

# CHAPTER I

## AN OVERVIEW OF THE FINANCES OF THE STATE GOVERNMENT

### 1.1 Introduction

This chapter discusses the financial position of the State Government, based on the information contained in the Finance Accounts. The analysis is based on the trends in the receipts and expenditure, the quality of expenditure and the financial management of the state government. In addition, the Chapter also contains a section on analysis of indicators of financial performance of the government. Some of the terms used in this chapter are explained in Appendix-I.

### 1.2 Financial position of the State

The government accounting system does not attempt a comprehensive accounting of fixed assets i.e. land and building etc., owned by the Government. However, these accounts do capture the financial liabilities of the government and the assets created out of the expenditure incurred by it. Exhibit-I presents an abstract of such liabilities and the assets as on 31 March 2002, compared with the corresponding position on 31 March 2001. While the liabilities in this statement consist mainly of moneys owed by the state government such as internal borrowings, loans and advances from the Government of India, receipts from the public account and reserve funds, the assets comprise of mainly the capital expenditure and loans and advances given by the state government. Exhibit-I shows that while the liabilities grew by 15 *per cent*, the assets declined by 2.1 *per cent* during 2001-2002, mainly as a result of a very high (47 *per cent*) growth in the deficit on the government account. This shows an overall deterioration in the financial condition of the government.

### 1.3 Sources and application of funds

Exhibit-II gives the position of sources and application of funds during the current and the preceding year. The main sources of funds include the revenue receipts of the government, recoveries of the loans and advances, public debt and the receipts in the public account. These are applied mainly on revenue and capital expenditure and on lending for developmental and other purposes. Revenue receipts constituted the most significant source of fund for the state government. Their relative share increased from 59.7 *per cent* in 2000-01 to 64.7 *per cent* in 2001-2002, eventhough there was decrease in total gross receipts by 6.3 *per cent*. The share of recoveries of loans and advances increased from 8.4 *per cent* to 9.0 *per cent*. There was a net outflow from

public accounts, while the share of public debt receipts increased from 24.5 *per cent* in 2000-01 to 28 *per cent* in 2001-02.

The revenue expenditure accounted for 92 *per cent* of total funds. This was higher than the share of the revenue receipts in the total receipts. This led to revenue deficit and increasing the liabilities of the state to that extent which had no asset back up.

## **1.4 Revenue Receipts**

The revenue receipts of the state consist mainly of its own taxes and non-tax revenue, central tax transfers and grants in aid from the Government of India. Over all revenue receipts of the state increased from Rs. 11125 crore in 1997-98 to Rs.15986 crore in 2001-2002 at an average trend rate of 10.98 *per cent* per annum. Rate of growth of revenue receipts significantly moderated to 1.57 *per cent* in 2001-2002 due to decline in the receipts from central tax transfers and grants-in-aid. Over all revenue receipts, its annual and trend rate of growth, ratio of its receipts to the States Gross Domestic Product (GSDP) and its buoyancy are indicated in table 1.

**Table 1: Revenue Receipts- Basic Parameters (Values in Rs crore and others in per cent)**

	1997-98	1998-99	1999-2000	2000-01	2001-02	Average
Revenue Receipts	11125	12743	13971	15739	15986	13913
Rate of Growth	15.07	14.54	9.64	12.65	1.57	10.98
Revenue Receipt/GSDP	12.24	12.23	13.13	14.05	13.48	13.07
Revenue Buoyancy	2.899	0.993	4.547	2.396	0.268	1.668
GSDP Growth	5.20	14.64	2.12	5.28	5.85	6.58

The rate of growth of revenue receipts and GSDP fluctuated over the years. However, during 1997-2002, the GSDP growth of the state remained quite low and except for 1998-99 it remained less than 6 *per cent* in nominal terms. Moderate growth in the GSDP kept revenue receipts relatively buoyant during the Ninth Plan. However, in 2001-2002 despite the moderate growth in GSDP a very low growth in revenue receipts resulted in decline in the buoyancy to 0.268.

Composition of the revenue receipts of the state and the relative share of the four components over last five years is indicated in table 2. On an average, around 80 *per cent* of the revenue came from state's own resources, central tax transfers and grants in aid together contributed only about 20 *per cent* of total revenue. The non-tax revenue of the state continued to grow in importance and from around 20 *per cent* of total revenue in 1997-98 it increased to 23.53 *per cent* in 2001-02. Central tax transfers as percentage to total revenue of the state witnessed a relative decline from 14.15 *per cent* in 1997-98 to 9.31 *per cent* in 2001-2002. This decline has been a continuous one.

**Table 2: Components of Revenue Receipt – relative Share in per cent**

	1997-98	1998-99	1999-2000	2000-01	2001-02	Average
Own Taxes	59.24	59.77	58.42	57.48	57.84	58.55
Non-Tax Revenue	19.96	21.70	21.40	21.28	23.53	21.58
Central tax Transfers	14.15	12.89	11.92	10.00	9.31	11.65
Grants-in aid	6.64	5.64	8.26	11.24	9.32	8.22

Over all growth of the four components of revenue during 1997-2002 also differed significantly. While the revenue from own taxes of the state recorded a trend growth of 9.35 *per cent* during 1997-2002, the central tax transfers grew by only 3.49 *per cent*. Non tax revenue and grants in aid were relatively buoyant with a growth of 17.58 and 18.26 *per cent* respectively during this period. The trend annual growth of the various components of state's revenue, their buoyancy, average ratio as percentage to GSDP and average annual rate of shift in the relative contribution is indicated in table 3.

**Table 3: Components of Revenue- Basic Parameters 1997-2002 (Per cent)**

	ROG	GSDP Share	Buoyancy	Relative Share	Shift Rate
Own Taxes	9.35	7.641	1.420	58.55	-1.47
Non-Tax Revenue	17.58	2.835	2.671	21.58	5.94
Central tax Transfers	3.49	1.492	0.529	11.65	-6.76
Grants-in aid	18.26	1.103	2.773	8.22	6.55

The state's non tax revenue and grants in aid had a high buoyancy of 2.671 and 2.773 respectively. The buoyancy of its own taxes was also greater than one. However, central tax transfers had a low buoyancy of 0.529. As a result of the low buoyancy of the central transfers and relatively lower buoyancy of its own taxes compared to the other two components of revenue, the relative share of these in state's total revenue declined. Average annual shift rate was (-) 6.76 *per cent* for central tax transactions and (-) 1.47 *per cent* for the States own taxes. However, since nearly 60 *per cent* of the state's total revenue was generated through its own taxes, its own tax -GSDP ratio averaged 7.641 compared to a ratio of 2.835 for its non tax revenue and 1.492 for the central tax transfers. During 1997-2002, drought, earthquake and other external factors kept the state's GSDP growth quite moderate. This moderate growth together with relatively buoyant non-tax revenue and grants in aid led to higher revenue buoyancy. Moderate growth of its tax revenue and a decline in its relative contribution to total revenue was a matter of concern.

### **1.5 Expenditure**

Over all expenditure of the state comprising of revenue expenditure, capital expenditure and the loans and advances increased from Rs. 14428 crore in 1997-98 to Rs.24704 crore in 2001-2002, at an average annual trend rate of 16.65 *per cent*. The rate of growth of total expenditure was significantly higher than the rate of growth of state's GSDP and its revenue receipts. In 2001-2002 total expenditure witnessed a decline due mainly to a compression of expenditure on economic services. But despite this decline, the over all

buoyancy of the total expenditure at 2.530 during 1997-2002 was significantly high. It indicated that for every one percent increase in the state's GSDP, expenditure increased by 2.530 *per cent*. Similarly total expenditure also increased relatively faster compared to the revenue receipts. During 1997-2002, for each one- *per cent* increase in revenue receipts, expenditure increased by 1.516 *per cent*. Overall expenditure, its annual and trend growth, ratio of total expenditure to state's GSDP and the buoyancy of expenditure is indicated in table 4 below.

**Table 4: Total Expenditure- Basic Parameters (Value in Rs Crore and others in per cent)**

	1997-98	1998-99	1999-2000	2000-01	2001-02	Average
Total Expenditure	14428	18628	20838	25953	24704	20910
Rate of Growth	18.04	29.11	11.86	24.55	-4.81	16.65
TE/GSDP Ratio	15.87	17.87	19.58	23.16	20.83	19.65
Revenue Receipts /TE Ratio	77.11	68.41	67.05	60.64	64.71	67.58
<b>Buoyancy of Total Expenditure with</b>						
GSDP	3.470	1.988	5.594	4.649	*	2.530
Revenue Receipts	1.197	2.002	1.231	1.940	-3.064	1.516

\* Rate of growth of total expenditure was negative in 2001-2002.

In terms of the activities total expenditure could be considered as being composed of expenditure on general services, interest payments, social and economic services, grants in aid and loans and advances. The relative share of these components in the total expenditure is indicated in table 5.

**Table 5: Components of Expenditure –Relative Share (in per cent)**

	1997-98	1998-99	1999-2000	2000-01	2001-02	Average
General Services	12.59	13.61	14.28	11.77	12.09	12.87
Interest Payments	13.06	12.14	13.48	12.06	17.03	13.55
Social Services	30.90	31.60	32.92	33.78	34.74	32.79
Economic Services	40.14	38.43	36.08	38.67	34.99	37.66
Grants-in-aid and contributions	0.36	0.28	0.24	0.19	0.22	0.26
Loans & Advances	2.95	3.94	3.00	3.53	0.93	2.87

The movement of relative share of these components indicate that while the share of economic services in total expenditure declined sharply from 40.14 *per cent* in 1997-98 to 34.99 *per cent* in 2001-2002, the relative share of interest payments and social services increased. Expenditure on general services increased upto 1999-2000 and decelerated later. Interest payments and expenditure on general services considered as non-developmental, together accounted for nearly 30 *per cent* of total expenditure in 2001-2002 as compared to around 26 *per cent* in 1997-98.

In total expenditure, revenue expenditure had the predominant share. Revenue expenditure is incurred to maintain the current level of services and not represent any addition in the state's service network. Overall revenue expenditure of the state increased from Rs.12143 crore in 1997-98 to Rs.22718 crore in 2001-2002, at an average trend rate of 18.29 *per cent* per annum. Rate of growth of revenue expenditure reached its maximum in 2000-2001 at 25.83 *per cent*. Revenue expenditure – GSDP ratio also

witnessed an increase from 13.36 *per cent* in 1997-98 to 19.15 *per cent* in 2001-2002. Further, the ratio of revenue expenditure to total expenditure increased from 84.16 *per cent* in 1997-98 to 91.96 *per cent* in 2001-02. On an average 86 *per cent* of total expenditure of the state was on current consumption. The ratio of revenue expenditure to revenue receipt was also on the rise indicating increasing dependence on borrowing for even meeting the current expenditure. The gap between revenue receipts and revenue expenditure widened from around 9 *per cent* in 1997-98 to 42 percent in 2001-2002. Overall revenue expenditure, its rate of growth, ratio of revenue expenditure to state's GSDP and revenue receipts and its buoyancy with both GSDP and revenue receipts is indicated in table 6 below:

**Table 6: Revenue Expenditure- Basic Parameters (Values in Rs crore and others in *per cent*)**

	1997-98	1998-99	1999-2000	2000-01	2001-02	Average
Revenue Expenditure	12143	15606	17517	22041	22718	18005
Rate of Growth	18.35	28.52	12.25	25.83	3.07	18.29
RE/GSDP	13.36	14.97	16.46	19.67	19.15	16.92
RE as % of TE	84.16	83.78	84.06	84.93	91.96	86.11
RE as % to Revenue Receipt	109.15	122.47	125.38	140.04	142.11	129.41
<b>Buoyancy of Revenue Expenditure with</b>						
GSDP	3.531	1.948	5.778	4.889	0.525	2.778
Revenue Receipts	1.218	1.961	1.271	2.041	1.957	1.665

The growth in revenue expenditure exceeded the rate of growth of state's GSDP and revenue receipts. Average buoyancy of revenue expenditure to GSDP during 1997-2002 was 2.778 indicating that for each one-percentage increase in GSDP, revenue expenditure increased by 2.778 *per cent*. Similarly, for each one-percentage point increase in the state's revenue receipts, revenue expenditure increased by 1.665 *per cent*.

The plan, capital and developmental expenditure reflect its quality. Higher the ratio of these components to total expenditure better is the quality of expenditure. Table 7 below gives the ratio of these components to total expenditure.

**Table 7: Quality of Expenditure (per cent to total expenditure)**

	1997-98	1998-99	1999-2000	2000-01	2001-02	Average
Plan Expenditure	23.43	24.39	26.44	23.42	14.08	21.94
Capital Expenditure	13.28	12.79	13.33	11.96	7.18	11.41
Development Expenditure	73.20	72.90	71.14	75.10	70.38	72.53

(Total expenditure do not include Loans and Advances)

All the three components of expenditure showed a relative decline during 1997-2002. Plan expenditure declined from 23.43 *per cent* of total expenditure in 1997-98 to 14.08 *per cent* in 2001-2002. Similarly, capital expenditure also declined from 13.28 to 7.18 *per cent*. There was also a decline in the share of development expenditure from 73.20 *per cent* in 1997-98 to 70.38 *per cent* in 2001-2002.

Activity wise expenditure also revealed that the average trend growth of various components had significant variations. Interest payments and expenditure on social services were the fastest growing components with an average growth of 20.55 *per cent* and 20.62 *per cent* per annum respectively. Loans and advances of the state had a negative growth of 4.30 *per cent*. As percentage to GSDP, non-development expenditure comprising general services and interest payments averaged 5.20 *per cent*, social services 6.49 *per cent* and the economic services 7.36 *per cent*. Activity wise trend growth, ratio to GSDP, relative share of the various activities, shift in their relative share and buoyancy with GSDP and revenue receipt are indicated in table – 8.

**Table 8: Activity wise Expenditure –Basic Parameters (in per cent)**

	ROG	GSDP Share	Relative Share	Share Shift	Buoyancy with	
					GSDP	Revenue Receipt
General Services	13.65	2.51	12.87	-2.57	2.074	1.243
Interest Payments	20.55	2.69	13.55	3.34	3.122	1.871
Social Services	20.62	6.49	32.79	3.40	3.133	1.878
Economic Services	14.19	7.36	37.66	-2.11	2.155	1.292
Loans & Advances	-4.30	0.55	2.87	-17.96	--	--

The relative shares of the expenditure on interest and social services grew by an average of 3.34 *per cent* and 3.40 *per cent* per annum respectively and witnessed a positive shift in their shares. On the other hand, the share of expenditure on economic services, loans and advances and general services actually declined. All the components of expenditure except the loans and advances had buoyancy greater than one both with regard to GSDP and the revenue receipt. However relatively lower buoyancy of general services and economic services resulted in decline in their relative share and their annual rate of shift was (-2.57) *per cent* and (-2.11) *per cent* respectively.

## **1.6 Fiscal Imbalances**

The deficits in the Govt. accounts represent 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 are important pointers to the fiscal health. The revenue deficit which is the excess of its revenue expenditure over revenue receipts, increased from Rs.1018 crore in 1997-98 to Rs.6732 crore in 2001-2002. The fiscal deficit, which represents the total borrowing of the government and its total resource gap, increased from Rs.3174 crore in 1997-98 to Rs.6511 crore in 2001-2002. State also had a primary deficit increasing from Rs.1290 crore in 1997-98 to Rs.2305 crore in 2001-2002. In 2001-02, state for the first time had a fiscal deficit lower than its revenue deficit due to substantially higher receipts from recovery of loans and advances.

The existence of revenue deficit indicated that the revenue receipts of the State were not able to meet its revenue expenditure and Government had to borrow funds to meet its current obligations. The ratio of revenue deficit to fiscal deficit has also increased from 32.07 *per cent* in 1997-98 to 103.39 *per cent* in

2001-2002. As proportion to state's gross domestic product revenue deficit had increased to 5.68 *per cent* in 2001-2002 and fiscal deficit to 5.49 *per cent*.

**Table 9: Fiscal Imbalances- Basic Parameters (Values in Rs crore and Ratios in *per cent*)**

	1997-98	1998-99	1999-2000	2000-01	2001-02	Average
Revenue deficit	-1018	-2863	-3546	-6302	-6732	-4092
Fiscal deficit	-3174	-5618	-6721	-7987	-6511	-6002
Primary Deficit	-1290	-3356	-3913	-4856	-2305	-3144
RD/GSDP	-1.12	-2.75	-3.33	-5.62	-5.68	-3.84
FD/GSDP	-3.49	-5.39	-6.32	-7.13	-5.49	-5.64
PD/GSDP	-1.42	-3.22	-3.68	-4.33	-1.94	-2.95
RD/FD	32.07	50.96	52.76	78.90	103.39	68.18

### 1.7 Fiscal Liabilities – Public Debt and Guarantees

The Constitution of India provides that state may borrow within the territory of India, upon the security of its consolidated funds, within such limits, as may from time to time, be fixed by an act of Legislature. However, no such law was passed by the State to lay down any such limit. Table 10 below gives the fiscal liabilities of the State, its rate of growth, ratio of these liabilities to GSDP revenue receipts and own resources and the buoyancy of these liabilities with receipt to these parameters. It would be observed that the over all fiscal liabilities of the State increased from Rs.20139 crore in 1997-98 to Rs.45301 crore in 2001-2002 at an average annual rate of 22.82 *per cent*. These liabilities as ratio to GSDP increased from 22.20 *per cent* in 1997-98 to 38.20 *per cent* in 2001-2002 and stood at 2.83 times of its revenue receipts and 3.48 times of its own resources comprising its own tax and non tax revenue.

In addition to these liabilities Govt. had guaranteed loans of its various Corporations and others which in 2001-2002 stood at Rs.16219 crore. The guarantees are in the nature of contingent liabilities. Currently the fiscal liabilities including the contingent liabilities were nearly four times the revenue receipt of the state. The direct fiscal liabilities of the state grew much faster compared to its rate of growth of GSDP, revenue receipts and own resources. On average from each one *per cent* increased in GSDP, revenue receipts, own resources the direct fiscal liabilities of the state increased by 3.467, 2.078 and 2.160 *per cent* respectively.

**Table 10: Fiscal Liabilities- Basic Parameters**

	1997-98	1998-99	1999-2000	2000-01	2001-02	Average
Fiscal Liabilities	20139	24757	31561	40007	45301	32353
Rate of Growth	18.30	22.93	27.48	26.76	13.23	22.82
<b>Ratio of Fiscal Liabilities to</b>						
GSDP	22.20	23.80	29.70	35.70	38.20	30.40
Revenue Receipt	181.02	194.28	225.90	254.20	283.40	221.62
Own Resources	228.54	238.46	283.01	322.74	348.30	276.70
<b>Buoyancy of Fiscal Liabilities to</b>						
GSDP	3.520	1.566	12.954	5.066	2.263	3.467
Revenue Receipt	1.214	1.577	2.852	2.115	8.432	2.078
Own resources	1.192	1.287	3.706	2.399	2.680	2.160

Increasing liabilities had raised the issue of sustainability. Fiscal liabilities are considered sustainable if the average interest paid on these liabilities is lower than the rate of growth of GSDP. However, in the case of Gujarat average interest rate on fiscal liabilities at 9.76 *per cent* exceeded the rate of growth of GSDP by 3.18 *per cent* as indicated in Table 11. Further in four out of five years average interest rate on fiscal liabilities exceeded the GSDP growth.

**Table 11: Debt Sustainability- Interest Rate and GSDP Growth (in per cent)**

	1997-98	1998-99	1999-2000	2000-01	2001-02	Average
Weighted Interest Rate	10.14	10.08	9.97	8.75	9.86	9.76
GSDP Growth	5.20	14.64	2.12	5.28	5.85	6.58
Interest spread	-4.94	4.56	-7.85	-3.47	-4.01	-3.18

Another important indication of debt sustainability is net availability of the funds after payment of the principal on account of the earlier contracted liabilities and interest. The Table 12 below gives the position of the receipt and repayment of fiscal liabilities over last 5 years. The net funds available on account of the internal debt, loans and advances from Government of India and other liabilities after providing for interest and repayments varied from 3.00 *per cent* to 21.75 *per cent*. The net funds available declined to 3.0 *per cent* of total new liabilities in 2001-2002.

**Table 12: Net Availability of Borrowed Funds (Rs in crore)**

	1997-98	1998-99	1999-2000	2000-01	2001-02	Average
<b>Internal Debt</b>						
Receipt	508	807	2126	11753	23198	7678
Repayment(Principal + Interest)	320	511	1636	4641	19278	5277
<b>Loans and Advances from GOI</b>						
Receipt	2021	2842	3581	-98	2231	2115
Repayment(Principal + Interest)	1642	1940	2397	3060	2834	2375
<b>Other Liabilities</b>						
Receipt	8748	10620	12704	15259	10759	11618
Repayment(Principal + Interest)	8073	9454	10374	13898	12989	10958
<b>Total Liabilities</b>						
Receipt	11277	14269	18411	26914	36188	21412
Repayment(Principal + Interest)	10035	11905	14407	21599	35101	18609
Net Fund Available	1242	2364	4004	5315	1087	2802
Net Fund Available (per cent)	11.01	16.57	21.75	19.75	3.00	13.09

## **1.8 Investments and returns**

As on 31 March 2002, Government had invested Rs.4978 crore in Statutory Corporations, Rural Banks, Joint Stock Companies and Cooperatives. Government's return on this investment was not only meager (less than one *per cent*), it was also on a decline as indicated in Table 13 below.



**Table 13: Return on Investment (Rupees in crore)**

Year	Investment at the end of the year	Return	Percentage of Return	Rate of Interest on Government Borrowing(%)
1997-98	3600	14.49	0.40	10.14
1998-99	3662	22.37	0.61	10.08
1999-2000	3772	27.03	0.72	9.97
2000-2001	4707	26.07	0.55	8.75
2001-2002	4978	27.52	0.55	9.86

In addition to its investment, Government has also been providing loans and advances to many of these parastatals. Total outstanding loans was Rs.4744 crore as on 31 March 2002. Overall interest received had declined to 1.78 *per cent* (Table 14). Government has, therefore, been providing an explicit subsidy varying from two to eight *per cent* in this intermediation.

**Table 14: Average Interest Received on Loans Advanced by the State Government**

	1997-98	1998-99	1999-2000	2000-01	2001-02
Opening Balance	4810	5107	5574	6054	4744
Amount advanced during the year	426	733	626	917	229
Amount repaid during the year	129	266	146	2227	2206
Closing Balance	5107	5574	6054	4744	2767
Net addition	297	467	480	-1310	-1977
Interest Received	303	368	347	371	67
Interest received as percent to Loans advanced	6.11	6.89	5.97	6.87	1.78
Average Interest paid by the State	10.14	10.08	9.97	8.75	9.86
Difference between interest paid and received	4.03	3.19	4.00	1.88	8.08

## 1.9 Financial results of irrigation works

The financial results of 1 major and 4 medium irrigation projects with capital expenditure of Rs.228.57 crore showed that revenue realized during 2001-2002 (Rs.19.83 crore) was only 8.68 *per cent* of the capital expenditure. After meeting the working and maintenance expenditure (Rs.14.94 crore) and interest charges (Rs.33.94 crore), the net loss was Rs. 29.05 crore.

## 1.10 Incomplete Projects

As informed by the State Government, there were 67 incomplete projects in which Rs.319 crore were blocked. In addition, Government incurred expenditure of Rs.6742.30 crore as on March 2002 on Narmada Project, which continued to be under construction. The delay in completion of other projects

ranged between 2 months to 79 months. This showed that the Government was spreading its resources thinly without prioritisation. Reasons for incomplete projects were paucity of funds, failure of contractors, change in site/design of the project(s), defective planning, etc.

### **1.11 Arrears of revenue**

The arrears of revenue pending collection was Rs.7680 crore as of March 2002 which was 48 *per cent* of the revenue collected during the year indicating poor tax compliance. Of these Rs.6972 crore and Rs.361 crore were on account of Sales Tax and Irrigation Receipts respectively. Of these Rs.741 crore (10 *per cent*) was pending for more than five years and pertained mainly to Sales Tax (Rs.420 crore), Irrigation Receipt (Rs. 221 crore) and Interest receipt (Rs. 71 crore). A few revenue collecting departments had not furnished information regarding arrears.

### **1.12 Financial Indicators of the Government of Gujarat**

The finances of a State should be sustainable, flexible and non-vulnerable. Table 15 below presents a summarized position of Government finances over 1997-2002, with reference to certain key indicators that help assess the adequacy and effectiveness of available resources and their applications, highlight areas of concern and captures its important facets.

The ratios of revenue receipt and state's own taxes to GSDP indicate the adequacy of the resources. The buoyancy of the revenue receipt indicates the nature of the tax regime and the state's increasing access to resources. Revenue receipts comprises not only the tax and non-tax resources of the state but the Central transfers. It indicates the sum total of the state's access for which there is no direct service provision obligations, recovery of users' charges for the social and economic services provided by it and its entitlement from the Central pool of resources. These ratios, which show a continuous improvement during 1997-2001, depict a significant deceleration in 2001-02. Overall revenue buoyancy of the state has been greater than one, but that was due to GSDP growth which averaged less than 6 *per cent* in nominal terms during 1997-2002.

Various ratios concerning the expenditure management of the State indicate quality of its expenditure and sustainability of these in the relation to its resource mobilization. The ratio of revenue expenditure to total expenditure has shown continuous increase while its capital expenditure and development expenditure as percentage to total expenditure has declined. Both its revenue and total expenditure have been buoyant compared to its revenue receipts, revenue expenditure. All these indicate state's increasing dependence on borrowings for meeting its revenue expenditure and inadequate expansion of its developmental activities.

**Table 15: Indicators of Fiscal Health (in per cent)**

<b>Fiscal Indicators</b>	<b>1997-98</b>	<b>1998-99</b>	<b>1999-2000</b>	<b>2000-01</b>	<b>2001-02</b>	<b>Average</b>
<b>Resource Mobilization</b>						
Revenue Receipt/GSDP	12.24	12.23	13.13	14.05	13.48	13.07
Revenue Buoyancy	2.899	0.993	4.542	2.396	0.268	1.668
Own tax/GSDP	7.250	7.308	7.669	8.074	7.797	7.641
<b>Expenditure Management</b>						
Total Expenditure/GSDP	15.87	17.87	19.58	23.16	20.83	19.65
Revenue Receipts / Total Exp.	77.11	68.41	67.05	60.64	64.71	67.58
Revenue Expenditure/ Total Exp.	84.16	83.78	84.06	84.93	91.96	86.11
Capital Expenditure / Total Exp.	13.28	12.79	13.33	11.96	7.18	11.71
Development Expenditure/ Total Exp.	73.20	72.90	71.14	75.10	70.38	72.54
Buoyancy of TE with RR	1.197	2.002	1.231	1.940	*	2.506
Buoyancy of RE with RR	1.218	1.961	1.271	2.041	1.957	1.665
<b>Management of Fiscal Imbalances</b>						
Revenue deficit (Rs in crore)	-1018	-2863	-3546	-6302	-6732	-4092
Fiscal deficit (Rs in crore)	-3174	-5618	-6721	-7987	-6511	-6002
Primary Deficit (Rs in crore)	-1290	-3356	-3913	-4856	-2305	-3144
Revenue Deficit/Fiscal Deficit	32.07	50.96	52.76	78.90	103.39	68.18
<b>Management of Fiscal Liabilities (FL)</b>						
Fiscal Liabilities/GSDP	22.15	23.76	29.66	35.70	38.20	30.40
Fiscal Liabilities/RR	181.02	194.28	225.90	254.19	283.38	221.62
Buoyancy of FL with RR	1.214	1.577	2.852	2.115	8.427	2.078
Buoyancy of FL with OR	1.191	1.287	3.706	2.399	2.680	2.160
Interest spread	-4.51	4.56	-7.85	-3.47	-4.01	-3.11
Net Fund Available	11.01	16.57	21.75	19.75	3.00	13.09
<b>Other Fiscal Health Indicators</b>						
Return on Investment	0.40	0.61	0.72	0.55	0.55	0.56
BCR (Rs in crore)	-22	-1221	-1759	-4246	-6048	-2659
Financial Assets/Liabilities	0.92	0.83	0.76	0.65	0.56	0.74

\* The figure was negative in 2001-2002

Increasing revenue and fiscal deficit indicates growing fiscal imbalances of the State. Similarly increase in the ratio of revenue deficit and fiscal deficit indicates that the application of borrowed funds has largely been to meet current consumption. All the four indicators of fiscal imbalances show continuous deterioration over time indicating increasing unsustainability and vulnerability of state finances.

It is not uncommon for a state to borrow for increasing its social and economic infrastructure support and creating additional income generating assets. However, increasing ratio of fiscal liabilities to GSDP and revenue receipts together with a growing revenue deficit, indicate that the state is gradually getting into a debt trap. Similarly the higher buoyancy of the debt both with regard to its revenue receipts and own resource indicate its increasing

unsustainability. The average interest paid by the State on its borrowings during 1997-2002 has also exceeded the rate of growth of its GSDP, violating the cardinal rule of debt sustainability. There has also been a decline in net availability of funds from its borrowings due to a larger portion of these funds being used for debt servicing. The state's low return on investment indicates an implicit subsidy and use of high cost borrowing for investments, which yields very little to it. The ratio of state's total financial assets to liabilities has also deteriorated indicating that increasingly a greater part of liabilities are without an asset back up. This indicates that either the state has to generate more revenue from out of its existing assets or need to provide from its current revenues for servicing its debt obligations. The balance from current revenue of the state has also continued to be increasingly negative. The BCR plays a critical role in determining its plan size and a negative BCR adversely affects the same and reduces availability of fund for additional infrastructure support and other revenue generating investment.

**EXHIBIT-I**

**SUMMARISED FINANCIAL POSITION OF THE GOVERNMENT OF GUJARAT AS ON 31 MARCH 2002  
(Rupees in crore)**

As on 31.03.2001	Liabilities		As on 31.03.2002
<b>11669.02</b>	<b>Internal Debt</b>		<b>17099.31</b>
3525.69	Market Loans bearing interest	5113.83	
66.82	Market Loans not bearing interest	84.63	
226.25	Loans from LIC	212.94	
938.35	Loans from other Institutions	1274.21	
888.89	Ways and Means Advances	452.20	
Nil	<i>Overdrafts from Reserve Bank of India</i>	145.05	
6023.02	<i>Special securities issued to NSS Fund of Central Government.</i>	9816.45	
<b>15870.63</b>	<b>Loans and Advances from Central Government</b>		<b>17359.76</b>
263.73	Pre 1984-85 Loans	220.10	
9372.01	Non-Plan Loans	9100.88	
6113.10	Loans for State Plan Schemes	7915.76	
67.98	Loans for Central Plan Schemes	65.61	
53.73	Loans for Centrally Sponsored Plan Schemes	57.41	
0.08	Loans for Special Schemes	--	
<b>90.76</b>	<b>Contingency Fund</b>		<b>193.30</b>
<b>2873.71</b>	<b>Small Savings, Provident Funds, etc.</b>		<b>3107.20</b>
<b>9087.86</b>	<b>Deposits</b>		<b>7087.97</b>
17.58	Cash in treasuries and local remittances		--
--	Deposits with Reserve Bank		--
<b>516.53</b>	<b>Reserve Funds</b>		<b>656.56</b>
<b>825.09</b>	<b>Suspense and Miscellaneous</b>		<b>1742.04</b>
<b>128.96</b>	<b>Remittance Balances</b>		--
<b>41080.14</b>			<b>47246.14</b>
As on 31.03.2001	Assets		As on 31.03.2002
<b>21080.56</b>	<b>Gross Capital Outlay on Fixed Assets</b>		<b>22837.43</b>
4706.65	Investments in shares of Companies, Corporations, etc.	4978.48	
16373.91	Other Capital Outlay	17858.95	
<b>4744.99</b>	<b>Loans and Advances</b>		<b>2767.36</b>
2452.72	Loans for Power Projects	476.29	
1889.57	Other Development Loans	1866.51	
402.70	Loans to Government servants and Miscellaneous loans	424.56	
	Remittance Balances		62.25
<b>00.52</b>	<b>Advances</b>		<b>00.68</b>
<b>983.83</b>	<b>Cash -</b>		<b>580.14</b>
477.79	Deposit with Reserve Bank	71.17	
	Cash in treasuries and local remittances	1.12	
128.64	Departmental Cash Balances including Permanent Advances and investment of earmarked Funds	128.84	
377.40	Cash Balance Investments	379.01	
<b>14270.24</b>	<b>Deficit on Government Accounts</b>		<b>20998.28</b>
6302.23	(i)Revenue Deficit of the Current Year	6731.54	
--	(ii)Miscellaneous Government Account	(-)2.00	
7990.36	<b>Add :</b> Deficit on Government Account as on 31 March 2001	14270.24	
(-) 22.35	Other Adjustments	(-)1.50	
<b>41080.14</b>	<b>Total</b>		<b>47246.14</b>

**Audit Report (Civil) for the year ended 31 March 2002**

**EXHIBIT - II  
SOURCES AND APPLICATION OF FUNDS**

(Rupees in crore)

2000-2001		Sources	2001-2002
15738.59	1	Revenue receipts	15986.06
2226.62	2	Recoveries of Loans and Advances	2206.66
22.35	3	Miscellaneous Capital Receipts	1.50
6464.01	4	Increase in Public debt other than overdraft	6919.43
2002.77	5	Net receipts from Public account	(-) 900.79
338.22		Increase in Small Savings	233.49
1481.43		Increase in Deposits and Advances	(-) 2000.05
162.59		Increase in Reserve Funds	140.03
(-)40.35		Net effect of suspense and Miscellaneous transactions	916.94
60.88		Net effect of Remittance transactions	(-) 191.20
(-)95.49	6	Net effect of Contingency Fund transactions	102.54
		Net effect of inter state settlement	2.00
---		Decrease in closing Cash balance	386.11
26358.85		<b>Total</b>	24703.51
		<b>Application</b>	
22040.82	1	Revenue expenditure	22717.60
917.17	2	Lending for development and other purposes	229.04
2994.84	3	Capital expenditure	1756.87
406.02	4	Increase in closing Cash balance	-----
26358.85		<b>Total</b>	24703.51

*Chapter I An Overview of the Finance of the State Government*

**EXHIBIT-III  
ABSTRACT OF RECEIPTS AND DISBURSEMENTS FOR THE YEAR 2001-2002**

(Rupees in crore)

Receipts		Disbursements						
2000-2001		2001-2002	2000-2001	Non-Plan	Plan	Total	2001-2002	
	<u>Section-A: Revenue</u>							
15738.59	I Revenue receipts	15986.06	22040.82	20896.80	1820.80	22717.60	22717.60	
9046.83	Tax revenue	9246.57	6145.16	7129.32	35.76	7165.08		
3349.14	Non-tax revenue	3760.94	7716.48	6891.54	830.66	7722.20		
			3672.36	3064.98	193.17	3258.15		
			893.75					
1573.75	State's share of Union Taxes	1488.29	699.65	609.59	105.89	715.48		
				331.61	175.89	507.50		
			29.44					
824.03	Non-Plan grants	351.02	427.36	14.87	5.02	19.89		
				143.20	201.64	344.84		
			121.21					
695.33	Grants for State Plan Scheme	753.72	1854.36	74.00	26.55	100.55		
			18.35	2635.01	122.50	2757.51		
249.51	Grants for Central and Centrally sponsored Plan Schemes	385.52	8129.54	18.28	--	18.28		
			708.63	6819.95	954.39	7774.34		
			760.73	443.85	452.03	895.88		
			28.02	227.48	151.67	379.15		
			1948.84	21.87	2.26	24.13		
			3547.65	1747.18	58.34	1805.52		
			285.58	3528.83	22.27	3551.10		
			607.04	142.09	223.15	365.24		
			0.01	565.88	25.48	591.36		
			4.22	0.01	--	0.01		
			238.82	0.13	3.17	3.30		
			49.64	142.63	16.02	158.65		
6302.23	II Revenue deficit carried over to Section B	6731.54		55.98	--	55.98		
22040.82			22040.82	Total			22717.60	

**Audit Report (Civil) for the year ended 31 March 2002**

Receipts		Disbursements							
2000-2001		2001-2002	2000-2001		Non-Plan	Plan	Total	2001-2002	
<b>Section-B</b>									
560.23	III Opening Cash balance including Permanent Advances and Cash Balance Investment	966.25	NIL	III Opening Overdraft from RBI					NIL
22.35	IV Miscellaneous Capital receipts	1.50	2994.84	IV Capital Outlay-	132.96	1623.91	1756.87	1756.87	
			39.95	<u>General Services-</u>	9.73	18.39	28.12		
			1050.03	<u>Social Services-</u>	72.95	786.80	859.75		
			12.41	Education, Sports, Art and Culture	0.40	5.01	5.41		
			25.17	Health and Family Welfare	0.06	13.22	13.28		
			1001.12	Water Supply, Sanitation, Housing and Urban Development	72.52	215.94	288.46		
			0.06	Information and Broadcasting	--	0.01	0.01		
			9.67	Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes	--	2.16	2.16		
			0.47	Social Welfare and Nutrition	--	0.49	0.49		
			1.13	Others	(-)0.03	549.97	549.94		
			1904.86	<u>Economic Services-</u>	50.28	818.72	869.00		
			200.54	Agriculture and Allied Activities	7.74	120.27	128.01		
			--	Rural Development	--	--	--		
			1.33	Special Areas Programmes	--	0.44	0.44		
			1151.76	Irrigation and Flood Control	0.05	529.72	529.77		
			29.90	Energy	--	(-) 48.43	(-) 48.43		
			122.40	Industry and Minerals	(-) 0.01	11.20	11.19		
			398.73	Transport	41.50	205.52	247.02		
			0.01	Science & Technology	--	--	--		
			--	Communication	--	--	--		
			0.19	General Economic Services	1.00	--	1.00		
2226.62	V Recoveries of Loans and Advances-	2206.66	917.17	V Loans and Advances disbursements					229.04
2095.01	From Power Projects	2048.47	577.51	For Power Projects			72.04		
97.94	From Government Servants and Miscellaneous Loans	99.31	148.22	To Government Servants and Miscellaneous Loans			121.17		
33.67	From others	58.88	191.44	To Others			35.83		
NIL	VI Revenue surplus brought down	NIL	6302.23	VI Revenue deficit brought down					6731.54



**Chapter I An Overview of the Finance of the State Government**

Receipts		Disbursements							
2000-2001		2001-2002	2000-2001		Non-Plan	Plan	Total	2001-2002	
7685.78	VII Public debt receipts-		8158.32	1221.77	VII Repayment of Public Debt-			1383.95	
7121.59	Internal debt other than ways and means Advances and Overdraft	5926.95		135.54	Internal debt other than Ways and Means Advances and Overdraft		205.02		
661.84	Net transaction under Ways and Means Advances including over draft	--		NIL	Net transaction under Ways and Means Advances including over draft.		436.69*		
(-)97.65	Loans and Advances from Central Government	2231.37		1086.23	Repayment of Loans and Advances to Central Government		742.24		
Nil	VIII Inter State Settlement		2.00	Nil	VIII Inter State Settlement				
Nil	IX Appropriation to Contingency Fund		NIL	NIL	IX Appropriation to Contingency Fund			NIL	
13.75	X Amount transferred to Contingency Fund		109.24	109.24	X Expenditure from Contingency Fund			6.70	
25128.54	XI Public Account receipts-		23702.55	23125.77	XI Public Account disbursements-			24603.34	
827.82	Small Savings and Provident funds	802.44		489.60	Small Savings and Provident Funds		568.95		
390.69	Reserve funds	334.15		228.10	Reserve Funds		194.11		
6810.53	Suspense and Miscellaneous	10465.62		6850.88	Suspense and Miscellaneous		9548.68		
2873.05	Remittance	2338.73		2812.17	Remittances		2529.93		
14226.45	Deposits and Advances	9761.61		12745.02	Deposits and Advances		11761.66		
				966.25	XII Cash Balance at end-			580.14	
NIL	Closing overdraft from Reserve Banks of India.		145.05	(-) 17.58	Cash in Treasuries and Local Remittances		1.12		
				477.79	Deposits with Reserve Bank		71.17		
				128.64	Departmental Cash Balance Including permanent Advances		128.84		
				377.40	Cash Balance Investment		379.01		
<b>35637.27</b>	<b>Total</b>		<b>35291.57</b>	<b>35637.27</b>	<b>Total</b>			<b>35291.57</b>	

\* Represents receipts Rs. 7059.00 crore and disbursement Rs. 7495.69 crore.

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**EXHIBIT - IV  
TIME SERIES DATA ON STATE GOVERNMENT FINANCES**

	1997-98	1998-99	1999-2000	2000-2001	2001-2002
	<b>(Rupees in crore)</b>				
<b>Part A. Receipts</b>					
1. Revenue Receipts	11125	12743	13971	15739	15986
(i) Tax Revenue	6591(59)	7616(60)	8162(59)	9047(58)	9247(58)
Sales Tax	4403(67)	4796(63)	5134(63)	5943(66)	5857(63)
Taxes and duties on Electricity	1024(15)	1447(19)	1402(17)	1521(17)	1657(18)
State Excise	24	27	32	40	47
Taxes on vehicles	396(6)	460(6)	602(7)	627(7)	677(7)
Stamps and Registration fees	411(6)	507(7)	522(6)	537(6)	539(6)
Land Revenue	75(1)	72(1)	117(1)	82(1)	87(1)
Taxes on goods and passengers	38(1)	62(1)	89(1)	26	99(1)
Other Taxes	220	245	264	271	284
(ii) Non Tax Revenue	2221(20)	2766(21)	2990(21)	3349(21)	3761(24)
(iii) State's share in Union taxes and duties	1574(14)	1642(13)	1665(12)	1574(10)	1488(9)
(iv) Grants in aid from GOI	739(7)	719(6)	1154(8)	1769(11)	1490(9)
2. Misc Capital Receipts	172	1	16	22	2
3. Total revenue and Non debt capital receipts (1+2)	11297	12744	13987	15761	15988
4. Recoveries of Loans and Advances	129	267	146	2227	2207
5. Public Debt Receipts	2528	3563	4623	7686	8158
6. Total receipts in the consolidated Fund (3+4+5)	13954	16574	18756	25674	26353
7. Contingency Fund Receipts	285	58	21	14	109
8. Public Accounts receipts	16232	19344	22453	25129	23703
9. Total receipts of the state (6+7+8)	30471	35976	41230	50817	50165
<b>Part B. Expenditure /Disbursement</b>	14002	17895	20212	25036	24475
10. Revenue Expenditure	12143(87)	15606(87)	17517(87)	22041(88)	22718(93)
Plan	1501(12)	2150(14)	2680(15)	3001(14)	1821(8)
Non Plan	10642(88)	13456(86)	14837(85)	19040(86)	20897(92)
General Services (incl. Interests payments)	3674(31)	4769(31)	5753(33)	6145(28)	7165(32)
Social Services	4240(35)	5437(35)	6229(36)	7716(35)	7722(34)
Economic Services	4177(34)	5349(34)	5485(31)	8130(37)	7775(34)
Grants in aid and contributions	53	51	50	50	56
11. Capital Expenditure	1859(13)	2289(13)	2695(13)	2995(12)	1757(7)
Plan	1779(96)	2214(97)	2664(99)	2862(96)	1624(92)
Non Plan	80(4)	75(3)	31(1)	133(4)	133(8)
General Services	27(1)	29(1)	30(1)	40(1)	28(2)
Social services	218(12)	450(20)	631(24)	1050(35)	860(49)
Economic Services	1614(87)	1810(79)	2034(75)	1905(64)	869(49)
12. Disbursement of Loans and Advances	426	733	626	917	229
13. Total (10+11+12)	14428	18628	20838	25953	24704
14. Repayment of Public Debt	446	544	628	1222	1239
Internal Debt (excluding Ways & Means Advances and Overdrafts)	48	97	125	136	205
Net transactions under Ways and Means Advances and Overdraft	NIL	NIL	NIL	NIL	292
Loans and Advances from Government of India*	398	447	503	1086	742
15. Appropriation to Contingency Fund	250	NIL	NIL	NIL	NIL
16. Total disbursement out of Consolidated Fund (13+14+15)	15124	19172	21466	27175	25943
17. Contingency Fund disbursements	158	21	14	109	7
18. Public Account disbursements	15200	17001	19703	23126	24603
19. Total disbursement by the state (16+17+18)	30482	36194	41183	50410	50553
<b>Part C. Deficits</b>					
20. Revenue Deficit (1-10)	1018	2863	3546	6302	6732
21. Fiscal Deficit	3174	5618	6721	7987	6511
22. Primary Deficit	1290	3356	3913	4856	2305
<b>Part D. Other data</b>					
23. Interest Payments (Included in revenue exp.)	1884	2262	2808	3131	4206
24. Arrears of Revenue (Per centage of Tax & non-tax Revenue Receipts)	1832(21)	1686(16)	4130(37)	5663(36)	7680(48)
25. Financial Assistance to local bodies etc.	2767	829	2563	834	2972
26. Ways and Means Advances/Overdraft availed (days)	Nil	6	69	173/45	235/72
27. Interest on WMA/overdraft	Nil	0.06	1.36	8.16	23.35
28. Gross State Domestic Product (GSDP)	90906 <sup>§</sup>	104216 <sup>§</sup>	106427 <sup>§</sup>	112049 <sup>§</sup>	118602 <sup>*</sup>
29. Outstanding Debt (year end)	20139	24757	31561	40007	45301
30. Outstanding guarantees (year end)	6833	7669	8842	12693	16219
31. Maximum Amount Guaranteed (Year end)	7395	8231	9403	13255	16781
32. Number of incomplete projects	8	11	26	65	67
33. Capital blocked in incomplete projects	18.76	53.96	107.86	310.22	319.47 <sup>♣</sup>

**Note :** Figures in brackets represent percentages (rounded) to total of each sub heading.

\* Includes ways and means advances from GOI

<sup>§</sup> figures adopted as per information furnished by department

<sup>♣</sup> figures of GSDP for 2001-02 has been worked out based on average growth during 1996-97 to 2000-01

♣ This amount does not include investment of Rs .6742.30 crore in Narmada Project which is being funded through Sardar Sarovar Narmada Nigam Limited, a State Government Public Sector Undertaking vide comments in Para 1.9.3.