

CHAPTER I

FINANCES OF THE STATE GOVERNMENT

In Summary

In Andhra Pradesh the level of revenue deficit decreased from Rs 3922 crore in 2002-03 to Rs 3771 crore in 2003-04 (current year) and fiscal deficit from Rs 7625 crore to Rs 7450 crore in current year mainly due to a high growth in revenue receipts (17 per cent). As per Memorandum of Understanding with GOI in March 2000 and March 2003, however, fiscal deficit was to be reduced to Rs 7338 crore and revenue deficit to Rs 2132 crore by 2003-04, which was not achieved.

Revenue receipts of the State consist mainly of its own tax and non-tax revenue, Central tax transfers and grants-in-aid from Government of India. Overall revenue receipts increased from Rs 16805 crore in 1999-2000 to Rs 26869 crore in 2003-04. During the current year the revenue receipts grew by 17 per cent and 65 per cent of the revenue came from State's own resources. There was a substantial increase in Central tax transfers (17 per cent) and grants-in-aid from Government of India (73 per cent) compared to the previous year. Arrears of revenue as on 31 March 2004 were at a high of Rs 3672 crore and represented 21 per cent of tax and non-tax revenue receipts of the current year.

Total expenditure of the State increased from Rs 21977 crore in 1999-2000 to Rs 35575 crore in 2003-04. During 2003-04, total expenditure grew by 14 per cent over the previous year.

The revenue expenditure grew by 14 per cent during 2003-04. Developmental expenditure (Rs 21610 crore) was 61 per cent of the total expenditure.

During 2003-04 the interest payments were Rs 6856 crore and increased by 121 per cent during 1999-2004 primarily due to ever increasing borrowings. The outstanding fiscal liabilities as of March 2004 were as high as Rs 64545 crore, which were 36 per cent of the Gross State Domestic Product (GSDP). The average rate of interest paid on the borrowings of the State during 2003-04 (12 per cent) was more than the average rate of growth of GSDP (11 per cent), violating the cardinal rule of debt sustainability. The Government continued to depend on ways and means advance/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 a large revenue deficit could lead the State finances into a debt trap.

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, Contingency Fund and 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.

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.

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 Consolidated Fund, Contingency Fund and Public Account as on 31 March 2004.

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 2003-04 compared to the previous year were as under:

(Rupees in crore)

2002-03	S. No	Major Aggregates	2003-04
23003	1.	Revenue Receipts (2+3+4)	26869
12618	2.	Tax Revenue	13806
3529	3.	Non-Tax Revenue	3605
6856	4.	Other Receipts	9458
460	5.	Non-Debt Capital Receipts	1256
460	6.	Of which Recovery of Loans	1256
23463	7.	Total Receipts (1+5)	28125
21671	8.	Non-Plan Expenditure (9+11+12)	23858
21077	9.	On Revenue Account	23295
6131	10.	Of which, Interest Payments	6856
150	11.	On Capital Account	24
444	12.	On Loans disbursed	539
9417	13.	Plan Expenditure (14+15+16)	11717
5848	14.	On Revenue Account	7345
2778	15.	On Capital Account	3417
791	16.	On Loans disbursed	955
31088	17.	Total Expenditure (8+13)	35575
7625	18.	Fiscal Deficit (17-1-5)	7450
3922	19.	Revenue Deficit (9+14-1)	3771
1494	20.	Primary Deficit (18-10)	594

1.3 Summary of Receipts and Disbursements

Table 1 summarises the finances of the Government of Andhra Pradesh for the year 2003-04 covering revenue receipts and expenditure, capital receipts and expenditure, public debt receipts/disbursements and public account receipts/disbursements as emerging from Statement-1 of Finance Accounts and other detailed statements.

During the year, the State Government incorrectly classified expenditure of Rs 529.75 crore, being Grants-in-aid to Local Bodies and Rs 279.75 crore, being contribution to Reserve Fund/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 809.50 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 modified in the statements of this Chapter and all the indicators and ratios are worked out on that basis.

Table 1 : SUMMARY OF RECEIPTS AND DISBURSEMENTS FOR THE YEAR 2003-2004

(Rupees in crore)

2002-03	Receipts	2003-04	2002-03	Disbursements	2003-04		
Section-A: Revenue							
					Non-Plan	Plan	Total
23002.92	I. Revenue receipts	26868.50	26925.03	I. Revenue expenditure	23294.73	7344.91	30639.64
12617.56	Tax revenue	13805.93	11003.95	General Services	11999.69	133.85	12133.54
3529.42	Non-tax revenue	3604.65	8903.85	Social Services	6921.42	3678.13	10599.55
4315.81	Share of Union Taxes/ Duties	5068.53	6754.84	Economic Services	4093.75	3532.93	7626.68
2540.13	Grants from Government of India	4389.39	262.39	Grants-in-aid / Contributions	279.87	-	279.87
Section-B: Capital							
-	II. Miscellaneous Capital Receipts	-	2927.94	II. Capital Outlay	23.72	3417.65	3441.37
460.19	III. Recoveries of Loans and Advances	1255.66	1235.44	III Loans and Advances disbursed	538.43	955.20	1493.63
7802.38	IV. Public debt receipts*	10626.93	3284.18	IV Repayment of Public Debt*[@]	-	-	5925.06
3.50	V. Contingency Fund	-	4.36	V. Contingency Fund	-	-	19.08
25646.52	VI. Public account receipts	30495.26	22465.49	VI. Public account disbursements	-	-	26459.33
446.06	Opening cash Balance	519.13	519.13	Closing cash Balance	-	-	1787.37
57361.57	Total	69765.48	57361.57	Total			69765.48

* Includes net ways and means advances and over draft

[@] 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 1999-2000 to 2003-04 have been adopted from the Economic Survey for 2003-04 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
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.	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.	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.

State finances by key indicators

1.5 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 are comprised of miscellaneous receipts such as proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources (market loans, borrowings from financial institutions/commercial banks) and loans and advances from GOI as well as accruals from Public Account.

Table 2 shows that the total receipts of the State Government for the year 2003-04 were Rs 69247 crore. Of these, the revenue receipts were Rs 26869 crore only, constituting 39 per cent of the total receipts. The balance of receipts came from borrowings and Public Account receipts.

Table 2 – Resources of Andhra Pradesh

(Rupees in crore)

I.	Revenue Receipts		26869
II.	Capital Receipts		11883
	(a) Miscellaneous Capital Receipts	-	
	(b) Recovery of Loans and Advances	1256	
	(c) Public Debt Receipts	10627	
III.	Contingency Fund Receipts		-
IV.	Public Account Receipts		30495
	(a) Small Savings, Provident Fund, etc.	3473	
	(b) Reserve Fund	857	
	(c) Deposits and Advances	11823	
	(d) Suspense and Miscellaneous	9134	
	(e) Remittances	5208	
	Total Receipts		69247

1.5.1 Revenue Receipts

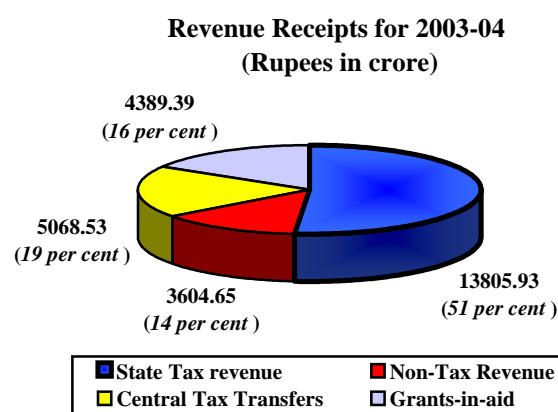
Statement-11 of the Finance Accounts details the revenue receipts of the Government. The revenue receipts consist of its own tax and non-tax revenues, Central tax transfers and grants-in-aid from GOI. Overall revenue receipts, its annual rate of growth, ratio of these receipts to the State's Gross Domestic 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)

	1999-2000	2000-01	2001-02	2002-03	2003-04
Revenue Receipts	16805	19475	21845	23003	26869
Own Taxes	53.6	54.2	52.9	54.9	51.4
Non-Tax Revenue	14.5	14.1	13.4	15.3	13.4
Central Tax Transfers	19.9	20.4	18.6	18.8	18.9
Grants-in-aid	12.0	11.3	15.2	11.0	16.3
Rate of Growth	17.9	15.9	12.2	5.3	16.8
Revenue Receipt/GSDP	13.4	13.9	14.4	14.3	15.1
Revenue Buoyancy	1.992	1.337	1.504	0.862	1.579
GSDP Growth	9.0	11.9	8.1	6.2	10.7

The revenue receipts of the government increased from Rs 16805 crore in 1999-2000 to Rs 26869 crore in 2003-04. It grew by about 17 per cent above the previous year. During the five-year period 1999-2004, the State had a buoyant economy with its GSDP growth ranging between 6 and 12 per cent; it was nearly 11 per cent during 2003-04. Revenue growth rate exceeded GSDP growth rate during the five-year period, except in 2002-03.

While 65 per cent of the revenue receipts during 2003-04 have come from State's own resources (comprising of taxes and non-tax revenue), Central tax transfers and grants-in-aid together contributed 35 per cent. Sales Tax was the major contributor (66 per cent) of the State's own tax revenue followed by State Excise (14 per cent), Stamps and Registration fees (8 per cent), taxes on vehicles (8 per cent). Of the non-tax revenue sources, interest receipts (50 per cent) and receipts from Non-ferrous Mining and Metallurgical Industries (21 per cent) were the principal contributors. Interest receipts however, included Rs 1494 crore which was only notional in nature arising out of book adjustments from Irrigation, Power and Drainage projects.



The arrears of revenue increased by 62 per cent from Rs 2265 crore as of March 2000 to Rs 3672 crore as of March 2004. Of these, Rs 1495 crore (41 per cent) were more than five years old.

The sources of receipts under different heads as well as the GSDP during 1999-2004 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		
1999-2000	16805	196	5505	17066	39572	125236
2000-01	19475	402	5261	22026	47164	140119
2001-02	21845	947	7340	21777	51909	151459
2002-03	23003	460	7802	25646	56911	160768
2003-04	26869	1256	10627	30495	69247	177883

* Slightly differ from item no. 9 of *Appendix 1.7* due to exclusion of receipts into Contingency Fund

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 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 and 2002-03, Government however, provided for and booked expenditure of Rs 553.71 crore, Rs 761.59 crore and Rs 868.14 crore respectively as grants-in-aid to local bodies and contributions to Reserve Fund/transfer to Deposit Account under Capital section of Accounts. Though the misclassification was pointed out in earlier Audit Reports, Government continued the misclassification in the current year and booked Rs 529.75 crore being grants-in-aid to local bodies and Rs 279.75 crore being contribution to Central Road Fund (Rs 77.08 crore), Guarantee Redemption Fund (Rs 60 crore) and Sinking Fund (Rs 142.67 crore) under Capital section. The incorrect classification increased the capital outlay and reduced the revenue expenditure as well as revenue deficit in the Finance Accounts by Rs 809.50 crore. Further, subsidy of Rs 1552 crore to Transmission Corporation of Andhra Pradesh Limited (APTRANSCO) was classified under plan expenditure, instead of non-plan expenditure.

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 21977 crore in 1999-2000 to Rs 35575 crore in 2003-04.

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

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)**

	1999-2000	2000-01	2001-02	2002-03	2003-04
Total Expenditure*	21977	27183	29515	31088	35575
Rate of Growth	7.9	23.7	8.6	5.3	14.4
TE/GSDP Ratio	17.6	19.4	19.5	19.3	20.0
Revenue Receipts/ TE Ratio	76.5	71.6	74.0	74.0	75.5
Buoyancy of Total Expenditure with					
GSDP	0.886	1.993	1.060	0.867	1.356
Revenue Receipts	0.445	1.491	0.705	1.005	0.859

* Total Expenditure includes Revenue Expenditure, Capital Expenditure and Loans & Advances

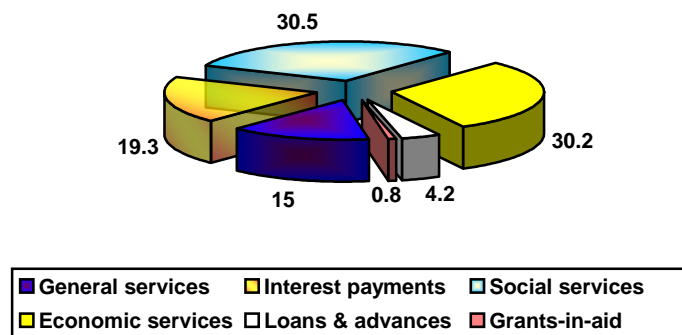
Consistent increase of total expenditure over the five-year period 1999-2004 was also reflected in the gradual increase in the percentage of total expenditure to GSDP (18 to 20 per cent). Total expenditure in 2003-04 has shown a huge increase of Rs 4487 crore over that of the previous year. This was due to increase in non-plan revenue expenditure by Rs 2218 crore, in plan revenue expenditure by Rs 1497 crore and in capital expenditure by Rs 513 crore compared to the previous year.

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)

	1999-2000	2000-01	2001-02	2002-03	2003-04
General Services	16.8	17.6	16.2	15.9	15.0
Interest Payments	14.1	14.0	15.5	19.7	19.3
Social Services	34.2	30.6	29.5	30.3	30.5
Economic Services	25.5	32.1	32.1	29.2	30.2
Loans and Advances	8.9	5.1	5.8	4.0	4.2
Grants-in-aid	0.6	0.6	1.0	0.8	0.8

Relative Share of Expenditure - 2003-04 (in percentage)



The relative share of interest payments in total expenditure has been on the rise over the years, due to sharp increase in the interest payments. There were inter-year variations in the other components. Of the total expenditure, the non-developmental expenditure during 2003-04 (General services including interest payments) accounted for 34 per cent, the development expenditure (on Social services and Economic services) accounted for 61 per cent and loans & advances and Grants-in-aid accounted for 5 per cent.

Incidence of revenue expenditure

1.6.3 Revenue expenditure had the predominant share in the total expenditure. Revenue 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

	1999-2000	2000-01	2001-02	2002-03	2003-04
Revenue Expenditure (Rupees in crore)	18038	23624	25488	26925	30640
Rate of Growth (per cent)	6.5	31.0	7.9	5.6	13.8
RE/GSDP	14.4	16.9	16.8	16.8	17.2
RE as percentage of TE	82.1	86.9	86.4	86.6	86.1
RE as percentage of RR	107.3	121.3	116.7	117.1	114.0
Buoyancy of Revenue Expenditure with					
GSDP	0.721	2.606	0.975	0.917	1.296
Revenue Receipts	0.362	1.949	0.648	1.064	0.821

The growth of revenue expenditure during 2003-04 was nearly 14 per cent as compared to 6 per cent in 2002-03. During 2003-04, 86 per cent of the total expenditure was on revenue expenditure.

During 2003-04, nearly 75 per cent of revenue receipts were expended on salaries (Rs 8975 crore), interest payments (Rs 6856 crore), pensions (Rs 2425 crore) and subsidies (Rs 1915 crore). These accounted for 66 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 2003-04 was a third of the revenue receipts. It ranged between 5 and 5.6 per cent of GSDP during the period from 1999-2000 to 2003-2004 as indicated in the Table 8.

Table 8

(Rupees in crore)

Heads	1999-2000	2000-01	2001-02	2002-03	2003-04
Salary expenditure*	6719	7865	8017	8367	8975
As a percentage of GSDP	5.4	5.6	5.3	5.2	5.0
As a percentage of Revenue Receipts	40.0	40.4	36.7	36.4	33.4

* Differs with the figures in Audit Report 2002-03 due to inclusion of salary expenditure on capital account

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
1999-2000	1657	9.2	20.7
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

With the increase in 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, 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 19 and 27 per cent of revenue receipts as shown below:

Table 10

Year	Interest payments (Rupees in crore)	Percentage of interest payment with reference to	
		Revenue Receipts	Revenue Expenditure
1999-2000	3101	18.5	17.2
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

Interest payments increased by 121 per cent during 1999-2004 primarily due to ever increasing borrowings. The interest payment during 2003-04 was on internal debt (Rs 4071 crore), loans received from Central Government (Rs 2353 crore) and Small Savings, PF, etc. (Rs 432 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, Government paid the subsidies as under:

Table 11

(Rupees in crore)

S.No.	Particulars	1999-2000	2000-01	2001-02	2002-03	2003-04
1.	APTRANSCO (Energy Sector)	25	2228	2095	1554	1552
2.	Subsidy on Rice	1063	850	454	242	341
3.	Others	14	30	20	40	58
	Total	1102	3108	2569	1836	1951
	Percentage of increase (+)/ decrease (-) over previous year	(+) 38.6	(+) 182.0	(-) 17.3	(-) 19.5	(+) 6.3
	Percentage of subsidy in total expenditure*	5.5	12.1	9.2	6.2	5.7

* Total expenditure excludes Loans and Advances

During the current year subsidies constituted about six per cent of the total expenditure; 80 per cent of the subsidy was paid to APTRANSCO.

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, better is the quality of expenditure. Table 12 gives these ratios during 1999-2004.

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

	1999-2000	2000-01	2001-02	2002-03	2003-04
Plan Expenditure	20.9	24.7	27.9	27.7	30.3
Capital Expenditure	9.1	8.0	7.9	9.4	9.7
Development Expenditure	59.6	62.7	33.7	59.5	60.7

All the three components of quality of expenditure indicated inter year variations. In the year 2003-04, the shares of Plan expenditure, Capital expenditure and development expenditure (expenditure on Economic and Social Services) were marginally higher when compared to the previous year.

1.7.2 Expenditure on social services (Rs 10859 crore) accounted for 50 per cent of the development expenditure. Expenditure on General Education, Health, Medical and Family Welfare, Water supply, sanitation, Housing and Urban Development constituted 67 per cent of the expenditure on Social services, as compared to 72 per cent in the previous year.

Table 13: Expenditure on Social Services

(Rupees in crore)

	1999-2000	2000-01	2001-02	2002-03	2003-04
General Education	3304	3740	3871	4027	4292
Health, Medical and Family Welfare	1154	1334	1367	1378	1484
Water Supply, Sanitation, Housing and Urban Development	578	573	993	1394	1444
Total	5036	5647	6231	6799	7220
As a percentage of expenditure on Social sector	67.0	67.9	71.6	72.2	66.5

1.7.3 Similarly, the expenditure on Economic Services (Rs 10751 crore) accounted for 50 per cent of the development expenditure. Of this, Irrigation and flood control, Energy and Transport accounted for 65 per cent, as compared to 69 per cent in the previous year.

Table 14: Expenditure on Economic Services

(Rupees in crore)

	1999-2000	2000-01	2001-02	2002-03	2003-04
Irrigation and flood control	2274	2590	2727	3117	3413
Energy	343	2345	2328	1669	2484
Transport	828	1231	1342	1478	1115
Total	3445	6166	6397	6264	7012
As a percentage of expenditure on Economic sector	61.5	70.6	67.5	69.0	65.2

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 bodies during the five-year period 1999-2004 was as follows:

Table 15

(Rupees in crore)

	1999-2000	2000-01	2001-02	2002-03	2003-04
Zilla Parishads and other Panchayat Raj institutions	1957.61	3165.92	3259.35	2895.64	2895.25
Municipal corporations and Municipalities	418.75	482.06	388.54	509.31	298.06
Cooperative Societies	99.59	37.95	44.28	240.74	40.77
Universities and Educational institutions	1127.31	1325.96	1272.93	1243.64	1217.48
AP State Electricity Board (APGENCO and APTRANSCO)	1548.42	3065.52	3150.87	2138.01	2937.33
AP State Housing Corporation	171.24	200.86	283.22	263.52	442.55
Others	1726.79	1419.95	2384.33	1967.89	3133.91 ⁵
Total	7049.71	9698.22	10783.52	9258.75	10965.35
Percentage of increase (+)/ decrease (-) over previous year	(-) 18.8	37.6	11.2	(-) 14.1	18.4
Assistance as a percentage of revenue expenditure	39.1	41.1	42.3	34.4	35.8

⁵ Includes assistance to AP Vaidya Vidhana Parishad (Rs 159.13 crore), AP Urban Infrastructure Corporation (Rs 35.62 crore), AP State Road Transport Corporation (Rs 100 crore) and AP State Police Housing Corporation (Rs 68.27 crore)

The assistance to local bodies and others during the year was 36 per cent of total revenue expenditure compared to 34 per cent in the previous year.

1.7.5 Delay in furnishing utilisation certificates

At the end of March 2004, 3002 utilisation certificates (UCs) for Rs 599 crore in respect of grants released upto September 2002 by five departments had not been received as detailed below:

Table 16

Department	Number of UCs outstanding	Amount (Rupees in crore)	Earliest year of pendency
Revenue (Relief on account of Natural calamities)	2447	474.71	1993-94
Panchayat Raj and Rural Development	410	61.39	1991-92
Municipal Administration and Urban Development	99	23.86	1998-99
Social Welfare (including Tribal Welfare)	42	37.67	1992-93
Education (School Education)	4	1.44	1992-93
Total	3002	599.07	

1.7.6 Delay in submission of accounts

Submission of 1532 accounts from 104 Municipal Corporations/ Municipalities to the Accountant General (AG) up to 31 March 2004 were due as of September 2004. 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.

Accounts of 21 autonomous bodies had not been submitted to AG for audit under Sections 19(1), 19(2), 19(3) and 20(1) of the CAG's (DPC) Act, 1971 for the period ranging from one to 12 years (two bodies for 12 years and two bodies for five years and more) as detailed in *Appendix 1.2*.

Misappropriations and losses

1.7.7 Out of 606 cases of misappropriation amounting to Rs 34.30 crore reported by the State Government up to the end of March 2004, 33 cases amounting to Rs 0.15 crore were disposed off and 573 cases amounting to Rs 34.15 crore were outstanding at the end of June 2004. Of these, 542 cases involving Rs 9.65 crore related to the period 1999-2000 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 1.3*.

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 1.4* gives an abstract of such liabilities and the assets as on 31 March 2004, compared with the corresponding position on 31 March 2003. While the liabilities in this statement consist mainly of internal borrowings, loans and advances from the Government of India, receipts from the Public Account and Reserve Funds, the assets comprise mainly the capital outlay, loans and advances given by the State Government and the cash balances. *Appendix 1.4* shows that both the liabilities and assets had increased by 18 per cent over the previous year. In physical terms, while the assets grew by Rs 6289 crore the liabilities grew by Rs 10059 crore and the ratio of assets to liabilities remained at 0.62. Thus, 38 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, guarantees/letters of comforts issued by the Government. *Appendix 1.7* depicts the Time series data on State Government Finances for the period 1999-2004.

1.8.1 Incomplete projects

Since inception of the Five-Year Plans in 1951, the State Government had so far (March 2004) taken up the construction of 100 irrigation projects in all (21 major and 79 medium) with an envisaged irrigation potential to an ayacut of 92.62 lakh acres. As of June 2004, 24 projects (10 major and 14 medium) listed in

Appendix 1.8 whose scheduled date of completion expired long back were still at different stages of execution; 17 of them were more than 20 years old.

Of these, 11 projects (expenditure incurred: Rs 2529 crore) had not benefited even a single acre as against the contemplated irrigation potential of 6.88 lakh acres; 13 projects (expenditure incurred: Rs 6725 crore) had yielded partial benefit only to 32.30 lakh acres as against the expected irrigation potential of 41.40 lakh acres.

Paucity of funds, delay in receipt of concurrence from the neighbouring States, non-receipt of clearances from the Forest Department and Central Water Commission, delays in acquisition of land were some of the reasons adduced by the Chief Engineers of the projects concerned for the projects remaining incomplete.

Delay in completion of the projects resulted in huge cost over run (583 per cent) and non-achievement of the intended benefits.

1.8.2 Investments and returns

As on 31 March 2004, Government had invested Rs 5223.84 crore in its Statutory Corporations, Government companies, Joint Stock Companies and Co-operative Societies. Government's return on this investment was less than one per cent in the last five years. Government, however, paid interest on its borrowings at the average rates between 10.02 to 11.99 per cent during 1999-2004. Thus, the implicit subsidy during 1999-2004 was Rs 2264 crore.

Table 17 : Return on Investment

	1999-2000	2000-01	2001-02	2002-03	2003-04
Investment (Rs in crore)	3832.34	3934.58	3975.02	4334.74	5223.84
Returns (Rs in crore)	2.91	2.02	0.57	1.34	48.68
Percentage of returns	0.08	0.05	0.01	0.03	0.93
Average interest rate paid by Government	10.02	10.22	10.41	11.99	11.49
Difference between interest rate and return	9.93	10.17	10.41	11.96	10.56
Implicit subsidy (Rs in crore)	381	400	413	518	552

1.8.3 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/organisations. Total outstanding loans as on 31 March 2004 was Rs 9418 crore. Interest received on such loans varied from 3.2 per cent to 6.1 per cent during 1999-2004 (Table 18). Total implicit subsidy during 1999-2004 on such loans was Rs 480 crore.

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

(Rupees in crore)

	1999-2000	2000-01	2001-02	2002-03	2003-04
Opening balance	4916	6667	7654	8405	9180
Amount advanced during the year	1947	1389	1698	1235	1494
Amount repaid during the year	196	402	947	460	1256
Closing balance	6667	7654	8405	9180	9418
Net addition	1751	987	751	775	238
Interest received	353	295	341	282	422
Interest received as per cent to Loans advanced	6.1	4.1	4.3	3.2	4.5
Average interest paid by the State (per cent)	10.0	10.2	10.4	12.0	11.5
Difference between interest paid and received (per cent)	3.9	6.1	6.2	8.8	7.0
Implicit subsidy	76	85	105	109	105

1.8.4 Loan Administration

The Social Welfare department disbursed loans amounting to Rs 27.06 crore to four corporations and the Housing department provided Rs 2774.80 crore to five corporations/organisations up to 31 March 2004 (*Appendix 1.9*)

As the Government did not take effective steps to recover the loans, the repayment of loans by these Corporations was very poor. Further the orders of Government (May 2003) to convert pre 1994-95 loans to AP State Police Housing Corporation Limited amounting to Rs 138.11 crore, as capital expenditure by adjustment of value of the quarters and other buildings handed over to Government were not implemented as of September 2004 even though budget release orders for the purpose were issued in January 2004 by the Finance Department.

While the Government did not take effective steps to recover the loans given to various corporations/institutions, its own borrowings were increasing year after year.

1.8.5 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 financial operations. The Heads of Departments in Government are to ensure that the undertakings which are funded by the budgetary releases, prepare the accounts in time and submit the same to Accountant General for audit.

As of 31 March 2004 there were six such departmentally managed commercial and quasi-commercial undertakings under the control of State Government and 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 2003-04 for all these units was in arrears for periods ranging from 1 to 40 years (one unit for 40 years, two for more than 30 years, two for more than 20 years and four for less than 10 years). Out of 168 accounts/ revised accounts due from all the nine units as of April 2003, four accounts only were received during 2003-04 (*Appendix 1.10*).

1.8.6 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. Government availed overdraft facility for 31 days in the current year, which was an improvement compared to the position in the last four years. Government, however, availed WMA facilities for 181 days during 2003-04 as against 137 days in 2002-03 indicating that further improvement is necessary in the management of cash balance. Details are indicated in Table 19.

Table 19: Ways and means and overdrafts of the State and interest paid thereon

(Rupees in crore)

	1999-2000	2000-01	2001-02	2002-03	2003-04
Ways and Means Advances					
Taken in the year	4395.09	4261.54	5114.48	2189.40	5653.13
Outstanding	316.41	404.90	---	---	--
Interest Paid	13.43	18.72	24.88	10.67	12.66
Number of Days	174	121	164	137	181
Overdraft					
Taken in the year	2972.79	5101.61	5582.68	1925.40	1600.06
Outstanding	---	---	---	---	--
Interest Paid	2.27	9.47	8.74	1.08	3.01*
Number of Days	117	167	172	33	31

* includes interest of Rs 1.17 crore paid on overdraft availed during 2002-03

Undischarged liabilities

1.8.7 Fiscal liabilities – public debt and guarantees

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 20 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 20: Fiscal Liabilities- Basic Parameters
(value in Rupees crore and ratios in per cent)**

	1999-2000	2000-01	2001-02	2002-03	2003-04
Fiscal Liabilities ⁵	33630	40602	47439	54831	64545
Rate of Growth	18.9	20.7	16.8	15.6	17.7
Ratio of Fiscal Liabilities to					
GSDP	26.9	29.0	31.3	34.1	36.3
Revenue Receipt	200.1	208.5	217.2	238.4	240.2
Own Resources	293.7	305.4	327.9	339.6	370.7
Buoyancy of Fiscal Liabilities to					
GSDP	2.103	1.744	2.081	2.535	1.664
Revenue Receipt	1.056	1.305	1.384	2.939	1.054
Own resources	1.126	1.287	1.907	1.344	2.263

⁵ Includes internal debt, loans and advances from GOI and other obligations

Overall fiscal liabilities of the State increased from Rs 33630 crore in 1999-2000 to Rs 64545 crore in 2003-04. The growth rate was nearly 18 per cent during 2003-04. The ratio of fiscal liabilities to GSDP also increased from 27 per cent in 1999-2000 to 36 per cent in 2003-04. These liabilities stood at 2.4 times the revenue receipts and 3.7 times of state's own resources as at the end of 2003-04.

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 1.664 indicating that for each one per cent increase in GSDP, fiscal liabilities grew by 1.66 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 21). This negative spread of interest may affect debt sustainability.

Table 21: Debt Sustainability - Interest Rate and GSDP Growth (in per cent)

	1999-2000	2000-01	2001-02	2002-03	2003-04
Weighted Interest Rate	10.0	10.2	10.4	12.0	11.5
GSDP Growth	9.0	11.9	8.1	6.2	10.7
Interest spread	(-) 1.0	1.7	(-) 2.3	(-) 5.8	(-) 0.8

Another important indicator of the debt sustainability is the net availability of the borrowed funds after repayment of principal and interest. Table 22 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 per cent and 11.6 per cent during the period 1999-2004. The net availability, however, increased

during 2003-04 despite increased repayments during the current year.

Table 22: Net Availability of Borrowed Funds (Rs in crore)

	1999-2000	2000-01	2001-02	2002-03	2003-04
Internal debt					
Receipt	9976	13208	14891	9479	14865
Repayment (Principal + Interest)	8956	11475	14211	8506	13652
Net Fund Available	1020	1733	680	973	1213
Net Fund Available (per cent)	10.2	13.1	4.6	10.3	8.2
Loans and Advances from GOI					
Receipt	3189	1889	3717	2548	3118
Repayment (Principal + Interest)	2292	2701	3243	4653	6054
Net Fund Available	897	(-)812	474	(-)2105	(-) 2936
Net Fund Available (per cent)	28.1	---	25.1	---	-
Other obligations					
Receipt	10178	12195	11838	14189	15823
Repayment (Principal + Interest)	9863	9938	10739	11796	11241
Total liabilities					
Receipt	23343	27292	30446	26216	33806
Payments	21111	24114	28193	24955	30947
Net receipts	2232	3178	2253	1261	2859
Net Funds Available (per cent)	9.6	11.6	7.4	4.8	8.5

The loans and advances from GOI outstanding as on 31 March 2004 were Rs 18706 crore. During 2003-04, Rs 2436.52 crore of high cost borrowings (interest of 13 per cent or more) were repaid to GOI and fresh loans of Rs 3118 crore obtained.

1.8.8 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 23 indicates the status of guarantees.

Table 23

(Rupees in crore)

	1999-2000	2000-01	2001-02	2002-03	2003-04
Maximum amount guaranteed	21394	20076	18537	24810	29545
Outstanding guarantees	12683	13160	10325	15317	17427
Revenue receipts	16805	19475	21845	23003	26869
Outstanding guarantees/revenue receipt of the second preceding year (in per cent)	--	--	--	--	79.8

The amount of outstanding guarantees as on 31 March 2004 has not exceeded the ceiling limit 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 21394 crore and Rs 12683 crore in 1999-2000 to Rs 29545 crore and Rs 17427 crore respectively in 2003-04. The increasing outstanding guarantees imply that contingent liability was on the rise.

1.8.9 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 Government asks Government companies/corporations to raise funds from the market or financial institutions for specific purposes. These funds 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/off-budget borrowings. For repayment of the loans by the corporation, Government gives necessary funds from its budget.

The off-budget borrowings of the State Government outstanding as on 31 March 2004 were Rs 3310 crore according to the following data supplied by the Finance department.

Table 24 : Details of off-budget borrowings raised during 1999-2004

(Rupees in crore)

Year	Source through which borrowed	Amount borrowed	Amount outstanding as on 31 March 2004
1999-2000	AP Industrial Infrastructure Corporation	406	406
2000-01	AP Power Finance Corporation (APPFC)	1053	610
2001-02	APPFC	876	876
2002-03	APPFC	850	850
	AP Road Development Corporation	165	Nil
2003-04	AP Water Resources Development Corporation (APWRDC)	568	568
Total		3918	3310

Government created special purpose vehicle in AP Water Resources Development Corporation (APWRDC)² to raise resources from the market by issue of bonds during 2003-04. The APWRDC raised Rs 568.03 crore by private placement of secured redeemable non-convertible bonds to part finance the capital outlay for the Godavari Lift Irrigation Scheme Project and deposited in Public Account. APWRDC has not withdrawn any amount³.

² The APWRDC was incorporated in January 1997 by an Act of Legislature for promotion and operation of irrigation projects and other allied and incidental activities.

³ As per the plus and minus memorandum of DTO, Hyderabad (U) for the month of February 2004

Government has given an unconditional and irrevocable guarantee and agreed that during the entire tenure of the bonds, an amount equal to the interest payment and/or principal instalments due in each year would be earmarked for disbursement out of the annual budgetary provision for APWRDC in the Government budget.

The extra resources thus raised by Government were not included in the annual budget estimates for 2003-04 and thus the borrowing does 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 are applied are important pointers to its fiscal health. The revenue deficit of the State, which indicates the excess of its revenue expenditure over revenue receipts, increased from Rs 1233 crore in 1999-2000 to Rs 3771 crore in 2003-04 (Table 25).

The ratio of revenue deficit to fiscal deficit had increased from 25 per cent in 1999-2000 to 51 per cent in 2003-04 indicating that more than half of the borrowed funds were used for current consumption. Persistently high ratio of revenue deficit to fiscal deficit also indicated that the asset base of the State was continuously shrinking and increasingly a large part of borrowings (fiscal liabilities) were not having an asset backup. As proportion to the State's GSDP, the revenue deficit had reached 2.1 per cent and fiscal deficit 4.2 per cent in 2003-04.

**Table 25: Fiscal Imbalances- Basic Parameters
(Values in Rupees crore and ratios in per cent)**

	1999-2000	2000-01	2001-02	2002-03	2003-04
Revenue Deficit	1233	4149	3643	3922	3771
Fiscal Deficit	4976	7306	6723	7625	7450
Primary Deficit	1875	3513	2139	1494	594
RD/GSDP	1.0	3.0	2.4	2.4	2.1
FD/GSDP	4.0	5.2	4.4	4.7	4.2
PD/GSDP	1.5	2.5	1.4	0.9	0.3
RD/FD	24.8	56.8	54.2	51.4	50.6

1.10 Fiscal Reforms Programme

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 2003-04 in the MTFRP and the actual achievements are given in Table 26.

Table 26

(Rupees in crore)

		2003-04		Excess (+)/ Saving (-)	Percentage variation
		Projected	Actual		
1.	Revenue Receipts	27714	26869	(-)845	3.0
(a)	State Own Tax Revenues	14735	13806	(-)929	6.3
(b)	Non-Tax revenue	2168	3605	(+)1437	66.3
(c)	Resources from the Centre	10811	9458	(-)1353	12.5
2.	Revenue Expenditure	29846	30640*	(+)794	2.6
(a)	Interest payments	6924	6856	(-)68	1.0
(b)	Salaries	8398	8975	(+)577	6.9
(c)	Pensions	2879	2425	(-)454	15.8
3.	Revenue deficit	2132	3771	(+)1639	76.9
4.	Capital expenditure	5975	3441*	(-)2534	42.0
5.	Fiscal deficit	7338	7450	(+)112	1.5
6.	Consolidated debt stock (including off budget borrowings)	59476	67855	(+)8379	14.0
7.	Guarantees	15709	18184 [#]	(+)2475	15.7
8.	Off-budget borrowings	2335	3310	(+)975	41.7

* after adjustment of revenue expenditure of Rs 809.50 crore incorrectly classified as capital expenditure

includes interest

It would be seen from the above that Government has been successful in achieving the projections for 'Non-tax revenue', 'Interest Payments' and 'Pension'. 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.

As per the MOU, Government was to take necessary steps for tax reforms and power sector reforms. But Government failed to do so as discussed below:

Tax reforms

- It was agreed in MOU that stamp duty and registration fee rates would be rationalised and market valuation procedures for properties would be streamlined, and this would be reflected in the Budget Estimates for 2003-04. However, no amendments were made as of October 2004.

- In the MOU, it was stated that Motor Vehicle Tax (MVT) arrears would be recovered from APSRTC by adjustment of subsidy payments due to APSRTC from Government by 31 March 2003. However, MVT of Rs 802.28 crore was yet to be collected from APSRTC as of June 2004.
- Though it was stated in MOU that water rates for all categories of users would be revised and increased by 10 per cent every year, the water charges were last revised in 2002 for all categories of industries and power generation units and thereafter no revision took place.
- The structure of Non-agricultural Land Assessment (NALA) Act was not rationalised as projected in the MOU.

Power sector reforms

- Though steps were taken to crackdown on theft of power, an amount of Rs 79.44 crore was yet to be recovered as of April 2004 from the consumers convicted under the Anti Pilferage Act, 2000.
- The four power distribution companies viz., Northern, Central, Eastern and Southern have not been privatized as of October 2004, although projected in the MOU.

1.11 Fiscal ratios

The finances of a State should be sustainable, flexible and non-vulnerable. Table 27 below presents a summarised position of government finances over 1999-2004, 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 27: Indicators of Fiscal Health (in per cent)

Fiscal Indicators	1999-2000	2000-01	2001-02	2002-03	2003-04
(1)	(2)	(3)	(4)	(5)	(6)
I. Resource Mobilisation					
Revenue Receipt/ GSDP	13.4	13.9	14.4	14.3	15.1
Revenue Buoyancy	1.992	1.337	1.504	0.862	1.579
Own tax/GSDP	7.2	7.5	7.6	7.9	7.8
II. Expenditure Management					
Total Expenditure/GSDP	17.6	19.4	19.5	19.3	20.0
Revenue Receipt/Total Expenditure	76.5	71.6	74.0	74.0	75.5
Revenue Expenditure/Total Expenditure	82.1	86.9	86.4	86.6	86.1
Plan Expenditure/Total Expenditure	20.9	24.7	27.9	27.7	30.3
Capital Expenditure /Total Expenditure	9.1	8.0	7.9	9.4	9.7
Development Expenditure/ Total Expenditure	59.6	62.7	33.7	59.5	60.7
Buoyancy of TE with RR	0.44	1.49	0.70	1.01	0.86
Buoyancy of RE with RR	0.362	1.949	0.648	1.064	0.821
III. Management of Fiscal Imbalances					
Revenue deficit (Rs in crore)	1233	4149	3643	3922	3771
Fiscal deficit (Rs in crore)	4976	7306	6723	7625	7450
Primary Deficit (Rs in crore)	1875	3513	2139	1494	594
Revenue Deficit/Fiscal Deficit	24.8	56.8	54.2	51.4	50.6

(1)	(2)	(3)	(4)	(5)	(6)
IV. Management of Fiscal Liabilities (FL)					
Fiscal Liabilities/ GSDP	26.9	29.0	31.3	34.1	36.3
Fiscal Liabilities/RR	200.1	208.5	217.2	238.4	240.2
Buoyancy of FL with RR	1.056	1.305	1.384	2.939	1.054
Buoyancy of FL with own receipts	1.126	1.287	1.907	1.344	2.263
Interest spread	(-) 1.0	1.7	(-) 2.3	(-) 5.8	(-) 0.8
Net Funds Available	9.6	11.6	7.4	4.8	8.5
V. Other Fiscal Health Indicators					
Return on Investment	0.08	0.05	0.01	0.03	0.93
BCR (Rs in crore)	(-) 37	(-) 1337	(-) 327	(-) 22	230
Financial Assets/ Liabilities	0.73	0.68	0.65	0.62	0.62

The ratio of own taxes to GSDP had shown continuous improvement up to 2002-03 (7.2 to 7.9 per cent), but decreased marginally during the current year. The ratio of revenue receipts to GSDP also was on a rising trend. Revenue expenditure comprised 86 per cent of total expenditure during the year leaving very little for capital formation or asset creation. The development expenditure to total expenditure ranged between 59 and 63 per cent during the last five years.

Huge revenue and fiscal deficits indicate growing fiscal imbalances. The primary deficit has been steadily falling over the last four years, indicating increasing interest payments and less availability of borrowed funds for developmental purposes.

1.12 Conclusions

Government succeeded in reducing the revenue deficit and fiscal deficit for the first time in the last five years. Balance from Current Revenues turned positive this year, after being negative for the last four years. Nevertheless, increasing ratio of fiscal liabilities to GSDP and to revenue receipts, due mainly to increasing borrowings and interest payments, indicate that the Government is gradually getting into a debt trap. Similarly, the higher buoyancy of the debt both with regard to revenue receipts and to own resources indicate decreasing sustainability. The weighted interest rate on Government borrowings exceeded the rate of growth of the GSDP, violating the cardinal rule of debt sustainability. The insignificant return on investment in Government companies indicates huge implicit subsidy. The ratio of the Government's total financial assets to liabilities has also deteriorated indicating that 38 per cent of liabilities are without an asset back-up.