

CHAPTER I

Finances of the State Government

1.1 Introduction

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

In terms of the Madhya Pradesh Reorganization Act 2000 (No.28 of 2000) 16¹ districts of the erstwhile State of Madhya Pradesh formed the new State of Chhattisgarh on 1 November 2000. The apportionment of assets and liabilities of the composite State of Madhya Pradesh immediately prior to that date as also the other financial adjustments are being carried out in each case in accordance with the provisions of the Act². The actual progress achieved in this direction is indicated in **Appendix-1.2**.

1.1.1 Summary of Receipts and Disbursements

Table-1.1 summarises the finances of the Government of Madhya Pradesh for the year 2007-08 covering revenue receipts and expenditure, capital receipts and expenditure and public accounts receipts/disbursements as emerging from Statement-1 of Finance Accounts and other detailed statements.

Table No. 1.1 : 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 |
| 25694.28 | I. Revenue receipts | 30688.74 | 22362.61 | I. Revenue expenditure | 18794.82 | 6806.29 | 25601.11 |
| 10473.13 | Tax revenue | 12018.18 | 8602.11 | General services | 9283.49 | 70.86 | 9354.35 |
| 2658.46 | Non-tax revenue | 2738.19 | 7576.48 | Social Services | 4902.18 | 3243.28 | 8145.46 |
| 8088.54 | Share of Union Taxes/Duties | 10202.96 | 4880.17 | Economic Services | 3287.84 | 3249.62 | 6537.46 |
| 4474.15 | Grants from Govt. of India | 5729.41 | 1303.85 | Grants-in-aid / Contributions | 1321.31 | 242.53 | 1563.84 |
| Section-B: Capital | | | | | | | |
| 9.19 | II Misc. Capital Receipts | 11.07 | 5169.94 | II Capital Outlay | 322.23 | 6510.47 | 6832.70 |
| 28.12 | III. Recoveries of Loans and Advances | 105.24 | 953.07 | III Loans and Advances disbursed | 708.49 | 446.39 | 1154.88 |
| 4602.97 | IV Public debt receipts | 3370.95 | 1731.53 | IV Repayment of Public Debt | -- | -- | 1677.00 |
| 32225.38 | V Public account receipts | 39895.93 | 30768.82 | V Public account disbursements | -- | -- | 39423.29 |
| 1.11 | VI Inter State Settlement | 1.79 | 1.33 | VI Inter State Settlement | -- | -- | 2.06 |
| 68.15 | VII Contingency Fund | -- | 60.00 | VII Appropriation to Contingency Fund | -- | -- | -- |
| 827.87 | Opening Cash Balance | 2409.77 | 2409.77 | Closing Cash Balance | -- | -- | 1792.45 |
| 63457.07 | Total | 76483.49 | 63457.07 | Total | 19825.54 | 13763.15 | 76483.49 |

¹ Baster, Bilaspur, Dantewara, Dhamtari, Durg, Janjgir-Champa, Jashpur, Kanker, Kawardha, Korba, Korla, Mahasamund, Raigarh, Raipur, Rajnandgaon and Surguja.

² *ibid*

Following are the major changes during 2007-08 over the previous year:

- Revenue Receipts have increased by Rs. 4,995 crore mainly due to increase in Share of Union Taxes and duties (Rs.2,115 crore), grants from Government of India (Rs. 1,255 crore), Tax Revenue (Rs. 1,545 crore) and Non Tax Revenue (Rs. 80 crore).
- Revenue expenditure increased by Rs. 3,238 crore and Capital expenditure increased by Rs.1,663 crore .
- The recovery of loans and advances marginally increased to Rs.105 crore during current year from Rs.28 crore in the previous year. Disbursement of loans and advances by State Government increased by Rs.202 crore mainly on account of loans under Water Supply, Sanitation, Housing and Urban Development (Rs.283 crore), Miscellaneous General Services (Rs.63 crore) and Agriculture and allied activities (Rs. 26 crore) which was partly offset by decrease in loans under energy sector (Rs.135 crore), and Transport(Rs.35 crore).
- Public debt receipts and repayments decreased by Rs. 1,232 crore and Rs. 55 crore respectively in 2007-08 over previous year. The decline in Public Debt receipts was mainly due to decline in internal debt by Rs. 1,340 crore which was partly offset by increase in loans and advances by Government of India (Rs.108 crore).
- Public Account Receipts and disbursements increased by Rs.7,671 crore and Rs.8,654 crore respectively in 2007-08 relative to previous year resulting in net decrease of Rs.983 crore in Public Account receipts.
- As a result of inflow/outflow of the funds stated above, the cash balances of the State at the close of 2007-08 decreased by Rs.617 crore over the previous year.

1.1.2 State Fiscal Position by Key Indicators

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

Table No. 1.2: State Fiscal position by key indicators
(Rupees in crore)

| 2006-07 | Sl. No | Major Aggregates | 2007-08 |
|----------|--------|---|----------|
| 25694 | 1. | Revenue Receipts (2+3+4) | 30689 |
| 10473 | 2. | Tax Revenue | 12018 |
| 2658 | 3. | Non-Tax Revenue | 2738 |
| 12563 | 4. | Other Receipts | 15933 |
| 38* | 5. | Non-Debt Capital Receipts | 118* |
| 28 | 6. | <i>Of which</i> Recovery of Loans | 105 |
| 25732 | 7. | Total Receipts (1+5) | 30807 |
| 17915 | 8. | Non-Plan Expenditure (9+11) | 19826 |
| 16911 | 9. | On Revenue Account | 18795 |
| 4029 | 10. | <i>Of which,</i> Interest Payments | 4191 |
| 1004 | 11. | On Capital Account | 1031 |
| 689 | 12. | <i>Of which</i> Loans disbursed | 709 |
| 10571 | 13. | Plan Expenditure (14+15) | 13763 |
| 5452 | 14. | On Revenue Account | 6806 |
| 5119 | 15. | On Capital Account | 6957 |
| 265* | 16. | <i>Of which</i> Loans disbursed | 448* |
| 28487 | 17. | Total Expenditure (8+13) | 33591 |
| (+) 3331 | 18. | Revenue surplus (+)/deficit (-) (1- 9-14) | (+) 5088 |
| (-) 2755 | 19. | Fiscal surplus (+)/ Deficit (-) (1+ 5 - 17) | (-) 2784 |
| (+) 1274 | 20. | Primary surplus (+)/ Deficit (-) (1+5 - 17-10) | (+) 1407 |

* Includes Inter State settlement of Rs.1 crore each in the year 2006-07 and Rs.2 crore each in 2007-08.

An increase of 19.44 *per cent* (Rs.4,995 crore) in revenue receipts during 2007-08 in comparison to that of only 14.48 *per cent* (Rs.3,238 crore) in revenue expenditure resulted in an increase in revenue surplus from Rs 3,331 crore in 2006-07 to Rs. 5,088 crore in 2007-08. Given an increase of Rs.1,757 crore in revenue surplus during the year and Rs. 80 crore in non-debt capital receipts accompanied with an increase of Rs.1,663 crore in capital expenditure and Rs. 203 crore in disbursement of loans and advances including inter state settlement (Rs. one crore) led to a marginal increase of Rs. 29 crore in fiscal deficit in 2007-08 over the previous year. Given the increase in fiscal deficit (Rs. 29 crore) as well as in interest payments (Rs. 162 crore), primary surplus of Rs.1,274 crore in 2006-07 improved to Rs.1,407 crore in 2007-08.

1.2 Methodology adopted for the assessment of Fiscal position

The trends in the major fiscal aggregates of receipts and expenditure as emerged from the Statements of Finance Accounts are analyzed wherever necessary over the period from 2003-04 to 2007-08 and observations are 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 the Fiscal Responsibility Acts and draw their fiscal correction path accordingly for the five year period (2005-06 to 2009-10) so that fiscal position of State could be improved as committed in their respective FRBM Acts/Rules during medium to long run. The norms/Ceilings prescribed by the TFC as well as its projections for fiscal aggregates along with the commitments/projections made by the State Governments in their Fiscal Responsibility Acts and in other Statements

required to be laid in the legislature under the Act are used to make qualitative assessment of the trends and pattern of major fiscal aggregates during the current year. Assuming that GSDP is the good indicator of the performance of the State's economy, major fiscal aggregates like tax and non-tax revenue, revenue and capital expenditure, internal debt and revenue and fiscal deficits have been presented as percentage to the Gross State Domestic Product (GSDP)³ at current market prices. The buoyancy coefficients for tax revenues, non-tax revenues, revenue expenditure etc, with reference to the base represented by GSDP have also been worked out to assess as to whether the mobilization of resources, pattern of expenditure etc, are keeping pace with the change in the base or these fiscal aggregates are also affected by factors other than GSDP. The new GSDP series with 1999-2000 as base (**Table- 1.3**) as published by the Directorate of Economics and Statistics of the State Government have been used in estimating these percentages and buoyancy ratios.

Table No. 1.3: Gross State Domestic Product (GSDP) – Growth Trends

| Estimates | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 |
|---|---------|---------|---------|-----------|-----------|
| Gross State Domestic Product (GSDP)# (Rupees in crore) | 102839 | 107282 | 116322 | 128202(Q) | 142204(A) |
| Rates of Growth GSDP (<i>per cent</i>) | 18.43 | 4.32 | 8.43 | 10.21 | 10.92 |

GSDP estimates for the period 2003-07 are as revised by the Directorate of Economics & Statistics, Government of Madhya Pradesh. As a result percentage ratio/buoyancies of various parameters with reference to GSDP have also been revised.

* *A- Advanced estimates; Q-Quick estimates*

The key fiscal aggregates for the purpose are 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. The overall financial performance of the State Government as a body corporate has been presented by the application of a set of ratios commonly adopted for the relational interpretation of fiscal aggregates. The definitions of some of the selected terms used in assessing the trends and pattern of fiscal aggregates are given in **Appendix 1.1 Part C**.

The summarized financial position of the Government i.e. assets and liabilities, abstracts of receipts and disbursements for the year 2007-08, sources and application of funds and time series data is given in **Appendix 1.2, 1.4, 1.5, 1.6 and 1.11**

1.2.1 The Fiscal Responsibility and Budget Management (FRBM) Act, 2005

The State Government has enacted the Madhya Pradesh Rajkoshiya Uttardayitva Avam Budget Prabandhan Adhiniyam, 2005 (Fiscal Responsibility and Budget Management (FRBM) Act 2005) which came into force from 1st January 2006 to ensure prudence in fiscal management and fiscal stability by progressive elimination of revenue deficit, reduction in fiscal deficit, prudent

³ *GSDP is defined as the total income of the State at current prices or the market value of goods and services produced using labour and all other factors of production.*

debt management consistent with fiscal sustainability, greater transparency in fiscal operations of the Government and conduct of fiscal policy in a medium term framework and for matters connected therewith or incidental thereto. To give effect to the fiscal management objectives as laid down in the Act, and/or the rules framed (30 January 2006) there under the following fiscal targets were prescribed for the State Government:

- Reduce revenue deficit in each financial year so as to eliminate it by 31st March 2009 and generate revenue surplus thereafter;
- Reduce fiscal deficit in each financial year so as to bring it down to not more than three *per cent* of GSDP by 31st March 2009;
- Ensure that within a period of 10 years, i.e. as on the 31st March 2015, total liabilities do not exceed 40 *per cent* of the estimated GSDP for that year; and
- Limit the annual incremental guarantees so as to ensure that the guarantees do not exceed 80 *per cent* of the total revenue receipts in the year preceding the current year.

Provided that revenue deficit and fiscal deficit may exceed the limits specified under this section due to ground(s) of shortfall in the Central tax devolutions in relation to the budgetary estimates of the Union of India and/or unforeseen demands on the finances of the State Government arising out of internal disturbance or natural calamity or such other exceptional grounds as the State Government may specify.

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

In accordance with the provisions of the FRBM Act 2005, the State Government has placed the (a) Macro-Economic framework Statement, (b) Medium Term Fiscal Policy Statement (MTFPS) and (c) Fiscal policy strategy statement along with the Budget for 2007-08. The actuals for 2005-06, RE for 2006-07 and BE for 2007-08 for select indicators were presented in MTFPS (**Appendix 1.3**).

In terms of an incentive scheme of TFC, a reward for fiscal performance was built into the debt-write off package under DCRF⁴. According to the scheme, the quantum of write off of repayment of GOI loans after consolidation and rescheduling will be linked to the absolute amount by which revenue deficit is reduced in each successive year during the award period. In effect, if the revenue deficit is brought to zero, the entire repayment during the period will be written off. For States which were in revenue surplus as per the base year figure (2003-04) and continued to remain so in the subsequent years till the end of TFC award period, the installment of repayment due on the Central loans (after

4 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 relief is provided by consolidating and rescheduling at substantially reduced rate of interest the Central loans granted to States on enacting the MPFRBM Act and debt waiver is granted based on fiscal performance, linked to the reduction of revenue deficits of State.

consolidation and reschedulement) may be written-off in each year from 2005-06 onwards so long as the revenue surplus of the State does not go below the base year level in absolute terms. As a result of improved fiscal performance in terms of this criterion, the State Government received a debt waiver of Rs. 363.06 crore for the current year. The fiscal performance of the State vis-à-vis FRBM targets and those framed in Mid-Term Fiscal Policy for the year 2007-08 is presented in **Table 1.4**.

Table No. 1.4

| Fiscal forecasts | FRBM Targets | Projection as per MTFPS | Actual |
|---|--|--|---|
| Revenue Deficit (-)/ Surplus (+) (Rupees in crore) | To be wiped out by 2008-09 | (+) 2007 | (+) 5088 |
| Fiscal Deficit (-)/ Surplus (+) (Rupees in crore) | To reduce to not more than 3 <i>per cent</i> of GSDP by 2008-09 (4266) | (-) 4655 FD to be 3.34 <i>Per cent</i> of GSDP | (-) 2,784 (1.96 <i>per cent</i> of GSDP) |
| Total Fiscal Liabilities | 40 <i>per cent</i> of GSDP by 31 March 2015 | 49 <i>per cent</i> of GSDP | 39.50 <i>per cent</i> of GSDP |
| Outstanding Guarantees | Not to exceed 80 <i>per cent</i> of the total RR of preceding year | 73.19 <i>per cent</i> of RR of preceding year | 3.33 <i>per cent</i> * of RR of preceding year |

**To the extent information was available in Finance Accounts.*

The table reveals that the State Government had achieved revenue surplus three years ahead of the scheduled period and contained the fiscal deficit well within the limit of 3 *per cent* of GSDP prescribed in FRBM targets and projections as per MTFPS. The total fiscal liabilities to GSDP ratio at 39.50 *per cent* is within the FRBM target to be achieved by 31st March 2015 but is significantly less than the projected 49 *per cent* in MTFPS. The outstanding guarantees (includes the extent to which information is depicted in Finance Accounts) during the year were only 3.33 *per cent* of revenue receipts of the preceding year as against the MTFPS projection of 73 *per cent* and the FRBM target of 80 *per cent* during the year.

1.2.1.2 Mid-Term Review of the Fiscal Situation

In compliance with Section 11 (1) of FRBM Act 2005, the Finance Minister undertook a half yearly review in November 2007 and the outcome of the review was placed before the legislature in November 2007. The outcome of the half yearly review of trends in receipt and expenditure at the end of the second quarter showed that the total non-debt receipts and the fiscal deficit were better than the benchmarks prescribed under Rule 8 of FRBM rules January, 2006. Therefore no further corrective measures were required to be taken by the State Government.

1.3 Trends and composition of aggregate receipts

The aggregate receipts of State Government consist of revenue receipts and capital receipts. Revenue receipts consist of tax revenues, non-tax revenues, State's share of union taxes and duties and grants-in-aid from the Government of India (GOI). Capital receipts consist of miscellaneous capital receipts such as

proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources (market loans, borrowings from financial institutions/commercial banks) and loans and advances from GOI as well as accruals from Public Account. **Table-1.5** shows that the total receipts of the State Government for the year 2007-08 were Rs. 74,074 crore. Of these, the revenue receipts were Rs. 30,689 crore, constituting 41 *per cent* of total receipts. The balance came from capital receipts, borrowings and Public Account.

Table No. 1 5: Trends in Growth and Composition of Aggregate Receipts
(Rupees in crore)

| Sources of State's Receipts | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 |
|---------------------------------------|--------------|--------------|--------------|--------------|--------------|
| I Revenue Receipts | 14289 | 19743 | 20597 | 25694 | 30689 |
| II Capital Receipts | 9974 | 8902 | 8013 | 4641 | 3489 |
| Recovery of Loans and Advances | 36 | 53 | 2,852 | 28 | 105 |
| Public Debt Receipts | 9938 | 8849 | 5161 | 4603 | 3371 |
| Miscellaneous Capital Receipts | - | - | - | 9 | 11 |
| Inter State Settlement | - | - | - | 1 | 2 |
| III Contingency Fund | - | 1 | - | 68 | -- |
| IV Public Account Receipts | 22285 | 24790 | 29038 | 32225 | 39896 |
| a. Small Savings, Provident Fund etc. | 1200 | 1810 | 1330 | 1419 | 1439 |
| b. Reserve Fund | 367 | 351 | 676 | 819 | 716 |
| c. Deposits and Advances | 4126 | 3875 | 4156 | 4436 | 5537 |
| d. Suspense and Miscellaneous | 12156 | 13436 | 16559 | 18955 | 23275 |
| e. Remittances | 4436 | 5318 | 6317 | 6596 | 8929 |
| Total Receipts | 46548 | 53436 | 57648 | 62628 | 74074 |

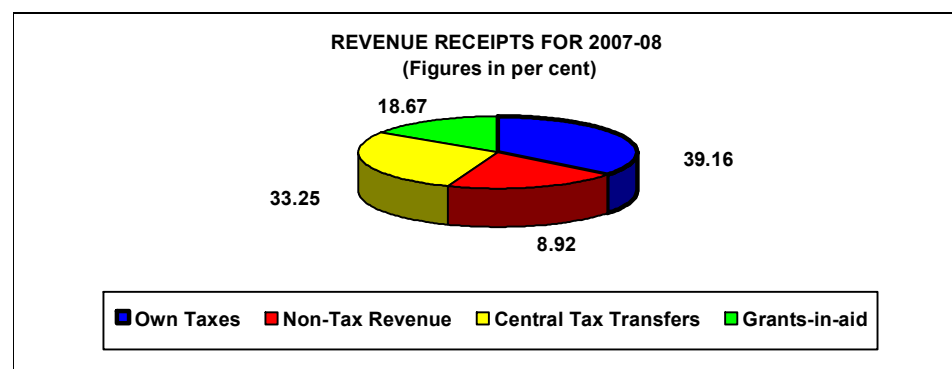
The total receipts of the State Government increased by 59 *per cent* from Rs. 46,548 crore in 2003-04 to Rs. 74,074 crore in 2007-08, of which Revenue Receipts increased by 115 *per cent* from Rs. 14,289 crore in 2003-04 to Rs. 30,689 crore in 2007-08. The relative share of revenue receipts in total receipts increased from 30.70 *per cent* in 2003-04 to 41.44 *per cent* in 2007-08 and the share of Capital Receipts in total receipts decreased from 21.43 *per cent* in 2003-04 to 4.71 *per cent* in 2007-08. Although the receipts under Public Account increased at an annual growth rate of 15.80 *per cent* during the period 2003-08, it's share in total receipts of the State ranged between 46 *per cent* in 2004-05 to 54 *per cent* during 2007-08.

1.3.1 Revenue receipts

Statement-11 of the Finance Accounts details 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 buoyancies are indicated in **Table 1.6**.

Table 1.6: Revenue Receipts – Basic Parameters

| | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 |
|---|-----------------|------------------|------------------|------------------|------------------|
| Revenue Receipts (RR) (Rupees in crore) | 14289 | 19743 | 20597 | 25694 | 30689 |
| Own taxes (Rupees in crore and <i>per cent</i>) | 6789 (47.51) | 7773 (39.37) | 9115 (44.26) | 10473 (40.76) | 12018 (39.16) |
| Non-Tax Revenue (Rupees in crore and <i>per cent</i>) | 1480 (10.36) | 4462 (22.60) | 2208 (10.72) | 2658 (10.35) | 2738 (8.92) |
| Own Resources (Rupees in crore and <i>per cent</i>) | 8269 (57.87) | 12235 (61.97) | 11323 (54.98) | 13131 (51.11) | 14756 (48.08) |
| Central Tax Transfers (Rupees in crore and <i>per cent</i>) | 4247 (29.72) | 5077 (25.72) | 6341 (30.78) | 8089 (31.48) | 10203 (33.25) |
| Grants-in-aid (Rupees in crore and <i>per cent</i>) | 1773 (12.41) | 2431 (12.31) | 2933 (14.24) | 4474 (17.41) | 5730 (18.67) |
| Rate of Growth of RR (<i>per cent</i>) | 6.71 | 38.17 | 4.33 | 24.75 | 19.44 |
| Rate of Growth of Own Resources (<i>per cent</i>) | 6.01 | 47.96 | (-7.45) | 15.97 | 12.38 |
| Rate of Growth of Own tax (<i>per cent</i>) | 10.12 | 14.49 | 17.26 | 14.90 | 14.75 |
| RR/GSDP (<i>per cent</i>) | 13.89 | 18.40 | 17.71 | 20.04 | 21.58 |
| Revenue Buoyancy (ratio) | 0.36 | 8.84 | 0.51 | 2.42 | 1.78 |
| State's own tax buoyancy (ratio) | 0.55 | 3.35 | 2.05 | 1.46 | 1.35 |
| Revenue buoyancy with reference to State's own taxes (ratio) | 0.66 | 2.63 | 0.25 | 1.66 | 1.32 |
| GSDP Growth (<i>percent</i>) | 18.43 | 4.32 | 8.43 | 10.21 | 10.92 |



General Trend

The revenue receipts of the state have consistently increased at an average annual growth rate of 22.95 *per cent* from Rs.14,289 crore in 2003-04 to Rs.30,689 crore in 2007-08. While 48 *per cent* of the revenue receipts during 2007-08 had come from the State's own resources comprising of tax and non-tax revenue, the balance 52 *per cent* were contributed by central tax transfers and grant-in-aid together. Of the total increase of Rs.4,995 crore in revenue receipts of the state during 2007-08, Rs.3,370 crore (67 *per cent*) was contributed by central transfers and the remaining Rs.1,625 crore (33 *per cent*) by State's own resources. The revenue receipts as well as the State's own tax buoyancies have declined in 2007-08 as compared to the previous year primarily on account of fall in rates of growth in both revenue receipts and state's own taxes during the current year. A steep decline by about five percentage points in rate of growth of revenue receipts along with a relative stability in growth of state's own taxes in 2007-08 as compared to the previous year led to a fall in revenue buoyancy with reference to state's own taxes in the current year.

Own Tax Revenue

Tax on sales, trades etc. was the major contributor (50 *per cent*) of the States own tax revenue followed by state excise (15 *per cent*), stamps and registration

fees (13 per cent), taxes on goods and passengers (8 per cent), taxes on vehicles (6 per cent) and taxes and duties on electricity (5 per cent) during 2007-08. There was a growth rate of 15 per cent in taxes on sales, trades etc., 20 per cent in state excise and 22 per cent in stamps and registration fees in 2007-08 over previous year. The increase in receipts under taxes on Sales, trades etc. was mainly due to introduction of VAT with effect from 2006-07. The increase in State excise receipts was due to more receipts mainly under country fermented liquors (Rs. 150 crore) and residual head 'other receipts (Rs.498 crore)' which was partly offset by decrease in receipts under country spirits (Rs. 429 crore). The increase under Stamps and Registration fee was because of enhanced receipts under the heads 'Stamps judicial' (Rs.53 crore), 'Stamps Non-judicial' (Rs.95 crore) and 'Registration fees' (Rs.133 crore). **Table-1.7** below shows the trends in the composition of tax revenue of the state during 2003-08.

Table No. 1.7: Tax revenue

(Rupees in crore)

| | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 |
|------------------------------|-------------|-------------|-------------|--------------|--------------|
| Taxes on Sales, Trades etc | 3293 | 3913 | 4508 | 5261 | 6045 |
| State Excise | 1086 | 1193 | 1370 | 1547 | 1854 |
| Stamps and Registration fees | 614 | 789 | 1009 | 1251 | 1532 |
| Taxes on Vehicles | 455 | 489 | 556 | 634 | 703 |
| Other Taxes | 1341 | 1389 | 1672 | 1780 | 1884* |
| Total | 6789 | 7773 | 9115 | 10473 | 12018 |

* *Other taxes include Taxes on goods and passengers (Rs.916 crore), taxes and duties on electricity (Rs.626 crore), other taxes on income and expenditure (Rs.185 crore), land revenue (Rs.129 crore), other taxes and duties on commodities and services (Rs.20 crore) and hotel receipt tax (Rs.8 crore).*

Non-Tax Revenue

Non-tax revenue increased by Rs.80 crore from Rs.2,658 crore in 2006-07 to Rs.2,738 crore in 2007-08 mainly due to increase in non-ferrous mining and metallurgical industries (Rs.201.48 crore), interest receipt (Rs.74.25 crore), Forestry and wildlife (Rs.72.39 crore), dividends and profit (Rs.44.79 crore), other social services (Rs.8.20 crore), co-operation (Rs.10.75 crore) and other administrative services (Rs.8.61 crore), partly offset by decrease of Rs.361.98 crore under Miscellaneous general services mainly due to booking of debt waiver of Rs.363.06 crore for the current year in comparison to Rs.726.12 crore booked in 2006-07 relating to 2005-06 and 2006-07. Of the non-tax revenue sources, non-ferrous mining and metallurgical industries (41 per cent), forestry and wild life (22 per cent), miscellaneous general services (14 per cent), and interest receipts, dividend and profits (10 per cent) were the major contributors during 2007-08. Moreover, the current levels of cost recovery (revenue receipts as a percentage of revenue expenditure) in supply of merit goods and services by Government were 0.38 per cent for general education, 0.19 per cent for technical education, 2.24 per cent for medical and public health, 1.68 per cent for water supply and sanitation and 9.62 per cent for housing.

The actual receipts under state's tax revenue and non tax revenue vis-à-vis assessments made by TFC and State government during 2007-08 are given in **Table-1.8** below:

Table No. 1.8: Tax and Non-tax receipts

(Rupees in crore)

| | Assessments made by TFC | Projections by State Government in MTFPS | Actuals |
|------------------------|----------------------------|---|---------|
| Tax Revenue | 11823 | 11716 | 12018 |
| Non-Tax Revenue | 2646 | 2427 | 2738 |

Actual realization under tax revenue was higher than the assessment made by the TFC (1.65 *per cent*) and MTFPS (2.58 *per cent*) projection. Although the actual non tax revenue was also higher than the projections made by TFC and MTFPS, it occurred mainly due to contra entry of debt waiver of Rs. 363.06 crore received under DCRF as per recommendations of TFC as receipts under the head 'Miscellaneous General Services'.

Central Tax Transfers

The central tax transfers increased by Rs. 2,114 crore in 2007-08 over the previous year and constituted 33 *per cent* of revenue receipts. The increase was mainly under Corporation Tax (Rs.714 crore), Taxes on Income other than corporation tax (Rs.640 crore), Customs Duties (Rs.351 crore), Service Tax (Rs.243 crore), and Union Excise Duties (Rs.166 crore).

Grants-in-aid from Central Government

Grants-in-aid increased by 28.05 *per cent* from Rs.4,474 crore in 2006-07 to Rs.5,730 crore in 2007-08 mainly due to increase in non-plan grants (Rs.127 crore), Grants for State Plan Schemes-other grants(Rs.629 crore),Central Plan Scheme (Rs.164 crore) and for Centrally Sponsored Schemes (Rs.336 crore).

Details of Grants-in-aid from GOI are given in **Table 1.9**.

Table No. 1.9: Grants-in-aid from GOI

(Rupees in crore)

| | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 |
|--|-------------|-------------|-------------|-------------|-------------|
| Grants for State plan schemes | 776 | 1314 | 1,264 | 1983 | 2612 |
| Non Plan grants | 376 | 459 | 768 | 984 | 1111 |
| Grants for Central Plan Schemes | 58 | 59 | 66 | 57 | 221 |
| Grants for Centrally Sponsored Schemes | 563 | 599 | 835 | 1450 | 1786 |
| Total | 1773 | 2431 | 2933 | 4474 | 5730 |
| Percentage of increase/decrease over previous year | (-) 4.78 | 37.11 | 20.65 | 52.54 | 28.05 |

Increase in grants for State plan scheme in 2007-08 was mainly under block grants (Rs.423 crore) and Panchayati Raj (Rs.310 crore) partly offset by decrease of Rs.115 crore under Welfare of Scheduled Tribes-Special Central Assistance for Tribal Area sub Plan. The increase in grants for Central Plan

Schemes was mainly for Crop Husbandry (Rs.100 crore) and State Highways – Machinery and Equipment (Rs.46 crore) and Welfare of Scheduled Tribes-Education (Rs.18 crore) and increase in grants for centrally sponsored schemes were mainly on account of increases under Rural Water Supply Programme (Rs.111 crore), Elementary Education - Other grants (Rs.237 crore) and Child Welfare (Rs.220 crore), Urban family welfare services (Rs.129 crore) partly offset by decrease under Mid day meals (Rs.100 crore), Integrated Development of Small and Medium towns (Rs.216 crore) and Family Welfare-Other grants (Rs.51 crore).

Non-plan grants of Rs.1,111 crore during the year includes Rs.1,076.90 crore recommended by 12th Finance Commission for Health (Rs.35.90 crore), Education (Rs.84.45 crore), Forest (Rs.23 crore), Panchayati Raj/Urban Local Bodies (Rs.368.70 crore), Roads & Bridges and Public Buildings (Rs.257.48 crore), Tribal Welfare (Rs.59.73 crore), Natural Calamity (Rs.151.48 crore), Heritage Conservation (Rs.5 crore) and other specific heads (Rs.91.16 crore).

1.3.1.1 Non utilization of funds sanctioned under 12th Finance Commission (Forest Department).

It is obligatory for the State government not only to utilize the funds on the programmes for which the funds are provided but also within the specified period and refund the unspent balance if any to Government of India.

Scrutiny of records in the office of the Additional Principal Conservator of Forests (Development), M.P., Bhopal revealed (June 2008) that an amount of Rs. 23 crore was released to Forest Department as special central assistance for various works recommended by the 12th Finance Commission for the year 2007-08. Against which the department booked an expenditure of Rs. 22.81 crore, out of which Rs.3.53 crore were transferred to 8443-Civil Deposits-800-Other Deposits on 31st March 2008. Thus Rs.3.72 crore were not utilized by the State Government during 2007-08.

1.3.1.2 Arrears of revenue

Department-wise status of arrears of revenue during 2007-08 is as detailed below:

Table No. 1.10: Department-wise status of the arrears of revenue during 2007-08

| Sl. No. | Name of Department | Arrear of Revenue (Rupees in crore) |
|---------|-----------------------------|--|
| 1. | Tax on vehicle | 39.54 |
| 2. | State Excise | 58.63 |
| 3. | Electricity | 22.81 |
| 4. | Commercial Tax | 571.53 |
| 5. | Mining | 12.23 |
| 6. | Co-operation | 10.29 |
| 7. | Stamp duty and Registration | 70.44 |
| 8. | Forest | 16.60 |
| | Total | 802.07 |

The Departments concerned have not furnished reasons for arrears of revenue as of November 2008.

1.4 Application of resources

1.4.1 Growth of Expenditure

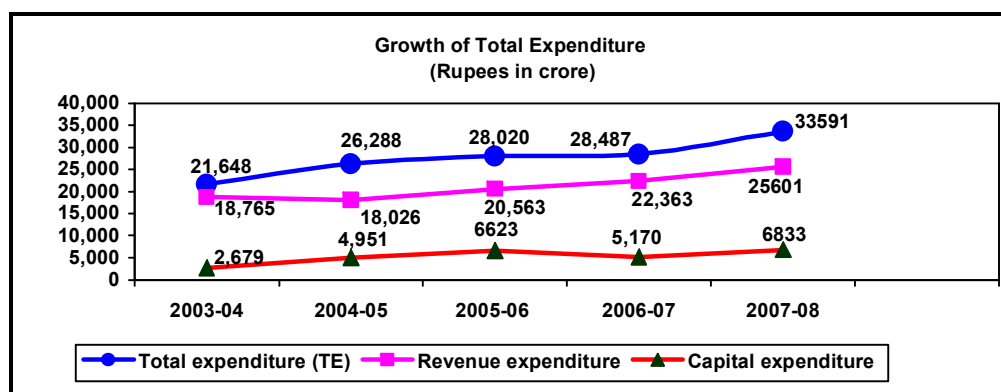
Statement 12 of the Finance Accounts depicts the detailed revenue expenditure by minor heads and capital expenditure by major heads. States raise resources to perform their sovereign functions, maintain their existing nature of delivery of social and economic services, to extend the network of these services through capital expenditure and investments and to discharge their debt service obligations. The trends in 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 during period 2003-08 are indicated in **Table-1.11**.

Table No. 1.11: Total Expenditure – Basic Parameters

| | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 |
|---|----------------|----------------|----------------|----------------|----------------|
| Total expenditure (TE)* (Rupees in crore) | 21648 | 26288 | 28020 | 28487 | 33591 |
| Rate of Growth (<i>per cent</i>) | 23.73 | 21.43 | 6.58 | 1.66 | 17.92 |
| TE/GSDP Ratio (<i>per cent</i>) | 21.05 | 24.50 | 24.09 | 22.22 | 23.62 |
| RR /TE Ratio (<i>per cent</i>) | 66.01 | 75.10 | 73.51 | 90.20 | 91.36 |
| Buoyancy of Total Expenditure with reference to: | | | | | |
| GSDP (ratio) | 1.29 | 4.96 | 0.78 | 0.16 | 1.64 |
| RR (ratio) | 3.54 | 0.56 | 1.52 | 0.07 | 0.92 |

* *Total expenditure includes revenue expenditure, capital expenditure, loans and advances (Including Inter State settlement)*

The total expenditure of the state has increased from Rs. 21,648 crore to Rs. 33,591 crore at an annual average growth rate of 11 *per cent* per annum during 2003-08. In relative terms, the capital and revenue expenditure components have increased by 155 *per cent* and 36 *per cent* respectively during the period 2003-08. However, in absolute terms, increases were of the order of Rs.4,154 crore in capital expenditure and Rs.6,836 crore in revenue expenditure during the period under report. These trends indicate that increase in capital and revenue expenditure was in the ratio of 1:1.6 during the last five years period. The significant increase of Rs.5,104 crore in total expenditure (17.92 *per cent*) during 2007-08 over 2006-07 was mainly due to increase of Rs.3,238 crore in revenue expenditure, Rs.202 crore in disbursement of loans and advances and Rs.1,663 crore in capital expenditure. The increase in capital expenditure from Rs.5,170 crore in 2006-07 to Rs.6,833 crore during 2007-08 was mainly due to increase in capital outlay on Roads and Bridges (Rs.694 crore), Irrigation and Flood control (Rs.631 crore), Water Supply and Sanitation (Rs.248 crore), Other Rural Development (Rs.90 crore), Education, Sports, Arts and Culture (Rs.78 crore) and Welfare of SC, ST and OBC (Rs.77 crore) which was partly off set by decrease in capital outlay on Power Projects (Rs.182 crore). The bifurcation of plan and non-plan capital expenditure on power projects reveals that both the plan and non-plan capital expenditure reduced by Rs. 44 crore and Rs.138 crore respectively during the current year over the previous year. The ratio of revenue receipts to total expenditure marginally increased from 90 *per cent* in 2006-07 to 91 *per cent* in 2007-08 indicating that about 91 *per cent* of the state's total expenditure was met from its revenue receipts and the balance of 9 *per cent* was financed from non-debt capital receipts and borrowings.



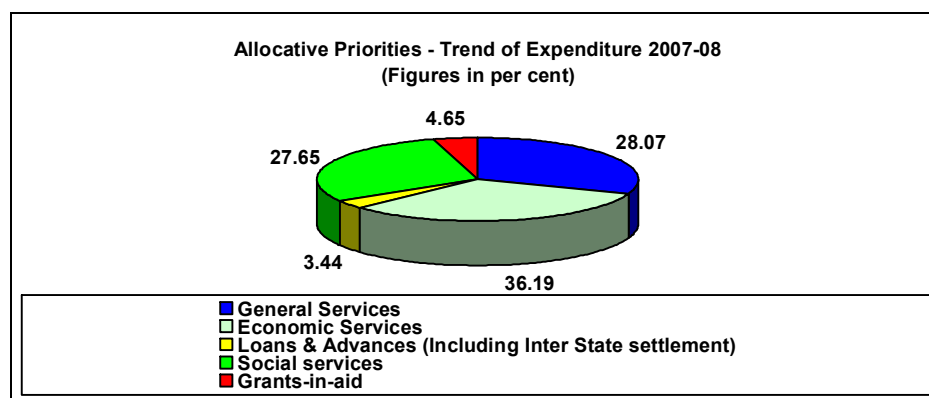
Trends in Total Expenditure by Activities: In terms of the activities, total expenditure could be considered as being composed of expenditure on general services including interest payments, social and economic services, grants-in-aid and loans and advances. Relative share of these components in total expenditure is indicated in **Table-1.12**.

Table No. 1.12: Components of Expenditure – Relative Share

(in per cent)

| | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 |
|----------------------------|---------|---------|---------|---------|---------|
| General Services | 30.53 | 28.96 | 27.53 | 30.45 | 28.07 |
| Of which Interest payments | 14.80 | 13.92 | 12.21 | 14.14 | 12.48 |
| Social Services | 27.05 | 23.22 | 26.03 | 29.13 | 27.65 |
| Economic Services | 38.74 | 31.73 | 39.48 | 32.50 | 36.19 |
| Grants-in-aid | 2.73 | 3.49 | 3.99 | 4.58 | 4.65 |
| Loans and Advances | 0.95 | 12.60 | 2.97 | 3.34 | 3.44 |

The shares of General services (including Interest Payments), considered as non developmental expenditure declined from 30.53 per cent to 28.07 per cent over the period 2003-08 while the share of social services exhibited relative stability over the period 2003-08. The share of economic services indicated a marginal decline from 38.74 per cent in 2003-04 to 36.19 per cent in 2007-08 with wide inter year fluctuations. Thus development expenditure comprising of social and economic services together has increased only marginally from 61.63 per cent in 2006-07 to 63.84 per cent in 2007-08. The share of grants in aid and loans and advances indicated the increasing trends during the period 2003-08.



1.4.2 Incidence of Revenue expenditure

Revenue expenditure had the predominant share in total expenditure. Revenue expenditure is incurred to maintain the current level of services and payments, for the past obligations and as such does not result in any addition to the States infrastructure and service network. The overall revenue expenditure, its rate of growth, ratio of revenue expenditure to GSDP and to revenue receipts and its buoyancy are indicated in **Table-1.13**.

Table No. 1.13: Revenue Expenditure: Basic Parameters

(Rupees in crore and percent in bracket)

| | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 |
|--|------------------|------------------|------------------|------------------|------------------|
| Revenue Expenditure (RE) | 18765 | 18026 | 20563 | 22363 | 25601 |
| Of which Non Plan Revenue Expenditure (NPRE) | 15949 (84.99) | 14861 (82.44) | 16351 (79.52) | 16911 (75.62) | 18795 (73.42) |
| Plan Revenue Expenditure (PRE) | 2816 (15.01) | 3165 (17.56) | 4212 (20.48) | 5452 (24.38) | 6806 (26.58) |
| Rate of Growth (<i>per cent</i>) | 28.88 | (-) 3.94 | 14.07 | 8.75 | 14.48 |
| RE | | | | | |
| NPRE | 44.46 | (-) 6.82 | 10.02 | 3.42 | 11.14 |
| PRE | (-) 20.00 | 12.39 | 33.08 | 29.44 | 24.83 |
| NPRE/ GSDP (<i>per cent</i>) | 15.51 | 13.85 | 14.06 | 13.19 | 13.22 |
| NPRE as <i>per cent</i> of TE | 73.67 | 56.53 | 58.35 | 59.37 | 55.96 |
| NPRE as <i>per cent</i> of RR | 111.61 | 75.27 | 79.38 | 65.82 | 61.24 |
| Buoyancy of Revenue Expenditure with: | | | | | |
| GSDP (ratio) | 1.57 | (-) 0.91 | 1.67 | 0.86 | 1.33 |
| Revenue Receipts (ratio) | 4.30 | (-) 0.10 | 3.25 | 0.35 | 0.74 |

Overall revenue expenditure of the state increased from Rs.18,765 crore in 2003-04 to Rs.25,601 crore in 2007-08, showing an increase of 36 *per cent* over the period. Of the total increase of revenue expenditure of Rs.3,238 crore (14.48 *per cent*) during 2007-08, NPRE shared Rs. 1,884 crore (58 *per cent*) and Rs.1,354 crore were incurred under plan revenue heads. The increase in NPRE during the current year was mainly due to increase in expenditure on Energy (Rs.401 crore), Transport Sector (Rs.171 crore), Police (Rs.107 crore), State Excise (Rs.93 crore), Crop Husbandry (Rs.89 crore), Compensation and assignment to local bodies and Panchayati Raj Institutions (Rs.230 crore), Pension and other retirement benefits (Rs.212 crore), Interest Payment and Servicing of debt (Rs.162 crore), General Education (Rs.161 crore), and Medical and Public Health (Rs.158 crore) which was partly off set by decrease in expenditure on Calamities Relief Fund (Rs.124 crore) and Co-operation (Rs.100 crore). The actual NPRE vis-à-vis assessment made by TFC and State government are given in **Table-1.14**.

Table No. 1.14: Non plan revenue expenditure

(Rupees in crore)

| Year | Assessments made by TFC | Assessments made by State Government in MTFPS | Actual NPRE |
|---------|-------------------------|---|-------------|
| | (1) | (2) | (3) |
| 2006-07 | 14173 | 17347 | 16911 |
| 2007-08 | 16478 | 19113 | 18795 |

The NPRE at Rs.18,795 crore in 2007-08 was more than the normatively assessed level of TFC but slightly less than the projection made by the State

Government in its MTFPS. Relative to the assessment made by TFC, the increase was mainly under interest payments (Rs.430 crore), general services excluded interest payment (Rs.1,201 crore), social services (Rs.159 crore) and economic service (Rs.1,563 crore).

The PRE which has consistently increased during the period 2003-08 has increased by 24.83 *per cent* during the current year. The increase in PRE in 2007-08 was mainly under Rural Development (Rs.552 crore), Crop Husbandry (Rs.166 crore), Welfare of Schedule Caste, Schedule Tribe and Other Backward Classes (Rs.233 crore), Nutrition (Rs.97 crore), Forestry and Wildlife (Rs.126 crore) and Social Security and Welfare (Rs.103 crore), which was partly offset by decrease in expenditure under General Education (Rs.99 crore) and Urban Development (Rs.117 crore).

1.4.3 Committed Expenditure

1.4.3.1 Expenditure on Salaries

Table No. 1.15: Expenditure on Salaries

(Rupees in crore)

| Heads | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 |
|-------------------------|---------|---------|---------|---------|---------|
| Expenditure on Salaries | 5312* | 6176* | 5669@ | 5963@ | 6534@ |
| Of which | | | | | |
| Non-Plan Head | NA | NA | 5058 | 5443 | 6008 |
| Plan Head | NA | NA | 611 | 520 | 526 |
| As per cent of GSDP | 5.17 | 5.76 | 4.87 | 4.65 | 4.59 |
| As per cent of RR | 37.17 | 31.28 | 27.52 | 23.21 | 21.29 |

* *Figures as were obtained from Finance Department*

@ *Source: Finance Accounts of respective years*

Trends in table above indicate that the expenditure on salaries increased by 23 *per cent* from Rs.5,312 crore in 2003-04 to Rs.6,534 crore in 2007-08. An increase of 10.38 *per cent* in expenditure on salaries under non-plan head was mainly due to merger of 50 *per cent* dearness allowance as dearness pay with effect from 1st April 2007 and consequential increase in daily allowance etc. Actual salary expenditure at Rs.6,534 crore in 2007-08 was less than the projections in MTFPS (Rs.8,186 crore) and the salary bill relative to revenue expenditure net of interest payments and pensions at 34 *per cent* was also within the norm of 35 *per cent* recommended by the TFC.

1.4.3.2 Pension Payments

Table No. 1.16: Expenditure on Pensions

(Rupees in crore)

| Heads | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 |
|-------------------------|---------|---------|---------|---------|---------|
| Expenditure on Pensions | 1197.27 | 1329.89 | 1557.14 | 1751.69 | 1964.28 |
| As per cent of GSDP | 1.16 | 1.24 | 1.34 | 1.37 | 1.38 |
| As per cent of RR | 8 | 7 | 8 | 7 | 6.40 |

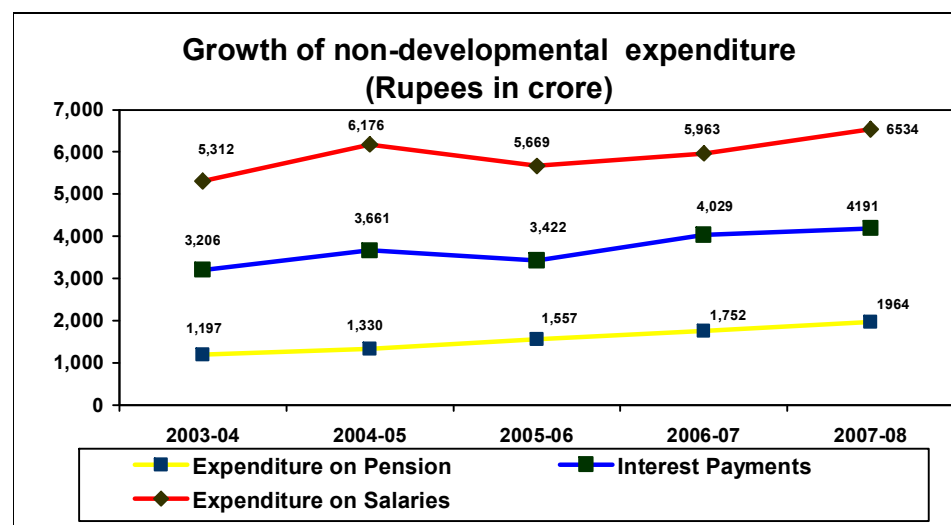
The pension payments increased by 12 *per cent* from Rs.1,752 crore in 2006-07 to Rs.1,964 crore during 2007-08. The increase was noticed mainly under superannuation and retirement allowance (Rs.160.98 crore), family pension (Rs.32.11 crore) and gratuity (Rs.18.37 crore). Actual pension payment at Rs. 1,964 crore in 2007-08 was less than Rs. 1,999 crore as projected in MTFPS and was marginally higher than Rs. 1,936 crore projected by TFC.

1.4.3.3 Interest payments

Table No. 1.17: Interest payments

| Year | Total Revenue Receipts | Interest Payments | Percentage of Interest payments with reference to | |
|---------|------------------------|-------------------|---|---------------------|
| | (Rupees in crore) | (Rupees in crore) | Total Revenue Receipts | Revenue Expenditure |
| 2003-04 | 14289 | 3206 | 22.43 | 17.08 |
| 2004-05 | 19743 | 3661 | 18.54 | 20.31 |
| 2005-06 | 20597 | 3422 | 16.61 | 16.64 |
| 2006-07 | 25694 | 4029 | 15.68 | 18.02 |
| 2007-08 | 30689 | 4191 | 13.66 | 16.37 |

Interest payments increased by 4.02 per cent from Rs.4,029 crore during 2006-07 to Rs.4,191 crore during 2007-08 and accounted for 13.66 per cent of the revenue receipts, this constituted 16.37 per cent of revenue expenditure during 2007-08. Interest payments during the year were on special securities issued to NSSF of the Central Government by the State Government (Rs.1,419 crore), market loans (Rs.966 crore), loans borrowed from the Central Government (Rs.694 crore), State Provident funds (Rs.533 crore), Other Internal Debt (Rs.470 crore) and other obligations (Rs.103 crore). The increase in interest payments during 2007-08 over previous year were mainly on Market loans (Rs.60 crore), interest on special securities issued to NSSF of Central Government (Rs. 189 crore), small saving and provident funds (Rs.39 crore) which was partly offset by decrease in interest payment on Other Internal Debt (Rs.99 crore), loans from the Central Government (Rs.23 crore) and other obligations (Rs.3 crore). It was observed that interest payments as percentage to revenue receipts during the year 2007-08 was 13.66 per cent which is within the norm of 15 per cent to be achieved by 2009-10 as per the recommendation of the TFC. Interest payments at Rs.4,191 crore paid during the year was less than the budget estimate of Rs. 4,252 crore for 2007-08 .



1.4.3.4 Subsidies

Scrutiny of state budget revealed that state Government has not opened distinct object head for subsidy. The amount of subsidy is included in the object head 'grant-in-aid' which comprises of expenditure on infrastructure, maintenance

grants, discretionary grants, aided grants, grants for public relation tour, subsidy (Arthic sahayata) and others (which included subsidy also). As no distinct object head for subsidy has been opened in the state budget, it is not possible to segregate the actual amount of subsidy paid by the State Government. The State Government has agreed to open a distinct object head of subsidy with effect from the financial year 2009-10. However, the Finance Accounts for 2007-08 has shown payment of subsidy amounting to Rs.141 crore during 2007-08 (Food Storage and Warehousing; Rs.65 crore and Power; Rs.76 crore).

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, the better is the quality of expenditure. **Table 1.18** gives these ratios during 2003-08.

Table No. 1.18: Indicators of Quality of Expenditure

(Rupees in crore)

| | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 |
|--|---------|---------|---------|---------|---------|
| Capital Expenditure | 2679 | 4951 | 6623 | 5170 | 6833 |
| <i>Of which Salary Component</i> | - | - | 104 | 108 | 115 |
| Revenue Expenditure | 18765 | 18026 | 20563 | 22363 | 25601 |
| <i>Of which Social and Economic Services</i> | 11601 | 9641 | 11852 | 12456 | 14682 |
| Social and Economic Services with | | | | | |
| <i>(i) Salary Component</i> | NA | NA | 4140 | 4344 | 4767 |
| <i>(ii) Non-Salary component</i> | | | 7712 | 8112 | 9915 |
| As per cent of TE (excluding L & A) | | | | | |
| Capital Expenditure | 12.49 | 21.55 | 24.36 | 18.78 | 21.07 |
| Revenue Expenditure | 87.51 | 78.45 | 75.64 | 81.22 | 78.93 |
| As per cent of GSDP | | | | | |
| Capital Expenditure | 2.61 | 4.61 | 5.69 | 4.03 | 4.81 |
| Revenue Expenditure | 18.25 | 16.80 | 17.68 | 17.44 | 18.00 |

The share of capital and revenue expenditure in total expenditure exhibited stability in 2004-05 and 2007-08 with inter year variations. However, within the capital expenditure, it is observed that a major portion of the total capital expenditure is shared by the plan capital expenditure during the period. During 2007-08, 95.23 per cent of the total capital expenditure was plan capital expenditure (Rs.6510.47 crore) which increased by Rs.1655.07 crore from the level of Rs.4855.40 crore in 2006-07. The major increase in 2007-08 was reported in Transport (Rs.651 crore), Irrigation and flood control (Rs.631 crore) and Water supply, sanitation and urban development (Rs.269 crore). Of the revenue expenditure incurred on social and economic services during 2007-08, 32 and 68 per cent were incurred on salary and non-salary component respectively. While the share of salary component declined from 35 per cent in 2005-06 to 32 per cent in 2007-08, the share of non salary component has

exhibited an increasing trend during the period. These trends seem to indicate the change in expenditure pattern and focus appears to be on the expansion of social and economic infrastructure in the State.

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 economic progress and eradication of poverty, it would be prudent to make an assessment with regard to the expansion and efficient provision of these services in the State. **Table 1.19** summarises the expenditure incurred by the State Government in expanding and strengthening of social services in the State during 2003-08.

Table No. 1.19: Expenditure on Social Services

(Rupees in crore)

| | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 |
|--|-------------|-------------|-------------|-------------|-------------|
| Education, Sports, Art and Culture | | | | | |
| Revenue Expenditure | 2355 | 2552 | 2906 | 3674 | 3768 |
| <i>Of which</i> | | | | | |
| (a) Salary Component | NA | NA | 1786 | 2261 | 2443 |
| (b) Non-Salary component | NA | NA | 1120 | 1413 | 1325 |
| Capital Expenditure | 20 | 24 | 42 | 68 | 146 |
| Total | 2375 | 2576 | 2948 | 3742 | 3914 |
| Health and Family Welfare | | | | | |
| Revenue Expenditure | 761 | 856 | 925 | 1010 | 1139 |
| <i>Of which</i> | | | | | |
| (a) Salary Component | NA | NA | 596 | 635 | 689 |
| (b) Non-Salary component | NA | NA | 329 | 375 | 450 |
| Capital Expenditure | 38 | 43 | 64 | 135 | 111 |
| Total | 799 | 899 | 989 | 1145 | 1250 |
| Water Supply, Sanitation, Housing and Urban Development | | | | | |
| Revenue Expenditure | 459 | 479 | 556 | 902 | 895 |
| <i>Of which</i> | | | | | |
| (a) Salary Component | NA | NA | 109 | 120 | 140 |
| (b) Non-Salary component | NA | NA | 447 | 782 | 755 |
| Capital Expenditure | 361 | 242 | 394 | 345 | 615 |
| Total | 820 | 721 | 950 | 1247 | 1510 |
| Other Social Services | | | | | |
| Revenue Expenditure | 1747 | 1785 | 2271 | 1990 | 2343 |
| <i>Of which</i> | | | | | |
| (a) Salary Component | NA | NA | 600 | 235 | 259 |
| (b) Non-Salary component | NA | NA | 1671 | 1755 | 2084 |
| Capital Expenditure | 116 | 123 | 135 | 174 | 269 |
| Total | 1863 | 1908 | 2406 | 2164 | 2612 |
| Total (Social Services) | | | | | |
| Revenue Expenditure | 5322 | 5672 | 6658 | 7576 | 8145 |
| <i>Of which</i> | | | | | |
| (a) Salary Component | NA | NA | 3091 | 3251 | 3531 |
| (b) Non-Salary component | NA | NA | 3567 | 4325 | 4614 |
| Capital Expenditure | 535 | 432 | 635 | 722 | 1141 |
| Total | 5857 | 6104 | 7293 | 8298 | 9286 |

The expenditure on social services increased from Rs.5,857 crore in 2003-04 to Rs.9,286 crore in 2007-08 and it constituted 28.63 *per cent* of the total expenditure (excluding loan and advances) (Rs.32,434 crore) and 43.31 *per cent* of the development expenditure (Rs.21,441 crore) during 2007-08. The 'Education, sports, art and culture', 'Health and family welfare' and 'Water supply, sanitation, housing and urban development shared 72 *per cent* of the total expenditure incurred on social services during 2007-08 as against 74 *per cent* in 2006-07.

The trend in revenue and capital expenditure on social services during the last five years 2003-08 revealed that the share of capital expenditure remained within the range of 7 to 12 *per cent* indicating the dominant share of revenue expenditure during the period. Of the revenue expenditure on social services, the non-salary expenditure has increased by 7 *per cent* from Rs. 4,325 crore in 2006-07 to Rs.4,614 crore in 2007-08 and salary expenditure increased by 9 *per cent* from Rs.3,251 crore in 2006-07 to Rs.3,531 crore in 2007-08. As a result, the share of salary component has increased from 42.91 *per cent* in 2006-07 to 43.35 *per cent* in 2007-08 implying less expenditure on non-salary components including maintenance indicating decline in quality of services.

Recognizing the need to improve the quality of education and health services, TFC recommended that the non-plan salary expenditure under education and health and family welfare should increase only by five to six *per cent* while non-salary expenditure under non-plan heads should increase by 30 *per cent* per annum during the award period. However, trends in expenditure revealed that the non-plan salary component under education sector increased by eight *per cent* over 2006-07 while non-plan non-salary component remained almost at the same level. Under Health and Family Welfare sector, the non-plan salary component increased by 10 *per cent* but the non-plan non-salary component increased by 43 *per cent* in 2007-08 over the previous year. The expenditure pattern both in education and health sector needs correction in the ensuing years as per the norms of TFC.

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. **Table 1.20** summarises the expenditure on economic services during 2003-08.

Table No. 1.20: Expenditure on Economic Services
(Rupees in crore)

| | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 |
|---------------------------------------|-------------|-------------|--------------|-------------|--------------|
| Agriculture, Allied Activities | | | | | |
| Revenue Expenditure | 1148 | 1244 | 1285 | 1638 | 1945 |
| <i>Of which (a) Salary Component</i> | NA | NA | 544 | 567 | 621 |
| <i>(b) Non-Salary component</i> | NA | NA | 741 | 1071 | 1324 |
| Capital Expenditure | 50 | 59 | 38 | 47 | 64 |
| <i>Of which Salary component</i> | - | - | - | - | - |
| Total | 1198 | 1303 | 1323 | 1685 | 2009 |
| Irrigation and Flood Control | | | | | |
| Revenue Expenditure | 270 | 300 | 327 | 341 | 394 |
| <i>Of which (a) Salary Component</i> | NA | NA | 233 | 253 | 290 |
| <i>(b) Non-Salary component</i> | NA | NA | 94 | 88 | 104 |
| Capital Expenditure | 1081 | 1699 | 1254 | 1390 | 2021 |
| <i>Of which Salary component</i> | - | - | 82 | 87 | 92 |
| Total | 1351 | 1999 | 1581 | 1731 | 2415 |
| Power & Energy | | | | | |
| Revenue Expenditure | 3954 | 1466 | 1983 | 682 | 1084 |
| <i>Of which (a) Salary Component</i> | NA | NA | -- | -- | -- |
| <i>(b) Non-Salary component</i> | NA | NA | 1983 | 682 | 1084 |
| Capital Expenditure | 328 | 1747 | 3236 | 1086 | 903 |
| <i>Of which Salary component</i> | - | - | 22 | 21 | 23 |
| Total | 4282 | 3213 | 5219 | 1768 | 1987 |
| Transport | | | | | |
| Revenue Expenditure | 190 | 140 | 298 | 438 | 609 |
| <i>Of which (a) Salary Component</i> | NA | NA | 98 | 92 | 127 |
| <i>(b) Non-Salary component</i> | NA | NA | 200 | 346 | 482 |
| Capital Expenditure | 407 | 547 | 809 | 1218 | 1869 |
| <i>Of which Salary component</i> | - | - | - | - | - |
| Total | 597 | 687 | 1107 | 1656 | 2478 |
| Other Economic Services | | | | | |
| Revenue Expenditure | 717 | 819 | 1301 | 1781 | 2505 |
| <i>Of which (a) Salary Component</i> | NA | NA | 174 | 181 | 198 |
| <i>(b) Non-Salary component</i> | NA | NA | 1127 | 1600 | 2307 |
| Capital Expenditure | 241 | 321 | 530 | 636 | 761 |
| <i>Of which Salary component</i> | - | - | - | - | - |
| Total | 958 | 1140 | 1831 | 2417 | 3266 |
| Total (Economic Services) | | | | | |
| Revenue Expenditure | 6279 | 3969 | 5194 | 4880 | 6537 |
| <i>Of which (a) Salary Component</i> | NA | NA | 1049 | 1093 | 1236 |
| <i>(b) Non-Salary component</i> | NA | NA | 4145 | 3787 | 5301 |
| Capital Expenditure | 2107 | 4373 | 5867 | 4377 | 5618 |
| <i>Of which Salary component</i> | - | - | 104 | 108 | 115 |
| Total | 8386 | 8342 | 11061 | 9257 | 12155 |

The expenditure on economic services (Rs.12,155 crore) during 2007-08 accounted for 37.48 *per cent* of the total expenditure(excluding Loans and Advances) (Rs. 32,434 crore) and 56.69 *per cent* of development expenditure (Rs.21,442 crore). The expenditure on “agriculture and allied activities, irrigation and flood control, energy and transport” declined from 88.58 *per cent* of total expenditure on economic services in 2003-04 to 73.13 *per cent* in 2007-08.

The trends in revenue and capital expenditure on economic services during 2003-08 revealed that the capital expenditure has consistently increased from Rs.2,107 crore (25.13 *per cent*) in 2003-04 to Rs.5,618 crore (46.22 *per cent*) in 2007-08 with a peak level of Rs.5,867 crore (53.04 *per cent*) in 2005-06, while

revenue expenditure on economic services with inter year fluctuations increased from Rs.6,279 crore (74.87 per cent) in 2003-04 to Rs.6,537 crore (53.78 per cent) in 2007-08. Of the revenue expenditure on economic services, the share of salary component has declined from 20.2 per cent in 2005-06 to 18.9 per cent in 2007-08, while that of non salary component has correspondingly increased during the period.

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 other institutions during the five years period 2003-08 is presented in **Table 1.21**.

Table No. 1.21: Financial Assistance

(Rupees in crore)

| | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 |
|--|----------------|----------------|----------------|----------------|---------------------|
| Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.) | 173.96 | 158.74 | 133.37 | 235.09 | 166.76 |
| Municipal Corporations and Municipalities | 557.35 | 320.61 | 1027.34 | 1499.61 | 1872.65 |
| Zilla Parishads and Other Panchayati Raj Institutions | 524.58 | 437.82 | 685.98 | 736.45 | 885.87 |
| Development Agencies | 21.30 | 7.33 | 2.00 | 5.91 | 6.81 |
| Hospitals and Other Charitable Institutions | 13.71 | 8.67 | 7.14 | 6.49 | 7.29 |
| Other Institutions | 113.72 | 170.90 | 311.43 | 470.46 | 603.38 ⁵ |
| Total | 1404.62 | 1104.07 | 2167.26 | 2954.01 | 3542.76 |
| Assistance as per percentage of RE | 7.5 | 6.12 | 10.54 | 13.20 | 13.84 |

The Financial Assistance to Local bodies and other institutions increased by Rs.588.75 crore from Rs.2,954.01 crore in 2006-07 to Rs.3,542.76 crore in 2007-08. The increase was mainly under "Municipal Corporations and Municipalities"(Rs.373.04 crore), Zila Parishads and other Panchayati Raj Institutions (Rs.149.42 crore) and other institutions (Rs.132.92 crore), which was partly offset by decrease under Educational Institutions (Rs.68.33 crore). The increase under Municipal Corporations and Municipalities was mainly due to transfer of more funds for the development of basic facilities (Rs.303.57 crore) while under Zilla Parishads and other Panchayati Raj institutions it was due to increased provision under the schemes for Construction and connectivity of rural roads (Rs.60 crore), Janpad Administration (Rs.21.16 crore), basic works of Gram Panchayats (Rs.30.15 crore) and transfer of revenue received from minor minerals of rural areas to Panchayats (Rs.31.87 crore). As the arrears of Fifth Pay Commission to the employees Educational Institutions were paid in 2006-07, there was a steep increase in that year due to one time step up in grants to them which turned back to its normal trend in 2007-08.

⁵ Includes mainly co-operative societies (Rs.137 crore), Food and civil supplies consumer protection (Rs.86 crore), Town and country planning (Rs.128 crore), Agriculture Department (Rs. 67 crore), Handlooms (Rs. 23 crore), Public Health Engineering (Rs.75 crore), Oil Federations (Rs.28 crore), M.P. Council of Science and Technology (Rs.15 crore), Environment Planning Coordination Organisation (Rs.14 crore), Culture (Rs.9 crore) and others (Rs.21 crore).

1.5.5 Delay in furnishing utilisation certificates

Utilisation Certificates (2543 nos.) in respect of Grants and Loans aggregating to Rs.4,162.28 crore paid upto 2007-08 were in arrears. Details of Department-wise break up of outstanding utilisation certificates are given in **Appendix 1.7**.

1.5.6 Abstract of performance of the autonomous bodies

The audit of accounts of three autonomous 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 1.8**.

1.6 Misappropriations, losses, defalcations, etc

State Government reported 1007 cases of misappropriation, defalcation, etc involving Government money amounting to Rupees 7.32 crore to the end of March 2008 on which final action was pending. The Department-wise and year-wise break up of pending cases is given in **Appendix 1.9**.

1.6.1 Write off of losses, etc

As reported to Audit, losses amounting to Rs.0.58 crore in 68 cases were written-off during 2007-08 by the competent authorities. The department-wise details are given in **Appendix-1.10**.

1.7 Assets and Liabilities

In the Government accounts, comprehensive accounting of fixed assets like land and buildings owned by the Government is not done. **Appendix-1.4** gives an abstract of 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-1.11** depicts the time series data on State Government finances for the period 2003-08.

1.7.1 Financial Results of Irrigation Works

The financial results of major, medium and minor irrigation projects showed that as against the revenue expenditure of Rs.393.10 crore during the year, revenue realised (Rs. 50.82 crore) from these projects during 2007-08 was 12.93 *per cent* of revenue expenditure which was grossly inadequate even to meet the expenditure on maintenance as well as other working expenses of these projects.

1.7.2 Financial Analysis of Government Investments

1.7.2.1 Investments and returns

As of 31 March 2008, Government had invested Rs.8,844.99 crore in Statutory Corporations, Rural Banks, Joint Stock Companies and Co-operatives (**Table 1.22**). Out of the total investment of Rs.8,844.99 crore at the end of March 2008, Rs.1,082.58 crore pertained to the composite State of Madhya Pradesh but retained in MP pending allocation between MP and Chhattisgarh State (Statutory Corporations (Rs.411 crore), Government Companies (Rs.187.04 crore), Co-operative Banks and Societies (Rs.483.01 crore) and Joint-Stock Companies (Rs.1.53 crore). The return on this investment was 0.67 *per cent* in 2007-08 while the Government paid interest at the average rate of 7.72 *per cent* on its borrowings during 2007-08.

Of these, three Statutory Corporations and 15 Government Companies with an aggregate investment of Rs.5,585 crore up to 2007-08 were incurring losses and their accumulated losses amounted to Rs.4,361 crore as per the accounts furnished by these companies up to 2007-08 (**Appendix-1.12**). Major loss making units included Madhya Pradesh State Industrial Development Corporation Limited, Bhopal (Rs.634 crore), Madhya Pradesh Paschim Kshetra Vidyut Vitran Company Limited, Indore (Rs.680 crore), Madhya Pradesh Madhya Kshetra Vidyut Vitran Company Limited, Bhopal (Rs.524 crore), Madhya Pradesh Poorv Kshetra Vidyut Vitran Company Limited, Jabalpur (Rs.304 crore), Optel Telecommunication Limited, Bhopal (Rs.115 crore), Madhya Pradesh State Electricity Board, Jabalpur⁶ (Rs.863 crore), Madhya Pradesh State Road Transport Corporation (Rs.781 crore), Madhya Pradesh Financial Corporation (Rs.241 crore) and Madhya Pradesh State Textile Corporation Ltd. Bhopal (Rs.95 crore).

Thus, Government needs not only to invest the high cost borrowings more judiciously to get better returns, but also address the losses on account of these sick units by their restructuring and rehabilitation and/or by considering the disinvestments of such units.

Table No. 1.22: Return on Investment

| Year | Investment at the end of the year | Return | Percentage of return | Average rate of interest on government borrowing | Difference between interest rate and return |
|---------|-----------------------------------|--------|----------------------|--|---|
| | (Rupees in crore) | | | (per cent) | |
| 2003-04 | 1737.29 | 8.42 | 0.48 | 9.41 | 8.93 |
| 2004-05 | 4151.65 | 2.50 | 0.06 | 8.96 | 8.90 |
| 2005-06 | 6965.99 | 5.72 | 0.08 | 7.33 | 7.25 |
| 2006-07 | 8161.71 | 14.44 | 0.18 | 7.86 | 7.68 |
| 2007-08 | 8844.99 | 59.23* | 0.67 | 7.72 | 7.05 |

* *Details of dividend of Rs.48.27 crore awaited from the concerned*

⁶ The MPSEB is still existing and its accounts upto 2005-06 has been finalised and accumulated loss of Rs.863 crore pertains to the period upto May 2005.

1.7.2.2 Loans and advances by State Government

In addition to investments in Co-operative societies, Corporation and Companies, Government has also been providing loans and advances to many of these institutions/organizations. Total outstanding loans and advances as on 31 March 2008, was Rs.5,823 crore (**Table 1.23**). Interest received against these loans advanced was meagre and marginally increased from 0.44 *per cent* in 2003-04 to 0.55 *per cent* in 2007-08 with inter year fluctuations.

Table No. 1.23: Average Interest Received on Loans Advanced by the State Government
(Rupees in crore)

| | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 |
|---|---------|---------|----------|---------|---------|
| Opening Balance | 2440 | 2608 | 5866 | 3848 | 4773 |
| Amount advanced during the year | 204 | 3311 | 834 | 953 | 1155 |
| Amount repaid during the year | 36 | 53 | 2852 | 28 | 105 |
| Closing Balance | 2608 | 5866 | 3848 | 4773 | 5823 |
| Net addition | 168 | 3258 | (-) 2018 | 925 | 1050 |
| Interest Received | 11 | 5 | 481 | 14 | 29 |
| Interest received as <i>per cent</i> to average outstanding Loans and advances | 0.44 | 0.12 | 9.9 | 0.32 | 0.55 |
| Average interest rate (in <i>per cent</i>) paid on borrowings by State Government. | 9.41 | 8.96 | 7.33 | 7.86 | 7.72 |
| Difference between average interest paid and received (<i>per cent</i>) | 8.97 | 8.84 | (-) 2.57 | 7.54 | 7.17 |

It was observed that 47 *per cent* (Rs.2,730 crore) of outstanding loans and advances (Rs.5,823 crore) as on 31 March 2008 pertains to MPSEB and its successor companies and another 25 *per cent* are to be recovered from the units engaged in Water supply, sanitation, housing and urban development (Rs.1465 crore), 16 *per cent* from those in Miscellaneous General Services (Rs. 946 crore) and 6.5 *per cent* relates to Agriculture and allied activities (Rs. 373 crore). The average interest paid on borrowing at the rate of 7.72 *per cent* was more than interest received at the rate of 0.55 *per cent* on Loans and Advances given by the State Government during 2007-08. The recovery of loans and advances at Rs.105 crore during the year was more than the budget estimate of Rs. 43.78 crore. The increase over previous year was mainly due to conversion of loans of Rs.60.00 crore into investment of M.P. Financial Corporation and recoveries under Miscellaneous General Services (Rs.24 crore) partly offset by decrease in recoveries under Agriculture and allied activities and loans to Government servants (Rs.5 crore).

1.7.3 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 Reserve Bank of India has been put in place. During the year, the State has not availed of any Ways and Means Advances. Ways and Means Advances and Overdrafts availed of during 2003-08 and interest paid by the State are detailed in **Table 1.24**.

Table No. 1.24: Ways and Means Advances and Overdrafts of the State
(Rupees in crore)

| | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 |
|--------------------------------|---------|---------|---------|---------|---------|
| Ways and Means Advances | | | | | |
| Availed in the Year | 5330.26 | 2234.74 | Nil | Nil | Nil |
| Outstanding WMAs, if any | 266.78 | -- | Nil | Nil | Nil |
| Interest Paid | 14.06 | 3.75 | Nil | Nil | Nil |
| Number of Days | 200 | 127 | Nil | Nil | Nil |
| Overdraft | | | | | |
| Availed in the year | 1083.54 | -- | Nil | Nil | Nil |
| Number of Days | 60 | -- | Nil | Nil | Nil |
| Interest Paid | 3.41 | -- | Nil | Nil | Nil |

It is evident that due to comfortable position of cash balances of the State it has not availed the WMA and Overdraft facilities during the last three years and nothing is outstanding on these accounts as on 31st March 2008. The cash balances of the State Government at the end of the year have however decreased by Rs.617 crore (25 per cent) from the level of Rs.2410 crore in the previous year. The cash balance investment of the State Government on the other hand has increased from Rs.2506 crore in 2006-07 to Rs.2759 crore at the end of current year. The State Government has invested Rs.2759 crore in the GOI Treasury bills and securities under Cash Balance Investment Account and earned an interest of Rs.176 crore.

1.8 Undischarged Liabilities

The FRBM Act, 2005, describes "Total Liabilities" as the liabilities under the consolidated fund of the State and the Public Accounts of the State and includes risk weighted guarantee obligations of the State Government where the principal and/or interest are to be serviced out of the State Budget.

1.8.1 Fiscal Liabilities

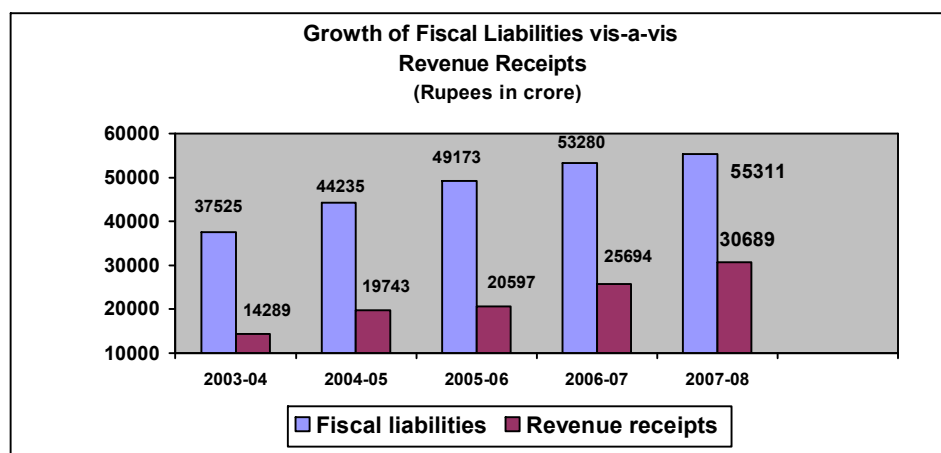
There are two sets of liabilities namely, public debt and other liabilities. Public debt consists of internal debt of the State and loans and advances from the Central Government as reported in the Annual Financial Statements under the Consolidated Fund – Capital Accounts. It includes market loans, special 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-1.25 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 No. 1.25: Fiscal Liabilities – Basic Parameters

| | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 |
|---|---------|---------|----------|---------|---------|
| Fiscal Liabilities ⁷ (Rupees in crore) | 37525 | 44235 | 49173 | 53280 | 55311* |
| Rate of Growth (<i>per cent</i>) | 23.68 | 17.88 | 11.16 | 8.35 | 3.81 |
| Ratio of Fiscal Liabilities to | | | | | |
| GSDP (<i>per cent</i>) | 36.49 | 41.23 | 42.27 | 41.56 | 38.90 |
| Revenue Receipts (<i>per cent</i>) | 262.61 | 224.05 | 238.74 | 207.36 | 180.23 |
| Own Resources (<i>per cent</i>) | 453.80 | 361.54 | 434.28 | 405.76 | 374.84 |
| Buoyancy of Fiscal Liabilities to | | | | | |
| GSDP (ratio) | 1.28 | 4.14 | 1.32 | 0.82 | 0.35 |
| Revenue Receipts (ratio) | 3.53 | 0.47 | 2.58 | 0.34 | 0.20 |
| Own Resources (ratio) | 3.94 | 0.37 | (-) 1.50 | 0.52 | 0.31 |

* Includes Rs. 662 crore not yet apportioned between Madhya Pradesh and Chhattisgarh



Overall fiscal liabilities of the state increased from Rs.37,525 crore in 2003-04 to Rs.55,311 crore in 2007-08. The growth rate was decreased to 3.81 *per cent* during 2007-08 as against 8.35 *per cent* in 2006-07. Fiscal liabilities of the State comprised Consolidated Fund liabilities and Public Account liabilities. The Consolidated Fund liabilities (Rs.42040 crore) comprised of Market loans (Rs.12646 crore), Special securities issued to NSSF (Rs 14300 crore); compensation and issue of other bonds (Rs 3263 crore); loans from NABARD (Rs 2038 crore); Loans and Advances from GOI (Rs. 8782 crore) and other loans (Rs.1011 crore). The Public Account liabilities (Rs.13271 crore) comprises of Small savings, provident funds etc. (Rs.7836 crore), Interest bearing obligations (Rs.484 crore) and non interest bearing obligations like deposits and other earmarked funds (Rs. 4951 crore). These liabilities stood at 38.90 *per cent* of GSDP; 1.8 times the revenue receipts and 3.75 times of the State own resources as at the end of 2007-08. The buoyancy of these liabilities with respect to GSDP was decreased from 0.82 in 2006-07 to 0.35 during the year mainly due to sharp decline in their growth rate from 8.35 *per cent* in 2006-07 to 3.81 *per cent* in 2007-08.

⁷ Includes in Fiscal Liabilities all internal debt, loans and advances from GOI, small savings, provident funds etc., interest bearing obligations such as depreciation reserve fund of commercial undertakings, deposits and non-interest bearing obligations such as deposits of local fund, civil deposit and other earmarked fund.

Sinking fund for amortization of all loans, including loans from bank, liabilities on account of NSS etc. has not been set up by the State Government. The State Government is of the view that except where it may be obligatory to do so, provision for amortization of loans received from the GOI should be made out of revenues only where sufficient revenue resources are available to finance such amortization arrangements. The State Government has not considered it necessary to make arrangements for amortization of any such loans inspite of having revenue surplus.

1.8.2 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 2007-08 since 2003-04 is given in **Table 1.26**.

Table No. 1.26: Guarantees given by the Government of Madhya Pradesh
(Rupees in crore)

| Year | Max amount guaranteed | Outstanding amount of guarantees | Percentage of maximum amount guaranteed to total revenue receipt |
|---------|-----------------------|----------------------------------|--|
| 2003-04 | 12131.29 | 973.72 | 84.89 |
| 2004-05 | 12506.62 | 2016.27 | 63.34 |
| 2005-06 | 12636.80 | 613.37* | 61.35 |
| 2006-07 | 12424.26 | 865.82* | 48.35 |
| 2007-08 | 12086.00 | 855.73* | 39.38 |

* To the extent information was available in the Finance Account.

The outstanding amount of guarantees is in the nature of contingent liability, which was 2.79 per cent of Revenue Receipts. Guarantees have been given by the State Government for the discharge of certain liabilities like loans raised by Statutory corporations, Government companies, Joint Stock companies, Co-operative institutions, local bodies, and firms etc. Upto the year 2007-08 maximum amount guaranteed by the State Government was Rs.12,086 crore, out of which Rs. 856 crore was outstanding at the end of the year. Out of Rs.856 crore outstanding guarantee, Rs.97 crore were outstanding on account of interest. The State Government has constituted a Guarantee Redemption Fund and at the end of year 2007-08, there was closing balance of Rs.305.31 crore in Fund. The FRBM Act, 2005 prescribes the fiscal target to limit annual incremental guarantees so as to ensure that the total guarantees do not exceed 80 per cent of the total revenue receipts in the year preceding the current year. The annual incremental guarantee was within the limit fixed under FRBM Act.

As per the FRBM Act 2005, the State Government is to ensure that within a period of 10 years, i.e. as on the 31st March 2015, total liabilities do not exceed 40 per cent of the estimated GSDP for that year. It was observed that this ratio at 39.50 per cent was already within the ceiling limit laid down in the Act for the year 2015. The ratios of total liabilities to GSDP and revenue receipts during

the year at 39.50 per cent and 183.02 per cent respectively, were also less than the corresponding budget estimate of 48.97 and 243.93 per cent respectively.

1.9 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 stabilization in terms of debt/GSDP ratio.

1.9.1 Debt Stabilization

A necessary condition for stability states that if the rate of growth of economy exceeds the interest rate or cost of public borrowings, the debt-GSDP ratio is likely to be stable provided primary balances are either zero or positive or are moderately negative. Given the interest spread (GSDP growth rate – interest rate) and quantum spread (Debt*interest spread), debt sustainability condition states that if quantum spread together with primary deficit is zero, debt-GSDP ratio would be constant or debt would stabilize eventually. On the other hand, if primary deficit together with quantum spread turns out to be negative, debt-GSDP ratio would be rising and in case it is positive, debt-GSDP ratio would eventually be falling. Trends in fiscal variables indicating the progress towards the debt stabilization are indicated in **Table 1.27**.

Table No. 1.27: Debt Sustainability–Interest Rate and GSDP Growth (in per cent)

| | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 |
|---|----------|----------|----------|----------|----------|
| Average Interest Rate | 9.41 | 8.96 | 7.33 | 7.86 | 7.72 |
| GSDP Growth | 18.43 | 4.32 | 8.43 | 10.21 | 10.92 |
| Interest spread | 9.02 | (-) 4.64 | 1.10 | 2.35 | 3.20 |
| Outstanding Liabilities as on Ist day of financial year (Rupees in crore) | 30340 | 37525 | 44235 | 49173 | 53280 |
| Quantum Spread (Rupees in crore) | 2737 | (-) 1741 | 487 | 1156 | 1705 |
| Primary Deficit(-)/Surplus(+) (Rupees in crore) | (-) 4117 | (-) 2831 | (-) 1149 | (+) 1274 | (+) 1407 |

An analysis of primary deficit vis-à-vis quantum spread revealed that their sums turn out to be negative during 2003-06 indicating rising debt-GSDP ratio during the period. But in 2006-08, the State fiscal position has improved and achieved primary surplus of Rs.1,274 crore and Rs.1,407 crore respectively, as a result primary surplus vis-à-vis quantum spread turns out to positive which indicated the declining trend in debt-GSDP ratio which if continued would tend to stabilize the debt and eventually improve the debt sustainability of the State.

1.9.2 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. The persistent negative resource gap indicates the non-sustainability of debt while the positive resource gap strengthens the capacity of the State to sustain the debt. **Table- 1.28** indicates the resource gap as defined for the period 2003-08.

Table No. 1.28: Incremental non-debt Receipts and Total Expenditure
(Rupees in crore)

| Period | Incremental | | | | Resource Gap |
|---------|-------------------|---------------------|-------------------|-------------------|--------------|
| | Non-Debt Receipts | Primary Expenditure | Interest Payments | Total Expenditure | |
| 1 | 2 | 3 | 4 | 5 (3+4) | 6 (2-5) |
| 2003-04 | 891 | 3448 | 704 | 4152 | (-) 3261 |
| 2004-05 | 5451 | 4185 | 455 | 4640 | 811 |
| 2005-06 | 3653 | 1971 | (-) 239 | 1732 | 1921 |
| 2006-07 | 2282 | (-) 141 | 607 | 466 | 1816 |
| 2007-08 | 5074 | 4942 | 162 | 5104 | (-) 30 |

During 2003-04 the incremental non-debt receipts were not enough even to meet the incremental requirements of the primary expenditure resulting in negative resource gap during the year. In subsequent three years (2004-07), non debt receipts increased and met not only the additional requirement on primary account but after meeting the incremental interest liabilities resulted in a positive resource gap indicating towards the increasing capacity of the State to sustain the debt. However, during 2007-08 the incremental non-debt receipts were sufficient to meet the additional requirement of primary expenditure which increased sharply during the year but not enough to meet the incremental interest liability resulting in moderate negative resource gap.

1.9.3 Net availability of funds

The debt sustainability of the State also depends on (i) the ratio of the debt redemption (Principal + Interest Payments) to total debt receipts and (ii) application of available borrowed funds. The ratio of debt redemption to debt receipts indicates the extent to which the debt receipts are used in debt redemption indicating the net availability of borrowed funds. The solution to the government debt problem lies in application of borrowed funds, i.e. these are (a) not being used for financing revenue expenditure; and (b) being used efficiently and productively for capital expenditure which either provides returns directly or results in increased productivity of the economy in general which may result in increase in government revenue.

Table-1.29 below gives the position of the receipt and repayment of internal debt and other fiscal liabilities of the State as well as the net availability of the borrowed funds over the last five years.

Table No. 1.29: Net Availability of Borrowed Funds

(Rupees in crore)

| | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 |
|--|----------|----------|---------|----------|----------|
| Internal Debt | | | | | |
| Receipt | 7949 | 6968 | 4867 | 4172 | 2832 |
| Repayment (Principal + Interest) | 1857 | 3061 | 2806 | 3699 | 4099 |
| Net Fund Available | 6092 | 3907 | 2061 | 473 | (-) 1267 |
| Net Fund Available (<i>per cent</i>) | 77 | 56 | 42 | 11 | (-) 45 |
| Loans and Advances from GOI | | | | | |
| Receipt | 1723 | 1881 | 294 | 431 | 539 |
| Repayment (Principal + Interest) | 3158 | 3052 | 1115 | 1460 | 1131 |
| Net Fund Available | (-) 1435 | (-) 1171 | (-) 821 | (-) 1029 | (-) 592 |
| Net Fund Available (<i>per cent</i>) | (-) 83 | (-) 62 | (-) 279 | (-) 239 | (-) 110 |
| Other obligations | | | | | |
| Receipt | 5122 | 5698 | 5904 | 6475 | 7444 |
| Repayment (Principal + Interest) | 5720 | 5364 | 5615 | 5818 | 7745 |
| Net Fund Available | (-) 598 | 334 | 289 | 657 | (-) 301 |
| Net Fund Available (<i>per cent</i>) | (-) 12 | 6 | 5 | 10 | (-) 4 |
| Total liabilities | | | | | |
| Receipt | 14794 | 14547 | 11065 | 11078 | 10815 |
| Repayment (Principal + Interest) | 10735 | 11477 | 9536 | 10977 | 12975 |
| Net Fund Available | 4059 | 3070 | 1529 | 101 | (-) 2160 |
| Net Fund Available (<i>per cent</i>) | 27 | 21 | 14 | 1 | (-) 20 |

Debt redemption ratio not only steadily increased during the period 2003-08 but exceeded the unity for the first time in 2007-08 during the last five years when the repayments towards the discharge of past debt obligations were significantly more than the fresh debt receipts during the year. During the current year, internal debt redemption was 145 *per cent* of fresh debt receipts, redemption of GOI loans was 210 *per cent* while in case of other obligations repayments were 104 *per cent* of fresh receipts. These trends indicate towards the fact that the focus of the Government seems to be on discharging the past debt obligations.

Out of receipt of Rs.2,832 crore under Internal Debt, the State Government raised market loans of Rs.1,875 crore during the year at an average interest rate of 8.44 *per cent* per annum, Rs.653 crore from the NABARD and Rs.246 crore from National Small Savings Fund of Central Government at the rate of 9.5 *per cent* per annum. The State Government borrowed Rs.539 crore at the rate of 9 *per cent* per annum from Government of India. The receipt of Loans and Advances from Government of India has increased from Rs.431 crore in 2006-07 to Rs.539 crore in 2007-08 mainly due to more receipt of Block Loans (Rs.100 crore) under "Loan for State/Union Territories Plan Scheme". Repayments of internal debt (Rs.4,099 crore) and Loans and advances from GOI (Rs.1,131 crore) included payment of interest of Rs.3,553 crore (68 *per cent*) and debt relief of Rs.363 crore (7 *per cent*) with only Rs.1,314 crore (25 *per cent*) for repayment of principal debt. This indicated that most of the amounts of repayments were for payment of interest. As on 31 March 2008, 34 *per cent* of the existing market loans of the State Government carried an interest rate exceeding 10 *per cent*.

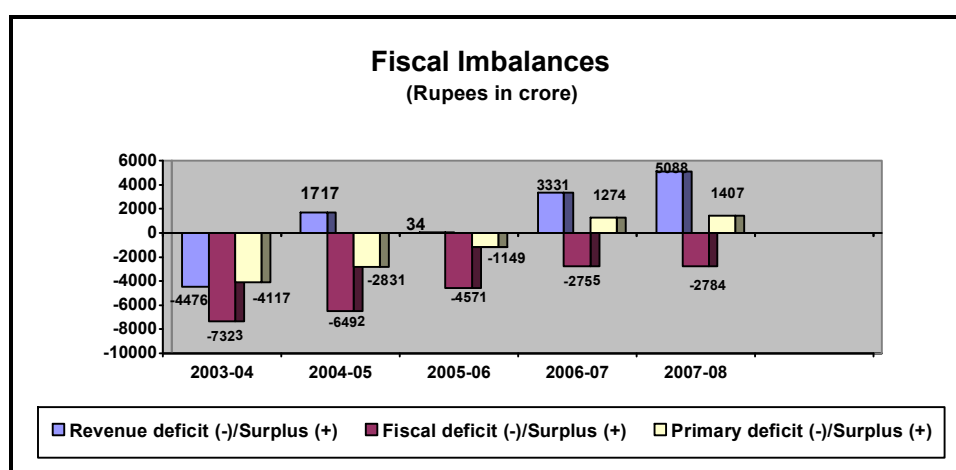
1.10 Management of deficits

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 so raised are applied are important pointers to the fiscal health. The trends in fiscal parameters depicting the position of fiscal equilibrium in the State are presented in **Table 1.30**.

Table No. 1.30: Fiscal Imbalances: Basic Parameters

| Parameters | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 |
|--|----------|----------|----------|----------|----------|
| Revenue deficit (-)/ Revenue Surplus (+) (Rupees in crore) | (-) 4476 | (+) 1717 | (+) 34 | (+) 3331 | (+) 5088 |
| Fiscal deficit (Rupees in crore) | (-) 7323 | (-) 6492 | (-) 4571 | (-) 2755 | (-) 2784 |
| Primary deficit (-)/Surplus (+) (Rupees in crore) | (-) 4117 | (-) 2831 | (-) 1149 | (+) 1274 | (+) 1407 |
| RD (-)/RS(+)/GSDP (per cent) | (-) 4.35 | (+) 1.60 | (+) 0.03 | (+) 2.60 | (+) 3.58 |
| FD (-)/FS(+)/GSDP (per cent) | (-) 7.12 | (-) 6.05 | (-) 3.93 | (-) 2.15 | (-) 1.96 |
| PD (-)/PS(+)/GSDP (per cent) | (-) 4.00 | (-) 2.64 | (-) 0.99 | (+) 0.99 | (+) 0.99 |
| RD/FD (per cent) | 61.12 | NA | NA | NA | NA |



1.10.1 Trends in Deficits

The revenue deficit of the State indicates the excess of its revenue expenditure over revenue receipts. The State had a revenue surplus during 2004-05 to 2007-08. The revenue surplus increased from Rs.3,331 crore during 2006-07 to Rs.5,088 crore during 2007-08. An increase of 19.44 *per cent* (Rs.4,995 crore) in revenue receipts during 2007-08 in comparison to that of 14.48 *per cent* (Rs.3238 crore) in revenue expenditure over 2006-07 led to the increase in revenue surplus during 2007-08. The improvement in revenue surplus of the State may however be seen in view of the fact that about (Rs.3370 crore) 67.5 *per cent* of the incremental revenue receipts of the State during 2007-08 (Rs 4995 crore) are contributed by the central transfers comprising of State's share in central taxes and duties and grants-in-aid from the Union of India.

The fiscal deficit defined as a gap between the total expenditure of the Government and its total resources decreased consistently from Rs.7,323 crore in 2003-04 to Rs.2,755 crore in 2006-07 but increased slightly in 2007-08 to Rs.2,784 crore. Despite the cushion of incremental revenue surplus of Rs.1,757 crore during the year, fiscal deficit marginally increased by Rs.29 crore mainly on account of increase in capital expenditure (Rs.1,663 crore) and disbursement of Loans and Advances (Rs.202 crore) during 2007-08 relative to the previous year. Given the marginal increase in fiscal deficit (Rs.29 crore) and increase in

interest payments (Rs.162 crore), primary surplus of Rs.1,274 crore in 2006-07 increased to Rs.1,407 crore in 2007-08.

1.10.2 Quality of Deficit/Surplus

The ratio of RD to FD and the decomposition of Primary deficit⁸ into primary revenue deficit⁹ 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 was 61 *per cent* in 2003-04 and thereafter the revenue deficit turned into surplus. This trajectory shows a consistent improvement in the quality of the deficit and the borrowed funds were used in activities resulting in expansion in the asset backup of the State.

The bifurcation of the factors resulting into primary deficit or surplus of the State during the period 2003-08 reveals (**Table-1.31**) that except in 2003-04 the non debt receipt were enough to meet the primary revenue expenditure thereby generating surplus which consistently increased from Rs.5,431 crore in 2004-05 to Rs.9,397 crore in 2007-08. In other words, non-debt receipts of the State were enough to meet the primary expenditure¹⁰ requirements in the revenue account, rather left some receipts to meet the expenditure under the capital account. The State experienced the primary deficit during 2003-06 when total non-debt receipts fell short of the total primary expenditure. But in 2006-08 the State achieved the primary surplus and the fiscal deficit was experienced mainly on account of the interest payment obligations.

Table No. 1.31: Primary deficit/surplus-Bifurcation of factors

(Rupees in crore)

| Year | Non-debt receipts* | Primary revenue expenditure | Capital expenditure | Loans and Advances* | Primary Expenditure | Non-debt Receipt vis-à-vis Primary Revenue expenditure | Primary deficit (-) /surplus (+) |
|---------|--------------------|-----------------------------|---------------------|---------------------|---------------------|--|----------------------------------|
| 1 | 2 | 3 | 4 | 5 | 6(3+4+5) | 7 (2-3) | 8 (2-6) |
| 2003-04 | 14325 | 15559 | 2679 | 204 | 18442 | (-) 1234 | (-) 4117 |
| 2004-05 | 19796 | 14365 | 4951 | 3311 | 22627 | 5431 | (-) 2831 |
| 2005-06 | 23449 | 17141 | 6623 | 834 | 24598 | 6308 | (-) 1149 |
| 2006-07 | 25732 | 18334 | 5170 | 954 | 24458 | 7398 | 1274 |
| 2007-08 | 30807 | 21410 | 6833 | 1157 | 29400 | 9397 | 1407 |

* Including Inter State settlement

1.11 Fiscal Ratios

The finances of a State should be sustainable, flexible and non-vulnerable. **Table-1.32** below presents a summarized position of Government finances over 2003-08, with reference to certain key indicators that help to assess the

⁸ Primary deficit defined as the fiscal deficit net of interest payments indicates the extent of deficit, which is an outcome of the fiscal transactions of the State during the course of the year.

⁹ Primary revenue deficit defined as gap between non interest revenue expenditure of the State and its revenue receipts indicates the extent to which the revenue receipts of the State are able to meet the primary expenditure incurred under revenue account.

¹⁰ 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.

adequacy and effectiveness of available resources and their applications, highlights areas of concern and captures its important facts.

Table No. 1.32: Indicators of Fiscal Health (in per cent and ratios)

| Fiscal Indicators | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 |
|--|----------|----------|----------|----------|----------|
| I Resource Mobilization | | | | | |
| Revenue Receipt/GSDP | 13.89 | 18.40 | 17.71 | 20.04 | 21.58 |
| Revenue Buoyancy | 0.36 | 8.84 | 0.51 | 2.42 | 1.78 |
| Own Tax/GSDP | 6.60 | 7.25 | 7.84 | 8.17 | 8.45 |
| II Expenditure Management | | | | | |
| Total Expenditure/GSDP | 21.05 | 24.50 | 24.09 | 22.22 | 23.62 |
| Revenue Receipts/ Total Expenditure | 66.01 | 75.10 | 73.51 | 90.20 | 91.36 |
| Revenue Expenditure/Total Expenditure | 86.68 | 68.57 | 73.39 | 78.51 | 76.22 |
| Salary expenditure on Social and Economic Services / Revenue Expenditure | NA | NA | 20.13 | 19.42 | 18.62 |
| Non-Salary expenditure on Social and Economic Services / Revenue Expenditure | NA | NA | 37.50 | 36.27 | 38.73 |
| Capital Expenditure/Total Expenditure | 12.38 | 18.83 | 23.64 | 18.15 | 20.34 |
| Capital Expenditure on Social and Economic Services/Total Expenditure. | 12.20 | 18.27 | 23.20 | 17.90 | 20.12 |
| Buoyancy of TE with RR | 3.54 | 0.56 | 1.52 | 0.07 | 0.92 |
| Buoyancy of RE with RR | 4.30 | (-) 0.10 | 3.25 | 0.35 | 0.74 |
| III Management of Fiscal Imbalances | | | | | |
| Revenue deficit (-)/ surplus (+)(Rs in crore) | (-) 4476 | (+) 1717 | (+) 34 | (+) 3331 | (+) 5088 |
| Fiscal deficit (-)/surplus (-) (Rs in crore) | (-) 7323 | (-) 6492 | (-) 4571 | (-) 2755 | (-) 2784 |
| Primary Deficit (-)/ surplus (+)(Rs in crore) | (-) 4117 | (-) 2831 | (-) 1149 | (+) 1274 | (+) 1407 |
| Revenue Deficit/Fiscal Deficit | 61.12 | NA | NA | NA | NA |
| IV Management of Fiscal Liabilities | | | | | |
| Fiscal Liabilities/GSDP | 36.49 | 41.23 | 42.27 | 41.56 | 38.90 |
| Fiscal Liabilities/RR | 262.61 | 224.05 | 238.74 | 207.36 | 180.23 |
| Buoyancy of FL with RR | 3.53 | 0.47 | 2.58 | 0.34 | 0.20 |
| Buoyancy of FL with Own Receipts | 3.94 | 0.37 | (-) 1.50 | 0.52 | 0.31 |
| Primary deficit vis-à-vis quantum spread (Rs in crore) | (-) 1380 | (-) 4572 | (-) 662 | (+) 2430 | (+) 3112 |
| Net Funds Available | 27 | 21 | 14 | 1 | (-) 20 |
| V Other Fiscal Health Indicators | | | | | |
| Return on Investment | 0.48 | 0.06 | 0.08 | 0.18 | 0.67 |
| Balance from Current Revenue (Rs in crore) | (-) 3057 | 2909 | 2081 | 5294 | 7275 |
| Financial Assets/Liabilities ¹¹ | 0.65 | 0.75 | 0.77 | 0.85 | 0.94 |

The trends in ratios of revenue receipts and State's own taxes to GSDP indicate the adequacy and accessibility of State to resources. Revenue receipts are comprised not only of the tax and non-tax resources of the State but also the transfers from Union Government. The revenue receipts relative to GSDP has steadily increased during the period 2003-08 and reached to 21.58 per cent during the year which slightly more than the budgeted estimate of 20.8 per cent of the government for the year. The ratio of own taxes to GSDP has also consistently increased during the period 2003-08 and reached the level of 8.45 per cent in 2007-08 which was at par of budgeted estimate of the government (8.4 per cent) for the year.

Various ratios concerning the expenditure management of the State indicate quality of its expenditure and sustainability of these in relation to its resource mobilization efforts. The ratio of revenue expenditure to total expenditure although declined from 87 per cent in 2003-04 to 76 per cent in 2007-08 with inter-year variations but it continues to share the dominant portion of the total expenditure of the State Government. The capital expenditure relative to total expenditure had correspondingly indicated an improvement and increased from

¹¹ Assets and some of the liabilities are yet to be apportioned and transferred to Chhattisgarh

12 per cent in 2003-04 to 20 per cent in 2007-08 with inter year fluctuations. Increasing reliance on revenue receipts to finance the total expenditure that increased from 66 per cent in 2003-04 to 91 per cent during 2007-08 indicates decreasing dependence on borrowed funds. This is also reflected by the decreasing trend in fiscal liabilities to revenue receipts ratio during the period 2003-08.

The continued prevalence of revenue surplus during the last four years (2004-08), a turnaround in primary account with surplus in 2006-08 and a consistent decline in fiscal deficit since 2003-07 with marginal increase in 2007-08 are the pointers towards an improvement in fiscal position of the state. The positive Balance from Current Revenue (BCR) during 2004-08 indicates that ample funds were available for creation of assets and to meet the plan requirements of the State. The improved fiscal position along with the increasing share of capital expenditure of the State resulted in the increasing ratio of financial assets to liabilities over the period 2003-08.

1.12 Conclusion

The fiscal position of the State viewed in terms of the key fiscal parameters – revenue, fiscal and primary deficit/surplus – indicated somewhat mixed trends in 2007-08 as revenue and primary surpluses have improved while fiscal deficit marginally increased relative to the previous year. The improvement in revenue surplus of the State may however be seen in view of the fact that about 67.5 per cent of the incremental revenue receipts of the State during 2007-08 (Rs 4995 crore) are contributed by the central transfers comprising of State's share in central taxes and duties and grants-in-aid from the Union of India. Notwithstanding these facts, the State has achieved the revenue and fiscal deficits targets relative to GSDP laid down under the FRBM Act, 2005. The expenditure pattern of the State reveals that the revenue expenditure as a percentage to total expenditure continues to share dominant proportion of total expenditure at 76 per cent during 2007-08 leaving less resources for expansion of services and creation of assets. Moreover, within the revenue expenditure, NPPE at Rs.18,795 crore in 2007-08 was although marginally lower than Rs.19,113 crore projected by the State in its MTFPS but it remained significantly higher than the normatively assessed level by TFC (Rs. 16,478 crore) for the year. Further, three components – salary expenditure, pension payments and interest payments – constitute about 68 per cent of the NPPE during 2007-08 which would increase further if subsidies are added to the list for which however figures are not available as state has not opened yet a distinct head to capture the expenditure on explicit subsidies. These trends in expenditure indicate the need for change in allocative priorities. The fiscal liabilities of the state were although within ceiling prescribed by FRBM Act, 2005 but continued to increase due to *inter alia* persistent fiscal deficit till the current year. The increasing fiscal liabilities accompanied with negligible rate of return on government investments and inadequate recovery of interest on loans and advances however might put fiscal stress on the State in the medium to long run unless suitable measures are initiated to make the investments including loans and advances commercially viable; to compress the non plan revenue expenditure and to mobilize the additional resources both through the tax and non tax sources in ensuing years.