

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 Orissa are laid out in nineteen statements, presenting receipts and expenditure, revenue as well as capital, in the Consolidated Fund, Contingency Fund and the Public Accounts of the State of Orissa. The layout 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 Government of Orissa for the year 2006-07 covering revenue receipts and expenditure, capital receipts and expenditure and public accounts receipts/disbursements as emerging from Statement-1 of Finance Accounts and other detailed statements.

Table-1.1: Summary of receipts and disbursements for the year 2006-07

(Rupees in crore)

2005-06	Receipts	2006-07	2005-06	Disbursements	2006-07		
Section-A: Revenue					Non Plan	Plan	Total
14084.72	Revenue receipts	18032.62	13603.52	Revenue expenditure	13045.44	2726.58	15772.02
5002.28	Tax revenue	6065.06	6825.66	General services	7491.03	11.74	7502.77
1531.90	Non-tax revenue	2588.12	4677.72	Social services	3707.46	1513.09	5220.55
4876.75	Share of Union Taxes/ Duties	6220.42	1953.28	Economic services	1574.70	1201.74	2776.44
2673.79	Grants from Government of India	3159.02	146.86	Grants-in-aid and Contributions	272.26	--	272.26
Section-B: Capital							
--	Misc Capital Receipts	--	1038.06	Capital Outlay	111.59	1339.87	1451.46
347.60	Recoveries of Loans and Advances	285.82	67.20	Loans and Advances disbursed	133.42	138.35	271.77
2094.96	Public debt receipts*	2045.89	1037.58	Repayment of Public Debt*			1850.74
80.80	Contingency Fund	--	--	Contingency Fund			137.67
8506.47	Public Account receipts	9991.62	6003.01	Public Account disbursements			7958.06
1681.82	Opening Cash Balance	5047.00	5047.00	Closing Cash Balance			7961.23
26796.37	Total	35402.95	26776.77	Total			35402.95

* Excluding Ways and Means Advances and Overdraft.

Following are the significant changes during 2006-07 over previous year.

- Revenue Receipt grew by Rs 3948 crore (28 per cent) over previous year. The increase was mainly contributed by Tax Revenue (Rs 1063 crore), Non-Tax Revenue (Rs 1056 crore) which included non-cash receipt of Rs 763.80 crore towards interest relief and debt waiver by the Government of India (GOI) under DCRF¹ and State Share of Union Taxes/Duties (Rs 1343 crore), Grants from Government of India (Rs 485 crore).
- Total expenditure increased by Rs 2786 crore during 2006-07 over the previous year of which increase in revenue expenditure was Rs 2168 crore and the capital expenditure including loans and advances disbursed increased by Rs 618 crore.
- Transfer of funds to Consolidated Sinking fund during 2006-07 amounted to Rs 1488 crore, an increase of Rs 828 crore from the level of Rs 660 crore transferred to the Fund in 2005-06.
- The public debt of Government increased by Rs 195 crore during the year 2006-07 and stood at Rs 26925 crore at the close of the period. Public account disbursement increased by Rs 1955 crore over the previous year.
- Cash balance of the State increased by Rs 2914 crore from Rs 5047 crore in 2005-06 to Rs 7961 crore during the current year by way of increase in investment of reserve funds (Rs 1276 crore) and cash balance investment (Rs 1855 crore).

1.1.2 Trends in Fiscal Aggregates

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

Table 1.2 (Rupees in crore)

2005-06	Sr. No	Major Aggregates	2006-07
14085	1.	Revenue Receipts (2+3+4)	18033
5002	2.	Tax Revenue (Net)	6065
1532	3.	Non-Tax Revenue	2588
7551	4.	Other Receipts	9380
348	5.	Non-Debt Capital Receipts	286
348	6.	Of which Recovery of Loans	286
14433	7.	Total Receipts (1+5)	18319
11615	8.	Non-Plan Expenditure (9+11+12)	13290
11491	9.	On Revenue Account	13045
3697	10.	Of which Interest Payments	3188
124	11.	On Capital Account	111
49	12.	On Loans disbursed	134
3094	13.	Plan Expenditure (14+15+16)	4205
2113	14.	On Revenue Account	2727
981	15.	On Capital Account	1340
18	16.	On Loans disbursed	138
14709	17.	Total Expenditure (13+8)	17495
(+)481	18.	Revenue Deficit (9+14-1)/Surplus (+)	(+) 2261
(-)276	19.	Fiscal Deficit (17-1-5)/Surplus (+)	(+) 824
3421	20.	Primary Deficit (19-10)/Surplus (+)	(+) 4012

¹ In pursuance of the recommendations of the Twelfth Finance Commission (TFC) for fiscal consolidation and elimination of revenue deficit of the States, Government of India formulated a scheme "The States' Debt Consolidation and Relief Facility (DCRF) (2005-06 to 2009-10)" under which general debt relief is provided by consolidating and rescheduling at substantially reduced rates of interest the Central loans granted to States on enacting the FRBM Act and debt waiver is granted based on fiscal performance, linked to the reduction of revenue deficits of States.

Table-1.2 shows that revenue receipts increased by Rs 3948 (28 per cent) during 2006-07 while revenue expenditure increased by Rs 2168 crore (16 per cent) over the previous year resulting in increase in revenue surplus by Rs 1780 crore during the current year over the previous year level of Rs 481 crore. The huge revenue surplus of Rs 2261 crore in 2006-07 along with the moderate increase of Rs 413 crore in capital expenditure Rs 205 crore in disbursement of loans and advances resulted in a fiscal surplus of Rs 824 crore during 2006-07 as compared to the deficit of Rs 276 crore in the previous year.

1.2 Methodology adopted for the assessment of Fiscal position

The trends in the major fiscal aggregates of receipts and expenditure as emerged from the Statements of Finance Accounts were analysed wherever necessary over the period of last five years and observations have been made on their behavior. In its Restructuring Plan of State finances, Twelfth Finance Commission (TFC) recommended the norms/ceiling for some fiscal aggregates and also made normative projections for others. In addition, TFC also recommended that all States are required to enact the Fiscal Responsibility Acts and draw their fiscal correction path accordingly for the five year period (2005-06 to 2009-10) so that fiscal position of State could be improved as committed in their respective FR Acts/Rules during medium to long run. The norms/ceilings prescribed by the TFC as well as its projections for fiscal aggregates along with the commitments/projections made by the State Governments in their Fiscal Responsibility 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 GSDP is the good indicator of the performance of the State's economy, major fiscal aggregates like tax and non-tax revenue, revenue and capital expenditure, internal debt and revenue and fiscal deficits have been presented as percentage to the Gross State Domestic Product (GSDP) at current market prices. The buoyancy coefficients for tax revenues, non-tax revenues, revenue expenditure etc, with reference to the base represented by GSDP have also been worked out to assess as to whether the mobilisation of resources, pattern of expenditure etc, are keeping pace with the change in the base or these fiscal aggregates are also affected by factors other than GSDP. The key fiscal aggregates for the purpose are grouped under four major heads: (i) Resources by Volume and Sources, (ii) Application of Resources, (iii) Assets and Liabilities, and (iv) Management of Deficits (*Appendix 1.2-B 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 Growth and composition of Gross State Domestic Product (GSDP)²

GSDP is being used as a base in presenting the trends in key fiscal parameters as well as in estimating various buoyancy ratios especially for revenue and

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.

expenditure aggregates. The qualitative assessment of the trends and pattern of various fiscal variables would depend on the quality and correctness of the GSDP estimates. The New GSDP series with 1999-2000 as base, as published by the Directorate of Economics and Statistics of the State Government have been used in estimating these percentages and buoyancy ratios. The trends in growth and composition of GSDP for last six years are presented in **Table-1.3**.

Table –1.3: Trends in Growth and Composition of GSDP

(Rupees in crore)						
Estimates	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Gross State Domestic Product (GSDP)	47270	50149	61071	69037	75706	83016
Primary Sector (Percentage Share)	16159 (34)	16739 (33)	22298 (37)	23196 (34)	25173 (33)	26847 (32)
Secondary Sector (Percentage Share)	8748 (18)	8792 (18)	11130 (18)	14504 (21)	15288 (20)	17865 (22)
Tertiary Sector (Percentage Share)	8375 (18)	9420 (19)	11024 (18)	13763 (20)	15575 (21)	16945 (20)
Finance and Services (Percentage Share)	13988 (30)	15198 (30)	16619 (27)	17574 (25)	19670 (26)	21359 (26)
Rates of Growth (per cent)						
GSDP	7.48	6.09	21.78	13.04	9.66	9.66
Rate of Growth of Primary Sector	11.90	3.60	33.20	4.03	8.52	6.65
Rate of Growth of Secondary Sector	(-) 2.52	0.49	26.60	30.32	5.41	16.86
Rate of Growth of Tertiary Sector	9.26	12.48	17.03	24.85	13.17	8.80

Source: Directorate of Economics and Statistics, Government of Orissa.

1.2.2 The Orissa Fiscal Responsibility and Budget Management Act 2005

The State Government has enacted the Fiscal Responsibility and Budget Management (FRBM) Act 2005 to ensure prudence in fiscal management and to maintain fiscal stability in the State. To improve the fiscal position and to bring fiscal stability, the Act envisages progressive elimination of revenue deficit, reduction in fiscal deficit and prudent debt management consistent with fiscal sustainability. To ensure fiscal prudence, the Act also provides for greater fiscal transparency in fiscal operations of the Government and conduct of fiscal policy in a medium term framework and matters connected therewith or thereto. To give effect to the fiscal management principles as laid down in the Act, and/or the rules framed thereunder prescribed the following fiscal targets for the State Government:

- a) Reduce Revenue deficit to 'NIL' within a period of five financial years beginning from the initial year as on the 1st day of April 2004 and ending on the 31st day of March 2009.
- b) Reduce fiscal deficit by 1.5 *per cent* of GSDP in each of the financial years beginning on the 1st April 2004 so as to bring it down to not more than three *per cent* of the estimated gross State domestic product within a period of five financial years ending on the 31st day of March 2009 in the manner consistent with the goal.
- c) Generate a primary surplus of over three *per cent* of GSDP by the year ending 31 March 2008.

- d) Other important monitorable targets would be
- the ratio of salary to State's own revenue is to be reduced to 80 *per cent* by the year ending 31 March 2008;
 - the ratio of non-interest committed revenue expenditure to State's Own and Mandated revenue is to be reduced to 55 *per cent* by the year ending 31 March 2008; and
 - the ratio of revenue deficit to revenue receipt is to be reduced to zero *per cent* by the year ending 31 March 2009.
- e) In order to bring the debt stock to a sustainable level, interest payment as a percentage of revenue receipt to be limited from 18 to 25 *per cent*.
- f) Total Debt stock should be limited to 300 *per cent* of the total Revenue Receipt of the state by the year ending 2007-08.

The Act however provides that the revenue deficit and the fiscal deficit may exceed the specified limits on account of unforeseen circumstances or natural calamity to the extent of actual fiscal cost that can be attributed to the natural calamities.

1.2.2.1 Roadmap to Achieve the Fiscal Targets as laid down in FRBM Act/Rules

The State Government had also developed its own Fiscal Correction Path (FCP) indicating the milestones of outcome indicators with the target dates of implementation during the period from 2004-05 to 2009-10 (***Appendix-1.2 (A)***) and detailing the structural means required for mobilising additional resources and identifying areas where expenditure could be compressed to achieve the targets set out in FRBM Act. In its FCP, State has envisaged *inter alia* to almost double the State's own revenue from Rs 4396 crore in the base year (2003-04) to Rs 8529 crore in 2009-10; reduce the share of committed expenditure in the form of salaries, pensions and interest payments from 84 *per cent* of total revenue receipts in base year to 60 *per cent* in 2009-10; consistently reduce the general subsidy from Rs 231 crore to Rs 60 crore and eliminate the power subsidy during the period; eliminate the revenue deficit and earn surplus and bring the fiscal deficit below three *per cent* by 2008-09

1.2.2.2 Fiscal Policy Statement(s) 2006-07

As prescribed in the Act, the State Government has laid the following statement(s) of fiscal policy along with the budget before the legislature during 2006-07:

- Fiscal Policy Strategy (FPS) statement containing an overview of the Fiscal Policy for the ensuing year relating to taxation, expenditure, borrowings, strategic priorities and measures for restructuring the State finances as recommended by the Twelfth Finance Commission (TFC).
- Medium Term Fiscal Plan (MTFP) prescribing fiscal targets and assumptions for achieving them.

The targets framed in MTFP for the year 2006-07 for various fiscal variables along with the projections made by the State Government in its FCP; FRBM Act and the normative assessments/projections made by TFC are being used to present the comparative analysis of actual performance vis-à-vis targets and projections are given below:

(Rupees in crore)

Fiscal forecasts	Projection in FRBM Act	Projection in TFC	Projection as per MTFP	Projection as per FCP	Actuals
Revenue deficit/ surplus	0.0 (31.3.2009)	0.0 (31.3.2009)	-498	-498	2261
Own Tax Revenue		4933	4933	4933	6065
Own Non-Tax Revenue		1357	1186	1186	2588
Ratio of non-interest committed revenue exp to State's Own and Mandated Revenue	55 (By 31.3. 2008)	-	-	-	78.80
Ratio of Salary to State's own Revenue	80 (By 31.3. 2008)	-	-	72.9	46.6
Non-Plan Revenue Expenditure	-	11563.12	-	13025.22	13045
Ratio of Fiscal Deficit to GSDP	Reduction by 1.5 per cent w.e.f. 2004-05	3.0 or below	-	(-) 2.76	(+) 0.99
Debt-GSDP ratio		31.0	57.9		47.54
Interest payments		3801.98	--	3507.65	3188
Ratio of interest payments to Total Revenue Receipts			24.4		(17.7)
Ratio of Salary Exp to Revenue Exp net of Interest and Pension		35.0	49.3		36.29

Note: Except where specifically mentioned, the figures relate to the year 2006-07.

Besides, as against the projection in the FRBM Act to keep the fiscal deficit at 1.5 per cent of the Gross State Domestic Product (GSDP), the State achieved fiscal surplus during the year.

1.2.2.3 Mid-Term Review of Fiscal Situation

As per the half yearly review in compliance with Sec 8(2) of Orissa Fiscal Responsibility and Budget Management Act 2005, the Finance Minister convened review meetings in June 2006 and January 2007 wherein *inter alia* the trends in receipts and expenditure vis-à-vis the targets laid down in the Budget and other Fiscal Statements placed in the legislature were reviewed. Directions were issued to all the concerned departments to achieve 20 per cent growth in revenue receipt over the collection level of 2005-06 and all the departments should take all possible measures for full utilisation of their budgetary provisions. However, the provisions were not utilised fully during 2006-07 and there were savings of Rs 2835.77 crore and Rs 1363.94 crore under Revenue and Capital sections respectively. The proceedings of these review meetings were placed before the legislature along with Budget 2007-08 in June 2007.

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 revenues, non-tax revenues, State's share of union taxes and duties and grants-in-aid from the Government of India (GOI). Capital receipts comprise miscellaneous capital receipts such as proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources (market loans, borrowings from financial institutions/commercial banks) and loans and advances from GOI as well as accruals from Public Account. **Table-1.4** shows that the total receipts of the State Government for the year 2006-07 were Rs 30357 crore. Of these, the revenue receipts were Rs 18033 crore, constituting 59 *per cent* of the total receipts. The balance came from borrowings, recovery of loans and advances and Public Account.

Table-1.4: Trends in Growth and Compositions of Aggregate Receipts

(Rupees in crore)

Sources of Receipt	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
I Revenue Receipts	7048	8439	9440	11850	14085	18033
II Capital Receipts	3405	4996	6152	4529	2443	2332
Recovery of Loans and Advances	132	177	273	417	348	286
Public Debt Receipts	3273	4819	5879	4112	2095	2046
Miscellaneous Capital Receipts	--	--	--	--	--	--
III Contingency Fund	--	--	--	54	81	--
IV Public Account Receipts	6813	7150	7657	7373	8506	9992
a. Small Savings, Provident Fund etc.	1994	2020	1675	1938	2742	2077
b. Reserve Fund	251	213	530	1123	1105	2004
c. Deposits and Advances	2690	3086	3733	2749	2397	2463
d. Suspense and Miscellaneous	34	67	131	-428	-74	12
e. Remittances	1844	1764	1588	1991	2336	3436
Total Receipts	17266	20585	23249	23806	25115	30357

1.3.1 Revenue Receipts

Statement-11 of the Finance Accounts details the revenue receipts of the Government. The revenue receipts consist of its own tax and non-tax revenues, central tax transfers and grants-in-aid from GOI. Overall revenue receipts, its annual rate of growth, ratio of these receipts to the GSDP and its buoyancies are indicated in **Table-1.5**.

Table-1.5: Revenue Receipts - Basic Parameters

	(Rupees in crore)					
	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Revenue Receipts (RR) (Rupees in crore)	7048	8439	9440	11850	14085	18033
Own Taxes (<i>per cent</i>)	2467 (35)	2872 (34)	3302 (35)	4177 (35)	5002 (35)	6065 (34)
Non-Tax Revenue (<i>per cent</i>)	693 (10)	961 (12)	1094 (12)	1345 (11)	1532 (11)	2588 (14)
Central Tax Transfers (<i>per cent</i>)	2648 (37)	2806 (33)	3328 (35)	3978 (34)	4877 (35)	6221 (34)
Grants-in-aid (<i>per cent</i>)	1240 (18)	1800 (21)	1716 (18)	2350 (20)	2674 (19)	3159 (18)
Rate of growth of RR (<i>per cent</i>)	2.12	19.73	11.86	25.53	18.86	28.02
RR/GSDP (<i>per cent</i>)	14.91	16.83	15.46	17.16	18.60	21.72
Buoyancy Ratio³						
Revenue Buoyancy Ratio	0.26	3.24	0.545	1.957	1.952	2.903
State's own taxes buoyancy Ratio	1.56	3.77	0.62	2.91	2.89	2.20
Revenue Buoyancy ratio with reference to State's own taxes	0.16	0.86	0.88	0.67	0.68	1.32
GSDP Growth (<i>per cent</i>)	7.48	6.09	21.78	13.04	9.66	9.66

General Trends

The revenue receipts have shown a progressive increase over the period 2001-07 with only marginal change in its composition i.e., the share of own taxes, non-tax revenue and central transfers almost remained static with slight increase of one percentage point during the current year. While on an average around 48 *per cent* of the revenue during 2006-07 came from state's own resources, central transfers and grants-in-aid together contributed nearly 52 *per cent* of total revenue. Revenue receipts of the state consistently increased from Rs 14085 crore in 2005-06 to Rs 18033 crore in 2006-07 indicating highest growth rate of 28 *per cent* during the current year. An increase of Rs 1063 crore (21 *per cent*) in own tax revenue, Rs 1056 crore (69 *per cent*) in non-tax revenue, Rs 1344 crore (28 *per cent*) in central tax transfers and Rs 485 crore (18 *per cent*) in grants-in-aid resulted in a steep increase of Rs 3948 crore in revenue receipts during 2006-07. Revenue buoyancy ratio with reference to GSDP has significantly increased from 1.95 *per cent* in 2005-06 to 2.90 in 2006-07. State's Own Tax Buoyancy with respect to GSDP has sharply declined from 2.89 *per cent* in 2005-06 to 2.20 *per cent* in 2006-07 indicating the scope of expanding the tax base with the increasing share of secondary and tertiary sectors in GSDP during the recent years. The revenue buoyancy with reference to the state's own revenue has also increased sharply during current year mainly on account of non-cash receipts under non-tax revenue on account of interest relief and debt waiver under DCRF and increase sales tax revenue on account of implementation of VAT. However, ratio of state's own revenue to total revenue receipt marginally increased from 46 *per cent* in 2005-06 to 48 *per cent* in 2006-07 due to sharp increases in central tax transfers and grants-in-aid from Government of India.

Tax Revenue

The Tax Revenue has increased by 21.25 *per cent* from Rs 5002 crore in 2005-06 to Rs 6065 crore in 2006-07. The share of sales tax in total tax

³ Buoyancy ratio indicates the elasticity or degree of responsiveness of a fiscal variable with respect to a given change in the base variable. For instance revenue buoyancy at 2.9 during 2006-07 implies that revenue receipts tend to increase by 2.9 percentage points if the GSDP increases by one *per cent*.

revenue has been more than 50 *per cent* throughout the period 2001-07 but its share sharply increased since 2004-05 contributing 62 *per cent* in 2006-07 mainly on account of implementation of Value Added Tax from 1 April 2005. State Excise (Rs 430 crore), Taxes on vehicle (Rs 427 crore), Land Revenue (Rs 226 crore), Taxes and Duties on electricity (Rs 283 crore) were the other contributors in the State's tax revenue. **Table-1.6** below presents the trends in growth and composition of tax revenue during 2001-07.

Table 1.6: Trends in Growth and Composition of Tax Revenue

(Rupees in crore)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Sales Tax	1402	1605	1864	2471	3012	3765
State Excise	197	246	256	307	389	430
Taxes on vehicles	216	258	280	338	406	427
Stamps and Registration fees	110	136	153	198	236	260
Land Revenue	84	82	103	132	70	226
Taxes and duties on electricity	137	172	200	262	353	283
Other taxes	321	373	446	469	536	674
Total	2467	2872	3302	4177	5002	6065

Non-Tax Revenue

Non-Tax revenue of the state has shown a sharp increase of Rs 1056 crore (69 *per cent*) in 2006-07 mainly due to a credit of non-cash receipts of Rs 763.80 crore under Miscellaneous General Services on account of debt waiver under DCRF and an increase of Rs 131.57 crore in receipts from non-ferrous Mining and Metallurgical industries from Rs 805.03 crore in 2005-06 to Rs 936.60 crore in 2006-07. Other major contributors towards the non-tax revenue of the State included interest receipts including dividends (Rs 448 crore); receipts from the sale of timber and forest produce (Rs 131 crore); education and health services (Rs 55 crore); other social services (Rs 51 crore) and irrigation (Rs 54 crore).

The actual tax and non-tax revenue receipts vis-à-vis the assessments made by TFC and in FCP and MTFP during 2006-07 were as below:

(Rupees in crore)

	Projection by TFC	Projection as per MTFP	Projection as per FCP	ACTUALS
Own Tax Revenue	4933	4933	4933	6065
Own Non-Tax Revenue	1357	1186	1186	2588

The tax Revenue increased by 22.94 *per cent* and the Non-Tax Revenue by 90.71 *per cent* over the assessment made by the TFC. The actual realisation also exceeded the assessments made by the State Government in FCP and MTFP.

Central Tax Transfers

Central Tax transfers increased by Rs 1344 crore from Rs 4877 crore in 2005-06 to Rs 6221 crore in 2006-07.

Grants-in-aid

The Grants-in aid from Government of India (GOI) increased from Rs 2674 crore in 2005-06 to Rs 3159 crore in the current year. The increase was mainly under State plan scheme (Rs 205 crore) and Centrally Sponsored Plan

Schemes (Rs 243 crore) and Non-plan scheme i.e. Rs 19 crore. As per the recommendations of Twelfth Finance Commission (TFC), the GOI released during the current year Rs 696.90 crore under non-plan grants for specific purposes viz. maintenance of roads (Rs 368.77 crore), maintenance of buildings (Rs 48.64 crore), maintenance of forests (Rs 15 crore), Primary Health (Rs 34.81 crore), Education (Rs 58.68 crore) and grants-in-aid to local bodies (Rs 171 crore). Besides, relief on account of natural calamities (Rs 316.34 crore) and grants on account of fiscal reforms were received during the year. Details of Grants-in-aid from GOI are given in **Table-1.7**.

Table-1.7: Grants-in-aid from Government of India

(Rupees in crore)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Grants for State Plan schemes	649.84	1021.39	1048.65	1391.99	1078.80	1284.32
Non-plan Grants	313.15	395.11	265.61	398.75	1066.60	1086.34
Grants for Central Plan Schemes	63.46	31.91	61.64	38.35	45.69	62.29
Grants for Centrally Sponsored Plan Schemes	214.18	351.77	340.38	521.32	482.69	726.07
Total:	1240.63	1800.17	1716.28	2350.41	2673.78	3159.02
Percentage of increase over previous year	(-)13.15	45.10	(-)4.66	36.95	13.76	18.15

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 11148 crore in 2001-02 to Rs 17495 crore in 2006-07. Total expenditure, its annual growth rate and ratio of expenditure to the State GSDP and to revenue receipts and its buoyancy with respect to GSDP and revenue receipts are indicated in **Table-1.8**.

Table-1.8: Total Expenditure – Basic Parameters

(Rupees in crore)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Total expenditure (TE)* (Rupees in crore)	11148	11432	13286	13633	14709	17495
Rate of Growth (<i>per cent</i>)	8.19	2.55	16.22	2.61	7.89	18.94
TE/GSDP Ratio (<i>per cent</i>)	23.58	22.80	21.76	19.75	19.43	21.07
RR /TE Ratio (<i>per cent</i>)	63.22	73.82	71.05	86.92	95.76	103.07
GSDP Growth (<i>per cent</i>)	7.48	6.09	21.78	13.04	9.66	9.66
Buoyancy Ratio of Total Expenditure with reference to:						
GSDP	0.989	0.418	0.745	0.2	0.817	1.962
Revenue Receipts	0.283	0.129	1.367	0.102	0.418	0.676

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

Total expenditure during 2006-07 at Rs 17495 crore increased by Rs 2786 crore (19 *per cent*) over the previous year. Of the increase in total

expenditure, revenue expenditure formed 78 per cent (Rs 2168 crore), capital expenditure component 15 per cent (Rs 413 crore) while disbursement of loans and advances constituted only 7 per cent (Rs 205 crore). Of the total expenditure, while the share of plan expenditure constituted 24 per cent (Rs 4205 crore), the remaining 76 per cent was non-plan expenditure (Rs 13290 crore). The increase in capital expenditure was mainly due to increased expenditure on Irrigation and Flood control (Rs 215.67 crore), Transport and Communication (Rs 76.30 crore), Water Supply and Sanitation etc (Rs 61.12 crore) and Health and Family Welfare (Rs 16.33 crore). The sharp increase in loans and advances disbursed from Rs 67 crore in 2005-06 to Rs 272 crore in 2006-07 (306 per cent) was mainly due to disbursement of loan to Orissa State Financial Corporation (Rs 118.40 crore), loan to Electronics and Telecommunication Industries (Rs 9.11 crore) and loans for miscellaneous services (Rs 114.70 crore) etc.

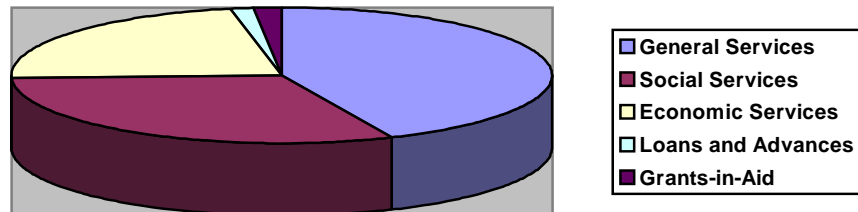
The buoyancy of total expenditure with reference to GSDP indicated an increasing trend from 0.42 to 1.96 per cent during 2002-03 to 2006-07 with an exception of 2004-05 when the ratio dipped steeply to 0.2 mainly on account of a marginal increase of 2.6 per cent in total expenditure during the year. The trend indicates overall increasing propensity of the State to spend as GSDP increases. The ratio of revenue receipt to total expenditure in 2006-07 was 103.07 per cent which indicated that the State can meet its total expenditure out of its revenue receipts only, resulting fiscal surplus during the year.

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. Relative share of these components in total expenditure is indicated in **Table-1.9**.

Table-1.9: Components of Expenditure – Relative Share

	(in per cent)					
	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
General Services	44.92	42.21	39.12	47.75	46.77	43.25
Of which Interest payments	25.43	25.24	21.53	24.44	25.13	18.22
Social Services	30.56	31.67	28.88	29.75	32.61	31.10
Economic Services	19.77	21.83	18.51	19.83	19.17	22.54
Grants-in-aid	1.35	1.29	1.66	1.16	1.00	1.55
Loans and Advances	3.40	3.00	11.83	1.50	0.46	1.55

Component of Expenditure



The movement of relative shares of these components of expenditure indicated that the share of General Services (including interest payment), considered as non-developmental, increased from 44.92 *per cent* in 2001-02 to 47.75 *per cent* in 2004-05 and thereafter showed decreasing trend and stood at 43.25 *per cent* in 2006-07. Interest payment which is a part of general services sharply declined during 2006-07 mainly because relief in interest rate on account of consolidation and re-schedulement of GOI loan consequent to enactment of FRBM Act resulting in a dip in its share in general services. The relative share of social services at 31.10 *per cent* in 2006-07 remained almost at the level of 2001-02 with marginal variations during the period. The relative share of economic services which hovered around 19 *per cent* during the last five year period 2001-06 has marginally increased to 22.54 *per cent* in 2006-07. Grants-in-Aid increased from 1.35 *per cent* in 2001-02 to 1.55 *per cent* in 2006-07 with slight variations while loans and advances revealed wild fluctuations during the period 2001-07.

1.4.2 Incidence of Revenue expenditure

Revenue expenditure is incurred to maintain the current level of services and payment, for the past obligations and as such does not result in any addition to the State's infrastructure and service network. The overall revenue expenditure, its rate of growth, ratio of revenue expenditure to GSDP and to revenue receipts and its buoyancy are indicated in **Table-1.10**.

Table-1.10: Revenue Expenditure - Basic Parameters

(Rupees in crore)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Revenue Expenditure (RE),	9882	10015	10861	12372	13604	15772
Of which						
Non-Plan Revenue Expenditure (NPRE)	8066	8444	9218	10416	11491	13045
Plan Revenue Expenditure (PRE)	1816	1571	1643	1956	2113	2727
Rates of Growth/ Ratios (per cent)						
Revenue Expenditure	11.86	1.35	8.45	13.91	9.96	15.94
NPRE	--	4.69	9.17	13.00	10.32	13.52
PRE	--	(-)13.50	4.58	19.05	8.02	29.06
RE/TE (per cent)	88.64	87.6	81.75	90.75	92.49	90.15
NPRE/GSDP (per cent)	17.06	16.84	15.09	15.09	15.18	15.71
NPRE as per cent of TE	72.35	73.86	69.38	76.40	78.12	74.56
NPRE as per cent of RR	114.44	100.06	97.65	87.90	81.58	72.34
Buoyancy Ratio of Revenue Expenditure with						
GSDP	1.59	0.221	0.388	1.067	1.031	1.650
Revenue Receipts	0.75	0.068	0.712	0.545	0.528	0.569

Revenue expenditure had the predominant share varying between 82 to 92 *per cent* in the total expenditure during the period 2001-07. The buoyancy ratios of both revenue receipts and revenue expenditure with respect to GSDP being greater than one during the last three years (2004-07) indicates continued predominant share of more than 90 *per cent* of revenue expenditure in total expenditure during the period.

Revenue expenditure accounted for 90 *per cent* of total expenditure during 2006-07 of the State and has increased by 16 *per cent* from Rs 13604 crore in 2005-06 to Rs 15772 crore in the current year. The NPRE has shown a

consistent increase at an average rate of 10 *per cent* over the period and continued to share the dominant proportion varying in the range of 82-92 *per cent* of the revenue expenditure. Of the total increase of Rs 2168 crore in the current year, increase in NPRE contributed 72 *per cent* (1554 crore) and remaining Rs 614 crore (28 *per cent*) was the plan revenue expenditure. The major components of incremental NPRE has been the General Services (Rs 672 crore) and the increase during the current year was mainly on account of transfer to consolidated sinking fund (Rs 828 crore) and pension and other retirement benefits (Rs 146.02 crore) set off by decrease in interest payment. Increase of Rs 614 crore in Plan Revenue Expenditure from Rs 2113 crore in 2005-06 to Rs 2727 crore in 2006-07 was mainly due to increase in Agriculture and Allied service (Rs 95.03 crore), Rural Development (Rs 111.36 crore), Social Welfare and Nutrition (Rs 83 crore).

The actual non-plan revenue expenditure vis-à-vis assessment made by TFC reveals that NPRE during the current year remained almost at par with assessment made by State Government in Fiscal Correction Path (Rs 13025 crore) while it exceeded the normative assessment made by TFC (Rs 11563 crore) by Rs 1482 crore during the year.

The ratio of non-plan revenue expenditure to total expenditure contributed around 3/4th of total expenditure of the State with minor variations during the period 2001-07 as a result of which its ratio with revenue receipt consistently declined from 114 *per cent* in 2001-02 to 72 *per cent* in the current year with the increase in the base during the period.

1.4.3 Committed Expenditure

Expenditure on Salaries and Wages

Table-1.11: Expenditure on Salaries (Rupees in crore)

Heads	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Expenditure on Salaries & Wages	3736	3929.39	3725.75	3777.80	4002.44	4028.27
Of which						
Non-Plan Head	NA	3564.92	3512.24	3551.70	3774.01	3816.11
Plan Head	NA	364.47	213.51	226.10	228.43	212.16
As <i>per cent</i> of GSDP	9	8.56	6.10	5.47	5.29	4.85
As <i>per cent</i> of RR	53	46.56	39.47	31.88	28.42	22.34

The expenditure on salaries increased marginally from Rs 4002.44 crore in 2005-06 to Rs 4028.27 crore in 2006-07 accounting for nearly 22 *per cent* of revenue receipts of the State during the year. Expenditure on salaries under non-plan head during 2006-07 increased by Rs 42.10 crore from Rs 3774.01 crore in 2005-06 to Rs 3816.11 crore in 2006-07 whereas expenditure on plan head decreased by Rs 16.27 crore from Rs 228.43 crore in 2005-06 to Rs 212.16 crore in 2006-07. Expenditure on salaries as a percentage of revenue expenditure, net of interest payment and pension amounts to 36.3 *per cent* which was almost at par with the norm of 35 *per cent* as recommended by the TFC and significantly lower than the projection of 49 *per cent* made in MTFP. Moreover, ratio of salary expenditure to State's own revenue at 46.6 *per cent* is also significantly below the projection of 75.8 *per cent* in MTFP

and is already well within the target of 80 per cent to be achieved in the financial year 2007-08 as laid down in State's FRBM Act, 2005.

Pension Payments

The expenditure on pension showed an increasing trend during the five year period 2002-07 (**Table 1.12**).

Table 1.12: Expenditure on Pensions

(Rupees in crore)						
Heads	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Expenditure on Pensions	1003	1030	1158	1260	1339	1485
Rate of Growth	20.55	2.70	12.43	8.81	6.27	10.90
As per cent of GSDP	2.12	2.05	1.90	1.83	1.77	1.79
As per cent of RR	14.23	12.21	11.21	10.63	9.51	8.23
As per cent of RE	10.14	10.28	10.66	10.18	9.84	9.42

A comparative analysis of actual pension payments vis-à-vis the assessment/projection reveals actual pension payment of Rs 1485 crore during 2006-07 remained significantly lower than the projection of Rs 1934 crore made by TFC which was also adopted by the State in its FCP for the year. Although the Government did not work out the pension liabilities on realistic basis as prescribed in FRBM Act 2005 but the Government introduced a Contributory Pension Schemes for employees recruited on or after 01 January 2005 to mitigate the impact of rising pension liabilities in future.

Interest payments

Trends in Interest payment reveal increasing trend from Rs 2835 crore in 2001-02 to Rs 3697 crore in 2005-06 (with a marginal decline of Rs 26 crore in 2003-04) and thereafter it decreased to Rs 3188 crore in 2006-07 (**Table-1.13**). The swapping of debt amounting to Rs 2543.62 crore during the three year period 2002-05 resulted in interest relief of Rs 144.47 crore to the government which to some extent helped in stability in interest payments especially during 2002-03 and 2003-04.

Table-1.13: Interest payments

Year	Total Revenue Receipts	Interest Payments	Percentage of Interest payments with reference to	
			Total Revenue Receipts	Revenue Expenditure
(Rupees in crore)				
2001-02	7048	2835	40	29
2002-03	8439	2886	34	29
2003-04	9440	2860	30	26
2004-05	11850	3332	28	27
2005-06	14085	3697	26	27
2006-07	18033	3188	18	20

A decline of Rs 509 crore in interest payments in 2006-07 was mainly on account of interest rate relief and consolidation and reschedulement of GOI loans as well as due to debt waiver received by the State government linked to its fiscal performance. Besides, State government also prepaid the high cost

market borrowings amounting to Rs 394.61 crore towards the close of the financial year 2006-07 which would also provide a relief in interest payments especially in the ensuing year. During 2006-07, the ratio of interest payment to total revenue receipt was 18 *per cent* which was much lower than the projection of 24.4 *per cent* made in MTFP and FCP for the year.

Subsidies

Though the finances of the State are under strain, State Government has been paying subsidies to various Corporations etc. The trends in the subsidies given by the State Government are given in **Table 1.14**.

Table-1.14: Subsidies

Year	Amount (Rupees in crore)	Percentage increase (+)/ decrease (-) over previous year	Percentage of subsidy in total expenditure
2003-04	230.89	--	1.73
2004-05	93.95	(-)59.30	0.69
2005-06	82.70	(-) 11.97	0.56
2006-07	170.20	(+) 105.8	0.97

Note: Figures for 2003-04 and 2004-05 are taken from the Budget Document 2006-07 while for the remaining two years the sources is the Appendix –VI of the Finance Accounts of the respective years.

The State Government in its Fiscal Policy Strategy Statement stated to rationalise subsidy and reduce their overall volume. Both MTFP and FCP of the State have projected the reduction of subsidy gradually to a level of Rs 59.96 crore by the year 2009-10. In case of food subsidy, TFC recommended for an amount of Rs 36.71 crore per annum which was also provided for in the MTFP and FCP projections. However, against these projections, the expenditure on subsidies more than doubled from Rs 82.70 crore in 2005-06 to Rs 170.20 crore in 2006-07. The increase of subsidy during 2006-07 over the previous year was mainly on account of increase in power subsidy (Rs 25 crore), industries and mineral subsidy (Rs 25 crore) and social welfare and nutrition subsidy (Rs 32 crore). Besides, the food subsidy amounting to Rs 39.96 crore was also included in 2006-07. In defiance to the commitment of zero power subsidies in FCP, the state government has spent Rs 27.86 crore on power subsidies during 2006-07.

1.5 Expenditure by Allocative Priorities

1.5.1 Quality of Expenditure

The availability of better social and physical infrastructure in the State reflects its quality of expenditure. Therefore ratio of capital expenditure to total expenditure as well as to GSDP and proportion of revenue expenditure being spent on running efficiently and effectively the existing social and economic services would determine the quality of expenditure. Higher the ratio of these components to total expenditure and GSDP better is quality of expenditure. **Table-1.15** gives these ratios during 2002-07.

Table 1.15: Indicators of Quality of Expenditure

(Rupees in crore)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Capital Expenditure	887	1074	853	1056	1038	1451
Revenue Expenditure	9882	10015	10861	12372	13604	15772
<i>Of which</i>						
Social and Economic Services with						
(i) Salary & Wage Component	NA	NA	2936.29	2973.93	3161.35	3123.66
(ii) Non-Salary & Wage component	NA	NA	3360.15	3786.06	4455.04	6260.74
As per cent of Total Expenditure						
Capital Expenditure	8.24	9.69	7.28	7.86	7.09	8.42
Revenue Expenditure	91.76	90.31	92.72	92.14	92.91	91.58
As per cent of GSDP						
Capital Expenditure	1.88	2.14	1.40	1.53	1.37	1.75
Revenue Expenditure	20.91	19.97	17.78	17.92	17.97	19.00

Revenue Expenditure constituted 90 per cent to 93 per cent of total expenditure during 2001-02 to 2006-07 resulting in less expenditure in Capital account ranging between 7 per cent and 10 per cent. The ratio of Capital Expenditure to GSDP has decreased from 1.88 per cent in 2001-02 to 1.75 per cent in 2006-07 indicating deterioration in quality of expenditure over the year. It is below the projection of three per cent made in Medium Term Fiscal Plan indicating the need for changing for allocative priorities. Expenditure on social and economic services ranged between 50 to 54 per cent of total revenue and capital expenditure during 2004-07. Non-salary component expenditure on Social and Economic Services increased from Rs 3360 crore in 2003-04 to Rs 6261 crore in 2006-07 (86 per cent) whereas salary component increased by six per cent during that 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** summarises the expenditure incurred by the State Government in expanding and strengthening of social services in the State during 2002-07.

Table-1.16: Expenditure on Social Services

(Rupees in crore)

	2001-02	2002-03	2003-04	2004.-05	2005-06	2006-07
Education						
Revenue Expenditure, <i>Of which</i>	1724.09	1871.96	1856.65	1976.70	2288.28	2431.40
(a) Salary & Wage Component			1669.59	1683.87	1829.41	1783.25
(b) Non-Salary & Wage component			187.06	292.83	458.87	648.15
Capital Expenditure	22.31	19.65	17.69	2.01	2.28	4.25
Health and Family Welfare						
Revenue Expenditure, <i>Of which</i>	421.44	459.58	458.82	627.45	450.64	575.47
(a) Salary & Wage Component			376.06	394.46	408.36	443.59
(b) Non-Salary & Wage component			82.76	232.99	42.28	131.88
Capital Expenditure	28.12	37.83	41.14	3.45	16.38	32.71
Water Supply, Sanitation, Housing and Urban Development						
Revenue Expenditure, <i>Of which</i>	266.42	289.51	300.02	321.84	450.07	416.22
(a) Salary & Wage Component			46.73	64.85	65.05	34.04
(b) Non-Salary & Wage component			253.29	256.99	385.02	382.18

	2001-02	2002-03	2003-04	2004.-05	2005-06	2006-07
Capital Expenditure	91.04	94.55	64.63	69.13	89.07	150.19
Other Social Services						
Revenue Expenditure, <i>Of which</i>	847.50	838.50	1094.12	1054.41	1488.73	1797.45
(a) <i>Salary & Wage Component</i>			182.72	176.58	184.24	189.48
(b) <i>Non-Salary & Wage component</i>			911.40	877.83	1304.49	1607.97
Capital Expenditure	5.74	8.86	3.14	1.48	11.37	33
Total (Social Services)	3406.66	3620.44	3836.21	4056.47	4796.82	5440.69
Revenue Expenditure, <i>Of which</i>	3259.45	3459.55	3709.61	3980.40	4677.72	5220.54
(a) <i>Salary & Wage Component</i>	NA	NA	2275.10	2319.76	2487.06	2450.36
(b) <i>Non-Salary & Wage component</i>	NA	NA	1434.51	1660.64	2190.66	2770.18
Capital Expenditure	147.21	160.89	126.60	76.07	119.10	220.15

N.B: Figures of salary and non-salary for the years 2001-02 and 2002-03 are not available.

Expenditure on social services during the current year (Rs 5441 crore) accounted for 31 per cent of total expenditure (Rs 17495 crore) and 58 per cent of developmental expenditure⁴ (Rs 9385 crore). Out of total developmental expenditure, social services accounted for 58 per cent during the year 2006-07. Three major social services, i.e. general education (Rs 2431.40 crore), health and family welfare (Rs 575.47 crore), water supply and sanitation (Rs 416.22 crore) accounted for 63 per cent of the total expenditure on Social Services.

Capital Expenditure on Social Services with wild fluctuations has increased from Rs 126.60 crore in 2003-04 to Rs 220.15 crore in 2006-07 indicating only a marginal improvement and a need for changing the expenditure pattern favoring expansion of these services. Out of revenue expenditure on Social Services, share of total salary component increased from Rs 2275 crore in 2003-04 to Rs 2450 crore in 2006-07 (8 per cent) whereas non-salary component increased by 93 per cent from Rs 1435 crore to Rs 2770 crore during such period. Assuming that non-salary component of revenue expenditure is a proxy for the maintenance and efficient running of these services, the quality of these services seem to have improved over the period 2003-07.

To improve the quality of education and health services in the States, the TFC recommended that the non-plan salary expenditure under education, health and family welfare should increase only by five to six per cent while non-salary expenditure under non-plan heads should increase by 30 per cent per annum during the award period. The trends in expenditure (taking expenditure under both plan and non-plan heads) revealed that the salary and wage component of revenue expenditure under general education increased by 8.6 per cent in 2005-06 and marginally decreased by three per cent in 2006-07 over the respective previous years while non-salary and wage component increased by 57 and 41 per cent respectively during 2005-06 and 2006-07. Under Health and family welfare, the salary and wage component increased by three per cent and 8.6 per cent during 2005-06 and 2006-07 while non-salary and wage wildly fluctuated during these years. The expenditure pattern in education although seems to be in conformity with TFC norms while in health services, a consistency needs to be maintained in respect of non-salary and wage component of revenue expenditure.

⁴ Development expenditure is defined as the total expenditure incurred on social and economic services.

1.5.3 Expenditure on Economic Services

The expenditure on economic services includes all such expenditures as to promote directly or indirectly, productive capacity within the States' economy. The expenditure on economic services (Rs 3944 crore) accounted for 23 per cent of the total expenditure and 42 per cent of developmental expenditure (Table-1.17). Of this, Agriculture and Allied activities (Rs 652.33 crore), Irrigation and Flood Control (Rs 280.66 crore), Transport and Communication (Rs 563.24 crore) and Power and Energy (Rs 32.77 crore) consumed Rs 1529 crore (39 per cent) of the expenditure on economic services.

Table-1.17: Expenditure on Economic Sector

	(Rupees in crore)					
	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Agriculture, Allied Activities						
Revenue Expenditure of which	471.47	499.51	638.37	533.99	560.58	652.33
(a) Salary & Wage Component			326.72	315.90	328.87	349.42
(b) Non-Salary & Wage component			311.65	218.09	231.71	302.91
Capital Expenditure	34.65	59.19	60.96	56.04	54.90	60.78
Rural Development						
Revenue Expenditure of which	447.98	469.03	458.66	467.71	513.94	610.12
(a) Salary & Wage Component			84.57	84.82	87.19	94.23
(b) Non-Salary & Wage component			374.09	382.89	426.75	515.89
Capital Expenditure	--	--	--	--	--	--
Irrigation and Flood Control						
Revenue Expenditure of which	193.00	184.55	178.08	207.71	235.34	280.66
(a) Salary & Wage Component			85.46	91.02	96.78	76.01
(b) Non-Salary & Wage component			92.62	116.69	138.56	204.65
Capital Expenditure	452.48	513.57	401.28	486.43	484.02	699.69
Power and Energy						
Revenue Expenditure of which	16.17	47.80	27.42	43.91	40.86	32.77
(a) Salary & Wage Component			2.18	3.58	3.47	1.62
(b) Non-Salary & Wage component			25.24	40.33	37.39	31.15
Capital Expenditure	50.20	--	20.64	36.44	--	--
Industry and Minerals						
Revenue Expenditure of which	102.08	46.86	53.11	49.91	80.91	113.15
(a) Salary & Wage Component			37.45	37.08	38.39	41.28
(b) Non-Salary & Wage component			15.66	12.83	42.52	71.87
Capital Expenditure	1.63	0.49	(-)2.84	(-)3.47	(-)3.54	0.28
Transport						
Revenue Expenditure of which	135.35	145.28	131.30	143.51	204.93	563.24
(a) Salary & Wage Component			10.78	11.26	11.67	2.27
(b) Non-Salary & Wage component			120.52	132.25	193.26	560.97
Capital Expenditure	120.28	308.84	201.00	360.92	318.90	395.20
Science, Technology and Environment						
Revenue Expenditure of which	15.63	20.74	11.49	8.08	12.78	17.18
(a) Salary & Wage Component			0.33	0.37	0.35	0.35
(b) Non-Salary & Wage component			11.16	7.71	12.43	16.83
Capital Expenditure	--	--	--	--	--	--
General Economic Services						
Revenue Expenditure of which	157.72	189.01	272.92	298.30	303.94	506.99
(a) Salary & Wage Component			41.64	41.78	48.37	45.74
(b) Non-Salary & Wage component			231.28	256.52	255.57	461.25
Capital Expenditure	5.59	11.30	6.84	14.15	11.93	11.72
Total Economic Services	2204.23	2496.17	2459.23	2703.63	2819.49	3944.11
Revenue Expenditure of which	1539.40	1602.78	1771.35	1753.12	1953.28	2776.44
(a) Salary & Wage Component			589.13	585.81	615.09	610.92
(b) Non-Salary & Wage component			1182.22	1167.31	1338.19	2165.52
Capital Expenditure	664.83	893.39	687.88	950.51	866.21	1167.67

N.B: The Salary and Non-salary figures for the 2001-02 and 2002-03 are not available.

Out of total expenditure on Economic Services during 2006-07, 25 per cent on Irrigation and Flood Control, one per cent on Power and Energy, 24 per cent on Transport, 18 per cent on Agriculture and Allied activities and 32 per cent

on other economic activities was incurred. As compared to 2003-04, significant increases in 2006-07 were observed in Irrigation and Flood Control (69 per cent) and Transport Services (188 per cent). The salary component in revenue expenditure on Economic Services declined from 33 per cent in 2003-04 to 22 per cent in 2006-07 whereas the non-salary component increased from Rs 1182 crore (67 per cent) in 2003-04 to Rs 2166 crore (78 per cent) in 2006-07.

Of the increase of Rs 1485 crore in total expenditure on economic services during the four year period 2003-07, transport and communication sector shared 42 per cent (Rs 626 crore) and irrigation and flood control consumed 27 per cent (Rs 401 crore). However, 69 per cent of the incremental expenditure in transport and communication was incurred under non-salary and wage component of revenue expenditure while around 3/4th of incremental expenditure under irrigation and flood control was the capital expenditure. These trends in expenditure pattern indicate that focuses on these economic services are either on their maintenance/effective delivery or in their expansion over the period 2003-07.

1.5.4 Financial Assistance by State Government to local bodies and other institutions

The quantum of assistance provided by way of grants and loans to local bodies and others during the six year period 2001-07 is presented in **Table-1.18**.

Table-1.18: Financial Assistance

	(Rupees in crore)					
	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.)	251.06	300.59	278.41	384.26	537.98	489.46
Municipal Corporations and Municipalities	40.96	46.44	65.72	44.47	94.61	47.82
Zilla Parishads and other Panchayati Raj Institutions	119.80	130.11	142.95	134.21	230.79	1509.92
Development Agencies	408.88	396.80	219.32	302.63	409.31	400.39
Other Institutions ⁵	173.75	148.19	258.42	197.97	510.29	971.91
Total	994.45	1022.13	964.82	1063.54	1782.98	3419.50
Assistance as percentage of RE	10	10	9	9	13	22

The financial assistance extended to local bodies and other institutions increased from Rs 1782.98 crore in 2005-06 to Rs 3419.50 crore in 2006-07 with inter year variations by 92 per cent over the previous year mainly due to increase of grants etc to Panchayati Raj Institutions (Rs 1279 crore) and other institutions (Rs 462 crore) like Orissa State Agricultural Marketing Board, Orissa State Disaster Mitigation Authority, Orissa State Water Supply and Sanitation Mission and Chilika Development Authority etc.

1.5.5 Delay in furnishing utilisation certificates

Utilisation Certificates (UCs) became due in respect of grants and loans aggregating to Rs 3286.23 crore paid up to 2006-07 in respect of 30 Bodies

⁵ Other institutions include those institutions which received the ad hoc financial assistance from the government during a year.

and nine Departments audited during the year. Of the above amount, UCs for an aggregate amount of Rs 1103.52 crore were in arrears. Details of Department-wise break up of outstanding UCs are given in the **Appendix-1.6**.

1.5.6 Non-submission of accounts

In order to identify the institutions which attract audit under Sections 14 and 15 of the Comptroller and Auditor General’s (Duties, Powers and Conditions of Service) Act 1971, the Government/Heads of the Departments are required to furnish to Audit every year detailed information about the financial assistance given to various institutions, the purpose of assistance granted and the total expenditure of the institutions. As of March 2007, no department of the Government has furnished such details for the year 2006-07.

1.5.7 Misappropriations, losses, defalcations, etc

State Government reported 1815 cases of misappropriation, defalcation etc involving Government money amounting to Rs 1705.16 lakh up to the period 31 March 2007 on which final action was pending. The department-wise break up of pending cases is given in **Appendix 1.7**.

(Rupees in lakh)

		Number of cases	Amount
i)	Cases reported up to the end of March 2006 but outstanding at the end of June 2006	2114	1678.75*
ii)	Cases reported during April 2006 to March 2007	10	76.31
iii)	Cases disposed of till June 2007	309	49.89
iv)	Cases reported up to March 2007 but outstanding as of June 2007	1815	1705.16

- The outstanding balance at the end of June 2006 was Rs 1648.71 lakh. However, this was enhanced to Rs 1678.75 lakh after revaluation of some cases of five Departments.

The period for which the cases were pending are given below:

(Rupees in lakh)

		Number of Cases	Amount
i)	Over five years (1948-49 to 2001-2002)	1729	1394.77
ii)	Exceeding three years but within five years (2002-2003 to 2003-2004)	39	61.84
iii)	Upto three years (2004-05 to 2006-07)	47	248.55
	Total	1815	1705.16

The reasons for which the cases were outstanding are as follows:

(Rupees in lakh)

		Number of Cases	Amount
i)	Awaiting departmental and criminal investigation	480	418.15
ii)	Departmental action initiated but not finalised	674	743.59
iii)	Criminal proceedings finalised but execution of certificate cases for the recovery of the amount pending	32	20.33
iv)	Awaiting orders for recovery or write off	479	194.03
v)	Pending in the courts of law	150	329.06
	Total	1815	1705.16

1.5.8 Write off of losses etc

As reported to Audit, losses due to theft, fire and irrecoverable revenue etc. amounting to Rs 0.23 lakh in three cases were written-off during 2006-07 by competent authorities. The relevant details are given in **Appendix-1.8**.

1.6 Assets and Liabilities

In the 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. **Table-1.32** gives an abstract of such liabilities and the assets as on 31 March 2007, compared with the corresponding position on 31 March 2006. While the liabilities consist mainly of internal borrowings, loans and advances from the GOI, receipts from the Public Account and Reserve Funds; the assets comprise mainly the capital outlay and loans and advances given by the State Government and cash balances (*Appendix-1.2-B*).

The ratio of Assets and Liabilities of the State consistently remained at 0.52 *per cent* during 2001-04 and thereafter started picking up and reached the level of 0.67 *per cent* in 2006-07 as shown in **Table-1.32**. The low ratio of Assets to Liabilities during the period 2001-04 was mainly on account of increasing internal borrowing which constituted Market loan, Loans from GOI, Receipt from Public Account and Reserve Fund and deposits. During 2005-06 and thereafter Government has developed huge cash balances, liquidated the past liabilities especially GOI loans and also experienced significant improvement in their fiscal balances owing to increase in its own receipts and the central transfers which helped the State Government in improving the asset-liability ratio during these years.

1.6.1 Financial Results of Irrigation Works

The Financial results of 52 Irrigation projects (11 major and 41 medium projects) with a capital expenditure of Rs 2558.78 crore at the end of March 2007 showed that no revenue was realised from these projects during 2006-07 against the direct working expenses of Rs 79.44 crore. After meeting the working and maintenance expenditure (Rs 79.77 crore) and interest charges (Rs 173.91 crore), the schemes suffered a net loss of Rs 253.68 crore.

1.6.2 Incomplete projects

The department-wise information pertaining to incomplete projects as on 31st March 2007 is given in the **Table 1.19**.

Table 1.19: Department-wise Profile of incomplete projects

(Rupees in crore)

Department	Number of incomplete projects	Initial Budgeted cost	Cost overrun with reference to cumulative exp as on 31.3.2007	Revised total cost of projects	Cummulative actual expenditure as on 31.3.2007
Water Resources	31*	1655.53	4319.05	NA	5974.58
Housing and Urban Development	11	66.71	NA	NA	40.94
Rural Development	11	41.91	NA	NA	33.64
Industries	2	42.29	NA	NA	10.96
Total	55	1806.44	4319.05	--	6060.12

* There are 41 incomplete projects; however initial budgeted cost in respect of 10 projects was not available on which expenditure of Rs 376.46 crore was incurred up to 31 March 2007 aggregating the cumulative expenditure to Rs 6436.58 crore for 65 projects.

As of 31 March 2007 there were 65 incomplete projects in which Rs 6436.58 crore was blocked. Although revised cost estimates of the incomplete projects are not available, the cost overruns even with reference to the cumulative expenditure as of 31 March 2007 for 31 incomplete projects under water resources department amounts to Rs 2664 crore. As these projects are not completed, the cost overruns with reference to the revised or final costs would turn out to be even more than this estimate. The reason for non-completion of works by the departments was attributed to non-acquisition of land, slow progress by the executing agencies and paucity of funds.

1.6.3 Departmental Commercial Undertakings

Activities of *quasi*-commercial nature are performed by departmental undertakings of certain Government departments. These undertakings are required to prepare annually proforma accounts in prescribed format showing the results of financial operations so that Government can assess the results of their working. The department-wise position of arrears in preparation of proforma accounts and the investment made by the Government are given in **Appendix-1.9**. As of March 2007, four schemes/undertakings out of fifteen remained inoperative / closed. The assets and liabilities were not fully disposed of or liquidated by Government. The details as well as reasons for non-operation or closure were not available. In respect of two schemes viz. (i) purchase and distribution of quality seeds to cultivators, (ii) Poultry Development, Government had not prescribed the preparation of proforma accounts; only Personal Ledger Accounts were opened during 1977-78 and 1979-80 respectively. The closing balances of these Accounts were stated in **Table-1.20**.

Table-1.20

(Rupees in crore)

Name of the Undertaking/ Unit/ Scheme	Year in which the Personal Ledger accounts were opened	Accounts for 2006-07			
		Opening Balance	Credit	Debit	Closing Balance
Purchase and distribution of quality seeds to cultivators	1977-78 (Revenue accounts)	11.31	0.24	(-) 20.94	32.50
Poultry Development	1979-80 (Revenue accounts)	3.02	--	--	3.02

The Comptroller and Auditor General of India had commented in his Audit Reports (Civil) 2005-06 (Para-1.10.5) about the failure of the State machineries in preparing the Proforma Accounts. Also, the PAC in their 14th report (10th Assembly) had expressed (November 1992) concern at the state of affairs in preparation of Proforma Accounts. Despite all that, no Proforma Accounts in respect of above schemes could be prepared as of 31st March 2007.

1.6.4 Investments and returns

As of 31 March 2007, Government had invested Rs 1652.14 crore in Statutory Corporations, Rural Banks, Joint Stock Companies and Co-operatives (**Table-1.21**). The average rate of return on this investment was 5.69 *per cent* for the last six years while the Government paid interest at the average rate of 8.18 to 10.95 *per cent* on its borrowings during the corresponding period of 2002-

2007. The actual return earned on the Government investments reflects not only wide fluctuations but as *per cent* to total investment made, it indicates the declining trend since 2002-03. This indicated injudicious investment of borrowed funds in unviable institutions/organisations.

Table-1.21: Return on Investment

Year	Investment at the end of the year	Return	Percentage of return	Average rate of interest on Government borrowing	Difference between interest rate and return
	(Rupees in crore)		(In percentage)		
2001-02	1473.20	8.77	0.60	10.95	10.35
2002-03	1519.39	152.22	10.02	9.85	(-) 0.17
2003-04	1556.63	138.06	8.87	8.83	(-) 0.04
2004-05	1610.41	69.15	4.29	9.51	5.22
2005-06	1637.09	120.59	7.39	9.92	2.53
2006-07	1652.14	49.39	2.99	8.18	5.19

1.6.5 Loans and advances by State Government

In addition to investments in Co-operative societies, Corporations and Companies, Government have also been providing loans and advances to many of these institutions/organisations. The Loans and Advances by the State Government increased from Rs 2119 crore in 2001-02 to Rs 3339 crore in 2006-07. Interest received against these loans advanced was Rs 18 crore in 2001-02 to Rs 103 crore in 2006-07. The interest received as *per cent* to outstanding Loans and Advances decreased from 5.13 in 2004-05 to 3.09 in 2006-07 though Government borrowed funds during the year at an average rate of 5.09 *per cent*.

Table-1.22: Average Interest Received on Loans Advanced by the State Government

	(Rupees in crore)					
	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Opening Balance	2119	2366	2532	3831	3619	3339
Amount advanced during the year	379	343	1572	205	67	272
Amount repaid during the year	132	177	273	417	347	286
Closing Balance	2366	2532	3831	3619	3339	2325
Net addition	247	166	1299	(-)212	(-)280	(-) 14
Interest Received	18	68	161	191	167	103
Interest received as <i>per cent</i> to outstanding Loans and advances	2.78	2.78	5.06	5.13	4.80	3.09
Average interest rate ⁶ (in <i>per cent</i>) paid on borrowings by State Government	10.95	9.85	8.83	9.51	9.92	8.18
Difference between average interest paid and received (<i>per cent</i>)	(-) 8.17	(-) 7.08	(-) 3.77	(-) 4.38	(-) 5.12	(-) 5.09

The TFC has recommended that interest receipts on Loans and Advances of the Government should gradually increase to seven *per cent* by the end of award period (2005-10) but interest receipts stand at only 3.09 *per cent* needing appropriate corrective action.

⁶ Average interest rate is defined as the ratio of interest payments to average outstanding fiscal liabilities of the State during the year.

1.6.6 Management of cash balances

It is generally desirable that the State's flow of resources should match its expenditure obligations. However, to take care of any temporary mismatches in the flow of resources and expenditure obligations, a mechanism of Ways and Means Advances (WMA) – ordinary and special – from Reserve Bank of India has been put in place. The operative limit for Normal Ways and Means Advances is reckoned on the three year average of revenue receipts and the operative limit for Special Ways and Means Advances is fixed by Reserve Bank of India from time to time depending on the holding of Government securities.

Ways and Means Advances and Overdrafts availed, the number of occasions it was availed and interest paid by the State is detailed in **Table-1.23**. The Government have not availed any Wage and Means Advances and Overdraft facility during 2006-07

Table-1.23: Ways and Means and Overdrafts of the State

(Rupees in crore)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Ways and Means Advances						
Availed in the Year	1355	2000	3204	1450.46	NIL	NIL
Number of Occasions					NIL	NIL
Outstanding WMAs, if any	179	239	NIL	--	NIL	NIL
Interest Paid	11.59	10.88	12.19	1.85	NIL	NIL
Number of Days				99	NIL	NIL
Overdraft						
Availed in the year	5393	4723	3809	--	NIL	NIL
Number of Occasions					NIL	NIL
Number of Days	252	188	171	--	NIL	NIL
Interest Paid	8.32	8.75	8.42	--	NIL	NIL

1.7 Undischarged Liabilities

1.7.1. Fiscal Liabilities – Public Debt and Guarantees

There are two sets of liabilities namely, public debt and other liabilities. Public debt consists of internal debt of the State and is reported in the Annual Financial Statements under the Consolidated Fund. Capital Account includes market loans, special securities issued by RBI and loans and advances from the Central Government. The Constitution of India provides that a State may borrow, within the territory of India, upon the security of its Consolidated Fund, within such limits, as may from time to time, be fixed by the Act of its Legislature and give guarantees within such limits as may be fixed. Other liabilities, which are a part of public account, include deposits under small savings scheme, provident funds and other deposits. The total liabilities as defined under the FRBM Act include the liabilities under the Consolidated Fund and the Public Account of the State of Orissa.

Table-1.24 gives the fiscal liabilities of the State, its rate of growth, ratio of these liabilities to GSDP, to revenue receipts and to own resources as also the buoyancy of fiscal liabilities with respect to these parameters.

Table-1.24: Fiscal Liabilities – Basic Parameters

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Fiscal Liabilities ⁷ (Rupees in crore)	27853	30735	34014	36093	38468	39466
Rate of Growth (<i>per cent</i>)	16.49	10.35	10.67	6.11	6.58	2.59
Ratio of Fiscal Liabilities to						
GSDP (<i>per cent</i>)	58.92	61.29	55.70	52.28	50.81	47.54
Revenue Receipts (<i>per cent</i>)	395.19	364.20	360.32	304.58	273.11	218.85
Own Resources (<i>per cent</i>)	881.70	801.85	773.75	653.62	588.74	456.10
Buoyancy of Fiscal Liabilities to						
GSDP (ratio)	NA	1.699	0.490	0.469	0.681	0.269
Revenue Receipts (ratio)	NA	0.524	0.899	0.239	0.349	0.093
Own Resources (ratio)	NA	0.485	0.726	0.239	0.359	0.080

Overall fiscal liabilities of the State increased from Rs 27853 crore in 2001-02 to Rs 39466 crore in 2006-07 at an average growth rate of 8.80 *per cent*. The growth rate was 2.59 *per cent* during 2006-07 over previous year. The ratio of fiscal liabilities to GSDP decreased from 58.92 *per cent* in 2001-02 to 47.54 *per cent* in 2006-07 excepting an increase of 61.29 *per cent* in 2002-03. These liabilities stood at 2.19 times of the revenue receipts (as against the projection of three times in FRBM Act by the year ending 2007-08) and 4.5 times of the State's own resources at the end of 2006-07. The buoyancy of these liabilities with respect to GSDP during the year was 0.269 *per cent* indicating that for each one *per cent* increase in GSDP; fiscal liabilities grew by 0.269 *per cent*.

The fiscal liabilities at the end of the year 2006-07 was Rs 39466 crore comprises internal debt (Rs 18180 crore), loans and advances from Government of India (Rs 8745 crore), Small Saving Provident Fund etc. (Rs 10327 crore) and other obligation (Rs 2214 crore). The internal debt (Rs 18180 crore) constituted market loan of Rs 8911 crore, Special Securities issued to NSS Fund of Central Government (Rs 6862 crore), Compensation and other Bonds (Rs 993 crore) and other institutions (Rs 1414 crore).

In line with the recommendation of the TFC, the State Government set up the Sinking Fund with effect from January 2003 for amortisation of market borrowings as well as other loans and debt obligations. The MTFP has made a projection for a provision of investment in the Sinking Fund at the rate of two *per cent* of the total outstanding debt at the end of each year. As on 31st March 2007, the outstanding balance in Sinking Fund was Rs 3133 crore. During 2006-07, Rs 1488 crore has been invested in the Sinking Fund which is not only in excess of the projection made in MTFP (Rs 789 crore, i.e. two *per cent* of outstanding debt liabilities) but more by Rs 828 crore over the level of previous year.

⁷ Includes internal debt (market borrowings, loans from financial institutions and NSSF loans) , loans and advances from GOI and other obligations (liabilities arising from the Public Account of the State) at the end of the year.

1.7.2 Status of Guarantees – Contingent liabilities

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

As per the **Statement-6** of the Finance Accounts, the maximum amount for which guarantees were given by the State and outstanding guarantees at the end of year since 2001-02 is given in **Table-1.25**.

Table-1.25: Guarantees given by the Government of Orissa

(Rupees in crore)

Year	Maximum amount guaranteed	Outstanding amount of guarantees	Revenue receipt less Grant-in-Aid for the second preceding year	Guarantee outstanding as percentage of Revenue Receipt
2001-02	8423.36	5250.89	4169.01	125.95
2002-03	8487.42	5230.92	5473.47	95.57
2003-04	9342.67	5094.09	5807.35	87.71
2004-05	9296.86	3823.26	6638.60	57.59
2005-06	9251.76	3496.19	7723.95	45.26
2006-07	8588.90	2647.55	9499.78	27.87

As per Article 293 of the constitution, the outstanding guarantee of Rs 2647.55 crore was 15 *per cent* of Revenue receipt (Rs 18033 crore) of State Government. The State Government has set up the guarantee redemption fund to take care of any contingent liability arising out of State Government Guarantee.

Guarantees were given in respect of four statutory corporations, twenty-six Government companies, forty-six cooperative Banks and societies and eighty-six Notified Area Councils, Municipality and Improvement Trusts. Maximum amount guaranteed and the amount outstanding against these bodies shows a reducing trend since 2003-04 as can be seen from the **Table-1.25** above. Government in their resolution dated 19 March 2004 have issued instruction to the Public Sector undertakings/Urban Local Bodies/Co-operative Societies etc., who have borrowed or intended to borrow against Government guarantees to open an Escrow Account in a Nationalised Bank. So far five numbers of Escrow Accounts have been opened by 31 March 2007 out of 162 institutions.

Though, no law has been enacted under Article 293 of the constitution laying down the limit of such guarantee but an administrative limit has been imposed in 2002 so that the total outstanding guarantee as on 1st day of April every year shall not exceed hundred *per cent* of the state revenue receipt of the 2nd preceding year as per the books of account maintained by Accountant General (A & E), Orissa. The State Government in its MTFP placed along with the budget 2007-08 has slightly revised the limit by defining the State's revenue receipts net of grants-in-aids for the second preceding year. The position of the guarantees with regard to the revised limit is presented in **Table-1.25** which reveals that level of guarantees are well within the prescribed limits.

The Government set up a Guarantee Redemption Fund during 2002-03 to meet the contingent liabilities arising out of the total outstanding liabilities. As on 31-03-2007, Rs 390 crore is invested in the Fund which comprises guarantee fee, special contribution and return earned on the funds invested.

The State Government has also taken a number of steps to enhance the credibility of the State finances in the financial market. One such measure is discharging the State Government guarantees through one time settlement (OTS). So far, the State Government and various public sector undertakings, cooperatives have paid Rs 451.76 crore under OTS schemes to discharge guarantee liabilities arising out of the default of loanee organisations.

1.7.3 Off-Budget Borrowings

The borrowings of a State are governed under Article 293 of the Constitution of India. In addition to the liabilities shown in **Table-1.24**, the State guaranteed loans availed of by Government companies/corporations. These companies/ corporations borrowed funds from the market/financial institutions for implementation of various State plan programmes projected outside the State budget. Although the estimates of the plan programmes of the State Government project that funds for these programmes would be met out of the resources of the companies/corporations outside the State budget, however in reality the borrowings of many of these concerns ultimately turn out to be the liabilities of the State Government termed as 'off-budget borrowings'. Though off-budget borrowings are not permissible under Article 293 (3), the State continues to undertake such off-budget borrowings as per the data furnished by the Finance Department. **Table 1.26** captures the trends in the off-budget borrowings by the State during 2002-07.

Table-1.26: Off-Budget Borrowings

(Rupees in crore)					
Year	2002-03	2003-04	2004-05	2005-06	2006-07
Outstanding	67.75	66.15	64.52	64.43	64.43
Borrowing Added	6.98	--	-	--	-
Repayment made (Principal)	8.58	1.63	0.09	--	2.50
Balance Principal	66.15	64.52	64.43	64.43	61.93

* Information collected from Orissa Budget at a glance (2007-08)

Off-Budget borrowings were resorted by the State Government through special purpose vehicles. Since 1991-92, an amount of Rs 250.41 crore had been raised through off-budget borrowings out of which an amount of Rs 61.93 crore was outstanding for payment through budget provisions of the State Government. The Table reveals that Government has not resorted to off budget borrowings through SPVs since 2002-03.

1.8 Debt Sustainability

The debt sustainability is defined as the ability to maintain a constant debt-GDP ratio over a period of time. In simple terms, public debt is considered sustainable as long as the rate of growth of income exceeds the interest rate or cost of public borrowings subject to the condition that the primary balance is

either positive or zero. 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-GDP ratio would be constant or sustainable. On the other hand, if $PD > QS$, debt-GDP ratio would be rising and if $PD < QS$, it would be falling.

1.8.1 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 stabilise eventually. On the other hand, if primary deficit together with quantum spread turns out to be negative, debt-GSDP ratio would be rising and in case it is positive, debt-GSDP ratio would eventually be falling. Trends in fiscal variables indicating the progress towards the debt stabilisation are indicated in **Table-1.27**.

Table-1.27: Debt Sustainability–Interest Rate and GSDP Growth (in per cent)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Average Interest Rate	10.95	9.85	8.83	9.51	9.92	8.18
GSDP Growth	7.48	6.09	21.78	13.04	9.66	9.66
Interest spread	(-)3.47	(-) 3.76	12.94	3.54	(-) 0.28	1.47
Quantum Spread⁸ (Rs in crore)	(-)830	(-)1047	3477	1204	(-)101	565
Primary Deficit (Rs in crore)	(-)1133	(+)70	(-)713	(+)1966	(+)3421	(+) 4012

Table reveals that quantum spread together with primary deficit remained negative during 2001-02 and 2002-03 resulting an increase in debt-GSDP ratio during 2002-03. Since 2003-04, quantum spread together with primary deficit consistently remained positive resulting in a continuous decline in debt/GSDP ratio from 55.7 in 2003-04 to 47.5 per cent in 2006-07. These trends indicate the State is moving towards the debt stabilisation which in turn improves the debt sustainability position of the State.

1.8.2 Sufficiency of Non-debt Receipts

Another indicator for debt stability and its sustainability is the adequacy of incremental non-debt receipts of the State to cover the incremental interest liabilities and incremental primary expenditure. The debt sustainability could be significantly facilitated if the incremental non-debt receipts could meet the incremental interest burden and the incremental primary expenditure. **Table-1.28** indicates the resource gap as defined for the period 2002-07.

⁸ Quantum spread= Interest spread x opening fiscal liabilities/100.

Table-1.28: Incremental revenue receipts and Revenue Expenditure

(Rupees in crore)

Period	Incremental				Resource Gap
	Non-Debt Receipts	Primary Expenditure	Interest Payments	Total Expenditure	
2002-03	1436	233	51	284	+1152
2003-04	1097	1880	-26	1854	-757
2004-05	2554	-125	472	347	+2207
2005-06	2166	711	365	1076	+1090
2006-07	3886	3296	-509	2787	+1099

The trends in **Table 1.28** reveal that the incremental non-debt receipts of the State had been able to meet the incremental interest liabilities and incremental primary expenditure in four years out of the five year period 2002-07. Moreover, the persistent positive resource gap during the last three years (2004-07) is a pointer towards the fiscal and debt sustainability of the State.

1.8.3 Net Availability of Borrowed Funds

The debt sustainability of the State also depends on (i) the ratio of the debt redemption (Principal + Interest Payments) to total debt receipts and (ii) application of available borrowed funds. The ratio of debt redemption to debt receipts indicates the extent to which the debt receipts are used in debt redemption indicating the net availability of borrowed funds. The solution to the Government debt problem lies in application of borrowed funds, i.e. 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-1.29 gives the position of the receipt and repayment of internal debt and other fiscal liabilities of the State as well as the net availability of the borrowed funds over the last six years.

Table-1.29: Net Availability of Borrowed Funds

(Rupees in crore)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Internal Debt						
Receipt	1687	2296	4338	2689	2105	1305
Repayment (Principal + Interest)	987	1298	1834	2344	2043	2768
Net Fund Available	700	998	2504	345	62	(-) 1463
Net Fund Available (<i>per cent</i>)	41.49	43.47	57.72	12.83	2.95	(-) 112.11
Loans and Advances from GOI						
Receipt (A)	973	1769	1141	1423	(-) 10	741
Repayment (Principal + Interest) (B)	1632	2062	2509	2426	1280	1480
Net Fund Available (A-B)	(-) 659	(-) 293	(-) 1368	(-) 1003	(-) 1290	(-) 739
Net Fund Available (<i>per cent</i>)	(-) 67.73	(-) 16.56	(-) 119.89	(-) 70.48	(-) 12900	(-) 99.73
Other obligations						
Receipt	1994	2020	1675	1938	2742	2077
Repayment (Principal + Interest)	1838	1843	1793	2092	2753	2270
Net Fund Available	156	177	(-) 188	(-) 154	(-) 11	(-) 193
Net Fund Available (<i>per cent</i>)	7.82	8.76	(-) 7.04	(-) 7.95	(-) 0.40	(-) 9.29
Total liabilities						
Receipt	4654	6085	7154	6050	4837	4123
Repayment (Principal + Interest)	4457	5203	6136	6862	6076	6518
Net Fund Available	197	882	1018	(-) 812	(-) 1239	(-) 2395
Net Fund Available (<i>per cent</i>)	4.23	14.49	14.22	(-) 13.42	(-) 25.61	(-) 58.08

The net funds available on account of the internal debt and loans and advances from Government of India and other obligation after providing for the interest and repayments remained negative during the last four years 2003-07. During the current year, the Government repaid principal plus interest on account of internal debt of Rs 2768 crore; Government of India loans of Rs 1480 crore and also discharged other obligation of Rs 2270 crore as a result of which payments exceeded the receipts during the year. During the recent years, in view of the large cash balances, the focus of the Government seems to be on discharging the past debt obligations both on account of principal and interest payments on loans raised from the market as well as from the Government of India.

1.9 Management of deficits

1.9.1 Trends in Deficits

The deficit in the Government accounts represents the gap between its receipts and expenditure. The nature of deficit is an indicator of the prudence of fiscal management of the Government. Further, the ways in which the deficit is financed and the resources raised are applied are important pointers to its fiscal health. The trends in fiscal parameters depicting the position of fiscal equilibrium in the State are presented in **Table-1.30**.

Table-1.30: Fiscal Imbalances - Basic Parameters

Parameters	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Revenue deficit (Rupees in crore)	(-)2834	(-)1576	(-)1421	(-)522	(+)481	(+) 2261
Fiscal deficit (Rupees in crore)	(-)3968	(-)2816	(-)3573	(-)1366	(-)276	(+) 824
Primary deficit (Rupees in crore)	(-)1133	(+)70	(-)713	(+) 1966	(+) 3421	(+) 4012
RD/GSDP (per cent)	(-) 6.00	(-) 3.14	(-) 2.33	(-) 0.76	(+) 0.64	(+) 2.72
FD/GSDP (per cent)	(-) 8.39	(-) 5.62	(-) 5.85	(-) 1.98	(-)0.36	(+) 0.99
PD/GSDP (per cent)	(-) 2.40	(+) 0.14	(-) 1.17	(+) 2.85	(+) 4.52	(+) 4.83
RD/FD (per cent)	71.42	55.97	39.77	38.21	(-) 174.28	274.39

Fiscal Imbalances

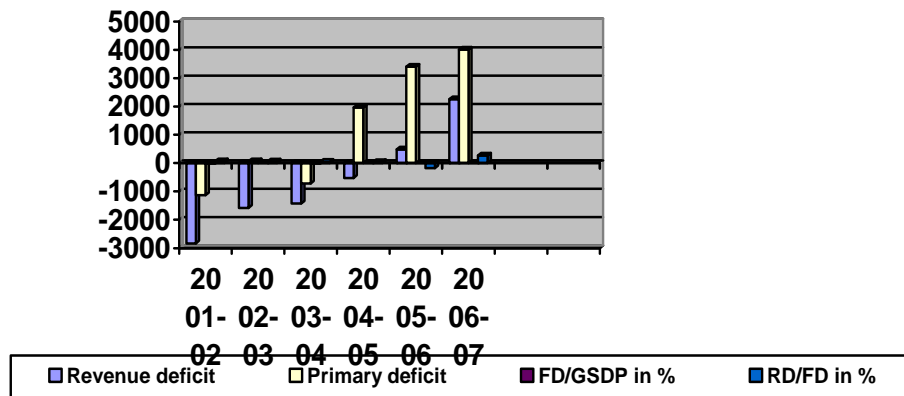


Table-1.30 reveal that the revenue account experienced a situation of huge deficit of Rs 2834 crore during 2001-02 which consistently declined to Rs 522 crore in 2004-05 and since then a surplus amounting to Rs 481 crore which

has steeply increased to Rs 2261 crore during the current year. The significant improvement in revenue account during the current year was mainly on account of increase in revenue receipts by Rs 3948 crore (28 *per cent*) during 2006-07 against an increase of Rs 2168 crore (16 *per cent*) in revenue expenditure over the previous year resulting in increase in revenue surplus by Rs 1780 crore during the current year over the previous year level of Rs 481 crore. The sharp increase in revenue receipts during 2006-07 was mainly on account of increase in State's own taxes (21 *per cent*), non-tax revenue (69 *per cent*), central tax transfers (28 *per cent*) and grants-in-aid (18 *per cent*). On the other hand, despite a big push in plan revenue expenditure (29 *per cent*) Government could maintain the growth in revenue expenditure below the revenue receipts by containing the growth in NPRES (13 *per cent*).

The fiscal deficit, which represents the total borrowing of the Government and its total resource gap, consistently decreased from Rs 3968 crore in 2001-02 to Rs 276 crore in 2005-06 and turned into a situation of fiscal surplus in 2006-07. The huge revenue surplus of Rs 2261 crore in 2006-07 along with the moderate increase of Rs 413 crore in capital expenditure and Rs 205 crore in disbursement of loans and advances resulted in a fiscal surplus of Rs 824 crore during 2006-07 as compared to the deficit of Rs 276 crore in the previous year.

The primary deficit⁹ which persisted in the State budget till 2003-04 also took a turnaround and resulted into a primary surplus during the last three years 2004-07. A sharp decline in fiscal deficit together with a moderate increase in interest payments led to a situation of huge primary surplus during 2005-06 and 2006-07. During the current year, a fiscal surplus along with a decline in interest payments by Rs 509 crore resulted in huge primary surplus exceeding Rs 4000 crore during 2006-07. As against the target of generating a primary surplus of over three *per cent* of GSDP by the year ending March 2008 as laid down in Orissa FRBM Act, the State has achieved the target in 2004-05, much before the date line fixed in the Act.

Quality of Deficit/Surplus

The ratio of RD to FD and the decomposition of Primary deficit into primary revenue deficit¹⁰ and capital expenditure (including loans and advances) would indicate the quality of deficit in the States' finances. The ratio of revenue deficit to fiscal deficit indicates the extent to which borrowed funds were used for current consumption. The ratio of RD to FD consistently declined during 2001-05 and thereafter revenue account has shown surplus during the succeeding two years. This trajectory shows a consistent improvement in the quality of the deficit and during the current year, the State has experienced a fiscal surplus indicating non-debt receipts even exceeded the total expenditure leaving cash balances to meet the past debt obligations.

⁹ Primary deficit defined as the fiscal deficit net of interest payments indicates the extent of deficit which is an outcome of the fiscal transactions of the States during the course of the year.

¹⁰ Primary revenue deficit defined as gap between non interest revenue expenditure of the State and its non-debt receipts indicates the extent to which the non-debt receipts of the State are able to meet the primary expenditure incurred under revenue account.

The bifurcation of the factors resulting into primary deficit or surplus of the State during the period 2002-07 reveals (**Table-1.31**) that throughout this period, the primary deficit was experienced on account of capital expenditure incurred and loans and advances disbursed by the State government. In other words, non-debt receipts of the State were enough to meet the primary expenditure¹¹ requirements in the revenue account, rather left some receipts to meet the expenditure under the capital account. But the surplus non-debt receipts were not enough to meet the expenditure requirements under capital account resulting in primary deficit only during 2001-02 and 2003-04. This indicates the extent to which the primary deficit has been on account of enhancement in capital expenditure which may be desirable to improve the productive capacity of the State's economy.

Table 1.31

(Rupees in crore)

Year	Non-debt receipt	Primary Revenue Expenditure	Capital Expenditure	Loans and Advance	Primary Expenditure	Primary Deficit/ Surplus with reference to Revenue Expenditure	Primary Deficit/ Surplus with reference to Capital Expenditure
1	2	3	4	5	6 (3+4+5)	7 (2-3)	8 (2-6)
2001-02	7180	7047	887	379	8313	+133	-1133
2002-03	8616	7129	1074	343	8546	+1487	+70
2003-04	9713	8001	853	1572	10426	+1712	-713
2004-05	12267	9040	1056	205	10301	+3227	+1966
2005-06	14433	9907	1038	67	11012	+4526	+3421
2006-07	18319	12584	1451	272	14307	+5735	+4012

1.10 Fiscal Ratios

The finances of a State should be sustainable, flexible and non-vulnerable. **Table-1.32** below presents a summarised position of Government finances over 2001-2006, with reference to certain key indicators that help to assess the adequacy and effectiveness of available resources and their applications, highlights areas of concern and captures its important facts.

Table-1.32: Indicators of Fiscal Health

(Rupees in crore and per cent)

Fiscal Indicators	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
1	2	3	4	5	6	7
I Resource Mobilisation						
Revenue Receipt/GSDP	14.91	16.83	15.46	17.16	18.60	21.72
Revenue Buoyancy	0.26	3.240	0.545	1.957	1.952	2.903
Own Tax/GSDP	5.219	5.727	5.407	6.050	6.607	7.306
II Expenditure Management						
Total Expenditure/GSDP	23.58	22.80	21.76	19.75	19.43	21.07
Total Expenditure/Revenue Receipts	158.17	135.47	140.74	115.04	104.43	97.01
Revenue Expenditure/Total Expenditure	88.64	87.60	81.75	90.75	92.49	90.15
Salary & Wage expenditure on Social and Economic Services / Revenue Expenditure	NA	NA	26.37	23.49	0.63	192.41

¹¹ Primary expenditure of the State defined as the total expenditure net of the interest payments indicates the expenditure incurred on the transactions undertaken during the year.

Fiscal Indicators	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
1	2	3	4	5	6	7
Non-Salary & Wage expenditure on Social and Economic Services / Revenue Expenditure	NA	NA	24.10	21.15	28.12	31.30
Capital Expenditure/Total Expenditure	8.24	9.69	7.28	7.86	7.09	8.42
Capital Expenditure on Social and Economic Services/Total Expenditure.	52.10	55.16	53.75	50.34	52.01	54.49
Buoyancy of TE with RR	1.09	0.13	1.37	0.10	0.42	0.68
Buoyancy of RE with RR	0.75	0.068	0.712	0.545	0.528	0.569
III Management of Fiscal Imbalances						
Revenue deficit (Rs in crore)	(-)2834	(-)1576	(-)1421	(-)522	481	2261
Fiscal deficit (Rs in crore)	(-)3968	(-)2816	(-)3573	(-)1366	(-)276	824
Primary Deficit (Rs in crore)	(-)1133	(+)70	(-)713	1966	3421	4012
Revenue Deficit/Fiscal Deficit	71.42	55.97	39.77	38.21	(-) 174.28	274.39
IV Management of Fiscal Liabilities						
Fiscal Liabilities/GSDP	58.92	61.29	55.70	52.28	50.81	47.54
Fiscal Liabilities/RR	395.19	364.20	360.37	304.58	273.11	218.85
Buoyancy of FL with RR		0.524	0.899	0.239	0.349	0.093
Buoyancy of FL with Own Receipt		0.485	0.726	0.239	0.359	0.080
Primary deficit vis-à-vis quantum spread (Rupees in crore)		(-)977	2287	3170	3320	3447
Net Funds Available		1.54	17.34	20.73	(-) 16	(-) 58.62
V Other Fiscal Health Indicators						
Return on Investment	152.22	152.22	138.06	69	121	49
Balance from Current Revenue (Rs in crore)	(-) 1410	(-) 1410	(-) 1228	(-) 1517	(-) 5342	4403
Financial Assets/Liabilities	0.52	0.52	0.52	0.55	0.59	0.67

The ratios of revenue receipts and State's own taxes to GSDP indicate the adequacy of the resources. The buoyancy of the revenue receipts indicates the nature of the tax regime and the State's increasing access to resources. Revenue receipts are comprised not only of the tax and non-tax resources of the State but also the transfers from Union Government. The ratio of revenue receipts to GSDP during the current year is 22 per cent, an increase of three percentage points over previous year. During 2001-07, the ratio of own taxes to GSDP showed continued improvement and increased from 5.2 per cent in 2001-02 to 7.3 per cent in 2006-07.

Various ratios concerning the expenditure management of the State indicate quality of its expenditure and sustainability of these in relation to its resource mobilisation efforts. The revenue expenditure as a percentage to total expenditure remained little over 90 per cent during the last three years 2004-07 indicating its dominant share in the total expenditure of the State leaving capital expenditure at relatively lower level in the State. The buoyancies of total and revenue expenditure with reference to revenue receipts during 2005-06 and 2006-07 indicate increasing propensity of the State for spending more with the increase in receipts. The ratio of revenue receipt to total expenditure in 2006-07 was 103.07 per cent which indicated that the State can meet its

total expenditure out of its revenue receipts only resulting fiscal surplus during the year.

The revenue surplus during the last two years and a consistent decline in fiscal deficit during 2001-06 and a situation of fiscal surplus during the current year has resulted in a significant improvement in the fiscal position of the State. The increasing revenue receipts have been able to bring an improvement in the fiscal imbalances of the State which is also reflected by the decreasing ratio of financial liabilities to revenue receipts as well as positive balance from the current revenues during the current year. A significant improvement in the fiscal imbalances of the State was also reflected in the increasing assets to liabilities ratio during the last three years.

1.11 Conclusion

The fiscal position of the State viewed in term of key fiscal parameters indicated a consistent improvement over the period 2001-07. The revenue surplus during the last two years and a consistent decline in fiscal deficit during 2001-06 and a situation of fiscal surplus during the current year are the pointers towards fiscal consolidation and the stability of the State. Moreover, actual values of various fiscal variables vis-à-vis the projections made by the State Government in its FRBM Act 2005 and in its Fiscal Correction Path as well as in its Medium Term Fiscal Plan also indicate that in case of most of these variables, the State has achieved the targets well ahead of the time lines indicated in documents. However, although the fiscal parameters indicates the improvement in the fiscal health of the State, the expenditure pattern depicts grim position as revenue expenditure still accounted for 90 *per cent* leaving the little room for enhancing the level of capital expenditure in the State. The return on Government investments made in companies and statutory corporations etc. has not only widely fluctuated during the period 2001-07 but as percentage of capital employed in the organisations it has steeply declined since 2002-03 and reached level of 2.99 *per cent* during the current year which is significantly lower than the rate at which Government borrowed the funds for investment. This calls for making the Government investment as remunerative proposition. Despite significant improvement in fiscal position of the State and declining ratio of fiscal liabilities to the revenue receipts of the State, 33 *per cent* of the liabilities still had no asset backup as on 31st March 2007.