

CHAPTER-I

FINANCES OF THE STATE GOVERNMENT

1.1 Introduction

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

1.1.1 Summary of Receipts and Disbursements

Table-1.1 summarises the finances of the State Government for the year 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
2267.20	Revenue receipts	2772.51	2060.53	Revenue expenditure	1768.46	453.69	2222.15
105.53	Tax revenue	119.02	939.90	General services	1009.17	11.15	1020.32
96.82	Non-tax revenue	91.14	552.23	Social Services	419.26	169.59	588.85
248.50	Share of Union Taxes/Duties	316.93	568.40	Economic Services	340.03	272.95	612.98
1816.15	Grants from Government of India	2245.42	---	Grants-in-aid/Contributions	---	---	---
Section-B: Capital							
---	II. Miscellaneous Capital Receipts	---	517.87	II. Capital Outlay	15.17	695.31	710.48
5.40	III. Recoveries of Loans and Advances	4.33	0.61	III. Loans and Advances disbursed	0.20	0.04	0.24
626.88	IV. Public Debt receipts	432.79	220.90	IV Repayment of Public Debt	---	---	152.13
---	V. Contingency Fund	---	---	V. Contingency Fund	---	---	---
1025.68	VI. Public Account receipts	1131.63	1040.94	VI. Public Account disbursement	---	---	1175.14
---	VII. Closing overdraft from Reserve Bank of India	---	---	VII. Opening overdraft from Reserve Bank of India	---	---	---
(-) 227.39	Opening Balance	(-) 143.08	(-) 143.08	Closing Balance	---	---	(-) 61.96
3697.77	Total	4198.18	3697.77	Total			4198.18

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

- The overall revenue receipts increased by 22.29 per cent from Rs.2267.20 crore in 2005-06 to Rs.2772.51 crore in 2006-07 mainly due to increase in grants from Government of India (GOI) (Rs.429.27 crore), State's own tax

revenue (Rs.13.49 crore), and State's share of Union taxes and duties (Rs.68.43 crore).

- The revenue expenditure of the State, on the other hand increased by around eight *per cent* from Rs.2060.53 crore in 2005-06 to Rs.2222.15 crore in 2006-07; capital expenditure increased by 37 *per cent* from Rs.517.87 crore in 2005-06 to Rs.710.48 crore in 2006-07. Both recoveries of loans and advances as well as their disbursements indicated a decline in 2006-07 over the previous year.
- The public debt receipts and repayment decreased by Rs.194.09 crore and Rs.68.77 crore respectively during 2006-07, from the level of Rs.627 crore and Rs.221 crore respectively in 2005-06.
- The Public Account receipts increased by Rs.133.86 crore against an increase in disbursement by Rs.48.47 crore during 2006-07 over the previous year.

The flow of funds under various major heads indicated above, resulted in a sharp improvement in the cash balance position of the State, as the balances improved from (-) Rs.143 crore in the beginning of 2006-07 to (-) Rs.62 crore at the close of the year.

1.1.2 Trends in fiscal aggregates

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

Table-1.2

(Rupees in crore)

2005-06	Sl. No.	Major Aggregates	2006-07
2267.20	1.	Revenue Receipts (2+3+4)	2772.51
105.53	2.	Tax Revenue	119.02
96.82	3.	Non-Tax Revenue	91.14
2064.85	4.	Other Receipts	2562.35
5.40	5.	Non-Debt Capital Receipts	4.33
5.40	6.	Of which, Recovery of Loans	4.33
2272.60	7.	Total Receipts (1+5)	2776.84
1651.41	8.	Non-Plan Expenditure	1783.83
1637.68	9.	On Revenue Account	1768.46
253.89	10.	Of which, Interest Payments	279.69
13.47	11.	On Capital Account	15.17
0.26	12.	On Loans disbursed	0.20
927.60	13.	Plan Expenditure	1149.04
422.85	14.	On Revenue Account	453.69
50.40	15.	On Capital Account	695.31
0.35	16.	On Loans disbursed	0.04
2579.01	17.	Total Expenditure (13+8)	2932.87
(+) 206.67	18.	Revenue Deficit (-)/Surplus (+) {1- (9+14)}	(+) 550.36
(-) 306.41	19.	Fiscal Deficit (-)/Surplus (+) {(1+5)-17}	(-) 156.03
(-) 52.52	20.	Primary Deficit (-)/Surplus (+) (10+19)	(+) 123.66

During the current year, revenue receipts increased by 22.29 *per cent* (Rs.505.31 crore) while revenue expenditure increased by 8 *per cent* (Rs.161.62 crore) over the previous year resulting in an increase in revenue surplus by Rs.343.69 crore during

2006-07 over the previous year. Given the increase in revenue surplus, a marginal decline of Rs.1.07 crore in non-debt capital receipts and the combined increase of Rs.192.24 crore in capital expenditure and loan and advances disbursed during 2006-07 over the previous year, the fiscal deficit decreased by Rs.150.38 crore during the current year from the level of Rs.306.41 crore in 2005-06. A decline in fiscal deficit accompanied by an increase in interest payments (Rs.25.80 crore) resulted in primary surplus of Rs.123.66 crore against a primary deficit of Rs.52.52 crore in 2005-06.

1.2 Methodology adopted for assessment of fiscal position

The trends in the major fiscal aggregates of receipts and expenditure as emerging from the Statements of Finance Accounts were analysed wherever necessary over the period 2002-07 and observations have been made on their behaviour. In its Restructuring Plan of State finances, the Twelfth Finance Commission (TFC) recommended the norms/ceiling for some fiscal aggregates and also made normative projections for others. In addition, TFC also recommended that all States enact the Fiscal Responsibility (FR) Acts and draw their fiscal correction path accordingly for the five year period (2005-06 to 2009-10) so that fiscal position of the State could be improved as committed in their respective FR Acts/Rules covering medium to long term periods. The norms/ceilings prescribed by the TFC as well as its projections for fiscal aggregates along with the commitments/projections made by the State Governments in their FR Acts and in other Statements required to be laid in the Legislature under the Act, have been used to make qualitative assessment of the trends and pattern of major fiscal aggregates during the current year. Assuming that Gross State Domestic Product (GSDP) is a good indicator of the performance of the State's economy, major fiscal aggregates like tax and non-tax revenue, revenue and capital expenditure, internal debt and revenue and fiscal deficits have been presented as percentage to the GSDP¹ at current market prices. The buoyancy coefficients for tax revenue, non-tax revenue, revenue expenditure etc., with reference to the base represented by GSDP have also been worked out to assess as to whether the mobilisation of resources, pattern of expenditure etc, are keeping pace with the change in the base or these fiscal aggregates are also affected by factors other than GSDP. The New GSDP series as published by the Directorate of Economics and Statistics of the State Government have been used in estimating these percentages and buoyancy ratios.

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

Table–1.3: Trends in Growth and Composition of GSDP

	2002-03	2003-04	2004-05	2005-06	2006-07
Gross State Domestic Product (GSDP) (Rupees in crore)	4748.60	5238.66	5778.77	6374.56	6957.97
Rate of growth of GSDP (<i>per cent</i>)	14.79	10.32	10.31	10.31	9.15

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

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

The State Government enacted (August 2005) the NFRBM Act, 2005 to ensure prudence in fiscal management and fiscal stability by achieving revenue surplus, reduction in fiscal deficit, prudent debt management consistent with fiscal sustainability, greater fiscal transparency in fiscal operations of the Government and conduct of fiscal policy in a medium term framework. To give effect to the fiscal management principles, the Act prescribed the following fiscal targets for the State Government:

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

Though the NFRBM Act was enacted in August 2005, the rules for carrying out the provisions of the Act were framed by the Government in February 2007.

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

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

1.2.3 Mid-term review of fiscal situation

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

1.2.4 Fiscal performance

In terms of an incentive scheme of TFC, a reward for fiscal performance was built into the debt-write off package under DCRF². According to the scheme, the quantum of write off of repayment of GOI loans after consolidation and reschedulement, will be linked to the absolute amount by which revenue deficit is reduced in each successive year during the award period. In effect, if the revenue deficit is brought to zero, the entire repayment during the period will be written off. As a result of improved fiscal performance in terms of this criterion, the State Government received a debt waiver of Rs Rs.3.68 crore during 2006-07. The fiscal performance viewed vis-à-vis the State Government's budget estimates for 2006-07 as well as the targets set for reducing the fiscal deficit under FRBM Act reveals that the State government could maintain a revenue surplus of Rs.550.36 crore in 2006-07 which was more by Rs.25.74 crore as compared to BE of 2006-07. The fiscal deficit at (-) Rs.156.03 crore in 2006-07 was also less by its BE of (-) Rs.165.40 crore during the year. Relative to GSDP, it was 2.36 *per cent* in 2006-07, i.e., less than the target of 3 *per cent* to be achieved by 31 March 2009 as per the NFRBM Act, 2005.

1.3 Trends and composition of aggregate receipts

Resources of the State Government consist of revenue receipts and capital receipts. Revenue receipts consist of tax revenue, non-tax revenue, State's share of Union taxes and duties and grants-in-aid from the GOI. Capital receipts comprise miscellaneous capital receipts such as proceeds from disinvestment, recoveries of loans and

² In pursuance of the recommendations of the TFC for fiscal consolidation and elimination of revenue deficit of the States, GOI formulated the Debt Consolidation and Relief Facility (2005-06 to 2009-10)" under which, general debt relief is provided by consolidating and re-scheduling at substantially reduced rates of interest, the Central loans to States on enacting the FRBM Act and debt waiver is granted based on fiscal performance, linked to the reduction of revenue deficits of States.

advances, debt receipts from internal sources (market loans, borrowings from financial institutions/commercial banks) and loans and advances from the GOI as well as accruals from Public Account. Table-1.4 shows that the total receipts of the State Government for the year 2006-07 were Rs.4341.26 crore. Of these, revenue receipts comprised Rs.2772.51 crore, constituting 64 *per cent*. The balance came largely from borrowings and receipts from the Public Account.

Table-1.4: Trends in growth and composition of aggregate receipts
(Rupees in crore)

Sources of Receipts	2002-03	2003-04	2004-05	2005-06	2006-07
I Revenue Receipts	1346.90	2359.79	1839.52	2267.20	2772.51
II Capital Receipts	481.27	3.59	430.80	632.28	437.12
Recovery of Loans and Advances	7.42	6.81	6.50	5.40	4.33
Public Debt Receipts	473.85	(-) 3.22	424.30	626.88	432.79
Miscellaneous Capital Receipts	---	---	---	---	---
III Contingency Fund	---	---	---	---	---
IV Public Account Receipts	990.10	658.48	776.73	1025.68	1131.63
a. Small Savings, Provident Fund <i>etc.</i>	96.75	106.45	110.24	156.55	95.22
b. Reserve Fund	3.58	0.85	0.85	4.62	5.64
c. Deposits and Advances	151.11	81.50	131.50	68.77	127.55
d. Suspense and Miscellaneous	248.48	(-) 93.39	41.20	39.89	39.73
e. Remittances	490.18	563.07	492.94	755.85	863.49
Total Receipts	2818.27	3021.86	3047.05	3925.16	4341.26

Public Account receipts declined by 64 *per cent* from Rs.156.55 crore in 2005-06 to Rs.95.22 crore in 2006-07, mainly due to decrease in receipts in Provident Fund (Rs.40.84 crore) over the previous year. Receipts under Provident Fund increased in 2005-06 by Rs.40 crore over the previous year due to deposit of arrears of pay of Government employees. Remittances increased by 14 *per cent* from Rs.755.85 crore in 2005-06 to Rs.863.49 crore in 2006-07 mainly due to increase in public works remittances (Rs.124.83 crore), cash remittances between treasuries and currency chest (Rs.9.61 crore) and decrease in forest remittances (Rs.26.68 crore).

1.3.1 Revenue receipts

Statement-11 of the Finance Accounts details the revenue receipts of the Government. The overall revenue receipts, their annual rate of growth, ratio of these receipts to the GSDP and its buoyancies are indicated in Table-1.5.

Table-1.5: Revenue Receipts - Basic parameters

	2002-03	2003-04	2004-05	2005-06	2006-07
Revenue Receipts (RR) (Rupees in crore)	1346.90	2359.79	1839.52	2267.20	2772.51
Own Taxes (<i>per cent</i>)	62.00 (4.60)	68.55 (2.91)	78.31 (4.26)	105.53 (4.65)	119.02 (4.29)
Non-Tax Revenue (<i>per cent</i>)	43.94 (3.26)	60.91 (2.58)	77.90 (4.00)	96.92 (4.00)	91.14 (3.29)
Central Tax Transfers (<i>per cent</i>)	46.01 (3.42)	256.97 (10.89)	160.15 (8.71)	248.50 (10.96)	316.93 (11.43)
Grants-in-aid (<i>per cent</i>)	1194.94 (88.72)	1973.36 (83.62)	1523.16 (82.80)	1816.35 (80.12)	2245.42 (80.99)
Rate of growth of RR (<i>per cent</i>)	1.69	75.20	(-) 22.05	23.25	22.29
RR/GSDP (<i>per cent</i>)	28.36	45.05	31.83	35.57	39.85
Revenue Buoyancy (ratio)	0.114	7.287	(-) 2.138	2.255	2.435
State's own taxes Buoyancy (ratio)	0.13	7.12	(-) 1.55	0.67	1.74
GSDP Growth (<i>per cent</i>)	14.79	10.32	10.31	10.31	9.15

The revenue receipts of the State increased from Rs.1346.90 crore in 2002-03 to Rs.2772.51 crore in 2006-07 at an annual average rate of 21.17 *per cent*. While 7.58 *per cent* of the revenue receipts during 2006-07 have come from the State's own resources comprising taxes and non-taxes, Central tax transfers and grants-in-aid together contributed 92.42 *per cent*.

Tax revenue

Tax revenue increased by Rs.13.49 crore (12.78 *per cent*) from Rs.105.53 crore in 2005-06 to Rs.119.02 crore in 2006-07. The share of sales tax in total tax revenue not only remained significant but it has increased from 66 *per cent* in 2002-03 to 73 *per cent* in 2005-06 and marginally dipped to 71 *per cent* in the current year. State excise (Rs.2.13 crore), taxes on vehicles (Rs.12.26 crore), Stamps and Registration (Rs.1.05 crore) taxes were the other contributors to the State's tax revenue. Table-1.6 below presents the trends in growth and composition of tax revenue during 2002-07.

Table-1.6: Trends in Growth and Composition of Tax Revenue

	2002-03	2003-04	2004-05	2005-06	2006-07
	<i>(Rupees in crore)</i>				
Sales Tax	41.16	45.63	53.08	77.16	85.02
State Excise	1.98	1.99	2.07	1.96	2.13
Taxes on vehicles	4.74	6.00	7.30	8.71	12.26
Stamps and Registration fees	0.57	0.66	0.73	0.89	1.05
Land Revenue	0.41	0.54	0.43	0.55	0.50
Taxes and duties on Electricity	---	---	---	---	---
Other taxes	13.14	13.73	14.70	16.26	18.06
Total	62.00	68.55	78.31	105.53	119.02

Non-Tax Revenue

Non-tax revenue, which increased steeply from Rs.77.90 crore in 2004-05 to Rs.96.92 crore in 2005-06, decreased by Rs.5.78 crore (6 per cent) to Rs.91.14 crore in 2006-07. The decrease was mainly due to less collection of revenue under the head 'Other Administrative Services' (Rs.5.64 crore). The major contributors in the non tax revenue included Power (Rs.41.63 crore), Miscellaneous General Services (Rs.14.59 crore, including Rs.3.68 crore on account of debt waiver granted by GOI under DCRF in 2006-07), Road Transport (Rs.8.03 crore), Forestry and Wildlife (Rs.5.94 crore), interest receipts on investment of cash balances by RBI (Rs.3.84 crore), Water Supply & Sanitation (Rs.2.25 crore), State Lotteries (Rs.1.66 crore) and Education, Sports and Art & Culture (Rs.1.64 crore).

The tax and non-tax revenue receipts vis-à-vis the normative assessment made by the TFC and the State Government in its BE 2006-07 were as under:

	(Rupees in crore)		
	Projects by TFC	Budget Estimates 2006-07	Actual Receipts
Own Tax Revenue	177.19	118.74	119.09
Non-Tax Revenue	42.01	90.70	91.14

While the own tax revenue of the State was almost at par with the normative assessment of the TFC and the BE of the Government for 2006-07, the non-tax revenue was in line with the estimates in the State budget but was significantly higher than the normative assessment of TFC.

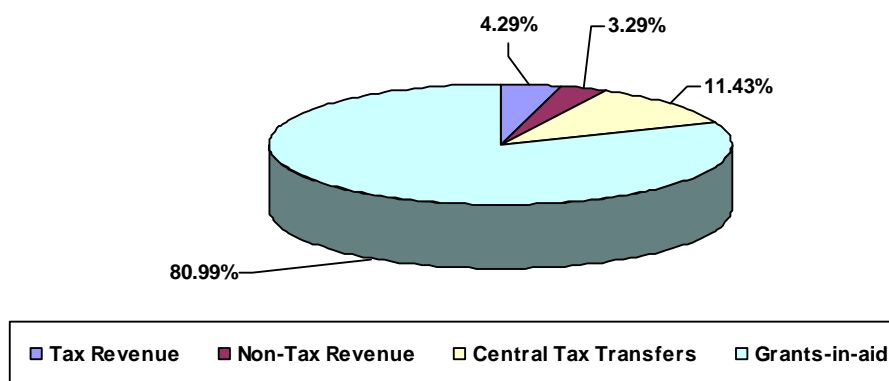
Central tax transfers

Central tax transfers to the State increased by 27.53 per cent from Rs.248.50 crore in 2005-06 to Rs.316.93 crore in 2006-07. The increase was mainly due to increase in Corporation tax (Rs.30.31 crore), Customs (Rs.13.38 crore), Service Tax (Rs.12.07 crore), taxes on income other than Corporation tax (Rs.11.71 crore) and Union Excise (Rs.0.95 crore).

Grants-in-aid

The grants-in-aid from GOI have increased by 23.62 per cent from Rs.1816.35 crore in 2005-06 to Rs.2245.42 crore in 2006-07 mainly due to increase of grants for State Plan schemes (Rs.460.74 crore) under "Block Grants (Rs.374.06 crore) and grants received for new schemes under Non Lapsable Central Pool of Resources (NLCPR) (Rs.55.30 crore). Besides, increases were also recorded under Watershed Development Projects in Shifting Cultivation area (Rs.4.50 crore), Central Road Fund (Rs.1.47 crore). Further grants were also received under Sarva Siksha Abhiyan (SSA) (Rs.4.88 crore) and Rural Development Programmes for Backward Region (Rs.22.50 crore) in the current year. The grants for Centrally Sponsored Plan Schemes (Rs.36.04 crore) were mainly under Post Matric Scholarship to SC and ST students (Rs.21.98 crore). A decline in non plan grants was mainly due to the fact that non plan grants were enhanced during 2005-06 on account of one time grants received under modernization of State police force (Rs.9.30 crore) and raising of Indian Reserve Battalion (Rs.9.75 crore) in 2005-06 which were not available during the current year.

Chart:1.1
Revenue Receipts for 2006-07
(Rs.2772.51 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.1849.29 crore in 2002-03 to Rs.2932.87 crore in 2006-07. Total expenditure, its annual growth rate and ratio of expenditure to GSDP and to revenue receipts and its buoyancy with respect to GSDP and revenue receipts are indicated in Table-1.7.

Table-1.7: Total expenditure - Basic Parameters

	2002-03	2003-04	2004-05	2005-06	2006-07
Total Expenditure (TE) (Rupees in crore)	1849.29	2209.20	2064.41	2579.01	2932.87
Rate of Growth (<i>per cent</i>)	10.78	19.46	(-) 6.55	24.93	13.72
TE/GSDP Ratio (<i>per cent</i>)	38.94	42.17	35.72	40.46	42.15
RR/TE Ratio (<i>per cent</i>)	72.83	106.82	89.11	87.91	94.53
Buoyancy of Total Expenditure with reference to:					
GSDP (ratio)	0.729	1.886	(-) 0.636	2.418	1.499
RR (ratio)	6.39	0.26	0.30	1.072	0.613

Total expenditure during 2006-07 at Rs.2932.87 crore increased by Rs.353.86 crore (13.72 *per cent*) over the previous year. Out of the total expenditure in 2006-07, revenue expenditure formed 75.76 *per cent* (Rs.2222.15 crore) while capital expenditure formed 24.23 *per cent* (Rs.710.48 crore) and loans and advances formed 0.01 *per cent* (Rs.0.24 crore). The break up of total expenditure in terms of plan and non-plan reveals that while the share of plan expenditure constituted 39 *per cent* (Rs.1149 crore), the remaining 61 *per cent* was non-plan expenditure (Rs.1783.63

crore). The increase in total expenditure during 2006-07 over the previous year was due to increase of revenue expenditure by Rs.161.62 crore and capital expenditure by Rs.192.61 crore and decrease in disbursement of loans and advances by Rs.0.37 crore. The increase in revenue expenditure was mainly due to increase in the expenditure on General Education (Rs.35.35 crore), Police (Rs.31.49 crore), Pension and Pensionary Benefits (Rs.22.31 crore), Power (Rs.16.43 crore), Special Programmes for Rural Development (Rs.10.29 crore), Social Welfare and Nutrition (Rs.8.97 crore), Forestry (Rs.8.74 crore), Medical and Public Health (Rs.7.52 crore), Soil and Water Conservation (Rs.5.50 crore) and Agriculture and Allied Activities (Rs.5.02 crore). Increase in capital expenditure was mainly due to increase in plan capital outlay on Transport (Rs.81.18 crore), Special areas programme (Rs.55.91 crore), Water Supply, Sanitation and Housing (Rs.45.57 crore) and Education, Sports, Art & Culture (Rs.10.05 crore).

1.4.2 Trends in total expenditure by activities

In terms of activities, total expenditure could be considered as being composed of expenditure on General Services including interest payments, Social and Economic Services, grants-in-aid and loans and advances. The relative share of these components in total expenditure during the last five years is indicated in Table-1.8.

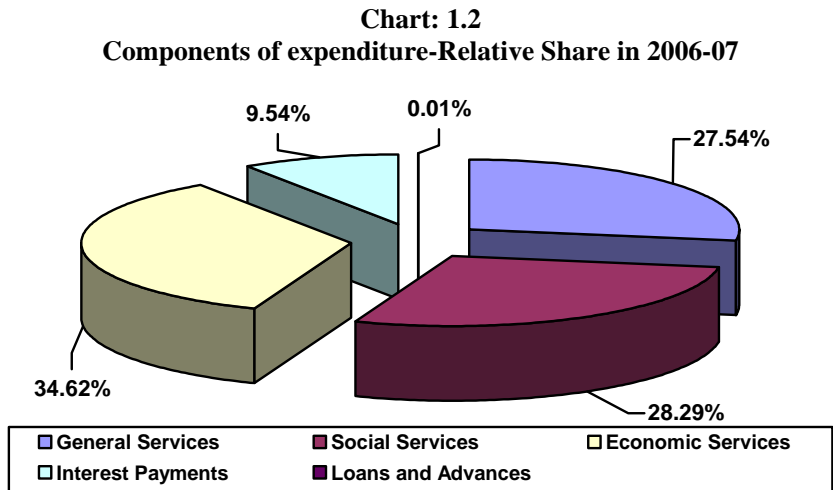


Table 1.8: Components of Expenditure-Relative share

	(in per cent)				
	2002-03	2003-04	2004-05	2005-06	2006-07
General Services	32.92	31.24	31.54	29.00	27.54
Interest payments	11.61	10.63	12.09	9.84	9.54
Social Services	28.90	25.37	27.61	27.43	28.29
Economic Services	26.44	32.53	28.74	33.71	34.62
Grants-in-aid	---	---	---	---	---
Loans and Advances	0.13	0.23	0.02	0.02	0.01

The movement of relative share of various components of expenditure reveals consistency in the share of expenditure on Social Services during the period 2002-07 with marginal inter year variations, while the share of Economic Services increased by little more than 8 percentage points in 2006-07 relative to its share in 2002-03 with

relative stability during 2005-06 and 2006-07. The increase in the share of Economic Services is offset by a decline in the share of General Services including interest payments, which is normally treated as non developmental expenditure. The trends during the last two years indicate relative stability in the share of various components of total expenditure.

1.4.3 Incidence of Revenue expenditure

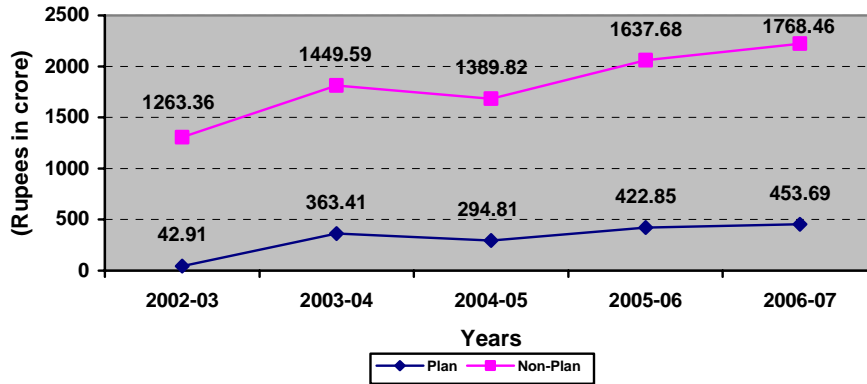
Revenue expenditure had predominant share in the total expenditure of the State. Revenue expenditure is incurred to maintain the current level of services and payment for the past obligations and as such does not result in any addition to the State's infrastructure and service network. The overall revenue expenditure, its rate of growth, its ratio to GSDP and to revenue receipts and its buoyancy are indicated in Table-1.9.

Table-1.9: Revenue Expenditure - Basic Parameters

	(Rupees in crore)				
	2002-03	2003-04	2004-05	2005-06	2006-07
Revenue Expenditure (RE)	1506.27	1812.99	1684.63	2060.53	2222.15
Of which,					
Non-Plan Revenue Expenditure (NPRE)	1263.36	1449.59	1389.82	1637.68	1768.46
Plan Revenue Expenditure (PRE)	242.91	363.40	294.81	422.85	453.69
Rate of Growth (per cent)					
Revenue Expenditure	5.55	20.36	(-) 7.62	22.31	7.84
NPRE	5.77	14.74	(-) 4.30	17.83	7.99
PRE	4.41	49.60	(-) 23.94	43.43	7.29
NPRE/GSDP (per cent)	26.60	27.67	24.05	25.69	25.42
NPRE as per cent of TE	68.32	65.62	67.32	63.50	60.30
NPRE as per cent of RR	93.80	61.43	75.55	72.23	63.79
Buoyancy of Revenue Expenditure with					
GSDP (ratio)	0.375	1.973	(-) 0.739	2.164	0.857
Revenue Receipts (ratio)	0.304	3.69	(-) 3.71	1.04	2.84

Revenue expenditure of the State increased by 47.53 per cent from Rs.1506.27 crore in 2002-03 to Rs.2222.15 crore in 2006-07 at an average annual rate of 11.88 per cent. Except for a dip in 2004-05, both NPRE and PRE have shown a consistent increase over the period 2002-07 (Chart 1.3). Of the total increase of Rs.161.82 crore in revenue expenditure during 2006-07, increase in NPRE contributed 81 per cent while PRE accounted for the remaining 19 per cent. The increase of Rs.130.78 crore in NPRE during 2006-07 over the previous year was mainly due to increase in Administrative Service (Rs.28.25 crore), Interest Payment & Servicing of Debt (Rs.25.80 crore), Pension & Miscellaneous General Services (Rs.22.92 crore), Energy (Rs.16.43 crore) and Education and Sports, Art and Culture (Rs.13.96 crore). A comparative position of NPRE vis-à-vis assessment made in TFC and FCP/BE reveal that NPRE at Rs.1768.46 crore during 2006-07 was higher than both the projections made in FCP/BE (Rs.1684.90 crore) and by TFC (Rs.1688.21 crore) for the year 2006-07. An increase of Rs 30.84 crore in PRE was mainly contributed by an increase of expenditure in Agriculture and Allied Activities (Rs.19.85 crore) and Education, Sports, Art and Culture (Rs.15.14 crore).

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



1.4.4 Committed expenditure

Expenditure on salaries and wages: The expenditure on salaries increased from Rs.695.52 crore in 2002-03 to Rs.1020.08 crore in 2006-07 as indicated in Table-1.10.

Table-1.10: Expenditure on Salaries

Heads	(Rupees in crore)				
	2002-03	2003-04	2004-05	2005-06	2006-07
Expenditure on Salaries ³ & Wages	695.52	768.19	824.78	953.71	1020.08
Of which,					
Non-Plan Head	NA	756.76	774.04	898.32	965.98
Plan Head	NA	11.43	50.74	55.39	54.10
As per cent of GSDP	14.65	14.66	14.27	14.96	14.66
As per cent of RR	51.64	32.55	44.84	42.07	36.79

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

Salary expenditure increased by 7 per cent during 2006-07 over the previous year due to a sharp increase in expenditure under non-plan head viz., Police (Rs.16.40 crore), Medical (Rs.13.97 crore), General Education (Rs.13.30 crore), Social Security & Welfare (Rs.4.75 crore), Roads & Bridges (Rs.4.55 crore), District Administration (Rs.1.31 crore), Animal Husbandry (Rs.1.13 crore) and Secretariat Economic Services (Rs.1.04 crore). Salaries and wages accounted for 14.66 per cent of the GSDP and 36.79 per cent of the revenue receipts during 2006-07. Salary expenditure was 58.60 per cent of revenue expenditure, net of interest payments and pensions, which was within the ceiling of 61 per cent targeted in NFRBM Act, but was much higher than the norm of 35 per cent recommended by the TFC.

³ Represents salaries only and includes salaries spent from grants-in-aid but excludes wages upto 2004-05.

Expenditure on pension payments: Pension payments grew at an average rate of 12.81 *per cent* from Rs.133.38 crore in 2002-03 to Rs.201.74 crore in 2006-07. The year-wise break up of expenditure on pension payments during the period 2002-03 to 2006-07 is indicated in Table-1.11.

Table-1.11: Expenditure on Pensions

Heads	(Rupees in crore)				
	2002-03	2003-04	2004-05	2005-06	2006-07
Expenditure on Pensions	133.38	140.81	133.83	179.42	201.74
As <i>per cent</i> of GSDP	2.81	2.69	2.32	2.81	2.90
As <i>per cent</i> of RR	9.90	5.97	7.28	7.91	2.78

Source: Finance Accounts

Although pension payment was Rs.31.26 crore less than the projections made in the FCP (Rs.233.00 crore) and Rs.11.77 crore less than the assessment made by TFC (Rs.213.51 crore) for the year 2006-07 it has increased by more than 12.44 *per cent* from Rs.179.42 crore in 2005-06 to Rs.201.74 crore in 2006-07 mainly due to increase in the expenditure under superannuation and retirement benefits and for meeting the arrear payments. The State Government has not introduced the new Pension Policy so far, to meet the increasing pension liabilities.

Interest payments

Interest payments made and their ratio to revenue receipts and revenue expenditure during the period 2002-07 are detailed in Table-1.12.

Table-1.12: Interest payments

Year	Total Revenue Receipts	Interest Payments	Percentage of Interest payments to	
			Revenue Receipts	Revenue Expenditure
	(Rupees in crore)			
2002-03	1346.90	214.58 (7.04)	15.93	14.25
2003-04	2359.79	234.74 (9.40)	9.95	12.95
2004-05	1839.52	249.62 (6.34)	13.57	14.82
2005-06	2267.20	253.89 (1.71)	11.20	12.32
2006-07	2772.51	279.69 (10.16)	10.09	12.59

Source: Finance Accounts

The major sources of borrowing of the State Government were (i) Loans from the Centre, (ii) Loans from Market, (iii) Loans from Banks and Financial institutions and (iv) Loans from Small Savings and Provident Fund. The interest rates on these borrowings varied from 6.50 *per cent* to 12.50 *per cent* per annum during the period 2002-03 to 2006-07. Interest payments increased by 30.34 *per cent* from Rs.214.58 crore in 2002-03 to Rs.279.69 crore in 2006-07. Increase in interest payments during 2006-07 over the previous year were on internal debt (Rs.17.20 crore), loans from Central Government (Rs.3.35 crore) and State Provident Fund, etc. (Rs.5.26 crore). Interest payment was Rs.1.22 crore less than that projected (Rs.280.91 crore) in the FCP for the year 2006-07 and Rs.20.35 crore less than the normative projection (Rs.300.04 crore) by TFC.

Subsidies

The State Government has not made any explicit provision for subsidies in its Annual Budget.

1.5 Expenditure by Allocative Priorities

1.5.1 Quality of expenditure

The availability of better social and physical infrastructure in the State reflects its quality of expenditure. Therefore the ratio of capital expenditure to total expenditure as well as to GSDP and proportion of revenue expenditure being spent on running the existing social and economic services efficiently and effectively would determine the quality of expenditure. Higher the ratio of these components to total expenditure and GSDP, better is the quality of expenditure. Table-1.13 gives these ratios during 2002-07.

Table-1.13: Indicators of Quality of Expenditure

(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07
Capital Expenditure	340.69	391.13	379.44	517.87	710.48
Revenue Expenditure	1506.27	1812.99	1684.63	2060.53	2222.15
Of which,	707.61	938.07	826.68	1120.63	1201.83
Social and Economic Services with	(46.98)	(51.74)	(49.07)	(54.38)	(54.08)
(i) Salary & Wage Component	---	501.64	485.90	606.56	649.72
		(53.48)	(58.78)	(54.13)	(54.06)
(ii) Non-Salary & Wage Component	---	436.43	340.78	514.07	552.11
		(46.52)	(41.22)	(45.87)	(45.94)
As per cent of Total Expenditure **					
Capital Expenditure	18.42	17.70	18.38	20.08	24.23
Revenue Expenditure	81.45	82.07	81.60	79.90	75.77
As per cent of GSDP					
Capital Expenditure	7.17	7.47	6.57	8.12	10.21
Revenue Expenditure	31.72	34.61	29.15	32.32	31.94

* Excludes wage component.

** Total expenditure excludes Loans and Advances.

Though no specific norms were laid down by the State Government for prioritization of capital expenditure as stipulated in NFRBM Act, capital expenditure has consistently increased over the period 2002-07 and it sharply increased by 37 per cent (Rs.192.61 crore) during 2006-07 over the previous year. Education, Sports, Art and Culture, Health & Family Welfare, Water Supply and Sanitation etc., under Social Services and Transport under Economic Service are the major beneficiary sectors where incremental capital expenditure was absorbed during 2006-07. During 2006-07, capital expenditure accounted for 24.23 per cent of total expenditure and 10.21 per cent of GSDP.

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-1.14 summarises the expenditure incurred by the State Government in expanding and strengthening the Social Services in the State during 2002-07.

Table-1.14: Expenditure on Social Services

	2002-03	2003-04	2004-05	2005-06	2006-07
(Rupees in crore)					
Education, Sports, Art and Culture					
Revenue Expenditure	200.30	246.15	239.67	305.84	334.94
Of which					
(a) Salary and Wage Component	NA	207.93	204.75	249.34	264.62
(b) Non Salary and Wage Component	NA	38.22	34.92	56.50	70.32
Capital Expenditure	9.72	10.26	11.78	18.97	44.19
Total	210.02	256.41	251.45	324.81	379.13
Health and Family Welfare					
Revenue Expenditure	80.89	82.80	88.17	109.65	116.41
Of which					
(a) Salary and Wage Component	NA	68.86	74.92	83.71	97.52
(b) Non Salary and Wage Component	NA	13.94	13.25	25.94	18.89
Capital Expenditure	8.29	11.88	41.94	11.63	12.11
Total	89.18	94.68	130.11	121.28	128.52
Water Supply, Sanitation, Housing and Urban Development					
Revenue Expenditure	32.33	18.07	31.64	43.04	31.87
Of which					
(a) Salary and Wage Component	NA	15.90	18.21	22.59	24.19
(b) Non Salary and Wage Component	NA	2.17	13.43	20.45	7.68
Capital Expenditure	122.89	107.23	86.36	112.80	158.37
Total	155.22	125.30	118.00	155.84	190.24
Other Social Services					
Revenue Expenditure	72.05	75.29	61.47	93.70	105.63
Of which					
(a) Salary and Wage Component	NA	63.32	27.94	30.71	35.91
(b) Non Salary and Wage Component	NA	11.97	33.53	62.99	69.72
Capital Expenditure	8.00	8.78	8.89	11.69	26.28
Total	80.05	84.07	70.36	105.39	131.91
Total (Social Services)					
Revenue Expenditure	385.57	422.31	420.95	552.23	588.85
Of which					
(a) Salary and Wage Component	NA	356.01 (84.30)	325.82 (77.40)	386.35 (69.96)	422.24 (71.71)
(b) Non Salary and Wage Component	NA	66.30 (15.70)	95.13 (22.60)	165.88 (30.04)	166.61 (28.29)
Capital Expenditure	148.90	138.15	148.97	155.09	240.95
Grand Total	534.47	560.46	569.92	707.32	829.80

The expenditure on Social Services increased from Rs.534.47 crore in 2002-03 to Rs.829.80 crore in 2006-07 and it constituted 28.30 *per cent* of the total expenditure (Rs.2932.63 crore) during 2006-07. Three major Social Services *viz.*, General Education (Rs.339.13 crore), Health and Family Welfare (Rs.128.52 crore) and Water Supply and Sanitation (Rs.190.24 crore) accounted for 84 *per cent* of the total expenditure on Social Services. Capital expenditure on social services increased by 55 *per cent* from Rs.155.09 crore in 2005-06 to Rs.240.95 crore in 2006-07 due to increase mainly in Water Supply and Sanitation (Rs.45.57 crore) and Education, Art & Culture (Rs.25.22 crore).

To improve the quality of education and health services in the States, the TFC recommended that the non-plan salary expenditure under Education and Health and Family Welfare should increase only by 6 to 5 per cent respectively, while non salary expenditure under non-plan heads should increase by 30 per cent per annum in both the sectors during the award period. The trends in expenditure revealed that the salary and wage component of revenue expenditure under Education and Sports, Art & Culture increased by 6 per cent in 2006-07 over the previous year, while the non salary component increased by 24 per cent; under Health and Family Welfare, salary and wage component increased by 16.50 per cent in 2006-07 over the previous year while non salary component decreased by 37.32 per cent.

1.5.3 Expenditure on Economic Services

Expenditure on Economic Services includes all such expenditure that promotes directly or indirectly, productive capacity within the States' economy. The expenditure on Economic Services (Rs.1015.35 crore) accounted for 34.62 per cent of the total expenditure (Table-1.15). Of this, Agriculture and Allied activities, Irrigation and Flood Control, Energy and Transport consumed 15.12 per cent of the total expenditure.

Table-1.15: Expenditure on Economic Services

(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07
Agriculture and Allied Activities					
Revenue Expenditure	102.25	110.27	117.24	163.06	182.52
Of which					
(a) Salary and Wage Component	NA	66.87	71.23	84.55	83.30
(b) Non Salary and Wage Component	NA	43.40	46.01	78.51	99.22
Capital Expenditure	12.88	20.63	9.38	41.46	39.47
Total	115.13	130.90	126.62	204.52	221.99
Irrigation & Flood Control					
Revenue Expenditure	13.46	21.33	22.21	25.07	33.29
Of which					
(a) Salary and Wage Component	NA	6.20	6.09	6.93	6.95
(b) Non Salary and Wage Component	NA	15.13	16.12	18.14	26.34
Capital Expenditure	5.20	0.01	1.08	0.82	0.96
Total	18.66	21.34	23.29	25.89	34.25
Energy					
Revenue Expenditure	58.11	158.90	94.28	97.22	113.68
Of which					
(a) Salary and Wage Component	NA	20.10	20.89	23.89	23.93
(b) Non Salary and Wage Component	NA	138.80	73.39	73.33	89.75
Capital Expenditure	74.26	60.74	44.42	76.20	46.47
Total	132.37	219.64	138.70	173.42	160.15
Road Transport					
Revenue Expenditure	15.76	18.78	15.06	18.42	19.73
Of which					
(a) Salary and Wage Component	NA	9.69	9.52	10.98	11.92
(b) Non Salary and Wage Component	NA	9.09	5.54	7.44	7.81
Capital Expenditure	6.85	6.55	6.55	5.72	7.40
Total	22.61	25.33	21.61	24.14	27.13
Other Economic Services					
Revenue Expenditure	132.46	206.48	156.94	264.63	263.76
Of which					
(a) Salary and Wage Component	NA	42.77	52.35	93.86	100.47

(b) Non Salary and Wage Component	NA	163.71	104.59	170.77	163.29
Capital Expenditure	67.81	115.00	126.24	176.74	308.07
Total	200.27	321.48	283.18	441.37	571.83
Total (Economic Services)					
Revenue Expenditure	322.04	515.76	405.73	568.40	612.98
Of which					
(a) Salary and Wage Component	NA	145.63 (28.24)	160.08 (39.45)	220.21 (38.74)	226.57 (36.96)
(b) Non Salary and Wage Component	NA	370.13 (71.76)	245.65 (60.55)	348.19 (61.26)	386.41 (63.04)
Capital Expenditure	167.00	202.93	187.67	300.94	402.37
Grand Total	489.04	718.69	593.40	869.34	1015.35

Out of the total expenditure on Economic Services during 2006-07, 21.86 per cent was incurred on Agriculture and Allied Activities, 15.77 per cent on Power and Energy, 3.37 per cent on Irrigation and Flood Control and 2.67 per cent on Transport. As compared to 2002-03, significant increases were observed in 2006-07 in Agriculture and Allied Activities (91.82 per cent), Irrigation and Flood Control (83.55 per cent), Power and Energy (20.98 per cent), and Transport services (20 per cent).

The trends in revenue and capital expenditure on Economic Services indicate that the capital expenditure has increased from Rs.167.00 crore (34.15 per cent) in 2002-03 to Rs.402.37 crore (39.63 per cent) in 2006-07, while the revenue expenditure increased from Rs.322.04 crore (65.85 per cent) in 2002-03 to Rs.612.98 crore (60.37 per cent) in 2006-07. Of the revenue expenditure, salary component increased from Rs.160.08 crore (26.97 per cent) in 2004-05 to Rs.226.57 crore (22.31 per cent) in 2006-07 whereas non-salary component increased from Rs.245.65 crore (41.40 per cent) to Rs.386.41 crore (38.06 per cent).

1.5.4 Financial assistance to local bodies and other institutions

The quantum of assistance provided by the State Government by way of grants and loans to local bodies and others during the five year period 2002-07 is presented in Table-1.16.

Table-1.16: Financial Assistance to local bodies and other institutions

	<i>(Rupees in crore)</i>				
	2002-03	2003-04	2004-05	2005-06	2006-07
Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.)	1.45	2.10	3.05	6.24	2.55
Municipal Corporations and Municipalities	--	--	--	--	0.27
Zilla Parishads and Other Panchayati Raj Institutions	--	--	--	--	---
Development Agencies	0.43	--	24.67	0.28	---
Hospitals and other Charitable Institutions	--	0.10	5.59	5.74	8.12
Other Institutions	10.03	28.46	1.02	21.17	23.10
Total	11.91	30.66	34.33	33.43	34.04
Assistance as percentage of RE	0.79	1.69	2.04	1.62	1.53

The total assistance to local bodies has increased from Rs.11.91 crore in 2002-03 to Rs.34.04 crore in 2006-07. The assistance as a percentage of total revenue expenditure had increased from 0.79 in 2002-03 to 1.53 in 2006-07. As against a sharp decline in financial assistance to educational institutions, it increased in respect

of hospitals and other charitable institutions in 2006-07 over the previous year. The financial assistance granted under the head 'Other Institutions' constituted more than 2/3rd of the total assistance given by the State during the current year. Moreover, under this head bulk of the assistance (98 *per cent*) is given to Village Development Board (Rs.22.53 crore) and the remaining to Co-operative Societies (Rs.0.57 crore).

1.6 Assets and Liabilities

In Government accounting system, comprehensive accounting of fixed assets like land and buildings owned by the Government is not done. However, the Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred. **Appendix 1.2** gives an abstract of such liabilities and the assets as on 31 March 2007 compared with the corresponding position on 31 March 2006. While the liabilities in this regard consist mainly of internal borrowings, loans and advances from the GOI, receipts from Public Account and Reserve Funds, the assets comprise mainly the capital outlay and loans and advances given by the State Government and cash balances. **Appendix-1.5** depicts the time series data on State Government finances for the period 2002-2007.

1.6.1 Investments and returns

As on 31 March 2007, the Government had invested Rs.119.84 crore in Statutory Corporations, Government Companies, Joint Stock Companies and Co-operatives (Table-1.17). The average return on this investment was 'Nil' during the last five years, while an average interest rate of 11.44 *per cent* was being paid by the Government on its borrowings.

Table-1.17: Return on Investment

Year	Investment at the end of the year	Return	Percentage of return	Average rate of interest on Government borrowings	Difference between interest paid and return
	(Rupees in crore)			(per cent)	
2002-03	58.47	0.00	0.00	11.30	11.30
2003-04	69.36	0.00	0.00	11.66	11.66
2004-05	73.41	0.00	0.00	12.26	12.26
2005-06	103.11	0.00	0.00	10.50	10.50
2006-07	119.84	0.00	0.00	11.50	11.50

During the current year, the Government invested Rs.10.73 crore in State Mineral Development Corporation, a Government Company and Rs.6 crore in Nagaland Forest Product, a Joint Stock Company. During 2005-06, significant increase in Government investment (Rs.29.70 crore) was mainly in State Mineral Development Corporation (Rs.13.99 crore), Nagaland Forest Products (Rs.11.75 crore), Industrial Raw Material and Supply Corporation (Rs.2.81 crore) and Public Sector and Other Undertakings (Rs.1.15 crore).

Out of total Government investment of Rs.119.85 crore at the close of the current year, Rs.62.22 crore was invested in 6 Government companies and State PSUs, Rs.24.66 crore in 2 Joint Stock Companies and remaining amount of Rs.25.88 crore was invested in Cooperative Bank and Cooperative Societies etc. A Government company viz., Nagaland Sugar Mills Ltd (Rs.7.29 crore investment) and a Joint Stock

Company Nagaland Paper and Pulp Corporation (Rs.6.33 crore-investment) were closed down; while 3 Government Corporations- Nagaland Industrial Development Corporation Ltd., (Rs.8.39 crore), Nagaland Industrial Raw Materials & Supply Corporation Ltd., (Rs.4.05 crore) and Nagaland Handloom & Handicrafts Development Corporation Ltd., (Rs.2.82 crore) were incurring losses. Since the accounts of Nagaland State Mineral Development Corporation Ltd., (Rs.39.37 crore) are outstanding from 1994-95, the financial status of the company could not be assessed.

1.6.2 Loans and Advances by State Government

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

Table-1.18: Average Interest Received on Loans Advanced by the State Government

	(Rupees in crore)				
	2002-03	2003-04	2004-05	2005-06	2006-07
Opening Balance	48.04	42.96	41.23	35.06	30.27
Amount advanced during the year	2.33	5.08	0.34	0.61	0.24
Amount repaid during the year	7.42	6.81	6.50	5.40	4.33
Closing Balance	42.96	41.23	35.06	30.27	26.19
Net addition	(-) 5.09	(-) 1.73	(-) 6.16	(-) 4.79	(-) 4.09
Interest Received	0.75	0.89	1.53	1.24	1.38
Interest received as <i>per cent</i> to outstanding Loans and advances	1.65	2.11	4.36	4.10	5.27
Average interest rate (in <i>per cent</i>) paid on borrowings by State Government	11.30	11.66	12.26	10.50	11.50
Difference between average interest paid and received (<i>per cent</i>)	9.65	9.55	7.90	6.40	6.28

At the end of March 2007, the Government had outstanding loans and advances of Rs.26.19 crore (Table 1.18) mainly from Co-operative Societies (Rs.21.79 crore), Village & Small Industries (Rs.1.87 crore), Government Servants (Rs.1.51 crore). The Interest received as percentage of outstanding loans ranged from 1.65 to 5.27 *per cent* during the period, which was much less than the interest paid by the Government on its own borrowings.

1.6.3 Management of cash balances

It is generally desirable that the State's flow of resources should match its expenditure obligations. However, to take care of any temporary mismatches in the flow of resources and expenditure obligations, a mechanism of Ways and Means Advances (WMA) - ordinary and special- from Reserve Bank of India (RBI) has been put in place. The operative limit for normal WMA is reckoned as the three year average of revenue receipts and the operative limit for special WMA is fixed by RBI from time to time depending on the holding of Government securities. WMA and overdrafts availed, the number of occasions when these were availed and interest paid by the State is detailed in Table-1.19.

Table-1.19: Ways and Means Advances and Overdrafts of the State
(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07
Ways and Means Advances					
Availed in the year	656.80	44.55	297.35	195.08	188.18
Number of occasions	9	1	9	5	4
Outstanding WMA, if any	---	---	7.07	53.01	95.32
Interest Paid	1.77	0.63	0.48	0.27	0.27
Number of days	311	6	53	14	7
Overdraft					
Availed in the year	349.55	---	57.02	79.84	78.53
Number of occasions	11	---	2	1	1
Number of days	158	365	3	2	5
Interest Paid	0.71	0.13	0.33	0.37	0.24

1.7 Undischarged Liabilities

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

1.7.1 Fiscal liabilities-Public Debt and Guarantees

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

Table-1.20 gives the fiscal liabilities of the State, their rate of growth, ratio of these liabilities to GSDP, to revenue receipts and to own resources as also the buoyancy of fiscal liabilities with respect to these parameters.

Table-1.20: Fiscal Liabilities – Basic Parameters

	2002-03	2003-04	2004-05	2005-06	2006-07
Fiscal Liabilities* (Rupees in crore)	2102.22	1924.41	2146.29	2641.34#	2922.01
Rate of Growth (<i>per cent</i>)	23.96	(-) 8.46	11.53	23.00	10.63
Ratio of Fiscal Liabilities to					
GSDP (<i>per cent</i>)	44.30	36.70	37.10	43.44	42.00
Revenue Receipts (<i>per cent</i>)	156.10	81.60	116.70	116.50	105.39
Own Resources (<i>per cent</i>)	1984.30	1486.50	1374.00	1305.33	1390.37
Buoyancy of Fiscal Liabilities to					
GSDP (ratio)	1.620	(-)0.820	1.118	2.231	2.381
Revenue Receipts (ratio)	14.185	(-) 0.112	(-) 0.523	0.990	0.948
Own Resources (ratio)	181.045	(-) 0.381	0.558	1.284	3.753

* Includes Internal Debt, Loans and Advances from GOI and other obligations.

The fiscal liabilities of 2005-06 differ from the last year Report due to rectification of errors in Finance Accounts during 2006-07, i.e. Rs.89.06 crore which was wrongly booked under 8007-Investment of National Savings Fund in 2005-06, since rectified and transferred in 2006-07 to 6003-111-Special Securities issued to National Small Savings Fund of the Central Government.

The overall fiscal liabilities of the State have increased from Rs.2102.22 crore in 2002-03 to Rs.2922.01 crore in 2006-07. The growth rate was 10.63 *per cent* during 2006-07 over the previous year. The ratio of fiscal liabilities to GSDP also decreased from 44.30 *per cent* in 2002-03 to 42 *per cent* in 2006-07 with inter-year variations. The fiscal liabilities of the State at the close of 2006-07 comprised (a) internal debt of the State Government at Rs.2518.35 crore which included market loan, loans from Insurance Companies/Other Institutions, ways and means advance from RBI, Special Securities issued to National Small Savings Fund of the Central Government which has increased by 13.41 *per cent* from Rs.2220.54 crore in 2005-06 and (b) Loans and advances from the Central Government comprising Rs.403.66 crore in 2006-07 which included non plan loans, loans for State Plan Schemes, loans for Central Plan Schemes, loans for Centrally Planned Schemes, loans for Special Schemes and Pre 1984-85 Loans, which have decreased by 4.25 *per cent* from Rs.420.80 crore in 2005-06. These liabilities stood at nearly 1.05 times the revenue receipts and 13.90 times of the State's own resources at the end of 2006-07. In line with the recommendations of the TFC, the State Government has set up the Sinking Fund for amortisation of market borrowings as well as other loans and debt obligations during 2006-07. Contribution to the corpus of the fund was Rs.16.17 crore as of March 2007.

1.7.2 Debt sustainability

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

Debt Stabilisation

A necessary condition for stability states that if the rate of growth of economy exceeds the interest rate or cost of public borrowings, the debt-GDP ratio is likely to be stable, provided primary balances are either zero or positive or are moderately negative. Given the rate spread (GSDP growth rate–interest rate) and quantum spread (Debt*rate spread), debt sustainability condition states that if quantum spread together with primary deficit is zero, debt-GSDP ratio would be constant or debt would stabilize eventually. On the other hand, if primary deficit together with quantum spread turns out to be negative, debt-GSDP ratio would be rising and in case it is positive, debt-GSDP ratio would eventually be falling. Trends in fiscal variables indicating the progress towards debt stabilisation are indicated in Table-1.21.

Table-1.21: Debt Sustainability-Interest Rate and GSDP Growth

(in per cent)

	2002-03	2003-04	2004-05	2005-06	2006-07
Average Interest Rate	11.30	11.66	12.26	10.50	11.50
GSDP Growth	14.79	10.32	10.31	10.31	9.15
Interest spread	3.49	(-) 1.34	(-) 1.95	(-) 0.19	(-) 2.35
Outstanding Debt	1695.93	2102.22	1924.41	2146.29	2641.34
Quantum spread (Rs. in crore)	59.00	(-) 28.00	(-) 38.00	(-) 4.00	(-) 62.00
Primary Deficit (-) /Surplus (+) (Rs. in crore)	(-) 280.39	392.14	31.23	(-) 52.52	(+) 123.66

Table 1.21 shows that quantum spread together with primary deficit was (-) Rs.221.39 crore in 2002-03 with debt-GSDP ratio at 44.3 per cent during the year. This sum turned into a huge positive figure of Rs 364.14 crore in the very next year (2003-04) thereby reducing steeply the debt-GSDP ratio by more than seven percentage points to 36.70 per cent during 2003-04. The sum of quantum spread and primary deficit remained negative during 2004-05 and 2005-06 indicating rising Debt-GSDP ratio during these years which marginally declined to 42 per cent during 2006-07 as primary surplus exceeded the negative quantum spread during the year. However, it may be stated that debt sustainability of the State will depend substantially on the continued availability of grants-in-aid from the GOI (which forms the major part of the State's receipts) and ability of the State Government to maintain the growth rate of GSDP higher than the rate of borrowing.

Sufficiency of Non-debt Receipts

Another indicator for debt stability and its sustainability is the adequacy of incremental non-debt receipts of the State to cover the incremental interest liabilities and incremental primary expenditure. Debt sustainability could be significantly facilitated if the incremental non-debt receipts could meet the incremental interest burden and the incremental primary expenditure. Table-1.22 indicates the resource gap as defined for the period 2002-07.

Table-1.22: Incremental revenue receipts and Revenue Expenditure
(Rupees in crore)

Period	Incremental				Resource Gap
	Non-Debt Receipts	Primary Expenditure	Interest Payments	Total Expenditure	
2002-03	22	166	14	180	(-) 158
2003-04	1013	339	20	359	(+) 654
2004-05	(-) 521	(-) 160	15	(-) 145	(-) 376
2005-06	427	511	4	515	(-) 88
2006-07	504	327	26	353	(+) 151

The trends in Table-1.22 also reveal that the incremental non-debt receipts of the State were enough to meet the incremental interest liabilities and incremental primary expenditure in two years (2003-04 and 2006-07) out of the five year period 2002-07 mainly on account of boost in revenue receipts due to large flow of grants-in-aid from the GOI. The negative resource gap during the remaining three years indicated State's reliance on borrowed funds to meet even its incremental requirements on account of interest obligations and primary expenditure.

1.7.3 Net availability of funds

Another important indicator of debt sustainability is the net availability of funds after the payment of the principal on account of earlier contracted liabilities and interest. Table-1.23 below gives the position of the receipts and repayment of internal debt and other fiscal liabilities of the State over the last five years.

Table-1.23 Net Availability of Borrowed Funds
(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07
Internal debt					
Receipts	238.58	393.93	256.22	413.50	454.33
Repayment (Principal + Interest)	180.55	211.80	247.15	280.37	329.04
Net Fund Available	58.03	182.13	9.07	133.13	125.29
Net Fund Available (<i>per cent</i>)	24.32	46.23	3.54	32.20	27.58
Loans and Advances from Government of India					
Receipts	447.67	(-) 397.15	163.92	104.77	1.15
Repayment (Principal + Interest)	76.61	164.81	171.21	161.59	64.69
Net Fund Available	371.06	(-) 561.96	(-) 7.29	(-) 56.82	(-) 63.54
Net Fund Available (<i>per cent</i>)	82.89	141.50	(-) 4.45	(-) 54.23	(-) 5525.22
Other obligations					
Receipts	242.88	186.99	111.21	161.78	101.10
Repayment (Principal + Interest)	168.68	210.70	204.24	279.39	161.38
Net Fund Available	74.20	(-) 23.71	(-) 93.03	(-) 117.61	(-) 60.28
Net Fund Available (<i>per cent</i>)	30.55	(-) 12.68	(-) 83.65	(-) 72.70	(-) 59.62
Total liabilities					
Receipts	929.13	183.77	531.35	680.05	556.58
Repayment (Principal + Interest)	425.84	587.31	622.60	721.35	555.11
Net Fund Available	503.29	(-) 403.54	(-) 91.25	(-) 41.30	1.47
Net Fund Available (<i>per cent</i>)	54.17	(-) 219.59	(-) 17.17	(-) 6.07	0.26

The funds available on account of the redemption of internal debt, loans and advances from GOI and other receipts in Public Account obligations net of repayments and discharge of interest payment obligations have consistently improved from (-) Rs.219 crore in 2003-04 to (+) Rs.1.47 crore in 2006-07. During the current year, the

Government repaid principal plus interest on account of internal debt of Rs.329.04 crore (which was less than the receipts of Rs.454.33 crore), Rs.64.69 crore on GOI loans and advances against the receipts of Rs.1.15 crore and also discharged other obligations of Rs.161.38 crore against the receipts of Rs.101.10 crore resulting in a meagre balance of Rs 1.47 crore to meet its development requirements.

1.8 Management of deficits

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

1.8.1 Trends in deficits

The trends in fiscal parameters depicting the position of fiscal equilibrium in the State are presented in Table-1.24.

The revenue account of the State presents the trends in its revenue expenditure and revenue receipts over a definite time period. The revenue account of the State had exhibited consistent improvement during the period 2003-07 as the State had not only maintained revenue surplus but its surplus position has improved since 2004-05. An increase of Rs.343.69 crore in revenue surplus during the current year was mainly on account of enhancement in revenue receipts by Rs.505.31 crore as against the increase of Rs.161.62 crore in revenue expenditure during 2006-07 over the previous year. It may however be noted that around 98 *per cent* of the incremental revenue receipts were contributed by the increase in Central transfers comprising of States' share in Union pool of taxes and duties and grants-in-aid from the GOI. Further, given the increase in revenue surplus, a marginal decline of Rs.1.07 crore in non-debt capital receipts and the combined increase of Rs.192.24 crore in capital expenditure and loan and advances disbursed during 2006-07 over the previous year, fiscal deficit decreased by Rs.150.38 crore during the current year from the level of Rs.306.41 crore in 2005-06. A decline in fiscal deficit accompanied by an increase in interest payments (Rs.25.80 crore) resulted in primary surplus of Rs.123.66 crore against the primary deficit of Rs.52.52 crore in 2005-06.

Table-1.24: Fiscal Imbalances-Basic Parameters

Parameters	2002-03	2003-04#	2004-05	2005-06	2006-07
Revenue deficit(-)/surplus (+) (Rupees in crore)	(-) 159.37	546.80	154.89	206.67	550.36
Fiscal deficit (-)/surplus (+) (Rupees in crore)	(-) 494.97	157.40	(-) 218.39	(-) 306.41	(-) 156.03
Primary deficit(-)/surplus(+) (Rupees in crore)	(-) 280.39	392.14	31.23	(-) 52.52	123.66
RD or RS/GSDP (<i>per cent</i>)	(-) 3.36	10.44	2.68	3.24	7.91
FD/GSDP (<i>per cent</i>)	(-) 10.42	3.00	(-) 3.78	(-) 4.81	(-) 2.36
PD/GSDP (<i>per cent</i>)	(-) 5.90	7.49	0.540	(-) 0.82	(+) 1.66
RD/FD (<i>per cent</i>)	32.20	*	*	*	*

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

*The State experienced revenue surplus during these years.

Quality of deficit/surplus

The ratio of RD to FD and the decomposition of primary deficit into primary revenue deficit⁴ 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. During the entire five year period, the State had a revenue surplus indicating that a portion of surplus funds in the revenue account were being used to finance the fiscal deficit of the State during these years.

The bifurcation of the factors that result in primary deficit or surplus of the State during the period 2002-07 reveals (Table-1.25) that non-debt receipts were enough to meet the requirement of primary revenue expenditure and a portion of these receipts were available to finance the capital expenditure. These were, however, not enough during 2002-03 and 2005-06 indicating the extent to which primary deficit has been on account of capital expenditure requirements which may be desirable to improve productive capacity of the State's economy.

Table-1.25: Primary deficit/surplus- Bifurcations of factor

(Rupees in crore)							
Year	Non-debt Receipts	Primary Revenue Expenditure	Capital Expenditure	Loans and Advances	Primary Expenditure	Primary Revenue Deficit (-)/ Surplus (+)	Primary Deficit (-) / Surplus (+)
1	2	3	4	5	6 (3+4+5)	7 (2-3)	8 (2-6)
2002-03	1354	1292	341	2	1635	(+) 62	(-) 281
2003-04	2367	1578	391	5	1974	(+) 789	(+) 393
2004-05	1846	1435	379	0	1814	(+) 411	(+) 32
2005-06	2273	1807	518	0	2325	(+) 466	(-) 52
2006-07	2777	1942	710	0	2652	(+) 835	(+) 125

1.9 Fiscal ratios

The finances of a State should be sustainable, flexible and non-vulnerable. Table-1.26 below presents a summarised 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 application, highlights areas of concern and captures its important facts.

Table 1.26 - Indicators of Fiscal Health (in per cent)

Fiscal Indicators	2002-03	2003-04	2004-05	2005-06	2006-07
I. Resource Mobilisation					
Revenue Receipts/GSDP	28.36	45.05	31.83	35.57	39.85
Revenue Buoyancy	0.114	7.287	(-) 2.138	2.255	2.435
Own tax/GSDP	1.31	1.31	1.36	1.66	1.71
II. Expenditure Management					
Total Expenditure/GSDP	38.94	42.17	35.72	40.46	42.15
Total Expenditure/Revenue Receipts	137.03	93.62	112.23	113.75	105.78

⁴ 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.

Revenue Expenditure/Total Expenditure	81.45	82.07	81.60	79.90	75.77
Salary & Wage expenditure on social and Economic Service/Revenue Expenditure	NA	27.67	28.84	29.44	29.20
Non-Salary & Wage expenditure on Social and Economic Services/Revenue Expenditure	NA	24.07	20.23	24.95	24.89
Capital Expenditure/Total Expenditure	18.40	17.70	18.38	20.08	24.22
Capital Expenditure on Social and Economic Services/Total Expenditure	17.08	15.44	16.31	17.68	14.54
Buoyancy of TE with RR	6.39	0.26	0.30	1.07	0.62
Buoyancy of RE with RR	3.28	0.27	0.32	0.96	(-) 4.00
III. Management of Fiscal Imbalances					
Revenue surplus(+)/deficit(-) (Rs. in crore)	(-) 159.37	546.80	154.89	206.67	550.36
Fiscal deficit(-)/surplus(+) (Rs. in crore)	(-) 494.97	157.40	(-) 218.39	(-) 306.41	(-) 156.03
Primary deficit(-)/surplus(+) (Rs. in crore)	(-) 280.39	392.14	31.23	(-) 52.52	(-) 123.66
Revenue deficit/Fiscal deficit	32.20	*	*	(-) 67.45	335.16
IV. Management of Fiscal Liabilities					
Fiscal Liabilities/GSDP	44.27	36.73	37.14	40.04	42.00
Fiscal Liabilities/RR	156.08	81.55	116.68	112.57	105.39
Primary deficit vis-à-vis quantum spread	(-) 207.39	366.14	(-) 10.71	(-) 57.52	(-) 192.66
Net Fund Available	54.17	(-) 219.59	(-) 17.17	(-) 6.07	0.26
V. Other Fiscal Health Indicators					
Return on Investment	0.00	0.00	0.00	0.00	0.00
Balance from Current Revenue (Rs. in crore)	(-) 555.96	247.88	(-) 386.32	(-) 58.01	(-) 169.27
Financial Assets/Liabilities	0.95	1.17	1.21	1.26	1.07

The ratios of revenue receipts and State's own taxes to GSDP indicate the adequacy of the resources. Revenue receipts are comprised not only of the tax and non-tax resources of the State but also the transfers from Union Government. The ratio of revenue receipts to GSDP has consistently increased to 40 *per cent* during the current year from the level of 28 *per cent* in 2002-03 with an exception of 2003-04 when revenue receipts increased steeply due to conversion of GOI loans to Nagaland to grants-in-aid. The ratio of own taxes to GSDP has also increased since 2003-04 from 1.31 to 1.71 in 2006-07.

Various ratios concerning the expenditure management of the State indicate the quality of its expenditure and sustainability of these in relation to its resource mobilization efforts. The revenue expenditure as a percentage to total expenditure declined by four percentage points from 82 *per cent* in 2003-04 to 76 *per cent* during 2006-07 exhibiting an increasing trend in the ratio of capital expenditure to total expenditure during the period. Barring 2003-04, the revenue receipts were inadequate to finance the total expenditure during the period 2002-07 indicating continued dependence on borrowed funds. However, noticeably the proportion of total expenditure being financed through borrowed funds declined over the period which is also reflected by the declining ratio of financial liabilities to revenue receipts which was 156 in 2002-03 as compared to 105 in 2006-07.

Revenue surplus consistently improved during the last three years and increased by Rs.343.69 crore during the current year as a result of which, the fiscal deficit declined by Rs.150 crore. The Balance from Current Revenue widely fluctuated during the

2002-07 and remained negative at (-) Rs.169 crore in the current year. An encouraging trend is however reflected in the ratio of fiscal assets to fiscal liabilities which remained greater during the last four years (2003-07).

1.10 Conclusion

The fiscal health of the State as reflected in terms of trends in key fiscal parameters- revenue, fiscal and primary deficits- has shown significant improvement during 2006-07 over the previous year. However, the State finances are heavily dependent on Central transfers, which account for about 92 *per cent* of its revenue receipts and helped the State Government to maintain revenue surplus during the period 2003-07. Although the State had maintained revenue surplus during the last four years, fiscal deficit continued to persist, primarily because a part of capital expenditure was financed through borrowed funds during these years. The expenditure pattern of the State reveals that the revenue expenditure as a *percentage* to total expenditure constituted around 76 *per cent* during the current year leaving inadequate resources for expansion of services and creation of assets. A further analysis of expenditure reveals that the NPRE at Rs.1768.46 crore is significantly higher than the normative assessment of Rs.1532.18 crore by TFC for the State for 2006-07. Moreover, its three components viz., expenditure on salaries, pensions, and interest payments constituted 82 *per cent* of NPRE during 2006-07. The continued prevalence of fiscal deficit in the finance accounts of the State indicates the increasing reliance on borrowed funds resulting in increasing fiscal liabilities of the State over this period. The increasing fiscal liabilities accompanied by a zero rate of return on Government investments and inadequate interest cost recovery on loans and advances might lead to an unsustainable debt situation in medium to long run, unless suitable measures are initiated to compress the non plan revenue expenditure and mobilize additional resources both through the tax and non tax sources in ensuing years.