CHAPTER-I

FINANCES OF THE STATE GOVERNMENT

In Summary

Large revenue and fiscal deficits year after year indicate continued macro imbalances in the State. In Punjab, the revenue deficit which had been rising until 2001-02, declined by 10 *per cent* in 2004-05 as compared to the previous year and the fiscal deficit after rising until 2001-02 (Rs 4,959 crore) declined by 17 *per cent* in 2004-05 (Rs 4,115 crore). The ratio of revenue receipts to total expenditure stood at 76 *per cent* in 2004-05. Overall revenue receipts increased from Rs 9,377 crore in 2000-2001 to Rs 13,807 crore in 2004-05. During the current year, revenue receipts grew by 14 *per cent*. This comprised 13 *per cent* increase in tax revenue and 15 *per cent* increase in non-tax revenue. Around 89 *per cent* of the revenue came from the State's own resources. In fact, Central tax transfers had declined and came down to seven *per cent* in 2004-05 from eight *per cent* during 2000-2001. Grants-in aid also declined from the peak of nine *per cent* in 2000-01 to four *per cent* in 2004-05. Arrears of revenue under the principal revenue heads were Rs 964.85 crore and constituted eight *per cent* of tax and non-tax revenue receipts.

Overall expenditure of the State increased from Rs 13,408 crore in 2000-2001 to Rs 18,056 crore in 2004-05. The rate of growth achieved a peak of 24 *per cent* in 2000-01 and declined thereafter to five *per cent* in 2004-05. In fact, the major burden of curtailment in the growth of total expenditure has been borne by developmental expenditure. The proportion of developmental expenditure in total expenditure declined from 49 *per cent* in 2000-2001 to 44 *per cent* in 2004-05. Revenue expenditure which constituted 95 *per cent* of the total expenditure grew at the rate of 10 *per cent* in 2004-05. Interest payments increased steadily by 70 *per cent* from Rs 2,343 crore in 2000-2001 to Rs 3,981 crore in 2004-05 primarily due to continued dependence on borrowings for financing the fiscal deficit. Interest payments are likely to rise substantially once the moratorium granted by GOI for seven years on repayment and interest on a portion of GOI loans is over in 2007.

The State passed the Fiscal Responsibility and Budget Management Act, in 2003 which provides for a cap on the ratio of the debt to Gross State Domestic Product (GSDP) at the level achieved in the previous year subject to an absolute ceiling of 40 *per cent* to be achieved by 2006-07. Though it is not uncommon for a State to borrow for widening its infrastructure and for creating income generating assets, an ever increasing ratio of fiscal liabilities to GSDP together with a large revenue deficit could lead the State finances into a debt trap. As generation of additional internal resources and curtailment of non-developmental expenditure are the best means available to avoid such a contingency, the Fiscal Responsibility and Budget Management Act, 2003 (FRBMA) is a step in the right direction.

1.1. Introduction

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

Lay out of Finance Accounts

The Finance Accounts of Punjab contain 19 statements as depicted below.

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

Statement No.2 contains the summarised statement of capital outlay showing progressive expenditure upto the end of 2004-05.

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

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

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

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

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

Statement No.8 depicts the summary of balances under the Consolidated Fund, the Contingency Fund and the Public Account as on 31 March 2005.

Statement No.9 shows the revenue and expenditure under different heads for the year 2004-05 as a *percentage* of total revenue/expenditure.

Statement No.10 indicates the distribution between the Charged and the Voted expenditures incurred during the year.

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

Statement No.12 provides accounts of revenue and capital expenditure by minor heads under Non-Plan, State Plan and Centrally Sponsored Schemes separately.

Statement No.13 depicts the detailed capital expenditure incurred during and to the end of 2004-05.

Statement No.14 shows the details of investment of the State Government in statutory corporations, government companies, other joint stock companies, co-operative banks and societies etc. up to the end of 2004-05.

Statement No.15 depicts the capital and other expenditure to the end of 2004-05 and the principal sources from which the funds were provided for that expenditure.

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

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

Statement No.18 provides the detailed account of loans and advances given by the Government of Punjab, the amount of loan repaid during the year, the balance as on 31 March 2005 and the amount of interest received during the year.

Statement No.19 gives the details of earmarked balances of Reserve Funds.

1.2. Trend of Finances with reference to previous year

Finances of the State Government during the current year as compared to the previous year were as under:

(Rupees in crore)

2003-04	Sr. No	Major Aggregates	2004-05
12139	**1.**	**Revenue Receipts**	**13807**
6146	2.	Tax Revenue (Net)	6944
4666	3.	Non-Tax Revenue	5358
1327	4.	Other Receipts	1505
105	**5.**	**Non-Debt Capital Receipts**	**134**
105	6.	Of which Recovery of Loans	134
12244	**7.**	**Total Receipts (1+5)**	**13941**
15215	**8.**	**Non-Plan Expenditure**	**16940**
15087	9.	On Revenue Account	16732
3712	10.	Of which Interest Payments	3981
128	11.	On Capital Account	208
86	12.	Of which Loans disbursed	97
1909	**13.**	**Plan Expenditure**	**1116**
615	14.	On Revenue Account	466
1294	15.	On Capital Account	650
671	16.	Of which Loans disbursed	--
17124	**17.**	**Total Expenditure (8+13)**	**18056**
4880	**18.**	**Fiscal Deficit (17-1-5)**	**4115**
3563	**19.**	**Revenue Deficit (9+14-1)**	**3391**
1168	**20.**	**Primary Deficit (18-10))**	**134**

1.3. Summary of Receipts and Disbursements

Table -1 summarises the Finances of the State Government of Punjab for the year 2004-05 covering revenue receipts and expenditure, capital receipts and expenditure and public account receipts and disbursements made during the year as emerging from Statement-1 of the Finance Accounts and other detailed statements.

Table-1

SUMMARY OF RECEIPTS AND DISBURSEMENTS FOR THE YEAR 2004-2005

(Rupees in crore)

2003-04	Receipts	2004-05	2003-04	Disbursements	2004-05		
	Section-A: Revenue		**Total**		**Non-Plan**	**Plan**	**Total**
12138.96	**Revenue receipts**	**13807.48**	**15701.92**	**Revenue expenditure**	-	-	**17198.03**
6145.94	Tax revenue	6944.63	9350.90	General services	9845.22	4.82	9850.04
4665.53	Non-tax revenue	5358.03	3367.69	Social Services-	3239.94	295.85	3535.79
754.39	Share of Union Taxes/Duties	902.35	2939.40	Economic Services-	3572.78	164.89	3737.67
573.10	Grants from Govt. of India	602.47	43.93	Grants-in-aid and Contributions	74.53	-	74.53
3562.96	Revenue Deficit carried over to Section B	**3390.55**					
15701.92	**Total**	**17198.03**	**15701.92**	**Total**	**16732.47**	**465.56**	**17198.03**
	Section-B: Capital		--	Opening Overdraft from Reserve Bank of India	193.44	-- -	193.44
390.44	Opening Cash Balance	373.13					
--	Misc. Capital Receipts	-	664.69	Capital Outlay-	111.70	649.70	761.40
105.41	Recoveries of Loans & Advances	133.81	757.54	Loans and Advances Disbursed-	96.80	-	96.80
7144.04	Public debt receipts	6360.59	3562.96	Revenue Deficit brought down	3390.55	-	3390.55
--	Amount transferred to Contingency Fund	-	3239.10[1]	Repayment of Public Debt-	3017.08	-	3017.08[1]
10111.21	Public account receipts	12846.24	9347.12[1]	Public Account disbursements-	11793.57	-	11793.57[1]
193.44	Closing Overdraft from Reserve Bank of India	-	373.13	Cash Balance at end	460.93	-	460.93
17944.54	**Total**	**19713.77**	**17944.54**	**Total**	**19064.07**	**649.70**	**19713.77**
33646.46	**Grand Total**	**36911.80**	**33646.46**	**Grand Total**	**35796.54**	**1115.26**	**36911.80**

1.4. Audit Methodology

Audit observations on the statements of the Finance Accounts for the year 2004-2005 bring out the trends in the major fiscal aggregates of receipts and expenditure and wherever necessary show these in the light of time series data and periodic comparisons. Major fiscal aggregates such as tax and non-tax revenue, revenue and capital expenditure, internal debt and loans and advances have been presented as *percentages* to the GSDP at current market prices. The buoyancy projections for tax revenue, non-tax revenue, revenue expenditure etc., have been provided for a further estimation of the range of fluctuations with reference to the base represented by GSDP. The key indicators adopted for the purpose are: (i) Resources by volume and sources, (ii) Application of resources, (iii) Management of deficits and (iv) Assets and liabilities. Audit observations have also taken into account the cumulative impact of resource

[1] Public Account transactions do not fall under either Plan or non-Plan category.

mobilisation efforts, debt servicing and corrective fiscal measures. Overall financial performance of the Government as a body corporate has been presented by the application of a set of ratios commonly adopted for the relational interpretation of fiscal aggregates.

In addition, this chapter also contains a paragraph on indicators of financial performance of the Government. Some of the terms used here are explained in ***Appendix – I***.

1.5. State Finances by key Indicators

1.5.1. Resources by volume and sources

Resources consist of revenue receipts and capital receipts. Revenue receipts consist of tax revenue, non-tax revenue, State's share of Union Taxes and Duties and Grants-in-aid from the Central Government. Capital receipts comprise miscellaneous capital receipts such as proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources viz. market loans, borrowings from financial institutions and commercial banks etc. and loans and advances from Government of India as well as accruals from the Public Account. Table-2 shows the total receipts of the Government of Punjab (Rs 33,148 crore) for the year 2004-05, by volume and source. Of these, revenue receipts of the State Government were only Rs 13,807 crore, constituting 42 per cent of the total receipts. The balance of receipts came from borrowings and the Public Account.

Table-2: State Resources

(Rupees in crore)

I.	Revenue Receipts			13807
II.	*Capital Receipts*			*6495*
	a.	*Recovery of Loans and Advances*	*134*	
	b.	*Debt Receipts*	*6361*	
III.	*Public Account Receipts*			*12846*
	a.	*Small Savings and Provident Fund*	*1429*	
	b.	*Reserve Fund*	*448*	
	c.	*Deposit and Advances*	*1206*	
	d.	*Suspense and Miscellaneous*	*9023*[2]	
	e.	*Remittance*	*740*	
Total Receipts				*33148*

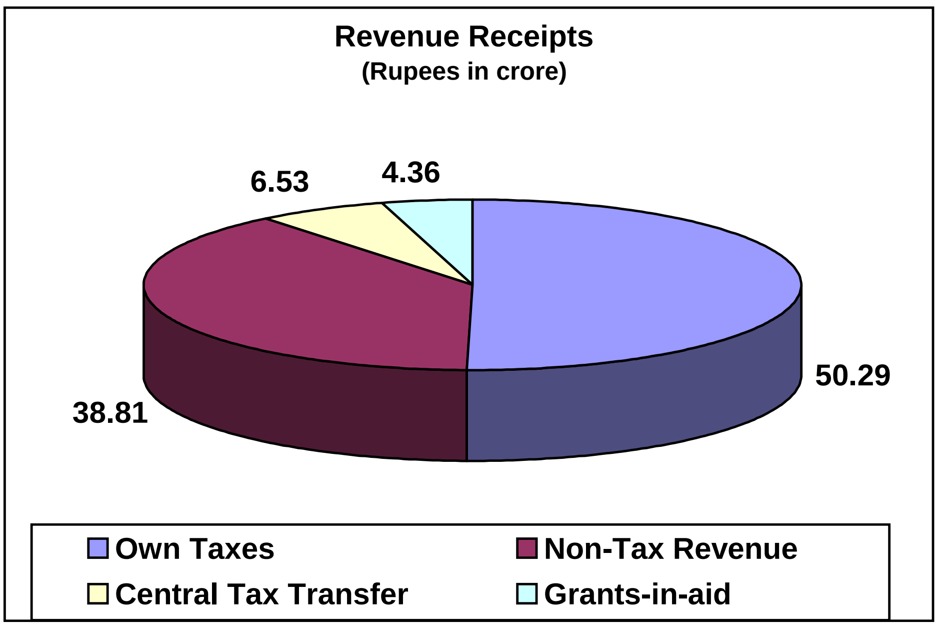
[2]. Includes Rs 8676.23 crore on account of cheques and bills issued by the Departments other than Public Works Department and Forest Department which have been encashed during the year.

1.5.2. Revenue Receipts

Statement-11 of the Finance Accounts details the revenue receipts of the Government. The revenue receipts, their annual and trend rate of growth, ratio of these receipts to the GSDP and their buoyancies are indicated in Table-3 below:

Table-3: Revenue Receipts- Basic Parameters (Value: Rupees in crore and others in *per cent*)

	2000-01	2001-02	2002-03	2003-04	2004-05
Revenue Receipts (in crore of rupees)	9377	8929	11071	12139	13807
Own Taxes	4895(52)	4820(54)	5711(52)	6146(51)	6944(50)
Non-Tax Revenue	2935(31)	2960(33)	4036(36)	4666(38)	5358(39)
Central Tax Transfers	720(8)	611(7)	649(6)	754(6)	903(7)
Grants-in-aid	827(9)	538(6)	675(6)	573(5)	602(4)
Rate of growth of Revenue Receipts	25.56	(-) 4.78	23.99	9.65	13.74
Rate of growth of own taxes	24	(-)2	18	8	13
Revenue Receipts/ GSDP	13.70	11.62	12.83	12.65	12.86
Revenue Buoyancy	2.788	-[3]	1.962	0.859	1.153
Own-Tax Buoyancy	2.62	--[3]	1.51	0.68	1.09
GSDP growth over previous year	9.17	12.29	12.23	11.23	11.92



Revenue receipts of the Government increased from Rs 9,377 crore in 2000-01 to Rs 13,807 crore in 2004-05. There were, however, significant inter year variations in the growth rates. The impressive trend rate of 24 *per cent* achieved during 2002-03 again declined to 14 *per cent* during the year 2004-2005. The pace of rate of growth has shown some improvement as compared to last year. In the category of tax revenue, Sales Tax increased by 15 *per cent* and Stamp and Registration Fees by 32 *per cent*. Twenty nine *per cent* growth in interest receipts (Rs 426 crore) was the main source of increase in the non-tax revenue. The increase in interest receipts Rs 426 crore, however, was

[3] Buoyancy not calculated because the rate of growth of revenue receipts was negative.

mainly on account of notional receipts from PSEB towards interest payment. Such notional adjustment does not exhibit the correct situation of State finances and deficit as it leads only to inflated balances on receipts as well as on expenditure side without any net addition. The high receipts under the State Lotteries Rs 2,698.05 crore which increased by 11 *per cent* over the previous year and of Rs 184.68 crore under Transport during the year was, however, neutralised by equally high expenditure of Rs 2,618.97 crore and of Rs 281.38 crore respectively.

Table-4 Sources of Receipts: Trends

(Rupees in crore)

Year	Revenue Receipts	Capital Receipts			Total Receipts	Gross State Domestic Product
		Non-Debt Receipts including Contingency Fund Receipts	Debt Receipts	Public Account Receipts		
2000-01	9377	127	4996	11049	25549	68448
2001-02	8929	875	6681	14171	30656	76860
2002-03	11071	103	6246	11972	29392	86260
2003-04	12139	105	7337	10111	29692	95947
2004-05	13807	134	6361	12846	33148	107384

Around 89 *per cent* of the revenue receipts came from the Government's own resources, Central Tax Transfers and Grants-in-aid together contributed nearly 11 *per cent* of the total revenue receipts. Contribution of Grants-in-aid declined to four *per cent* in 2004-05 from nine *per cent* in 2000-01 and contribution of Central Tax Transfers came down to seven *per cent* in 2004-05 from eight *per cent* during 2000-01.

The arrears of revenue as on 31 March 2005 amounted to Rs 964.85 crore in respect of some principal heads of revenue of which Rs 294.18 crore was outstanding for more than five years. The arrears pertained mainly to Sales Tax (Rs 615.65 crore), Taxes on vehicle (Rs 108.22 crore), Irrigation (Rs 93.28 crore) and Interest receipts (Rs 78.47 crore).

1.6. Application of resources

1.6.1. Trend of Growth

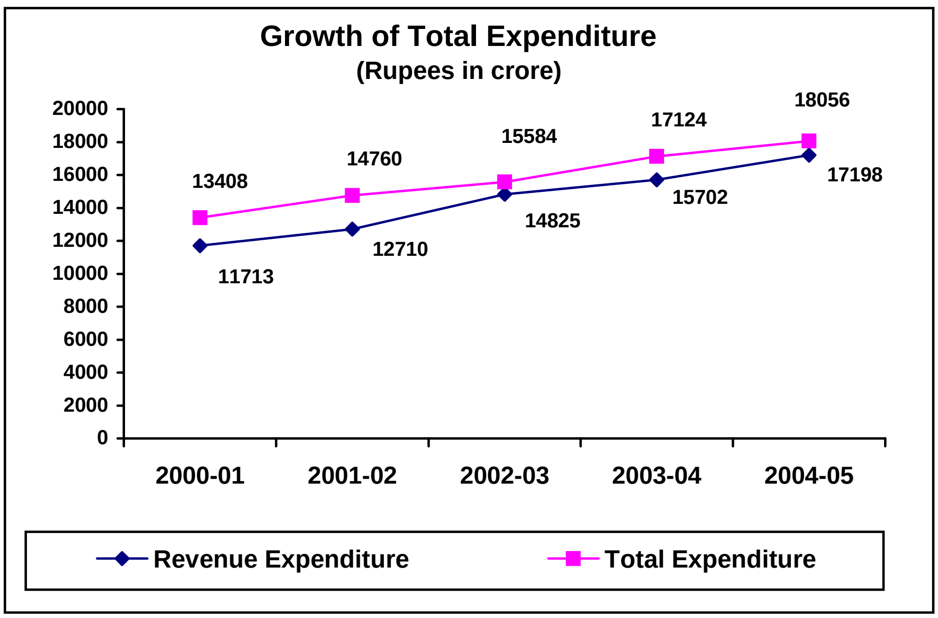
Statement-12 of the Finance Accounts gives the details of expenditure by minor heads. The total expenditure of the State, its trend and annual growth, ratio of expenditure to the GSDP and revenue receipts and its buoyancy with regard to GSDP and revenue receipts are indicated in Table-5 as follows:

Table-5: Total Expenditure –Basic Parameters
(Value: Rupees in crore and others in *per cent*)

	2000-01	2001-02	2002-03	2003-04	2004-05
Total expenditure (TE)	13408	14760	15584	17124	18056
Rate of Growth	24.48	10.08	5.58	9.88	5.44
TE/GSDP Ratio	19.59	19.20	18.07	17.85	16.81
Revenue Receipts/TE Ratio	69.94	60.49	71.04	70.89	76.47
Buoyancy of Total Expenditure with reference to:					
GSDP	2.671	0.820	0.456	0.880	0.457
Revenue Receipts	0.958	-[4]	0.233	1.024	0.396

The total expenditure increased from Rs 13,408 crore in 2000-01 to Rs 18,056 crore in 2004-05. The growth rate has been hovering between six and 10 *per cent* until 2003-04; in the year 2000-01 it was 24 *per cent*. It stood at five *per cent* during 2004-05. Consequently, total expenditure–GSDP ratio has also fallen from around 20 *per cent* in 2000-01 to approximately 17 *per cent* in 2004-05. There was an upward trend in the ratio of revenue receipts to total expenditure from 60 *per cent* in 2001-02 to 76 *per cent* in 2004-05.

In terms of the activities, the total expenditure could be considered as being composed of expenditure on general services including interest payments, social services, economic services and loans and advances. The relative share of these components in the total expenditure is indicated in Table-6:

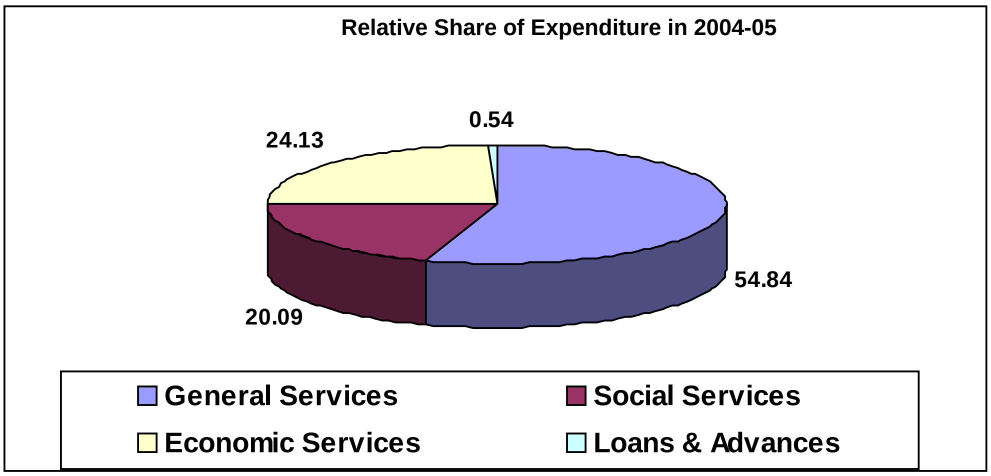


4 Rate of growth of revenue receipt was negative.

Table-6: Components of Expenditure – Relative Share (in *per cent*)[5]

	2000-01	2001-02	2002-03	2003-04	2004-05
General Services[6]	49.03	51.41	58.35	54.72	54.84
Social Services	22.72	21.44	20.82	19.70	20.09
Economic Services	25.34	18.79	17.24	20.91	24.13
Loans & Advances	2.25	7.22	2.18	4.42	0.54

The movement of the relative share of these components of expenditure indicated that while the share of Social Services declined from 23 *per cent* in 2000-01 to 20 *per cent* during 2004-05 and that of loans and advances from seven *per cent* in 2001-02 to less than one *per cent* in 2004-05, the relative share of General Services, which are primarily non-developmental in nature, increased from 49 *per cent* in 2000-01 to 55 *per cent* of the total expenditure in 2004-05. Thus, it is the non-developmental General Services which have gained at the expense of developmental services. Interpreted in this light, reduced expenditure would denote a loss of developmental impetus in the more important areas of governance.



1.6.2. Incidence of Revenue Expenditure

Revenue expenditure had the largest share (95 *per cent*) in total expenditure. Such expenditure is usually incurred to maintain the current level of services and does not represent a significant addition to the State's service network. Revenue expenditure, its rate of growth, the ratio of revenue expenditure to GSDP and revenue receipts are indicated in Table-7:

Table-7: Revenue Expenditure: Basic Ratios

(Value: Rupees in crore and others in per cent)

	2000-01	2001-02	2002-03	2003-04	2004-05
Revenue Expenditure	11713	12710	14825	15702	17198
Rate of Growth	14.89	8.51	16.64	5.92	9.53
RE/GSDP	17.11	16.54	17.19	16.37	16.02
RE as *percentage* of TE	87.36	86.11	95.13	91.70	95.25
RE as *percentage* of Revenue Receipts	124.91	142.35	133.91	129.35	124.56

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5 Total expenditure excludes Grants-in-aid and contributions, Compensations and Assignments to Local Bodies and Panchayati Raj Institutions.

6 It includes interest payment.

Revenue expenditure of the State increased from Rs 11,713 crore in 2000-01 to Rs 17,198 crore in 2004-05. The increase in the revenue expenditure during 2004-05 with reference to 2003-04 was mainly due to increase in expenditure on power by Rs 821.26 crore (61 *per cent*), interest payments by Rs 269.18 crore (seven *per cent*) and pension by Rs 125.11 crore (nine *per cent*). Though the ratio of revenue expenditure to revenue receipts declined from 142 *per cent* in 2001-02 to 125 *per cent* in 2004-05, the dependence of the Government on borrowings persisted for meeting its current expenditure

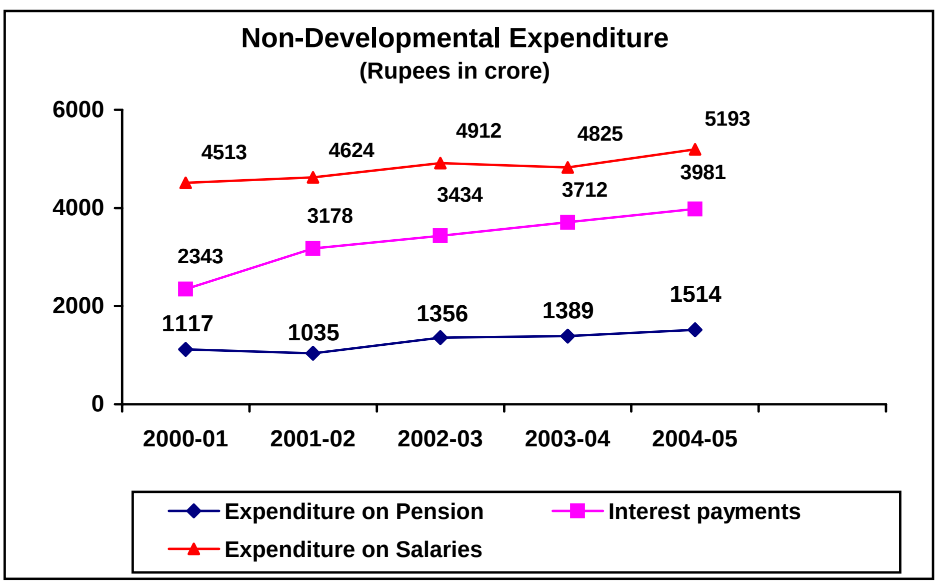
1.6.3. High non-development expenditure

Committed expenditure on salaries, pension and interest payments which accounted for 112 *per cent* of the net Revenue Receipts in 2000-01, after touching the peak of 133 *per cent* during 2001-02, again came down to 109 *per cent* during 2004-05. However, it was stated in the budget document for the year 2005-06 that expenditure on salary, pension and interest were likely to be 84.39 *per cent* of the revenue receipts during 2004-05 but that percentage had not been achieved. Reasons therefor were called for (August 2005) from the Government; reply has not been received (December 2005).

Table-8

(Rupees in crore)

Year	Committed expenditure			Total committed expenditure	Revenue Receipts excluding notional receipts	Percentage
	Salaries	Pension	Interest			
	1	2	3	4	5	6
2000-01	4513	1117	2343	7973	7145	111.59
2001-02	4624	1035	3178	8837	6622	133.45
2002-03	4912	1356	3434	9702	7763	124.98
2003-04	4825	1389	3712	9926	8401	118.15
2004-05	5193	1514	3981	10688	9826	108.77



Salary expenditure

Salaries alone accounted for nearly 53 *per cent* of the revenue receipts of the Government (excluding notional receipts from State lotteries and interest receipts from PSEB etc.) during the year. The expenditure on Salaries increased from Rs 4,512.95 crore in 2000-01 to Rs 5,192.99 crore in 2004-05 as shown in Table-9:

Table-9

(Rupees in crore)

Heads	**2000-01**	**2001-02**	**2002-03**	**2003-04**	**2004-05**
Salary expenditure	4512.95	4624.45	4912.02	4825.11	5192.99
As *percentage* of GSDP	6.59	6.02	5.69	5..03	4.84
As *percentage* of Revenue Receipts[7]	63.16	69.83	63.27	57.43	52.85

Expenditure on pension payments

Pension payments accounted as much as 15 *per cent* of the revenue receipts (excluding notional receipts from State lotteries and interest receipts from PSEB etc.)of the Government during 2004-05 which increased by 36 *per cent* from Rs 1,117 crore in 2000-01 to Rs 1,514 crore in 2004-05.

Government decided (March 2004) that certain categories of Government employees who are appointed on or after 1 January 2004 shall be covered by the new Defined Contributory Pension Scheme to be notified in due course. Necessary notification was yet to be issued (July 2005).

Interest payments

The Eleventh Finance Commission (EFC) (August 2000) had recommended that as a medium term objective, the States should endeavour to keep interest payments as a ratio to revenue receipts at 18 *per cent*. It was, however, observed that interest payments as *percentage* of revenue receipts were 30 *per cent* on average during the last five years. If revenue receipts excluding notional receipts from State Lotteries and interest receipts from the PSEB only are taken, the ratio of interest payments as *percentage* of revenue receipts would sharply rise to 41 *per cent* on average as indicated in Table-10.

In absolute terms, interest payments increased steadily by 70 *per cent* from Rs 2,343 crore in 2000-01 to Rs 3,981 crore in 2004-05 primarily due to continued reliance on borrowings for financing the fiscal deficit. The State Government raised Rs 1,830.69 crore from open market at a weighted average rate of 6.37 *per cent* and it borrowed Rs 3,641 crore from the National Small Savings Fund and Rs 548 crore from Government of India during the year.

7 Does not include notional receipts from State Lotteries (Rs 2619 crore) and interest receipts from PSEB (Rs 1362 crore).

Table-10

Year	Total Revenue Receipts	Revenue Receipts excluding Notional Receipts	Interest Payment	*Percentage* of Interest payment with reference to			Revenue Expendi -ture [8]
	(Rupees in crore)			Total Revenue Receipts	Revenue Receipts excluding Notional Receipts	Revenue Expendi ture[7]	*(Rupees in crore)*
2000-01	9377	7145	2343	25	33	25	9481
2001-02	8929	6622	3178	36	48	31	10403
2002-03	11071	7763	3434	31	44	30	11517
2003-04	12139	8401	3712	31	44	31	11964
2004-05	13807	9826	3981	29	41	30	13217

The growth in interest payments is, however, understated due to the moratorium granted by GOI for the period 2000-05 (extended up to 2006-07) on repayment and interest on a portion of GOI Special Term Loans which after availing debt relief and waiver stood at Rs 3,772 crore as on 31 March 2000. Ever increasing interest payments had adversely affected both developmental expenditure and social welfare schemes.

1.7. Expenditure by Allocative Priorities

1.7.1. The actual expenditure of the State in the nature of plan expenditure, capital expenditure and developmental expenditure reflected in Statement-12 of the Finance Accounts reflects the allocative priorities of the State. Higher the ratio of these components to total expenditure, the better is the efficiency of the State apparatus. Table-11 below gives the ratio of these components of expenditure to the State's total expenditure.

Table-11 Quality of expenditure
(*per cent* to total expenditure[9])

	2000-01	2001-02	2002-03	2003-04	2004-05
Plan Expenditure	11.64	13.27	10.53	7.56	6.21
Capital Expenditure	10.63	7.19	2.76	4.06	4.24
Developmental Expenditure	49.16	43.37	38.90	42.49	44.46

Outlay on Power Projects (Rs 72 crore) accounted for nearly 11 *per cent* of the plan expenditure of Rs 650 crore under capital outlay while transport with outlay of Rs 123 crore (19 *per cent*) was the other major head involving significant expenditure under plan capital outlay in 2004-05.

There was also a decline in the share of developmental expenditure from 49 *per cent* in 2000-01 to 44 *per cent* in 2004-05. Out of the developmental expenditure during the year, Social Services (Rs 3,628 crore) accounted for 45 *per cent*.

8 Excluding expenditure under State Lotteries and subsidy paid to the PSEB against the interest due from PSEB.

9 Total expenditure does not include Loans and Advances.

1.7.2. Financial Assistance to local bodies and other institutions

The quantum of assistance provided to different local and autonomous bodies etc., during the period of five years ending 2004-05 was as follows:

(Rupees in crore)

	2000-01	2001-02	2002-03	2003-04	2004-05
Universities and Education Institutions	241.72	151.49	234.01	193.88	245.81
Municipal Corporations and Municipalities, Zila Parishads and Panchayati Raj Institutions	20.29	14.40	16.84	-	-
Cooperative Societies and Cooperative Institutions	--	0.29	0.51	0.80	-
Other Institutions	95.38	203.99	111.50	21.27	106.18
Total	**357.39**	**370.17**	**362.86**	**215.95**	**351.99**
Percentage of growth over previous year	(-)5	4	(-)2	(-) 40	63
Assistance as per *percentage* of revenue expenditure	3	3	2	1	2

Accounts for the year 2002-03 and 2003-04 relating to the Punjab Khadi and Village Industries Board, Chandigarh and for the year 2003-04 relating to the Punjab Scheduled Caste Land Development and Finance Corporation, Chandigarh were in arrears. Utilisation certificates of Rs 501.84 crore in respect of 619 cases are still awaited from various Local/ Autonomous bodies (July 2005).

1.7.3. Misappropriation, losses and defalcation etc.

Cases of misappropriations, defalcations etc. of Government money reported to Audit between April 1997 and March 2005 which were still under departmental investigation or where criminal prosecutions were outstanding at the end of March 2005 were as follows:

(Rupees in lakh)

	No. of cases	Amount
Outstanding cases reported between April 1997 to March 2004	127	22.55
Cases reported between April 2004 to March 2005	40	9.23
Total	167	31.78
Less cases finalized during the year 2004-05	17	2.07
Cases outstanding at the end of March 2005	150	29.71

Out of 150 cases, 148 cases involving Rs 19.44 lakh pertain to the Police Department and one case of Rs 10 lakh pertains to the Revenue and Rehabilitation Department. One hundred ten cases are outstanding for more than one year.

1.8. Assets and Liabilities

1.8.1. The Government accounting system does not attempt a comprehensive accounting of fixed assets, i.e. land, buildings etc., owned by the Government. However, the Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure. Statement-16 and the details in Statement-17 of the Finance Accounts show the year-end balances under the Debt, Deposit and Remittance heads from which the liabilities and assets are worked out. ***Appendix-II*** presents an abstract of such liabilities and the assets as on 31 March 2005, compared with the corresponding position as on 31 March 2004.

The liabilities as per ***Appendix-II*** mainly comprise money owed by the State Government such as internal borrowings, loans and advances from the Government of India, Small Savings, Provident Funds, Deposits and the Reserve Fund. The liabilities of the Government of Punjab depicted in the Finance Accounts, however, do not include the pension and other retirement benefits payable to the serving and retired State employees. During 2004-05, the liabilities grew by 10 *per cent*.

Similarly, the assets comprise mainly the capital expenditure and loans and advances given by the State Government and these grew by four *per cent* during 2004-05. ***Appendix-III*** depicts the time series data on State Government Finance for the period 2000-2005.

1.8.2. Financial results of irrigation works[10]

Statement-3 of the Finance Accounts depicts the financial results of nine major irrigation projects with a capital expenditure of Rs 259.24 crore at the end of March 2005, which showed that revenue realised from these projects during 2004-05 (Rs 9.79 crore) was only four *per cent* of the capital expenditure. This return was not sufficient to cover even the direct working expenses. After meeting the direct working expenditure (Rs 303.05 crore) and interest charges (Rs 2.57 crore), the schemes suffered a net loss of Rs 295.83 crore.

1.8.3. Incomplete Projects [11]

As of 31 March 2005, there were ten projects which were incomplete, in which Rs 881.89 crore were blocked. Of these, one project[12] was incomplete for more than 22 years (Rs 738 crore) due to water dispute with Haryana.

1.8.4. Investment and returns

As on 31 March 2005, the Government had invested Rs 3,545 crore in Statutory Corporations, Rural Banks, Joint Stock Companies and Cooperatives. The Government's return on this investment was meagre as indicated in Table-12 below. As of March 2005, 18 out of 33 Statutory Corporations and Government Companies with an aggregate investment of Rs 3,263.09 crore were running at a loss and the accumulated losses were Rs 2,534.77 crore **(*Appendix-IV*)** as per accounts furnished by these companies.

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10 Refer Finance Accounts 2004-05: Statement No.3.

11 Refer Finance Accounts 2004-05 Annexure to Statement-2.

12 SYL Canal Project Rs 738 crore.

Table-12: Return on Investment

(Rupees in crore)

Year	Investment at the end of the year	Return	*Percentage* of return	Rate of interest on Government Borrowing (in *per cent*)
2000-01	2335.14	2.33	0.10	8.72
2001-02	2346.28	1.09	0.05	10.11
2002-03	2352.28	0.91	0.04	9.51
2003-04	2359.00	1.82	0.077	9.11
2004-05	3544.81	0.59	0.017	8.79

1.8.5. Loans and advances by the State Government

The Government gives loans and advances to Government Companies, Corporations, Local bodies, Autonomous bodies, Cooperatives, Non-Government institutions etc. The details below show that recoveries were poor during 2000-01 and 2002-05.

Table-13

Average Interest Received on Loans Advanced by the State Government

(Rupees in crore)

	2000-01	2001-02	2002-03	2003-04	2004-05
Opening balance	4795	4970	5150	5386	5718[13]
Proforma adjustment	-	- 14[14]	-	-	
Amount advanced during the year	302	1066	339	757	97
Amount repaid during the year	127	872	103	105	134
Closing balance	4970	5150	5386	6038	5681
Net addition	175	194	236	652	-37
Interest received	618	459	817	1368	1863
Interest received as *per cent* to Loans advanced	12.66	9.06	15.51	23.95	32.69
Average interest paid by the State *(per cent)*	8.72	10.11	9.51	9.11	8.79
Difference between Interest paid and received *(per cent)*	(+)3.94	(-)1.05	(+)6.00	(+)14.84	(+)23.90

The table shows that the interest receipts were erratic. This was mainly due to adjustment of interest payable by PSEB to Government against subsidy payable to them by Government. In 2004-05, against the subsidy payable an amount of Rs. 1,362 crore was notionally received as interest from PSEB.

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13 Differs by Rs 320 crore (decreased) from the closing balance adopted in the Finance Accounts 2003-04 due to conversion of loans into equity.

14 Decreased by Rs 13.49 crore from closing balances of 2000-01 due to proforma correction.

Position of some of the outstanding loans was as under:-

(Rupees in crore)

Sr. No.	Name of agency to whom loan was given	Year of loan/ sanction	Amount of loan	Remarks
1.	Punjab State Electricity Board	up to 2004-05	4284.68	No reasons intimated
2.	Punjab State Housing Board (now PUDA)	---	33.67	-do-
3.	Punjab Financial Corporation	Prior to 1998-99	14.89	-do-
4.	Punjab State Agro Industries Corporation	1996-97	0.42	-do-
		1997-98	12.50	
		---	0.02	
5.	Punjab State Tube Well Corporation	1990-91 to 1998-99	250.58	-do-
		---	265.48	
6.	SPINFED	1998-99 to 2003-04	23.49	-do-
7.	SUGARFED	2000-01 to 2002-03	124.80	-do-
8.	MARKFED	1990-91	1.86	-do-
9.	PUNSUP	1987-88 to 1988-89	74.39	-do-
	Total		**5086.78**	

The Administrative Departments are required to intimate to the Accountant General (A&E) by the 10th of August each year the arrears in recovery of principal and interest for the loans, the detailed accounts of which are maintained by the departmental officers. Against 151 statements relating to 2004-05 due from 20 departmental officers, none had been received so far (June 2005). A major portion (Rs 4,285 crore) of the outstanding related to loans for power projects against which repayment during the year 2004-05 was negligible[15].

Rs 136.21 crore (Principal: Rs 28.40 crore and interest: Rs 107.81 crore) were outstanding against Municipal Corporations and Municipalities on account of non-repayment of loans advanced as far back as 1963-64 as shown as follows:

[15] Rs 30.62 crore.

Borrower/purpose of loans	**Earliest year from which in default**	**Amount due on 31 March 2005**	
		Principal	**Interest**
		(in lakh)	
(A) Municipal Corporations, Municipalities and other Local Funds			
(a) Sanitation Schemes	1967-68	160.62	203.14
(b) Sewerage Schemes	1963-64	110.33	376.24
(c) Water Supply Schemes	1964-65	632.58	1047.33
(d) Integrated city development Programmes	1967-68	400.42	1744.75
(e) Shopping centres, cinemas etc.	1969-70	9.11	17.20
(f) Preparation and distribution of town compost	1965-66	14.27	7.17
(g) Other purposes	1963-64	1507.49	7383.35
(B) Loans to rulers of erstwhile states	1965-66	5.23	1.58
Total		**2840.05**	**10780.76**

No reasons for non-repayment of these outstanding amounts were furnished by the Government or the Directorate, Local Self Government, Punjab (December 2005).

Commercial Activities

1.8.6. Lack of accountability for the use of public fund in Departmental Commercial Undertaking

Activities of quasi-commercial nature are performed by departmental undertakings in some Government departments. These undertakings are required to prepare proforma accounts in the prescribed form annually showing therein the results of operations undertaken so that the Government can assess the status of their working. The Head of Departments in the Government are to ensure that the undertakings which are funded by budgetary release, prepare the accounts in time and submit the same to the Accountant General for audit.

The State Government had invested Rs 42 crore in Punjab Roadways till 1996-97 up to which their accounts were finalised. Audit for the year 1996-97 revealed that the Roadways had suffered a loss of Rs 55.14 crore during the year which accumulated to Rs 420.51 crore till the end of the year ending March 1997. Thereafter the annual proforma accounts upto the year 2004-05 (eight years) were not submitted for audit. The progressive figures of investment upto the year 2004-05 were Rs 88.33 crore. Reasons for delay in submission of proforma accounts have not been intimated by the department (June 2005).

1.8.7. Management of Cash Balances

It is generally desirable that the State's flow of resources matches its expenditure obligations that arise from time to time. However, to take care of any temporary mismatches in the flow of resources and the expenditure obligations, a mechanism of Ways and Means Advances (WMA) from the RBI is in place. Under an agreement with the RBI, the State Government has to maintain with the bank a minimum balance of Rs 1.56 crore on all days. If the balance falls below the agreed minimum on any day, the deficiency is made good by taking ways and means advances or overdraft from the Reserve Bank. However the State has been increasingly using this mechanism over the years. Normally, these advances should be liquidated during the year. Any outstanding balances of WMA indicate mismatch between the revenue and the expenditure, which is not transient in nature. Resort to overdraft, which is over and above the WMA limits, is all the more undesirable. As may be seen from the Statement-7 along with details in Statement-17 of the Finance Accounts, the State has increasingly been drawing in excess of its WMA limits from RBI.

Table-14: Ways and Means and overdrafts of the State and Interest paid thereon

(Rupees in crore)

	2000-01	2001-02	2002-03	2003-04	2004-05
Ways and Means Advances					
Taken in the Year	2170.77	1976.61	3127.90	2773.84	3065.82
Outstanding	243.42	221.42	185.79	261.83	283.30
Interest paid	6.83	8.73	9.45	12.29	9.69
Overdraft					
Taken in the Year	1600.10	3826.70	640.74	1811.06	1316.70
Outstanding	48.37	196.36	Nil	193.44	Nil
Interest paid	2.38	4.50	1.43	1.84	2.04
Number of Days State was in Overdraft	107	119	53	134	117

During the year 2004-05, the Government obtained Rs 3,065.82 crore as ways and means advances on ninety occasions. An amount of Rs 3,044.35 crore was repaid leaving a balance of Rs 283.30 crore. Rs 9.69 crore was paid as interest on these advances. The dependence on ways and means advances during the year increased by 11 *per cent* over the previous year.

1.8.8. Fiscal liabilities – Public Debt and Guarantees

The Constitution of India provides that the State may borrow within the territory of India upon the security of its Consolidated Fund, within such limits, as may from time to time be fixed by an Act of Legislature. The FRBMA 2003 of Punjab aims to cap the ratio of debt to GSDP at 40 *per cent* to be achieved by 2006-07.

Statement-4 read with Statements-16 and 17 of the Finance Accounts shows the year-end balances under the Debt, Deposit and Remittance heads from which the liabilities are worked out. It would be observed that the fiscal liabilities of the State increased from Rs 28,957 crore at the end of 2000-01 to Rs 47,403 crore at the end of 2004-05 at an average annual rate of 14 *per cent.* Table-15 below gives the fiscal liabilities of the State, its rate of growth, ratio of these liabilities to GSDP, revenue receipts and own resources and the buoyancy of these liabilities with respect to these parameters.

Table-15: Fiscal Liabilities - Basic Parameters
(Value: Rupees in crore and others in *per cent*)

	2000-01	2001-02	2002-03	2003-04	2004-05
Fiscal Liabilities	28957	33921	38315	43197	47403
Rate of Growth	16.74	17.14	12.95	12.74	9.74
Ratio of Fiscal Liabilities to					
GSDP	42.3	44.1	44.4	45.02	44.14
Revenue Receipts	308.8	379.9	346.1	355.85	343.33
Own Resources	369.8	436.0	393.1	399.53	385.30
Buoyancy of Fiscal Liabilities with respect to					
GSDP	1.826	1.395	1.059	1.135	0.817
Revenue Receipts	0.655	(-) 3.588	0.540	1.321	0.709
Own Resources	0.694	(-)26.845	0.512	1.166	0.707

The ratio of fiscal liabilities to GSDP increased from 42 *per cent* in 2000-01 to 44 *per cent* in 2004-05 and stood at 3.43 times of its revenue receipts. In addition to these liabilities, the Government had guaranteed loans availed of by its Corporations and others which in 2004-05 stood at Rs 8,885 crore. The guarantees are in the nature of contingent liabilities of the State and in the event of non-payment by the borrowers, the State has to honour these commitments.

Increasing liabilities raise the issue of their sustainability. Fiscal liabilities are considered sustainable if the average interest paid on these liabilities is lower than the rate of growth of GSDP. In case of Punjab, the weighted interest rate on fiscal liabilities at 8.79 *per cent* during 2004-05 was lower than the rate of growth of GSDP by three *per cent* as indicated in Table-16 as follows:

Table-16: Debt Sustainability–Interest Rate and GSDP Growth
(in *per cent*)

	2000-01	2001-02	2002-03	2003-04	2004-05
Weighted Interest Rate	8.72	10.11	9.51	9.11	8.79
GSDP Growth	9.17	12.29	12.23	11.23	11.92
Interest spread	0.45	2.18	2.72	2.12	3.13

Another important indicator of debt sustainability is the net availability of funds after payment of the principal on account of the earlier contracted liabilities and interest. Table-17 below gives the position of the receipt and repayment of internal debt over the last five years. The net funds available on account of the internal debt and loans and advances from Government of India after providing for the interest and repayments declined from 38 *per cent* during 2000-01 to four per cent during 2004-2005.

Table-17: Net Availability of Borrowed Funds

(Rupees in crore)

	2000-01	2001-02	2002-03	2003-04	2004-05
Internal Debt[16]					
Receipt	4364	5719	5827	6795	5813
Repayment (Principal+Interest)	1466	2701	2365	2269	3054
Net Fund Available	2898	3018	3462	4526	2759
Net Fund Available (*per cent*)	66.4	52.8	59.4	66.61	47.46
Loans and Advances from GOI[16]					
Receipt	374	531	419	542	548
Repayment (Principal+Interest)	1481	1538	2623	3944	3051
Net Fund Available	(-) 1107	(-) 1007	(-)2204	(-)3402	(-) 2503
Net Fund Available (*per cent*)	(-)295.9	(-) 189.6	(-)526.01	(-)627.68	(-) 456.75
Total Public Debt					
Receipt	4738	6250	6246	7337	6361
Repayment (Principal+Interest)	2947	4239	4988	6213	6105
Net Fund Available	1791	2011	1258	1124	256
Net Fund Available (*per cent*)	37.8	32.2	20.14	15.32	4.02

During the year, the State repaid loans and advances from GOI after borrowing funds from the open market at the weighted average rate of 6.37 *per cent.* As a result, the net availability of funds was reduced to four *per cent* from 15 *per cent* in the previous year. However, 32 *per cent* of the existing market loans of the State Government carried interest rate exceeding 10 *per cent*. The effective cost of borrowing of their past loans, as such, is much higher than the rate at which the State is able to raise resources at present from the market.

The measures being taken to stem the growth of debt viz. to put a cap on debt, phased reduction of debt, strict control on expenditure and cap on short term debt proved insufficient as the fiscal liabilities of the State increased by 64 *per cent* from Rs 28,957 crore in 2000-01 to Rs 47,403 crore in 2004-05.

16 Net Ways and Means Advances and Overdrafts from Reserve Bank of India included.

1.9. Management of deficits

1.9.1. Fiscal Imbalances

The deficit in the Government account 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 used are important pointers to the fiscal health of the Government.

The revenue deficit of the State increased from Rs 2,336 crore in 2000-01 to Rs 3,391 crore in 2004-05. The fiscal deficit, which represents the total borrowing of the Government and its total resource gap, increased from Rs 3,904 crore in 2000-01 to Rs 4,115 crore in 2004-05 as indicated in Table – 18.

Table-18 Fiscal Imbalances: Basic Parameters
(Value: Rupees in crore and Ratios in *per cent*)

	2000-01	2001-02	2002-03	2003-04	2004-05
Revenue deficit	2336	3781	3754	3563	3391
Fiscal deficit	3904	4959	4410	4880	4115
Primary deficit	1561	1781	976	1168	134
RD/GSDP	3.41	4.92	4.35	3.71	3.16
FD/GSDP	5.70	6.45	5.11	5.09	3.83
PD/GSDP	2.28	2.32	1.13	1.22	0.12
RD/FD	59.84	76.25	85.12	73.01	82.41

The ratio of revenue deficit to fiscal deficit was 60 *per cent* during 2000-01 which increased to 82 *per cent* in 2004-05 with inter year variations. As a proportion to GSDP, though the revenue deficit remained almost steady and the fiscal deficit was reduced to four percent in 2004-05, the revenue and fiscal deficits year after year have corroded the financial health of the State. The FRBMA aims at containing the rate of growth of fiscal deficit to two *per cent* per annum in nominal terms until the fiscal deficit is brought down to three *per cent* of GSDP. During the year 2004-05 FD/GSDP ratio was 3.83 *per cent*.

Recommendations of Eleventh Finance Commission

1.9.2. Medium Term Fiscal Reforms Programme (MTFRP)

The Eleventh Finance Commission (EFC) in its report (August 2000) lays down broad parameters of fiscal correction in the State sector. Each State was required to draw up an MTFRP to achieve the objective of zero revenue deficit. The MTFRP should form the basis of a Memorandum of Understanding (MOU) entered into between the State and the Ministry of Finance. Further, the EFC recommended an Incentive Fund from which grants were to be released to the States based on their fiscal programme. On the basis of the recommendations of the EFC, the GOI created the Fiscal Reforms Facility (2000-01 to 2004-05) to motivate the States to undertake

MTFRP. Release from the incentive fund was to be based on achieving a minimum improvement of five *percentage* points in the revenue deficit as a proportion to its revenue receipts each year till 2004-05 over the base year 1999-2000.

The State Government formulated its MTFPR in March 2003 and an MOU was signed with GOI in July 2003. However, no funds were released by GOI during 2004-05 out of the said fund because the State Government failed to comply with the MOU stipulations.

Further, the revenue deficit as a proportion of revenue receipts was to be reduced by five *percentage* points each year from 1999-2000 base year. Accordingly, the revenue deficit of 37 *per cent* during 1999-2000 should have been restricted to 22 *per cent*, 17 *per cent*, and 12 *per cent* of revenue receipts during 2002-03, 2003-04 and 2004-05 respectively. However, it remained much above the limit[17] specified in the MOU.

1.10. Guarantees given by the State Government

1.10.1. The year-wise position of maximum amount for which guarantee was given by the State Government to the end of March 2005 was as under:

(Rupees in crore)

Year	Maximum amount guaranteed	Outstanding amount of guarantees		*Percentage* of maximum amount of guarantee to total revenue
		Principal	Interest	
2000-2001	7331	8868	122	78
2001-2002	10244	10244	340	115
2002-2003	17720	13255	479	160
2003-2004	22951	12149	93	189
2004-2005[18]	23420	8781	104	170

The amount of outstanding guarantees (Rs 8,885 crore) was 64 *per cent* of the revenue receipts (Rs 13,807 crore) whereas the maximum amount guaranteed during 2004-05 stood at 170 *per cent* of the revenue receipts of the State Government.

1.10.2. Non-maintenance of records

The Finance Department or the Administrative departments concerned did not maintain any consolidated record of the guarantees given by the Government and collection of guarantee fee. The Finance Department collects information of guarantees from the loanee institutions through the Administrative Departments for incorporation in the Finance Accounts. They did not maintain any record of whether a Corporation/Body has made payment of guarantee fee to the Government in accordance with rate as laid down in the sanction by the competent authority. Thus, the correctness of the figures

[17] 34 *per cent* (2002-03), 29 *per cent* (2003-04) and 25 *per cent* (2004-05).

[18] Refer Finance Account 2004-05: Statement No. 6.

of guarantees could not be verified in audit. This indicated lack of effective control and monitoring of the guarantees given by the State Government.

1.10.3. Non-recovery of guarantee fee

In consideration of the guarantees given by the Government, guarantee fee is charged by it. Loans are to be raised only from financial institutions, after the guarantee fee is deposited by the concerned borrower. Cases of outstanding guarantee fees are given in table as follows:

(Rupees in crore)

Sr.No.	Name of Corporation/ Company/Board etc.	Amount of loan availed	Period	Amount of guarantee fee payable
1.	Punjab State Container & Warehousing Corporation	70.00	7/98 to 4/2003	1.40
2.	Punjab State federation of Co-operative House Building Societies (Housefed)	20.83	3/89	0.42
3.	Punjab Financial Corporation	34.25	6/88 to 12/92	0.69
4.	Punjab Road & Bridges Development Board	90.10	3/99	1.80
5.	Punjab Urban Planning and Development Authority	46.64	2/2003	0.93
6.	Punjab Water Supply and Sewerage Board	180.18	1978-79 to 2003-04	6.79
7.	Punjab Mandi Board	30.00	3/2005	4.00
8.	Punjab Infrastructure Development Board	309.27	3/01	6.19
9.	Punjab State Industrial Development Corporation	734.36	Up to March 2005	14.69
	TOTAL			36.91

1.10.4. Guarantees to loss making units

Government had given guarantees for loss making units. A few such institutions are listed below:

(Rupees in crore)

Sr. No.	Name of institutions	Outstanding guarantees (Principal) as on 31 March 2005	Loss incurred	
			Amount	Upto the year
1.	Punjab Financial Corporation	195.73	237.92	2003-04
2.	Punjab State Industrial Development Corporation	526.39	316.68	2002-03
3.	PUNSUP	649.28	488.88	2003-04
4.	Punjab State Electricity Board	2968.92	708.38	2002-03
5.	Punjab Bus Stand Management Company	16.62	8.38	1998-99

Inspite of these heavy losses, grant of guarantees to these units led to the risk of invocation to be faced entirely by Government if there were to be non-payment of interest and principal. The matter was reported (July 2005) to the Government. Reply was awaited (August 2005).

1.11. Conclusion

The finances of the State continued to be under stress during 2004-05 and revenue receipts were not keeping pace with revenue expenditure. The revenue receipts were totally consumed by the committed expenditure of State viz. salaries, pensions and interest payments. Although the revenue deficit decreased marginally from Rs 3,563 crore in 2003-04 to Rs 3,391 crore in 2004-05, the continuous application of borrowed funds largely to current consumption and debt servicing indicated increased unsustainability and vulnerability of the State finances. It is not uncommon for a State to borrow for increasing its social and economic infrastructure support and creating additional income generating assets. However, the increasing ratio of fiscal liabilities to GSDP together with a large revenue deficit indicated that the State was gradually getting into a debt trap. Similarly, the higher buoyancy of debt both with regard to its revenue receipts and own resources indicated its increasing unsustainability. The State's high cost borrowing for investments, which yielded very little return, indicated an implicit subsidy. Thus, the State has either to generate more revenues from out of its existing assets or needs to provide from its current revenue for servicing its debt obligations. The FRBMA 2003 was a step in the right direction but the commitments made therein still remained to be fulfilled by the State Government. The target of reduction in revenue deficit as percentage of total revenue receipts, by at least five percentage points, from the previous year was not achieved. Only through reducing revenue and fiscal deficit by compressing non-developmental revenue expenditure in a time bound manner coupled with prudent debt management, can the State achieve long term fiscal stability.