

This chapter analyses changes in major fiscal aggregates based on the audit of the Finance Accounts and an assessment of the Bihar Government's fiscal position as on 31 March 2020.

1.1 Profile of the State

Bihar is a landlocked State, bounded by West Bengal in the east, Uttar Pradesh in the west, Jharkhand in the south, and a long international border with Nepal in the north. It is the twelfth largest State in India in terms of geographical size (94,163 sq. km.) and the third largest by population (12.23 crore). The State of Bihar has 38 districts.

The economy of Bihar is primarily agrarian and the State does not possess any significant mineral wealth. As indicated in **Appendix 1.1**, the density of population has increased from 881 persons per sq. km. (2001) to 1106 persons per sq. km. (2011). Bihar has higher poverty levels as compared to the All-India average. However, the State has shown a minor increase in economic growth for the period 2011-12 to 2019-20 as the Compounded Annual Growth Rate (CAGR) of its Gross State Domestic Product has been 12 *per cent* as compared to 11.98 *per cent* amongst the General Category States. The per capita GSDP of the State stood at ₹ 50,735 at the end of 2019-20 while the per capita GSDP of the Jharkhand, Uttar Pradesh, Odisha and West Bengal was ₹ 87,127, ₹ 78,827, ₹ 1,21,382 and ₹ 1,26,121 respectively.

1.1.1 Gross State Domestic Product (GSDP)¹

Gross State Domestic Product (GSDP) is the value of all the goods and services produced within the boundaries of the State in a given period of time. Growth of GSDP is an important indicator of the State's economy, as it denotes the extent of changes in the level of economic development of the State over a period of time.

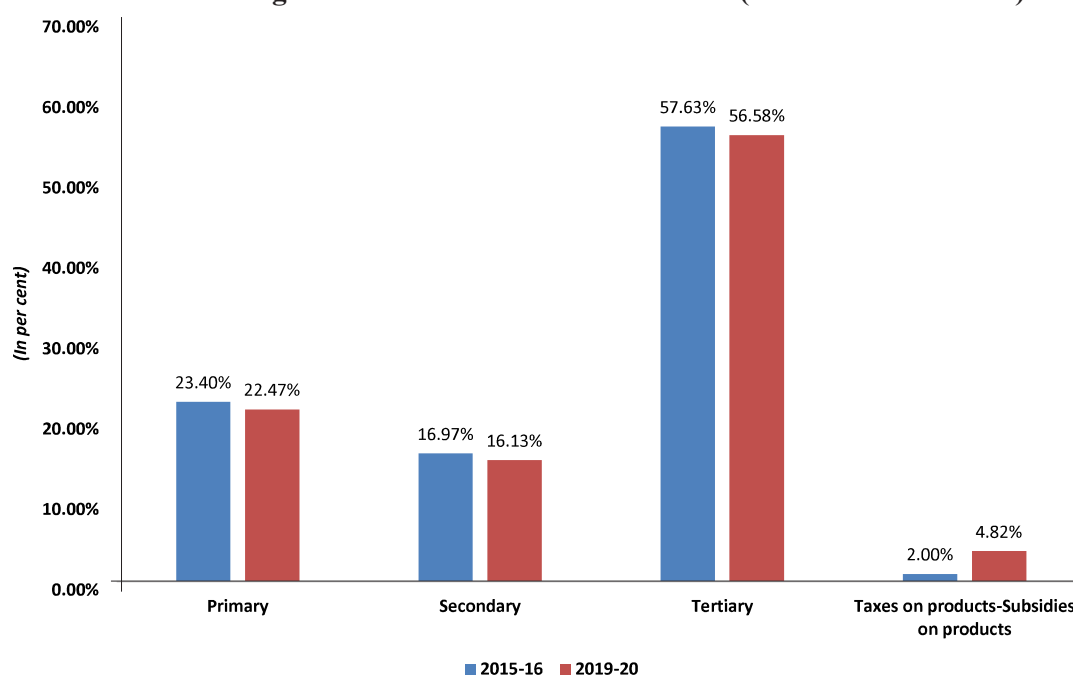
Changes in sectoral contribution to the GSDP are also important to understand the changing structure of the economy. The economic activity is generally divided into Primary, Secondary and Tertiary sectors, which correspond to the Agriculture, Industry and Service sectors.

Table 1.1 Trends in GSDP compared to the national GDP

Year	2015-16	2016-17	2017-18	2018-19	2019-20
National GDP at current prices (2011-12 Series)	1,37,71,874	1,53,91,669	1,70,98,304	1,89,71,237	2,03,39,849
Growth rate of GDP over previous year (in <i>per cent</i>)	10.46	11.76	11.09	10.95	7.21
State's GSDP at current prices (2011-12 Series)	3,71,602	4,21,051	4,68,746	5,30,363	6,11,804
Growth rate of GSDP over previous year (in <i>per cent</i>)	8.35	13.31	11.33	13.15	15.36

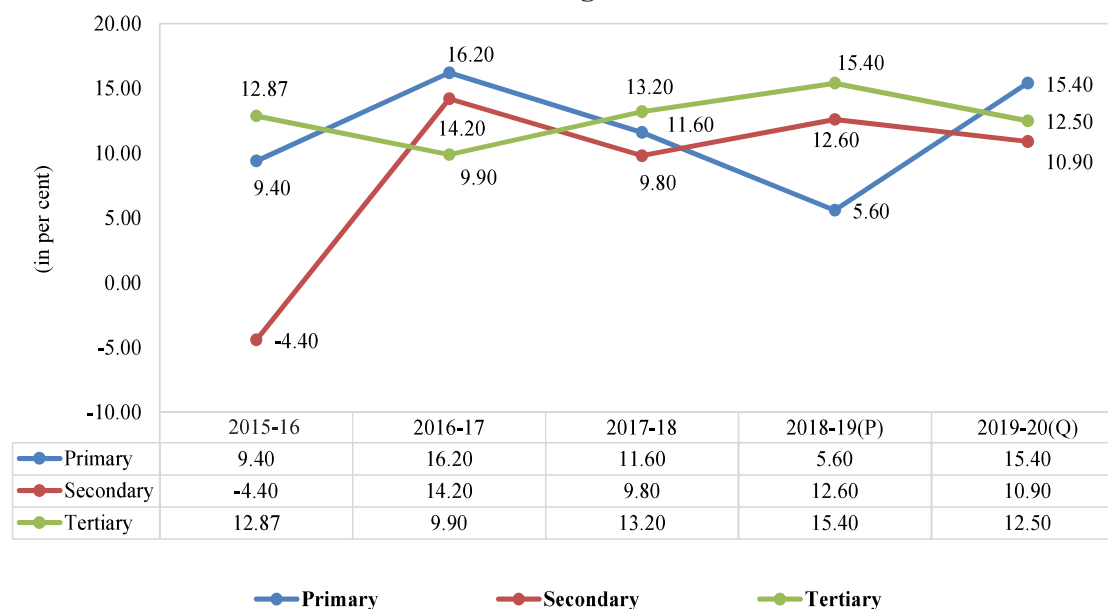
(Source of data: MoSPI Press Release dated 31.07.2020)

¹ GDP and GSDP are the market value of all officially recognised final goods and services produced within the country and the State respectively in a given period of time and are an important indicator of the country's and the State's economy.

Chart 1.1 Change in sectoral contribution to GSDP (2015-16 and 2019-20)

(Source of data: Economic Survey of the State for the year 2020-21)

Tertiary sector, which contributed more than half of the GSDP of the State, has decreased its relative share by 1.05 *per cent* during 2019-20 over 2015-16. Relative share of Primary and Secondary sectors was contracted by 0.94 and 0.83 *per cent* respectively during 2019-20 over 2015-16. **Chart 1.2** captures the sectoral growth in GSDP for the period from 2015-16 to 2019-20.

Chart 1.2 Sectoral growth in GSDP

(Source of data: Economic Survey of the State for the year 2020-21)

The growth in Primary sector in the year 2019-20 compared to 2018-19 had drastically increased from 5.6 *per cent* to 15.40 *per cent* due to growth in mining and quarrying, livestock, forestry and logging. The rate of growth of Secondary and Tertiary sectors decreased compared to that of previous year.

1.2 Basis and Approach to State Finances Audit Report

In terms of Article 151 (2) of the Constitution of India, the reports of the Comptroller and Auditor General of India (CAG) relating to the accounts of a State are to be submitted to the Governor of the State, who shall cause them to be laid before the Legislature of the State. The State Finances Audit Report (SFAR) is prepared and submitted under Article 151 (2) of the Constitution of India.

Accountant General (Accounts & Entitlements) prepares the Finance Accounts and Appropriation Accounts of the State annually, from the vouchers, challans, and initial and subsidiary accounts rendered by the treasuries, offices and departments responsible for keeping of such accounts functioning under the control of the State Government, and the statements received from the Reserve Bank of India. These accounts are audited independently by the Accountant General (Audit) and certified by the CAG.

Finance Accounts and Appropriation Accounts of the State constitute the core data for this report. Other sources include the following:

- Budget of the State: for assessing the fiscal parameters and allocative priorities *vis-à-vis* projections, as well as for evaluating the effectiveness of its implementation and compliance with the relevant rules and prescribed procedures;
- Results of the Audit carried out by the Office of the Accountant General (Audit);
- Other data with Departmental Authorities and Treasuries (accounting as well as MIS);
- GSDP data and other State related statistics; and
- Various Audit Reports of the CAG of India.

The analysis is also carried out in the context of recommendations of the XIV Finance Commission (FC), Bihar Fiscal Responsibility and Budget Management (BFRBM) Act 2006, best practices and guidelines of the Government of India.

1.3 Report Structure

The SFAR is structured into the following four Chapters:

Chapter - I	Overview This chapter describes the basis and approach to the Report and the underlying data, provides an overview of the structure of government accounts, budgetary processes, macro-fiscal analysis of key indices, and the State's fiscal position including the deficits/ surplus.
Chapter - II	Finances of the State This chapter provides a broad perspective of the finances of the State, analyses the critical changes in major fiscal aggregates relative to the previous year, overall trends during the period from 2015-16 to 2019-20, debt profile of the State and key Public Account transactions, based on the Finance Accounts of the State.

Chapter - III	Budgetary Management This chapter is based on the Appropriation Accounts of the State and reviews the appropriations and allocative priorities of the State Government and reports on deviations from Constitutional provisions relating to budgetary management.
Chapter - IV	Quality of Accounts & Financial Reporting Practices This chapter comments on the quality of accounts rendered by various authorities of the State Government and issues of non-compliance with prescribed financial rules and regulations by various departmental officials of the State Government.

1.4 Government Account Structure and Budgetary Processes

The Accounts of the State Government are kept in three parts:

1. Consolidated Fund of the State (Article 266(1) of the Constitution of India)

This Fund comprises all revenues received by the State Government, all loans raised by the State Government (market loans, bonds, loans from the Central Government, loans from Financial Institutions, Special Securities issued to National Small Savings Fund, *etc.*), Ways and Means advances extended by the Reserve Bank of India and all moneys received by the State Government in repayment of loans. No moneys can be appropriated from this Fund except in accordance with law and for the purposes and in the manner provided by the Constitution of India. Certain categories of expenditure (*e.g.*, salaries of Constitutional authorities, loan repayments, *etc.*), constitute a charge on the Consolidated Fund of the State (Charged expenditure) and are not subject to vote by the Legislature. All other expenditure (Voted expenditure) is voted by the Legislature.

2. Contingency Fund of the State (Article 267(2) of the Constitution of India)

This Fund is in the nature of an imprest which is established by the State Legislature by law and is placed at the disposal of the Governor to enable advances to be made for meeting unforeseen expenditure pending authorisation of such expenditure by the State Legislature. The fund is recouped by debiting the expenditure to the concerned functional major head relating to the Consolidated Fund of the State.

3. Public Accounts of the State (Article 266(2) of the Constitution)

Apart from the above, all other public moneys received by or on behalf of the Government, where the Government acts as a banker or trustee, are credited to the Public Account. The Public Account includes repayables like Small Savings and Provident Funds, Deposits (bearing interest and not bearing interest), Advances, Reserve Funds (bearing interest and not bearing interest), Remittances, and Suspense heads (both of which are transitory heads, pending final booking). The net cash balance available with the Government is also included under the Public Account. The Public Account is not subject to the vote of the Legislature.

There is a constitutional requirement in India (Article 202) to present before the House or Houses of the Legislature of the State, a statement of estimated receipts and expenditures of the government in respect of every financial year. This ‘Annual Financial Statement’ constitutes the main budget document. Further, the budget must distinguish expenditure on the revenue account from other expenditures.

Revenue receipts consists of tax revenue, non-tax revenue, the share of Union Taxes/ Duties and grants from the Government of India (GoI).

Revenue expenditure consists of all those expenditures of the Government which does not result in the creation of physical or financial assets. It relates to those expenses incurred for the normal functioning of the Government Departments and various services, interest payments on debt incurred by the Government and grants given to various institutions (even though some of the grants may be meant for the creation of assets).

The **Capital Receipts** consists of:

- **Debt receipts:** Market Loans, Bonds, Loans from financial institutions, the Net transactions under Ways and Means Advances, Loans and Advances from Central Government, *etc.*;
- **Non-debt receipts:** Proceeds from disinvestment, Recoveries of loans and advances;

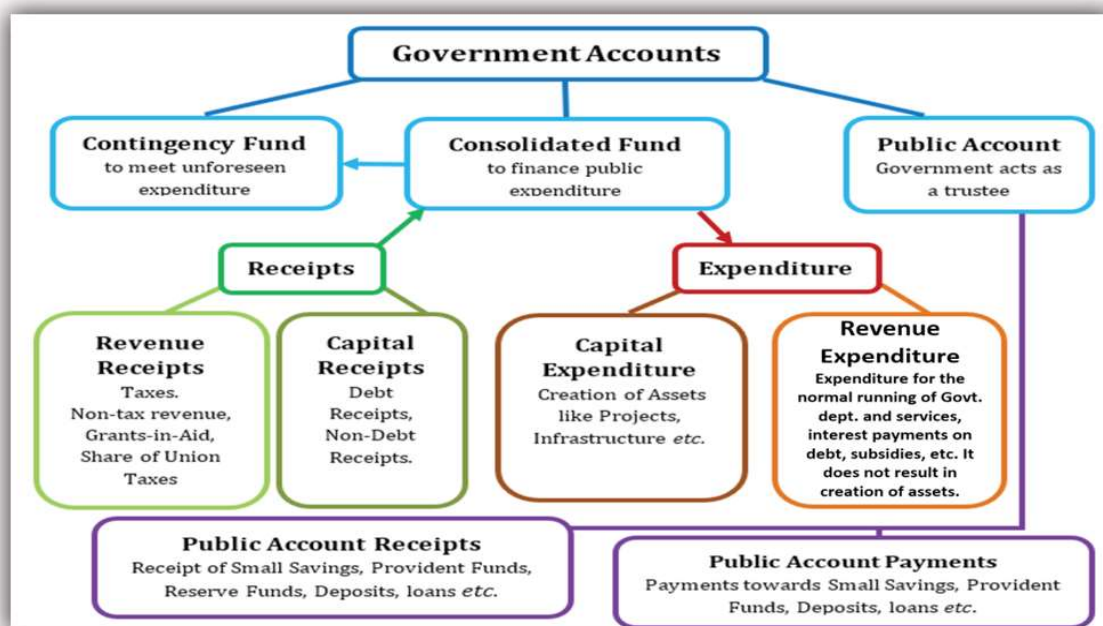
Capital Expenditure includes expenditure on the acquisition of land, building, machinery, equipment, investment in shares, and loans and advances by the government to PSUs and other parties.

At present, we have an accounting classification system in Government that is both functional and economic.

	Attribute of transaction	Classification
Standardised in List of Major and Minor Heads by CGA	Function - Education, Health, <i>etc.</i> /Department	Major Head under Grants (4-digit)
	Sub-Function	Sub Major head (2-digit)
	Programme	Minor Head (3-digit)
Flexibility left for States	Scheme	Sub-Head (2-digit)
	Sub scheme	Detailed Head (2-digit)
	Economic nature/Activity	Object Head-salary, minor works, <i>etc.</i> (2-digit)

The functional classification lets us know the department, function, scheme or programme and object of the expenditure. Economic classification helps organise these payments as revenue, capital, debt, *etc.* Economic classification is achieved by the numbering logic embedded in the first digit of 4-digit Major Heads. For instance, 0 and 1 are for revenue receipts, 2 and 3 for revenue expenditure, *etc.* Economic classification is also achieved by an inherent definition and distribution of some object heads. For instance, generally “salary” object head is revenue expenditure, “construction” object head is capital expenditure. Object head is the primary unit of appropriation in the budget documents.

Structure of Government Accounts



Budgetary Processes

In terms of Article 202 of the Constitution of India, the Governor of the State causes to be laid before the State Legislature, a statement of the estimated receipts and expenditure of the State for the year, in the form of an **Annual Financial Statement**. In terms of Article 203, the statement is submitted to the State Legislature in the form of Demands for Grants/ Appropriations and after approval of these, the Appropriation Bill is passed by the Legislature under Article 204 to provide for the appropriation of the required money out of the Consolidated Fund.

The State Budget Manual details the budget formulation process and guides the State Government in preparing its budgetary estimates and monitoring its expenditure activities. Results of audit scrutiny of budget and implementation of other budgetary initiatives of the State Government are detailed in **Chapter III** of this Report.

1.4.1 Snapshot of Finances

The following table provides the details of actual financial results vis-a-vis Budget Estimates for the year 2019-20 vis a vis actuals.

**Table 1.2 Actual financial results vis-a-vis
Budget Estimates for the year 2019-20 vis-a-vis actual of 2018-19**

(₹ in crore)

Sl. No.	Components	2018-19 (Actual)	2019-20 (Budget Estimate)	2019-20 (Actuals)	Percentage of Actual to B.E.	Percentage of Actuals to GSDP
1.	Tax Revenue	29,408.14	33,800.00	30,157.98	89.22	4.93
2.	Non-Tax Revenue	4,130.56	4,806.47	3,699.60	76.97	0.60
3.	Share of Union Taxes	73,603.13	89,121.79	63,406.33	71.15	10.36
4.	Grants-in-aid and Contributions	24,651.62	49,019.38	26,968.62	55.02	4.41
5.	Revenue Receipts (1+2+3+4)	1,31,793.45	1,76,747.64	1,24,232.53	70.29	20.31

Sl. No.	Components	2018-19 (Actual)	2019-20 (Budget Estimate)	2019-20 (Actuals)	Percentage of Actual to B.E.	Percentage of Actuals to GSDP
6.	Recovery of Loans and Advances	1,825.40	416.38	30.40	7.30	0.00
7.	Other Receipts	0.00	0.00	0.00	0.00	0.00
8.	Borrowings and other Liabilities	18,668.20	24,420.74	29,145.03	119.35	4.76
9.	Capital Receipts (6+7+8)	20,493.60	24,837.12	29,175.43	117.47	4.77
10.	Total Receipts (5+9)	1,52,287.05	2,01,584.76	1,53,407.96	76.10	25.07
11.	Revenue Expenditure	1,24,896.81	1,55,230.65	1,26,016.66	81.18	20.60
12.	Interest Payments	10,071.14	10,723.47	10,991.42	102.50	1.80
13.	Capital Expenditure	21,058.25	36,592.62	12,303.90	33.62	2.01
14.	Loan and Advances	1,470.56	75.50	666.30	882.52	0.11
15.	Total Expenditure (11+13+14)	1,47,425.62	1,91,898.77	1,38,986.86	72.43	22.72
16.	Revenue Surplus (5-11)	6,896.64	21,516.99	(-)1,784.13	(-)8.29	(-)0.29
17.	Fiscal Deficit {15-(5+6+7)}	13,806.77	16,101.05	14,723.93	91.45	2.41
18.	Primary Deficit (17-12)	3,735.63	5,377.58	3732.51	69.41	0.61

(Source of data: Finance Accounts of the State for the year 2019-20)

The revenue receipts of the State Government declined by 5.74 per cent. The Capital Receipts increased by 42.36 per cent, whereas, Capital Expenditure reduced by 41.57 per cent over the previous year. The share of Union taxes has decreased by ₹ 10,196.80 crore mainly due to less receipts under Corporation Tax by ₹ 3,977.90 crore and Taxes on Income other than Corporation Tax by ₹ 1,911.09 crore. The total expenditure of the State Government declined by 5.72 per cent over the previous year.

1.4.2 Snapshot of Assets and liabilities of the Government

Government accounts capture the financial liabilities of the Government and the assets created out of the expenditure incurred. The liabilities consist mainly of internal borrowings, loans and advances from GoI, receipts from the public account and reserve funds, and the assets comprise mainly the capital outlay and loans and advances given by the State Government and cash balances.

Table 1.3 Summarised position of Assets and Liabilities

Liabilities					Assets				
	2018-19	2019-20	Per cent increase		2018-19	2019-20	Per cent increase		
Consolidated Fund									
A	Internal Debt	1,14,359.69	1,36,082.09	18.99	A	Gross Capital Expenditure	2,05,175.42	2,17,479.32	6.00
B	Loans and Advances from GoI	11,785.37	12,098.16	2.65	B	Loans and Advances	20,814.33	21,450.23	3.06
	Contingency Fund	350	350			0	0		
Public Account									
A	Small Savings, Provident Funds, etc.	9,088.69	9,279.09	2.10	A	Advances	249.96	249.96	0.00
B	Deposits	33,661.25	35,373.24	5.09	B	Remittance	1,120.36	1,916.87	71.09

Liabilities				Assets					
	2018-19	2019-20	Per cent increase		2018-19	2019-20	Per cent increase		
C	Reserve Funds	4,921.55	6,289.49	27.79	C	Suspense and Miscellaneous	4,724.71	10,498.30	122.20
D	Suspense and Miscellaneous balances	0	63.85			Cash balance (including investment of Earmarked Fund)	20,837.31	24,912.65	
E	Inter-State Settlement	74.01	74.01						
F	Surplus on Government Accounts	78,681.53	76,897.40						
Total		2,52,922.09	2,76,507.33	9.33	Total	2,52,922.09	2,76,507.33	9.33	

(Source of data: Finance Accounts of the year 2019-20)

1.5 Fiscal Balance: Achievement of deficit and total debt targets

The Government of Bihar (GoB) has passed BFRBM Act, 2006 and Amendment Act, 2016 with the objective of ensuring prudence in fiscal management by eliminating revenue deficit, reducing the fiscal deficit and overall/outstanding debt to an acceptable level, establishing improved debt management and improving transparency in a medium-term framework. In this context, the Act provides quantitative targets to be adhered to by the State with regard to deficit measures and debt level.

Table 1.4 Compliance with provisions of the BFRBM Act

Fiscal Parameters	Fiscal targets set in the Act	Achievement (₹ in crore)				
		2015-16	2016-17	2017-18	2018-19	2019-20
Revenue Deficit (-) / Surplus (+) (₹ in crore)	Revenue Surplus	12,507.16	10,819.81	14,823.01	6,896.64	(-) 1,784.13
		✓	✓	✓	✓	✗
Fiscal Deficit (-)/ Surplus (+) (as percentage of GSDP)	3.00 per cent	12,061.59 (3.25)	16,479.15 (3.91)	14,304.83 (3.05)	13,806.76 (2.60)	14,723.93 (2.41)
		✗	✗	✗	✓	✓
The ratio of total outstanding debt to GSDP (in per cent)	25.73 per cent	31.37	32.95	33.45	31.85	31.61
		✗	✗	✗	✗	✗

(Source of data: Finance Accounts of the respective year and BFRBM Act)

Table 1.5 Actuals vis-à-vis projection in MTFP² for 2019-20

(₹ in crore)

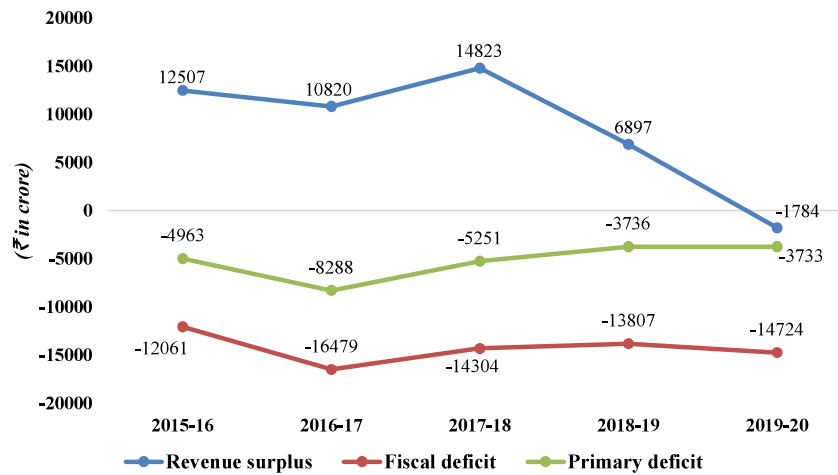
Sl. No.	Fiscal Variables	Projection as per MTFP	Actuals (2019-20)	Variation (in per cent)
1	Own Tax Revenue	33,800.00	30,157.98	(-)10.78
2	Non-Tax Revenue	4,806.47	3,699.60	(-)23.03
3	Share of Central Taxes	89,121.79	63,406.33	(-)28.85
4	Grants -in-aid from Gol	49,019.38*	26,968.62	(-)44.98
5	Revenue Receipts (1+2+3+4)	1,76,747.64	1,24,232.53	(-)29.71
6	Revenue Expenditure	1,55,230.65	1,26,016.66	(-)18.82
7	Revenue Deficit (-)/ Surplus (+) (5-6)	21,516.99	(-) 1,784.13	(-)108.29
8	Fiscal Deficit (-)/ Surplus (+)	(-)16,101.05	(-)14,723.93	8.55
9	Debt-GSDP ratio (per cent)	25.73	31.61	22.85
10	GSDP growth rate at current prices (per cent)	10.56	15.36	45.45

* As per Budget Estimate of GoB

(Source of data: Finance Accounts of the year 2019-20 and BFRBM Act)

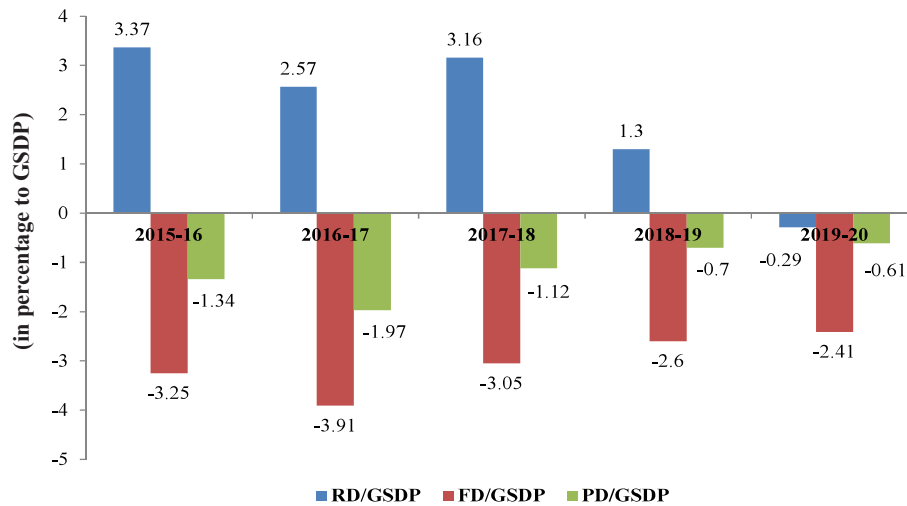
² MTFP- Medium Term Fiscal Policy

Chart 1.3 Trends in deficit parameters



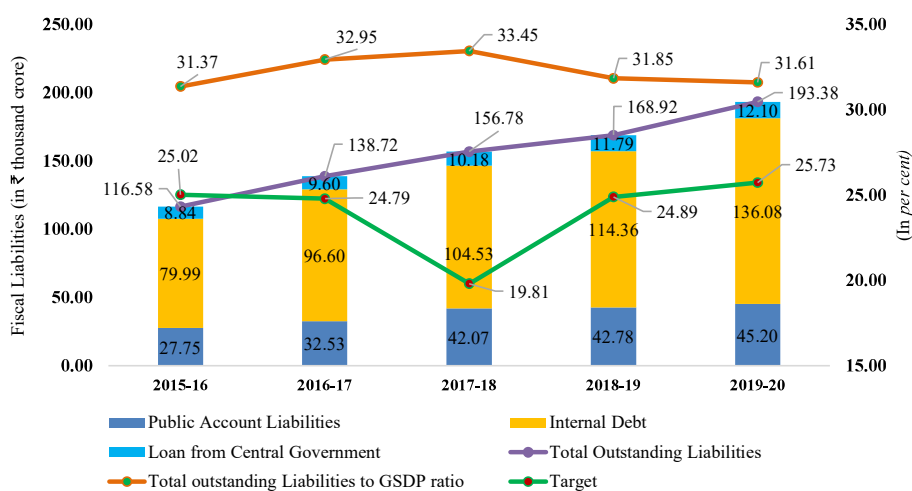
(Source of data: Finance Accounts of the respective year)

Chart 1.4 Trends in Surplus/Deficit relative to GSDP



(Source of data: Finance Accounts of the respective years)

Chart 1.5 Trends in Fiscal Liabilities and GSDP



(Source of data: Finance Accounts of the respective years)

1.6 Deficits after examination in audit

In order to present a better picture of the State Finances, there is a tendency to classify revenue expenditure as capital expenditure.

1.6.1 Post audit - Deficits

Misclassification of Revenue Expenditure as Capital impacts deficit figures. Besides, deferment of clear-cut liabilities, not depositing Cess/royalty to Consolidated Fund, short contribution to New Pension Scheme, Sinking and Redemption Funds, *etc.*, also impacts the revenue and fiscal deficit figures. In order to arrive at actual deficit figures, the impact of such irregularities may be seen in **Table 1.6**.

Table 1.6 Revenue and Fiscal Deficit, post examination by Audit

Particulars	Impact on Revenue Deficit (Understated (+)) (₹ in crore)	Impact on Fiscal Deficit (Understated(+)) (₹ in crore)	Para Reference
Non transfer of funds from MH-1601 to MH-8121 (SDRF)	553.17	553.17	2.5.2.2
Short contribution to New Pension Scheme	94.19	94.19	2.4.2.3
Deferment of clear cut liability to next Financial Year	-	123.80	4.2
Minor works budgeted/ booked under Capital Section instead of Revenue	50.45	-	3.3.2
Non discharge of Interest liabilities	560.33	560.33	4.3
Investments/ Loans made in companies, corporations or other bodies which are loss-making or whose net worth is completely eroded (issue of quality of CAPEX)	91.80	-	2.4.3.2
Total	1,349.94	1,331.49	

(Source: Finance Accounts and audit analysis)

In view of the above, the Revenue deficit and Fiscal deficit of the State which were ₹ 1,784.13 crore and ₹ 14,723.93 crore would actually be ₹ 3,134.07 crore and ₹ 16,055.42 crore respectively.