

## CHAPTER-I

### 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**). The Finance Accounts of the Government of Mizoram 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 Mizoram. The lay out of the Finance Accounts is depicted in **Appendix - 1.2**.

The Government of Mizoram has passed the Fiscal Responsibility and Budget Management (FRBM) bill on 19 October 2006 and the same will come into force as soon as it is published in the Official Gazette of Mizoram. As such, the Bill did not have any impact on the structure of the finances of the State during 2005-06.

#### 1.1.1 Summary of Receipts and Disbursements for the Year

**Table 1.1** summarises the finances of the State Government of Mizoram for the year 2005-06 covering revenue receipts and expenditure, capital receipts and expenditure, public debt receipts and disbursements and public account receipts and disbursements as emerging from **Statement-1** of Finance Accounts and other detailed statements.

**Table 1.1: SUMMARY OF RECEIPTS AND DISBURSEMENTS**

(*Rupees in crore*)

2004-05	Receipts	2005-06	2004-05	Disbursements	2005-06		
<b>Section-A: Revenue</b>							
					<b>Non-plan</b>	<b>Plan</b>	<b>Total</b>
1501.86	<b>I Revenue Receipts</b>	1653.65	1395.51	<b>I Revenue Expenditure</b>	1048.07	539.94	1588.01
39.55	Tax revenue	55.05	514.65	General Services	523.28	18.36	541.64
75.60	Non-Tax Revenue	120.09	476.50	Social Services	267.61	279.98	547.59
155.79	Share of Union Taxes/Duties	225.83	404.36	Economic Services	257.18	241.60	498.78
1230.92	Grants from GOI	1252.68	---	Grants-in-aid/ Contributions	---	---	---
<b>Section-B: Capital</b>							
---	<b>II Misc. Capital Receipts</b>	---	329.54	<b>II Capital Outlay</b>	(-) 2.53	453.90	451.37
22.30	<b>III Recoveries of Loans and Advances</b>	22.98	34.41	<b>III Loans and Advances disbursed</b>	---	34.09	34.09
176.56	<b>IV Public Debt Receipts</b>	253.20	58.49	<b>IV Repayments of Public Debt*</b>	---	---	98.50
---	<b>V Contingency Fund</b>	---	---	<b>V Contingency Fund</b>	---	---	---
1168.98	<b>VI Public Account Receipts</b>	1463.54	994.10	<b>VI Public Account Disbursements</b>	---	---	1212.95
(-) 45.64	Opening balance	12.01	12.01	Closing balance	---	---	20.46
<b>2824.06</b>	<b>Total</b>	<b>3405.38</b>	<b>2824.06</b>	<b>Total</b>	---	---	<b>3405.38</b>

\* Bifurcation of Plan and Non-plan not available

The bulk of the total receipts of the State during 2005-06 were on account of revenue receipts (49 *per cent*) followed by public account receipts (43 *per cent*). Similarly, the total disbursements of the State during the year comprised of revenue expenditure (47 *per cent*) followed by public account disbursements (36 *per cent*), capital account (13 *per cent*) and repayment of public debt (3 *per cent*). Within the revenue expenditure, the share of non-plan revenue expenditure was 66 *per cent* of the total revenue expenditure during 2005-06 while the remaining 34 *per cent* was plan revenue expenditure.

## 1.2 Overview of Fiscal Situation of the State

### 1.2.1 Trend of Finances with reference to previous year

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

**Table 1.2**

(Rupees in crore)

2004-05	Sl. No.	Major Aggregates	2005-06
1501.86	1	Revenue Receipts (2+3+4)	1653.65
39.55	2	Tax Revenue	55.05
75.60	3	Non-tax Revenue	120.09
1386.71	4	Other Receipts	1478.51
22.30	5	Non-Debt Capital Receipts	22.98
22.30	6	Of which recovery of loans	22.98
<b>1524.16</b>	<b>7</b>	<b>Total Receipts (1+5)</b>	<b>1676.63</b>
986.03	8	Non-Plan Expenditure (9+11+12)	1045.54
976.38	9	On Revenue Account	1048.07
181.50	10	Of which interest payments	184.65
9.65	11	On Capital Account	(-)2.53
---	12	On Loans disbursed	---
773.43	13	Plan expenditure (14+15+16)	1027.93
419.13	14	On Revenue Account	539.94
319.89	15	On Capital Account	453.90
34.41	16	On Loan disbursed	34.09
<b>1759.46</b>	<b>17</b>	<b>Total Expenditure (13+8)</b>	<b>2073.47</b>
106.35	18	Revenue Surplus (9+14-1)	65.64
(-)235.30	19	Fiscal Deficit (17-1-5)	(-)396.84
(-)53.80	20	Primary Deficit (-)/Surplus (+) (19-10)	(-)212.19

Major part of the total receipts during 2005-06 were contributed by revenue receipts, which have increased by 10.11 *per cent* from Rs.1501.86 crore in 2004-05 to Rs.1653.65 crore in 2005-06. Of the total increase of Rs.151.79 crore in revenue receipts, Rs.91.80 crore (60 *per cent*) is contributed by Central transfers comprising of grants-in-aid and State's share of Union taxes and duties. In 2005-06, though the State enjoyed revenue surplus of Rs.65.64 crore, the fiscal and primary deficit of the State increased by Rs.161.54 crore and Rs.158.39 crore respectively over that of the previous year.

### 1.3 Audit Methodology

Audit observations on the Statements of Finance Accounts for the year 2005-06 bring out the trends in the major fiscal aggregates of receipts and expenditure; wherever necessary, these have been analysed in the light of time series data (*Appendix - 1.4 to 1.7*) and periodic comparisons have been made. Major 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 GSDP at current price as projected by the Directorate of Economics and Statistics, Government of Mizoram. 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. The key indicators adopted for the purpose are (i) resources by volumes and sources (ii) application of resources (iii) assets and liabilities and (iv) management of deficits. Audit observations have also taken into account the cumulative impact of resource mobilisation efforts, debt servicing and corrective fiscal measures. 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. In addition, selected indicators of financial performance of the Government are also listed in this section; some of the terms used in this context are explained in *Appendix - 1.3*.

### 1.4 State finances by key indicators

#### 1.4.1 Resources by volumes and sources

Resources of the State Government consist of revenue receipts and capital receipts. Revenue receipts consist of tax revenue, non-tax revenue, State's share of Union taxes and duties and grants-in-aid from the Government of India. 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 Government of India as well as accruals from Public Account. **Table 1.3** shows that the total receipts of the State Government for the year 2005-06 were Rs.3393.37 crore. Of these, the revenue receipts of the State Government were Rs.1653.65 crore only, constituting 49 *per cent* of the total receipts. The balance came mainly from borrowings and public account receipts.

**Table 1.3: Resources of Mizoram**

(Rupees in crore)

<b>I.</b>	<b>Revenue Receipts</b>		<b>1653.65</b>
<b>II.</b>	<b>Capital Receipts</b>		<b>276.18</b>
	(a) Miscellaneous Receipts	---	
	(b) Recovery of loans and advances	22.98	
	(c) Public Debt receipts	253.20	
<b>III.</b>	<b>Contingency Fund Receipts</b>		---
<b>IV.</b>	<b>Public Account Receipts</b>		<b>1463.54</b>
	(a) Small savings, Provident Fund etc.	188.68	
	(b) Reserve Fund	9.70	
	(c) Deposits and Advances	295.34	
	(d) Suspense and Miscellaneous	51.57	
	(e) Remittances	918.25	
	<b>TOTAL RECEIPTS</b>		<b>3393.37</b>

Out of the total receipts under Public Account, remittances constitute about 63 per cent which pertain to Public Works remittances (Rs.825.56 crore), Forest remittances (Rs.92.69 crore). The Public Works remittances mainly consist of security deposit, earnest money deposit etc. from contractors.

#### 1.4.2 Revenue Receipts

**Statement-11** of the Finance Accounts details the revenue receipts of the Government. The revenue receipts of the State consist mainly of its own tax and non-tax revenues, Central tax transfers and grants-in-aid from the Government of India. Overall revenue receipts, its annual rate of growth, ratio of these receipts to the State's Gross Domestic Product (GSDP) and its buoyancy is indicated in **Table 1.4**.

**Table 1.4: Revenue Receipts-Basic Parameters**

(Rupees in crore)

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>
Revenue Receipts (RR)	828.22	867.79	1021.61	1370.95	1501.86	1653.65
Own Taxes	14.43 (1.74)	19.12 (2.20)	27.96 (2.74)	33.85 (2.47)	39.55 (2.64)	55.05 (3.33)
Non-Tax Revenue	40.37 (4.87)	44.87 (5.17)	52.63 (5.15)	58.01 (4.23)	75.60 (5.03)	120.09 (7.26)
Central Tax Transfers	87.45 (10.56)	43.73 (5.04)	94.60 (9.26)	130.33 (9.51)	155.79 (10.37)	225.83 (13.66)
Grants-in-aid	685.97 (82.82)	760.07 (87.59)	846.42 (82.85)	1148.76 (83.79)	1230.92 (81.96)	1252.68 (75.75)
Rate of Growth of RR (per cent)	(-)3.79	4.78	17.73	34.20	9.55	10.11
Revenue Receipt/GSDP (per cent)	46.83	45.10	52.66	65.55	61.51	61.38

1	2	3	4	5	6	7
Buoyancy ratio of Revenue Receipts with reference to GSDP	-0.15	0.54	21.48	4.39	0.57	0.98
Buoyancy of State's Own Taxes with reference to GSDP	1.353	3.698	56.699	2.702	1.006	3.790
Growth rate (Own Taxes)	34.48	32.50	46.23	21.07	16.84	39.19
Buoyancy of Revenue Receipts with reference to State's Own Taxes	-0.110	0.147	0.384	1.623	0.567	0.258
GSDP Growth ( <i>per cent</i> )	25.50	8.79	0.83	7.80	16.74	10.34

Figures in brackets indicate the percentage share in Revenue Receipts in corresponding years.

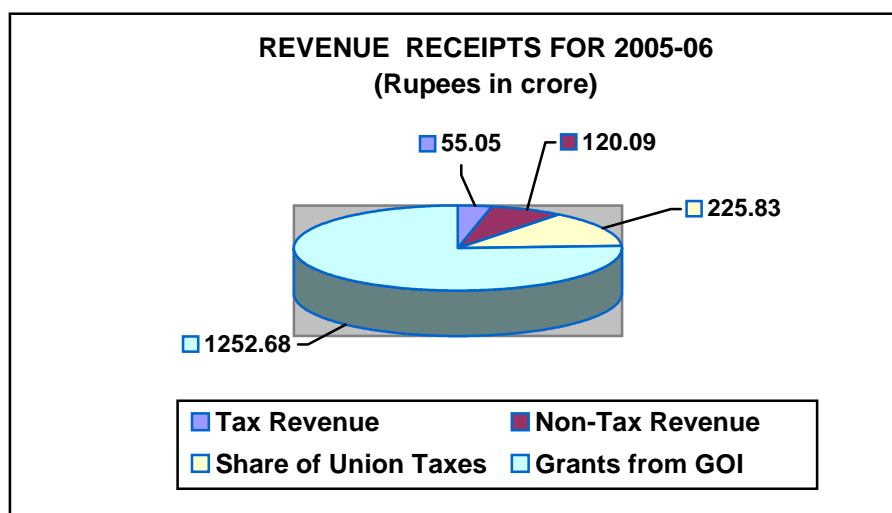
The revenue receipts of the State increased from Rs.828.22 crore in 2000-01 to Rs.1653.65 crore in 2005-06. There were, however, significant inter-year variations in the growth rates. From a negative growth of 3.79 *per cent* in 2000-01, the growth rate of revenue receipts reached to a level of 34.2 *per cent* in 2003-04. Growth rates of revenue receipts declined to an average of about 10 *per cent* in subsequent years mainly because of large base year figure in 2003-04 owing to growth rate above normal during that year. These trends also explain the behaviour of the revenue receipts to GSDP ratio, which after reaching its peak of 65.55 *per cent* in 2003-04, declined to 61.38 *per cent* in 2005-06.

The Central transfers comprising Central tax transfers and grants-in-aid together contributed 89.41 *per cent* of total revenue receipts, while the State's own resources comprising taxes and non-taxes contributed only 10.59 *per cent* of the revenue receipts during 2005-06. Sales tax was the major contributor (76 *per cent*) of the State's own tax revenue followed by taxes on vehicles (8 *per cent*) and State excise (3 *per cent*).

The State's own tax revenue of Rs.55 crore was lower than the normative projection of Rs.70.62 crore made by the Twelfth Finance Commission for the year. Of non-tax revenue sources, receipts in power sector (68 *per cent*) was the principal contributor. The current levels of cost recovery (revenue receipts as a percentage of revenue expenditure) in supply of merit goods and services by Government are 0.29 *per cent* for Education, Sports, Art and Culture, 0.71 *per cent* for Medical and Public Health and 8.49 *per cent* for Water Supply and Sanitation.

Although the State Government received lesser grants for implementation of State plan schemes, Central and Centrally sponsored schemes and special plan schemes during 2005-06, there was a sharp increase in the non-plan grants from Rs.468.25 crore in 2004-05 to Rs.603.60 crore during 2005-06 which included Rs.537.19 crore for meeting the non-plan revenue deficit as recommended by the Twelfth Finance Commission.

Chart 1.1



### 1.4.3 Sources of Receipts

The source of total receipts under different heads and GSDP during 2000-2006 is indicated in **Table 1.5**.

**Table 1.5: Sources of Receipts: Trends**

(Rupees in crore)

Year	Revenue Receipts	Capital Receipts			Total Receipts	Gross State Domestic Product
		Non-Debt Receipts	Debt Receipts	Accruals in Public Account		
2000-01	828.22	12.41	230.82	848.18	1919.63	1768.72
2001-02	867.79	15.10	198.26	915.83	1996.98	1924.17
2002-03	1021.61	16.70	265.38	955.23	2258.92	1940.05
2003-04	1370.95	20.05	300.96	960.28	2652.24	2091.32
2004-05	1501.86	22.30	176.56	1168.98	2869.70	2441.47
2005-06	1653.65	22.98	253.20	1463.54	3393.37	2693.96

Revenue receipts during 2005-06 constituted 49 per cent of the total receipts during the year against 52.33 per cent during the preceding year. Debt receipts comprising of internal debt (excluding ways and means advances and overdrafts) and loans and advances from Government of India declined to 7.46 per cent of the total receipts during 2005-06 from 12 per cent during 2000-01.

## 1.5 Application of resources

### 1.5.1 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. Total expenditure, its annual growth, ratio of expenditure to the State's GSDP and revenue receipts and its buoyancy with regard to GSDP and revenue receipts are indicated in **Table 1.6** below:

**Table 1.6: Total Expenditure-Basic Parameters**

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Total Expenditure (TE)* (Rupees in crore)	1215.90	1305.23	1353.65	1696.68	1759.46	2073.47
Rate of Growth ( <i>Per cent</i> )	12.17	7.35	3.71	25.34	3.70	17.85
TE/GSDP Ratio ( <i>Per cent</i> )	68.74	67.83	69.77	81.13	72.07	76.97
Revenue Receipts/ TE Ratio ( <i>Per cent</i> )	68.12	66.49	75.47	80.80	85.36	79.75
<b>Buoyancy of Total Expenditure with</b>						
GSDP (ratio)	0.477	0.836	4.495	3.250	0.221	1.726
Revenue Receipts (ratio)	**	1.538	0.209	0.741	0.387	1.766

\* Total expenditure includes Revenue expenditure, Capital expenditure and Loans & Advance

\*\* Rate of growth of Revenue Receipts was negative in 2000-01

The total expenditure of the State has increased from Rs.1215.90 crore in 2000-01 to Rs.2073.47 crore in 2005-06. The rate of growth of total expenditure during 2005-06 was 17.85 *per cent* against 3.7 *per cent* during the preceding year. In relative terms, the capital and revenue expenditure components have increased by 176 *per cent* and 55 *per cent* respectively during the period 2000-2006. However, in the absolute terms, increases were of the order of Rs.287.68 crore in capital expenditure and Rs.566.40 crore in revenue account during 2005-06 compared to 2000-01. The buoyancy of total expenditure with reference to both GSDP and revenue receipts indicate mixed trends during 2000-2006 depending on their respective growth rates. This implies that expenditure of the Government is also determined by the factors other than the GSDP and revenue receipts during the period.

#### ***Trends in Total Expenditure by Activities***

In terms of the activities, total expenditure could be considered as being composed of expenditure on general services, interest payments, social and economic services, grants-in-aid and other contributions to institutions and loans and advances. The relative share of these components in total expenditure is indicated in **Table 1.7**.

**Table 1.7: Components of Expenditure-Relative Share**

*(in per cent)*

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
General Services	28.02	30.75	30.60	28.25	29.87	26.77
<i>Of which, interest payments</i>	8.32	11.20	9.83	9.82	10.32	8.91
Social Services	35.75	36.34	35.51	32.99	31.51	30.75
Economic Services	33.71	29.96	31.33	36.57	36.66	40.84
Loans and Advances	2.52	2.95	2.56	2.19	1.96	1.64

The movement of relative share of these components indicated that all components of expenditure had inter-year variation. Expenditure on general services including interest payments, which is considered as non-developmental, accounted for 26.77 *per cent* of the total expenditure in 2005-06 as compared to 28.02 *per cent* in 2000-01. On the other hand, expenditure on social and economic services together accounted for 71.59 *per cent* during 2005-06. The total expenditure of Rs.1484.28 crore incurred on social and economic services during 2005-06 comprised of Rs.1046.37 crore of revenue expenditure leaving only Rs.437.91 crore (29.5 *per cent*) for creating productive assets and infrastructure development.

### 1.5.2 Incidence of Revenue expenditure

Revenue expenditure formed the predominant share in total expenditure. The overall revenue expenditure, its rate of growth, ratio of revenue expenditure to GSDP and revenue receipts and its buoyancy are indicated in **Table 1.8**.

**Table 1.8: Revenue Expenditure- Basic Parameters**

*(Rupees in crore)*

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Revenue Expenditure (RE)	1021.61	1128.22	1130.96	1287.77	1395.51	1588.01
<i>Of which,</i>						
Non-plan Revenue Expenditure (NPRE)	702.42	746.17	777.15	917.24	976.38	1048.07
Plan Revenue Expenditure (PRE)	319.19	382.05	353.81	370.53	419.13	539.94
Rate of Growth ( <i>per cent</i> )						
NPRE	19.54	6.23	4.14	18.03	6.45	7.34
PRE	4.89	19.19	-7.39	4.72	13.12	28.82
NPRE/GSDP ( <i>per cent</i> )	39.71	38.78	40.06	43.86	39.99	38.90
NPRE as percentage of RE	68.76	66.14	68.77	71.23	69.97	66.00
PRE as percentage of RE	31.224	33.86	32.28	40.53	30.03	34.00
NPRE as percentage of TE	57.77	57.17	57.41	54.06	54.49	50.55
NPRE as percentage of RR	84.81	85.99	76.07	66.91	65.01	63.38



	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
<b>Buoyancy of NPRE with</b>						
Revenue Receipts (ratio)	-5.156	1.303	0.234	0.527	0.675	0.726
GSDP (ratio)	0.766	0.709	4.988	2.312	0.385	0.710
<b>Buoyancy of PRE with</b>						
Revenue Receipts (ratio)	-1.290	4.119	-0.417	0.138	1.374	2.851
GSDP (ratio)	0.192	2.240	8.904	0.605	0.784	2.787
<b>Buoyancy of Revenue Expenditure with</b>						
GSDP (ratio)	0.570	1.187	0.294	1.778	0.500	1.334
Revenue Receipts (ratio)	-3.387	2.184	0.014	0.405	0.876	1.365

The overall revenue expenditure of the State increased from Rs.1021.61 crore in 2000-01 to Rs.1588.01 crore in 2005-06, at an average annual rate of 8.75 per cent. However, the non-plan revenue expenditure increased by Rs.345.65 crore from Rs.702.42 crore to Rs.1048.07 crore while PRE increased by Rs.220.75 crore during the same period. The non-plan revenue expenditure during 2005-06 at Rs.1048.07 crore was higher by Rs.557.75 crore relative to normative assessment of Rs.490.32 crore made by the TFC for the year.

### **Committed Expenditure**

**Expenditure on Salaries:** The expenditure on salaries decreased from Rs.564.22 crore in 2004-05 to Rs.560.24 crore in 2005-06. The year-wise expenditure on salaries from 2000-01 to 2005-06 is indicated in **Table 1.9** below:

**Table 1.9: Expenditure on Salary and Wages**

Heads	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Salary and Wages Expenditure* (Rs. in crore)	418.44	473.93	495.56	518.10	564.22	560.24
As per cent of GSDP	23.66	24.63	25.54	24.77	23.11	20.80
As per cent of RR	50.52	54.61	48.51	37.79	37.57	33.88
As per cent of RE	40.96	46.39	43.92	45.81	40.43	35.28

\* Excluding grants-in-aid towards Salaries and Wages

Source: For 2000-01: Salary only as per Information furnished by the Finance Department;  
2001-2006: Information furnished by AG (A&E)

Salaries accounted for 33.88 per cent of revenue receipts and 35.28 per cent of the revenue expenditure of the State during 2005-06.

**Pension payments:** The expenditure on pension payments has increased by 125.38 per cent from Rs.39.56 crore in 2000-01 to Rs.89.16 crore in 2005-06. The year-wise expenditure on pension payments from 2000-01 to 2005-06 is indicated in **Table 1.10** below:

**Table 1.10 : Expenditure on Pensions**

Heads	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Expenditure on Pensions (Rs. in crore)	39.56	47.80	47.12	61.87	88.78	89.16*
As per cent of GSDP	2.24	2.48	2.43	2.96	3.64	3.31
As per cent of RR	4.78	5.51	4.61	4.51	5.91	5.39

\* Finance Accounts

The ratio of pension payments to revenue receipts varied during 2000-2006. With the increase in number of retirees, the pension liabilities are likely to increase further in future.

**Interest payments:** The interest payments made and their ratio to revenue receipts and revenue expenditure during the period 2000-2006 are detailed in **Table 1.11**.

**Table 1.11: Interest payments**

Year	Total Revenue Receipts	Interest payments	Percentage of interest with reference to	
	(Rupees in crore)		Total Revenue Receipts	Revenue Expenditure
2000-01	828.22	101.20	12.22	9.91
2001-02	867.79	146.18	16.85	12.96
2002-03	1021.61	133.06	13.02	11.77
2003-04	1370.95	166.62	12.15	12.94
2004-05	1501.86	181.50	12.08	13.01
2005-06	1653.65	184.65	11.17	11.63

Interest payments increased steadily by 82.46 per cent from Rs.101.20 crore in 2000-01 to Rs.184.65 crore in 2005-06. The interest payments were on internal debt (Rs.91.49 crore), loans received from Central Government (Rs.44.26 crore) and Small Savings, Provident Fund, etc.,(Rs.48.90 crore).

**Subsidies:** The trends in the subsidies given by the State Government are given in **Table 1.12**.

**Table 1.12: Subsidies**

Year	Amount (Rupees in crore)	Percentage increase (+)/ Decrease(-) over previous year	Percentage of subsidy in total expenditure
2000-01	10.90	(+) 39	0.92
2001-02	11.01	(+) 1	0.87
2002-03	10.42	(-) 5	0.79
2003-04	9.87	(-) 5	0.59
2004-05	1.28	(-) 87	0.07
2005-06	1.65	(+) 29	0.08

(Total expenditure does not include Loans and Advances)

Source: Information furnished by the Finance Department.

During the current year, subsidies constituted 0.08 *per cent* of the total expenditure and 0.94 *per cent* of its own revenue.

## 1.6 Expenditure by Allocative Priorities

### 1.6.1 Quality of Expenditure

The availability of better social and physical infrastructure in the State reflects its quality of expenditure. Therefore ratio of capital expenditure to total expenditure as well as to GSDP and proportion of revenue expenditure being spent on running the existing social and economic services efficiently and effectively would determine the quality of expenditure. Higher the ratio of these components to total expenditure and GSDP, better is the quality of expenditure. **Table 1.13** gives these ratios during 2000-2006.

**Table 1.13: Indicators of Quality of Expenditure**

	<i>(Rupees in crore)</i>					
	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
<b>Capital Expenditure</b>	<b>163.69</b>	<b>138.51</b>	<b>187.97</b>	<b>371.68</b>	<b>329.54</b>	<b>451.37</b>
<b>Revenue Expenditure</b>	<b>1021.61</b>	<b>1128.22</b>	<b>1130.95</b>	<b>1287.77</b>	<b>1395.51</b>	<b>1588.01</b>
<i>Of which</i>						
Social and Economics Services with	686.77	735.85	725.33	825.23	880.86	1046.37
(i) <i>Salary &amp; Wages Component</i>	NA	331.49	343.01	358.58	393.78	389.86
(ii) <i>Non-Salary &amp; Wage component</i>	NA	404.36	382.32	466.65	487.08	656.51
<b>As per cent of Total Expenditure</b>						
Capital Expenditure	13.81	10.93	14.25	22.40	19.10	22.13
Revenue Expenditure	86.19	89.07	85.75	77.60	80.90	77.87
<b>As per cent of GSDP</b>						
Capital Expenditure	9.25	7.20	9.69	17.77	13.50	16.75
Revenue Expenditure	57.76	58.63	58.29	61.58	57.16	58.95

Although the ratio of capital expenditure to total expenditure showed increasing trend during 2000-2006 (except 2001-02), the revenue expenditure continues to have a dominant share in total expenditure, which is over 78 *per cent* in 2005-06. The increase of Rs.192.50 crore (14 *per cent*) in revenue expenditure during 2005-06 over that of 2004-05 was due to increase of Rs.26.99 crore (5 *per cent*) in general services, Rs.71.09 crore (15 *per cent*) in social services and Rs.94.92 crore (23 *per cent*) in economic services. The increase in capital expenditure by Rs.121.83 crore (37 *per cent*) during 2005-06 as compared to the preceding year was mainly due to increase of Rs.107.34 crore (45 *per cent*) in economic services. Under economic services, major increase was noticed in capital expenditure on energy (Rs.69.78 crore) and transport (Rs.36.31 crore).

### 1.6.2 Expenditure on Social and Economic Services

Given the fact that the human development indicators such as access to basic education, health services and drinking water and sanitation

facilities *etc.*, have a strong linkage with eradication of poverty and economic progress, it would be prudent to make an assessment with regard to the expansion and efficient provision of these services in the State. **Table 1.14** summarises the expenditure incurred by the State Government in expanding and strengthening of social services in the State during 2001-2006.

**Table 1.14: Expenditure on Social Services**

(Rupees in crore)

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
<b>Education, Sports, Art and Culture</b>						
<b>Revenue Expenditure of which</b>	188.13	211.08	198.77	210.84	237.52	278.25
(a) Salary & Wage Component	NA	134.00	135.25	142.86	157.46	162.70
(b) Non-Salary & Wage Component	NA	77.08	63.52	67.98	80.06	115.55
<b>Capital Expenditure</b>	1.73	2.81	5.48	7.51	12.89	13.21
<b>Total</b>	<b>189.86</b>	<b>213.89</b>	<b>204.25</b>	<b>218.35</b>	<b>250.41</b>	<b>291.46</b>
<b>Health and Family Welfare</b>						
<b>Revenue Expenditure of which</b>	53.85	61.70	66.34	82.23	71.73	74.47
(a) Salary & Wage Component	NA	46.73	48.78	49.89	54.58	53.91
(b) Non-Salary & Wage Component	NA	14.97	17.56	32.34	17.15	20.56
<b>Capital Expenditure</b>	10.09	10.56	4.11	9.42	6.38	2.54
<b>Total</b>	<b>63.94</b>	<b>72.26</b>	<b>70.45</b>	<b>91.65</b>	<b>78.11</b>	<b>77.01</b>
<b>Water Supply, Sanitation, Housing and Urban Development</b>						
<b>Revenue Expenditure of which</b>	56.25	61.43	48.36	54.34	61.42	79.79
(a) Salary & Wage Component	NA	14.30	14.74	15.46	17.56	16.39
(b) Non-Salary & Wage Component	NA	47.13	33.62	38.88	43.86	63.40
<b>Capital Expenditure</b>	51.55	42.71	61.83	102.13	53.17	66.53
<b>Total</b>	<b>107.80</b>	<b>104.14</b>	<b>110.19</b>	<b>156.47</b>	<b>114.59</b>	<b>146.32</b>
<b>Other Social Services</b>						
<b>Revenue Expenditure of which</b>	72.80	83.72	93.06	88.08	105.83	115.08
(a) Salary & Wage Component	NA	15.02	16.29	17.06	17.28	17.90
(b) Non-Salary & Wage Component	NA	68.70	76.77	71.02	88.55	97.18
<b>Capital Expenditure</b>	0.23	0.32	2.73	5.22	5.53	7.67
<b>Total</b>	<b>73.03</b>	<b>84.04</b>	<b>95.79</b>	<b>93.30</b>	<b>111.36</b>	<b>122.75</b>
<b>Revenue Expenditure of which</b>	371.03	417.93	406.53	435.49	476.50	547.59
(a) Salary & Wage Component	NA	206.75	211.52	221.66	243.00	247.14
(b) Non-Salary & Wage Component	NA	211.18	195.01	213.93	233.50	300.45
<b>Capital Expenditure</b>	63.60	56.40	74.15	124.28	77.97	89.95
<b>Grand Total</b>	<b>434.63</b>	<b>474.33</b>	<b>480.68</b>	<b>559.77</b>	<b>554.47</b>	<b>637.54</b>

The trends in revenue and capital expenditure on social services during 2000-2006 reveals that both revenue and capital expenditure with inter-year fluctuation declined to 27 per cent (Rs.547.59 crore) and 4 per cent (Rs.89.95 crore) of total revenue and capital expenditure respectively during 2005-06 from 31 per cent (Rs.371.03 crore) and 5 per cent (Rs.63.60 crore) in 2000-01.

Out of the development expenditure of Rs.1484.28 crore during 2005-06 social services (revenue and capital) accounted for 43 per cent (Rs.637.54 crore). Expenditure on education, sports, art and culture, health and family welfare and water supply and sanitation, *etc.* constituted about 81 per cent of the expenditure on social sector. In Mizoram, though the expenditure (revenue and capital) under general education during 2005-06 (Rs.268.02 crore) increased substantially over that of 2004-05 (Rs.226.31 crore) at the growth rate of 18.43 per cent, expenditure under health sector declined to a negative growth of 1.41 per cent.

**Table 1.15: Expenditure on Economic Sector***(Rupees in crore)*

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
<b>Agriculture, Allied Activities</b>						
<b>Revenue Expenditure of which</b>	93.59	104.69	119.91	128.80	150.32	176.77
(a) Salary & Wage Component	NA	48.00	50.94	53.70	58.37	56.12
(b) Non-Salary & Wage Component	NA	56.69	68.97	75.10	91.95	120.65
<b>Capital Expenditure</b>	9.27	3.36	13.87	20.82	16.54	6.96
<b>Total</b>	<b>102.86</b>	<b>108.05</b>	<b>133.78</b>	<b>149.62</b>	<b>166.86</b>	<b>183.73</b>
<b>Irrigation and Flood Control</b>						
<b>Revenue Expenditure of which</b>	2.90	3.13	3.45	3.91	3.16	7.76
(a) Salary & Wage Component	NA	1.64	1.76	1.88	2.04	1.91
(b) Non-Salary & Wage Component	NA	1.49	1.69	2.03	1.12	5.85
<b>Capital Expenditure</b>	2.54	4.00	3.70	11.52	12.11	12.61
<b>Total</b>	<b>5.44</b>	<b>7.13</b>	<b>7.15</b>	<b>15.43</b>	<b>15.27</b>	<b>20.37</b>
<b>Power &amp; Energy</b>						
<b>Revenue Expenditure of which</b>	101.25	80.20	80.82	130.31	111.56	154.53
(a) Salary & Wage Component	NA	21.59	22.33	22.92	26.22	24.82
(b) Non-Salary & Wage Component	NA	58.61	57.87	107.39	85.34	129.71
<b>Capital Expenditure</b>	39.96	19.61	31.49	64.62	52.83	122.61
<b>Total</b>	<b>141.21</b>	<b>99.81</b>	<b>112.31</b>	<b>194.93</b>	<b>164.39</b>	<b>277.14</b>
<b>Transport</b>						
<b>Revenue Expenditure of which</b>	41.91	44.83	42.54	47.58	50.12	51.24
(a) Salary & Wage Component	NA	23.03	23.88	25.77	29.67	25.79
(b) Non-Salary & Wage Component	NA	21.80	18.66	21.81	20.45	25.45
<b>Capital Expenditure</b>	30.51	32.61	32.39	106.13	103.55	139.86
<b>Total</b>	<b>72.42</b>	<b>77.44</b>	<b>74.93</b>	<b>153.71</b>	<b>153.67</b>	<b>191.10</b>
<b>Other Economic Services</b>						
<b>Revenue Expenditure of which</b>	76.09	85.07	80.08	79.14	89.20	108.49
(a) Salary & Wage Component	NA	30.48	32.58	32.65	34.48	34.08
(b) Non-Salary & Wage Component	NA	54.59	47.50	46.49	54.72	74.40
<b>Capital Expenditure</b>	11.83	13.60	23.84	27.59	55.59	65.92
<b>Total</b>	<b>87.92</b>	<b>98.67</b>	<b>103.92</b>	<b>106.73</b>	<b>144.79</b>	<b>174.41</b>
<b>Total (Economic Services)</b>						
<b>Revenue Expenditure of which</b>	315.74	317.92	318.80	389.74	404.36	498.78
(a) Salary & Wage Component	NA	124.74	131.49	136.92	150.78	142.72
(b) Non-Salary & Wage Component	NA	193.18	187.31	252.82	253.58	356.06
<b>Capital Expenditure</b>	94.11	73.18	105.29	230.68	240.62	347.96
<b>Grand Total</b>	<b>409.85</b>	<b>391.10</b>	<b>424.09</b>	<b>620.42</b>	<b>644.98</b>	<b>846.74</b>

The trends in revenue and capital expenditure on economic services during 2000-2006 reveal that the capital expenditure has consistently increased from 53 per cent of total capital expenditure (Rs.73.18 crore) in 2001-02 to 77 per cent (Rs.347.96 crore) in 2005-06, while revenue expenditure with inter-year fluctuations remained stagnant at 31 per cent (Rs.498.78 crore) of total revenue expenditure in 2005-06 as was in 2000-01 (Rs.315.74 crore). The expenditure on economic services during 2005-06 (Rs.846.74 crore) accounted for 57 per cent of development expenditure, of which agriculture and allied services, irrigation and flood control, power and energy and transport accounted for 79.4 per cent. In Mizoram, though the rate of growth of agriculture and allied activities during 2005-06 was nominal (10.11 per cent), significant growth under irrigation and flood control (33.4 per cent), power and energy (68.59 per cent) and transport (24.36 per cent) indicate expansion as well as an improvement in qualitative aspect of these services.

Of the revenue expenditure on economic services, the expenditure on salary and wages has decreased from 39 *per cent* in 2001-02 to 29 *per cent* in 2005-06 while its non-salary component increased from 61 *per cent* in 2001-02 to 71 *per cent* in 2005-06 indicating allocative priorities towards better quality of services.

### 1.6.3 Financial Assistance to Local Bodies and other Institutions

The quantum assistance provided by way of grant and loans to local bodies and others during the six year period 2000-2006 is presented in **Table 1.16**.

**Table 1.16: Financial Assistance**

(Rupees in crore)

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Universities and Educational Institutions	Nil	Nil	35.75	37.94	37.39	43.77
District Councils	44.02	50.03	52.76	51.11	61.29	66.46
MIZOFED/Consumer Co-op. Societies	0.09	0.09	0.15	0.23	0.96	0.74
Other Institutions*	6.65	8.51	9.52	12.11	**16.97	11.45
<b>TOTAL</b>	<b>50.67</b>	<b>58.63</b>	<b>98.18</b>	<b>101.39</b>	<b>116.61</b>	<b>122.42</b>
Percentage of increase over previous year	22.51	15.71	67.46	3.27	15.01	4.98
Assistance as a percentage of revenue expenditure	4.96	5.20	8.68	7.87	8.36	7.71

\* Local bodies, urban local body, housing boards, voluntary organizations etc.

\*\* Includes subsidy of Rs.11.32 crore

During 2005-06, financial assistance of Rs.122.42 crore was given to various local bodies and other institutions as compared to Rs.50.67 crore paid in 2000-01. The total assistance during 2005-06 had grown by 142 *per cent* over the level of 2000-01. The assistance to local bodies as a percentage of total revenue expenditure had increased from 5.20 *per cent* in 2001-02 to 7.71 *per cent* in 2005-06. Financial assistance to three District Councils in the State during 2005-06 constituted 54 *per cent* of the total assistance against 53 *per cent* during the preceding year. The assistance was paid to the Councils under the detail head 'other expenditure' during the year 2005-06.

### 1.6.4 Non submission of accounts

In order to identify the institutions which attract audit under Section 14 and 15 of the C&AG's (Duties, Power and Conditions of Service) Act 1971, Government/Heads of 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 institution. Information for the year 2005-06 was called for in May 2006 from 22 institutions, but reply was awaited from ten institutions as of October 2006. Accounts of one Autonomous Body covered under Section 19(3) of the Act, were due for two years (2004-05 and 2005-06).

### 1.6.5 Misappropriation, losses and Write off of losses etc.

The State Government reported 28 cases of misappropriation and defalcation, etc. amounting to Rs.119.36 lakh upto October 2006 on which final action was pending. There were two cases amounting to Rs.70.45 lakh against which departmental/criminal action have not been started, eight cases amounting to Rs.36.65 lakh against which police action had not been finalised and 18 cases amounting to Rs.12.26 lakh awaiting order for recovery or write off. The Department-wise break up of pending cases is given in **Appendix- 1.8**.

## 1.7 Assets and liabilities

In the Government accounting system, comprehensive accounting of fixed assets like land and buildings etc., owned by 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 2006 compared with the corresponding position on 31 March 2005. While the liabilities in this **Appendix** consist mainly of internal borrowings, loans and advances from the Government of India, receipts from the Public Account and Reserve Funds, the assets comprise mainly capital outlay, loans and advances given by the State Government and the cash balances. **Appendix- 1.7** depicts the time series data on State Government finances.

### 1.7.1 Incomplete projects

The position of incomplete projects as on 31 March 2006 is given in **Table 1.17**.

**Table 1.17: Department-wise profile of Incomplete Projects**

(Rupees in crore)

Department	Number of incomplete Projects	Initial Budgeted cost	Cost Over Run	Revised Total Cost of Projects	Actual expenditure as on 31.3.2006
Power and Electricity	7	115.20	48.66	163.86	97.08

As of March 2006, there were seven incomplete projects in Power and Electricity Department in which Rs.97.08 crore were blocked. The projects were to be completed between February 2005 and March 2006 at a cost of Rs.115.20 crore which were subsequently revised by the Government to Rs.163.86 crore due to non completion of the projects within the targeted dates of completion. The cost overrun on these projects was Rs.48.66 crore.

### 1.7.2 Investments and returns

As on 31 March 2006, Government had invested Rs.13.68 crore in Government Companies and Co-operative Societies (**Table 1.18**). The return on this investment was 'nil' in the last five years while the Government paid an interest rate of 7.81 to 10.06 *per cent* on its borrowings during 2000-2006. Details are given in **Appendix- 1.9**.

**Table 1.18: Return on Investment**

Year	Investment at the end of the year	Return	Percentage of return	Average interest rate paid on Government borrowing	Difference between interest rate and return
	(Rupees. in crore)			(per cent)	
2000-01	11.59	Nil	Nil	8.28	8.28
2001-02	11.59	Nil	Nil	10.06	10.06
2002-03	11.68	Nil	Nil	7.81	7.81
2003-04	11.68	Nil	Nil	8.60	8.60
2004-05	11.68	Nil	Nil	8.38	8.38
2005-06	13.68	Nil	Nil	7.65	7.65

### 1.7.3 Loans and advances by State Government

In addition to the investments in Co-operatives and Companies, Government has also been providing support in terms of loans and advances to many of these institutions/organisations. The total outstanding loans and advances as on 31 March 2006 was Rs.294.13 crore (**Table 1.19**). Interest received against these loans and advances was 1.12 *per cent* during 2005-2006 as against 0.94 *per cent* in the previous year.

**Table 1.19: Average Interest Received on Loans Advanced by the State Government**

	<i>(Rupees in crore)</i>					
	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Opening Balance	194.11	212.30	235.70	253.73	270.91	283.02
Amount advanced during the year	30.60	38.50	34.72	37.23	34.41	34.09
Amount repaid during the year	12.41	15.10	16.70	20.05	22.30	22.98
Closing Balance	212.30	235.70	253.73	270.91	283.02	294.13
Net Addition	18.19	23.40	18.02	17.18	12.11	11.12
Interest Received	0.88	1.45	2.43	2.10	2.62	3.24
Interest received as <i>per cent</i> to outstanding loans and advances	0.43	0.65	0.99	0.80	0.94	1.12
Weighted interest rate ( <i>per cent</i> ) paid on borrowings by State Government	8.28	10.06	7.81	8.60	8.38	7.97
Difference between weighted interest paid and received ( <i>per cent</i> )	7.85	9.41	6.82	7.80	7.44	6.85

The interest amount received as percentage to outstanding loans and advances was 1.12 *per cent* during 2005-06 and was insignificant compared to the interest rate on market borrowings during the year. As per the recommendations of TFC, interest receipts need to grow to reach



to the level of 7 per cent per annum by the terminal year of Award period, and therefore requisite initiatives need to be taken to achieve the suggested level of interest receipts during the TFC Award period.

#### 1.7.4 Management of cash balances

It is generally desirable that the State's flow of resources should match its expenditure obligations. However, to take care of any temporary mismatches in the flow of resources and the expenditure obligations, a mechanism of Ways and Means Advances (WMA) and overdraft from Reserve Bank of India has been put in place. The operative limit for Normal Ways and Means Advances is reckoned as the three year average of revenue receipts and the operative limit for Special Ways and Means Advances is fixed by the Reserve Bank of India from time to time depending on the holding of Government securities. The State has shown improvement in the management of cash balances as WMA facilities were used for eight days during 2005-06 as against 92 days in the previous year. However, there was no overdraft in 2005-06, signifying distinct improvement in cash management. **Table-1.20** given below indicates the details regarding Ways and Means Advances and Overdraft.

**Table 1.20: Ways and means advance and overdrafts of the State and Interest paid thereon**

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
<i>(Rupees in crore)</i>						
<b>Ways and Means Advances</b>						
Availed in the year	123.77	326.15	402.29	241.49	295.14	63.24
Outstanding WMA, if any	28.00	141.24	97.84	12.13	12.13	12.13
Interest Paid	0.33	0.77	0.98	0.59	0.47	0.03
Number of days	31	117	178	75	92	8
<b>Overdraft</b>						
Availed in the year	129.74	140.74	118.23	---	---	---
Outstanding	95.87	21.45	15.08	15.08	15.08	15.08
Number of days	0.16	78	32	---	---	---
Interest Paid	34	0.33	0.11	0.01	---	---

## 1.8 Undischarged liabilities

### 1.8.1 Fiscal liabilities - Public Debt and Guarantees

There are two sets of liabilities namely, public debt and other liabilities. Public debt consists of internal debt of the State and is reported in the Annual Financial Statements under the Consolidated Fund – Capital Account. It includes market loan, special securities issued by RBI and loans and advances from the Central Government. The Constitution of India provides that a State may borrow, within the territory of India, upon the security of its Consolidated Fund, within such limits as may from time

to time be fixed by the Act of its Legislature and give guarantees within such limits as may be fixed. However, the State Government has not fixed any limit in this regard. Other liabilities which are a part of public account, include deposits under small savings scheme, provident funds and other deposits.

**Table 1.21** gives the fiscal liabilities of the State, its rate of growth, ratio of these liabilities to GSDP, revenue receipts and own resources and the buoyancy of these liabilities with respect to these parameters.

**Table 1.21: Fiscal Liabilities- Basic Parameters**

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Fiscal liabilities* ( <i>Rupees in crore</i> )	1330.19	1575.75	1832.44	2043.51	2288.35	2541.55
Rate of Growth ( <i>per cent</i> )	19.49	18.39	16.36	11.52	11.98	11.06
<b>Ratio of Fiscal Liabilities to</b>						
GSDP ( <i>per cent</i> )	75.21	81.84	94.45	97.71	93.73	94.34
Revenue Receipts ( <i>per cent</i> )	160.61	181.47	179.37	149.06	152.37	153.69
Own Resources ( <i>per cent</i> )	2427.35	2460.93	2273.78	2224.59	1987.28	1451.15
<b>Buoyancy of Fiscal Liabilities to</b>						
GSDP (ratio)	0.765	2.092	19.828	1.477	0.716	1.070
Revenue Receipts (ratio)	-5.144	3.848	0.923	0.337	1.255	1.095
Own Resources (ratio)	3.372	1.096	0.631	0.824	0.473	0.212

\* Includes Internal Debt, loans and advances from GOI and Small Savings and Provident Funds, etc.

Fiscal liabilities of Rs.2541.55 crore during 2005-06 consist of internal debt e.g., market loans bearing interest, loans from Life Insurance Corporation of India (LIC) and other institutions etc. (Rs.1230.15 crore), loans and advances from the Central Government (Rs.591.85 crore) and small savings, provident funds (State Provident Fund: Rs.668.14 crore, Insurance and Pension funds Rs.51.41 crore). Overall fiscal liabilities of the State increased from Rs.1330.19 crore in 2000-01 to Rs.2541.55 crore in 2005-06 showing an increase of 91 *per cent* over the period. An increase of Rs.253.20 crore during 2005-06 over the previous year was mainly on account of increases observed under loans from other institutions (Rs.134.67 crore), market loans bearing interest (Rs.99.67 crore) and loans from LIC (Rs.36.65 crore). The ratio of fiscal liabilities to GSDP increased from 75.21 *per cent* in 2000-01 to 94.34 *per cent* in 2005-06. These liabilities stood at 1.54 times of its revenue receipts and 14.51 times of the State own resources at the end of 2005-06. In two out of six years (2000-2006), GSDP has increased at the rate higher than the growth rate of fiscal liabilities as reflected by the trends in the buoyancy ratio of fiscal liabilities with reference to GSDP. During the current year, due to an increase in GSDP projected by the State Government, the buoyancy of fiscal liabilities with reference to GSDP increased to 1.070 from 0.716 in 2004-05.

According to **Statement-4** of the Finance Accounts for the year 2005-06, arrangement has been made by the State Government for amortisation of

open market loans commencing from 2000-01. As of March 2006, the balance in the sinking fund was Rs.22.25 crore, which was invested in Government of India securities.

### 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 the year since 2001-02 are given in **Table 1.22**.

**Table 1.22 : Guarantees given by the Government of Mizoram**

(Rupees in crore)

Year	Maximum amount guaranteed	Outstanding amount of guarantees	Percentage of maximum amount guaranteed to total revenue receipts
2000-01	106.12	55.39	12.23
2001-02	146.61	89.17	16.89
2002-03*	---	---	---
2003-04	168.69	113.28	12.30
2004-05	229.39	136.28	15.27
2005-06	269.73	145.02	16.31

\* Details are not available

Government had guaranteed loans raised by various Corporations and others, which at the end of 2005-06 stood at Rs.145.02 crore. The outstanding amount of guarantees is in the nature of contingent liabilities, which were about 9 per cent of revenue receipts. No law under Article 293 of the Constitution had been passed by the State Legislature laying down the maximum limit within which the Government may give guarantees on the security of the Consolidated Fund of the State.

### 1.8.3 Debt Sustainability

Debt sustainability is defined as the ability to maintain a constant debt-GDP ratio over a period of time. In simple terms, public debt is considered sustainable as long as the rate of growth of income exceeds the interest rate or cost of public borrowings subject to the condition that the primary balance is either positive or zero. Given the rate spread (GSDP growth rate - interest rate) and quantum spread (Debt x rate spread), debt sustainability condition states that if quantum spread together with primary deficit is zero, debt – GDP ratio would be constant or sustainable. On the other hand, if  $PD > QS$ , debt-GDP ratio would be rising and if  $PD < QS$ , it would be falling.

**Table 1.23: Debt Sustainability – Interest Rate and GSDP Growth**  
(in per cent)

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Average Interest payments to outstanding Fiscal liabilities	8.28	10.06	7.81	8.60	8.38	7.65
GSDP Growth	25.50	8.79	0.83	7.80	16.74	10.34
Interest Spread	17.21	(-) 1.28	(-) 6.99	(-) 0.80	8.36	2.69
Outstanding Debt (Rs. in lakh)	1330.19	1574.75	1832.44	2043.51	2288.35	2541.55
Quantum Spread (Rs. in crore)	228.93	-20.16	-128.09	-16.35	191.31	68.37
Primary Deficit (Rs. in crore)	-274.07	-276.16	-182.26	-139.07	-53.80	-212.19

The trends in **Table 1.23** reveal that the ratio of interest payments to average fiscal liabilities has declined from 8.6 *per cent* in 2003-04 to 7.65 *per cent* in 2005-06 primarily on account of the fact that increase in rate of growth in interest payment has been lower than the rate of increase of fiscal liabilities during 2003-06. In three out of the six year period during 2000-2006, the interest spread was negative, *i.e.*, weighted interest rate was higher than the rate of growth in GSDP during these years. The State has not only experienced primary deficit, but it continued to be sizeable throughout this period. An analysis of primary deficit *vis-à-vis* quantum spread reveals that net outcome turns out to be negative in five out of six years during 2000-2006. Primary deficit during 2005-06 was greater than the quantum spread indicating rising debt-GSDP ratio and deteriorating debt position of the state.

#### 1.8.4 Net Availability of Funds

Another important indicator of debt sustainability is the net availability of funds after the payment of the principal on account of earlier contracted liabilities and interest. **Table 1.24** gives the position of receipts and repayment, internal debt and other fiscal liabilities over the last five years.

**Table 1.24: Net Availability of Borrowed Funds**

(Rupees in crore)

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
<b>Internal Debt</b>						
Receipts	345	542	734	463	404	307
Repayment (Principal + Interest)	199	521	646	441	421	234
Net Fund Available	146	21	88	22	-17	73
Net Fund Available ( <i>per cent</i> )	42.32	3.87	11.99	4.75	-4.21	23.78
<b>Loans and Advances from Government of India</b>						
Receipts	42	85	52	80	68	10
Repayment (Principal + Interest)	97	50	74	144	70	63
Net Fund Available	-55	35	-22	-64	-2	-53
Net Fund Available ( <i>per cent</i> )	-130.95	41.18	-42.31	-80.00	-2.94	-530

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
<b>Other obligations</b>						
Receipts	229	316	374	459	401	482
Repayment (Principal + Interest)	223	206	291	284	342	444
<b>Total Liabilities</b>						
Receipts	616	943	1160	1002	873	799
Payments	519	777	1011	869	833	741
Net receipts	97	166	149	133	40	58
Net Fund Available ( <i>per cent</i> )	15.75	17.60	12.84	13.27	4.58	7.26

It would be seen from the above table that out of the total debt receipts of Rs.799 crore, an amount of Rs.741 crore was spent on repayments of debt, leaving a balance of Rs.58 crore (7.26 *per cent*) during the year 2005-06. The net availability of funds under internal debt declined from a level of 42.32 *per cent* in 2000-01 to 23.78 *per cent* in 2005-06 indicating that borrowed funds were necessarily used to discharge debt obligations. Considering that the fiscal liabilities have been increasing year after year, availability of borrowed funds are likely to reduce further in ensuing years.

### 1.9 Management of deficits

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

**Table 1.25: Fiscal Imbalances – Basic Parameters**

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Revenue Deficit (-)/ Surplus (+) (Rs. in crore)	(-)193.39	(-)260.43	(-)109.35	(+)83.18	(+)106.35	(+)65.64
Fiscal Deficit (-) (Rs. in crore)	(-)375.27	(-) 422.34	(-) 315.32	(-) 305.69	(-)235.30	(-)396.84
Primary Deficit (Rs. in crore)	(-)274.07	(-) 276.16	(-) 182.26	(-) 139.07	(-)53.80	(-)212.19
RD/GSDP ( <i>per cent</i> )	(-) 10.93	(-) 13.53	(-) 5.64	(+) 3.98	(+)4.36	(+)2.44
FD/GSDP ( <i>per cent</i> )	(-)21.22	(-) 21.95	(-) 16.25	(-) 14.62	(-)9.64	(-)14.73
PD/GSDP( <i>per cent</i> )	(-)15.50	(-) 14.35	(-) 9.39	(-) 6.65	(-)2.20	(-)7.88
RD/FD ( <i>per cent</i> )	51.53	62.66	34.68	(-)27.21	(-) 45.20	(-)16.54

(Negative figures indicate deficit)

The revenue deficit of the State indicates the excess of its revenue expenditure over revenue receipts. The State had a revenue surplus during 2003-04 to 2005-06. Although the State had maintained revenue surplus of Rs.65.64 crore during 2005-06, it was lower by Rs.40.71 crore relative

to the level of previous year. An increase of 10.11 *per cent* (Rs.151.79 crore) in revenue receipts during 2005-06 in comparison to 13.79 *per cent* (Rs.192.50 crore) on revenue expenditure resulted in a fall in revenue surplus during 2005-06. The increase in the revenue expenditure was largely due to higher rate of growth of plan revenue expenditure (28.82 *per cent*) during 2005-06 mainly on social services (33 *per cent*) and economic services (23 *per cent*).

The fiscal deficit, which represents the total borrowings of the Government and its total resource gap, increased by Rs.161.54 crore from Rs.235.30 crore in 2004-05 to Rs.396.84 crore in 2005-06. The sharp increase in capital expenditure (Rs.121.81 crore) and decline in revenue surplus by Rs.40.71 crore over the previous year were mainly responsible for deterioration in fiscal deficit during 2005-06. Given the fact that interest payments have increased only by Rs.3.15 crore during 2005-06, deteriorating fiscal deficit also resulted in an increase of Rs.158.39 crore in primary deficit during the year.

### 1.10 Fiscal Ratios

The finances of a State should be sustainable, flexible and non-vulnerable. **Table 1.26** presents a summarised position of Government finances over 2001-2006, 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 1.26: Indicators of Fiscal Health**

(in per cent)

Fiscal indicators	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
<b>I. Resource Mobilisation</b>						
Revenue Receipt/GSDP	46.83	45.10	52.66	65.55	61.51	61.38
Revenue Buoyancy	(-) 0.15	0.54	21.48	4.39	0.96	0.30
Own tax/GSDP	0.82	0.99	1.44	1.62	1.62	2.04
<b>II. Expenditure Management</b>						
Total Expenditure/GSDP	68.74	67.83	69.77	81.13	72.07	76.97
Total Expenditure/ Revenue Receipts	146.81	150.41	132.50	123.76	117.15	125.39
Revenue Expenditure/Total Expenditure	84.02	86.44	83.55	75.90	79.31	76.59
Salary and Wage expenditure on Social and Economic Services/Revenue Expenditure	NA	29.38	30.33	27.85	28.22	24.55
Non- Salary and Wage expenditure on Social and Economic Services/ Revenue Expenditure	NA	35.84	33.80	36.24	34.90	41.34
Capital Expenditure/Total Expenditure*	13.81	10.93	14.25	22.40	19.10	22.13
Capital Expenditure on Social and Economic Services/Total Expenditure	12.97	9.93	13.26	20.92	18.11	21.12

Fiscal indicators	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Buoyancy of TE with RR	(-)3.211	1.538	0.209	0.741	0.387	1.766
Buoyancy of RE with RR	(-)3.387	2.184	0.014	0.405	0.876	1.365
<b>III. Management of Fiscal Imbalances</b>						
Revenue Deficit (-)/ Surplus (+) (Rs. in crore)	(-)193.39	(-)260.43	(-)109.35	(+) 83.18	(+) 106.35	(+) 65.64
Fiscal deficit ( <i>Rupees in crore</i> )	(-)375	(-)422	(-)315	(-)306	(-)235.30	(-)396.84
Primary deficit ( <i>Rupees in crore</i> )	(-)274	(-)276	(-)182	(-)139	(-)53.80	(-)212.19
Revenue deficit/Fiscal deficit	51.53	61.66	34.68	(-)27.21	(-)45.20	(-)16.54
<b>IV. Management of Fiscal Liabilities</b>						
Fiscal liabilities/GSDP	75.21	81.84	94.45	97.71	93.73	94.34
Fiscal liabilities/RR	160.61	181.47	179.37	149.06	152.37	153.69
Buoyancy of FL with RR	(-) 5.144	3.848	0.923	0.337	1.255	1.095
Buoyancy of FL with Own Receipt	3.372	1.096	0.631	0.824	0.473	0.212
Primary deficit vis-à-vis quantum spread ( <i>Rupees in crore</i> )	-45.14	-296.32	-310.35	-155.42	137.51	-143.82
Net Funds available	15.75	17.60	12.84	13.27	4.58	7.26
<b>V. Other Fiscal Health Indicators</b>						
Return on Investment	0.00	0.00	0.00	0.00	0.000	0.00
Balance from Current Revenue ( <i>Rupees in crore</i> )	(-)378.21	(-)358.96	(-)294.12	(-)379.76	(-)232.20	(-)37.50
Financial Assets/Liabilities (ratio)	1.20	1.03	0.98	1.01	1.05	1.06

\* Total expenditure does not include loans and advances

The ratio of own taxes to GSDP had shown continuous improvement in the six-year period. The ratio of revenue receipt to GSDP and its buoyancy was on a rising trend during 2000-2005, but declined during 2005-06. Revenue buoyancy after reaching a pick in 2002-03 declined sharply during 2005-06.

Various ratios concerning the expenditure management of the State indicate the quality of its expenditure and sustainability of these in relation to resource mobilisation. The total expenditure to GSDP ratio showed a decreasing trend during 2004-05. Revenue expenditure is on the increasing trend over the six-year period 2000-2006 and comprises 77 per cent of the total expenditure in 2005-06 leaving very little for capital formation or asset creation.

### 1.11 Conclusion

The Central transfers comprising of grants-in-aid and State's share in Central pool of taxes and duties constituted the dominant share (89 per cent) in revenue receipts of the State during 2005-06. Although the State has been enjoying revenue surplus during the last three years mainly due to increased Central transfers, but consistent and sizable fiscal and primary deficits during 2000-2006 are pointers towards deteriorating State finances during the period. Further, increasing fiscal liabilities in the wake of quantum spread together with primary deficit being negative resulted in increasing debt GSDP ratio which has raised to unsustainable levels during the recent years indicating vulnerability of State finances.

The inadequate recovery of interest cost of borrowed funds on loans and advances and nil return in Government investment further aggravated the fiscal position of the State. Augmentation in State's own resources with judicious spending policy would be required in the medium to long run to address the vulnerable position of State's finances.