

CHAPTER I

FINANCES OF THE STATE GOVERNMENT

Summary

In Andhra Pradesh the revenue deficit decreased from Rs 3771 crore in 2003-04 to Rs 3387 crore in 2004-05 (current year) mainly due to a growth in revenue receipts by seven per cent against the five per cent increase in revenue expenditure. However fiscal deficit increased from Rs 7450 crore in 2003-04 to Rs 8192 crore in the current year mainly due to increased capital expenditure on Irrigation and Flood Control. As per the Memorandum of Understanding with Government of India (GOI) executed in March 2003, fiscal deficit was to be reduced to Rs 6445 crore and revenue deficit to Rs 1152 crore by 2004-05, which was not achieved.

Revenue receipts of the State comprise mainly its own tax and non-tax revenue, Central tax transfers and grants-in-aid from GOI. Overall revenue receipts increased from Rs 19475 crore in 2000-01 to Rs 28750 crore in 2004-05. During the current year 70 per cent of the revenue (Rs 20010 crore) came from the State's own resources which increased by 15 per cent over the previous year. Compared to the previous year, there was increase in Central tax revenue (20 per cent) and decrease (39 per cent) in grants-in-aid from GOI. Arrears of revenue as on 31 March 2005 were at a high of Rs 5028 crore and represented 25 per cent of tax and non-tax revenue receipts of the current year.

Total expenditure of the State increased from Rs 27183 crore in 2000-01 to Rs 38315 crore in 2004-05. During 2004-05, total expenditure grew by eight per cent over the previous year. Developmental expenditure (Rs 23275 crore) was 61 per cent of total expenditure.

During 2004-05 the interest payments were Rs 7091 crore which was nearly 25 per cent of the revenue receipts. The outstanding fiscal liabilities as of March 2005 were as high as Rs 74288 crore, which were 37 per cent of the Gross State Domestic Product (GSDP). The average rate of interest paid on the borrowings of the State during 2004-05 (10 per cent) was equal to the average rate of growth of GSDP (10 per cent). During the year, the Government did not depend on ways and means advance or overdraft from the Reserve Bank of India for its day-to-day expenditure.

Though it is not uncommon for a State to borrow for its infrastructure projects and for creating income-generating assets, an ever-increasing ratio of fiscal liabilities to GSDP together with revenue deficit could lead the State finances into a debt trap. Thirty-two per cent of the State's liabilities had no asset backup.

1.1 Introduction

The Finance Accounts of the Government of Andhra Pradesh are laid out in nineteen statements, presenting receipts and expenditure, revenue as well as capital, in the Consolidated Fund, Contingency Fund and the Public Account. The layout of the Finance Accounts is depicted in the **Box 1.1**.

Box 1.1

Layout of Finance Accounts

Statement No. 1 presents the summary of transactions of the State Government – receipts and expenditure, revenue and capital, public debt receipts and disbursements etc in the Consolidated Fund, the Contingency Fund and the Public Account of the State.

Statement No. 2 contains the summarised statement of capital outlay showing progressive expenditure to the end of current year.

Statement No. 3 gives financial results of irrigation works, their revenue receipts, working expenses and maintenance charges, capital outlay, net profit or loss, etc.

Statement No. 4 indicates the summary of debt position of the State, which includes borrowings from internal debt, Government of India, other obligations and servicing of debt.

Statement No. 5 gives the summary of loans and advances given by the State Government during the year, repayments made, recoveries in arrears, etc.

Statement No. 6 gives the summary of guarantees given by the Government for repayment of loans etc. raised by the statutory corporations, local bodies and other institutions.

Statement No. 7 gives the summary of cash balances and investments made out of such balances.

Statement No. 8 depicts the summary of balances under the Consolidated Fund, the Contingency Fund and the Public Account as on 31 March 2005.

Statement No. 9 shows the revenue and expenditure under different heads for the current year as a percentage of total revenue/expenditure.

Statement No. 10 indicates the distribution between the charged and voted expenditure incurred during the year.

Statement No. 11 indicates the detailed account of revenue receipts by minor heads.

Statement No. 12 provides accounts of revenue expenditure by minor heads under non-plan, State plan and centrally sponsored schemes separately and capital expenditure major head wise.

Statement No. 13 depicts the detailed capital expenditure incurred during and to the end of the current year.

Statement No. 14 shows the details of investment of the State Government in statutory corporations, government companies, other joint stock companies, cooperative banks and societies etc. up to the end of the current year.

Statement No. 15 depicts the capital and other expenditure to the end of the current year and the principal sources from which the funds were provided for that expenditure.

Statement No. 16 gives the detailed account of receipts, disbursements and balances under heads of account relating to Debt, Contingency Fund and Public Account.

Statement No. 17 presents the detailed account of Debt and other interest bearing obligations of the Government.

Statement No. 18 provides the detailed account of loans and advances given by the Government of Andhra Pradesh, the amount of loans repaid during the year, the balances at the end of the year and the amount of interest received during the year.

Statement No. 19 gives the details of balances of earmarked funds.

1.2 Trend of Finances with reference to the previous year

Finances of the State Government during the year 2004-05 compared to the previous year were as under:

(Rupees in crore)

2003-04	S. No	Major Aggregates	2004-05
2686	1.	Revenue Receipts (2+3+4)	2875
1380	2.	Tax Revenue	1625
360	3.	Non-Tax Revenue	375
945	4.	Other Receipts	875
125	5.	Non-Debt Capital Receipts	137
125	6.	Of which Recovery of Loans	137
2812	7.	Total Receipts (1+5)	3012
2385	8.	Non-Plan Expenditure (9+11+12)	2586
2329	9.	On Revenue Account	2490
685	10.	Of which, Interest Payments	709
2	11.	On Capital Account	(-) 1
53	12.	On Loans disbursed	97
1171	13.	Plan Expenditure (14+15+16)	1244
734	14.	On Revenue Account	722
341	15.	On Capital Account	459
95	16.	On Loans disbursed	62
3557	17.	Total Expenditure (8+13)	3831
745	18.	Fiscal Deficit (17-1-5)	819
377	19.	Revenue Deficit (9+14-1)	338
59	20.	Primary Deficit (18-10)	110

1.3 Summary of Receipts and Disbursements

Table 1 summarises the finances of the Government of Andhra Pradesh for the year 2004-05 covering revenue receipts and expenditure, capital receipts and expenditure, public debt receipts and disbursements and public account receipts and disbursements as emerging from Statement-1 of the Finance Accounts and other detailed statements (*Appendix I.2*)

During the year, the State Government incorrectly classified expenditure of Rs 493.86 crore, being grants-in-aid to local bodies and Rs 335.62 crore, being contribution to Reserve Fund and transfer to Deposit Account, under Capital outlay instead of Revenue (see Paragraph 1.6.1). This had the effect of overstatement of capital outlay and understatement of revenue deficit to the extent of Rs 829.48 crore. To provide a consistent and correct picture of the

government finances comparable with the position of past years, expenditure figures under Revenue and Capital accounts have been suitably adjusted in the statements in this Chapter and all the indicators and ratios are worked out on that basis.

Table 1 : SUMMARY OF RECEIPTS AND DISBURSEMENTS FOR THE YEAR 2004-05

(Rupees in crore)

2003-04	Receipts	2004-05	2003-04	Disbursements	2004-05		
Section-A: Revenue							
					Non-Plan	Plan	Total
26868.50	I. Revenue receipts	28749.50	30639.64	I. Revenue expenditure	24907.88	7228.94	32136.82
13805.93	Tax revenue	16254.50	12133.54	General Services	13114.91	86.85	13201.76
3604.65	Non-tax revenue	3755.56	10599.55	Social Services	7241.86	3565.97	10807.83
5068.53	Share of Union Taxes/ Duties	6058.51	7626.68	Economic Services	4324.55	3576.12	7900.67
4389.39	Grants from Government of India	2680.93	279.87	Grants-in-aid / Contributions	226.56	--	226.56
Section-B: Capital							
-	II. Miscellaneous Capital Receipts	--	3441.37	II. Capital Outlay	(-) 12.13	4596.88	4584.75
1255.66	III. Recoveries of Loans and Advances	1372.98	1493.63	III. Loans and Advances disbursed	972.29	620.85	1593.14
10626.93	IV. Public debt receipts	9832.76	5925.06	IV. Repayment of Public Debt[®]			7432.39
-	V. Contingency Fund	23.42	19.08	V. Contingency Fund			0.10
30495.26	VI. Public account receipts	39439.36	26459.33	VI. Public account disbursements			32370.26
519.13	Opening cash Balance	1787.37	1787.37	Closing cash Balance			3087.93
69765.48	Total	81205.39	69765.48	Total			81205.39

[®] bifurcation of plan and non-plan not available

1.4 Audit Methodology

Audit observations on the Finance Accounts bring out the trends in the major fiscal aggregates of receipts and expenditure in the light of time series data. The key indicators adopted for the purpose are (i) Resources by volume and sources, (ii) Application of resources, (iii) Assets and Liabilities and (iv) Management of deficits. Audit observations also take into account the cumulative impact of resource mobilisation efforts, debt servicing and corrective fiscal measures. The overall financial performance of the State Government as a body corporate has been presented by the application of a set of ratios commonly adopted for the relational interpretation of fiscal aggregates.

The reporting parameters are depicted in the **Box 1.2**.

Box 1.2
Reporting Parameters
<p>Fiscal aggregates like tax and non-tax revenue, revenue and capital expenditure, internal and external debt and revenue and fiscal deficits have been presented as percentage to the GSDP at current market prices. The GSDP data for 2000-01 to 2004-05 have been adopted from the Economic Survey for 2004-05 published by the Planning Department.</p> <p>For tax revenues, non-tax revenues, revenue expenditure etc, buoyancy projections have been provided for a further estimation of the range of fluctuations with reference to the base represented by GSDP.</p> <p>Some of the terms used here are explained in <i>Appendix 1.1</i>.</p>

The accounts of the State Government are kept in three parts (i) Consolidated Fund, (ii) Contingency Fund and (iii) Public Account, as defined in Box 1.3.

Box 1.3 - State Government Funds and the Public Account

Consolidated Fund	Contingency Fund	Public Account
<p>All revenues received by the State Government, all loans raised by issue of treasury bills, internal and external loans and all moneys received by the Government in repayment of loans shall form one consolidated fund entitled the Consolidated Fund of State established under Article 266(1) of the Constitution of India.</p>	<p>The Contingency Fund of State established under Article 267(2) of the Constitution is in the nature of an imprest placed at the disposal of the Governor to enable him to make advances to meet urgent unforeseen expenditure, pending authorisation by Legislature. Approval of the Legislature for such expenditure and for withdrawal of an equivalent amount from the Consolidated Fund is subsequently obtained, whereupon the advances from the Contingency Fund are recouped to the Fund.</p>	<p>Besides the normal receipts and expenditure of Government which relate to the Consolidated Fund, certain other transactions enter Government Accounts, in respect of which Government acts more as a banker. Transactions relating to provident funds, small savings, other deposits, etc. are a few examples. The public moneys thus received are kept in the Public Account set up under Article 266(2) of the Constitution and the related disbursements are made from it.</p>

1.5 State finances by key indicators

1.5.1 Resources by volume and sources

Resources of the State Government consist of revenue receipts and capital receipts. 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 receipts like proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources (market loans, borrowings from financial institutions and commercial banks) and loans and

advances from GOI as well as accruals from the Public Account (Appendix 1.3)

Table 2 shows that the total receipts of the State Government for the year 2004-05 were Rs 79418 crore. Of these, the revenue receipts were Rs 28750 crore only, constituting 36 per cent of the total receipts. The balance came from borrowings and the Public Account.

Table 2 – State’s resources

(Rupees in crore)

I.	Revenue Receipts		28750
II.	Capital Receipts		11206
	(a) Miscellaneous Capital Receipts	-	
	(b) Recovery of Loans and Advances	1373	
	(c) Public Debt Receipts	9833	
III.	Contingency Fund Receipts		23
IV.	Public Account Receipts		39439
	(a) Small Savings, Provident Fund, etc.	7560	
	(b) Reserve Fund	728	
	(c) Deposits and Advances	14071	
	(d) Suspense and Miscellaneous	10458	
	(e) Remittances	6622	
	Total Receipts		79418

1.5.2 Revenue Receipts

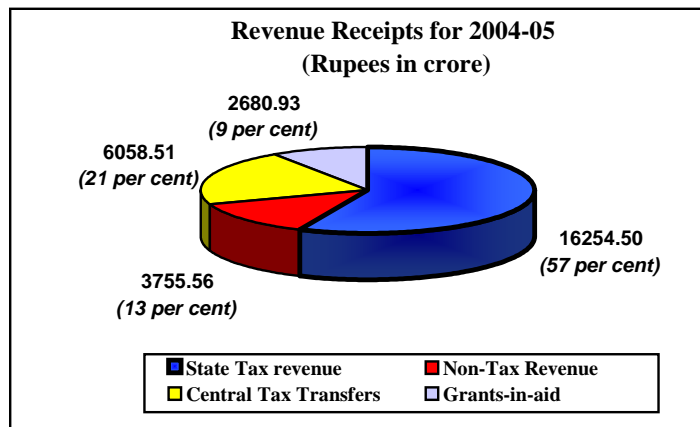
Statement-11 of the Finance Accounts details the revenue receipts of the Government. The revenue receipts consist of its own tax and non-tax revenues, Central tax transfers and grants-in-aid from GOI. Overall revenue receipts, its annual rate of growth, ratio of these receipts to the Gross State Domestic Product (GSDP) and its buoyancy is indicated in Table 3.

Table 3: Revenue Receipts - Basic Parameters
(Values in Rupees crore and others in per cent)

	2000-01	2001-02	2002-03	2003-04	2004-05
Revenue Receipts	19475	21845	23003	26869	28750
Own Taxes	54.2	52.9	54.9	51.4	56.5
Non-Tax Revenue	14.1	13.4	15.3	13.4	13.1
Central tax Transfers	20.4	18.6	18.8	18.9	21.1
Grants-in-aid	11.3	15.2	11.0	16.3	9.3
Rate of Growth	15.9	12.2	5.3	16.8	7.0
Revenue Receipt/GSDP	13.9	14.4	14.3	15.1	14.44
Revenue Buoyancy	1.337	1.504	0.862	1.579	0.693
GSDP Growth	11.9	8	7.2	11.4	10.10
Own taxes Buoyancy	1.484	0.921	1.608	0.686	1.478

The revenue receipts of the government increased from Rs 19475 crore in 2000-01 to Rs 28750 crore in 2004-05. It grew by seven per cent over the previous year. During the five year period 2000-05, the State had a buoyant economy with the annual GSDP growth ranging between 7 and 12 per cent; it was 10 per cent during 2004-05. Revenue growth rate exceeded GSDP growth rate during the five-year period, except in 2002-03 and 2004-05.

While 70 per cent of the revenue receipts during 2004-05 came from State's own resources (comprising of taxes and non-tax revenue), Central tax transfers and grants-in-aid together contributed 30 per cent. Sales Tax was the major contributor (68 per cent) of the State's own tax revenue followed by State Excise (13 per cent), Stamps and Registration fees (9 per cent), taxes on vehicles (7 per cent). Of the non-tax revenue sources, interest receipts (46 per cent) and receipts from Non-ferrous Mining and Metallurgical Industries (23 per cent) were the principal contributors. However, interest receipts included Rs 1505 crore which was only notional in nature arising out of book adjustments from Irrigation Projects.



The arrears of revenue increased by 89 per cent from Rs 2666 crore as of March 2001 to Rs 5028 crore as of March 2005. Of these, Rs 1749 crore (35 per cent) were more than 5 years old.

The sources of receipts under different heads as well as the GSDP during 2000-05 is indicated in Table 4.

Table 4 – Sources of Receipts: Trends

(Rupees in crore)

Year	Revenue Receipts	Capital Receipts			Total Receipts	Gross State Domestic Product
		Recovery of loans and advances	Public Debt Receipts	Accruals in Public Account		
2000-01	19475	402	5261	22026	47164	140119
2001-02	21845	947	7340	21777	51909	151396
2002-03	23003	460	7802	25646	56911	162310
2003-04	26869	1256	10627	30495	69247	180812
2004-05	28750	1373	9833	39439	79395	199075

1.6 Application of resources

1.6.1 Incorrect classification of expenditure

As per the Rules¹ made by the President of India in exercise of the powers conferred by Article 150 of the Constitution, expenditure on grants-in-aid to

¹ Note below Rule 30(1) of Government Accounting Rules, 1990

local bodies, even for the purpose of creating assets, and contributions to Reserve Fund/transfer to Deposit Account cannot be classified as capital expenditure. During the year 2000-01, 2001-02, 2002-03 and 2003-04, Government, however, provided for and booked expenditure of Rs 553.71 crore, Rs 761.59 crore, Rs 868.14 crore and Rs 809.50 crore respectively as grants-in-aid to local bodies and contributions to Reserve Fund/transfer to Deposit Account under the Capital Section of Accounts. During the current year also, the Government booked Rs 493.86 crore being grants-in-aid to local bodies and Rs 335.62 crore being contribution to Central Road Fund (Rs 74.70 crore) guarantee redemption fund (Rs 90 crore) and sinking fund (Rs 170.92 crore) under Capital Section despite the misclassification being pointed out in earlier Audit Reports. The incorrect classification increased the capital outlay and reduced the revenue expenditure as well as revenue deficit in the Finance Accounts by Rs 829.48 crore.

1.6.2 Trend of growth of total expenditure

Statement 12 of the Finance Accounts depicts the detailed revenue expenditure by minor heads and capital expenditure by major heads. The total expenditure of the State increased from Rs 27183 crore in 2000-01 to Rs 38315 crore in 2004-05.

Total expenditure, its annual growth rate, ratio of expenditure to the State's GSDP and to revenue receipts and its buoyancy with respect to GSDP and revenue receipts are indicated in Table-5 below:

**Table 5: Total Expenditure- Basic Parameters
(Value in Rupees crore and others in per cent)**

	2000-01	2001-02	2002-03	2003-04	2004-05
Total Expenditure*	27183	29515	31088	35575	38315
Rate of Growth	23.7	8.6	5.3	14.4	7.70
TE/GSDP Ratio	19.4	19.5	19.3	20.0	19.25
Revenue Receipts/TE Ratio	71.6	74.0	74.0	75.5	75.04
Buoyancy of Total Expenditure with					
GSDP	1.993	1.060	0.867	1.356	0.762
Revenue Receipts	1.491	0.705	1.005	0.859	1.1

* includes revenue expenditure, capital expenditure and loans & advances

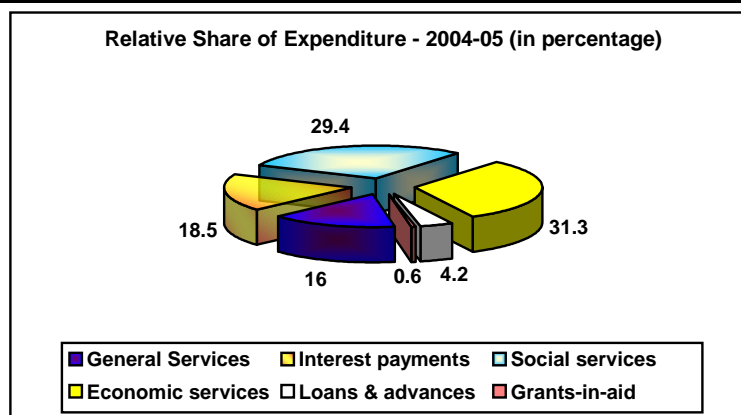
Consistent increase of total expenditure over the five-year period 2000-05 was also reflected in the gradual increase in the percentage of total expenditure to GSDP up to 2003-04 (19.3 to 20 per cent). However, during the current year the percentage fell to 19.25. Total expenditure in 2004-05 has shown an increase of Rs 2740 crore over that of the previous year. This was due to increase in non-plan revenue expenditure by Rs 1613 crore, capital expenditure by Rs 1144 crore and disbursement of loan by Rs 99 crore, compared to the previous year. However, the revenue plan expenditure decreased by Rs 116 crore.

In terms of the activities, total expenditure could be considered as being composed of expenditure on General services including interest payments, Social and Economic services, grants-in-aid and other contributions to

institutions and loans and advances. Relative share of these components in total expenditure is indicated in Table 6.

Table 6: Components of Expenditure – Relative Share (in per cent)

	2000-01	2001-02	2002-03	2003-04	2004-05
General Services	17.6	16.2	15.9	15.0	16.0
Interest Payments	14.0	15.5	19.7	19.3	18.5
Social Services	30.6	29.5	30.3	30.5	29.4
Economic Services	32.1	32.1	29.2	30.2	31.3
Loans and Advances	5.1	5.8	4.0	4.2	4.2
Grants-in-aid	0.6	1.0	0.8	0.8	0.6



There were inter-year variations in various components. Of the total expenditure, the non-developmental expenditure during 2004-05 (General services including interest payments) accounted for 35 per cent, the development expenditure (on Social services and Economic services) accounted for 61 per cent and loans and advances and grants-in-aid accounted for 4 per cent.

1.6.3 Incidence of revenue expenditure

Revenue expenditure had the predominant share (84 per cent) in total expenditure. Such expenditure is incurred to maintain the current level of services and payment for the past obligations and as such does not result in any addition to the State's infrastructure and service network. The overall revenue expenditure, its rate of growth, ratio of revenue expenditure to GSDP and to revenue receipts and its buoyancy are indicated in Table 7.

Table 7: Revenue Expenditure - Basic Parameters

	2000-01	2001-02	2002-03	2003-04	2004-05
Revenue Expenditure (Rupees in crore)	23624	25488	26925	30640	32137
Rate of Growth (per cent)	31.0	7.9	5.6	13.8	4.9
RE/GSDP	16.9	16.8	16.5	16.9	16.1
RE as percentage of TE	86.9	86.4	86.6	86.1	83.9
RE as percentage of RR	121.3	116.7	117.1	114.0	111.8
Buoyancy of Revenue Expenditure with					
GSDP	2.606	0.975	0.917	1.296	0.485
Revenue Receipts	1.949	0.648	1.064	0.821	0.700

The rate of growth of revenue expenditure during 2004-05 declined to 5 per cent as compared to 2003-04. During 2004-05, 84 per cent of the total expenditure was on revenue expenditure.

During 2004-05, 75 per cent of revenue receipts were expended on salaries (Rs 9078 crore), interest payments (Rs 7091 crore), pensions (Rs 3017 crore) and subsidies (Rs 2422 crore). These accounted for 67 per cent of revenue expenditure. The expenditure on each component is discussed in the following.

1.6.4 High salary expenditure

Expenditure on salaries (including grants-in-aid towards salaries and work charged establishment) during 2004-05 was around 32 per cent of the revenue receipts. It ranged between 4.6 and 5.6 per cent of GSDP during the period from 2000-01 to 2004-05 as indicated in Table 8.

Table 8

(Rupees in crore)

Heads	2000-01	2001-02	2002-03	2003-04	2004-05
Salary expenditure	7865	8017	8367	8975	9078
As a percentage of GSDP	5.6	5.3	5.2	5.0	4.6
As a percentage of Revenue Receipts	40.4	36.7	36.4	33.4	31.58

1.6.5 Huge expenditure on pension payments

The growth of expenditure on pension payments over the five-year period was as under:

Table 9

(Rupees in crore)

Year	Expenditure on pensions	Percentage to total revenue expenditure	Rate of growth
2000-01	2378	10.1	43.5
2001-02	2321	9.1	(-) 2.4
2002-03	2364	8.8	1.9
2003-04	2425	7.9	2.6
2004-05	3017	9.4	24.4

The sharp increase in pension payments during the current year was mainly due to release of withheld dearness relief (five instalments) and revision of pension/family pension to the retired officers from July 1996.

With the increase in the number of pensioners, the pension liabilities are likely to increase further in future. The Government introduced a Contributory Pension Scheme for employees recruited on or after 1 September 2004.

1.6.6 Interest payments

The Eleventh Finance Commission had recommended (August 2000) that as a medium term objective, the states should endeavour to keep interest payment, as a ratio to revenue receipts, at 18 per cent. It was however, observed that the interest payments were between 20 and 26 per cent of revenue receipts as shown in Table 10.

Table 10

Year	Interest payments (Rupees in crore)	Percentage of interest payment with reference to	
		Revenue Receipts	Revenue Expenditure
2000-01	3793	19.5	16.1
2001-02	4584	21.0	18.0
2002-03	6131	26.7	22.8
2003-04	6856	25.5	22.4
2004-05	7091	24.7	22.1

Interest payments increased steadily by 87 per cent during 2000-05 primarily due to increasing borrowings. The interest payment during 2004-05 comprised payment on internal debt (Rs 4500 crore), loans received from Central Government (Rs 2176 crore), Small Savings, Provident Funds, etc. (Rs 414 crore) and Reserve Fund (Rs 1 crore).

1.6.7 Subsidies

Though the finances of the State Government are under strain, the Government has been paying subsidies for Food and Energy sectors. During the last five years, State Government paid the subsidies as under:

Table 11

(Rupees in crore)

S.No.	Particulars	2000-01	2001-02	2002-03	2003-04	2004-05
1.	APTRANSCO (Energy Sector)	2228	2095	1554	1552	1816
2.	Subsidy on Rice	850	454	242	341	500
3.	Others	30	20	40	58	106
	Total	3108	2569	1836	1951	2422
	Percentage of increase (+)/ decrease (-) over previous year	(+) 182.0	(-) 17.3	(-) 19.5	(+) 6.3	(+)24.1
	Percentage of subsidy in total expenditure*	12.1	9.2	6.2	5.7	6.6

* Total expenditure excludes Loans and Advances

During the current year subsidies constituted about seven per cent of the total expenditure; 75 per cent of the subsidy was to APTRANSCO. The increase in subsidy is mainly attributable to free power provided to agricultural consumers.

1.7 Expenditure by allocative priorities

1.7.1 The expenditure of the State in the nature of plan expenditure, capital expenditure and development expenditure reflects its quality. Higher the ratio of these components to total expenditure, the better is the quality of expenditure. Table 12 gives these ratios during 2000-05.

Table 12: Quality of Expenditure (per cent to total expenditure)

	2000-01	2001-02	2002-03	2003-04	2004-05
Plan Expenditure	24.7	27.9	27.7	30.3	30.9
Capital Expenditure	8.0	7.9	9.4	9.7	12.0
Development Expenditure	62.7	33.7	59.5	60.7	60.7

All the three components of quality of expenditure indicated inter year variations. In the year 2004-05, while the shares of plan and capital expenditure were marginally higher, the development expenditure was static when compared to the previous year.

1.7.2 Expenditure on Social services (Rs 11257 crore) accounted for 48 per cent of the development expenditure. Expenditure on General Education, Health, Medical and Family Welfare, Water Supply, Sanitation, Housing and Urban Development constituted 68 per cent of the expenditure on Social services, as compared to 67 per cent in the previous year.

Table 13: Expenditure on Social Services

(Rupees in crore)

	2000-01	2001-02	2002-03	2003-04	2004-05
General Education	3740	3871	4027	4292	4334
Health, Medical and Family Welfare	1334	1367	1378	1484	1502
Water Supply, Sanitation, Housing and Urban Development	573	993	1394	1444	1815
Total	5647	6231	6799	7220	7651
As a percentage of expenditure on Social sector	67.9	71.6	72.2	66.5	68.0

1.7.3 Similarly, the expenditure on Economic Services (Rs 12018 crore) accounted for 51.6 per cent of the development expenditure during the year. Of this, Irrigation and Flood Control, Energy and Transport accounted for 69 per cent, as compared to 65 per cent in the previous year. During the current year major impetus was given to Irrigation and Flood Control.

Table 14: Expenditure on Economic Services

(Rupees in crore)

	2000-01	2001-02	2002-03	2003-04	2004-05
Irrigation and Flood Control	2590	2727	3117	3413	5225
Energy	2345	2328	1669	2484	1926
Transport	1231	1342	1478	1115	1117
Total	6166	6397	6264	7012	8268
As a percentage of expenditure on Economic sector	70.6	67.5	69.0	65.2	68.8

Financial Assistance to local bodies and other institutions

1.7.4 Extent of assistance

The quantum of assistance provided by way of grants and loans to local and autonomous bodies, etc., during the five year period 2000-2005 was as follows:

Table 15

(Rupees in crore)

	2000-01	2001-02	2002-03	2003-04	2004-05
Zilla Parishads and other Panchayat Raj institutions	3165.92	3259.35	2895.64	2895.25	2749.84
Municipal Corporations and Municipalities	482.06	388.54	509.31	298.06	643.97
Cooperative Societies	37.95	44.28	240.74	40.77	153.10
Universities and Educational institutions	1325.96	1272.93	1243.64	1217.48	1066.31
AP State Electricity Board (APGENCO and APTRANSCO)	3065.52	3150.87	2138.01	2937.33	2073.28
AP State Housing Corporation	200.86	283.22	263.52	442.55	494.53
Others	1419.95	2384.33	1967.89	3133.91	4031.87 ^s
Total	9698.22	10783.52	9258.75	10965.35	11212.90
Percentage of increase (+)/ decrease (-) over previous year	37.6	11.2	(-) 14.1	18.4	2.26
Assistance as a percentage of revenue expenditure	41.1	42.3	34.4	35.8	34.9

^s Includes assistance to AP Vaidya Vidhana Parishad (Rs 166.25 crore), Hyderabad Metropolitan Water Supply and Sewerage Board (Rs 30 Crore), assistance given to Municipalities and Urban Development Authorities (Rs 390.16 crore).

The assistance to local bodies and others during the year was 35 per cent of total revenue expenditure compared to 36 per cent in the previous year.

1.7.5 Delay in furnishing utilisation certificates

At the end of March 2005, 3002 utilisation certificates (UCs) relating to Rs 599.07 crore in respect of grants released up to September 2003 by five departments had not been received as detailed below:

Table 16

S. No.	Department	Number of UCs outstanding	Amount (Rupees in crore)	Earliest year of pendency
1	Revenue (Relief on account of natural calamities)	2447	474.71	1993-94
2	Panchayat Raj and Rural Development	410	61.39	1991-92
3	Municipal Administration and Urban Development	99	23.86	1998-99
4	Social Welfare (including Tribal Welfare)	42	37.67	1992-93
5	Education (School Education)	4	1.44	1992-93
	Total	3002	599.07	

1.7.6 Delay in submission of accounts

Submission of 1566 accounts from 103 Municipal Corporations/Municipalities to the Accountant General due as of February 2005 were not received even by the end of August 2005. These accounts were to be submitted in order to examine if they attract audit under Section 14 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 (Act).

Accounts of 23 autonomous bodies had not been submitted to Accountant General for audit under Sections 19(1), 19(2), 19(3) and 20(1) of the Act for periods ranging from one to 13 years (one body for 13 years and 2 bodies for 5 years and more) as detailed in *Appendix 1.4*.

1.7.7 Misappropriation and losses

Out of 585 cases of misappropriation amounting to Rs 3546.13 crore reported by the State Government up to the end of March 2005, 100 cases amounting to Rs 167.85 crore were disposed of and 485 cases amounting to Rs 3378.28 crore were outstanding at the end of June 2005. Of these, 454 cases involving Rs 860.78 crore related to the period 2000-01 and earlier years. The pace of settlement of the cases has been very slow indicating ineffective monitoring of misappropriation cases. The year-wise details are given in *Appendix 1.5*.

1.7.8 Schemes funded by Government of India – parking and diversion of Central funds

The funds provided by GOI for implementation of the Centrally Sponsored Schemes cannot be diverted and unspent balances, if any, should be remitted back to GOI. However, a test check of 12 offices² under four departments revealed that:

(a) Rs 137.12 lakh remained unutilised under the Operation Black Board (Old) Scheme (closed with effect from 31 March 2001) and were deposited in Bank³ (Rs 124.62 lakh) and Post Office⁴ (Rs 12.50 lakh), while Rs. 517.98 lakh was incorrectly remitted to State Government account⁵.

(b) Rs 1577.19 lakh diverted to State schemes between 2001-05 were not recouped to Central Scheme(s) as of July 2005. (Details are given in *Appendix 1.6*).

² (i) District Educational Officer, Chittoor, Kadapa, Khammam, Mahboobnagar, Medak, Nellore and Srikakulam districts (7); (ii) Project Directors at Kadapa and Medak and DW&CD Karimnagar (3); (iii) Additional DM&HO, Utnoor, Adilabad district; (iv) District Collector, Mahboobnagar

³ DEO, Chittoor (Rs 8.51 lakh), DEO, Nellore (Rs 47.26 lakh), DEO, Kadapa (Rs 9.80 lakh), DEO, Srikakulam (Rs 34.90 lakh) and DEO, Medak (Rs 24.15 lakh)

⁴ DEO, Mahboobnagar (Rs 12.50 lakh)

⁵ DEO, Chittoor (Rs 323.09 lakh and DEO, Kadapa (Rs 194.89 lakh)

1.8 Assets and liabilities

In the government accounting system, comprehensive accounting of fixed assets like land and buildings owned by Government is not done. However, the Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred. *Appendix 1.7* gives an abstract of such liabilities and the assets as on 31 March 2005, compared with the corresponding position as on 31 March 2004. The liabilities in this statement consist mainly of internal borrowings, loans and advances from the Government of India, Small Savings, PF, etc. Deposits and the Reserve Funds. Similarly, the assets comprise mainly the capital outlay, loans and advances given by the State Government and the cash balances. *Appendix 1.7* shows that the liabilities and assets had increased by 16 and 18 per cent respectively over the previous year. In physical terms, while the assets grew by Rs 7209 crore the liabilities grew by Rs 10596 crore and the ratio of liabilities to assets remained at 0.68. Thus, 32 per cent of the liabilities did not have an asset back up. The liabilities depicted in the Finance Accounts, however, do not include the pension and other retirement benefits payable to serving/retired state employees. *Appendix 1.8* depicts the Time series data on State Government Finances for the period 2000-05.

1.8.1 Investments and returns

As of March 2005, the Government had invested Rs 5673.70 crore in its Statutory Corporations, Government companies, Joint Stock Companies and Co-operative Societies. The Government's return on this investment was less than one per cent in the last five years. The Government however, paid interest on its borrowings at the average interest rate between 10 and 12 per cent during 2000-05 which resulted in an implicit subsidy of Rs 533.90 crore.

Table 17 : Return on Investment

	2000-01	2001-02	2002-03	2003-04	2004-05
Investment (Rs in crore)	3934.58	3975.02	4334.74	5223.84	5673.70
Returns (Rs in crore)	2.02	0.57	1.34	48.68	45.49
Percentage of returns	0.05	0.01	0.03	0.93	0.80
Average interest rate paid by Government (per cent)	10.22	10.41	11.99	11.49	10.21
Difference between interest rate and return (per cent)	10.17	10.41	11.96	10.56	9.41

1.8.2 Loans and advances by Government

In addition to investments in Co-operatives, Corporations and Companies, Government has also been providing support in terms of loans and advances to many of these institutions. Total outstanding loans as on 31 March 2005 was Rs 9639 crore. Interest received on such loans varied from 0.71 per cent to 4.5 per cent during 2000-05 (Table 18).

Table 18: Average Interest received on Loans Advanced by the State Government

(Rupees in crore)

	2000-01	2001-02	2002-03	2003-04	2004-05
Opening Balance	6667	7654	8405	9180	9419*
Amount Advanced during the year	1389	1698	1235	1494	1593
Amount repaid during the year	402	947	460	1256	1373
Closing Balance	7654	8405	9180	9418	9639
Net Addition	987	751	775	238	220
Interest Received	295	341	282	422	68
Interest Received as per cent to Loans advanced	4.1	4.3	3.2	4.5	0.71
Average interest paid by the State (per cent)	10.2	10.4	12.0	11.5	10.2
Difference between interest paid and received (per cent)	6.1	6.2	8.8	7.0	9.5

* differs by Rs one crore (increased) due to lower rounding of CB in 2003-04

1.8.3 Lack of accountability in the use of public funds in Departmental commercial undertakings

Activities of quasi-commercial nature are performed by the departmental undertakings of certain Government departments. These undertakings are required to prepare annually *pro forma* accounts in prescribed formats showing the results of operations. The Heads of Departments in Government are to ensure that the undertakings which are funded by budgetary releases, prepare the accounts in time and submit the same to the Accountant General for audit.

As of 31 March 2005 there were six departmentally managed commercial and quasi-commercial undertakings under the control of State Government besides three departmentally managed units of Tungabhadra project, (a joint venture of the Government of Andhra Pradesh and the Government of Karnataka). Preparation of *pro forma* accounts up to 2004-05 for all these units was in arrears for periods up to 40 years (one unit for 40 years, two for more than 30 years, one for more than 20 years and five for less than 10 years). Out of 164 accounts or revised accounts or due from nine units as of April 2004, twenty-five accounts were received during 2004-05 (*Appendix 1.9*).

1.8.4 Management of cash balances

To take care of any temporary mismatch in the flow of resources and expenditure obligations, a mechanism of ways and means advances (WMA) and overdraft from Reserve Bank of India has been put in place. After many years Government did not have to resort to overdraft facility for the first time during the current year.

Undischarged liabilities

1.8.5 Fiscal liabilities – public debt and guarantees

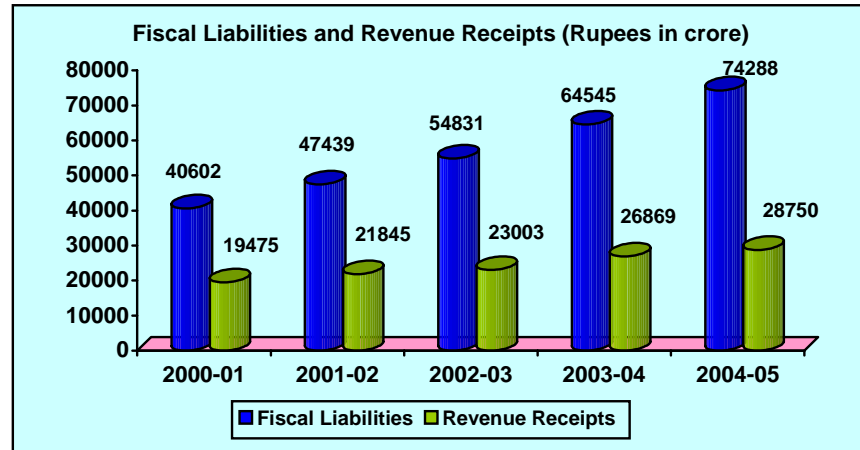
The Constitution of India provides that a State may borrow, within the territory of India upon the security of its Consolidated Fund, within such limits as may from time to time be fixed by the Act of its Legislature. However, no

law has been passed in the State to lay down any such limit. Table 19 below gives the fiscal liabilities of the State, its rate of growth, ratio of these liabilities to GSDP, to revenue receipts and to own resources, as also the buoyancy of the fiscal liabilities with respect to these parameters.

Table 19: Fiscal Liabilities- Basic Parameters
(Values in Rupees crore and ratios in per cent)

	2000-01	2001-02	2002-03	2003-04	2004-05
Fiscal Liabilities [§]	40602	47439	54831	64545	74288
Rate of Growth	20.7	16.8	15.6	17.7	15.1
Ratio of Fiscal Liabilities to					
GSDP	29.0	31.3	33.8	35.7	37.3
Revenue Receipt	208.5	217.2	238.4	240.2	258.4
Own Resources	305.4	327.9	339.6	370.7	371.3
Buoyancy of Fiscal Liabilities with reference to					
GSDP	1.744	2.092	2.162	1.554	1.495
Revenue Receipt	1.305	1.384	2.939	1.054	2.157
Own resources	1.287	1.907	1.344	2.263	0.011

§ Includes internal debt, loans and advances from GOI and other obligations at the end of the year



Overall fiscal liabilities of the State increased from Rs 40602 crore at the end of 2000-01 to Rs 74288 crore at the end of 2004-05. The growth rate was 15 per cent during 2004-05. The ratio of fiscal liabilities to GSDP also increased from 29 per cent in 2000-01 to 37 per cent in 2004-05. These liabilities stood at 2.6 times the revenue receipts and 3.7 times of state's own resources as at the end of 2004-05.

The fiscal liabilities had grown faster than the State's GSDP, revenue receipts and own resources. The buoyancy of these liabilities with respect to GSDP during the year was 1.495 indicating that for each one per cent increase in GSDP, fiscal liabilities grew by 1.50 per cent.

Fiscal liabilities are considered sustainable if the average interest paid on these liabilities is lower than the rate of growth of GSDP. However, in Andhra Pradesh, weighted interest rate was more than the GSDP growth rate resulting in negative interest spread in four out of five years (Table 20). This negative spread of interest may affect debt sustainability.

Table 20: Debt Sustainability- Interest Rate and GSDP Growth (in per cent)

	2000-01	2001-02	2002-03	2003-04	2004-05
Weighted Interest Rate	10.2	10.4	12.0	11.5	10.2
GSDP Growth	11.9	8.0	7.2	11.4	10.1
Interest spread	1.7	(-) 2.4	(-) 4.8	(-) 0.1	(-)0.1

Another important indicator of the debt sustainability is the net availability of the borrowed funds after repayment of principal and interest. Table 21 below gives the position of receipt and repayment of internal debt and other fiscal liabilities of the State over the last five years. The net availability of funds from the borrowings (public debt, loans and advances from GOI and other debt receipts) varied between 4.8 and 22.2 per cent during the period 2000-05. The net availability, however, increased during 2004-05 despite increased repayments during the current year.

Table 21: Net Availability of Borrowed Funds (Rs in crore)

	2000-01	2001-02	2002-03	2003-04	2004-05
Internal debt					
Receipt	13208	14891	9479	14865	7992
Repayment (Principal + Interest)	11475	14211	8506	13652	3059
Net Fund Available	1733	680	973	1213	4933
Net Fund Available (per cent)	13.1	4.6	10.3	8.2	61.7
Loans and Advances from GOI					
Receipt	1889	3717	2548	3118	1841
Repayment (Principal + Interest)	2701	3243	4653	6054	6595
Net Fund Available	(-)812	474	(-)2105	(-) 2936	(-)4754
Net Fund Available (per cent)	---	25.1	---	-	---
Other obligations					
Receipt	12195	11838	14189	15823	22169
Repayment (Principal + Interest)	9938	10739	11796	11241	15242
Total liabilities					
Receipt	27292	30446	26216	33806	32002
Payments	24114	28193	24955	30947	24896
Net receipts	3178	2253	1261	2859	7106
Net Funds Available (per cent)	11.6	7.4	4.8	8.5	22.2

The loans and advances from GOI outstanding as on 31 March 2005 were Rs 16129 crore. During 2004-05, Rs 3425 crore of high cost borrowings (interest of 12.5 per cent or more) under Block loans were repaid to GOI and fresh loans of Rs 1841 crore obtained.

1.8.6 Status of guarantees – a contingent liability

Guarantees constitute contingent liabilities on the Consolidated Fund of the State. In September 2003, Government fixed an explicit ceiling on giving guarantees upon the security of the Consolidated Fund of the State, according to which the total outstanding Government guarantees as on 1 April of any year shall not exceed 90 per cent of the revenue receipts of the second preceding year. Table 22 indicates the status of guarantees.

Table 22

(Rupees in crore)

	2000-01	2001-02	2002-03	2003-04	2004-05
Maximum amount guaranteed	20076	18537	24810	29545	28165
Outstanding guarantees	13160	10325	15317	17427	17893
Revenue receipts	19475	21845	23003	26869	28750
Outstanding guarantees/ revenue receipt of the second preceeding year (in per cent)	--	--	--	79.8	77.8

The amount of outstanding guarantees as on 31 March 2005 has not exceeded the ceiling of 90 per cent of the revenue receipts of the second preceding year. However, the maximum amount guaranteed and the outstanding guarantees of the State increased from Rs 20076 crore and Rs 13160 crore in 2000-01 to Rs 28165 crore and Rs 17893 crore respectively in 2004-05. The increasing outstanding guarantees imply that contingent liability was on the rise.

1.8.7 Use of extra budgetary resources

The Constitution of India provides for State Governments to borrow upon the security of the Consolidated Fund within the territory of India and within such limits as may be fixed from time to time by an Act of Legislature of the State. Such borrowings are generally projected in the Budget Estimates. Apart from such borrowings, sometimes, at the instance of Government, Government companies and corporations raise funds from the market or financial institutions for specific purpose which are deposited in Public Account under “Deposits of the Corporation”. The funds thus retained in Government account are not allowed to be used by the Corporation for the intended purpose but used by Government to maintain its ways and means position. As these borrowings are not projected in the budget, these are extra budgetary borrowings or off-budget borrowings. For repayment of the loans by the corporation, Government gives necessary funds from its budget.

During the current year AP Water Resources Development Corporation raised Rs 737 crore by way of term loans from Commercial banks for completion and maintenance of the various ongoing irrigation schemes and also for execution of new schemes. The total off-budget borrowings of the State Government outstanding as on 31 March 2005 were Rs 4021 crore according to the following data supplied by the Finance Department.

Table 23: Details of off-budget borrowings raised during 2000-05

(Rupees in crore)

Year	Source through which borrowed	Amount borrowed	Amount outstanding as on 31 March 2005
2000-01	AP TRANSCO	1053	610
2001-02	AP TRANSCO	876	876
2002-03	AP TRANSCO bonds	850	850
2003-04	AP TRANSCO bonds	380	380
	AP Water Resources Development Corporation	568	568
2004-05	AP Water Resources Development Corporation (APWRDC)	737	737
Total		4464	4021

The extra resources thus raised by Government were not included in the annual Budget Estimates for 2004-05 and thus the borrowings did not have the approval of the Legislature.

1.9 Management of deficits

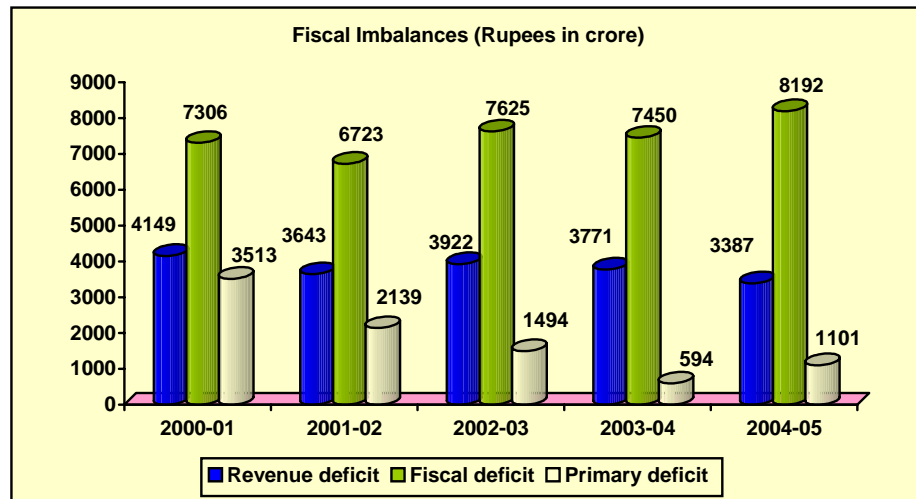
1.9.1 Fiscal imbalances

The deficit in Government account represents the gap between its receipts and expenditure. The nature of the deficit is an indicator of the prudence of fiscal management by the Government. Further, the ways in which the deficit is financed and the resources so raised and used are important pointers to the fiscal health of the Government. The revenue deficit of the State, which indicates the excess of its revenue expenditure over revenue receipts, decreased from Rs 4149 crore in 2000-01 to Rs 3387 crore in 2004-05 (Table 24).

The ratio of revenue deficit to fiscal deficit had decreased from 57 per cent in 2000-01 to 41 per cent in 2004-05 indicating that 41 per cent of the borrowed funds were used for current consumption. As proportion to the State's GSDP, the revenue deficit had reached 1.7 per cent and fiscal deficit 4.1 per cent in 2004-05.

**Table 24: Fiscal Imbalances- Basic Parameters
(Values in Rupees crore and ratios in per cent)**

	2000-01	2001-02	2002-03	2003-04	2004-05
Revenue Deficit	4149	3643	3922	3771	3387
Fiscal Deficit	7306	6723	7625	7450	8192
Primary Deficit	3513	2139	1494	594	1101
RD/GSDP	3.0	2.4	2.4	2.1	1.7
FD/GSDP	5.2	4.4	4.7	4.1	4.1
PD/GSDP	2.5	1.4	0.9	0.3	0.6
RD/FD	56.8	54.2	51.4	50.6	41.3



1.10 Fiscal Reforms Programme

The Government of Andhra Pradesh had drawn up the AP Medium Term Fiscal Reforms Programme (MTFRP) for 2000-01 to 2004-05 and entered into a Memorandum of Understanding (MOU) with GOI on 28 March 2003, in pursuance of the recommendations of the Eleventh Finance Commission (EFC).

The fiscal targets projected for 2004-05 in the Medium Term Fiscal Programme and the actual achievements are given in Table 25.

Table 25

(Rupees in crore)

S. No.		2004-05		Variation	Percentage of variation
		Projected	Actual		
1.	Revenue Receipts	30279	28750	(-)1529	5.05
(a)	State Own Tax Revenues	16963	16254	(-)709	4.18
(b)	Non-Tax revenue	2522	3756	(+)1234	48.93
(c)	Resources from the Centre	10794	8740	(-)2054	19.03
2.	Revenue Expenditure	31431	*32137	(+)706	2.25
(a)	Interest	7908	7091	(-)817	10.33
(b)	Salaries	9053	9078	(+)25	0.28
(c)	Pensions	3167	3017	(-)150	4.74
3.	Revenue Deficit	1152	3387	(+)2235	194.01
4.	Capital Expenditure	5702	*4585	(-)1117	19.59
5.	Fiscal Deficit	6445	8192	(+)1747	27.11
6.	Consolidated debt stock (including off budget borrowings)	70443	\$ 78309	(+)7866	11.16
7.	Guarantees	12469	#18701	(+)6232	49.97
8.	Off-budget borrowings	5556	4464	(-)1092	19.65

* after adjustment of revenue expenditure of Rs 829.48 crore incorrectly classified as capital expenditure.

\$ comprises Fiscal Liabilities Rs 74288 crore and Off-budget borrowings Rs 4021.crore.

includes interest of Rs 807.81 crore

Government has been successful in achieving the projections in non-tax revenue and pensions. Government however, failed to achieve the projected targets in other important areas such as state own tax revenues, revenue expenditure, capital expenditure, revenue deficit and fiscal deficit. Government also could not restrict the debt burden as projected.

1.11 Fiscal ratios

The finances of a State should be sustainable, flexible and non-vulnerable. Table 26 below presents a summarised position of government finances over 2000-05, with reference to certain key indicators that help assess the adequacy and effectiveness of available resources and their applications highlight areas of concern and capture its important facets.

Table 26: Indicators of Fiscal Health (in per cent)

Fiscal Indicators	2000-01	2001-02	2002-03	2003-04	2004-05
I. Resource Mobilisation					
Revenue Receipt/ GSDP	13.9	14.4	14.8	15.1	14.44
Revenue Buoyancy	1.337	1.504	0.862	1.579	0.693
Own tax/GSDP	7.5	7.6	7.8	7.7	8.2
Own Taxes Buoyancy	1.484	0.921	1.608	0.686	1.478
II. Expenditure Management					
Total Expenditure/GSDP	19.4	19.5	19.2	19.7	19.2
Revenue Receipt/Total Expenditure	71.6	74.0	74.0	75.5	75.0
Revenue Expenditure/Total Expenditure	86.9	86.4	86.6	86.1	84.0
Plan Expenditure/Total Expenditure	24.7	27.9	27.7	30.3	30.9
Capital Expenditure /Total Expenditure	8.0	7.9	9.4	9.7	12.0
Development Expenditure/ Total Expenditure	62.7	33.7	59.5	60.7	60.7
Buoyancy of TE with RR	1.49	0.70	1.01	0.86	1.10
Buoyancy of RE with RR	1.949	0.648	1.064	0.821	0.700
III. Management of Fiscal Imbalances					
Revenue deficit (Rs in crore)	4149	3643	3922	3771	3387
Fiscal deficit (Rs in crore)	7306	6723	7625	7450	8192
Primary Deficit (Rs in crore)	3513	2139	1494	594	1101
Revenue Deficit/Fiscal Deficit	56.8	54.2	51.4	50.6	41.3
IV. Management of Fiscal Liabilities (FL)					
Fiscal Liabilities/ GSDP	29.0	31.3	33.8	35.7	37.3
Fiscal Liabilities/RR	208.5	217.2	238.4	240.2	258.4
Buoyancy of FL with RR	1.305	1.384	2.939	1.054	2.156
Buoyancy of FL with own receipts	1.287	1.907	1.344	2.263	1.011
Interest spread	1.7	(-) 2.4	(-) 4.8	(-) 0.1	0.1
Net Funds Available	11.6	7.4	4.8	8.5	22.2
V. Other Fiscal Health Indicators					
Return on Investment	0.05	0.01	0.03	0.93	0.80
BCR (Rs in crore)	(-) 1337	(-) 327	(-) 22	230	1694
Financial Assets/ Liabilities	0.68	0.65	0.62	0.62	0.68

During 2000-05, the ratio of own taxes to GSDP had shown continuous improvement from 7.5 to 8.2 per cent except in 2003-04, when it declined marginally. The ratio of revenue receipts to GSDP also had a rising trend up to 2003-04 and during current year it has declined to 14.4 per cent. Revenue expenditure was 84 per cent of total expenditure during the year as against 86 per cent in 2003-04 leaving very little for capital formation. The ratio of development expenditure to total expenditure remained almost stagnant at 61 per cent during the last two years.

Huge revenue and fiscal deficits indicate growing fiscal imbalances. The primary deficit, steadily falling over the last four years, increased during the current year. The balance from current revenue (BCR) increased sharply over the previous year.

1.12 Conclusion

During the current year, Government succeeded in reducing the revenue deficit despite decrease in grants-in-aid from Government of India, because of considerable improvement in mobilisation of state's own revenue over the previous years. However, the fiscal deficit increased over the previous year mainly due to increased expenditure on irrigation and flood control. Balance from current revenues continued to be positive during the current year. Though the percentage of development expenditure in the total expenditure remained stagnant at 61 per cent, percentage of capital expenditure went up by 2.3 per cent over the previous year. While liabilities increased by 16 per cent the assets increased by 18 per cent over the previous year. Government did not resort to ways and means advance during the year showing better management of cash balances. Nevertheless, subsidies, borrowing and interest payments were on increase. The higher buoyancy to debt with regard to revenue receipts indicates decreased sustainability. Despite improvement in the ratio of assets to liabilities, 32 per cent of liabilities had no asset backup.