

## 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 I (i)-Part A**). The Finance Accounts of the Government of Gujarat 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 of Gujarat. The lay out of the Finance Accounts is depicted in **Appendix-I (i)-Part B**.

##### 1.1.1 Summary of Receipts and Disbursements

**Table-1** Summarises the finances of the Government of Gujarat for the year 2007-08, covering revenue receipts and expenditure, capital receipts and expenditure and public account receipts/disbursements as emerging from Statement-1 of Finance Accounts and other detailed statements.

**Table-1: Summary of Receipts and Disbursements for the year 2007-08.**

		(Rupees in crore)					
2006-07	Receipts	2007-08	2006-07	Disbursements	2007-08		
Section-A: Revenue					Non Plan	Plan	Total
31,002.21	Revenue receipts	35,689.85	29,232.13	Revenue expenditure	25,081.06	8,458.45	33539.51
18,464.62	Tax revenue	21885.57	12,120.52	General services	13500.35	154.11	13654.46
4,948.78	Non-tax revenue	4609.32	10,514.32	Social services	6953.80	4846.86	11800.66
4,425.95	Share of Union Taxes/Duties	5426.09	6,464.87	Economic services	4479.58	3457.48	7937.06
3,162.86	Grants from Government of India	3768.87	132.42	Grants-in-aid and Contributions	147.33	--	147.33
Section-B: Capital							
2.69	Misc Capital Receipts	94.87	7,845.44	Capital Outlay	21.01	6780.02	6801.03
797.58	Recoveries of Loans and Advances	213.60	373.65	Loans and Advances disbursed	47.04	381.72	428.76
6,948.30	Public debt receipts*	8,611.10	1,770.90	Repayment of Public Debt*	**	**	1934.28
76.11	Contingency Fund	2.51	2.51	Contingency Fund	**	**	9.94
39,079.91	Public Account receipts	42311.37	36,590.06	Public Account disbursements	**	**	40032.22
7,267.98	Opening Cash Balance	9,360.09	9,360.09	Closing Cash Balance	--	--	13537.65
85,174.78	Total	96283.39	85,174.78	Total	--	--	96283.39

\*Excluding Ways and Means Advances and Overdraft

\*\* Bifurcation of plan & non-plan not available.

- Revenue receipts of the State increased by Rs 4688 crore from Rs.31,002 crore in 2006-07 to Rs.35,690 crore in 2007-08 (15 per cent) due to increase in own tax revenue by Rs.3,422 crore (19 per cent), Grant in aid by Rs.606 crore (19 per cent) and State share of Union Taxes and Duties by Rs.1,000 crore (23 per cent). The non-tax revenue of State declined by Rs 340 crore during the year.

- Revenue Expenditure also increased by Rs.4307 crore (15 per cent) mainly due to increase in expenditure on Economic Services by Rs.1472 crore (23 per cent).
- Capital expenditure decreased by Rs.1044 crore (13 per cent) over previous year mainly on account of decline in expenditure in Economic Services.
- The disbursement of loans and advances increased by Rs.55 crore (15 per cent) against the decline of Rs 584 crore in recovery of loans and advances over the previous year.
- Public Debt receipts increased by Rs.1,663 crore (24 per cent) during the year while repayment increased by only Rs.163 crore (nine per cent) during the year resulting in net increase of Rs 1500 crore in debt receipts during the year.
- Public Account receipts and disbursement increased by Rs.3,231 crore (eight per cent) and Rs.3,442 crore (nine per cent) over previous year, resulting in marginal decline of Rs 211 crore in Public Account during the year.
- Cash balance of the State at the end of the year increased by Rs.4,178 crore from Rs.9,360 crore in 2006-07 to Rs.13,538 crore in 2007-08.

### 1.1.2 State Fiscal Position by Key Indicators

The fiscal position of the State Government during the current year as compared to the previous year is given in **Table 2**.

(Rupees in crore)			
2006-07	Sl. No	Major Aggregates	2007-08
<b>31,002</b>	<b>1.</b>	<b>Revenue Receipts (2+3+4+5)</b>	<b>35690</b>
18,464	2.	Tax Revenue (own tax Revenue)	21886
4,426	3.	Tax transfers	5426
4,949	4.	Non-Tax Revenue	4609
3163	5.	Other Receipts	3769
<b>801</b>	<b>6.</b>	<b>Non-Debt Capital Receipts (7+8)</b>	<b>309</b>
3	7.	Capital Receipts	95
798	8.	Recovery of Loans and Advances	214
<b>31,803</b>	<b>9.</b>	<b>Total Receipts (1+6)</b>	<b>35999</b>
<b>23,725</b>	<b>10.</b>	<b>Non-Plan Expenditure (11+13+14)</b>	<b>25149</b>
23,471	11.	On Revenue Account	25081
6,889	12.	Of which, Interest payments	7484
191	13.	On Capital Account	21
63	14.	On Loans disbursed	47
<b>13,726</b>	<b>15.</b>	<b>Plan Expenditure (16+18+19)</b>	<b>15620</b>
5,761	16.	On Revenue Account	8458
43 <sup>1</sup>	17.	Of which Interest payments	0
7,654	18.	On Capital Account	6780
311	19.	On Loans disbursed	382
<b>37,451</b>	<b>20.</b>	<b>Total Expenditure (10+15)</b>	<b>40769</b>
(+) 1,770	<b>21.</b>	<b>Revenue Deficit/ Surplus (1-(11+16))</b>	<b>(+) 2151</b>
(-) 5,648	<b>22.</b>	<b>Fiscal Deficit (1+6-20)</b>	<b>(-) 4770</b>
(+) 1,284	<b>23.</b>	<b>Primary Deficit /Surplus (12+17-22)</b>	<b>(+) 2714</b>

<sup>1</sup> This amount of Interest payment was incurred against the budget provision made under Plan-Head

Table above depicts that revenue receipts increased by Rs.4,688 crore during 2007-08 over previous year where as revenue expenditure increased by Rs.4,307 crore resulting in an increase of surplus of Rs.381 crore in revenue account during 2007-08 from the level of Rs.1770 crore in 2006-07. Given the incremental surplus of Rs.381 crore in revenue account and decrease in non debt capital receipts by Rs.492 crore along with decrease of Rs.1044 crore in capital expenditure and an increase of Rs.55 crore in disbursement of loans and advances, the fiscal deficit decreased by Rs.878 crore in 2007-08 from the level of Rs.5648 crore in 2006-07. The decline of Rs.878 crore in fiscal deficit together with an increase of Rs.552 crore in interest payments resulted in primary surplus of Rs.2714 crore in 2007-08 as compared to the surplus of Rs.1284 crore in previous year.

## 1.2 Methodology adopted for the assessment of Fiscal position

The trends in the major fiscal aggregates of receipts and expenditure as emerging from the Statements of Finance Accounts were analyzed wherever necessary over the period 2002-08 and observations have been made on their behavior. In its Restructuring Plan of State finances, Twelfth Finance Commission (TFC) recommended the norms/ceiling for some fiscal aggregates and also made normative projections for others. In addition, TFC also recommended that all States are required to enact a Fiscal Responsibility (FR) Act and draw their respective or fiscal correction paths during medium to long run. The norms/ceiling prescribed by the TFC as well as its projections for fiscal aggregates along with the commitments/projections made by the State Government in their FR Acts were used to make qualitative assessment of the trends and patterns of major aggregates during the current year. Assuming that Gross State Domestic Product (GSDP) is a good indicator of the performance of the State's economy, major 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 buoyancy coefficient for tax revenue, 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 have also been affected by factors other than GSDP. The trends in the growth of GSDP as provided by Directorate of Economics and Statistics, Government of Gujarat are given in **Table – 3**.

**Table -3: Trends in Growth of GSDP**

(Rupees in crore)

Estimates	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Gross State Domestic Product (GSDP)	*1,41,534	*1,68,080	*1,89,118	*2,19,780(P)	*2,54,533(Q)	**2,80,086
Rates of Growth of GSDP (per cent)	14.53	18.76	12.52	16.21	15.81	10.04

\* Source: Directorate of Economics and Statistics (Gujarat)

\*\* Estimated using Log linear regression method on the time series data of GSDP for the period of 1999-2000 to 2006-07

P = Provisional, Q = Quick estimates

The key fiscal aggregates for the purpose have been grouped under four major heads (i) Trends and Composition of aggregate receipts, (ii) Application of Resources, (iii) Assets and Liabilities, and (iv) Management of deficits (**Appendices II to V**). 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 rational 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 I (i)-Part C**.

### ***1.2.1 The Gujarat Fiscal Responsibility Act, 2005***

The State Government enacted the Gujarat Fiscal Responsibility Act, 2005 to ensure prudence in fiscal management and fiscal stability by progressive elimination of revenue deficit, sustainable debt management consistent with fiscal stability, greater transparency in fiscal operations of the Government and conduct of fiscal policy in a medium term fiscal frame work. To give effect to the fiscal management principles as laid down in the Act and /or the rules framed there under, the Government prescribed the following fiscal management targets:

- a) Reduce the revenue deficit in each of financial year commencing from the 1<sup>st</sup> April 2005 so as to eliminate it by 31<sup>st</sup> March 2008 and maintain it at that level or generate revenue surplus thereafter.
- b) Reduce fiscal deficit in each of financial year commencing from the 1<sup>st</sup> April 2005 so as to bring it down to not more than three *per cent* of GSDP by 31<sup>st</sup> March 2009.
- c) Cap within a period of three years commencing from the 1<sup>st</sup> April 2005 and ending on the 31<sup>st</sup> March 2008, the total public debt of the State Government at thirty *per cent* of estimated GSDP for that year.
- d) Cap outstanding guarantees within the limit provided in the Gujarat State Guarantees Act, 1963.

The revenue deficit and the fiscal deficit may exceed the specified limits on account of unforeseen circumstances or natural calamity to the extent of actual fiscal cost spent to meet the situation.

#### ***1.2.1.1 Roadmap to achieve the Fiscal Targets as laid down in FRBM Act/Rules***

Keeping in view the fiscal targets laid down in the Fiscal Responsibility and Budget Management (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 period following its recommendation, 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 2005-06 to 2010-11 (**Appendix I (ii)**).

### **1.2.1.2 Fiscal Policy Statements**

As prescribed in the Act, the State Government was required to lay the following statements of fiscal policy along with the budget before the Legislature.

- a) The Medium Term Fiscal Policy Statement (MTFPS).
- b) The Fiscal Policy Strategy Statement.

The State Government in its MTFPS projected its State's own tax revenue at Rs.20,868 crore and non-tax revenue at Rs.3,880 crore for the year 2007-08 (BE). The State Government estimated growth rate of seven *per cent* and 4.9 *per cent* for the plan and non-plan revenue expenditure respectively for the year 2006-07 onwards. The average cost of borrowing for the year 2007-08 was estimated at 9.11 *per cent*. The growth rates of salaries and pension payments were projected at 2.8-3 *per cent* and nine *per cent* respectively.

### **1.2.1.3 Mid-Term Review of Fiscal Situation**

The Gujarat Fiscal Responsibility Act, 2005 was enacted in March 2005; the rules for carrying out the provisions of the Act were published in February 2006. As per section 7(3) of Gujarat Fiscal Responsibility Act, 2005 the review report was to be placed before the State Legislature during the session immediately following the end of second quarter of the financial year, however, it was placed in February 2008.

The State achieved fiscal targets laid down in the Act one year ahead (2006-07), with the current year ending in revenue surplus of Rs.2,151 crore and fiscal deficit at Rs.4,770 crore which stood at 1.70 *per cent* of GSDP. The guarantees given were also well within the limit prescribed in the Act. The ratio of Public Debt to GSDP at 28.32 *per cent* during current year remained within the limit of 30 *per cent* prescribed under the Act. In view of the fiscal performance of the State measured in terms of the trends in revenue and fiscal deficits relative to their base year values and improvements over the previous year, the State Government received debt waiver of Rs.472 crore as an incentive under DCRF<sup>2</sup> from the Government of India during 2007-08.

## **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 revenue, 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

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<sup>2</sup> In pursuance of the recommendations of the Twelfth Finance Commission (TFC) for fiscal consolidation and elimination of revenue deficit of the State, Government of India formulated a scheme "The States' Debt Consolidation and Relief Facility (DCRF) (2005-06 to 2009-10) under which general debt is provided by consolidating and rescheduling of substantially reduced rate of interest the central loans granted to States on enacting the FRBM Act and debt waiver is granted based on fiscal programmes linked to the reduction of revenue deficit of the State.

institution/commercial banks) and loans and advances from GOI as well as accruals from the Public Account. Table-4 shows that total receipts of the State Government for the year 2007-08 were Rs.86,924 crore. Of these, the revenue receipts were Rs.35,690 crore, constituting 41 *per cent* of total receipts. The balance came from capital receipts, borrowing, receipts from the Contingency Fund and the Public Account (**Appendix II**).

**Table-4: Trends in Growth and Composition of Aggregate Receipts**

(Rupees in crore)

Sources of State's Receipts	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
<b>I Revenue Receipts</b>	<b>17,875</b>	<b>18,248</b>	<b>20,265</b>	<b>25,067</b>	<b>31,002</b>	<b>35,690</b>
<b>II Capital Receipts</b>	<b>9,907</b>	<b>15,208</b>	<b>13,514</b>	<b>12,455</b>	<b>7,749</b>	<b>8,920</b>
Recovery of Loans and Advances	171	182	180	1,784	798	214
Public Debt Receipts	9,684	15,008	13,328	10,663	6,948	8,611
Miscellaneous Capital receipts	52	18	6	8	3	95
<b>III Contingency Fund</b>	<b>7</b>	<b>12</b>	<b>93</b>	<b>7</b>	<b>76</b>	<b>3</b>
<b>IV Public Accounts Receipts</b>	<b>20,666</b>	<b>25,039</b>	<b>32,788</b>	<b>36,334</b>	<b>39,080</b>	<b>42,311</b>
a. Small Saving, provident Funds, etc.	842	895	825	884	941	1,158
b. Reserve Fund	879	370	429	1,963	1,899	1,022
c. Deposits and advances	9,277	9,668	10,857	12,193	12,524	14,285
d. Suspense and Miscellaneous	6,706	9,770	15,165	13,249	14,803	18,962
e. Remittances	2,962	4,336	5,512	8,045	8,913	6,884
<b>Total Receipts (I+II+III+IV)</b>	<b>48,455</b>	<b>58,507</b>	<b>66,660</b>	<b>73,863</b>	<b>77,907</b>	<b>86,924</b>

Total receipts of the State continually increased from Rs.48,455 crore in 2002-03 to Rs.86,924 crore in 2007-08. The capital receipts of the State increased from Rs.7,749 crore in 2006-07 to Rs.8,920 crore in 2007-08 mainly on account of increase in debt receipt at Rs.8,611 crore. The debt receipt in 2006-07 stood lowest at Rs.6,948 crore during the period 2002-07 but increased to Rs.8,611 crore in 2007-08. Similarly, accruals in Public Account continuously increased from Rs.20,666 crore in 2002-03 to Rs.42,311 crore in 2007-08, contributing to 49 *per cent* of total receipts. Revenue Receipts contributed another 41 *per cent* and remaining 10 *per cent* through Capital Receipts.

### 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-5**.

**Table-5: Revenue Receipts - Basic Parameters**

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
<b>Revenue Receipts (RR) (Rupees in crore)</b>	<b>17,875</b>	<b>18,248</b>	<b>20,265</b>	<b>25,067</b>	<b>31,002</b>	<b>35,690</b>
Own Taxes ( <i>per cent</i> )	9,520 (53.25)	11,173 (61.23)	12,958 (63.94)	15,698 (62.63)	18,464 (59.56)	21,886 (61.32)
Non-Tax Revenue ( <i>per cent</i> )	3,995 (22.36)	3,272 (17.93)	3,090 (15.25)	3,353 (13.38)	4,949 (15.96)	4,609 (12.91)
Central Tax Transfers ( <i>per cent</i> )	1,363 (7.63)	1,966 (10.77)	2,219 (10.95)	3,373 (13.45)	4,426 (14.28)	5,426 (15.20)
Grants-in-aid ( <i>per cent</i> )	2,996 (16.76)	1,837 (10.07)	1,997 (9.86)	2,643 (10.54)	3,163 (10.20)	3,769 (10.56)
Rate of growth of RR ( <i>per cent</i> )	11.82	2.08	11.05	23.70	23.68	15.12
RR/GSDP ( <i>per cent</i> )	12.63	10.86	10.72	11.41	12.18	12.74
Revenue Buoyancy (ratio)	0.81	0.11	0.88	1.46	1.50	1.51
State's own taxes Buoyancy (ratio)	0.20	0.93	1.23	1.30	1.11	1.85
Revenue Buoyancy with reference to State's own taxes (ratio)	4.05	0.11	0.72	1.12	1.35	0.82
GSDP Growth ( <i>per cent</i> )	14.53	18.76	12.52	16.21	15.81	10.04

- **General Trends and Composition**

Revenue receipts of the State increased steadily from Rs.18248 crore in 2003-04 to Rs.35,690 crore in 2007-08 with marginal changes in the share of State's own tax revenue and grants-in-aid from GOI while the share of non tax revenue declined from 18 *per cent* in 2003-04 to 13 *per cent* in 2007-08 which was largely counter balanced by an increase in the share of central tax transfers by four percentage points during the period. The growth rate of revenue receipts was 15.12 *per cent* during 2007-08 mainly due to 23 *per cent* increase in Central tax transfer, 19 *per cent* increase in Grant-in-aid and 18.5 *per cent* increase in Own tax revenue. Revenue Buoyancy during 2007-08 remained relatively stable while the State's Own tax buoyancy improved from 1.11 in 2006-07 to 1.85 in 2007-08.

- **Own Tax Revenue**

The own tax revenue of the State increased from Rs.9,520 crore in 2002-03 to Rs.21,886 crore in 2007-08. The own Tax Revenue of State increased by 18.53 *per cent* during 2007-08 over previous year. The increase in tax revenue during 2007-08 was mainly due to increase in Taxes on Sales, Trade etc., (Rs.2,287 crore), Stamps and Registration fees (Rs.593 crore) and Land Revenue (Rs.184 crore) (Table 6). The increase in Taxes on Sales, Trade Etc. during the year was mainly due to more collection in Value Added Tax (VAT) of Rs.3018 crore (32 *per cent*). The increase in Stamp and Registration Fees during the year was due to increase in sale of non-judicial stamp of Rs.322 crore (35 *per cent*). Realizing the need of tax reforms, the State Government implemented the Value Added Tax (VAT) in lieu of Sales Tax from April 2006.

**Table – 6: Tax Revenue**

(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Taxes on Sales, Trade etc.	6,252	7,170	8,309	10,561	12,818	15,105
Taxes and Duties on Electricity	1,384	1,592	1,829	1,900	2,088	2,047
State Excise	47	46	47	48	42	47
Taxes on Vehicles	808	936	1,061	1,154	1,191	1,310
Stamps and Registration Fees	650	825	963	1,153	1,425	2,018
Land Revenue	95	127	235	380	499	683
Other Taxes	284	477	514	502	401	676
<b>Total</b>	<b>9,520</b>	<b>11,173</b>	<b>12,958</b>	<b>15,698</b>	<b>18,464</b>	<b>21,886</b>

The taxes on Sales, Trade etc. (now VAT) was the major source of State's own tax revenue which contributed 69 *per cent* followed by taxes and duties on Electricity (nine *per cent*), Stamp duty and Registration fees (nine *per cent*) and Taxes on vehicles (six *per cent*).

• **Non Tax revenue**

The share of non-tax revenue in revenue receipts decreased significantly from 22.36 *per cent* in 2002-03 to 12.91 *per cent* in 2007-08. During 2007-08, the non-tax revenue decreased by Rs.340 crore over previous year mainly due to decrease in receipts from Dividend and Profits by Rs.307 crore (87 *per cent*) and Non-ferrous Mining and Metallurgical Industries by Rs.92 crore (four *per cent*). Of non-tax revenue receipts, Non-ferrous Mining & Metallurgical Industries (45 *per cent*), Miscellaneous General Services (13 *per cent*) and Interest Receipts (seven *per cent*) were main contributors during 2007-08.

The actual receipts under State's tax and non-tax revenue vis-à-vis assessment made by TFC and the State Government in the budget estimates are given below:

**Table-7: Comparative statement of revenue receipts**

(Rupees in crore)

	Assessments made by TFC	Budget Estimates of 2007-08	Actuals
<b>Tax Revenue</b>	18906	20868	21886
<b>Non-Tax Revenue</b>	4024	3880	4609
<b>Total</b>	22930	24748	26495

The receipts from own tax revenue at Rs.21,886 crore during 2007-08 was higher by 15.75 *per cent* and 4.87 *per cent* relative to the normative projection of Rs.18,906 crore made by the Twelfth Finance Commission (TFC) and Rs.20,868 crore assessed in the budget estimates of the State Government for 2007-08. Similarly, non-tax revenue at Rs.4,609 crore was higher by 14.54 *per cent* and 18.79 *per cent* than the normative projection of



Rs.4,024 crore made by TFC and Rs.3,880 crore assessed in the budget estimates of the State Government respectively for 2007-08.

- **Central Tax Transfers**

The Central tax transfers for the State increased from Rs.4,426 crore in 2006-07 to Rs.5,426 crore in 2007-08. The contribution of the Central tax transfers to the revenue receipts also increased from 14.28 *per cent* in 2006-07 to 15.20 *per cent* in 2007-08. The increase in Central tax transfers (Rs.1,000 crore) was mainly due to increase in Corporation Tax (Rs.352 crore), Union Excise Duties (Rs.46 crore), Taxes on Income other than Corporation Tax (Rs.317 crore), Customs (Rs.160 crore) and Service Tax (Rs.126 crore).

- **Grant-in-aid**

The Grants-in-aid from Government of India increased from Rs.3163 crore in 2006-07 to Rs.3769 in 2007-08. While there was increase under State Plan Schemes (Rs.920 crore) and centrally sponsored schemes (Rs.19 crore), which was partly counterbalanced by decrease in non-plan grants (Rs.348 crore). The decrease in non-plan grants was mainly due to decrease in grants towards Calamity Relief Fund (Rs.744 crore).

- **Revenue Arrears**

The arrears of revenue as on 31 March 2008 stood at Rs.8015.26 crore in respect of some principal heads of revenue of which Rs.1889 crore (23.56 *per cent*) were outstanding for more than five years. The arrears pertained mainly to Sales Tax (Rs.7939.50 crore), Motor Vehicle Tax (Rs.75.73 crore) and State Excise (Rs.0.03 crore). Out of total arrears of Rs.8015 crore, amount of Rs.1806 crore was on account of cases pending in courts, while the recovery of Rs.960 crore were under different stages of action. The other reasons contributed for these arrears and amount involved included insolvency (Rs.145.36 crore) and Rs.160 crore likely to be written off.

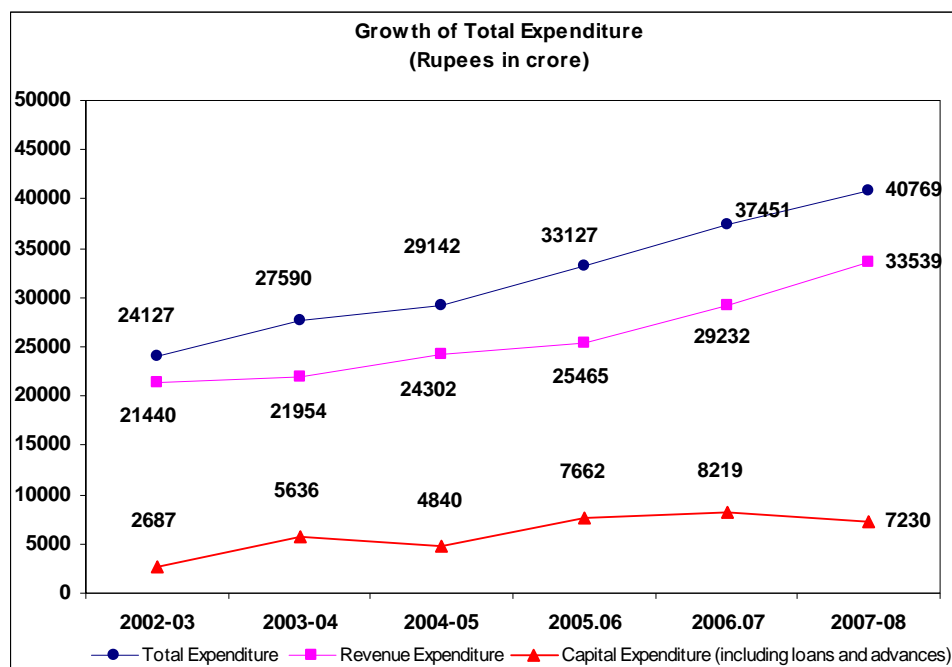
## **1.4 Application of resources**

### **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.24,127 crore in 2002-03 to Rs.40,769 crore in 2007-08. 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-8**.

**Table-8: Total Expenditure – Basic Parameters**

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Total expenditure (TE) (Rupees in crore)	24,127	27,590	29,142	33,127	37,451	40,769
Rate of Growth ( <i>per cent</i> )	(-) 2.34	14.35	5.63	13.67	13.05	8.86
TE/GSDP Ratio ( <i>per cent</i> )	17.05	16.41	15.41	15.07	14.71	14.56
RR /TE Ratio ( <i>per cent</i> )	74.09	66.14	69.54	75.67	82.78	87.54
<b>Buoyancy of Total Expenditure with reference to:</b>						
GSDP (ratio)	(-) 0.16	0.76	0.45	0.82	1.37	0.88
RR (ratio)	(-) 0.20	6.88	0.50	0.58	0.55	0.59



The total expenditure during 2007-08 increased by Rs.3,318 crore (8.86 *per cent*) over previous year. The increase in revenue expenditure by Rs.4307crore (15 *per cent*) and disbursement of loans and advances by Rs.55 crore (15 *per cent*) along with decrease in capital expenditure by Rs.1044 crore (13 *per cent*) resulted in over all increase in total expenditure over previous year. The decline in capital expenditure relative to previous year was mainly on account of decrease in capital expenditure on Major and Medium Irrigation projects as well as on Power Projects. A fall in investment in Public sector and other Undertakings in irrigation sector (Rs.157 crore) and a steep decline in expenditure (Rs.715 crore) on lift Irrigation schemes from Narmada Main Canal to various reservoirs/ponds resulted in a decline in capital expenditure on irrigation projects. As regards Power Projects Government invested Rs.477 crore in 2007-08 as against Rs.1140 crore during 2006-07 adding to further decline in capital expenditure during the year. Out of total expenditure of Rs.40,769 crore, non-plan expenditure stood at Rs.25,149 crore (62 *per cent*) while plan expenditure stood at Rs.15,620 crore (38 *per cent*). The buoyancy of total expenditure with respect to GSDP reduced significantly during 2007-08 mainly due to compression in capital

expenditure. There was significant increase in ratio of revenue receipts to total expenditure from 83 *per cent* in 2006-07 to 88 *per cent* in 2007-08, indicating decreasing dependence of the State on borrowed funds to meet its expenditure.

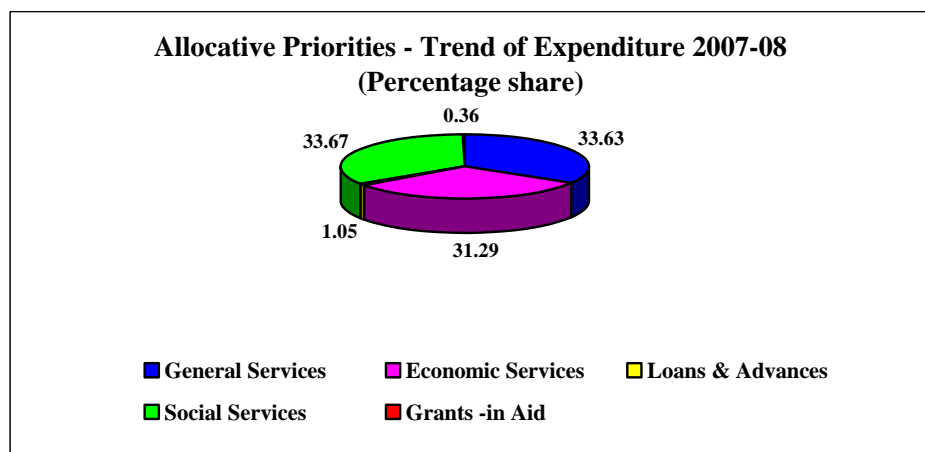
- **Trends in total expenditure by activities:**

In terms of the activities, total expenditure could be considered as being composed of expenditure on general services including interest payments, social and economic services, grants-in-aid and loans and advances. Relative share of these components in total expenditure is indicated in **Table-9**.

**Table-9: Components of Expenditure – Relative Share**

(In per cent)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
General Services	34.57	33.73	34.69	34.34	32.53	33.63
Of which Interest payments	20.51	21.29	20.86	18.54	18.51	18.36
Social Services	31.32	29.86	31.92	30.46	32.32	33.67
Economic Services	32.25	27.25	30.36	32.74	33.80	31.29
Grants-in-aid	0.43	0.37	0.49	0.33	0.35	0.36
Loans and Advances	1.43	8.79	2.54	2.13	1.00	1.05



The relative shares of various components of the total expenditure exhibited relative stability during the period 2003-08 with marginal inter year variations. During 2007-08 while the share of General Services including interest payment marginally improved, the share of Economic Services slightly declined during 2007-08 over previous year. The relative share of Social Services ranged between 29.86 to 33.67 *per cent* during the period 2003-08 and stood at its peak during 2007-08 due to increased expenditure on urban development. The share of expenditure on Social and Economic Services being considered as developmental expenditure continuously improved ranging between 57 to 66 *per cent* of total expenditure during this period. The share of Loans and Advances indicated decreasing trend from 8.79 *per cent* in 2003-04 to 1.05 *per cent* in 2007-08.

### 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-10**.

**Table-10: Revenue Expenditure: Basic Parameters**

	(Rupees in crore)					
	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Revenue Expenditure (RE)	21,440	21,954	24,302	25,465	29,232	33,539
Of which						
Non-Plan Revenue Expenditure (NPRE)	19,373	18,645	20,056	21,544	23,471	25,081
Plan Revenue Expenditure (PRE)	2,067	3,309	4,246	3,921	5,761	8,458
Rate of Growth ( <i>per cent</i> )	(-) 5.63	2.40	10.70	4.79	14.79	14.73
NPRE	(-) 7.29	(-) 3.76	7.57	7.42	8.94	6.86
PRE	13.51	60.08	28.32	(-) 7.65	46.93	46.81
NPRE/GSDP ( <i>per cent</i> )	13.69	11.09	10.61	9.80	9.22	8.95
NPRE as <i>per cent</i> of TE	80.30	67.58	68.82	65.03	62.68	61.52
NPRE as <i>per cent</i> of RR	108.38	102.18	98.97	85.95	75.70	70.27
Buoyancy of Revenue Expenditure with						
GSDP (ratio)	(-)0.39	0.13	0.85	0.29	0.94	1.47
Revenue Receipts (ratio)	(-) 0.48	1.15	0.97	0.20	0.62	0.97

Revenue expenditure continuously increased at annual growth rate of nine *per cent* from Rs.21,440 crore in 2002-03 to Rs.33,539 crore in 2007-08. During 2007-08, non-plan expenditure increased by Rs.1610 crore (seven *per cent*) and plan revenue expenditure by Rs.2697 crore (49 *per cent*) resulting in an increase of Rs.4307 crore in revenue expenditure. The increase in revenue expenditure during 2007-08 was mainly due to more expenditure on Urban Development (Rs.878 crore), General Education (Rs.673 crore), Pension and other Retirement Benefits (Rs.583 crore) and Interest Payment (Rs.552 crore).

The ratio of non-plan revenue expenditure to total expenditure showed decreasing trend from 80.30 *per cent* in 2002-03 to 61.52 *per cent* in 2007-08 except in 2004-05. The ratio of non-plan revenue expenditure to revenue receipts continuously decreased from 108 *per cent* in 2002-03 to 70 *per cent* in 2007-08 indicating better expenditure management by State Government. The Non-Plan revenue expenditure at Rs. 25081 crore during 2007-08 not only exceeded the normative assessment of TFC at Rs.21058 crore for the year but exceeded the State Government projected rate of growth of 4.9 *per cent* for the current year.

The plan revenue expenditure has steeply increased by 47 *per cent* in 2006-07 as well as during 2007-08 over the corresponding previous years. Out of plan

expenditure of Rs.8458 crore during 2007-08, expenditure on water supply, sanitation, housing and urban development absorbed 28 *per cent* (Rs.2468 crore). The assistance to Urban Local Bodies and Urban Development Authorities, Town Improvement Boards etc. in 2007-08 stood at Rs.1716 crore against Rs.856 crore in 2006-07. Buoyancy of revenue expenditure to GSDP increased from 0.94 in 2006-07 to 1.47 in 2007-08 due to lower growth rate of GSDP over previous year. Buoyancy of revenue expenditure with respect to revenue receipts also improved significantly during 2007-08 due to steep reduction in growth of revenue receipt over previous year.

### 1.4.3 Committed Expenditure

#### 1.4.3.1 Expenditure on Salaries and Wages

**Table-11: Expenditure on Salaries and Wages**

<b>(Rupees in crore)</b>						
<b>Heads</b>	<b>2002-03</b>	<b>2003-04</b>	<b>2004-05</b>	<b>2005-06</b>	<b>2006-07</b>	<b>2007-08</b>
Expenditure on Salaries & Wages**	3,024.47	3,295.44	3,586.85	3,623.88	2,668.87	3119.37
of which						
Non-Plan Head	2,795.69	3,035.84	3,322.08	3,362.13	2,447.45	2761.09
Plan Head*	232.78	259.60	264.77	261.75	221.42	358.28
As <i>per cent</i> of GSDP	2.14	1.96	1.90	1.65	1.05	1.11
As <i>per cent</i> of RR	16.92	18.06	17.70	14.46	8.60	8.74

\*Plan Head also includes the salaries and wages paid under Centrally Sponsored Schemes.

\*\*Expenditure on salaries does not include the salary component of Grants-in-aid given by state Government

The expenditure on Salaries and Wages increased with inter-year variations from Rs.3024 crore in 2002-03 to Rs.3119 crore in 2007-08. During 2007-08, it increased by 17 *per cent* mainly due to increase in salary on General Services by 171 crore (13.6 *per cent*). The salaries and wages under non-plan head accounted for 11.96 *per cent* of the revenue expenditure net of interest payments and pensions which was well within the norms of 35 *per cent* prescribed by the TFC.

#### 1.4.3.2 Pension Payments

**Table 12: Expenditure on Pensions**

<b>(Rupees in crore)</b>						
<b>Heads</b>	<b>2002-03</b>	<b>2003-04</b>	<b>2004-05</b>	<b>2005-06</b>	<b>2006-07</b>	<b>2007-08</b>
Expenditure on Pensions	1,588.33	1,733.94	1,891.60	2,101.17	2,396.00	2,979.38
As <i>per cent</i> of GSDP	1.12	1.03	1.02	0.97	1.01	1.06
As <i>per cent</i> of RR	9	10	9	8	8	8

The expenditure on pensions continuously increased from Rs.1,588 crore in 2002-03 to Rs.2,979 crore in 2007-08. During 2007-08, the pension payment increased by 24 *per cent* against the nine *per cent* growth assessed by the State Government in its Medium Term Fiscal Policy Statement mainly due to increase in number of pensioners and more expenditure on superannuation

payments and retirement allowances. The expenditure on superannuation and retirement allowances during 2007-08 stood at Rs.1952 crore as against Rs.1539 crore in 2006-07. The pension liabilities of State Government are likely to increase in future with the increase in the number of retirees and their better health indicators in the State. The State has already implemented New Defined Contribution Pension Scheme for employees joining services on or after 1st April 2005.

#### 1.4.3.3 Interest payments

**Table-13: Interest payments**

(Rupees in crore)

Year	Total Revenue Receipts	Interest Payments	Percentage of Interest payments with reference to	
	(Rupees in crore)		Total Revenue Receipts	Revenue Expenditure
2002-03	17,875	4,949	28	23
2003-04	18,248	5,875	32	27
2004-05	20,265	6,079	30	25
2005-06	25,067	6,143	25	24
2006-07	31,002	6,932	22	24
2007-08	35,690	7,484	21	22

The State Government had projected in the FRBM Act, interest payment as 18.87 *per cent* of the revenue receipts in the year 2007-08. It was, however, observed that interest payment as a percentage of revenue receipts stood at 21 *per cent* in 2007-08. The interest payment increased steadily from Rs.4,949 crore in 2002-03 to Rs.7,484 crore in 2007-08 primarily due to increasing small savings collections in the State. For instance, interest on special securities issued to National Small Savings Fund constituted 58.82 *per cent* of interest payment during 2007-08. Interest payments during 2007-08 exceeded the normative assessment of TFC (Rs.7,417 crore) marginally by Rs.67 crore.

#### 1.4.3.4 Subsidies

The trends in the subsidies given by the State Government are given in **Table 14**.

**Table-14: Subsidies**

Year	Amount (Rupees in crore)	Percentage increase (+)/ decrease (-) over previous year	Percentage of subsidy in total expenditure
2002-03	2,050.16	(-) 49.70	8.50
2003-04	2,824.18	37.75	10.24
2004-05	3,371.97	19.40	11.57
2005-06	2,760.91	(-) 18.12	8.33
2006-07	2,814.18	1.93	7.51
2007-08	2,913.89	3.54	7.15

The power sector continues to be highly subsidized and the subsidies of Rs.1,863 crore were paid during 2007-08 which constituted 64 *per cent* of total subsidy during the year. The major portion of Power subsidy was in the form of assistance to Gujarat Electricity Board\* (Rs.1182 crore). The

\*Now Gujarat Urja Vikas Nigam Ltd., a holding company

Agriculture and allied activities availed subsidy of Rs.475 crore during 2007-08. Out of Rs.475 crore, the major portion (Rs.254 crore) was for Crop Insurance subsidy and for Fisheries (Rs.133 crore). The subsidy stood at 7.15 *per cent* of the total expenditure during 2007-08.

### 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 15** gives these ratios during 2002-08.

**Table 15 – Indicators of Quality of Expenditure**

	(Rupees in crore)					
	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Capital Expenditure	2,341.30	3,211.44	4,100.20	6,958.65	7,845.44	6,801.03
Revenue Expenditure	21,440.13	21,954.14	24,301.80	25,465.49	29,232.13	33,539.51
<i>Of which</i>						
Social and Economic Services with (i) Salary & Wage Component (percentage of RE)	1649.54 (7.69)	1,632.70 (7.44)	1,711.22 (7.04)	1,747.00 (6.86)	1,389.88 (4.75)	1548.24 (4.62)
(ii) Non-Salary & Wage component (percentage of RE)	11,383.95 (53.10)	10,971.31 (49.97)	12,422.97 (51.12)	12,322.34 (48.39)	15,589.30 (53.33)	18189.48 (54.23)
<i>As per cent of Total Expenditure</i>						
Capital Expenditure	9.70	11.64	14.07	21.01	20.95	16.68
Revenue Expenditure	88.86	79.57	83.39	76.87	78.05	82.27
<i>As per cent of GSDP</i>						
Capital Expenditure	1.65	1.91	2.17	3.17	3.08	2.43
Revenue Expenditure	15.15	13.06	12.84	11.59	11.48	11.97

\*Salary component of RE does not include the salary component of Grants-in-aid given by state Government.

Share of Revenue expenditure of the State ranged between 77 to 89 *per cent* of the TE during the period 2002-08 resulting in share of Capital expenditure ranging between 10 to 21 *per cent*, which exhibited an increasing trend till 2005-06 and declined thereafter during 2006-08 to 17 *per cent*. Similarly, the ratio of capital expenditure to GSDP steadily improved from 1.65 *per cent* in 2002-03 to 3.08 *per cent* in 2006-07 and declined steeply to 2.43 *per cent* in 2007-08.

The component of revenue expenditure on Social and Economic Services ranged between 55 to 61 *per cent* of revenue expenditure during 2002-08. The ratio of salary and wages component to revenue expenditure on Social and Economic Services was not only relatively lower but it continuously declined during the last six year period (2002-08) while the share of non-salary component remained little more than half during the period indicating the better focus on quality and delivery of Social and Economic Services.

### 1.5.2 Expenditure on Social Services

Given the fact that the 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 16** summaries the expenditure incurred by the State Government in expanding and strengthening of social services in the State during 2002-08.

**Table 16: Expenditure on Social Services**

(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
<b>Education, Sports, Art and Culture</b>						
<b>Revenue Expenditure</b>	3,623.98	3,683.40	3,990.10	4,162.02	4,726.55	5433.20
<i>Of which</i>						
(a) Salary & Wage Component*	234.89	216.24	275.95	291.47	205.08	234.36
(b) Non-Salary & Wage component	3,389.09	3,467.16	3,714.15	3,870.55	4,521.47	5198.84
<b>Capital Expenditure</b>	10.39	9.24	11.83	147.27	259.65	289.63
<b>Total</b>	<b>3,634.37</b>	<b>3,692.64</b>	<b>4,001.93</b>	<b>4,309.29</b>	<b>4,986.20</b>	<b>5722.83</b>
<b>Health and Family Welfare</b>						
<b>Revenue Expenditure</b>	846.87	878.13	944.58	1,042.86	1,091.47	1285.08
<i>Of which</i>						
(a) Salary & Wage Component	587.92	583.65	577.77	522.12	432.01	493.75
(b) Non-Salary & Wage component	258.95	294.48	366.81	520.74	659.46	791.33
<b>Capital Expenditure</b>	16.68	8.54	26.49	26.47	54.64	89.19
<b>Total</b>	<b>863.55</b>	<b>886.67</b>	<b>971.07</b>	<b>1,069.33</b>	<b>1,146.11</b>	<b>1374.27</b>
<b>Water Supply, Sanitation, Housing and Urban Development</b>						
<b>Revenue Expenditure</b>	699.56	988.33	1,220.81	1,007.37	1,926.64	2917.14
<i>Of which</i>						
(a) Salary & Wage Component	25.00	22.84	20.86	25.82	20.35	23.34
(b) Non-Salary & Wage component	674.56	965.49	1,199.95	981.55	1,906.29	2893.80
<b>Capital Expenditure</b>	442.16	491.62	851.22	818.96	1,056.37	1062.65
<b>Total</b>	<b>1,141.72</b>	<b>1,479.95</b>	<b>2,072.03</b>	<b>1,826.33</b>	<b>2,983.01</b>	<b>3979.79</b>
<b>Other Social Services</b>						
<b>Revenue Expenditure</b>	1,368.81	1,525.81	1,695.44	2,060.62	2,769.66	2165.24
<i>Of which</i>						
(a) Salary & Wage Component	227.75	241.45	276.93	340.10	210.56	227.15
(b) Non-Salary & Wage component	1,141.06	1,284.36	1,418.51	1,720.52	2,559.10	1938.09
<b>Capital Expenditure</b>	548.31	652.66	560.17	826.07	218.06	485.51
<b>Total</b>	<b>1,917.12</b>	<b>2,178.47</b>	<b>2,255.61</b>	<b>2,886.69</b>	<b>2,987.72</b>	<b>2650.75</b>
<b>Revenue Expenditure</b>	6,539.22	7,075.67	7,850.93	8,272.87	10,514.31	11800.66
<i>Of which</i>						
(a) Salary & Wage Component	1,075.56	1,064.18	1,151.51	1,179.51	868.00	978.60
(b) Non-Salary & Wage component	5,463.66	6,011.49	6,699.42	7,093.36	9,646.31	10822.06
<b>Capital Expenditure</b>	1,017.54	1,162.06	1,449.71	1,818.77	1,588.72	1926.98
<b>Total (Social Services)</b>	<b>7,556.76</b>	<b>8,237.73</b>	<b>9,300.64</b>	<b>10,091.64</b>	<b>12,103.03</b>	<b>13727.64</b>

\* Salary component of RE does not include the salary component of Grants-in-aid given by State Government.

Expenditure on Social Services in the State ranged between 30 to 34 per cent of total expenditure during 2002-03 to 2007-08. During 2007-08, 42 per cent of total expenditure on Social Services was incurred on Education, Sports, Art & Culture and 29 per cent on water supply and sanitation, Housing and Urban Development. During the year 2007-08, the increase in revenue expenditure



under Education, Sports, Art and Culture was due to more expenditure on Direction and Administration, Teachers and Other Services and assistance to non-government secondary schools general education. Also the increase in urban Development during the year 2007-08 was mainly due to increase in assistance to Local Bodies, Corporations, Urban Development Authorities, Town Improvement Boards etc.

The trend analysis of revenue and capital expenditure on social services revealed that the share of capital expenditure ranged between 13 to 18 *per cent* indicating substantial share of revenue expenditure. The capital expenditure on social services continuously increased from Rs.1018 crore in 2002-03 to Rs.1,927 crore in 2007-08 except in 2006-07. The increase in Capital Expenditure of Rs.338 crore on Social Services during 2007-08 was mainly due to increase in Capital Expenditure on Natural Calamities (Rs.258.67 crore).

Recognizing the need to improve the quality of Education and Health services, TFC recommended that the non-plan salary expenditure on 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 revealed that non-plan salary component under Education increased by 12 *per cent* while non-salary component increased by 13 *per cent*. Similarly, under health and family welfare, the non-plan salary component grew by 14 *per cent* and non-salary component increased by only three *per cent*. These trends reveal the need of reprioritization in allocation of expenditure in its various components on general education and health and family welfare.

### ***1.5.3 Expenditure on Economic Services***

The expenditure on economic services includes all such expenditures as to promote directly or indirectly, productive capacity within the States' economy. The expenditure on Economic Services (Rs.12,756 crore) accounted for 31 *per cent* of the total expenditure (**Table 17**).

**Table-17: Expenditure on Economic Services**

(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
<b>Agriculture, Allied Activities</b>						
<b>Revenue Expenditure</b>	630.53	746.48	936.16	917.24	1,007.32	1479.11
<i>Of which</i>						
(a) Salary & Wage Component <sup>*</sup>	247.86	311.37	240.12	261.86	229.64	260.02
(b) Non-Salary & Wage component	382.67	435.11	696.04	655.38	777.68	1219.09
<b>Capital Expenditure</b>	85.94	132.78	111.49	120.38	200.60	151.21
<b>Total</b>	<b>716.47</b>	<b>879.26</b>	<b>1,047.65</b>	<b>1,037.62</b>	<b>1,207.92</b>	<b>1630.32</b>
<b>Irrigation and Flood Control</b>						
<b>Revenue Expenditure</b>	1,939.49	370.18	375.47	372.41	521.31	625.98
<i>Of which</i>						
(a) Salary & Wage Component	170.41	135.67	178.91	157.08	171.20	203.47
(b) Non-Salary & Wage component	1,769.08	234.51	196.56	215.33	350.11	422.51
<b>Capital Expenditure</b>	847.92	1,340.29	1,765.37	2,251.39	3,858.77	3269.95
<b>Total</b>	<b>2,787.41</b>	<b>1,710.47</b>	<b>2,140.84</b>	<b>2,623.80</b>	<b>4,380.08</b>	<b>3,895.93</b>
<b>Power &amp; Energy</b>						
<b>Revenue Expenditure</b>	2,219.35	2,561.76	2,623.10	2,073.52	2,003.35	2394.98
<i>Of which</i>						
(a) Salary & Wage Component	-	-	-	-	-	-
(b) Non-Salary & Wage component	2,219.35	2,561.76	2,623.10	2,073.52	2,003.35	2394.98
<b>Capital Expenditure</b>	(-)86.06	8.39	151.89	1,949.91	1,338.44	530.54
<b>Total</b>	<b>2,133.29</b>	<b>2,570.15</b>	<b>2,774.99</b>	<b>4,023.43</b>	<b>3,341.79</b>	<b>2925.52</b>
<b>Transport</b>						
<b>Revenue Expenditure</b>	658.32	765.39	957.08	1,092.99	1,298.23	1555.05
<i>Of which</i>						
(a) Salary & Wage Component	26.89	16.48	24.19	27.49	19.86	24.02
(b) Non-Salary & Wage component	631.43	748.91	932.89	1,065.50	1,278.37	1531.03
<b>Capital Expenditure</b>	427.49	510.24	532.40	723.59	755.94	861.72
<b>Total</b>	<b>1,085.81</b>	<b>1,275.63</b>	<b>1,489.48</b>	<b>1,816.58</b>	<b>2,054.17</b>	<b>2416.77</b>
<b>Other Economic Services</b>						
<b>Revenue Expenditure</b>	1,046.58	1,084.53	1,391.45	1,340.32	1,634.66	1881.94
<i>Of which</i>						
(a) Salary & Wage Component	128.82	105.00	116.49	121.06	101.18	114.00
(b) Non-Salary & Wage component	917.76	979.53	1,274.96	1,219.26	1,533.48	1767.94
<b>Capital Expenditure</b>	10.66	-0.60	4.83	5.23	40.04	5.49
<b>Total</b>	<b>1,057.24</b>	<b>1,083.93</b>	<b>1,396.28</b>	<b>1,345.55</b>	<b>1,674.70</b>	<b>1887.43</b>
<b>Economic Services</b>						
<b>Revenue Expenditure</b>	6,494.27	5,528.34	6,283.26	5,796.48	6,464.87	7937.06
<i>Of which</i>						
(a) Salary & Wage Component	573.98	568.52	559.71	567.49	521.88	590.51
(b) Non-Salary & Wage component	5,920.29	4,959.82	5,723.55	5,228.99	5,942.99	7346.55
<b>Capital Expenditure</b>	1,285.95	1,991.10	2,565.98	5,050.50	6,193.79	4818.91
<b>Total</b>	<b>7,780.22</b>	<b>7,519.44</b>	<b>8,849.24</b>	<b>10,846.98</b>	<b>12,658.66</b>	<b>12755.97</b>

<sup>\*</sup> Salary component of RE does not include the salary component of Grants-in -aid given by state Government.

The expenditure on Economic Services has increased at annual growth rate 13 per cent from Rs.7,780 crore in 2002-03 to Rs.12,756 crore in 2007-08. The non-salary component of revenue expenditure on agriculture and allied activities increased by Rs.441 crore during the year 2007-08 due to increased expenditure on crop insurance (Rs.173 crore); soil conservation (Rs.75 crore) and animal husbandry (Rs.27 crore). The increase in non-salary component of revenue expenditure on transport during 2007-08 was due to increase in expenditure on district and other road works (Rs.122 crore) and on tribal area road works by Rs.86 crore.

#### 1.5.4 Financial Assistance to local bodies and other institutions

The quantum of assistance provided by way of grants and loans to local bodies and others during the six-year period 2002-08 is presented in **Table -18**.

**Table-18: Financial Assistance**

(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.)	95.45	85.01	83.75	91.96	366.93	381.00
Municipal Corporations and Municipalities	222.71	244.03	823.49	263.26	621.40	2517.59
Zilla Parishads and Other Panchayati Raj Institutions	1,637.43	1,572.61	1,815.79	2,025.29	2,667.49	3110.14
Other Institutions	1,011.97	1,058.32	480.83	1,100.25	2,112.42	828.56
<b>Total</b>	<b>2,967.56</b>	<b>2,959.97</b>	<b>3,203.86</b>	<b>3,480.76</b>	<b>5,768.24</b>	<b>6837.29</b>
Assistance as percentage of RE	13.84	13.48	13.18	13.67	19.73	20.38

The financial assistance to local bodies and other institutions increased from Rs.2,967.56 crore in 2002-03 to Rs.6,837.29 crore in 2007-08. The financial assistance as percentage of revenue expenditure increased from 13.84 *per cent* in 2002-03 to 20.38 *per cent* in 2007-08. During 2007-08 the increase in financial assistance to Municipal Corporations and Municipalities (Rs.1896 crore) and Zilla Parishads and other Institutions (Rs.443 crore) was largely counterbalanced by decrease in assistance to Other Institutions (Rs.1284 crore). The increase in assistance to Municipal Corporations and Municipalities was due to increase in assistance for integrated development of small and medium towns (Rs.156 crore) and incentive grant to Municipal Corporation for Development works (Rs.675 crore). The increase in assistance to Zilla Parishads and Other Panchayati Raj Institutions was due to increase in assistance for Community Development (Rs.48 crore) and for Nirmal Gujarat (Rs.45 crore), a new scheme to incentivise the efforts of Panchayati Raj Institutions.

#### ***1.5.5 Delay in furnishing utilisation certificates***

Of the 12,228 utilization certificates (UCs) due in respect of grants and loans aggregating Rs.5,015.20 crore paid up to 2007-08, 5,635 UCs for an aggregate amount of Rs.4,065.91 crore were in arrears. Details of department-wise break-up of outstanding UCs are given in **Appendix VI**.

#### ***1.5.6 Abstract of performance of the autonomous bodies***

The audit of accounts of six 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 VII**.

#### ***1.5.7 Misappropriations, losses, defalcations, etc.***

State Government reported 168 cases of misappropriation, defalcation, etc. involving Government money amounting to Rs.8.46 crore up to the period August 2008 on which final action was pending. The department-wise break up of pending cases and age wise analysis is given in **Appendix VIII** and nature of these cases is given in **Appendix IX**.

## 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 undertaken. However, the Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred. **Appendix-II** gives an abstract of such liabilities and the assets as on 31 March 2008, compared with the corresponding position on 31 March 2007. 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. **Appendix V** depicts the time series data on State Government finances for the period 2003-2008.

### 1.6.1 Financial Results of Irrigation Works

The financial results of 10 Major and 23 Medium Irrigation Projects with capital expenditure of Rs.1,637.44 crore showed that revenue realized during 2007-08 (Rs.257.89 crore) was only 16 *per cent* of the capital expenditure. After meeting the working and maintenance expenditure (Rs.70.75 crore), the net profit was Rs.187.14 crore.

### 1.6.2 Incomplete projects

As per information received from the State Government as of 31 March 2008; there were 251 incomplete projects in which Rs.1,769 crore were blocked in the project having cost above rupees one crore. **Table – 19**

**Table -19: Incomplete Projects**

(Rupees in crore)				
Department	Number of incomplete Projects	Initial Budgeted cost	Revised <sup>#</sup> cost of Projects	Cumulative actual expenditure as on 31.03.2008
Road and Buildings	117	1344.54	1383.16	1343.76
Irrigation	134	820.73	845.54	425.18
<b>Total</b>	251	2165.27	2228.70	1768.94

*# Out of 251 incomplete projects, the original cost of Rs.318.60 crore (47 projects) was revised to Rs.383.04 crore. For remaining 204 projects budgeted cost is indicated.*

Out of 251 incomplete projects, 117 projects in Road and Building Department having initial budgeted cost of Rs.1,345 crore blocked Rs.1,344 crore at the end of current year. Similarly, 134 Irrigation works having initial budgeted cost of Rs.821 crore blocked Rs.425 crore. Apart from other reasons, thin spread of resources could be one of the reasons for delay in completion of the projects, which not only blocked the scarce resources but also delayed in accrual of benefits from the projects. In the absence of availability of revised cost of most of the incomplete projects, it is difficult to comment on their cost overruns but it is certain that at the time of their completion the total cost incurred would be higher than the cost initially budgeted for them. For example, out of 79 projects, 47 projects of Roads and Buildings department incurred Rs.651.88 crore against the original cost of Rs.574.10 crore with time over run ranging from one month to 42 months. Similarly 32 projects of

Irrigation Department incurred Rs.360.50 crore against the original cost Rs.300.60 crore with time over run ranging from seven to 31 months.

### 1.6.3 Investments and returns

As of 31 March 2008, Government had invested Rs.21,117 crore in Statutory Corporations, Rural Banks, Joint Stock Companies and Co-operatives (**Table 20**). The major companies and corporations in which Government invested during 2007-08 were Sardar Sarovar Narmada Nigam Limited (Rs.2,373 crore), Gujarat Urja Vikas Nigam Limited (Rs.200 crore) and Gujarat State Road Transport Corporation (Rs.15 crore).

The return on this investment ranged between 0.23 and 1.92 *per cent* in the last six years while the Government paid interest at the average rate of 8.06 to 10.17 *per cent* on its borrowings during 2002-2008.

**Table-20: Return on Investment**

Year	Investment at the end of the year	Return	Percentage of return	Average rate of interest on Government borrowings	Difference between interest rate and return
	(Rupees in crore)			(per cent)	
2002-03	5,014	42.02	0.84	10.11	9.27
2003-04	11,220	29.89	0.27	10.17	9.90
2004-05	12,739	35.82	0.28	9.08	8.80
2005-06	15,199	139.58	0.92	8.06	7.14
2006-07	18,515	354.79	1.92	8.19	6.27
2007-08	21,117	47.57	0.23	8.12	7.89

Thus, there has not been adequate generation of revenues in the form of dividends from the State Public Sector enterprises. The State Government should relook the functioning of these enterprises in order to ensure their viability in long run.

### 1.6.4 Loans and advances by the State Government

In addition to investments in Co-operative societies, Corporations and Companies, Government has also been providing loans and advances to many of these institutions/organisations. Total outstanding loans and advances as on 31 March 2008 were Rs.4,455 crore (**Table 21**).

**Table-21: Average Interest Received on Loans Advanced by the State Government**

	(Rupees in crore)					
	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Opening Balance	2,767	2,942	5,185	5,744	4,665	4,241
Amount advanced during the year	346	2,425	739	704	374	428
Amount repaid during the year	171	182	180	1,784	798	214
Closing Balance	2,942	5,185	5,744	4,665	4,241	4,455
Net addition	175	2,243	559	(-1,079)	(-424)	214
Interest Received	82	0.01	0.10	0.01	42.27	66.09
Interest received as <i>per cent</i> to outstanding Loans and advances	2.96	0.00	0.00	0.00	0.91	1.56
Average interest rate (in <i>per cent</i> ) paid on borrowings by State Government	10.11	10.17	9.08	8.06	8.19	8.12
Difference between average interest paid and received ( <i>per cent</i> )	(-)7.15	(-)10.17	(-)9.08	(-)8.06	(-)7.28	(-) 6.56

The loans and advances by the State Government with inter year fluctuation increased significantly from Rs.2,942 crore in 2002-03 to Rs.4,455 crore in 2007-08. The decrease in recovery of Loans and Advances by Rs.584 crore during the year was mainly due to less recovery from the power sector over the previous year. The interest received declined from Rs.82 crore in 2002-03 to Rs.66 crore in 2007-08. The interest received as *per cent* to outstanding loans and advances was negligible though the Government borrowed funds during the year at an average rate of 8.12 *per cent*.

### 1.6.5 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 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. Ways and Means Advances and Overdrafts availed; the number of occasions it was availed and interest paid by the State is detailed in **Table 22**.

**Table-22: Ways and Means and Overdrafts of the State**

	(Rupees in crore)					
	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
<b>Ways and Means Advances</b>						
Availed in the Year	5,092.13	5,394.18	3,072.59	Nil	Nil	Nil
Outstanding WMAs, if any	42.44	42.44	Nil	Nil	Nil	Nil
Interest Paid	12.28	11.62	3.47	0.26#	0.00	0.00
Number of Days	250	203	127	Nil	Nil	Nil
<b>Overdraft</b>						
Availed in the year	9,624.93	1,766.93	Nil	Nil	Nil	Nil
Number of Days	47	21	Nil	Nil	Nil	Nil
Interest Paid	3.00	0.46	Nil	Nil	Nil	Nil

#Note: Interest payments pertaining to previous year

During the year 2007-08, the State Government did not avail of this source of finance on any occasion. The cash balance of the State at the end of year increased by Rs.4,178 crore from Rs.9,360 crore in 2006-07 to Rs.13,538 crore in 2007-08. Out of Rs.13,538 crore, the investment held in the cash balance investment account was Rs.9,229 crore at the end of year 2007-08. The interest realized on investment of cash balances stood at Rs.263 crore during 2007-08.

### 1.7 Undischarged Liabilities

The total liabilities of the State mean the liabilities under the Consolidated Fund of the State of Gujarat and the public account of the State.

**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. Other liabilities, which are a part of public account, include deposits under small savings scheme, provident funds and other deposits.

**Table-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-23: Fiscal Liabilities – Basic Parameters**

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Fiscal Liabilities (Rupees in crore) <sup>3</sup>	52,572	62,876	71,083	81,367	87,971	96,452
Rate of Growth ( <i>per cent</i> )	16.05	19.60	13.05	14.47	8.12	9.64
<b>Ratio of Fiscal Liabilities to</b>						
GSDP ( <i>per cent</i> )	37.14	37.41	37.59	37.02	34.56	34.44
Revenue Receipts ( <i>per cent</i> )	294.10	344.56	350.77	324.60	283.76	270.25
Own Resources ( <i>per cent</i> )	389.00	435.27	442.91	427.11	375.73	364.04
<b>Buoyancy of Fiscal Liabilities to</b>						
GSDP (ratio)	1.10	1.04	0.85	0.51	0.51	0.96
Revenue Receipts (ratio)	1.36	9.39	1.18	0.61	0.34	0.64
Own Resources (ratio)	4.12	2.85	1.18	0.77	0.35	0.73

Overall fiscal liabilities of the State increased at an annual average rate of growth of 16.7 *per cent* from Rs.52,572 crore in 2002-03 to Rs.96,452 crore in 2007-08. The growth rate stood at 9.64 *per cent* during 2007-08 over previous year. The ratio of fiscal liabilities to GSDP ranged narrowly between 34.44 to 37.59 *per cent* during 2002-08. These liabilities stood at 2.70 times the revenue receipts and 3.64 times of State's own resources at the end of 2007-08. The buoyancy of fiscal liabilities steadily decreased from 1.10 in 2002-03 to 0.51 in 2006-07 and again increased to 0.96 *per cent* in 2007-08. A significant increase in buoyancy of fiscal liabilities to revenue receipt during 2007-08 was essentially due to less growth in revenue receipts over previous year.

The fiscal liabilities at the end of year 2007-08 comprise of Internal debt (Rs.68,651 crore), Loans and Advances from the Central Government (Rs.10,658 crore) Small Saving, Provident funds etc. (Rs.4,851 crore). In debt Redemption and Avoidance Fund, Rs.900 crore were appropriated during the year resulting in balance of Rs.3,297 crore at the end of current year. Out of total accumulation in the funds, Rs.3,267 crore were invested in Central Government securities.

<sup>3</sup> The fiscal liabilities of the State include internal debt of the State, Loans and Advances from the Central Government, Small Saving, Provident Funds and other interest and non-interest bearing obligation.

### 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. As per 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 2002-08 is given in **Table 24**.

**Table-24: Guarantees given by the Government of Gujarat**

(Rupees in crore)

Year	Max amount guaranteed	Outstanding amount of guarantees	Percentage of maximum amount guaranteed to total revenue receipt
2002-03	19,426	18,866	109
2003-04	18,032	17,473	99
2004-05	16,122	15,587	80
2005-06	13,965	13,430	56
2006-07	12,983	12,448	42
2007-08	11,843	11,308	33

The FRBM Act of State prescribed to cap outstanding guarantees within the limit provided in the Gujarat State Guarantees Act, 1963. The Gujarat State Guarantee Act, 1963, as amended, prescribed the limit upto Rs.20,000 crore within which Government may give guarantee on the security of the Consolidated Fund of the State. The outstanding guarantees (Rs.11,308 crore) accounted for 32 *per cent* of the revenue receipts (Rs.35,690 crore) of the State Government were well within the ceiling limit prescribed under the Act. Out of the total outstanding guarantees of Rs.11,308 crore, almost 77 *per cent* were towards Sardar Sarovar Narmada Nigam Limited (SSNNL) and Gujarat Electricity Board (GEB). The State Government has set up the Guarantee Redemption Fund to take care of any contingent liabilities arising out of the State Government guarantees, having a balance of Rs.761.19 crore at the end of year 2007-08.

## 1.8 Debt Sustainability

The debt sustainability is defined as the ability of the State to maintain a constant debt-GDP 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 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 Stabilisation in terms of debt/GSDP ratio.

### 1.8.1 Debt Stabilisation

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 x 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 stabilise 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 25**.

**Table-25: Debt Sustainability–Interest Rate and GSDP Growth**

(In per cent)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Average Interest Rate	10.11	10.17	9.08	8.06	8.19	8.12
GSDP Growth	14.53	18.76	12.52	16.21	15.81	10.04
Interest spread	4.42	8.59	3.44	8.15	7.62	1.92
Quantum Spread (Rs Crore)	2,002	4,516	2,163	5,793	6,200	1,689
Primary (-)Deficit / (+)Surplus (Rs Crore)	(-)1,080	(-)3,267	(-)2,612	(-)125	(+)1,284	(+) 2,714

The quantum spread together with primary deficit during 2002-08 has been positive except in 2004-05 indicated constant or sustainable debt–GSDP ratio. The fiscal liabilities to GSDP ratio which remained around 37 per cent during the period 2002-08 except in 2004-05 when it stood highest at 37.6 per cent as primary deficit exceeded the positive quantum. The positive sum of quantum spread and primary deficit as well as declining fiscal deficit led to decline in fiscal liabilities to GSDP ratio during the last two year i.e. 2006-07 and 2007-08.

### 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-26** indicates the resource gap as defined for the period 2002-08.

**Table 26: Incremental revenue receipts and Revenue Expenditure**

(Rupees in Crore)

Period	Incremental			Total Expenditure	Resource Gap
	Non-Debt Receipts	Primary Expenditure	Interest Payments		
1	2	3	4	5(3+4)	6(2-5)
2002-03	(-)97	1,320	743	(-)577	480
2003-04	350	2,537	926	3,463	(-)3,113
2004-05	2,003	1,108	444	1,552	152
2005-06	6,408	3,921	64	3,985	2,423
2006-07	4,944	3,535	789	4,324	620
2007-08	4,196	2,766	552	3,318	878

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.

### 1.8.3 Net Availability of Borrowed 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.

**Table-27** below gives the position of the receipt and repayment of internal debt and other fiscal liabilities of the State over the last six years.

**Table-27: Net Availability of Borrowed Funds**

	(Rupees in crore)					
	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
<b>Internal Debt</b>						
Receipt	8,365	12,004	11,510	9,941	6,654	8,402
Repayment (Principal + Interest)	2,339	3,436	4,962	5,057	6,247	7,187
Net Fund Available	6,026	8,568	6,548	4,884	407	1,215
Net Fund Available ( <i>per cent</i> )	72.04	71.38	56.89	49.13	6.12	14.46
<b>Loans and Advances from GOI</b>						
Receipt	1,318	3,004	1,818	722	295	209
Repayment (Principal + Interest)	4,780	7,135	6,294	1,527	1,719	1,427
Net Fund Available	(-) 3,462	(-) 4,131	(-) 4,476	(-) 805	(-)1,424	(-)1,218
Net Fund Available ( <i>per cent</i> )	(-)262.67	(-)137.52	(-)246.20	(-)52.72	(-)482.71	(-)582.77
<b>Other Obligations</b>						
Receipt	10,898	9,508	11,964	14,883	15,189	16,361
Repayment (Principal + Interest)	10,470	10,456	11,201	14,821	14,499	15,362
Net Fund Available	428	(-) 948	763	62	690	999
Net Fund Available ( <i>per cent</i> )	3.93	(-)9.97	6.38	0.42	4.54	6.11
<b>Total Liabilities</b>						
Receipt	20,581	24,516	25,292	25,546	22,138	24,972
Repayment (Principal + Interest)	17,589	21,027	22,457	21,405	22,465	23,976
Net Fund Available	2,992	3,489	2,835	4,141	(-)327	996
Net Fund Available ( <i>per cent</i> )	14.54	14.23	11.21	16.21	(-)1.48	3.99

The internal debt receipts increased from Rs 6654 crore in 2006-07 to Rs.8402 crore in 2007-08. After accounting for the repayment of Rs.7,187 crore (including interest) in 2007-08, the net availability of fund from the internal debt stood at Rs.1,215 crore. The loan receipt from Government of India (GOI) decreased from Rs.1,318 crore in 2002-03 to Rs.209 crore in 2007-08. After accounting for the repayment of Rs.1,427 crore (including interest) in 2007-08, it resulted in negative net availability of funds from Loans and Advances from GOI.

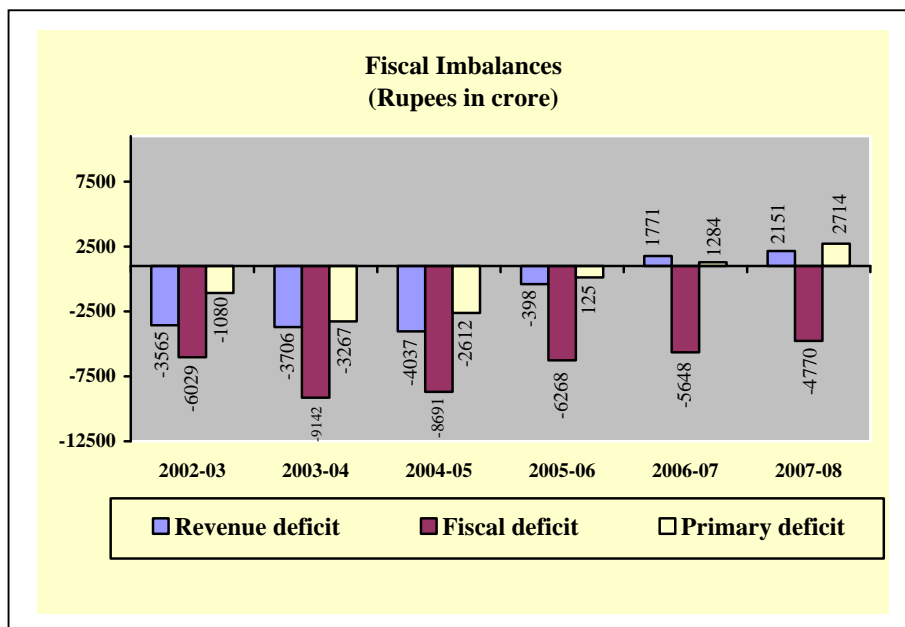
The net funds available from borrowed funds after providing for the interest and repayment improved marginally from negative net availability in 2006-07 to 3.99 *per cent* in 2007-08. During 2007-08, State Government raised market loan of Rs.6775 crore at the rate ranging from 7.87 to 8.43 *per cent*.

### 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 revenue surplus of the State which indicates the excess of its revenue receipts over revenue expenditure stood at Rs.2151 crore in 2007-08. The fiscal deficit, which represents the total borrowing of the Government and its total resource gap, decreased from Rs.6,029 crore in 2002-03 to Rs.4,770 crore in 2007-08. The State also had a primary deficit of Rs.1,080 crore in 2002-03 which turned into primary surplus of Rs.2,714 crore in 2007-08 as indicated in **Table-28**.



**Table-28: Fiscal Imbalances: Basic Parameters**

Parameters	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Revenue deficit/Surplus (Rupees in crore)	3,565	3,706	4,037	398	(+) 1,770	(+)2,151
Fiscal deficit (Rupees in crore)	6,029 <sup>4</sup>	9,142	8,691	6,268	5,648	4,770
Primary deficit/Surplus (Rupees in crore)	1,080 <sup>4</sup>	3,267	2,612	125	(+) 1,284	(+)2,714
RD/GSDP (per cent)	(-2.52)	(-2.20)	(-2.13)	(-)0.18	(+)0.70	(+)0.77
FD/GSDP (per cent)	(-)4.26	(-)5.44	(-)4.60	(-)2.85	(-)2.22	1.70
PD/GSDP (per cent)	(-)0.76	(-)1.94	(-)1.38	(-)0.06	(-)0.50	0.97
RD/FD (per cent)	(+)59.13	(+)40.54	(+)46.45	(+)6.35	(-)31.34	(-)45.09

The ratio of revenue deficit to GSDP continuously decreased from 2.52 per cent in 2002-03 to 0.18 per cent in 2005-06. The trend of revenue surplus from turnaround year 2006-07 continued during current year with a marginal improvement. The revenue surplus of Rs. 2151 crore during 2007-08 was mainly due to increase of Rs.4688 crore (15.1 per cent) in revenue receipts against an increase of Rs.4307 (14.7 per cent) crore in revenue expenditure.

Given the cushion of Rs 381 crore accompanied with compression of capital expenditure by Rs.1044 crore resulted in improvement in fiscal deficit by Rs.878 crore during 2007-08. The primary deficit which continued in the state finance till 2005-06 took a turnaround and resulted into primary surplus during the 2006-07. A decline of Rs.878 crore in fiscal deficit together with an increase of Rs.552 crore in interest payments resulted into a primary surplus of

<sup>4</sup> Figures as mentioned in the Audit Report 2002-03 is revised after adding Capital Receipts

Rs.2,174 crore during the current year from the surplus of Rs.1284 crore in 2006-07.

### 1.9.2 Quality of Deficit/Surplus

The ratio of RD to FD and the decomposition of Primary deficit into primary revenue deficit<sup>5</sup> 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. The ratio of RD to FD steeply declined from 59 per cent in 2002-03 to 6 per cent in 2005-06 and RD was wiped out and turned into surplus during 2006-07 and 2007-08.

**Table-29: Primary deficit/Surplus- Bifurcation of factors**

(Rupees in crore)							
Year	Non-debt receipts	Primary revenue expenditure	Capital expenditure	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	18,098	16,491	2,341	346	19,178	(+)1,607	(-)1,080
2003-04	18,448	16,079	3,211	2,425	21,715	(+)2,369	(-)3,267
2004-05	20,451	18,223	4,100	740	23,063	(+)2,228	(-)2,612
2005-06	26,859	19,322	6,958	704	26,984	(+)7,537	(-)125
2006-07	31,803	22,300	7,845	374	30,519	(+)9,503	(+)1,284
2007-08	35,999	26,055	6,801	429	33,285	(+)9,944	(+)2,714

The bifurcation of the factors resulting into primary deficit or surplus of the State during the period 2002-2008 reveals (**Table-29**) that the primary deficit during the period from 2001-02 to 2005-06 was on account of capital expenditure incurred and loans and advances disbursed by the State Government. In other words, non-debt receipts of the State were enough to meet the primary expenditure<sup>6</sup> requirements in the revenue account, rather left some receipts to meet the expenditure under the capital account. The State had to borrow to meet the requirements under capital account during the period 2002-06 indicating the extent to which the primary deficit has been on account of enhancement in capital expenditure which may be desirable to improve the productive capacity of the State's economy. During 2006-07 and 2007-08, the State has experienced a primary surplus of Rs.1,284 crore and Rs.2,714 crore respectively indicating that fiscal deficit was experienced by the State only on account of interest payments.

### 1.10 Fiscal Ratios

The finances of a State should be sustainable, flexible and non-vulnerable. **Table-30** presents a summarised position of Government finances over 2002-08, 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 facts. 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.

<sup>5</sup> Primary Revenue deficit defined as gap between Non-Interest Revenue Expenditure of the State and its Non-Debt Receipts indicate the extent to which the Non-Debt Receipts of the State are able to meet the Primary Expenditure under Revenue Account.

<sup>6</sup> 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-30: Indicators of Fiscal Health****(In per cent)**

<b>Fiscal Indicators</b>	<b>2002-03</b>	<b>2003-04</b>	<b>2004-05</b>	<b>2005-06</b>	<b>2006-07</b>	<b>2007-08</b>
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>
<b>I Resources Mobilisation</b>						
Revenue Receipt/GSDP	12.63	10.86	10.72	11.41	12.18	12.74
Revenue Buoyancy	0.81	0.11	0.88	1.46	1.50	1.51
Own Tax/GSDP	6.73	6.65	6.85	7.14	12.18	7.81
<b>II Expenditure Management</b>						
Total Expenditure/GSDP	17.05	16.41	15.41	15.07	14.71	14.56
Total Expenditure/Revenue Receipts	134.98	151.19	143.80	132.15	120.80	114.23
Revenue Expenditure/Total Expenditure	88.86	79.57	83.39	76.87	78.05	87.54
Salary & Wage expenditure on Social and Economic Services / Revenue Expenditure	7.69	7.44	7.04	6.86	4.75	4.62
Non-Salary & Wage expenditure on Social and Economic Services / Revenue Expenditure	53.10	49.97	51.12	48.39	53.33	54.23
Capital Expenditure/Total Expenditure	9.70	11.64	14.07	21.01	20.95	16.68
Capital Expenditure on Social and Economic Services/Total Expenditure.	9.55	11.43	13.78	20.74	20.78	16.55
Buoyancy of TE with RR	(-) 0.20	6.88	0.51	0.58	0.55	0.59
Buoyancy of RE with RR	(-) 0.48	1.15	0.97	0.20	0.62	0.97
<b>III Management of Fiscal Imbalances</b>						
Revenue deficit (Rs. in crore)	3,565	3,706	4,037	398	(+)1770	(+) 2,151
Fiscal deficit (Rs. in crore)	6,029	9,142	8,691	6,268	5648	4,770
Primary Deficit (Rs. in crore)	1,080	3,267	2,612	125	(+)1284	(+) 2,714
Revenue Deficit/Fiscal Deficit	59.13	40.54	46.45	6.35	(-)31.34	(-) 45.09
<b>IV Management of Fiscal Liabilities</b>						
Fiscal Liabilities/GSDP	37.14	37.41	37.59	37.02	34.56	34.44
Fiscal Liabilities/RR	294.10	344.56	350.77	324.60	283.76	270.25
Buoyancy of FL with RR	1.36	9.39	1.18	0.61	0.34	0.64
Buoyancy of FL with Own Resources	4.12	2.85	1.18	0.77	0.35	0.73
Primary deficit vis-à-vis quantum spread	0.54	0.72	2.46	0.02	1.18	1.61
Net Funds Available ( <i>per cent</i> )	14.54	14.23	11.21	16.21	(-) 1.48.	3.99
<b>V Other Fiscal Health Indicators</b>						
Return on Investment	0.84	0.27	0.28	0.92	1.92	0.23
Balance from Current Revenue (Rs. in crore)	(-) 2,370	(-) 1,771	(-) 977	2,833	6,461	8,685
Financial Assets/Liabilities	0.55	0.56	0.56	0.61	0.66	0.72

The ratio of revenue receipts and State's own taxes to GSDP indicate the State's increasing access to resources and the nature of the tax regime. Revenue receipts are comprised not only of the tax and non-tax resources of the State but also the transfer of the Union Government. The ratio of revenue receipts to GSDP during the current year was 12.74 *per cent*, an increase of the 0.5 *per cent* points over the previous year. During 2002-08, the ratio of own taxes to GSDP showed fluctuating trend with tendency towards improvements.

Various ratios concerning the expenditure management of the state indicate quality of its expenditure and their sustainability in relation to its resource mobilization efforts. The ratio of revenue expenditure to total expenditure ranged between 77 to 89 *per cent* resulting in capital expenditure ranging between 10 to 21 *per cent* with 17 *per cent* during current year. Increasing reliance on revenue receipts to finance the total expenditure which amounts to 88 *per cent* during 2007-08 indicates decreasing dependence on borrowed funds. This is also reflected by the decreasing ratio of financial liabilities to revenue receipts. The ratio of salary and wages component to revenue expenditure on Social and Economic Services was not only relatively lower

but it continuously declined during the last six year period (2002-08) while the share of non-salary component remained little more than half during the period indicating the trends towards better quality of expenditure in Social and Economic Services.

The balance of current revenue of State improved continuously during 2002-08 and showed huge surplus during 2007-08 indicating more availability of fund for additional infrastructure support and other revenue generating investments. The continuous improvement in revenue and declining fiscal deficit and increasing trends in the share of capital expenditure in total expenditure of the government have resulted in the improvement in the ratio of assets to liabilities which has sharply risen to 72 *per cent* in 2007-08 from 56 *per cent* in 2004-05. The return from investment in Government companies during 2002-08 ranged between 0.23 to 1.92 *per cent* indicating unproductive investment by the State Government still remain a cause of concern and need attention of the government.

### **1.11 Conclusion**

The fiscal position of the State viewed in terms of the key fiscal parameters – revenue, fiscal and primary deficit – indicated significant improvement in 2007-08 relative to the previous year. The State has achieved the revenue and fiscal deficits targets relative to GSDP laid down in the State FRBM Act one year ahead (2006-07), with the current year ending in revenue surplus of Rs.2,151 crore and fiscal deficit at Rs.4,770 crore which stood at 1.70 *per cent* of GSDP. The ratio of Public Debt to GSDP at 28.32 *per cent* during current year remained within the limit of 30 *per cent* prescribed under the Act. The guarantees given were also well within the limit prescribed in the Gujarat State Guarantees Act, 1963. The improvement in fiscal position of the State was observed to be mainly on account of increase in State's own tax revenue which contributed about 73 *per cent* of the incremental revenue receipts during the year. The expenditure pattern of the State however reveals that the revenue expenditure as a *percentage* to total expenditure still constitutes around 82 *per cent* of the total expenditure during 2007-08 and its NPPE component at Rs 25081 crore during 2007-08 exceeded both the normative projection of the TFC for the State (Rs 21058 crore) as well as the projections made by the State Government in its MTFPS for the year. Moreover, within the non plan revenue expenditure, four components – salary expenditure, pension liabilities, interest payments and subsidies – constitute about 64 *per cent* of NPPE during 2007-08. 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 situation in medium to long run unless 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. Besides, the inordinate delays in completion of incomplete projects particularly irrigation projects in the state resulted in huge cost and time overruns as is also a cause of concern for the State Government as revealed by the Report even on the basis of the fractured information made available by the respective departments of the State government.