

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 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 of Punjab. The lay out of the Finance Accounts is depicted in *Appendix 1.1- Part B*.

1.1.1 Summary of Receipts and Disbursements

Table-1.1 summarizes the finances of the Government of Punjab for the year 2007-08 covering revenue receipts and expenditure, capital receipts and expenditure and Public Account receipts/disbursements as emerging from Statement-1 of Finance Accounts and other detailed statements.

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

(*Rupees in crore*)

2006-07	Receipts	2007-08	2006-07	Disbursements	2007-08		
Section-A: Revenue					Non-Plan	Plan	Total
20567.14	Revenue receipts	19237.62	18543.78	Revenue expenditure	21897.32	1163.54	23060.86
9017.16	Tax revenue	9899.17	10338.64	General services	12886.18	5.72	12891.90
7744.58	Non-tax revenue	5253.97	4103.72	Social services	4118.58	215.00	4333.58
1565.75	Share of Union Taxes/Duties	1974.99	3772.87	Economic services	4535.77	942.82	5478.59
2239.65	Grants from Government of India	2109.49	328.55	Grants-in-aid and Contributions	356.79	-	356.79
Section-B: Capital							
-	Misc Capital Receipts	0.71	2586.18	Capital Outlay	272.16	1919.44	2191.60
395.45	Recoveries of Loans and Advances	1445.15	444.16	Loans and Advances disbursed	31.33	3.52	34.85
4274.99	Public debt receipts*	5662.21	5170.55	Repayment of Public Debt*	-	-	1719.22
-	Contingency Fund	-	-	Contingency Fund	-	-	-
18356.90	Public Account receipts	19687.47	17791.59	Public Account disbursements	-	-	18751.22
1767.65	Opening Cash Balance	825.87	825.87	Closing Cash Balance	-	-	1101.28
45362.13	Total	46859.03	45362.13	Total	-	-	46859.03

* *Excluding Ways and Means Advances and Overdraft*

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

- Revenue receipts decreased by Rs 1,329 crore in 2007-08 relative to previous year mainly on account of a fall in non-tax receipts by Rs 2,491 crore.
- The total expenditure of the State has increased by Rs 3,714 crore during 2007-08 over the previous year, of which increase in revenue expenditure was Rs 4,517 crore whereas capital expenditure decreased by Rs 394 crore. Main contributors to increase in total expenditure were Power (Rs 1,423 crore: 38 *per cent*), State lotteries (Rs 1,422 crore: 38 *per cent*) pension and other retirement benefits (Rs 527 crore: 14 *per cent*) and interest payment (Rs 375 crore: 10 *per cent*).
- The recovery of loans and advances exhibited a sharp increase from Rs 395 crore in the previous year to Rs 1,445 crore in 2007-08 mainly on account of adjustment of Rs 1,362 crore towards repayment of loans and advances out of total subsidy of Rs 2,848 crore given to power sector during the current year.
- Public debt receipts increased by Rs 1,387 crore mainly on account of internal debt (Rs 1,367 crore) of the State government whereas repayments thereof decreased by Rs 3,451 crore mainly on account of decrease in repayment of loan and advances to Government of India (Rs 3,671 crore). Repayment of internal debt of the State Government increased by Rs 608 crore in the current year as compared to previous year.
- The Public Account receipts increased by Rs 1,331 crore over the previous year and the disbursement thereof also increased by Rs 960 crore during the year.
- The net impact of the above fiscal transactions of the State was reflected in terms of a net increase of Rs 275 crore in cash balances as on 31 March 2008 from the level of opening balance of Rs 826 crore.

1.1.2 State Fiscal Position by Key Indicators

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

Table 1.2 Key fiscal indicators*(Rupees in crore)*

2006-07	Sr.No	Major Aggregates	2007-08
20567	1.	Revenue Receipts (2+3+4)	19238
9017	2.	Tax Revenue (Net)	9899
7744	3.	Non-Tax Revenue	5254
3806	4.	Other Receipts	4085
395	5.	Non-Debt Capital Receipts	1446
395	6.	<i>Of which</i> Recovery of Loans	1445
20962	7.	Total Receipts (1+5)	20684
18233	8.	Non-Plan Expenditure	22201
17563	9.	On Revenue Account	21897
4152	10.	<i>Of which</i> Interest Payments	4527
670	11.	On Capital Account	304
444	12.	Of which Loans Disbursed	31
3341	13.	Plan Expenditure	3087
981	14.	On Revenue Account	1164
2360	15.	On Capital Account	1923
-	16.	Of which Loans Disbursed	-
21574	17.	Total Expenditure (13+8)	25288
(+)2023	18.	Revenue Deficit (-)/Surplus (+)[(1) – (9+14)]	(-)3823
(-)612	19.	Fiscal Deficit (-)/Surplus (+) [(1+5) – 17]	(-)4604
(+)3540	20.	Primary Deficit (-)/Surplus (+) (19-10)	(-) 77

Table-1.2 shows that revenue receipts decreased by Rs 1,329 crore (6.46 per cent) during 2007-08 while revenue expenditure increased by Rs 4,517 crore (24 per cent) over the previous year resulting in a deficit of Rs 5,846 crore during the current year. The huge deficit in revenue account during the current year turned the surplus of Rs 2,023 crore in the previous year into a net deficit of Rs 3,823 crore during 2007-08. Despite an increase of Rs 1,050 crore under non-debt capital receipts and a decrease of Rs 803 crore in capital expenditure and disbursement of loans and advances, the gross deficit of Rs 5,846 crore in revenue account in 2007-08 resulted in a sharp increase of Rs 3,992 crore in fiscal deficit during the current year. Further, the huge fiscal deficit in 2007-08 turned the primary surplus of Rs 3,540 crore in 2006-07 into a primary deficit of Rs 77 crore despite the increase of Rs 375 crore in interest payments during the current 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 are analysed wherever necessary over the period of last five years and observations are 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 Fiscal Responsibility Act/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 are used to make qualitative assessment of the trends and pattern of major fiscal aggregates during the current year. Assuming that Gross State Domestic Product (GSDP)¹ 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 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 mobilization of resources, pattern of expenditure etc, are keeping pace with the change in the base or these fiscal aggregates are also affected by factors other than GSDP. The New GSDP series with 1999-2000 as base (**Table 1.3**) have been used for the years 2002-08.

Table 1.3: Gross State Domestic Product (GSDP) – Growth Trends

Estimates	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Gross State Domestic Product (GSDP) (Rs in crore)	82339(R)	89818(R)	97452(R)	109735(P)	123397(Q)	137486 (A)
Rates of Growth GSDP (<i>per cent</i>)	3.32	9.08	8.50	12.60	12.45	11.42

R= Revised, P= Provisional, Q= Quick and A= Advance estimates.

Source: GSDP estimates up to 2006-07 are provided by Office of Economic Adviser, Government of Punjab while for 2007-08 GSDP estimates given in Annual Plan (2008-09) Document of Government of Punjab at Page-532 (Annexure 2A) are adopted.

The key fiscal aggregates for the purpose are grouped under four major heads: (i) Assets and Liabilities, (ii) Receipts and disbursements, (iii) Sources and application of funds and (iv) Time series data on State Government finances (**Appendix 1.2 to 1.5**). The overall financial performance of the State Government as a body corporate has been presented by the application of a set of ratios commonly adopted for the relational interpretation of fiscal aggregates. The definitions of some of the selected terms used in assessing the trends and pattern of fiscal aggregates are given in **Appendix 1.1 Part C**.

1.2.1 The Fiscal Responsibility and Budget Management (FRBM) Act, 2003

The State Government had enacted the FRBM Act in 2003 which was subsequently amended vide the Punjab Fiscal Responsibility and Budget Management (Amendment) 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. The Act, as amended, prescribed the following fiscal targets for the State:

- a) reduce the fiscal deficit from the financial year 2005-06 so as to bring it down to three *per cent* of GSDP by the year 2008-09;

¹ **GSDP is defined as the total income of the State or the market value of goods and services produced during the year using labour and all other factors of production.**

- b) reduce revenue deficit from the financial year 2005-06 so as to bring it down to zero by the year 2008-09 and generate revenue surplus thereafter;
- c) attempt to bring the ratio of debt including contingent liabilities to GSDP down to 28 *per cent* within a period of five years from 2005-06 to 2009-10;
- d) Cap outstanding guarantees on long term debt to 80 *per cent* of revenue receipts of the previous year. Guarantees on short term debt to be given only for working capital or food credit in which case this must be fully backed by physical stocks.

In exercise of the powers conferred by Section 7 of the Act, as amended, the State Government framed the Punjab Fiscal Responsibility and Budget Management Rules in December 2006 with a sole target '*to reduce the fiscal deficit from the financial year 2005-06 so as to bring it down to three per cent of GSDP by the year 2009-10.*

1.2.1.1 Fiscal Policy Statement(s) 2006-07

According to the Punjab FRBM Act 2003 as amended in 2005, the State Government is required to lay the Medium Term Fiscal Policy statement *inter alia* setting three years rolling targets, specifying assumptions for sustainability relating to revenue receipts and expenditure before the Legislature in each financial year along with the budget of the ensuing year. State Government has communicated that the Fiscal Correction Path (FCP) developed for the years 2005-06 to 2009-10 also incorporates its medium term fiscal policy as well as reflects its fiscal policy strategy for these years.

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

The State Government has developed its own FCP to achieve the targets laid down in its FRBM Act as amended in 2005 indicating the milestones to be achieved for the selected fiscal indicators during the period from 2005-06 to 2009-10 (***Appendix 1.6***). The comparative position of selected fiscal parameters vis-à-vis the projections made in FCP for the year 2007-08 as well as the budget and revised estimates of the State Government for 2007-08 is given in **Table 1.4**:

Table-1.4 Comparative position of fiscal parameters
(Rupees in crore)

Sr. No.	Fiscal Indicators	2007-08			
		Projections in FCP	BE	RE	Actual
1.	Revenue Deficit (-)/Surplus (+)	-725	-1430	(-) 1281	(-) 3823
2.	Revenue deficit as percentage of GSDP	-0.60	-1.04	(-) 0.94	(-) 2.78
3.	Revenue deficit as percentage of revenue receipts	-4.18	-6.17	(-) 5.52	(-) 19.87
4.	Fiscal deficit	-3663	-5546	(-) 4364	(-) 4604
5.	Fiscal Deficit as percentage of GSDP	-3.03	-4.05	(-) 3.19	(-) 3.35
6.	Revenue Deficit as percentage of Fiscal Deficit	19.79	25.78	29.34	83.04
7.	Total outstanding Debt	56378	52764	52936	55982
8.	Committed Expenditure (Salary, Pension and Interest payments)	12823	13005	13185	13276
9.	Committed Expenditure as percentage of Revenue Receipts (Lotteries Net)	73.91	70.82	67.07	69.00
10.	Primary Deficit	+742.81	-1189.29	(-) 9.56	(-) 76.95

Note: The above data for 2007-08 has been compiled from Page 3 of the Budget at a Glance for the year 2008-09 of the Punjab Government.

The comparative position presented in **Table 1.2** reveals that fiscal position of the State seems to have deteriorated in terms key fiscal indicators. There was a revenue deficit of Rs 3,823 crore as against the significantly lower deficit projected in FCP as well as the budget and revised estimates for the year. Similarly, the fiscal deficit was although lower than the BE but it remained higher than the projection made in FCP and revised estimates for 2007-08. There was a primary deficit at Rs 77 crore in 2007-08 as against the projection of a surplus of Rs 743 crore in FCP although it was much lower than the BE but higher than the revised estimate for the year.

Further Section 6 (7) of the FRBM Act *ibid* lays down that the Government may assign to an independent agency to carry out the periodic review for the compliance of the provisions of the Act in the manner as might be prescribed. Government replied that there appeared no need to assign an independent/external agency to carry out the periodic review.

1.3 Trends and Composition of Aggregate Receipts

The aggregate receipts of 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 1.5: Trends in Growth and Composition of Aggregate Receipts
(Rupees in crore)

Sources of State's Receipts	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
I Revenue Receipts	11071	12139	13807	16966	20567	19238
II Capital Receipts	6349	7442	6495	4715	4670	7108
Recovery of Loans and Advances	103	105	134	137	395	1445
Public Debt Receipts	6246	7337	6361	4578	4275	5662
Miscellaneous Capital Receipts	-	-	-	-	-	1
III Contingency Fund	-	-	-	-	-	-
IV Public Account Receipts	11972	10111	12846	15648	18357	19688
a. Small Savings, Provident Fund etc	1364	1309	1429	1483	1512	1875
b. Reserve Fund	29	223	448	218	319	388
c. Deposits and Advances	1243	913	1206	1462	2086	2774
d. Suspense and Miscellaneous	8491	7137	9023	11462	13173	12728
e. Remittances	845	529	740	1023	1267	1923
Total Receipts	29392	29692	33148	37329	43594	46034

Table-1.5 shows that the total receipts of the State Government for the year 2007-08 were Rs 46,034 crore. Of these, Public Account receipts contributed 43 *per cent* followed by revenue receipts (42 *per cent*) and capital receipts including the public debt contributed the remaining 15 *per cent* during 2007-08 (*Appendix I.6*).

1.3.1 Revenue Receipts

Statement-11 of the Finance Accounts details the revenue receipts of the Government. The revenue receipts consist of State's 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-1.6**.

Table-1.6: Revenue Receipts - Basic Parameters

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Revenue Receipts (RR)	11071	12139	13807	16966	20567	19238
Own Taxes (<i>per cent</i>)	5711(52)	6146(51)	6944(50)	8989(53)	9017(44)	9899(51)
Non-Tax Revenue (<i>per cent</i>)	4036(36)	4666(38)	5358(39)	4536(27)	7744(38)	5254(27)
Central Tax Transfers (<i>per cent</i>)	649(6)	754(6)	903(7)	1228(7)	1566(7)	1975(10)
Grants-in-aid (<i>per cent</i>)	675(6)	573(5)	602(4)	2213(13)	2240(11)	2109(11)
Rate of growth of RR (<i>per cent</i>)	23.99	9.65	13.74	22.88	21.22	(-)6.46
RR/GSDP (<i>per cent</i>)	13.45	13.52	14.17	15.46	16.67	13.99
Buoyancy Ratios³						
Revenue Buoyancy w.r.t GSDP	7.22	1.06	1.62	1.82	1.70	(-)0.57
State's own taxes Buoyancy w.r.t GSDP	5.57	0.84	1.52	2.33	0.03	0.86
Revenue Buoyancy with reference to State's own taxes	1.30	1.26	1.05	0.77	68.45	(-)0.66
GSDP Growth (<i>per cent</i>)	3.32	9.08	8.50	12.60	12.45	11.42

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 (-) 0.57 during 2007-08 implies that revenue receipts tend to decrease by (-) 0.57 percentage points if the GSDP increases by one *per cent*.

1.3.2 General Trends

The revenue receipts of the State have shown an increasing trend over the period 2002-07 with share of its own taxes varying within the narrow range of 50-53 *per cent* till 2005-06 except in 2006-07 when it dipped to 44 *per cent* and again rose to 51 *per cent*. While the share of non-tax revenue declined from an average of 36 *per cent* in 2002-07 to 27 *per cent* in 2007-08, the share of central transfers increased from 14 to 21 *per cent* during this period.

1.3.3 Tax Revenue

The tax revenue has increased by Rs 882 crore (9.78 *per cent*) during 2007-08 over the previous year. The sales tax, state excise and stamps and registration fee together accounted for around 89 *per cent* in total tax revenue of the State during the current year. However, the revenue from sales tax and state excise increased by Rs 513.47 crore (11 *per cent*) and Rs 493.74 crore (36 *per cent*) over the previous year respectively but the receipts from the stamps and registration recorded a decrease of Rs 236.10 crore (13 *per cent*) during the current year. The steep increase in receipts from state excise was mainly on account of an increase of Rs 520.85 crore (46.54 *per cent*) in receipts from duty on country spirit during the year. **Table 1.7** shows the trends in the composition of tax revenue of the State during 2002-08.

Table1.7: Tax Revenue

(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Land Revenue	8.77	13.24	13.72	16.29	15.27	17.31
Stamps and Registration	558.94	729.07	965.89	1670.50	1803.94	1567.84
State Excise	1428.91	1462.79	1486.61	1568.16	1367.78	1861.52
Sales Tax	3072.44	3307.94	3816.38	4626.88	4829.02	5342.49
Taxes on Vehicles	443.88	388.79	403.93	431.19	468.05	499.45
Taxes and Duties on Electricity	187.64	234.91	251.65	669.41	527.58	603.80
Other Taxes and Duties on Commodities and Services	10.43	9.19	6.43	6.85	5.52	6.76
Total	5711.01	6145.93	6944.61	8989.28	9017.16	9899.17

1.3.4 Non-Tax Revenue

The Non-Tax Revenue which constituted 27 *per cent* of total revenue receipts in 2007-08 decreased by Rs 2,490 crore (32 *per cent*) over previous year. The steep decline in non-tax receipts during the current year was observed mainly on account of inclusion of a credit entry of Rs 3,772 crore (principal amount) in 2006-07 due to one time waiver of special term loans granted by Government of India. Excluding this one time credit entry in 2006-07, an increase of Rs 1,281 crore (32.24 *per cent*) in non-tax revenue was observed in 2007-08 over the previous year. Further, a decrease of Rs 45 crore in credit entry on account of debt relief received under DCRF and Rs 310 crore in interest receipts was observed in the current year when compared with last year.

The component analysis of non-tax receipts of the State during the period 2002-08 reveals that except in 2006-07 when a credit entry of one time waiver of special term loan was included as receipts, gross receipts from state lotteries contributed on an average more than half of total non-tax receipts during the period 2002-08 with increasing share in recent years. Netting the receipts from lotteries against the expenditure incurred reveals only marginal net receipts to State Government varying from Rs 40 crore to Rs 128 crore during the period. Incorporating the gross receipts from State lotteries in non-tax receipts of the State reflects the significant contribution of non-tax receipts in total revenue receipts of the State Government.

The tax and non-tax revenue receipts vis-à-vis assessments made by TFC and the State Government are given below:

Table-1.8 Assessments made by TFC and State Government
(Rupees in crore)

	Assessments made by TFC	Projections made by State Government in FCP	Actuals
	(1)	(2)	(3)
Tax Revenue	10772.68	11073.50	9899.17
Non-Tax Revenue	2095.83	1644.13	1747.92

Since State has made the projections in its FCP net of lotteries, therefore for comparison purposes non-tax revenue receipts are shown net of lotteries.

The comparative position reveals that tax revenue remained significantly lower than both the projections made by the TFC as well as by the State Government in its FCP indicating an ample scope of additional resource mobilisation by the State Government through tax efforts. As regards the non-tax revenue, actual receipts were higher (six *per cent*) as compared to the projections made by the State Government but when compared with assessments made by the TFC the same were lower by 17 *per cent*.

1.3.5 Central Tax transfers

The Central Tax transfers which constituted ten *per cent* of revenue receipts increased by Rs 409.24 crore over the previous year. The increase was mainly under Corporation Tax (Rs 138.13 crore), Taxes on Income other than Corporation Tax (Rs 123.96 crore), Customs (Rs 67.93 crore) and Service Tax (Rs 47 crore).

1.3.6 Grants-in-aid

The Grants-in aid from Government of India (GOI) decreased from Rs 2,240 crore in 2006-07 to Rs 2,109 crore in the current year. While there was increase under State plan schemes (Rs 220 crore) this was partly offset by decrease in Non-Plan Grants (Rs 375 crore) mainly under the head 'other grants' and decrease of Rs seven crore under Central Plan Schemes. Details of grants-in-aid from GOI are given in **Table 1.9**.

Table 1.9: Grants-in-aid from GOI

(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Grants for State plan schemes	238.86	245.13	202.31	310.22	397.36	617.67
Non-Plan grants	306.35	134.32	186.14	1703.42	1487.85	1112.74
Grants for Central Plan Schemes	4.42	2.78	7.34	5.45	20.78	13.42
Grants for Centrally Sponsored Plan Schemes	125.97	190.86	206.68	194.23	333.66	365.66
Total	675.60	573.09	602.47	2213.32	2239.65	2109.49

1.3.7 Revenue Arrears

The arrears of revenue as on 31 March 2008 stood at Rs 2,513.14 crore in respect of some principal heads of revenue of which Rs 488.99 crore (19.46 per cent) were outstanding for more than five years. The revenue arrears during 2007-08 were however Rs 596.50 crore (31 per cent) higher than the arrears of Rs 1,916.64 crore pending as on 31 March 2007. Major increase in the arrears was observed under Sales Tax (Rs 486.79 crore). The arrears in 2007-08 pertained mainly to Sales Tax (Rs 2,034.62 crore), Irrigation (Rs 135.87 crore) Taxes & Duties on Electricity (Rs 134.50 crore), Taxes on Vehicles (Rs 111.58 crore) and Interest Receipts (Rs 73.53 crore). Out of total arrears of Rs 2,513.14 crore, an amount of Rs 884.28 crore (35 per cent) was in arrear on account of cases pending in courts, while recovery of Rs 1,135.70 crore (45 per cent) was under different stages of action. The other reasons advanced for these arrears and amount involved included insolvency (Rs 3.23 crore); paucity of funds (Rs 73.53 crore in respect of two State owned corporations); likely to be written off (Rs 26.32 crore); amounts being recovered in instalments (Rs 5.24 crore) and Rs 1.04 crore was held up for want of rectification. For Rs 381.11 crore in arrears no reasons were furnished.

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 15,584 crore in 2002-03 to Rs 25,288 crore in 2007-08. 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-1.10**.

Table-1.10: Total Expenditure – Basic Parameters*(Rupees in crore)*

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Total expenditure (TE)*	15584	17124	18056	19757	21574	25288
Rate of Growth (<i>per cent</i>)	5.58	9.88	5.44	9.42	9.20	17.22
TE/GSDP Ratio (<i>per cent</i>)	18.93	19.07	18.53	18.00	17.48	18.39
RR /TE Ratio (<i>per cent</i>)	71.04	70.89	76.47	85.87	95.33	76.08
Buoyancy of Total Expenditure with reference to :						
GSDP (ratio)	1.68	1.09	0.64	0.75	0.74	1.514
RR (ratio)	0.23	1.02	0.40	0.41	0.43	(-2.66)

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

The total expenditure during the current year at Rs 25,288 crore has increased by Rs 3,714 crore (17.22 *per cent*) over the previous year. The break-up of total expenditure under revenue and capital heads reveals that revenue expenditure increased by Rs 4,517 crore whereas there was a decrease in capital expenditure (Rs 394 crore) as well as under loans and advances (Rs 409 crore). The bifurcation of total expenditure into plan and non-plan expenditure revealed that the share of plan and non-plan expenditure was 12 *per cent* and 88 *per cent* respectively. The increase in total expenditure was mainly driven by increase in non-plan expenditure (Rs 3,968 crore) accompanied with a decrease of Rs 254 crore in plan expenditure.

Trends in Total Expenditure by Activities: In terms of the 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-1.11**.

Table-1.11: Components of Expenditure – Relative Share*(in per cent)*

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
General Services	58.35	54.72	54.84	53.68	48.36	51.52
Of which Interest payments	22.03	21.68	22.05	18.80	19.25	17.90
Social Services	20.82	19.70	20.09	19.98	20.74	19.07
Economic Services	17.24	20.91	24.13	24.28	27.32	27.86
Grants-in-aid	1.42	0.26	0.41	1.89	1.52	1.41
Loans and Advances	2.18	4.42	0.54	0.17	2.06	0.14

The movement of relative share of the various components of expenditure indicated that the share of General Services including interest payment has increased during 2007-08 over the previous year and continued as the dominant portion in the total expenditure. The increase in share of economic services was mainly on account of increase in non-plan expenditure under Major Head-2801- Power. The share of social services remained almost stable with minor inter-year variations while the share of loans and advances consistently declined during the period 2002-08 except 2003-04 and 2006-07 and decreased steeply during the current year.

1.4.2 Incidence of Revenue expenditure

Revenue expenditure had the predominant share varying within the range of 86-95 *per cent* in the total expenditure during 2002-08. 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 States' 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-1.12**.

Table-1.12: Revenue Expenditure: Basic Parameters

	<i>(Rupees in crore)</i>					
	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Revenue Expenditure (RE)	14825	15702	17198	18207	18544	23061
Non-Plan Revenue Expenditure (NPRE)	14117 (95)	15087 (96)	16732 (97)	17246 (95)	17563 (95)	21897 (95)
Plan Revenue Expenditure (PRE)	708	615	466	961	981	1164
Rate of Growth (<i>per cent</i>)						
Revenue Expenditure	16.64	5.92	9.53	5.87	1.85	24.36
Non-Plan Revenue Expenditure	19.18	6.87	10.90	3.07	1.84	24.68
Plan Revenue Expenditure	(-)18.15	(-)13.14	(-)24.23	106.22	2.08	18.65
RE/TE (<i>per cent</i>)	95.13	91.70	95.25	92.15	85.96	91.19
NPRE/GSDP (<i>per cent</i>)	17.14	16.80	17.17	15.72	14.23	15.93
NPRE as <i>per cent</i> of TE	90.59	88.10	92.67	87.29	81.41	86.59
NPRE as <i>per cent</i> of RR	127.51	124.29	121.18	101.65	85.39	113.82
Buoyancy of Revenue Expenditure with						
GSDP (ratio)	5.01	0.65	1.12	0.47	0.15	2.138
Revenue Receipts (ratio)	0.69	0.61	0.69	0.26	0.09	(-)3.77

The revenue expenditure increased by 56 *per cent* from Rs 14,825 crore in 2002-03 to Rs 23,061 crore in 2007-08 and there was a steep increase of Rs 4,517 crore (24 *per cent*) in the current year. The NPRE has shown a consistent increase at an average rate of eight *per cent* over 2002-07 but increased substantially by Rs 4,334 crore (25 *per cent*) in the current year and continued as the dominant portion varying in the narrow range of 95-97 *per cent* of the revenue expenditure. A steep increase of Rs 4,334 crore in NPRE during the current year was mainly on account of rise in the non-plan revenue expenditure under Economic Services (Power Subsidy-Rs 1,424 crore), Miscellaneous General Services (State Lotteries-Rs 1,422 crore), Pension and other retirement benefits (Rs 527 crore due to increase in number of retirees), Interest Payments (Rs 375 crore), General Education (Rs 349 crore mainly due to more expenditure on Government Secondary Schools and

increased assistance to non-government colleges/institutes), Secretariat Economic Services (Rs 194 crore) and Police (Rs 169 crore). The Non-plan revenue expenditure at Rs 21,897 crore in 2007-08 was significantly higher than the normative assessment made by TFC (Rs 15,082 crore) and the projections made by the State Government in its own FCP (Rs 16,150 crore).

The plan revenue expenditure which was increased by more than 100 *per cent* during 2005-06 over the year 2004-05 has shown further increase of Rs 20 crore (two *per cent*) during 2006-07 and increase of Rs 183 crore in 2007-08 over respective previous year. Of the total plan revenue expenditure of Rs 1,164 crore in 2007-08, Rs 721 crore is booked under the minor head 'Planning Commission/Planning Board' of Major Head '3451- Secretariat–Economic services'. The fluctuating buoyancy ratios indicate that the revenue expenditure is not solely dependent on the changes in the revenue receipts and the GSDP during the period 2002-08.

1.4.3 Committed Expenditure

1.4.3.1 Expenditure on Salaries

The overall Expenditure on Salaries under Non-Plan head and Plan head are indicated in **Table-1.13**.

Table-1.13: Expenditure on Salaries

(Rupees in crore)

Heads	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Expenditure on Salaries	4912	4825	5193	5320	5647	6316
Of which						
Non-Plan Head				5153	5470	6161
Plan Head				167	177	155
As <i>per cent</i> of GSDP	5.97	5.37	5.33	4.85	4.58	4.59
As <i>per cent</i> of RR	44.37	39.75	37.61	31.36	27.46	32.83

The expenditure on salaries in **Table 1.13** indicated an increasing trend while both as percentage of GSDP and revenue receipts declining tendency is observed over the period 2002-07. Although the salary expenditure increased sharply during 2007-08 over the previous year but it remained less than the revised estimates of the State Government (Rs 6,684 crore). The total non-plan salary bill relative to revenue expenditure net of interest payments and pension was 38 *per cent* marginally exceeding the norm of 35 *per cent* envisaged by the TFC.

1.4.3.2 Pension Payments

The trends in payment of pensions and their ratio with GSDP, Revenue Receipts and Revenue Expenditure for the period 2002-08 are indicated in **Table 1.14**.

Table 1.14: Expenditure on Pensions

(Rupees in crore)

Heads	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Expenditure on Pensions	1356	1389	1514	1656	1905	2433
Rate of growth	31.01	2.43	8.99	9.38	15.04	27.72
As <i>per cent</i> of GSDP	1.65	1.55	1.55	1.51	1.54	1.77
As <i>per cent</i> of RR	12.25	11.44	10.97	9.76	9.26	12.65
As <i>per cent</i> of RE	9.15	8.85	8.80	9.10	10.27	10.55

The Pension payments during current year have increased by Rs 528 crore recording a growth rate of 28 *per cent* over previous year. The increase was mainly due to more expenditure under ‘Superannuation and Retirement Allowances’ and ‘Gratuities’ as number of pensioners increased from 213072 (2006-07) to 234127* (2007-08). The comparative analysis of actual pension payments and the assessment/projections made by TFC and the State Government (**Table 1.15**) reveals that actual pension payments exceeded the projections made by both the TFC and the State Government.

Table 1.15: Actual Pension Payments vis-à-vis Projections

(Rupees in crore)

Assessments made by TFC	Projections of the State Government		Actual Exp on pensions
	FCP	Revised Estimates as per Budget 2008-09	
(1)	(2)	(3)	(4)
1848	1808	2028	2433

* Source: Director, Pension and Pensioners’ Welfare (See Finance Accounts – Foot Note at Page 105)

With the increase in the number of retirees, the pension liabilities are likely to increase further in future. To meet the increasing pension liabilities, new Contributory Pension Scheme has been introduced by the State with effect from January 2004.

1.4.3.3 Interest payments

Table 1.16: Interest Payments

(Rupees in crore)

Year	Total Revenue Receipts	Total Revenue Expenditure	Interest payments	Percentage of interest payment with reference to	
				Revenue Receipts	Revenue Expenditure
2002-03	11071	14825	3434	31	23
2003-04	12139	15702	3712	31	24
2004-05	13807	17198	3981	29	23
2005-06	16966	18207	3715	22	20
2006-07	20567	18544	4152	20	22
2007-08	19238	23061	4527	24	20

The interest payments increased by nine *per cent* from Rs 4,152 crore in 2006-07 to Rs 4,527 crore in 2007-08. An increase of Rs 375 crore in interest payments in 2007-08 was mainly due to increase in payment of interest on special securities issued to National Small Savings Fund of the Central Government by State Government (Rs 170 crore) and that on market loans (Rs 117 crore). It was observed that interest payments as a percentage of revenue receipts had progressively decreased from 31 *per cent* in 2002-03 to 24 *per cent* in 2007-08. However, it is still beyond the medium term target of 15 *per cent* of Revenue Receipts by 2009-10 envisaged by TFC. Further, interest payments at Rs 4,527 crore during 2007-08 were marginally higher than the projections by the State in its FCP (Rs 4,406 crore) and its revised estimate (Rs 4,355 crore) for the year 2007-08.

1.4.3.4 Subsidies

Though the subsidies are a drain on State finances, the Government is extending subsidies in a big way to the Power and Energy Sector. The trends in the subsidies given by the State Government are given in **Table 1.17**.

Table 1.17: Subsidies

<i>(Rupees in crore)</i>						
S.No	Particulars	2003-04	2004-05	2005-06	2006-07	2007-08
1.	Welfare of SC, ST and OBC	8.70	12.08	16.09	18.30	16.36
2.	Agriculture and Allied Activities	0.71	0.63	6.48	6.01	20.97
3.	Power and Energy	1349.19	2170.13	1550.93	1423.80	2848.04
4.	Industry and Minerals	-	0.01	0.30	105.00	101.00
5.	Civil Supplies	-	-	-	-	34.29
	Total	1358.60	2182.85	1573.80	1553.11	3020.66
	<i>Per cent</i> increase (+)/decrease (-)	77.15	60.67	(-)27.90	(-)1.31	94.49
	<i>Per cent</i> in total expenditure	7.93	12.09	7.97	7.20	11.95

The steep increase of Rs 1,424 crore (100 *per cent*) in subsidies during the current year was mainly on enhanced subsidy to power by the State Government. The subsidy to Power and Energy Sector at Rs 2,848 crore as well as the general subsidy (subsidies other than Power and Energy Sector) at Rs 173 crore was more than the projection of Rs 1,583 crore and Rs 11 crore respectively in State's own FCP. The general subsidies are however inclusive of the food subsidy of Rs 34.29 crore against that recommended level of Rs 24.29 crore by the TFC for the year 2007-08.

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 1.18** gives these ratios during 2002-08.

Table 1.18: Indicators of Quality of Expenditure

<i>(Rupees in crore)</i>						
	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Capital Expenditure	420.40	664.69	761.40	1516.89	2586.18	2191.60
Revenue Expenditure	14825.12	15701.92	17198.03	18206.73	18543.78	23060.86
Of which Social and Economic Services with	5531.59	6307.09	7273.47	7316.46	7876.60	9812.17
(i) Salary Component	2990.96	3280.20	3461.10	3655.38	3826.83	4222.33
(ii) Non-Salary component	2540.63	3026.89	3812.37	3661.08	4049.77	5589.84
As per cent of total expenditure (excluding loans and advances)						
Capital expenditure	2.76	4.06	4.24	7.69	12.24	8.68
Revenue expenditure	97.24	95.94	95.76	92.31	87.76	91.32
As per cent of GSDP						
Capital expenditure	0.51	0.74	0.78	1.38	2.10	1.59
Revenue expenditure	18.00	17.48	17.65	16.59	15.03	16.77

The trends in **Table 1.18** reveal that the capital expenditure exhibited increase over the period 2002-07 but it decreased by Rs 394.58 crore (15 *per cent*) in 2007-08 mainly on account of a decline of Rs 1045 crore in plan capital expenditure under the 'Major head 5475-Capital outlay on Other General Economic Services'- minor head 'Statistics' below sub-heads State Level Initiative (Punjab Nirman Programme) and 'Formulation of District Plan at District Headquarters'. The revenue expenditure continues to share the dominant proportion of total expenditure during the period 2002-08 therefore the State Government need to step up its efforts to enhance the capital expenditure to raise it to three *per cent* of GSDP as recommended by TFC to be achieved by all States by 2009-10.

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 1.19** summaries the expenditure incurred by the State Government in expanding and strengthening of social services in the State during 2003-08.

Table 1.19: Expenditure on Social Services

(Rupees in crore)

	2003-04	2004.-05	2005-06	2006-07	2007-08
General Education	2002.01	2063.60	2222.74	2256.48	2634.00
Revenue Expenditure, <i>Of which</i>	2001.93	2047.46	2204.53	2240.82	2590.15
(a) Salary Component	1682.27	1757.64	1820.05	1907.55	2086.91
(b) Non-Salary component	319.66	289.82	384.48	333.27	503.24
Capital Expenditure	0.08	16.14	18.21	15.66	43.85
Health and Family welfare	610.05	609.39	698.81	698.66	761.29
Revenue Expenditure, <i>Of which</i>	608.45	603.79	695.85	689.02	756.47
(a) Salary Component	506.69	542.10	595.31	612.03	672.09
(b) Non-Salary component	101.76	61.69	100.54	76.99	84.38
Capital Expenditure	1.60	5.60	2.96	9.64	4.82
Water Supply, Sanitation, Housing and Urban Development	275.78	359.38	524.40	683.58	735.16
Revenue Expenditure, <i>Of which</i>	275.45	289.23	207.26	346.32	307.12
(a) Salary Component	75.16	88.21	95.00	123.42	151.79
(b) Non-Salary component	200.29	201.02	112.26	222.90	155.33
Capital Expenditure	0.33	70.15	317.14	337.26	428.04
Other Social Services Sports, Art and Culture	484.25	595.30	500.44	835.52	693.22
Revenue Expenditure, <i>Of which</i>	481.86	595.31	494.76	827.56	679.84
(a) Salary Component	164.40	168.67	181.28	192.72	217.51
(b) Non-Salary component	317.46	426.64	313.48	634.84	462.33
Capital Expenditure	2.39	(-) 0.01	5.68	7.96	13.38
Total (Social Services)	3372.09	3627.67	3946.39	4474.24	4823.67
Revenue Expenditure, <i>Of which</i>	3367.69	3535.79	3602.40	4103.72	4333.58
(a) Salary Component	2428.52	2556.62	2691.64	2835.72	3128.30
(b) Non-Salary component	939.17	979.17	910.76	1268.00	1205.28
Capital Expenditure	4.40	91.88	343.99	370.52	490.09

The expenditure on social sector increased from Rs 3,372 crore in 2003-04 to Rs 4,824 crore in 2007-08 indicating the Government's commitment to improve social well being of the society. Revenue expenditure on Social Sector during current year (Rs 4,334 crore) accounted for 17 per cent of total expenditure. Expenditure on General Education increased by Rs 378 crore (17 per cent) over previous year and increase was observed in its both revenue and capital components. The expenditure on Health and Family Welfare has shown an increase of Rs 63 crore (8.96 per cent) over previous year especially in its salary component with a decline in capital expenditure. There was also a

decrease of Rs 142 crore in 'Other Social Services' mainly due to reduction in expenditure under Social Welfare and Nutrition.

Recognizing the need to improve the quality of education and health services, TFC recommended that the non-plan salary expenditure under education and health and family welfare should increase only by five to six *per cent* while non-salary expenditure under non-plan heads should increase by 30 *per cent* per annum during the award period. Trends in expenditure (taking expenditure under both plan and non-plan heads) reveal that the salary component under education sector increased by nine *per cent* over 2006-07 while non-salary component increased by 51 *per cent*. Under Health and Family Welfare sector, both its salary and non-salary components increased by 10 *per cent* over the previous year. The expenditure pattern in health services needs correction in the ensuing years to achieve the conformity with the norms of the TFC.

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 7,045 crore) accounted for 28 *per cent* of the total expenditure (**Table 1.20**). Power and Energy consumed 41 *per cent* of Economic Services Expenditure.

Table-1.20: Expenditure on Economic Sector*(Rupees in crore)*

	2003-04	2004-05	2005-06	2006-07	2007-08
Agriculture, Allied Activities	468.10	492.54	497.79	508.78	667.14
Revenue Expenditure	433.72	471.68	487.32	473.72	662.15
<i>Of which</i>					
<i>(a) Salary Component</i>	255.67	270.54	290.62	298.80	325.63
<i>(b) Non-Salary component</i>	178.05	201.14	196.70	174.92	336.52
Capital Expenditure	34.38	20.86	10.47	35.06	4.99
Irrigation and Flood Control	572.76	676.21	898.58	877.90	978.34
Revenue Expenditure	491.12	470.88	594.16	519.43	567.67
<i>Of which</i>					
<i>(a) Salary Component</i>	364.34	392.45	427.94	424.11	491.94
<i>(b) Non-Salary component</i>	126.78	78.43	166.22	95.32	75.73
Capital Expenditure	81.64	205.33	304.42	358.47	410.67
Power and Energy	1712.39	2245.32	1596.59	1447.47	2895.20
Revenue Expenditure	1351.66	2172.94	1551.31	1427.47	2851.06
<i>Of which</i>					
<i>(a) Salary Component</i>	0.41	0.43	0.35	0.35	0.50
<i>(b) Non-Salary component</i>	1351.25	2172.51	1550.96	1427.12	2850.56
Capital Expenditure	360.73	72.38	45.28	20.00	44.14
Transport	469.41	576.13	725.23	967.76	1266.08
Revenue Expenditure	358.39	443.21	350.78	551.60	363.65
<i>Of which</i>					
<i>(a) Salary Component</i>	121.01	122.86	123.97	129.64	135.35
<i>(b) Non-Salary component</i>	237.38	320.35	226.81	421.96	228.30
Capital Expenditure	111.02	132.92	374.45	416.16	902.43
Other Economic Services	358.87	366.22	1078.57	2092.81	1238.12
Revenue Expenditure	304.51	178.97	730.49	800.66	1034.06
<i>Of which</i>					
<i>(a) Salary Component</i>	110.25	118.20	120.86	138.21	140.61
<i>(b) Non-Salary component</i>	194.26	60.77	609.63	662.45	893.45
Capital Expenditure	54.36	187.25	348.08	1292.15	204.06
Total (Economic Services)	3581.53	4356.42	4796.76	5894.72	7044.88
Revenue Expenditure	2939.40	3737.68	3714.06	3772.88	5478.59
<i>Of which</i>					
<i>(a) Salary Component</i>	851.68	904.48	963.74	991.11	1094.03
<i>(b) Non-Salary component</i>	2087.72	2833.20	2750.32	2781.77	4384.56
Capital Expenditure	642.13	618.74	1082.70	2121.84	1566.29

The expenditure on Economic Services has consistently increased at an annual average growth rate of 24 *per cent* from Rs 3,582 crore in 2003-04 to Rs 7,045 crore in 2007-08. Of the total increase of Rs 3,463 crore, the major share was incurred under the head Power and Energy (Rs 1,183 Crore) followed by 'Other General Economic Services' (Rs 879 crore), Transport Services (Rs 797 crore). The expenditure on agriculture and allied activities and irrigation and flood control which remained either almost stable or marginally declined during 2006-07 increased in 2007-08 and increases were observed in revenue expenditure in agriculture and allied activities while under irrigation and flood control increases were both in its revenue and capital components.

Of the total increase of Rs 1,603 crore in non-salary component in 2007-08 over the last year, Rs 1,423 crore was on account of subsidy given to Punjab State Electricity Board. The non-salary component of revenue expenditure under Transport, however, decreased by Rs 194 crore in 2007-08 over the previous year and the decrease (Rs 122 crore) was observed mainly under the Roads and Bridges-State Highways-Road Works. The capital expenditure on economic services has decreased during 2007-08 by Rs 556 crore over the previous year (Rs 2,122 crore) mainly on account of a sharp decrease of Rs 1,045 crore in plan capital expenditure under Punjab Nirman Programme and 'Formulation of District Plan at District Headquarters' booked under the Major Head 5475 'Capital outlay on Other General Economic Services'. An increase of Rs 486 crore on Capital expenditure under Transport in 2007-08 was mainly on account of an increase of Rs 304 crore on Civil Aviation (aerodromes).

1.5.4 Financial Assistance to local bodies and other institutions

The quantum of assistance provided by way of grants to local bodies and others during the five year period 2003-08 is presented in **Table 1.21**.

Table-1.21: Financial Assistance

(Rupees in crore)

	2003-04	2004-05	2005-06	2006-07	2007-08
Educational Institutions (Aided Schools, Aided Colleges, Universities, Service Provider E.T.T. teachers in rural areas, etc.)	193.88	245.81	230.33	195.88	454.93
Municipal Corporations and Municipalities	-	-	73.77	69.99	28.75
Zila Parishads and Other Panchayati Raj Institutions	-	-	-	162.15	145.11
Development Agencies	0.80	-	-	102.93	2.77
Hospital and Other Charitable Institutions	-	-	-	62.91	62.19
Other Institutions	21.27	106.18	91.14	0.01	-
Total	215.95	351.99	395.24	593.87	693.75
Assistance as per percentage of RE	1	2	2	3	3

The grants extended to 'Local Bodies and Other Institutions' consistently increased during the period 2003-08. The increase was of the order of Rs 100 crore (17 *per cent*) during the current year. Assistance to educational institutions increased from Rs 195.88 crore to Rs 454.93 crore, which included an increased assistance of Rs 64 crore to non-government colleges, Rs 50 crore to Universities and an assistance of Rs 121 crore to service providers to ETT teachers towards regular services in their pay scales in rural areas. The

grants to Municipal Corporations/Committees in 2006-07 included the assistance given in lieu of abolition of octroi in the State while in 2007-08 the assistance to them included only the devolution of share of taxes and duties as recommended by the Third Punjab Finance Commission (TPFC). In this context it is pertinent to mention that as per the statement made by the Finance Minister in his budget speech for the year 2007-08 the implementation of recommendations of the TPFC relating to transfer of resources from the State to Panchayati Raj Institutions (PRIs) and Urban Local Bodies (ULBs) involved funds to the tune of Rs 664 crore and added that the same would be transferred to PRIs and ULBs in 2007-08 for assisting them to improve their infrastructure and Civic Services in their areas. However, as per Finance Accounts, actual assistance of Rs 174 crore only was provided to these bodies during the year.

1.5.5 Delay in furnishing utilisation certificates

Against the grants of Rs 693.75 crore released during 2007-08, 225 utilisation certificates for Rs 122.03 crore were awaited. In addition 54 utilisation certificates were awaited for an amount of Rs 101.74 crore in respect of grants released up to 2006-07 which included two utilisation certificate Rs 3.08 crore up to 2001-02. Details of outstanding utilisation certificates are given in ***Appendix 1.7***.

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 Department 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 2008, departments of the Government have not furnished details for the year.

1.5.7 Position of Accounts/Audit of the autonomous bodies

The audit of accounts of autonomous bodies in the State has been entrusted to the Comptroller and Auditor General of India. The status of entrustment of audit, rendering of accounts for audit, issuance of Separate Audit Report and its placement in the Legislature is indicated in ***Appendix 1.8***.

1.5.8 Write off of losses, etc

As reported to Audit, losses due to death of animals, fire and irrecoverable advances, *etc* amounting to Rs 0.63 crore in 60 cases were written-off during 2007-08 by competent authorities. The relevant details are given in ***Appendix 1.9***.

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. **Appendix 1.2** gives an abstract of such liabilities and the assets as on 31 March 2008, compared with the corresponding position on 31 March 2007. While the liabilities consist mainly of internal borrowings, loans and advances from the GOI, receipts from the Public Account and Reserve Funds, the assets comprise mainly the capital outlay and loans and advances given by the State Government and cash balances. In real terms the assets grew by Rs 1,018 crore (4.26 per cent) and liabilities increased by Rs 4,841 crore (9.44 per cent) over previous year. Thus liabilities grew more than assets in the year. The assets on account of loan to Government servants (Rs 200.82 crore) include Rs 1.62 crore written off by the State Government in respect of deceased employees but amount not adjusted for want of proper sanction.

1.6.1 Financial Analysis of Government Investments

1.6.1.1 Financial Results of Irrigation Works

Statement 3 of Finance Accounts depicts the financial results of nine major irrigation projects with a capital expenditure of Rs 428.58 crore at the end of March 2008, which showed that revenue realised from these projects during 2007-08 (Rs 0.79 crore) was only 0.18 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 141.05 crore) and interest charges (Rs 21.22 crore), the schemes, however, suffered a net loss of Rs 161.48 crore.

1.6.1.2 Incomplete projects

The department-wise information pertaining to incomplete projects as on 31 March 2008 is given in the **Table 1.22**.

Table 1.22: Department-wise Profile of Incomplete Projects

(Rupees in crore)

Department	Number of Incomplete Projects	Initial Budgeted Cost	Revised Total Cost of Projects [#]	Cost Overruns	Cum. actual expenditure as on 31.3.2008
Irrigation	5	1892	3436	1544	947
B&R	6	15	7	-	9

[#] *In case of one out of five Irrigation projects and in five out of six B&R projects revised cost estimates is not available.*

In four irrigation projects where the costs have been revised, the revision resulted an increase from Rs 1,324 crore to Rs 1,945 crore (Shahpur Kandi Dam Project), Rs 176 crore to Rs 601 crore (SYL Canal Project), Rs 20.38 crore to Rs 32.70 crore (100 NABARD Aided Projects in Kandi Area) and Rs 366 crore to Rs 857 crore (Shri Dashmesh Irrigation Project). Shri Dashmesh Irrigation Project was pending for technical clearance, in case of SYL Canal project the work remained stand still due to water dispute with Haryana State. The expenditure of Rs 738 crore incurred on SYL Canal project has already exceeded even the revised cost (Rs 601 crore). In case of remaining two projects, work has been delayed due to either non-availability

of funds or shortage of engineering staff. In case of one B&R project to be completed by July 2007, the cost was revised from Rs 2.14 crore to Rs 6.72 crore and the revised administrative approval was given only in February 2008.

1.6.1.3 Departmental Commercial Undertakings

Activities of quasi-commercial nature are performed by departmental undertakings of certain Government departments. These undertakings are required to prepare annual Proforma Accounts in prescribed format showing the results of financial operations so that Government can assess the results of their working. Punjab Roadways (Transport Department) had not finalised its annual accounts for the year 1999-2000 and onwards. Investment as per 1998-99 accounts was Rs 41.98 crore.

1.6.1.4 Investments and returns

As of 31 March 2008, Government had invested Rs 3,836 crore in Statutory Corporations (Rs 3,187.13 crore), Government Companies (Rs 428.67 crore), Rural Banks, Joint Stock Companies (Rs 1.39 crore) and Co-operatives (Rs 218.46 crore) (**Table 1.23**). The return on this investment was 0.01 *per cent* to 0.08 *per cent* during 2002-08 while the Government paid interest at the average rate of 7.52 *per cent* to 9.51 *per cent* on its borrowings during 2002-08.

Table-1.23: Return on Investments

(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Investments	2352.28	2359.00	3544.81	3718.60	3761.74	3835.65
Return	0.91	1.82	0.59	1.07	1.96	0.40
<i>Per cent</i> of Return	0.04	0.08	0.02	0.03	0.05	0.01
Average interest rate ³	9.51	9.11	8.79	7.52	8.11	8.46
Difference in <i>per cent</i>	9.47	9.03	8.77	7.49	8.06	8.45

Within the group of statutory corporations/boards, 99 *per cent* of State Government's investment is made in four corporations, i.e. Punjab State Electricity Board (Rs 3,010 crore including that Rs 44 crore made in the current year), Pepsu Road Transport Corporation (PRTC) (Rs 87 crore), Punjab Financial Corporation (Rs 29 crore) and Punjab Scheduled Castes Land Development and Finance Corporation (Rs 36 crore). Out of these four major Statutory Corporations involving, first three corporations are incurring losses and their accumulated loss amounted to Rs 6,578 crore (up to the year 2006-07 for which their accounts are finalised) of which losses amounting to Rs 5,981 crore (91 *per cent*) pertain to PSEB alone. The Punjab Scheduled Castes Land Development and Finance Corporation however earned the profit of Rs 18 crore up to 2005-06 for which their accounts are finalised. The investment of Rs 429 crore of State Government was made in 23 Government

³ Interest payment/(opening and closing balances of fiscal liabilities/2) x 100.

Companies, of which only two companies declared dividend aggregating to Rs 0.17 crore.

1.6.1.5 Loans and advances by State Government

In addition to investment in Co-operative societies, Corporations and Companies, Government has also been providing loans and advances to a number of its institutions/organisations. Total outstanding loans and advances as on 31 March 2008 were Rs 4,123 crore (**Table 1.24**). Interest received against these loans advanced was Rs 230 crore (4.76 per cent) during 2007-08 as against Rs 526 crore (9.55 per cent) in previous year.

Table-1.24: Average Interest Received on Loans Advanced by the State Government
(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Opening Balance	5150	5386	5718	5681	5464	5533
Proforma Adjustment	-	-	-	(-) 114	20	-
Amount advanced during the year	339	757	97	34	444	35
Amount repaid during the year	103	105	134	137	395	1445
Closing Balance	5386	6038	5681	5464	5533	4123
Net addition	236	652	(-) 37	(-) 103	49	(-) 1410
Interest Received	817	1368	1863	504	526	230
Interest received as per cent to outstanding Loans and advances	15.51	23.95	32.69	9.14	9.55	4.76
Average interest rate (in per cent)	9.51	9.11	8.79	7.52	8.11	8.46
Difference between interest paid and received (per cent)	(+) 6.00	(+) 14.84	(+) 23.90	(+) 1.62	(+) 1.44	(-) 3.70

The Loans and Advances at the close of the year declined from Rs 6,038 crore (2003-04) to Rs 4,123 crore (2007-08). Sector wise breakup of Loans and Advances of Rs 34.85 crore disbursed during the year reveals that Rs 10.22 crore were advanced to economic sectors (Rs 6.70 crore to Cooperative Sugar Mills, Rs 3.52 crore for Micro Irrigation) and remaining Rs 24.63 crore (71 per cent) to Government Servants. While the recoverable amount of loans and advances at the end of March 2008 decreased by 25 per cent, the decrease in interest received during the current year was 56 per cent (Rs 296 crore) over the last year and was mainly attributable to decrease of Rs 273 crore relating to loans to Electricity Boards-Other Loans.

Against loans to municipal corporations and municipalities, etc., the detailed accounts of which are maintained by the Accountant General (A&E), recovery of Rs 103.35 crore (including Rs 20.22 crore as interest) was overdue at the end of 2007-08 as shown in **Table 1.25**:

Table-1.25: Loan advanced to Local Bodies*(Rupees in crore)*

Borrower/Purpose of loans	Earliest year from which in default	Amount overdue on 31 March 2008	
		Principal	Interest
A Municipal Corporations, Municipalities and other Local Funds			
a) Sanitation Schemes	1996-97	0.19	0.17
b) Sewerage Schemes	1991-92	0.35	0.50
c) Water Supply Schemes	1993-94	13.64	18.42
d) Integrated Urban development Programmes	2006-07	1.04	0.09
e) Other purposes	2006-07	66.16	0.60
f) Local Bodies of erstwhile PEPSU	1997-98	0.35	0.31
g) Slum Clearance	2006-07	1.40	0.13
B Loans to Rulers of Erstwhile States	1993-94	-(*) ⁴	-(*)
Total		83.13	20.22

Reasons for non-repayment of these outstanding amounts have not been furnished by the concerned government departments.

1.6.2 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. The Government obtained ways and means advances for Rs 388.43 crore during the current year. Ways and Means Advances and Overdrafts availed, the number of occasions it was availed and interest paid by the State during 2002-08 is detailed in **Table 1.26**. The State Government's cash balances at the close of the current year amounted to Rs 1,101.28 crore. The major portion of which Rs 722.67 crore is invested in Treasury Bills and Rs 101.98 crore in Securities of the Government of India and earned an interest of Rs 15.84 crore during the year.

⁴ * = Figures less than one lakh.

Table 1.26: Ways and Means and overdrafts of the State and interest paid thereon

(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Ways and Means Advances						
Availed in the Year	3127.90	2773.84	3065.82	269.17	-	388.43
Number of Occasions	87	81	90	18	-	40
Outstanding WMAs, if any	185.79	261.83	283.90	-	-	-
Interest Paid	9.45	12.29	9.69	2.99	-	0.58
Number of Days	189	158	156	22	-	40
Overdraft						
Availed in the year	640.74	1811.06	1316.70	-	-	-
Number of Occasions	34	69	56	-	-	-
Number of Days	53	134	117	-	-	-
Interest Paid	1.43	1.84	2.04	-	-	-

1.7 Un-discharged Liabilities

As per Punjab FRBM Act 2003, “total liabilities” means the liabilities under the Consolidated Fund of the State and the Public Account of the State referred to in Article 266 of the Constitution of India.

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 Accounts. It includes market loans, special securities issued by RBI and loans and advances from the Central Government. The Constitution of India provides that a State may borrow, within the territory of India, upon the security of its Consolidated Fund, within such limits, as may from time to time, be fixed by 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. **Table-1.27** 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-1.27: Fiscal Liabilities – Basic Parameters*(Rupees in crore)*

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Fiscal Liabilities ⁵	38315	43197	47403	51364	51035	55982
Rate of Growth (<i>per cent</i>)	12.95	12.74	9.74	8.36	(-) 0.64	9.69
Ratio of Fiscal Liabilities to						
GSDP (<i>per cent</i>)	46.53	48.09	48.64	46.81	41.36	40.72
Revenue Receipts (<i>per cent</i>)	346.08	355.85	343.33	302.75	248.14	291.00
Own Resources (<i>per cent</i>)	393.1	399.53	385.30	379.77	304.47	369.44
Buoyancy of Fiscal Liabilities to						
GSDP (ratio)	3.90	1.40	1.15	0.66	(-)0.05	0.85
Revenue Receipts (ratio)	0.54	1.32	0.71	0.37	(-)0.03	(-)1.50
Own Resources (ratio)	0.51	1.17	0.71	0.84	(-)0.03	(-) 1.01

Overall fiscal liabilities of the State increased from Rs 38,315 crore in 2002-03 to Rs 55,982 crore in 2007-08. Fiscal Liabilities of the State comprised Consolidated Fund liabilities and Public Account liabilities. The Consolidated Fund liability (Rs 44,310 crore) comprised of market loan (Internal debt) (Rs 41,025 crore) and loan from Government of India (Rs 3,285 crore). The Public Account liabilities (Rs 11,672 crore) comprise of Small Savings, Provident Fund (Rs 8,370 crore), interest bearing obligation (Rs 2,046 crore) and non-interest obligation like deposits and other earmarked funds (Rs 1,256 crore). The fiscal liabilities of the State have increased by Rs 4,947 crore during 2007-08 over the previous year mainly due to increase of Rs 3,872 crore (10 *per cent*) in market loan. However, the ratio of fiscal liabilities of GSDP at 41 *per cent* in 2007-08 seems to be on the higher side in view of the target of bringing the ratio of total liabilities to GSDP to 28 *per cent* by 2009-10 as prescribed in the Punjab FRBM Act 2003 as amended in 2005. These liabilities stood at 2.91 times of revenue receipts and 3.69 times of the State's own resources as at the end of 2007-08. The buoyancy of these liabilities with respect to GSDP during the year was 0.85.

1.7.1.1 Arrangements for amortization

Government has constituted a Sinking Fund for loans raised by it in the open market. This *Fund* consists of two components i.e. Sinking Fund (depreciation) and Sinking Fund (Amortisation). The rate of contribution to these two components of sinking fund was prescribed by the State Government as under:

- (a) **Sinking Fund (Depreciation)**-A sum not exceeding 1.5 *per cent* of the total amount of loans could, if necessary, be set apart from the revenue each year to a depreciation Fund for purchasing securities of the loans for cancellation.

⁵ Includes internal debt (market loans, loans from NSSF and loans from other financial institutions), loans and advances from GOI, the liabilities arising from the transactions in the Public Account of the State.

- (b) **Sinking Fund (Amortization)**-In addition to the annual contribution to the respective depreciation Fund, annual contributions are to be made to Sinking Funds from revenues for amortization of loans at such rates as Government may decide from time to time.

While in its budget for 2008-09, the Government mentioned having made investment of Rs 10 Crore in Sinking Fund during 2007-08, the Finance Accounts revealed that no contribution was, however, made during 2007-08 and there were no balances in these two components of the sinking fund at the commencement and at the end of 2007-08. It implies that Government has not operationalized the sinking fund so far despite the specific recommendations of the TFC in this regard.

1.7.2 Status of Guarantees – Contingent liabilities

Guarantees are contingent liabilities on the Consolidated Fund of the State in case of default by the borrower for whom the guarantee has been extended. As per 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 2002-03 is given in **Table 1.28**.

Punjab FRBM Act, 2003, as amended in 2005, provides that the State Government shall cap outstanding guarantees on long-term debt to 80 *per cent* of revenue receipts of the previous year, guarantees on short-term debt to be given only for working capital or food credit in which case this must be fully backed by physical stock. According to the information furnished by concerned authorities, the Government of Punjab had given guarantees during the period 2002-08 for repayment of loans etc. raised by statutory corporations/boards, local bodies, co-operative banks and societies and others as tabled below in **Table 1.28**.

Table-1.28: Guarantees given by the Government of Punjab

(Rupees in crore)

Year	Maximum amount guaranteed	Outstanding amount of guarantees			Revenue Receipts	Maximum amount guaranteed to total revenue receipt (percentage)
		Principal	Interest	Total		
2002-03	17720	13255	479	13734	11071	160
2003-04	22951	12149	93	12242	12139	189
2004-05	23420	8781	104	8885	13807	170
2005-06	22086	8819	32	8851	16966	130
2006-07	25697	13860	59	13919	20567	125
2007-08	26094	10991	23	11014	19238	136

The amount of outstanding guarantees (Rs 11,014 crore) as of March 2008 was 54 *per cent* of the revenue receipts of the previous year (2006-07) which was within the limit of 80 *per cent* as prescribed in Punjab FRBM Act 2003 as amended. In consideration of the guarantees given by the Government, the Government charges guarantee fee from the loanee institutions at the following rates :(i) Guarantees given up to 14 November 1983: 0.50 *per cent* on the total amount of guarantee given by the government during the year and (ii) Guarantees given on or after 15 November 1983: In respect of first year

0.50 per cent for the period up to 31 March before the issue of orders in lump. For subsequent three years at 0.50 per cent annually in respect of the amount outstanding as on 1st April of the succeeding financial year. In case period of guarantee exceeds four years no guarantee fee is recovered for the remaining period. Presently the State Government is charging guarantee fee ranging between zero to two per cent. The total amount of guarantee fee received increased from Rs 12.02 crore to Rs 49.93 crore. Information regarding the guarantee fee in arrear and guarantee fee waived off was not furnished (June 2008).

While in its budget for 2008-09, the Government mentioned having made investment of Rs 12 crore in Guarantee Redemption Fund during the year 2007-08, the Finance Accounts revealed that the Government has not set up a Guarantee Redemption Fund (GRF) so far despite the recommendations of TFC. It was observed that the record of payment of guarantee fee to the Government in accordance with rate as laid down in the sanction by the competent authority by corporation/body is not maintained transparently by the Government. Thus it is not possible to track the records of guarantee fee etc. received by the State Government and it is difficult to verify the correctness of the figures of the receipts on account of guarantees. This reflects the lack of effective control and monitoring of the guarantees given by the State Government.

1.8 Debt Sustainability

The debt sustainability is defined as the ability of the State to maintain a constant debt-GDP ratio over a period of time and also embodies the concern about the ability to service its debt. Sustainability of debt therefore also refers to sufficiency of liquid assets to meet current or committed obligations and the capacity to keep balance between costs of additional borrowings with returns from such borrowings. It means that rise in fiscal deficit should match with the increase in capacity to service the debt. A pre-condition for debt sustainability is the debt stabilisation in terms of debt/GSDP ratio.

1.8.1 Debt Stabilisation

A necessary condition for stability is 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 stabilization are indicated in **Table 1.29**.

Table 1.29: Debt Sustainability- Interest Rate and GSDP Growth

(in per cent)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Average Interest Rate	9.51	9.11	8.79	7.52	8.11	8.46
GSDP Growth	3.32	9.08	8.50	12.60	12.45	11.42
Interest spread	(-)6.19	(-)0.03	(-)0.29	(+)5.08	(+)4.34	(+)2.96
Quantum spread (Rs in crore)	(-)2100	(-)11	(-)125	(+)2408	(+)2229	(+)1511
Primary deficit (-)/ Surplus (+)	(-)976	(-)1168	(-)134	(+)1061	(+)3540	(-)76.95

Table 1.29 reveals that quantum spread together with primary deficit has been consistently negative during 2002-05 and 2007-08 indicating rising debt-GSDP ratio during the period. Debt- GSDP has increased steadily from 46.53 per cent in 2002-03 to 48.64 per cent in 2004-05 (**Table 1.27**). The sum of quantum spread and primary deficit has turned into positive since 2005-06 reflecting the decreasing tendency of debt-GSDP ratio.

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 1.30** indicates the resource gap as defined for the period 2002-08.

Table 1.30: Incremental revenue receipts and Revenue Expenditure

(Rupees in crore)

Period	Incremental				Resource Gap
	Non-Debt Receipts	Primary Expenditure	Interest Payments	Total Expenditure	
2002-03	1373	568	256	824	(+)549
2003-04	1070	1262	278	1540	(-)470
2004-05	1697	663	269	932	(+)765
2005-06	3162	1967	(-)266	1701	(+)1461
2006-07	3859	1380	437	1817	(+)2042
2007-08	(-) 278	3339	375	3714	(-) 3992

The negative resource gap indicates the non-sustainability of debt while the positive resource gap indicates the capacity to sustain the debt. The positive resource gap between incremental non-debt receipts and the corresponding incremental total expenditure of the State during 2004-07 indicates enhancement in the capacity of the State to sustain the higher level of debt. The huge negative resource gap appeared in 2007-08 and if it persists in ensuing years, the state's capacity to sustain the additional debt liabilities would tend to deteriorate.

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 used for financing revenue expenditure; and (b) 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 1.31 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 five years.

Table-1.31: Net Availability of Borrowed Funds*(Rupees in crore)*

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Internal Debt						
Receipt	5827	6795	5813	4837	4254	5621
Repayment (Principal + Interest)	2365	2269	3054	3610	4308	1781
Net Fund Available	3462	4526	2759	1227	(-) 54	3840
Net Fund Available (<i>per cent</i>)	59.4	66.61	47.46	25.37	(-) 1.27	68.32
Loans and Advances from GOI						
Receipt	419	542	548	24	21	430
Repayment (Principal + Interest)	2623	3944	3051	503	4269	615
Net Fund Available	(-) 2204	(-) 3402	(-) 2503	(-) 479	(-) 4248	(-)185
Net Fund Available (<i>per cent</i>)	(-) 526.01	(-) 627.68	(-) 456.75	(-) 1996	(-) 20229	(-)43
Other Obligations						
Receipt	2594	2585	3462	3337	4198	5121
Repayment (Principal + Interest)	2507	2170	2665	3360	4134	4966
Net Fund Available	87	415	797	(-) 23	64	155
Net Fund Available (<i>per cent</i>)	3.35	16.05	23.02	(-) 0.69	1.52	3.03
Total Liabilities						
Receipt	8840	9922	9823	8198	8473	11172
Repayment (Principal + Interest)	7495	8383	8770	7473	12711	7362
Net Fund Available	1345	1539	1053	725	(-) 4238	3810
Net Fund Available (<i>per cent</i>)	15.21	15.51	10.71	8.84	(-) 50.01	34.10

The net funds available on account of the internal debt and loans and advances from GOI and other obligations after providing for the interest and repayments of the principal increased from (-) 50 *per cent* in 2006-07 to 34.10 *per cent* in 2007-08 indicating less payments over the receipts during the year. The State Government raised the internal debt amounting to Rs 5621 crore comprising of market loans (Rs 4,121 crore), securities issued to NSSF (Rs 729 crore), Ways and Means Advances from RBI (Rs 388 crore) and NABARD (Rs 383 crore). Against these receipts, Government discharged the past debt

obligations (principal + interest) amounting to Rs 1,781 crore resulting in net funds to the extent of 68 *per cent* of debt receipts available under the internal debt account. During the current year the Government repaid GOI loans including interests amounting to Rs 615 crore against the receipts of Rs 430 crore and also discharged other obligations of Rs 4,966 crore along with interest obligations against the receipts of Rs 5,121 crore. These transactions resulted in total net availability of funds of Rs 3,810 crore during the year. The expenditure pattern of the State during the current year indicates that borrowed funds are used for financing the revenue expenditure.

1.9 Management of 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 and applied are important pointers to its fiscal health.

1.9.1 Trends in Deficits

The revenue deficit of the State which indicates the excess of its revenue expenditure over revenue receipts decreased from the deficit of Rs 3,754 crore in 2002-03 to Rs 1,241 crore in 2005-06 and turned into a surplus of Rs 2,023 crore in 2006-07. The revenue account however again turned into a huge deficit of Rs 3,823 crore during 2007-08 due to decline in revenue receipts by Rs 1,329 crore (6.46 *per cent*) and increase in revenue expenditure by Rs 4,517 crore (24 *per cent*) over the previous year. In fact, revenue surplus in 2006-07 was possible mainly on account of inclusion of a credit entry of Rs 3,772 crore (principal amount) in 2006-07 due to one time waiver of special term loans granted by Government of India which disappeared during current year resulting in deteriorating fiscal position of the State.

Table-1.32: Fiscal Imbalances: Basic Parameters

(Rupees in crore)

Parameters	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Revenue deficit (-) / Revenue Surplus(+)	(-)3754	(-)3563	(-)3391	(-)1241	(+) 2023	(-)3823
Fiscal deficit(-)/ Fiscal Surplus(+)	(-)4410	(-)4880	(-)4115	(-)2654	(-)612	(-)4604
Primary deficit (-)/ Primary Surplus(+)	(-) 976	(-)1168	(-)134	(+)1061	(+)3540	(-)77
RD/GSDP (<i>per cent</i>)	(-)4.56	(-)3.97	(-)3.48	(-)1.13	(+) 1.64	(-)2.78
FD/GSDP (<i>per cent</i>)	(-)17.5	(-)5.43	(-)4.22	(-)2.42	(-)0.50	(-)3.35
PD/GSDP (<i>per cent</i>)	(-)1.19	(-)1.30	(-)0.13	(-)0.97	(+)2.87	(-)0.06
RD/FD (<i>per cent</i>)	85.12	73.01	82.41	46.76	*	83.04

* There was a surplus of Rs 2,023 crore in revenue account during 2006-07.

The fiscal deficit, which represents the total borrowing of the Government and its total resource gap, also increased from Rs 4,410 crore in 2002-03 to Rs 4,604 crore in 2007-08 with wide inter-year variations.

The primary deficit of the State with inter year variations till 2004-05 turned into surplus of Rs 1,061 crore in 2005-06 and Rs 3,540 crore in 2006-07. The huge fiscal deficit in 2007-08 turned the primary surplus of Rs 3,540 crore in 2006-07 into a primary deficit of Rs 77 crore despite the increase of Rs 375 crore in interest payments during the current year.

1.9.2 Quality of Deficit/Surplus

The ratio of RD to FD and the decomposition of Primary deficit into primary revenue deficit⁶ 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 which fluctuated during the period 2002-05 was reduced very steeply to 46.76 during 2005-06 and RD was wiped out and turned into surplus during 2006-07. Due to huge revenue deficit of Rs 3,823 crore in 2007-08, the ratio again rose steeply to 83.04 in the current year indicating deterioration in quality of deficit in state finances.

The bifurcation of the factors resulting into primary deficit or surplus of the State during the period 2002-08 reveals (**Table 1.33**) that except in 2002-03, the primary deficit during this period was on account of capital expenditure incurred and loans and advances disbursed by the State Government. In other words, non-debt receipts of the State were enough to meet the primary expenditure⁷ requirements in the revenue account, rather left some receipts to meet the expenditure under the capital account and loans and advances except in 2002-03. But the surplus non-debt receipts were not enough to meet the expenditure requirements under capital account resulting in primary deficit during 2002-05 and 2007-08. 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 1.33: Primary deficit / surplus - Bifurcation of factors

(Rupees in crore)

Year	Non-debt receipts	Primary revenue expenditure	Capital expenditure including Loans and Advances	Primary revenue deficit (-) / surplus (+)	Primary deficit (-) / surplus (+)
1	2	3	4	5	6
2002-03	11174	11391	759	(-)217	(-)976
2003-04	12244	11990	1422	(+)254	(-)1168
2004-05	13941	13217	858	(+)724	(-)134
2005-06	17103	14492	1550	(+)2611	(+)1061
2006-07	20962	14392	3030	(+)6570	(+)3540
2007-08	20684	18534	2227	(+)2150	(-)77

⁶ Primary revenue deficit is 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.

⁷ 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.

1.10 Fiscal Ratios

The finances of a State should be sustainable, flexible and non-vulnerable. **Table-1.34** presents a summarised position of Government finances over 2002-08, 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-1.34: Indicators of Fiscal Health

(in per cent)

Fiscal Indicators	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
1	2	3	4	5	6	7
I Resource Mobilization						
Revenue Receipt/GSDP	13.45	13.52	14.17	15.46	16.67	13.99
Revenue Buoyancy	6.47	1.11	1.83	2.72	2.33	(-)6.46
Own Tax/GSDP	6.94	6.84	7.13	8.19	7.31	7.20
II Expenditure Management						
Total Expenditure/GSDP	18.93	19.07	18.53	18.00	17.48	18.39
Total Expenditure/Revenue Receipts	140.76	141.07	130.77	116.45	104.90	131.45
Revenue Expenditure/Total Expenditure	95.13	91.70	95.25	92.15	85.96	91.19
Salary & Wage expenditure on Social and Economic Services / Revenue Expenditure	20.17	20.89	20.12	20.07	20.64	18.18
Non-Salary & Wage expenditure on Social and Economic Services / Revenue Expenditure	17.14	19.28	22.17	20.11	21.84	24.37
Capital Expenditure/Total Expenditure	2.69	3.89	4.21	7.68	11.99	8.66
Capital Expenditure on Social and Economic Services/Total Expenditure.	2.57	3.78	3.94	7.22	11.55	8.13
Buoyancy of TE with RR	0.23	1.02	0.40	0.41	0.43	(-)2.66
Buoyancy of RE with RR	0.69	0.61	0.69	0.26	0.09	(-)3.77
III Management of Fiscal Imbalances						
Revenue deficit (-)/Revenue Surplus(+)	(-)3754	(-)3563	(-)3391	(-)1241	(+) 2023	(-)3823
Fiscal deficit (-)/Fiscal Surplus(+)	(-)4410	(-)4880	(-)4115	(-)2654	(-)612	(-)4604
Primary Deficit (-)/Primary Surplus(+)	(-) 976	(-) 1168	(-) 134	(+)1061	(+) 3540	(-)77
Revenue Deficit/Fiscal Deficit	85.12	73.01	82.41	46.76	(-)330.56	83.04
IV Management of Fiscal Liabilities						
Fiscal Liabilities/GSDP	46.53	48.09	48.64	46.81	41.36	40.73
Fiscal Liabilities/RR	346.08	355.85	343.33	302.75	248.14	291.00
Buoyancy of FL with RR	0.54	1.32	0.71	0.37	(-) 0.03	(-)1.50
Buoyancy of FL with Own Receipt	0.51	1.17	0.71	0.84	(-) 0.03	(-)1.01
Primary deficit vis-à-vis quantum spread	(-)46.48	(-)10618.18	(-)107.20	44.06	(-)158.82	(-)5.09
Net Funds Available	15.21	15.51	10.71	8.84	(-) 50.01	34.10
V Other Fiscal Health Indicators						
Return on Investment	0.04	0.08	0.02	0.03	0.05	0.01
Balance from Current Revenue (Rs in crore)	(-) 3415	(-) 3387	(-) 3341	(-) 790	2252	(-)3656
Financial Assets/Liabilities	45.03	42.97	40.89	43.01	46.59	44.38

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 14 *per cent*, a decrease of three percentage points over previous year. The ratio of own taxes to GSDP showed inter-year variations during 2002-08 indicating a decline of 0.09 percentage points in the current year over the previous year. This fall in State's tax GSDP ratio was mainly because of the fact that the revenue from State's own taxes grew by 9.78 *per cent* (Rs 882 crore) over the previous year and non-tax revenue decreased by 32.16 *per cent* (Rs 2,490.61 crore) giving overall decrease of 6.46 *per cent* as against the increase of 11.18 *per cent* in GSDP during 2007-08.

Various ratios concerning the expenditure management of the State indicate quality of its expenditure and sustainability of these in relation to its resource mobilization efforts. The revenue expenditure as a percentage to total expenditure remained dominant and varied within the narrow range of 86-95 *per cent* during 2002-08. Although ratio of capital expenditure to total expenditure remained relatively lower during 2002-05 but it picked up steeply in 2005-06 and 2006-07 and declined by 3.33 *percentage points* in 2007-08. Relative to GSDP, the ratio of capital expenditure was only 1.59 in 2007-08 which is far below the target of three *per cent* recommended by TFC to be achieved by all States by 2009-10.

The fiscal position of the state viewed in terms of fiscal indicators has deteriorated during the current year as there is a sharp decrease in Balance from Current Revenue (BCR) from to a surplus of Rs 2,252 crore during 2006-07 to a deficit of Rs 3,656 crore in 2007-08 accompanied with worsening deficit indicators. This is also reflected in the assets losing to financial liabilities of the State by more than two percentage points in the current year.

1.11 Conclusion

The fiscal position of the State viewed in terms of the trends in key fiscal parameters—revenue, fiscal and primary deficit/surplus—indicates market deterioration in 2007-08 over the previous year. The worsening fiscal position was observed mainly on account of a decline in revenue receipts by Rs 1,329 crore (6.46 *per cent*) and increase in revenue expenditure by Rs 4,517 crore (24 *per cent*) in 2007-08 over the previous year. In fact, a favorable fiscal position in 2006-07 was mainly on account of inclusion of a credit entry of Rs 3,772 crore (principal amount) in 2006-07 due to one time waiver of special term loans granted by Government of India which disappeared during current year resulting in deteriorating fiscal position of the State. The expenditure pattern of the State reveals that the revenue expenditure continued to constitute the dominant share (91 *per cent*) in total expenditure during 2007-08 as a result of which 56 *per cent* of fiscal liabilities of the State were still without the asset backup during the year. Moreover, its NPRE component at Rs 21,897 crore in 2007-08 remained significantly higher than the

normative assessment of Rs 15,082 crore made by TFC for the year. Further salaries, pension liabilities, interest payments and subsidies – constitute about 74 *per cent* of the NPRE during 2007-08. The capital expenditure not only declined by Rs 395 crore in 2007-08 from the level of Rs 2,586 crore in previous year but relative to GSDP it remained at 1.59 *per cent* far below the target of three *per cent* recommended by TFC to be achieved by all States by 2009-10. The fiscal liabilities relative to GSDP at 41 *per cent* in 2007-08 appears to be on the higher side especially in view of the target laid down in Punjab FRBM Act 2003 as amended in 2005 to contain the ratio of total liabilities to GSDP to 28 *per cent* by 2009-10.