

## CHAPTER-I

### FINANCES OF THE STATE GOVERNMENT

#### 1.1 Introduction

The accounts of the State Government are kept in three parts (i) Consolidated Fund, (ii) Contingency Fund and (iii) Public Account (**Appendix 1.1-Part A**). The Finance Accounts of the Government of 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. The lay out of the Finance Accounts is depicted in **Appendix 1.1 – Part B**.

##### 1.1.1 Summary of Receipts and Disbursements

**Table 1.1** summarises the finances of the State Government for the year 2007-08 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.

##### 1.1: Summary of receipts and disbursements for the year 2007-08

*(Rupees in crore)*

2006-07	Receipts	2007-08	2006-07	Disbursements	2007-08		
					Non-Plan	Plan	Total
<b>Section – A: Revenue</b>							
1968.95	1. Revenue Receipts	2039.74	1717.30	1. Revenue Expenditure	1259.32	649.07	1908.39
67.62	Tax revenue	71.96	616.91	General Services	626.83	18.83	645.66
133.38	Non- tax revenue	130.30	592.90	Social Services	357.43	339.34	696.77
288.05	Share of Union Taxes/Duties	368.92	507.49	Economic Services	275.05	290.91	565.96
1479.90	Grants from Government of India	1468.56	-	Grants –in-aid/ Contributions	-	-	-
<b>Section B : Capital</b>							
--	II. Miscellaneous Capital Receipts	-	466.44	II. Capital Outlay	54.52	489.72	544.24
24.01	III. Recoveries of Loans and Advances	27.53	0.25	III. Loans and Advances disbursed	-	-	6.12
236.56	IV. Public Debt receipts <sup>1</sup>	223.71	110.95	IV. Repayment of Public Debt	-	-	143.96
--	V. Contingency Fund	-	-	V. Contingency Fund	-	-	-
1425.61	VI. Public Account receipts	2322.67	1394.12	VI. Public Account disbursements	-	-	1780.10
42.86	Opening Cash Balance	8.93	8.93	Closing Cash Balance	-	-	239.77
<b>3697.99</b>	<b>Total</b>	<b>4622.58</b>	<b>3697.99</b>	<b>Total</b>			<b>4622.58</b>

Following are the significant changes during 2007-08 over the previous year;

- Revenue receipts grew by 3.60 *per cent* (Rs. 70.79 crore) over the previous year mainly on account of increase in State's share of Union

<sup>1</sup> Includes net Ways and Means Advances and Overdraft

taxes and duties by 28.07 per cent (Rs. 80.87 crore); tax revenue by 6.42 per cent (Rs. 4.34 crore). The increase was however partially offset by a decrease in non-tax revenue (Rs. 3.08 crore) and grants-in-aid from GOI (Rs. 11.34 crore).

- Revenue expenditure and capital expenditure increased by Rs. 191.09 crore (11.13 per cent) and Rs. 77.08 crore (16.68 per cent) respectively over the previous year.
- Public debt receipts decreased by Rs. 12.85 crore while the Public debt repayments increased by Rs. 33.01 crore over previous year.
- Loans and advances disbursed by the State government have increased by Rs. 5.87 crore while their recovery improved marginally by Rs. 3.52 crore in 2007-08 over the previous year.
- Public Account receipts and Public Account disbursements increased by Rs. 897.06 crore and Rs. 385.98 crore respectively over the previous year.
- Cash balances of the state increased by Rs. 230.84 crore over the previous year mainly due to cash balance investment of Rs. 266.79 crore in 2007-08 against nil balance in previous year and increase of Rs. 14 crore in investment in earmarked balances partly offset by increase in negative balances of Rs. 50 crore in deposits of the State with RBI in 2007-08 relative to previous year.

### 1.1.2 Fiscal Position by Key Indicators

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

*(Rupees in crore)*

2006-07	Sl. No	Major Aggregates	2007-08
<b>1969</b>	<b>1.</b>	<b>Revenue Receipts (2+3+4)</b>	<b>2040</b>
68	2.	Tax Revenue	72
133	3.	Non-Tax Revenue	130
1768	4.	Other Receipts	1838
24	5.	Non-Debt Capital Receipts	28
24	6.	<i>Of which recovery of Loans</i>	28
<b>1993</b>	<b>7.</b>	<b>Total Receipts (1+5)</b>	<b>2068</b>
<b>1129</b>	<b>8.</b>	<b>Non- Plan Expenditure</b>	<b>1314</b>
1121	9.	On Revenue Account	1259
229	10.	<i>Of which Interest Payments</i>	208
8	11.	On Capital Account	55
--	12.	On Loans disbursed	-
<b>1055</b>	<b>13.</b>	<b>Plan Expenditure</b>	<b>1145</b>
596	14.	On Revenue Account	649
459	15.	On Capital Account	490
--	16.	On Loans disbursed	6
<b>2184</b>	<b>17.</b>	<b>Total Expenditure (13+8)</b>	<b>2459</b>
(+) 252	18.	Revenue Deficit (-)/Surplus (+) (1-9-14)	(+) 132
(-) 191	19.	Fiscal Deficit (-)/Surplus (+) (1+5-17)	(-) 391
(+) 38	20.	Primary Deficit (-)/ Surplus (+) (19 -10)	(-) 183

During the current year while revenue expenditure increased by over 11 *per cent* (Rs. 191.09 crore), revenue receipt increased by 3.60 *per cent* (Rs. 70.79 crore) over the previous year, resulting in decrease in surplus by Rs. 120 crore in revenue account. The decrease in revenue surplus along with an increase of Rs. 4 crore in non-debt capital receipts in 2007-08 accompanied by an increase of Rs. 77.80 crore on account of capital expenditure as well as in disbursement of loans and advances (Rs. 5.87 crore) during 2007-08 led to an increase of Rs. 200 crore in fiscal deficit during the current year. The increase in fiscal deficit accompanied by a decrease of Rs. 21 crore in interest payments during 2007-08 over the previous year turned the primary surplus of Rs. 38 crore in 2006-07 into a primary deficit of Rs. 183 crore during 2007-08.

## 1.2 Methodology adopted for the assessment of Fiscal Position

The trends in the major fiscal aggregates of receipts and expenditure as emerging from the Statements of Finance Accounts were analysed wherever necessary over the period 2002-03 to 2007-08 and observations have been made on their behaviour. In its Restructuring Plan of the State finances, the Twelfth Finance Commission (TFC) recommended the norms/ceiling for some fiscal aggregates and also made normative projections for others. In addition, TFC also recommended that all States enact the Fiscal Responsibility (FR) Act and draw their fiscal correction path accordingly for the five year period (2005-06 to 2009-10) so that fiscal position of the State could be improved as committed in their respective FR Acts/Rules during medium to long run. The norms/ceiling prescribed by the TFC as well as its projections for fiscal aggregates along with the commitments/projections made by the State Government in its FR Act and in other Statements required to be laid in the Legislature under the Act were used to make qualitative assessment of the trends and position of major fiscal aggregates during the current year. Assuming that Gross State Domestic Product (GSDP) is a good indicator of the performance of the State's economy, major fiscal aggregates like tax and non-tax revenue, revenue and capital expenditure, internal debt and revenue and fiscal deficits have been presented as percentage to the GSDP at current market prices. The buoyancy coefficients for tax revenues, non-tax revenues, revenue expenditure etc, with reference to the base represented by GSDP have also been worked out to assess as to whether the mobilisation of resources, pattern of expenditure etc, are keeping pace with the change in the base or these fiscal aggregates have also been affected by factors other than GSDP.

**Table: 1.3 Trends in Growth of Gross State Domestic Product (GSDP)**

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
(GSDP) (Rs. in crore)	1940	2091	2441	2694	2985	3305
Rate of Growth of GSDP (in <i>per cent</i> )	0.83	7.78	16.74	10.36	10.80	10.72

Source: Department of Economics and Statistics, Government of Mizoram.

The key fiscal aggregates for the purpose have been grouped under four major heads: (i) Resources by Volume and Sources, (ii) Application of Resources, (iii) Assets and Liabilities and (iv) Management of Deficits (**Appendix 1.3 to 1.6**). The overall financial performance of the State Government as a body corporate has been presented by the application of a set of ratios commonly adopted for the relational interpretation of fiscal aggregates. The definitions of some of the selected terms used in assessing the trends and pattern of fiscal aggregates are given in **Appendix 1.1 Part C**.

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

The State Government enacted (November 2006) the Mizoram Fiscal Responsibility and Budget Management (MFRBM) Act, 2006 to ensure prudence in fiscal management and fiscal stability by progressive reduction of revenue deficit, prudent management consistent with fiscal sustainability, greater transparency in fiscal operations of the Government and conduct of fiscal policy in a medium term fiscal framework and for matters connected therewith or incidental thereto.

The Act set the following fiscal targets for the State Government:

- Progressively reduce revenue deficit from the financial year 2006-07, so as to bring it down to zero by 2008-09 and generate revenue surplus thereafter;
- reduce fiscal deficit to 3 *per cent* of the estimated GSDP by 2008-09;
- ensure that total outstanding debt, excluding public account, and risk weighted outstanding guarantees in a year shall not exceed twice the estimated receipts in the Consolidated Fund of the State at the close of the financial year;

Revenue deficit and fiscal deficit may exceed the limits specified under this section on accounts of unforeseen demands on the finances of the State Government arising out of national security or calamity including famine relief or such other exceptional circumstances beyond the control of the State Government.

#### ***1.2.1.1 Roadmap to Achieve the Fiscal Targets as Laid down in FRBM Act/Rules***

The FRBM Act was enacted by the State Government in November 2006 and the Medium Term Fiscal Plan was laid in the Legislature along with the annual budget 2007-08 on 13<sup>th</sup> March 2008. The State Government developed its Own Fiscal Correction Path (FCP) indicating the milestones of outcome indicators with target dates for implementation during the period from 2005-06 to 2010-11 (**Appendix-1.2**) keeping in view the fiscal targets laid

down in the FRBM Act and/or the rules made there under and the anticipated annual rate of reduction of fiscal deficit of the State worked out by the GOI for the TFC Award. The FCP was laid before the Legislature along with the Statement of Medium Term Fiscal Policy in March 2008 by the State Government.

### **1.2.1.2 Fiscal Performance**

In terms of an incentive scheme of TFC, a reward for fiscal performance was built into the debt-write off package under DCRF<sup>2</sup>. According to the scheme, the quantum of write off of repayment of GOI loans after consolidation and reschedulement will be linked to the absolute amount by which revenue deficit is reduced in each successive year during the award period. Based on the criterion of improved fiscal performance, the State Government was entitled to receive debt waiver. However, the debt waiver was not received by the State Government during the current year due to deterioration in fiscal performance of the State viewed in terms of deficit indicators.

The fiscal performance viewed in terms of key fiscal parameters vis-à-vis the State Government's projections in FCP for 2007-08 reveals that the State Government could maintain a revenue surplus of only Rs. 131.35 crore in 2007-08 against the budget estimate of Rs. 162.84 crore for the year. Fiscal deficit on the other hand at Rs. 391 crore in 2007-08 was significantly higher than its RE of Rs. 139 crore. Relative to GSDP, it was 11.83 *per cent* as against the projected level of 3.51 *per cent* in FCP for the current year. The total outstanding debt excluding public account, at Rs. 2027 crore was also within the prescribed ceiling limit of twice the receipts in Consolidated Fund of the State during the year.

### **1.2.1.3 Mid-Term Review of Fiscal Situation**

To enforce compliance with the fiscal principles and targets laid down in the FRBM Act, 2006, the State Finance Department is to review every half year the trends in receipts and expenditure including the fiscal indicator targets set for the current financial year and place before the State Legislature a statement containing the outcome of such review. The review of the first half showed improvement in the State's finances against the selected fiscal indicators. Revenue surplus could be generated in excess of the estimates at the beginning of the year. The growth in Non-Plan Expenditure was under control and progress of Plan Expenditure is expected to improve during the second half of the year. The review was hopeful of attaining the fiscal management targets as laid down in the Mizoram FRBM Act, 2006.

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<sup>2</sup> In pursuance of recommendations of the TFC for fiscal consolidation and elimination of revenue deficit of the States GOI formulated a scheme "the States DCRF (2005-06 to 2009-10)" under which general debt relief is provided by consolidating and rescheduling the Central loans granted to States at substantially reduced rates of interest, on enacting the FRBM Act and debt waiver is granted based on fiscal performance, linked to the reduction of revenue deficit of the States.

### 1.3 Trends and Composition of Aggregate Receipts

The receipts of the State Government consist of revenue 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 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-1.4** shows that the total receipts of the State Government for the year 2007-08 were Rs. 4614 crore. Of these, revenue receipts were Rs. 2040 crore constituting 44 *per cent*. The balance came from capital receipts, borrowings and Public Account (**Appendix – 1.6**).

**Table-1.4: Trends in Growth and Composition of Aggregate Receipts**

Sources of State's Receipts	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
<b>I. Revenue Receipts</b>	<b>1022</b>	<b>1371</b>	<b>1502</b>	<b>1654</b>	<b>1969</b>	<b>2040</b>
<b>II. Capital Receipts</b>	<b>282</b>	<b>321</b>	<b>199</b>	<b>276</b>	<b>261</b>	<b>251</b>
Recovery of Loans and Advances	17	20	22	23	24	27
Public Debt Receipts	282	321	199	253	237	224
Miscellaneous Capital Receipts	-	-	-	-	-	-
<b>III. Contingency Fund</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>IV. Public Account Receipts</b>	<b>955</b>	<b>960</b>	<b>1169</b>	<b>1464</b>	<b>1426</b>	<b>2323</b>
a. Small Savings, Provident Fund etc.	131	167	190	189	215	274
b. Reserve Fund	8	8	17	10	21	30
c. Deposits and Advances	246	294	304	295	234	271
d. Suspense and Miscellaneous	202	(-)112	6	52	24	675
e. Remittances	367	603	652	918	932	1073
<b>Total Receipts</b>	<b>2259</b>	<b>2652</b>	<b>2870</b>	<b>3394</b>	<b>3656</b>	<b>4614</b>

Out of total receipts under Public Account, remittances constituted 46 *per cent*, and 86 *per cent* (Rs. 922 crore) of the remittances have come from Public Works remittance, cash remittances between Treasury and Currency Chest and Forest remittances constituted the remaining 14 *per cent* (Rs. 151 crore).

#### 1.3.1 Revenue Receipts

Statement 11 of the Finance Accounts details the revenue receipts of the Government. The revenue receipts consist of tax and non-tax revenues, Central tax transfers and grants-in-aid from GOI. Overall revenue receipts, their annual rate of growth, ratio of these receipts to the GSDP and its buoyancy are indicated in **Table-1.5**.

**Table 1.5: Revenue Receipts – Basic Parameters**

*(Value in crore of Rupees)*

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Revenue Receipts (RR)	1022	1371	1502	1654	1969	2040
Own Taxes ( <i>per cent</i> )	28 (3)	34 (2)	40 (3)	55 (3)	68 (3)	72(4)
Non-Tax Revenue ( <i>per cent</i> )	53 (5)	58 (4)	76 (5)	120 (7)	133 (7)	130(6)
Central tax Transfers ( <i>per cent</i> )	95 (9)	130 (9)	156 (10)	226 (14)	288 (15)	369(18)
Grants-in-aid ( <i>per cent</i> )	846 (83)	1149 (84)	1231 (82)	1253 (76)	1480 (75)	1469(72)
Rate of growth of RR ( <i>per cent</i> )	17.73	34.15	9.56	10.12	19.04	3.61
Revenue Receipts/GSDP ( <i>per cent</i> )	52.68	65.57	61.53	61.40	65.96	61.72
Revenue Buoyancy (ratio) <sup>3</sup>	21.36	4.39	0.57	0.98	1.76	0.34
State's own taxes Buoyancy (ratio)	57.07	2.75	1.05	3.62	2.19	0.55
Revenue Buoyancy with reference to State's own taxes (ratio)	0.38	1.59	0.54	0.27	0.80	0.62
GSDP Growth ( <i>per cent</i> )	0.83	7.78	16.74	10.36	10.80	10.72

**General Trends:**

The revenue receipts of the State increased by Rs. 1018 crore from Rs. 1022 crore in 2002-03 to Rs. 2040 crore in 2007-08 at an annual average rate of 16 *per cent*. The share of States' own resources and Central transfers in revenue receipts of the State exhibited relative stability during the period 2003-08. During 2007-08, while nearly 10 *per cent* of the revenue receipts have come from State's own resources comprising own taxes and non-taxes, Central tax transfers and grants-in-aid together contributed a little over 90 *per cent* of the total revenue.

The State's own resources vis-à-vis assessments made by TFC and State Government are given below:

*(Rupees in crore)*

	Assessment made by		Actuals
	TFC	State Government in Fiscal Correction Path	
Tax Revenue	89	69	72
Non-Tax Revenue	61	129	130

The actual realisation of non-tax receipts has exceeded the assessments made by the TFC significantly as well as the projection of the State in its FCP although marginally. As regards the tax revenue, it exceeded the FCP projection marginally but remained far less than the assessment made by the TFC for the year.

**Tax Revenue:** The tax revenue has increased by 5.88 *per cent* during the current year (Rs. 72 crore) over the previous year (Rs. 68 crore). The revenue from sales tax not only contributed the major share of tax revenue

<sup>3</sup> *Buoyancy ratio indicates the elasticity or degree of responsiveness of a fiscal variable with respect to a given change in the base variable. For instance revenue buoyancy at 0.34 during 2007-08 implies that revenue receipts tend to increase by 0.34 percentage points if the GSDP increases by one per cent.*

(86 per cent), but also increased by 15 per cent over the previous year. State sales taxes, State excise, land revenue and taxes on vehicles remained other major contributors in the tax revenue during 2007-08. **Table 1.6** below shows the trend of tax revenue during 2003-08.

**Table 1.6: Tax Revenue**

	<i>(Rupees in crore)</i>					
	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Land Revenue	0.97	0.72	0.86	1.59	0.73	1.48
Stamps and Registration Fees	0.08	0.13	0.10	0.17	0.21	0.23
State Excise	1.29	1.36	1.40	1.46	1.65	1.69
Sales Tax	18.20	23.32	28.08	41.59	53.72	62.04
Taxes on Vehicles	2.56	3.38	3.80	4.35	5.01	5.37
Taxes on goods and Passengers	0.57	0.61	0.69	0.99	0.98	1.07
Other Taxes <sup>4</sup>	4.29	4.33	4.62	4.90	5.32	0.08
<b>Total</b>	<b>27.96</b>	<b>33.85</b>	<b>39.55</b>	<b>55.05</b>	<b>67.62</b>	<b>71.96</b>

**Non Tax Revenue:** The non tax revenue which constituted 6.38 per cent of the total revenue receipts, decreased by Rs. 3 crore from Rs. 133 crore in 2006-07 to Rs. 130 crore in 2007-08 recording a decline of 2.25 per cent over the previous year. 76 per cent of non-tax revenue during 2007-08 was received from economic services and within this category, receipts under power alone contributed 65 per cent (Rs. 84 crore) followed by interest receipts (Rs. 16 crore), miscellaneous general services (Rs. 6.5 crore) and water supply and sanitation (Rs. 6.39 crore). During 2007-08, the receipts from the power sector has shown increase of Rs. 31.81 crore (61.42 per cent) followed by interest receipts and dividends and profits by Rs. 6.48 crore (78 per cent). The increase from these two sources was offset by decrease of Rs. 42.76 crore (96.55 per cent) in Miscellaneous General Services resulting in net fall of Rs. 3 crore in non tax receipts during the current year.

**Central Tax Transfers:** The Central tax transfers increased by Rs. 80.87 crore over the previous year and constituted 4 per cent of revenue receipts. The increase was mainly under Corporation tax (Rs. 25.41 crore), Service tax (Rs. 8.64 crore), Taxes on Income other than corporation tax (Rs. 22.80 crore) and Customs (Rs. 12.50 crore) and Taxes on Sales and Trade (8.32 crore).

**Grants-in-aid:** Grants-in-aid from the GOI decreased from Rs. 1,480 crore in 2006-07 to Rs. 1,469 crore in the current year. Within the Plan grants, while grants for Central Plan Schemes and State Plan Schemes increased by 125 per cent and 5 per cent respectively, grants for Centrally Sponsored Schemes and Special Plan Schemes decreased by 50 per cent (Rs.84 crore) and 5 per cent (Rs. 2 crore). The major increase under State Plan Schemes was in the form of increase in Block Grants by (Rs. 54 crore). The steep decline under Centrally sponsored schemes was mainly on account of receipts of less grants under

<sup>4</sup> Other taxes include taxes on duties on commodities and services.



SJSRY (Rs 5.75 crore); ICDS (Rs 7.50 crore); Rajiv Gandhi Drinking Water Mission (Rs 15.28 crore); Family Welfare programmes (Rs 10.42 crore); management of Gregarious Flowering of Muli bamboos (Rs 5.54 crore) and Post Matric Scholarship Scheme (Rs 15.44 crore). The Non-plan grants (Rs. 679 crore) to State constitute 46 *per cent* of total grants during the year of which, 87 *per cent* (Rs. 605 crore) were primarily for meeting the Non-Plan revenue deficit on account of the recommendation of TFC. Other components of Non-Plan grants mainly included grants from State Specific needs (Rs. 15.94 crore) followed by grants towards contribution to calamity relief fund (Rs. 13.97 crore), modernisation of police force (Rs. 10.27 crore) and maintenance of roads and bridges (Rs. 10.53 crore). Details of grants-in-aid from GOI are given in *Table 1.7*.

**Table 1.7: Grants-in-aid from GOI**

*(Rupees in crore)*

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Grants for State Plan schemes	439	713	563	509	626	660
Non Plan grants	308	315	468	604	643	679
Grants for Central Plan Schemes	3	6	2	4	4	9
Grants for Centrally Sponsored Schemes	86	101	136	91	169	85
Grants for Special Plan Schemes	11	14	62	45	38	36
<b>Total</b>	<b>847</b>	<b>1149</b>	<b>1231</b>	<b>1253</b>	<b>1480</b>	<b>1469</b>
Percentage of increase/decrease over previous year	11.30	35.66	7.14	1.79	18.12	(-) 0.74

#### 1.4 Application of Resources

Statement 12 of the Finance Accounts depicts the detailed revenue expenditure by minor heads and capital expenditure by major heads. State raises resources to perform its sovereign functions, maintain its existing nature of delivery of social and economic services, to extend the network of these services through capital expenditure and investments and to discharge its debt service obligations. The total expenditure of the State increased from Rs. 1354 crore in 2002-03 to Rs. 2459 crore in 2007-08. 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- 1.8*.

**Table 1.8: Total expenditure – Basic Parameters**

(Value in crore of Rupees and ratios in per cent)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Total Expenditure (TE) <sup>5</sup>	1354	1697	1759	2073	2184	2459
Rate of Growth	3.75	25.33	3.65	17.85	5.35	12.59
TE/GSDP Ratio	69.79	81.16	72.06	76.95	73.17	74.40
Revenue Receipts/TE ratio	75.48	80.79	85.39	79.79	90.16	82.96
Buoyancy of Total Expenditure with						
GSDP (ratio)	4.52	3.26	0.22	1.72	0.50	1.17
Revenue Receipts (ratio)	0.21	0.74	0.38	1.76	0.28	3.49

The total expenditure during the current year has increased by Rs. 275 crore (12.59 per cent) over the previous year. Of the increase in total expenditure, the revenue expenditure formed 70 per cent (Rs. 191 crore), capital expenditure was 28 per cent (Rs. 78 crore) and disbursement of loan and advances 2 per cent (Rs. 6 crore). While the share of plan expenditure constituted 46 per cent (Rs. 1139 crore) of the total expenditure, the remaining 54 per cent (Rs. 1320 crore) was non-plan expenditure incurred on General, Economic and Social services. The increase of revenue expenditure was mainly due to increased expenditure under Police (Rs. 23.94 crore), pension payments (Rs. 19.83 crore), Education (Rs. 34.99 crore), Water Supply and Sanitation (Rs. 28.63 crore) and Crop Husbandry (Rs. 21.51 crore). Capital expenditure has increased mainly on account of increased expenditure under Transport (Rs. 37.66 crore) and Agriculture and Allied Services (Rs. 47.07 crore).

During the current year, 83 per cent (Rs. 2040 crore) of total expenditure was met from revenue receipts and remaining 17 per cent (Rs. 419 crore) from the borrowed funds. The buoyancy of total expenditure to GSDP stood at 1.174 in 2007-08 indicating a tendency to spend more than the increase in income and higher elasticity of total expenditure with respect to GSDP.

**Trends in Total Expenditure by Activities:** In terms of the activities, total expenditure could be considered as being composed of expenditure on General Services including interest payments, Social and Economic Services, grants-in-aid and loans and advances. Relative share of these components in total expenditure is indicated in **Table – 1.9**.

**Table – 1.9: Components of Expenditure – Relative Share**

(in per cent)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
General Services*	30.60	28.25	29.87	26.77	29.35	26.80
Interest Payments	9.83	9.82	10.32	8.91	10.49	8.46
Social Services	35.51	32.99	31.51	30.75	32.74	32.66
Economic Services	31.33	36.57	36.66	40.84	37.91	40.30
Loans and Advances	2.56	2.19	1.96	1.64	...	0.24
Grants-in-aid	...	...	...	...	...	...

\*includes interest payments

<sup>5</sup> Total expenditure includes revenue expenditure, capital expenditure and loans and advances.

The trends in Table 1.9 reveal that while the shares of general and social services as well as the loans and advances by the State indicated a declining tendency, the share of economic services has shown an increasing trend during the period 2002-08. The expenditure on General Services and interest payments which are considered as non-developmental, together accounted for 26.80 *per cent* while on the other hand, development expenditure i.e., expenditure on Social and Economic Services together accounted for 73.96 *per cent* in 2007-08.

#### 1.4.1 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 payments, for the past obligations and as such does not result in addition to the State's 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 – 1.10*.

**Table 1.10: Revenue Expenditure – Basic Parameters**

	<i>(Rupees in crore)</i>					
	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Revenue Expenditure (RE) of which	1131	1288	1396	1588	1717	1908
Non- Plan Revenue Expenditure (NPRE)	777	917	976	1048	1121	1259
Plan Revenue Expenditure (PRE)	354	371	419	540	596	649
<b>Rate of Growth and Ratios (<i>per cent</i>)</b>						
Rate of growth of NPRE	4.15	18.02	6.43	7.38	6.97	12.31
Rate of Growth of PRE	(-) 7.39	4.72	13.12	28.82	10.37	8.89
NPRE/GSDP ( <i>per cent</i> )	40.05	43.85	39.98	38.90	37.55	38.09
NPRE as a <i>per cent</i> of TE	57.39	54.04	55.49	50.55	51.33	51.20
NPRE as a <i>per cent</i> of RR	76.07	66.89	64.98	63.36	56.93	61.72
<b>Buoyancy of Revenue Expenditure with</b>						
GSDP (ratio)	0.29	1.78	0.50	1.33	0.75	1.04
Revenue Receipts (ratio)	0.01	0.41	0.88	1.37	0.43	3.08

The revenue expenditure increased by around 69 *per cent* from Rs. 1,131 crore in 2002-03 to Rs. 1,908 crore in 2007-08. The non-plan expenditure during the same period increased from Rs. 777 crore to Rs. 1,259 crore, showing an increase of 62 *per cent* indicating that the share of NPRE in total revenue expenditure declined only marginally from 69 *per cent* in 2002-03 to 66 *per cent* in 2007-08. As a result, plan revenue expenditure, which normally covers the maintenance expenditure incurred on services, has only increased by Rs. 295 crore during 2002-08 keeping its share in total revenue expenditure between 28 and 35 *per cent* during the period. The growth of PRE during 2002-08 also showed an erratic trend and declined to 8.89 *per cent* during 2007-08 from its peak of 28.82 *per cent* in 2005-06. Sharp increase in NPRE was mainly due to increase in expenditure on water supply & sanitation by 127 *per cent* (Rs. 25.50 crore) followed by salary expenditure by 27.27 *per cent* (Rs. 129 crore); by 19 *per cent* (Rs. 27.69 crore) under education and 18 *per cent* (Rs. 9.04 crore) under welfare of scheduled caste which was partially

offset mainly by decrease of 9.17 per cent in interest payment (Rs. 21 crore) and by smaller amounts in other major/minor heads.

The actual NPRE *vis-à-vis* assessment made by TFC and the State Government are given below:

*(Rupees in crore)*

	Assessment made by		Actual NPRE
	TFC	State Government in Fiscal Correction Path	
Non-Plan revenue expenditure	1042	1216	1259

The rate of growth of NPRE (12.31 *per cent*) in 2007-08 was 20.83 *per cent* (Rs. 217 crore) higher than the normatively assessed level of Rs. 1,042 crore by the TFC and 3.54 *per cent* (Rs. 43 crore) higher than the assessments made by the State Government in its FCP.

#### **1.4.2 Committed Expenditure**

##### **1.4.2.1 Expenditure on Salaries and Wages**

The trends in expenditure on salaries both under Plan and Non-Plan heads are presented in **Table 1.11: Expenditure on salaries**

*(Rupees in crore)*

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Expenditure on salaries & wages *	496	518	564	560	623	757
Of which Non-Plan Head	404	419	461	445	473	602
Plan Head **	92	99	103	115	150	155
Total of Plan and Non-Plan	496	518	564	560	623	757
As a percentage of GSDP	25.57	24.77	23.11	20.79	20.87	22.90
As a percentage of Revenue Receipts	48.53	37.78	37.55	33.86	31.64	37.11

Source: The State Government furnished the figures of salaries and wages from 2002-03 to 2004-05 and figures of 2005-06 and 2007-08 furnished by the AG (A & E) Mizoram.

\* Represents salaries and wages only but excludes salaries & wages spent from grants-in-aid.

\*\* Plan Head also includes the salaries and wages paid under Centrally Sponsored Schemes.

Expenditure on salaries and wages increased by 21.51 *per cent* during 2007-08 over the previous year and accounted for 37.11 *per cent* of the revenue receipts. The State was unsuccessful in restricting the expenditure on salaries during 2007-08 as assessed in its FCP (Rs. 597 crore for the year). As a result, the total salary expenditure was at 40 *per cent* relative to revenue expenditure net of interest payment and pension as compared to the norm of 35 *per cent* prescribed by the TFC.

### 1.4.2.2 Pension Payments

**Table 1.12 Expenditure on Pensions**

(Rupees in crore)

Heads	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Expenditure on Pensions	47	62	89	89	77	97
Rate of growth	(-) 2.08	31.91	43.55	0.00	(-) 13.48	25.97
As per cent of GSDP	2.42	2.97	3.65	3.30	2.58	2.93
As per cent of RR	4.60	4.52	5.93	5.38	3.91	4.75
As per cent of RE	4.16	4.81	6.38	5.60	4.48	5.08

\*Source: Finance Accounts for 2005-06 and 2007-08

Pension payments during the current year have increased by Rs. 20 crore, recording a growth of 26 per cent over the previous year, due to more expenditure under superannuation and retirement allowances family pension and leave encashment benefit. The comparative analysis of actual pension payments and the assessment/projections made by TFC and the State Government (**Table 1.13**) reveals that actual pension payments were lower than both the projections made by the State Government as well as the normative projections made by TFC as detailed below:

**Table 1.13 Pension Payments vis-à-vis projections**

(Rupees in crore)

	Assessment made by		Actual Expenditure on pensions
	TFC	State Government in Fiscal Correction Path	
Pension payments	141	106	97

### 1.4.2.3 Interest Payments

Interest payments, their ratio to revenue receipts and revenue expenditure during the period from 2002-08 are detailed in **Table 1.14**.

**Table 1.14 Interest Payments**

Year	Total Revenue Receipts	Total Revenue Expenditure	Interest Payments	Percentage of interest payment with reference to	
				Revenue Receipts	Revenue Expenditure
(Rupees in crore)					
2002-03	1022	1131	133	13.01	11.76
2003-04	1371	1288	167	12.18	12.97
2004-05	1502	1396	182	12.12	13.04
2005-06	1654	1588	185	11.19	11.65
2006-07	1969	1717	229	11.63	13.34
2007-08	2040	1908	208	10.20	10.90

Interest payments decreased by Rs. 21 crore (9.17 per cent) during 2007-08 over the previous year. The decrease in interest payments was mainly due to decrease in payment of interest on Market loans (Rs. 18 crore) and

State/Union Territory Plan Schemes – (13 crore) coupled with increase in payment of interest on Loans for Non-Plan Schemes and for Special Plan Schemes. Interest payment of Rs. 208 crore during the current year exceeded the assessments/projections made by TFC by Rs. 8 crore and State Government assessment by Rs. 27 crore. Interest payments relative to revenue receipts at 10.20 *per cent* were however within the norm of 15 *per cent* prescribed by the TFC to be achieved by all the states by 2009-10.

#### **1.4.2.4 Subsidies**

The trends in subsidies given by the State Government are given in **Table 1.15**.

**Table 1.15: Subsidies**

*(Rupees in crore)*

<b>Particulars</b>	<b>2002-03</b>	<b>2003-04</b>	<b>2004-05</b>	<b>2005-06</b>	<b>2006-07</b>	<b>2007-08</b>
Subsidies	10	10	1	2	Nil	8
Percentage of increase (+)/ decrease (-) over previous year	(-) 9.09	-	(-) 90	(+) 100	Nil	
Percentage of subsidy in total expenditure <sup>6</sup>	0.74	0.59	0.06	0.10	Nil	0.33

*Source: Information furnished by the Finance Department, for the years prior to 2005-06: for the years 2005-06 and 2006-07, 2007-08, figures of Finance Accounts of the State are adopted.*

During the current year, 93.75 *per cent* (Rs. 7.50 crore) of subsidies was paid under the head Crop Husbandry against nil projection in the FCP for the year 2007-08. The remaining amount of subsidies was paid under the head Co-operation (Rs. 0.04 crore) and Irrigation and Flood Control (Rs. 0.001 crore).

## **1.5 Expenditure by Allocative Priorities**

### **1.5.1 Quality of Expenditure**

The availability of better social and physical infrastructure in the State reflects its quality of expenditure. Therefore, ratio of capital expenditure to total expenditure as well as to GSDP and proportion of revenue expenditure being spent on running 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 the quality of expenditure. **Table 1.16** gives those ratios during 2002-08.

<sup>6</sup> Total expenditure excludes Loans and Advances

**Table 1.16: Indicators of Quality of Expenditure***(Rupees in crore)*

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
<b>Capital Expenditure</b>	<b>187.97</b>	<b>371.68</b>	<b>329.54</b>	<b>451.37</b>	<b>466.44</b>	<b>544.24</b>
<b>Revenue Expenditure</b>	<b>1130.95</b>	<b>1287.77</b>	<b>1395.51</b>	<b>1588.01</b>	<b>1717.3</b>	<b>1908.39</b>
Of which Social and Economic Services with	725	825	881	1046	1101	1263
(i) Salary & Wage component	343	359	394	390	443	528
(ii) Non-salary & wage Component	382	467	487	656	658	735
<i>As per cent of total expenditure (excluding loans and advances)</i>						
Capital expenditure	14.25	22.40	19.10	22.13	21.36	22.19
Revenue expenditure	85.75	77.60	80.90	77.87	78.64	77.81
<i>As per cent of GSDP</i>						
Capital expenditure	9.69	17.79	13.52	16.74	15.61	16.46
Revenue Expenditure	58.30	61.60	57.19	58.95	57.52	57.73

Revenue expenditure remained dominant and varied from 78 *per cent* to 86 percent during 2002-08 resulting in less expenditure on capital account ranging between 14.25 to 22.19 *per cent*. Relative to GSDP, the capital expenditure has however increased from 9.69 *per cent* in 2002-03 to 16.46 *per cent* in 2007-08 with inter year variations. The salary and non-salary components of revenue expenditure incurred on social and economic services have both increased during the period; however the share of salary expenditure has reduced from 47.3 *per cent* in 2002-03 to 41.8 *per cent* in 2007-08 while the share of non-salary component from 52.7 *per cent* to 58.2 *per cent* during the period. These trends indicate the improvement in the quality of expenditure and the impetus being given to asset formation.

### 1.5.2 Expenditure on Social Services

Given the fact the human development indicators such as access to basic education, health services and drinking water and sanitation facilities etc. have a strong linkage with eradication of poverty and economic progress, it would be prudent to make an assessment with regard to the expansion and efficient provision of these services in the State. **Table 1.17** summarizes the expenditure incurred by the State Government in expanding and strengthening of Social Services in the State during 2007-08.

**Table 1.17: Expenditure on Social Services**

(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
<b>Education, Sports, Art and Culture</b>	<b>204.25</b>	<b>218.35</b>	<b>250.41</b>	<b>291.46</b>	<b>317.43</b>	<b>338.04</b>
Revenue Expenditure of which,	198.77	210.84	237.52	278.25	300.98	332.60
(a) Salary & Wage component	135.25	142.86	157.46	162.70	199.78	233.99
(b) Non-Salary & wage component	63.52	67.98	80.06	115.55	101.20	98.61
<b>Capital Expenditure</b>	<b>5.48</b>	<b>7.51</b>	<b>12.89</b>	<b>13.21</b>	<b>16.45</b>	<b>5.44</b>
<b>Health and Family Welfare</b>	<b>70.45</b>	<b>91.65</b>	<b>78.11</b>	<b>77.01</b>	<b>82.60</b>	<b>98.68</b>
Revenue Expenditure of which,	66.34	82.23	71.73	74.47	81.96	98.49
(a) Salary & Wage Component	48.78	49.89	54.58	53.91	58.08	70.60
(b) Non-salary & wage component	17.56	32.34	17.15	20.56	23.88	27.89
<b>Capital Expenditure</b>	<b>4.11</b>	<b>9.42</b>	<b>6.38</b>	<b>2.54</b>	<b>0.65</b>	<b>0.19</b>
<b>Water Supply, Sanitation, Housing and Urban Development</b>	<b>110.19</b>	<b>156.47</b>	<b>114.59</b>	<b>146.32</b>	<b>158.08</b>	<b>196.54</b>
Revenue Expenditure of which,	48.36	54.34	61.42	79.79	75.54	111.65
(a) Salary & Wage Component	14.74	15.46	17.56	16.39	17.22	22.08
(b) Non-salary & wage component	33.62	38.88	43.86	63.40	58.32	89.57
<b>Capital Expenditure</b>	<b>61.83</b>	<b>102.13</b>	<b>53.17</b>	<b>66.53</b>	<b>82.54</b>	<b>84.89</b>
<b>Other Social Services</b>	<b>95.79</b>	<b>93.30</b>	<b>111.36</b>	<b>122.75</b>	<b>156.81</b>	<b>169.45</b>
Revenue Expenditure of which,	93.06	88.08	105.83	115.08	134.42	154.03
(a) Salary & Wage Component	16.29	17.06	17.28	17.90	14.69	17.77
(b) Non-salary & wage component	76.77	71.02	88.55	97.18	119.73	136.26
<b>Capital Expenditure</b>	<b>2.73</b>	<b>5.22</b>	<b>5.53</b>	<b>7.67</b>	<b>22.39</b>	<b>15.42</b>
<b>Total (Social Services)</b>	<b>480.68</b>	<b>559.87</b>	<b>554.47</b>	<b>637.54</b>	<b>714.92</b>	<b>802.71</b>
Revenue Expenditure of which,	406.53	435.49	476.50	547.59	592.89	696.77
(a) Salary & Wage Component	211.52	221.66	243.00	247.14	289.77	344.44
(b) Non-salary & wage component	195.01	213.93	233.50	300.45	303.12	352.33
<b>Capital Expenditure</b>	<b>74.15</b>	<b>124.38</b>	<b>77.97</b>	<b>89.95</b>	<b>122.03</b>	<b>105.94</b>

The expenditure on social sector increased from Rs. 480.68 crore in 2002-03 to Rs. 802.71 crore in 2007-08 indicating the Government commitment to improve social well being of the society. Expenditure on Social Sector during current year accounted for 33 *per cent* of total expenditure and 45 *per cent* of development expenditure. Expenditure on Education, Sports, Art and Culture increased by Rs. 21 crore over previous year mainly due to more impetus given to Elementary and Technical education, while the expenditure on Health and Family Welfare showed an increase of Rs. 14 crore over previous year. Recognising the need to improve the quality of education and health services, TFC recommended that the annual increase in salaries under non-plan salary expenditure under education and health and family welfare should not increase by more than five to six *per cent* while non-salary expenditure under non-plan head should increase by 30 *per cent* per annum during the award period. However, trends in expenditure (taking expenditure under both plan and non-plan heads) reveal that the salary and wages component under education sector increased by 17 *per cent* over 2006-07 while non-salary and wage component decreased by three *per cent*. Similarly, under Health and Family Welfare, the salary and wage component increased by 22 *per cent* while non-salary and wage component increased by 17 *per cent*. These trends indicate the need for change in priorities in allocation of government outlays in ensuing years.



### 1.5.3 Expenditure on Economic Services

The expenditure on Economic Services includes all such expenditure as to promote directly or indirectly, productive capacity within the States' economy. The expenditure on Economic Services (Rs. 991 crore) accounted for 40 per cent of the total expenditure and 55 per cent of the development expenditure (Table 1.18).

**Table 1.18: Expenditure on Economic Services**

(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
<b>Agriculture, Allied Activities</b>	<b>133.78</b>	<b>149.62</b>	<b>166.86</b>	<b>183.73</b>	<b>198.26</b>	<b>276.63</b>
Revenue Expenditure of which,	119.91	128.80	150.32	176.77	174.61	205.91
(a) Salary & Wage component	50.94	53.70	58.37	56.12	60.75	73.22
(b) Non-Salary & wage component	68.97	75.10	91.95	120.65	113.86	132.59
<b>Capital Expenditure</b>	<b>13.87</b>	<b>20.82</b>	<b>16.54</b>	<b>6.96</b>	<b>23.65</b>	<b>70.72</b>
<b>Irrigation and Flood Control</b>	<b>7.15</b>	<b>15.43</b>	<b>15.27</b>	<b>20.37</b>	<b>36.32</b>	<b>37.25</b>
Revenue Expenditure of which,	3.45	3.91	3.16	7.76	2.75	6.48
(a) Salary & Wage component	1.76	1.88	2.04	1.91	2.04	2.45
(b) Non-Salary & wage component	1.69	2.03	1.12	5.85	0.71	4.03
<b>Capital Expenditure</b>	<b>3.70</b>	<b>11.52</b>	<b>12.11</b>	<b>12.61</b>	<b>33.57</b>	<b>30.77</b>
<b>Power &amp; Energy</b>	<b>193.13</b>	<b>325.24</b>	<b>275.95</b>	<b>431.67</b>	<b>205.27</b>	<b>214.09</b>
Revenue Expenditure of which,	80.82	130.31	111.56	154.53	137.07	145.17
(a) Salary & Wage component	22.95	22.92	26.22	24.82	26.57	31.98
(b) Non-Salary & wage component	57.87	107.39	85.34	129.71	110.50	113.19
<b>Capital Expenditure</b>	<b>112.31</b>	<b>194.93</b>	<b>164.39</b>	<b>277.14</b>	<b>68.20</b>	<b>68.92</b>
<b>Transport</b>	<b>74.93</b>	<b>153.71</b>	<b>153.67</b>	<b>191.10</b>	<b>178.22</b>	<b>225.17</b>
Revenue Expenditure of which,	42.54	47.58	50.12	51.24	60.09	69.41
(a) Salary & Wage component	23.88	25.77	29.67	25.79	27.73	32.79
(b) Non-Salary & wage component	18.66	21.81	20.45	25.45	32.36	36.62
<b>Capital Expenditure</b>	<b>32.39</b>	<b>106.13</b>	<b>103.55</b>	<b>139.86</b>	<b>118.13</b>	<b>155.76</b>
<b>Other Economic Services</b>	<b>103.92</b>	<b>106.73</b>	<b>144.79</b>	<b>174.41</b>	<b>209.58</b>	<b>237.63</b>
Revenue Expenditure of which,	80.08	79.14	89.20	108.49	133.16	138.99
(a) Salary & Wage component	32.58	32.65	34.48	34.08	36.00	42.63
(b) Non-Salary & wage component	47.50	46.49	54.72	74.40	97.16	96.36
<b>Capital Expenditure</b>	<b>23.84</b>	<b>27.59</b>	<b>55.59</b>	<b>65.92</b>	<b>76.42</b>	<b>98.64</b>
<b>Total (Economic Services)</b>	<b>424.09</b>	<b>620.42</b>	<b>644.98</b>	<b>846.74</b>	<b>827.65</b>	<b>990.77</b>
Revenue Expenditure of which,	318.80	389.74	404.36	498.78	507.68	565.96
(a) Salary & Wage component	131.49	136.92	150.78	142.72	153.09	183.17
(b) Non-Salary & wage component	187.31	252.82	253.58	356.06	354.59	382.79
<b>Capital Expenditure</b>	<b>105.29</b>	<b>230.68</b>	<b>240.62</b>	<b>347.96</b>	<b>319.97</b>	<b>424.81</b>

Out of the total expenditure on Economic Services during 2007-08, 22 per cent was incurred on Power and Energy, 28 per cent on Agriculture, Allied Activities and 23 per cent on Transport and four per cent on Irrigation and Flood Control. The trends in revenue and capital expenditure on Economic Services indicate that revenue expenditure consistently increased from Rs. 319 crore (75 per cent) in 2002-3 to Rs. 566 crore (57 per cent) in 2007-08, while capital expenditure increased from Rs. 105 crore (25 per cent) in 2002-03 to Rs. 425 crore (43 per cent) in 2007-08. The salary and wage component of

revenue expenditure on economic services has increased from Rs. 131 crore in 2002-03 to Rs. 183 crore in 2007-08 recording a growth of 20 *per cent* in 2007-08 over the previous year, while non-salary component consistently increased from Rs. 187 crore in 2002-03 to Rs. 383 crore in 2007-08 at an average annual rate of 18 *per cent* per annum. As a result, relative share of salary and non salary components in revenue expenditure have changed over the period, i.e. share of salary component has declined from 41 *per cent* in 2002-03 to 32 *per cent* in 2007-08, whereas the share of non-salary component increased from 59 *per cent* in 2002-03 to 68 *per cent* in 2007-08 indicating allocative priorities towards their maintenance and better quality of services.

#### **1.5.4 Financial Assistance by State Government to local bodies and Other Institutions**

The quantum of assistance provided by way of goods and loans to local bodies and others during the six year period 2001-07 is presented in **Table 1.19**.

**Table 1.19: Financial Assistance to local bodies and other institutions**

	<i>(Rupees in crore)</i>					
	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Universities and Educational Institutions	35.75	37.94	37.39	43.77	27.00	29.20
District Council	52.76	51.11	61.29	66.46	71.05	85.50
Mizofed/Consumer Co-Operative Societies	0.15	0.23	0.96	0.74	2.10	2.66
Other institutions	9.52	12.11	16.97	11.45	28.22	30.42
<b>Total</b>	<b>98.18</b>	<b>101.39</b>	<b>116.61</b>	<b>122.42</b>	<b>128.37</b>	<b>147.78</b>
Percentage of increase over previous year	67.46	3.27	15.01	4.98	4.86	15.12
Assistance as a percentage of revenue expenditure	8.68	7.87	8.35	7.71	7.48	7.75

*Source: Information furnished by A.G. (A & E)*

Financial assistance extended to local bodies and other institutions with inter year variations increased by 15 percent from Rs. 128.37 crore in 2006-07 to Rs. 147.78 crore in 2007-08. Financial assistance to ‘District Councils’ continued to share the dominant proportion in the total assistance released by the State Government during the period 2002-08 followed by educational institutions. Financial assistance to ‘Other institutions’<sup>7</sup> has also steadily increased during the period (2002-08) indicating that the share of ad-hoc grants in total financial assistance released by the State increased over the period.

<sup>7</sup> Other institutions (figures for 2007-08 in brackets):

Food & Civil supply (Rs.16.24 lakh,) Local Administration (Rs.775.30 lakh), Social Welfare (Rs.20 lakh) Animal Husbandry & Veterinary (Rs. 85.36 lakh), Environment & Forest (Rs. 25 lakh), Rural Development (Rs.152.23 lakh ) and Urban Development (Rs.360 lakh).

## 1.6 Misappropriations, losses, defalcations, etc

As mentioned in the Audit Report for the year ended March 2007, there were 27 pending cases of misappropriation, defalcations etc. involving financial implication of Rs. 1.19 crore up to the period March 2004. However, action on the part of the Departments against such cases remained pending as of November 2008. The Department wise break up of pending cases is given in **Appendix 1.7**.

## 1.7 Assets and Liabilities

In the Government accounting system, comprehensive accounting of fixed assets like land and buildings owned by the Government is not done. However, Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred. **Appendix-1.3** gives an abstract of such liabilities and the assets as on 31 March 2008, compared with the corresponding position on 31 March 2007. While the liabilities consist mainly of internal borrowings, loans and advances from the GOI, receipts from the Public Account and Reserve Funds, the assets mainly comprise of the capital outlay and loans and advances given by the State Government and cash balances. **Appendix-1.6** depicts the time series data on State Government finances for the period 2002-2008.

### 1.7.1 Financial Analysis of Government Investments

#### 1.7.1.1 Government Investments and Returns

As of 31<sup>st</sup> March 2008, the State Government invested Rs. 17.21 crore in Government Companies, Co-operative Societies, Banks etc. (**Table – 1.20**). The return on this investment was nil in all the years, while the Government paid interest at an average rate of 6.43 to 7.56 *per cent* on its borrowings during 2002-08.

**Table 1.20: Return on Investment**

(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Investment (Rs. in crore)	11.68	11.68	11.68	13.68	15.37	17.21
Return (Rs. in crore)	--	--	--	--	--	--
Percentage of return	--	--	--	--	--	--
Average Interest Rate <sup>8</sup>	6.82	7.46	7.14	6.53	7.57	6.43
Differences between interest rate and return ( <i>per cent</i> )	6.82	7.46	7.14	6.53	7.57	6.43

<sup>8</sup> Average interest rate is defined as the percentage of interest payment made to average financial liabilities of the State during the year.

As of March 2008, the State Government invested Rs. 1.97 crore in Government Companies and Rs.15.24 crore in 11 co-operative societies. As exhibited in Statement 14 of the Finance Accounts, five companies had accumulated losses aggregating Rs.31.80 crore, as detailed in **Table 1.21**. The working results of other companies and co-operative societies have not been intimated (September 2008).

**Table 1.21: Details of loss making Government Corporations**

(Rupees in crore)

Sl. No.	Name of Corporation	Accumulated loss	
		As of March	Amount
1	Zoram Industrial Development Corporation Ltd.	2007	14.79
2	Mizoram Food and Allied Industries Corporation Ltd.	2002	9.35
3	Mizoram Handloom And Handicraft Development Corporation Ltd.	1999	3.01
4	Mizoram Electronic Development Corporation Ltd.	2001	2.60
5	Mizoram Agricultural Marketing Corporation Ltd.	2001	2.05
<b>Total:</b>			31.80

#### 1.7.1.2 Loans and Advances by State Government

In addition to investment in Co-operative societies, Government Companies and Banks, Government has also been providing loans and advances to many of these institutions/organisations. Total outstanding loans and advances as on 31 March 2008 were Rs. 249 crore (**Table-1.22**). Interest received as *per cent* to average outstanding loans remained lower during the period 2002-08 as compared to the average rate of interest paid varying between 6 to 8 *per cent* during the period.

**Table 1.22: Average interest received on loans advanced by the State Government**

(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Opening Balance	236	254	271	283	294	270
Amount Advanced during the year	35	37	34	34	0.25	6
Amount repaid during the year	17	20	22	23	24	27
Closing Balance	254	271	283	294	270	249
Net Addition	18	17	12	11	(-)24	(-) 21
Interest Received	2.43	2.10	2.62	3.24	4.31	5.03
Interest Received as <i>per cent</i> to average outstanding loans advanced	0.99	0.80	0.95	1.12	1.53	1.94
Average Interest rate	6.82	7.46	7.14	6.53	7.57	6.43
Differences between interest paid and received ( <i>per cent</i> )	5.83	6.66	6.19	5.41	6.04	4.49

### 1.7.2 Management of Cash Balances

It is generally desirable that the State's flow of resources should match its expenditure obligations. However, to take care of any temporary mismatches in the flow of resources and expenditure obligations, a mechanism of Ways and Means Advances (WMA) ordinary and special from RBI has been put in place. The operative limit of 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 Reserve Bank of India from time to time depending on the holding of Government securities.

The Ways and Means Advances and Overdrafts availed, the number of occasions, these were availed and interest paid by the State during 2002-08 is detailed in (Table 1.23).

**Table 1.23: Ways and Means Advances and Overdrafts of the State and interest paid thereon**

(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
<b>Ways and means Advances</b>						
Taken in the year	402.29	241.49	295.14	63.24	19.59	23.98
Outstanding	97.84	12.13	12.13	12.13	31.72	27.21
Interest paid	0.98	0.59	0.47	0.03	--	2.04
Number of Days	178	75	92	8	8	3
<b>Overdraft</b>						
Taken in the year	118.23	--	--	--	--	--
Outstanding	15.08	15.08	15.08	15.08	15.08	15.08
Interest paid	0.11	0.01	--	--	--	--
Number of Days	32	--	--	--	--	--

It can be seen from above table that WMA availed by the Government has not only sharply declined during 2005-08 as compared to 2002-05 but the number of days on which it was availed also reduced from 178 days in 2002-03 to 3 days in 2007-08 which indicates comfortable position of the Government in recent years.

## 1.8 Undischarged Liabilities

According to Mizoram FRBM Act, 2006, the total liabilities mean the liabilities under the Consolidated Fund of the State and the Public Account of the State.

### 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 Accounts. It includes market loans, special securities issued by RBI and loans 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, no law has been passed in the State to lay down any such limit. Other liabilities, which are a part of public account, include deposits under small savings scheme, provident funds and other deposits.

**Table 1.24** gives the fiscal liabilities of the State, their 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 1.24: Fiscal Liabilities – Basic Parameters**

(Value in Rupees crore and ratios in per cent)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Fiscal Liabilities <sup>9</sup>	2090	2389	2711	2953	3096	3378
Rate of growth	15.60	14.31	13.48	8.93	4.84	9.11
Ratio of Fiscal Liabilities to						
GSDP	107.73	114.25	111.06	109.61	103.72	102.21
Revenue Receipts	204.50	174.25	180.49	178.54	157.24	165.59
Own Resources	2580	2597	2337	1687	1540	1672
Buoyancy of Fiscal Liabilities with reference to						
GSDP	18.80	1.84	0.81	0.86	0.45	0.85
Revenue Receipts	0.88	0.42	1.41	0.88	0.25	2.52
Own Resources	0.61	1.05	0.52	0.18	0.33	18.31

Overall fiscal liabilities of the State increased from Rs. 2090 crore in 2002-2003 to Rs. 3378 crore in 2007-08 although growth rate declined in 2007-08 as compared to 2002-05. Fiscal liabilities of the State comprised Consolidated Fund liabilities and Public Account liabilities. The Consolidated Fund liabilities (Rs. 2027 crore) comprised of market loan (Rs. 838 crore), loan from GOI (Rs. 558 crore) and other loans (Rs. 631 crore). The Public Account liabilities (Rs. 1,357 crore) comprise Reserve Fund (Rs. 6 crore), Small Savings, Provident Fund (Rs. 1035 crore) interest bearing obligations (Rs. 3 crore) and non-interest bearing obligations like deposits (Rs. 313 crore). The growth rate of fiscal liabilities was 9.11 *per cent* during 2007-08 over the previous year. The ratio of fiscal liabilities to GSDP has decreased from 107.73 *per cent* in 2002-03 to 102.21 *per cent* in 2007-08 with inter year variations. These liabilities stood at 1.66 times of revenue receipts and little more than 17 times of the States own resources at the end of 2007-08. The buoyancy of these liabilities to GSDP during the year was 0.85.

The State Government set up a Sinking Fund during the financial year 1999-2000 for amortisation of open market loans. As of 31 March 2008, the

<sup>9</sup> Fiscal Liabilities for the years 2002-08 do not match with previous Reports as ‘Other obligations including Reserve Funds and Deposits in Public Account’ were excluded. Fiscal Liabilities have been reworked for the State which now includes Internal Debt; Loans and Advances from GOI; Small Savings including Provident Funds and ‘Other obligations including Reserve Funds and Deposits’

outstanding balance in Sinking Fund was Rs. 43.25 crore which is invested in GOI 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 year since 2002-03 are given in **Table 1.25**.

**Table 1.25: Guarantees given by the Government of Mizoram**

(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Maximum amount guaranteed	--	169	229	270	249	232
Outstanding guarantees	--	113	136	145	150	153
Revenue Receipts	1022	1371	1502	1654	1969	2040
Percentage of maximum amount guaranteed to total revenue receipts	--	12.33	15.25	16.32	12.65	11.37

Government had guaranteed loans raised by various corporations and others, which at the end of 2007-08 stood at Rs. 153 crore and comprised 8 per cent of revenue receipts. No specific law under Article 293 of the Constitution had been passed by the State Legislature laying down the maximum limit within which Government may give guarantees on the security of the Consolidated Fund of the State. Although the guarantees given by the State Government were well within the limit prescribed in MFRBM Act 2006, the State Government is yet to implement the recommendations of the TFC by setting up a guarantee redemption fund through earmarked guarantee fees.

## 1.9 Debt Sustainability

Debt sustainability is defined as the ability of the State to maintain a constant debt – GSDP ratio over a period of time and also embodies the concern about the ability to service its debt. Sustainability of debt therefore also refers to sufficiency of liquid assets to meet current or committed obligations and the capacity to keep balance between costs of additional borrowings with returns from such borrowings. It means that rise in fiscal deficit should match the increase in capacity to service the debt. A prior condition for debt sustainability is the debt stabilisation in terms of debt/GSDP ratio.

### 1.9.1 Debt Stabilisation

A necessary condition for stability states that if the rate of growth of economy exceeds the interest rate or cost of public borrowings, the debt-GDP ratio is likely to be stable provided primary balances are either zero or positive or are moderately negative. Given the rate spread (GSDP growth rate – interest rate) and quantum spread (Debt \* rate spread), debt sustainability condition states that if quantum spread together with primary deficit is zero, debt – GSDP ratio would be constant or debt would stabilise eventually. On the other hand, if primary deficit together with quantum spread turns out to be negative, debt-GSDP ratio would be rising and in case it is positive, debt-GSDP ratio would eventually be falling. Trends in fiscal variables indicating the progress towards debt stabilisation are indicated in *Table – 1.26*.

**Table 1.26: Debt Sustainability – Interest Rate and GSDP Growth (in per cent)**

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Average Interest Rate	6.82	7.46	7.14	6.53	7.57	6.43
GSDP Growth	0.83	7.78	16.74	10.36	10.80	10.72
Outstanding Fiscal Liabilities	2090	2389	2711	2953	3096	3378
Interest spread	(-) 5.99	0.32	9.60	3.83	3.23	4.29
Quantum spread (Rs. in crore)	(-) 108.30	6.69	229.34	103.83	95.38	132.82
Primary deficits (-) / Surplus (+)	(-) 182	(-) 139	(-) 54	(-) 212	(+) 38	(-) 183

The trends in *Table 1.26* reveal that up to 2003-04 the quantum spread and primary deficit together remained negative which resulted in rising debt-GSDP ratio from 108 per cent in 2002-03 to 114 per cent in 2003-04. Thereafter, it moved in cycle of positive-negative-positive quantum spread along with primary deficit indicating a declining tendency in debt-GSDP ratio to 111 per cent in 2004-05 and further down to 102 per cent in 2007-08. The relatively very high ratio of debt-GSDP ratio still exceeding 100 accompanied by high FD-GSDP ratio indicates that a lot more efforts are required by the State to stabilise the debt and then attain sustainability in ensuing years.

### 1.9.2 Sufficiency of Non-debt Receipts

Another indicator for debt stability and its sustainability is the adequacy of incremental non-debt receipts of the State to cover the incremental interest liabilities and incremental primary expenditure. The debt sustainability could be significantly facilitated if the incremental non-debt receipts could meet the incremental interest burden and the incremental primary expenditure. The persistent negative resource gap indicates the non-sustainability of debt while the continued positive resource gap strengthens the capacity of the State to



sustain the debt. **Table 1.27** indicates the resource gap as defined for the period 2002-08:

**Table 1.27: Incremental Revenue Receipts and Revenue Expenditure**

(Rupees in crore)

Period	Incremental				Resource Gap
	Non-Debt Receipts	Primary Expenditure	Interest Payments	Total Expenditure	
2002-03	155	62	- 13	49	+ 106
2003-04	353	309	34	343	+ 10
2004-05	133	48	15	63	+ 70
2005-06	153	311	3	314	- 161
2006-07	316	66	44	110	+ 206
2007-08	74	295	-21	274	- 200

The trends in resource gap indicate the oscillations between positive and negative magnitudes *i.e.* it remained positive during 2002-05 and 2006-07 but were negative in 2005-06 and 2007-08 as incremental non-debt receipts in these two years were much below the incremental total expenditure. The negative resource gap was however observed to be mainly on account of steep increases in primary expenditure during these years. This fluctuating trend requires closer attention to check the resource gap.

### 1.9.3 Net Availability of Borrowed Funds

Debt sustainability of the State also depends on (i) the ratio of the debt redemption (Principal + Interest Payments) to total debt receipts and (ii) application of available borrowed funds. The ratio of debt redemption to debt receipts indicates the extent to which the debt receipts are used in debt repayment indicating the net availability of borrowed funds. The solution to the Government debt problem lies in the application of borrowed funds, *i.e.* they are (a) not being used for financing revenue expenditure; and (b) being used efficiently and productively for capital expenditure which either provides returns directly or results in increased productivity of the economy in general which may result in increase in Government revenue.

**Table 1.28** gives the position of the receipt and repayment of internal debt and other fiscal liabilities of the State as well as the net availability of the borrowed funds over the last six years.

**Table 1.28: Net Availability of Borrowed Funds**

(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
<b>Internal debt</b>						
Receipts	734	463	404	307	231	214
Repayment (Principal +Interest)	646	441	421	234	207	238
Net Fund Available	88	22	(-) 17	73	24	(-) 24
Net Fund Available ( <i>per cent</i> )	11.99	4.75	(-) 4.21	23.78	10.39	(-) 11.21
<b>Loans and Advances from GOI</b>						
Receipts	52	80	68	10	5	10
Repayment Principal +Interest)	74	144	70	63	75	47
Net Fund Available	(-) 22	(-) 64	(-) 2	(-) 53	(-) 70	(-) 37
Net Fund Available ( <i>per cent</i> )	(-) 42.31	(-) 80.00	(-) 2.94	(-) 530	(-) 1400	(-) 370
<b>Other Obligations</b>						
Receipts	374	459	401	482	455	565
Repayment (Principal +Interest)	291	284	342	444	483	429
Net Fund Available	83	175	59	38	(-) 28	136
Net Fund Available ( <i>per cent</i> )	22.19	38.13	14.71	7.88	(-) 6.15	24.07
<b>Total Liabilities</b>						
Receipts	1160	1002	873	799	691	789
Repayment (Principal +Interest)	1011	869	833	741	765	714
Net Fund Available	149	133	40	58	(-) 74	75
Net Fund Available ( <i>per cent</i> )	12.84	13.27	4.58	7.26	(-) 10.71	9.51

The net fund available on account of internal debt and loans and advances from GOI and other obligations after providing for the interest and repayments increased sharply from negative balance in 2006-07 to Rs. 75 crore in 2007-08. The State Government raised internal debt amounting to Rs. 214 crore comprising of market loans (Rs. 146.87 crore), securities issued to National Small Savings Fund (NSSF) (Rs. 0.34 crore) and NABARD and other institutions (Rs. 66.79 crore). Against these receipts, Government discharged the past debt obligations (Principal + Interest) amounting to Rs. 238 crore resulting in negative balance of Rs. 24 crore under the internal bet. During the current year the Government repaid GOI loans including interest amounting to Rs. 47 crore against the receipts of Rs. 10 crore resulting in negative balance of Rs. 37 crore during the year. It was only in the public account receipts were more than the obligations of Rs. 429 crore along with interest obligations discharged during the year resulting in net availability of funds of Rs. 136 crore during 2007-08. During 2007-08, the focus of Government seems to be on discharging the past debt obligations.

### 1.10 Management of deficits

The deficit on Government account 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.

### 1.10.1 Trends in Deficit

The trends in fiscal parameters depicting the position of fiscal equilibrium in the State are presented in **Table 1.29**.

**Table 1.29: Fiscal Imbalances – Basic Parameters**

(Values in Rupees crore and ratio in per cent)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Revenue Deficit (-) / Surplus (+)	(-)109	(+) 83	(+) 106	(+) 66	(+) 252	(+) 131
Fiscal Deficit (-) / Surplus (+)	(-)315	(-) 306	(-) 235	(-) 397	(-) 191	(-) 391
Primary Deficit (-) / Surplus (+)	(-)182	(-) 139	(-) 54	(-) 212.	(+)38	(-) 183
RD/GSDP	(-)5.62	(+) 3.97	(+) 4.34	(+) 2.45	---*	---
FD/GSDP	(-) 16.24	(-) 14.63	(-) 9.63	(-) 14.74	(-) 6.40	(-) 11.83
PD/GSDP	(-) 9.38	(-) 6.65	(-) 2.21	(-) 7.87	---*	(-) 5.54
RD/FD	34.60	(-) 27.12	(-) 45.11	(-) 16.62	---*	---

\*There was Revenue surplus/ Primary deficit

Revenue deficit of a State indicates excess of its revenue expenditure over its revenue receipts. The deficit in revenue account of the State during 2002-03 turned into surplus and remained surplus thereafter although with wide inter year variations. The revenue surplus sharply declined to Rs. 131 crore from the level of Rs. 252 crore during 2006-07. The significant deterioration during the current year was mainly on account of increase in revenue expenditure by Rs. 191 crore (11 per cent) against an increase of Rs. 71 crore (4 per cent) in revenue receipts over the previous year. Despite the fact that Central transfers contributed around 98.6 per cent (Rs.70 crore) in the incremental revenue receipts (Rs.71 crore) during 2007-08, the lower growth rate in revenue receipts was primarily on account of sluggish growth rate of 0.5 per cent (Rs. 1 crore) in State's own resources as compared to 14.86 per cent (Rs.26 crore) in the previous year resulting in decline in revenue surplus in the current year.

The fiscal deficit, which represents the total borrowings of the Government and its total resource gap also increased from the level of Rs. 191 crore in 2006-07 to Rs. 391 crore in 2007-08. The decrease in revenue surplus (Rs. 120 crore) along with an increase of Rs. 84 crore on account of increase in capital expenditure (Rs. 72 crore) as well as in loans and advances disbursed (Rs. 6 crore) during 2007-08 led to an increase of Rs. 200 crore in fiscal deficit during the current year.

The primary surplus of Rs.38 crore during 2006-07, also took a turnaround and resulted in a primary deficit<sup>10</sup> of Rs.183 crore during 2007-08. A sharp increase of Rs.200 crore in fiscal deficit together with

<sup>10</sup> Primary deficit defined as the fiscal deficit net of interest payments indicates the extent of deficit which is an outcome of the fiscal transactions of the States during the course of the year

a moderate decrease of Rs. 21 crore in interest payments resulted in a primary deficit during the current year.

### **1.10.2 Quality of Deficit/Surplus**

The ratio of RD to FD and the decomposition of primary deficit <sup>11</sup> into primary revenue deficit and capital expenditure (including loans and advances) indicate the quality of deficit in the State's finances. The ratio of revenue deficit to fiscal deficit indicates the extent to which borrowed funds were used for current consumption. The revenue account after RD was wiped out in 2003-04 continued to remain in surplus thereafter indicating the fact that all borrowings were used either meeting the past debt obligations or in activities resulting in expansion of services and the asset creation in the State.

The bifurcation of the factors resulting into primary deficit or surplus of the State during the period 2002-08 reveals (**Table – 1.30**) that throughout the period, the primary deficit was on account of capital expenditure incurred and loans and advances disbursed by the State Government. In other words, non-debt receipts of the State were sufficient to meet the primary expenditure<sup>12</sup> requirements in the revenue account and left some receipts to meet the expenditure under capital account during the period 2002-08. But the surplus non-debt receipts were not enough to meet the expenditure requirements under capital account resulting in primary deficit in all the years during the period 2002-08 except in 2006-07. This indicates the extent to which the primary deficit has been on account of enhancement in capital expenditure which to some extent may be desirable to improve the productive capacity of the State's economy.

**Table – 1.30: Primary Deficit/Surplus – Bifurcation of factors**

Year	Non-debt receipts	Primary revenue expenditure	Capital expenditure	Loans and Advances	Primary expenditure	NDR vis-à-vis Primary Revenue Expenditure	Primary deficit (-) /surplus (+)
1	2	3	4	5	6 (3+4+5)	7 (2-3)	8(2-6)
2002-03	1038	998	188	35	1221	(+) 40	(-) 183
2003-04	1391	1121	372	37	1530	(+) 270	(-) 139
2004-05	1524	1214	330	34	1578	(+) 310	(-) 54
2005-06	1677	1403	451	34	1888	(+) 274	(-) 211
2006-07	1993	1489	466	---	1955	(+) 504	(+) 38
2007-08	2067	1700	544	6	2250	(+) 367	(-) 183

<sup>11</sup> Primary deficit defined as the fiscal deficit net of interest payments indicates the extent of deficit which is an outcome of the fiscal transactions of the States during the course of the year.

<sup>12</sup> Primary expenditure of the State defined as the total expenditure net of interest payments indicates the expenditure incurred on the transactions undertaken during the year.

### 1.11 Fiscal Ratios

The finances of a State should be sustainable, flexible and non-vulnerable. **Table 1.31** below presents a summarised position of Government finances over 2002-08, with reference to certain key indicators that help to assess the adequacy and effectiveness of available resources and their applications and highlights areas of concern.

**Table – 1.31: Indicators of Fiscal Health (in per cent)**

Fiscal Indicators	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Revenue Receipts /GSDP	52.68	65.57	61.53	61.40	65.96	61.72
Revenue Buoyancy	21.36	4.40	0.57	0.98	1.76	0.34
Own tax/GSDP	1.44	1.63	1.64	2.04	2.28	2.18
Own Tax Buoyancy	57.07	2.75	1.05	3.62	2.19	0.55
Total Expenditure/GSDP	69.79	81.16	72.06	76.95	73.17	74.40
Revenue Receipts/Total Expenditure	75.48	80.79	85.39	79.79	90.16	82.96
Revenue Expenditure/Total Expenditure	83.53	75.90	79.36	76.60	78.62	77.59
Plan Expenditure/Total Expenditure	26.14	21.86	23.82	26.05	27.29	26.39
Capital Expenditure/Total Expenditure	13.88	21.92	18.76	21.76	21.34	22.12
Development Expenditure/ Total Expenditure	66.84	69.54	68.16	71.59	70.60	72.92
Buoyancy of TE with RR	0.21	0.74	0.38	1.77	0.28	3.49
Buoyancy of RE with RR	0.02	0.41	0.88	1.36	0.43	3.08
Revenue Surplus (Rs. in crore)	(-) 109.35	(-) 83.18	(+) 106.35	(+) 65.64	(+) 251.65	(+) 131.35
Fiscal Deficit (Rs. in crore)	(-) 315.32	(-) 305.69	(-) 235.30	(-) 396.84	(-) 191.03	(-) 391.48
Primary deficit (Rs. in crore)	(-) 182.26	(-) 139.07	(-) 53.80	(-) 212.19	(+) 37.72	(-) 183.47
Revenue Deficit/Fiscal Deficit	34.60	---	---	-	---	---
Fiscal Liabilities/ GSDP	107.73	114.25	111.06	109.61	103.72	102.21
Fiscal Liabilities/RR	204.50	174.25	180.49	178.54	157.24	165.59
Buoyancy of FL with RR	0.88	0.418	1.412	0.883	0.254	2.52
Buoyancy of FL with own receipts	0.61	1.05	0.52	0.18	0.33	18.22
Interest spread	(-) 5.99	0.32	9.60	3.83	3.23	4.29
Net Funds Available	12.84	13.27	4.58	7.26	(-) 10.71	9.51
Return on Investment	---	---	---	---	---	---
BCR (Rs. in crore)	(-) 294.12	(-) 379.76	(-) 232.20	(-) 37.50	17.38	24.95
Financial Assets/Liabilities	0.98	1.01	1.05	1.06	1.13	1.14

The trends in ratios of revenue receipts and State's own taxes to GSDP indicate the adequacy and accessibility of resources to State. Revenue receipts are comprised not only of the tax and non-tax resources of the State but also the transfers from Union Government. The ratio of revenue receipts to GSDP remained quite high in the State mainly on account of large transfers from GOI and relatively low levels of GSDP. The ratio during the current year at 61.72 *per cent* was however low relative to the previous year by 4.24 percentage points over the previous year. Though the ratio of own taxes to GSDP indicated an improvement during 2002-07, it was relatively very low if compared within the region itself indicating the fact that tax efforts need to be stepped up in the State.

Various ratios concerning expenditure indicate quality of expenditure and sustainability in relation to resources. The revenue expenditure as a percentage to total expenditure remained over 78 *per cent* during 2002-08, indicating its dominant share in the total expenditure of the State leaving very little for capital formation or asset creation. The higher buoyancy ratio of revenue expenditure as compared to that of total expenditure with respect to revenue receipts during the last two years also indicates the propensity of the State Government to incur revenue expenditure more relative to capital expenditure. The reliance on revenue receipts to finance the total expenditure fluctuated widely during the period 2002-08 averaging around 82 *per cent* indicating dependence on borrowed funds. This is also reflected in the ratio of financial liabilities to revenue receipts which continued to exceed 100 *per cent*, although indicated a declining trend since 2004-05. Increasing proportion of plan expenditure and capital expenditure in the total expenditure also indicates improvement in both developmental and quality of expenditure.

A decline in revenue surplus and a significant increase in fiscal deficit during 2007-08 indicate deterioration in fiscal position of the State relative to the previous year. However, continued emergence of positive BCR and fiscal assets to liabilities ratio exceeding unity are favourable trends which need to be sustained in medium to long term.

### **1.12 Conclusion**

The fiscal position of the State viewed in terms of key fiscal parameters – revenue surplus, fiscal deficit and primary deficit – has shown deterioration in 2007-08 relative to previous year. Not only did revenue surplus decline by Rs. 120 crore in 2007-08 but fiscal deficit increased more than twice and primary surplus turned into deficit when compared to the previous year. Moreover, the fiscal performance of the State *vis-à-vis* targets set in FCP as well as MFRBM Act and Budget indicate dismal picture during the year. Despite the fact that Central transfers increased by Rs. 70 crore in 2007-08 and contributed around 98.6 *per cent* of incremental revenue receipts during the year, the lower growth rate in revenue receipts in 2007-08 was primarily on account of sluggish growth rate of 0.5 *per cent* (Rs. 1 crore) in the State's own resources as compared to 14.86 *per cent* (Rs. 26 crore) in the previous year resulting in decline in revenue surplus in the current year. The expenditure pattern of the State reveals that the revenue expenditure as a percentage of total expenditure, although marginally declined during the current year, hovered around 78 *per cent* during the period (2002-08) leaving inadequate resources for expansion of services and creation of assets. Within revenue expenditure, NPRE at Rs. 1,259 crore in 2007-08 remained significantly higher than the normatively assessed level of Rs. 1,042 crore by TFC for the year. Further, the salaries and wages, pensions, interest payments and subsidies continued to consume a major share of NPRE which was around

73 *per cent* during 2007-08. The continued prevalence of fiscal deficit indicates reliance of the State on borrowed funds, resulting in increasing fiscal liabilities of the State over this period, which stood at 102 *per cent* of the GSDP in 2007-08 and is unusually high, especially if compared with the limit of 31 *per cent* prescribed by the TFC in its restructuring plan of State finances to be achieved by all States by the terminal year of its award period (2009-10). The increasing fiscal liabilities accompanied by a 'nil' rate of return on Government investments and inadequate interest cost recovery on loans and advances might lead to an unsustainable fiscal situation in medium to long term, unless suitable measures are initiated to compress the non-plan revenue expenditure and to mobilize additional resources both through the tax and non tax sources in the ensuing years.