

1.1 Introduction

The Finance Accounts of the Government of Maharashtra are laid out in nineteen statements, presenting receipts and expenditure, revenue as well as capital, in the Consolidated Fund, the Contingency Fund and the Public Account of the State of Maharashtra. The layout of the Finance Accounts is depicted in the box below:

Box 1.1: Layout of Finance Accounts

Statement No.1 presents the summary of transactions of the State Government – receipts and expenditure, revenue and capital, public debt receipts and disbursements etc. in the Consolidated Fund, the Contingency Fund and the Public Account of the State.

Statement No.2 contains the summarised statement of capital outlay showing progressive expenditure to the end of 2005-06.

Statement No.3 gives financial results of irrigation works, their revenue receipts, working expenses and maintenance charges, capital outlay, net profit or loss, *etc.*

Statement No.4 indicates the summary of the debt position of the State which includes borrowing from internal debt, Government of India, other obligations and servicing of debt.

Statement No.5 gives the summary of loans and advances given by the State Government during the year, repayments made, recoveries in arrears *etc.*

Statement No.6 gives the summary of guarantees given by the Government for repayment of loans etc. raised by statutory corporations, local bodies and other institutions.

Statement No. 7 gives the summary of cash balances and investments made out of such balances.

Statement No.8 depicts the summary of balances under the Consolidated Fund, the Contingency Fund and the Public Account as on 31 March 2006.

Statement No.9 shows the revenue and expenditure under different heads for the year 2005-06 as a percentage of total revenue/expenditure.

Statement No.10 indicates the distribution between the charged and voted expenditure incurred during the year.

Statement No.11 indicates the detailed account of revenue receipts by minor heads.

Statement No.12 provides accounts of revenue expenditure by minor heads under Non-Plan and Plan separately and capital expenditure major head-wise.

Statement No.13 depicts the detailed capital expenditure incurred during and to the end of 2005-06.

Statement No.14 shows the details of investment of the State Government in Statutory corporations, Government companies, other joint stock companies, co-operative banks and societies, *etc.* up to the end of 2005-06.

Statement No.15 depicts the capital and other expenditure to the end of 2005-06 and the principal sources from which the funds were provided for that expenditure.

Statement No.16 gives the detailed account of receipts, disbursements and balances under heads of account relating to Debt, Contingency Fund and Public Account.

Statement No.17 presents a detailed account of debt and other interest bearing obligations of the Government of Maharashtra.

Statement No.18 provides the detailed account of loans and advances given by the Government of Maharashtra, the amount of loan repaid during the year and the balance as on 31 March 2006.

Statement No.19 gives the details of earmarked balances of reserve funds.

1.2 Trend of Finances with reference to previous year

Financial position of the State Government during the current year as compared to the previous year was as under:

(Rupees in crore)

2004-05	Sr. No	Major Aggregates	2005-06
41013	1.	Revenue Receipts (2+3+4)	48438
30606	2.	Tax Revenue (Net)	33540
4119	3.	Non-Tax Revenue	5935
6288	4.	Other Receipts	8963
2041	5.	Non-Debt Capital Receipts	551
2041	6.	<i>of which</i> Recovery of Loans	551
43054	7.	Total Receipts (1+5)	48989
51999	8.	Non-Plan Expenditure	54588
46392	9.	On Revenue Account	47048
8978	10.	<i>of which</i> Interest Payments	9347
2856	11.	On Capital Account	3278
2751	12.	On Loans disbursed	4262
9675	13.	Plan Expenditure	12032
4654	14.	On Revenue Account	5232
5021	15.	On Capital Account	6800
--	16.	On Loans disbursed	--
61674	17.	Total Expenditure (13+8)	66620
10033	18.	Revenue Deficit (9+14-1)	3842
18620	19.	Fiscal Deficit (17-1-5)	17631
9642 ¹	20.	Primary Deficit (19-10)	8284

1.3 Summary of Receipts and Disbursements

Table-1 summarises the finances of the Government for the year 2005-06, covering revenue receipts and expenditure, capital receipts and expenditure and public account receipts/disbursements as emerging from Statement-1 of the Finance Accounts and other detailed statements.

¹ Higher rounding

Table-1: Summary of receipts and disbursements for the year 2005-06
(Rupees in crore)

2004-05	Receipts	2005-06	2004-05	Disbursements	2005-06		
Section-A: Revenue					Non Plan	Plan	Total
41013.33	I Revenue receipts	48438.29	51046.66	I Revenue expenditure	47048.15	5231.70	52279.85
30605.76	Tax revenue	33540.24	22271.16	General services	21623.38	73.12	21696.50
4118.83	Non-tax revenue	5935.05	17548.71	Social services	16791.89	3125.30	19917.19
3595.02	Share of Union Taxes/Duties	4982.00*	10381.12	Economic services	7314.13	2000.58	9314.71
2693.72	Grants from Government of India	3981.00	845.67	Grants-in-aid and Contributions	1318.75	32.70	1351.45
Section-B: Capital							
2438.94	II Opening Cash balance	2123.01	7876.98	II Capital Outlay	3277.99	6800.45	10078.44
2040.94	III Recoveries of Loans and Advances	551.25	2750.66	III Loans and Advances disbursed[#]			4261.62
22188.84	IV Public debt receipts	19973.70	10993.95	IV Repayment of Public Debt[#]			2056.71
300.00	V Appropriation from Contingency Fund	1050.00	300.00	V Appropriation to Contingency Fund[#]			1850.00
347.50	VI Contingency Fund	1954.52	404.52	VI Contingency Fund[#]			1288.57
27991.38	VII Public Account receipts	27145.89	20825.15	VII Public Account disbursements[#]			24383.17
--	VIII Closing Overdraft from RBI	--	2123.01	VIII Closing Cash Balance[#]			5038.30
96320.93	Total	101236.66	96320.93	Total			101236.66

1.4 Audit Methodology

Audit observations on the Finance Accounts bring out the trends in the major fiscal aggregates of receipts and expenditure in the light of time series data (Appendix 1.2 to 1.5) and periodic comparisons.

* Includes Rs 260 crore pertaining to the year 2004-05, adjusted during the year 2005-06.

[#] Bifurcation of Plan and Non-Plan not available

The key indicators adopted for the purpose are: (i) Resources by volume and sources, (ii) Application of resources, (iii) Assets and Liabilities and (iv) Management of deficits. Audit observations also take into account the cumulative impact of resource mobilisation efforts, debt servicing and corrective fiscal measures. The overall financial performance of the State Government as a body corporate has been presented by the application of a set of ratios commonly adopted for the relational interpretation of fiscal aggregates.

The reporting parameters are depicted in Box 1.2.

Box 1.2: Reporting Parameters

Fiscal aggregates like tax and non-tax revenue, revenue and capital expenditure, internal and external debt and revenue and fiscal deficits have been presented as percentage of the Gross State Domestic Product (GSDP) at current market prices. The New GSDP series with 1993-94 as base as published by the Director of Economics and Statistics of the State Government have been used.

For tax revenues, non-tax revenues, revenue expenditure *etc.* buoyancy projections have also been provided for a further estimation of the range of fluctuations with reference to the base represented by GSDP.

Some of the terms used here are explained in **Appendix 1.1**.

The accounts of the State Government are kept in three parts (i) Consolidated Fund, (ii) Contingency Fund and (iii) Public Account, as defined in Box 1.3.

Box 1.3: State Government Funds and the Public Account

Consolidated Fund	Contingency Fund	Public Account
All revenues received by the State Government, all loans raised by issue of treasury bills, internal and external loans and all moneys received by the Government in repayment of loans form one consolidated fund entitled 'The Consolidated Fund of State' established under Article 266(1) of the Constitution of India.	The Contingency Fund of the State established under Article 267(2) of the Constitution is in the nature of an imprest placed at the disposal of the Governor to enable him to make advances to meet urgent unforeseen expenditure, pending authorisation by the Legislature. Approval of the Legislature for such expenditure and for withdrawal of an equivalent amount from the Consolidated Fund is subsequently obtained, whereupon the advances from the Contingency Fund are recouped to the Fund.	Besides the normal receipts and expenditure of the Government which relate to the Consolidated Fund, certain other transactions enter the Government Accounts, in respect of which the Government acts more as a banker. Transactions relating to provident funds, small savings, other deposits, <i>etc.</i> are a few examples. The public moneys thus received are kept in the Public Account set up under Article 266(2) of the Constitution and the related disbursements are made from it.

State Finances by key Indicators

1.5 Resources by volumes and sources

Resources of the State Government consist of revenue receipts and capital receipts. Revenue receipts consist of tax revenues, non-tax revenues, State's

share of union taxes and duties and grants-in-aid from the Government of India (GOI). Capital receipts comprise miscellaneous capital receipts such as proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources (market loans, borrowings from financial institutions/commercial banks) and loans and advances from GOI as well as accruals from the Public Account.

Table-2 shows that the total receipts of the State Government for the year 2005-06 were Rs 99,114 crore. Of these, revenue receipts were Rs 48,438 crore, constituting 49 *per cent* of the total receipts. The balance came from borrowings, receipts from the Contingency Fund and the Public Account.

Table-2: Resources of Maharashtra (Rupees in crore)

I Revenue Receipts		48438
II Capital Receipts		20525
Miscellaneous Receipts	--	
Recovery of Loans and Advances	551	
Public Debt Receipts	19974	
III Appropriation from Contingency Fund		1050
IV Contingency Fund		1955
V Public Account Receipts		27146
a. Small Savings, Provident Fund <i>etc.</i>	1794	
b. Reserve Fund	5504	
c. Deposits and Advances	8371	
d. Suspense and Miscellaneous	(-) 905	
e. Remittances	12382	
Total Receipts		99114

1.5.1 Revenue Receipts

Statement-11 of the Finance Accounts details the revenue receipts of the Government. The revenue receipts consist of the State's own tax and non-tax revenues, Central tax transfers and grants-in-aid from GOI.

Overall revenue receipts, their annual rate of growth, ratio of these receipts to GSDP and their buoyancies are indicated in Table-3.

Table-3: Revenue Receipts - Basic Parameters

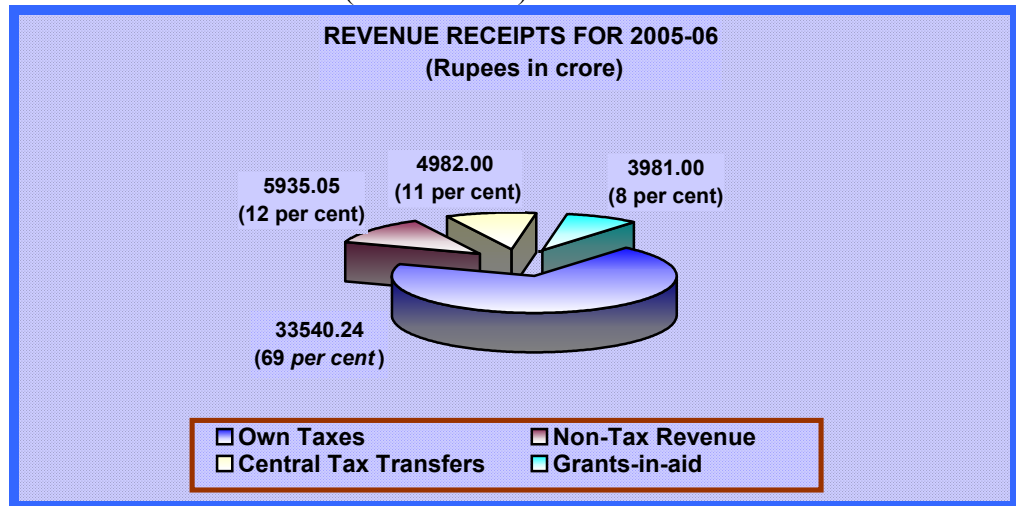
	2001-02	2002-03	2003-04	2004-05	2005-06
Revenue Receipts (RR) (Rupees in crore)	30093	31103	34370	41013	48438
Own Taxes (per cent)	71.7	73.3	73.2	74.6	69.2
Non-Tax Revenue (per cent)	15.4	14.5	10.3	10.0	12.2
Central Tax Transfers (per cent)	8.7	7.3	9.8	8.7	10.2
Grants-in-aid (per cent)	5.5	4.8	6.6	6.5	8.2
Rate of growth of RR (per cent)	1.7	3.3	10.5	19.3	18.1
RR/GSDP (per cent)	11.0	10.5	10.3	11.0	11.5
Revenue Buoyancy (ratio)	0.350	0.383	0.816	1.659	1.446
Revenue Buoyancy with reference to State's own taxes (ratio)*	0.694	0.623	2.059	0.921	1.323
GSDP growth (per cent)	5.09	8.76	12.86	11.63	12.52

* It represents the ratio of percentage growth of Revenue Receipts to percentage growth of the State's own taxes.

The revenue receipts of the State increased from Rs 30,093 crore in 2001-02 to Rs 48,438 crore in 2005-06. It grew by about 18 *per cent* (Rs 7,425 crore) over the previous year. Increase was mainly in Central Tax Transfer (Rs 1,387 crore), Grants-in-aid from the Central Government (Rs 1,287 crore), Stamps and Registration fees (Rs 1,149 crore), Interest Receipts (Rs 1,000 crore), Sales Tax (Rs 860 crore) and increase in State Excise (Rs 605 crore). During the five year period 2001-06, the State had a buoyant economy with an annual GSDP growth ranging between 5 to 13 *per cent*, it being 13 *per cent* during 2005-06. The revenue growth rate exceeded the GSDP growth rate during 2004-05 and 2005-06.

While 81 *per cent* of the revenue during 2005-06 came from the State's own resources, Central tax transfers and Grants-in-aid together contributed only 19 *per cent* of the total revenue.

The GOI grants of Rs 3,981 crore during 2005-06 included Non-Plan Grants (Rs 1,582 crore), Grants for State Plan Schemes (Rs 1,255 crore), Central Plan Grants (Rs 286 crore) and Grants for Centrally Sponsored Schemes (Rs 858 crore). Increase in GOI grants was Rs 1,287 crore over the previous year, which was mainly on account of Non-Plan Grants (Rs 1,012 crore) and Grants for Central Plan Schemes (Rs 200 crore).



Sales Tax was the major contributor (59 *per cent*) of tax revenue followed by Stamps and Registration fees (16 *per cent*), State Excise (8 *per cent*) and Taxes on Vehicles (4 *per cent*).

Non-tax revenue in nominal terms has however, steadily declined from Rs 4,655 crore in 2001-02 to Rs 3,549 crore in 2003-04. In 2004-05, it increased to Rs 4,119 crore and further increased to Rs 5,935 crore during 2005-06. In 2005-06, it increased by Rs 1,816 crore (44 *per cent*) over the previous year. The increase was due to significant increase in Interest Receipts (Rs 1,000 crore) mainly from public sector and other undertakings; Miscellaneous General Services (Rs 427 crore) on account of more receipts from State lotteries and guarantee fees; Power (Rs 169 crore) on account of receipts of arrears of lease money; and Non-ferrous Mining and Metallurgical

Industries (Rs 123 crore) on account of receipts under mineral, concession fees and royalties.

The current levels of cost recovery in supply of goods and services by the Government are 0.17 *per cent* for Secondary Education, 0.37 *per cent* for University and Higher Education, 3.94 *per cent* for Technical Education, 6.20 *per cent* for Health and Family Welfare, 0.32 *per cent* for Water Supply and Sanitation, 21.07 *per cent* for Minor Irrigation and 38.03 *per cent* for Major and Medium Irrigation. In the Medium Term Fiscal Policy Statement, Government has emphasised (March 2006) the need for denovo review and rationalisation of the user charges.

The arrears of revenue increased by 22 *per cent* from Rs 12,584 crore as of March 2005 to Rs 15,347 crore as of March 2006. Arrears mainly pertained to taxes on Sales, Trade *etc.* (Rs 15,227 crore). The arrears of revenue, however, do not reflect the position of total arrears, as information from all departments was not made available.

The sources of receipts under different heads as well as GSDP during 2001-06 are indicated in Table-4.

Table-4: Sources of Receipts – Trends (Rupees in crore)

Year	Revenue Receipts	Capital Receipts		Contingency Fund Receipts	Accruals in Public Account	Total Receipts	Gross State Domestic Product
		Non-Debt Receipts ⁺	Debt Receipts				
2001-02	30093	898	8671	306	42369	82337	271406
2002-03	31103	919	9759	466	44867	87114	295191 ^A
2003-04	34370*	1332	22381	887	24452	83422	333145 ^A
2004-05	41013	2341	22189	348	27991	93882	371878 ^A
2005-06	48438	1601	19974	1955	27146	99114	418441 ^B

1.6 Application of Resources

1.6.1 Trend of growth of total expenditure

Statement 12 of the Finance Accounts depicts the detailed revenue expenditure by minor heads and capital expenditure by major heads. The total expenditure of the State increased from Rs 41,289 crore in 2001-02 to Rs 66,620 crore in 2005-06.

Total expenditure, its annual growth rate, the ratio of expenditure to the State GSDP and to revenue receipts and its buoyancy with respect to GSDP and revenue receipts are indicated in Table-5.

⁺ Including Appropriation from the Contingency Fund, Inter State Settlement and Recoveries of Loans and Advances.

^A Based on Economic Survey of Maharashtra.

* Lower rounding

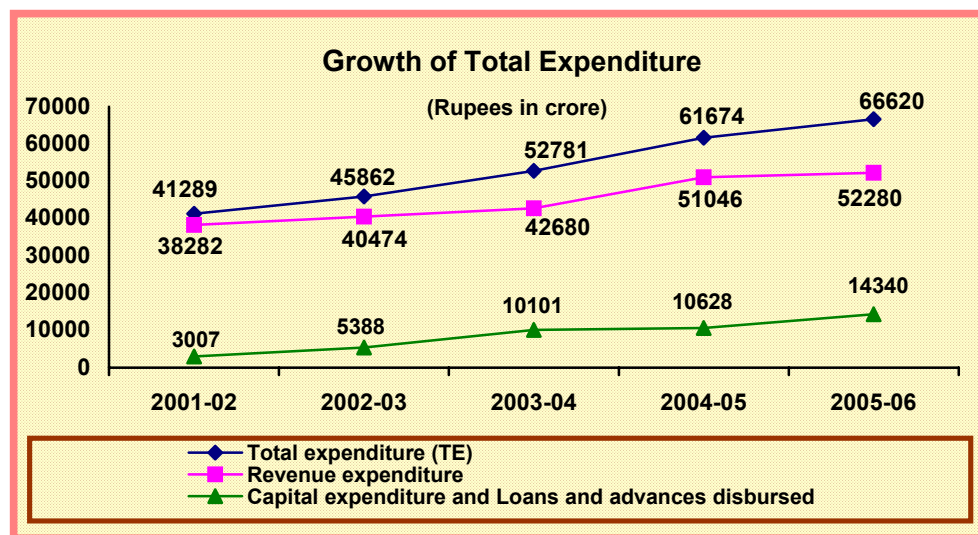
^B Advance estimates as furnished by the Directorate of Economics and Statistics, Government of Maharashtra.

Table-5: Total Expenditure – Basic Parameters

	2001-02	2002-03	2003-04	2004-05	2005-06
Total expenditure (TE)* (Rupees in crore)	41289	45862	52781	61674	66620
Rate of growth (per cent)	0.3	11.0	15.0	16.8	8.0
TE/GSDP ratio (per cent)	15.2	15.5	15.8	16.5	15.9
RR/TE ratio (per cent)	72.8	67.8	65.1	66.5	72.7
Buoyancy of Total Expenditure with reference to:					
GSDP (ratio)	0.072	1.264	1.166	1.445	0.639
RR (ratio)	0.206	3.300	1.436	0.870	0.442

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

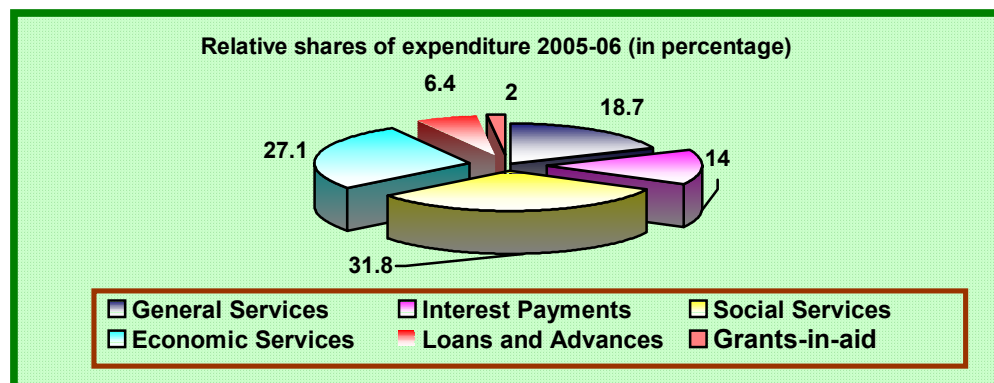
The total expenditure in 2005-06 showed an increase of Rs 4,946 crore over that of the previous year. This was due to the increase in Plan capital expenditure by Rs 1,778 crore (mainly under Urban Development: Rs 875 crore and Rural Development: Rs 464 crore) and in loans and advances disbursed by Rs 1,511 crore (mainly under Co-operation Department: Rs 639 crore and Power projects: Rs 997 crore) as compared to the previous year. Consistent increase in total expenditure over the five year period 2001-06 was also reflected in the gradual increase in the percentage of total expenditure to GSDP upto 2004-05. However, during the current year, the percentage fell to 15.9.



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. The relative shares of these components in the total expenditure are indicated in Table-6.

Table-6: Components of Expenditure – Relative Shares (in per cent)

	2001-02	2002-03	2003-04	2004-05	2005-06
General Services	27.4	23.7	21.9	21.6	18.7
Interest payments	15.6	15.6	15.8	14.5	14.0
Social Services	34.6	31.4	30.8	28.9	31.8
Economic Services	21.0	24.2	26.1	29.1	27.1
Grants-in-aid	1.3	1.4	1.8	1.4	2.0
Loans and Advances	0.1	3.7	3.6	4.5	6.4



There were inter-year variations between the various components. The shares of General Services, Interest Payments and Economic Services in total expenditure were reduced as compared to the previous year while the shares of Social Services, Grants-in-aid and Loans and Advances were increased. Of the total expenditure, the non-developmental expenditure during 2005-06 (General Services including Interest Payments) accounted for 33 per cent, the development expenditure (on Social Services and Economic Services) accounted for 59 per cent and loans and advances and grants-in-aid accounted for 8 per cent.

1.6.2 Incidence of Revenue Expenditure

Revenue expenditure is incurred for maintaining the current level of services and payments and for past obligations and as such, it does not result in any addition to the State's infrastructure and service network. Revenue expenditure had the predominant share (78 per cent) in the total expenditure.

The overall revenue expenditure, its rate of growth, ratio of revenue expenditure to GSDP and to revenue receipts and its buoyancy are indicated in Table-7.

Table-7: Revenue Expenditure – Basic Parameters (Rupees in crore)

	2001-02	2002-03	2003-04	2004-05	2005-06
Revenue Expenditure (RE)	38282	40474	42680	51046	52280
<i>of which</i>					
Non-Plan Revenue Expenditure (NPRE)	35401	37230	39135	46392	47048
Plan Revenue Expenditure (PRE)	2881	3244	3545	4654	5232
Rate of Growth of					
RE (<i>per cent</i>)	2.3	5.7	5.4	19.6	2.4
NPRE (<i>per cent</i>)	2.7	5.2	5.1	18.5	1.4
PRE (<i>per cent</i>)	(-) 1.4	12.6	9.3	31.3	12.4
NPRE/GSDP (<i>per cent</i>)	13.0	12.6	11.7	12.5	11.2
NPRE as percentage of TE	85.7	81.2	74.1	75.2	70.6
NPRE as percentage of RR	117.6	119.7	113.9	113.1	97.1
Buoyancy of Revenue Expenditure with					
GSDP (ratio)	0.463	0.653	0.420	1.685	0.192
Revenue Receipts (ratio)	1.324	1.706	0.519	1.015	0.132

The revenue expenditure increased by 2.4 *per cent* from Rs 51,046 crore in 2004-05 to Rs 52,280 crore in 2005-06. The increase in revenue expenditure over the previous year was mainly due to increase in relief on account of natural calamities by Rs 1,114 crore (90 *per cent*). The revenue expenditure accounted for 78 *per cent* of the total expenditure during 2005-06. This was higher than the share of the revenue receipts (49 *per cent*) in the total receipts of the State Government. This led to a revenue deficit of Rs 3,842 crore. The ratio of revenue expenditure to revenue receipts decreased from 124.4 *per cent* in 2004-05 to 107.9 *per cent* in 2005-06. The revenue expenditure included non-developmental expenditure *viz.* Salaries (Rs 7,105 crore), Interest Payments (Rs 9,347 crore) and Pension (Rs 3,328 crore) which alone consumed 41 *per cent* of the revenue receipts of the State during the year.

It has been observed that the NPRE at Rs 47,048 crore in 2005-06 was much higher than the Twelfth Finance Commission normative assessment of NPRE at Rs 36,228 crore for Maharashtra for the year 2005-06.

1.6.3 Committed Expenditure

➤ High salary expenditure

Expenditure on salaries accounted for nearly 15 *per cent* of the revenue receipts during 2005-06 and posted an increase of 33 *per cent* over a period of five years. It ranged between 1.6 and 2 *per cent* of GSDP during the period from 2001-02 to 2005-06 as indicated in Table-8.

Table-8: Salary Expenditure (Rupees in crore)

Heads	2001-02	2002-03	2003-04	2004-05	2005-06
Salary Expenditure [^]	5353	5490	5691	6120	7105
As percentage of GSDP	2.0	1.9	1.7	1.6	1.7
As percentage of RR	17.8	17.7	16.6	14.9	14.7

The salary expenditure grew at the rate of 16 *per cent* during 2005-06. Although the State Government made no projection for 2005-06 in growth of salary, for 2006-07 salary expenditure is projected to grow at 8 *per cent*.

➤ **Pension payments**

Expenditure on pension accounted for nearly 7 *per cent* of the revenue receipts during 2005-06 and posted an increase of 29 *per cent* over a period of five years. It ranged between 0.8 and 1 *per cent* of GSDP during the period from 2001-02 to 2005-06 as indicated in Table-9.

Table-9: Pension Expenditure (Rupees in crore)

Heads	2001-02	2002-03	2003-04	2004-05	2005-06
Pension Expenditure [♦]	2589	2526	2636	2872	3328
As percentage of GSDP	1.0	0.9	0.8	0.8	0.8
As percentage of RR	8.6	8.1	7.7	7.0	6.9

The increase in pension payment of Rs 456 crore (16 *per cent*) over the previous year was mainly due to payment of more pension to State aided secondary schools as well as payment of death-cum-retirement gratuity and family pension as per new pension rules.

In order to limit future pension liabilities Government has introduced contributory pension scheme for the new employees recruited after 1 November 2005.

➤ **Interest Payments**

In absolute terms, Interest Payments increased by 45 *per cent* from Rs 6,429 crore in 2001-02 to Rs 9,347 crore in 2005-06, primarily due to continued reliance on borrowings for financing the fiscal deficit.

Table-10: Interest Payments

Year	Total Revenue Receipts (Rupees in crore)	Interest Payments [*] (Rupees in crore)	Percentage of Interest Payments with reference to	
			Total Revenue Receipts	Revenue Expenditure
2001-02	30093	6429	21	17
2002-03	31103	7130	23	18
2003-04	34370 [^]	8335	24	20
2004-05	41013	8978	22	18
2005-06	48438	9347	19	18

[^] Salary figures for the years 2001-02 to 2004-05 differ from those reported in the respective Audit Reports, due to adoption of the figures of Finance Accounts in this Report as against the figures furnished earlier by the State Government (which also included salary paid through grants-in-aid).

[♦] Pension expenditure is as per the Finance Accounts of the respective years.

^{*} Rounded to the nearest whole number.

[^] Lower rounding.

It was observed that Interest Payments were between 21 and 24 *per cent* of revenue receipts during the period 2001-2006. They steadily rose from 21 *per cent* in 2001-02 to 24 *per cent* in 2003-04 but declined to 22 *per cent* in 2004-05 and 19 *per cent* in 2005-06.

The Twelfth Finance Commission had projected (November 2004) Interest Payments of Rs 9274 crore for Maharashtra for the year 2005-06. Against this actual Interest Payments was Rs 9347 crore.

During 2005-06, the State Government raised Rs 1,579 crore at the average interest rate of 8 *per cent* from the open market. Besides, it also borrowed Rs 17,910.85 crore from the National Small Savings Fund, the Life Insurance Corporation of India and other institutions and Rs 490.19 crore from GOI during the year.

The increase in Interest Payment was Rs 369 crore over the previous year mainly because of increase of Rs 1,410 crore under interest on Special Security issued to National Small Savings Fund which was off set by decrease (Rs 1,201 crore) in interest on Central Government Loans.

1.6.4 Subsidies

Though the finances of the State are under strain, the State Government has been paying subsidies to various Corporations. During the last five years, the State Government paid subsidies as under:

Table-11: Subsidies

Year	Amount (Rupees in crore)	Percentage increase (+)/ decrease (-) over previous year	Percentage of subsidy in total expenditure
2001-02	1800	284.0	4
2002-03	2009	11.6	4
2003-04	975	(-) 51.4	2
2004-05	3994	309.6	6
2005-06	2885	(-) 27.7	4

During the current year, subsidies constituted about 4 *per cent* of the total expenditure; the major recipients were power companies (51 *per cent*), industries in backward areas (10 *per cent*) and the Transport Commissionerate for its establishment (10 *per cent*) and subsidy on food (4 *per cent*).

1.7 Expenditure by Allocative Priorities

1.7.1 The different levels of expenditure of a State under Plan expenditure, capital expenditure and developmental expenditure reflect its quality. The higher the ratio of these components to the total expenditure, the better is the quality of expenditure. Table-12 gives these ratios during 2001-2006.

Table-12: Quality of expenditure (percentage of total expenditure)

	2001-02	2002-03	2003-04	2004-05	2005-06
Plan Expenditure	10.5	11.0	14.3	16.4	19.3
Capital Expenditure	7.1	8.3	16.1	13.3	16.1
Developmental Expenditure	55.6	57.7	59.0	60.6	62.9

(Total expenditure does not include Loans and Advances).

All the three components of quality of expenditure indicated inter-year variations. The share of Plan expenditure and developmental expenditure (expenditure on Economic and Social Services) was 5 *per cent* higher compared to the previous year. The share of capital expenditure increased from 13 *per cent* in 2004-05 to 16 *per cent* in 2005-06. Increase in capital expenditure was Rs 2,201 crore which was mainly on account of increase under Urban Development (Rs 875 crore), Rural Development (Rs 469 crore) and Transport (Rs 333 crore).

1.7.2 During the year, expenditure on Social Services (Rs 21,164 crore) accounted for 54 *per cent* of the developmental expenditure. Expenditure on Education, Health and Family Welfare and Water Supply and Sanitation constituted 76.51 *per cent* of the expenditure in the social sector as compared to 82.35 *per cent* in the previous year. This is because of increase (96 *per cent*) under Social Welfare and Nutrition over previous year.

Table-13: Expenditure on Social Sector (Rupees in crore)

	2001-02	2002-03	2003-04	2004-05	2005-06
Education, Sports, Art and Culture	9388	8941	9441	10190	10774
Health and Family Welfare	1835	1752	1925	1984	2215
Water Supply, Sanitation, Housing and Urban Development	1011	1496	1908	2511	3203
Total	12234	12189	13274	14685	16192
Total expenditure on Social sector	14270	14377	16273	17833	21164

1.7.3 The expenditure on Economic Services (Rs 18,075 crore), accounted for 46 *per cent* of the developmental expenditure. Of this, Agriculture and Allied Activities, Irrigation and Flood Control, Energy and Transport consumed nearly 81 *per cent* of the expenditure.

Table-14: Expenditure on Economic Sector (Rupees in crore)

	2001-02	2002-03	2003-04	2004-05	2005-06
Agriculture and Allied Activities	2893	2801	2808	3776	3058
Irrigation and Flood Control	3053	4325*	6459	6818	7383
Energy	1006	1050	650	3466	2555
Transport	874	1519	1296	971	1639
Total	7826	9695	11213	15031	14635
Total expenditure on Economic sector	8652	11122	13751	17926	18075

1.7.4 Financial Assistance to local bodies and other institutions

The quantum of assistance provided by way of grants and loans to local bodies and others during the five year period 2001-06 was as follows:

* Includes notional interest of Rs 1523 crore on 14 irrigation projects handed over to Irrigation Development Corporations (SPVs).

Table-15: Financial Assistance (Rupees in crore)

	2001-02	2002-03	2003-04	2004-05	2005-06
Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.)	1483.20	525.60	6139.77	2068.11	2200.13
Municipal Corporations and Municipalities	612.50	378.40	2136.39	1852.32	1031.02
Zilla Parishads and Other Panchayati Raj Institutions	3383.96	696.96	5784.58	6300.48	7472.84
Development Agencies	1277.55	441.62	5.61	1766.17	2463.92
Hospitals and Other Charitable Institutions	232.49	208.19	96.62	256.10	131.07
Other Institutions	3990.44	3007.78	4353.06	8975.06	14088.71
Total	10980.14	5258.55	18516.03	21218.24	27387.69
Assistance as per percentage of RE	29	13	43	42	52

The assistance to local bodies and others during the year was 52 *per cent* of the revenue expenditure compared to 42 *per cent* in the previous year.

1.7.5 Delay in furnishing utilisation certificates

Of the 72,882 utilisation certificates (UC) due in respect of grants and loans aggregating Rs 11,210.42 crore paid upto 2005-06, 67,220 UCs for an aggregate amount of Rs 9,781.98 crore were in arrears. Details of department-wise break-up of outstanding UCs are given in **Appendix 1.6**.

1.7.6 Abstract of performance of the autonomous bodies

The audit of accounts of 13 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 Reports and their placement in the Legislature is indicated in **Appendix 1.7**.

1.7.7 Misappropriations, losses, defalcations, etc.

The State Government reported 232 cases of misappropriation, defalcation, etc. involving Government money amounting to Rs 6.69 crore upto the period 31 July 2006, on which final action was pending. The department-wise break up of pending cases is given in **Appendix 1.8**.

1.7.8 Write-off of losses, etc.

As reported to Audit, losses due to theft, fire, irrecoverable revenue, etc. amounting to Rs 14.94 crore in 582 cases, were written-off during 2005-06 by competent authorities. The relevant details are given in **Appendix 1.9**.

1.8 Assets and Liabilities

In the Government accounting system, comprehensive accounting of fixed assets like land and buildings owned by the Government is not done. The Government accounts, however, do capture the financial liabilities of the Government and the assets created out of the expenditure incurred. **Appendix 1.2** gives an abstract of such liabilities and assets as on 31 March 2006, compared with the corresponding position on 31 March 2005. 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 1.2 shows that the liabilities grew by 17 *per cent* and the assets grew by 23 *per cent* over the previous year.

The liabilities depicted in the Finance Accounts, however, do not include the pension and other retirement benefits payable to serving/retired State employees and guarantees/letters of comfort issued by the State Government. **Appendix 1.5** depicts the time series data on State Government finances for the period 2001-2006.

1.8.1 Financial results of irrigation works

The financial results of the six major irrigation projects of the Government with a capital outlay of Rs 662.22 crore at the end of March 2006, showed that revenue realised from these projects during 2005-06 (Rs 91.59 crore) was 13.83 *per cent* of the capital outlay. After considering the working and maintenance expenses (Rs 9.12 crore) and interest charges (Rs 65.24 crore), the schemes gained a net profit of Rs 17.23 crore during 2005-06. Fourteen other irrigation projects had been handed over to the five Irrigation Corporations created during 1996-98.

1.8.2 Incomplete projects

As of 31 March 2006, there were 158 incomplete projects in which Rs 5,239.74 crore were blocked. Of these, 78 projects (expenditure: Rs 2,565.31 crore) were incomplete for less than five years, 63 projects (expenditure: Rs 2,523.06 crore) were incomplete for periods ranging from five to 10 years, three projects (expenditure: Rs 14.28 crore) were incomplete for periods ranging from 10 to 20 years and three projects (expenditure: Rs 71.41 crore) were incomplete for more than 20 years. Details in respect of 11 projects involving capital of Rs 65.68 crore are not available. This showed that the Government was spreading its resources thinly. Reasons for incomplete projects were paucity of funds, works abandoned by contractors, changes in sites/designs of the project(s), defective planning, *etc.*

1.8.3 Departmental Commercial Undertakings

Activities of *quasi*-commercial nature are performed by Departmental undertakings of certain State Government departments. These undertakings are required to prepare annually, proforma accounts showing the results of financial operations so that the Government can assess the results of their working.

As of March 2006, there were 49 such undertakings (42 Government Milk schemes, four Land Development by Bulldozer schemes, two Food and Civil Supplies schemes and one Saw Mill and Timber Depot) in the State. Out of the 42 Government Milk schemes (GMSs) in six regions, only 12 GMSs finalised their proforma accounts for 2005-06 by 31 July 2006 and the accounts of the balance 30 schemes were in arrears. In 12 GMSs, the Government's mean (average) capital as of 31 March 2006 was Rs 76.14 crore, with a turnover of Rs 119.91 crore. These 12 schemes suffered a net

loss of Rs 27.89 crore during the year. In the remaining 30 GMSs, the net loss of Rs 105.97 crore as per their latest finalised accounts had virtually wiped out nearly 37.44 *per cent* of the Government’s capital of Rs 283.03 crore as on 31 March 2006. The accounts of Procurement, Distribution and Price Control schemes in Mumbai and the Thane Rationing Area and Procurement, Distribution and Price Control schemes in Mofussil Areas were in arrears for 2005-06. The accounts of four Land Development by Bulldozer schemes (Pune, Aurangabad, Amravati and Nagpur) were outstanding for seven to 11 years. Similarly, the accounts of the Allapali and Pedugundam Forest Range of Forest Divisions including saw mill and timber depots were outstanding since 1985-86. In addition, the State Government run printing presses had not compiled *pro forma* accounts since 1968-69 (from December 1968) though these were declared as commercial undertakings.

The Comptroller and Auditor General of India has repeatedly commented about the arrears in preparation of accounts. Accountant General (Commercial Audit) reminded Principal Secretary (Finance) and the Secretary of the Departments concerned regularly in this matter. The department-wise position of arrears in preparation of *pro forma* accounts and the investment made by the Government are given in **Appendix 1.10** and **Appendix 1.11** respectively. The summarised financial statement of these undertakings is given in **Appendix 1.12**.

1.8.4 Investments and returns

As of 31 March 2006, Government had invested Rs 31,917.62 crore in Statutory Corporations, Rural Banks, Joint Stock Companies and Co-operatives. The return on this investment was less than half *per cent* in the last five years while the Government paid interest at the average rate of 7 to 9 *per cent* on its borrowings during 2001-2006.

Table-16: 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)	
2001-02	11155.07	4.53	0.04	9.38	9.34
2002-03	13781.40	1.87	0.01	8.91	8.90
2003-04	19790.89	18.92	0.10	8.76	8.66
2004-05	25829.74	26.73	0.10	7.97	7.87
2005-06	31917.62	3.66	0.01	7.09	7.08

The increase in investments during 2005-06 was attributable to increased Capital Contributions to Maharashtra Krishna Valley Development Corporation (Rs 2,352 crore) and four other Irrigation Development Corporations (Rs 3,218 crore) as compared to the previous year.

As on 31 March 2006, 39 companies in which Government had invested Rs 936.72* crore (Share Capital: Rs 482.43 crore*, Loan: Rs 454.29 crore*) were incurring losses and their accumulated losses amounted to Rs 2,139.58 crore*. As on March 2006[#], 7,981 societies with an aggregate investment of Rs 165.28 crore (Rs 116.38 crore by way of equity and Rs 48.90 crore by way of loan) had incurred losses and their accumulated losses (Rs 270.46 crore) had eroded 164 *per cent* of the investments made in these societies.

Further, in most cases, Government orders sanctioning the loans did not specify the terms and conditions for these loans.

1.8.5 Loans and advances by State Government

In addition to the investments in Co-operative societies, Corporations and Companies, Government has also been providing loans and advances to many of these institutions/organisations. The total outstanding loans and advances as on 31 March 2006 was Rs 15,363 crore (Table 17). Interest received against these loans advanced was 8.11 *per cent* during 2005-06 as against 2.75 *per cent* in the previous year. Increase in interest receipts was mainly under Power projects (Rs 862 crore).

Table-17: Average Interest Received on Loans Advanced by the State Government (Rupees in crore)

	2001-02	2002-03	2003-04	2004-05	2005-06
Opening Balance	8697	8458	9522 ^s	10942	11652
Amount advanced during the year	59	1704	1902	2751	4262
Amount repaid during the year	298	469	482	2041	551
Closing Balance	8458	9693	10942	11652	15363
Net addition	-239	1235	1420	710	3711
Interest received*	341	176	337	311	1095
Interest received as percentage of Loans advanced*	3.98	1.94	3.29	2.75	8.11
Average interest paid by the State (<i>per cent</i>)	9.38	8.91	8.76	7.97	7.09
Difference between interest paid and received (<i>per cent</i>)	-5.40	-6.97	-5.47	(-5.22)	1.02

1.8.6 Management of cash balances

To take care of any temporary mismatches in the flow of resources and the expenditure obligations, a mechanism of Ways and Means Advances (WMA) from the Reserve Bank of India (RBI) has been put in place. Though the WMA limit has been increased by RBI to Rs 905 crore from 1 April 2003, the State has been continuously dependent on RBI for cash management by using this mechanism for 21 days during the year.

Resorting to overdraft, which is over and above the WMA limits, is all the more undesirable. The State used the overdraft facilities for 20 days on nine

* Provisional

[#] According to the information furnished by the Commissioner for Co-operation and Registrar of Co-operative Societies.

^s Differs from previous years closing balance due to *Pro forma* corrections.

* Excludes notional interest accounted arising out of book adjustments.

♦ Loan advanced has been calculated as average of opening and closing balance.

occasions during the year as against 12 days on 12 occasions last year although it borrowed Rs 1,580 crore from the market on four occasions.

Table-18: Ways and Means Advances and Overdrafts of the State**(Rupees in crore)**

	2001-02	2002-03	2003-04	2004-05	2005-06
Ways and Means Advances					
Taken in the year	7739.88	7716.25	7898.67	2675.04	2386.62
Outstanding	--	--	--	--	--
Interest paid	33.99	34.46	29.20	8.47	5.34
Number of days	332 ⁺	301 ⁺	168	68 [#]	21 [#]
Overdrafts					
Taken in the year	4691.87	6281.28	1422.70	862.87	1298.31
Interest paid	7.04	8.42	4.92	0.76	3.70
Number of days	76	154	39	12 [#]	20 [#]

1.9 Undischarged Liabilities

1.9.1 Fiscal Liabilities - Public Debt

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.

Table-19 gives the fiscal liabilities of the State, its rate of growth, ratio of these liabilities to GSDP, to revenue receipts and to its own resources as also the buoyancy of fiscal liabilities with respect to these parameters.

Table-19: Fiscal Liabilities – Basic Parameters

	2001-02	2002-03	2003-04	2004-05	2005-06
Fiscal Liabilities (Rupees in crore)	74209	85800	104404	121026	142491
Rate of Growth (per cent)	18.12	15.62	21.68	15.92	17.74
Ratio of Fiscal Liabilities to					
GSDP (per cent)	27.3	29.1	31.3	32.5	34.0 ^B
Revenue Receipts (per cent)	246.6	275.9	303.8	295.0	294.1
Own Resources (per cent)	286.0	314.1	363.6	348.5	360.9
Buoyancy of Fiscal Liabilities with reference to :					
GSDP (ratio)	3.563	1.782	1.686	1.369	1.417
Revenue Receipts (ratio)	10.184	4.654	2.064	0.824	0.980
Own Resources (ratio)	7.400	2.949	4.249	0.760	1.296

Overall fiscal liabilities of the State increased from Rs 74,209 crore in 2001-02 to Rs 1,42,491 crore in 2005-06. The growth rate was 18 *per cent* during 2005-06 over the previous year. The ratio of fiscal liabilities to GSDP also increased from 27 *per cent* in 2001-02 to 34 *per cent* in 2005-06. These liabilities stood at three times the revenue receipts and three and a half times of the State's own resources as at the end of 2005-06.

⁺ Figures are taken from Reserve Bank of India State Finances 2002-03.

[#] As per Finance Accounts 2004-05.

^B Advance estimates as furnished by Directorate of Economics and Statistics, Government of Maharashtra

The fiscal liabilities grew faster than the State's GSDP. The buoyancy of these liabilities with respect to GSDP during the year was 1.417 indicating that for each one *per cent* increase in GSDP, fiscal liabilities grew by 1.42 *per cent*.

Fiscal liabilities are considered sustainable if the average interest paid on these liabilities is lower than the rate of growth of GSDP. Maharashtra achieved this parameter from 2003-04 onwards as indicated in Table-20.

Table-20: Debt Sustainability – Interest Rate and GSDP Growth

(in *per cent*)

	2001-02	2002-03	2003-04	2004-05	2005-06
Weighted Interest Rate	9.38	8.91	8.76	7.97	7.09
GSDP Growth	5.09	8.76	12.86	11.63	12.52
Interest spread	(-)4.29	(-)0.15	4.10	3.66	5.43

Another important indicator of debt sustainability is the net availability of funds after repayment of principal and interest. Table-21 gives the position of the receipt and repayment of internal debt and other fiscal liabilities of the State over the last five years. The net availability of funds from the borrowings (public debt, loans and advances from the GOI and other debt receipts) varied from 20.4 *per cent* to 34.3 *per cent* during 2001-06. The net availability increased during 2005-06, compared to the previous year, due to less repayment during the current year.

Table-21: Net Availability of Borrowed Funds

(Rupees in crore)

	2001-02	2002-03	2003-04	2004-05	2005-06
Internal Debt²					
Receipt	2335	8797	21129	20387	19484
Repayment (Principal+Interest)	2298	3064	4466	7178	8604
Net Funds Available	37	5733	16663	13209	10880
Net Funds Available (<i>per cent</i>)	1.5	65.1	78.8	64.8	55.8
Loans and Advances from GOI					
Receipt	6337	962	1252	1802	490
Repayment (Principal+Interest)	4017	4179	10892	11440	1381
Net Funds Available	2320	(-)3217	(-)9640	(-)9638	(-) 891
Net Funds Available (<i>per cent</i>)	36.6	(-)334.4	(-)769.9	(-)534.8	(-)181.8
Other obligations					
Receipt	11474	10774	12435	15236	15302
Repayment (Principal+Interest)	9002	8981	9582	11164	13174
Net Funds Available	2472	1793	2853	4072	2128

² Excluding Ways and Means Advances and Overdrafts from Reserve Bank of India/ Government of India.

	2001-02	2002-03	2003-04	2004-05	2005-06
Net Funds Available (<i>per cent</i>)	21.5	16.6	22.9	26.7	13.9
Total liabilities					
Receipt	20146	20533	34816	37425	35276
Repayment (Principal+Interest)	15317	16224	24940	29782	23159
Net Funds Available	4829	4309	9876	7643	12117
Net Funds Available (<i>per cent</i>)	23.9	20.9	28.3	20.4	34.3

The State Government raised market loans of Rs 1,580 crore during the year. The average rate of market borrowings during the year was 8 *per cent* whereas on 31 March 2006, 25 *per cent* of the existing market loans carried interest rate exceeding 10 *per cent*. Thus, the effective cost of borrowings on the past loans was much higher than the rate at which they were able to raise resources from the market at present. The maturity profile of market loans indicates that more than one-fourth (28 *per cent*) of the total market loans are repayable within the next five years while the remaining 72 *per cent* loans are to be repaid within five to 15 years.

Repayment of GOI loans was reduced considerably during 2005-06. This was because of debt swapping (Rs 8,164 crore) during 2004-05 and consequent decrease in Interest Payment on GOI loans (Rs 1,201 crore).

1.9.2 Status of Guarantees – Contingent liabilities

Guarantees constitute contingent liabilities on the Consolidated Fund of the State. No explicit ceiling on giving guarantees upon the security of the Consolidated Fund of the State has been fixed. The State has resorted to giving guarantees for raising resources in a big way during the last five years. Table 22 indicates the status of guarantees.

Table-22: Guarantees given by the Government of Maharashtra

(Rupees in crore)

Year	Maximum amount guaranteed	Outstanding amount of guarantees	Percentage of maximum amount guaranteed to total revenue receipt
2001-02	33974	55381	113
2002-03	37521	62428	121
2003-04	82228	70126	239
2004-05	80184	60871	195
2005-06	86725	66239	179

During 2005-06, outstanding guarantees (Rs 66,239 crore) accounted for 137 *per cent* of the revenue receipts (Rs 48,438 crore). As per MTFP statement, the Government is committed (March 2006) to bring the percentage of outstanding guarantees to GSDP down to approximately 10 *per cent*. However, in 2005-06 outstanding guarantees was 15.83 *per cent* of the GSDP.

1.9.3 Off-Budget Borrowings

The borrowings of a State are governed under Article 293 of the Constitution of India. Though off-budget borrowings are not permissible under Article 293 (3), the State continued to undertake such off-budget borrowings as per the data furnished by the Finance Department. The Government created a number of Special Purpose Vehicles in the Irrigation, Road Development and Sales Tax sectors during 1997-1999 to raise off-budget borrowings by way of bonds from the market or on private placement basis. The payment of principal and interest on these bonds is normally guaranteed by the Government. The Government makes the budgetary provisions in the years of repayment of interest and principal of the bonds.

The MTFRP agreed to (October 2002) by the Government with the GOI provided for reduction of off-budget borrowings. The Government had raised off-budget borrowings of Rs 6,883 crore during the period 2001-02 to 2004-05. During the year 2005-06, there was no off-budget borrowing.

1.10 Management of deficits

Fiscal Imbalances

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 the fiscal management of the Government. Further, the ways in which the deficit is financed and the resources raised are applied are important pointers to its fiscal health. The revenue deficit of the State which indicates the excess of its revenue expenditure over revenue receipts increased from Rs 8,189 crore in 2001-02 to Rs 10,033 crore in 2004-05 but decreased to Rs 3,842 crore in 2005-06. The fiscal deficit, which represents the total borrowing of the Government and its total resource gap, increased from Rs 10,898 crore in 2001-02 to Rs 18,620 crore in 2004-05 but decreased to Rs 17,631 crore in 2005-06. The State also had a primary deficit of Rs 4,469 crore in 2001-02 which increased to Rs 9,642 crore in 2004-05 but decreased to Rs 8,284 crore in 2005-06 as indicated in Table-23.

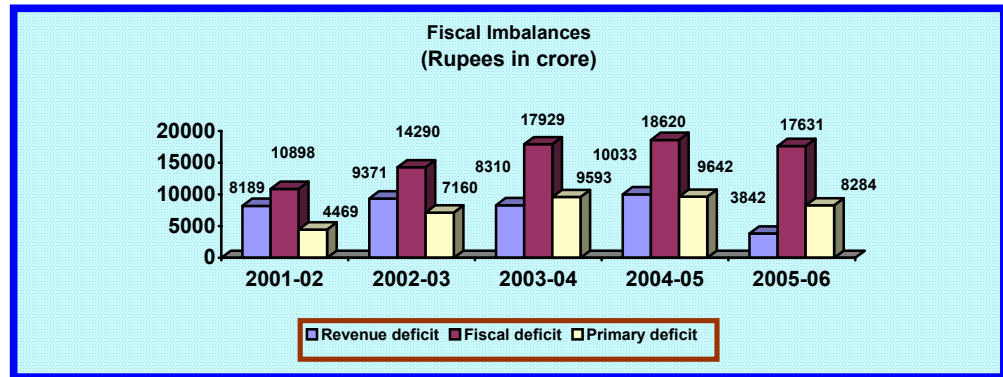
The ratio of revenue deficit to fiscal deficit was 22 *per cent* during 2005-06 indicating that nearly one-fourth of the borrowed funds were used for current consumption. As a proportion of GSDP, the revenue deficit had reached 0.9 *per cent* and the fiscal deficit had reached 4.2 *per cent* in 2005-06.

Table-23: Fiscal Imbalances – Basic Parameters

Parameters	2001-02	2002-03	2003-04	2004-05	2005-06
Revenue deficit (Rupees in crore)	8189	9371	8310	10033	3842
Fiscal deficit (Rupees in crore)	10898	14290	17929	18620	17631
Primary deficit (Rupees in crore)	4469	7160	9593	9642	8284
RD/GSDP (per cent)	3.0	3.1	2.5	2.7	0.9
FD/GSDP (per cent)	4.0	4.8	5.4	5.0	4.2
PD/GSDP (per cent)	1.6	2.4	2.9	2.6	1.9
RD/FD (per cent)	75.1	65.5	46.3	53.8	21.8

Revenue deficit sharply declined by Rs 6,191 crore mainly because of steep increase in revenue receipts (Rs 7,425 crore). Decline in revenue deficit (Rs 6,191 crore) has also resulted in decline in fiscal deficit. However, due to increase in capital expenditure and loans and advances disbursed (Rs 3,712 crore), decrease in fiscal deficit was marginal (Rs 989 crore).

Persistent fiscal deficits indicated the deteriorating fiscal health of the State, propelling the State to pass the MFRBMA in the Legislature in April 2005.



1.11 Fiscal Reforms Programme

The Maharashtra Fiscal Responsibility and Budgetary Management Act was passed in April 2005 to provide transparency in fiscal management by progressive elimination of revenue deficit, regulation of borrowing, ceiling on subsidies and guarantees. The Maharashtra Fiscal Responsibility and Budgetary Management Rules (MFRBMR) were, however, framed belatedly in February 2006.

As per Rule 3 of MFRBMR, 2006, the State Government was to reduce (a) the revenue deficit by one *per cent* or more of the GSDP in the first year, 1.5 *per cent* or more in the first two years, 2 *per cent* or more in the first three years beginning from the financial year 2005-06 and the entire deficit by 2008-09 and (b) the fiscal deficit by an amount equivalent to 0.3 *per cent* or more of the GSDP at the end of each financial year beginning with the financial year 2005-06.

Government has also framed the Medium Term Fiscal Policy statement for the State in March 2006 as per the Twelfth Finance Commission recommendations. However, the Government has stated that fiscal year 2006-07 will be the first year of the four year Fiscal Correction Path prepared for this purpose.

Table 24 shows the percentage of reductions of revenue deficit and fiscal deficit with reference to GSDP in the year 2005-06 as compared to the previous year.

Table-24

Parameters	2004-05	2005-06	Reduction
	(in per cent)		
Revenue deficit/GSDP	2.7	0.9	1.8
Fiscal deficit/GSDP	5.0	4.2	0.8

The Government has been successful in achieving the reduction in the percentage of Revenue Deficit to GSDP and Fiscal Deficit to GSDP in the first year. The substantial reduction in deficits has been largely on account of increase in revenue receipts.

1.12 Fiscal Ratios

The finances of a State should be sustainable, flexible and non-vulnerable. Table-25 below presents a summarised position of Government finances over 2001-2006, with reference to certain key indicators that help to assess the adequacy and effectiveness of available resources and their applications, highlights areas of concern and captures its important facts.

Table-25: Indicators of Fiscal Health (in per cent)

Fiscal Indicators	2001-02	2002-03	2003-04	2004-05	2005-06
I Resource Mobilisation					
Revenue Receipt/GSDP	11.0	10.5	10.3	11.0	11.5
Revenue Buoyancy	0.350	0.383	0.816	1.659	1.446
Own Tax/GSDP	7.8	7.7	7.6	8.2	8.0
II Expenditure Management					
Total Expenditure/GSDP	15.2	15.5	15.8	16.5	15.9
Total Expenditure/Revenue Receipts	137.2	147.4	153.5	150.3	137.5
Revenue Expenditure/Total Expenditure	92.7	88.2	80.8	82.7	78.4
Capital Expenditure/Total Expenditure	7.1	8.3	16.1	12.7	15.1
Developmental Expenditure/Total Expenditure	55.6	57.7	59.0	58.0	58.9
Buoyancy of TE with RR	0.21	3.30	1.44	0.87	0.44
Buoyancy of RE with RR	1.326	1.706	0.519	1.015	0.132
III Management of Fiscal Imbalances					
Revenue deficit (Rs in crore)	8189	9371	8310	10033	3842
Fiscal deficit (Rs in crore)	10898	14290	17929	18620	17631
Primary Deficit (Rs in crore)	4469	7160	9593	9642	8284
Revenue Deficit/Fiscal Deficit	75.1	65.5	46.3	53.8	21.8
IV Management of Fiscal Liabilities					
Fiscal Liabilities/GSDP	27.3	29.1	31.3	32.5	34.0
Fiscal Liabilities/RR	246.6	275.9	303.8	295.0	294.1
Buoyancy of FL with RR	10.184	4.654	2.064	0.824	0.980
Buoyancy of FL with Own Receipt	7.400	2.949	4.249	0.760	1.296
Interest spread	-4.29	-0.15	4.10	3.66	5.43
Net Fund Available	23.9	20.9	28.3	20.4	34.3

Fiscal Indicators	2001-02	2002-03	2003-04	2004-05	2005-06
V Other Fiscal Health Indicators					
Return on Investment	0.04	0.01	0.10	0.10	0.01
Balance from Current Revenue (Rs in crore)	-6501	-7101	-6203	-7280	-547.21
Financial Assets/Liabilities	0.6	0.6	0.6	0.6	0.6

The ratio of own taxes to GSDP decreased from 8.2 *per cent* in 2004-05 to 8 *per cent* in 2005-06. The ratio of revenue receipts to GSDP increased from 11 *per cent* in 2004-05 to 11.5 *per cent* in 2005-06. Revenue expenditure was 78.4 *per cent* of the total expenditure during the year as against 82.7 *per cent* in 2004-05, leaving very little funds for capital formation. The ratio of development expenditure to total expenditure increased from 58.0 *per cent* in 2004-05 to 58.9 *per cent* in 2005-06.

1.13 Conclusion

The augmentation in State revenue receipts led to a significant improvement in revenue deficit but a substantial increase in capital expenditure and disbursement of loans and advances neutralised the impact of improved revenue receipts on fiscal deficit. As such only a marginal improvement was observed in fiscal deficit in 2005-06 over the previous year. The annual reduction targets in ratios of revenue deficit and fiscal deficit to GSDP laid down under the Rules framed under MFRBM Act for 2005-06 were successfully achieved during the year. The fiscal liabilities of the State have, however, consistently increased at the annual average rate of 23 *per cent* and stood at 34 *per cent* of the GSDP as on 31 March 2006. The revenue deficit, fiscal deficit and primary deficit as a result continued to remain at unsustainable levels during the period 2001-06 except in the year 2005-06 when sign of improvements noticed especially in revenue deficit due to improved revenue receipts on account of higher Central Tax Transfers and Grants-in-aid during the year. The continued prevalence of primary deficit relatively at higher levels resulted into an increasing debt - GSDP ratio which indicates State's inability to keep debt at sustainable levels. Although it is not uncommon for the State to borrow for creating and strengthening its social and economic infrastructure, but the State's high cost borrowing for investments, which yielded meagre returns indicated an implicit subsidy. Guarantees extended by the State to various institutions with accumulated losses had the inherent risk of invocation, which the State would have to honour. Thus, the State should either generate more revenues from out of its existing assets or provide funds from its current revenue for servicing its debt obligations. Long term fiscal stability can be achieved only through reducing the revenue/fiscal deficit by compressing non-developmental revenue expenditure in a medium term framework, prudential debt management and greater transparency in fiscal operations.