CHAPTER 1

Finances of the State Government

This chapter provides a broad perspective of the finances of the Government of Chhattisgarh during the current year and analyses critical changes in the major fiscal aggregates relative to the previous year, keeping in view the overall trends during the last five years. The structure of Government Accounts and the layout of the Finance Accounts are shown in **Appendix 1.1**. The methodology adopted for the assessment of the fiscal position of the State is given in **Appendix 1.2.**

1.1 Summary of Current Year's Fiscal Transactions

Table 1.1 presents the summary of the State Government's fiscal transactions during the current year (2008-09) vis-à-vis the previous year while **Appendix 1.4** provides details of receipts and disbursements as well as the overall fiscal position during the current year.

Table: 1.1 Summary of Current Year's Fiscal Operations **(Rupees in crore)**

2007-08	Receipts	2008-09	2007-08	Disbursements	2008-09		
Section-A: Revenue					Non-Plan	Plan	Total
13,878.65	Revenue receipts	**15,662.76**	**10,839.85**	Revenue expenditure	8372.75	5420.95	**13,793.70**
5,618.08	Tax revenue	6,593.72	3,039.59	General Services	3577.37	21.38	3,598.75
2,020.45	Non-tax revenue	2,202.21	4,117.35	Social Services	2132.99	4019.76	6,152.75
4,035.00	Share of Union Taxes/ Duties	4,257.91	3,140.19	Economic Services	2163.94	1359.30	3,523.24
2,205.12	Grants from GOI	2,608.92	542.72	Grants-in-aid and Contributions	498.45	20.51	518.96
Section-B: Capital							
26.96	Misc. Capital Receipts	**1.78**	**3,130.69**	Capital Outlay	1.46	2938.70	**2,940.16**
437.52	Recoveries of Loans and Advances	**533.42**	**500.28**	Loans and Advances disbursed	#	#	**490.75**
1.83	Inter-State Settlement	**1.46**	**2.07**	Inter-State Settlement	#	#	**1.47**
261.93	Public Debt receipts*	**386.34**	**558.39**	Repayment of Public Debt*	#	#	**489.36**
2.83	Contingency Fund	**0.00**	**0.00**	Contingency Fund	#	#	**0.50**
17,706.49	Public Account receipts	**20,043.95**	**16,854.17**	Public Account disbursements	#	#	**19,585.29**
2,300.43	Opening Cash Balance	**2,731.19**	**2,731.19**	Closing Cash Balance	#	#	**2,059.67**
34,616.64	**Total**	**39,360.90**	**34,616.64**	**Total**			**39,360.90**

(Source: Finance Accounts of the State Government 2008-09)

#Figures for Plan and Non-Plan not available in the Finance Accounts.

*Excluding net transactions under Ways and Means advances and overdraft.

Following are the significant changes during 2008-09 over the previous year:

- Revenue receipts increased by 12.86 *per cent* (Rs 1,784.11 crore) mainly due to increase in tax revenue (Rs 975.64 crore), non-tax revenue (Rs 181.76 crore), State's share of Union taxes and duties (Rs 222.91crore) and grants-in-aid from the Government of India (GOI) (Rs 403.80 crore).

- Revenue expenditure increased by Rs 2,953.85 crore (27.25 *per cent*) mainly due to increase in Plan expenditure by Rs 1746 crore under the Social Service sector.

- Capital expenditure decreased by Rs 190.53 crore (6.09 *per cent)* mainly due to decrease in expenditure under Urban Development, Village and Small Industries and Roads and Bridges departments.

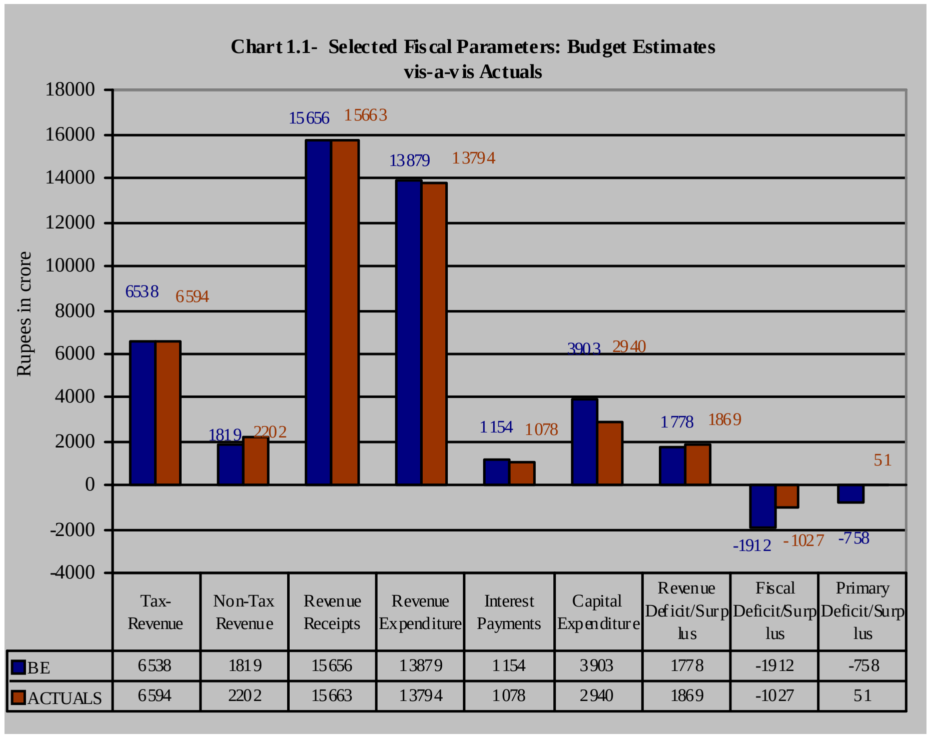
- Public Account receipts and disbursements increased by Rs 2,337.46 crore and Rs 2,731.12 crore respectively over the previous year. Thus, the decrease in net receipts during the year was Rs 393.66 crore.

- The cash balance of the State during 2008-09 decreased by Rs 671.52 crore.

There was a revenue surplus of Rs 1,869.06 crore in 2008-09, exhibiting a decline of Rs 1,169.73 crore from Rs 3,038.79 crore in 2007-08, due to a 27.25 *per cent* increase in revenue expenditure (Rs 2,953.85 crore) relative to a lower increase of 12.86 *per cent* in revenue receipts (Rs 1,784.11 crore) during 2008-09. The fiscal deficit increased to Rs 1,026.66 crore from Rs 128 crore in the previous year. The primary surplus decreased from Rs 1,012.23 crore during 2007-08 to Rs 50.87 crore in 2008-09 due to decrease in the revenue surplus and increase in the fiscal deficit.

In comparison to the normative assessment made by the Twelfth Finance Commission (TFC) for the State of Chhattisgarh, the State’s own tax revenue receipts, non-tax revenue receipts and Non-Plan expenditure were more by Rs 1,595.33 crore (31.93 *per cent*), Rs 611 crore (38.40 *per cent*) and Rs 1,402 crore (20.11 *per cent*) respectively and the interest payments were less by Rs 280 crore (20.60 *per cent)*.

Chart 1.1 presents the budget estimates and actuals for some important fiscal parameters.



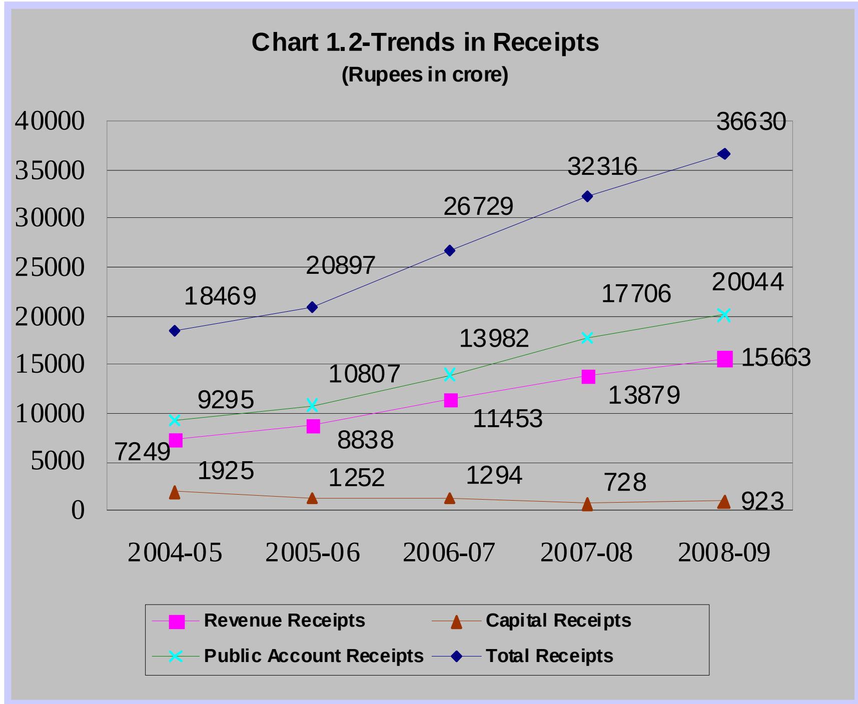
	Tax-Revenue	Non-Tax Revenue	Revenue Receipts	Revenue Expenditure	Interest Payments	Capital Expenditure	Revenue Deficit/Surplus	Fiscal Deficit/Surplus	Primary Deficit/Surplus
BE	6538	1819	15656	13879	1154	3903	1778	-1912	-758
ACTUALS	6594	2202	15663	13794	1078	2940	1869	-1027	51

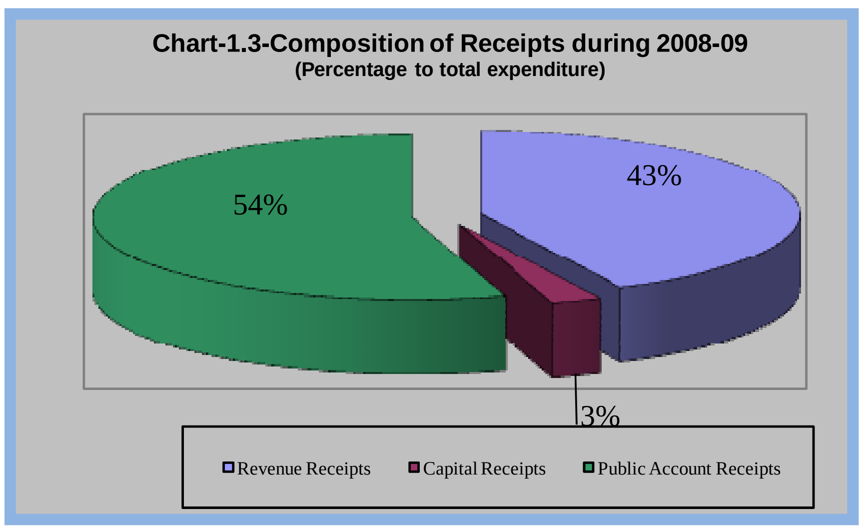
Chart 1.1 shows that compared to the budget estimates, the actuals were nearly equal in respect of revenue receipts and revenue expenditure. However, the actual fiscal deficit was considerably lower (Rs 1,027 crore) than the budget estimates, mainly due to less expenditure on capital outlay, reduction in interest payments and excess receipt of non-tax revenue. Further, the actual primary surplus was Rs 51 crore against the estimated deficit of Rs 758 crore.

1.2 Resources of the State

1.2.1 Resources of the State as per Annual Finance Accounts

Revenue and capital are the two streams of receipts that constitute the resources of the State Government. Revenue receipts consist of tax revenues, non-tax revenues, State's share of Union taxes and duties and grants-in-aid from GOI. Capital receipts comprise miscellaneous capital receipts such as proceeds from disinvestment, recoveries of loans and advances, debt receipts from internal sources (market loans, borrowings from financial institutions/commercial banks etc), loans and advances from GOI as well as accruals from the Public Account. **Table-1.1** presents the receipts and disbursements of the State during the current year as recorded in its Annual Finance Accounts while **Chart 1.2** depicts the trends in various components of the receipts of the State during 2004-09. **Chart 1.3** depicts the composition of resources of the State during the current year.





The total receipts of the State Government for the year 2008-09 were Rs 36,630 crore. The revenue receipts constituted 43 *per cent*, the capital receipts constituted three *per cent* and the Public Accounts receipts constituted 54 *per cent* of the total receipts.

1.2.2 Funds Transferred to State Implementing Agencies outside the State Budgets

The Central Government has been transferring a sizeable quantum of funds directly to State implementing agencies[1] for the implementation of various schemes/programmes in social and economic sectors, recognized as critical. As these funds are not routed through the State Budget/State Treasury System, the Annual Finance Accounts do not capture the flow of these funds and to that extent, the State's receipts and expenditure as well as other fiscal variables/ parameters derived from them are underestimated. To present a holistic picture on availability of aggregate resources, instances of funds directly transferred to the State implementing agencies are presented in **Table 1.2**

Table-1.2: Funds transferred directly to the State Implementing Agencies *(Rs in crore)*

Sl. No.	*Name of the Programme*	*Name of the implementing agency in the State*	*Total funds released by the GOI*
1	Sarva Shiksha Abhiyan	Government of Chhattisgarh and Rajiv Gandhi Shiksha Mission	509.31
2	Externally aided project for reforms and investment in vocational training services rendered by Central and State Government	Director- Employment and Training	3.66
3	National Rural Health Mission	State Health Society	58.20
4	Mid-Day-Meal-National Programme of Nutritional Support to Primary Education	Education Department and Food Corporation	40.92
5	Member of Parliament Local Area Development Scheme	District Collectors	38.00
6	National Afforestation Programme	Forest Development Agency	26.06
7	Micro Irrigation	*Rajya Beej evam Krishi Vikas Nigam*	9.55
8	Swarna Jayanti Shahari Rojgar Yojana	Government of Chhattisgarh	6.37
9	Production of infrastructure development for destinations and circuits	Government of Chhattisgarh	5.67
	Total		**697.74**

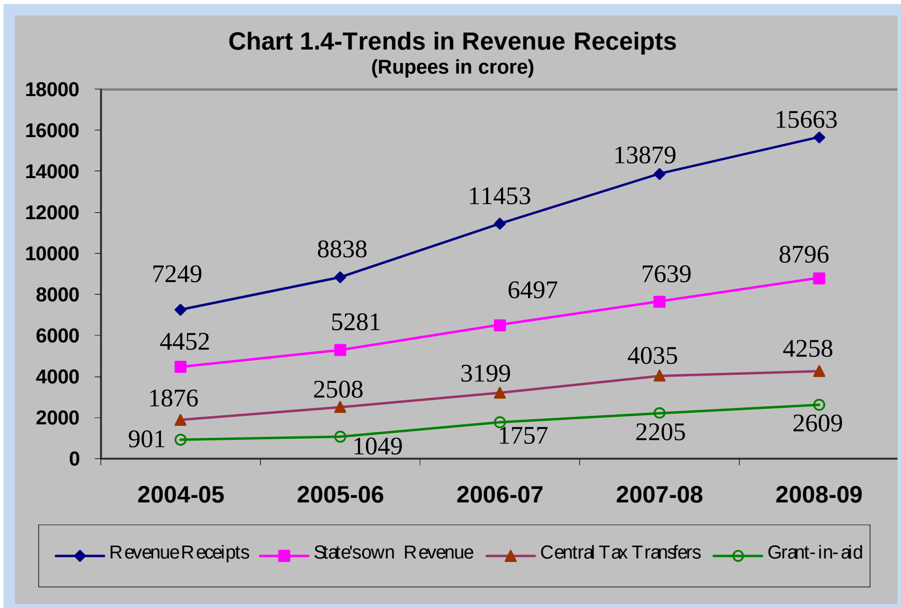
(Source: e- lekha portal of Controller General of Accounts' website)

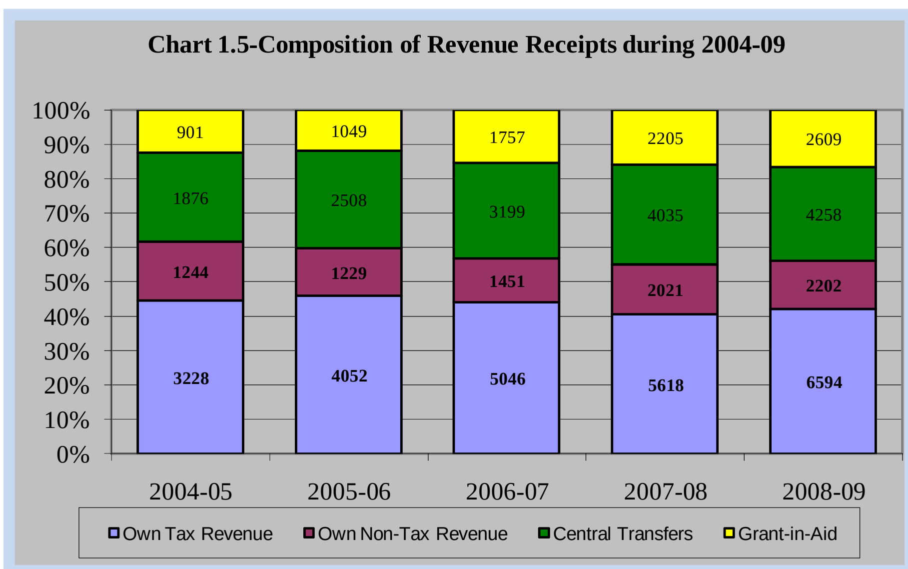
GOI directly transferred Rs 697.74 crore to the State implementing agencies during 2008-09. Direct transfers of funds from GOI to State implementing agencies ran the risk of improper utilisation of funds by these agencies. Unless uniform accounting practices are followed by all these agencies, with proper documentation and timely reporting of expenditure, it would be difficult to monitor the end use of these direct transfers.

[1] State implementing agencies include any organization/institution including a non-Governmental organization which is authorized by the State Government to receive funds from GOI for implementing specific programmes in the State, e.g. State Implementation Society for *Sarva Shikha Abhiyan*, State Health Mission for National Rural Health Mission etc.

1.3 Revenue Receipts

Statement-11 of the Finance Accounts details the revenue receipts of the Government. The revenue receipts consist of the State's own tax and non-tax revenues, Central tax transfers and grants-in-aid from GOI. The trends and composition of revenue receipts over the period 2004-09 are presented in **Appendix 1.3** and also depicted in **Charts 1.4** and **1.5** respectively.





Revenue receipts increased during 2004-09 with only marginal changes in their composition. These receipts increased from Rs 7,249 crore in 2004-05 to Rs 15,663 crore in 2008-09 and increased by 12.86 *per cent* during 2008-09. While 56.15 *per cent* of the revenue receipts during 2008-09 came from the State's own resources comprising tax and non-tax revenue, Central tax transfers and grants-in-aid together contributed 43.84 *per cent* of the total revenue. An increase of Rs 1,784 crore in the revenue receipts in 2008-09 was primarily due to a 17.37 *per cent* (Rs 975.64 crore) increase in tax revenue, an 8.99 *per cent* (Rs 181.76 crore) increase in non-tax revenue, a 5.52 *per cent* (Rs 222.91crore) increase in the State's share of Union taxes and duties from GOI and an 18.31 *per cent* (Rs 403.80 crore) increase in grants-in-aid from GOI.

Central tax transfers

The increase in Central tax transfers by Rs 222.91 crore (5.52 *per cent*) from Rs 4,035 crore in 2007-08 to Rs 4,257.91 crore in 2008-09, was primarily due to an increase in collection of corporation tax Rs 115.64 crore (9.03 *per cent*), customs Rs 51.23 crore (6.72 *per cent*) and service tax Rs 56.91 crore (14.12 *per cent*).

Grants-in-aid

The Grants-in-aid increased by Rs 403.80 crore (18.31 *per cent*) from Rs 2,205.12 crore in 2007-08 to Rs 2,608.92 crore in 2008-09 mainly due to increase of Rs 113.74 crore (21.96 *per cent*) in Non-Plan grants, Rs 68.84 crore (6.90 *per cent*) in grants for State Plan schemes and Rs 264.61 crore (47.88 *per cent*) in grants for Centrally sponsored Plan schemes.

Trends of revenue receipts relative to Gross State Domestic Product (GSDP) are presented in **Table 1.3** below:

Table 1.3: Trends of Revenue Receipts relative to GSDP

	2004-05	2005-06	2006-07	2007-08	2008-09
Revenue receipts (RR) (Rupees in crore)	**7,249**	**8,838**	**11,453**	**13,879**	**15,663**
Rate of growth of RR (*per cent*)	21.6	21.9	29.6	21.2	12.86
R R/GSDP (*per cent*)	15.76	17.02	19.82	20.57	19.41
Buoyancy Ratios[2]					
Revenue Buoyancy w.r.t GSDP	1.13	1.70	2.62	1.27	0.66
State's own tax Buoyancy w.r.t GSDP	1.29	1.98	2.17	0.68	0.88
Revenue Buoyancy with reference to State's own taxes	0.88	0.86	1.20	1.87	0.74

Revenue buoyancy with respect to growth of GSDP increased from 1.13 in 2004-05 to 2.62 in 2006-07 due to rise in the growth rate of revenue receipts and then decreased to 0.66 during 2008-09 due to the rise in rate of growth of GSDP and a fall in the rate of growth of revenue receipts. The State's own tax buoyancy with reference to GSDP increased from 0.68 in 2007-08 to 0.88 in 2008-09 whereas the revenue buoyancy with reference to the State's own taxes decreased from 1.87 in 2007-08 to 0.74 during 2008-09.

1.3.1 State's Own Resources

The State's share in Central taxes and grants-in-aid are determined on the basis of recommendations of the Finance Commission, collection of Central

[2] Buoyancy ratios indicate the elasticity or degree of responsiveness of fiscal variables with respect to a given change in the base variable. For instance, revenue buoyancy at 0.6 implies that revenue receipts tend to increase by 0.6 percentage points, if the GSDP increases by one *per cent*.

tax receipts, Central assistance for Plan schemes etc. The State's performance in mobilization of additional resources should be assessed in terms of its own resources comprising revenue from its own tax and non-tax sources. The gross collection in respect of major taxes and duties as well as the expenditure incurred on their collection and the percentage of such expenditure to the gross collection during the years from 2006-07 to 2007-08 along with the respective all-India averages are presented in **Appendix-1.5**.

Tax Revenue

Tax revenue increased by 17.37 *per cent* (Rs 975.64 crore) during the current year (Rs 6,593.72 crore) over the previous year (Rs 5,618.08 crore). The revenue from taxes on sales, trade etc. increased by Rs 587.24 crore over the previous year due to increased realisation under sales tax and Central tax. An increase of Rs 121 crore in State excise was noticed. Land revenue recorded an increase of Rs 271.38 crore over the previous year. The total estimate of tax revenue of Rs 6,537.82 crore made by the State Government in its Macro Economic Framework statement was nearly equal to the actual tax revenue receipt of Rs 6,593.72 crore and was more by Rs 1,595.33 crore (31.92 *per cent)* than the normative assessment made by TFC.

Non-Tax Revenue

Non-tax revenue increased by nine *per cent* during 2008-09 over the previous year mainly due to increase in non-tax revenue from non-ferrous mining and metallurgical industries (20.52 *per cent)*, forestry and wild life (24.87 *per cent*) and major irrigation (35.76 *per cent)*.

The actual receipts under the State's tax and non-tax revenue vis-a-vis the assessments made by TFC and the State Government in its budget estimates are given below:

(Rupees in crore)

	Assessment made by TFC	Budget estimates	Actuals
State's tax revenue	4,998.39	6,537.82	6,593.72
State's own non-tax revenue	1,591.40	1,819.38	2,202.21

(Source: Finance and Appropriation Accounts of the State Government)

Tax revenue as well as non-tax revenue receipts in 2008-09 exceeded the normative assessments made by TFC by 31.92 *per cent* and 38.38 *per cent* respectively. Similarly, tax as well as non-tax revenue receipts of the State during 2008-09 were also more by Rs 55.90 crore and Rs 382.83 crore respectively than the assessments made by the State Government in its budget estimates. The reason for higher revenue receipts in respect of non-tax was due to increase in interest receipts (Rs 98.99 crore), miscellaneous general services (Rs 95.33 crore) non-ferrous mining and metallurgical industries (Rs 72.78 crore), forestry and wild life (Rs 46.73 crore) and crop husbandry (Rs 29.70 crore) over the budget estimates.

1.3.2 Loss of revenue due to evasion of taxes

There were 30 cases of evasion of taxes pending finalization in respect of commercial tax and 15 cases in respect of State excise as on 31 March 2009. Similarly, 498 cases under Commercial Tax Department and three cases in State excise Department were pending for refunds involving Rs 7.77 crore.

1.3.3 Revenue Arrears

The arrears of revenue as on 31 March 2009 in respect of some principal heads of revenue amounted to Rs 470.30 crore, of which Rs 235.85 crore (50.15 *per cent*) was outstanding for more than five years.

The arrears were mainly in respect of revenue from irrigation (Rs 106.08 crore), commercial tax (Rs 98.61 crore), State excise duty (Rs 23.27 crore), taxes and duties on electricity (Rs 2.38 crore), and taxes on vehicles (Rs 3.24 crore) .

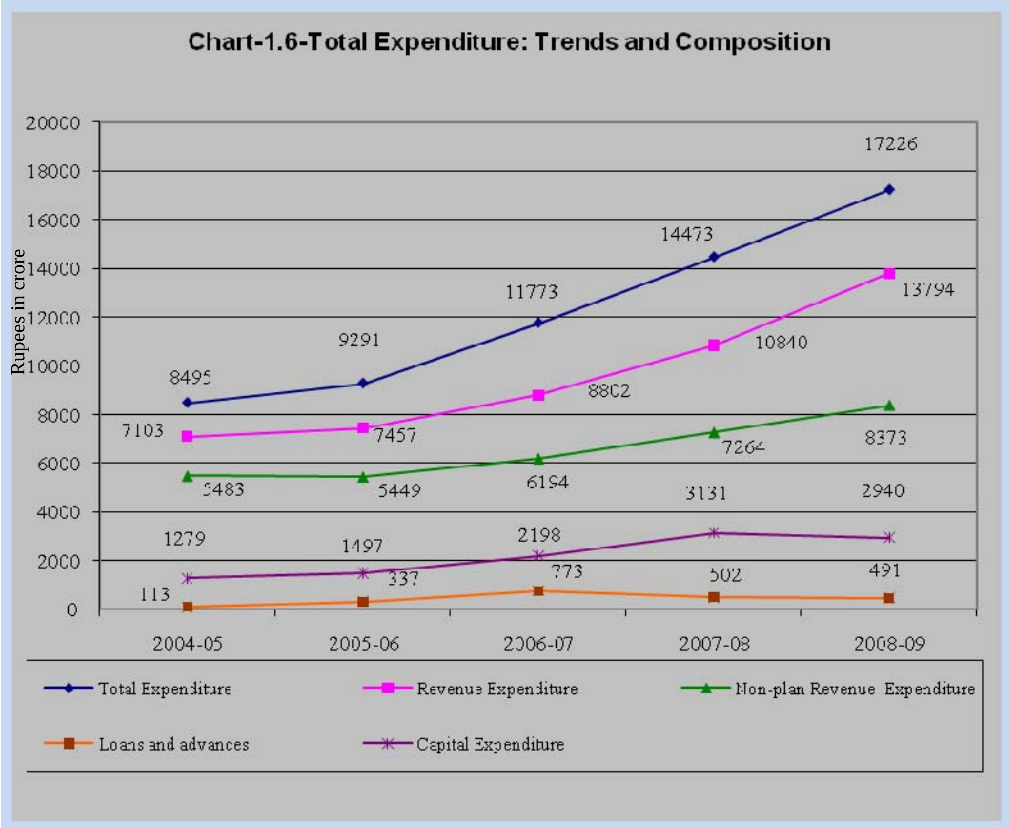
1.4 Application of resources

Analysis of the allocation of expenditure at the State Government level assumes significance since major expenditure responsibilities are entrusted with them. Within the framework of fiscal responsibility legislations, there are budgetary constraints in raising public expenditure financed by deficit or borrowings. It is, therefore, important to ensure that the ongoing fiscal correction and consolidation process[3] at the State level is not at the cost of expenditure, especially expenditure directed towards development and social sectors.

1.4.1 Growth and Composition of Expenditure

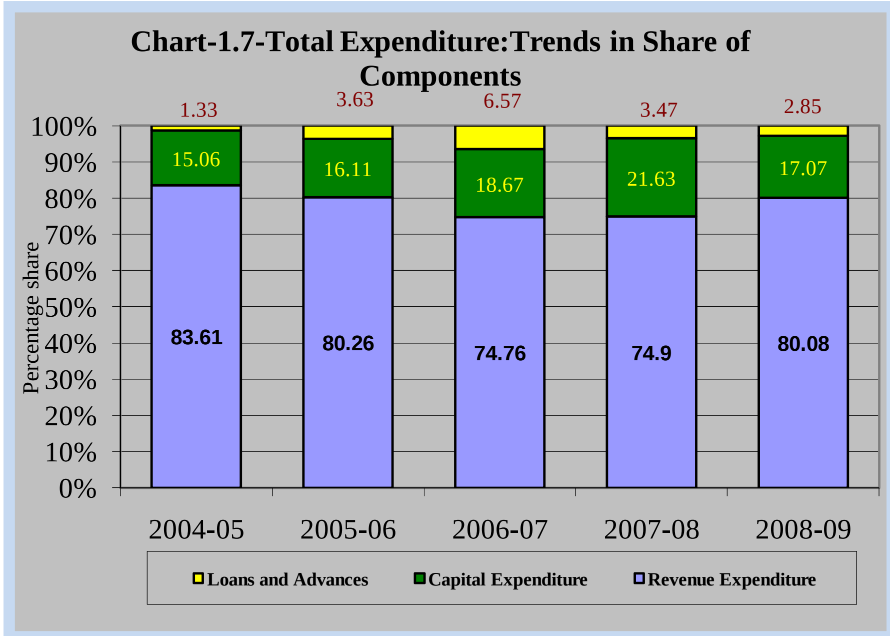
Chart 1.6 presents the trends in total expenditure over a period of five years (2004-09) and its composition, both in terms of 'economic classification' and 'expenditure by activities,' is depicted respectively in **Charts 1.7 and 1.8.**

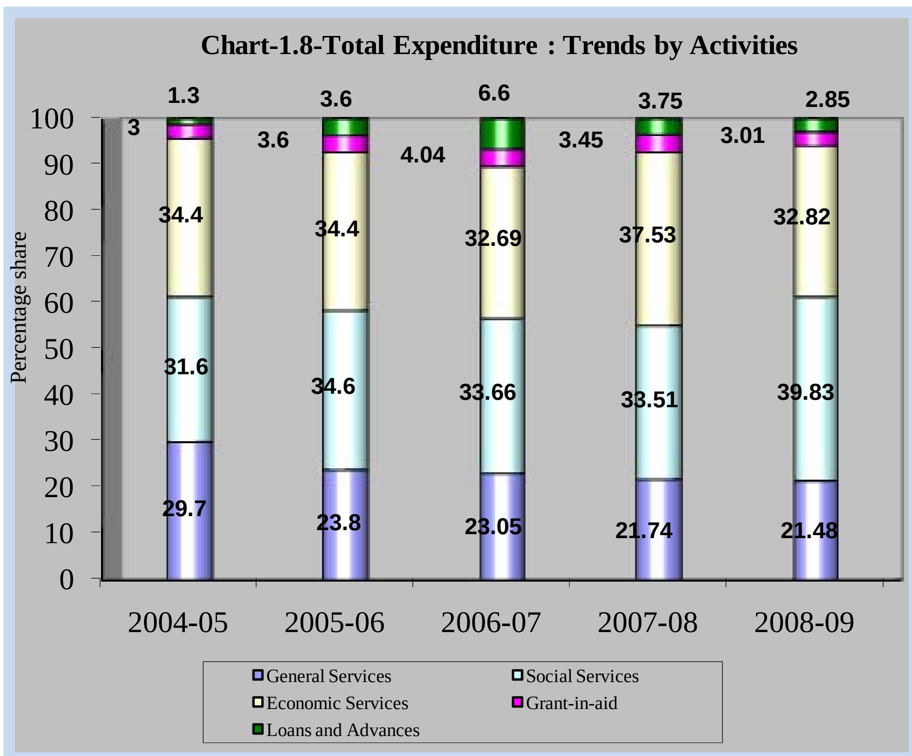
[3] The TFC had recommended that all States should restructure their finances through fiscal consolidation (reduction of deficit and debt) and adopt a fiscal correction path by setting clear targets through fiscal reform legislation.



The total expenditure comprising revenue expenditure, capital expenditure and the loans and advances increased from Rs 14,472.89 crore in 2007-08 to Rs 17,226.08 crore in 2008-09, of which revenue expenditure showed in increase of Rs 2,953.84 crore (Rs 1,845.35 crore under Plan and Rs 1,108.49 crore under Non-Plan) while capital expenditure and disbursement of loans and advances decreased by Rs 190.53 crore and Rs 10.13 crore respectively. The growth rate of total expenditure was high (26.7 *per cent*) in 2006-07 but came down to 19.02 *per cent* during 2008-09.

During the five year period 2004-09, nearly 75 to 84 *per cent* of the total expenditure constituted revenue expenditure whereas capital expenditure ranged between 15 to 22 *per cent*. During the current year, 90.92 *per cent* (Rs 15,662.76 crore) of the total expenditure was met from revenue receipts and three *per cent* (Rs 536.66 crore) from non-debt capital receipts. The State was left with Rs 1,026.66 crore to be financed out of borrowed funds. The buoyancy of total expenditure to GSDP stood at 0.97 in 2008-09 while it was 0.73 in 2005-06.





Revenue expenditure of the State has increased by 94 *per cent* from Rs 7,103 crore in 2004-05 to Rs 13,794 crore in 2008-09, of which Non-Plan revenue expenditure (NPRE) increased by 15 *per cent* and Plan expenditure increased by 52 *per cent* during 2008-09.

The share of Plan revenue expenditure which normally covers the maintenance expenditure incurred on services increased by Rs 3,801 crore during 2004-05 to 2008-09 keeping its share in total revenue expenditure between 23 to 39 *per* *cent*. The share of Plan revenue expenditure also increased by 1,845.25 crore (51.61 *per cent*) relative to 2007-08 mainly due to increase of Plan expenditure under education, sports and culture (Rs 451 crore), social security and welfare (Rs 1,064 crore), agriculture and allied activities (Rs 47 crore) and water supply and sanitation (Rs 144 crore).

The share of NPRE in total revenue expenditure declined from 77 *per cent* in 2004-05 to 61 *per cent* in 2008-09. An increase of Rs 1,108.49 crore in NPRE in 2008-09 (15.25 *per cent*) was mainly on account of increase in the expenditure by Rs 565.99 crore (18.80 *per cent*) in General Services, Rs 289.98 crore (15.73 *per cent*) in Social Services, Rs 275.80 crore (14.61 *per cent*) in Economic Services over the level of 2007-08. The actual NPRE during 2008-09 exceeded the normative assessment made by TFC for the year by Rs 1,403 crore (20.13 *per cent*).

The share of expenditure on grants-in-aid and loans and advances in 2007-08 was 7.21 *per cent* but declined to 5.87 *per cent* of the total expenditure during the year.

1.4.2 Committed Expenditure

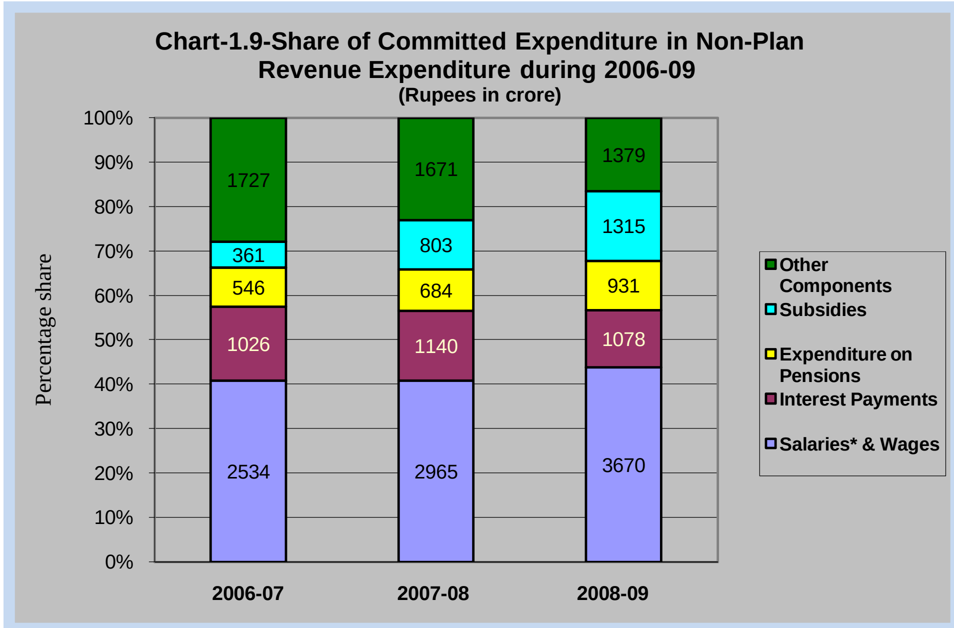
The committed expenditure of the State Government on revenue account mainly consists of interest payments, expenditure on salaries and wages, pensions and subsidies. **Table 1.4** and **Chart 1.9** present the trends of expenditure on these components during 2004-09.

Table-1.4: Components of Committed Expenditure

(Rupees in crore)

Components of Committed Expenditure	2004-05	2005-06	2006-07	2007-08	2008-09	
					BE	Actuals
Salaries & Wages , *of which*	2118.56 (29.23)	2339.01 (26.47)	2534.16 (22.13)	2965.01 (21.36)	4112.63 (26.07)	3670.34 (23.43)
Non-Plan Head	1782,26	1888.50	2030.83	2307.68	NA	2772.46
Plan Head*	336.30	450.51	503.33	657.33	NA	897.88
Interest Payments	1152 (15.89)	962 (10.88)	1026 (8.96)	1140 (8.21)	1153.81 (7.37)	1077.53 (6.88)
Expenditure on Pensions	539.73 (7.45)	540.18 (6.11)	546.08 (4.77)	684.58 (4.93)	836.73 (5.34)	930.77 (5.94)
Subsidies	NA	502.32 (5.68)	361.07 (3.15)	802.55 (5.78)	1078.16 (6.89)	1314.68 (8.39)
Other Components	2008 (27.70)	1556.51 (17.61)	2230.33 (19.47)	2328.33 (16.78)	932.56	2277.31 (14.53)
Non-Plan Revenue Expenditure	**5482.29**	**5449.51**	**6194.31**	**7263.14**	**8113.89**	**8372.75**

Figures in the brackets indicate percentage to Revenue Receipts
* The Plan head also includes the salaries and wages paid under Centrally Sponsored Schemes
NA: Not available, Figures in parentheses indicate percentage of revenue receipts
(Source: Finance Accounts of the State Government)



The expenditure on salaries and wages increased by Rs 705.33 crore from Rs 2,965.01 crore in 2007-08 to Rs 3,670.34 crore in 2008-09. Salary and wages expenditure as a percentage of GSDP increased from 4.39 to 4.55 with reference to the previous year. With respect to revenue receipts, it increased from 21.36 to 23.43 *per cent* over the same period. However, the expenditure on salaries and wages in 2008-09 was less by 10.75 *per cent* (Rs 442.29 crore) than the assessments made by the State Government in its budget estimates for the year 2008-09. The expenditure on salaries and wages stood at 28.86 *per cent* of the revenue expenditure (net of interest payment) which was within the limit of 35 *per cent* as recommended by TFC.

Pension payments increased by 35.96 *per cent* (Rs 246.19 crore) from Rs 684.58 crore in 2007-08 to Rs 930.77 crore in 2008-09. Pension payments consumed 5.94 *per cent* of the revenue receipts and were 11.12 *per cent* of the Non-Plan revenue expenditure. Pension payments exceeded the projection made by the State Government (Rs 836.73 crore) in its Medium Term Fiscal Policy Statement (MTFPS) for 2008-09 and was 6.75 *per cent* of revenue expenditure, which was within the limit of 10 *per cent* of revenue expenditure as prescribed in MTFPS. The State Government has constituted a Pension Fund to reduce the pensionary liabilities in future.

Interest payments comprising interest charges on internal debts, loans raised from GOI and other obligations, decreased from Rs 1,140.18 crore in 2007-08 to Rs 1,077.53 crore during 2008-09.The TFC recommended that States should endeavour to keep interest payments as a ratio of revenue receipts to 15 *per cent* by 2009-10. It was observed that the interest payments as a percentage of revenue receipts ranged between 7 and 16 *per cent* during 2004-09 and showed a decreasing trend.

The expenditure on subsidies increased by Rs 512 crore (64 *per cent)* from Rs 803 crore in 2007-08 to Rs 1,314.68 crore in 2008-09. It constituted 8.39 *per cent* of the revenue receipts and 9.53 *per cent* of revenue expenditure.

The major amounts of given subsidies were for social welfare and nutrition (Rs 946.21 crore), agriculture and allied activities Rs 201.23 crore and energy (Rs 128.04 crore)

1.4.3 Financial Assistance by State Government to Local Bodies and other institutions

The quantum of assistance provided by way of grants and loans to local bodies and others during the current year relative to the previous years is presented in **Table 1.5**

Table 1.5: Financial Assistance to Local Bodies etc

(Rupees in crore)

Financial Assistance to Institutions	2004-05	2005-06	2006-07	2007-08	2008-09
Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.)	145.87	143.00	75.91	98.86	83.82
Power/energy	146.72	165.67	572.13	135.13	118.00
Agriculture	15.13	22.67	25.31	16.81	19.78
Urban Bodies	315.16	411.35	544.84	618.15	737.26
Panchayat Raj Institutions	465.16	585.57	763.82	955.14	1299.47
Other Institutions	27.27	484.24	219.79	183.17	304.72
Total	**1115.31**	**1812.50**	**2201.80**	**2007.26**	**2563.05**
Assistance as per percentage of revenue expenditure	15.70	24.31	25.01	18.52	18.58

(Source: Finance and Appropriation Accounts)

Financial assistance to local bodies and other institutions increased from Rs 1,115.31 crore in 2004-05 to Rs 2,563.05 crore in 2008-09 recording a growth rate of 27.69 *per cent* over the previous year. During 2008-09, financial assistance was given by the Government mainly to urban local bodies[4] (28.76 *per cent*), Panchayat Raj institutions[5] (50.70 *per cent*) and other institutions (11.89 *per cent*).

1.5 Quality of Expenditure

The availability of better social and physical infrastructure in the State generally reflects the quality of its expenditure. Improvement in the quality of expenditure basically involves three aspects, viz., adequacy of the expenditure (i.e. adequate provisions for providing public services); efficiency of expenditure use and effectiveness (assessment of outlay-outcome relationships for select services).

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[4] Includes General Education: Rs 13.14 crore, and Urban Development: Rs 210.16 crore.

[5] Includes General Education: Rs 499.88 crore, Social Security and Welfare: Rs 306.94 crore and Rural Development: Rs 292.76 crore.

1.5.1 Adequacy of Public Expenditure

Expenditure responsibilities relating to the social sector and economic infrastructure are largely assigned to the State Governments. Enhancing human development levels requires the States to step up their expenditure on key social services like education, health etc. The low level of spending on any sector by a particular State may either due to low fiscal priority attached by the State Government or on account of the low fiscal capacity of the State Government or due to both working together. Low fiscal priority (ratio of expenditure category to aggregate expenditure) is attached to a particular sector if it is below the respective all States average while low fiscal capacity would be reflected if the State's per capita expenditure is below the respective all States average even after having a fiscal priority that is more than or equal to the all States average. **Table 1.6** analyses the fiscal priority and fiscal capacity of the State Government with regard to development expenditure, social sector expenditure and capital expenditure during the current year.

Table 1.6: Fiscal Priority and Fiscal Capacity of the State during 2008-09

Fiscal Priority by the State	AE/GSDP	DE/AE	SSE/AE	CE/AE
All States average* (Ratio)2005-06	**19.50**	**61.44**	**30.41**	**14.13**
Chhattisgarh State's Average (Ratio) 2005-06	21.06	72.59	34.60	16.11
All States average* (Ratio) 2008-09	**19.16**	**67.68**	**33.90**	**16.87**
Chhattisgarh State's Average (Ratio) 2008-09	21.35	75.44	39.83	17.07
Fiscal Capacity of the State	**DE#**	**SSE**	**CE**	
All States' Average per capita expenditure 2005-06 (Amount in rupees)	**3010**	**1490**	**692**	
Chhattisgarh State's per capita expenditure 2005-06 (Amount in rupees)	3011	1435	668	
Adjusted Per Capita** Expenditure (Amount in rupees) 2005-06	NR	NR	NR	
All States' Average per capita expenditure 2008-09 (Amount in rupees)	**5,030**	**2,520**	**1,254**	
Chhattisgarh State's per capita expenditure 2008-09 (Amount in rupees)	5,553	2,932	1,256	
Adjusted Per Capita** Expenditure (Amount in rupees) 2008-09	NR	NR	NR	

*As *per cent* to GDP
**Calculated as per the methodology explained in the Appendix
AE: Aggregate Expenditure DE: Development Expenditure SSE: Social Sector Expenditure
CE: Capital Expenditure
Population of Chhattisgarh: 2.24 crore in 2005-06 and 2.34 crore in 2008-09
Development expenditure includes Development revenue expenditure, Development capital expenditure and loans and advances disbursed
Source:
(1) For GSDP, the information was collected from the State's Directorate of Economics and Statistics
(2) Population figures were taken from projection 2001-2006 of the Registrar General and Census Commissioner, India (website: www.censusindia.gov.in), Population = Average of projected population of 2005-06
NR: No adjustment required since the State is giving adequate fiscal priority
Data for Arunachal Pradesh has not been included in the all States Average

In **Table 1.6**, we are comparing the fiscal priorities given to various categories of expenditure and the fiscal capacity of the State in 2005-06 (the first year of the Award Period of TFC) and the current year, i.e. 2008-09.The State

Government's aggregate expenditure was more than the all States average (AE/GSDP ratio for Chhattisgarh is higher than the average of all the States for 2008-09). The Government gave adequate fiscal priority to Development Expenditure (DE), Social Sector Expenditure (SSE) and Capital Expenditure (CE) since DE/AE, SSE/AE and CE/AE in the case of Chhattisgarh was higher than the all States average.

In 2008-09, the per capita expenditure of DE and SSE was higher than the all States average but CE was at par with the all States average. The AE/GSDP ratio was also higher than the all States average. This means that the absorptive capacity[6] of the State was high during 2008-09. In 2005-06, the per capita DE in Chhattisgarh was almost equal to the all States average but in 2008-09, it rose to 10.40 *per cent* above the all States average. The SSE was 3.69 *per cent* lower than the all States average in 2005-06 and rose to 16.35 *per cent* above the all States average in 2008-09. Capital expenditure remained almost at par with the all States average during 2005-06 as well as 2008-09.

1.5.2 Efficiency of Expenditure use

In view of the importance of public expenditure on development heads from the point of view of social and economic development, it is important for the State Governments to take appropriate expenditure rationalization measures and lay emphasis on provision of core public and merit goods[7]. Apart from improving the allocation towards development expenditure[8], particularly in view of the fiscal space being created on account of the decline in debt servicing in recent years, the efficiency of expenditure use is also reflected by the ratio of capital expenditure to total expenditure (and/or GSDP) and the proportion of revenue expenditure being spent on operation and maintenance of the existing Social and Economic Services. The higher the ratio of these components to total expenditure (and/or GSDP), the better would be the

[6] Absorptive capacity in this case refers to the ability of a State to implement a developmental scheme in such a way that with given resources, there is maximum benefit to the people. This is usually achieved when the designs of schemes are well planned with a careful risk mitigation strategy in place; administrative costs are low; operation, maintenance, monitoring and control mechanisms are in place etc so that the State is able to achieve effectively targeted outcomes.

[7] Core public goods are which all citizens enjoy in common in the sense that each individual's consumption of such a good leads to no subtractions from any other individual's consumption of that good, e.g. enforcement of law and order, security and protection of our rights; pollution free air and other environmental goods and road infrastructure etc. Merit goods are commodities that the public sector provides free or at subsidized rates because an individual or society should have them on the basis of some concept of need, rather than ability and willingness to pay the government and therefore wishes to encourage their consumption. Examples of such goods include the provision of free or subsidized food for the poor to support nutrition, delivery of health services to improve quality of life and reduce morbidity, providing basic education to all, drinking water and sanitation etc.

[8] The analysis of expenditure data is disaggregated into development and non- development expenditure. All expenditure relating to Revenue Account, Capital Outlay and Loans and Advances is categorized into Social Services, Economic Services and General Services. Broadly, the Social and Economic Services constitute development expenditure, while expenditure on General Services is treated as non-development expenditure.

quality of expenditure. While **Table 1.7** presents the trends in development expenditure relative to the aggregate expenditure of the State during the current year and development expenditure relative to the aggregate expenditure in previous years, **Table 1.8** provides the details of capital expenditure and the components of revenue expenditure incurred on the maintenance of the selected Social and Economic Services.

Table-1.7: Development Expenditure

(Rupees in crore)

Components of Development Expenditure	2004-05	2005-06	2006-07	2007-08	2008-09	
					BE	Actuals
Development Expenditure (a to c)	5,700 (67)	6,724 (72)	8,578 (73)	10,773 (74)	13,934	12,995 (75)
a. Development Revenue Expenditure	4,357 (51)	4,938 (53)	5,687 (48)	7,257 (50)	9,628	9,676 (56)
b. Development Capital Expenditure	1,250 (15)	1,469 (16)	2,123 (18)	3,024 (21)	3,813	2,838 (16)
c. Development Loans and Advances	93 (01)	317 (03)	768 (07)	492 (03)	493	481 (03)

Figures in brackets indicate percentage of aggregate expenditure

(Source: Finance Accounts and Annual Financial Statement of the State Government for the year 2008-09)

Development revenue expenditure increased by 33.33 *per cent* (Rs 2419 crore) from Rs 7257 crore in 2007-08 to Rs 9676 crore in 2008-09. The increase was mainly due to expenditure under the heads Social Security and Welfare (Rs 1,060.27 crore), General Education (Rs 498.57 crore), Medical and Public Health (Rs 111.51 crore), Crop Husbandry (Rs 110.64 crore), Forestry and Wild Life (Rs 98.01 core) and Welfare of Scheduled Castes, Scheduled Tribes and other Backward Classes (Rs 75.62 crore).

Development capital expenditure decreased by 6.15 *per cent* (Rs 186 crore) from Rs 3,024 crore in 2007-08 to Rs 2,838 crore in 2008-09. The decrease was mainly due to decrease in expenditure under the accounts heads Village and Small Industries (Rs 86.66 crore), Roads and Bridges (Rs 73.24 crore) and Urban Development (Rs 70.07 crore).

Table 1.8: Efficiency of Expenditure Use in Selected Social and Economic Services

(*per cent*)

Social/Economic Infrastructure	2007-08			2008-09		
	Ratio of CE to TE	In RE, the share of		Ratio of CE to TE	In RE, the share of	
		S &W	O&M		S&W	O &M
Social Services (SS)						
Total Social Services *of which*	**5.07**	**40.63**	**2.54**	**4.11**	**32.70**	**2.39**
General Education	1.47	46.97	0.55	0.88	43.17	0.21
Public Health and Family Welfare	0.57	64.55	0.55	0.66	63.66	0.61
Water Supply, Sanitation and Housing and Urban Development	1.57	7.39	5.69	0.85	7.57	4.66
Economic Services (ES)						
Total Economic Services *of which*	**15.83**	**20.34**	**10.63**	**12.36**	**21.48**	**11.70**
Agriculture and Allied Activities	0.59	27.73	1.61	0.45	29.54	1.42
Irrigation and Flood Control	5.24	58.56	34.03	5.01	61.98	31.71
Power and Energy	0.00	0.00	0.00	0.00	0.00	0.00
Transport	7.65	7.71	74.42	5.85	0.00	94.45
Total (SS+ES)	**20.90**	**60.97**	**13.17**	**16.47**	**54.18**	**14.09**

TE: Total expenditure in the concerned sector; CE: Capital expenditure in the concerned sector; RE: Revenue expenditure in the concerned sector; S&W: Salaries and wages; O&M: Operations & maintenance in the concerned sector.

(Source: Compiled from VLC data by A&E office)

The percentage of capital expenditure to the total expenditure for Social and Economic Services decreased from 20.90 in 2007-08 to 16.47 in 2008-09.

During the current year, the ratio of capital expenditure to total expenditure under Social Services decreased from 5.07 to 4.11 *per cent* over the previous year

Lower priority to capital expenditure was accorded mainly to general education, water supply, sanitation and housing and urban development where capital expenditure as a percentage of the total expenditure reduced from 1.47 *per cent* and 1.57 *per cent* to 0.88 *per cent* and 0.85 *per cent* respectively.

The share of salaries in revenue expenditure under Social Services decreased from 40.63 *per cent* in 2007-08 to 32.70 *per cent* in 2008-09 mainly on account of decrease in the share of salaries under general education and health and family welfare from 46.97 *per cent* and 64.55 *per cent* to 43.17 *per cent* and 63.66 *per cent* respectively.

Capital expenditure on Economic Services decreased from Rs 2,291.03 crore in 2007-08 to Rs 2,129.81 crore in 2008-09, registering a decrease of 7.04 *per cent*. The percentage of capital expenditure under Economic Service decreased from 15.83 to 12.36.

The share of salaries under revenue expenditure in Economic Services increased from 20.34 *per cent* to 21.48 *per cent*, mainly on account of increase in the share of salaries under agriculture and allied activities from 27.73 *per cent* to 29.54 *per cent* and irrigation and flood control from 58.56 *per cent to* 61.98 *per cent*.

1.6 Analysis of Government Expenditure and Investments

In the present framework, the State is expected to keep its fiscal deficit at low levels and to meet its capital expenditure/investment (including loans and advances) requirements. The State Government needs to initiate measures to earn adequate returns on its investments and recover its cost of borrowed funds rather than bearing the same on its budget in the form of implicit subsidies and take requisite steps to infuse transparency in financial operations. This section presents the broad financial analysis of investments and other capital expenditure undertaken by the Government during the current year vis-à-vis the previous years.

1.6.1 Incomplete projects

At the end of March 2009, there were 223 incomplete projects each costing Rs one crore or more, involving Rs 1,531.20 crore as given in **Table 1.9.**

Table 1.9: Status of Incomplete Projects in the State *(Rs in crore)*

Department	No. of incomplete projects	Initial budgeted cost	Revised total cost of projects	Cost over runs	Cumulative actual expenditure as on 31.3.2009
Public Works Department	98	426.20	449.01	1.15	219.40
Water Resources Department	125	761.76	1082.19	9.19	707.59
Total	**223**	**1187.96**	**1531.20**	**10.34**	**926.99**

(Source: Finance Account 2008-09)

The reasons for non-completion of projects in scheduled time were not intimated by the department except in case of a few which were stated to have been delayed due to Naxalite problems.

1.6.2 Investment and returns

As of 31 March 2009, Government had invested Rs 430.01 crore in Statutory Corporations, Rural Banks, Joint Stock Companies and Co-operatives **(Table 1.10)**. The average return on the investments was 0.02 *per cent* while the Government paid an average interest rate of 7.36 *per cent* on its borrowings during 2008-09.

Table-1.10: Return on Investments

Investment/Return/ Cost of Borrowings	2004-05	2005-06	2006-07	2007-08	2008-09	
					BE	Actual
Investment at the end of the year (Rs in crore)	87.96	103.24	159.64	400.95	358.52	430.01
Return (Rs in crore)	0.00	0.00	0.00	0.10	1.36	0.10
Return *(per cent)*	0.00	0.00	0.00	0.02	0.38	0.02
Average rate of interest on Govt. borrowings *(per cent)*	9.85	7.54	7.49	7.97	NA	7.36
Difference between interest rate and return *(per cent)*	9.85	7.54	7.49	7.95	NA	7.34

(Source: Finance Accounts of the State Government)

Out of Rs 430.01 crore invested upto 2008-09, Rs 77.33 crore were invested in 11 Statutory Corporations, Rs 204.63 crore in three Government Companies/departments, Rs 2.63 crore in Joint Stock Companies and Rs 145.42 crore in Co-operatives.

1.6.3 Loans and advances by State Government

In addition to investments in Co-operative Societies, Corporations and Companies, the Government has also been providing loans and advances to many institutions/ organizations. **Table 1.11** presents the outstanding loans and advances as on 31 March 2009, and interest receipts vis-à-vis interest payments during the last three years.

Table 1.11: Average interest received on loans advanced by the State Government

(Rupees in crore)

Quantum of Loans/Interest Receipts/ Cost of Borrowings	2006-07	2007-08	2008-09
Opening Balance	1188.43	1604.61	1667.38
Amount advanced during the year	771.13	500.28	490.75
Amount repaid during the year	354.95	437.52	533.42
Closing Balance	**1604.61**	**1667.38**	**1624.71**
of which Outstanding balance for which terms and conditions have been settled	NA	NA	NA
Net addition	416.18	62.76	(-)42.67
Interest Receipts	85.50	69.11	121.89
Interest receipts as a percentage of outstanding Loans and advances	6.12	4.22	7.40
Interest payments as percentage of outstanding fiscal liabilities of the State Government.	7.49	7.97	7.36
Difference between interest payments and interest receipts (*per cent*)	(-)1.15	(-)3.64	(+)0.04

(Source: Finance Accounts of the State Government)

At the end of March 2009, the Government had outstanding loans and advances of Rs 1,624.71 crore, of which loans for pension and miscellaneous General Services was Rs 116.11 crore, loans for Social Services Rs 661.18 crore and Economic Services Rs 857.74 crore.

The interest received against these loans and advances was 7.40 *per cent* during 2008-09 as against 4.22 *per cent* in the previous year.

There was an increase of Rs 95.90 crore in respect of repayment of loans and advances over the previous year, leading to a net reduction in outstanding of loans and advances during the year.

1.6.4 Cash Balances and Investment of Cash Balances

Table 1.12 depicts the cash balances and investments made by the State Government out of the cash balances during the year.

Table 1.12: Cash Balances and Investment of Cash balances

(Rs in crore)

Particulars	As on 1st April 2008	As on 31st March 2009	Increase/ Decrease(-)
Cash Balances	**(-) 694.36**	**(-) 348.68**	**345.68**
Investments from Cash Balances (a to d)	**2849.48**	**1727.62**	**(-) 1121.86**
a. GOI Treasury Bills	405.63	(-)1121.86	(-)1524.49
b. GOI Securities	2443.85	2849.48	405.63
c. Other Securities	Nil	Nil	Nil
d. Other Investments	Nil	Nil	Nil
Fund-wise Break-up of Investments from Earmarked balances (a to c)	**549.47**	**648.91**	**99.44**
a. Sinking Fund	546.94	646.94	100.00
b. Famine Relief Fund	1.51	0.95	(-) 0.56
c. Revenue Reserve Fund	0.97	0.97	0.00
d. Development and Welfare Fund	0.05	0.05	0.00
Interest realized	**135.34**	**115.51**	**(-) 19.83**

The interest received against investment on the cash balances was 6.68 *per cent* during 2008-09 while Government paid interest at 7.36 *per cent* on its borrowings during the year.

1.7 Assets and Liabilities

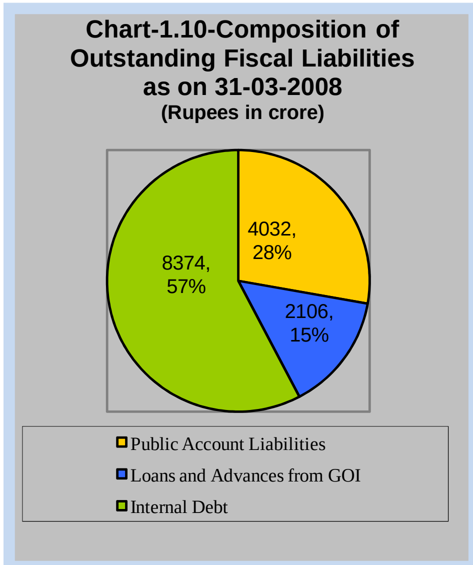
1.7.1 Growth and composition of Assets and Liabilities

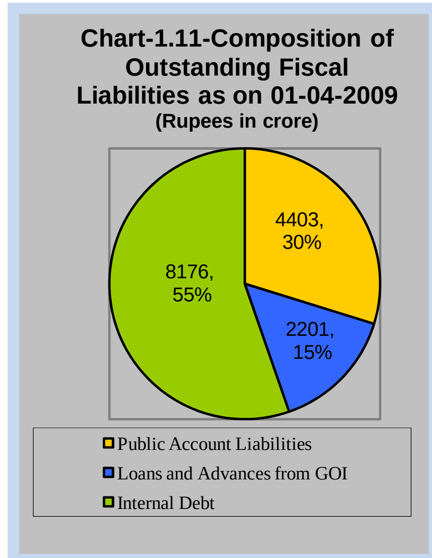
In the existing Government accounting system, comprehensive accounting of fixed assets like land and buildings owned by the Government is not done. However, the Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred. **Appendix 1.4** gives an abstract of such liabilities and the assets as on 31 March 2009, compared with the corresponding position on 31 March 2008. While the liabilities in this Appendix consist mainly of internal borrowings, loans and advances from GOI, receipts from the Public Account and Reserve Funds, the assets mainly comprise the capital outlay and loans and advances given by the State Government and its cash balances.

During 2008-09, the liabilities increased by 1.80 *per cent* and the assets grew by 12.72 *per cent*.

1.7.2 Fiscal Liabilities

The trends of outstanding fiscal liabilities of the State are presented in ***Appendix 1.4***. The composition of fiscal liabilities during the current year vis-à-vis the previous year is presented in **Charts 1.10** and **1.11.**





The overall fiscal liabilities of the State increased from Rs 12,240 crore in 2004 to Rs 14,780.03 crore in 2008-09. Fiscal liabilities of the State comprised Consolidated Fund liabilities and Public Account liabilities. As at the end of March 2009, the Consolidated Fund liabilities (Rs 10,376.75 crore) comprised market loans (Rs 2,297.90 crore), loans from GOI (Rs 2,200.68 crore) and other loans (Rs 5,878.17 crore). The Public Account liabilities (Rs 4,403.28 crore) comprised of Small Savings, Provident Fund etc., (Rs 1,702.84 crore), interest-bearing obligations (Rs 125.04 crore) and non-interest bearing obligations like deposits and other earmarked funds (Rs 257.40 crore).

The growth rate of liabilities was 1.85 *per cent* during 2008-09 over the previous year. The GSDP grew by 19.63 *per cent* as a result of which, the ratio of fiscal liabilities to GSDP decreased from 21.51 in 2007-08 to 18.32 in 2008-09 and was within the budget estimate of 32.72 *per cent*. The fiscal liabilities ratio in respect to revenue receipts decreased from 1.05 in 2007-08 to 0.94 in 2008-09. In respect of the State's own resources, it decreased from 1.89 in 2007-08 to 1.68 in 2008-09.

1.7.3 Status of Guarantees – Contingent liabilities

Guarantees are liabilities contingent on the Consolidated Fund of the State in cases of default by borrowers for whom the guarantees have been extended.

As per Statement 6 of the Finance Accounts, the maximum amount for which guarantees were given by the State and outstanding guarantees for the last three years is given in **Table1.13.**

Table 1.13: Guarantees given by the Government of Chhattisgarh

(Rupees in crore)

Guarantees	2006-07	2007-08	2008-09	
			BE	Actual
Maximum amount guaranteed	2,483	2,495	6918.83	3,649.53
Outstanding amount of guarantees	486	481	NA	895.16
Percentage of maximum amount guaranteed to total revenue receipts	21.68	17.98	NA	23.30

No law under Article 293 of the Constitution has been passed by the State Legislature laying down the limits within which Government may give guarantees on the security of the Consolidated Fund of the State. However, the State Government guaranteed loans raised by various Corporations and others, which stood at Rs 895.16 crore at the end of 2008-09. The outstanding amounts of guarantees in the nature of contingent liabilities were about 5.72 *per cent* of the total revenue receipts of the State.

The State Government had not yet set up a Guarantee Redemption Fund in compliance of the recommendations of TFC.

1.7.4 Off -Budget Borrowings

Government Companies/Corporations borrow funds from the market/ financial institutions for implementation of various State Plan programmes projected outside the State budget. The borrowings of many of these concerns may sometimes turn out to be the liabilities of the State Government termed as 'off-budget borrowings'. During 2006-09 the State Government did not undertake any off-budget borrowings.

➢ 1.8 Debt Sustainability

Apart from the magnitude of debt of the State Government, it is important to analyze various indicators that determine the debt sustainability[9] of the State. This section assesses the sustainability of debt of the State Government in

[9] 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 a balance between costs of additional borrowings with returns from such borrowings. It means that the rise in fiscal deficits should match the increase in the capacity to service the debts.

terms of debt stabilization[10]; sufficiency of non-debt receipts[11]; net availability of borrowed funds[12]; burden of interest payments (measured by interest payments to revenue receipts ratio) and the maturity profile of State Government securities. **Table 1.14** analyzes the debt sustainability of the State according to these indicators for the period of three years beginning from 2006-07.

Table 1.14: Debt Sustainability: Indicators and Trends

Indicators of Debt Sustainability	2006-07	2007-08	2008-09
Debt Stabilization (Quantum Spread + Primary Deficit)	1,567	2,250	1,864
Sufficiency of Non-debt Receipts (Resource Gap)	472	(-)167	(-) 898
Net Availability of Borrowed Funds	(-) 298.15	(-)1,385.13	(-) 1,106.81
Burden of Interest Payments (IP/RR Ratio)	8.96	8.21	6.88
Maturity Profile of the State Debt (In Years)			
0 – 1	NA	396.32	554.52
1 – 3	NA	1,341.20	1,534.50
3 – 5	NA	1,760.39	1,639.27
5 – 7	NA	1,451.38	1,519.81
7 and above		5,530.48	5,128.65

(Source: Finance Accounts of the State Government)

The trends in **Table 1.15** reveal that the quantum spread, together with the primary deficit, was positive during the period 2006-09, leading to a constant decline in the fiscal liabilities to GSDP ratio, which came down to 18.32 in 2008-09 from 21.51 in 2007-08. The quantum spread and primary deficit, though positive during 2008-09, decreased over the previous year. The sufficiency of non-debt receipts (resource gap) was positive during 2006-07 and negative during 2007-08 and 2008-09. These trends along with the behaviour of fiscal deficit-GSDP during the period indicate a tendency towards stabilisation and improvement in the capacity of the State to sustain its debt in the ensuing years. As regards repayment of debts, large amounts of repayments to the extent of 40 *per cent* of the State debt would be taking place in the next five years. The Government planned to repay 5.34 *per cent* of its

[10] A necessary condition for stability states that if the rate of growth of the economy exceeds the interest rate or the 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 x rate spread),the debt sustainability condition states that if the quantum spread together with the primary deficit is zero, the debt-GSDP ratio would be constant or the debt would stabilize eventually. On the other hand, if the primary deficit together with the quantum spread turns out to be negative, the debt-GSDP ratio would be rising. In case it is positive, the debt-GSDP ratio would eventually be falling.

[11] 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.

[12] Defined as the ratio of debt redemption (Principal + Interest Payments) to total debt receipts and indicates the extent to which debt receipts are used in debt redemption indicating the net availability of borrowed funds.

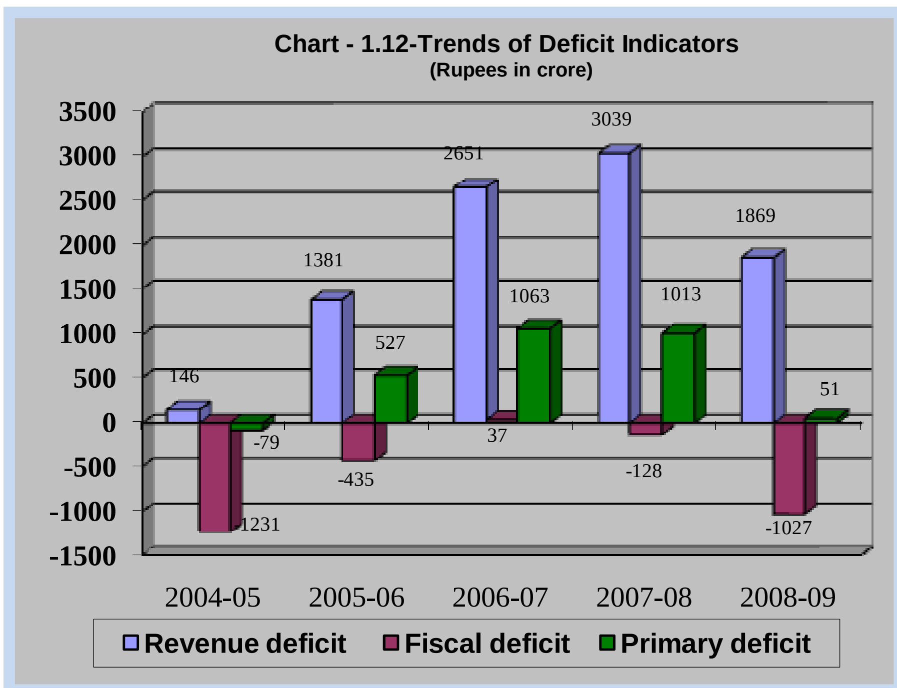
debt in the first year, 14.79 *per cent* in the second year and 15.80 *per cent* in the next three to five years, thus avoiding the bulk of repayment at once.

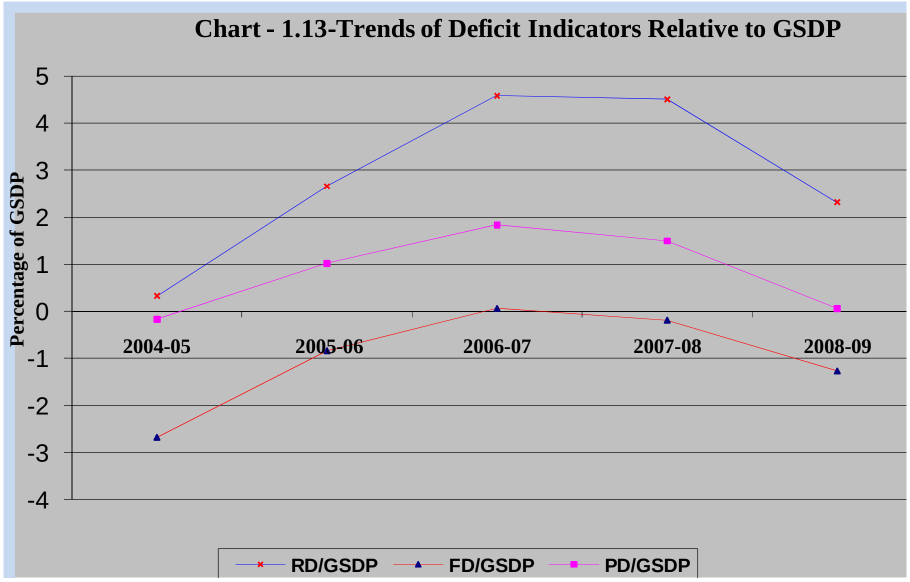
1.9 Fiscal Imbalances

Three key fiscal parameters - revenue, fiscal and primary deficits - indicate the extent of overall fiscal imbalances in the finances of the State Government during a specified period. Deficits in the Government accounts represent gaps between receipts and expenditure. The nature of deficit is an indicator of the prudence of fiscal management of the Government. Further, the ways in which deficits are financed and resources raised are applied are important pointers to its fiscal health. This section presents the trends, nature, magnitude and the manner of financing these deficits and also the assessment of actual levels of revenue and fiscal deficits vis-à-vis the targets set under the FRBM Act/Rules for the financial year 2008-09.

1.9.1 Trends of deficits

Charts 1.12 and **1.13** present the trends of deficit indicators over the period 2004-09.





(RD Revenue deficits, FD: Fiscal deficit, PD: Primary deficit GSDP: Gross State Domestic Product)

Table 1.15: Trends in Deficit ***(Rupees in crore)***

	2004-05	2005-06	2006-07	2007-08	2008-09
Revenue deficit (-) / surplus (+)	(+)146 (0.32)	(+)1,381 (2.66)	(+) 2,651 (4.59)	(+) 3,039 (4.51)	(+)1869 (2.32)
Fiscal deficit (-) / surplus (+)	(-)1,231 (-2.68)	(-) 435 (-0.84)	(+)37 (0.06)	(-) 128 (-0.19)	(-)1027 (-1.27)
Primary deficit (-)/ surplus (+)	(-)79 (-0.17)	(+) 527 (1.02)	(+)1,063 (1.84)	(+)1,012 (1.50)	(+) 51 (0.06)

(Source: Finance Accounts of the State Government)

The revenue deficit of the State, which indicates the excess of its revenue expenditure over revenue receipts turned into revenue surplus of Rs 146 crore in 2004-05. After increasing from Rs 146 crore in 2004-05 to Rs 3,038.79 crore in 2007-08, it declined sharply by 38.49 *per cent* to Rs 1,869.06 crore in 2008-09 mainly due to lower increase of 12.86 *per cent* (Rs 1,784.11 crore) in revenue receipts in comparison to an increase of 27.25 *per cent* (Rs 2,953.85 crore) in revenue expenditure during 2008-09.

The fiscal deficit, which represents the total borrowings of the Government and its total resource gap, decreased from Rs 1,231 crore in 2004-05 to a fiscal surplus of Rs 37 crore in 2006-07 but it again turned into a fiscal deficit of Rs 128 crore in 2007-08 and Rs 1,026.66 crore during 2008-09. The primary deficit of Rs 79 crore in 2004-5 turned into a primary surplus in 2005-06 and reached the highest level of Rs 1,063 crore in 2006-07 but sharply declined to Rs 50.87 crore in 2008-09 due to increase in primary expenditure of 21.11 *per cent* against the increase of 12.92 *per cent* in non-debt receipts **(Table 1.17)**.

1.9.2 Components of Fiscal Deficit and its Financing Pattern

The financing pattern of the fiscal deficit has undergone a compositional shift as reflected in the **Table 1. 16.**

Table 1.16: Components of Fiscal Deficit and its Financing Pattern

(Rupees in crore)

	Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
Decomposition of Fiscal Deficit						
1	Revenue Deficit(-)/Surplus(+)	145.82 (0.32)	1381.35 (2.66)	2650.80 (4.59)	3038.79 (4.50)	1869.06 (2.32)
2	Net Capital Expenditure	(-)1279.13 (2.78)	(-)1496.91 (2.88)	(-)2198.10 (3.80)	(-)3103.73 (4.60)	(-) 2938.38 (3.64)
3	Net Loans and Advances	(-)98.24 (0.21)	(-)319.56 (0.62)	(-)416.18 (0.72)	(-)62.77 (0.09)	42.67 (0.05)
Financing Pattern of Fiscal Deficit*						
1	Market Borrowings	321.19 (0.70)	(-)85.39 (0.16)	(-)95.24 (0.16)	(-)157.08 (0.23)	(-) 153.44 (0.19)
2	Loans from GOI	(-)598.67 (1.30)	(-)108.43 (0.21)	42.04 (0.07)	(-)167.06 (0.25)	94.93 (0.12)
3	Special Securities Issued to National Small Savings Fund	882.30 (1.92)	980.64 (1.89)	736.23 (1.27)	37.75 0.06	(-) 2.78 (0.00)
4	Loans from Financial Institutions	153.35 (0.33)	3.98 (0.01)	34.68 (0.06)	(-)10.06 (0.01)	(-) 41.73 (0.05)
5	Small Savings, PF etc	58.07 (0.13)	(-)19.27 (0.04)	9.65 (0.02)	51.50 (0.08)	73.74 (0.09)
6	Deposits and Advances	214.44 (0.47)	115.22 (0.22)	312.77 (0.54)	441.77 (0.65)	30.20 (0.04)
7	Suspense and Miscellaneous	199.11 (0.43)	(-)1067.68 (2.06)	(-)1026.83 (1.78)	(-)257.12 (0.38)	1024.80 (1.27)
8	Remittances	(-)39.35 (0.09)	(-)15.42 (0.03)	26.82 (0.05)	(-)78.72 (0.12)	80.65 (0.10)
9	Others*	51.60 (0.11)	138.59 (0.27)	(-)203.09 (0.35)	184.00 (0.27)	265.96 (0.33)
10	Overall Surplus/Deficit	10.49 (0.02)	(-)492.88 (0.95)	(-)126.45 (0.22)	(-)82.73 (0.12)	345.68 (0.43)

Figures in brackets indicate the percentage of GSDP.
*All these figures are net of disbursements/outflows during the year

(Source: Finance Accounts of the State Government)

During 2004-05 to 2007-08, special securities issued to the National Small Savings Fund (NSSF) financed a major part of the fiscal deficit. However, during 2006-07 to 2008-09, the special securities issued to NSSF showed a declining trend and the fiscal deficit was financed mainly by loans from GOI, Small Scale Savings and Provident Funds.

1.9.3 Quality of Deficit/Surplus

The ratio of revenue deficit to fiscal deficit and the decomposition of primary deficit into primary revenue deficit[13] and capital expenditure (including loans

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[*] It includes Inter-State Settlement, Contingency Fund and Reserve Fund.

[13] Primary revenue deficit is defined as the gap between non-interest revenue expenditure of the State and its non-debt receipts to the extent to which the non-debt receipts of the State are able to meet the primary expenditure incurred under the revenue account.

and advances) would indicate the quality of deficit in the States' finances. The ratio of revenue deficit to fiscal deficit indicates the extent to which borrowed funds were used for current consumption. Further, persistently high ratios of revenue deficit to fiscal deficit also indicate that the asset base of the State was continuously shrinking and a part of the borrowings (fiscal liabilities) did not have any asset backup.

The ratio of revenue deficit to fiscal deficit exhibits an oscillating trend in the State. The bifurcation of the primary deficit **(Table 1.17)** indicates the extent to which the deficit has been on account of enhancement in capital expenditure which may be desirable to improve the productive capacity of the State's economy.

Table 1.17: Primary Deficit/Surplus – Bifurcation of factors ***(Rupees in crore)***

Year	Non-debt receipts	Primary revenue expenditure	Capital expenditure	Loans and advances	Primary expenditure[14]	Primary revenue deficit (-) /surplus (+)	Primary deficit (-) / surplus (+)
1	2	3	4	5	6 (3+4+5)	7 (2-3)	8 (2-6)
2004-05	7264	5951	1279	113	7343	1313	-79
2005-06	8856	6495	1497	337	8329	2361	(+) 527
2006-07	11810	7776	2198	773	10747	4034	(+) 1063
2007-08	14345	9700	3131	502	13333	4645	(+) 1012
2008-09	16199	12716	2940	492	16148	3481	(+) 51

(Source: Finance Accounts of the State Government)

The bifurcation of the factors resulting in the primary surplus during the period (2004-09) reveals that the non-debt receipts of the State were enough to meet the primary expenditure requirements in the revenue account. The surplus receipts were available to meet expenditure under the capital account resulting in a primary surplus since 2005-06. This indicates that there is adequate scope of enhancing the capital expenditure which may be desirable to improve the productive capacity of the State's economy. Further, the percentage of capital expenditure with respect to the primary expenditure increased from 17.41 *per cent* in 2004-05 to 23.48 *per cent* in 2007-08 but again decreased to 18.20 *per cent* in 2008-09.

1.9.4 State's Own Revenue and Deficit Correction

The extent to which deficit correction is achieved by a State on account of improvements in its own resources, is an indicator of the durability of the corrections in its deficit indicators. **Table 1.18** presents the changes in the revenue receipts of the State and the correction of deficits during the last three years.

[14] Primary expenditure of the State is defined as the total expenditure net of the interest payments which indicates the expenditure incurred on the transactions undertaken during the year.

Table-1.18: Changes in Revenue receipts and Correction of Deficits (*Per cent* of GSDP)

Parameters	2006-07	2007-08	2008-09	
			BE	Actual
Revenue Receipts (a to d)	19.82	20.58	19.40	19.41
a. State's Own Tax Revenue	8.73	8.33	8.10	8.17
b. State's Own Non-Tax Revenue	2.51	3.00	2.25	2.73
c. State's Share in Central Taxes and Duties	5.54	5.98	5.42	5.28
d. Grants-in-Aid	3.04	3.27	3.62	3.23
Revenue Expenditure	15.23	16.07	17.20	17.09
Revenue Deficit/Surplus	4.59	4.51	2.20	2.32
Fiscal Deficit/Surplus	0.06	(-)0.19	2.90	(-)1.27

(Source: Finance Accounts and Annual Financial Statement of the State Government)

Table 1.18 shows that the percentage of revenue receipts relative to GSDP had decreased from 20.58 *per cent* to 19.41 *per cent* during 2008-09 and was approximately the same as that estimated in the BE of the State Government. The percentage of revenue expenditure relative to GSDP increased from 16.07 *per cent* in 2007-08 to 17.09 *per cent* in 2008-09. As a result, revenue surplus as a percentage of GSDP decreased from 4.51 to 2.32 over the previous year. Fiscal deficit as a percentage of GSDP also increased from 0.19 in 2007-08 to 1.27 during the current year.

The FRBM Act 2005 envisaged elimination of revenue deficit and reduction of the fiscal deficit to less than three *per cent* of GSDP. The State Government had already achieved the above targets.

1.10 Conclusion

During 2008-09, the overall fiscal position of the State of Chhattisgarh as reflected in terms of key parameters viz revenue, fiscal and primary deficit, indicates a mixed trend as revenue surplus and primary surplus have decreased while the fiscal deficit position has increased over the previous year. The revenue surplus of the State decreased by Rs 1,169.73 crore over the previous year as the growth of revenue receipts was 13 *per cent* against the growth of 27 *per cent* in revenue expenditure. Revenue expenditure shared a dominant portion of the total expenditure which ranged from 75 to 84 *per cent* during 2004-09 and increased from 75 to 80 *per cent* over the previous year. Expenditure on pensions increased from Rs 540 crore in 2004-05 to Rs 931 crore in 2008-09. Notwithstanding these facts, the State achieved the targets laid down in the FRBM Act to reduce revenue deficit to zero and maintain fiscal deficit below three *per cent* of GSDP.

The State's own tax revenue and non-tax revenue were higher by Rs 1,595.33 crore and Rs 611 crore respectively than the normative assessment made by the Twelfth Finance Commission (TFC). The capital expenditure decreased by six *per cent* over the previous year. The arrears of revenue as on 31 March 2009 in respect of some principal heads of revenue amounted to Rs 470.30

crore, of which Rs 235.85 crore (50.15 *per cent*) was outstanding for more than five years.

The average return on the Government's investments was 0.02 *per cent* while it paid an average interest rate of 7.36 *per cent* on its borrowings during 2008-09. The outstanding fiscal liability showed a steady increase over the years from Rs 12,240 crore at the end of 2004-05 to Rs 14,780 crore at the end of 2008-09. The ratio of fiscal liabilities to GSDP was 18.32 *per cent* during 2008-09, which was less than the norm of 28 *per cent* recommended by TFC.

Government of India directly transferred Rs 697.74 crore to State implementing agencies during the year. Direct transfer of funds to these agencies ran the risk of improper utilization of funds by them.

1.11 Recommendations

- Although the State has already achieved the target laid down in the FRBM Act to reduce revenue deficit to zero and generate revenue surplus, it has to make concerted efforts to maintain its fiscal deficit within the FRBM target.

- Non-Plan expenditure, which increased by 15.25 *per cent* against the projected rate of 10 *per cent* envisaged in the MTFPS, has to be brought down to the prescribed limit.

- The Government should seek better value for money in its investments. Otherwise, funds borrowed at high costs and invested in various Corporations and Companies with low financial returns, will continue to strain the economy.

- The performance of public sector undertakings needs to be monitored regularly to improve the average rate of returns on the capital invested.

- There is a need to put in place suitable measures for improving revenue collection and curtailing unproductive expenditure.

- Systems have to be built to monitor funds received directly by State implementing agencies from the Government of India.