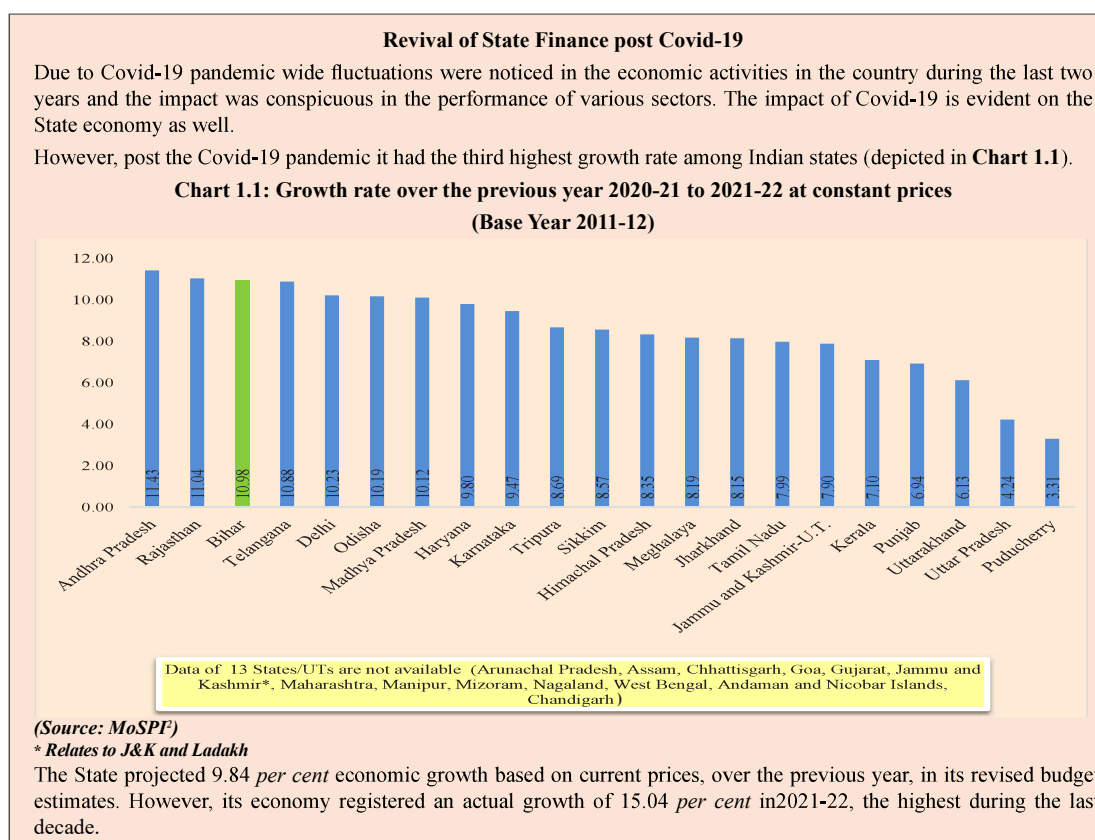


This chapter analyses changes in major fiscal aggregates, based on the audit of the Finance Accounts and an assessment of the Bihar Government's fiscal position as on 31 March 2022.

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 an 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 (12.49 crore). The State of Bihar has 38 districts.

The economy of Bihar is primarily agrarian. As indicated in **Appendix 1.1**, the density of population in the State, has increased from 881 persons per sq. km. (2001) to 1,327 persons per sq. km. (2022). Bihar has higher poverty level, as compared to the All-India average. It is a General Category State and has shown an increase in economic growth for the period from 2011-12 to 2021-22 (P¹), as the Compound Annual Growth Rate (CAGR) of its GSDP had been 10.18 *per cent*, as compared to 10.11 *per cent* of India during 2021-22. As per XVth Finance Commission's projection, the normative assessed annual growth rate of GSDP of Bihar was 12 *per cent* and the Projected Annual Growth Rate of its GSDP, was 10.39 *per cent* for the year 2021-22. The per capita income of the State was ₹ 54,383 at the end of 2021-22, while the per capita income of Jharkhand, Uttar Pradesh, Odisha and Madhya Pradesh was ₹ 88,535, ₹ 79,396, ₹ 1,39,995, and ₹ 1,37,339 respectively.



¹ P-Provisional.

² MoSPI - Ministry of Statistics and Programme Implementation.

The State had a GSDP of ₹ 6,75,448 crore, with a growth rate of 15.04 *per cent*, during the year of 2021-22. It witnessed a growth of more than 10 *per cent* year by year, except the pandemic period, when the State registered a growth rate of 0.80 *per cent* during 2020-21.

1.1.1 Gross State Domestic Product

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 depicts the extent of changes in the level of economic development of the State, over a period of time.

The trends in annual growth of GDP of India and GSDP of the State, at current prices and constant prices (Base Year: 2011-12) are in **Table 1.1**.

Table 1.1: Trends in GSDP compared to the GDP

(₹ in crore)

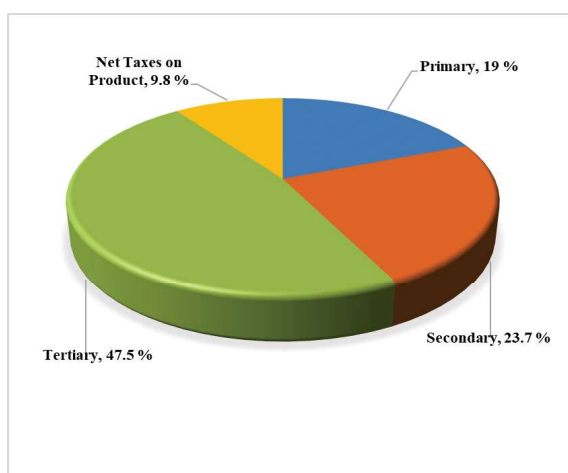
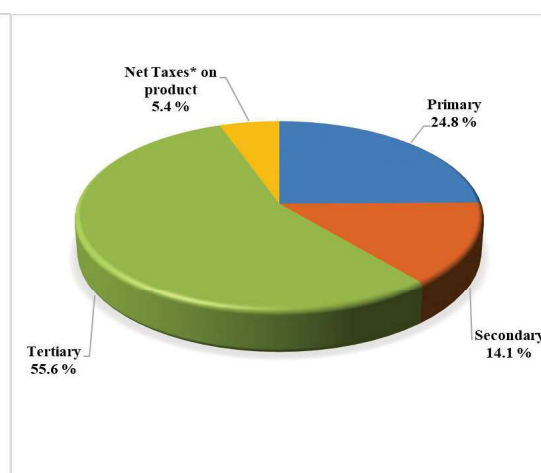
| Year | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 2021-22 |
|--|-------------|-------------|-------------|-------------|-------------|
| Current Prices | | | | | |
| GDP at current prices (2011-12 Series) | 1,70,90,042 | 1,88,99,668 | 2,00,74,856 | 1,98,00,913 | 2,36,64,637 |
| Growth rate of GDP over previous year (in <i>per cent</i>) | 11.03 | 10.59 | 6.22 | (-)1.36 | 19.51 |
| GSDP at current prices (2011-12 Series) | 4,68,746 | 5,27,976 | 5,82,516 | 5,87,154 | 6,75,448 |
| Growth rate of GSDP over previous year (in <i>per cent</i>) | 11.33 | 12.64 | 10.33 | 0.80 | 15.04 |
| Percentage of GSDP to GDP | 2.74 | 2.79 | 2.90 | 2.97 | 2.85 |
| Constant Prices (Base Year) | | | | | |
| GDP at constant prices (2011-12 Series) | 1,31,44,582 | 1,39,92,914 | 1,45,15,958 | 1,35,58,473 | 1,47,35,515 |
| GSDP at constant prices (2011-12 Series) | 3,44,028 | 3,81,383 | 3,98,283 | 3,85,728 | 4,28,065 |
| Growth rate of GDP over previous year (in <i>per cent</i>) | 6.80 | 6.45 | 3.74 | (-)6.60 | 8.68 |
| Growth rate of GSDP over previous year (in <i>per cent</i>) | 7.91 | 10.86 | 4.43 | (-)3.15 | 10.98 |

(Source: MoSPI)

During the period of 2017-18 to 2021-22, the Growth rate of GSDP of Bihar was higher than the All-India average at current prices, except in 2021-22. However, at constant prices, the growth rate was higher than the All-India average during last five years.

The Gross Domestic Product (GDP) of India was recorded at (-) 1.36 *per cent* in 2020-21, over the previous year. Compared to this negative trend, the growth rate of GSDP of Bihar was recorded at 0.80 *per cent* in 2020-21. During 2021-22, the GSDP growth rate was recorded at 15.04 *per cent*, highest during the last five years. However, the growth rate of GSDP shrunk, as compared to GDP (19.51 *per cent*) of the country, for the first time, during the period of last five years.

The GSDP generated from economic activities, is generally classified into Primary, Secondary and Tertiary Sectors, broadly corresponding to Agriculture, Industry and Services respectively. The sectoral contribution to GDP and GSDP of the State during 2021-22, is given in **Charts 1.2 and 1.3**.

Chart 1.2: Sector-wise GDP for the year 2021-22 (in per cent)**Chart 1.3: Sector-wise GSDP for the year 2021-22 (in per cent)**

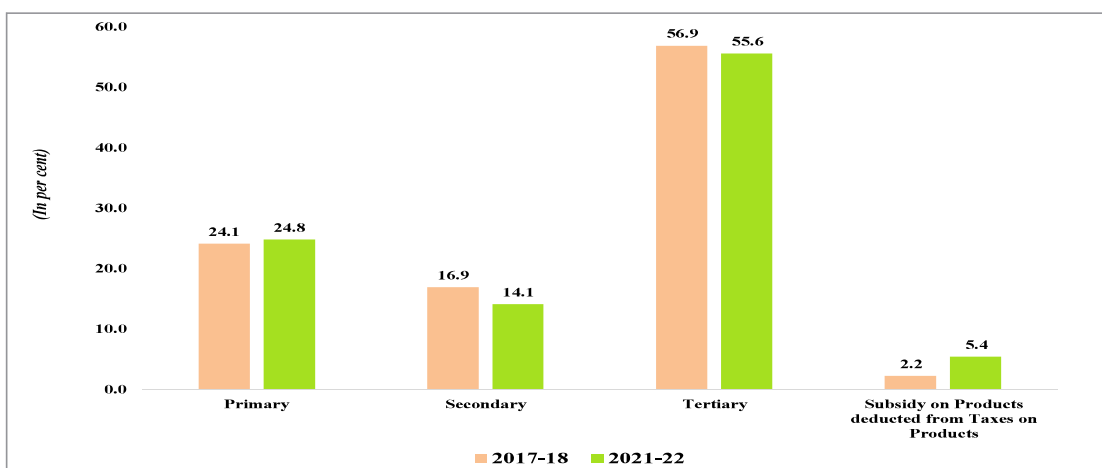
(Source: Planning & Development Dept., GoB)

*Net taxes on product= Subsidies on product deducted from taxes on product

The State's GSDP, had a higher percentage of contributions from Services sector (higher by 8.2 per cent) and Agriculture and allied sectors (higher by 5.8 per cent) than their contributions to the GDP of the country. The contribution from the secondary sector, i.e., Industries and Manufacturing to the GSDP was less by 9.6 per cent when compared to GDP. Further, the Subsidies on products, in case of Bihar, was less, as compared to India.

1.1.2 Sectoral composition

The economic activities are generally divided into Primary, Secondary and Tertiary sectors, which correspond to Agriculture, Industry and Service sectors respectively. Changes in sectoral contribution to the GSDP, are important to understand the changing structure of the economy. The primary sector includes mainly agricultural activities along with other economic activities of primary nature viz., forestry, animal husbandry, fishing and mining. The secondary sector includes manufacturing, construction and infrastructure, supply of electricity, gas, etc. The tertiary sector includes all service-related activities. Changes in sectoral contribution to GSDP from 2017-18 and 2021-22 are shown in **Chart 1.4**.

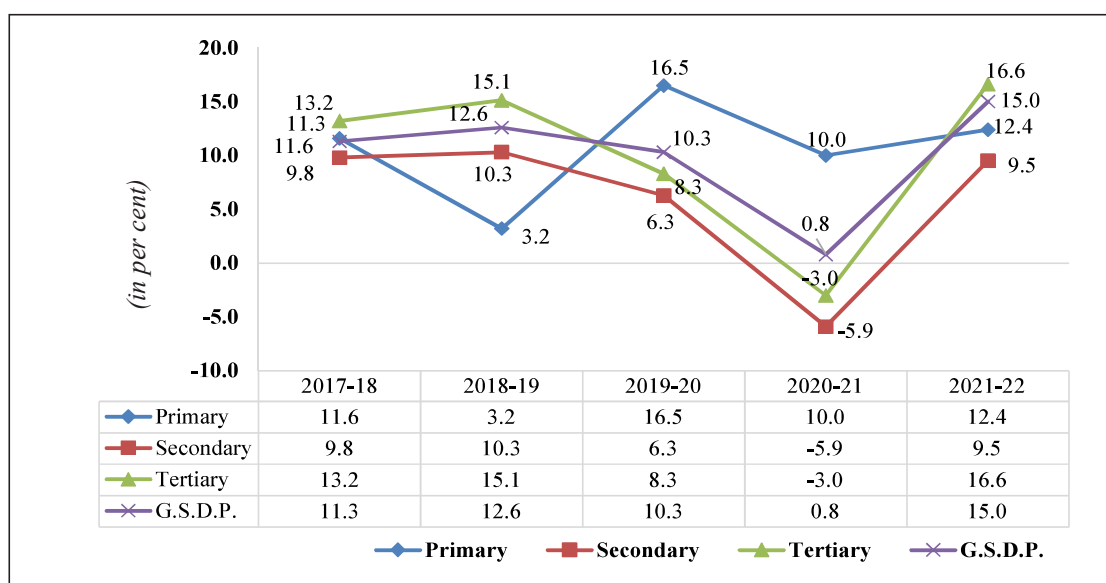
Chart 1.4: Change in sectoral contribution to GSDP (2017-18 and 2021-22)

(Source: MoSPI)

As can be seen from **Chart 1.4**, the share of the primary sector in GSDP has increased, whereas the share of secondary and tertiary sectors has decreased in 2021-22, as compared to 2017-18.

Due to negative growth in crops, livestock, forestry and logging, the sectoral contribution in the Primary sector, had decreased marginally from 25.40 *per cent* in 2020-21 to 24.80 *per cent* in 2021-22. However, during the period of last five years, it has shown fluctuating trend. The contribution of the Secondary sector decreased marginally, whereas Tertiary (Service) sector increased compared to that of the previous year, which was major contributor in State economy. The **Chart 1.5** captures the sectoral growth rate in GSDP for the period from 2017-18 to 2021-22.

Chart 1.5: Sectoral growth in GSDP



(Source: MoSPI)

Sectoral growth rate of all the three sectors during 2021-22, shown an increasing trend, as compared to the previous year, with the secondary and tertiary sector showing great increase in growth rate in comparison to 2020-21.

The Primary sector has shown a consistent higher growth rate during the period of 2019-20 to 2020-21, much higher than the other two sectors but during the current year, the trend has been changed and the growth rate of Tertiary sector was highest. While all the sectors have shown a fall in growth rates in 2020-21 in the background of Covid-19 Pandemic and other factors effecting economic progress, the Primary sector could still maintain a consistent growth rate.

Overall, the GSDP of Bihar grew by 15.04 *per cent* at current prices and 10.98 *per cent* at constant prices in 2021-22.

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.

Principal Accountant General (Accounts & Entitlements) prepares 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 the keeping of such accounts functioning under the control of the State Government, and the statements received from the Reserve Bank of India (RBI). These accounts are audited independently by the Accountant General (Audit).

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 XVth Finance Commission (FC), Sixth Bihar State Finance Commission (SFC), Bihar Fiscal Responsibility and Budget Management (BFRBM) Act, 2006, best practices and guidelines of the Government of India.

Audit findings were discussed with the Finance Department during 'Exit Conference' held on 09 January 2023. The replies, received from the Department had been incorporated suitably in this Report.

1.3 Report Structure

The SFAR is structured into the following five 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 related to the previous year, overall trends during the period from 2017-18 to 2021-22, 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 and 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.

Chapter - V State Public Sector Enterprises

This chapter discusses financial performance of Government Companies, Statutory Corporations and Government Controlled Other Companies as revealed from their accounts.

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 expenditures (Voted expenditure) are voted by the Legislature.

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

This Fund, established by the State legislature by law, is in the nature of an imprest 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 Account 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 repayable 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;

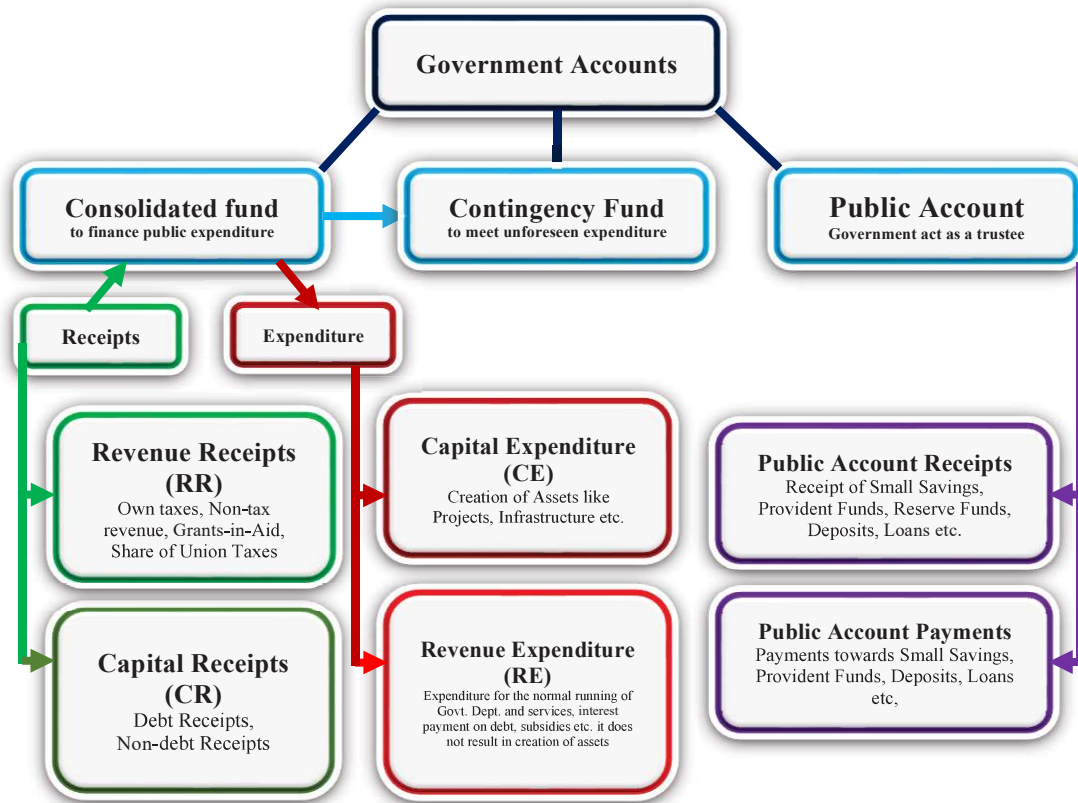
Capital Expenditure includes expenditure on the acquisition of land, building, machinery, equipment, investment in shares, and loans and advances by the government to SPSEs and other parties.

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-à-vis* Budget Estimates for the year 2021-22, *vis-à-vis* actuals of 2020-21.

Table 1.2: Actual financial results vis-à-vis Budget Estimates for the year 2021-22 vis-à-vis actuals of 2020-21

(₹ in crore)

| Sl. No. | Components | 2020-21 (Actuals) | 2021-22 (Budget Estimates) | 2021-22 (Actuals) | Percentage of Actual to B.Es. | Percentage of Actuals to GSDP |
|---------|--------------------------------------|-------------------|----------------------------|-------------------|-------------------------------|-------------------------------|
| 1. | Tax Revenue | | | | | |
| (i) | Own Tax Revenue | 30,342 | 35,050 | 34,855 | 99.44 | 5.16 |
| (ii) | Share of Union Taxes | 59,861 | 91,181 | 91,353 | 100.19 | 13.52 |
| 2. | Non-Tax Revenue | 6,201 | 5,505 | 3,984 | 72.37 | 0.59 |
| 3. | Grants-in-aid and Contributions | 31,764 | 54,531 | 28,606 | 52.46 | 4.24 |
| 4. | Revenue Receipts (1+2+3) | 1,28,168 | 1,86,267 | 1,58,798 | 85.25 | 23.51 |
| 5. | Recovery of Loans and Advances | 821 | 430 | 28 | 6.51 | 0.00 |
| 6. | Other Receipts | 0 | 0 | 0 | 0.00 | 0.00 |
| 7. | Borrowings and other Liabilities (a) | 35,915 | 31,805 | 40,445 | 127.16 | 5.99 |
| 8. | Capital Receipts (5+6+7) | 36,736 | 32,235 | 40,473 | 125.56 | 5.99 |
| 9. | Total Receipts (4+8) | 1,64,904 | 2,18,503 | 1,99,271 | 91.20 | 29.50 |
| 10. | Revenue Expenditure (b) | 1,39,493 | 1,77,071 | 1,59,220 | 89.92 | 23.57 |
| 11. | Interest Payments | 12,484 | 14,517 | 13,822 | 95.21 | 2.05 |
| 12. | Capital Expenditure | 18,209 | 30,788 | 23,678 | 76.91 | 3.51 |
| 13. | Loan and Advances | 1,114 | 1,349 | 1,479 | 109.64 | 0.22 |
| 14. | Total Expenditure (10+12+13) | 1,58,816 | 2,09,208 | 1,84,377 | 88.13 | 27.30 |
| 15. | Revenue Surplus /Deficit (4-10) | (-)11,325 | 9,196 | (-)422 | (-)4.59 | (-)0.06 |
| 16. | Fiscal Deficit {14-(4+5+6)} | 29,827 | 22,511 | 25,551 | 113.51 | 3.78 |
| 17. | Primary Deficit (16-11) | 17,343 | 7,993 | 11,729 | 146.74 | 1.74 |

(Source: Finance Accounts for the year 2021-22 and Budget Summary 2021-22)

Difference of ₹ 1 crore is due to rounding off.

(a) Borrowings and other Liabilities: (Receipts – Disbursements) of Public Debt + Net of Contingency Fund + Net (Receipts – Disbursements) of Public Account + Net of Opening and Closing Cash Balance.

(b) Expenditure on Revenue Expenditure includes interest payment.

✦ It was observed that budget estimates of Revenue Receipts for 2021-22 were 45.33 per cent above from the actuals of 2020-21. However, the actual receipts were 14.75 per cent less from estimation, which shows that the estimation of the revenue receipts was inflated. Short collection of revenue receipts was noticed in Interest receipts (77.72 per cent) and Dividend and Profits (98.92 per cent), under 'Non-Tax Revenue' over the previous year. However, increase in collection of revenue receipts was noticed in CGST (43.02 per cent), Corporation tax (50.47 per cent), Taxes on income other than Corporation Tax (43.98 per cent), Customs (113.09 per cent), Union excise Duties (92.29 per cent), Service Tax (413.86 per cent) and Other taxes (131.19 per cent) under 'Share of Union Taxes' over the previous year i.e. increase in each component of 'Central Tax Transfer' resulted in increase in Revenue Receipts of the state by ₹ 30,630 crore over the previous year.

- ✦ GST Compensation is the revenue of the State Government under GST (Compensation to States) Act, 2017. However, in addition to receiving the GST compensation of ₹ 1,945.08 crore as revenue receipts, due to inadequate balance in GST compensation fund during the year 2021-22, Bihar also received back-to-back loan of ₹ 7,111.43 crore under debt receipts. As the Department of Expenditure, GoI decided that GST compensation of ₹ 7,111.43 crore given to the State as back-to-back loan under debt receipts would not be treated as debt of the State for any norms, which may be prescribed by the Finance Commission. Due to this agreement, the revenue deficit of ₹ 422 crore and fiscal deficit of ₹ 25,551 crore, during the year 2021-22 may be read in conjunction with debt receipt of ₹ 7,111.43 crore in lieu of GST compensation.
- ✦ During 2021-22, the revenue expenditure of the State increased by 14.14 *per cent* over the previous year, whereas the Revenue receipts increased by 23.90 *per cent* over the previous year and were highest during the period of last five years. However, to meet out State's Revenue expenditure for the year 2021-22, the State Government had to borrow more funds (12.61 *per cent* increase) than the previous year. **Table 1.3** below indicates the increasing trend of receipts and expenditure.

Table 1.3: Trend analysis of Receipts and Expenditure

(₹ in crore)

| Year | Revenue | | Per cent of RE to RR | Capital | | Per cent of CE to CR |
|---------|----------|-------------|----------------------|----------|-------------|----------------------|
| | Receipts | Expenditure | | Receipts | Expenditure | |
| 2017-18 | 1,17,447 | 1,02,624 | 87.38 | 13,191 | 28,907 | 219.14 |
| 2018-19 | 1,31,794 | 1,24,897 | 94.77 | 20,493 | 21,058 | 102.76 |
| 2019-20 | 1,24,233 | 1,26,017 | 101.44 | 29,175 | 12,304 | 42.17 |
| 2020-21 | 1,28,168 | 1,39,493 | 108.84 | 36,736 | 18,209 | 49.57 |
| 2021-22 | 1,58,798 | 1,59,220 | 100.27 | 40,473 | 23,678 | 58.50 |

(Source: Finance Accounts of the respective years)

It may be observed from table 1.3 above that:

- ✦ For every ₹ 100 received as revenue, an extra ₹ 0.27 has to be borrowed to cover its revenue expenditure.
- ✦ During the year 2021-22, Capital expenditure increased by 30.03 *per cent*, whereas Revenue expenditure increased by 14.14 *per cent* over the previous year. Further, more than 50 *per cent* of the Capital receipts during the year 2021-22 were utilised for capital assets, highest during the last three years but less than the year 2017-18. For every ₹ 100 of Capital Receipts, Capital Expenditure fell from ₹ 219.14 in 2017-18 to ₹ 58.50 in 2021-22.
- ✦ The Capital Receipts increased by 10.17 *per cent*, whereas Capital Expenditure increased by 30.03 *per cent* over the previous year. Thus, the Revenue deficit and Fiscal deficit of the State decreased by 96.27 *per cent* and 14.34 *per cent* over the previous year respectively, which is a good sign for State's economic health.

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. The assets comprise mainly of the capital outlay and loans and advances given by the State Government and cash balances. The summarised position of Assets and Liabilities of the Government is given in **Table 1.4**.

Table 1.4: Summarised position of assets and liabilities*(₹ in crore)*

| Liabilities | | | | Assets | | | | | |
|--------------------------|--------------------------------------|--------------------|--------------------|--------------|--|----------------------------|--------------------|--------------------|--------------|
| | 2020-21 | 2021-22 | Per cent increase | | 2020-21 | 2021-22 | Per cent increase | | |
| Consolidated Fund | | | | | | | | | |
| A | Internal Debt | 1,59,557.50 | 1,82,855.32 | 14.60 | A | Gross Capital Expenditure | 2,35,687.92 | 2,59,366.21 | 10.05 |
| B | Loans and Advances from GoI | 17,657.35 | 26,057.96 | 47.58 | B | Loans and Advances | 21,743.77 | 23,194.36 | 6.67 |
| Contingency Fund | | 350.00 | 350.00 | 0.00 | | | | | |
| Public Account | | | | | | | | | |
| A | Small Savings, Provident Funds, etc. | 9,445.38 | 9,521.65 | 0.81 | A | Advances | 249.96 | 249.96 | 0.00 |
| B | Deposits | 39,634.21 | 38,033.80 | (-) 4.04 | B | Remittance | 1,118.43 | 1,125.96 | 0.67 |
| C | Reserve Funds | 6,641.19 | 6,781.61 | 2.11 | C | Suspense and Miscellaneous | 15,378.20 | 15,616.59 | 1.55 |
| D | Suspense and Miscellaneous balances | 110.99 | 207.48 | 86.94 | Cash balance (including investment of Earmarked Fund) | | 24,864.64 | 29,478.66 | 18.56 |
| E | Inter-State Settlement | 74.01 | 74.01 | 0.00 | | | | | |
| F | Surplus on Government Accounts | 65,572.29 | 65,149.91 | (-) 0.64 | | | | | |
| Total | | 2,99,042.92 | 3,29,031.74 | 10.03 | | | 2,99,042.92 | 3,29,031.74 | 10.03 |

(Source: Finance Accounts of the respective years)

Liabilities of the Government increased by 10.03 *per cent* in 2021-22, as compared to 8.15 *per cent* in the previous year. Market loans/Internal debt contributed 55.57 *per cent* of the total outstanding liabilities during 2021-22. Net increase in liabilities on market loans by 14.60 *per cent* (₹ 23,297.82 crore), as compared to 17.25 *per cent* (₹ 23,475.41 crore) in the previous year was the main contributing factor.

1.5 Fiscal Balance: Achievement of deficit and total debt targets

The Government of Bihar (GoB) had 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 bringing the 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.

1.5.1 BFRBM targets on key Fiscal Parameters and Achievements

As per XVth Finance Commission's recommendations, State had to maintain debt to GSDP ratio up to 40.20 *per cent* for 2021-22. The Ministry of Finance, GoI, allowed additional one and half *per cent* borrowings, over and above three *per cent* of the GSDP

(up to 4.5 per cent) during 2020-21, additional borrowing of 0.5 per cent was allowed, subject to the condition for power sector reforms. The fiscal deficit target and annual borrowing limit for the year 2021-22 had decreased by 0.5 per cent over the previous year. The compliance of major fiscal parameters prescribed under BFRBM Act, 2006, are shown in **Table 1.5**.

Table 1.5: Compliance with provisions of the BFRBM Act

| Fiscal Parameters | Fiscal targets set in the Act Medium-term Fiscal Policy (MTFP) | Achievement (₹ in crore) | | | | |
|--|---|--------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| | | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 2021-22 |
| Revenue Deficit (-) / Surplus (+) (₹ in crore) | Revenue Surplus | 14,823.01 | 6,896.64 | (-) 1,784.13 | (-) 11,325.11 | (-) 422.38 |
| | | ✓ | ✓ | × | × | × |
| Fiscal Deficit (-)/ Surplus (+) (as percentage of GSDP) | Within 5.00 per cent for 2020-21. 4.5 ³ per cent for 2021-22 | (-) 14,304.83 (3.05) | (-) 13,806.76 (2.62) | (-) 14,723.93 (2.53) | (-) 29,827.25 (5.08) | (-) 25,551.26 (3.78) |
| | | × | ✓ | ✓ | × | ✓ |
| The ratio of total outstanding debt to GSDP (in per cent) | Within 28 per cent up to 2019-20. Within 41.20 per cent up to 2020-21. 40.20 ⁴ per cent for 2021-22 | 33.45 | 31.99 | 33.20 | 38.69 | 37.07 [#] |
| | | × | × | × | ✓ | ✓ |

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

Arrived at after exclusion of GST compensation of ₹ 7,111.43 crore received as back-to-back loan under debt receipts from the total outstanding liabilities. This year GST compensation received as revenue of the state.

- ✦ It can be seen from the above table that the revenue deficit stood at ₹ 422.38 crore which was much lower than the projections of a revenue surplus in MTFP (₹ 9,196 crore). Shortfall in revenue receipts than budgeted and relatively less control over expenditure were the reasons for the revenue deficit.
- ✦ Fiscal deficit and debt to GSDP ratio were within the revised targets and XVth Finance Commission's recommendations respectively.

1.5.2 Medium Term Fiscal Plan in Fiscal parameters

Comparison of targets for fiscal parameters, projected in Medium Term Fiscal Plan (MTFP), presented to the State Legislature, with actuals for the current year, is provided in **Table 1.6** below:

³ The upper limit was fixed to 4.5 per cent, which included 0.5 per cent additional borrowing space for Power sector with the certain criteria for Power sector reforms.

⁴ Debt to GSDP ratio had to be maintained up to 40.20 per cent for 2021-22, as per the indicative debt path of the State Government recommended in XVth Finance Commission.

Table 1.6: Actuals vis-à-vis projection in MTFP for 2021-22(*₹ in crore*)

| Sl. No. | Fiscal Variables | 2021-22 | | |
|---------|--|------------------------|--------------|-------------------------|
| | | Projection as per MTFP | Actuals | Variation (in per cent) |
| 1 | Own Tax Revenue | 35,050.00 | 34,854.54 | (-)0.56 |
| 2 | Non-Tax Revenue | 5,505.47 | 3,984.34 | (-)27.63 |
| 3 | Share of Central Taxes | 91,180.60 | 91,352.62 | 0.19 |
| 4 | Grants -in-aid from GoI | 54,531.21 | 28,605.83 | (-)47.54 |
| 5 | Revenue Receipts (1+2+3+4) | 1,86,267.28 | 1,58,797.33 | (-)14.75 |
| 6 | Revenue Expenditure | 1,77,071.39 | 1,59,219.71 | (-)10.08 |
| 7 | Revenue Deficit (-)/ Surplus (+) (5-6) | 9,195.89 | (-)422.38 | (-)104.59 |
| 8 | Fiscal Deficit (-)/Surplus (+) | (-) 22,510.78 | (-)25,551.26 | 13.51 |
| 9 | Debt-GSDP ratio (<i>per cent</i>) | 26.61 | 37.07 | |
| 10 | GSDP growth rate at current prices (<i>per cent</i>) | 10.39 | 15.04 | |

(Source: Finance Accounts for the year 2021-22 and BFRBM Act)

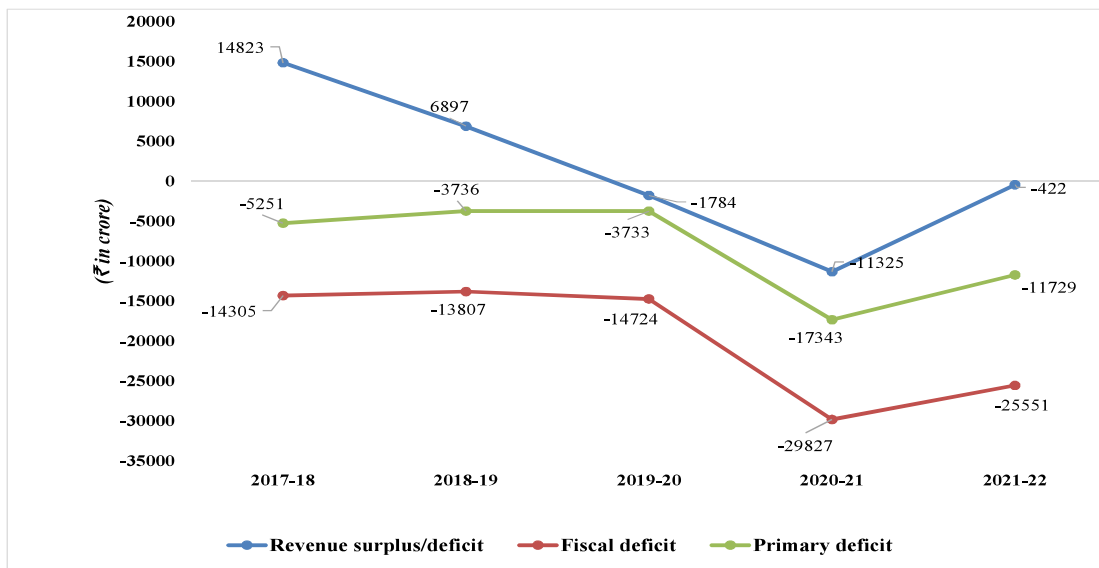
The ratio of total outstanding debt to GSDP, as per the Finance Accounts is 38.12 *per cent*. However, the effective debt to GSDP ratio (37.07 *per cent*) has been arrived at after excluding GST compensation of ₹ 7,111.43 crore, received as back to back loan, under debt receipts from the total outstanding liabilities, as the Department of Expenditure, GoI, has decided (December 2021) that it will not be treated as debt of the State for any norms which may be prescribed by the Finance Commission.

It is evident from the above table that the State Government could not achieve its MTFP target during the year 2021-22, except 'Share of Central Taxes' with marginal increase (0.19 *per cent*) than projected. The State Government could not achieve its MTFP target in previous years (2019-20 and 2020-21) also. Due to non-achievement of this target, the State has been incurring revenue deficit during last three consecutive years. However, due to increase in devolution of 'Share of Central Taxes' by ₹ 31,491 crore than previous year, State's revenue deficit reduced to ₹ (-) 422 crore. The Revenue Surplus of ₹ 14,823 crore in 2017-18, had decreased to ₹ (-) 422 crore (102.85 *per cent*) in 2021-22, as shown in **Chart-1.6**. The main reasons for revenue deficit were less receipt of Grants in aid from GoI (47.54 *per cent*), short collection of Non-Tax Revenue (27.63 *per cent*) and short collection of Tax Revenue (0.56 *per cent*) than projected.

1.5.3 Trends of Surplus/Deficit

Three key fiscal parameters viz., (i) Revenue Surplus/Deficit, (ii) Fiscal Deficit, and (iii) Primary Deficit, help in assessing the fiscal situation of the Government. These deficits are formulated, to assist in assessing the fiscal health of the Government. Trends in fiscal parameters are shown in **Chart 1.6** below.

Chart 1.6: Trends in deficit parameters



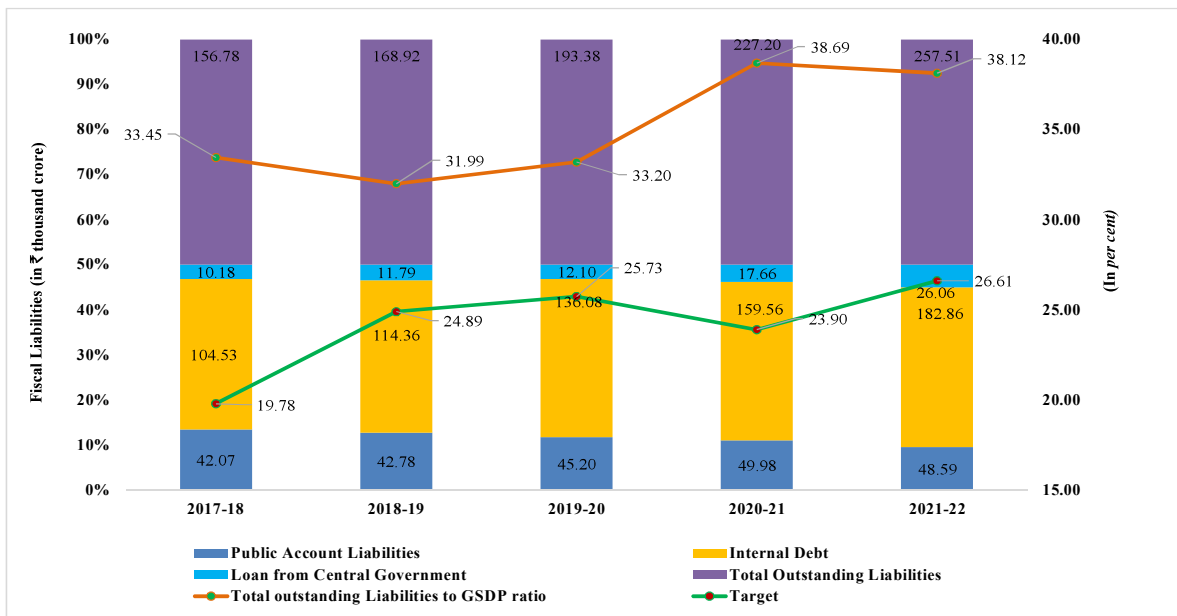
(Source: Finance Accounts of the respective years)

Though all the fiscal indicators/parameters are in negative trend, however, all of them have shown positive trend as compared to the previous year, as can be seen from the above chart.

1.5.4 Fiscal Liabilities and GSDP

The trends in Fiscal Liabilities and its components, during the past five financial years are shown in **Chart-1.7**.

Chart 1.7: Trends in Fiscal Liabilities and GSDP



(Source: Finance Accounts of the respective years)

During 2021-22, Fiscal liabilities increased by 13.34 per cent (₹ 30.31 thousand crore), over the previous year due to increase in Internal Debt by 14.60 per cent

(₹ 23.30 thousand crore), and Loans and Advances from GoI by 47.57 per cent (₹ 8.40 thousand crore).

1.6 Deficits after examination in audit

Certain financial transactions of Revenue section have been incorrectly booked in under Capital section of expenditure or *vice versa*, resulting in misclassification of expenditure between revenue and capital heads of account. The following section describes such identified financial transactions.

1.6.1 Post audit - Deficits

Misclassification of Revenue Expenditure as Capital impacts deficit figures. Besides, deferment of committed liabilities, not depositing Cess/royalty to Consolidated Fund, short contribution to National Pension System, Sinking and Redemption Funds, *etc.*, also impact the revenue and fiscal deficit figures. The impact of such irregularities maybe seen in **Table 1.7**.

Table 1.7: Revenue and Fiscal Deficits, post examination by Audit

| Particulars | Impact on Revenue Deficit (Understated (+), Overstated (-)) (₹ in crore) | Impact on Fiscal Deficit (Understated (+)) (₹ in crore) | Para Reference |
|---|---|---|----------------|
| Misclassification booked under Capital Section instead of Revenue | 3.65 | - | 2.4.3.6 |
| Non-payment of interest on State Compensatory Afforestation Deposit | 17.52 | 17.52 | 4.3 |
| Non-transfer of Labour Cess | 70.82 | 70.82 | 4.1 |
| Non-transfer of other Cess (Road Safety Cess) | 132.29 | 132.29 | 4.1 |
| Non-transfer of grants NDRF into Public Account | 1,038.96 | 1,038.96 | 2.5.2.2 |
| Non-discharge of Interest liabilities | 53.76 | 53.76 | 4.3 |
| Disclosure of the Off Budget borrowings | - | 1,482.50 | 4.2 |
| Non-contribution in Sinking Fund | 1,135.97 | 1,135.97 | 2.5.2.1 |
| Amount kept under suspense accounts | (-) 82.12 | 321.42 | 4.10 |
| Total | 2,370.85 | 4,253.24 | |

(Source: Finance Accounts and audit analysis)

From the table above it may be concluded that the Revenue deficit and Fiscal deficit of the State, shown as ₹ 422 crore and ₹ 25,551 crore respectively, would actually be ₹ 2,792.85 crore and ₹ 29,804.24⁵ crore respectively. The effective Revenue deficit and Fiscal deficit were 0.41 per cent and 4.41 per cent of GSDP respectively which was over and above finance commission limitation of four per cent.

1.6.2 Post audit-Total Outstanding Liabilities

Government entities (two) have obtained loans, amounting to ₹ 1,482.50 crore, on behalf of the State Government (as on 31 March 2022). These loans are off-budget borrowings (OBB) by the State Government. The Government has provided guarantees for these loans. Since these borrowings did not form part of the borrowings of the Government

⁵ Excludes net expenditure of ₹ 321.42 crore kept under Suspense Account as disclosed in Para 3 (xix) of NTFAs.

directly, these were not included in the Public Debt of the Finance Accounts; and therefore, did not figure in the calculation of Fiscal Deficit of the State. The Public Debt as well as Fiscal Deficit of the State stands understated for the year 2021-22.

(The off-budget borrowings are detailed in paragraph 4.2 of this report).

Table1.8: Overall debt, post examination by Audit

(₹ in crore)

| Sl. No. | Particulars | Overall Debt | As a percentage of GSDP |
|---------|--|--------------------|-------------------------|
| 1. | Outstanding debt | 2,57,510.21 | 37.07 ^s |
| 2. | Impact on overall Debt (understated) | | |
| a. | Bihar State Road Development Corporation Ltd. (Road Construction Department) | 520.00 | |
| b. | Bihar Rural Road Development Agency (Rural Works Department) | 962.50 | |
| | Total of 2 | 1,482.50 | 0.22 |
| | Total of (1+2) | 2,58,992.71 | 37.29 |

S-excluding back-to-back loan of GST

Thus, taking into account the off-budget borrowing of the State, the total outstanding debt at the end of March 2022 worked out to be ₹ 2,58,992.71 crore against the ₹ 2,57,510.21 crore. Consequently, the overall debt as a percentage of GSDP at the end of the year was understated by 0.22 per cent.