

CHAPTER-I FINANCES OF THE STATE GOVERNMENT

1.1 Introduction

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

1.1.1 Summary of Receipts and Disbursements

Table-1.1 summarises the finances of the State Government for the year 2007-08 covering revenue receipts and expenditure, capital receipts and expenditure and public account receipts and disbursements as emerging from Statement-1 of Finance Accounts and other detailed Statements.

Table-1.1: Summary of receipts and disbursements for the year 2007-08

| 2006-07 | | 2007-08 | | 2007-08 | | (Rupees in crore) | |
|--------------------|---|-----------------|------------------|---|----------------|-------------------|------------------|
| Receipts | | Disbursements | | 2007-08 | | | |
| Section-A: Revenue | | | | Non-Plan | Plan | Total | |
| 2772.51 | Revenue receipts | 2996.02 | 2222.15 | Revenue expenditure | 2087.38 | 484.89 | 2572.27 |
| 119.02 | Tax revenue | 131.37 | 1020.32 | General services | 1185.34 | 8.11 | 1193.45 |
| 91.14 | Non-tax revenue | 119.48 | 588.85 | Social Services | 501.18 | 155.76 | 656.94 |
| 316.93 | Share of Union Taxes/Duties | 399.77 | 612.98 | Economic Services | 400.86 | 321.02 | 721.88 |
| 2245.42 | Grants from Government of India | 2345.40 | --- | Grants-in-aid/Contributions | ---- | ---- | ---- |
| Section-B: Capital | | | | | | | |
| --- | II. Miscellaneous Capital Receipts | --- | 710.48 | II. Capital Outlay | 12.01 | 809.47 | 821.48 |
| 4.33 | III. Recoveries of Loans and Advances | 3.06 | 0.24 | III. Loans and Advances disbursed | --- | 2.61 | 2.61 |
| 432.79 | IV. Public Debt receipts ¹ | 405.70 | 152.13 | IV. Repayment of Public Debt ¹ | --- | --- | 166.55 |
| --- | V. Contingency Fund | --- | --- | V. Contingency Fund | --- | --- | --- |
| 1131.63 | VI. Public Account receipts | 1418.00 | 1175.14 | VI. Public Account disbursement | --- | --- | 1346.78 |
| --- | VII. Closing overdraft from Reserve Bank of India | ---- | --- | VII. Opening overdraft from Reserve Bank of India | --- | --- | --- |
| (-) 143.08 | Opening Balance | (-)61.96 | (-) 61.96 | Closing Balance | --- | --- | (-)148.87 |
| 4198.18 | Total | 4760.82 | 4198.18 | Total | --- | --- | 4760.82 |

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

¹ Includes net Ways and Means Advances.

Audit Report (Civil) for the year ended 31 March 2008

- Revenue receipts increased by Rs.223.51crore (8 per cent) from Rs.2772.51 crore in 2006-07 to Rs.2996.02 crore in 2007-08 mainly due to increase in grants from Government of India (GOI) (Rs.99.98 crore), State's own tax revenue (Rs.12.35 crore), Non-Tax revenue (Rs.28.34 crore) and State's share of Union taxes and duties (Rs.82.84 crore).
- Revenue expenditure of the State, on the other hand increased by Rs.350.12 crore (16 per cent) from Rs.2222.15 crore in 2006-07 to Rs.2572.27 crore in 2007-08; mainly under the head Administration Services (Rs.96.41 crore), Pension (Rs.58.11 crore), Education, Sports, Art & Culture (Rs.44.87 crore), Irrigation and Flood Control (Rs.29.65 crore), Agriculture and Allied Services (Rs.22.93 crore).
- Capital expenditure increased by Rs.111 crore (16 per cent) from Rs.710.48 crore in 2006-07 to Rs.821.48 crore in 2007-08.
- Recoveries of loans and advances declined by Rs 1.27 crore while their disbursements increased by Rs.2.37 crore in 2007-08 over the previous year.
- Public debt receipts decreased by Rs.27.09 crore and repayment increased by Rs.14.42 crore during 2007-08 over the previous year.
- Public Account receipts increased by Rs.286.37 crore against an increase in disbursement by Rs.171.64 crore during 2007-08 over the previous year.

The flow of funds under various major heads indicated above, resulted in further deterioration in the cash balance position of the State, as the balances decreased from (-) Rs.62 crore in the beginning of 2007-08 to (-) Rs.149 crore at the close of the year.

1.1.2 Trends in fiscal aggregates

The fiscal position of the State during the current year as compared to the previous year is given in Table-1.2.

Table-1.2

(Rupees in crore)

| 2006-07 | Sl. No. | Major Aggregates | 2007-08 |
|----------------|------------|----------------------------------|----------------|
| 2772.51 | 1. | Revenue Receipts (2+3+4) | 2996.02 |
| 119.02 | 2. | Tax Revenue | 131.37 |
| 91.14 | 3. | Non-Tax Revenue | 119.48 |
| 2562.35 | 4. | Other Receipts | 2745.17 |
| 4.33 | 5. | Non-Debt Capital Receipts | 3.06 |
| 4.33 | 6. | Of which, Recovery of Loans | 3.06 |
| 2776.84 | 7. | Total Receipts (1+5) | 2999.08 |
| 1783.83 | 8. | Non-Plan Expenditure | 2099.39 |
| 1768.46 | 9. | On Revenue Account | 2087.38 |
| 279.69 | 10. | Of which, Interest Payments | 270.46 |
| 15.17 | 11. | On Capital Account | 12.01 |
| 0.20 | 12. | On Loans disbursed | -- |
| 1149.04 | 13. | Plan Expenditure | 1296.97 |
| 453.69 | 14. | On Revenue Account | 484.89 |

| | | | |
|----------------|------------|---|----------------|
| 695.31 | 15. | On Capital Account | 809.47 |
| 0.04 | 16. | On Loans disbursed | 2.61 |
| 2932.87 | 17. | Total Expenditure (13+8) | 3396.36 |
| (+) 550.36 | 18. | Revenue Deficit (-)/Surplus (+) {1- (9+14)} | (+)423.75 |
| (-) 156.03 | 19. | Fiscal Deficit (-)/Surplus (+) {(1+5)-17} | (-)397.28 |
| (+) 123.66 | 20. | Primary Deficit (-) /Surplus (+) (10+19) | (-)126.82 |

During the current year, revenue receipts increased by 8 per cent (Rs.223.51 crore) while revenue expenditure increased by 16 per cent (Rs.350.12 crore) over the previous year resulting in a decrease of Rs.126.61 crore in revenue surplus during 2007-08 over the previous year. Given the decrease in revenue surplus along with a marginal decline of Rs.1.27 crore in non-debt capital receipts accompanied by an increase of Rs.113.37 crore in capital expenditure including loans and advances disbursed during 2007-08 over the previous year, the fiscal deficit increased by Rs.241.25 crore during the current year from the level of Rs.156.03 crore in 2006-07. An increase in fiscal deficit together with a decrease in interest payments (Rs.9.23 crore) resulted in primary deficit of Rs.126.82 crore against a primary surplus of Rs.123.66 crore in 2006-07.

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 analysed wherever necessary over the period 2003-08 and observations have been made on their behaviour. 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, TFC also recommended that all States enact the Fiscal Responsibility (FR) Acts and draw their fiscal correction path accordingly for the five year period (2005-06 to 2009-10) so that fiscal position of the State could be improved as committed in their respective FR Acts/Rules covering medium to long term periods. The norms/ceilings prescribed by the TFC as well as its projections for fiscal aggregates along with the commitments/projections made by the State Governments in their FR Acts and in other Statements required to be laid in the Legislature under the Act, have been 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 to the GSDP² at current market prices. The buoyancy coefficients for tax revenue, non-tax revenue, revenue expenditure etc., with reference to the base represented by GSDP have also been worked out to assess whether the mobilisation of resources, pattern of expenditure etc, are keeping pace with the change in the base or these fiscal aggregates are also affected by factors other than GSDP. The New GSDP series as published by the Directorate of Economics and Statistics of the State Government have been used in estimating these percentages and buoyancy ratios.

² GSDP is defined as the total income of the State or the market value of goods and services produced using labour and all other factors of production.

Table-1.3: Trends in Growth and Composition of GSDP

| | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 |
|---|---------|---------|---------|---------|---------|
| Gross State Domestic Product (GSDP) (Rupees in crore) | 5238.66 | 5778.77 | 6374.56 | 6957.97 | 7168.52 |
| Rate of growth of GSDP (<i>per cent</i>) | 10.32 | 10.31 | 10.31 | 9.15 | 3.03 |

The key fiscal aggregates for the purpose are grouped under four major heads: (i) Trends and composition of aggregate receipts, (ii) Application of resources, (iii) Assets and liabilities, and (iv) Management of deficits (*Appendix 1.2 to 1.5*). The overall financial performance of the State Government as a body corporate has been presented by the application of a set of ratios commonly adopted for the relational interpretation of fiscal aggregates. The definitions of some of the selected terms used in assessing the trends and pattern of fiscal aggregates are given in *Appendix 1.1 Part C*.

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

The State Government enacted (August 2005) the NFRBM Act, 2005 to ensure prudence in fiscal management and fiscal stability by achieving revenue surplus, 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 State Government:

- strive to remain revenue surplus by building up further surplus;
- bring down fiscal deficit to 3 *per cent* of GSDP by the year ending 31 March 2009;
- ensure within a period of 5 years, beginning 1 April 2005 and ending 31 March 2010, that the total debt stock does not exceed 40 *per cent* of the estimated GSDP for that year;
- limit the amount of annual incremental risk weighted guarantees to 1 *per cent* of the total revenue receipts (TRR) or 1 *per cent* of the estimated GSDP in the year preceding the current year, whichever is lower;
- follow a recruitment and wage policy, where the total salary bill relative to revenue expenditure, net of interest payments and pensions does not exceed 61 *per cent* in any financial year.

Though the NFRBM Act was enacted in August 2005, the rules governing the Act were framed by the Government in February 2007. But the rules did not prescribe any annual target for adjustments in these parameters.

1.2.2 Roadmap to achieve the fiscal targets laid down in NFRBM Act/Rules

Keeping in view the fiscal targets laid down in the NFRBM Act, the State Government developed its own Fiscal Correction Path (FCP) in January 2007 indicating the milestones of outcome indicators for the years 2007-08, 2008-09 and 2009-10 (***Appendix-1.1 Part-D***).

1.2.3 Mid-term review of fiscal situation

To enforce compliance with the fiscal principles and targets laid down in the NFRBM Act, 2005, the Finance Department of the State is to review every quarter the trends in receipts and expenditure including the fiscal indicator targets set for the current financial year and place before the State Legislature a statement containing the outcome of such reviews. However, the State Government is yet to enforce the provision of the Act in this regard.

1.2.4 Fiscal performance

In terms of an incentive scheme of TFC, a reward for fiscal performance was built into the debt-write off package under DCRF³. According to the scheme, the quantum of write off of repayment of GOI loans after consolidation and reschedulement will be linked to the absolute amount by which revenue deficit is reduced in each successive year during the award period. For States which were in revenue surplus as per the base year figure (2003-04) and continued to remain so in the subsequent years till the end of TFC award period, the installment of repayment due on the Central loans (after consolidation and reschedulement) may be written-off in each of the years from 2005-06 onwards so long as the revenue surplus of the State does not go below the base year level in absolute terms. In the year the revenue surplus is less than that in the base year figure, no write off will be permitted. Since Nagaland is a revenue surplus State since the beginning of the TFC award period, in terms of this criterion, the State Government received a debt waiver of Rs.15.87 crore during 2007-08. The performance of the State during 2007-08 in terms of key fiscal targets fixed for selected variables laid down in FRBM Act, 2005 are given below:

³ In pursuance of the recommendations of the TFC for fiscal consolidation and elimination of revenue deficit of the States, GOI formulated the Debt Consolidation and Relief Facility (2005-06 to 2009-10)" under which, general debt relief is provided by consolidating and re-scheduling at substantially reduced rates of interest, the Central loans 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.

Table 1.4 Trends in major fiscal variables vis-à-vis projections for 2007-08

| Fiscal parameters | Target as prescribed in NFRBM Act | Projection made by State Government | Actuals |
|----------------------------------|--|---|------------------------|
| Revenue Deficit (-)/ Surplus (+) | Strive to remain revenue surplus during the entire award period. | 17.18 per cent of RR | 14.14 per cent of RR |
| Fiscal Deficit (-)/ Surplus (+) | FD to be 3 per cent of GSDP | 2.44 per cent of GSDP | 5.54 of GSDP |
| Consolidated Debt | 40 per cent of GSDP | 43.08 per cent | 54.14 per cent of GSDP |
| Incremental risk guarantee | 1 per cent of GSDP | Information not furnished by State Government | |

The fiscal performance viewed vis-à-vis the State Government's budget estimates for 2007-08 as well as the targets set for reducing the fiscal deficit under FRBM Act reveals that the State Government could maintain a revenue surplus of Rs.423.75 crore in 2007-08 which was however less by Rs.71.09 crore as compared to BE of 2007-08. The fiscal deficit at Rs.397.28 crore in 2007-08 was 5.54 per cent of GSDP in 2007-08 i.e., more than the target of 3 per cent to be achieved by 31 March 2009 as per the NFRBM Act, 2005 as well as the projection made by the State Government. Similarly, the debt GSDP ratio at 54.14 per cent in 2007-08 indicates that the State is unlikely to achieve the target of 40 per cent by 31 March 2010. The State Government needs to initiate requisite measures to contain the debt, as per the NFRBM Act, within the time frame prescribed in the Act.

1.3 Trends and composition of aggregate receipts

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 GOI. Capital receipts comprise miscellaneous capital receipts such as proceeds from disinvestment, recoveries of loans and advances, debt receipts from internal sources (market loans, borrowings from financial institutions/commercial banks) and loans and advances from the GOI as well as accruals from Public Account. Table-1.5 shows that the total receipts of the State Government for the year 2007-08 were Rs.4822.78 crore. Of these, revenue receipts comprised Rs.2996.02 crore, constituting 62 per cent. The balance came largely from borrowings and receipts from the Public Account.

Table-1.5: Trends in growth and composition of aggregate receipts

(Rupees in crore)

| Sources of Receipts | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 |
|---------------------------------------|----------------|----------------|----------------|----------------|----------------|
| I Revenue Receipts | 2359.79 | 1839.52 | 2267.20 | 2772.51 | 2996.02 |
| II Capital Receipts | 3.59 | 430.80 | 632.28 | 437.12 | 408.76 |
| Recovery of Loans and Advances | 6.81 | 6.50 | 5.40 | 4.33 | 3.06 |
| Public Debt Receipts | (-) 3.22 | 424.30 | 626.88 | 432.79 | 405.70 |
| Miscellaneous Capital Receipts | --- | --- | --- | --- | --- |
| III Contingency Fund | --- | --- | --- | --- | --- |
| IV Public Account Receipts | 658.48 | 776.73 | 1025.68 | 1131.63 | 1418.00 |
| a. Small Savings, Provident Fund etc. | 106.45 | 110.24 | 156.55 | 95.22 | 135.42 |
| b. Reserve Fund | 0.85 | 0.85 | 4.62 | 5.64 | 6.85 |

| | | | | | |
|-------------------------------|----------------|----------------|----------------|----------------|----------------|
| c. Deposits and Advances | 81.50 | 131.50 | 68.77 | 127.55 | 209.02 |
| d. Suspense and Miscellaneous | (-) 93.39 | 41.20 | 39.89 | 39.73 | 51.07 |
| e. Remittances | 563.07 | 492.94 | 755.85 | 863.49 | 1015.64 |
| Total Receipts | 3021.86 | 3047.05 | 3925.16 | 4341.26 | 4822.78 |

Public Account receipts increased by 25.31 *per cent* (Rs.286.37 crore) in 2007-08 mainly due to increase in receipts in Provident Fund (Rs.40.20 crore), Deposits and Advances (Rs.81.47 crore) and Remittances (Rs.152.15 crore). The increase in Remittances was due to increase in public works remittances (Rs.133.43 crore), cash remittances between treasuries and currency chest (Rs.1.80 crore) and forest remittances (Rs.16.92 crore). Moreover, if receipts under Remittances are netted out with the payments, net impact turns out to be minimal e.g., during 2007-08 it would be (-) Rs.41.94 crore.

1.3.1 Revenue receipts

Statement-11 of the Finance Accounts details the revenue receipts of the Government. The overall revenue receipts, their annual rate of growth, ratio of these receipts to the GSDP and its buoyancies are indicated in Table-1.6.

Table-1.6: Revenue Receipts - Basic parameters

| | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 |
|--|--------------------|--------------------|--------------------|--------------------|--------------------|
| Revenue Receipts (RR) (Rupees in crore) | 2359.79 | 1839.52 | 2267.20 | 2772.51 | 2996.02 |
| Own Taxes (<i>per cent</i>) | 68.55 (2.91) | 78.31 (4.26) | 105.53 (4.65) | 119.02 (4.29) | 131.37 (4.38) |
| Non-Tax Revenue (<i>per cent</i>) | 60.91 (2.58) | 77.90 (4.23) | 96.82 (4.27) | 91.14 (3.29) | 119.48 (3.99) |
| Central Tax Transfers (<i>per cent</i>) | 256.97 (10.89) | 160.15 (8.71) | 248.50 (10.96) | 316.93 (11.43) | 399.77 (13.34) |
| Grants-in-aid (<i>per cent</i>) | 1973.36 (83.62) | 1523.16 (82.80) | 1816.35 (80.12) | 2245.42 (80.99) | 2345.40 (78.29) |
| Rate of growth of RR (<i>per cent</i>) | 75.20 | (-) 22.05 | 23.25 | 22.29 | 8.06 |
| RR/GSDP (<i>per cent</i>) | 45.05 | 31.83 | 35.57 | 39.85 | 41.79 |
| Revenue Buoyancy (ratio) | 7.29 | * | 2.26 | 2.44 | 2.66 |
| State's own taxes Buoyancy (ratio) | 1.02 | 1.38 | 3.37 | 1.40 | 3.43 |
| GSDP Growth (<i>per cent</i>) | 10.32 | 10.31 | 10.31 | 9.15 | 3.03 |

* Figure not shown since it is negative.

The revenue receipts of the State increased from Rs.2359.79 crore in 2003-04 to Rs.2996.02 crore in 2007-08 at an annual average rate of 21.35 *per cent*. While 8.37 *per cent* of the revenue receipts during 2007-08 have come from the State's own resources comprising taxes and non-taxes, Central tax transfers and grants-in-aid together contributed 91.63 *per cent*. The share of State's own resources and the Central transfers in revenue receipts of the State exhibited relative stability during the last four years (2004-08).

Tax revenue

Tax revenue increased by Rs.12.35 crore (10.38 *per cent*) from Rs.119.02 crore in 2006-07 to Rs.131.37 crore in 2007-08. The share of sales tax in total tax revenue not only remained significant but it has increased from 66.56 *per cent* in 2003-04 to 72.15 *per cent* in the current year. State excise (Rs.2.83 crore), taxes on vehicles (Rs.12.30 crore),

Stamps and Registration fees (Rs.1.02 crore) were the other contributors to the State's tax revenue. Table-1.7 below presents the trends in growth and composition of tax revenue during 2003-08.

Table-1.7: Trends in Growth and Composition of Tax Revenue

| | (Rupees in crore) | | | | |
|------------------------------|-------------------|--------------|---------------|---------------|---------------|
| | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 |
| Sales Tax | 45.63 | 53.08 | 77.16 | 85.02 | 94.79 |
| State Excise | 1.99 | 2.07 | 1.96 | 2.13 | 2.83 |
| Taxes on vehicles | 6.00 | 7.30 | 8.71 | 12.26 | 12.30 |
| Stamps and Registration fees | 0.66 | 0.73 | 0.89 | 1.05 | 1.02 |
| Land Revenue | 0.54 | 0.43 | 0.55 | 0.50 | 0.50 |
| Other taxes | 13.73 | 14.70 | 16.26 | 18.06 | 19.93 |
| Total | 68.55 | 78.31 | 105.53 | 119.02 | 131.37 |

The increase in sales tax revenue (Rs.9.77 crore) which was mainly on account of introduction of VAT, contributed around 79.11 *per cent* of incremental tax revenue of the State during the year.

Non-Tax Revenue

Non-tax revenue exhibiting fluctuation over the period 2003-08, increased steeply from Rs.91.14 crore in 2006-07 to Rs.119.48 crore in 2007-08. The major contributors in the non tax revenue included Power (Rs.69.47 crore), Miscellaneous General Services (Rs.19.44 crore) including incentive in the form of debt waiver granted by GOI under DCRF in 2007-08 (Rs.15.87 crore), Road Transport (Rs.8.37 crore), Forestry and Wildlife (Rs.4.81 crore), Housing (Rs.2.11 crore) and Water Supply & Sanitation (Rs.1.07 crore). Increase in NTR in 2007-08 was primarily on account of Power (Rs.27.84 crore) which accounted for more than 98 *per cent* of incremental non tax receipts during the year.

The tax and non-tax revenue receipts vis-à-vis the normative assessment made by the TFC and the State Government projection in its BE 2007-08 were as under:

| | (Rupees in crore) | | |
|-----------------|-------------------|---|-----------------|
| | Assessment by TFC | Assessment by State Government (BE 2007-08) | Actual Receipts |
| Own Tax Revenue | 198.63 | 128.24 | 131.37 |
| Non-Tax Revenue | 49.24 | 98.47 | 119.48 |

While the own tax revenue of the State was almost at par with the BE of the Government but remained less than the assessment of TFC for 2007-08, the non-tax revenue receipts exceeded both the BE 2007-08 and the normative assessment of TFC.

Central tax transfers

Central tax transfers to the State increased by 26.14 *per cent* from Rs.316.93 crore in 2006-07 to Rs.399.77 crore in 2007-08. The increase was mainly due to increase in Corporation tax (Rs.27.97 crore), Customs (Rs.13.75 crore), Service Tax (Rs.9.50 crore), Income Tax (Rs.25.09 crore) and Union Excise duty (Rs.6.50 crore).

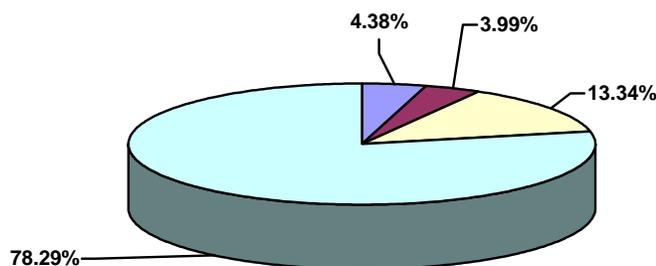
Grants-in-aid

The grants-in-aid from GOI have increased by 4.45 per cent from Rs.2245.42 crore in 2006-07 to Rs.2345.40 crore in 2007-08, contributing 78 per cent of the total revenue receipts during 2007-08. This increase was mainly due to increase in grants for Central Plan Schemes (Rs.30.32 crore) and Special Plan Schemes (Rs.6.11 crore) as well as increase in non Plan grants from Rs.1072.10 crore in 2006-07 to Rs.1246.03 crore in 2007-08. The non-plan grants were inclusive of Rs.56.91 crore released under Article 275(i) and Rs.1124.44 crore to cover the non Plan revenue deficit during the year. The increase under Central Plan Schemes was mainly on account of enhanced grants under Integrated Wasteland Development Programme (Rs.12.28 crore) and under ARWSP (Rs 23.39 crore). The grants under Centrally Sponsored Schemes however were reduced by Rs.32.13 crore in 2007-08 over the previous year mainly due to decrease in grants under ICDS (Rs 9.61 crore) and macro management of agriculture (Rs.17.77 crore). The details of grants-in-aid from GOI during the period 2003-08 are given in Table 1.8.

Table 1.8 Grants-in-aid from GOI

| | (Rupees in crore) | | | | |
|--|-------------------|----------------|----------------|----------------|----------------|
| | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 |
| Non Plan Grants | 1311.03 | 687.14 | 1128.82 | 1072.10 | 1246.03 |
| Grants-for State/UT Plan Schemes | 515.44 | 554.16 | 436.13 | 896.86 | 818.62 |
| Grants for Central Plan Schemes | 15.05 | 25.92 | 49.12 | 27.39 | 57.71 |
| Grants for Centrally Sponsored Schemes | 110.99 | 226.06 | 173.65 | 209.70 | 177.56 |
| Grants for Special Plan Schemes | 20.85 | 29.88 | 28.63 | 39.37 | 45.48 |
| Total | 1973.36 | 1523.16 | 1816.35 | 2245.42 | 2345.40 |
| Percentage of increase (+)/decrease (-) over previous year | (+) 65.14 | (-) 22.81 | (+)19.25 | (+) 23.62 | (+) 4.45 |

Chart:1.1
Revenue Receipts for 2007-08
(Rs.2996.02 crore)



■ Tax Revenue ■ Non-Tax Revenue □ Central Tax Transfers □ Grants-in-aid

1.4 Application of resources

1.4.1 Growth of expenditure

Statement 12 of the Finance Accounts depicts the detailed revenue expenditure by minor heads and capital expenditure by major heads. States raise resources to perform their sovereign functions, maintain their existing nature of delivery of social and economic services, to extend the network of these services through capital expenditure and investments and to discharge their debt service obligations. The total expenditure of the State increased from Rs.2209.20 crore in 2003-04 to Rs.3396.36 crore in 2007-08. Total expenditure, its annual growth rate and ratio of expenditure to GSDP and to revenue receipts and its buoyancy with respect to GSDP and revenue receipts are indicated in Table-1.9.

Table-1.9: Total expenditure - Basic Parameters

| | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 |
|---|---------|----------|---------|---------|---------|
| Total Expenditure (TE) (Rupees in crore) | 2209.20 | 2064.41 | 2579.01 | 2932.87 | 3396.36 |
| Rate of Growth (<i>per cent</i>) | 19.46 | (-) 6.55 | 24.93 | 13.72 | 15.80 |
| TE/GSDP Ratio (<i>per cent</i>) | 42.17 | 35.72 | 40.46 | 42.15 | 47.38 |
| RR/TE Ratio (<i>per cent</i>) | 106.82 | 89.11 | 87.91 | 94.53 | 88.21 |
| Buoyancy of Total Expenditure with reference to: | | | | | |
| GSDP (ratio) | 1.89 | * | 2.42 | 1.50 | 5.21 |
| RR (ratio) | 0.26 | * | 1.07 | 0.62 | 1.96 |

* Figures not shown since those are negative.

Total expenditure during 2007-08 at Rs.3396.36 crore increased by Rs.463.49 crore (15.80 *per cent*) over the previous year. Out of the total expenditure in 2007-08, revenue expenditure formed 75.74 *per cent* (Rs.2572.27 crore) while capital expenditure formed 24.18 *per cent* (Rs.821.48 crore) and loans and advances formed 0.08 *per cent* (Rs.2.61 crore). The break up of total expenditure in terms of plan and non-plan reveals that while the share of plan expenditure constituted 38 *per cent* (Rs.1296.97 crore), the remaining 62 *per cent* was non-plan expenditure (Rs.2099.39 crore). The increase in total expenditure during 2007-08 over the previous year was due to increase of revenue expenditure by Rs.350.12 crore and capital expenditure by Rs.111 crore and increase in disbursement of loans and advances by Rs.2.37 crore. The ratio of TE to GSDP has steadily increased from 42.17 *per cent* in 2003-04 to 47.38 *per cent* in 2007-08 with a dip in 2004-05. The ratio of RR to TE has however declined from 106 *per cent* in 2003-04 to 88 *per cent* in 2007-08 with inter year variations indicating that 12 *per cent* of total expenditure is met from non debt capital receipts and borrowed funds.

1.4.2 Trends in total expenditure by activities

In terms of activities, total expenditure could be considered as being composed of expenditure on General Services including interest payments, Social and Economic Services, grants-in-aid and loans and advances. The relative share of these components in total expenditure during the last five years is indicated in Table-1.10.

Chart: 1.2
Components of expenditure-Relative Share in 2007-08

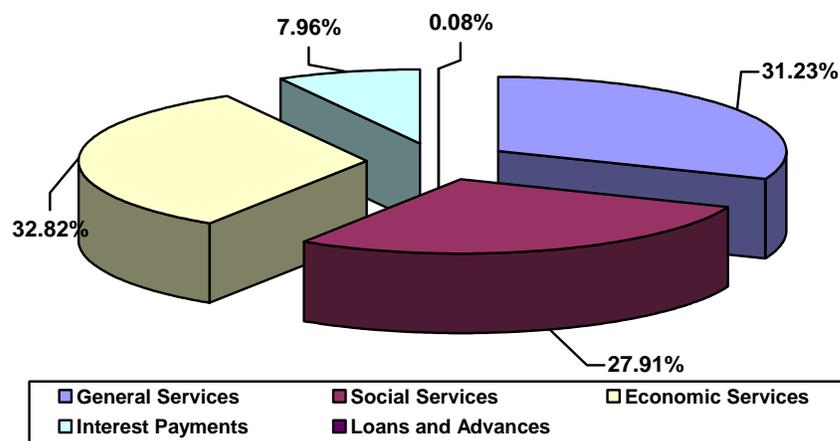


Table 1.10: Components of Expenditure-Relative share

| | (in per cent) | | | | |
|--------------------|---------------|---------|---------|---------|---------|
| | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 |
| General Services | 31.24 | 31.54 | 29.00 | 27.54 | 31.23 |
| Interest payments | 10.63 | 12.09 | 9.84 | 9.54 | 7.96 |
| Social Services | 25.37 | 27.61 | 27.43 | 28.29 | 27.91 |
| Economic Services | 32.53 | 28.74 | 33.71 | 34.62 | 32.82 |
| Grants-in-aid | --- | --- | --- | --- | --- |
| Loans and Advances | 0.23 | 0.02 | 0.02 | 0.01 | 0.08 |

The relative share of various components of expenditure exhibit stability during the period 2003-08. The marginal decrease in the share of economic services was mainly on account of less expenditure under Science, Technology and Environment (Rs.40.06 crore) and Other Rural Development Programme (Rs.8.05 crore).

1.4.3 Incidence of Revenue expenditure

Revenue expenditure had predominant share varying from 76 per cent to 82 per cent in the total expenditure of the State. 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. The overall revenue expenditure, its rate of growth, its ratio to GSDP and to revenue receipts and its buoyancy are indicated in Table-1.11.

Table-1.11: Revenue Expenditure - Basic Parameters

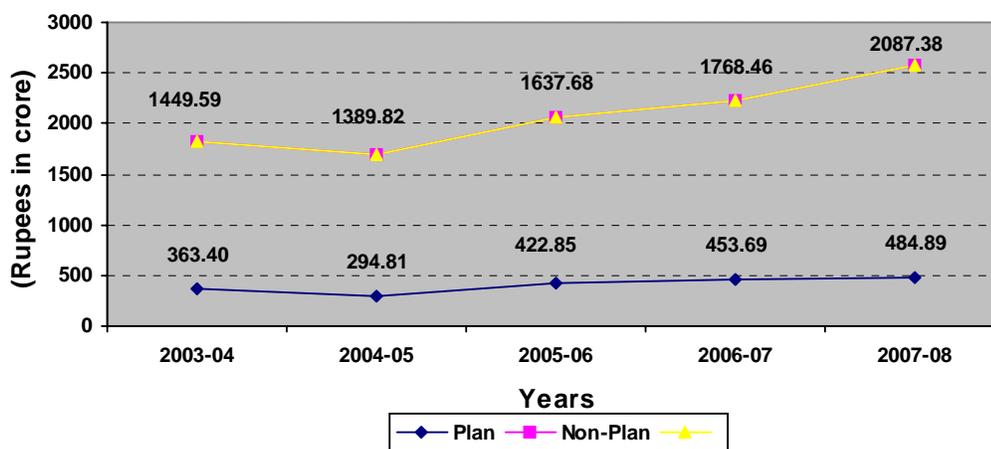
(Rupees in crore)

| | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 |
|---|---------|-----------|---------|---------|---------|
| Revenue Expenditure (RE) | 1812.99 | 1684.63 | 2060.53 | 2222.15 | 2572.27 |
| Of which, | | | | | |
| Non-Plan Revenue Expenditure (NPRE) | 1449.59 | 1389.82 | 1637.68 | 1768.46 | 2087.38 |
| Plan Revenue Expenditure (PRE) | 363.40 | 294.81 | 422.85 | 453.69 | 484.89 |
| Rate of Growth (per cent) | | | | | |
| Revenue Expenditure | 20.36 | (-) 7.08 | 22.31 | 7.84 | 15.76 |
| NPRE | 14.74 | (-) 4.12 | 17.83 | 7.99 | 18.03 |
| PRE | 49.60 | (-) 18.87 | 43.43 | 7.29 | 6.88 |
| NPRE/GSDP (per cent) | 27.67 | 24.05 | 25.69 | 25.42 | 29.12 |
| NPRE as per cent of TE | 65.62 | 67.32 | 63.50 | 60.30 | 61.46 |
| NPRE as per cent of RR | 61.43 | 75.55 | 72.23 | 63.79 | 69.67 |
| Buoyancy of Revenue Expenditure with | | | | | |
| GSDP (ratio) | 1.97 | * | 2.16 | 0.86 | 5.20 |
| Revenue Receipts (ratio) | 0.27 | * | 0.96 | 0.35 | 1.96 |

* Figures not shown since those are negative.

Revenue expenditure of the State has increased by 41.88 *per cent* from Rs.1812.99 crore in 2003-04 to Rs.2572.27 crore in 2007-08 at an average annual rate of 11.84 *per cent*. Except for a dip in 2004-05, both NPRE and PRE have shown a consistent increase over the period 2003-08 (Chart 1.3). Of the total increase of Rs.350.12 crore in revenue expenditure during 2007-08, increase in NPRE contributed 91 *per cent* (Rs.318.92 crore) while PRE accounted for the remaining 9 *per cent* (Rs.31.20 crore). The increase of Rs.318.92 crore in NPRE during 2007-08 over the previous year was mainly due to increase in Police (Rs.71.85 crore), salary expenses (Rs.123.23 crore), Pension and other Retirement Benefits (Rs.57.99 crore) and General Education (Rs.53.27 crore). The PRE has increased by Rs.31.20 crore from Rs.453.69 crore in 2006-07 to Rs.484.89 crore in 2007-08, mainly due to increase of fund for Special Programme for Rural Development (Rs.25.79 crore) over the previous year. The NPRE at Rs.2087.38 crore in 2007-08 significantly exceeded the normative assessment of TFC (Rs.1688.21 crore) for the State for the current year.

Chart: 1.3
Trend of Non-Plan and Plan revenue Expenditure
(Rupees in crore)



1.4.4 Committed expenditure

Expenditure on salaries and wages: The expenditure on salaries increased from Rs768.19 crore in 2003-04 to Rs.1143.25 crore in 2007-08 as indicated in Table-1.12.

Table-1.12: Expenditure on Salaries

| Heads | (Rupees in crore) | | | | |
|--|-------------------|---------|---------|---------|---------|
| | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 |
| Expenditure on Salaries ⁴ & Wages | 768.19 | 824.78 | 953.71 | 1020.08 | 1143.25 |
| Of which, | | | | | |
| Non-Plan Head | 756.76 | 774.04 | 898.32 | 965.98 | 1123.47 |
| Plan Head | 11.43 | 50.74 | 55.39 | 54.10 | 19.78 |
| As per cent of GSDP | 14.66 | 14.27 | 14.96 | 14.66 | 15.95 |
| As per cent of RR | 32.55 | 44.84 | 42.07 | 36.79 | 38.16 |

Source: Finance Accounts for 2005-06, 2006-07 and 2007-08 and for the years prior to that State Government figures were adopted

Salary expenditure increased by 12 per cent (Rs.123.17 crore) during 2007-08 over the previous year mainly due to (i) fresh recruitment of employees by the Government, (ii) release of two installments of Dearness Allowance to the State Government employees, (iii) increase of retirement age of Government employees by three years. Salaries and wages accounted for 38.16 per cent of the revenue receipts during 2007-08. Salary expenditure was 55.98 per cent of revenue expenditure, net of interest payments and pensions, which was within the ceiling of 61 per cent targeted in NFRBM Act, but was much higher than the norm of 35 per cent recommended by the TFC.

⁴ Represents salaries only and includes salaries spent from grants-in-aid but excludes wages upto 2004-05.

Expenditure on pension payments: Pension payments grew at an average rate of 16.89 *per cent* from Rs.140.81 crore in 2003-04 to Rs.259.73 crore in 2007-08. The year-wise break up of expenditure on pension payments during the period 2003-04 to 2007-08 is indicated in Table-1.13.

Table-1.13: Expenditure on Pensions

| Heads | (Rupees in crore) | | | | |
|----------------------------|-------------------|---------|---------|---------|---------|
| | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 |
| Expenditure on Pensions | 140.81 | 133.83 | 179.42 | 201.74 | 259.73 |
| As <i>per cent</i> of GSDP | 2.69 | 2.32 | 2.81 | 2.90 | 3.62 |
| As <i>per cent</i> of RR | 5.97 | 7.28 | 7.91 | 7.28 | 8.67 |

Source: Finance Accounts

The expenditure on pensions has increased by 28.74 *per cent* from Rs.201.74 crore in 2006-07 to Rs.259.73 crore in 2007-08 mainly due to increase in the expenditure under superannuation and retirement benefits and for meeting the arrear payments. The pension payment was Rs.3.43 crore more than the projections made in the FCP (Rs.256.30 crore) while it was Rs.24.87 crore more than the assessment made by TFC (Rs.234.86 crore) for the year 2007-08. The State Government has not introduced the new Pension Policy so far, to meet the increasing pension liabilities.

Interest payments

Interest payments made and their ratio to revenue receipts and revenue expenditure during the period 2003-08 are detailed in Table-1.14.

Table-1.14: Interest payments

| Year | Total Revenue Receipts | Interest Payments | Percentage of Interest payments to | |
|---------|------------------------|-------------------|------------------------------------|---------------------|
| | (Rupees in crore) | | Revenue Receipts | Revenue Expenditure |
| 2003-04 | 2359.79 | 234.74 (9.40) | 9.95 | 12.95 |
| 2004-05 | 1839.52 | 249.62 (6.34) | 13.57 | 14.82 |
| 2005-06 | 2267.20 | 253.89 (1.71) | 11.20 | 12.32 |
| 2006-07 | 2772.51 | 279.69 (10.16) | 10.09 | 12.59 |
| 2007-08 | 2996.02 | 270.46 (-3.30) | 9.03 | 10.51 |

Source: Finance Accounts

The major sources of borrowing of the State Government were (i) Loans from the Centre, (ii) Loans from Market, (iii) Loans from Banks and Financial institutions and (iv) Loans from Small Savings and Provident Fund. The interest rates on these borrowings varied from 6.50 *per cent* to 12.50 *per cent* per annum during the period 2003-04 to 2007-08. Interest payments increased by 15.22 *per cent* from Rs.234.74 crore in 2003-04 to Rs.270.46 crore in 2007-08. Increase in interest payments during 2007-08 over the previous year were on internal debt (Rs.28.84 crore), Small Savings, Provident fund etc.(Rs.1.61 crore) and decrease in payment over previous year was on loans and advances from Central Government (Rs.39.68 crore). Interest payments relative to revenue receipts at 9 *per cent* were well within the norm of 15 *per cent* as recommended by TFC.

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 being spent on running the existing social and economic services efficiently and effectively would determine the quality of expenditure. Higher the ratio of these components to total expenditure and GSDP, better is the quality of expenditure. Table-1.15 gives these ratios during 2003-08.

Table-1.15: Indicators of Quality of Expenditure

(Rupees in crore)

| | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 |
|---|----------------|----------------|----------------|----------------|----------------|
| Capital Expenditure | 391.13 | 379.44 | 517.87 | 710.48 | 821.48 |
| Revenue Expenditure | 1812.99 | 1684.63 | 2060.53 | 2222.15 | 2572.27 |
| Of which, | | | | | |
| Social and Economic Services with | 938.07 | 826.68 | 1120.63 | 1201.83 | 1378.83 |
| (i) Salary & Wage Component | (51.74) | (49.07) | (54.39) | (54.08) | (53.60) |
| (ii) Non-Salary & Wage Component | 501.64 | 485.90 | 606.56 | 649.72 | 730.66 |
| | (53.48) | (58.78) | (54.13) | (54.06) | (52.99) |
| | 436.43 | 340.78 | 514.07 | 552.11 | 648.17 |
| | (46.52) | (41.22) | (45.87) | (45.94) | (47.01) |
| As per cent of Total Expenditure * | | | | | |
| Capital Expenditure | 17.70 | 18.38 | 20.08 | 24.22 | 24.19 |
| Revenue Expenditure | 82.07 | 81.60 | 79.90 | 75.77 | 75.74 |
| As per cent of GSDP | | | | | |
| Capital Expenditure | 7.47 | 6.57 | 8.12 | 10.21 | 11.46 |
| Revenue Expenditure | 34.61 | 29.15 | 32.32 | 31.94 | 35.88 |

*Total expenditure excludes Loans and Advances.

Though no specific norms were laid down by the State Government for prioritization of capital expenditure as stipulated in NFRBM Act, capital expenditure has consistently increased over the period 2003-08 and increased by 16 per cent (Rs.111 crore) during 2007-08 over the previous year. Health & Family Welfare (Rs.20.43 crore), Water Supply and Sanitation etc. (Rs.61.06 crore) under Social Services and Transport (Rs.20.44 crore) under Economic Service are the major beneficiary sectors where incremental capital expenditure was absorbed during 2007-08. During 2007-08, capital expenditure accounted for 24.19 per cent of total expenditure and 11.46 per cent of GSDP. However, the salary and wage components of revenue expenditure incurred on Social and Economic Services had decreased marginally from 53.48 per cent in 2003-04 to 52.99 per cent in 2007-08 while that of non salary component had increased marginally from 46.52 per cent in 2003-04 to 47.01 per cent in 2007-08 which indicates relative stability in the pattern of revenue expenditure being incurred on social and economic services 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. Table-

1.16 summarizes the expenditure incurred by the State Government in expanding and strengthening the Social Services in the State during 2003-08

Table-1.16: Expenditure on Social Services

(Rupees in crore)

| | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|
| Education, Sports, Art and Culture | | | | | |
| Revenue Expenditure | 246.15 | 239.67 | 305.84 | 334.94 | 379.81 |
| Of which | | | | | |
| (a) Salary and Wage Component | 207.93 | 204.75 | 249.34 | 264.62 | 312.70 |
| (b) Non Salary and Wage Component | 38.22 | 34.92 | 56.50 | 70.32 | 67.11 |
| Capital Expenditure | 10.26 | 11.78 | 18.97 | 44.19 | 27.02 |
| Total | 256.41 | 251.45 | 324.81 | 379.13 | 406.83 |
| Health and Family Welfare | | | | | |
| Revenue Expenditure | 82.80 | 88.17 | 109.65 | 116.41 | 122.17 |
| Of which | | | | | |
| (a) Salary and Wage Component | 68.86 | 74.92 | 83.71 | 97.52 | 101.63 |
| (b) Non Salary and Wage Component | 13.94 | 13.25 | 25.94 | 18.89 | 20.54 |
| Capital Expenditure | 11.88 | 41.94 | 11.63 | 12.11 | 32.54 |
| Total | 94.68 | 130.11 | 121.28 | 128.52 | 154.71 |
| Water Supply, Sanitation, Housing and Urban Development | | | | | |
| Revenue Expenditure | 18.07 | 31.64 | 43.04 | 31.87 | 53.51 |
| Of which | | | | | |
| (a) Salary and Wage Component | 15.90 | 18.21 | 22.59 | 24.19 | 26.65 |
| (b) Non Salary and Wage Component | 2.17 | 13.43 | 20.45 | 7.68 | 26.86 |
| Capital Expenditure | 107.23 | 86.36 | 112.80 | 158.37 | 219.43 |
| Total | 125.30 | 118.00 | 155.84 | 190.24 | 272.94 |
| Other Social Services | | | | | |
| Revenue Expenditure | 75.29 | 61.47 | 93.70 | 105.63 | 101.46 |
| Of which | | | | | |
| (a) Salary and Wage Component | 63.32 | 27.94 | 30.71 | 35.91 | 30.49 |
| (b) Non Salary and Wage Component | 11.97 | 33.53 | 62.99 | 69.72 | 70.97 |
| Capital Expenditure | 8.78 | 8.89 | 11.69 | 26.28 | 11.83 |
| Total | 84.07 | 70.36 | 105.39 | 131.91 | 113.29 |
| Total (Social Services) | | | | | |
| Revenue Expenditure | 422.31 | 420.95 | 552.23 | 588.85 | 656.95 |
| Of which | | | | | |
| (a) Salary and Wage Component | 356.01 (84.30) | 325.82 (77.40) | 386.35 (69.96) | 422.24 (71.71) | 471.47 (71.77) |
| (b) Non Salary and Wage Component | 66.30 (15.70) | 95.13 (22.60) | 165.88 (30.04) | 166.61 (28.29) | 185.48 (28.23) |
| Capital Expenditure | 138.15 | 148.97 | 155.09 | 240.95 | 290.82 |
| Grand Total | 560.46 | 569.92 | 707.32 | 829.80 | 947.77 |

The expenditure on Social Services increased from Rs.560.46 crore in 2003-04 to Rs.947.77 crore in 2007-08 and constituted 27.91 per cent of the total expenditure (Rs.3396.36 crore) during 2007-08. Three major Social Services viz., General Education (Rs.406.83 crore), Health and Family Welfare (Rs.154.71 crore) and Water Supply and Sanitation (Rs.272.94 crore) accounted for 88 per cent of the total expenditure on Social

Services. Capital expenditure on Social Services increased by 21 *per cent* from Rs.240.95 crore in 2006-07 to Rs.290.82 crore in 2007-08 due to increase in Water Supply and Sanitation (Rs.61.06 crore) and Health and Family Welfare (Rs.20.43 crore) set off by a decrease in Education, Sports, Art & Culture (Rs.17.17 crore) and Other Social services (Rs.14.45 crore).

To improve the quality of education and health services in the States, the TFC recommended that the non-plan salary expenditure under Education and Health and Family Welfare should increase only by 6 and 5 *per cent* respectively, while non salary expenditure under non-plan heads should increase by 30 *per cent* per annum in both the sectors during the award period. The trends in expenditure (both Plan and Non Plan) revealed that the salary and wage component of revenue expenditure under Education and Sports, Art & Culture increased by 18 *per cent* in 2007-08 over the previous year, while the non salary component decreased by 5 *per cent*; under Health and Family Welfare, salary and wage component increased by 4 *per cent* in 2007-08 over the previous year while non salary component increased by 8.73 *per cent*. This pattern of expenditure indicates that changes are required to be made in the prioritisation of expenditure in these sectors by the State Government to achieve conformity with TFC norms in the ensuing years.

1.5.3 Expenditure on Economic Services

Expenditure on Economic Services (Table-1.17) includes all such expenditure that promotes directly or indirectly, productive capacity within the State's economy. The expenditure on Economic Services (Rs.1114.83 crore) accounted for 32.82 *per cent* of the total expenditure (Rs.3396.36 crore).

Table-1.17: Expenditure on Economic Services

| (Rupees in crore) | | | | | |
|--|---------------|---------------|---------------|---------------|---------------|
| | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 |
| Agriculture and Allied Activities | | | | | |
| Revenue Expenditure | 110.27 | 117.24 | 163.06 | 182.52 | 205.46 |
| Of which | | | | | |
| (a) Salary and Wage Component | 66.87 | 71.23 | 84.55 | 83.30 | 98.97 |
| (b) Non Salary and Wage Component | 43.40 | 46.01 | 78.51 | 99.22 | 106.49 |
| Capital Expenditure | 20.63 | 9.38 | 41.46 | 39.47 | 38.58 |
| Total | 130.90 | 126.62 | 204.52 | 221.99 | 244.04 |
| Irrigation & Flood Control | | | | | |
| Revenue Expenditure | 21.33 | 22.21 | 25.07 | 33.29 | 62.95 |
| Of which | | | | | |
| (a) Salary and Wage Component | 6.20 | 6.09 | 6.93 | 6.95 | 8.16 |
| (b) Non Salary and Wage Component | 15.13 | 16.12 | 18.14 | 26.34 | 54.79 |
| Capital Expenditure | 0.01 | 1.08 | 0.82 | 0.96 | 2.88 |
| Total | 21.34 | 23.29 | 25.89 | 34.25 | 65.83 |
| Energy | | | | | |
| Revenue Expenditure | 158.90 | 94.28 | 97.22 | 113.68 | 118.04 |
| Of which | | | | | |
| (a) Salary and Wage Component | 20.10 | 20.89 | 23.89 | 23.93 | 27.17 |
| (b) Non Salary and Wage Component | 138.80 | 73.39 | 73.33 | 89.75 | 90.87 |
| Capital Expenditure | 60.74 | 44.42 | 76.20 | 46.47 | 50.26 |
| Total | 219.64 | 138.70 | 173.42 | 160.15 | 168.30 |

| Road Transport | | | | | |
|-----------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Revenue Expenditure | 18.78 | 15.06 | 18.42 | 19.73 | 22.69 |
| Of which | | | | | |
| (a) Salary and Wage Component | 9.69 | 9.52 | 10.98 | 11.92 | 12.99 |
| (b) Non Salary and Wage Component | 9.09 | 5.54 | 7.44 | 7.81 | 9.70 |
| Capital Expenditure | 6.55 | 6.55 | 5.72 | 7.40 | 6.92 |
| Total | 25.33 | 21.61 | 24.14 | 27.13 | 29.61 |
| Other Economic Services | | | | | |
| Revenue Expenditure | 206.48 | 156.94 | 264.63 | 263.76 | 312.74 |
| Of which | | | | | |
| (a) Salary and Wage Component | 42.77 | 52.35 | 93.86 | 100.47 | 111.90 |
| (b) Non Salary and Wage Component | 163.71 | 104.59 | 170.77 | 163.29 | 200.84 |
| Capital Expenditure | 115.00 | 126.24 | 176.74 | 308.07 | 294.31 |
| Total | 321.48 | 283.18 | 441.37 | 571.83 | 607.05 |
| Total (Economic Services) | | | | | |
| Revenue Expenditure | 515.76 | 405.73 | 568.40 | 612.98 | 721.88 |
| Of which | | | | | |
| (a) Salary and Wage Component | 145.63 (28.24) | 160.08 (39.45) | 220.21 (38.74) | 226.57 (36.96) | 259.19 (35.90) |
| (b) Non Salary and Wage Component | 370.13 (71.76) | 245.65 (60.55) | 348.19 (61.26) | 386.41 (63.04) | 462.69 (64.10) |
| Capital Expenditure | 202.93 | 187.67 | 300.94 | 402.37 | 392.95 |
| Grand Total | 718.69 | 593.40 | 869.34 | 1015.35 | 1114.83 |

Out of the total expenditure on Economic Services during 2007-08, 21.89 per cent was incurred on Agriculture and Allied Activities, 15.10 per cent on Energy, 5.90 per cent on Irrigation and Flood Control and 2.66 per cent on Road Transport. As compared to 2003-04, significant increases were observed in 2007-08 in Agriculture and Allied Activities (86.43 per cent), Irrigation and Flood Control (208.48 per cent), and Road Transport (16.90 per cent).

The trends in revenue and capital expenditure on Economic Services indicate that the capital expenditure has increased from Rs.202.93 crore (28.24 per cent) in 2003-04 to Rs.392.95 crore (35.25 per cent) in 2007-08, while the revenue expenditure increased from Rs.515.76 crore (71.76 per cent) in 2003-04 to Rs.721.88 crore (64.75 per cent) in 2007-08. Of the revenue expenditure, salary component increased from Rs.145.63 crore (28.24 per cent) in 2003-04 to Rs 259.19 crore (35.90 per cent) in 2007-08 whereas non-salary component increased from Rs.370.13 crore (71.76 per cent) to Rs.462.69 crore (64.10 per cent) indicating that the pattern of expenditure needs further changes so as to improve the expansion as well as the maintenance and better quality of services.

1.5.4 Financial assistance to local bodies and other institutions

The quantum of assistance provided by the State Government by way of grants and loans to local bodies and others during the five year period 2003-08 is presented in Table-1.18.

Table-1.18: Financial Assistance

| | (Rupees in crore) | | | | |
|--|-------------------|--------------|--------------|--------------|--------------|
| | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 |
| Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.) | 2.10 | 3.05 | 6.24 | 2.55 | 2.40 |
| Municipal Corporations and Municipalities | -- | -- | -- | 0.27 | 0.27 |
| Zilla Parishad and Other Panchayati Raj Institutions | -- | -- | -- | --- | --- |
| Development Agencies | -- | 24.67 | 0.28 | --- | 29.03 |
| Hospitals and other Charitable Institutions | 0.10 | 5.59 | 5.74 | 8.12 | 8.73 |
| Other Institutions | 28.46 | 1.02 | 21.17 | 23.10 | 1.41 |
| Total | 30.66 | 34.33 | 33.43 | 34.04 | 41.84 |
| Assistance as percentage of RE | 1.69 | 2.04 | 1.62 | 1.53 | 1.63 |

The total assistance to local bodies has increased from Rs.30.66 crore in 2003-04 to Rs.41.84 crore in 2007-08. Table 1.18 shows that the assistance declined gradually from Rs.6.24 crore in 2005-06 to Rs.2.40 crore in 2007-08 in respect of Education Institutions due to less release of grants to non Government College and Institutions, whereas it was increased in respect of Hospital and Charitable Institutions from Rs.5.59 crore in 2004-05 to Rs.8.73 crore in 2007-08 mainly due to increase of grants to Naga Hospital. The financial assistance granted under the head Development agencies constituted more than 69 percent of the total assistance given by the State during the current year. Moreover, under this head all the assistance was given to Village Development Boards (Rs.29.03 crore) mainly for community development schemes (Rs.23.83 crore), matching grant (Rs.0.20 crore) and additional grants (Rs.0.33 crore).

1.6 Assets and Liabilities

In Government accounting system, comprehensive accounting of fixed assets like land and buildings owned by the 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. *Appendix 1.2* gives an abstract of such liabilities and the assets as on 31 March 2008 compared with the corresponding position as on 31 March 2007. While the liabilities in this regard consist mainly of internal borrowings, loans and advances from the GOI, receipts from Public Account and Reserve Funds, the assets comprise mainly the capital outlay and loans and advances given by the State Government and cash balances. *Appendix 1.5* depicts the time series data on State Government finances for the period 2003-08.

1.6.1 Investments and returns

As on 31 March 2008, the Government had invested Rs.141.90 crore in Statutory Corporations, Government Companies, Joint Stock Companies and Co-operatives (Table-1.19). The average return on this investment was 'Nil' during the last five years, while an average interest rate of 11.48 percent was being paid by the Government on its borrowings.

Table-1.19: Return on Investment

| Year | Investment at the end of the year* | Return | Percentage of return | Average rate of interest on Government borrowings | Difference between interest paid and return |
|---------|------------------------------------|--------|----------------------|---|---|
| | (Rupees in crore) | | | (per cent) | |
| 2003-04 | 69.36 | 0.00 | 0.00 | 11.66 | 11.66 |
| 2004-05 | 73.41 | 0.00 | 0.00 | 12.26 | 12.26 |
| 2005-06 | 103.11 | 0.00 | 0.00 | 10.50 | 10.50 |
| 2006-07 | 119.84 | 0.00 | 0.00 | 11.50 | 11.50 |
| 2007-08 | 141.90 | 0.00 | 0.00 | 11.50 | 11.50 |

* These figures differ from those mentioned in Chapter VII. The differences are under reconciliation.

Out of the total Government investment of Rs.141.90 crore at the close of the current year, Rs.81.17 crore was invested in 6 Government companies, Rs.28.66 crore in 2 Joint Stock Companies and the remaining amount of Rs.32.07 crore was invested in Statutory Corporations, Cooperative Bank and Cooperative Societies etc. During the current year, the Government made additional investment of Rs.5.03 crore in State Mineral Development Corporation, Rs.6.86 crore in other State public sector undertakings, Rs.4 crore in Nagaland Forest Products Limited and Rs.6.17 crore in Cooperative Societies.

A Government company viz., Nagaland Sugar Mills Ltd. (Rs.7.29 crore-investment) and a Joint Stock Company, Nagaland Paper and Pulp Corporation (Rs.6.33 crore-investment) were closed down; while 3 Government Corporations- Nagaland Industrial Development Corporation Ltd., (Rs.8.39 crore), Nagaland Industrial Raw Materials & Supply Corporation Ltd., (Rs.4.05 crore) and Nagaland Handloom & Handicrafts Development Corporation Ltd., (Rs.2.82 crore) were incurring losses. Since the accounts of Nagaland State Mineral Development Corporation Ltd. (Rs.44.40 crore) are outstanding from 1994-95, the actual financial status of the company as of March 2008 could not be assessed.

1.6.2 Loans and Advances by State Government

In addition to investments in Co-operative societies, Corporations and Companies, the Government has also been providing loans and advances to many of these organisations and also to Government employees for construction of houses and other miscellaneous purposes.

Table-1.20: Average Interest Received on Loans Advanced by the State Government (Rupees in crore)

| | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 |
|--|----------|----------|----------|----------|----------|
| Opening Balance | 42.96 | 41.23 | 35.06 | 30.27 | 26.19 |
| Amount advanced during the year | 5.08 | 0.34 | 0.61 | 0.24 | 2.61 |
| Amount repaid during the year | 6.81 | 6.50 | 5.40 | 4.33 | 3.06 |
| Closing Balance | 41.23 | 35.06 | 30.27 | 26.19 | 25.74 |
| Net addition | (-) 1.73 | (-) 6.16 | (-) 4.79 | (-) 4.09 | (-) 0.45 |
| Interest Received | 0.89 | 1.53 | 1.24 | 1.38 | 1.68 |
| Interest received as <i>per cent</i> to outstanding Loans and Advances | 2.16 | 4.36 | 4.10 | 5.27 | 6.53 |

| | | | | | |
|--|-------|-------|-------|-------|-------|
| Average interest rate (in <i>per cent</i>) paid on borrowings by State Government | 11.66 | 12.26 | 10.50 | 11.50 | 11.50 |
| Difference between average interest paid and received (<i>per cent</i>) | 9.50 | 7.90 | 6.40 | 6.23 | 4.97 |

At the end of March 2008, the Government had outstanding loans and advances of Rs.25.74 crore (Table 1.20) mainly from Co-operative Societies (Rs.20.33 crore), Village & Small Industries (Rs.0.29 crore) and Government Servants (Rs.2.60 crore). The interest received as percentage of outstanding loans ranged from 2.16 to 6.53 *per cent* during the period, which was much less than the interest paid by the Government on its own borrowings.

1.6.3 Management of cash balances

It is generally desirable that the State's flow of resources should match its expenditure obligations. However, to take care of any temporary mismatches in the flow of resources and expenditure obligations, a mechanism of Ways and Means Advances (WMA) - ordinary and special- from Reserve Bank of India (RBI) has been put in place. The operative limit for normal WMA is reckoned as the three year average of revenue receipts and the operative limit for special WMA is fixed by RBI from time to time depending on the holding of Government securities. WMA and overdrafts availed, the number of occasions when these were availed and interest paid by the State is detailed in Table-1.21.

Table-1.21: Ways and Means Advances and Overdrafts and cash balance of the State

| | (Rupees in crore) | | | | |
|-------------------------|-------------------|---------|---------|---------|---------|
| | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 |
| Ways and Means Advances | | | | | |
| Availed in the year | 44.55 | 297.35 | 195.08 | 188.18 | 297.99 |
| Number of occasions | 1 | 9 | 5 | 4 | 4 |
| Outstanding WMA, if any | --- | 7.07 | 53.01 | 95.32 | -- |
| Interest Paid | 0.63 | 0.48 | 0.27 | 0.27 | 0.52 |
| Number of days | 6 | 53 | 14 | 7 | 32 |
| Overdraft | | | | | |
| Availed in the year | --- | 57.02 | 79.84 | 78.53 | 69.18 |
| Number of occasions | --- | 2 | 1 | 1 | 1 |
| Number of days | 365 | 3 | 2 | 5 | 3 |
| Interest Paid | 0.13 | 0.33 | 0.37 | 0.24 | 0.04 |

During 2007-08 the State Government received Rs.297.99 crore (Rs.144.43 crore as normal plus Rs.153.56 crore as special) Ways and Means Advances from RBI and the whole amount of advances (Rs.297.99 crore) along with outstanding balance of 2006-07 (Rs.95.32 crore) was repaid during the year with interest thereof of Rs.0.52 crore. The State had a negative cash balance during 2003-08. The State had also availed the overdraft facility once in a year although only for three days to meet its mismatch between receipts and expenditure at that particular point of time during the year.

The cash balance during 2003-04 was (-) Rs.212.32 crore which came down to (-) Rs.148.87 crore during 2007-08 after inter year variations. The State Government had

invested Rs.81.50 crore in GOI treasury bills and earned an interest of Rs.3.83 crore during 2007-08.

1.7 Undischarged Liabilities

“Total liabilities” as defined in NFRBM Act, 2005 means the liabilities under the Consolidated Fund of the State and the Public Account of the State.

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. 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 its Legislature and give guarantees within such limits as may be fixed. Other liabilities, which are a part of Public Account, include deposits under small savings scheme, provident fund and other deposits.

Table-1.22 gives the fiscal liabilities of the State, their 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-1.22: Fiscal Liabilities – Basic Parameters

| | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 |
|--|----------|---------|---------|---------|---------|
| Fiscal Liabilities* (Rupees in crore) | 2542 | 2813 | 3189 | 3554 | 3881 |
| Rate of Growth (<i>per cent</i>) | (-) 6.80 | 10.66 | 13.37 | 11.45 | 9.20 |
| Ratio of Fiscal Liabilities to | | | | | |
| GSDP (<i>per cent</i>) | 48.52 | 48.68 | 50.03 | 51.08 | 54.14 |
| Revenue Receipts (<i>per cent</i>) | 107.72 | 152.92 | 140.66 | 128.19 | 129.54 |
| Own Resources (<i>per cent</i>) | 1964 | 1801 | 1575 | 1691 | 1547 |
| Buoyancy of Fiscal Liabilities to | | | | | |
| GSDP (ratio) | ** | 1.03 | 1.30 | 1.25 | 3.04 |
| Revenue Receipts (ratio) | ** | ** | 0.58 | 0.51 | 1.14 |
| Own Resources (ratio) | ** | 0.52 | 0.45 | 3.01 | 0.48 |

* Includes Internal Debt, Loans and Advances from GOI, Small Savings and Provident Fund etc., and other non-interest bearing obligations.

** Figures not shown since those were negative.

Fiscal liabilities of Rs.3881 crore during 2007-08 consist of internal debt, e.g., market loans bearing interest, loans from Life Insurance Corporation (LIC) and other institutions (Rs.2772.72 crore), loans and advances from Central Government (Rs.388.44 crore), Small Savings, Provident Funds (State Provident Fund and Insurance and Pension Funds (Rs.432.12 crore) and other non-interest bearing obligations such as civil deposit etc. (Rs.287.47 crore). Overall fiscal liabilities of the State increased from Rs.2542 crore in 2003-04 to Rs.3881 crore in 2007-08. The growth rate in 2007-08 was 9.20 *per cent* over previous year. The ratio of fiscal liabilities to GSDP also increased from 48.52 *per cent* in 2003-04 to 54.14 *per cent* in 2007-08. The liabilities stood at 1.30 times the revenue receipts and 15.47 times of State’s own resources at the end of 2007-08. The buoyancy of

these liabilities with respect to GSDP during the year increased to 3.04 from 1.25 in the previous year primarily due to sluggish growth rate of around 3 *per cent* in 2007-08 as against 9 *per cent* in pervious year. In line with the recommendations of the TFC, the State Government has set up the Sinking Fund for amortization of market borrowings as well as other loans and debt obligations during 2007-08. Contribution to the corpus of the fund was Rs.16.17 crore as of March 2008 and the entire amount of the fund is invested in Sinking Fund.

1.7.2 Debt sustainability

Debt sustainability is defined as the ability of the State to maintain a constant debt- GDP ratio over a period of time and also embodies the concern about the ability to service its debt. Sustainability of debt therefore also refers to sufficiency of liquid assets to meet current or committed obligations and the capacity to keep balance between costs of additional borrowings with returns from such borrowings. It means that rising 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.

Debt Stabilisation

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*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 stabilize eventually. On the other hand, if primary deficit together with quantum spread turns out to be negative, debt-GSDP ratio would be rising and in case it is positive, debt-GSDP ratio would eventually be falling. Trends in fiscal variables indicating the progress towards debt stabilization are indicated in Table-1.23.

Table-1.23: Debt Sustainability-Interest Rate and GSDP Growth

| | (in per cent) | | | | |
|---|---------------|-----------|-----------|------------|------------|
| | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 |
| Average Interest Rate | 11.66 | 12.26 | 10.50 | 11.50 | 11.50 |
| GSDP Growth | 10.32 | 10.31 | 10.31 | 9.15 | 3.03 |
| Interest spread | (-) 1.34 | (-) 1.95 | (-) 0.19 | (-) 2.35 | (-) 8.47 |
| Outstanding Debt | 2542 | 2813 | 3189 | 3554 | 3881 |
| Quantum spread (Rs. in crore) | (-) 34.06 | (-) 54.85 | (-) 6.06 | (-) 83.52 | (-) 328.72 |
| Primary Deficit (-)/Surplus (+) (Rs. in crore) | 392.14 | 31.23 | (-) 52.52 | (+) 123.66 | (-) 126.82 |

Table 1.23 shows that quantum spread together with primary surplus was positive in 2003-04 with debt-GSDP ratio at 48.52 *per cent* during the year. The sum of quantum spread and primary deficit remained negative thereafter except in 2006-07 indicating increasing trend in Debt-GSDP ratio during these years which increased to 54.14 *per cent* during 2007-08. These trends reveal that a lot more efforts are required by the State to stabilize the debt and then attain sustainability in ensuing years.

Sufficiency of Non-debt Receipts

Another indicator for debt stability and its sustainability is the adequacy of incremental non-debt receipts of the State to cover the incremental interest liabilities and incremental primary expenditure. Debt sustainability could be significantly facilitated if the incremental non-debt receipts could meet the incremental interest burden and the incremental primary expenditure. Table-1.24 indicates the resource gap as defined for the period 2003-08.

Table-1.24: Incremental revenue receipts and Revenue Expenditure

(Rupees in crore)

| Period | Incremental | | | | Resource Gap |
|---------|-------------------|---------------------|-------------------|-------------------|--------------|
| | Non-Debt Receipts | Primary Expenditure | Interest Payments | Total Expenditure | |
| 2003-04 | 1013 | 340 | 20 | 360 | (+) 653 |
| 2004-05 | (-) 521 | (-) 160 | 15 | (-) 145 | (-) 376 |
| 2005-06 | 427 | 511 | 4 | 515 | (-) 88 |
| 2006-07 | 504 | 328 | 26 | 354 | (+) 150 |
| 2007-08 | 222 | 472 | (-) 9 | 463 | (-) 241 |

The trends in Table-1.24 also reveal that the incremental non-debt receipts of the State were enough to meet the incremental interest liabilities and incremental primary expenditure in two years (2003-04 and 2006-07) out of the five year period 2003-08 mainly on account of boost in revenue receipts due to large flow of grants-in-aid from the GOI. The negative resource gap during the remaining three years indicated State's reliance on borrowed funds to meet even its incremental requirements on account of interest obligations and primary expenditure. The trends in resource gap during the period 2003-08 were in tandem with those depicted by quantum spread together with primary deficit indicating the fact that debt sustainability of the State is solely dependent on the grants-in-aid from the GOI.

1.7.3 Net availability of funds

The debt sustainability of the State also depends on (i) the ratio of the debt redemption (Principal+Interest Payments) to total debt receipts and (ii) application of available borrowed funds. The ratio of debt redemption to debt receipts indicates the extent to which the debt receipts are used in debt repayment indicating the net availability of borrowed funds. The solution to the Government debt problem lies in the 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.

Table-1.25 below gives the position of the receipts and repayment of internal debt and other fiscal liabilities of the State over the last five years.

Table-1.25 Net Availability of Borrowed Funds

(Rupees in crore)

| | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 |
|--|------------|-----------|------------|-------------|------------|
| Internal debt | | | | | |
| Receipts | 393.93 | 256.22 | 413.50 | 454.33 | 511.93 |
| Repayment(Principal + Interest) | 211.80 | 247.15 | 280.37 | 329.04 | 386.29 |
| Net Fund Available | 182.13 | 9.07 | 133.13 | 125.29 | 125.64 |
| Net Fund Available (<i>per cent</i>) | 46.23 | 3.54 | 32.20 | 27.58 | 24.54 |
| Loans and Advances from Government of India | | | | | |
| Receipts | (-) 397.15 | 163.92 | 104.77 | 1.15 | (-) 10.90 |
| Repayment (Principal + Interest) | 164.81 | 171.21 | 161.59 | 64.69 | 11.03 |
| Net Fund Available | (-) 561.96 | (-) 7.29 | (-) 56.82 | (-) 63.54 | (-) 21.93 |
| Net Fund Available (<i>per cent</i>) | 141.50 | (-) 4.45 | (-) 54.23 | (-) 5525.22 | (-) 201.19 |
| Other obligations⁵ | | | | | |
| Receipts | 186.99 | 111.21 | 161.78 | 101.10 | 145.33 |
| Repayment (Principal + Interest) | 210.70 | 204.24 | 279.39 | 161.38 | 283.21 |
| Net Fund Available | (-) 23.71 | (-) 93.03 | (-) 117.61 | (-) 60.28 | (-) 137.88 |
| Net Fund Available (<i>per cent</i>) | (-) 12.68 | (-) 83.65 | (-) 72.70 | (-) 59.62 | (-) 94.87 |
| Total liabilities | | | | | |
| Receipts | 183.77 | 531.35 | 680.05 | 556.58 | 646.36 |
| Repayment (Principal + Interest) | 587.31 | 622.60 | 721.35 | 555.11 | 680.53 |
| Net Fund Available | (-) 403.54 | (-) 91.25 | (-) 41.30 | 1.47 | (-) 34.17 |
| Net Fund Available (<i>per cent</i>) | (-) 219.59 | (-) 17.17 | (-) 6.07 | 0.26 | (-) 5.29 |

Debt redemption ratio exceeded the unity since 2003-04 except in 2006-07 indicating that the repayments towards the discharge of past debt obligations were significantly more than the fresh debt receipts during the year. Even during 2006-07, net funds available after meeting the past debt obligations were negligible i.e. less than one crore. During the current year, the Government repaid principal plus interest on account of internal debt of Rs.386.29 crore (which was less than the receipts of Rs.511.93 crore), Rs.11.03 crore on GOI loans and advances against the receipts of (-) Rs 10.90 crore and also discharged other obligations of Rs.283.21 crore against the receipts of Rs.145.33 crore, resulting in a minus balance of Rs.34.17 crore. These trends indicate the fact that State has almost been in a debt trap as it seems that funds are borrowed to meet the past obligations and are not being used for development purposes.

1.8 Management of deficits

Deficit in Government accounts represents the gap between its receipts and expenditure. The nature of deficit is an indicator of the prudence of fiscal management of the Government. Further, the ways in which the deficit is financed and the resources raised and applied are important pointers to its fiscal health.

⁵ Other obligations: Small Savings, Provident Fund, Reserve Funds and Deposits.

1.8.1 Trends in deficits

The trends in fiscal parameters depicting the position of fiscal equilibrium in the State are presented in Table-1.26.

The revenue account of the State presents the trends in its revenue expenditure and revenue receipts over a definite time period. The revenue account of the State had maintained revenue surplus during the period but its surplus position has marginally deteriorated during the current year mainly on account of enhancement in revenue receipts by Rs.223.51 crore as against the increase of Rs.350.12 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 82 per cent of the incremental revenue receipts were contributed by the increase in Central transfers and another 12.5 per cent from the receipts of the power sector relative to previous year.

Further, the decline in revenue surplus and the increase of Rs.113.37 crore in capital expenditure including loan and advances disbursed during 2007-08 over the previous year led to an increase of Rs.241.25 crore in fiscal deficit during the current year from the level of Rs.156.03 crore in 2006-07. An increase in fiscal deficit accompanied by a decrease in interest payments (Rs.9.23 crore) turned the primary surplus of Rs.123.66 crore in 2006-07 into the deficit of Rs.126.82 crore during the current year.

Table-1.26: Fiscal Imbalances-Basic Parameters

| Parameters | 2003-04# | 2004-05 | 2005-06 | 2006-07 | 2007-08 |
|--|----------|------------|------------|------------|------------|
| Revenue deficit(-)/surplus (+) (Rupees in crore) | 546.80 | 154.89 | 206.67 | 550.36 | 423.75 |
| Fiscal deficit (-)/surplus (+) (Rupees in crore) | 157.40 | (-) 218.39 | (-) 306.41 | (-) 156.03 | (-) 397.28 |
| Primary deficit(-)/surplus(+) (Rupees in crore) | 392.14 | 31.23 | (-) 52.52 | 123.66 | (-) 126.82 |
| RD or RS/GSDP (per cent) | 10.44 | 2.68 | 3.24 | 7.91 | 5.91 |
| FD/GSDP (per cent) | 3.00 | (-) 3.78 | (-) 4.81 | (-) 2.24 | (-) 5.54 |
| PD/GSDP (per cent) | 7.49 | 0.54 | (-) 0.82 | (+) 1.78 | (-) 1.77 |
| RD/FD (per cent) | * | * | * | * | * |

During 2003-04 huge revenue surplus was observed largely on account of Conversion of GOI loans amounting to Rs.365 crore into grants-in-aid which has also resulted in a situation of fiscal and primary surplus during the year.

* The State experienced revenue surplus during these years.

Quality of deficit/surplus

The ratio of RD to FD and the decomposition of primary deficit into primary revenue deficit and capital expenditure (including loans and advances) would indicate the quality of deficit in the State's finances. The ratio of revenue deficit to fiscal deficit indicates the extent to which borrowed funds were used for current consumption. During the entire five year period, the State had a revenue surplus indicating that a portion of surplus funds in the revenue account were being used to finance the fiscal deficit of the State during these years.

The bifurcation of the factors resulting into primary deficit or surplus of the State during the period 2003-08 reveals (Table-1.27) that throughout the period, the primary deficit

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 sufficient to meet the primary expenditure⁶ requirements in the revenue account and left some receipts to meet the expenditure under capital account during the period 2003-08. But the surplus non-debt receipts were not enough to meet the expenditure requirements under capital account resulting in primary deficit in 2005-06 and 2007-08 during the period 2003-08. This indicates the extent to which the primary deficit has been on account of enhancement in capital expenditure which to some extent may be desirable to improve the productive capacity of the State's economy.

Table-1.27: Primary deficit/surplus- Bifurcations of factor

(Rupees in crore)

| Year | Non-debt Receipts | Primary Revenue Expenditure | Capital Expenditure | Loans and Advances | Primary Expenditure | NDR <i>vis-à-vis</i> Primary Revenue Expenditure | Primary Deficit (-) / Surplus (+) |
|---------|-------------------|-----------------------------|---------------------|--------------------|---------------------|--|-----------------------------------|
| 1 | 2 | 3 | 4 | 5 | 6 (3+4+5) | 7 (2-3) | 8 (2-6) |
| 2003-04 | 2367 | 1578 | 391 | 5 | 1974 | (+) 789 | (+) 393 |
| 2004-05 | 1846 | 1435 | 379 | 0 | 1814 | (+) 411 | (+) 32 |
| 2005-06 | 2273 | 1807 | 518 | 0 | 2325 | (+) 466 | (-) 52 |
| 2006-07 | 2777 | 1942 | 710 | 0 | 2652 | (+) 835 | (+) 125 |
| 2007-08 | 2999 | 2302 | 821 | 3 | 3126 | (+)697 | (-)127 |

1.9 Fiscal ratios

The finances of a State should be sustainable, flexible and non-vulnerable. Table-1.28 below presents a summarized position of Government finances over 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 facts.

Table 1.28 - Indicators of Fiscal Health (in per cent)

| Fiscal Indicators | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 |
|---|---------|---------|---------|---------|---------|
| I. Resource Mobilisation | | | | | |
| Revenue Receipts/GSDP | 45.05 | 31.83 | 35.57 | 39.85 | 41.79 |
| Revenue Buoyancy | 7.29 | ** | 2.26 | 2.44 | 2.66 |
| Own tax/GSDP | 1.31 | 1.36 | 1.66 | 1.71 | 1.83 |
| II. Expenditure Management | | | | | |
| Total Expenditure/GSDP | 42.17 | 35.72 | 40.46 | 42.15 | 47.38 |
| Total Expenditure/Revenue Receipts | 93.62 | 112.23 | 113.75 | 105.78 | 113.36 |
| Revenue Expenditure/Total Expenditure | 82.07 | 81.60 | 79.90 | 75.77 | 75.74 |
| Salary & Wage expenditure on Social and Economic Service/Revenue Expenditure | 27.67 | 28.84 | 29.44 | 29.19 | 28.41 |
| Non-Salary & Wage expenditure on Social and Economic Services/Revenue Expenditure | 24.07 | 20.23 | 24.95 | 24.89 | 25.20 |
| Capital Expenditure/Total Expenditure | 17.70 | 18.38 | 20.08 | 24.22 | 24.19 |
| Capital Expenditure on Social and Economic Services/Total Expenditure | 15.44 | 16.31 | 17.68 | 21.93 | 20.13 |
| Buoyancy of TE with RR | 0.26 | ** | 1.07 | 0.62 | 1.96 |
| Buoyancy of RE with RR | 0.27 | ** | 0.96 | 0.35 | 1.96 |

⁶ Primary expenditure of the State defined as the total expenditure net of interest payments indicates the expenditure incurred on the transactions undertaken during the year.

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| III. Management of Fiscal Imbalances | | | | | |
|--|------------|------------|------------|------------|------------|
| Revenue surplus(+)/deficit(-) (Rs. in crore) | 546.80 | 154.89 | 206.67 | 550.36 | 423.75 |
| Fiscal deficit(-)/surplus(+) (Rs. in crore) | 157.40 | (-) 218.39 | (-) 306.41 | (-) 156.03 | (-) 397.28 |
| Primary deficit(-)/surplus(+) (Rs. in crore) | 392.14 | 31.23 | (-) 52.52 | (-) 123.66 | (-) 126.82 |
| Revenue deficit/Fiscal deficit | * | * | (-) 67.45 | 335.16 | 106.66 |
| IV. Management of Fiscal Liabilities | | | | | |
| Fiscal Liabilities/GSDP | 48.52 | 48.68 | 50.03 | 51.08 | 54.14 |
| Fiscal Liabilities/RR | 107.72 | 152.92 | 140.66 | 128.19 | 129.54 |
| Primary deficit vis-à-vis quantum spread | 358.08 | (-) 23.62 | (-) 58.58 | 40.14 | (-) 455.54 |
| Net Fund Available | (-) 219.59 | (-) 17.17 | (-) 6.07 | 0.26 | (-) 5.29 |
| V. Other Fiscal Health Indicators | | | | | |
| Return on Investment | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Balance from Current Revenue (Rs. in crore) | 247.88 | (-) 386.32 | (-) 58.01 | (-) 169.27 | (-) 171.54 |
| Financial Assets/Liabilities | 1.14 | 1.17 | 1.20 | 1.32 | 1.39 |

* RD/FD ratio could not be calculated as these years registered a Revenue and Primary surplus.

** Figures not shown since those are negative.

The ratios of revenue receipts and State's own taxes to GSDP indicate the adequacy of the resources. Revenue receipts are comprised not only of the tax and non-tax resources of the State but also the transfers from Union Government. The ratio of revenue receipts to GSDP has consistently increased to 42 *per cent* during the current year from the level of 32 *per cent* in 2004-05. The ratio was at an exceptionally high level of 45 per cent in 2003-04 primarily on account of the fact that revenue receipts increased steeply due to conversion of GOI loans to Nagaland into grants-in-aid during that year. The ratio of own taxes to GSDP has also consistently improved from 1.31 in 2003-04 to 1.83 in 2007-08, but its extremely low level along with the fact that tax revenue being significantly lower than the normatively assessed level by TFC indicates potential for mobilization of more resources through taxable sources.

Various ratios concerning the expenditure management of the State indicate the quality of its expenditure and sustainability of these in relation to its resource mobilization efforts. The revenue expenditure as a percentage to total expenditure declined by six percentage points from 82 *per cent* in 2003-04 to 76 *per cent* during 2007-08 exhibiting an increasing trend in the ratio of capital expenditure to total expenditure during the period. Barring 2003-04, the non-debt receipts were inadequate to finance the total expenditure during the period 2004-08 indicating continued dependence on borrowed funds. However, noticeably the proportion of total expenditure being financed through borrowed funds although declined marginally relative to 2004-05, it remained almost static during 2006-07 and 2007-08 which is also reflected by a similar trajectory ratio of financial liabilities to revenue receipts during the period.

Though revenue surplus was maintained, fiscal deficit deteriorated and primary surplus turned into deficit in 2007-08 relative to previous year. The Balance from Current Revenue not only remained negative but widely fluctuated during the period 2003-08. The ratio of fiscal assets to fiscal liabilities which not only remained greater than unity during the period (2003-08) but has also consistently increased over the period.

1.10 Conclusion

The fiscal position of the State viewed in terms of key fiscal parameters indicates deterioration during 2007-08 relative to the previous year. Although the State had

maintained a revenue surplus as set out in NFRBM Act 2005, it declined by Rs.126.61 crore while the fiscal deficit further deteriorated by Rs.241.25 crore and primary surplus turned into deficit in 2007-08 relative to the previous year, despite the fact that during the current year, around 82 *per cent* of the incremental revenue receipts were contributed by the increase in Central transfers and another 12.5 *per cent* from the receipts of the power sector. The consistent position of revenue surplus should be viewed in the light of the fact that a lion's share (exceeding 90 *per cent*) of revenue receipts is contributed by Central transfers comprising of the State's share in Union pool of taxes and duties and grants-in-aid from the GOI in the revenue receipts of the State during the period 2003-08. The expenditure pattern of the State reveals that while the revenue expenditure as a percentage of total expenditure indicated a declining trend, yet, it constituted 76 *per cent* of total expenditure during 2007-08. While the NPRES at Rs.2087.38 crore during 2007-08 was higher than the normative projection of TFC at Rs.1688.21 crore for the year, expenditure on salary, pensions and interest payments constituted 80 *per cent* of NPRES during 2007-08. These trends in expenditure indicate the need for changing the allocative priorities to facilitate the expansion of social and economic infrastructure as well as its maintenance in the ensuing years. The continued prevalence of fiscal deficit indicates reliance of the State on borrowed funds, resulting in increasing fiscal liabilities of the State over this period, which stood at 54.14 *per cent* of the GSDP in 2007-08 and is high especially if compared with the target of 40 *per cent* to be achieved by 2009-10 as laid down in NFRBM Act 2005. The increasing fiscal liabilities accompanied by a 'nil' 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 term unless suitable measures are initiated to compress the non-plan revenue expenditure and to mobilise additional resources both through the tax and non tax sources in the ensuing years.