

CHAPTER-I

FINANCES OF THE STATE GOVERNMENT

1.1 Introduction

The accounts of the State Government are kept in three parts (i) Consolidated Fund, (ii) Contingency Fund and (iii) Public Account (*Appendix 1.1-Part A*). The Finance Accounts of the Government of Bihar are laid out in nineteen statements, presenting receipts and expenditure, revenue as well as capital, in the Consolidated Fund, Contingency Fund and the Public Accounts of the State. The lay out of the Finance Accounts is depicted in *Appendix 1.1-Part B*.

1.1.1 Summary of Receipts and Disbursements

Table -1.1 summarizes the finances of the Government of Bihar for the year 2006-07 covering revenue receipts and expenditure, capital receipts and expenditure and public accounts receipts/disbursements as emerging from Statement-1 of Finance Accounts and other detailed statements.

Table 1.1: Summary of Receipts and Disbursements for the Year 2006-07

(Rupees in crore)

2005-06	Receipts	2006-07	2005-06	Disbursements	2006-07		
Section-A: Revenue					Non-Plan	Plan	Total
17,836.71	I. Revenue Receipts	23,083.19	17,756.00	I. Revenue Expenditure	16,519.74	4,065.31	20,585.05
3,561.10	Tax revenue	4,033.08	8,522.79	General Services	8,205.83	437.20	8,643.03
522.30	Non-tax revenue	511.28	6,861.92	Social Services	5,538.38	2,378.83	7,917.21
10,420.59	Share of Union Taxes/ Duties	13,291.72	2,367.09	Economic Services	2,771.53	1,249.28	4,020.81
3,332.72	Grants from Government of India	5,247.11	4.20	Grants-in-aid / Contributions	4.00	---	4.00
Section-B: Capital							
-	II. Miscellaneous Capital Receipts		2,083.90	II. Capital Outlay	78.76	5,132.37	5,211.13
50.86	III. Recoveries of Loans and Advances	7.40	1,747.82	III. Loans and Advances disbursed	115.84	199.48	315.32
3,770.37	IV. Public Debt receipts*	2,357.86	980.76	IV. Repayment of Public Debt			1,024.98
	V. Contingency Fund			V. Contingency Fund			
5,694.52	VI. Public Account receipts	9,224.07	4,414.87	VI. Public Account disbursements			8,016.04
1,518.47	Opening Cash Balance	1,887.58	1,887.58	Closing Cash Balance			1,407.58
28,870.92	Total	36,560.10	28,870.92	Total			36,560.10

* Excluding Ways and Means Advances and Overdraft

Following are the significant changes during 2006-07 over previous year;

- Revenue receipts grew by Rs 5,246 crore over the previous year. The increase is mainly contributed by State's share of Union Taxes and Duties (Rs 2,871 crore), Grants from Government of India (Rs 1,914 crore) and Tax revenue (Rs 472 crore).
- The recovery of loans and advances decreased from Rs 51 crore in 2005-06 to Rs 7.40 crore in 2006-07.

- The total expenditure of the State has increased by Rs 4,524 crore during 2006-07 over the previous year of which capital expenditure contributed Rs 3,127 crore (69 per cent), revenue expenditure shared Rs 2,829 crore (63 per cent) but the increase was offset by decrease in disbursement of loans and advances by Rs 1,433 crore (-32 per cent) during the year.
- Public Debt receipts decreased by Rs 1,413 crore over previous year mainly due to decrease in Market Loans by Rs 1,414 crore. Repayment of public debt on the other hand has increased by Rs 44 crore only over the previous year level of Rs 981 crore.
- Public Account disbursements increased by Rs 3,601 crore over previous year as against the increase of Rs 3,530 crore in Public Account receipts during the year
- The net impact of the above fiscal transactions of the State was reflected in terms of a decline of Rs 480 crore in its cash balances as on 31 March 2007 from the level of opening balance of Rs 1,888 crore in the beginning of the current year.

1.1.2 State Fiscal Position by Key Indicators

The fiscal position of the State Government as reflected by the key fiscal indicators during the current year as compared to the previous year is given in **Table -1.2.**

Table 1.2

(Rupees in crore)

2005-06	Sl. No.	Major Aggregates	2006-07
17,837	1.	Revenue Receipts (2+3+4)	23,083
3,561	2.	Tax Revenue (Net)	4,033
522	3.	Non-Tax Revenue	511
13,754	4.	Other Receipts	18,539
51	5.	Non-Debt Capital Receipts	7
51	6.	Of Which Recovery of Loans	7
17,888	7.	Total Receipts (1+5)	23,090
16,689	8.	Non-Plan Expenditure	16,714
15,020	9.	On Revenue Account	16,520
3,649	10.	Of which Interest Payments	3,416
23	11.	On Capital Account	78
1,646	12.	On Loans disbursed	116
4,899	13.	Plan Expenditure	9,397
2,736	14.	On Revenue Account	4,065
2,061	15.	On Capital Account	5,133
102	16.	On Loans disbursed	199
21,588	17.	Total Expenditure (13+8)	26,111
(+)81	18.	Revenue Deficit (-)/ Surplus (+) (1-9-14)	(+) 2,498
(-)3,700	19.	Fiscal Deficit (-)/ Surplus (+) (1+5-17)	(-) 3,021
(-)51	20.	Primary Deficit (-)/ Surplus (+) (10-19)	(+) 395

Table-1.2 shows that revenue receipts increased by Rs 5,246 crore (29 per cent) during 2006-07 while revenue expenditure increased by Rs 2,829 crore (16 per cent) over the previous year resulting in an increase of Rs 2,417 crore in revenue surplus in 2006-07 over the previous year level of Rs 81 crore. Given the increment of Rs 2,417 crore in revenue surplus during

2006-07 and a decline of Rs 44 crore under non-debt capital receipts accompanied with an increase of Rs 1,694 crore in capital expenditure and disbursement of loans and advances resulted in decline of Rs 679 crore in fiscal deficit during 2006-07 from Rs 3,700 crore in 2005-06. The decline in fiscal deficit alongwith a fall of Rs 233 crore in interest payments led to a primary surplus of Rs 395 crore in 2006-07 from the deficit of Rs 51 crore in 2005-06.

1.2 Methodology adopted for the assessment of Fiscal position

The trends in the major fiscal aggregates of receipts and expenditure as emerged from the Statements of Finance Accounts are analyzed wherever necessary over the period of last five years and observations are made on their behavior. In its Restructuring Plan of State finances, the Twelfth Finance Commission (TFC) recommended the norms/ceilings for some fiscal aggregates and also made normative projections for others. In addition, TFC also recommended that all States are required to enact the Fiscal Responsibility Acts and draw their fiscal correction path accordingly for the five year period (2005-06 to 2009-10) so that fiscal position of State could be improved as committed in their respective FR Acts/Rules during medium to long run. The norms/Ceilings prescribed by the TFC as well as its projections for fiscal aggregates along with the commitments/projections made by the State Governments in their Fiscal Responsibility Acts and in other Statements required to be laid in the legislature under the Act are used to make qualitative assessment of the trends and pattern of major fiscal aggregates during the current year. Assuming that GSDP is the good indicator of the performance of the State's economy, major fiscal aggregates like tax and non-tax revenue, revenue and capital expenditure, internal debt and revenue and fiscal deficits have been presented as percentage to the Gross State Domestic Product (GSDP) at current market prices.

The New GSDP series with 1999-00 as base as published by the Directorate of Economics and Statistics of the State Government have been used in estimating these percentages and buoyancy ratios. The trends in growth and composition of GSDP for last five years are presented in **Table 1.3**.

Table - 1.3: Trends in Growth of GSDP

Estimates	2002-03	2003-04	2004-05	2005-06	2006-07
Gross State Domestic Product (GSDP)	64,275	65,994	71,092	76,568	81,270
Rates of Growth (per cent)					
GSDP	13.17	2.67	7.72	7.70	6.14

Source: Directorate of Economics and Statistics, Government of Bihar

The buoyancy coefficients for tax revenues, non-tax revenues, revenue expenditure etc, with reference to the base represented by GSDP have also been worked out to assess as to whether the mobilization of resources, pattern of expenditure etc, are keeping pace with the change in the base or these fiscal aggregates are also affected by factors other than GSDP. The key fiscal aggregates for the purpose are grouped under four major heads: (i) Trends of aggregate receipts, (ii) Application of Resources, (iii) Assets and Liabilities, and (iv) Management of Deficits (**Appendix II and III**). 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 definitions of some of the selected terms used in assessing the trends and pattern of fiscal aggregates are given in **Appendix 1.1 Part C**.

1.2.1 The Fiscal Responsibility and Budget Management (FRBM) Act, 2006

The State has enacted Fiscal Responsibility and Budget Management (FRBM) Act in April 2006. The Act envisaged that the State Government is responsible to ensure prudence in fiscal management and fiscal stability; and to enhance the scope for improving social and physical infrastructure and human development by progressive elimination of revenue deficit, reduction in fiscal deficit, prudent debt management consistent with fiscal sustainability, greater transparency in fiscal operation of the Government and conduct of fiscal policy in a medium term framework.

To give effect to the fiscal management objectives laid down in the Act, the State Government shall, *inter alia*,

- (i) Beginning from financial year 2006-07 and in case there being revenue deficit, reduce revenue deficit/Gross State Domestic Product ratio every year by at least 0.1 *per cent* depending upon the economic situation and eliminate revenue deficit by 2008-09 and generate revenue surplus thereafter.
- (ii) Beginning from financial year 2006-07 reduce fiscal deficit/Gross State Domestic Product ratio every year by at least 0.3 *per cent* if it is more than three *per cent* and to not more than three *per cent* by 2008-09.

Provided that revenue deficit and fiscal deficit may exceed the limits specified under this section due to unforeseen circumstances arising out of internal disturbances or natural calamity or such other exceptional grounds as the State Government may specify. Provided further that a statement in respect of ground or grounds specified in the first proviso shall be placed before the House or Houses of the Legislature, as soon as may be after such deficit amount exceed the aforesaid targets.

1.2.2 Roadmap to Achieve the Fiscal Targets as laid down in FRBM Act/Rules

The State Government has developed its Own Fiscal Correction Path indicating the milestones of outcome indicators with target dates of implementation during the period from 2004-05 to 2009-10 (**Appendix 1.2**). The achievement under outcome indicators is also indicated for 2004-05 and 2005-06 keeping in view the fiscal targets laid down in the FRBM Act and/or the rules made there under and the anticipated annual rate of reduction of fiscal deficit of the States worked out by the Government of India for the Twelfth Finance Commission (TFC) award.

1.2.2.1 Fiscal Policy Statement

As required under Para 5 of Fiscal Responsibility and Budget Management Act, Fiscal Policy Statement for 2006-07 along with the working plan of fiscal policy was prepared and laid before the house by the State Government (March 2007). The Statement indicated a revenue deficit of Rs 611 crore (BE) and fiscal deficit of 4,582 crore (BE) for 2006-07 as projected in its FCP which were subsequently revised and projected as revenue surplus of Rs 752 crore and fiscal deficit of Rs 6,898 crore as revised estimates for the year.

1.2.2.2 Mid-term Review of Fiscal Situation

In compliance to section 11.1 of FRBM Act 2006 as amended, Finance Department is required to review after every quarter the trends in receipts and expenditure in relation to the budget and place before the Legislative Assembly the outcome of such reviews. Although the quarterly review has been undertaken by the state government but the contents of the review are not available with this office.

1.3 Trends and Composition of Aggregate Receipts

The aggregate receipts of 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 the Government of India (GOI). Capital receipts comprise miscellaneous capital 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 1.4** shows that the total receipts of the State Government for the year 2006-07 were Rs 34,673 crore. Of these, the revenue receipts were Rs 23,083 crore, constituting 67 per cent of total receipts. The balance came from borrowings and receipts from Public Account.

Table 1.4: Trends in Growth and Composition of Aggregate Receipts

Sources of State's Receipts	2002-03	2003-04	2004-05	2005-06	2006-07
I Revenue Receipts	10,968	12,456	15,714	17,837	23,083
II Capital Receipts	4,206	5,079	7,637	3,821	2,365
Recovery of Loans and Advances	16	10	15	51	7
Public Debt Receipts	4,190	5,069	7,622	3,770	--
Miscellaneous Capital Receipts	--	--	--	--	--
III Contingency Fund	--	--	--	--	--
IV Public Account Receipts	5,584	7,440	4,093	5,694	9,224
a. Small Savings, Provident Fund <i>etc</i>	963	987	1,198	1,087	1,012
b. Reserve Fund	144	--	189	440	--
c. Deposits and Advances	3,027	3,154	3,129	1,886	3,014
d. Suspense and Miscellaneous	333	2,079	(-)1,661	211	160
e. Remittances	1,117	1,220	1,238	2,070	5,038
Total Receipts	20,758	24,975	27,444	27,352	34,672

The revenue and capital receipts constituted 67 and 7 per cent of total receipts respectively. The total receipts of the State increased from Rs 20,758 crore in 2002-03 to Rs 34,672 crore in 2006-07. The Debt capital receipts which

create future repayment obligation decreased from Rs 4,190 crore in 2002-03 to Rs 2,358 crore in 2006-07. Public Account Receipts also increased from Rs 5,694 crore in 2005-06 to Rs 9,224 crore in 2006-07. Sharp increase in Public Account Receipts was mainly attributed by increase in Deposits and Advances from Rs 1,886 crore to Rs 3,014 crore and Remittances from Rs 2,070 crore to Rs 5,038 crore during the year.

1.3.1 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 GSDP and its buoyancies are indicated in **Table 1.5**.

Table 1.5: Revenue Receipts - Basic Parameters

(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07
Revenue Receipts (RR)	10,968	12,456	15,714	17,837	23,083
Own Taxes (per cent)	2,761(25)	2,890(23)	3,347(21)	3,561(20)	4,033(17)
Non-Tax Revenue (per cent)	261(2)	320(3)	418(3)	522(3)	511(2)
Central tax Transfers (per cent)	6,549(60)	7,628(61)	9,117(58)	10,421(58)	13,292(58)
Grants-in-aid (per cent)	1,397(13)	1,618(13)	2,832(18)	3,333(19)	5,247(23)
Rate of Growth of RR (per cent)	11.47	13.57	26.16	13.51	29.41
Revenue Receipt/GSDP (per cent)	17.10	18.90	22.10	23.30	28.40
Revenue Buoyancy (ratio) ¹	0.87	5.07	3.39	1.75	4.79
State's own taxes Buoyancy (ratio)	1.45	1.75	2.05	0.83	2.16
Revenue Buoyancy with reference to State's own taxes (ratio)	0.61	2.91	1.65	2.11	2.22
GSDP Growth (per cent)	13.17	2.67	7.72	7.70	6.14

General Trends

The revenue receipts have shown a progressive increase over the period 2002-07 with declining share of own taxes and increasing share of grants in aid while the share of Central transfers and non tax revenue remained almost the same with minor changes. The sharp increase of 29 per cent during 2006-07 was mainly on account of increase in state's own taxes (13.25 per cent), central tax transfers (27.55 per cent) and Grants-in-aid (57.43 per cent).

Tax Revenue: The Tax Revenue has increased by 13.25 per cent during the current year (Rs 4,033 crore) over previous year (Rs 3,561 crore). **Table 1.6** below shows the trend of Tax Revenue during 2002-07. Sales tax (52 per cent) was the major source of the State tax revenue followed by Stamp and Registration fees (11 per cent) and taxes on State Excise (nine per cent). Realization of Tax revenue on Vehicles and Stamps and Registration decreased by 40 per cent and 10 per cent respectively compared to the last

¹ Buoyancy ratio indicates the elasticity or degree of responsiveness of a fiscal variable with respect to a given change in the base variable. For instance revenue buoyancy at 2.2 during 2006-07 implies that revenue receipts tend to increase by 2.2 percentage points if the GSDP increases by one per cent.

year due to reduction of registration charges from 8.4 per cent to six per cent and abolition of a very high (three to 12 times increase) tax imposed on vehicles in 1994. Withdrawal of "special agreement card scheme" with effect from March 2006 also resulted in short realization of Tax revenue from vehicle.

Table 1.6: Tax Revenue*(Rupees in crore)*

	2002-03	2003-04	2004-05	2005-06	2006-07
Land Revenue	36	34	33	55	75
Stamps and Registration	348	418	429	505	455
State Excise	242	240	272	319	382
Sales Tax	1,648	1,637	1,891	1,734	2,081
Taxes on Vehicles	178	209	213	302	181
Other Taxes *	309	352	509	646	859
Total	2,761	2,890	3,347	3,561	4,033

* Other Taxes: includes taxes on income and expenditure, taxes on immovable property other than agricultural land, taxes on goods and passengers, taxes on duties and electricity, other taxes on duties and commodities and services.

Non Tax Revenue: The Non-Tax Revenue which constituted 2.21 per cent of total revenue receipts decreased Rs 11 crore over the previous year. There was increase in Non-Tax Revenue from Social Security and Welfare (Rs 4.03 crore) and Roads and Bridges (Rs 4.70 crore) but there was decline in realization of Non-Tax Revenue from Public Service Commission, Other Administrative Services and Education, Sports Arts and Culture during the year.

The actual Revenue receipts in the year vis-à-vis assessments made by State Government are given below:

(Rupees. in crore)

	Assessments made by TFC	Assessments made by State Government in Fiscal Correction Path	Actuals
	(1)	(2)	(3)
Tax Revenue	5,681	4,523	4,033
Non-Tax Revenue	959	342	511

Tax revenue/Non-Tax Revenue realization was also below the normative projections made by TFC for the year. The shortfall in Tax Revenue was 41 per cent while for Non Tax revenue it was 87 per cent against the assessments made by the TFC. Own tax realization of Rs 4,033 crore was Rs 490 crore below the projected realization of Rs 4,523 crore in fiscal correction path for 2006-07 although in case of non tax revenue it was significantly higher than the projections.

Central Tax Transfers: The Central Tax transfers increased by Rs 2,871.13 crore over the previous year and constituted 58 per cent of revenue receipts. The increase was mainly under corporation tax (Rs 1,271.25 crore), customs duties (Rs 560.95 crore), service tax (Rs 506.73 crore) and Taxes on income other than Corporation Tax (Rs 490.96 crore).

Grants-in-aid: The Grants-in aid from Government of India (GOI) increased from Rs 3,333 crore in 2005-06 to Rs 5,247 crore in the current year. The

increase was mainly under State plan scheme (Rs 890 crore), Centrally Sponsored Schemes (Rs. 488 crore), in Central Plan Schemes (Rs 54 crore) and Non-Plan Grants (Rs 482 crore). Under State plan schemes there was sharp increase in Block grants from Rs 796.51 crore in 2005-06 to Rs 2,218.19 crore in 2006-07 with decrease in other plan grants during the year. As per the recommendations of Twelfth Finance Commission (TFC) the Non-Plan grants released by GOI for 2006-07 are inclusive of Sector Specified Grants of Rs 486.17 crore for education, Rs 322.57 crore for health, Rs 89.90 crore for public buildings and Rs 77.34 crore for Roads and Bridges. Expenditure on Health (Rs 849.87 crore) and Building (Rs 180.37 crore) was below the projection of Non-Plan Revenue Expenditure of Rs 880.98 crore and Rs 216.91 crore respectively for these sectors by TFC. Details of Grants-in-aid from GOI are given in **Table 1.7**

Table No 1.7: Grants-in-aid from GOI

(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07
Grants for State plan schemes	670.05	1,169.28	1,642.90	1,555.66	2,445.24
Non Plan grants	290.32	151.56	683.99	1,201.08	1,683.41
Grants for Central Schemes	436.95	45.95	10.33	89.99	144.29
Grants for Central and Centrally Sponsored Schemes	--	250.83	494.61	485.99	974.17
Total	1,397.32	1,617.62	2,831.83	3,332.72	5,247.11
Percentage of increase/decrease over previous year	32.17	15.77	75.06	17.69	57.44

1.4 Application of Resources

1.4.1 Growth of Expenditure

Statement 12 of the Finance Accounts depicts the detailed revenue expenditure by minor heads and capital expenditure by major heads. States raise resources to perform their sovereign functions, maintain their existing nature of delivery of social and economic services, to extend the network of these services through capital expenditure and investments and to discharge their debt service obligations. The total expenditure of the State increased from Rs 13,972 crore in 2002-03 to Rs 26,111 crore in 2006-07. Total expenditure, its annual growth rate and ratio of expenditure to the State GSDP and to revenue receipts and its buoyancy with respect to GSDP and revenue receipts are indicated in **Table -1.8**.

Table 1.8: Total Expenditure - Basic Parameters
(Value in Rupees crore and others in per cent)

	2002-03	2003-04	2004-05	2005-06	2006-07
Total Expenditure (TE)*	13,972	16,829	16,971	21,588	26,111
Rate of Growth	12.36	20.45	0.84	27.21	20.95
TE/GSDP Ratio	21.74	25.50	23.90	28.20	32.13
Revenue Receipts/TE Ratio	78.50	74.02	92.59	82.62	88.40
Buoyancy of Total Expenditure with					
GSDP (ratio)	0.94	7.66	0.11	3.53	3.41
Revenue Receipts (ratio)	1.08	1.51	0.03	2.01	0.71

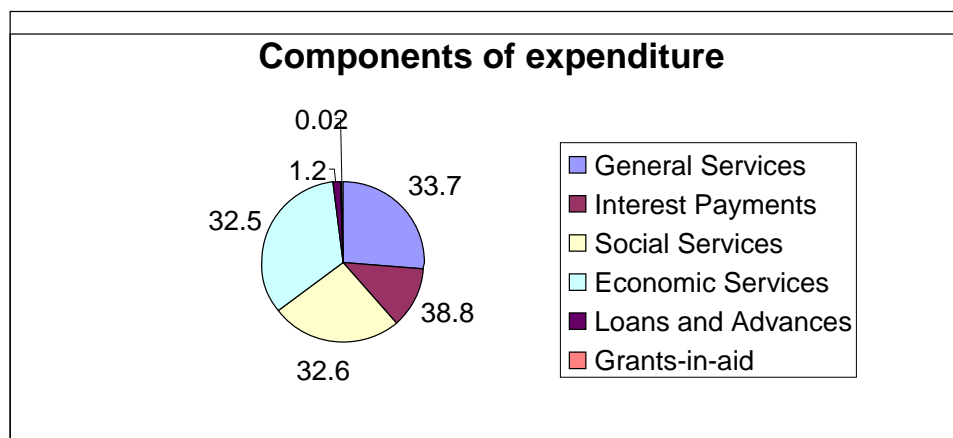
* Total expenditure includes revenue expenditure, capital expenditure and loans & advances

The total expenditure during the current year has increased by Rs 4,524 crore over the previous year of which revenue expenditure shared Rs 2,829 crore, capital expenditure Rs 3,127 crore accompanied with a decrease in disbursement of loans and advances by Rs 1,433 crore (-32 percent) during the year. Non plan expenditure (Revenue and Capital) increased by Rs 25 crore and plan expenditure by Rs 4,498 crore during the year. The increases in plan expenditure during 2006-07 over the previous year were observed mainly under transport (capital: Rs 1,387 crore); rural development (revenue: Rs 271 crore, capital: Rs 885 crore); education (revenue: Rs 443 crore and capital: Rs 77 crore); industries and mineral sector (revenue: Rs 48 crore, capital: 406 crore), water supply and sanitation (revenue: Rs 100 crore, capital: Rs 130 crore); labour welfare (revenue: Rs 158 crore); energy (capital: Rs 132 crore) and social welfare (revenue: Rs 80 crore). During the current year, 88 per cent of total expenditure was met from revenue receipts and the remaining from capital receipts and borrowed funds. The buoyancy of total expenditure to GSDP stood at 3.41 in 2006-07 indicating tendency to spend more than the increase in income and higher elasticity of total expenditure with respect to GSDP.

Trends in Total Expenditure by Activities: In terms of the activities, total expenditure could be considered as being composed of expenditure on general services including interest payments, social and economic service, grants-in-aid and loans and advances. Relative share of these components in total expenditure is indicated in **Table -1.9**.

Table 1.9: Components of Expenditure – Relative Share
(in per cent)

	2002-03	2003-04	2004-05	2005-06	2006-07
General Services	47.63	42.77	46.38	39.81	33.70
Interest Payments	45.97	46.59	44.52	42.81	38.83
Social Services	29.04	24.93	29.06	33.31	32.60
Economic Services	17.96	17.01	17.89	18.76	32.48
Loans and Advances	5.35	15.27	6.65	8.10	1.21
Grants-in-aid	0.02	0.02	0.02	0.02	0.02



The movement of relative shares of these components of Expenditure indicated that while the share of social services in total expenditure oscillated between 29.04 per cent in 2002-03 to 32.60 per cent in 2006-07, the relative share of general services decreased from 47.63 per cent to 33.70 per cent during the period of which interest payment also decreased from 45.97 per cent during 2002-03 to 38.83 per cent during 2006-07. Loans and advances disbursed decreased to 1.21 per cent during 2006-07 in comparison to 8.10 per cent of 2005-06. The share of economic services has increased by 13.72 percentage points from 18.76 in 2005-06 to 32.48 per cent during the current year.

1.4.2 Incidence of Revenue expenditure

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 States 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 -1.10**.

Table 1.10 : Revenue Expenditure - Basic Parameters

	2002-03	2003-04	2004-05	2005-06	2006-07
Revenue Expenditure (RE) Of which	12,255	12,711	14,638	17,756	20,585
Non-Plan Revenue Expenditure (NPRE)	10,901 (89)	11,627 (91)	12,642 (86)	15,020 (85)	16,520 (80)
Plan Revenue Expenditure (PRE)	1,354 (11)	1,084 (9)	1,996 (14)	2,736 (15)	4,065 (20)
Rate of Growth (per cent)					
Revenue Expenditure	9.82	3.72	15.16	21.30	15.93
Rate of Growth of NPRE	5.92	6.66	8.73	18.81	9.99
Rate of Growth of PRE	56.17	(-)19.94	84.13	37.07	48.57
RE/TE percent	88	76	86	82	79
NPRE/GSDP (per cent)	16.96	17.20	17.78	19.62	20.33
NPRE as per cent of TE	78.02	69.09	74.49	69.58	63.27
NPRE as per cent of RR	99.39	93.34	80.45	84.21	71.57

	2002-03	2003-04	2004-05	2005-06	2006-07
Buoyancy of Revenue Expenditure with					
GSDP (ratio)	0.75	1.39	1.96	2.77	2.59
Revenue Receipts (ratio)	0.86	0.27	0.58	1.58	0.54

(TE includes Loan & Advances)

Revenue expenditure of the State increased from Rs 12,255 crore in 2002-03 to Rs 20,585 crore in 2006-07. Non-Plan Revenue Expenditure (NPRE) as well as Plan Revenue Expenditure (PRE) increased from Rs 10,901 crore in 2002-03 to Rs 16,520 crore in 2006-07 and Rs 1,354 crore in 2002-03 to Rs 4,065 crore in 2006-07 respectively. The increases under NPRE and PRE during 2006-07 over the previous year were Rs 1,500 crore and Rs 1,329 crore respectively. The actual Non-plan revenue expenditure vis-à-vis assessments made by TFC and State government are given below:

(Rupees in crore)

	Assessments made by TFC	Assessments made by State Government in Fiscal Correction Path	Actual NPRE
	(1)	(2)	(3)
Non-plan revenue expenditure	15,263	17,608	16,520

Non-plan revenue expenditure (Rs 16,520 crore) was Rs 1,088 crore below the projection of Rs 17,608 crore made in fiscal correction path; however it exceeded the normative assessment made by TFC by Rs 1,257 crore.

1.4.3 Committed expenditure

1.4.3.1 Expenditure on Salaries

The trends in expenditure on salaries both under plan and non-plan heads are presented in **Table 1.11**

Table 1.11: Expenditure on salaries*(Rupees in crore)*

Heads	2002-03	2003-04	2004-05	2005-06	2006-07
Expenditure on salaries* <i>of which</i>	5,073.07	5,019.88	5,005.36	5,783.35	6,016.21
Non-Plan Head	4,748.05	4,467.59	4,564.16	5,152.79	5,538.57
Plan Head**	325.02	552.29	441.20	630.56	477.64
As a percentage of GSDP	7.89	7.61	7.04	7.55	7.40
As a percentage of RR	46.25	40.30	31.85	32.42	26.06
As a percentage of RE	41.40	39.49	34.19	32.57	29.23

Salary alone accounted for nearly 26 per cent of the Revenue Receipt of the State. Salary expenses as per cent to GSDP ranged between 7.89 and 7.40 per cent during the period 2002-03 to 2006-07. Salary expenditure under Non-Plan head increased from Rs 4,748 to Rs 5,539 crore during 2002-03 to 2006-07 whereas under Plan head it oscillated between Rs 325 to Rs 631 crore during the period. An increase of Rs 233 crore (4.03 per cent) in salary expenditure during 2006-07 was mainly due to enhancements in various

allowances of Government employees. Total salary bill relative to revenue expenditure net of interest payments and pension was 41 per cent and the State Government need to initiate appropriate measures to keep it within the norms of 35 per cent as recommended by TFC to restructure the finances of the State as per its Plan during the Award period.

1.4.3.2 Pension Payments

Table 1.12: Expenditure on Pensions

(Rupees in crore)

Heads	2002-03	2003-04	2004-05	2005-06	2006-07
Expenditure on Pensions	2,049	2,269	2,325	2,456	2,497
Rate of growth	(-9.85)	10.74	2.47	5.63	1.67
As per cent of GSDP	3.19	3.44	3.27	3.21	3.07
As per cent of RR	18.68	18.22	14.80	13.77	10.82
As per cent of RE	16.72	17.85	15.88	13.88	12.13

Pension payment increased from Rs 2,049 crore in 2002-03 to Rs 2,497 crore in 2006-07. Pension liability of the State is likely to increase further when the two years moratorium on date of retirement will come to an end (March 2007). Government forecasted expenditure of Rs 3,020 crore in it's assessment in fiscal correction path which was Rs 523 crore above actual expenditure (Rs 2,497 crore) of 2006-07. The State Government has also implemented new contributory pension scheme on the Central pattern to reduce the long term liabilities on pension account which was applicable to the employees joining on or after 1 September 2005. Actual pension payments *vis-a-vis* projections made by TFC and by State Government in Fiscal Correction Path are shown in **Table 1.13** below:

Table 1.13: Actual Pension Payments vis-à-vis Projections

(Rupees in crore)

	Assessments made by TFC	Assessments made by State Government in Fiscal Correction Path	Actual Expenditure on pensions
	(1)	(2)	(3)
Pension payments	2,945	3,020	2,497

1.4.3.3 Interest payments

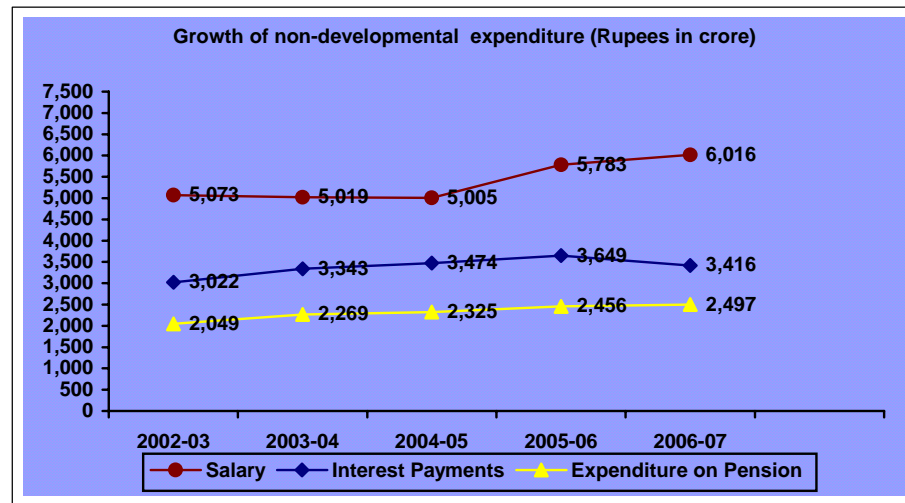
The trends in expenditure on interest payments, revenue receipts and revenue expenditure during the period 2002-03 to 2006-07 are presented in **Table 1.14**

Table 1.14: Interest Payments

Year	Total Revenue Receipts	Total Revenue Expenditure	Interest payments	Percentage of interest payment with reference to	
	(Rupees in crore)			Revenue Receipts	Revenue Expenditure
2002-03	10,968	12,255	3,022	27.55	24.66
2003-04	12,456	12,711	3,343	26.84	26.30
2004-05	15,714	14,638	3,474	22.11	23.73
2005-06	17,837	17,756	3,649	20.46	20.55
2006-07	23,083	20,585	3,416	14.80	16.59

In absolute terms, interest payments increased steadily by 13.04 per cent from Rs 3,022 crore in 2002-03 to Rs 3,416 crore in 2006-07 primarily due to continued reliance on borrowings for financing the deficit. The increasing interest payments had adversely affected both development expenditure and social welfare schemes. Reduction of Rs 233 crore in interest payments during 2006-07 was mainly due to consolidation of loan by Central Government. Interest payments remained lower than the projections made in Fiscal Correction Path (Rs 4,210 crore) and TFC (Rs 4,220 crore) for the year 2006-07.

The growth of non-developmental expenditure during the period 2002-03 to 2006-07 depicted in through the graph below:



1.5 Expenditure by Allocative Priorities

1.5.1 Quality of Expenditure

The availability of better social and physical infrastructure in the State reflects its quality of expenditure. Therefore ratio of capital expenditure to total expenditure as well as to GSDP and proportion of revenue expenditure being spent on running efficiently and effectively the existing social and economic services would determine the quality of expenditure. Higher the ratio of these components to total expenditure and GSDP better is quality of expenditure. **Table 1.15** gives these ratios during 2002-07.

Table 1.15 : Indicators of Quality of Expenditure

	2002-03	2003-04	2004-05	2005-06	2006-07
Capital Expenditure	970	1,549	1,205	2,084	5,211
Revenue Expenditure	12,255	12,711	14,638	17,756	20,585
<i>Of which Social and Economic Services with</i>	6,568	7,058	7,968	11,241	16,994
(i) Salary Component	2,934 (45)	3,824 (54)	3,699 (46)	4,304 (38)	4,110 (24)
(ii) Non Salary Component	3,634 (55)	3,234 (46)	4,269 (54)	6,937 (62)	12,884 (76)

As per cent of total expenditure (excluding loan and advances)					
Capital Expenditure	7	11	8	11	20
Revenue Expenditure	93	89	92	89	80
As per Cent of GSDP					
Capital Expenditure	1.51	2.35	1.69	2.72	6.41
Revenue Expenditure	19.07	19.26	20.59	23.19	25.33

(Figures in the bracket denote percentage share of salary and non-salary component in total revenue expenditure incurred on social and economic services)

Revenue expenditure of the State constituted a dominant share of the total expenditure ranging between 80 to 93 per cent during the period 2002-03 to 2006-07 restricting the share of expenditure on capital account from seven to 20 per cent. The expenditure incurred on social and economic services increased from Rs 6,568 crore in 2002-03 to Rs 16,994 crore in 2006-07. Although the expenditure incurred both on salary and non-salary components increased during the period (except salary component which decreased during 2006-07 to Rs 4,110 crore from Rs 4,304 crore in 2005-06), the share of non-salary component remained consistently higher except in the year 2003-04. A significant increase in the expenditure incurred on non-salary component was observed during 2006-07 as its share in revenue expenditure on social and economic services increased from 62 per cent in 2005-06 to 76 per cent in 2006-07. This indicates the priority accorded to development by the Government.

1.5.2 Expenditure on Social Services

Given the fact that human development indicators such as access to basic education, health services and drinking water and sanitation facilities etc have a strong linkage with eradication of poverty and economic progress, it would be prudent to make an assessment with regard to the expansion and efficient provision of these services in the State. **Table 1.16** summarizes the expenditure incurred by the State Government in expanding and strengthening of social services in the State during 2002-07.

Table 1.16: Expenditure on Social Services

	<i>(Rupees in crore)</i>				
	2002-03	2003-04	2004-05	2005-06	2006-07
Education, Sports, Art and Culture					
Revenue Expenditure	2,703.51	2,821.76	3,142.23	4,393.96	5,252.55
<i>Of which</i>					
(a) Salary Component	1,729.02	2,126.25	2,128.60	2,326.50	2,357.00
(b) Non-Salary Component	974.49	6,95.51	1,013.63	2,067.46	2,895.55
Capital Expenditure	46.69	54.16	17.59	29.14	106.44
Sub Total (RE + CE)	2,750.20	2,875.92	3,159.82	4,423.10	5,358.99
Health and Family Welfare					
Revenue Expenditure	553.30	534.25	607.47	876.94	984.61
<i>Of which</i>					
(a) Salary Component	297.74	476.23	459.29	618.75	587.59
(b) Non-Salary Component	255.56	58.02	148.18	258.19	397.02
Capital Expenditure	18.34	4.78	21.94	137.91	168.13
Sub Total (RE + CE)	571.64	539.03	629.41	1,014.85	1,152.74

	2002-03	2003-04	2004-05	2005-06	2006-07
Water Supply, Sanitation, Housing and Urban Development					
Revenue Expenditure	219.11	200.49	251.09	407.49	513.73
<i>Of which</i>					
(a) Salary Component	55.03	72.51	73.40	80.16	93.52
(b) Non-Salary Component	164.08	127.98	177.69	327.33	420.21
Capital Expenditure	75.02	75.74	69.64	124.20	252.64
Sub Total (RE + CE)	294.13	276.23	320.73	531.69	766.37
Other Social Services					
Revenue Expenditure	439.79	476.93	794.19	1,183.53	1,166.32
<i>Of which</i>					
(a) Salary Component	111.56	190.89	210.52	330.19	165.24
(b) Non-Salary Component	328.23	286.04	583.67	853.34	1001.08
Capital Expenditure	2.07	28.76	28.11	37.18	68.66
Sub Total (RE + CE)	441.86	505.69	822.30	1,220.71	1,234.98
Total (Social Services)					
Revenue Expenditure	3,915.71	4,033.43	4,794.98	6,861.92	7,917.21
<i>Of which</i>					
(a) Salary Component	2,193.35	2,865.88	2,871.81	3,355.60	3,203.35
(b) Non-Salary Component	1,722.36	1,167.55	1,923.17	3,506.32	4,713.21
Capital Expenditure	142.12	163.44	137.28	328.43	595.87
Total (RE + CE)	4,057.83	4,196.87	4,932.26	7,190.35	8,513.08

(Figures in bracket indicate non-plan salary component as a percentage of salary component)

The allocation to social sector increased from Rs 4,058 crore in 2002-03 to Rs 8,513 crore in 2006-07 indicating the Government commitment to improve social well being of the society. Expenditure on Social Sector during current year (Rs 8,513 crore) accounted for 33 per cent of total expenditure and 50 per cent of developmental expenditure². Expenditure on Education is increased by Rs 936 crore over previous year while the expenditure on health and family welfare has shown an increase of only Rs 138 crore over previous year. Recognizing the need to improve the quality of education and health services, TFC recommended that the non-plan salary expenditure under education and health and family welfare should increase only by five to six per cent while non-salary expenditure under non-plan heads should increase by 30 per cent per annum during the award period. However, trends in expenditure (taking plan and non-plan together) reveal that the salary component of revenue expenditure increased by 9.3 per cent and 1.3 per cent during 2005-06 and 2006-07 over the corresponding previous years while non-salary component increased by 104 per cent and 40 per cent respectively during these years. Similarly under Health and Family Welfare sector, the salary component increased by 44 per cent in 2005-06 and decreased by 5 per cent in 2006-07 while the non salary component has increased by 74 per cent and 54 per cent during these two years. The expenditure pattern both in education and health services appears to be largely as per the norms of the TFC.

² Development expenditure is defined as the total expenditure made on social and economic services

1.5.3 Expenditure on Economic Services

The expenditure on economic services includes all such expenditure as to promote directly or indirectly, productive capacity within the States' economy. The expenditure on Economic Services (Rs 8,481 crore) accounted for 32.88 per cent of the total expenditure and 50 per cent of developmental expenditure (**Table 1.17**). Agriculture and Allied Activities, Irrigation and Flood Control, Energy and Transport accounted for nearly 61.94 per cent of the Economic Services expenditure.

Table 1.17: Expenditure on Economic Sector

	2002-03	2003-04	2004-05	2005-06	2006-07
<i>(Rupees in crore)</i>					
Agriculture, Allied Activities					
Revenue Expenditure (RE)	249.29	248.66	396.84	410.45	585.15
<i>Of which</i>					
(a) Salary Component	126.86	173.20	173.33	191.49	225.94
(b) Non-Salary Component	122.43	75.46	223.51	218.96	359.21
Capital Expenditure (CE)	5.67	5.67	10.32	93.19	11.24
Sub Total (RE + CE)	254.96	254.33	407.16	503.64	596.39
Irrigation and Flood Control					
Revenue Expenditure (RE)	356.74	319.09	473.02	482.77	435.30
<i>Of which</i>					
(a) Salary Component	189.59	247.61	242.28	265.93	296.88
(b) Non-Salary Component	167.15	71.48	230.74	216.84	138.42
Capital Expenditure(CE)	309.88	521.36	442.52	591.46	631.70
Sub Total (RE + CE)	666.62	840.45	915.54	1074.23	1067.00
Power & Energy					
Revenue Expenditure (RE)	36.66	1.15	1.74	1.42	1080.64
<i>Of which</i>					
(a) Salary Component	--	--	--	--	--
(b) Non-Salary Component	36.66	1.15	1.74	1.42	1080.64
Capital Expenditure(CE)	--	300.39	26.50	302.01	433.76
Sub Total (RE + CE)	36.66	301.54	28.24	303.43	1514.40
Transport					
Revenue Expenditure	194.08	204.61	224.61	285.01	414.14
<i>Of which</i>					
(a) Salary Component	190.98	85.01	83.63	107.45	104.64
(b) Non-Salary Component	3.10	119.60	140.98	177.56	309.50
Capital Expenditure	90.97	61.53	144.06	274.99	1661.57
Sub Total (RE + CE)	285.05	266.14	368.67	560.00	2075.71
Other Economic Services					
Revenue Expenditure	926.70	724.67	939.47	1,187.44	1,505.58
<i>Of which</i>					
(a) Salary Component	69.47	284.31	198.92	251.60	279.20
(b) Non-Salary Component	857.23	440.36	740.55	938.84	1226.38

	2002-03	2003-04	2004-05	2005-06	2006-07
Capital Expenditure	340.18	474.55	376.18	421.90	1721.89
Sub Total (RE + CE)	1,266.88	1,199.22	1,315.65	1,609.34	3,227.47
Total (Economic Services)					
Revenue Expenditure	1,763.47	1,498.18	2,035.68	2,367.09	4,020.81
<i>Of which</i>					
(a) Salary Component	576.90 (23)	790.13 (28)	698.16 (23)	816.47 (20)	906.66 (11)
(b) Non-Salary Component	1,186.57	708.05	1,337.52	1,550.62	3,114.15
Capital Expenditure	746.70	1,363.50	999.58	1,683.55	4,460.16
Grand Total (RE + CE)	2,510.17	2,861.68	3,035.26	4,050.64	8,480.97

Total expenditure of the State on Economic Services in Revenue account oscillated between Rs 1,498 crore and Rs 4,021 crore and in Capital account from Rs 747 crore to Rs 4,460 crore during 2002-03 to 2006-07 of which salary payment ranged between 11 to 28 *per cent* during 2002-03 to 2006-07. Expenditure on Economic Services was more than double during the year 2006-07 in comparison to 2005-06 where it increased from Rs 4,051 crore to Rs 8,481 crore resulting in enhanced expenditure of Rs 4,430 crore during the year. The Revenue expenditure under economic services increased by Rs 1,654 crore of which Rs 1,077.50 crore was paid to Electricity Board as resource gap followed by Agriculture and Allied Activities (Rs 175 crore) and Transport (Rs 129 crore). Capital expenditure in Economic Sector increased from Rs 1,684 crore in 2005-06 to Rs 4,460 crore in 2006-07 resulting in increase of Rs 2,776 crore during the year. There was major increase in capital expenditure on Transport (Rs 1,387 crore) followed by Energy (Rs 132 crore). No significant change either in Revenue or Capital account on Irrigation and flood control was noticed during the year.

1.5.4 Financial Assistance to local bodies and other Institutions

The quantum of assistance provided by way of the grants and loans to local bodies and others during the five years period 2002-07 is presented in **Table -1.18**

Table 1.18: Financial Assistance to local bodies and other institutions

(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07
Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.)	461.13	545.94	564.99	803.65	845.17
Municipal Corporations and Municipalities	99.98	83.71	117.91	277.56	141.13
Zila Parishads and other PR Institutions	292.34	133.92	2.63	3.75	6.50
Development Agencies	34.81	3.87	110.15	18.56	3.20
Hospital and Other Charitable Institutions	--	--	5.00	3.00	--
Other Institutions	133.45	20.99	12.68	3.92	21.23
Total	1,021.71	788.43	813.36	1,110.44	1,017.23
Assistance as per percentage of Revenue Expenditure	8.34	6.20	5.56	6.25	4.94

Assistance given by the State ranged between five and eight *per cent* of revenue expenditure between the periods from 2002-07.

1.5.5 Delay in furnishing utilization certificates

Of the 21,196 utilization certificates (UCs) due in respect of grants aggregating Rs 4,676.57 crore paid upto 2006-07, 21,166 UCs for an aggregate amount of Rs 4,454.54 crore were in arrears. Details of department-wise break-up of outstanding UCs are given in **Appendix IV**.

1.5.6 Abstract of performance of the autonomous bodies

The audit of accounts of three bodies in the State has been entrusted to the Comptroller and Auditor General of India. The status of entrustment of audit, rendering of accounts to audit, issuance of Separate Audit Report and its placement in the Legislature is indicated in **Appendix V**.

1.6 Assets and Liabilities

In the Government accounting system, comprehensive accounting of fixed assets like land and buildings owned by the Government is not done. However, the Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred. **Appendix VI** gives an abstract of such liabilities and the assets as on 31 March 2007, compared with the corresponding position on 31 March 2006. While the liabilities in this Appendix consist mainly of internal borrowings, loans and advances from the GOI, receipts from the Public Account and Reserve Funds, the assets comprise mainly the capital outlay and loans and advances given by the State Government and cash balances. In real terms the assets grew by Rs 4,995 crore (12.97 per cent) and liabilities increased by Rs 2,497 crore (5.21 per cent) over previous year. **Appendix VII** depicts the time series data on State Government finances for the period 2002-2007.

1.6.1 Financial Results of Irrigation Works

The financial results of Irrigation works are reflected in Statement 3 of the Finance Accounts of the Government which show no productive work during 2006-07. On four completed canals Government incurred an amount of Rs 3.76 crore as Capital Outlay up to 2006-07, revenue realization from these canals was Rs 6.01 crore whereas Government incurred an expenditure of Rs 5.28 crore on maintenance charges during 2006-07 resulted in net profit of Rs 0.73 crore.

1.6.2 Incomplete projects

The project-wise information pertaining to incomplete projects as on 31 March 2007 is given in the **Table -1.19**.

Table 1.19: Project wise Profile of Incomplete Projects

Sl. No.	Name of the project/scheme	Expenditure up to 2006-07 (Rupees in crore)
1	Kosi Project	389.15
2	Gandak Project Phase II	47.50
3	North Koel Project	836.11*
4	Durgawati Reservoir	361.09*
5	Sone Canal Modernisation Project	745.54*
6	Nakti Reservoir Scheme	14.01
Total :		2,393.40

* Figure provided by the department

1.6.3 Departmental Commercial Undertakings

Activities of *quasi*-commercial nature are performed by departmental undertakings of certain Government departments. These undertakings are required to prepare annually Proforma accounts in prescribed format showing the results of financial operations so that Government can assess the results of their working. The department-wise position of arrears in preparation of *pro forma* accounts are given in **Appendix VIII and IX** respectively. Nine units have not submitted their accounts since their inception as listed in **Appendix VIII** and three units as listed in **Appendix IX** have not submitted their accounts from 1977 to 1987.

1.6.4 Investments and returns

As of 31 March 2007, Government had invested Rs 821.10 crore in Statutory Corporations, Rural Banks, Joint Stock Companies and Co-operatives (**Table 1.20**). The return on this investment was zero *per cent* in the last five years while the Government paid interest at the average rate of 7.15 to 9.59 *per cent* on its borrowings during 2002-03 to 2006-07.

Table 1.20: Return on Investment

Year	Investment at the end of the year (Rupees in crore)	Return	Percentage of return	Average rate of interest on government borrowing <i>per cent</i>
2002-03	694.34	0.02	NIL	9.00
2003-04	700.01	0.04	0.01	9.00
2004-05	708.66	0.04	NIL	9.59
2005-06	805.64	0.04	NIL	8.20
2006-07	821.10	0.04	NIL	7.15

At the end of the year 2006-07 Government invested Rs 105.63 crore in Statutory Corporations, Rs 343.80 crore in Government Companies, Rs 3.88 crore in Joint Stock Companies and Rs 367.79 crore in Co-operative Banks & Societies. Return from these investments was merely Rs 0.04 crore as compared to Rs 58.71 crore worked out on average interest rate of 7.15 *per cent* on Government borrowings.

1.6.5 Loans and advances by State Government

In addition to investments in Co-operative societies, Corporation and Companies, Government has also been providing loans and advances to many

of these institutions/organizations. The total outstanding loans and advances as on 31 March 2007, was Rs 13882 crore (**Table 1.21**). Interest received against these loans advanced was 1.27 *per cent* during 2006-07 as against 1.59 *per cent* in previous year.

Table 1.21: Average Interest Received on Loans Advanced by the State Government

	(Rupees in crore)				
	2002-03	2003-04	2004-05	2005-06	2006-07
Opening Balance	7,473.60	8,205.21	10,763.68	11,876.69	13,573.65
Amount advanced during the year	747.19	2,568.92	1,127.84	1,747.82	315.32
Amount repaid during the year	15.58	1,045.00	14.83	50.86	7.40
Closing Balance	8,205.21	10,763.68	11,876.69	13,573.65	13,881.57
Net addition	731.61	2,558.47	1,113.01	1,696.96	307.92
Interest Received	53.01	23.08	75.06	216.07	175.99
Interest received as <i>per cent</i> to outstanding Loans and advances	0.65	0.21	0.63	1.59	1.27
Average Interest Rate	9.00	9.00	9.59	8.20	7.15
Difference between interest paid and received (per cent)	8.35	8.79	8.96	6.61	5.88

Loans and advances made by the Government ranged between Rs 315.32 crore and Rs 2,568.92 crore during 2002-03 to 2006-07. Loans for Power Projects (Rs 179.29 crore) consumed 57 *per cent* of total loans and advances paid by the Government during 2006-07. Main reason for shortfall in Loans and Advances made by the Government during 2006-07 was making assistance of Rs 1077.50 crore to power sector as resources gap. Government was making loans and advances to power sector without ensuring refund and interest thereon. No repayment of loan from power sector was received during 2002-07.

1.6.6 Management of cash balances

It is generally desirable that the State's flow of resources should match its expenditure obligations. However, to take care of any temporary mismatches in the flow of resources and the expenditure obligations, a mechanism of Ways and Means Advances (WMA) ordinary and special from the Reserve Bank of India has been put in place. The operative limit for Normal Ways and Means Advances is reckoned on the three year average of revenue receipts and the operative limit for Special Ways and Means Advances is fixed by Reserve Bank of India from time to time depending on the holding of Government securities. Bihar had the WMA limit of Rs 425 crore from April 1, 2006. Special WMA limit ranged between Rs 19.79 crore with effect from April 2006 to Rs 519.74 crore during the year. These advances were made available against security of Government of India held by the State Government with effect from March 2006.

Ways and Means Advances and Overdrafts availed, the number of occasions on which it was availed and interest paid by the State is detailed in **Table 1.22**.

Table 1.22: Ways and Means and Overdrafts of the State

(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07
Ways and Means Advances					
Availed in the Year	7.12	1,708.45	3.50	NIL	NIL
Number of Occasions	NIL	40	1	NIL	NIL
Outstanding WMAs, if any	NIL	NIL	NIL	NIL	NIL
Interest Paid	0.13	3.71	negligible	NIL	NIL
Number of Days	1	49	3	NIL	NIL
Overdrafts					
Availed in the year	NIL	1,142.89	NIL	NIL	NIL
Number of Occasions	NIL	5	NIL	NIL	NIL
Number of Days	NIL	44	NIL	NIL	NIL
Interest Paid	NIL	1.42	NIL	NIL	NIL

1.7 Undischarged Liabilities

The total liabilities of the State means the liabilities under the Consolidated Fund of the State and the Public Account of the State and shall also include borrowings by the Public Sector Undertaking and the special purpose vehicles and other equivalent instruments including guarantees where principal and/or interest are to be serviced out of the State Budget.

1.7.1 Fiscal Liabilities – Public Debt and Guarantees

There are two sets of liabilities namely, public debt and other liabilities. Public debt consists of internal debt of the State and is reported in the Annual Financial Statements under the Consolidated Fund – Capital Accounts. It includes market loans, special securities issued by RBI and loans and advances from the Central Government. 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 and give guarantees within such limits as may be fixed. However, no law has been passed in the State to lay down any such limit. Other liabilities, which are a part of public account, include deposits under small savings scheme, provident funds and other deposits.

Table 1.23 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 fiscal liabilities with respect to these parameters.

Table 1.23 Fiscal Liabilities- Basic Parameters

(Values in Rupees crore and ratios in per cent)

	2002-03	2003-04	2004-05	2005-06	2006-07
Fiscal Liabilities ³	35,249	37,453	42,483	46,495	49,089
Rate of Growth	10.56	6.25	13.43	9.44	5.58
Ratio of Fiscal Liabilities to					
GSDP	54.84	56.75	59.76	60.72	60.40
Revenue Receipt	321.38	300.68	270.35	260.67	212.66
Own Resources	1,166.41	1,166.76	1,128.37	1,138.75	1,080.30
Buoyancy of Fiscal Liabilities with reference to					
GSDP	0.80	2.34	1.74	1.23	0.91
Revenue Receipt	0.92	0.46	0.51	0.70	0.19
Own resources	0.66	1.01	0.78	1.12	0.49

Overall fiscal liabilities of the State increased from Rs 35,249 crore in 2002-03 to Rs 49,089 crore in 2006-07. Fiscal Liabilities of the State comprised Consolidated Fund liabilities and Public Account liabilities. The Consolidated Fund liability (Rs 35,065 crore) comprised of market loan (Rs 26,828 crore) and loan from Government of India (Rs 8,237 crore). The Public Account liabilities (Rs 14,024 crore) comprise of Small Savings, Provident Funds (Rs 9,161 crore) and other obligation (Rs 4,863 crore) The rate of growth of fiscal liabilities decreased from 9.44 to 5.58 *per cent* during 2006-07 and the ratio of GSDP increased from 54.84 *per cent* in 2002-03 to 60.40 *per cent* in 2006-07. These liabilities stood at 2.13 times the revenue receipts and 10.80 times of the States own resources at the end of 2006-07. The buoyancy of these liabilities with respect to GSDP during the year was 0.91 *per cent*. Rising debt – GSDP ratio during 2002-07 indicated that debt was unsustainable. Government has not constituted any fund like "Sinking Fund" for amortization of loans raised by the Government.

1.7.2 Status of Guarantees – Contingent liabilities

Guarantees are liabilities contingent on the Consolidated Fund of the State in case of default by the borrower for whom the guarantee has been extended. The Government has not fixed any explicit ceiling on guarantees given upon the Security of the Consolidated Fund of the State. No fund like "guarantee redemption fund" has been created so far.

As per the Statement 6 of the Finance Accounts, the maximum amount for which guarantees were given by the State and outstanding guarantees at the end of year since 2002-03 is given in **Table 1.24**.

³ Includes internal debt, Loans and advances from GOI, Debt from Small savings, Provident fund and other obligations (excludes Ways and Means Advance and Contingency Fund).

Table 1.24: Guarantees given by the Government of Bihar

(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07
Maximum amount guaranteed	*	1,531.08	1,531.08	1,531.08	1,537.73
Outstanding guarantees	393.44	470.72	473.44	604.87	607.76
Revenue receipts	10,968	12,456	15,714	17,837	23,083
Percentage of maximum amount guaranteed to Revenue Receipt	--	12.29	9.74	8.58	6.66

* Indicates information not available

The amount of guarantees outstanding increased from Rs 393.44 crore during 2002-03 to Rs 607.76 crore in the year 2006-07. Major recipients of such guarantees were Co-operative Bank & Societies (Rs 170 crore), Bihar State Financial Corporation (Rs 179 crore) and Bihar State Electricity Board (Rs 139 crore). No Act was passed by the Government fixing any limit for guarantees. No mechanism was put in place by the Government for monitoring to avoid any incidence of losses on account of such guarantees.

1.8 Debt Sustainability

The debt sustainability is defined as the ability of the State to maintain a constant debt-GSDP ratio over a period of time and also embodies the concern about the ability to service its debt. Sustainability of debt therefore also refers to sufficiency of liquid assets to meet current or committed obligations and the capacity to keep the balance between costs of additional borrowings with returns from such borrowings. It means that rise in fiscal deficit should match with the increase in capacity to service the debt. A prior condition for debt sustainability is the debt stabilization in terms of debt/GSDP ratio.

1.8.1 Debt Stabilization

A necessary condition for stability states that if the rate of growth of economy exceeds the interest rate or cost of public borrowings. The debt-GSDP ratio is likely to be stable provided primary balances are either zero or positive or are moderately negative. Given the rate spread (GSDP growth rate - interest rate) and quantum spread (Debt*rate spread), debt sustainability condition states that if quantum spread together with primary deficit is zero, debt-GSDP ratio would be constant or debt would stabilize eventually. On the other hand, if primary deficit together with quantum spread turns out to be negative, debt-GSDP ratio would be rising and in case it is positive, debt-GSDP ratio would eventually be falling. Trends in fiscal variables indicating the progress towards the debt stabilization are indicated in **Table 1.25**

Table 1.25: Debt Sustainability–Interest Rate and GSDP Growth

(in per cent)

	2002-03	2003-04	2004-05	2005-06	2006-07
Average Interest Rate	9.00	9.00	9.59	8.20	7.15
GSDP Growth	13.17	2.67	7.72	7.70	6.14
Interest spread	4.17	-6.33	-1.87	-0.50	-1.01
Quantum Spread (Rs in crore)	1,329.52	(-) 2,231.26	(-) 700.37	(-) 212.42	(-) 469.60
Primary Deficit (Rs in crore)	+34.00	-1,020.00	+2,232.00	-51.00	+395.00

Table -1.25 reveals that trends in primary deficit/surplus together with quantum spread oscillated between the phases of *plus* and *minus* during the five year period 2002-07 as a result of which fiscal liabilities to GSDP ratio initially increased from 55 per cent in 2002-03 to 60 per cent in 2004-05 and remained around this level during the subsequent two years viz. in 2005-06 and 2006-07. In view of the large fluctuations in the trends of fiscal and primary deficits as well as in ratio of fiscal deficit with GSDP during the period 2002-07, it would be premature to infer about the debt stability of the State as well as about its capacity to sustain higher debt in the ensuing years.

1.8.2 Sufficiency of Non-debt Receipts

Another indicator for debt stability and its sustainability is the adequacy of incremental non-debt receipts of the State to cover the incremental interest liabilities and incremental primary expenditure. The debt sustainability could be significantly facilitated if the incremental non-debt receipts could meet the incremental interest burden and the incremental primary expenditure. Table -1.26 indicates the resource gap as defined for the period 2001-07.

Table 1.26: Incremental revenue receipts and expenditure

(Rupees in crore)

Period	Incremental				Resource Gap
	Non-Debt Receipts	Primary Expenditure	Interest Payments	Total Expenditure	
1	2	3	4	5 (3+4)	6 (2-5)
2002-03	1,132	1,144	393	1,537	-405
2003-04	1,482	2,536	321	2,857	-1,375
2004-05	3,263	11	131	142	3,121
2005-06	2,159	4,442	175	4,617	-2,458
2006-07	5,202	4,756	-233	4,523	679

The persistent negative resource gap indicates the non-sustainability of debt while the positive resource gap strengthens the capacity of the State to sustain the debt. **Table 1.26** reveals that incremental receipts were not adequate to cover even the incremental primary expenditure and thus the State experienced the negative resource gap. During subsequent year while non debt receipts increased steeply but the incremental primary expenditure as well as interest payments were marginal resulting in huge positive resource gap which was again followed by large negative resource gap in 2005-06 and a positive gap in current year mainly due to a marginal increase in primary expenditure and a decline in interest payments. These trends indicate the unstable position of the State with regard to its debt sustainability which is corroborated by the stable but high fiscal liabilities to GSDP ratio during the last three years (2004-07).

1.8.3 Net Availability of Funds

Another important indicator of debt sustainability is the net availability of funds after the payment of the principal on account of earlier contracted liabilities and interest. The net funds available on account of the internal debt, loans and advances from Government of India and other obligations after providing for the interest and repayments oscillated from (-) nine *per cent* to 16 *per cent* during the period 2002-03 to 2006-07. The net fund available was Rs (-) 692 crore (-13 *per cent*) in 2006-07. Total debt receipt ranged between Rs 5,314 crore to Rs 10,907 crore during 2002-03 to 2006-07.

Table -1.27 gives the position of the receipt and repayment of internal debt and other fiscal liabilities of the State over the last five years.

Table 1.27: Net Availability of Borrowed Funds

(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07
Internal Debt					
Receipt	2,935	4,249	5,969	3,769	2,355
Repayment (Principal + Interest)	923	1,766	2,047	2,485	3,168
Net Fund Available	2,012	2,483	3,922	1,284	(-813)
Net Fund Available (<i>per cent</i>)	69	58	66	34	(-35)
Loans and Advances from GOI					
Receipt	1255	820	1654	2	3
Repayment (Principal + Interest)	3195	3894	3881	1512	744
Net Fund Available	(-1,940)	(-3,074)	(-2,227)	(-1,510)	(-741)
Net Fund Available (<i>per cent</i>)	(-155)	(-375)	(-135)	(-755)	(-247)
Other obligations					
Receipt	3,137	3,119	3,284	2,283	2,956
Repayment (Principal + Interest)	2,629	3,303	3,199	1,431	2,094
Net Fund Available	508	(-184)	85	852	862
Net Fund Available (<i>per cent</i>)	16	(-6)	3	37	29
Total Liabilities					
Receipt	7,327	8,188	10,907	6,054	5,314
Repayment (Principal + Interest)	6,747	8,963	9,127	5,428	6,006
Net Fund Available	580	(-775)	1780	626	(-692)
Net Fund Available (<i>per cent</i>)	8	(-9)	16	10.34	(-13)

1.9 Management of deficits

The deficit in the Government accounts represents the gap between its receipts and expenditure. The nature of deficit is an indicator of the prudence of fiscal management of the Government. Further, the ways in which the deficit is financed and the resources raised and applied are important pointers to its fiscal health.

1.9.1 Trends in Deficits

The State experienced revenue deficit till 2003-04 which turned into revenue surplus in 2004-05 and since then the State has maintained the surplus

although with wide variations. The revenue surplus has steeply increased from merely Rs 81 crore in 2005-06 to Rs 2,498 crore in 2006-07 due to the fact that the revenue receipts increased by Rs 5,246 crore (29 per cent) during 2006-07 while revenue expenditure increased by Rs 2,829 crore (16 per cent) over the previous year resulting in an increase of Rs 2,417 crore in revenue surplus in 2006-07. The fiscal deficit, which represents the total borrowing of the Government and its total resource gap, increased from Rs (-) 2,988 crore in 2002-03 to Rs (-) 3,021 crore in 2006-07 with inter year variations. The decline in fiscal deficit along with a fall of Rs 233 crore in interest payments led to a primary surplus of Rs 395 crore in 2006-07 from the deficit of Rs 51 crore in 2005-06 as indicated in **Table -1.28**. As proportion to GSDP, the revenue deficit had reached 3.07 per cent and fiscal deficit had reached (-) 3.72 per cent in 2006-07.

Table 1.28: Fiscal Imbalances: Basic Parameters

Parameters	2002-03	2003-04	2004-05	2005-06	2006-07
Revenue deficit (RD) (Rupees in crore)	(-)1,287	(-)255	(+)1,076	(+)81	(+)2,498
Fiscal deficit (FD) (Rupees in crore)	(-)2,988	(-)4,363	(-)1,242	(-)3,700	(-)3,021
Primary deficit (PD) (Rupees in crore)	(+)34	(-)1,020	(+)2,232	(-)51	(+)395
RD/GSDP (per cent)	(-)2.00	(-)0.39	(+)1.51	(+)0.11	(+)3.07
FD/GSDP (per cent)	(-)4.65	(-)6.61	(-)1.75	(-)4.83	(-)3.72
PD/GSDP (per cent)	(+)0.05	(-)1.55	3.14	(-)0.07	(+)0.49
RD/FD (per cent)	(+)43.07	(+)5.84	*	*	*

*State experienced revenue surplus during these years.

1.9.2 Quality of Deficit/Surplus

The ratio of RD to FD and the decomposition of Primary deficit into primary revenue deficit⁴ and capital expenditure (including loans and advances) would indicate the quality of deficit in the States' finances. The ratio of revenue deficit to fiscal deficit indicates the extent to which borrowed funds were used for current consumption. High ratio of revenue deficit to fiscal deficit also indicated that the asset base of the State was continuously shrinking and increasingly a part of borrowings (fiscal liabilities) were not having any asset backup. The ratio of revenue deficit to fiscal deficit sharply declined from 43

⁴ Primary revenue deficit defined as gap between non interest revenue expenditure of the state and its non-debt receipts indicates the extent to which the non-debt receipts of the State are able to meet the primary expenditure incurred under revenue account.

per cent in 2002-03 to 6 per cent in 2003-04 and thereafter State continuously experienced the revenue surplus during 2004-07.

The bifurcation of the factors resulting into primary deficit or surplus of the State during the period 2002-07 reveals uneven result (**Table 1.29**). Non-debt receipts of the State were enough to meet the primary expenditure⁵ requirements in the revenue account, rather left some receipts to meet the expenditure under the capital account. Surplus of primary deficit was mainly due to non-utilization of available fund by the Government or the increase in transfer of share of taxes to the State and Grants-in-aid from GOI.

Table 1.29: Primary deficit / surplus - Bifurcation of factors

Year	Non-debt receipts	Primary revenue expenditure	Capital expenditure	Disbursement of Loans and Advances	Primary Expenditure	Primary Revenue deficit (-) / surplus (+)	Primary deficit (-) / surplus (+)
1	2	3	4	5	6(3+4+5)	7 (2-3)	8 (2-6)
2002-03	10,984	9,233	970	747	10,950	(+) 1,751	(+) 34
2003-04	12,466	9,368	1,549	2,569	13,486	(+) 3,098	(-) 1,020
2004-05	15,729	11,164	1,205	1,128	13,497	(+) 4,565	(+) 2,232
2005-06	17,888	14,107	2,084	1,748	17,939	(+) 3,781	(-) 51
2006-07	23,090	17,169	5,211	315	22,695	(+) 5,921	(+) 395

Non-debt receipt increased from Rs 10,984 crore in 2002-03 to Rs 23,090 crore in 2006-07. Similarly primary expenditure which consisted primary revenue expenditure, capital expenditure and loan and advances disbursed by the government increased from Rs 10,950 crore to Rs 22,695 crore during the period. Primary revenue expenditure was below non-debt receipt of the state during entire period of 2002-07 resulting primary revenue surpluses. Primary expenditure relative to non-debt receipt however indicated a mixed trend and exhibited wild fluctuations during the period 2002-07, e.g. primary expenditure exceeded the non-debt receipt during 2003-04 and 2005-06 by Rs 1,020 crore and Rs 51 crore respectively while in remaining three years the State experienced primary surplus ranging between Rs 34 crore in 2002-03 to Rs 2,232 crore in 2004-05.

1.10 Fiscal Ratios

The finances of a State should be sustainable, flexible and non-vulnerable. **Table -1.30** below presents a summarized position of Government finances over 2002-2007, with reference to certain key indicators that help to assess the adequacy and effectiveness of available resources and their applications, highlights areas of concern and captures its important facets.

⁵ Primary expenditure of the State defined as the total expenditure net of the interest payments indicates the expenditure incurred on the transactions undertaken during the year.

Table 1.30: Indicators of Fiscal Health (in per cent)

Fiscal Indicators	2002-03	2003-04	2004-05	2005-06	2006-07
1	2	3	4	5	6
I Resource Mobilization					
Revenue Receipt/GSDP	17.10	18.90	22.10	23.30	28.40
Revenue Buoyancy	0.87	5.07	3.39	1.75	4.79
Own Tax / GSDP	4.30	4.38	4.71	4.65	4.96
II Expenditure Management					
Total Expenditure/GSDP	21.74	25.50	23.90	28.20	32.13
Revenue Receipts/ Total Expenditure	78.50	74.02	92.59	82.62	88.40
Revenue Expenditure/Total Expenditure (including loans & advances)	87.71	75.53	86.25	82.25	78.84
Salary expenditure on Social and Economic Services / Revenue Expenditure	22.61	28.76	24.39	24.62	19.97
Non-Salary expenditure on Social and Economic Services / Revenue Expenditure	23.74	14.75	22.28	28.48	62.59
Capital Expenditure/Total Expenditure(excluding loans & advances)	7	11	8	11	20
Capital Expenditure on Social and Economic Services/Total Expenditure (excluding loans & advances).	6.72	10.71	7.18	10.14	19.60
Buoyancy of TE with RR	1.08	1.51	0.03	2.01	0.71
Buoyancy of RE with RR	0.86	0.27	0.58	1.58	0.54
III Management of Fiscal Imbalances					
Revenue deficit (Rs in crore)	(-)1,287	(-)255	(+)1,076	(+)81	(+)2,498
Fiscal deficit (Rs in crore)	(-)2,988	(-)4,363	(-)1,242	(-)3,700	(-)3,021
Primary Deficit (Rs in crore)	(+)34	(-)1,020	(+)2,232	(-)51	(+) 395
Revenue Deficit/Fiscal Deficit	43	6	(-)87	(-)2	(-)82.69
IV Management of Fiscal Liabilities					
Fiscal Liabilities/GSDP	54.84	56.75	59.76	60.72	60.40
Fiscal Liabilities/RR	321.38	300.68	270.35	260.67	212.66
Buoyancy of FL with RR	0.92	0.46	0.51	0.70	0.19

Fiscal Indicators	2002-03	2003-04	2004-05	2005-06	2006-07
1	2	3	4	5	6
Buoyancy of FL with Own Receipt	0.66	1.01	0.78	1.12	0.49
Net Funds Available	580	(-775)	1780	626	(-)692
V Other Fiscal Health Indicators					
Return on Investment	0.02	0.04	0.04	0.04	0.04
Balance from Current Revenue (Rs in crore)	(-)1039	(-)638	924	685.02	2995.78
Financial Assets/Liabilities	72	72	78	80	86

The ratios of revenue receipts and State's own taxes to GSDP indicate the adequacy of the resources. The buoyancy of the revenue receipts indicates the nature of the tax regime and the State's increasing access to resources. Revenue receipts are comprised not only of the tax and non-tax resources of the State but also the transfers from Union Government. The ratio of revenue receipts to GSDP during the current year is 28 per cent, an increase of five percentage points over previous year. The ratio of own taxes to GSDP showed continued improvement during 2002-07 (except in 2005-06 when it declined marginally).

Various ratios concerning the expenditure management of the State indicate quality of its expenditure and sustainability of these in relation to its resource mobilization efforts. The revenue expenditure as a *per cent* to total expenditure remained dominant and varied within range of 79 to 88 per cent during 2002-07. Although ratio of capital expenditure to total expenditure remained relatively lower during 2002-06 but it picked up steeply in 2006-07. The ratio of revenue receipts to total expenditure continued to be less than 100 per cent indicating the fact that a part of total expenditure is met through the borrowed funds. During the last three years (2004-07), the state has maintained the revenue surplus and therefore only the expenditure under the capital account is met through the borrowings.

The fiscal position of the state viewed in terms of fiscal indicators has shown a significant improvement in the current year. A sharp increase in Balance from Current Revenue (BCR) from (+) Rs 685 crore (2005-06) to (+) Rs 2,996 crore during 2006-07 shows improvement in the asset backup of financial liabilities of the State.

1.11 Conclusions

The overall fiscal position of the State as reflected in terms of key parameters – revenue, fiscal and primary deficits – indicates a mixed trend during the period 2002-07. The state experienced improvement in fiscal position during 2006-07 in terms of these key fiscal parameters relative to their values in

2005-06. A turnaround in fiscal position in 2006-07 was primarily due to the steep increase in central tax transfers (27.6 per cent) and grants-in-aid (57.4 per cent) from GOI over the previous year. The expenditure pattern of the State reveals that the revenue expenditure as a *percentage* to total expenditure hovered around 80 per cent during the period 2002-07 with inter year variations leaving inadequate resources for expansion of services and creation of assets. Moreover, within the revenue expenditure, non-plan revenue expenditure in 2006-07 was significantly higher than the normative assessment of TFC for the State for the year and the three components – salary expenditure, pension liabilities, interest payments and subsidies – constitute about 69 per cent of the NPRES during 2006-07. These trends in expenditure indicate the need for changing allocative priorities. The continued prevalence of fiscal deficit in the finance accounts of the State indicates the increasing reliance on the borrowed funds. The increasing fiscal liabilities accompanied with negligible rate of return on government investments and inadequate interest cost recovery on loans and advances might lead to a situation of unsustainable debt in medium to long run unless a suitable measures are initiated to compress the non plan revenue expenditure and to mobilize the additional resources both through the tax and non tax sources in ensuing years.