year during the award period. In effect, if the revenue deficit is brought to zero, the entire repayment during the period will be written off. As a result of improved fiscal performance in terms of this criterion, the State Government received a debt waiver of Rs.363.06 crore for 2005-06 and the same amount for the 2006-07; however, the whole amount for these two years is booked in the Finance Account of the current year. The fiscal performance of the State vis-à-vis FRBM targets and those framed in Mid-Term Fiscal Policy for the year 2006-07 is presented in **Table 4**.

Table-4

Fiscal forecasts	FRBM Targets	Projection as per MTFPS	Actual
Revenue Deficit (-)/ Surplus (+) (Rupees in crore)	To be wiped out by 2008-09	(+)970	(+)3,331
Fiscal Deficit (-)/ Surplus (+) (Rupees in crore)	To reduce to not more than three <i>per cent</i> of GSDP by 2008-09	(-)4874 FD to be 3.87 <i>Per cent</i> of GSDP	(-)2,755 (2.10 <i>per cent</i> of GSDP)
Total Fiscal Liabilities	40 <i>per cent</i> of GSDP by 31 March 2015	52 <i>per cent</i> of GSDP	41 <i>per cent</i> of GSDP
Outstanding Guarantees	Not to exceed 80 <i>per cent</i> of the total RR of preceding year	64.15 <i>per cent</i> of RR of preceding year	4.20 <i>per cent</i> * of RR of preceding year

* *To the extent information was available in Finance Accounts.*

The Table reveals that the State Government has achieved revenue surplus three years ahead and contained the fiscal deficit well within the limit of three *per cent* of GSDP prescribed in FRBM targets and projections as per MTFPS. The fiscal liabilities to GSDP ratio at 41 *per cent* is significantly less than the projected 52 *per cent* in MTFPS and comparable to the FRBM target to be achieved by 31 March 2015. The outstanding guarantees as *per cent* to revenue receipts of the preceding year were only 4.2 *per cent* as against the BE of 64 *per cent* and the FRBM target of 80 *per cent* during the year.

1.2.1.2 Mid-Term Review of Fiscal Situation

In compliance with Section 11 (1) of Madhya Pradesh Fiscal Responsibility and Budget Management Act 2005, Finance Minister undertook a half yearly review in November/December 2006 and the outcome of the review was placed before the legislature in November 2006. The outcome of the half yearly review of trends in receipt and expenditure at the end of the second quarter shows that the total non debt receipts, the fiscal deficit and revenue deficit were higher than the benchmarks prescribed under Rule 8 of FRBM rules January, 2006. Therefore no corrective measures were required to be taken by the State Government.

1.3 Trends and composition of aggregate receipts

The aggregate receipts of State Government consist of revenue receipts and capital receipts, revenue receipts consist of tax revenues, non-tax revenues, State's share of union taxes and duties and grants-in-aid from the Government

of India (GOI). Capital receipts comprise miscellaneous capital receipts such as proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources (market loans, borrowings from financial institutions/ commercial banks) and loans and advances from GOI as well as accruals from Public Account. **Table-5** shows that the total receipts of the State Government for the year 2006-07 were Rs.62,628 crore. Of these, the revenue receipts were Rs.25,694 crore, constituting 41 *per cent* of total receipts. The balance came from capital receipts, borrowings, receipts from Contingency Fund and Public Account.

Table 5 : 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
I Revenue Receipts	11,211	13,391	14,289	19,743	20,597	25,694
II Capital Receipts	4,869	4,992	9,974	8,902	8,013	4,641
Recovery of Loans and Advances	1,588	43	36	53	2,852	28
Public Debt Receipts	3,281	4,949	9,938	8,849	5,161	4,603
Miscellaneous Capital Receipts	-	-	-	-	-	10*
III Contingency Fund	-	-	-	1	-	68
IV Public Account Receipts	15,013	20,120	22,285	24,790	29,038	32,225
a. Small Savings, Provident Fund etc.	1,238	1,109	1,200	1,810	1,330	1,419
b. Reserve Fund	131	170	367	351	676	819
c. Deposits and Advances	2,816	3,791	4,126	3,875	4,156	4,436
d. Suspense and Miscellaneous	7,434	10,764	12,156	13,436	16,559	18,955
e. Remittances	3,394	4,286	4,436	5,318	6,317	6,596
Total Receipts	31,093	38,503	46,548	53,436	57,648	62,628

* Includes Inter State Settlement (Rs. one crore)

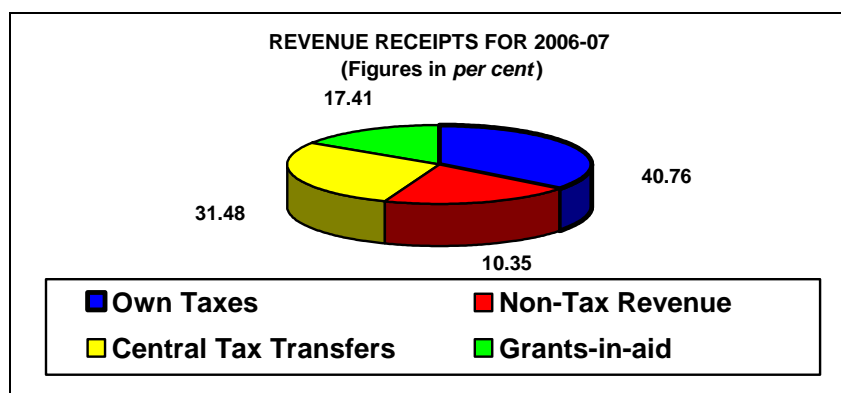
The total receipts of the State Government increased by 101 *per cent* from Rs.31,093 crore in 2001-02 to Rs.62,628 crore in 2006-07, of which revenue receipts increased by 129 *per cent* from Rs.11,211 crore in 2001-02 to Rs.25,694 crore in 2006-07. The relative share of revenue receipts in total receipts increased from 36.06 *per cent* in 2001-02 to 41.03 *per cent* in 2006-07 and the share of capital receipts in total receipts decreased from 15.66 *per cent* in 2001-02 to 7.41 *per cent* in 2006-07 after reaching the peak level of 21.43 *per cent* in 2003-04 and tapering of thereafter. While the receipts under Public Account increased at an annual rate of growth of 19 *per cent* during the period 2001-07, but their share in total receipts of the State varied within the narrow range of 48 to 52 *per cent* during the period with a low of 46 *per cent* in 2004-05.

1.3.1 Revenue receipts

Statement-11 of the Finance Accounts details 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. Overall revenue receipts, its annual rate of growth, ratio of these receipts to the GSDP and buoyancies are indicated in **Table 6**.

Table 6: Revenue Receipts – Basic Parameters

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Revenue Receipts (RR) (Rupees in crore)	11211	13391	14289	19743	20597	25694
Own taxes (Rupees in crore and <i>per cent</i>)	4679 (41.74)	6165 (46.04)	6789 (47.51)	7773 (39.37)	9115 (44.26)	10473 (40.76)
Non-Tax Revenue (Rupees in crore and <i>per cent</i>)	1602 (14.29)	1635 (12.21)	1480 (10.36)	4462 (22.60)	2208 (10.72)	2658 (10.35)
Own Resources(Rupees in crore and <i>per cent</i>)	6281 (56.03)	7800 (58.25)	8269 (57.87)	12235 (61.97)	11323 (54.98)	13131 (51.11)
Central Tax Transfers (Rupees in crore and <i>per cent</i>)	3439 (30.68)	3729 (27.85)	4247 (29.72)	5077 (25.72)	6341 (30.78)	8089 (31.48)
Grants-in-aid (Rupees in crore and <i>per cent</i>)	1491 (13.30)	1862 (13.90)	1773 (12.41)	2431 (12.31)	2933 (14.24)	4474 (17.41)
Rate of Growth of RR (<i>per cent</i>)	(-) 12.68	19.45	6.70	38.16	4.32	24.75
Rate of Growth of Own Resources (<i>per cent</i>)	(-)14.71	24.18	6.01	47.96	(-)7.45	15.97
Rate of Growth of Own tax(<i>per cent</i>)	(-)17.03	31.76	10.12	14.49	17.26	14.90
RR/GSDP (<i>per cent</i>)	12.92	15.50	13.97	18.13	17.48	19.60
Revenue Buoyancy (ratio)	(-)1.21	(-)43.22	0.37	5.88	0.53	2.20
State's own tax buoyancy (ratio)	(-)1.63	(-)70.58	0.55	2.23	2.11	1.32
Revenue buoyancy with reference to State's own taxes (ratio)	0.75	0.61	0.66	2.63	0.25	1.66
GSDP Growth (<i>percent</i>)	10.46	(-)0.45	18.36	6.49	8.19	11.26



General Trend

The revenue receipts of the state increased at an average annual growth rate of 21.53 *per cent* from Rs.11,211 crore in 2001-02 to Rs.25,694 crore in 2006-07 with significant variations. While 51 *per cent* of the revenue receipts during 2006-07 had come from the State's own resources comprising of tax and non-tax revenue and the balance 49 *per cent* were contributed by central tax transfers and grant-in-aid together. Of the total increase of Rs.5,097 crore in revenue receipts of the state during 2006-07, Rs.3,289 crore (65 *per cent*) was contributed by central transfers comprising of grants-in-aid and State's share in the pool of union taxes and duties and balance Rs.1,808 crore (35 *per cent*) were contributed by State's own resources. Revenue buoyancy has increased during 2006-07 in comparison to 2005-06 mainly due to increase in share of central transfers.

Own Tax Revenue

Taxes on sales, trades etc. was the major contributor (50 *per cent*) of the States own tax revenue followed by state excise (15 *per cent*), stamps and registration fees (12 *per cent*), taxes on goods and passengers (7 *per cent*),

taxes on duties on electricity (7 per cent) during 2006-07. The growth rate of 17 per cent in taxes on sales, trades etc., 13 per cent in state excise and 24 per cent in stamps and registration fees in 2006-07 over previous year was mainly due to observance of financial discipline by the government, better collection of taxes and strengthening of economic base. Own tax buoyancy ratio decreased from 2.11 in 2005-06 to 1.32 in 2006-07 due to less growth in own tax revenue and more growth of GSDP as compared to previous year. **Table-7** below shows the trends in the composition of tax revenue of the state during 2001-07.

Table 7:-Tax revenue

(Rupees in crore)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Taxes on Sales, Trades etc	2,361	2,906	3,293	3,913	4,508	5,261
State Excise	705	890	1,086	1,193	1,370	1,547
Stamps and Registration fees	445	535	614	789	1,009	1,251
Taxes on Vehicles	393	429	455	489	556	634
Other Taxes	775	1,405	1,341	1,389	1,672	1,780*
Total	4,679	6,165	6,789	7,773	9,115	10,473

* *Other taxes includes Taxes on goods and passengers (Rs.745 crore), taxes and duties on electricity (Rs.715 crore), other taxes on income and expenditure (Rs.164 crore), land revenue (Rs.132 crore), other taxes and duties on commodities and services (Rs.19 crore) and hotel receipt tax (Rs. 5 crore).*

Non-Tax Revenue

Non-tax revenue increased by Rs.450 crore from Rs.2,208 crore in 2005-06 to Rs.2,658 crore in 2006-07 mainly due to booking of debt waiver of Rs.726.12 crore received under DCRF for the year 2005-06 and 2006-07 from GOI under the receipt head 'Miscellaneous general services' and increase in non-ferrous mining and metallurgical industries (Rs.108.60 crore) partly offset by decrease in interest receipt (Rs.394.46 crore). Of the non-tax revenue sources, non-ferrous mining and metallurgical industries (35 per cent), miscellaneous general services (28 per cent), forestry and wild life (20 per cent) and interest receipts, dividend and profits (6 per cent) were the major contributors during 2006-07.

Moreover, the current levels of cost recovery (revenue receipts as a percentage of revenue expenditure) in supply of merit goods and services by Government were 0.27 per cent for general education, 1.83 per cent for technical education, 2.33 per cent for medical and public health, 1.85 per cent for water supply and sanitation and 12.39 per cent for housing.

The actual receipts under state's tax revenue and non tax revenue vis-à-vis assessments made by TFC and State government during 2006-07 are given in **Table-8** below:

Table -8

(Rupees in crore)

	Assessments made by TFC	Projections by State Government in MTFPS	Actuals
Tax Revenue	10,335	10,029	10,473
Non-Tax Revenue	2,375	2,059	2,658

Actual realization under tax revenue was higher than the assessment made by the TFC and MTFPS projection. Although the actual non tax revenue was higher than the assessment made by TFC and MTFPS but was mainly on account of a contra entry of debt waiver of Rs.726.12 crore received under DCRF as per recommendations of TFC as receipts under the head 'Miscellaneous General Services'.

Central Tax Transfers

The central tax transfers increased by Rs.1,747 crore in 2006-07 over the previous year and constituted 31 *per cent* of revenue receipts. The increase was mainly under Corporation Tax (Rs.774 crore), Customs Duties (Rs.341 crore), Service Tax (Rs.308 crore) and Taxes on Income other than corporation tax (Rs.299 crore).

Grants-in-aid from Central Government

Grants-in-aid has significantly increased by 52.54 *per cent* from Rs.2,933 crore in 2005-06 to Rs.4,474 crore in 2006-07 mainly due to increase in non-plan grants(Rs.216 crore),Grants for State Plan Schemes-other grants(Rs.719 crore) and for Centrally Sponsored Schemes-other grants(Rs.615 crore). Increase in grants for State plan scheme in 2006-07 was mainly under block grants (Rs.615 crore) and special central assistance for tribal area sub plan (Rs.62 crore). The increase in grants for centrally sponsored schemes were mainly on account of increases under centrally sponsored schemes 'Integrated Development of Small and Medium Towns (Rs.208 crore)', 'Distribution of nutritious foods and beverages-Mid day meal (Rs.100 crore)', Urban and Rural Water Supply Programme (Rs.70 crore) and Elementary and Secondary Education (Rs.92 crore).

Non-plan grants of Rs.984 crore during the year includes Rs.899.16 crore recommended by 12th Finance Commission for Health (Rs.32.20 crore), Education (Rs.41.62 crore), Forest (Rs.11.50 crore), Panchayati Raj/Urban Local Bodies (Rs.252.94 crore), Roads and Buildings (Rs.257.48 crore), Tribal Welfare (Rs.51.75 crore), Natural Calamity (Rs.246.67 crore) and Heritage Conservation (Rs.5 crore). As against Rs.83.25 crore for Education and Rs.23 crore for Forest recommended by the TFC the actual receipt was Rs.41.62 crore and Rs.11.50 crore respectively .

Details of Grants-in-aid from GOI are given in **Table 9**.

Table No. 9: 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	649	816	776	1314	1,264	1983
Non Plan grants	322	301	376	459	768	984
Grants for Central Plan Schemes	46	204	58	59	66	57
Grants for Centrally Sponsored Schemes	474	541	563	599	835	1450
Total	1491	1862	1773	2431	2933	4474
Percentage of increase/decrease over previous year	57.44	24.88	(-).4.78	37.11	20.65	52.54

1.3.1.1 Non utilization of funds sanctioned under 12th Finance Commission (Forest Department)

It is obligatory for the State government not only to utilize the funds on the programmes for which it is received but also within the specified period and refund the unspent balance to Govt. of India.

Scrutiny of Appropriation Accounts 2005-06, 2006-07 and records in the office of the Additional Principal Chief Conservator of Forest (Development) M.P. Bhopal revealed (September 2006) that an amount of Rs.27.60 crore (Revenue Rs.23.00 crore and Capital Rs.4.60 crore) was provided in 2005-06 under MH 2406 and 4406 on account of Grant for maintenance (Regeneration) of Forest as a special financial assistance for various works recommended by the 12th Finance Commission, against which Rs.4.00 crore was transferred to 8443-Civil Deposit-800-Other- Deposits on 31 March 2006, which was released in May 2006 and an expenditure of Rs.1.65 crore from it was incurred up to 2006-07. Thus utilisation of balance amount of Rs.2.35 crore allocated in 2005-06 was still awaited.

1.3.1.2 Unauthorised appropriation and irregular diversion of 12th Finance Commission Grant of Rs.257.48 crore (Public Works Department)

As per part-II of the revenue budget of the State Rs.110.76 crore and Rs.146.72 crore were received as grant in aid (12th Finance Commission recommendations) under head 1601/01/800/1025 and 1026 specifically for non- plan revenue expenditure for maintenance of Buildings and roads/bridges respectively. Further as per condition no. 3 of Para 10.23 of 12th Finance Commission recommendations such grants-in-aid were essentially to be utilized under non-plan revenue heads 2059 and 3054 respectively. It was however seen that no provision for expenditure under Major Head 2059 (Grant no 67) and 3054 (Grant no 24) was made. However, a provision of Rs.52 crore was made under the corresponding capital head (State Plan) 5054 and against which an expenditure of Rs.33 crore was booked, out of which Rs.28 crore were also designated for construction of totally new roads.

Thus, non-provision of the above grant in the specific revenue heads for the maintenance of roads/buildings and utilization of Rs.33 crore under Capital head for construction of new roads prima facie indicated non-compliance with recommendations of the 12th Finance Commission.

Arrears of revenue

Department-wise status of arrears of revenue during 2006-07 is as detailed below:

Department-wise status of the arrears of Revenue during 2006-07

Sl. No.	Name of Department	Arrear of Revenue (Rupees in crore)
1.	Tax on vehicle	34.95
2.	State Excise	58.28
3.	Electricity	26.67
4.	Commercial Tax	584.25
5.	Mining	113.25
6.	Co-operation	8.87
7.	Stamp duty and Registration	77.18
8.	Forest	15.31
	Total	918.76

The Departments concerned have not furnished reasons for arrears of revenue as of November 2007.

1.4 Application of resources

1.4.1 Growth of Expenditure

Statement 12 of the Finance Accounts depicts the detailed revenue expenditure by minor heads and capital expenditure by major heads. States raise resources to perform their sovereign functions, maintain their existing nature of delivery of social and economic services, to extend the network of these services through capital expenditure and investments and to discharge their debt service obligations. The total expenditure of the State increased from Rs.16,444 crore in 2001-02 to Rs.28,486 crore in 2006-07. Total expenditure, its annual growth rate and ratio of expenditure to the State GSDP and to revenue receipts and its buoyancy with respect to GSDP and revenue receipts are indicated in **Table-10**.

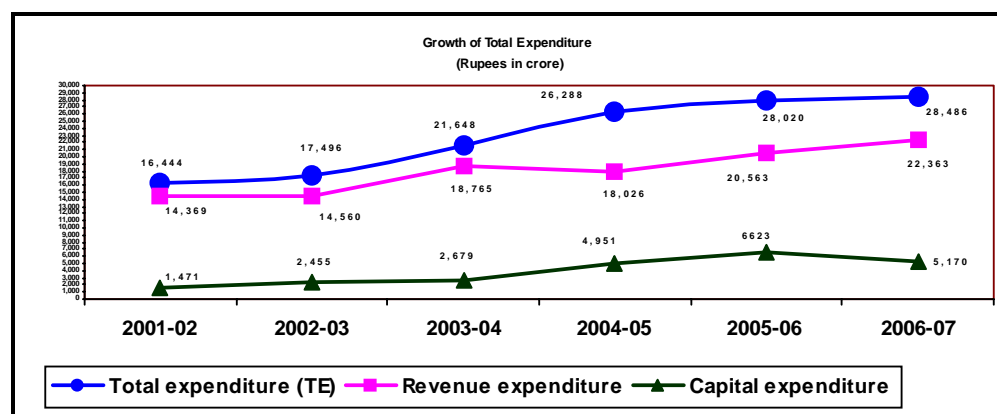
Table-10: Total Expenditure – Basic Parameters

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Total expenditure (TE)* (Rupees in crore)	16444	17496	21648	26288	28020	28486
Rate of Growth (per cent)	0.32	6.40	23.73	21.43	6.58	1.66
TE/GSDP Ratio (per cent)	18.95	20.25	21.17	24.14	23.78	21.73
RR /TE Ratio (per cent)	68.18	76.54	66.00	75.10	73.50	90.20
Buoyancy of Total Expenditure with reference to:						
GSDP (ratio)	(-)0.03	(-)14.22	1.29	3.30	0.81	0.15
RR (ratio)	(-)0.03	0.33	3.54	0.56	1.52	0.07

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

The total expenditure of the state has increased at an annual average growth rate of 12 per cent per annum during 2001-07. In relative terms, the capital and revenue expenditure components have increased by 251 per cent and 56 per cent respectively during the period 2001-07. However, in absolute terms,

increases were of the order of Rs.3,699 crore in capital expenditure and Rs.7,994 crore in revenue expenditure during the period under report. These trends indicate that increase in capital and revenue expenditure was in the ratio of 1:2.2 during the last six years period. The marginal increase of Rs.466 crore in total expenditure (1.66 per cent) during 2006-07 over 2005-06 was mainly due to increase of Rs.1,800 crore in revenue expenditure and Rs.119 crore in disbursement of loans and advances partly offset by a decrease of Rs.1,453 crore in capital expenditure. The decrease in capital expenditure from Rs.6,623 crore in 2005-06 to Rs.5,170 crore during 2006-07 was mainly due to decrease in capital outlay on power projects (Rs.2,151 crore) partly off set by major increase under capital outlay on Roads and Bridges (Rs.381 crore), Industries and Minerals (Rs.185 crore) and Medical and Public Health (Rs.71 crore). The analysis of bifurcation of plan and non plan capital expenditure on power projects reveals that while the non-plan capital expenditure was reduced by Rs.2,576 crore, the plan capital expenditure increased by Rs.425 crore resulting in a net decline of Rs.2,151 crore in capital expenditure in power sector during 2006-07 over the previous year. The ratio of revenue receipts to total expenditure increased from 74 per cent in 2005-06 to 90 per cent in 2006-07 indicating that about 90 per cent of the state's total expenditure was met from the revenue receipts and the balance of 10 per cent was financed from borrowings. The buoyancy ratio of total expenditure with reference to GSDP and revenue receipt decreased from 0.81 and 1.52 in 2005-06 to 0.15 and 0.07 in 2006-07 due to less growth of total expenditure and more growth of GSDP during 2006-07 in comparison to 2005-06.

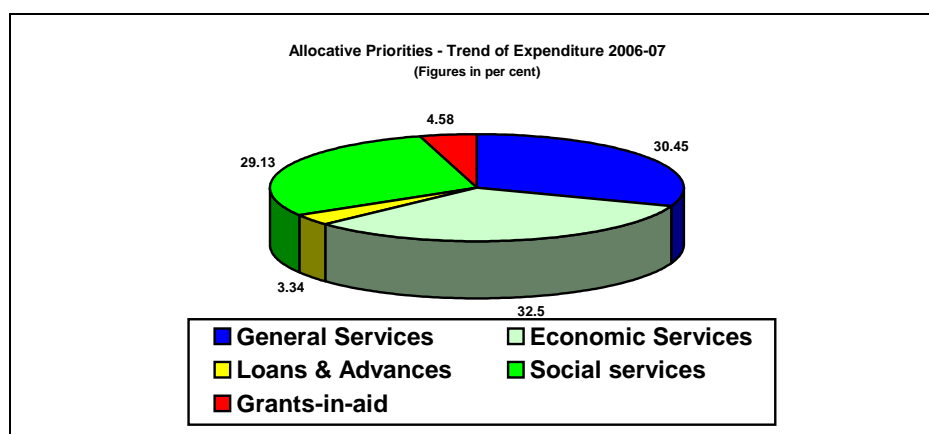


Trends in Total Expenditure by Activities: In terms of the activities, total expenditure could be considered as being composed of expenditure on general services including interest payments, social and economic services, grants-in-aid and loans and advances. Relative share of these components in total expenditure is indicated in **Table-11**.

Table-11: Components of Expenditure – Relative Share

	(in per cent)					
	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
General Services	30.80	31.33	30.53	28.96	27.53	30.45
Of which Interest payments	13.70	14.30	14.80	13.92	12.21	14.14
Social Services	28.92	33.26	27.05	23.22	26.03	29.13
Economic Services	34.30	30.34	38.74	31.73	39.48	32.50
Grants-in-aid	2.27	2.32	2.73	3.49	3.99	4.58
Loans and Advances	3.64	2.75	0.95	12.60	2.97	3.34

The shares of general and social services in total expenditure exhibited relative stability over the period 2001-07 while the share of economic services indicated a marginal decline from 34.30 per cent in 2001-02 to 32.50 per cent in 2006-07 with wide inter year fluctuations. In fact, the share of economic services reached the peak level of 39.48 per cent in 2005-06 and declined to 32.50 per cent in the current year mainly on account of decline of expenditure on power projects. The increases in relative share of general and social services in 2006-07 over the previous year was mainly on account of more expenditure on interest payment, General Education and Urban Development. The increase in relative share of loans and advance was mainly due to more disbursement under energy sector (Rs.476 crore). Development expenditure comprises of social and economic services together were decreased from 65.51 per cent in 2005-06 to 61.63 per cent in 2006-07 mainly due to less expenditure in energy sector. This indicated increase in non development expenditure.



1.4.2 Incidence of Revenue expenditure

Revenue expenditure had the predominant share in total expenditure. Revenue expenditure is incurred to maintain the current level of services and payments, for the past obligations and as such does not result in any addition to the States infrastructure and service network. The overall revenue expenditure, its rate of growth, ratio of revenue expenditure to GSDP and to revenue receipts and its buoyancy are indicated in **Table-12**.

Table-12: Revenue Expenditure: Basic Parameters**(Rupees in crore and percent in bracket)**

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Revenue Expenditure (RE)	14369	14560	18765	18026	20563	22363
Of which Non Plan Revenue Expenditure (NPRE)	11853 (82.49)	11040 (75.82)	15949 (84.99)	14861 (82.44)	16351 (79.52)	16911 (75.62)
Plan Revenue Expenditure (PRE)	2516 (17.51)	3520 (24.18)	2816 (15.01)	3165 (17.56)	4212 (20.48)	5452 (24.38)
Rate of Growth (<i>per cent</i>) RE	(-)4.11	1.33	28.88	(-)3.94	14.07	8.75
NPRE	(-)3.65	(-)6.86	44.46	(-)6.82	10.02	3.42
PRE	(-)6.22	39.90	(-)20.00	12.39	33.08	29.44
NPRE/ GSDP (<i>per cent</i>)	13.66	12.78	15.60	13.65	13.88	12.90
NPRE as <i>per cent</i> of TE	72.08	63.10	73.67	56.53	58.35	59.37
NPRE as <i>per cent</i> of RR	105.72	82.44	111.61	75.27	79.38	65.82
Buoyancy of Revenue Expenditure with						
GSDP (ratio)	(-)0.39	(-)2.96	1.57	(-)0.61	1.72	0.78
Revenue Receipts (ratio)	0.32	0.07	4.30	(-)0.10	3.25	0.35

Overall revenue expenditure of the state increased from Rs.14,369 crore in 2001-02 to Rs.22,363 crore in 2006-07, showing an increase of 56 *per cent* over the period. The expenditure on salary (Rs.5,963 crore), interest payment (Rs.4,029 crore) and pension (Rs.1,752 crore) together shared around 52.52 *per cent* of the total revenue expenditure of the state during the year. Of the total increase of revenue expenditure of Rs.1,800 crore (8.75 *per cent*) during 2006-07, NPRE shared only Rs.560 crore and remaining Rs.1,240 crore were incurred under plan revenue heads. The increase in NPRE during the current year was mainly due to increase in expenditure on interest payment and servicing of debt (Rs.607 crore), Pension and other retirement benefits (Rs.195 crore), General Education (Rs.514 crore), Other Rural Development programmes (Rs.16 crore), Co-operation (Rs.113 crore), Social Security and Welfare (Rs.22 crore), Compensation and assignment to local bodies and Panchayati Raj Institutions (Rs.176 crore), Roads and Bridges (Rs.140 crore) which was partly off set by decrease in expenditure on Power projects (Rs.1,322 crore). The increase in PRE was mainly under General Education (Rs.222 crore), Other Rural Development programmes (Rs.300 crore), Social Security and Welfare (Rs.108 crore), Co-operation (Rs.52 crore) and Urban Development (Rs.351 crore).

Buoyancy ratios of revenue expenditure with GSDP and revenue receipts were decreased to 0.78 and 0.35 respectively in 2006-07 due to less growth of revenue expenditure and higher growth of revenue receipts and GSDP as compared to previous year.

As against the Rs.17,347 crore assessed for NPRE in Medium Term Fiscal Policy Statement, the actual expenditure was Rs.16,911 crore in 2006-07. Actual NPRE vis-à-vis assessment made by TFC and State government are given in **Table-13**.

Table-13**(Rupees in crore)**

Year	Assessments made by TFC	Assessments made by State Government in MTFPS	Actual NPRE
	(1)	(2)	(3)
2006-07	14173	17347	16911

The NPRE at Rs.16,911 crore in 2006-07 was more than the normatively assessed level of TFC but slightly less than the projection made by the State Government in its MTFPS. Relative to the assessment made by TFC, the increase was mainly under interest payments (Rs.530 crore), general service (Rs.1,086 crore), social services (Rs.292 crore) and economic service (Rs.924 crore).

1.4.3 Committed Expenditure

1.4.3.1 Expenditure on Salaries

Table-14: Expenditure on Salaries

(Rupees in crore)

Heads	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Expenditure on Salaries	4669*	5258*	5312*	6176*	5669@	5963@
Of which						
Non-Plan Head	NA	NA	NA	NA	5058	5443
Plan Head	NA	NA	NA	NA	611	520
As per cent of GSDP	5.38	6.09	5.19	5.67	4.81	4.55
As per cent of RR	41.65	39.27	37.17	31.28	27.52	23.21

* *Figures as were obtained from Finance Department*

@ *Source: Finance Accounts of respective years*

Trends in table above indicate that the expenditure on salaries increased by 28 per cent from Rs.4,669 crore in 2001-02 to Rs.5,963 crore in 2006-07. The expenditure on salary both as a percentage of GSDP and revenue receipt declined over the period 2002-07. Actual salary expenditure at Rs.5,963 crore in 2006-07 was less than the projections in MTFPS (Rs.7,040 crore). The salary bill relative to revenue expenditure net of interest payments and pensions at 36 per cent was marginally higher than the norm of 35 per cent recommended by the TFC.

1.4.3.2 Pension Payments

Table-15: Expenditure on Pensions

(Rupees in crore)

Heads	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Expenditure on Pensions	1010.76	1082.68	1197.27	1329.89	1557.14	1751.69
As per cent of GSDP	1.16	1.25	1.17	1.22	1.32	1.34
As per cent of RR	9	8	8	7	8	7

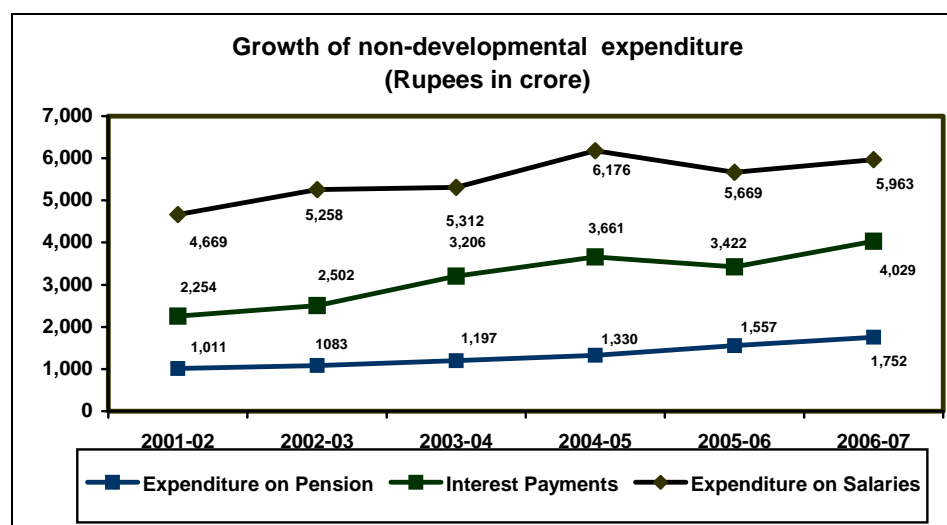
TFC adopted an annual growth rate of 10 per cent and applied it to base year estimated to generate payment levels in the forecast period. It was however observed that pension payments grew at the rate of 13 per cent from Rs.1,557 crore in 2005-06 to Rs.1,752 crore during 2006-07. Increase was noticed mainly under superannuation and retirement allowance (Rs.143.97 crore), family pension (Rs.40.64 crore) and gratuity (Rs.8.92 crore). Actual pension payment at Rs.1,752 crore in 2006-07 was marginally less than Rs.1,766 crore projected in MTFPS as well as Rs.1,760 crore projected by TFC.

1.4.3.3 Interest payments

Table-16: Interest payments

Year	Total Revenue Receipts	Interest Payments	Percentage of Interest payments with reference to	
	(Rupees in crore)	(Rupees in crore)	Total Revenue Receipts	Revenue Expenditure
2001-02	11211	2254	20.11	15.69
2002-03	13391	2502	18.68	17.18
2003-04	14289	3206	22.43	17.08
2004-05	19743	3661	18.54	20.31
2005-06	20597	3422	16.61	16.64
2006-07	25694	4029	15.68	18.02

Interest payments increased at the rate of 17.74 *per cent* from Rs.3,422 crore during 2005-06 to Rs.4,029 crore during 2006-07 and accounted for 15.68 *per cent* of the revenue receipts and 18.02 *per cent* of revenue expenditure during 2006-07. The increase was mainly due to more quantum of loan from National Small Savings Fund (NSSF) which carried interest @9.5% per annum. During the year, interest payments were on market loans (Rs.906 crore), special securities issued to NSSF of the Central Government by the State Government (Rs.1,230 crore), Other Internal Debt (Rs.569 crore), State Provident Funds (Rs.495 crore) and loans borrowed from the Central Government (Rs.718 crore) and other obligations (Rs.106 crore). The increase in interest payments during 2006-07 over previous year was mainly on market loans (Rs.80 crore), interest on special securities issued to NSSF of central Government (Rs.284 crore), small saving and provident funds (Rs.125 crore), loans from the central Government (Rs.18 crore) and other obligations (Rs.21 crore). It was observed that interest payments as percentage to revenue receipts during the year 2006-07 were 16 *per cent* which is comparable to the norm of 15 *per cent* to be achieved by 2009-10 as per the recommendation of the TFC. Interest payments at Rs.4,029 crore paid during the year were less than the budget estimate of Rs.4145 crore given in FPSS.



1.4.3.4 Subsidies

Though the finances of the State are under strain, State Government continued to pay subsidies to various Corporations, etc. The trends in the subsidies given by the State Government are given in **Table-17**.

Table-17: Subsidies

Year	Amount of Total Subsidy (Rupees in crore)	Of which Subsidy to		Percentage increase (+)/ decrease (-) of Total Subsidy over previous year	Percent of Total Subsidy In Total Expenditure
		MPSEB	MPSRTC		
2001-02	3726.76	2037.01	1.08	(+)98.47	22.66
2002-03	3690.35	979.77	0.00	(-)0.98	21.09
2003-04	6546.88	3954.34	2.00	(+)77.41	30.24
2004-05	4723.30	1465.93	0.00	(-)27.85	17.97
2005-06	6519.46	1984.98	0.00	(+)38.03	23.27
2006-07	7110.47 (Revised Estimate)	683.37	0.00	(+)9.07	24.96

Source: Budget estimate and provided by Finance Department

Scrutiny of the details of the subsidies shown in the table above which was obtained from the Finance department and State budget revealed that these pertains to object head 'grant-in-aid'. Therefore it is not the actual subsidy paid by the State Government. Finance department intimated (April 2006) that the subsidy amount is included in the object head 'grant-in-aid' which comprises of expenditure on infrastructure, maintenance grants, discretionary grants, aided grants, grants for public relation tour, subsidy (Arthic sahayata) and others (which included subsidy also).

As no distinct object head for subsidy has been opened in the state budget, therefore, it is not possible to segregate the actual amount of subsidy paid by the State Government.

1.5 Expenditure by Allocative Priorities

1.5.1 Quality of Expenditure

The availability of better social and physical infrastructure in the State reflects its quality of expenditure. Therefore ratio of capital expenditure to total expenditure as well as to GSDP and proportion of revenue expenditure being spent on running efficiently and effectively the existing social and economic services would determine the quality of expenditure. Higher the ratio of these components to total expenditure and GSDP, the better is quality of expenditure. **Table18** gives these ratios during 2001-07.

Table 18 – Indicators of Quality of Expenditure

(Rupees in crore)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Capital Expenditure	1471	2455	2679	4951	6623	5170
<i>Of which Salary component</i>	-	-	-	-	104	108
Revenue Expenditure	14369	14560	18765	18026	20563	22363
<i>Of which Social and Economic Services</i>	8946	8709	11600	9641	11853	12456
Social and Economic Services with <i>(i) Salary component</i> <i>(ii) Non-Salary component</i>	NA	NA	NA	NA	4140 7712	4344 8112
As per cent of Revenue + Capital expenditure						
Capital Expenditure	9.29	14.43	12.49	21.55	24.36	18.78
Revenue Expenditure	90.71	85.57	87.51	78.45	75.64	81.22
As per cent of GSDP						
Capital Expenditure	1.69	2.84	2.62	4.55	5.62	3.94
Revenue Expenditure	16.56	16.85	18.35	16.55	17.45	17.06

Although the ratio of capital expenditure to total of revenue and capital expenditure showed an increasing trend during 2001-07, there was a decline in 2003-04 and 2006-07. A decline in the share of capital expenditure from 24 *per cent* in 2005-06 to 19 *per cent* in 2006-07 was mainly on account of decline in non plan capital expenditure (Rs.2,576 crore) on power projects. Revenue expenditure continues to have a dominant share in total revenue and capital expenditure which was 81 *per cent* in 2006-07. Out of revenue expenditure incurred on social and economic services during 2006-07, 35 and 65 *per cent* were incurred on salary and non-salary component respectively. As a percentage of GSDP, both the expenditures have decreased during the year as compared to previous year due to less growth of revenue expenditure, decline in capital expenditure and more growth of GSDP. While as a percentage of total revenue and capital expenditure, revenue expenditure has increased but capital expenditure has decreased during the year.

1.5.2 Expenditure on Social Services

Given the fact that the human development indicators such as access to basic education, health services and drinking water and sanitation facilities etc. have a strong linkage with economic progress and eradication of poverty, it would be prudent to make an assessment with regard to the expansion and efficient provision of these services in the State. **Table 19** summarises the expenditure incurred by the State Government in expanding and strengthening of social services in the State during 2001-07.

Table 19: Expenditure on Social Services

(Rupees in crore)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Education, Sports, Art and Culture						
Revenue Expenditure	2110	2296	2355	2552	2906	3674
<i>Of which</i>						
(a) Salary Component	NA	NA	NA	NA	1786	2261
(b) Non-Salary component	NA	NA	NA	NA	1120	1413
Capital Expenditure	16	17	20	24	42	68
Total	2126	2313	2375	2576	2948	3742
Health and Family Welfare,						
Revenue Expenditure	667	761	761	856	925	1010
<i>Of which</i>						
(a) Salary Component	NA	NA	NA	NA	596	635
(b) Non-Salary component	NA	NA	NA	NA	329	375
Capital Expenditure	21	18	38	43	64	135
Total	688	779	799	899	989	1145
Water Supply, Sanitation, Housing and Urban Development						
Revenue Expenditure	536	397	459	479	556	902
<i>Of which</i>						
(a) Salary Component	NA	NA	NA	NA	109	120
(b) Non-Salary component	NA	NA	NA	NA	447	782
Capital Expenditure	72	394	361	242	394	345
Total	608	791	820	721	950	1247
Other Social Services						
Revenue Expenditure	1270	1830	1747	1785	2271	1990
<i>Of which</i>						
(a) Salary Component	NA	NA	NA	NA	600	235
(b) Non-Salary component	NA	NA	NA	NA	1671	1755
Capital Expenditure	63	107	116	123	135	174
Total	1333	1937	1863	1908	2406	2164
Total (Social Services)						
Revenue Expenditure	4583	5284	5322	5672	6658	7576
<i>Of which</i>						
(a) Salary Component	NA	NA	NA	NA	3091	3251
(b) Non-Salary component	NA	NA	NA	NA	3567	4325
Capital Expenditure	172	536	535	432	635	722
Total	4755	5820	5857	6104	7293	8298

The expenditure on social services increased from Rs.4,755 crore in 2001-02 to Rs.8,298 crore in 2006-07 and it constituted 30.14 per cent of the total revenue and capital expenditure (Rs.27,533 crore) during 2006-07. The 'Education, sports, art and culture', 'Health and family welfare' and 'Water supply, sanitation, housing and urban development' shared 74 per cent of the total expenditure incurred on social services during 2006-07 as against 67 per cent in 2005-06. Social services (Rs.8,298 crore) accounted for 47.26 per cent of the development expenditure (Rs.17,555 crore).

The trend in revenue and capital expenditure on social services during the last five years 2002-07 revealed that the share of capital expenditure remained within the range of 7 to 9 per cent indicating the dominant share of revenue expenditure during the period. Of the revenue expenditure on social services, the non-salary expenditure has increased by 21 per cent from Rs.3,567 crore in 2005-06 to Rs.4,325 crore in 2006-07 and salary expenditure increased by 5 per cent from Rs.3,091 crore in 2005-06 to Rs.3,251 crore in 2006-07. As a result, the share of salary component has declined from 46.47 per cent in 2005-06 to 42.91 per cent in 2006-07 implying more expenditure on non-

salary components including maintenance indicating a step towards providing better quality of services.

Recognizing the need to improve the quality of education and health services, TFC recommended that the non-plan salary expenditure under education and health and family welfare should increase only by five to six *per cent* while non-salary expenditure under non-plan heads should increase by 30 *per cent* per annum during the award period. However, trends in expenditure revealed that the non plan salary component under education sector increased by 22 *per cent* over 2005-06 while non plan non-salary component increased by 24 *per cent*. Similarly under Health and Family Welfare sector, the non plan salary component increased by seven *per cent* but the non plan non-salary component increased by 17 *per cent* in 2006-07 over the previous year. The expenditure pattern especially in health services needs marginal correction in the ensuing years as per the norms of TFC.

1.5.3 Expenditure on Economic Services

The expenditure on economic services includes all such expenditures as to promote directly or indirectly, productive capacity within the States' economy. **Table 20** summarises the expenditure on economic services during 2001-07.

Table-20: Expenditure on Economic Sector

(Rupees in crore)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Agriculture, Allied Activities.						
Revenue Expenditure	1108	1226	1148	1244	1285	1638
Of which (a) Salary component	NA	NA	NA	NA	544	567
(b) Non-Salary component	NA	NA	NA	NA	741	1071
Capital Expenditure	23	34	50	59	38	47
Of which Salary component	-	-	-	-	-	-
Total	1131	1260	1198	1303	1323	1685
Irrigation and Flood Control						
Revenue Expenditure	261	251	270	300	327	341
Of which (a) Salary component	NA	NA	NA	NA	233	253
(b) Non-Salary component	NA	NA	NA	NA	94	88
Capital Expenditure	685	950	1081	1699	1254	1390
Of which Salary component	-	-	-	-	82	87
Total	946	1201	1351	1999	1581	1731
Power & Energy						
Revenue Expenditure	2037	980	3954	1466	1983	682
Of which (a) Salary component	NA	NA	NA	NA	--	--
(b) Non-Salary component	NA	NA	NA	NA	1983	682
Capital Expenditure	173	348	328	1747	3236	1086
Of which Salary component	-	-	-	-	22	21
Total	2210	1328	4282	3213	5219	1768
Transport						
Revenue Expenditure	246	224	190	140	298	438
Of which (a) Salary component	NA	NA	NA	NA	98	92
(b) Non-Salary component	NA	NA	NA	NA	200	346
Capital Expenditure	237	315	407	547	809	1218
Of which Salary component	-	-	-	-	-	-
Total	483	539	597	687	1107	1656
Other Economic Services						
Revenue Expenditure	711	744	717	819	1301	1781
Of which (a) Salary component	NA	NA	NA	NA	174	181
(b) Non-Salary component	NA	NA	NA	NA	1127	1600
Capital Expenditure	159	236	241	321	530	636
Of which Salary component	-	-	-	-	-	-
Total	870	980	958	1140	1831	2417
Total (Economic Services)						
Revenue Expenditure	4363	3425	6279	3969	5194	4880
Of which (a) Salary component	NA	NA	NA	NA	1049	1093
(b) Non-Salary component	NA	NA	NA	NA	4145	3787
Capital Expenditure	1277	1883	2107	4373	5867	4377
Of which Salary component	-	-	-	-	104	108
Total	5640	5308	8386	8342	11061	9257

The expenditure on economic services (Rs.9,257 crore) during 2006-07 accounted for 33.62 *per cent* of the total capital and revenue expenditure (Rs.27,533 crore). Expenditure on agriculture and allied activities, irrigation and flood control, energy and transport consumed nearly 73.89 *per cent* of the total economic sector during 2006-07 as against 83.45 *per cent* in 2005-06 which indicate deterioration in productive capacity of the state.

The trends in revenue and capital expenditure on economic services during 2001-07 revealed that the capital expenditure has consistently increased from Rs.1,277 crore (22.64 *per cent*) in 2001-02 to Rs.5,867 crore (53.04 *per cent*) in 2005-06 but decreased to Rs.4,377 crore (47.28 *per cent*) in 2006-07, while revenue expenditure on economic services with inter year fluctuations increased from Rs.4,363 crore (77.36 *per cent*) to Rs.4,880 crore (52.72 *per cent*) in 2006-07. Decrease of Rs.314 crore and Rs.1,490 crore in revenue and capital expenditure respectively during 2006-07 over the previous year was mainly on account of decrease of both revenue and capital expenditure on power projects. Of the revenue expenditure on economic services, the salary component has moderately increased from Rs.1,049 crore in 2005-06 to Rs.1,093 crore in 2006-07 while its non-salary component has decreased from Rs.4,145 crore to Rs.3,787 crore. As a result the share of salary component has increased by two *percentage points* in 2006-07 over previous year.

1.5.4 Financial Assistance to local bodies and other institutions

The quantum of assistance provided by way of grants and loans to local bodies and other institutions during the six years period 2001-07 is presented in **Table 21**

Table-21: Financial Assistance

	(Rupees in crore)					
	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.)	154.80	134.56	173.96	158.74	133.37	235.09
Municipal Corporations and Municipalities	430.72	506.00	557.35	320.61	1027.34	1499.61
Zilla Parishads and Other Panchayati Raj Institutions	431.90	526.29	524.58	437.82	685.98	736.45
Development Agencies	153.05	253.29	21.30	7.33	2.00	5.91
Hospitals and Other Charitable Institutions	4.60	7.08	13.71	8.67	7.14	6.49
Other Institutions	29.65	121.22	113.72	170.90	311.43	470.46 ⁵
Total	1204.72	1548.44	1404.62	1104.07	2167.26	2954.01
Assistance as per percentage of RE	8	11	7.5	6.12	10.54	13.20

The Financial Assistance to Local bodies and other institutions increased from Rs.2167.26 crore in 2005-06 to Rs.2954.01 crore in 2006-07. The increase was mainly under "Municipal Corporations and Municipalities" due to provision of assistance under Jawaharlal Nehru National Urban Renewal Mission

⁵ Includes mainly co-operative societies (Rs.173 crore), Food and civil supplies consumer protection (Rs.181 crore), Agriculture Department (Rs.56 crore), Handlooms (Rs.23 crore), Public Health Engineering (Rs.9 crore) and Culture (Rs.8 crore) and others (Rs.20 crore).

(Rs.243.33 crore); Integrated Housing and Slum Development Programme (Rs.58.87 crore) and Development of Urban Area of Dewas District (Rs.4.69 crore). The assistance as percentage of revenue expenditure increased from 10.54 per cent in 2005-06 to 13.20 per cent in 2006-07.

1.5.5 Delay in furnishing utilisation certificates

Utilisation Certificates (1,568) in respect of Grants and Loans aggregating Rs.1,292.61 crore paid up to 2006-07 were in arrears. Details of Department-wise break up of outstanding utilisation certificates are given in **Appendix 1.7**.

1.5.6 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, the Government/Heads of the Department are required to furnish to Audit every year detailed information about the financial assistance given to various institutions, the purpose of assistance granted and the total expenditure of the institutions. As of September 2007, none of the Departments of the Government furnished details for the year 2006-07.

1.5.7 Abstract of performance of the autonomous bodies

The audit of accounts of three bodies in the State has been entrusted to the Comptroller and Auditor General of India. The status of entrustment of audit, rendering of accounts to audit, issuance of Separate Audit Report and its placement in the Legislature is indicated in **Appendix 1.8**.

1.6 Misappropriations, losses, defalcations, etc

State Government reported 825 cases of misappropriation, defalcation, etc involving Government money amounting to Rupees six crore up to the period from 1965-66 to the end of March 2007 on which final action was pending. The Department-wise break up of pending cases is given in **Appendix 1.9**.

1.6.1 Write off of losses, etc

As reported to Audit, losses due to theft, fire and irrecoverable revenue, etc. amounting to Rs.1.89 crore in 30 cases were written-off during 2006-07 by competent authorities. The relevant details are given in **Appendix-1.10**.

1.7 Assets and Liabilities

In the Government Accounting, comprehensive accounting of fixed assets like land and buildings owned by the Government is not done. However, the Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred. **Appendix-1.4** 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-1.11** depicts the time series data on State Government finances for the period 2001-07.

1.7.1 Financial Results of Irrigation Works

The financial results of major, medium and minor irrigation projects showed that as against the revenue expenditure of Rs.339.45 crore during the year, revenue realised (Rs.38.75 crore) from these projects during 2006-07 was 11.42 *per cent* of revenue expenditure which was far from sufficient to meet even the expenditure on maintenance.

1.7.2 Financial Analysis of Government Investments

1.7.2.1 Investments and returns

As of 31 March 2007, Government had invested Rs.8,161.71 crore in Statutory Corporations, Rural Banks, Joint Stock Companies and Co-operatives (**Table 22**). Out of the total investment of Rs.8,161.71 crore at the end of March 2007, Rs.1,619.56 crore pertained to the composite State of Madhya Pradesh but retained in MP pending allocation between MP and Chhattisgarh State {Statutory Corporations (Rs.935.47 crore) Government Companies (Rs.199.54 crore), Co-operative Banks and Societies (Rs.483.01 crore) and Joint-Stock Companies (Rs.1.54 crore)}. The return on this investment was 0.18 *per cent* in 2006-07 while the Government paid interest at the average rate of 7.86 *per cent* on its borrowings during 2006-07.

Of these, three Statutory Corporations and 12 Government Companies with an -aggregate investment of Rs.1,501 crore up to 2006-07 were incurring losses and their accumulated losses amounted to Rs.3,378 crore as per the accounts furnished by these companies up to 2006-07 (**Appendix-1.12**). Major loss making units included Madhya Pradesh State Industrial Development Corporation Limited, Bhopal (Rs.634 crore), Madhya Pradesh Paschim Kshetra Vidyut Vitran Company Limited, Indore (Rs.200 crore), Madhya Pradesh Madhya Kshetra Vidyut Vitran Company Limited, Bhopal (Rs.305 crore), Optel Telecommunication Limited, Bhopal (Rs.112 crore), Madhya Pradesh State Electricity Board, Jabalpur (Rs.949 crore), Madhya Pradesh Road Transport Corporation (Rs.781 crore) and Madhya Pradesh Financial Corporation (Rs.227 crore).

Thus, Government needs not only to invest the high cost borrowings more judiciously to get better returns, but also address the losses on account of these sick units by disinvestments of such units. During 1996-98, Rs.710 crore were invested in Madhya Pradesh State Electricity Board which was restructured (November 2000) into Chhattisgarh and Madhya Pradesh State Electricity Boards but its assets and liabilities were yet to be redistributed.

Table-22: Return on Investment

Year	Investment at the end of the year (Rupees in crore)	Return (Rupees in crore)	Percentage of return	Average rate of interest on government borrowing (per cent)	Difference between interest rate and return
2001-02	1687.08	1.64	0.10	9.19	9.09
2002-03	1702.39	4.09	0.24	8.81	8.57
2003-04	1737.29	8.42	0.48	9.41	8.93
2004-05	4151.65	2.50	0.06	8.96	8.90
2005-06	6965.99	5.72	0.08	7.33	7.25
2006-07	8161.71	14.44	0.18	7.86	7.68

1.7.2.2 Loans and advances by State Government

In addition to investments in Co-operative societies, Corporation and Companies, Government has also been providing loans and advances to many of these institutions/organizations and others. Total outstanding loans and advances as on 31 March 2007, were Rs.4,773 crore (**Table 23**). Interest received against these loans advanced was meagre and decreased from 9.49 *per cent* in 2001-02 to 0.32 *per cent* in 2006-07 with inter year fluctuations.

Table-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	2991	2002	2440	2608	5866	3848
Amount advanced during the year	599	481	204	3311	834	953
Amount repaid during the year	1588	43	36	53	2852	28
Closing Balance	2002	2440	2608	5866	3848	4773
Net addition	(-989)	438	168	3258	(-2018)	925
Interest Received	237	24	11	5	481	14
Interest received as <i>per cent</i> to average outstanding Loans and advances	9.49	1.08	0.44	0.12	9.9	0.32
Average interest rate (in <i>per cent</i>) paid on borrowings by State Government.	9.19	8.81	9.41	8.96	7.33	7.86
Difference between average interest paid and received (<i>per cent</i>)	(-)0.30	7.73	8.97	8.84	(-)2.57	7.54

It was observed that 46 *per cent* (Rs.2,211 crore) of outstanding loans and advances (Rs.4,773 crore) as on 31 March 2007 is to be recovered from the MPSEB and its successor companies. During 2005-06, Finance Accounts had shown a recovery of Rs.2749.36 crore from MPSEB and also indicated an adjustment of the amount as investment in successor companies during the year. The average interest paid on borrowing at the rate of 7.86 *per cent* was more than interest received at the rate of 0.32 *per cent* on Loans and Advances given by the State Government during 2006-07. The recovery of loans and advances at Rs.28 crore during the year was less than the budget estimate of Rs.43.69 crore as well as the revised estimate of Rs.58 crore for the year.

1.7.3 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 expenditure obligations, a mechanism of Ways and Means Advances (WMA) – ordinary and special – from Reserve Bank of India has been put in place. During the year, the State has not availed any Ways and Means Advances. Ways and Means Advances and Overdrafts

availed, the number of days it was availed during 2001-2007 and interest paid by the State is detailed in **Table 24**.

Table-24: Ways and Means and Overdrafts of the State

(Rupees in crore)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Ways and Means Advances						
Availed in the Year	2491.64	2306.65	5330.26	2234.74	Nil	Nil
Outstanding WMAs, if any	--	--	266.78	--	Nil	Nil
Interest Paid	10.51	11.55	14.06	3.75	Nil	Nil
Number of Days	117	103	200	127	Nil	Nil
Overdraft						
Availed in the year	3722.79	4140.40	1083.54	--	Nil	Nil
Number of Days	172	176	60	--	Nil	Nil
Interest Paid	5.08	6.69	3.41	--	Nil	Nil

1.8 Undischarged Liabilities

The FRBM Act, 2005, describes "Total Liabilities" as the liabilities under the Consolidated fund of the State and the Public Accounts of the State and includes risk weighted guarantee obligations of the State Government where the principal and/or interest are to be serviced out of the State Budget.

1.8.1 Fiscal Liabilities

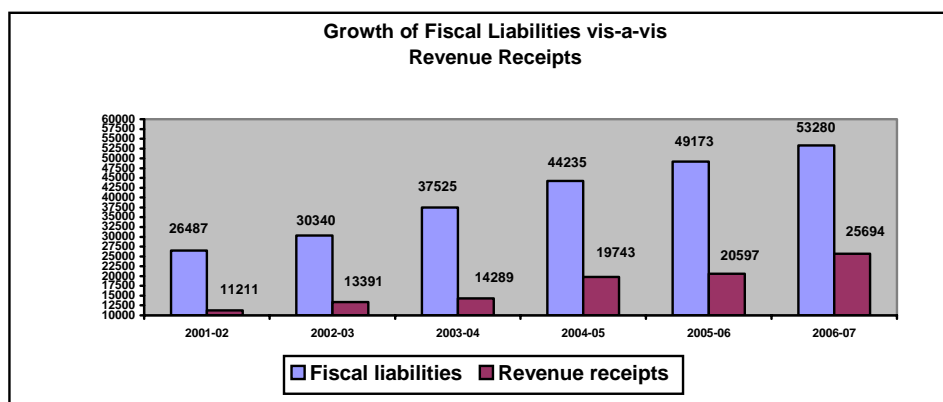
There are two sets of liabilities namely, public debt and other liabilities. Public debt consists of internal debt of the State and is reported in the Annual Financial Statements under the Consolidated Fund – Capital Accounts. It includes market loans, special securities issued by RBI and loans and advances from the Central Government. The Constitution of India provides that a State may borrow, within the territory of India, upon the security of its Consolidated Fund, within such limits, as may from time to time, be fixed by an Act of its Legislature and give guarantees within such limits as may be fixed. Other liabilities, which are a part of public account, include deposits under small savings scheme, provident funds and other deposits.

Table-25 gives the fiscal liabilities of the State, its rate of growth, ratio of these liabilities to GSDP, to revenue receipts and to own resources as also the buoyancy of fiscal liabilities with respect to these parameters.

Table-25: Fiscal Liabilities – Basic Parameters

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Fiscal Liabilities ⁶ (Rupees in crore)	26487	30340	37525	44235	49173	53280*
Rate of Growth (<i>per cent</i>)	17.46	14.55	23.68	17.88	11.16	8.35
Ratio of Fiscal Liabilities to						
GSDP (<i>per cent</i>)	30.52	35.11	36.69	40.62	41.74	40.64
Revenue Receipts (<i>per cent</i>)	236.26	226.57	262.61	224.05	238.74	207.36
Own Resources (<i>per cent</i>)	421.70	388.97	453.80	361.54	434.28	405.76
Buoyancy of Fiscal Liabilities to						
GSDP (ratio)	1.67	(-)32.33	1.29	2.76	1.36	0.74
Revenue Receipts (ratio)	(-)1.38	0.75	3.53	0.47	2.58	0.34
Own Resources (ratio)	(-)1.19	0.60	3.94	0.37	(-) 1.50	0.52

* Includes Rs.662 crore not yet apportioned between Madhya Pradesh and Chhattisgarh.



Overall fiscal liabilities of the state increased from Rs.26,487 crore in 2001-02 to Rs.53,280 crore in 2006-07. The growth rate decreased to 8.35 *per cent* during 2006-07 as against 11.16 *per cent* in 2005-06. The increase of fiscal liabilities of Rs.4,107 crore during the year 2006-07 was mainly due to increase in internal debt of the Government (Rs.3,183 crore) mainly under market loans (Rs.1,063 crore), loans from the national agriculture credit fund of the RBI (Rs.404 crore) and NSS fund of the central Government (Rs.2,045 crore) and non interest bearing obligations such as civil deposits, deposits of local fund, earmarked funds etc. (Rs.1,101 crore). The ratio of fiscal liabilities to GSDP also increased from 30.52 *per cent* in 2001-02 to 40.64 *per cent* in 2006-07. These liabilities stood at 2.07 times the revenue receipts and 4.06 times of the State own resources at the end of 2006-07. The fiscal liabilities had grown faster than the State's GSDP during 2001-06 but in 2006-07, the growth of GSDP was more than fiscal liabilities. The buoyancy of these liabilities with respect to GSDP was decreased from 1.36 in 2005-06 to 0.74

⁶ Includes in Fiscal Liabilities all internal debt, loans and advances from GOI, small savings, provident funds etc., interest bearing obligations such as depreciation reserve fund of commercial undertakings, deposits and non-interest bearing obligations such as deposits of local fund, civil deposit and other earmarked fund.

during the year indicating that for each one *per cent* increase in GSDP, fiscal liabilities grew by 0.74 *per cent* during 2006-07. The buoyancy of fiscal liability to revenue receipt also decreased from 2.58 in 2005-06 to 0.34 in 2006-07. This indicated improvement in debt management. The FRBM Act, 2005 prescribed the target to limit the liabilities so that total liabilities do not exceed 40 *per cent* on the estimated GSDP of that year within a period of 10 years i.e. 31 March 2015. It was observed that this ratio was 40.64 *per cent* during the year. The ratios of fiscal liabilities to GSDP and revenue receipts during the year were 40.64 *per cent* and 207.36 *per cent* respectively which were less than the corresponding budget estimate of 52.19 and 279.70 *per cent* respectively.

Sinking fund for amortization of all loans, including loans from bank, liabilities on account of securities issued to NSSF etc. has not been set up by the State Government. The state Government is of the view that except where it may be obligatory to do so, provision for amortization of loans received from the GOI should be made out of revenue only where sufficient revenue resources are available to finance such amortization arrangements. They have not considered it necessary to make arrangements for amortization of any such loans.

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 2006-07 since 2001-02 is given in **Table 26**.

Table-26: Guarantees given by the Government of Madhya Pradesh

(Rupees in crore)

Year	Max amount guaranteed	Outstanding amount of guarantees	Percentage of maximum amount guaranteed to total revenue receipt
2001-02	9701.32	471.49	86.53
2002-03	11572.37	584.65	86.41
2003-04	12131.29	973.72	84.89
2004-05	12506.62	2016.27	63.34
2005-06	12636.80	613.37*	61.35
2006-07	12424.26	865.82*	48.35

* *To the extent information was available in the Finance Account.*

The outstanding amount of guarantees is in the nature of contingent liability, which was 3.37 *per cent* of Revenue Receipts. Guarantees have been given by the State Government for the discharge of certain liabilities like loans raised by statutory corporations, Government companies, Joint Stock companies, Co-operative institutions, local bodies, firms and individuals etc. No limit has been fixed within which the government may give guarantee on the security of the consolidated fund of the State. During the year 2006-07, Rs.12,424 crore was guaranteed by the State Government, out of which Rs.866 crore was

outstanding at the end of the year. Out of Rs.866 crore outstanding guarantee, Rs.82 crore were outstanding on account of interest. The State Government has constituted a Guarantee Redemption Fund amounting to Rs.103.71 crore during 2005-06. At the end of year 2006-07, there was closing balance of Rs.205.31 crore under Fund and Investment Account. The FRBM Act, 2005 prescribes the fiscal target to limit annual incremental guarantees so as to ensure that the total guarantees do not exceed 80 *per cent* of the total revenue receipts in the year proceeding the current year. The outstanding amount of Rs.866 crore guaranteed by the State Government during 2006-07 was 4.20 *per cent* of total revenue receipt in the year preceding the current year. If the contingent liability on account of outstanding amount of guarantee Rs.866 crore are not met by the borrowers it will be a liability on the consolidated fund of State and the fiscal liability would thus increase to that extent. In that case, the debt GSDP ratio would marginally increase to 41.30 *per cent*.

1.9 Debt Sustainability

The 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 stabilization in terms of debt/GSDP ratio.

1.9.1 Debt Stabilization

A necessary condition for stability states that if the rate of growth of economy exceeds the interest rate or cost of public borrowings, the debt-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 rate spread), debt sustainability condition states that if quantum spread together with primary deficit is zero, debt-GSDP ratio would be constant or debt would stabilize eventually. On the other hand, if primary deficit together with quantum spread turns out to be negative, debt-GSDP ratio would be rising and in case it is positive, debt-GSDP ratio would eventually be falling. Trends in fiscal variables indicating the progress towards the debt stabilization are indicated in **Table 27**.

Table-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	9.19	8.81	9.41	8.96	7.33	7.86
GSDP Growth	10.46	(-)0.45	18.36	6.49	8.19	11.26
Interest spread	1.27	(-)9.26	8.95	(-)2.47	0.86	3.40
Outstanding Liabilities (Rupees in crore)	22548	26487	30340	37525	44235	49173
Quantum Spread (Rupees in crore)	286	(-)2453	2715	(-)927	380	1672
Primary Deficit(-)/Surplus(+) (Rupees in crore)	(-)1391	(-)1560	(-)4117	(-)2831	(-)1149	(+)1274

An analysis of primary deficit vis-à-vis quantum spread revealed that their sums turns out to be negative in each year of the period 2001-06 indicating rising debt-GSDP ratio during the period. But in 2006-07, the State has improved and achieved primary surplus of Rs.1274 crore, as a result primary surplus vis-à-vis quantum spread turns out to positive which indicated the declining trend in debt-GSDP ratio which if continued would improve the debt sustainability of the State.

1.9.2 Sufficiency of Non-debt Receipts

Another indicator for debt stability and its sustainability is the adequacy of incremental non-debt receipts of the State to cover the incremental interest liabilities and incremental primary expenditure. The debt sustainability could be significantly facilitated if the incremental non-debt receipts could meet the incremental interest burden and the incremental primary expenditure. **Table-28** indicates the resource gap as defined for the period 2002-07.

Table 28: Incremental non-debt receipts and Total 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	(-)53	210	(-)157	53	(-)106
2002-03	635	804	248	1052	(-)417
2003-04	891	3448	704	4152	(-)3261
2004-05	5451	4185	455	4640	811
2005-06	3653	1971	(-)239	1732	1921
2006-07	2282	(-)141	607	466	1816

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. During the first three years (2001-04), the incremental non debt receipts were not enough to meet the incremental requirements of the primary expenditure resulting in negative resource gap on account of fiscal activities transacted during the year. In subsequent three years (2004-07), non debt receipts increased sharply and met not only the additional requirement on primary account but after meeting the incremental interest liabilities resulted in a positive resource gap indicating towards the increasing capacity of the State to sustain the debt in the medium to long run.

1.9.3 Net availability of funds

The debt sustainability of the State also depends on (i) the ratio of the debt redemption (Principal + Interest Payments) to total debt receipts and (ii) application of available borrowed funds. The ratio of debt redemption to debt receipts indicates the extent to which the debt receipts are used in debt redemption indicating the net availability of borrowed funds. The solution to the government debt problem lies in application of borrowed funds, i.e. these are (a) not being used for financing revenue expenditure; and (b) being used

efficiently and productively for capital expenditure which either provides returns directly or results in increased productivity of the economy in general which may result in increase in government revenue.

Table-29 below gives the position of the receipt and repayment of internal debt and other fiscal liabilities of the State as well as the net availability of the borrowed funds over the last six years.

Table-29: Net Availability of Borrowed Funds

(Rupees in crore)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Internal Debt						
Receipt	1830	3169	7949	6968	4867	4172
Repayment (Principal + Interest)	906	1105	1857	3061	2806	3699
Net Fund Available	924	2064	6092	3907	2061	473
Net Fund Available (<i>per cent</i>)	50	65	77	56	42	11
Loans and Advances from GOI						
Receipt	1451	1780	1723	1881	294	431
Repayment (Principal + Interest)	1368	2468	3158	3052	1115	1460
Net Fund Available	83	(-688)	(-1435)	(-1171)	(-821)	(-1029)
Net Fund Available (<i>per cent</i>)	6	(-39)	(-83)	(-62)	(-279)	(-239)
Other obligations						
Receipt	3863	4752	5122	5698	5904	6475
Repayment (Principal + Interest)	3195	4777	5720	5364	5615	5818
Net Fund Available	668	(-25)	(-598)	334	289	657
Net Fund Available (<i>per cent</i>)	17	(-1)	(-12)	6	5	10
Total liabilities						
Receipt	7144	9701	14794	14547	11065	11078
Repayment (Principal + Interest)	5469	8350	10735	11477	9536	10977
Net Fund Available	1675	1351	4059	3070	1529	101
Net Fund Available (<i>per cent</i>)	23	14	27	21	14	1

The net funds available on account of internal debt and loans and advances from Government of India after providing for the interest and repayments and other obligations decreased from 14 *per cent* in 2005-06 to one *per cent* in 2006-07 mainly due to more repayment (including interest) of Loans and Advances from GOI than the receipt.

Out of receipt of Rs.4,172 crore under Internal Debt, the State Government raised market loans of Rs.1,420 crore during the year at an average interest rate of 8.30 *per cent* per annum and Rs.2,120.93 crore from National Small Savings Fund at the rate of 9.5 *per cent* per annum. The State Government borrowed Rs.431 crore at the rate of 9 *per cent* per annum from Government of India. The receipt of Loans and Advances from Government of India has increased from Rs.294 crore in 2005-06 to Rs.431 crore in 2006-07 due to more receipt of Block Loans (Rs.137.55 crore) under "Loan for State/Union Territories Plan Scheme". Similarly, the repayment has increased from Rs.1,115 crore in 2005-06 to Rs.1,460 crore which include debt relief of Rs.726 crore and payment of interest (Rs.717 crore) in 2006-07 under the same head as above. Repayments of internal debt (Rs.3,699 crore) and Loans and advances from GOI (Rs.1,460 crore) include payment of interest of Rs.3,427 crore (66 *per cent*) and debt relief of Rs.726 crore (14 *per cent*) with only Rs.1,006 crore (20 *per cent*) for repayment of principal debt. This indicated that most of the amount of repayment was utilized for payment of

interest. As on 31 March 2007, 34 per cent of the existing market loans of the State Government carried an interest rate exceeding 10 per cent.

1.10 Management of deficits

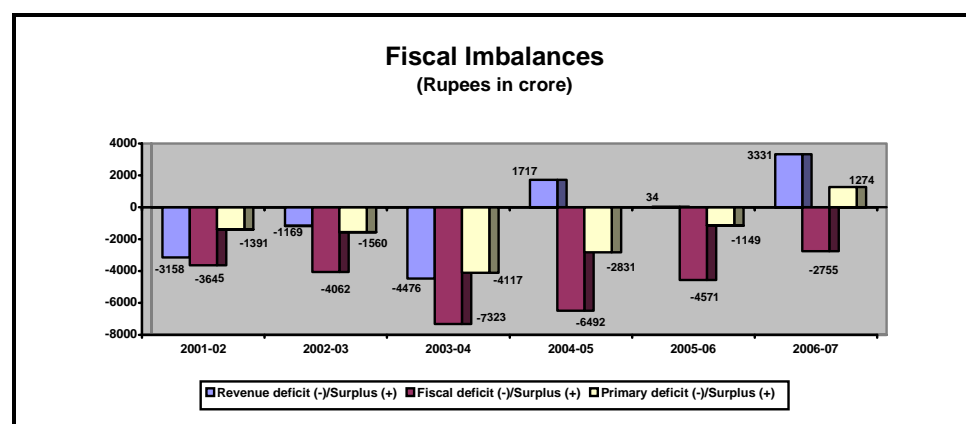
The deficit in the Government accounts represents the gap between its receipts and expenditure. The nature of deficit is an indicator of the prudence of fiscal management of the Government. Further, the ways in which the deficit is financed and the resources so raised are applied are important pointers to the fiscal health. The trends in fiscal parameters depicting the position of fiscal equilibrium in the State are presented in **Table 30**.

Table-30: Fiscal Imbalances: Basic Parameters

Parameters	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Revenue deficit (-)/ Revenue Surplus (+) (Rupees in crore)	(-) 3158	(-) 1169	(-) 4476	(+) 1717	(+) 34	(+)3331
Fiscal deficit (Rupees in crore)	(-)3645	(-)4062	(-)7323	(-)6492	(-)4571	(-)2755
Primary deficit (-)/Surplus(+) (Rupees in crore)	(-)1391	(-)1560	(-)4117	(-)2831	(-)1149	(+)1274
RD/GSDP (per cent)	3.64	1.35	4.38	1.58*	0.03*	2.54*
FD/GSDP (per cent)	4.20	4.70	7.16	5.96	3.88	2.10
PD/GSDP (per cent)	1.60	1.81	4.03	2.60	0.98	0.97**
RD/FD (per cent)	86.64	28.78	61.12	NA	NA	NA

* Figure pertains to RS/GSDP.

** Figure pertains to PS/GSDP.



1.10.1 Trends in Deficits

The revenue deficit of the State indicates the excess of its revenue expenditure over revenue receipts. The State had a revenue surplus during 2004-05 to 2006-07. The revenue surplus of Rs.34 crore during 2005-06 increased to Rs.3,331 crore during 2006-07. An increase of 24.75 per cent (Rs.5,097 crore) in revenue receipts during 2006-07 in comparison to that of 8.75 per cent (Rs.1,800 crore) in revenue expenditure over 2005-06 resulted in rise in revenue surplus during 2006-07. The higher rate of growth of revenue receipts was largely on account of increase of Rs.1,747 crore (27.6 per cent) in central tax transfers and Rs.1,541 crore (52.5 per cent) in grants-in-aid from Central

Government over the level of 2005-06 along with an increase of Rs.1,358 crore (14.9 *per cent*) in own taxes. Besides, a contra entry of debt waiver of Rs.726.12 crore as receipts under Miscellaneous General services also provided a cushion to revenue receipts during the year. A lower growth of revenue expenditure was mainly due to sharp fall in non plan revenue expenditure in Power sector as compared to previous year.

The fiscal deficit which represents the total borrowing of the Government and its total resources gap decreased consistently from Rs.7,323 crore in 2003-04 to Rs.2,755 crore in 2006-07. Despite an increase of Rs.3,297 crore in revenue surplus during the year, fiscal deficit declined by Rs.1,816 crore mainly on account of a sharp decline in non-debt capital receipts (Rs.2,815 crore) as well as in capital expenditure on power projects (Rs.2,151 crore) during 2006-07 relative to the previous year. Given the decline in fiscal deficit (Rs.1,816 crore) and increase in interest payments (Rs.607 crore), primary deficit of Rs.1,149 crore in 2005-06 converted into primary surplus of Rs.1,274 crore in 2006-07.

1.10.2 Quality of Deficit/Surplus

The ratio of RD to FD and the decomposition of Primary deficit⁷ into primary revenue deficit⁸ and capital expenditure (including loans and advances) would indicate the quality of deficit in the States' finances. The ratio of revenue deficit to fiscal deficit indicates the extent to which borrowed funds were used for current consumption. The ratio of RD to FD which declined from 87 *per cent* in 2001-02 to 61 *per cent* in 2003-04 and thereafter the revenue account turned into surplus. This trajectory shows a consistent improvement in the quality of the deficit and the borrowed funds were used in activities resulting in expansion in the asset backup of the State.

The bifurcation of factors resulting into primary deficit or surplus of the State during the period 2001-07 reveals (**Table-31**) that the State has experienced the primary revenue surplus throughout this period except in 2003-04 but it increased significantly from Rs.684 crore in 2001-02 to Rs.7,397 crore in 2006-07. In other words, non-debt receipts of the State were enough to meet the primary expenditure⁹ requirements in the revenue account, rather left some receipts to meet the expenditure under the capital account. The State experienced the primary deficit when total non-debt receipts fell short of the total primary expenditure during 2001-06. But in 2006-07 the State achieved primary surplus which indicates that the State has met its primary expenditure requirement out of its non-debt receipts.

⁷ *Primary deficit defined as the fiscal deficit net of interest payments indicates the extent of deficit which is an outcome of the fiscal transactions of the State during the course of the year.*

⁸ *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.*

⁹ *Primary expenditure of the State defined as the total expenditure net of the interest payments indicates the expenditure incurred on the transactions undertaken during the year.*

Table-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	12,799	12,115	1,476	599	14,190	684	(-)1,391
2002-03	13,434	12,058	2,455	481	14,994	1,376	(-)1,560
2003-04	14,325	15,559	2,679	204	18,442	(-)1,234	(-)4,117
2004-05	19,796	14,365	4,951	3,311	22,627	5,431	(-)2,831
2005-06	23,449	17,141	6,623	834	24,598	6,308	(-)1,149
2006-07	25,731	18,334	5,170	953	24,457	7,397	1,274

1.11 Fiscal Ratios

The finances of a State should be sustainable, flexible and non-vulnerable. **Table-32** below presents a summarized position of Government finances over 2001-07, with reference to certain key indicators that help to assess the adequacy and effectiveness of available resources and their applications, highlights areas of concern and captures its important facets.

Table-32: Indicators of Fiscal Health (in per cent)

Fiscal Indicators	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
I Resource Mobilisation						
Revenue Receipt/GSDP	12.92	15.50	13.97	18.13	17.48	19.60
Revenue Buoyancy	(-)1.21	(-)43.22	0.37	5.88	0.53	2.20
Own Tax/GSDP	5.39	7.14	6.64	7.14	7.74	7.99
II Expenditure Management						
Total Expenditure/GSDP	18.95	20.25	21.17	24.14	23.78	21.73
Revenue Receipts/Total Expenditure	68.18	76.54	66.01	75.10	73.51	90.20
Revenue Expenditure/Total Expenditure	87.38	83.22	86.68	68.57	73.39	78.51
Salary &Wage expenditure on Social and Economic Services / Revenue Expenditure	NA	NA	NA	NA	20.13	19.42
Non-Salary &Wage expenditure on Social and Economic Services / Revenue Expenditure	NA	NA	NA	NA	37.50	36.27
Capital Expenditure/Total Expenditure	8.95	14.03	12.38	18.83	23.64	18.15
Capital Expenditure on Social and Economic Services/Total Expenditure.	8.81	13.82	12.20	18.27	23.20	17.90
Buoyancy of TE with RR	(-)0.03	0.33	3.54	0.56	1.52	0.07
Buoyancy of RE with RR	(-)0.32	0.07	4.31	(-)0.10	3.25	0.35
III Management of Fiscal Imbalances						
Revenue deficit (-)/ surplus(+)(Rs in crore)	(-)3158	(-)1169	(-)4476	(+)1717	(+)34	(+)3331
Fiscal deficit(-)/surplus(-) (Rs in crore)	(-)3645	(-)4062	(-)7323	(-)6492	(-)4571	(-)2755
Primary Deficit (-)/ surplus(+)(Rs in crore)	(-)1391	(-)1560	(-)4117	(-)2831	(-)1149	(+)1274
Revenue Deficit/Fiscal Deficit	86.64	28.78	61.12	NA	NA	NA
IV Management of Fiscal Liabilities						
Fiscal Liabilities/GSDP	30.52	35.11	36.69	40.62	41.74	40.64
Fiscal Liabilities/RR	236.26	226.57	262.61	224.05	238.74	207.36
Buoyancy of FL with RR	(-)1.38	0.75	3.53	0.47	2.58	0.34
Buoyancy of FL with Own Receipts	(-)1.19	0.60	3.94	0.37	(-)1.50	0.52
Primary deficit vis-à-vis quantum spread	(-)1105	(-)4013	(-)1402	(-)3758	(-)769	(+)2946
Net Funds Available	23	14	27	21	14	1
V Other Fiscal Health Indicators						
Return on Investment	0.10	0.24	0.48	0.06	0.08	0.18
Balance from Current Revenue(Rs in crore)	(-)1811	791	(-)3057	2909	2081	5294
Financial Assets/Liabilities ¹⁰	0.71	0.71	0.65	0.75	0.77	0.85

The ratio of revenue receipts and states own taxes to GSDP indicates the adequacy of the resources. The buoyancy of the revenue receipts especially of

¹⁰ Assets and some of the liabilities are yet to be apportioned and transferred to Chhattisgarh.

State's own resources indicates States access to resources with an enlargement of base in terms of GSDP. The ratio of total revenue receipts as well as of State's own taxes to GSDP had indicated an increasing trend during the period 2001-07 with a marginal dip in 2003-04.

Various ratios concerning the expenditure management of state indicate quality of its expenditure and sustainability of these in relation to its resource mobilization efforts. While the ratio of revenue expenditure to total expenditure declined from 87 *per cent* in 2001-02 to 79 *per cent* in 2006-07 with wide inter year variations but it continues to share the dominant portion of the total expenditure of the State Government. The capital expenditure relative to total expenditure had indicated a consistent improvement especially it rose sharply during the last three years (2004-07) with wide variations due to government's investment in power sector in various forms during these years. Increasing reliance on revenue receipts to finance the total expenditure which increased to 90 *per cent* during 2006-07 indicates decreasing dependence on borrowed funds and improvement in fiscal deficit. This is also reflected by the decreasing trend in fiscal liabilities to revenue receipts ratio during the period 2001-07.

The continued prevalence of revenue surplus during the last three years (2004-07), a turnaround in primary account with surplus in 2006-07 and a consistent decline in fiscal deficit since 2003-04 are the pointers towards an improvement in fiscal position of the state. The Balance from Current Revenue (BCR) which became positive during 2004-07 indicating ample funds were available for creation of assets and to meet the plan requirements of the State.

1.12 Conclusion

The key fiscal parameters – revenue, fiscal and primary deficits - reveal a significant improvement in the fiscal situation of the State during 2006-07 over the previous year. The revenue surplus of Rs.3,331 crore in 2006-07 from the level of Rs.34 crore in the previous year however needs to be assessed in view of the fact that 64.5 *per cent* of incremental revenue receipts (Rs.5,097 crore) were contributed by increase of central transfers comprising of State's share in Union pool of taxes and duties (Rs.1,748 crore) and grants in aid from government of India (Rs.1,541 crore) in 2006-07 over the previous year. Moreover, of the total increase of Rs.1,808 crore in State's own resources, around 40 *per cent* was on account of contra entry of debt waiver booked as miscellaneous general receipts during the year. The expenditure pattern of the State reveals that the revenue expenditure as a *percentage* to total expenditure varied within a range of 79-87 *per cent* during the period 2001-07 leaving inadequate resources for expansion of services and creation of assets. Moreover, within the revenue expenditure, NPRE at Rs.16,911 crore in 2006-07 was although marginally lower than the projection of the State in its MTFPS but remained significantly higher than the normative assessment of Rs.14,173 crore made by TFC for the year. Further, three components – salary expenditure, pension liabilities and interest payments – constitute about 2/3rd of the NPRE during 2006-07. These trends in expenditure indicate the need for

change in allocative priorities. The increasing fiscal liabilities due to continued prevalence of fiscal deficit accompanied with negligible rate of return on government investments and inadequate interest cost recovery on loans and advances might put a fiscal stress on the State in medium to long run unless a suitable measures are initiated to make the investments including loans and advances commercially viable; to compress the non plan revenue expenditure and to mobilize the additional resources both through the tax and non tax sources in ensuing years.