

# 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<sup>1</sup> and (iii) Public Account (*Appendix 1.1-Part A*). The Finance Accounts are laid out in nineteen statements, presenting the receipts and expenditure, revenue as well as capital, in the Consolidated Fund, Contingency Fund and the Public Account of the State. The layout of the Finance Accounts is depicted in *Appendix 1.1-Part B*.

#### 1.1.1 Summary of Receipts and Disbursements

The table below summarises the finances of the Government of Manipur for the year 2007-08 covering revenue receipts and expenditure, capital receipts and expenditure and public account receipts/disbursements as emerging from Statement-1 of Finance Accounts and other detailed Statements.

**Table 1.1: Summary of Receipts and Disbursements**

*(Rupees in crore)*

2006-07	Receipts	2007-08	2006-07	Disbursements	2007-08		
Section A: Revenue							
					Non-Plan	Plan	Total
2,862.74	Revenue Receipts	3,508.27	2,414.65	Revenue Expenditure	1,812.61	479.91	2,292.52
121.57	Tax Revenue	147.45	873.35	General Services	928.72	3.22	931.94
181.04	Non-Tax Revenue	164.71	663.96	Social Services	484.19	234.04	718.23
436.33	Share of Union taxes/duties	550.40	877.34	Economic Services	399.70	242.65	642.35
2,123.80	Grants from Government of India	2,645.71	—	Grants-in-aid/contribution	-	-	-
Section B: Capital							
—	Miscellaneous Capital Receipts	-	866.97	Capital outlay	(-) 1.68	1,109.60	1,107.92
0.90	Recoveries of Loans and Advances	2.29	56.84	Loans and Advances disbursed	3.85	4.12	7.97
265.96	Public Debt receipts*	261.01	285.15	Repayment of Public Debt*			307.75
—	Contingency Fund	-	—	Contingency Fund	-	-	-
2,206.74	Public Account receipts	2,481.01	1,787.46	Public Account disbursements			1,953.25
31.79	Opening balance	(-) 42.94	(-) 42.94	Closing balance	-	-	540.23
<b>5,368.13</b>	<b>Total</b>	<b>6,209.64</b>	<b>5,368.13</b>	<b>Total</b>			<b>6,209.64</b>

\* Excluding ways and means advances and overdraft.

The following are the changes during 2007-08 over the previous year:

- Revenue receipts grew by Rs.645.53 crore (23 per cent) over the previous year. The increase was mainly contributed by increase in grants from Government of India (GOI) (Rs.521.91 crore) and share of Union taxes/duties (Rs.114.07 crore).

<sup>1</sup> The State Government has not set up a Contingency fund as yet.

- While revenue expenditure decreased by Rs.122.13 crore over the previous year, capital expenditure increased by Rs.240.95 crore.
- While recoveries of loans and advances increased by Rs.1.39 crore (154 *per cent*), disbursement of loans and advances decreased significantly by Rs.48.87 crore (86 *per cent*).
- Public Debt receipts decreased marginally by Rs.4.95 crore, while its repayment increased by Rs.22.60 crore.
- Both Public Account receipts and its disbursement increased by Rs.274.27 crore and Rs.165.79 crore respectively over the previous year.
- The inflow and outflow of funds under various heads listed above resulted in a steep increase in closing balance from minus Rs.42.94 crore during 2006-07 to a huge surplus of Rs.540.23 crore during 2007-08.

### 1.1.2 Fiscal Position by Key Indicators

The fiscal position of the State Government during the current year compared to that of previous year is given below:

**Table 1.2**

(Rupees in crore)

2006-07	Sl. No.	Major Aggregates	2007-08
<b>2,863</b>	<b>1.</b>	<b>Revenue Receipts (2+3+4)</b>	<b>3,508</b>
122	2.	Tax Revenue	147
181	3.	Non-Tax Revenue	165
2,560	4.	Other Receipts	3,196
<b>1</b>	<b>5.</b>	<b>Non-Debt Capital Receipts</b>	<b>2</b>
1	6.	Of which, recovery of Loans and Advances	2
<b>2,864</b>	<b>7.</b>	<b>Total Receipts (1+5)</b>	<b>3,510</b>
<b>2,002</b>	<b>8.</b>	<b>Non-Plan Expenditure (9+11+12)</b>	<b>1,814</b>
1,995	9.	On Revenue Account	1,812
289	10.	Of which, Interest Payments	298
2	11.	On Capital Account	(-) 2
5	12.	On Loans disbursed	4
<b>1,337</b>	<b>13.</b>	<b>Plan Expenditure (14+15+16)</b>	<b>1,594</b>
420	14.	On Revenue Account	480
865	15.	On Capital Account	1,110
52	16.	On Loans disbursed	4
<b>3,339</b>	<b>17.</b>	<b>Total Expenditure (8+13)</b>	<b>3,408</b>
<b>(+) 448</b>	<b>18.</b>	<b>Revenue Surplus (+) (1-9-14)</b>	<b>(+) 1,216</b>
<b>(-) 475</b>	<b>19.</b>	<b>Fiscal Surplus (+) (17-1-5)</b>	<b>(+) 102</b>
<b>(-) 186</b>	<b>20.</b>	<b>Primary Surplus (+) (19-10)</b>	<b>(+) 400</b>

During the current year, revenue receipts increased significantly by Rs.645 crore while revenue expenditure decreased by Rs.123 crore, as a result of which, the revenue surplus in 2007-08 increased sharply by Rs.768 crore (171 *per cent*). The increase of Rs.768 crore in non-debt receipts accompanied by an increase in capital expenditure (Rs. 241 crore) and decline in disbursement of loans (Rs.49 crore) has resulted in significant improvement in the fiscal health of the State and turned the fiscal deficit of Rs.475 crore in 2006-07 into fiscal surplus of Rs.102 crore in the current year. With a marginal increase of Rs.9 crore in interest payments, the primary deficit of Rs.186 crore in 2006-07

also turned into a huge surplus of Rs.400 crore in 2007-08 primarily due to sharp improvement in fiscal deficit position of the State during the current year.

## 1.2 Methodology adopted for assessment of Fiscal position

The trends in the major fiscal aggregates of receipts and expenditure as emerging from the Statements of Finance Accounts were analyzed wherever necessary over the period of last five years (2003-08) and observations have been made on their behaviour as per *Appendix 1.3 to 1.5* and Time Series Data (*Appendix 1.6*). In its Restructuring Plan of State finances, the Twelfth Finance Commission (TFC) recommended the norms/ceiling for some fiscal aggregates and also made normative projections for others. In addition, the TFC also recommended that all States enact the Fiscal Responsibility (FR) Act and draw their fiscal correction path accordingly for the five year period (2005-10) so that fiscal position of the State could be improved as committed in their respective FR Acts/Rules during medium to long run. The norms/ceilings prescribed by the TFC as well as its projections for fiscal aggregates along with the commitments/projections made by the State Government in its FR Act and in other Statements required to be laid in the Legislature under the Act were used to make qualitative assessment of the trends and pattern of major fiscal aggregates during the current year. Assuming that Gross State Domestic Product (GSDP) is a good indicator of the performance of the State's economy, major fiscal aggregates like tax and non-tax revenue, revenue and capital expenditure, internal debt and revenue and fiscal deficits have been presented as percentage of the GSDP 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 mobilisation of resources, pattern of expenditure *etc.*, are keeping pace with the change in the base or these fiscal aggregates have also been affected by factors other than GSDP. The trends in the growth of GSDP as provided by the Department of Economics and Statistics, Government of Manipur are given in the table below:

**Table 1.3**

	2003-04	2004-05	2005-06	2006-07	2007-08
GSDP (Rupees in crore)	4062	4024	4693	6501	5,704
Rate of growth (in <i>per cent</i> )	8.61	(-) 0.94	16.63	38.53	(-) 12.26

Source: Department of Economics and Statistics, Government of Manipur

The key indicators adopted for the purpose are (i) Trends and Composition of Aggregate Receipts, (ii) Application of resources, (iii) Assets and Liabilities, and (iv) Management of deficits. Audit observations have also taken into account the cumulative impact of resource mobilization 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. In addition, selected indicators of financial performance of the Government are also listed in this section; some of the terms used in this context are explained in *Appendix 1.1 Part C*.

### **1.2.1 The Fiscal Responsibility and Budget Management Act**

The State Government enacted the Fiscal Responsibility and Budget Management (FRBM) Act, 2005 in August 2005 and framed the FRBM Rules in December 2005, to ensure prudence in fiscal management and fiscal stability by progressive elimination of revenue deficit, reduction in fiscal deficit, prudent debt management consistent with fiscal sustainability, greater fiscal transparency in fiscal operations of the Government and conduct of fiscal policy in a medium term framework. To give effect to the fiscal management principles, the Act prescribed the following fiscal targets for the Government to strive for:

- remain revenue surplus by reducing revenue expenditure and build up further surplus;
- bring down the fiscal deficit to 3 *per cent* of GSDP by 2008-09;
- Limit the amount of outstanding Government guarantees as per provisions of Manipur Ceiling on State Government Guarantee Act, 2004.
- Follow recruitment and wage policy so that the expenditure on salary does not exceed 35 *per cent* of the excess of revenue expenditure over interest and pension payments.

For reduction of revenue deficit and fiscal deficit, as laid down in the Act, the State Government framed the FRBM Rules, which state that the State Government shall strive to reduce the fiscal deficit by a minimum of 1 *per cent* of the GSDP by the end of each financial year, beginning with the financial year 2005-06 so as to achieve the target of reduction of fiscal deficit to 3 *per cent* by 2008-09 provided that, in the event of shortfall in the reduction of revenue and fiscal deficit as envisaged, the target of reduction of deficit in the succeeding year shall stand enhanced by the amount of shortfall in the preceding year.

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

The State Government laid down its own Fiscal Correction Path (FCP) (*Appendix 1.2*), detailing the structural adjustments required for mobilizing additional resources and identifying areas where expenditure could be compressed, to achieve the targets set out in the FRBM Act. The FCP projected a revenue surplus of Rs.709.65 crore for 2007-08 with revenue receipts at Rs.2,966.20 crore and the revenue expenditure at Rs.2,256.56 crore; fiscal deficit to be contained at Rs.30.62 crore or 0.59 *per cent* of the projected GSDP (Rs.5,207.98 crore).

### 1.2.3 Fiscal Policy Statement(s)

As prescribed in the Act, the State Government was to lay in each year the following statements of fiscal policy along with the budget before the legislature:

- The Medium Term Fiscal Policy Statement (MTFPS) and,
- The Fiscal Policy Strategy Statement.

As per MTFPS, revenue surplus was projected at Rs.404.01 crore by March 2008 lower than the projection made in FCP, fiscal deficit was to be restricted to Rs.106 crore, higher than the projection made in FCP, and total outstanding liabilities were to be restricted to Rs.4,210.47 crore.

### 1.2.4 Mid-Year Review

As per the FRBM Act, the State Government is required to review its receipts and expenditure on a quarterly basis. However, as reliable data could not be received from the departments on time, the State Government decided to conduct a detailed review after the data is fully received. The State Government is taking necessary steps for completion of computerization of treasuries so that the review could be conducted on the basis of authentic and correct data in a timely manner.

### 1.2.5 Fiscal performance

In terms of an incentive scheme of TFC, a reward for fiscal performance was built into the debt-write off package under DCRF<sup>2</sup>. According to the scheme, the quantum of write off of repayment of the GOI loans after consolidation and re-schedulement 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<sup>3</sup> and continue to remain so in the subsequent years till the end of award period, the installment of repayment due on the Central loans may be written-off in each of the years from 2005-06 onwards so long as the revenue surplus of the States does not go below the base year level in absolute terms. As a result of improved fiscal performance in terms of this criterion, Manipur Government received a debt waiver of Rs.37.54 crore during 2007-08.

The performance of the State during 2007-08 in terms of key fiscal targets *vis-à-vis* achievements are given below:

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<sup>2</sup> Debt Consolidation and Relief Facility: In pursuance of the recommendations of the Twelfth Finance Commission (TFC) for fiscal consolidation and elimination of revenue deficit of the States, Government of India formulated a scheme "The State 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 rates of interest the Central loans granted to States on enacting the FRBM Act and debt waiver is granted based on fiscal performance, linked to the reduction of revenue deficits of States.

<sup>3</sup> The average of revenue deficit/revenue surplus for the years 2001-02 (Actuals), 2002-03 (Actuals) and 2003-04 (Revised Estimates).

**Table 1.4 Statement showing targets/assessment of Fiscal variables**

Fiscal variables	FRBM Targets/Assessment made by /TFC	Assessment made by the State Government		Actual
		FCP	MTFPS	
Revenue Deficit (Rupees in crore)	0.00 (by 31.3.2009)	(+) 709.65	(+) 404.01	(+) 1,216
Fiscal Deficit (Rupees in crore)	-	(-) 30.62	(-) 106.00	(+) 102
Fiscal Deficit/GSDP ( <i>per cent</i> )	3 <i>per cent</i> of GSDP (by 31.3.2009)	0.59 <i>per cent</i>	1.80 <i>per cent</i>	Achieved Fiscal Surplus

As can be seen from the above table, the revenue surplus of Rs.1,216 crore during 2007-08 far exceeded the projection made in FCP/MTFPS. Not only did the State maintain revenue surplus since 2004-05, but also achieved fiscal surplus during the current year. The limit of total outstanding guarantees was also restricted within the ceiling stipulated by the State Government. However, the expenditure under non-plan salary heads as percentage of non-plan revenue expenditure minus interest and pension during 2004-07 still continued to be as high as 68 *per cent* exceeding significantly the ceiling limit of 35 *per cent* set by the FRBM Act in pursuance to TFC recommendations.

### 1.3 Trends and Composition of Aggregate Receipts

#### 1.3.1 Trends in Aggregate Resources

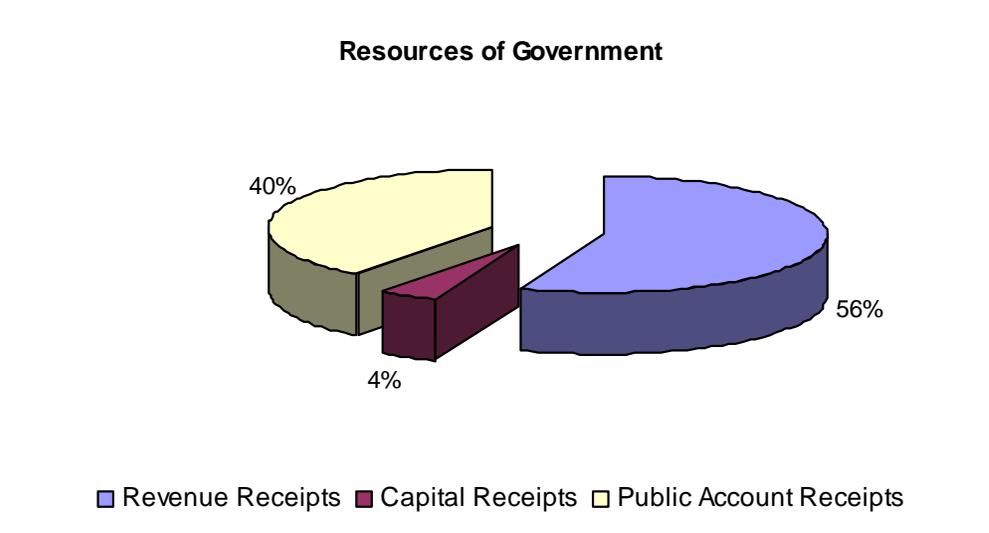
Resources of the State Government consist of revenue receipts and capital receipts. Revenue receipts consist of tax revenue, non-tax revenue, State's share of union taxes and duties and grants-in-aid from the Central Government. Capital receipts comprise miscellaneous capital receipts like proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources *viz.*, market loans, borrowings from financial institutions/commercial banks *etc.*, and loans and advances from the GOI, as well as accruals from Public Account. The constituent parts of the resources of the Government for the years 2003-08 are shown in the table below:

**Table 1.5: Trends in Growth and Composition of Aggregate Receipts**

Sources of State's receipts	2003-04	2004-05	2005-06	2006-07	2007-08
<b>I Revenue Receipts</b>	<b>1419.71</b>	<b>1742.75</b>	<b>2408.95</b>	<b>2862.74</b>	<b>3,508.27</b>
<b>II Capital Receipts</b>	<b>887.09</b>	<b>1110.77</b>	<b>218.75</b>	<b>266.86</b>	<b>263.30</b>
<i>Recovery of Loans and Advances</i>	0.48	0.58	0.64	0.90	2.29
<i>Public Debt Receipts</i>	876.61	1110.19	218.11	265.96	261.01
<i>Miscellaneous Capital Receipts</i>	—	—	—	—	-
<b>III Contingency Fund</b>	—	—	—	—	-
<b>IV Public Account Receipts</b>	<b>745.71</b>	<b>1107.96</b>	<b>2172.88</b>	<b>2206.74</b>	<b>2,481.01</b>
<i>(a) Small Savings, Provident Fund etc.</i>	121.27	164.95	367.58	373.22	332.91
<i>(b) Reserve Fund</i>	5.16	7.40	10.36	0.84	13.33
<i>(c) Deposits and Advances</i>	31.82	136.31	517.72	203.68	390.38
<i>(d) Suspense and Miscellaneous</i>	44.47	202.95	225.09	(-) 1.13	191.33
<i>(e) Remittances</i>	542.99	596.35	1052.13	1630.13	1,553.06
<b>Total Receipts</b>	<b>3042.51</b>	<b>3961.48</b>	<b>4800.58</b>	<b>5336.34</b>	<b>6,252.58</b>

Total receipts of the State for the year 2007-08 were Rs.6,252.58 crore which have increased by 105.5 *per cent* from the level of Rs.3,042.51 crore in 2003-04. Of these, revenue receipts were the major contributor with 56 *per cent* followed by public account receipts with 40 *per cent*. Capital receipts

including public debt receipts constituted only 4 *per cent* of the aggregate receipts during the current year. Remittances consisting of mainly Public Works remittances (Rs.1,372.87 crore), Cash remittances between treasuries and currency chest (Rs.100.70 crore) and Reserve Bank of India remittances (Rs.54.12 crore) constituted about 62 *per cent* of the public account receipts.



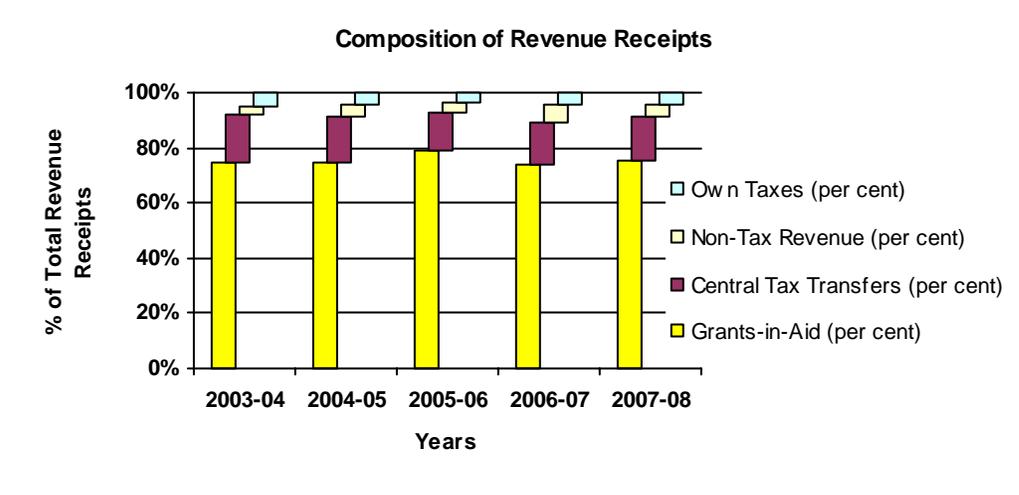
### 1.3.2 Revenue Receipts

Statement-11 of the Finance Accounts details the revenue receipts of the State consisting mainly of its own tax and non-tax revenues, Central tax transfers and grants-in-aid from the GOI. Overall revenue receipts, their annual rate of growth, ratio to the State's GSDP and buoyancy are indicated below:

**Table 1.6: Revenue Receipts – Basic Parameters**

	2003-04	2004-05	2005-06	2006-07	2007-08
Revenue Receipts (Rupees in crore)	1,420	1,743	2,409	2,863	3,508
Own Taxes ( <i>per cent</i> )	68 (4.79)	81 (4.65)	95 (3.94)	122 (4.26)	147 (4.19)
Non-Tax Revenue ( <i>per cent</i> )	50 (3.52)	70 (4.02)	76 (3.16)	181 (6.32)	165 (4.70)
Central Tax Transfers ( <i>per cent</i> )	241 (16.97)	287 (16.47)	342 (14.20)	436 (15.23)	550 (15.68)
Grants-in-aid ( <i>per cent</i> )	1,061 (74.72)	1,305 (74.86)	1,896 (78.70)	2,124 (74.19)	2,646 (75.43)
Rate of Growth of Revenue Receipts ( <i>per cent</i> )	6.93	22.75	38.21	18.85	22.53
Revenue Receipts/GSDP ( <i>per cent</i> )	34.96	43.32	51.33	44.04	61.50
Revenue Buoyancy (ratio)	0.80	#	2.30	0.49	#
States' Own Taxes buoyancy (ratio)	0.53	#	1.04	0.73	#
Revenue Buoyancy with reference to State's own taxes (ratio)	1.50	1.19	2.21	0.66	1.10
GSDP Growth ( <i>per cent</i> )	8.61	(-) 0.94	16.63	38.53	(-) 12.26

(# Rate of growth of GSDP was negative, but that of Revenue Receipts was positive)  
(Figures in brackets are percentages)



### 1.3.3 General trends

The revenue receipts of the State more than doubled over the last five years, from Rs.1,420 crore in 2003-04 to Rs.3,508 crore in 2007-08. The funds from the Central Government in the form of grants-in-aid and State's share of Central taxes and duties constituted around 91 *per cent* of total Revenue Receipts of the State during the period 2003-08 and remaining 9 *per cent* was shared by State's own resources.

### 1.3.4 Tax revenue

Over the years, the relative share of tax revenue in the revenue receipts of the State gradually declined from 4.79 *per cent* in 2003-04 to 4.19 *per cent* in 2007-08. The table below shows the trends in various components of tax revenue during 2003-08:

**Table 1.7: Tax Revenue**

	(Rupees in crore)				
	2003-04	2004-05	2005-06	2006-07	2007-08
Sales Tax	46	55	71	97	121
State Excise	3	3	3	4	4
Taxes on Vehicles	3	3	4	3	3
Stamps & Registration fees	2	2	3	3	3
Electricity	-	5	-	#	-
Other Taxes*	14	13	14	15	16
<b>Total</b>	<b>68</b>	<b>81</b>	<b>95</b>	<b>122</b>	<b>147</b>

\* Other taxes include Land revenue, Taxes on goods and passengers and other taxes and duties on commodities and services.  
# Rs.19 lakh only.

As the trends reveal, sales tax was the main contributor accounting for 82 *per cent* of the tax revenue receipts.

### 1.3.5 Non-tax revenue

The non-tax revenue (NTR) contribution ranged between 3.16 to 6.32 *per cent* of the revenue receipts during the last five years. During the current year, the non-tax receipts at Rs.165 crore were mainly contributed by Power (Rs.62.29 crore), Miscellaneous General Services (Rs.54.24 crore, which included Rs.37.54 crore as debt relief from the GOI for the year 2007-08) and Interest receipts realized on investment of cash balance (Rs.27.04 crore). A decline was noted from the level of Rs.181 crore in 2006-07 primarily due to the fact that during 2006-07, the State Government received an incentive of Rs.75.08 crore as debt waiver for two years (2005-06 and 2006-07) while during 2007-08, an incentive of Rs.37.54 crore pertained to the current year. However, a loss on this account was partly offset by a steep increase of Rs.22.05 crore in receipts from the power sector, which is attributed to action initiated against defaulters and unauthorized connections, intensification of revenue collection drive and imposition of production of “No Due Certificate” from all the State Government Employees including State undertaking firms.

The actual revenue receipts (own tax revenues and non-tax revenues) *vis-à-vis* assessment made by TFC and the State Government are given below:

**Table 1.8: Revenue receipts (OTR &NTR\*) *vis-à-vis* projection for the year 2007-08**

	Assessment made by TFC	Assessment made by State Government		Actual
		FCP	MTFPS	
Tax Revenue	190.17	119.17	127.54	147.45
Non-tax Revenue	48.76	119.52	146.27	164.71

Source: TFC report, Departmental records and the Finance Accounts

\* Own tax Revenue and Non-Tax Revenue

While tax revenue fell short of normative assessment made by the TFC, it was more than the assessment made in FCP/MTFPS. The actual non-tax revenue collected was more than the assessments made in the TFC/FCP/MTFPS.

### 1.3.6 Central tax transfers

The relative share of Central tax transfers in the revenue receipts of the State varied from 14.20 *per cent* to 16.97 *per cent* during the last five years and stood at 15.68 *per cent* in 2007-08.

### 1.3.7 Grants-in-aid

Grants-in-aid continue to be the main contributor of the State’s revenue receipts constituting about 75 *per cent* (Rs.2646 crore) during 2007-08 and comprised of non-plan grant (Rs.982 crore), grants for State Plan Schemes (Rs.1418 crore), grants for Central Plan Schemes/Centrally Sponsored Schemes (Rs.213 crore) and grants for Special Plan Schemes (Rs.33 crore). The trends in the components of grants-in-aid over the period 2003-08 are presented in the table below:

**Table 1.9: Grants-in-aid from the GOI**

	(Rupees in crore)				
	2003-04	2004-05	2005-06	2006-07	2007-08
Grants for State Plan Schemes	575	772	894	1020	1418
Non-Plan grants	391	426	846	931	982
Grants for Central Schemes/Centrally Sponsored Schemes	73	85	133	151	213
Grants for Special Plan Schemes for North Eastern Council and for other purposes	22	22	23	22	33
<b>Total</b>	<b>1061</b>	<b>1305</b>	<b>1896</b>	<b>2124</b>	<b>2646</b>
Percentage of increase/decrease over previous year	4.22	23.00	45.29	12.03	24.58

Grants for State Plan Schemes have increased by Rs.398 crore over the previous year, mainly due to increase in block grants by Rs.372 crore. Within the non-plan grants, the State received Rs.889.10 crore as non-plan revenue deficit grant as recommended by the TFC, Rs.27.64 crore for Modernization of Police Force, Rs.14.45 crore as reimbursement of Security Expenditure, Rs.9.62 crore for maintenance of Roads and Bridges (against Rs.19.24 crore recommended by TFC), Rs.9.43 crore for maintenance of public building (as recommended by TFC) *etc.* Increase of Rs.62 crore in Centrally Sponsored Schemes/Central Plan Schemes grants during 2007-08 over the previous year was mainly due to enhanced grants under Rajiv Gandhi National Drinking Water Mission (Rs.27.80 crore) over the previous year; RGGVY (Rs.11.94 crore); Construction of Singhat-Sinzuwal- Tuivai Road (Rs.10.0 crore) and Crop Husbandry (Rs.8.50 crore) in 2007-08 over the previous year.

## 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. The States raise resources to perform their sovereign functions, to maintain delivery of social and economic services, to extend the network of these services through capital expenditure and investments and to discharge their debt service obligations.

The total expenditure of the State increased from Rs.1,706 crore in 2003-04 to Rs.3,408 crore in 2007-08, as shown below:

**Table 1.10: Total expenditure – Basic Parameters**

	2003-04	2004-05	2005-06	2006-07	2007-08
Total Expenditure (Rupees in crore)	1,706	2,192	2,681	3,339	3,408
Rate of Growth ( <i>per cent</i> )	8.18	28.49	22.31	24.54	2.07
TE/GSDP Ratio ( <i>per cent</i> )	42.00	54.47	57.13	51.36	59.75
Revenue Receipts/ TE Ratio ( <i>per cent</i> )	83.24	79.52	89.85	85.74	102.93
<b>Buoyancy of Total Expenditure with</b>					
GSDP (ratio)	0.95	#	1.34	0.64	-
Revenue Receipts (ratio)	1.18	1.25	0.58	1.30	0.09

# Rate of growth of GSDP was negative but that of Total expenditure was positive.

Total expenditure, as a percentage of GSDP, has shown a rising trend and increased from 42 *per cent* in 2003-04 to 59.75 *per cent* in 2007-08. The total expenditure in 2007-08 consisted of revenue expenditure of Rs.2,292 crore (67.25 *per cent*), capital expenditure of Rs.1,108 crore (32.51 *per cent*) and

loans and advances of Rs.8 crore (0.23 *per cent*). On revenue account, non-plan expenditure decreased from Rs.1,995 crore in 2006-07 to Rs.1,812 crore during 2007-08 while plan expenditure grew from Rs.420 crore last year to Rs.480 crore this year. On capital account, there was a non-plan expenditure of minus Rs.2 crore during this year. Plan expenditure on capital account jumped by 28 *per cent* from Rs.865 crore last year to Rs.1,110 crore in the current year. An increase of Rs.241 crore in capital expenditure during 2007-08 over the previous year was mainly under Roads and Bridges (Rs.135.86 crore); Power projects (Rs.91.78 crore); Education, Sports, Art & Culture (Rs.72.64 crore); Minor Irrigation (Rs.36.95 crore); Medical & Public Health (Rs.32.45 crore) which were mainly offset by decrease in Major and Medium Irrigation projects (Rs.130.70 crore) and Public Works (Rs.26.73 crore).

**1.4.2 Trends in total expenditure by activities:** In terms of the activities, total expenditure could be considered as being composed of expenditure on General Services, Interest Payments, Social and Economic Services, Grants-in-aid and Loans and Advances.

**Table 1.11: Components of Expenditure – Relative share**

	2003-04	2004-05	2005-06	2006-07	2007-08
General Services	37.22	32.76	33.98	30.10	30.40
<i>Of which, interest payments</i>	<i>12.60</i>	<i>12.14</i>	<i>8.88</i>	<i>8.66</i>	<i>8.74</i>
Social Services	33.00	35.63	30.36	28.00	32.16
Economic Services	29.66	30.70	33.38	40.19	37.21
Loans and Advances	0.12	0.91	2.28	1.71	0.23

The above table shows that over the last five years, the percentage of expenditure on General Services (considered as non-developmental) has been gradually declining from 37.22 *per cent* (2003-04) to 30.40 *per cent* (2007-08). On the other hand, the percentage of developmental expenditure (Social and Economic Services) has been steadily increasing from 62.66 *per cent* in 2003-04 to 69.37 *per cent* in 2007-08. The increase in relative share of expenditure under Social Services was attributed to increase of expenditure of Rs.162.08 crore during 2007-08, which pushed down the relative share of expenditure under Economic Services.

### 1.4.3 Incidence of revenue expenditure

Revenue expenditure is incurred to maintain the current level of services and payment for the past obligations and as such does not result in any addition to the State's infrastructure and service network. Details are given in the table below:

**Table 1.12: Revenue Expenditure: Basic Parameters**

(Rupees in crore)					
	2003-04	2004-05	2005-06	2006-07	2007-08
Revenue Expenditure (Rupees in crore)	1,464	1,651	2,004	2,415	2,292
<i>of which</i>					
Non-Plan Revenue Expenditure (NPRE)	1,259	1,396	1,592	1,995	1,812
Plan Revenue Expenditure (PRE)	205	255	412	420	480
Rate of Growth ( <i>per cent</i> )					
NPRE	(-)1.33	10.88	14.04	25.31	(-) 9.17
PRE	47.48	24.39	61.57	1.94	14.29
NPRE/GSDP ( <i>per cent</i> )	30.99	34.69	33.92	30.69	31.77
NPRE as percentage of TE	73.80	63.69	59.38	59.75	53.17
NPRE as percentage of RR	88.66	80.09	66.09	69.68	51.65
<b>Buoyancy of Revenue Expenditure with</b>					
GSDP (ratio)	0.40	#	1.29	0.53	0.42
Revenue Receipts (ratio)	0.50	0.56	0.56	1.09	(-) 0.23

# Rate of growth of GSDP was negative but that of Revenue expenditure was positive

Revenue expenditure increased by 57 *per cent* from Rs.1,464 crore in 2003-04 to Rs.2,292 crore in 2007-08. The revenue expenditure at Rs.1464 crore in 2007-08 was lower by Rs.123 crore over the previous year mainly due to decrease of Rs.183 crore in NPRE which was partly offset by an increase of Rs.60 crore in PRE. A decrease in NPRE by Rs.183 crore during the current year was mainly in Energy sector (Rs.276.46 crore)<sup>4</sup>, Pension and other retirement benefits (Rs.33.16 crore) and Transport (Rs.32.96 crore) partly compensated by increase in Education, Sports, Art & Culture (Rs.20.22 crore), Social Welfare & Nutrition (Rs.23.22 crore) and Election (Rs.13.18 crore). The actual NPRE *vis-à-vis* assessments made by the TFC and State Government (Table 1.13) reveals that despite a fall in NPRE during the current year, it not only exceeded the assessment made by State Government but also the normative assessment made by the TFC. As regards PRE, increase of Rs.60 crore was attributed to increase of Rs.44.26 crore under Economic Services and Rs.16.70 crore under Social Services offset by decrease of Rs.1.05 crore under General Services.

**Table 1.13: NPRE in 2007-08 *vis-à-vis* Projections**

(Rupees in crore)				
	Assessment made by TFC	Assessment made by State Government		Actual NPRE
		FCP	MTFPS	
NPRE	1,562.92	1,780.65	1,774.82	1,812

Source: Finance Accounts, TFC and records of the Finance Department

<sup>4</sup> Decrease of Rs.276.46 crore under Energy Sector during 2007-08 was mainly attributed to decrease in payment on account of power purchase by Rs.257.58 crore.

## 1.4.4 Committed Expenditure

### 1.4.4.1 Salaries and Wages

**Table 1.14: Expenditure on Salaries and Wages**

	2003-04	2004-05	2005-06	2006-07	2007-08
Expenditure on Salaries & Wages*	667	731	872	813	928 <sup>5</sup>
<i>of which,</i>					
Non-plan Head	636	702	837	779	884
Plan Head**	31	29	35	34	44
As a <i>per cent</i> of GSDP	16.42	18.17	18.58	12.51	16.27
As a <i>per cent</i> of RR	46.97	41.94	36.20	28.40	26.45

Source: VLC records

\* Figures of Wages are based on the data from VLC

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

Salary expenditure increased steadily during the period 2003-08 with a dip in 2006-07. There was a one time payment of DA arrears to Government employees during 2005-06 resulting in steep increase in salary expenditure over the previous year. During 2007-08 there was also an increase in dearness allowance (DA)<sup>6</sup> (Rs.70 crore); merger of 50 *per cent* DA with Dearness Pay (Rs.13 crore); and normal increment (Rs.12 crore). This has led to sharp increase of salary expenditure by Rs.115 crore during 2007-08. As a result, the total salary bill under the non-plan heads relative to non-plan revenue expenditure net of interest payment and pension increased to 68 *per cent* during the current year and thus far exceeded the 35 *per cent* ceiling limit set by the FRBM Act in pursuance to TFC recommendations. However, relative to Revenue Receipts, salary expenditure has steadily declined from 47 *per cent* in 2003-04 to 26 *per cent* in 2007-08.

### 1.4.4.2 Pension payments

**Table 1.15: Expenditure on pension**

	2003-04	2004-05	2005-06	2006-07	2007-08
Expenditure on pension	166	182	168*	239	206
As <i>per cent</i> of GSDP	4.09	4.52	3.58	3.68	3.61
As <i>per cent</i> of RR	11.69	10.44	6.97	8.35	5.87

\* excluding Rs.17.29 crore booked under the Major Head 8658 – Suspense Accounts.

Reduction of pension payment from Rs.239 crore during 2006-07 to Rs.206 crore during 2007-08 was mainly due to the one time payment of arrears of dearness relief of Rs.30 crore during 2006-07 resulting in a steep increase over the previous year. The actual pension payment *vis-à-vis* projections are given below:

<sup>5</sup> Salaries: Rs.926 crore, Wages: Rs.2 crore

<sup>6</sup> From 64 *per cent* to 74 *per cent*.

**Table 1.16: Actual Pension Payments *vis-à-vis* projections for the year 2007-08**

	(Rupees in crore)			
	Assessment made by TFC	Assessment made by the State Government		Actual pension payment
		FCP	MTFPS	
Pension payments	245.36	236.35	197.94	206

Actual pension payment during the current year was lower than the projection made in FCP and the normative assessment made by TFC. However, it exceeded the projection made in the MTFPS. The Government of Manipur, however, has adopted the new Restructured Defined Contribution Pension Scheme of the GOI *mutatis mutandis* in respect of new entrants to the State's service with effect from 1 January 2005. This would mitigate the impact of rising pension liabilities in future.

#### 1.4.4.3 Interest payments

**Table 1.17: Interest payments**

Year	Total Revenue receipts	Interest Payments	(Rupees in crore)	
			Percentage of Interest Payments with reference to	
			Revenue Receipts	Revenue Expenditure
2003-04	1,420	215	15.14	14.69
2004-05	1,743	266	15.26	16.11
2005-06	2,409	238*	9.88	11.88
2006-07	2,863	289	10.09	11.97
2007-08	3,508	298	8.49	13.00

\* In 2005-06, interest of Rs.13.35 crore paid on Power Bonds was depicted under Major Head 2801 – Power.

The above table shows that although the State's expenditure on interest payments has been rising over the years, its ratio to the revenue receipts reduced steadily - from 15.14 *per cent* in 2003-04 it dropped to 8.49 *per cent* in 2007-08. The current year's payment consisted of interest on internal debt (Rs.145.36 crore), interest on loans received from the Central Government (Rs.98.77 crore), interest on Small Savings, Provident Fund *etc.* (Rs.54.37 crore). The actual interest payment *vis-à-vis* projections are given below:

**Table 1.18 Actual Interest payment *vis-à-vis* projections for the year 2007-08**

	(Rupees in crore)			
	Assessment made by TFC	Assessment made by the State Government		Actual interest payment
		FCP	MTFPS	
Interest payments	371.50	284.09	294.49	298

While Interest payment during the year exceeded marginally the expectation set by the State Government, it was less than what was assessed by the TFC mainly due to low interest rate regime as well as the re-schedulement of the GOI loans at lower rate of interest for the next 20 years under DCRF.

#### 1.4.4.4 Subsidies

During the current year, an amount of Rs.25.47 lakh was given by the State Government as subsidy. Animal Husbandry received the major share (Rs.18.29 lakh); and Social Welfare and Nutrition (Rs.5.44 lakh). This is a

sharp decrease from an amount of Rs.2.57 crore given as subsidy by the State Government during 2006-07.

## 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, the ratio of capital expenditure to total expenditure as well as to GSDP and proportion of revenue expenditure spent on running the existing social and economic services efficiently and effectively would determine the quality of expenditure. The higher the ratio of these components to total expenditure and GSDP, the better is the quality of expenditure. The table below gives these ratios for the period 2003-08.

**Table 1.19: Indicators of Quality of Expenditure**

	(Rupees in crore)				
	2003-04	2004-05	2005-06	2006-07	2007-08
<b>Capital expenditure</b>	<b>240</b>	<b>521</b>	<b>616</b>	<b>867</b>	<b>1,108</b>
<b>Revenue expenditure</b>	<b>1,464</b>	<b>1,651</b>	<b>2,004</b>	<b>2,415</b>	<b>2,292</b>
Of which					
Social and Economic Services with	837	947	1,282	1,541	1,360
(i) Salary & Wage Component	484	530	619	568	649
(ii) Non-Salary & Wage component	353	417	663	973	711
<b>As per cent of Total Expenditure excluding loans and advances</b>					
Capital Expenditure	14.08	23.99	23.51	26.42	32.59
Revenue Expenditure	85.92	76.01	76.49	73.58	67.41
<b>As per cent of GSDP</b>					
Capital Expenditure	5.91	12.95	13.13	13.34	19.42
Revenue Expenditure	36.04	41.03	42.70	37.15	40.18

The capital expenditure relative to the total expenditure as well as to the GSDP has been steadily rising over the last five years. Capital expenditure was mainly incurred on Transport (Rs.230 crore), Water Supply, Sanitation & Housing (Rs.172 crore), Irrigation & Flood Control (Rs.164 crore), Power (Rs.153 crore) and Education, Sports, Art & Culture (Rs.120 crore). The share of revenue expenditure in the total expenditure on the other hand has been declining over the years indicating a shift towards capital expenditure. Within the revenue expenditure, the share of salary component (Social and Economic Services) has gradually declined from 33 *per cent* in 2003-04 to 28 *per cent* in 2007-08 while the share of non-salary component (Social and Economic Services) has correspondingly increased from 24 to 31 *per cent* during this period. Assuming that capital expenditure incurred is on creating physical and social infrastructure and non-salary component of revenue expenditure is on efficient running and maintenance of social and economic services, then trends presented in the table would tend to indicate improvement in quality of development expenditure in the State during the period.

### 1.5.2 Expenditure on Social Services

Given the fact that the human development indicators such as access to basic education, health services and drinking water and sanitation facilities *etc.* have a strong linkage with eradication of poverty and economic progress, it would

be prudent to make an assessment with regard to the expansion and efficient provision of these services in the State. The table below summarizes the expenditure incurred by the State Government in expanding and strengthening Social Services in the State during 2003-08:

**Table 1.20: Expenditure on Social Services**

(Rupees in crore)

	2003-04	2004-05	2005-06	2006-07	2007-08
<b>Education, Sports, Art and Culture</b>					
<b>Revenue Expenditure</b>	<b>291</b>	<b>325</b>	<b>412</b>	<b>386</b>	<b>409</b>
Of which					
(a) Salary & Wage component	204	221	250	250	261
(b) Non-salary & Wage component	87	104	162	136	148
<b>Capital Expenditure</b>	<b>14</b>	<b>71</b>	<b>10</b>	<b>47</b>	<b>120</b>
<b>Sub total</b>	<b>305</b>	<b>396</b>	<b>422</b>	<b>433</b>	<b>529</b>
<b>Health and Family Welfare</b>					
<b>Revenue Expenditure</b>	<b>67</b>	<b>61</b>	<b>78</b>	<b>68</b>	<b>93</b>
Of which					
(a) Salary & Wage component	51	54	67	61	82
(b) Non-salary & Wage component	16	7	11	7	11
<b>Capital Expenditure</b>	<b>8</b>	<b>6</b>	<b>5</b>	<b>29</b>	<b>62</b>
<b>Sub total</b>	<b>75</b>	<b>67</b>	<b>83</b>	<b>97</b>	<b>155</b>
<b>Water Supply, Sanitation, Housing and Urban Development</b>					
<b>Revenue Expenditure</b>	<b>20</b>	<b>33</b>	<b>73</b>	<b>63</b>	<b>37</b>
Of which					
(a) Salary & Wage component	17	19	24	20	23
(b) Non-salary & Wage component	3	14	49	43	14
<b>Capital Expenditure</b>	<b>69</b>	<b>167</b>	<b>101</b>	<b>188</b>	<b>172</b>
<b>Sub total</b>	<b>89</b>	<b>200</b>	<b>174</b>	<b>251</b>	<b>209</b>
<b>Other Social Services</b>					
<b>Revenue Expenditure</b>	<b>89</b>	<b>104</b>	<b>121</b>	<b>147</b>	<b>179</b>
Of which					
(a) Salary & Wage component	31	30	40	35	41
(b) Non-salary & Wage component	58	74	81	112	138
<b>Capital Expenditure</b>	<b>6</b>	<b>14</b>	<b>14</b>	<b>7</b>	<b>24</b>
<b>Sub total</b>	<b>95</b>	<b>118</b>	<b>135</b>	<b>154</b>	<b>209</b>
<b>Total (Social Services)</b>	<b>564</b>	<b>781</b>	<b>814</b>	<b>935</b>	<b>1,096</b>
<b>Revenue Expenditure</b>	<b>467</b>	<b>523</b>	<b>684</b>	<b>664</b>	<b>718</b>
Of which					
(a) Salary & Wage component	303	324	381	367	407
(b) Non-salary & Wage component	164	199	303	297	311
<b>Capital Expenditure</b>	<b>97</b>	<b>258</b>	<b>130</b>	<b>271</b>	<b>378</b>

Expenditure on Social Services increased from Rs.564 crore in 2003-04 to Rs.1,096 crore (94 per cent increase) in 2007-08. However, bulk of this expenditure was on revenue account ranging from 66 per cent (2007-08) to 84 per cent (2005-06). Expenditure on Social Services was distributed over four heads, i.e. Education, Sports, Art and Culture (48 per cent); Water Supply, Sanitation, Housing and Urban Development (19 per cent); Other Social Services (19 per cent) and Health and Family Welfare (14 per cent). The table also discloses that major portion of the expenditure was on revenue account except in the case of Water Supply, Sanitation, Housing and Urban Development and that bulk of the expenditure was on salary and wages.

Recognizing the need to improve the quality of education and health services, TFC recommended that the non-plan salary expenditure under education and health and family welfare should increase only by five to six per cent while non-salary expenditure under non-plan heads should increase by 30 per cent

per annum during the award period. However, trends in expenditure (taking plan and non-plan together) revealed that increase in salary expenses on Education was negligible (0.04 *per cent*) and 4.4 *per cent* during 2006-07 and 2007-08 respectively over the corresponding previous years while in Health sector it was minus 8.9 and 34.40 *per cent* during the same period. Similarly increase in non-salary expenses was (-) 16 and 8.8 *per cent* in education and (-)36.36 and 57.14 *per cent* in health sector during the years 2006-07 and 2007-08 respectively. It is imperative to make changes in the expenditure pattern in these priority sectors to ensure conformity to TFC norms.

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

The expenditure on Economic Services includes all such expenditure that promotes, directly or indirectly, the productive capacity of the State's economy. The State's total expenditure in this sector had been increasing during the last five years (2003-04: Rs.505 crore to 2007-08: Rs.1,268 crore) and accounted for 37.21 *per cent* of total expenditure and 53.64 *per cent* of the development expenditure during the current year. The composition of expenditure under Economic Sectors except for Transport Sector exhibited relative stability during the period. In Transport Sector it increased to 23 *per cent* of the total expenditure during 2007-08 from 17 *per cent* during 2003-04. Under the Capital head, the expenditure increased steadily and accounted for 49.37 *per cent* under the sector during the current year. In fact, the capital expenditure under Irrigation & Flood Control and Transport far exceeded the revenue expenditure under these heads.

**Table 1.21: Expenditure on Economic Services**

(Rupees in crore)

	2003-04	2004-05	2005-06	2006-07	2007-08
<b>Agriculture, Allied Activities</b>					
<b>Revenue Expenditure</b>	<b>95</b>	<b>107</b>	<b>144</b>	<b>156</b>	<b>212</b>
Of which					
(a) Salary & Wage component	65	73	90	78	86
(b) Non-salary & Wage component	30	34	54	78	126
<b>Capital Expenditure</b>	<b>4</b>	<b>12</b>	<b>12</b>	<b>4</b>	<b>4</b>
<b>Sub total</b>	<b>99</b>	<b>119</b>	<b>156</b>	<b>160</b>	<b>216</b>
<b>Irrigation and Flood Control</b>					
<b>Revenue Expenditure</b>	<b>37</b>	<b>34</b>	<b>44</b>	<b>41</b>	<b>39</b>
Of which					
(a) Salary & Wage component	23	25	31	28	30
(b) Non-salary & Wage component	14	9	13	13	9
<b>Capital Expenditure</b>	<b>31</b>	<b>39</b>	<b>139</b>	<b>258</b>	<b>164</b>
<b>Sub total</b>	<b>68</b>	<b>73</b>	<b>183</b>	<b>299</b>	<b>203</b>
<b>Power &amp; Energy</b>					
<b>Revenue Expenditure</b>	<b>101</b>	<b>127</b>	<b>194</b>	<b>433</b>	<b>156</b>
Of which					
(a) Salary & Wage component	36	38	44	41	42
(b) Non-salary & Wage component	65	89	150	392	114
<b>Capital Expenditure</b>	<b>29</b>	<b>39</b>	<b>29</b>	<b>61</b>	<b>153</b>
<b>Sub total</b>	<b>130</b>	<b>166</b>	<b>223</b>	<b>494</b>	<b>309</b>
<b>Transport</b>					
<b>Revenue Expenditure</b>	<b>42</b>	<b>31</b>	<b>45</b>	<b>100</b>	<b>67</b>
Of which					
(a) Salary & Wage component	16	17	22	18	23
(b) Non-salary & Wage component	26	14	23	82	44
<b>Capital Expenditure</b>	<b>35</b>	<b>88</b>	<b>76</b>	<b>83</b>	<b>230</b>
<b>Sub total</b>	<b>77</b>	<b>119</b>	<b>121</b>	<b>183</b>	<b>297</b>
<b>Other Economic Services</b>					
<b>Revenue Expenditure</b>	<b>96</b>	<b>125</b>	<b>171</b>	<b>148</b>	<b>168</b>
Of which					
(a) Salary & Wage component	41	53	51	37	61
(b) Non-salary & Wage component	55	72	120	111	107
<b>Capital Expenditure</b>	<b>35</b>	<b>71</b>	<b>42</b>	<b>59</b>	<b>75</b>
<b>Sub total</b>	<b>131</b>	<b>196</b>	<b>213</b>	<b>207</b>	<b>243</b>
<b>Total (Economic Services)</b>	<b>505</b>	<b>673</b>	<b>896</b>	<b>1343</b>	<b>1,268</b>
<b>Revenue Expenditure</b>	<b>371</b>	<b>424</b>	<b>598</b>	<b>878</b>	<b>642</b>
Of which					
(a) Salary & Wage component	181	206	238	202	242
(b) Non-salary & Wage component	190	218	360	676	400
<b>Capital Expenditure</b>	<b>134</b>	<b>249</b>	<b>298</b>	<b>465</b>	<b>626</b>

The trends in revenue and capital expenditure on Economic Services indicate that capital expenditure increased by 376 per cent from Rs.134 crore ( 27 per cent of total expenditure) in 2003-04 to Rs.626 crore (49 per cent of the total expenditure) in 2007-08. On the other hand revenue expenditure increased steadily by 137 per cent from Rs.371 crore (73 per cent of the total expenditure) in 2003-04 to Rs.878 crore (65 per cent of the total expenditure) in 2006-07 which however sharply declined to Rs.642 crore (51 per cent of the total expenditure) in 2007-08 primarily due to fall in expenditure in power sector for the purchase of power. An increase of Rs.161 crore (35 per cent) in capital expenditure in 2007-08 over the previous year led to increase in its share in total expenditure incurred on economic services from 35 per cent in 2006-07 to 49 per cent in 2007-08 suppressing the share of revenue expenditure correspondingly from 65 per cent and 51 per cent respectively. Within the revenue expenditure, the share of salary component decreased from

49 per cent in 2003-04 to 38 per cent during 2007-08 with inter year variations and the share of non-salary component has correspondingly increased during the period from 51 per cent to 62 per cent.

#### 1.5.4 Financial Assistance to Local Bodies and other Institutions

The quantum of assistance provided by way of grants to local bodies and others during the five year period 2003-08 is presented in the table below:

**Table 1.22: Financial Assistance**

	(Rupees in crore)				
	2003-04	2004-05	2005-06	2006-07	2007-08
Educational Institutions (Aided Schools, Aided Colleges, Universities etc.)	28.90	45.19	75.71	40.20	40.50
Municipal Corporations and Municipalities	1.54	2.12	1.84	0.87	1.93
Other Institutions	0.69	0.78	1.03	1.25	0.84
<b>Total</b>	<b>31.13</b>	<b>48.09</b>	<b>78.58</b>	<b>42.32</b>	<b>43.27</b>
Assistance as percentage of RE	2.13	2.91	3.92	1.75	1.89

The total financial assistance given during 2007-08 was Rs.43.27 crore and it constituted only a small percentage of revenue expenditure at 1.89 per cent. The trends indicate that the major portion of financial assistance was given to the educational institutions during 2003-08.

#### 1.5.5 Non-submission of accounts

The accounts of the Manipur State Legal Services Authority, which are to be audited under Section 19(2) of the Comptroller & Auditor General's (Duties, Powers and Conditions of Service) Act 1971, were due for the years 2005-08.

### 1.6 Assets and liabilities

In the Government accounting system, comprehensive accounting of the fixed assets like land and buildings owned by Government is not done. However, the Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred by the Government. *Appendix 1.5* gives a picture of such liabilities and the assets as on 31 March 2008, compared with the corresponding position on 31 March 2007. While the liabilities 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, loans and advances given by the State Government and the cash balances.

*Appendix 1.5* shows that the increase in liabilities was mainly on account of market borrowings, small savings, and deposits. The liabilities of the Government depicted in the Finance Accounts, however, do not include pension, other retirement benefits payable to serving/retired State employees and guarantees issued by the State Government.

On the assets side, there was an increase of 20.37 per cent in the capital outlay on fixed assets, and large increase in the cash balance, comprising mainly of the cash balance investment account with the RBI, which started with an

opening balance of Rs.319.11 crore and ended with a closing balance of Rs.628.18 crore.

### 1.6.1 Incomplete projects

As on 31 March 2008, there were 13 projects of the Public Works Department due to be completed by the close of the current financial year. Against the total budgeted cost of Rs.21.45 crore on these projects, the Government has already spent Rs.10.12 crore but these projects are yet to be completed. These incomplete projects had a time overrun ranging from three months to sixty-seven months as on 31 March 2008.

### 1.6.2 Investments and returns

The table below shows that the Government had invested Rs.174 crore in Statutory Corporations, Government Companies and Co-operative Institutions up to the end of 2007-08, but there was negligible return on its investments showing that the investments were not economically viable. While on the one hand, the Government was not earning any profit from these investments, on the other hand, it was paying interest on its borrowings at an average rate of 6.84 per cent.

**Table 1.23: Return on investment**

(Rupees in crore)					
Year	Investment at the end of the year	Return	Percentage of return	Average rate of interest on Government borrowing (in per cent)	Difference between interest rate and return (in per cent)
2003-04	144	0.08	0.06	9.50	9.44
2004-05	162	0.08	0.05	9.88	9.83
2005-06	173	*	—	6.81	6.81
2006-07	173	—	—	7.14	7.14
2007-08	174 <sup>7</sup>	0.05	0.03	6.84	6.81

\* Only Rs.2,730

Investments as on 31 March 2008 were made in two Statutory Corporations, 15 Government companies and in a number of Co-operative banks and societies. Major investments were made in Manipur State Road Transport Corporation (Rs.41.56 crore), Manipur Spinning Mills Corporation Ltd. (Rs.33.89 crore), Manipur Handloom and Handicrafts Development Corporation Ltd. (Rs.11.79 crore) and Manipur State Co-operative Bank Ltd. (Rs.21.99 crore). Of these, Manipur State Road Transport Corporation has already been liquidated and Manipur Spinning Mills Corporation Ltd. is going in for liquidation. Manipur Handloom and Handicrafts Development Corporation Ltd. is a loss making company and till the year (1987-88) for which accounts were finalized, the accumulated losses amounted to Rs.2.21 crore.

<sup>7</sup> Difference in investment figures shown in the Table and Appendix 7.1 of Commercial Chapter is under reconciliation.

### 1.6.3 Loans and advances by the Government

Apart from investments in co-operatives, corporations and companies, the State Government has also been providing support in terms of loans and advances to many organizations; and at the end of 2007-08 such advances stood at Rs.198.79 crore. The table below shows that interest received as percentage of outstanding loans and advances was much less than the average interest rate paid on Government borrowings. The table shows that during 2007-08 there was significant improvement in repayment of loans and the quantum of loans advanced was also restricted significantly.

**Table 1.24: Average interest received on loans advanced by the Government**  
(Rupees in crore)

	2003-04	2004-05	2005-06	2006-07	2007-08
Opening balance	56.04	57.52	77.21	137.16	193.11
Amount advanced during the year	1.96	20.27	60.59	56.85	7.97
Amount repaid during the year	0.48	0.58	0.64	0.90	2.29
Closing balance	57.52	77.21	137.16	193.11	198.79
Net Addition	1.48	19.69	59.95	55.95	5.68
Interest received	0.19	0.26	0.52	0.70	0.56
Interest received as <i>per cent</i> to average outstanding loans and advances	0.33	0.39	0.49	0.42	0.28
Average interest rate (in <i>per cent</i> ) paid on borrowings by State Government	9.50	9.88	6.81	7.14	6.84
Difference between average interest paid and received ( <i>per cent</i> )	9.17	9.49	6.32	6.72	6.56

Major recipients of loans during 2007-08 were other village industries (Rs.4.12 crore) and advance for purchase of motor conveyance (Rs.3.72 crore). Major portion of the outstanding loans of Rs.198.79 crore were with Social Welfare (Rs.130.35 crore), Housing (Rs.18.13 crore) and Co-operation (Rs.15.78 crore). While the State Government earned less than one *per cent* interest over loans and advances made by it during the last five years against TFC norm of 5 *per cent*, it was paying much higher rate on its borrowing during 2003-08 ranging from 6.81 to 9.88 *per cent*.

### 1.6.4 Management of cash balances

It is generally desirable that State's flow of resources should match its expenditure obligations. However, to take care of any temporary mismatches in the flow of resources and the expenditure obligations, a mechanism of Ways and Means Advances from RBI has been put in place. The operative limit for Normal Ways and Means Advances is reckoned on the three year average of revenue receipts and the operative limit for Special Ways and Means Advances is fixed by the RBI from time to time depending on the holding of Government securities. The limit for Normal Ways and Means Advances has been fixed at Rs.60 crore while Special Ways and Means Advances has been fixed up to a maximum of Rs.4.29 crore against the pledge of GOI securities.

During 2007-08, the State Government had to resort to ways and means advance of Rs.38.79 crore for seven days for which an interest of Rs. three lakh had to be incurred. The details are depicted in the table below:

**Table 1.25: Ways and Means Advances and Overdrafts**

	2003-04	2004-05	2005-06	2006-07	2007-08
<b>(Rupees in crore)</b>					
<b>Ways and Means Advance</b>					
Availed in the year	247.07	191.24	90.90	—	38.79
Outstanding WMAs	55.31	54.83	—	—	-
Interest paid	2.99	1.22	2.51	—	0.03
Number of days	48	35	127	—	7
<b>Overdraft</b>					
Availed in the year	215.20	50.31	6,520.20	—	-
Number of days	212	119	44	—	-
Interest paid	1.71	9.16	1.99	—	-

However, the trends in cash balances of the State indicate that during 2005-06, the State had a closing balance of Rs.31.79 crore which turned into a negative balance of minus Rs.42.93 crore during 2006-07. However, due to huge revenue surplus to the tune of Rs.1,216 crore, the State could achieve a huge closing balance of Rs.540.23 crore at the end of 2007-08.

## **1.7 Undischarged liabilities**

### **1.7.1 Fiscal Liabilities – Public Debt and Guarantees**

There are two sets of liabilities namely, public debt and other liabilities. Public debt consists of internal debt of the State and is reported in the Annual Financial Statements under the Consolidated Fund – Capital Account. It includes market loans, special securities issued by RBI and loans and advances from the Central Government. As per the FRBM Act, total liabilities are taken as the sum of the liabilities under the Consolidated Fund of the State and the Public Account of the State.

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 schemes, provident funds and other deposits.

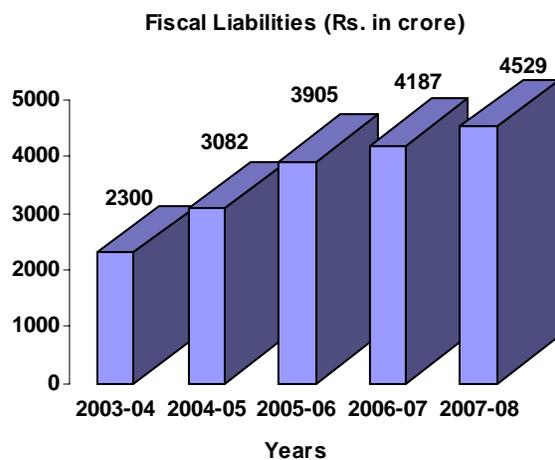
The table below gives the fiscal liabilities of the State, its rate of growth, ratio of these liabilities to GSDP, to revenue receipts and to own resources as also the buoyancy of fiscal liabilities with respect to these parameters:

Table 1.26: Fiscal Liabilities – Basic Parameters

	2003-04	2004-05	2005-06	2006-07	2007-08
Fiscal Liabilities (Rupees in crore)	2,300	3,082	3,905	4,187	4,529
Rate of Growth ( <i>per cent</i> )	3.37	34.00	26.70	7.22	8.17
<b>Ratio of Fiscal Liabilities to</b>					
GSDP ( <i>per cent</i> )	56.62	76.59	83.21	64.41	79.40
Revenue Receipt ( <i>per cent</i> )	162.00	176.85	162.10	146.24	129.09
Own Resources ( <i>per cent</i> )	1,949.15	2,041.06	2,283.63	1,381.85	1,451.60
<b>Buoyancy of Fiscal Liabilities to</b>					
GSDP (ratio)	0.39	#	1.61	0.19	#
Revenue Receipt (ratio)	0.49	1.49	0.70	0.38	0.36
Own Resources (ratio)	*	1.22	2.02	0.09	2.75

# Rate of growth of GSDP was negative,\* Own resources had a negative growth

The above table shows that the rate of growth of the fiscal liabilities has gone up significantly during the last five years from Rs.2,300 crore in 2003-04 to Rs. 4,529 crore in 2007-08 which is also depicted in the bar-diagram below:



The fiscal liabilities comprised of Public Debt (Rs.2290.45 crore) and Small Savings, Provident Funds etc. (Rs.1381.62 crore), Interest bearing Deposits (Rs.6.78 crore) and Non-Interest bearing Deposits (Rs.849.92 crore). The increase during 2007-08 was mainly because of rise in internal debt (Rs.189.97 crore) and small savings, provident fund *etc.* (Rs.252.33 crore). The increasing liabilities tend to adversely impact the future cash flow of the State by way of servicing these liabilities, if the returns are not commensurate with the cost of these liabilities.

The State Government had set up (February 2008) a consolidated Sinking Fund for amortization of market borrowings, other loans and debt obligations, as per the recommendation of the TFC, but had not transferred any amount in this Fund during the current year.

### 1.7.2 Status of Guarantees – Contingent Liabilities

Guarantees are liabilities contingent on the Consolidated Fund of the State in case of default by the borrower to whom the guarantee has been extended.

As per Section 3 of the Manipur Ceiling on State Government Guarantee Act, 2004 (Act), the total outstanding guarantees as on 1 April of any year shall not exceed thrice the State's own tax revenue receipts of the second preceding year. During the current year the outstanding amount of guarantees was reduced to Rs.211 crore from last year figure of Rs.251 crore. The outstanding amount was also kept within the limit of the Act *ibid*.

**Table 1.27: Guarantees given by the Government**

(Rupees in crore)				
Year	Maximum amount guaranteed	Outstanding amount of guarantees	State's OTR in second preceding year	Outstanding Guarantees vis-à-vis Ceiling limit fixed under the Act
2003-04	214	22	51	Within the Ceiling Limit
2004-05	214	22	65	-do-
2005-06	247	209	68	Exceeded the Limit by Rs.5 crore
2006-07	194	251	81	Exceeded the Limit by Rs.8 crore
2007-08	207	211	95	Within the Ceiling Limit

During 2007-08 the principal beneficiaries of the guarantees were Planning & Development Authority (Rs.136.52 crore), Khadi & Village Industries (Rs.40.65 crore) and Manipur Tribal Development Corporation (Rs.9.59 crore). No guarantee fee has, however, been realized during these years. The State Government had set up (February 2008) a guarantee redemption fund to meet the contingent liabilities arising from such guarantees, as per the recommendation of the TFC but had not transferred any amount in this Fund during the current year.

### 1.7.3 Debt Sustainability

Debt sustainability is defined as the ability of the State to maintain a constant debt-GSDP ratio over a period of time and also embodies the concern about the ability of the State 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 the increase in capacity to service the debt. A prior condition for debt sustainability is debt stabilization in terms of debt/GSDP ratio.

### 1.7.4 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-GDP ratio is likely to be stable provided primary balances are either zero or positive or are moderately negative. Given the rate spread (GSDP growth rate–interest rate) and quantum spread (debt x rate spread), debt sustainability condition states that if quantum spread together with primary deficit is zero, debt-GSDP ratio would be constant or debt would stabilise eventually. On the other hand, if primary deficit together with quantum spread turns out to be negative, debt-GSDP ratio would be rising and in case it is positive, debt-GSDP ratio

would eventually be falling. Trends in fiscal variables indicating the progress towards debt stabilisation are indicated in the table below:

**Table 1.28: Debt sustainability – Interest Rate and GSDP Growth (in per cent)**

	2003-04	2004-05	2005-06	2006-07	2007-08
Average Interest Rate	9.50	9.88	6.81	7.14	6.84
GSDP Growth	8.61	(-)0.94	16.63	38.53	(-) 12.26
Interest spread	(-)0.89	(-)10.82	9.82	31.39	(-) 19.10
Outstanding fiscal liabilities (Rs. in crore)	2224.55	2299.63	3082.11	3904.83	4,187.23
Quantum Spread (Rs. in crore)	(-)19.80	(-)248.82	302.66	1225.73	(-) 799.76
Primary Deficit (Rs. in crore)	(-)71.00	(-)182.00	(-)33.00	(-)186.00	(+) 400.00

It is revealed from the Table that primary deficit together with quantum spread turned out to be negative during the first two years (2003-05) indicating increasing debt- GSDP ratio as well as FD-GSDP ratio. However, during the next two years (2005-07) the positive quantum spread exceeded the primary deficit reversing the trend and bringing the ratio of fiscal liabilities to GSDP to around 64 per cent in 2006-07 which again rose to 79 per cent in the current year owing to huge negative quantum spread despite a primary surplus in the current year. Since the State has revenue surplus, debt could be sustained in the short run; but for its sustainability in the long run, it is necessary that the borrowed funds are able to generate adequate incremental revenue to service the debt obligations.

### 1.7.5 Sufficiency of Non-debt Receipts

Another indicator of 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 table below indicates the resource gap as defined for the period 2003-08:

**Table 1.29: Incremental Revenue Receipts and Revenue Expenditure (Rupees in crore)**

Period	Non-debt Receipts	Incremental		Total expenditure	Resource Gap
		Primary expenditure	Interest payments		
(1)	(2)	(3)	(4)	(5)	(6)
2003-04	92	169	(-) 40	129	(-) 37
2004-05	324	435	51	486	(-) 162
2005-06	666	517	(-) 28	489	177
2006-07	454	607	51	658	(-) 204
2007-08	645	59	10	69	576

The resource gap between non-debt receipts and total expenditure oscillated between negative and positive phases during the period 2003-08. While the gap was negative in 2007-08, it turned positive in the current year mainly due to decrease in non-plan revenue expenditure (Rs.183 crore) and increase in revenue receipts (Rs.645 crore). Trends indicate that positive resource gap was attained in those years wherein revenue receipts comprised of more than 90 per cent by Central transfers.

### 1.7.6 Net Availability of Funds

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. they 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.

The table below gives the position of the receipt and repayment of internal debt and other fiscal liabilities of the State over the last five years:

**Table 1.30: Net Availability of Borrowed Funds**

(Rupees in crore)

	2003-04	2004-05	2005-06	2006-07	2007-08
<b>Internal debt</b>					
Receipts	812	325	304	260	291
Repayment (Principal + Interest)	706	437	238	160	247
Net Fund Available	106	(-) 112	66	100	44
Net Fund Available ( <i>per cent</i> )	13.05	-	21.71	38.46	15.12
<b>Loans and Advances from Government of India</b>					
Receipts	527	1,027	5	6	8
Repayment (Principal + Interest)	724	491	168	365	344
Net Fund Available	(-)197	536	(-) 163	(-)359	(-) 336
Net Fund Available ( <i>per cent</i> )	-	52.19	-	-	-
<b>Other obligations</b>					
Receipts	155	303	887	560	721
Repayment (Principal + Interest)	205	211	204	308	387
Net Fund available	(-) 50	92	683	252	334
Net Fund available ( <i>per cent</i> )	-	30.36	77	45	46.32
<b>Total liabilities</b>					
Receipts	1,494	1,655	1,196	826	1,020
Repayment (Principal + Interest)	1,635	1,139	610	833	978
Net Funds Available	(-)141	516	586	(-)7	42
Net Funds Available ( <i>per cent</i> )	-	31.18	49.00	-	4.12

The debt redemption ratio has widely fluctuated during the period 2003-08 and remained more than unity in 2003-04 and 2006-07 while it varied between 4 to 49 *per cent* in the remaining years. It was observed from the trends of net availability of funds during the period under review that the debt repayments were either more than or almost equal to the debt receipts in those years (2003-04, 2006-07 and 2007-08) wherein repayments of GOI loans were significantly higher than their receipts and the repayments in public account were either exceeded or marginally lower than the receipts.

### 1.8 Management of deficits

Deficit in Government accounts represents the gap between its receipts and expenditure. The nature of the deficit is an indicator of the prudence of fiscal management of the Government. Further, the ways in which the deficit is

financed and the borrowed resources are applied and used by the Government are important pointers to its fiscal health.

### 1.8.1 Trends in Deficits

The trends in fiscal parameters depicting the position of fiscal equilibrium in the State are presented in the table below:

**Table 1.31: Fiscal Imbalances – Basic Parameters**

Parameters	2003-04	2004-05	2005-06	2006-07	2007-08
Revenue deficit (-)/Revenue surplus(+) (Rupees in crore)	(-) 44.00	(+) 92.00	(+) 405.00	(+) 448.00	(+) 1,216
Fiscal deficit (-) (Rupees in crore)	(-) 286.00	(-) 448.00	(-) 271.00	(-) 475.00	(+) 102
Primary deficit (-)/Primary surplus(+) (Rupees in crore)	(-) 71.00	(-) 182.00	(-) 33.00	(-) 186.00	(+) 400
Revenue Surplus(+)/Deficit(-)/GSDP (per cent)	(-) 1.08	2.29	8.63	6.89	21.32
FD/GSDP (per cent)	(-)7.04	(-)11.13	(-) 5.77	(-) 7.31	1.79
Primary Surplus(+)/Deficit(-)/GSDP (per cent)	(-)1.75	(-)4.52	(-) 0.70	(-) 2.86	(+) 7.01
RD/FD (per cent)	15.38	*	*	*	*

\* Revenue remained surplus during these years

Revenue deficit of a State indicates excess of its revenue expenditure over its revenue receipts. The revenue account of the State had exhibited consistent improvement over the years as its revenue deficit turned into a surplus during the last four years. The revenue account of the State had not only maintained surplus during the period 2004-08 but also consistently improved its surplus. The Revenue surplus position has significantly improved (Rs. 768 crore) during the current year mainly on account of enhancement in revenue receipts by Rs. 645 crore (23 per cent) as against the decline of Rs. 123 crore in revenue expenditure over the previous year. The consistent position of revenue surplus has however been on account of significant share (exceeding 90 per cent) of revenue receipts of the State being contributed by Central transfers comprising of States' share in Union pool of taxes and duties and grants-in-aid from the GOI during the period 2003-08. During the current year, around 98.6 per cent of the incremental revenue receipts were contributed by the increase in Central transfers relative to previous year.

Despite an increase of Rs. 192 crore in capital expenditure including net loans and advances disbursed during 2007-08 over the previous year, the sharp increase in revenue surplus turned the fiscal deficit of Rs. 475 crore into a surplus of Rs. 102 crore during the current year. An improvement in fiscal deficit accompanied by an increase in interest payments (Rs.9 crore) turned the primary deficit of Rs. 186 crore in 2006-07 into the huge surplus of Rs.400 crore during the current year.

### 1.8.2 Quality of Deficit/Surplus

The ratio of RD to FD and the decomposition of Primary deficit into primary revenue deficit<sup>8</sup> and capital expenditure (including loans and advances) would

<sup>8</sup> 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

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 15 per cent in 2003-04 and thereafter it was wiped out and turned into surplus.

The bifurcation of the factors resulting into primary deficit or surplus of the State during the period 2003-2008 reveals (Table below) that the primary deficit in the first four years was on account of capital expenditure incurred and loans and advances disbursed by the State Government. In other words, non-debt receipts of the State were enough to meet the primary expenditure<sup>9</sup> requirements in the revenue account, and some receipts were left to meet the expenditure under the capital account during these years.

**Table 1.32: Primary deficit/surplus – Bifurcation of factors**

(Rupees in crore)							
Year	Non-debt receipts <sup>10</sup>	Primary revenue Expenditure	Capital Expenditure	Loans and Advances	Primary Expenditure	NDR vis-à-vis Primary Revenue Expenditure	Primary deficit <sup>11</sup> (-)/ Surplus (+)
(1)	(2)	(3)	(4)	(5)	(6)(3+4+5)	(7)(2-3)	(8)(2-6)
2003-04	1420	1,249	240	2	1,491	(+)171	(-) 71
2004-05	1,744	1,385	521	20	1,926	(+) 359	(-) 182
2005-06	2,410	1,766	616	61	2,443	(+) 644	(-) 33
2006-07	2,864	2,126	867	57	3,050	(+) 738	(-) 186
2007-08	3,510	1,994	1,108	8	3,110	(+) 1,516	(+) 400

## 1.9 Fiscal ratios

The finances of a State should be sustainable, flexible and non-vulnerable. The table below presents a summarized position of Government finances over the period 2003-08, with reference to certain key indicators that help to assess the adequacy and effectiveness of available resources and their application, highlights areas of concern and captures its important facets.

primary expenditure incurred under revenue account.

<sup>9</sup> Primary expenditure of the State defined as the total expenditure net of the interest payments indicates the expenditure incurred on the transactions undertaken during the year.

<sup>10</sup> Includes revenue receipts and recovery of loans and advances.

<sup>11</sup> Primary deficit defined as fiscal deficit net of interest payments indicates the extent of deficit which is an outcome of fiscal transaction of the State during the course of the year.

Table 1.33: Indicators of Fiscal health (in per cent)

Fiscal Indicators	2003-04	2004-05	2005-06	2006-07	2007-08
<b>I. Resource Mobilisation</b>					
Revenue Receipt/GSDP (per cent)	34.96	43.32	51.33	44.04	61.50
Revenue Buoyancy	0.80	#	2.30	0.49	#
Own tax/GSDP (per cent)	1.67	2.01	2.02	1.87	2.58
<b>II. Expenditure Management</b>					
Total expenditure/GSDP	42.00	54.47	57.13	51.36	59.75
Total Expenditure /Revenue Receipt	120.14	125.76	111.29	116.63	97.15
Revenue Expenditure / Total Expenditure	85.81	75.32	74.75	72.33	67.25
Salary & Wage expenditure on Social and Economic Services / Revenue Expenditure	33.06	32.10	30.89	23.62	28.32
Non-Salary & Wage expenditure on Social and Economic Services / Revenue Expenditure	24.11	25.26	33.08	40.29	31.02
Capital Expenditure / Total Expenditure*	14.08	23.99	23.51	26.42	32.59
Development expenditure/Total Expenditure *	62.73	66.94	65.23	69.41	69.53
Capital Expenditure on Social and Economic Services / Total Expenditure	13.54	23.13	15.96	22.04	29.46
Buoyancy of TE with RR	1.18	1.25	0.58	1.30	0.09
Buoyancy of RE with RR	0.50	0.56	0.56	1.09	(-) 0.23
<b>III. Management of Fiscal Imbalances</b>					
Revenue deficit (Rupees in crore)	(-) 44.00	(+) 92.00	(+) 405.00	(+) 448	(+) 1,216
Fiscal deficit (Rupees in crore)	(-) 286.00	(-) 448.00	(-) 271.00	(-) 475	(+) 102
Primary deficit (Rupees in crore)	(-) 71.00	(-) 182.00	(-) 33.00	(-) 186	(+) 400
Revenue deficit/Fiscal deficit (in per cent)	15.38	@	@	@	@
<b>IV. Management of Fiscal Liabilities (FL)</b>					
Fiscal Liabilities/GSDP	56.62	76.59	83.21	64.41	79.40
Fiscal Liabilities / RR	162.00	176.85	162.10	146.24	129.09
Buoyancy of FL with RR	0.49	1.49	0.70	0.38	0.36
Buoyancy of FL with Own Resources	(-) 1.02	1.21	2.01	0.09	2.75
Primary deficit vis-à-vis quantum spread	(-) 90.79	(-) 430.82	(+) 269.66	(+) 1039.73	1,199.76
Net Fund Available	(-) 9.44	31.18	49.00	0.85	4.12
<b>V. Other Fiscal Health Indicators</b>					
Return on Investment (Rupees in crore)	0.08	0.08	**0.00	-	0.05
Balance from Current Revenue (Rupees in crore)	(-) 509.00	(-) 532.00	(-) 232.00	(-) 325	32
Financial Assets / Liabilities	1.23	1.22	1.29	1.35	1.59

\* Total expenditure does not include Loans and Advances.

# GSDP growth was negative.

@ RD/FD ratio not calculated as there was revenue surplus.

\*\* Negligible

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 comprised of not only the tax and non-tax resources of the State but also the transfers from Union Government. The ratio of revenue receipts to GSDP during the current year was 62 per cent, an increase of 18 percentage points over the previous year. The increase was the outcome of both the increase in revenue receipts (23 per cent) and the decline of GSDP by 12 per cent over the previous year. The ratio of own taxes to GSDP also fluctuated widely during the period 2003-08 mainly due to wide variations in the rate of growth of GSDP during the period. During the current year, despite an increase of 20.5 per cent (Rs. 25 crore) in tax revenue, tax-GSDP ratio increased by 0.7 percentage points mainly due to a steep fall in GSDP during 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 revenue expenditure as a percentage to total expenditure consistently declined from 85 *per cent* in 2003-04 to 67 *per cent* during 2007-08 exhibiting an increasing trend in the ratio of capital expenditure to total expenditure. The ratio of revenue receipts to total expenditure during the period 2003-07 also declined indicating that dependence on borrowed funds has declined during these years. This is also reflected in the declining ratio of fiscal liabilities to revenue receipts during 2003-07. Increasing proportion of plan expenditure and capital expenditure in the total expenditure also indicates improvement in the quality of expenditure.

The sharp increase of revenue surplus of Rs.768 crore had a positive impact in reversing fiscal deficit and primary deficit to surplus. The Balance from Current Revenues (BCR) also turned to positive figure during the current year. Another encouraging trend is the ratio of fiscal assets to fiscal liabilities which not only remained greater than one during this period, but exhibited an increasing trend during these years.

### **1.10 Conclusion**

The fiscal position of the State viewed in terms of the key fiscal parameters - revenue surplus, fiscal deficit and primary deficit - indicated significant improvement during 2007-08 over the previous year. While revenue surplus nearly tripled, both fiscal and primary deficits turned into surplus during the current year. The targets set by FRBM Act as well as by TFC/FCP/MTFPS in terms of deficit indicators were achieved earlier than the time limit set for them. The improvement in fiscal position of the State should however be considered keeping in view the fact that significant share (exceeding 90 *per cent*) of revenue receipts of the State is contributed by Central transfers comprising of States' share in Union pool of taxes and duties and grants-in-aid from the GOI during the period 2003-08 and during the current year, around 98.6 *per cent* of the incremental revenue receipts were contributed by the increase in Central transfers relative to previous year. The expenditure pattern of the State reveals that although the revenue expenditure as a percentage of total expenditure declined from 86 *per cent* in 2003-04 to 67 *per cent* in the current year, NPPE continued to share the dominant proportion (79 *per cent*) during the current year. The NPPE at Rs. 1812 crore in 2007-08 remained significantly higher than the normatively assessed level of Rs.1563 crore by TFC for the year as well as the projections made by the State Government in its FCP and MTFPS for 2007-08. Further, the salaries and wages, pensions, interest payments and subsidies continued to consume a major share of NPPE, which was around 77 *per cent* during 2007-08. The continued prevalence of fiscal deficit during the period 2003-08 except in the current year when the State experienced fiscal surplus, indicates increasing reliance of the State on borrowed funds, resulting in increasing fiscal liabilities of the State over this period, which stood at 79.4 *per cent* of the GSDP in 2007-08 and further increases to 83 *per cent* after incorporating the contingent liabilities in the fold of total liabilities on Consolidated Fund of the State

during the year. This is high especially if compared with the norm of 31 *per cent* to be achieved by all the States by the terminal year of the TFC award period (2009-10). The increasing fiscal liabilities accompanied by a negligible rate of return on Government investments and inadequate interest cost recovery on loans and advances might lead to an unsustainable fiscal situation in medium to long run unless suitable measures are initiated to compress the non-plan revenue expenditure and to mobilize the additional resources both through the tax and non-tax sources in the ensuing years.