

CHAPTER I : AN OVERVIEW OF THE FINANCES OF THE STATE GOVERNMENT

1.1 Introduction

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

1.2 Financial position of the State

The Government accounting system does not attempt a comprehensive accounting of fixed assets, i.e., land and building, *etc.*, owned by Government. However, these accounts do capture the financial liabilities of Government and the assets created out of the expenditure incurred by it. Exhibit I (page 13) presents an abstract of such liabilities and the assets as on 31 March 2003, compared with the corresponding position on 31 March 2002. While the liabilities in this statement consist mainly of moneys owed by the State Government, such as internal borrowings, loans and advances from the Government of India, receipts from the public account and reserve funds, the assets comprise mainly the capital expenditure and loans and advances given by the State Government. Exhibit I shows that while the assets grew by 12 *per cent*, the liabilities increased by 13 *per cent*, mainly as a result of 25 *per cent* increase in internal debt. This shows a deterioration in the financial condition of the Government.

1.3 Sources and application of funds

Exhibit II (page 14) gives the position of sources and application of funds during the current and the preceding year. The main sources of funds include the revenue receipts of the Government, recoveries of loans and advances, public debt and receipts in the public account. These are applied mainly on revenue and capital expenditure and on lending for developmental and other purposes. Revenue receipts constituted the most significant source of fund for the State Government. Their relative share increased marginally from 82.61 *per cent* in 2001-02 to 83.16 *per cent* in 2002-03. The net receipts from public account went up significantly as it contributed 5 *per cent* share to the total sources against a negative 0.44 *per cent* during preceding year. The share of

public debt receipts increased from 8.86 *per cent* in 2001-02 to 11.11 *per cent* in 2002-03 mainly due to 201 *per cent* increase in receipt of loans and advances from Central Government compared to preceding year.

The application of funds was mainly on revenue expenditure, whose share went down from 85 *per cent* in 2001-02 to 78 *per cent* in the current year and also lower than the share of revenue receipts (83.16 *per cent*). This led to a revenue surplus of Rs.84.38 crore during 2002-03. Despite having revenue surplus against a revenue deficit during preceding year, the share of capital expenditure almost remained stagnant during the year (12 *per cent* in 2002-03 against 11.76 *per cent* in 2001-02), indicating hardly any improvement in asset formation.

1.4 Revenue Receipts

Revenue receipts of the State consist mainly of its own taxes and non-tax revenues, central tax transfers and grants-in-aid from Government of India. Overall revenue receipts of the State increased from Rs.833 crore in 1998-99 to Rs.1,289 crore in 2002-03 at an average trend rate of 12.6 *per cent*. Revenue growth after being significantly positive during 1998-2001 became negative in 2001-02, but improved during 2002-03 to a positive 14.78 *per cent*. Overall revenue receipt, its annual and trend rate of growth, ratio of receipts to the State's Gross Domestic Product (GSDP) and its buoyancy are indicated in table 1.1.

Table 1.1 – Revenue Receipts – Basic Parameters (Values in Rupees crore and others in *per cent*)

	1998-99	1999-2000	2000-01	2001-02	2002-03	Average
Revenue Receipts	833	944	1132	1123	1289	1064
Rate of Growth	19.51	13.33	19.92	-0.80	14.78	12.60
Revenue Receipt/GSDP	28.33	28.68	30.36	28.23	29.68	29.11
Revenue Buoyancy	1.103	1.116	1.496	(a)	1.611	1.099
GSDP Growth	17.69	11.94	13.31	6.68	9.18	11.46

(a) Rate of growth of revenue receipt was negative.

The rate of growth of revenue receipts and GSDP fluctuated over the years. The revenue receipts to GSDP ratio after reaching a peak of 30.36 *per cent* in 2000-01, declined to 29.68 *per cent* in 2002-03, with the five years average ratio being 29.11 *per cent*. A moderate GSDP growth in 2002-03 and higher growth in revenue receipts compared to preceding year resulted in high revenue buoyancy during the year. The average revenue buoyancy indicates that for every one *per cent* increase in GSDP, the revenue receipts increased by only 1.099 *per cent*. Negative growth of revenue receipts in 2001-02 led to this lower buoyancy.

Composition of the revenue receipts of the State and relative share of the four components over last five years are indicated in table 1.2. State's own sources of revenue comprising its own taxes and non-tax sources, contributed on an average around 19 *per cent* to its revenue receipts. Remaining 81 *per cent* of the resources originated from central tax transfers and grants-in-aid from Government of India and were external in nature. While the relative share of non-tax revenue fluctuated over the years and declined to 7.21 *per cent* during 2002-03, contribution of grants-in-aid attained the peak during the current year.

Table 1.2 – Components of Revenue Receipt – relative share in *per cent*

	1998-99	1999-2000	2000-01	2001-02	2002-03	Average
Own Taxes	10.56	10.91	10.51	12.11	11.25	11.07
Non-Tax Revenue	6.24	8.90	7.69	8.37	7.21	7.68
Central tax Transfers	36.13	36.23	14.49	14.69	13.65	23.04
Grants-in aid	47.06	43.96	67.31	64.83	67.88	58.21

Overall growth of the four components of revenue during 1998-2003 also differed significantly. While the State's own taxes recorded growth of 14.97 *per cent* during 1998-2003, the central tax transfers recorded a negative growth of 13.27 *per cent*. Non-tax revenue and grants-in-aid were relatively buoyant with a growth of 23.79 and 24.61 *per cent* respectively during this period. The trend annual growth of the various components of State's revenue, their buoyancy, average ratio as percentage to GSDP and average annual rate of shift in the relative contribution is indicated in table 1.3.

Table 1.3 – Components of Revenue – Basic Parameters 1998-2003 (*Per cent*)

	ROG	Buoyancy	GSDP share	Relative Share	Shift Rate
Own Taxes	14.97	1.306	3.23	11.07	2.11
Non-Tax Revenue	23.79	2.075	2.24	7.68	9.94
Central tax Transfers	-13.27	(a)	6.28	23.04	-22.97
Grants-in aid	24.61	2.148	17.35	58.21	10.67

(a) Central transfer had a negative growth.

The State's non-tax revenue and grants-in-aid had a high buoyancy of 2.075 and 2.148 respectively. The buoyancy of its own taxes was also greater than one. However, central tax transfers had a negative growth. As a result of this negative growth of the central transfers and relatively lower buoyancy of its own taxes compared to the other two components of revenue, the relative share of these in the State's total revenue witnessed a declining trend with average annual shift rates of (-) 22.97 and 2.11 *per cent* respectively. Moderate growth of tax revenue and a declining trend in its relative contribution to total revenue were a matter of concern.

1.5 Expenditure

Overall expenditure of the State comprising revenue expenditure, capital expenditure and the loans and advances increased from Rs.986 crore in 1998-99 to Rs.1,466 crore in 2002-03 at an average annual trend rate of 12.12 *per cent*. There was a continuous decline in the rate of growth of total expenditure in the last two years. After reaching its peak of 19.97 *per cent* during 2000-01, it declined to a negative 2.44 *per cent* during 2001-02, but increased to a positive 7.79 *per cent* during 2002-03. Though the annual rate of growth of total expenditure varied significantly over these years, on an average it remained higher than the rate of growth of GSDP (11.46 *per cent*). Average buoyancy of the total expenditure with GSDP during 1998-2003 was 1.057, indicating that for every one-percentage point increase in GSDP, expenditure increased by 1.057 *per cent*. With regard to revenue receipts, the buoyancy of total expenditure was less than one indicating relatively faster increase in revenue receipts compared to total expenditure. The total expenditure, its trend and annual growth, ratio of expenditure to the State's GSDP and revenue receipts and its buoyancy with regard to GSDP and revenue receipt are indicated in table 1.4.

Table 1.4 – Total Expenditure – Basic Parameters (Value in Rupees crore and others in *per cent*)

	1998-99	1999-2000	2000-01	2001-02	2002-03	Average
Total Expenditure (TE)	986	1162	1394	1360	1466	1274
Rate of Growth	19.08	17.85	19.97	-2.44	7.79	12.12
TE/GSDP Ratio	33.54	35.31	37.38	34.19	33.76	34.83
Revenue Receipts /TE Ratio	84.48	81.24	81.21	82.57	87.93	83.49
Buoyancy of Total Expenditure with						
GSDP	1.078	1.495	1.500	(b)	0.849	1.057
Revenue Receipts	0.978	1.340	1.003	(c)	0.527	0.962

(b) Rate of growth of total expenditure was negative.

(c) Rate of growth of both revenue receipt and total expenditure was negative.

In terms of the activities, total expenditure could be considered as being composed of expenditure on general services, interest payments, social and economic services, grants-in-aid and loans and advances. The relative share of these components in total expenditure is indicated in table 1.5.

Table 1.5 – Components of Expenditure –Relative Share (in *per cent*)

	1998-99	1999-2000	2000-01	2001-02	2002-03	Average
General Services	22.11	21.60	21.16	22.50	23.19	22.11
Interest Payments	7.00	8.26	8.18	9.49	10.30	8.64
Social Services	35.50	35.28	35.08	36.84	33.70	35.28
Economic Services	32.76	28.92	29.20	28.01	27.69	29.32
Loans and Advances	2.64	5.94	6.38	3.16	5.12	4.65

The movement of relative share of these components of expenditure indicate that while the share of economic services in total expenditure declined sharply from 32.76 *per cent* in 1998-99 to 27.69 *per cent* in 2002-03, the relative share of general services, interest payment and loans and advances increased. Interest payments and expenditure on general services considered as non-developmental, together accounted for 33.49 *per cent* of total expenditure in 2002-03 as compared to 29.11 *per cent* in 1998-99.

In total expenditure, revenue expenditure had the predominant share. Revenue expenditure is incurred to maintain the current level of services and not represent any addition in the State's service network. Overall revenue expenditure of the State increased from Rs.816 crore in 1998-99 to Rs.1,205 crore in 2002-03, at an average growth rate of 12.18 *per cent* per annum. On an average over 81 *per cent* of total expenditure of the State was on current consumption. The rate of growth of revenue expenditure exceeded the rate of growth of GSDP (11.46 *per cent*). Average buoyancy of revenue expenditure was 1.063 for GSDP, indicating that for each one *per cent* increase in GSDP, revenue expenditure increased by 1.063 *per cent*. Overall revenue expenditure, its rate of growth, ratio of revenue expenditure to GSDP and revenue receipts and its buoyancy with both GSDP and revenue receipts is indicated in table 1.6.

Table 1.6 – Revenue Expenditure – Basic Parameters (Values in Rupees crore and others in *per cent*)

	1998-99	1999-2000	2000-01	2001-02	2002-03	Average
Revenue Expenditure (RE)	816	928	1079	1157	1205	1037
Rate of Growth	19.12	13.73	16.27	7.23	4.15	12.18
RE/GSDP	27.76	28.20	28.94	29.08	27.75	28.36
RE as <i>per cent</i> of TE	82.76	79.86	77.40	85.07	82.20	81.42
RE as <i>per cent</i> to Revenue Receipt	97.96	98.31	95.32	103.03	93.48	97.44
Buoyancy of Revenue Expenditure						
GSDP	1.081	1.150	1.223	1.083	0.452	1.063
Revenue Receipts	0.980	1.030	0.817	(c)	0.281	0.967

(c) Rate of growth of revenue receipt was negative.

The plan, capital and developmental expenditure reflect its quality. Higher the ratio of these components to total expenditure better is the quality of expenditure. Table 1.7 below gives these ratios during 1998-2003.

Table 1.7 – Quality of Expenditure (*per cent* to total expenditure)

	1998-99	1999-2000	2000-01	2001-02	2002-03	Average
Plan Expenditure	34.38	34.22	38.31	32.73	31.78	34.24
Capital Expenditure	15.00	15.10	17.32	12.15	13.37	14.52
Development Expenditure	70.10	68.25	68.66	66.97	64.70	67.54

(Total expenditure does not include Loans and Advances)

All the three parameters of the quality of expenditure indicate continuous deterioration in 2002-03 as compared to 1998-99. The deterioration was even sharper compared to 2000-01, particularly in plan expenditure.

Activity-wise expenditure during 1998-2003 further revealed that the average trend growth of its various components had significant variations. Loans and advances was the fastest growing component with an average annual growth of 30.01 *per cent*. Interest payments also grew much faster compared to both GSDP and revenue receipts. Activity-wise trend growth, ratio to GSDP, relative share of the various activities, shift in their relative share and buoyancy with GSDP and revenue receipt are indicated in table 1.8.

Table 1.8 – Activity-wise Expenditure – Basic Parameters (in *per cent*)

	ROG	GSDP Share	Relative Share	Share Shift	Buoyancy with	
					GSDP	Revenue Receipt
General Services	13.17	7.71	22.11	0.94	1.149	1.046
Interest Payments	20.97	3.06	8.64	7.90	1.830	1.665
Social Services	11.51	12.28	35.28	-0.54	1.004	0.914
Economic Services	7.88	10.14	29.32	-3.78	0.687	0.625
Loans and Advances	30.01	1.65	4.65	15.96	2.619	2.383

The relative shares of the expenditure on interest and loans and advances grew by an average 7.90 and 15.96 *per cent* per annum respectively and witnessed a positive shift in their shares. General services was the other component of expenditure which had a positive shift rate for its share. As percentage to GSDP, non-developmental expenditure comprising general services and interest payments averaged 10.77 *per cent*, social services 12.28 *per cent* and the economic services 10.14 *per cent*. Economic services were the only component which had buoyancy of less than one both with respect to the GSDP and revenue receipts. This component of expenditure also had a low annual growth of 7.88 *per cent*. With the non-developmental expenditure increasing at faster rate, relative allocation for economic services was curtailed.

1.6 Fiscal Imbalances

The deficits in the Government accounts represent the gap between its receipts and expenditure. The nature of deficit is an indicator of the prudence of fiscal management of the Government. Further, the ways in which the deficit is financed are important pointers to the fiscal health. Though the State had a revenue surplus of Rs.84 crore during 2002-03 against deficit of Rs.34 crore during preceding year, it sustained a fiscal deficit of Rs.162 crore during the current year. As proportion to GSDP, fiscal deficit of the State varied significantly during 1998-2003. It declined to 3.73 *per cent* of GSDP in the current year from 6.68 *per cent* in 2000-01. Some important parameters of the State's fiscal imbalances are indicated in table 1.9.

Table 1.9 – Fiscal Imbalances – Basic Parameters (Values in Rupees crore and Ratios in per cent)

	1998-99	1999-2000	2000-01	2001-02	2002-03	Average
Revenue Deficit (RD)	17	16	53	-34	84	27
Fiscal Deficit (FD)	-147	-209	-249	-221	-162	-198
Primary Deficit (PD)	-78	-113	-135	-92	-11	-86
RD/GSDP	0.58	0.49	1.42	-0.85	1.93	0.74
FD/GSDP	-5.00	-6.35	-6.68	-5.56	-3.73	-5.40
PD/GSDP	-2.65	-3.43	-3.62	-2.31	-0.25	-2.35
RD/FD	Revenue Surplus (RS)			15.38	RS	RS

1.7 Fiscal Liabilities – Public Debt and Guarantees

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 an Act of Legislature. However, no such law was passed by the State to lay down any such limit. Table 1.10 below gives the fiscal liabilities of the State, its rate of growth, ratio of these liabilities to GSDP, revenue receipts and own resources and the buoyancy of these liabilities with respect to these parameters. It would be observed that the overall fiscal liabilities of the State increased from Rs.912 crore in 1998-99 to Rs.1,827 crore in 2002-03 at an average annual rate of 20.49 per cent. These liabilities as ratio to GSDP increased from 31.02 per cent in 1998-99 to 42.07 per cent in 2002-03 and stood at about 1.42 times of its revenue receipts and 7.68 times of its own resources comprising its own tax and non-tax revenue.

Table 1.10 – Fiscal Liabilities – Basic Parameters (Values in Rupees crore and others in per cent)

	1998-99	1999-2000	2000-01	2001-02	2002-03	Average
Fiscal Liabilities ^(a)	912	1124	1395	1535	1827	1359
Rate of Growth	29.00	23.25	24.11	10.04	19.02	20.49
Ratio of Fiscal Liabilities						
GSDP	31.02	34.15	37.41	38.59	42.07	37.16
Revenue Receipt	109.48	119.07	123.23	136.69	141.74	124.94
Own Resources	651.43	601.07	677.18	667.39	767.65	668.76
Buoyancy of Fiscal Liabilities						
GSDP	1.639	1.947	1.812	1.503	2.073	1.788
Revenue Receipt	1.486	1.744	1.211	(b)	1.287	1.627
Own Resources	0.807	0.692	2.373	0.861	5.469	1.142

(b) Revenue receipts had a negative growth.

(a) Includes Internal Debt, Loans and Advances from Government of India, Small Savings, Provident Funds, etc., Deposits and other non-interest bearing obligations.

In addition to these liabilities, Government had guaranteed loans of its various Corporations and others which in 2002-03 amounted to Rs.137 crore (including interest). The guarantees are in the nature of contingent liabilities. Currently the fiscal liabilities including contingent liabilities were over 1.52 times the revenue receipts of the State. Buoyancy of the direct fiscal liabilities with regard to all the three parameters of GSDP, revenue receipt and own resources averaged greater than one indicating that for each one *per cent* increase in GSDP, revenue receipt and own resources, fiscal liabilities grew by 1.79, 1.63 and 1.14 *per cent* respectively during 1998-2003.

Increasing liabilities had raised the issue of its sustainability. Fiscal liabilities are considered sustainable if the average rate of interest paid on these liabilities is lower than the rate of growth of GSDP. In case of Meghalaya, average interest rate on fiscal liabilities at 8.96 *per cent* during 1998-2003 was lower than the rate of growth of GSDP by 2.50 *per cent* as indicated in table 1.11. Except 2001-02, average interest spread was positive during 1998-2003. Moderate interest rates and a fairly buoyant nominal GSDP growth had sustained this positive spread. The spread had declined from a peak of 9.17 *per cent* in 1998-99 to a nominal 0.19 *per cent* in 2002-03. Persistence of this phenomenon in later years may endanger debt sustainability.

Table 1.11 – Debt Sustainability – Interest Rate and GSDP Growth (in *per cent*)

	1998-99	1999-2000	2000-01	2001-02	2002-03	Average
Weighted Interest Rate	8.52	9.43	9.05	8.81	8.98	8.96
GSDP Growth	17.69	11.94	13.31	6.68	9.18	11.46
Interest spread	9.17	2.51	4.26	-2.13	0.19	2.50

Another important indication of debt sustainability is net availability of the funds after payment of the principal and interest on account of the earlier contracted liabilities and interest. The table 1.12 below gives the position of the receipt and repayment of fiscal liabilities over last five years. The net funds available on account of the internal debt, loans and advances from Government of India and other liabilities after providing for interest and repayments varied between 3.02 and 39.36 *per cent* and averaged 23.01 *per cent* during 1998-2003. The net funds available during 2002-03 was 16.24 *per cent* of the total new liabilities.

Table 1.12 – Net Availability of Borrowed Funds (Rupees in crore)

	1998-99	1999-2000	2000-01	2001-02	2002-03	Average
Internal Debt						
Receipt	116	117	110	110	401	171
Repayment (Principal + Interest)	50	62	65	81	343	120
Loans and Advances from Government of India						
Receipt	49	51	31	46	138	63
Repayment (Principal + Interest)	48	55	62	65	156	77
Other Fiscal Liabilities						
Receipt	178	193	343	241	329	257
Repayment (Principal + Interest)	110	127	200	239	228	181
Total Fiscal Liabilities						
Receipt	343	361	484	397	868	491
Repayment (Principal + Interest)	208	244	327	385	727	378
Net Fund Available	135	117	157	12	141	113
Net Fund Available (<i>per cent</i>)	39.36	32.41	32.44	3.02	16.24	23.01

1.8 Investments and Returns

As on 31 March 2003, Government had invested Rs.152.32 crore in statutory corporations, Government companies and Co-operative institutions. Government's return on this investment was not only meagre (less than one *per cent*), it was also on the decline as indicated in Table 1.13 below. Low returns compared to the average rate of interest on Government borrowings amounted to an implicit subsidy, which based on the difference between the average interest payable and the return on investment, was Rs.53.85 crore during 1998-2003.

Table 1.13 – Return on Investment (Rupees in crore)

Year	Investment at the end of the year	Return	Percentage of Return	Weighted interest rate (<i>per cent</i>)
1998-99	92.86	0.03	0.03	8.52
1999-2000	98.36	0.60	0.61	9.43
2000-01	125.54	0.0055	0.004	9.05
2001-02	140.38	0.11	0.08	8.81
2002-03	152.32 ^(a)	0.0051	0.003	8.98

In addition to its investment, Government has also been providing loans and advances to many of these parastatals. Total outstanding loans was Rs.419 crore as on 31 March 2003. Overall interest received had declined to 0.12 *per cent* (Table 1.14). Government has, therefore, been providing an explicit subsidy varying from eight to over nine *per cent* in this intermediation.

^(a) Figures in Chapter VII are provisional.

Table 1.14 – Average Interest Received on Loans Advanced by the State Government

(Rupees in crore)

	1998-99	1999-2000	2000-01	2001-02	2002-03
Opening Balance	176	196	256	332	359
Amount advanced during the year	26	69	89	43	75
Amount repaid during the year	6	9	13	16	15
Closing Balance	196	256	332	359	419
Net addition	20	60	76	27	60
Interest Received	0.36	0.42	0.55	0.49	0.46
Interest received as <i>per cent</i> to Loans advanced	0.19	0.19	0.19	0.14	0.12
Average interest paid by the State (<i>per cent</i>)	8.52	9.43	9.05	8.81	8.98
Difference between interest paid and received (<i>per cent</i>)	8.33	9.24	8.86	8.67	8.86

1.9 Financial Indicators of the Government of Meghalaya

The finances of a State should be sustainable, flexible and non-vulnerable. Table 1.15 below presents a summarised position of Government finances over 1998-2003, with reference to certain key indicators that help assess the adequacy and effectiveness of available resources and their applications, highlight areas of concern and captures its important facets.

The ratio of revenue receipt and State's own taxes to GSDP indicate the adequacy of resources. The buoyancy of revenue receipts indicates the nature of the tax regime and the State's increasing access to resources. Revenue receipts comprises not only the tax and non-tax resources of the State but the central transfers. It indicates the sum total of the State's access for which there is no direct service provision obligations, recovery of user charges for the social and economic services provided by it and its entitlement from the Central pool of resources. These ratios showed an erratic trend during 1998-2003. A low revenue buoyancy and low own tax – GSDP ratio indicated that State was not optimally exploring its resource base.

Various ratios concerning the expenditure management of the State indicate quality of its expenditure and sustainability of these in relation to its resources mobilisation. The ratios of capital expenditure and developmental expenditure as percentage to total expenditure had lower values in 2002-03 compared to 1998-99. Medium term tendency of these ratios was also of deceleration. All these indicate inadequate expansion of State's developmental activities.

Table 1.15 – Indicators of Fiscal Health (in per cent)

Fiscal Indicators	1998-99	1999-2000	2000-01	2001-02	2002-03	Average
Resource Mobilisation						
Revenue Receipt (RR)/GSDP	28.33	28.68	30.36	28.23	29.68	29.11
Revenue Buoyancy	1.103	1.116	1.496	(a)	1.611	1.099
Own tax/GSDP	2.993	3.130	3.191	3.419	3.339	3.233
Expenditure Management						
Total Expenditure (TE)/GSDP	33.54	35.31	37.38	34.19	33.76	34.83
RR/TE	84.48	81.24	81.21	82.57	87.93	83.49
Revenue Expenditure (RE)/TE	82.76	79.86	77.40	85.07	82.20	81.42
Plan Expenditure/TE	34.38	34.22	38.31	32.73	31.78	34.24
Capital Expenditure/TE	15.00	15.10	17.32	12.15	13.37	14.52
Development Expenditure/TE	70.10	68.25	68.66	66.97	64.70	67.54
Buoyancy of TE with RR	0.978	1.340	1.003	(b)	0.527	0.962
Buoyancy of RE with RR	0.980	1.030	0.817	(a)	0.281	0.967
Management of Fiscal Imbalances						
Revenue Deficit (Rupees in crore)	+17	+16	+53	-34	+84	+27
Fiscal Deficit (Rupees in crore)	-147	-209	-249	-221	-162	-198
Primary Deficit (Rupees in crore)	-78	-113	-135	-92	-11	-86
Revenue Deficit/Fiscal Deficit	Revenue Surplus (RS)			15.38	RS	RS
Management of Fiscal Liabilities						
Fiscal Liabilities (FL)/GSDP	31.02	34.15	37.41	38.59	42.07	37.16
FL/RR	109.48	119.07	123.23	136.69	141.74	124.94
Buoyancy of FL with RR	1.486	1.744	1.211	(a)	1.287	1.627
Buoyancy of FL with Own Resources	0.807	0.692	2.373	0.861	5.469	1.142
Interest spread	9.17	2.51	4.26	-2.13	0.19	2.50
Net Fund Available	39.36	32.41	32.44	3.02	16.24	23.01
Other Fiscal Health Indicators						
Return on Investment	0.03	0.61	0.004	0.08	0.003	0.15
BCR (Rupees in crore)	-161	-167	-115	-171	-128	-148
Financial Assets/Liabilities (Ratio)	1.96	1.78	1.65	1.57	1.55	1.70

(a) Receipts/Expenditure had a negative growth.

(b) Rate of growth of both revenue receipt and total expenditure was negative.

Increasing revenue and fiscal deficit indicate growing imbalances in the financial position of the State. Similarly, increase in the ratio of revenue deficit and fiscal deficit indicates that the application of borrowed funds has largely been to meet current consumption. Though the State had a revenue surplus over the years (except 2001-02), its fiscal deficit increased substantially and averaged Rs.198 crore during 1998-2003. Fiscal liabilities of the State were growing faster than its revenue receipts and own resources, ratio of fiscal liabilities to GSDP was on rise and interest spread, one of the

critical parameters of debt sustainability was declining. All these factors indicate increasing unsustainability and vulnerability of State finances.

It is not uncommon for the State to borrow for increasing its social and economic infrastructure support and creating additional income generating assets. However, increasing ratios of fiscal liabilities to GSDP, revenue receipts and own resources indicate that the State is gradually getting into a debt trap. Similarly, the higher buoyancy of the debt both with regard to its revenue receipts and own resources indicate its increasing unsustainability. Though the average interest paid by the State on its borrowings during 1998-2003 remained less than the rate of growth of its GSDP, this spread has declined considerably and persistence of this phenomenon may endanger debt sustainability. The State's low return on investment indicates an implicit subsidy and use of high cost borrowing for investments, which yields very little to it. The ratio of State's total financial assets to liabilities has also deteriorated indicating that increasingly a greater part of liabilities are without an asset back up. This indicates that either the State has to generate more revenue from out of its existing assets or needs to provide from its current revenues for servicing its debt obligations. The balance from current revenue (BCR) continued to be negative. The BCR plays a critical role in determining its plan size and a negative BCR adversely affects the same and reduces availability of fund for additional infrastructure support and other revenue generating investment.