

1.1 Introduction

The Finance Accounts of the Government of Maharashtra 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 Maharashtra. The lay out of the Finance Accounts is depicted in the box below:

Box 1.1: Lay out of Finance Accounts

Statement No.1 presents the summary of transactions of the State Government – receipts and expenditure, revenue and capital, public debt receipts and disbursements *etc.* in the Consolidated Fund, Contingency Fund and Public Account of the State.

Statement No.2 contains the summarised statement of capital outlay showing progressive expenditure to the end of 2004-05.

Statement No.3 gives financial results of irrigation works, their revenue receipts, working expenses and maintenance charges, capital outlay, net profit or loss, *etc.*

Statement No.4 indicates the summary of debt position of the State which includes borrowing from internal debt, Government of India, other obligations and servicing of debt.

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

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

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

Statement No.8 depicts the summary of balances under Consolidated Fund, Contingency Fund and Public Account as on 31 March 2005.

Statement No.9 shows the revenue and expenditure under different heads for the year 2004-05 as a percentage of total revenue/expenditure.

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

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

Statement No.12 provides accounts of revenue expenditure by minor heads under non-plan and plan separately and capital expenditure by major head-wise.

Statement No.13 depicts the detailed capital expenditure incurred during and to the end of 2004-05.

Statement No.14 shows the details of investment of the State Government in Statutory corporations, Government companies, other joint stock companies, co-operative banks and societies, *etc.* up to the end of 2004-05.

Statement No.15 depicts the capital and other expenditure to the end of 2004-05 and the principal sources from which the funds were provided for that expenditure.

Statement No.16 gives the detailed account of receipts, disbursements and balances under heads of account relating to Debt, Contingency Fund and Public Account.

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

Statement No.18 provides the detailed account of loans and advances given by the Government of Maharashtra, the amount of loan repaid during the year, the balance as on 31 March 2005.

Statement No.19 gives the details of earmarked balances of reserve funds.

1.2 Trend of Finances with reference to previous year

Financial position of the State Government during the current year as compared to the previous year was as under:

(Rupees in crore)

| 2003-04 | Sr. No | Major Aggregates | 2004-05 |
|-------------------|------------|-----------------------------------|-------------------|
| 34370* | 1. | Revenue Receipts (2+3+4) | 41013 |
| 25162 | 2. | Tax Revenue (Net) | 30606 |
| 3549 | 3. | Non-Tax Revenue | 4119 |
| 5659 | 4. | Other Receipts | 6288 |
| 482 | 5. | Non-Debt Capital Receipts | 2041 |
| 482 | 6. | <i>Of which</i> Recovery of Loans | 2041 |
| 34852 | 7. | Total Receipts (1+5) | 43054 |
| 45501 | 8. | Non-Plan Expenditure | 51999 |
| 39135 | 9. | On Revenue Account | 46392 |
| 8335 | 10. | <i>Of which</i> Interest Payments | 8978 |
| 4464 | 11. | On Capital Account | 2856 |
| 1902 | 12. | On Loans disbursed | 2751 |
| 7280 | 13. | Plan Expenditure | 9675 |
| 3545 | 14. | On Revenue Account | 4654 |
| 3735 | 15. | On Capital Account | 5021 |
| -- | 16. | On Loans disbursed | -- |
| 52781 | 17. | Total Expenditure (13+8) | 61674 |
| 8310 | 18. | Revenue Deficit (9+14-1) | 10033 |
| 17929 | 19. | Fiscal Deficit (17-1-5) | 18620 |
| 9594 ¹ | 20. | Primary Deficit (19-10) | 9642 ¹ |

1.3 Summary of Receipts and Disbursements

Table-1 summarises the finances of the Government of Maharashtra for the year 2004-05 covering revenue receipts and expenditure, capital receipts and expenditure and public account receipts/disbursements as emerging from Statement-1 of Finance Accounts and other detailed statements.

* Lower rounding

¹ Higher rounding

**Table-1: Summary of receipts and disbursements for the year 2004-05
(Rupees in crore)**

| 2003-04 | Receipts | 2004-05 | 2003-04 | Disbursements | 2004-05 | | |
|---------------------------|--|-----------------|-----------------|--|----------------------|----------------|-----------------------------|
| Section-A: Revenue | | | | | Non Plan | Plan | Total |
| 34370.52 | I Revenue receipts | 41013.33 | 42680.06 | I Revenue expenditure | 46392.56 | 4654.10 | 51046.66 |
| 25162.16 | Tax revenue | 30605.76 | 19820.08 | General services | 22247.96* | 23.20 | 22271.16 |
| 3548.94 | Non-tax revenue | 4118.83 | 15990.32 | Social services | 14839.44 | 2709.27 | 17548.71 |
| 3389.49 | Share of Union Taxes/Duties | 3595.02 | 5883.00 | Economic services | 8465.01 ¹ | 1916.11 | 10381.12 ¹ |
| 2269.93 | Grants from Government of India | 2693.72 | 986.66 | Grants-in-aid and Contributions | 840.15 | 5.52 | 845.67 |
| Section-B: Capital | | | | | | | |
| 1435.20 | II Opening Cash balance | 2438.94 | 8199.14 | II Capital Outlay | 2855.67 | 5021.31 | 7876.98 |
| 482.16 | III Recoveries of Loans and Advances | 2040.94 | 1901.99 | III Loans and Advances disbursed | - | -- | 2750.66[#] |
| 22381.11 | IV Public debt receipts | 22188.84 | 8253.17 | IV Repayment of Public Debt | -- | -- | 10993.95[#] |
| 850.00 | V Appropriation from Contingency Fund | 300.00 | 850.00 | V Appropriation to Contingency Fund | -- | -- | 300.00[#] |
| 886.85 | VI Contingency Fund | 347.50 | 897.50 | VI Contingency Fund | -- | -- | 404.52[#] |
| 24452.02 | VII Public Account receipts | 27991.38 | 19637.06 | VII Public Account disbursements | -- | -- | 20825.15[#] |
| -- | VIII Closing Overdraft from RBI | -- | 2438.94 | VIII Closing Cash Balance | -- | -- | 2123.01[#] |
| 84857.86 | Total | 96320.93 | 84857.86 | Total | -- | -- | 96320.93 |

* Lower rounding

¹ Higher rounding

[#] Bifurcation of plan and non plan not available

1.4 Audit Methodology

Audit observations on the Finance Accounts bring out the trends in the major fiscal aggregates of receipts and expenditure in the light of time series data (**Appendix II to V**) and periodic comparisons.

The key indicators adopted for the purpose are (i) Resources by volume and sources, (ii) Application of resources, (iii) Assets and Liabilities and (iv) Management of deficits. Audit observations also take into account the cumulative impact of resource mobilisation efforts, debt servicing and corrective fiscal measures. 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 reporting parameters are depicted in the Box 1.2.

Box 1.2: Reporting Parameters

Fiscal aggregates like tax and non-tax revenue, revenue and capital expenditure, internal and external debt and revenue and fiscal deficits have been presented as percentage to the Gross State Domestic Product (GSDP) at current market prices. The New GSDP series with 1993-94 as base as published by the Director of Economics and Statistics of the State Government have been used.

For tax revenues, non-tax revenues, revenue expenditure *etc.*, buoyancy projections have also been provided for a further estimation of the range of fluctuations with reference to the base represented by GSDP.

Some of the terms used here are explained in **Appendix I**.

The accounts of the State Government are kept in three parts (i) Consolidated Fund, (ii) Contingency Fund and (iii) Public Account, as defined in Box 1.3.

Box 1.3: State Government Funds and the Public Account

| Consolidated Fund | Contingency Fund | Public Account |
|--|---|---|
| <p>All revenues received by the State Government, all loans raised by issue of treasury bills, internal and external loans and all moneys received by the Government in repayment of loans shall form one consolidated fund entitled 'The Consolidated Fund of State' established under Article 266(1) of the Constitution of India.</p> | <p>Contingency Fund of State established under Article 267(2) of the Constitution is in the nature of an imprest placed at the disposal of the Governor to enable him to make advances to meet urgent unforeseen expenditure, pending authorisation by the Legislature. Approval of the Legislature for such expenditure and for withdrawal of an equivalent amount from the Consolidated Fund is subsequently obtained, whereupon the advances from the Contingency Fund are recouped to the Fund.</p> | <p>Besides the normal receipts and expenditure of the Government which relate to the Consolidated Fund, certain other transactions enter the Government Accounts, in respect of which the Government acts more as a banker. Transactions relating to provident funds, small savings, other deposits, <i>etc.</i> are a few examples. The public moneys thus received are kept in the Public Account set up under Article 266(2) of the Constitution and the related disbursements are made from it.</p> |

State Finances by key Indicators

1.5 Resources by volumes and sources

Resources of the 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-2 shows that the total receipts of the State Government for the year 2004-05 was Rs 93,882 crore. Of these, the revenue receipts were Rs 41,013 crore, constituting 44 *per cent* of the total receipts. The balance came from borrowings, receipts from Contingency Fund and Public Account.

Table-2: Resources of Maharashtra (Rupees in crore)

| | | |
|--|-------|--------------|
| I Revenue Receipts | | 41013 |
| II Capital Receipts | | 24230 |
| Recovery of Loans and Advances | 2041 | |
| Public Debt Receipts | 22189 | |
| III Appropriation from Contingency Fund | | 300 |
| IV Contingency Fund | | 348 |
| V Public Account Receipts | | 27991 |
| a. Small Savings, Provident Fund <i>etc.</i> | 1684 | |
| b. Reserve Fund | 6461 | |
| c. Deposits and Advances | 7466 | |
| d. Suspense and Miscellaneous | 1202 | |
| e. Remittances | 11178 | |
| Total Receipts | | 93882 |

1.5.1 Revenue Receipts

Statement-11 of the Finance Accounts details the revenue receipts of the Government. The revenue receipts consist of its own tax and non-tax revenues, central tax transfers and grants-in-aid from GOI.

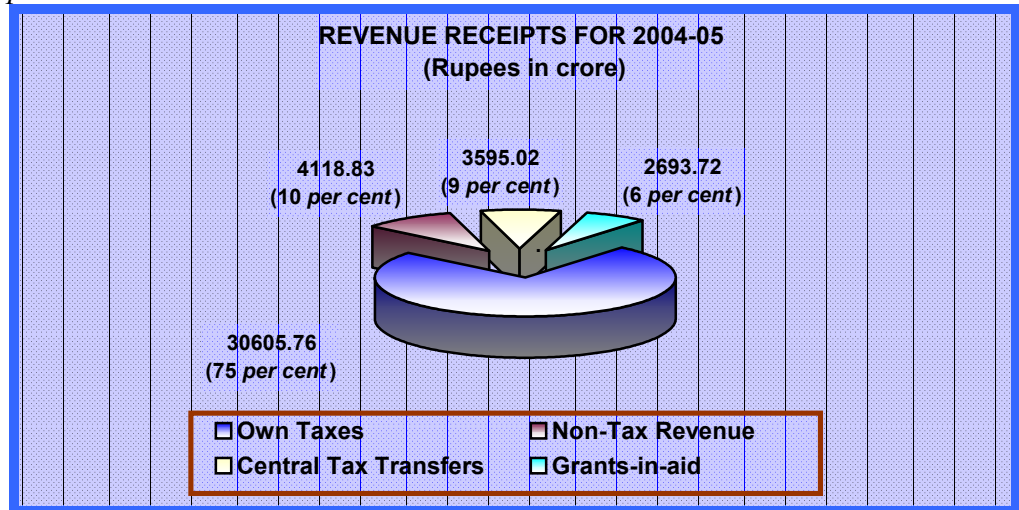
Overall revenue receipts, its annual rate of growth, ratio of these receipts to the GSDP and its buoyancies are indicated in table-3.

Table-3: Revenue Receipts - Basic Parameters

| | 2000-01 | 2001-02 | 2002-03 | 2003-04 | 2004-05 |
|--|---------|---------|---------|---------|---------|
| Revenue Receipts (RR) (Rupees in crore) | 29567 | 30093 | 31103 | 34370 | 41013 |
| Own Taxes (per cent) | 66.7 | 71.7 | 73.3 | 73.2 | 74.6 |
| Non-Tax Revenue (per cent) | 18.9 | 15.4 | 14.5 | 10.3 | 10.0 |
| Central Tax Transfers (per cent) | 9.4 | 8.7 | 7.3 | 9.8 | 8.7 |
| Grants-in-aid (per cent) | 4.9 | 5.5 | 4.8 | 6.6 | 6.5 |
| Rate of growth of RR (per cent) | 17.0 | 1.7 | 3.3 | 10.5 | 19.3 |
| RR/GSDP (per cent) | 11.4 | 11.0 | 10.5 | 10.3 | 11.5 |
| Revenue Buoyancy (ratio) | 2.264 | 0.350 | 0.383 | 0.816 | 2.769 |
| Revenue Buoyancy with reference to State's own taxes (ratio)* | 0.874 | 0.694 | 0.623 | 2.059 | 0.921 |
| GSDP Growth (per cent) | 7.51 | 5.09 | 8.76 | 12.86 | 6.97 |

The revenue receipts of the State increased from Rs 29,567 crore in 2000-01 to Rs 41,013 crore in 2004-05. It grew by about 19 *per cent* over the previous year mainly due to increase in Sales Tax (Rs 3,491 crore) as an impact of measures implemented and increase in prices of petro products and increase in taxes and duties on electricity (Rs 1,044 crore).

While 85 *per cent* of the revenue during 2004-05 came from the State's own resources, central tax transfers and grants-in-aid together contributed only 15 *per cent* of the total revenue.



Sales Tax was the major contributor (62 *per cent*) of tax revenue followed by Stamps and Registration fees (13 *per cent*), State Excise (7 *per cent*) and Taxes on Vehicles (4 *per cent*). Of non-tax revenue sources, Interest receipts (18 *per cent*), Miscellaneous General Services (18 *per cent*), Dairy Development (16 *per cent*) and Non-ferrous mining and metallurgical industries (14 *per cent*) were the principal contributors.

The Medium Term Fiscal Reforms Programme (MTFRP) agreed to (October 2002) by the Government of Maharashtra with GOI provides for improving

* It represents ratio of percentage growth of Revenue Receipts to percentage growth of State's own taxes.

cost recoveries for Government services by enhancing user charges periodically and bringing new areas of Government services for cost recovery. Non-tax revenue in nominal terms has, however, steadily declined from Rs 5,596 crore in 2000-01 to Rs 3,549 crore in 2003-04 but increased to Rs 4,119 crore in 2004-05. The current levels of cost recovery in supply of goods and services by Government are 0.07 *per cent* for secondary education, 0.30 *per cent* for university and higher education, 4.67 *per cent* for technical education, 6.39 *per cent* in health and family welfare, 1.71 *per cent* in water supply and sanitation, 15.11 *per cent* in minor irrigation and 57.80 *per cent* in major and medium irrigation.

The arrears of revenue increased by 83 *per cent* from Rs 6,866 crore as of March 2004 to Rs 12,584 crore as of March 2005. Arrears mainly pertained to taxes on Sales, Trade *etc.* (Rs 12,381 crore) and Motor Vehicles (Rs 191 crore). The arrears of revenue, however, do not reflect the position of total arrears, as information from all departments was not made available.

The source of receipts under different heads as well as GSDP during 2000-05 is indicated in table-4.

Table-4: Source of Receipts – Trends (Rupees in crore)

| Year | Revenue Receipts | Capital Receipts | | | | Total Receipts | Gross State Domestic Product |
|---------|--------------------|--------------------------------|-------------------|---------------------------|----------------------------|----------------|------------------------------|
| | | Non-Debt Receipts ⁺ | Debt Receipts | Contingency Fund Receipts | Accruals in Public Account | | |
| 2000-01 | 29567 | 3295 | 6744 | 367 | 38319 | 78292 | 258272 |
| 2001-02 | 30093 | 898 | 8671 | 306 ¹ | 42369 | 82337 | 271406 |
| 2002-03 | 31103 | 919 | 9759 ¹ | 466 | 44867 | 87114 | 295191 ^A |
| 2003-04 | 34370 [*] | 1332 | 22381 | 887 | 24452 | 83422 | 333145 ^A |
| 2004-05 | 41013 | 2341 | 22189 | 348 | 27991 | 93882 | 356375 ^B |

1.6 Application of resources

1.6.1 Trend of growth of total expenditure

Statement 12 of the Finance Accounts depicts the detailed revenue expenditure by minor heads and capital expenditure by major heads. The total expenditure of the State increased from Rs 41,138 crore in 2000-01 to Rs 61,674 crore in 2004-05.

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-5.

⁺ Including Appropriation from Contingency Fund, Inter State Settlement and Recoveries of Loans and Advance.

^A Based on Economic Survey of Maharashtra.

^{*} Lower rounding

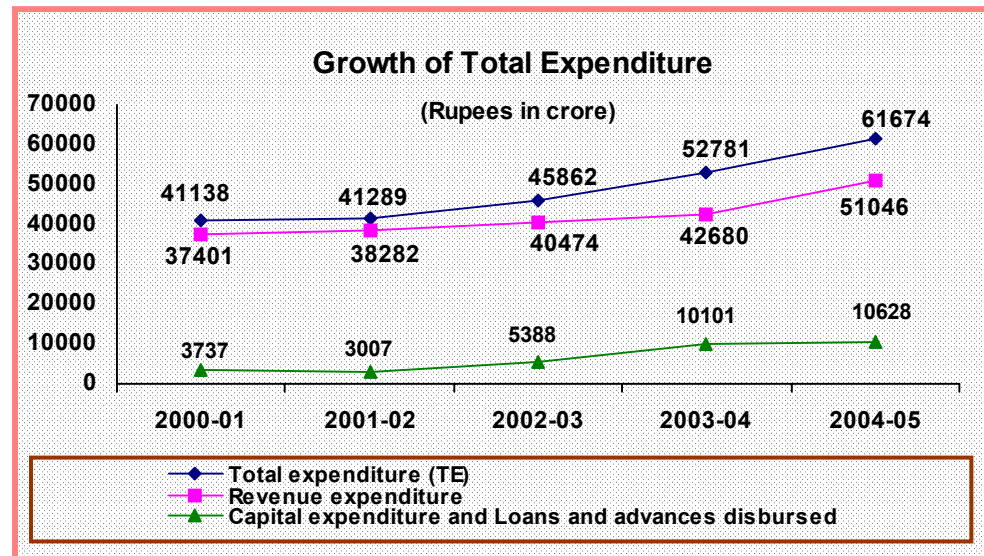
^B GSDP figures in respect of four previous years were taken from the State Economic survey. As the current year (2004-05) figure was not available, average growth rate was adopted.

Table-5: Total Expenditure – Basic Parameters

| | 2000-01 | 2001-02 | 2002-03 | 2003-04 | 2004-05 |
|---|---------|---------|---------|---------|---------|
| Total expenditure (TE)* (Rupees in crore) | 41138 | 41289 | 45862 | 52781 | 61674 |
| Rate of Growth (per cent) | 10.5 | 0.3 | 11.0 | 15.0 | 16.8 |
| TE/GSDP Ratio (per cent) | 15.9 | 15.2 | 15.5 | 15.8 | 17.3 |
| RR/TE Ratio (per cent) | 71.8 | 72.8 | 67.8 | 65.1 | 66.5 |
| Buoyancy of Total Expenditure with reference to: | | | | | |
| GSDP (ratio) | 1.399 | 0.072 | 1.264 | 1.166 | 2.409 |
| RR (ratio) | 0.618 | 0.206 | 3.300 | 1.436 | 0.870 |

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

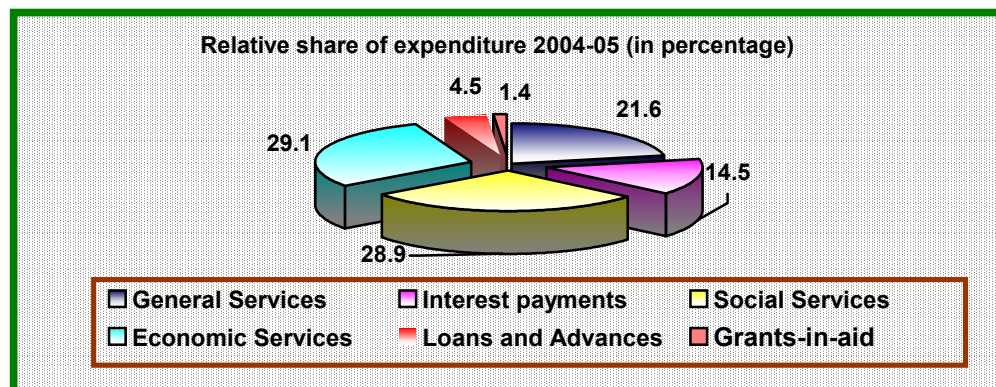
The total expenditure in 2004-05 has shown a huge increase of Rs 8,893 crore over that of previous year. This was due to increase in non-plan revenue expenditure by Rs 7,257.20 crore, in plan revenue expenditure by Rs 1,109.40 crore and in loans and advances disbursed by Rs 848.67 crore compared to previous year.



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-6.

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

| | 2000-01 | 2001-02 | 2002-03 | 2003-04 | 2004-05 |
|---------------------------|---------|---------|---------|---------|---------|
| General Services | 23.1 | 27.4 | 23.6 | 21.8 | 21.6 |
| Interest payments | 12.7 | 15.5 | 15.5 | 15.7 | 14.5 |
| Social Services | 35.1 | 34.5 | 31.3 | 30.8 | 28.9 |
| Economic Services | 29.0 | 20.9 | 24.2 | 26.0 | 29.1 |
| Grants-in-aid | 1.6 | 1.3 | 1.4 | 1.8 | 1.4 |
| Loans and Advances | (-) 1.7 | 0.1 | 3.7 | 3.6 | 4.5 |



The share of General Services, Interest Payments, Social Services and Grants-in-aid in total expenditure were reduced as compared to previous year while the share of Economic Services and Loans and Advances were increased. Of the total expenditure, the non-developmental expenditure during 2004-05 (General services including interest payments) accounted for 36 per cent, the development expenditure (on Social services and Economic services) accounted for 58 per cent and loans and advances and grants-in-aid accounted for 6 per cent.

1.6.2 Incidence of Revenue expenditure

Revenue expenditure had the predominant share in the total expenditure. Revenue expenditure is incurred to maintain the current level of services and payment, for 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-7.

Table-7: Revenue Expenditure: Basic Parameters

| | 2000-01 | 2001-02 | 2002-03 | 2003-04 | 2004-05 |
|---|---------|---------|---------|---------|---------|
| Revenue Expenditure (RE) (Rupees in crore) | 37401 | 38282 | 40474 | 42680 | 51046 |
| Rate of Growth (<i>per cent</i>) | 26.6 | 2.3 | 5.7 | 5.4 | 19.6 |
| RE/GSDP (<i>per cent</i>) | 14.4 | 14.1 | 13.7 | 12.8 | 14.3 |
| RE as <i>per cent</i> of TE | 90.9 | 92.7 | 88.2 | 80.8 | 82.7 |
| RE as <i>per cent</i> of RR | 126.5 | 127.2 | 130.1 | 124.1 | 124.4 |
| Buoyancy of Revenue Expenditure with | | | | | |
| GSDP (ratio) | 3.543 | 0.463 | 0.653 | 0.420 | 2.811 |
| Revenue Receipts (ratio) | 1.565 | 1.324 | 1.706 | 0.519 | 1.015 |

The revenue expenditure increased by 19.6 per cent from Rs 42,680 crore in 2003-04 to Rs 51,046 crore in 2004-05. The increase in revenue expenditure over previous year was mainly due to more subsidy to power licences for reduction in agricultural tariff under power by Rs 2,631 crore (31 per cent), more contribution to cotton monopoly stabilisation fund under co-operation by Rs 992 crore (12 per cent), increase in General Education by Rs 679 crore (8 per cent) and increase in interest payment by Rs 643 crore (8 per cent). The revenue expenditure accounted for 83 per cent of the total expenditure during

2004-05. This was higher than the share of the revenue receipts (44 *per cent*) in the total receipts of the State Government. This led to all time high revenue deficit of Rs 10,033 crore. The ratio of revenue expenditure to revenue receipt increased marginally from 124.1 *per cent* in 2003-04 to 124.4 *per cent* in 2004-05. The revenue expenditure included non-developmental expenditure *viz.* Salaries (Rs 16,875 crore*), Interest payments (Rs 8,978 crore) and Pension (Rs 2,872 crore) which alone consumed 70 *per cent* of the revenue receipts of the State during the year.

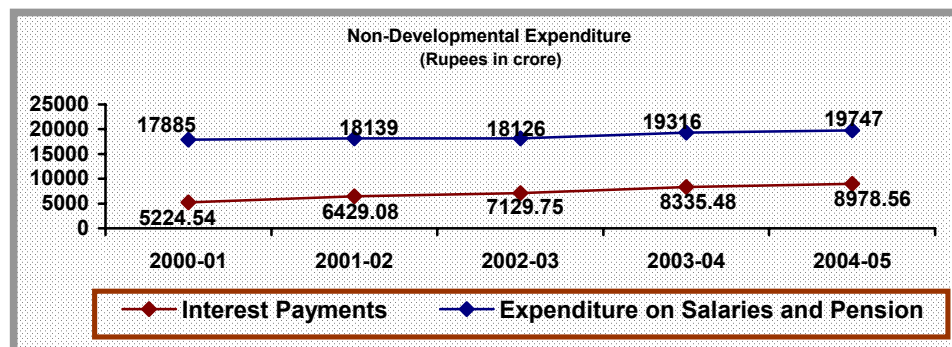
1.6.3 Committed Expenditure

➤ *High salary expenditure and pension payments*

Expenditure on salaries and pension alone accounted for nearly 48 *per cent* of the revenue receipts during 2004-05 and posted an increase of 10 *per cent* over a period of five years. It ranged between 5 and 7 *per cent* of GSDP during the period from 2000-01 to 2004-05 as indicated in the table-8.

Table-8: Salary and Pension expenditure (Rupees in crore)

| Heads | 2000-01 | 2001-02 | 2002-03 | 2003-04 | 2004-05 |
|---|---------|---------|---------|---------|---------|
| Salary and Pension Expenditure [^] | 17885 | 18139 | 18126 | 19316 | 19747 |
| As <i>per cent</i> of GSDP | 6.9 | 6.7 | 6.1 | 5.8 | 5.5 |
| As <i>per cent</i> of RR | 60.5 | 60.3 | 58.3 | 56.2 | 48.1 |



➤ *Interest payments*

In absolute terms, interest payments increased by 72 *per cent* from Rs 5,225 crore in 2000-01 to Rs 8,978 crore in 2004-05 primarily due to continued reliance on borrowings for financing the fiscal deficit.

* Revised Estimates figures as obtained from Finance department

[^] Salary figures are obtained from Finance Department, Government of Maharashtra and Pension expenditure are as per Finance Accounts of the respective years.

Table-9: Interest payments

| Year | Total Revenue Receipts (Rupees in crore) | Interest Payments* | Percentage of Interest payments with reference to | |
|---------|---|--------------------|---|---------------------|
| | | | Total Revenue Receipts | Revenue Expenditure |
| 2000-01 | 29567 | 5225 | 18 | 14 |
| 2001-02 | 30093 | 6429 | 21 | 17 |
| 2002-03 | 31103 | 7130 | 23 | 18 |
| 2003-04 | 34370 ^A | 8335 | 24 | 20 |
| 2004-05 | 41013 | 8978 | 22 | 18 |

The Eleventh Finance Commission had recommended (August 2000) that as a medium term objective, States should endeavour to keep interest payments as a ratio to revenue receipts at 18 *per cent*. It was, however, observed that interest payments were between 18 and 24 *per cent* of revenue receipts and steadily rose from 18 *per cent* in 2000-01 to 24 *per cent* in 2003-04 but declined to 22 *per cent* in 2004-05. The increase in the interest payments was primarily due to ever increasing debt stock of the State.

During 2004-05, the State Government raised Rs 4,274.59 crore at the average interest rate of 7 *per cent* from open market. Besides, it also borrowed Rs 16,114.68 crore from National Small Savings Fund, Life Insurance Corporation of India and other institutions and Rs 1,801.68 crore from GOI during the year.

The debt service burden caused by rising Government's debt has been compounded by prevalence of high real interest rates. The high real interest rates not only entail an unsustainable burden on the Government but also results in high cost of capital, which constricts economic growth.

1.6.4 Subsidies

Though the finances of the State are under strain, State Government has been paying subsidies to various Corporations, *etc.* During the last four years, State Government paid the subsidies as under:

Table-10: Subsidies

| Year | Amount (Rupees in crore) | Percentage increase (+)/ decrease (-) over previous year | Percentage of subsidy in total expenditure |
|---------|--------------------------|--|--|
| 2001-02 | 1800 | 284.0 | 4 |
| 2002-03 | 2009 | 11.6 | 4 |
| 2003-04 | 975 | (-) 51.4 | 2 |
| 2004-05 | 3994 | 309.6 | 6 |

During the current year, subsidies constituted about 6 *per cent* of the total expenditure; major recipients were Maharashtra State Electricity Board (68 *per cent*) and Co-operative societies (13 *per cent*).

* Rounded to nearest whole number.

^A Lower rounding.

1.7 Expenditure by Allocative Priorities

1.7.1 The expenditure of the State in the nature of plan expenditure, capital expenditure and developmental expenditure reflects its quality. Higher the ratio of these components to total expenditure, better is the quality of expenditure. Table-11 gives these ratio during 2000-2005.

Table-11: Quality of expenditure (per cent to total expenditure)

| | 2000-01 | 2001-02 | 2002-03 | 2003-04 | 2004-05 |
|----------------------------------|---------|---------|---------|---------|---------|
| Plan Expenditure | 15.7 | 10.5 | 11.0 | 14.3 | 16.4 |
| Capital Expenditure | 10.6 | 7.1 | 8.3 | 16.1 | 13.3 |
| Developmental Expenditure | 63.1 | 55.6 | 57.7 | 59.0 | 60.6 |

(Total expenditure does not include Loans and Advances).

All the three components of quality of expenditure indicated inter year variations. The share of plan expenditure and developmental expenditure (expenditure on economic and social services) was 4 *per cent* higher compared to the previous year while share of capital expenditure was reduced by 3 *per cent*.

1.7.2 During the year, expenditure on social services (Rs 17,833 crore) accounted for 50 *per cent* of the developmental expenditure. Expenditure on Education, Health and Family Welfare and Water Supply and Sanitation constituted 82.35 *per cent* of the expenditure on social sector as compared to 81.57 *per cent* in previous year.

Table-12: Expenditure on Social Sector (Rupees in crore)

| | 2000-01 | 2001-02 | 2002-03 | 2003-04 | 2004-05 |
|---|--------------|--------------|--------------|--------------|--------------|
| Education, Sports, Art and Culture | 9420 | 9388 | 8941 | 9441 | 10190 |
| Health and Family Welfare | 1634 | 1835 | 1752 | 1925 | 1984 |
| Water Supply, Sanitation, Housing and Urban Development | 1479 | 1011 | 1496 | 1908 | 2511 |
| Total | 12533 | 12234 | 12189 | 13274 | 14685 |

1.7.3 The expenditure on Economic Services (Rs 17,926 crore), accounted for 50 *per cent* of the developmental expenditure. Of this, Agriculture and Allied Activities, Irrigation and Flood Control, Energy and Transport consumed nearly 84 *per cent* of the expenditure.

Table-13: Expenditure on Economic Sector (Rupees in crore)

| | 2000-01 | 2001-02 | 2002-03 | 2003-04 | 2004-05 |
|-----------------------------------|--------------|-------------|-------------|--------------|--------------|
| Agriculture and Allied Activities | 3041 | 2893 | 2801 | 2808 | 3776 |
| Irrigation and Flood Control | 2823 | 3053 | 4325* | 6459 | 6818 |
| Energy | 4600 | 1006 | 1050 | 650 | 3466 |
| Transport | 750 | 874 | 1519 | 1296 | 971 |
| Total | 11214 | 7826 | 9695 | 11213 | 15031 |

* Includes notional interest of Rs 1523 crore on 14 irrigation projects handed over to Irrigation Development Corporations (SPVs).

Financial Assistance to local bodies and other institutions

1.7.4 Extent of assistance

The quantum of assistance provided by way of grants and loans to local bodies and others during the five year period 2000-05 was as follows:

Table-14: Financial Assistance (Rupees in crore)

| | 2000-01 | 2001-02 | 2002-03 | 2003-04 | 2004-05 |
|--|----------------|-----------------|----------------|-----------------|-----------------|
| Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.) | 2633.08 | 1483.20 | 525.60 | 6139.77 | 2068.11 |
| Municipal Corporations and Municipalities | 552.88 | 612.50 | 378.40 | 2136.39 | 1852.32 |
| Zilla Parishads and Other Panchayati Raj Institutions | 1958.15 | 3383.96 | 696.96 | 5784.58 | 6300.48 |
| Development Agencies | 124.45 | 1277.55 | 441.62 | 5.61 | 1766.17 |
| Hospital and Other Charitable Institutions | 52.57 | 232.49 | 208.19 | 96.62 | 256.10 |
| Other Institutions | 1979.46 | 3990.44 | 3007.78 | 4353.06 | 8975.06 |
| Total | 7300.59 | 10980.14 | 5258.55 | 18516.03 | 21218.24 |
| Assistance as per percentage of RE | 20 | 29 | 13 | 43 | 42 |

The assistance to local bodies and others during the year was 42 *per cent* of revenue expenditure compared to 43 *per cent* in previous year.

1.7.5 Delay in furnishing utilisation certificates

Of the 70,066 utilisation certificates (UC) due in respect of grants and loans aggregating Rs 7,421.86 crore paid upto 2004-05, 67,419 UCs for an aggregate amount of Rs 6,889.70 crore were in arrears. Details of department-wise break-up of outstanding UCs are given in **Appendix VI**.

1.7.6 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 July 2005, nine departments of the Government have not furnished details for the year 2004-05 as shown in **Appendix VII**.

1.7.7 Abstract of performance of the autonomous bodies

The audit of accounts of 11 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 VIII**.

1.7.8 Misappropriations, losses, defalcations, etc.

State Government reported 265 cases of misappropriation, defalcation, etc. involving Government money amounting to Rs 6.78 crore upto the period September 2005 on which final action was pending. The department-wise break up of pending cases is given in **Appendix IX**.

1.7.9 Write-off of losses, etc.

As reported to Audit, losses due to theft, fire and irrecoverable revenue, etc. amounting to Rs 19.83 crore in 457 cases were written-off during 2004-05 by competent authorities. The relevant details are given in **Appendix X**.

1.8 Assets and Liabilities

In the Government accounting system, comprehensive accounting of fixed assets like land and buildings owned by the Government is not done. The Government accounts, however, do capture the financial liabilities of the Government and the assets created out of the expenditure incurred. **Appendix II** gives an abstract of such liabilities and the assets as on 31 March 2005, compared with the corresponding position on 31 March 2004. 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 II shows that the liabilities grew by 17 per cent and the assets grew by 13 per cent over the previous year.

The liabilities depicted in the Finance Accounts, however, do not include the pension and other retirement benefits payable to serving/retired State employees and guarantees/letters of comforts issued by the State Government. In Maharashtra Fiscal Responsibility and Budgetary Management Act (MFRBMA), 2005, the Government has agreed to present to the State Legislature the policies of the State Government for the ensuing financial year relating to such liabilities alongwith annual financial statement every year. **Appendix V** depicts the time series data on State Government finances for the period 2000-2005.

1.8.1 Financial results of irrigation works

Out of 18 irrigation projects, 14 irrigation projects have been handed over to the five Irrigation Corporations created during 1996-1998. The financial results of the remaining four major irrigation projects with a capital outlay of Rs 305.98 crore at the end of March 2005, showed that revenue realised from these projects during 2004-05 (Rs 62.67 crore) was 20.48 per cent of the capital outlay. After considering the working and maintenance expenses (Rs 7.56 crore) and interest charges (Rs 31.30 crore), the schemes gained a net profit of Rs 23.81 crore during 2004-05.

1.8.2 Incomplete projects

As of 31 March 2005, there were 153 incomplete projects in which Rs 4,826.19 crore were blocked. Of these, 83 projects (expenditure: Rs 2,790.11 crore) were incomplete for less than five years, 47 projects (expenditure: Rs 1,851.98 crore) were incomplete for period ranging from five to ten years, three projects (expenditure: Rs 14.29 crore) were incomplete for period ranging from 10 to 20 years and three projects (expenditure: Rs 71.41 crore) were incomplete for more than 20 years. Details in respect of 17

projects involving capital of Rs 98.40 crore are not available. This showed that the Government was spreading its resources thinly, which failed to yield any return. Reasons for incomplete projects were paucity of funds, works left incomplete by contractors, change in site/design of the project(s), defective planning, etc.

1.8.3 Departmental Commercial Undertakings

Activities of *quasi*-commercial nature are performed by departmental undertakings of certain Government departments. These undertakings are required to prepare annually *pro forma* accounts in prescribed format showing the results of financial operations so that Government can assess the results of their working.

As of March 2005, there were 49 such undertakings (42 Government Milk Schemes, Four Land Development by Bulldozer Scheme, two Food and Civil Supplies and one Saw Mill and Timber Depot) in the State. Out of 42 Government Milk Schemes (GMSs) in six regions, only 29 GMSs have finalised their *pro forma* accounts for 2004-05 by 30 September 2005 and accounts of 13 Schemes are in arrears. The accounts of remaining seven undertakings are in arrears. In 29 GMSs, the Government mean capital as of 31 March 2005 was Rs 295.83 crore, with a turnover of Rs 336.12 crore. These 29 Schemes suffered a net loss of Rs 103.35 crore during the year. In the remaining 13 GMSs the net loss of Rs 48.13 crore has virtually wiped out nearly 28.88 *per cent* of the Government mean capital of Rs 166.63 crore as on 31 March 2004. The presses have not compiled *pro forma* accounts since 1968-69 (from December 1968) though these were declared as commercial undertakings.

The Comptroller and Auditor General of India has repeatedly commented about the arrears in preparation of accounts. Accountant General (Commercial Audit) reminded Principal Secretary (Finance) and the Principal Secretary/Secretary of the departments concerned regularly in this matter. The department-wise position of arrears in preparation of *pro forma* accounts and the investment made by the Government are given in **Appendix XI and XII** respectively. The summarised financial statement of these undertakings is given in **Appendix XIII**.

1.8.4 Investments and returns

As of 31 March 2005, Government had invested Rs 25,829.74 crore in Statutory Corporations, Rural Banks, Joint Stock Companies and Co-operatives. The return on this investment was less than half *per cent* in the last five years while the Government paid interest at the average rate of 8 to 9 *per cent* on its borrowings during 2000-2005.

Table-15: Return on Investment

| Year | Investment at the end of the year | Return | Percentage of return | Average rate of interest on government borrowing | Difference between interest rate and return |
|---------|-----------------------------------|--------|----------------------|--|---|
| | (Rupees in crore) | | | (per cent) | |
| 2000-01 | 9685.85 | 3.95 | 0.04 | 9.10 | 9.06 |
| 2001-02 | 11155.07 | 4.53 | 0.04 | 9.38 | 9.34 |
| 2002-03 | 13781.40 | 1.87 | 0.01 | 8.91 | 8.90 |
| 2003-04 | 19790.89 | 18.92 | 0.10 | 8.76 | 8.66 |
| 2004-05 | 25829.74 | 26.73 | 0.10 | 7.97 | 7.87 |

The increase in investments during 2004-05 was attributable to increased Capital Contributions to Maharashtra Krishna Valley Development Corporation (Rs 2,069 crore) and four other Irrigation Development Corporations (Rs 3,509 crore) and also in Maharashtra State Road Transport Corporation (Rs 127.80 crore) as compared to previous year.

As on 31 March 2005, 51 companies in which Government had invested Rs 1102.71 crore (Share Capital: Rs 614.62 crore, Loan: Rs 488.09 crore) were incurring losses and their accumulated losses amounted to Rs 2,125.10 crore. As on March 2005[#], 8,972 societies with an aggregate investment of Rs 222.78 crore (Rs 123.58 crore by way of equity and Rs 99.20 crore by way of loan) had incurred losses and their accumulated losses (Rs 214.74 crore) had eroded 96 *per cent* of the investments made in these societies.

Further, in most cases, Government orders sanctioning the loans did not specify the terms and conditions for these loans.

1.8.5 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/organisations. Total outstanding loans and advances as on 31 March 2005 was Rs 11,652 crore (table 16). Interest received against these loans advanced was 2.75 *per cent* during 2004-05 as against 3.29 *per cent* in previous year.

[#] According to the information furnished by the Commissioner for Co-operation and Registrar of Co-operative Societies.

Table-16: Average Interest Received on Loans Advanced by the State Government (Rupees in crore)

| | 2000-01 | 2001-02 | 2002-03 | 2003-04 | 2004-05 |
|---|---------|---------|---------|-------------------|---------|
| Opening Balance | 12018 | 8697 | 8458 | 9522 ^s | 10942 |
| Amount advanced during the year | -726 | 59 | 1704 | 1902 | 2751 |
| Amount repaid during the year | 2595 | 298 | 469 | 482 | 2041 |
| Closing Balance | 8697 | 8458 | 9693 | 10942 | 11652 |
| Net addition | -3321 | -239 | 1235 | 1420 | 710 |
| Interest received* | 1685 | 341 | 176 | 337 | 311 |
| Interest received as <i>per cent</i> to Loans advanced | 16.27 | 3.98 | 1.94 | 3.29 | 2.75 |
| Average interest paid by the State (<i>per cent</i>) | 9.10 | 9.38 | 8.91 | 8.76 | 7.97 |
| Difference between interest paid and received (<i>per cent</i>) | 7.17 | -5.40 | -6.97 | -5.47 | (-)5.22 |

1.8.6 Management of cash balances

To take care of any temporary mismatches in the flow of resources and the expenditure obligations, a mechanism of Ways and Means Advances (WMA) from Reserve Bank of India (RBI) has been put in place. Though WMA limit has been increased by RBI to Rs 905 crore from 1 April 2003, the State has been continuously dependent on RBI for cash management by using this mechanism for 68 days during the year.

Resort to overdraft, which is over and above the WMA limits, is all the more undesirable. The State used the overdraft facilities for 12 days on 12 occasions during the year as against 39 days on 23 occasions last year although it borrowed Rs 4,275 crore from the market on eight occasions. The Government, besides, has been resorting to off-budget borrowings through the Special Purpose Vehicles created by them (please refer to paragraph 1.9.3).

Table-17: Ways and Means and Overdrafts of the State (Rupees in crore)

| | 2000-01 | 2001-02 | 2002-03 | 2003-04 | 2004-05 |
|-------------------------------|---------|------------------|------------------|---------|-----------------|
| Ways and Means Advance | | | | | |
| Taken in the year | 4415.13 | 7739.88 | 7716.25 | 7898.67 | 2675.04 |
| Outstanding | -- | -- | -- | -- | -- |
| Interest paid | 12.18* | 33.99 | 34.46 | 29.20 | 8.47 |
| Number of days | -- | 332 ⁺ | 301 ⁺ | 168 | 68 [#] |
| Overdraft | | | | | |
| Taken in the year | 1536.54 | 4691.87 | 6281.28 | 1422.70 | 862.87 |
| Interest paid | -- | 7.04 | 8.42 | 4.92 | 0.76 |
| Number of days | 49 | 76 | 154 | 39 | 12 [#] |

^s Differs from previous years closing balance due to *Pro forma* corrections

* excludes notional interest accounted arising out of book adjustments.

* Rs 12.18 crore includes interest paid on ways and means and overdraft.

⁺ Figures are taken from Reserve Bank of India State Finances 2002-03.

[#] As per Finance Accounts 2004-05.

1.9 Undischarged Liabilities

1.9.1 Fiscal Liabilities - Public Debt

Constitution of India provides that a State may borrow, within the territory of India, upon the security of its Consolidated Fund, within such limits, as may from time to time, be fixed by the Act of its Legislature.

Table-18 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-18: Fiscal Liabilities - Basic Parameters

| | 2000-01 | 2001-02 | 2002-03 | 2003-04 | 2004-05 |
|---|---------|---------|---------|---------|-------------------|
| Fiscal Liabilities (Rupees in crore) | 62826 | 74209 | 85800 | 104404 | 121026 |
| Rate of Growth (per cent) | 20.84 | 18.12 | 15.62 | 21.68 | 15.92 |
| Ratio of Fiscal Liabilities to | | | | | |
| GSDP (per cent) | 24.3 | 27.3 | 29.1 | 31.3 | 33.9 ^B |
| Revenue Receipts (per cent) | 212.5 | 246.6 | 275.9 | 303.8 | 295.0 |
| Own Resources (per cent) | 248.1 | 286.0 | 314.1 | 363.6 | 348.5 |
| Buoyancy of Fiscal Liabilities with reference to : | | | | | |
| GSDP (ratio) | 2.773 | 3.563 | 1.782 | 1.686 | 2.284 |
| Revenue Receipts (ratio) | 1.225 | 10.184 | 4.654 | 2.064 | 0.824 |
| Own Resources (ratio) | 1.072 | 7.400 | 2.949 | 4.249 | 0.760 |

Overall fiscal liabilities of the State increased from Rs 62,826 crore in 2000-01 to Rs 1,21,026 crore in 2004-05. The growth rate was 16 *per cent* during 2004-05 over previous year. The ratio of fiscal liabilities to GSDP also increased from 24 *per cent* in 2000-01 to nearly 34 *per cent* in 2004-05. These liabilities stood at three times the revenue receipts and three and half times of the States own resources as at the end of 2004-05.

The fiscal liabilities had grown faster than the State's GSDP. The buoyancy of these liabilities with respect to GSDP during the year was 2.284 indicating that for each one *per cent* increase in GSDP, fiscal liabilities grew by 2.28 *per cent*.

Fiscal liabilities are considered sustainable if the average interest paid on these liabilities is lower than the rate of growth of GSDP. Though Maharashtra during 2003-04 for the first time achieved this parameter, during 2004-05 the weighted interest rate was again higher than GSDP growth as indicated in table-19.

Table-19: Debt Sustainability–Interest Rate and GSDP Growth (in per cent)

| | 2000-01 | 2001-02 | 2002-03 | 2003-04 | 2004-05 |
|-------------------------------|---------|---------|---------|---------|---------|
| Weighted Interest Rate | 9.10 | 9.38 | 8.91 | 8.76 | 7.97 |
| GSDP Growth | 7.51 | 5.09 | 8.76 | 12.86 | 6.97 |
| Interest spread | (-)1.59 | (-)4.29 | (-)0.15 | 4.10 | (-)1.00 |

Another important indicator of debt sustainability is net availability of the funds after repayment of principal and interest. Table-20 below gives the

^B GSDP figures in respect of four previous years were taken from the State Economic survey. As the Current year (2004-05) figure was not available, average growth rate was adopted.

position of the receipt and repayment of internal debt and other fiscal liabilities of the State over the last five years. The net availability of funds from the borrowings (public debt, loans and advances from the GOI and other debt receipts) varied from 20.4 *per cent* to 28.3 *per cent* during 2000-05. The net availability decreased during 2004-05 compared to previous year due to increased repayment during the current year.

Table-20: Net Availability of Borrowed Funds (Rupees in crore)

| | 2000-01 | 2001-02 | 2002-03 | 2003-04 | 2004-05 |
|--|---------|---------|----------|----------|----------|
| Internal Debt¹ | | | | | |
| Receipt | 1343 | 2335 | 8797 | 21129 | 20387 |
| Repayment (Principal+Interest) | 958 | 2298 | 3064 | 4466 | 7178 |
| Net Fund Available | 385 | 37 | 5733 | 16663 | 13209 |
| Net Fund Available (<i>per cent</i>) | 28.6 | 1.5 | 65.1 | 78.8 | 64.8 |
| Loans and Advances from GOI | | | | | |
| Receipt | 5401 | 6337 | 962 | 1252 | 1802 |
| Repayment (Principal+Interest) | 4470 | 4017 | 4179 | 10892 | 11440 |
| Net Fund Available | 931 | 2320 | (-)3217 | (-)9640 | (-)9638 |
| Net Fund Available (<i>per cent</i>) | 17.2 | 36.6 | (-)334.4 | (-)769.9 | (-)534.8 |
| Other obligations | | | | | |
| Receipt | 9825 | 11474 | 10774 | 12435 | 15236 |
| Repayment (Principal+Interest) | 7177 | 9002 | 8981 | 9582 | 11164 |
| Net Fund Available | 2648 | 2472 | 1793 | 2853 | 4072 |
| Net Fund Available (<i>per cent</i>) | 26.9 | 21.5 | 16.6 | 22.9 | 26.7 |
| Total liabilities | | | | | |
| Receipt | 16569 | 20146 | 20533 | 34816 | 37425 |
| Repayment (Principal+Interest) | 12605 | 15317 | 16224 | 24940 | 29782 |
| Net Fund Available | 3964 | 4829 | 4309 | 9876 | 7643 |
| Net Fund Available (<i>per cent</i>) | 23.9 | 23.9 | 20.9 | 28.3 | 20.4 |

The State Government raised market loans of Rs 4,275 crore during the year. The average rate of market borrowing during the year was 7 *per cent*. Whereas on 31 March 2005, 29 *per cent* of the existing market loans carried interest rate exceeding 10 *per cent*. Thus, the effective cost of borrowings on the past loans is much higher than the rate at which they are able to raise resources at present from the market. The maturity profile of market loans indicates that nearly one-fourth (25 *per cent*) of the total market loans are repayable within

¹ Excluding Ways and Means Advances and Overdrafts from Reserve Bank of India/ Government of India.

the next five years while remaining 75 *per cent* loans are to be repaid within five to 15 years.

1.9.2 Status of Guarantees – Contingent liabilities

Guarantees constitute contingent liabilities on the Consolidated Fund of the State. No explicit ceiling on giving guarantees upon the security of Consolidated Fund of the State has been fixed. The State has resorted to giving guarantees for raising the resources in a big way during the last five years. Table 21 indicates the status of guarantees.

Table-21: Guarantees given by the Government of Maharashtra

(Rupees in crore)

| Year | Maximum amount guaranteed ^A | Outstanding [*] amount of guarantees | Percentage of maximum amount guaranteed to total revenue receipt |
|---------|--|---|--|
| 2000-01 | 35540 | 48111 | 120 |
| 2001-02 | 33974 | 55381 | 113 |
| 2002-03 | 37521 | 62428 | 121 |
| 2003-04 | 82228 | 70126 | 239 |
| 2004-05 | 80184 | 60871 | 195 |

During 2004-05, outstanding guarantees (Rs 60,871 crore) accounted for 148 *per cent* of the revenue receipt (Rs 41,013 crore).

1.9.3 Off-Budget Borrowings

The borrowings of a State are governed under Article 293 of the Constitution of India. Though off-budget borrowings are not permissible under Article 293 (3), the State continues to undertake such off-budget borrowings as per the data furnished by the Finance Department. The Government has raised the off-budget borrowings of Rs 10,455 crore during the period 2000-01 to 2004-05 as under:

Table-22: Off-Budget Borrowings

| Year | 2000-01 | 2001-02 | 2002-03 | 2003-04 | 2004-05 | Total |
|-----------------------------|---------|---------|---------|---------|---------|-------|
| Amount (Rupees in crore) | 3572 | 1850 | 1782 | 2161 | 1090 | 10455 |

The Government created a number of special purpose vehicles in irrigation, road development and sales tax sector during 1997-1999 to raise the off-budget borrowings by way of bonds from the market or on private placement basis. The payment of principal and interest on these bonds is normally guaranteed by the Government. The Government makes the budgetary provisions in the years of repayment of interest and principal of the bonds. The MTFRP agreed to (October 2002) by the Government of Maharashtra with the GOI provided for reduction of off-budget borrowings. Accordingly, off-budget

^A As per Finance Accounts of respective years

^{*} As per information received from Finance Department

borrowing had declined from Rs 2,161 crore from financial year 2003-04 to Rs 1,090 crore in 2004-05.

1.10 Management of deficits

Fiscal Imbalances

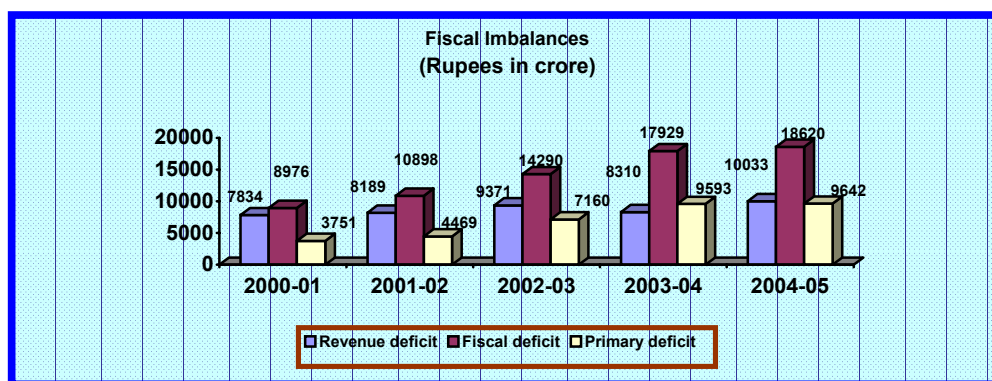
The deficit in the Government accounts represents the gap between its receipts and expenditure. The nature of deficit is an indicator of the prudence of fiscal management of the Government. Further, the ways in which the deficit is financed and the resources raised are applied are important pointers to its fiscal health. The revenue deficit of the State which indicates the excess of its revenue expenditure over revenue receipts increased from Rs 7,834 crore in 2000-01 to Rs 10,033 crore in 2004-05. The fiscal deficit, which represents the total borrowing of the Government and its total resource gap, increased from Rs 8,976 crore in 2000-01 to Rs 18,620 crore in 2004-05. The State also had a primary deficit of Rs 3,751 crore in 2000-01 which increased to Rs 9,642 crore in 2004-05 as indicated in table-23.

The ratio of revenue deficit to fiscal deficit was 54 *per cent* during 2004-05 indicating that nearly half of the borrowed funds were used for current consumption. As proportion to GSDP, the revenue deficit had reached 2.8 *per cent* and fiscal deficit had reached 5.2 *per cent* in 2004-05. Persistently, high ratio of revenue deficit to fiscal deficit also indicated that the asset base of the State was continuously shrinking and increasingly a part of borrowings (fiscal liabilities) were not having any asset backup.

Table-23: Fiscal Imbalances: Basic Parameters

| Parameters | 2000-01 | 2001-02 | 2002-03 | 2003-04 | 2004-05 |
|-----------------------------------|---------|---------|---------|---------|---------|
| Revenue deficit (Rupees in crore) | 7834 | 8189 | 9371 | 8310 | 10033 |
| Fiscal deficit (Rupees in crore) | 8976 | 10898 | 14290 | 17929 | 18620 |
| Primary deficit (Rupees in crore) | 3751 | 4469 | 7160 | 9593 | 9642 |
| RD/GSDP (<i>per cent</i>) | 3.0 | 3.0 | 3.1 | 2.5 | 2.8 |
| FD/GSDP (<i>per cent</i>) | 3.4 | 4.0 | 4.8 | 5.4 | 5.2 |
| PD/GSDP (<i>per cent</i>) | 1.4 | 1.6 | 2.4 | 2.9 | 2.7 |
| RD/FD (<i>per cent</i>) | 87.2 | 75.1 | 65.5 | 46.3 | 53.8 |

Persistent fiscal deficits indicate deteriorating fiscal health of the State, propelling the State to pass the MFRBMA in the Legislature in April 2005.



1.11 Fiscal Ratios

The finances of a State should be sustainable, flexible and non-vulnerable. Table-24 below presents a summarised position of Government finances over 2000-2005, 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 facts.

Table-24: Indicators of Fiscal Health (in per cent)

| Fiscal Indicators | 2000-01 | 2001-02 | 2002-03 | 2003-04 | 2004-05 |
|---|---------|---------|---------|---------|---------|
| 1 | 2 | 3 | 4 | 5 | 6 |
| I Resource Mobilisation | | | | | |
| Revenue Receipt/GSDP | 11.4 | 11.0 | 10.5 | 10.3 | 11.5 |
| Revenue Buoyancy | 2.264 | 0.350 | 0.383 | 0.816 | 2.769 |
| Own Tax/GSDP | 7.6 | 7.8 | 7.7 | 7.6 | 8.6 |
| II Expenditure Management | | | | | |
| Total Expenditure/GSDP | 15.9 | 15.2 | 15.5 | 15.8 | 17.3 |
| Total Expenditure/Revenue Receipts | 139.1 | 137.2 | 147.4 | 153.5 | 150.3 |
| Revenue Expenditure/Total Expenditure | 90.9 | 92.7 | 88.2 | 80.8 | 82.7 |
| Capital Expenditure/Total Expenditure | 10.6 | 7.1 | 8.3 | 16.1 | 12.7 |
| Developmental Expenditure/Total Expenditure | 63.1 | 55.6 | 57.7 | 59.0 | 58.0 |
| Buoyancy of TE with RR | 0.62 | 0.21 | 3.30 | 1.44 | 0.87 |
| Buoyancy of RE with RR | 1.565 | 1.326 | 1.706 | 0.519 | 1.015 |
| III Management of Fiscal Imbalances | | | | | |
| Revenue deficit (Rs in crore) | 7834 | 8189 | 9371 | 8310 | 10033 |
| Fiscal deficit (Rs in crore) | 8976 | 10898 | 14290 | 17929 | 18620 |
| Primary Deficit (Rs in crore) | 3751 | 4469 | 7160 | 9593 | 9642 |
| Revenue Deficit/Fiscal Deficit | 87.2 | 75.1 | 65.5 | 46.3 | 53.8 |
| IV Management of Fiscal Liabilities | | | | | |
| Fiscal Liabilities/GSDP | 24.3 | 27.3 | 29.1 | 31.3 | 33.9 |
| Fiscal Liabilities/RR | 212.5 | 246.6 | 275.9 | 303.8 | 295.0 |
| Buoyancy of FL with RR | 1.225 | 10.184 | 4.654 | 2.064 | 0.824 |
| Buoyancy of FL with Own Receipt | 1.072 | 7.400 | 2.949 | 4.249 | 0.760 |
| Interest spread | -1.59 | -4.29 | -0.15 | 4.10 | -1.00 |
| Net Fund Available | 23.9 | 23.9 | 20.9 | 28.3 | 20.4 |
| V Other Fiscal Health Indicators | | | | | |
| Return on Investment | 0.04 | 0.04 | 0.01 | 0.10 | 0.10 |
| Balance from Current Revenue (Rs in crore) | -5644 | -6501 | -7101 | -6203 | -7280 |
| Financial Assets/Liabilities | 0.7 | 0.6 | 0.6 | 0.6 | 0.6 |

1.12 Conclusion

It is common for a State to borrow for increasing its social and economic infrastructure support and creating additional income generating assets. Ever increasing ratio of fiscal liabilities to GSDP, which stood at 34 *per cent* together with a large revenue deficit, however, indicated that the State was gradually getting into a debt trap. The passing of Maharashtra Fiscal Responsibility and Budgetary Management Act in April 2005 in the Legislature to provide transparency in fiscal management by progressive elimination of revenue deficit, regulation of borrowing, ceiling on subsidies and guarantees is a step in right direction. The State's high cost borrowing for investments, which yields meagre return indicated an implicit subsidy. Guarantees extended by the State to various institutions with accumulated losses had the inherent risk of invocation, which the State has to honour. Thus, the State has either to generate more revenue from out of its existing assets or need to provide from its current revenue for servicing its debt obligations. Long term fiscal stability can be achieved only through reducing revenue/fiscal deficit by compressing non-developmental revenue expenditure in a medium term framework, prudential debt management and greater transparency in fiscal operations.