

## 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 2006-07 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 2006-07**

*(Rupees in crore)*

2005-06	Receipts	2006-07	2005-06	Disbursements	2006-07		
Section-A: Revenue					Non-Plan	Plan	Total
<b>16966.48</b>	<b>Revenue receipts</b>	<b>20567.14</b>	<b>18206.73</b>	<b>Revenue expenditure</b>	<b>17563.23</b>	<b>980.55</b>	<b>18543.78</b>
8989.28	Tax revenue	9017.16	10516.25	General services	10335.03	3.61	10338.64
4536.33	Non-tax revenue	7744.58	3602.40	Social services	3868.70	235.02	4103.72
1227.55	Share of Union Taxes/Duties	1565.75	3714.06	Economic services	3064.45	708.42	3772.87
2213.32	Grants from Government of India	2239.65	374.02	Grants-in-aid and Contributions	295.05	33.50	328.55
Section-B: Capital							
-	Misc Capital Receipts	-	<b>1516.89</b>	Capital Outlay	226.10	2360.08	<b>2586.18</b>
<b>136.70</b>	Recoveries of Loans and Advances	<b>395.45</b>	<b>33.48</b>	Loans and Advances disbursed			<b>444.16</b>
<b>4577.93</b>	Public debt receipts*	<b>4274.99</b>	<b>1111.35</b>	Repayment of Public Debt*			<b>5170.55</b>
-	Contingency Fund	-	-	Contingency Fund			-
<b>15648.34</b>	Public Account receipts	<b>18356.90</b>	<b>15154.28</b>	Public Account disbursements			<b>17791.59</b>
<b>460.93</b>	Opening Cash Balance	<b>1767.65</b>	<b>1767.65</b>	Closing Cash Balance			<b>825.87</b>
<b>37790.38</b>	<b>Total</b>	<b>45362.13</b>	<b>37790.38</b>	<b>Total</b>			<b>45362.13</b>

\* Excluding Ways and Means Advances and Overdraft

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

- Revenue receipts increased by Rs 3,601 crore from Rs 16,966 crore in 2005-06 to Rs 20,567 crore in the current year mainly on account of increase in non-tax revenue (Rs 3,208 crore) and share of Union taxes and duties (Rs 338 crore). The increase in non-tax revenue was outcome of two credit entries of Rs 3,772 crore (principal amount) on account of waiver of special term loans granted by GOI and debt relief of Rs 131 crore received by the State as an incentive under Debt Consolidation and Relief Facility<sup>1</sup> (DCRF).
- The total expenditure of the State has increased by Rs 1,817 crore during 2006-07 over the previous year of which capital expenditure contributed Rs 1,069 crore (59 per cent), revenue expenditure shared Rs 337 crore (18 per cent) and the remaining Rs 411 crore (23 per cent) were due to increase in disbursement of loans and advances during the year.
- The recovery of loans and advances exhibited the sharp increase to Rs 395 crore from the level of Rs 137 crore in the previous year. This increase was on account of a recovery of Rs 300 crore shown under the Finance Accounts from Punjab State Electricity Board for transmission schemes. However, the amount of Rs 300 crore was also indicated as loans advanced during the year to PSEB.
- Repayment of public debt increased by Rs 4,059 crore mainly due to repayment of Block Loans (Rs 3,469 crore) to Government of India under loans for State Plan Schemes while the public debt receipts were reduced by Rs 303 crore.
- The Public Account receipts has increased by Rs 2,709 crore in 2006-07 over the previous year as against the increase in payments of Rs 2,637 crore during the year.
- The net impact of the above fiscal transactions of the State was reflected in terms of a decline of Rs 942 crore in its cash balances as on 31 March 2007 from the level of opening balance of Rs 1,768 crore in the beginning of the current year.

### ***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.**

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

Table 1.2

(Rupees in crore)

2005-06	Sr.No	Major Aggregates	2006-07
<b>16966</b>	<b>1.</b>	<b>Revenue Receipts (2+3+4)</b>	<b>20567</b>
8989	2.	Tax Revenue (Net)	9017
4536	3.	Non-Tax Revenue	7744
3441	4.	Other Receipts	3806
<b>137</b>	<b>5.</b>	<b>Non-Debt Capital Receipts</b>	<b>395</b>
137	6.	<i>Of which</i> Recovery of Loans	395
<b>17103</b>	<b>7.</b>	<b>Total Receipts (1+5)</b>	<b>20962</b>
<b>17483</b>	<b>8.</b>	<b>Non-Plan Expenditure</b>	<b>18233</b>
17246	9.	On Revenue Account	17563
3715	10.	<i>Of which</i> Interest Payments	4152
237	11.	On Capital Account	670
33	12.	Of which Loans Disbursed	444
<b>2274</b>	<b>13.</b>	<b>Plan Expenditure</b>	<b>3341</b>
961	14.	On Revenue Account	981
1313	15.	On Capital Account	2360
-	16.	Of which Loans Disbursed	-
<b>19757</b>	<b>17.</b>	<b>Total Expenditure (13+8)</b>	<b>21574</b>
(-)1241	18.	Revenue Deficit (-)/Surplus (+)[(1) – (9+14)]	(+)2023
(-)2654	19.	Fiscal Deficit (-)/Surplus (+) [(1+5) – 17]	(-)612
(+)1061	20.	Primary Deficit (-)/Surplus (+) (19-10)	(+)3540

**Table-1.2** shows that revenue receipts increased by Rs 3,601 crore (21 per cent) during 2006-07 while revenue expenditure increased by Rs 337 crore (2 per cent) over the previous year resulting in a surplus of Rs 3,264 crore during the current year. The huge surplus in revenue account during the current year turned the deficit of Rs 1,241 crore in the previous year into a net surplus of Rs 2,023 crore during 2006-07. The surplus of Rs 3,264 crore in revenue account in 2006-07 along with an increase of Rs 258 crore under non-debt capital receipts accompanied with an increase of Rs 1,480 crore in capital expenditure and disbursement of loans and advances resulted in steep decline of Rs 2,042 crore in fiscal deficit during 2006-07 from Rs 2,654 crore in 2005-06.

## 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 analyzed 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 FR Acts/Rules during medium to long run. The norms/ceilings prescribed by the TFC as well as its projections for fiscal aggregates along with the commitments/projections made by the State Governments in their Fiscal Responsibility Acts and in other Statements required to be laid in the legislature under the Act 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)<sup>2</sup> 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**) as published by the Office of the Economic Adviser to the Government of Punjab have been used in estimating these percentages and buoyancy ratios.

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

Estimates	2002-03	2003-04	2004-05	2005-06	2006-07
Gross State Domestic Product (GSDP) (Rs in crore)	82648	89838	96592 (P)	104705 (Q)	114237 (A)
Rates of Growth GSDP ( <i>per cent</i> )	3.71	8.70	7.52	8.40	9.10

Source: Office of the Economic Adviser to the Government of Punjab, Chandigarh

Note: Figures for 2004-05, 2005-06 and 2006-07 are provisional, quick and advance estimates respectively.

The key fiscal aggregates for the purpose are grouped under four major heads: (i) Trends and composition of aggregate receipts, (ii) Application of Resources, (iii) Assets and Liabilities, and (iv) Management of Deficits (**Appendix 1.3 to 1.6**). 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 Fiscal Responsibility and Budget Management (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 2009-10;

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<sup>2</sup> GSDP is defined as the total income of the State or the market value of goods and services produced using labor 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 eighty *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 Fiscal Responsibility and Budget Management Act 2003 as amended in 2005, the State Government is required to lay the Medium Term Fiscal Policy statement *inter alia* setting three years ruling 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. However, as per the records made available by the State Government, a Medium Term Fiscal Policy Statement was laid in the legislature in March 2005 along with the budget for the year 2005-06. Thereafter no such statement was prepared by the State Government and laid before the Legislature.

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

The State Government has developed its Own Fiscal Correction Path (FCP) indicating the milestones of outcome indicators with target dates of implementation during the period from 2004-05 to 2009-10 (**Appendix 1.2**). The State Government is of the view that the fiscal correction path, which is annexed to Annual Financial Statement, also reflects the Medium Term Fiscal Targets to be achieved during the TFC award period (2005-06 to 2009-10).

The comparative position of selected fiscal indicators vis-à-vis the revised estimates of the State Government during 2006-07 are given in the table on the page that follows:

(Rupees in crore)

Sr. No.	Fiscal Indicators	Actual	Revised Estimates	Variation
1.	Revenue Deficit (-)/Surplus (+)	(+)2023	(-)2190.60	4213.60
2.	Gross Fiscal Deficit	(-)612	(-)5566.50	4954.50
3.	Salaries, pensions as percentage of revenue receipts (Lottery Net)	41.06	49.07	(-)8.01
4.	Interest as percentage of RR (Lottery Net)	22.57	26.89	(-)4.32
5.	Salaries, pensions and interest as percentage of RR (Lottery Net)	63.63	75.96	(-)12.33
6.	Revenue Deficit as percentage of Gross Fiscal Deficit	*	39.35	*
7.	Debt Stock	51035	47801.00	3234
8.	Debt as percentage of GSDP	44.67	41.13	3.54

\*During 2006-07 there was a revenue surplus of Rs 2023 crore.

The comparative position presented in **Table 1.2** reveals that fiscal position of the State seems to have improved in terms key fiscal indicators. There was a revenue surplus of Rs 2,023 crore as against the deficit of Rs 2,191 crore projected as revised estimates for 2006-07 in the budget presented for the year 2007-08. Similarly the fiscal deficit was also significantly lower than the revised estimates of the State Government. In fact the waiver of special term loan (principal amount) of Rs 3,772 crore which is recorded as the credit entry under the non-tax receipts of the State Government has made the difference and the fiscal position of the State seemed to have improved during the current year. Moreover despite the waiver of special term loans, debt GSDP ratio at 45 *per cent* was higher than the revised estimates of the State Government.

### ***1.2.1.3 Mid-Term Review of Fiscal Situation***

In compliance to Section 6 (1) of FRBM Act, 2003 as amended, Minister in-charge of the Finance Department is required to review after every quarter the trends in receipts and expenditure in relation to the budget and place before the Legislative Assembly the outcome of such reviews. However, as per the information available with this office, no quarterly review was undertaken by the State Government.

## **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 1.4: Trends in Growth and Composition of Aggregate Receipts**

(Rupees in crore)						
Sources of State's Receipts	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
<b>I Revenue Receipts</b>	<b>8929</b>	<b>11071</b>	<b>12139</b>	<b>13807</b>	<b>16966</b>	<b>20567</b>
<b>II Capital Receipts</b>	<b>7553</b>	<b>6349</b>	<b>7442</b>	<b>6495</b>	<b>4715</b>	<b>4670</b>
Recovery of Loans and Advances	872	103	105	134	137	395
Public Debt Receipts	6681	6246	7337	6361	4578	4275
Miscellaneous Capital Receipts	-	-	-	-	-	-
<b>III Contingency Fund</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>IV Public Account Receipts</b>	<b>14171</b>	<b>11972</b>	<b>10111</b>	<b>12846</b>	<b>15648</b>	<b>18357</b>
a. Small Savings, Provident Fund <i>etc</i>	1206	1364	1309	1429	1483	1512
b. Reserve Fund	239	29	223	448	218	319
c. Deposits and Advances	2169	1243	913	1206	1462	2086
d. Suspense and Miscellaneous	9597	8491	7137	9023	11462	13173
e. Remittances	960	845	529	740	1023	1267
<b>Total Receipts</b>	<b>30653</b>	<b>29392</b>	<b>29692</b>	<b>33148</b>	<b>37329</b>	<b>43594</b>

**Table-1.4** shows that the total receipts of the State Government for the year 2006-07 were Rs 43,594 crore. Of these, the revenue receipts were Rs 20,567 crore, constituting 47 *per cent* of total receipts. The balance came from capital receipts, borrowings and receipts from Public Account (*Appendix 1.6*)

### 1.3.1 Revenue Receipts

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

**Table-1.5: Revenue Receipts - Basic Parameters**

(Rupees in crore)						
	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
<b>Revenue Receipts (RR)</b>	<b>8929</b>	<b>11071</b>	<b>12139</b>	<b>13807</b>	<b>16966</b>	<b>20567</b>
Own Taxes ( <i>per cent</i> )	4820(54)	5711(52)	6146(51)	6944(50)	8989(53)	9017(44)
Non-Tax Revenue ( <i>per cent</i> )	2960(33)	4036(36)	4666(38)	5358(39)	4536(27)	7744(38)
Central Tax Transfers ( <i>per cent</i> )	611(7)	649(6)	754(6)	903(7)	1228(7)	1566(7)
Grants-in-aid ( <i>per cent</i> )	538(6)	675(6)	573(5)	602(4)	2213(13)	2240(11)
<b>Rate of growth of RR (<i>per cent</i>)</b>	<b>(-4.78)</b>	<b>23.99</b>	<b>9.65</b>	<b>13.74</b>	<b>22.88</b>	<b>21.22</b>
<b>RR/GSDP (<i>per cent</i>)</b>	<b>11.20</b>	<b>13.40</b>	<b>13.51</b>	<b>14.29</b>	<b>16.20</b>	<b>18.00</b>
<b>Buoyancy Ratios<sup>3</sup></b>						
<b>Revenue Buoyancy w.r.t GSDP</b>	<b>(-)0.72</b>	<b>6.46</b>	<b>1.11</b>	<b>1.82</b>	<b>2.72</b>	<b>2.33</b>
<b>State's own taxes Buoyancy w.r.t GSDP</b>	<b>9.61</b>	<b>4.98</b>	<b>0.88</b>	<b>1.73</b>	<b>3.51</b>	<b>0.03</b>
<b>Revenue Buoyancy with reference to State's own taxes</b>	<b>(-) 0.07</b>	<b>1.30</b>	<b>1.26</b>	<b>1.05</b>	<b>0.77</b>	<b>68.45</b>
<b>GSDP Growth (<i>per cent</i>)</b>	<b>6.68</b>	<b>3.71</b>	<b>8.70</b>	<b>7.52</b>	<b>8.40</b>	<b>9.10</b>

<sup>3</sup> Buoyancy ratio indicates the elasticity or degree of responsiveness of a fiscal variable with respect to a given change in the base variable. For instance revenue buoyancy at 2.33 during 2006-07 implies that revenue receipts tend to increase by 2.33 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 50-54 till 2005-06 which dipped to 44 *per cent* in the current year mainly on account of relatively significant increase in the share of non-tax revenue from 27 *per cent* in 2005-06 to 38 *per cent* during the current year. The increase of Rs 3601 crore in revenue receipts in 2006-07 over the previous year was mainly on account of a sharp increase of Rs 3,208 crore (71 *per cent*) in non-tax revenue which was mainly the net result of two major notional credit entries of Rs 3,772 crore (principal amount) on account of waiver of special term loans granted by GOI and debt relief of Rs 131 crore received by the State as an incentive under DCRF and a fall in receipts from State lotteries (Rs 1,029 crore) and receipts from Dividends and Profits (Rs 100.01 crore).

### **1.3.3 Tax Revenue**

The tax revenue has increased only marginally by Rs 28 crore (0.31 *per cent*) during 2006-07 over the previous year. The revenue from sales taxes although contributed little more than half of tax revenue (54 *per cent*) but has shown an increase of only Rs 202 crore (four *per cent*) over the previous year. In fact, sales tax, state excise and stamps and registration fee together accounted for around 89 *per cent* in total tax revenue of the State but the net increase in these three taxes and duties were only Rs 135 crore in 2006-07 over the previous year. Even this increase was almost counterbalanced by a fall of Rs 142 crore in receipts from taxes on duties on electricity during 2006-07. The value added tax (VAT) introduced in April 2005 although enhanced the buoyancy of sales tax revenue in 2005-06 but it indicated only a marginal increase during 2006-07 over the buoyant level of 2005-06. **Table 1.6** below shows the trends in the composition of tax revenue of the State during 2002-07.

**Table1.6: Tax Revenue**

*(Rupees in crore)*

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
<b>Land Revenue</b>	8.58	8.77	13.24	13.72	16.29	15.27
<b>Stamps and Registration</b>	444.31	558.94	729.07	965.89	1670.50	1803.94
<b>State Excise</b>	1350.06	1428.91	1462.79	1486.61	1568.16	1367.78
<b>Sales Tax</b>	2684.33	3072.44	3307.94	3816.38	4626.88	4829.02
<b>Taxes on Vehicles</b>	318.44	443.88	388.79	403.93	431.19	468.05
<b>Taxes and Duties on Electricity</b>	2.80	187.64	234.91	251.65	669.41	527.58
<b>Other Taxes and Duties on Commodities and Services</b>	11.70	10.43	9.19	6.43	6.85	5.52
<b>Total</b>	<b>4820.22</b>	<b>5711.01</b>	<b>6145.93</b>	<b>6944.61</b>	<b>8989.28</b>	<b>9017.16</b>

### 1.3.4 Non-Tax Revenue

The Non-Tax Revenue which constituted 38 *per cent* of total revenue receipts increased by Rs 3,208 crore recording a growth rate of 71 *per cent* over previous year. The debt waiver (Rs 131.42 crore) given by Government of India under DCRF as also waiver of special term loans (Rs 3,772 crore) booked as notional credit entries under the head 'Miscellaneous General Services' led to a sharp increase in non-tax revenue of the State. Besides, marginal increases in receipts were also recorded under various social services (Rs 60 crore) and economic services (Rs 88 crore). The areas where substantial decreases were observed include receipts from dividends and profits (Rs 100.01 crore) and state lotteries (Rs 1,029.09 crore).

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

(Rupees in crore)

	Assessments made by TFC	Projections made by State Government in FCP	Actuals
	(1)	(2)	(3)
<b>Tax Revenue</b>	9379.78	9711	9017
<b>Non-Tax Revenue</b>	1901.73	1477*	5571*

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

The comparative position presented in Table above reveals that tax revenue remained significantly lower than both the projections made by the TFC as well as the by the State Government in its FCP indicates an ample scope of additional resource mobilization by the State Government through tax efforts. As regards the non-tax revenue, actual receipts were shown to be significantly higher as compared to the projections mainly on account of notional credit entries made under the head Miscellaneous General Services on account of debt waiver (Rs 131.42 crore) given by Government of India under DCRF as also waiver of special term loans (Rs 3,772 crore) during 2006-07.

### 1.3.5 Central Tax Transfers

The Central Tax transfers increased by Rs 338 crore over the previous year and constituted seven *per cent* of revenue receipts. The increase was mainly under corporation tax (Rs 149.75 crore); customs (Rs 66.07 crore) and service tax (Rs 59.68 crore).

### 1.3.6 Grants-in-aid

The Grants-in aid from Government of India (GOI) increased from Rs 2,213 crore in 2005-06 to Rs 2,240 crore in the current year. The increase was mainly under State plan schemes (Rs 87 crore) and Centrally Sponsored Schemes (Rs 139 crore) partly offset by decrease in Non-Plan Grants (Rs 216 crore). The decrease under non-plan grants was mainly under other grants which stand reduced by Rs 379 crore from Rs 1,630.54 crore (2005-06) to Rs 1,251.19 crore (2006-07). Details of grants-in-aid from GOI are given in **Table 1.7**.

**Table 1.7: Grants-in-aid from GOI**

	<i>(Rupees in crore)</i>					
	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Grants for State plan schemes	183.00	238.86	245.13	202.31	310.22	397.36
Non-Plan grants	159.02	306.35	134.32	186.14	1703.42	1487.85
Grants for Central Plan Schemes	2.53	4.42	2.78	7.34	5.45	20.78
Grants for Centrally Sponsored Plan Schemes	192.89	125.97	190.86	206.68	194.23	333.66
<b>Total</b>	<b>537.44</b>	<b>675.60</b>	<b>573.09</b>	<b>602.47</b>	<b>2213.32</b>	<b>2239.65</b>

### **1.3.7 Revenue Arrears**

The arrears of revenue as on 31 March 2007 stood at Rs 1,916.64 crore in respect of some principal heads of revenue of which Rs 1,052.28 crore were outstanding for more than five years. The arrears pertained mainly to sales tax (Rs 1,547.84 crore), Irrigation (Rs 135.87 crore) Taxes & Duties on Electricity (Rs 82.28 crore), Taxes on Vehicles (Rs 67.72 crore) and Interest Receipts (Rs 69.32 crore). There was a decrease of 30 *per cent* over the previous year. Out of total arrears of Rs 1,916.63 crore, an amount of Rs 848.71 crore (44 *per cent*) was pending on account of cases pending in courts, while recovery of Rs 638.62 crore (33 *per cent*) were under different stages of action. The other reasons advanced for these arrears and amount involved included insolvency (Rs 1.22 crore) paucity of funds (Rs 69.32 crore in respect of two State owned corporations) likely to be written off (Rs 19.51 crore) and being recovered in installments (Rs 13.13 crore).

The revenue arrears during 2006-07 were however Rs 812 crore (37 *per cent*) less than the arrears of Rs 2,728 crore pending as on 31 March 2006. The noticeable improvement was recovery in sales tax arrears (Rs 928 crore) while major increase in the arrears was observed under Irrigation (Rs 85 crore).

## **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 14,760 crore in 2001-02 to Rs 21,574 crore in 2006-07. Total expenditure, its annual growth rate and ratio of expenditure to the State GSDP and to revenue receipts and its buoyancy with respect to GSDP and revenue receipts are indicated in **Table-1.8**.

**Table-1.8: Total Expenditure – Basic Parameters***(Rupees in crore)*

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Total expenditure (TE)*	14760	15584	17124	18056	19757	21574
Rate of Growth ( <i>per cent</i> )	10.08	5.58	9.88	5.44	9.42	9.20
TE/GSDP Ratio ( <i>per cent</i> )	18.52	18.86	19.06	18.69	18.87	18.89
RR /TE Ratio ( <i>per cent</i> )	60.49	71.04	70.89	76.47	85.87	95.33
<b>Buoyancy of Total Expenditure with reference to :</b>						
GSDP (ratio)	1.51	1.50	1.14	0.72	1.12	1.01
RR (ratio)	(-)2.11	0.23	1.02	0.40	0.41	0.43

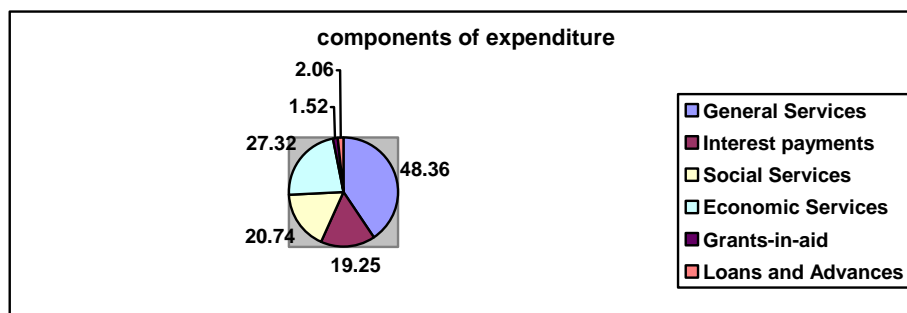
\* Total expenditure includes revenue expenditure, capital expenditure and loans and advances.

The total expenditure during the current year at Rs 21,574 crore has increased by only Rs 1,817 crore (9.20 *per cent*) over the previous year. Of the total increase, revenue expenditure contributed Rs 337 crore (18 *per cent*), capital expenditure shared Rs 1,069 crore (59 *per cent*) and remaining Rs 411 crore (23 *per cent*) by loans and advances. The bifurcation of total expenditure into plan and non-plan expenditure revealed that while the share of plan and non-plan expenditure was 15 *per cent* and 85 *per cent* respectively. The increase in total expenditure was mainly driven by increase in capital expenditure under 'other general economic services' as well as in disbursement of loans and advances mainly to power projects (Rs 300 crore). Under the 'Other General Economic Services', steep increase of Rs 859 crore in plan capital expenditure was observed under the major head 5475 'Capital out lay 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'.

**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-1.9**.

**Table-1.9: Components of Expenditure – Relative Share***(in per cent)*

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
<b>General Services</b>	51.41	58.35	54.72	54.84	53.68	48.36
Of which Interest payments	21.53	22.03	21.68	22.05	18.80	19.25
<b>Social Services</b>	21.44	20.82	19.70	20.09	19.98	20.74
<b>Economic Services</b>	18.79	17.24	20.91	24.13	24.28	27.32
<b>Grants-in-aid</b>	1.13	1.42	0.26	0.41	1.89	1.52
<b>Loans and Advances</b>	7.22	2.18	4.42	0.54	0.17	2.06



The movement of relative share of the various components of expenditure indicated that while share of General Services including interest payment has declined during 2006-07 over the previous year but it still continued to share the dominant portion in the total expenditure. The increase in share of economic services was mainly on account of sharp increase in plan capital expenditure under head 'other general economic services'. 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 2002-06 except 2003-04 and increased steeply during the current year mainly on account of enhanced loans and advances to the power projects.

#### 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 2002-07. 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-1.10**.

**Table-1.10: Revenue Expenditure: Basic Parameters**

(Rupees in crore)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Revenue Expenditure (RE), of which	12710	14825	15702	17198	18207	18544
Non-Plan Revenue Expenditure (NPRE)	11845	14117	15087	16732	17246	17563
	(93)	(95)	(96)	(97)	(95)	(95)
Plan Revenue Expenditure (PRE)	865	708	615	466	961	981
<b>Rate of Growth (per cent)</b>						
Revenue Expenditure	8.51	16.64	5.92	9.53	5.87	1.85
Non-Plan Revenue Expenditure	8.83	19.18	6.87	10.90	3.07	1.84
Plan Revenue Expenditure	4.34	(-18.15)	(-13.14)	(-24.23)	106.22	2.08
RE/TE (per cent)	86.11	95.13	91.70	95.25	92.15	85.96
NPRE/GSDP (per cent)	14.86	17.08	16.79	17.32	16.47	15.37
NPRE as per cent of TE	80.25	90.59	88.10	92.67	87.29	81.41
NPRE as per cent of RR	132.66	127.51	124.29	121.18	101.65	85.39
<b>Buoyancy of Revenue Expenditure with</b>						
GSDP (ratio)	1.27	4.49	0.68	1.27	0.70	0.20
Revenue Receipts (ratio)	(-1.78)	0.69	0.61	0.69	0.26	0.09

The revenue expenditure increased by 46 *per cent* from Rs 12,710 crore in 2001-02 to Rs 18,544 crore in 2006-07 but the increase in the current year (Rs 337 crore) was only marginal (2 *per cent*). The NPRE has shown a consistent increase at an average rate of 8 *per cent* over the period and continued to share the dominant portion varying in the narrow range of 93-97 *per cent* of the revenue expenditure. During the current year a marginal increase of Rs 317 crore in NPRE as against the average annual increase of more than Rs 1,300 crore during the previous four years (2002-06) was mainly on account of a steep fall in the non-plan revenue expenditure under Miscellaneous General Services (State Lotteries—Rs 1,052 crore) and Medium Irrigation (Rs 421 crore) during 2006-07 over the previous year. The Non-plan revenue expenditure at Rs 17,563 crore in 2006-07 was significantly higher than the normative assessment made by TFC (Rs 13,564 crore) and the projections made by the State Government in its own FCP (Rs 15,398 crore).

The plan revenue expenditure which was increased by more than 100 *per cent* during 2005-06 over the year 2004-05 has shown only a marginal increase of Rs 20 crore (two *per cent*) during 2006-07 over the previous year. Of the total plan revenue expenditure of Rs 981 crore in 2006-07, Rs 527 crore is booked under the minor head 'Planning Commission/Planning Board' (Major head '3451- Secretariat – Economic services') and Rs 105 crore under the minor head 'other expenditure' of Industries (Major head '2852 – Industries).

Though the ratio of revenue expenditure to revenue receipts declined consistently during 2001-07 as revenue receipts increased at an annual average rate of 14 *per cent* as against eight *per cent* in revenue expenditure. The steep decline in buoyancy ratios of revenue expenditure with reference to GSDP and revenue receipts has been on account of a marginal increase in revenue expenditure (two *per cent*) in 2006-07 over the previous year.

### 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-1.11**.

**Table-1.11: Expenditure on Salaries**

Heads	<i>(Rupees in crore)</i>					
	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
<b>Expenditure on Salaries</b>	<b>4624</b>	<b>4912</b>	<b>4825</b>	<b>5193</b>	<b>5320</b>	<b>5647</b>
Of which						
Non-Plan Head					5153	5470
Plan Head					167	177
As <i>per cent</i> of GSDP	5.80	5.94	5.37	5.38	5.08	4.94
As <i>per cent</i> of RR	51.79	44.37	39.75	37.61	31.36	27.46

The expenditure on salaries in **Table 1.11** indicated an increasing trend while both as percentage of GSDP and revenue receipts declining tendency is observed over the period 2001-07. Actual salary expenditure at Rs 5,647 crore in 2006-07 was however less than the revised estimates of the State Government (Rs 5,920 crore). The total salary bill relative to revenue expenditure net of interest payments and pension was 45 *per cent* exceeding the norm of 35 *per cent* envisaged by the TFC.

#### **1.4.3.2 Pension Payments**

The payment of pensions, its annual growth rate and ratio with GSDP, Revenue Receipts and Revenue Expenditure for the period 2001-07 are indicated in **Table 1.12**.

**Table 1.12: Expenditure on Pensions**

*(Rupees in crore)*

Heads	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Expenditure on Pensions	1035	1356	1389	1514	1656	1905
Rate of growth	(-)7.34	31.01	2.43	8.99	9.38	15.04
<i>As per cent of GSDP</i>	1.30	1.64	1.55	1.57	1.58	1.67
<i>As per cent of RR</i>	11.59	12.25	11.44	10.97	9.76	9.26
<i>As per cent of RE</i>	8.14	9.15	8.85	8.80	9.10	10.27

The Pension payments during current year have increased by Rs 249 crore recording a growth rate of 15 *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 197967 (2005-06) to 213072 (2006-07). The comparative analysis of actual pension payments and the assessment/projections made by TFC and the State Government (**Table 1.13**) reveals that actual pension payments exceeded the projections made by both the TFC and the State Government.

**Table 1.13: 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 2007-08	
(1)	(2)	(3)	(4)
1680	1695	1784	1905

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 1.14: Interest Payments***(Rupees in crore)*

Year	Total Revenue Receipts	Total Revenue Expenditure	Interest payments	Per cent age of interest payment with reference to	
				Revenue Receipts	Revenue Expenditure
2001-02	8929	12710	3178	36	25
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

The interest payments increased by 12 *per cent* from Rs 3,715 crore in 2005-06 to Rs 4,152 crore in 2006-07. An increase of Rs 437 crore in interest payments in 2006-07 was mainly due to payment of interest on special securities issued to National Small Savings Fund of the Central Government by State Government. It was observed that interest payments as a percentage of revenue receipts had progressively decreased from 36 *per cent* in 2001-02 to 20 *per cent* in 2006-07. However, it is still beyond the medium term target of 15 *per cent* of Revenue Receipts by 2009-10 envisaged by TFC. However, interest payments at Rs 4,152 crore during 2006-07 were within the projections by the State in its FCP (Rs 4,326 crore) and its revised estimate (Rs 4,288 crore) for the year 2006-07.

**1.4.3.4 Subsidies**

Though the subsidies are a drain on State finances, the Government is extending subsidies under various heads and in a big way under the Power and Energy Sector. The trends in the subsidies given by the State Government are given in **Table 1.15**.

**Table 1.15: Subsidies***(Rupees in crore)*

S.No.	Particulars	2002-03	2003-04	2004-05	2005-06	2006-07
1.	Welfare of SC, ST and OBC	10.27	8.70	12.08	16.09	18.30
2.	Agriculture and Allied Activities	6.80	0.71	0.63	6.48	6.01
3.	Power and Energy	750.00	1349.19	2170.13	1550.93	1423.80
4.	Industry and Minerals	(-)0.15		0.01	0.30	105.00
	<b>Total</b>	<b>766.92</b>	<b>1358.60</b>	<b>2182.85</b>	<b>1573.80</b>	<b>1553.11</b>
	<i>Per cent</i> increase (+)/decrease (-)		77.15	60.67	(-)27.90	(-)1.31
	<i>Per cent</i> in total expenditure	4.92	7.93	12.09	7.97	7.20

Trends in **Table 1.15** indicate a steep fall of Rs 609 crore in expenditure on subsidies in 2005-06 from the level of Rs 2,183 crore in 2004-05 mainly due to decline in subsidies to power. A marginal fall of Rs 21 crore is observed in the current year from the level of Rs 1,574 crore in 2005-06 mainly due to the fact that a decline of Rs 127 crore in power subsidy is counterbalanced by an increase of Rs 105 crore to industries. The actual expenditure on subsidy to Power and Energy Sector was less than the projection of Rs 1,570 crore in State's own FCP, however, the general subsidy (subsidies other than Power and Energy Sector) at Rs 129 crore is much more than the projection of around Rs 11 crore by the State in its FCP. Moreover, the composition of general subsidies in **Table 1.15** reveal that it does not seem to be inclusive of the food subsidy of Rs 24.29 crore as recommended by the TFC for the year 2006-07.

## **1.5 Expenditure by Allocative Priorities**

### **1.5.1 Quality of Expenditure**

The availability of better social and physical infrastructure in the State reflects its quality of expenditure. Therefore ratio of capital expenditure to total expenditure as well as to GSDP and proportion of revenue expenditure being spent on running efficiently and effectively the existing social and economic services would determine the quality of expenditure. Higher the ratio of these components to total expenditure and GSDP better is quality of expenditure. **Table 1.16** gives these ratios during 2001-07.

**Table 1.16: Indicators of Quality of Expenditure**

	<i>(Rupees in crore)</i>					
	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
<b>Capital Expenditure</b>	984.32	420.40	664.69	761.40	1516.89	2586.18
<b>Revenue Expenditure</b>	12709.81	14825.12	15701.92	17198.03	18206.73	18543.78
<i>Of which Social and Economic Services with</i>	4976	5531.59	6307.09		7316.46	7876.60
(i) Salary Component		2990.96	3280.20	3461.10	3655.38	3826.83
(ii) Non-Salary component		2540.63	3026.89	3812.37	3661.08	4049.77
<b>As per cent of total expenditure (excluding loans and advances)</b>						
Capital expenditure	7.19	2.76	4.06	4.24	7.69	12.24
Revenue expenditure	92.81	97.24	95.94	95.76	92.31	87.76
<b>As per cent of GSDP</b>						
Capital expenditure	1.24	0.51	0.74	0.79	1.45	2.26
Revenue expenditure	15.95	17.94	17.48	17.80	17.39	16.23

The trends in **Table 1.16** reveal that the capital expenditure exhibited wide fluctuations during 2001-05 but it increased steeply in 2005-06 and 2006-07. During 2006-07, the capital expenditure increased by 70 per cent from Rs 1,516.89 crore (2005-06) to Rs 2,586.18 crore (2006-07) while the revenue

expenditure increased by 1.85 per cent only from Rs 18,206.73 crore (2005-06) to Rs 18,543.78 crore (2006-07). An increment in capital expenditure is observed during the last two years and non-salary component of revenue expenditure is also increasing.

### 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 1.17** summaries the expenditure incurred by the State Government in expanding and strengthening of social services in the State during 2001-07.

**Table 1.17: Expenditure on Social Services**

(Rupees in Crore)

	2002-03	2003-04	2004.-05	2005-06	2006-07
<b>Education, Sports, Art and Culture</b>	<b>2092.76</b>	<b>2080.81</b>	<b>2129.38</b>	<b>2307.76</b>	<b>2335.97</b>
Revenue Expenditure	2091.84	2080.38	2113.24	2289.09	2318.26
Of which					
(a) Salary Component	1648.33	1719.56	1794.67	1859.00	1948.76
(b) Non-Salary component	443.51	360.82	318.57	430.09	369.50
Capital Expenditure	0.92	0.43	16.14	18.67	17.71
<b>Health and Family welfare</b>	<b>610.47</b>	<b>610.05</b>	<b>609.39</b>	<b>698.81</b>	<b>698.66</b>
Revenue Expenditure	610.34	608.45	603.79	695.85	689.02
Of which					
(a) Salary Component	494.85	506.69	542.10	595.31	612.03
(b) Non-Salary component	115.49	101.76	61.69	100.54	76.99
Capital Expenditure	0.13	1.60	5.60	2.96	9.64
<b>Water Supply, Sanitation, Housing and Urban Development</b>	<b>260.30</b>	<b>275.78</b>	<b>359.38</b>	<b>524.40</b>	<b>683.58</b>
Revenue Expenditure	241.00	275.45	289.23	207.26	346.32
Of which					
(a) Salary Component	65.83	75.16	88.21	95.00	123.42
(b) Non-Salary component	175.17	200.29	201.02	112.26	222.90
Capital Expenditure	19.30	0.33	70.15	317.14	337.26
<b>Other Social Services</b>	<b>280.53</b>	<b>405.45</b>	<b>529.52</b>	<b>415.42</b>	<b>756.03</b>
Revenue Expenditure	278.46	403.41	529.53	410.20	750.12
Of which					
(a) Salary Component	119.19	127.11	131.64	142.33	151.51
(b) Non-Salary component	159.27	276.30	397.89	267.87	598.61
Capital Expenditure	2.07	2.04	(-) 0.01	5.22	5.91
<b>Total (Social Services)</b>	<b>3244.06</b>	<b>3372.09</b>	<b>3627.67</b>	<b>3946.39</b>	<b>4474.24</b>
Revenue Expenditure	3221.64	3367.69	3535.79	3602.40	4103.72
Of which					
(a) Salary Component	2328.20	2428.52	2556.62	2691.64	2835.72
(b) Non-Salary component	893.44	939.17	979.17	910.76	1268.00
Capital Expenditure	22.42	4.40	91.88	343.99	370.52

The expenditure on social sector increased from Rs 3,222 crore in 2002-03 to Rs 4104 crore in 2006-07 indicating the Government's commitment to improve social well being of the society. Expenditure on Social Sector during current year (Rs 4,104 crore) accounted for 19 *per cent* of total expenditure and 52 *per cent* of developmental expenditure<sup>4</sup>. Expenditure on Water Supply and Sanitation increased by Rs 139 crore over previous year mainly due to more expenditure under 'Direction and Administration' and in Other Social Services, the increase of Rs 340 crore is mainly due to increased expenditure under Social Security and Welfare while the expenditure on Health and Family Welfare has shown a decrease of Rs seven crore over previous year. 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. However, trends in expenditure (taking expenditure under both plan and non-plan heads) reveal that the salary and wage component under education sector increased by five *per cent* over 2005-06 while non-salary and wage component decreased by 14 *per cent*. Similarly under Health and Family Welfare sector, the salary and wage component increased by three *per cent* while Non-salary and wage component decreased by 23 *per cent*. The non-salary expenditure pattern both in education and health services has not been as per the norms of the TFC which needs correction in the ensuing years.

### ***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 3,773-crore) accounted for 17 *per cent* of the total expenditure and 48 *per cent* of Developmental expenditure (**Table 1.18**). Power and Energy consumed 38 *per cent* of Economic Services Expenditure.

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<sup>4</sup> Development expenditure is defined as the total expenditure made on social and economic services.

**Table-1.18: Expenditure on Economic Sector***(Rupees in crore)*

	2002-03	2003-04	2004-05	2005-06	2006-07
<b>Agriculture, Allied Activities</b>	<b>(-)32.93</b>	<b>468.10</b>	<b>492.54</b>	<b>497.79</b>	<b>508.78</b>
<b>Revenue Expenditure</b>	430.26	433.72	471.68	487.32	473.72
<i>Of which</i>					
<i>(a) Salary Component</i>	247.49	255.67	270.54	290.62	298.80
<i>(b) Non-Salary component</i>	182.77	178.05	201.14	196.70	174.92
<b>Capital Expenditure</b>	(-)463.19	34.38	20.86	10.47	35.06
<b>Irrigation and Flood Control</b>	<b>708.80</b>	<b>572.76</b>	<b>676.21</b>	<b>898.58</b>	<b>877.90</b>
<b>Revenue Expenditure</b>	359.30	491.12	470.88	594.16	519.43
<i>Of which</i>					
<i>(a) Salary Component</i>	202.77	364.34	392.45	427.94	424.11
<i>(b) Non-Salary component</i>	156.53	126.78	78.43	166.22	95.32
<b>Capital Expenditure</b>	349.50	81.64	205.33	304.42	358.47
<b>Power and Energy</b>	<b>933.44</b>	<b>1712.39</b>	<b>2245.32</b>	<b>1596.59</b>	<b>1447.47</b>
<b>Revenue Expenditure</b>	752.48	1351.66	2172.94	1551.31	1427.47
<i>Of which</i>					
<i>(a) Salary Component</i>	0.96	0.41	0.43	0.35	0.35
<i>(b) Non-Salary component</i>	751.52	1351.25	2172.51	1550.96	1427.12
<b>Capital Expenditure</b>	180.96	360.73	72.38	45.28	20.00
<b>Transport</b>	<b>635.32</b>	<b>469.41</b>	<b>576.13</b>	<b>725.23</b>	<b>967.76</b>
<b>Revenue Expenditure</b>	481.99	358.39	443.21	350.78	551.60
<i>Of which</i>					
<i>(a) Salary Component</i>	126.27	121.01	122.86	123.97	129.64
<i>(b) Non-Salary component</i>	355.72	237.38	320.35	226.81	421.96
<b>Capital Expenditure</b>	153.33	111.02	132.92	374.45	416.16
<b>Other Economic Services</b>	<b>442.72</b>	<b>358.87</b>	<b>366.22</b>	<b>1078.57</b>	<b>2092.81</b>
<b>Revenue Expenditure</b>	285.92	304.51	178.97	730.49	800.66
<i>Of which</i>					
<i>(a) Salary Component</i>	85.27	110.25	118.20	120.86	138.21
<i>(b) Non-Salary component</i>	200.65	194.26	60.77	609.63	662.45
<b>Capital Expenditure</b>	156.80	54.36	187.25	348.08	1292.15
<b>Total (Economic Services)</b>	<b>2687.35</b>	<b>3581.53</b>	<b>4356.42</b>	<b>4796.76</b>	<b>5894.72</b>
<b>Revenue Expenditure</b>	2309.95	2939.40	3737.68	3714.06	3772.88
<i>Of which</i>					
<i>(a) Salary Component</i>	662.76	851.68	904.48	963.74	991.11
<i>(b) Non-Salary component</i>	1647.19	2087.72	2833.20	2750.32	2781.77
<b>Capital Expenditure</b>	377.40	642.13	618.74	1082.70	2121.84

The expenditure on Economic Services has consistently increased at an annual average growth rate of 24 *per cent* from Rs 2,687 crore in 2002-03 to Rs 5,894 crore in 2006-07. Of the total increase of Rs 3,208 crore, the major share was incurred under the head 'Other General Economic Services' (Rs 1,650 crore) followed by Power and Energy (Rs 514 crore) and Transport (Rs 333 crore) Services. The expenditure on agriculture and allied activities and irrigation and flood control remains either almost stable or marginally declined during 2006-07 over the previous year.

The capital expenditure has almost doubled during 2006-07 (Rs 2,122 crore) over the previous year (Rs 1,083 crore) mainly on account of a sharp increase of Rs 829 crore in plan capital expenditure under the major head 5475 'Capital out lay 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 incurred on Economic Services - both under salary and non-salary components - remained almost stagnant during the last three years period (2004-07) implying the fact that increase in expenditure on economic services was mainly on account of enhancement in expenditure under the heads 'capital outlays'.

#### **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 2002-07 is presented in **Table 1.19**

**Table-1.19: Financial Assistance**

*(Rupees in crore)*

	2002-03	2003-04	2004-05	2005-06	2006-07
Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.)	234.01	193.88	245.81	230.33	195.88
Municipal Corporations and Municipalities	16.84	-	-	73.77	69.99
Zilla Parishads and Other Panchayati Raj Institutions	-	-	-	-	162.15
Development Agencies	0.51	0.80	-	-	102.93
Hospital and Other Charitable Institutions	-	-	-	-	62.91
Other Institutions	111.50	21.27	106.18	91.14	0.01
<b>Total</b>	<b>362.86</b>	<b>215.95</b>	<b>351.99</b>	<b>395.24</b>	<b>593.87</b>
Assistance as per <i>per centage</i> of RE	2	1	2	2	3

The grants extended to Local Bodies and Other Institutions with inter year variations increased by 50 *per cent* to Rs 594 crore during the current year over Rs 395 crore in the previous year. Assistance to educational institutions reduced from Rs 230.33 crore to Rs 195.88 crore. As per the statement made by the Finance Minister in his budget speech for the year 2006-07, the Third State Finance Commission in its interim report recommended for transfer of funds to the tune of Rs 496 crore to the Panchayati Raj Institutions and Urban Local Bodies during 2006-07. These funds will be over and above the grants of Rs 99 crore recommended by the TFC. It was further stated that the recommendations of Third State Finance Commission will be accepted by the Government and therefore a total sum of Rs 595 crore were to flow to the Rural and Urban Local Bodies in 2006-07. However, as per the information

dovetailed from finance accounts, actual assistance of Rs 232 crore only was provided to these bodies during the year.

#### ***1.5.5 Delay in furnishing utilization certificates***

Against the grants of Rs 593.87 crore released during 2006-07, 233 utilization certificates for Rs 433.04 crore were awaited. In addition 371 utilization certificates were awaited for an amount of Rs 288.44 crore in respect of grants released up to 2005-06 which included 276 utilization certificate Rs 17.15 crore up to 2000-01. Details of department wise breakup of outstanding utilization 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 2007, departments of the Government have not furnished details for the year as shown in **Appendix 1.8**.

#### ***1.5.7 Abstract of performance of the autonomous bodies***

The audit of accounts of bodies in the State has been entrusted to the Comptroller and Auditor General of India. The status of entrustment of audit, rendering of accounts to audit, issuance of Separate Audit Report and its placement in the Legislature is indicated in **Appendix 1.9**.

#### ***1.5.8 Write off of losses, etc***

As reported to Audit, losses due to theft, fire and irrecoverable revenue, *etc* amounting to Rs 0.81 crore in 89 cases were written-off during 2006-07 by competent authorities. The relevant details are given in **Appendix 1.10**.

### **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 1.3** gives an abstract of such liabilities and the assets as on 31 March 2007, compared with the corresponding position on 31 March 2006. While the liabilities consist mainly of internal borrowings, loans and advances from the GOI, receipts from the Public Account and Reserve Funds, the assets comprise mainly the capital outlay and loans and advances given by the State Government and cash balances. In real terms the assets grew by Rs 1,673 crore (7.53 *per cent*) and liabilities reduced by Rs 370 crore (0.72 *per cent*) over previous year reversing the trend of growth in liabilities over assets in earlier years.

### 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 377.22 crore at the end of March 2007, which showed that revenue realized from these projects during 2006-07 (Rs 2.72 crore) was only 0.72 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 134.84 crore) and interest charges (Rs 20.30 crore) The schemes, however, suffered a net loss of Rs 152.42 crore.

#### 1.6.1.2 Incomplete projects

The department-wise information pertaining to incomplete projects as on 31 March 2007 is given in the **Table 1.20**.

**Table 1.20: Department-wise Profile of Incomplete Projects**

*(Rupees in crore)*

Department	Number of Incomplete Projects	Initial Budgeted Cost	Revised Total Cost of Projects <sup>#</sup>	Cost Over Runs	Cum. Actual Exp as on 31.3.2007
Irrigation	6	1758	2917	1159	1298
B&R	5	201	8.81	-	52

*# In three out of six Irrigation projects and in four out of five B&R projects revised costs are not available.*

In three projects of Irrigation where the costs have been revised, the revision resulted in increase from Rs 176 crore to Rs 601 crore, Rs 1,324 crore to Rs 1,945 crore and Rs 180 crore to Rs 371.23 crore while an expenditure of Rs 738 crore, Rs 175.10 crore and Rs 329.95 crore had already been incurred and the projects were lying incomplete. In SYL Canal project the work stands still due to water dispute with Haryana State. The expenditure on this project (Rs 738 crore) has already exceeded even the revised cost (Rs 601 crore). In other two works the work has been delayed due to non-availability of funds and delay in granting administrative approval by the Punjab Government. In case of one B&R project where the cost revision took place, the cost was revised from Rs 3.95 crore to Rs 8.81 crore but no specific reason for delay on completion of the project is given by the concerned department.

#### 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 annually Proforma Accounts in prescribed format showing the results of financial operations so that Government can assess the results of their working. The department-wise position of arrears in preparation of *pro forma* accounts is given in **Appendix I.11**.

**1.6.1.4. Investments and returns**

As of 31 March 2007, Government had invested Rs 3,762 crore in Statutory Corporations (Rs 3,143.95 crore), Government Companies (Rs 397.23 crore), Rural Banks, Joint Stock Companies (Rs 1.39 crore) and Co-operatives (Rs 219.17 crore) (**Table 1.21**). The return on this investment was 0.02 *per cent* to 0.08 *per cent* during 2001-07 while the Government paid interest at the average rate of 7.52 *per cent* to 10.11 *per cent* on its borrowings during 2001-2007.

**Table-1.21: Return on Investments**

*(Rupees in crore)*

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Investments	2346.28	2352.28	2359.00	3544.81	3718.60	3761.74
Return	1.09	0.91	1.82	0.59	1.07	1.96
<i>Per cent</i> of Return	0.05	0.04	0.08	0.02	0.03	0.05
Average interest rate*	10.11	9.51	9.11	8.79	7.52	8.11
Difference in <i>per cent</i>	10.06	9.47	9.03	8.77	7.49	8.06

Within the group of statutory corporations/boards, the bulk of the investment is made by the State Government in Punjab State Electricity Board (Rs 2,966 crore), PRTC (Rs 87 crore), Punjab Financial Corporation (Rs 29 crore) and Punjab Scheduled Castes Land Development and Finance Corporation (Rs 37 crore). Out of these four major Statutory Corporations involving 99 *per cent* of State Government's investment in corporations, first three corporations are incurring losses and their accumulated loss amounted to Rs 4,923 crore (up to the year 2005-06 for which their accounts are finalized) of which losses amounting to Rs 4,354 crore were incurred by the PSEB alone. The Punjab Scheduled Castes Land Development and Finance Corporation has however earned the profit of Rs 18 crore up to 2004-05 for which their accounts are finalized. The investment of Rs 397 crore of State Government was made in 23 Government Companies, of which only three companies declared dividend aggregating to Rs 1.75 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 many of these institutions/organizations. Total outstanding loans and advances as on 31 March 2007 were Rs 5,533 crore (**Table 1.22**). Interest received against these loans advanced was 9.55 *per cent* during 2006-07 as against 9.14 *per cent* in previous year.

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

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

*(Rupees in crore)*

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Opening Balance	4970	5150	5386	5718	5681	5464
Proforma Adjustment	(-)14	-	-	-	(-) 114	20
Amount advanced during the year	1066	339	757	97	34	444
Amount repaid during the year	872	103	105	134	137	395
Closing Balance	5150	5386	6038	5681	5464	5533
Net addition	194	236	652	(-)37	(-)103	49
Interest Received	459	817	1368	1863	504	526
Interest received as per cent to outstanding Loans and advances	9.06	15.51	23.95	32.69	9.14	9.55
Average interest rate (in per cent)	10.11	9.51	9.11	8.79	7.52	8.11
Difference between interest paid and received (per cent)	(-)1.05	(+) 6.00	(+)14.84	(+)23.90	(+) 1.62	(+)1.44

Loans and Advances declined from Rs 6,038 crore (2003-04) to Rs 5,533 crore (2006-07). Sector wise breakup of Loans and Advances was Rs 7.76 crore in Social Sector while Rs 419.35 crore were advanced in Economic Sector and Rs 17.05 crore were given to Government Servants. Out of total Rs 444.16 crore loans disbursed, Rs 300 crore were given to Punjab State Electricity Board, Rs 87.50 crore to Punjab Mandi Board, Rs 30.10 crore to Cooperative Sugar Mills and Rs 7.76 crore to Punjab State Housing Board (now PUDA).

The Administrative Departments are required to intimate to the Accountant General (A&E) by the 10 of August every 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 2006-07 due from 20 departmental officers, none had been received so far (June 2007). Against loans to municipal corporations and municipalities, etc., the detailed accounts of which are maintained by the Accountant General (A&E), recovery of Rs 138.79 crore (including Rs 110.38 crore as interest) was over due at the end of 2006-07 as follows:

(Rupees in crore)

Borrower/Purpose of loans	Earliest year from which in default	Amount overdue on 31 March 2007	
		Principal	Interest
<b>A Municipal Corporations, Municipalities and other Local Funds</b>			
a Sanitation Schemes	1967-68	1.61	2.06
b Sewerage Schemes	1963-94	1.10	3.86
c Water Supply Schemes	1964-65	6.33	11.02
d Integrated City development Programmes	1967-68	4.00	17.85
e Shopping Centres, Cinemas etc.	1969-70	0.09	0.18
f Preparation and distribution of town compost	1965-66	0.15	0.08
g Other purposes	1963-64	15.08	75.31
<b>B Loans to Rulers of Erstwhile States</b>	1965-66	0.05	0.02
<b>Total</b>		<b>28.41</b>	<b>110.38</b>

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 did not have to resort to WMA during the current year.

The State Government's cash balances at the end of the current year amounted to Rs 559 crore. The major portion of which (Rs 456.86 crore) is invested in Treasury Bills and Securities (Rs 101.98 crore) of the Government of India and earned an interest of Rs 30.83 crore during the year.

Ways and Means Advances and Overdrafts availed, the number of occasions it was availed and interest paid by the State during 2001-06 is detailed in **Table 1.23**. However, the State did not avail Ways and Means Advances or Overdraft during 2006-07.

**Table 1.23: Ways and Means and overdrafts of the State and interest paid thereon**

*(Rupees in crore)*

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
<b>Ways and Means Advances</b>						
Availed in the Year	1976.61	3127.90	2773.84	3065.82	269.17	-
Number of Occasions	75	87	81	90	18	-
Outstanding WMAs, if any	221.42	185.79	261.83	283.90	-	-
Interest Paid	8.73	9.45	12.29	9.69	2.99	-
Number of Days	139	189	158	156	22	-
<b>Overdraft</b>						
Availed in the year	3826.70	640.74	1811.06	1316.70	-	-
Number of Occasions	69	34	69	56	-	-
Number of Days	119	53	134	117	-	-
Interest Paid	4.50	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 Funds 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-1.24** gives the fiscal liabilities of the State, its rate of growth, ratio of these liabilities to GSDP, to revenue receipts and to own resources as also the buoyancy of fiscal liabilities with respect to these parameters.

**Table-1.24: Fiscal Liabilities – Basic Parameters**

*(Rupees in crore)*

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Fiscal Liabilities <sup>5</sup>	33921	38315	43197	47403	51364	51035
Rate of Growth ( <i>per cent</i> )	17.14	12.95	12.74	9.74	8.36	(-) 0.64
<b>Ratio of Fiscal Liabilities to</b>						
GSDP ( <i>per cent</i> )	42.57	46.36	48.08	49.08	49.06	44.67
Revenue Receipts ( <i>per cent</i> )	379.90	346.08	355.85	343.33	302.75	248.14
Own Resources ( <i>per cent</i> )	436.00	393.1	399.53	385.30	379.77	304.47
<b>Buoyancy of Fiscal Liabilities to</b>						
GSDP (ratio)	2.57	3.49	1.46	1.30	0.99	(-)0.07
Revenue Receipts (ratio)	(-)3.59	0.54	1.32	0.71	0.37	(-)0.03
Own Resources (ratio)	(-)26.85	0.51	1.17	0.71	0.84	(-)0.03

Overall fiscal liabilities of the State increased from Rs 33,921 crore in 2001-02 to Rs 51,035 crore in 2006-07. Fiscal Liabilities of the State comprised Consolidated Fund liabilities and Public Account liabilities. The Consolidated Fund liability (Rs 40,367 crore) comprised of market loan (Rs 37,154 crore) and loan from Government of India (Rs 3,213 crore)). The Public Account liabilities (Rs 10,668 crore) comprise of Small Savings, Provident Fund (Rs 7,753 crore), interest bearing obligation (Rs 1699 crore) and non-interest obligation like deposits and other earmarked funds (Rs 1,216 crore). The fiscal liabilities of the State have actually declined although marginally by Rs 329 crore during 2006-07 over the previous year mainly on account of the waiver of special term loan of Rs 3,772 crore granted by Government of India during the year. The increasing trend in the ratio of fiscal liabilities to GSDP was arrested in 2006-07 due to waiver of special term loan, however the ratio at 45 *per cent* in 2006-07 seems to be on the higher side in view of the target of bringing it down to 28 *per cent* by 2009-10 as prescribed in the Punjab FRBM Act 2003 as amended in 2005. These liabilities stood at 2.48 times of revenue receipts and 3.04 times of the State's own resources as at the end of 2006-07. The buoyancy of these liabilities with respect to GSDP during the year was (-) 0.07.

#### **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 (Amortization). The rate of contribution to

<sup>5</sup> 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.

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.
- (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.

The Finance Accounts revealed that no contribution was, however, made during 2006-07 and there were no balances in these two components of the sinking fund at the commencement and at the end of 2006-07. 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 liabilities contingent on the Consolidated Fund of the State in case of default by the borrower for whom the guarantee has been extended. As per Statement 6 of the Finance Accounts, the maximum amount for which guarantees were given by the State and outstanding guarantees at the end of year since 2001-02 is given in **Table 1.25**.

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 2001-07 for repayment of loans etc. raised by statutory corporations/boards, local bodies, co-operative banks and societies and others as tabled below in **Table 1.25**.

**Table-1.25: 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 (%)
		Principal	Interest	Total		
2001-02	10244	10244	340	10584	8929	115
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

The amount of outstanding guarantees (Rs 13,919 crore) as of March 2007 was 82 *per cent* of the revenue receipts of the previous year (2005-06) which was

marginally above 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 upto 14-11-1983         | 0.50 <i>per cent</i> on the total amount of guarantee given by the government during the year                                |
| (ii) Guarantees given on or after 15-11-1983 | In respect of first year 0.50 <i>per cent</i> for the period upto 31 <sup>st</sup> 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 Government has not set up so far a Guarantee Redemption Fund (GRF) 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 transparently maintained 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 prior condition for debt sustainability is the debt stabilization in terms of debt/GSDP ratio.

### **1.8.1 Debt Stabilization**

A necessary condition for stability states that if the rate of growth of economy exceeds the interest rate or cost of public borrowings, the debt-GDP ratio is likely to be stable provided primary balances are either zero or positive or are moderately negative. Given the rate spread (GSDP growth rate – interest rate) and quantum spread (Debt\*rate spread), debt sustainability condition states that if quantum spread together with primary deficit is zero, debt-GSDP ratio would be constant or debt would stabilize eventually. On the other hand, if

primary deficit together with quantum spread turns out to be negative, debt-GSDP ratio would be rising and in case it is positive, debt-GSDP ratio would eventually be falling. Trends in fiscal variables indicating the progress towards the debt stabilization are indicated in **Table 1.26**.

**Table 1.26: Debt Sustainability- Interest Rate and GSDP Growth**

(in per cent)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Average Interest Rate	10.11	9.51	9.11	8.79	7.52	8.11
GSDP Growth	6.68	3.71	8.70	7.52	8.40	9.10
Interest spread	(-)3.43	(-)5.80	(-)0.41	(-)1.27	0.88	0.99
Quantum spread (Rs in crore)	(-)993	(-)1967	(-)157	(-)549	417	509
Primary deficit (-)/ Surplus (+)	(-)1781	(-)976	(-)1168	(-)134	1061	3540

**Table 1.26** reveals that quantum spread together with primary deficit has been consistently negative during 2001-05 indicating rising debt-GSDP ratios during the period. Debt- GSDP has increased steadily from 42.57 per cent in 2001-02 to 49.08 per cent in 2004-05 (**Table 1.24**). The sum of quantum spread and primary deficit has turned into positive during 2005-06 and 2006-07 reflecting the decreasing tendency of debt-GSDP ratio. However, a sharp decline of 4.39 percentage points in debt-GSDP ratio was also due to the waiver of special term loans amounting to Rs 3,772 crore by Government of India which has resulted in absolute decline in the fiscal liabilities of the State during the current year.

### 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 1.27** indicates the resource gap as defined for the period 2001-07.

**Table 1.27: Incremental revenue receipts and Revenue Expenditure**

(Rupees in crore)

Period	Incremental				Resource Gap
	Non-Debt Receipts	Primary Expenditure	Interest Payments	Total Expenditure	
2001-02	297	517	835	1352	(-)1055
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

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 the last three years' period

(2004-07) indicates increasing capacity of the State to sustain the higher level of debt. However, the State is striving hard to contain the debt liabilities in recent years in compliance to the ceiling norms prescribed under the State's FRBM Act.

### 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 1.28** 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-1.28: Net Availability of Borrowed Funds**

(Rupees in crore)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
<b>Internal Debt</b>						
Receipt	5719	5827	6795	5813	4837	4254
Repayment (Principal + Interest)	2701	2365	2269	3054	3610	4308
Net Fund Available	3018	3462	4526	2759	1227	(-) 54
Net Fund Available ( <i>per cent</i> )	52.8	59.4	66.61	47.46	25.37	(-) 1.27
<b>Loans and Advances from GOI</b>						
Receipt	531	419	542	548	24	21
Repayment (Principal + Interest)	1538	2623	3944	3051	503	4269
Net Fund Available	(-)1007	(-) 2204	(-) 3402	(-) 2503	(-) 479	(-) 4248
Net Fund Available ( <i>per cent</i> )	(-)189.6	(-) 526.01	(-) 627.68	(-) 456.75	(-) 1996	(-) 20229
<b>Other Obligations</b>						
Receipt	3758	2594	2585	3462	3337	4198
Repayment (Principal + Interest)	3742	2507	2170	2665	3360	4134
Net Fund Available	16	87	415	797	(-) 23	64
Net Fund Available ( <i>per cent</i> )	0.43	3.35	16.05	23.02	(-) 0.69	1.52
<b>Total Liabilities</b>						
Receipt	10008	8840	9922	9823	8198	8473
Repayment (Principal + Interest)	7981	7495	8383	8770	7473	12711
Net Fund Available	2027	1345	1539	1053	725	(-) 4238
Net Fund Available ( <i>per cent</i> )	20.25	15.21	15.51	10.71	8.84	(-) 50.01

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 declined from 8.84 *per cent* in 2005-06 to (-)50 *per cent* indicating excess payments over the receipts during the year.

The State Government raised the internal debt amounting to Rs 4,254 crore comprising of market loans (Rs 981 crore), securities issued to NSSF (Rs 2,990 crore), and NABARD (Rs 283 crore). Against these receipts, Government discharged the past debt obligations (principal + interest) amounting to Rs 4,308 crore resulting in negative net funds available under the debt account.

During the current year the Government repaid GOI loans including interests amounting to Rs 4,269 crore<sup>6</sup> and also discharged other obligations of Rs 4,134 crore along with interest obligations which were less than the total receipts resulting in negative net availability of funds during the year. During 2006-07, the focus of the Government seems to be on discharging the past debt obligations both on account of principal and interest payment on loans raised from the market as well as from the Government of India.

## **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 are 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 3,781 crore in 2001-02 to Rs 1,241 crore in 2005-06 and turned into a surplus of Rs 2,023 crore in 2006-07.

**Table-1.29: Fiscal Imbalances: Basic Parameters**

*(Rupees in crore)*

Parameters	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Revenue deficit (-) /Revenue Surplus(+)	(-)3781	(-)3754	(-)3563	(-)3391	(-)1241	(+) 2023
Fiscal deficit(-)/Fiscal Surplus(+)	(-)4959	(-)4410	(-)4880	(-)4115	(-)2654	(-)612
Primary deficit (-)/ Primary Surplus(+)	(-)1781	(-) 976	(-)1168	(-)134	(-)1061	(+)3540
RD/GSDP ( <i>per cent</i> )	(-)4.74	(-)4.54	(-)3.97	(-)3.51	(-)1.19	(+) 1.77
FD/GSDP ( <i>per cent</i> )	(-)6.22	(-)5.34	(-)5.43	(-)4.26	(-)2.53	(-)0.54
PD/GSDP ( <i>per cent</i> )	(-)2.23	(-)1.18	(-)1.30	(-)0.14	1.01	(+)3.10
RD/FD ( <i>per cent</i> )	76.25	85.12	73.01	82.41	46.76	*

\* There was a surplus of Rs 2023 crore in revenue account during 2006-07.

<sup>6</sup> Includes Rs 3,772 crore as waiver of principal of special term loans and debt waiver including interest rate relief of Rs 131.42 crore received from Government of India under Debt Consolidation and Relief Facility relating to states.

The turnaround situation in revenue account during the current year was mainly on account of an increase of Rs 3,601 crore in revenue receipts (21 *per cent*) against the increase of Rs 337 crore in revenue expenditure (1.85 *per cent*). The increase in revenue receipts during 2006-07 was mainly on account of increase of Rs 3,208 crore in non-tax revenue receipts (71 *per cent*) and Rs 338 crore in central tax transfers (27.5 *per cent*). It is, however, pertinent to mention that a sharp increase in non-tax revenue receipts of the State during the current year on account of a credit entry of Rs 3,903 crore on account of waiver of special term loans (Rs 3,772 crore) and debt waiver (Rs 131 crore) under DCRF. The notional increase in non-tax receipts on account of these waivers has resulted in a significant improvement in the revenue account of the State during the current year.

The fiscal deficit, which represents the total borrowing of the Government and its total resource gap, decreased from Rs 4,959 crore in 2001-02 to Rs 612 crore in 2006-07 with wide inter-year variations. The surplus of Rs 3,264 crore in revenue account in 2006-07 along with an increase of Rs 258 crore under non-debt capital receipts accompanied with an increase of Rs 1,480 crore in capital expenditure and disbursement of loans and advances resulted in steep decline of Rs 2,042 crore in fiscal deficit during 2006-07 from Rs 2,654 crore in 2005-06.

The primary deficit of the State has also declined from Rs 1,781 crore in 2001-02 to Rs 134 crore in 2004-05 with a jump of Rs 192 crore in 2003-04. There was a steep decline in 2004-05 from the level of Rs 1168 crore in 2003-04 which turned into a surplus of Rs 1,061 crore in 2005-06 and Rs 3,540 crore in the current year. The steep decline in fiscal deficit to Rs 612 crore during 2006-07 from Rs 2,654 crore in the previous year along with an interest payments of Rs 4,152 crore in 2006-07 resulted into a primary surplus 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 deficit<sup>7</sup> 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 during 2005-06 and RD was wiped out and turned into surplus during the current year. This trajectory shows a significant improvement in the quality of the deficit during 2005-06 and 2006-07.

The bifurcation of the factors resulting into primary deficit or surplus of the State during the period 2001-07 reveals (**Table 1.30**) that except 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

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<sup>7</sup> Primary revenue deficit defined as gap between non-interest revenue expenditure of the State and its non-debt receipts indicates the extent to which the non-debt receipts of the State are able to meet the primary expenditure incurred under revenue account.

expenditure<sup>8</sup> requirements in the revenue account, rather left some receipts to meet the expenditure under the capital account 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 2001-05. 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 1.30: Primary deficit / surplus - Bifurcation of factors**

*(Rupees in crore)*

Year	Non-debt receipts	Primary revenue expenditure	Capital expenditure	Loans and Advances	Primary revenue deficit (-) / surplus (+)	Primary deficit (-) / surplus (+)
1	2	3	4	5	6	7
2001-02	9801	9532	2050	1066	(+)269	(-)2847
2002-03	11174	11391	759	339	(-)217	(-)1315
2003-04	12244	11990	1422	757	(+)254	(-)1925
2004-05	13941	13217	858	97	(+)724	(-)231
2005-06	17103	14492	1550	33	(+)2611	(+)1028
2006-07	20962	14392	3030	444	(+)6570	(+)3096

### **1.10 Fiscal Ratios**

The finances of a State should be sustainable, flexible and non-vulnerable. **Table-1.31** presents a summarized position of Government finances over 2002-07, 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.

<sup>8</sup> 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.

Table-1.31: Indicators of Fiscal Health

(in per cent)

Fiscal Indicators	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
1	2	3	4	5	6	7
<b>I Resource Mobilization</b>						
Revenue Receipt/GSDP	11.20	13.40	13.51	14.29	16.20	18.00
Revenue Buoyancy	(-)0.72	6.47	1.11	1.83	2.72	2.33
Own Tax/GSDP	6.05	6.91	6.84	7.19	8.59	7.89
<b>II Expenditure Management</b>						
Total Expenditure/GSDP	18.52	18.86	19.06	18.69	18.87	18.89
Total Expenditure/Revenue Receipts	165.30	140.76	141.07	130.77	116.45	104.90
Revenue Expenditure/Total Expenditure	86.11	95.13	91.70	95.25	92.15	85.96
Salary & Wage expenditure on Social and Economic Services / Revenue Expenditure	-	20.17	20.89	20.12	20.07	20.64
Non-Salary & Wage expenditure on Social and Economic Services / Revenue Expenditure	-	17.14	19.28	22.17	20.11	21.84
Capital Expenditure/Total Expenditure	6.67	2.69	3.89	4.21	7.68	11.99
Capital Expenditure on Social and Economic Services/Total Expenditure.	6.52	2.57	3.78	3.94	7.22	11.55
Buoyancy of TE with RR	(-)2.11	0.23	1.02	0.40	0.41	0.43
Buoyancy of RE with RR	(-)1.78	0.69	0.61	0.69	0.26	0.09
<b>III Management of Fiscal Imbalances</b>						
Revenue deficit (-)/Revenue Surplus(+)	(-)3781	(-)3754	(-)3563	(-)3391	(-)1241	(+) 2023
Fiscal deficit (-)/Fiscal Surplus(+)	(-)4959	(-)4410	(-)4880	(-)4115	(-)2654	(-)612
Primary Deficit (-)/Primary Surplus(+)	(-)1781	(-) 976	(-) 1168	(-) 134	(+) 1061	(+) 3540
Revenue Deficit/Fiscal Deficit	76.25	85.12	73.01	82.41	46.76	(-) 330.56
<b>IV Management of Fiscal Liabilities</b>						
Fiscal Liabilities/GSDP	42.57	46.36	48.08	49.08	49.06	44.67
Fiscal Liabilities/RR	379.90	346.08	355.85	343.33	302.75	248.14
Buoyancy of FL with RR	(-)3.59	0.54	1.32	0.71	0.37	(-) 0.03
Buoyancy of FL with Own Receipt	(-)11.20	0.51	1.17	0.71	0.84	(-) 0.03
Primary deficit vis-à-vis quantum spread	(-)179.35	(-)49.62	(-)743.95	(-)24.41	254.44	695.48
Net Funds Available	20.25	15.21	15.51	10.71	8.84	(-) 50.01
<b>V Other Fiscal Health Indicators</b>						
Return on Investment	0.05	0.04	0.08	0.02	0.03	0.05
Balance from Current Revenue (Rs in crore)	(-)3295	(-) 3415	(-) 3387	(-) 3341	(-) 790	2252
Financial Assets/Liabilities	48.95	45.03	42.97	40.89	43.01	46.59

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 18 *per cent*, an increase of two percentage points over previous year. The ratio of own taxes to GSDP showed continued improvement during 2001-06 (except in 2003-04 when it declined marginally) with a sharp decline of 0.70 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 0.31 *per cent* (Rs 28 crore) over the previous year as against the increase of 9.10 *per cent* in GSDP during 2006-07.

Various ratios concerning the expenditure management of the State indicate quality of its expenditure and sustainability of these in relation to its resource 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 2001-07. 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. During the current year as bulk of the increase in capital expenditure was shown in the form of plan capital expenditure in formulation of district plans at district headquarters, it is difficult to make a qualitative comment on the increase in share of capital expenditure.

The fiscal position of the state viewed in terms of fiscal indicators has shown a significant improvement in the current year. Accompanied with a sharp improvement in Balance from Current Revenue (BCR) from the deficit of Rs (-)790 crore (2005-06) to a surplus of Rs (+) 2252 crore during 2006-07 is also reflected in improvement in the assets backup of financial liabilities of the State by more than two *per cent* age points in the current year.

### **1.11 Conclusion**

The fiscal position of the State viewed in terms of the trends in fiscal parameters - revenue, fiscal and primary deficit/surplus - has shown noticeable improvement during the last two years especially in 2006-07. The emergence of revenue surplus along with a sharp decline in fiscal deficit and a steep increase in primary surplus during 2006-07 apparently indicates towards the robust fiscal health of the State. However, a further analysis reveal that significant improvement in the fiscal indicators during the current year was mainly on account of a sharp increase in non-tax revenue receipts of the State during the current year due to a credit entry of Rs 3,903 crore on account of waiver of specific term loan (Rs 3,772 crore) and debt waiver (Rs 131 crore) under DCRF during 2006-07. The State's own tax revenue, on the other hand has merely increased by Rs 28 crore (0.31 *per cent*) in 2006-07 over the previous year. Moreover, the tax revenue at Rs 9,017 crore in 2006-07 remained significantly lower than both the projections made by the TFC as well as the by the State Government in its FCP indicates an ample scope of additional resource mobilization by the State Government through tax efforts. The pattern of expenditure of the State also indicates that expenditure on salaries, pensions, interest payments and subsidies amounted to 71 *per cent* of total revenue expenditure leaving relatively less resources for effective delivery and expansion of social and economic services. Moreover, although capital expenditure excluding loans and advances has shown an increase of Rs 1,069 crore but it is difficult to make a qualitative comment on the increase in share of capital expenditure as a steep increase of Rs 859 crore was observed in plan capital expenditure under the Major head '5475 – Capital Outlay on other General Economic Services', minor head 'Statistics' below subheads State Level Initiative (Punjab Nirman Programme) and formulation of district plan at district headquarters. The investments in statutory corporations, joint stock companies and co-operatives stood at Rs 3,762 crore during 2006-07 but the negligible return on these investments (less than one *per cent*) vis-à-vis the higher cost of the borrowed funds was putting directly or indirectly the strain on the fiscal budget of the State and therefore continued to be a cause of concern.