

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 Arunachal Pradesh 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. 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.

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		
					Non-Plan	Plan	Total
Section A: Revenue							
1849.41	1. Revenue Receipts	2592.17	1667.65	1. Revenue Expenditure	1086.21	811.02	1897.23
62.09	Tax revenue	78.24	488.73	General Services	546.49	13.11	559.60
202.36	Non- tax revenue	297.17	571.05	Social Services	200.87	432.72	633.59
272.15	Share of Union Taxes/Duties	347.14	607.87	Economic Services	338.85	365.19	704.04
1312.81	Grants from Government of India	1869.62	---	Grants –in-aid/ contributions	---	---	---
Section B : Capital							
---	II. Miscellaneous Capital Receipts	---	437.61	II. Capital Outlay	0.14	585.46	585.60
2.82	III. Recoveries of Loans and Advances	2.33	3.68	III. Loans and Advances disbursed	3.19	1.59	4.78
714.07	IV. Public Debt receipts ¹	110.37	250.55	IV. Repayment of Public Debt	---	---	92.44
---	V. Contingency Fund	---	---	V. Contingency Fund	---	---	---
1425.12	VI. Public Account receipts	1484.20	1387.92	VI. Public Account disbursements			1556.07
(-) 229.62	Opening Cash Balance	14.39	14.39	Closing Cash Balance			67.34
3761.80	Total	4203.46	3761.80	Total			4203.46

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

- Revenue receipts grew by Rs.743 crore over the previous year. The increase was mainly contributed by grants-in-aid from Government of India (GOI) (Rs.557 crore), Non tax revenue (Rs.95 crore) and State's share of Union taxes and duties (Rs.75 crore).

¹ Includes net ways and means advances and overdraft

- Revenue expenditure and capital expenditure increased by Rs.230 crore and Rs.148 crore respectively over the previous year.
- Public debt receipts decreased by Rs.604 crore over previous year mainly due to decrease in market loans by Rs.289 crore, borrowings from GOI by Rs.187 crore and also due to non-obtaining of ways and means advances and overdraft from Reserve Bank of India. Public debt repayments also decreased by Rs.158 crore over previous year mainly due to less disbursement of ways and means advances under loans and advances from Central Government by Rs.188 crore partly offset by increase of Rs.18 crore under loans for State Plan schemes and Rs.12 crore under Internal debt other than ways and means advances and overdraft.
- Public Account receipts and Public Account disbursements increased by Rs.59 crore and Rs.168 crore respectively, over previous year.
- Cash balance of the State increased by Rs.53 crore over previous year.

1.1.2 Fiscal Position by Key Indicators

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

Table: 1.2

(Rupees in crore)

2005-06	Sl. No.	Major Aggregates	2006-07
1849	1.	Revenue Receipts (2+3+4)	2592
62	2.	Tax Revenue	78
202	3.	Non-Tax Revenue	297
1585	4.	Other Receipts	2217
3	5.	Non-Debt Capital Receipts	2
3	6.	Of which recovery of Loans	2
1852	7.	Total Receipts (1+5)	2594
944	8.	Non- Plan Expenditure	1089
944	9.	On Revenue Account	1086
157	10.	of which Interest Payments	188
(-) 1	11.	On Capital Account	---
1	12.	On Loans disbursed	3
1165	13.	Plan Expenditure	1399
724	14.	On Revenue Account	811
437	15.	On Capital Account	586
3	16.	On Loans disbursed	2
2109	17.	Total Expenditure (13+8)	2488
(+) 182	18.	Revenue Deficit (-)/Surplus (+) (1-9-14)	(+) 695
(-) 257	19.	Fiscal Deficit (-)/Surplus (+) (1+5-17)	(+) 106
(-) 100	20.	Primary Deficit (-)/ Surplus (+) (10+19)	(+) 294

During the current year revenue receipts increased by Rs.743 crore (40 per cent) and revenue expenditure increased by Rs.230 crore (14 per cent) over the previous year, resulting in increase of Rs.513 crore in surplus on revenue account. Given the incremental surplus in revenue account, a marginal

decrease of Rupees one crore in non-debt capital receipts accompanied by an increase of Rs.149 crore in capital expenditure including loans and advances, led to a fiscal surplus of Rs.106 crore in 2006-07 compared to the fiscal deficit of Rs.257 crore in previous year. The emergence of a surplus of Rs.363 crore on fiscal front along with an increase of Rs.31 crore in interest payments resulted in primary surplus of Rs.294 crore in 2006-07 as against the primary deficit of Rs.100 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 emerging from the Statements of Finance Accounts were analysed wherever necessary over a period of last five years and observations have been made on their behaviour. In its Restructuring Plan of the 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 Act 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 during medium to long run. The norms/ceiling prescribed by the TFC as well as its projections for fiscal aggregates along with the commitments/projections made by the State Government in its Fiscal Responsibility Act and in other Statements required to be laid in the Legislature under the Act were used to make qualitative assessment of the trends and position 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 GSDP at current market prices. The buoyancy coefficients for tax revenues, non-tax revenues, revenue expenditure *etc*, with reference to the base represented by GSDP have also been worked out to assess as to whether the mobilisation of resources, pattern of expenditure *etc*, are keeping pace with the change in the base or these fiscal aggregates have also been affected by factors other than GSDP.

Table: 1.3 Trends in Growth of GSDP

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Gross State Domestic Product (GSDP) (Rs.in crore)	1942	1963	2262	2458	2666	2891
Rate of Growth of GSDP (in per cent)	8.92	1.08	15.23	8.66	8.46	8.44

Source: The State Government, Department of Economics and Statistics furnished the figures from 2001-02 to 2003-04 and figures of 2004-05 to 2006-07 are taken from State Fiscal Correction Path.

The key fiscal aggregates for the purpose have been grouped under four major heads: (i) Resources by Volume and Sources, (ii) Application of Resources,

(iii) Assets and Liabilities and (iv) Management of Deficits (**Appendices 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, 2006

The State Government enacted (March 2006) the Arunachal Pradesh Fiscal Responsibility (APFR) Act, 2006 to ensure prudence in fiscal management and fiscal stability by progressive elimination of revenue deficit, 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. The Act set the following fiscal targets for the State Government:

- Reduce revenue deficit to nil within a period of four financial years beginning from 1 April 2005;
- Reduce revenue deficit as a percentage of GSDP in each of the financial years beginning from 1 April 2005;
- Reduce fiscal deficit to not more than three *per cent* of the estimated GSDP within a period of five financial years beginning from 1 April 2005.

1.2.1.1 Fiscal Policy Statement(s) 2006-07

As prescribed in the Act, the State Government has to lay before the Legislature, the Medium Term Fiscal Plan along with the annual budget. However, the State Government had not laid any such plan in the Legislature along with annual budget 2006-07.

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**) keeping in view the fiscal targets laid down in the FRBM Act and/or the rules made there under and the anticipated annual rate of reduction of fiscal deficit of the States worked out by the GOI for the TFC Award. The State picked up the momentum towards achievement of fiscal target, with the current year ending in revenue surplus of Rs.695 crore.

1.2.1.3 Mid-Term Review of Fiscal Situation

To enforce compliance with the fiscal principles and targets laid down in the FRBM Act, 2006, the State Finance Department is to review every half year 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 a review. However, the State Government is yet to enforce the provision of the Act in this regard as no mid-term review has been undertaken during the current year.

1.3 Trends and Composition of Aggregate Receipts

The receipts of the State Government consist of revenue 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 disinvestments, recoveries of loans and advances, debt receipts from internal sources (market loans, borrowings from financial institutions, commercial banks) and loans and advances from GOI as well as accruals from Public Account. **Table-1.4** shows that the total receipts of the State Government for the year 2006-07 were Rs.4,188 crore. Of these, the revenue receipts were Rs.2,592 crore constituting 62 *per cent* of total receipts. The balance came from capital receipts, borrowings, receipts from Contingency Fund and Public Account (**Appendix – 1.6**).

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
I. Revenue Receipts	1085	1108	1576	1502	1849	2592
II. Capital Receipts	142	145	308	218	717	112
Recovery of Loans and Advances	2	2	2	3	3	2
Public Debt Receipts	140	143	306	215	714	110
Miscellaneous Capital Receipts	-	-	-	-	-	-
III. Contingency Fund	-	-	-	-	-	-
IV. Public Account Receipts	948	1514	958	1209	1425	1484
a. Small Savings, Provident Fund <i>etc.</i>	86	96	141	134	129	133
b. Reserve Fund	2	3	72	11	17	10
c. Deposits and Advances	79	157	137	91	147	230
d. Suspense and Miscellaneous	148	530	(-) 333	47	51	(-) 237
e. Remittances	633	728	941	926	1081	1348
Total Receipts	2175	2767	2842	2929	3991	4188

The total receipts of the State increased from Rs.2,175 crore in 2001-02 to Rs.4,188 crore in 2006-07. The debt capital receipts which create future repayment obligation decreased steeply from Rs.714 crore in 2005-06 to Rs.110 crore in 2006-07.

1.3.1 Revenue Receipts

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

Table 1.5: Revenue Receipts – Basic Parameters

(Value in crore of Rupees)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Revenue Receipts (RR)	1085	1108	1576	1502	1849	2592
Own Taxes (<i>per cent</i>)	31 (3)	37 (3)	44(3)	50(3)	62(3)	78(3)
Non-Tax Revenue (<i>per cent</i>)	71 (17)	76(7)	121(8)	170(11)	202(11)	297(12)
Central tax Transfers (<i>per cent</i>)	91 (8)	122(11)	161(10)	192(13)	272(15)	347 (13)
Grants-in-aid (<i>per cent</i>)	893 (82)	873 (79)	1251 (79)	1090(73)	1313(71)	1870(72)
Rate of growth of RR (<i>per cent</i>)	12.90	2.12	42.23	(-) 4.70	23.10	40.18
Revenue Receipts/GSDP (<i>per cent</i>)	55.87	56.44	69.67	61.10	69.35	89.66
Revenue Buoyancy (ratio) ²	1.446	1.962	2.772	(-) 0.542	2.730	4.760
State's own taxes Buoyancy (ratio)	5.337	17.916	1.242	1.575	2.836	3.058
Revenue Buoyancy with reference to State's own taxes (ratio)	0.270	0.109	2.231	(-) 0.344	0.962	1.556
GSDP Growth (<i>per cent</i>)	8.92	1.08	15.23	8.66	8.46	8.44

General Trends

The revenue receipts of the State increased from Rs.1,085 crore in 2001-02 to Rs.2,592 crore in 2006-07 at an annual average rate of 23.15 *per cent*. While 15 *per cent* of the revenue receipts during 2006-07 have come from State's own resources comprising own taxes and non-taxes, central tax transfers and grants-in-aid together contributed 85 *per cent* of the total revenue. The sharp increase of Rs.743 crore in revenue receipts during 2006-07 over the previous year was mainly on account of increase in non-tax revenue (Rs.95 crore), grants-in-aid (Rs.557 crore) from GOI and central tax transfers (Rs.75 crore).

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

(Rupees in crore)

	Assessments made by TFC	Assessments made by State Government in Fiscal Correction Path	Actual
Tax Revenue	121	63	78
Non-Tax Revenue	92	187	297

The tax revenue increased by 23.81 *per cent* and the non-tax revenue by 58.82 *per cent* over the assessment made by the State Government. Although the

² 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 4.7 during 2006-07 implies that revenue receipts tend to increase by 4.7 percentage points if the GSDP increase by one per cent.

actual realisation of non-tax revenue has exceeded the assessments made by the TFC the Tax revenue fell short by Rs.43 crore.

Tax Revenue: The tax revenue increased by 25.81 *per cent* during the current year (Rs.78 crore) over the previous year (Rs.62 crore). The revenue from sales tax not only contributed the major share of tax revenue (79 *per cent*), but also increased by 29 *per cent* over the previous year. The State had implemented Value Added Tax (VAT) w.e.f 1 April 2005. State excise, taxes on vehicles and land revenue are the other major contributors in the State's tax revenue. **Table 1.6** below shows the trend of tax revenue during 2001-2007.

Table 1.6: Tax Revenue

(Rupees in crore)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Land Revenue	1.00	0.81	3.57	0.76	1.11	2.10
Stamps and Registrations	0.27	2.10	0.31	0.46	0.41	0.55
State Excise	10.55	14.26	15.42	17.79	9.51	10.98
Sales Tax	16.78	17.62	21.79	28.25	47.69	61.64
Taxes on Vehicles	1.61	1.75	2.02	2.21	2.99	2.93
Other Taxes ³	0.68	0.72	0.62	0.64	0.38	0.04
Total	30.89	37.26	43.73	50.11	62.09	78.24

Non Tax Revenue: The non tax revenue which constituted 11.5 *per cent* of the total revenue receipts, increased by Rs.95 crore over the previous year, recording a growth rate of 47 *per cent* over previous year. The debt waiver (Rs.20.21 crore) given by GOI under DCRF⁴ led to sharp increase in non-tax revenue of the State. The other areas where substantial increase were observed include Power (Rs.30.24 crore), Interest and other receipts under Non-ferrous Mining and Metallurgical Industries (Rs.22.74 crore) and interest realised on investment of cash balances (Rs.6.39 crore).

Central Tax Transfers: The Central tax transfers increased by Rs.74.99 crore over the previous year and constituted 13 *per cent* of revenue receipts. The increase was mainly under Corporation tax (Rs.33.20 crore), Service tax (Rs.13.24 crore) and Taxes on Income other than corporation tax (Rs.12.82 crore).

Grants-in-aid: The Grants-in-aid from GOI increased from Rs.1,313 crore in 2005-06 to Rs.1,870 crore in the current year. The increase was mainly under State Plan Schemes (Rs.323 crore), Centrally Sponsored Schemes (Rs.215 crore) and Central Plan Schemes (Rs.24 crore) partly offset by decrease in Non-Plan grants (Rs.1 crore) and Special Plan Schemes (Rs.4 crore). The Non-plan grants (Rs.388 crore) to State constitute 21 *per cent* of total grants during the year of which, 68 *per cent* (Rs.263 crore) were primarily for meeting the Non-Plan revenue deficit due to the recommendation of TFC. The sharp increase in grants for State Plan Schemes from Rs.726.39 crore in

³ Other taxes include taxes on duties on commodities and services.

⁴ Debt Consolidation and Relief Facility.

2005-06 to Rs.1048.91 crore in 2006-07 was mainly on account of increase in Block Grant by Rs.303 crore, grant for Central Road Fund by Rupees nine crore, and Areas Programme of Watershed Development Projects in shifting cultivation by Rupees four crore.

Details of grants-in-aid from GOI are given in **Table 1.7**.

Table 1.7: Grants-in-aid from GOI

	(Rupees in crore)					
	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Grants for State Plan schemes	554	519	822	614	726	1049
Non Plan grants	247	243	300	300	389	388
Grants for Central Plan Schemes	5	6	3	13	44	68
Grants for Centrally Sponsored Schemes	74	72	93	129	105	320
Grants for Special Plan Schemes	13	33	33	34	49	45
Total	893	873	1251	1090	1313	1870
Percentage of increase/ decrease over previous year	17.35	(-) 2.24	43.30	(-) 12.87	20.46	42.42

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. State raises resources to perform its sovereign functions, maintain its existing nature of delivery of social and economic services, to extend the network of these services through capital expenditure and investments and to discharge its debt service obligations. The total expenditure of the State increased from Rs.1,336 crore in 2001-02 to Rs.2,488 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

(Value in crore of Rupees and ratios in per cent)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Total Expenditure (TE) ⁵	1336	1324	1829	1891	2109	2488
Rate of Growth	7.13	(-) 0.90	38.14	3.39	11.53	17.97
TE/GSDP Ratio	68.80	67.45	80.86	76.93	79.11	86.06
Revenue Receipts/TE ratio	81.21	83.69	86.17	79.43	87.67	104.18
Buoyancy of Total Expenditure with						
GSDP (ratio)	0.799	(-) 0.83	2.504	0.391	1.363	2.129
Revenue Receipts (ratio)	0.553	(-) 0.425	0.903	(-)0.721	0.499	0.447

The total expenditure during the current year has increased by Rs.379 crore (Plan: Rs.235 crore and Non-Plan: Rs.144 crore) over the previous year, of which, revenue expenditure shared Rs.230 crore (Plan: Rs.88 crore and

⁵ Total expenditure includes revenue expenditure, capital expenditure and loans and advances.

Non-Plan: Rs.142 crore) capital expenditure contributed Rs.149 crore (Plan: Rs.147 crore and Non-Plan: Rs.2 crore) and Rupees one crore by repayment of loans and advances. During the current year, cent *per cent* of total expenditure was met from revenue receipts. The buoyancy of total expenditure to GSDP stood at 2.1 in 2006-07 indicating a tendency to spend more than the increase in income and higher elasticity of total expenditure with respect to GSDP.

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

	<i>(in per cent)</i>					
	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
General Services	26.90	28.90	26.77	26.63	23.94	23.38
Interest Payments	8.16	9.47	8.44	7.77	7.42	7.55
Social Services	29.50	27.67	27.86	28.80	31.35	31.09
Economic Services	43.23	43.21	45.12	44.25	44.54	45.34
Loans and Advances	0.37	0.22	0.25	0.32	0.17	0.19
Grants-in-aid

Although the share of Social Services in total expenditure remained at 31 *per cent* during the last two years, its capital expenditure component has increased considerably during 2005-07 indicating impetus now being given to social growth. Payment of loans and advances decreased from 0.37 *per cent* in 2001-02 to 0.19 *per cent* of total expenditure in 2006-07. The share of expenditure on General Services was however maintained at the level of 2005-06. The expenditure on General Services and interest payments which are considered as non-developmental, together accounted for 23.38 *per cent* as against 23.94 *per cent* in 2005-06. On the other hand, development expenditure *i.e.*, expenditure on Social and Economic Services together accounted for 76.43 *per cent* in 2006-07 as against 75.89 *per cent* in 2005-06.

1.4.2 Incidence of Revenue Expenditure

Revenue expenditure had the predominant share in the total expenditure. Revenue expenditure is incurred to maintain the current level of services and payments, for the past obligations and as such does not result in addition to the State's infrastructure and service network. The overall revenue expenditure, its

rate of growth, ratio of revenue expenditure to GSDP and to revenue receipts and its buoyancy are indicated in **Table – 1.10**.

Table 1.10: Revenue Expenditure – Basic Parameters

(Rupees in crore)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Revenue Expenditure (RE)	1030	1031	1392	1510	1668	1897
Of which						
Non- Plan Revenue Expenditure (NPRE)	575	609	841	931	944	1086
Plan Revenue Expenditure (PRE)	454	422	551	579	724	811
Rate of Growth and Ratios (per cent)						
Rate of growth of NPRE	(-) 5.43	5.91	38.10	10.70	1.40	15.04
Rate of Growth of PRE	22.37	(-) 7.05	30.57	5.08	25.04	12.02
NPRE/GSDP (per cent)	29.61	31.02	37.18	37.88	35.41	37.56
NPRE as a per cent of TE	43.04	46.00	45.98	49.23	44.76	43.65
NPRE as a per cent of RR	53.00	54.96	53.36	61.98	51.05	41.90
Buoyancy of Revenue Expenditure with						
GSDP (ratio)	0.572	0.093	2.299	0.979	1.236	1.627
Revenue Receipts (ratio)	0.395	0.047	0.829	(-) 1.804	0.453	0.342

The revenue expenditure increased by 84 per cent from Rs.1,030 crore in 2001-02 to Rs.1,897 crore in 2006-07. The NPRE has shown a consistent increase at an annual average rate of 14.81 per cent over the period and continued to share the dominant proportion varying from 56 to 62 per cent of the revenue expenditure. The growth in plan expenditure on the other hand displayed wide fluctuations varying from a decline of seven per cent in 2002-03 to an increase of 31 per cent in 2003-04 and further declined to 12 per cent in the current year. The increase in NPRE during the current year was mainly due to increase in expenditure on pension (Rupees 8 crore) and salaries (Rs.95 crore). The increase in PRE by Rs.87 crore in 2006-07 over the previous year was mainly due to increase in General Economic Services (Rs.24 crore), Education, Sports, Art and Culture (Rs.19 crore) and Special Area Programme (Rs.18 crore). Expenditure buoyancy at 1.6 during 2006-07 implies that revenue expenditure tends to increase by 1.6 percentage points for every one per cent increase in GSDP.

The actual NPRE vis-a-vis assessment made by TFC and the State Government are given below:

(Rupees in crore)

	Assessment made by TFC	Assessments made by State Government in Fiscal Correction Path	Actual NPRE
Non-Plan revenue expenditure	777	981	1086

NPRE during current year has exceeded the normative assessment of TFC by Rs.309 crore and the assessment made by the State Government by Rs.105 crore.

1.4.3 Committed Expenditure

1.4.3.1 Expenditure on Salaries and Wages

The trends in expenditure on salaries both under Plan and Non-Plan heads are presented in **Table 1.11**.

Table – 1.11: Expenditure on salaries

	(Rupees in crore)					
	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Expenditure on salaries & wages *of which	434	446	505	550	575	670
Non-Plan Head	310	327	370	398	421	485
Plan Head **	124	119	135	152	154	185
As a percentage of GSDP	22.35	22.72	22.33	22.38	21.57	23.18
As a percentage of Revenue Receipts	40	40.25	32.04	36.62	31.10	25.85

Source: The State Government furnished the figures of salary and wages from 2001-02 to 2004-05 and figures of 2005-06 and 2006-07 furnished by the AG (A & E) Arunachal Pradesh, Meghalaya etc., Shillong.

* Represents salaries and wages only but excludes salaries & wages spent from grants-in-aid.

** Plan Head also includes the salaries and wages paid under Centrally Sponsored Schemes.

Expenditure on salaries under Non-plan and plan during the current year is Rs.485 crore and Rs.185 crore respectively recording a growth rate of 15 per cent and 20 per cent respectively. Expenditure of Rs.670 crore on salaries during 2006-07 was more by Rs.56 crore than assessed (Rs.614 crore) by the State Government in its FCP. The salary expenditure is 41 per cent of revenue expenditure, net of interest and pension payments which is marginally higher than the norm of 35 per cent recommended by the TFC.

1.4.3.2 Pension Payments

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	54	60	66	70	71	79
Rate of growth	12.5	11.1	10.0	6.1	1.4	11.3
As per cent of GSDP	2.78	3.06	2.92	2.85	2.66	2.73
As per cent of RR	4.98	5.42	4.19	4.66	3.84	3.05
As per cent of RE	5.24	5.82	4.74	4.64	4.26	4.16

Source: Finance Accounts 2006-07

Pension payments during the current year have increased by Rupees eight crore, recording a growth rate 11 per cent over the previous year. Pension payments during 2006-07 constituted three per cent of GSDP, three per cent of revenue receipts and four per cent of revenue expenditure. 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 projections made by the State Government by

Rupees one crore. However, the actual pension payment is less by Rupees one crore than the normative projections made by TFC.

Table 1.13 Pension Payments vis-à-vis projections

(Rupees in crore)			
	Assessment made by TFC	Assessment made by State Government in Fiscal Correction Path	Actual Expenditure on pensions
Pension payments	80	78	79

1.4.3.3 Interest Payments

Interest payments, their ratio to revenue receipts and revenue expenditure during the period from 2001-07 are detailed in **Table 1.14**.

Table 1.14 Interest Payments

Year	Total Revenue Receipts	Total Revenue Expenditure	Interest Payments	Percentage of interest payment with reference to	
				Revenue Receipts	Revenue Expenditure
(Rupees in crore)					
2001-02	1085	1030	109	10.05	10.58
2002-03	1108	1031	125	11.28	12.12
2003-04	1576	1392	142	9.01	10.20
2004-05	1502	1510	147	9.79	9.74
2005-06	1849	1668	157	8.49	9.41
2006-07	2592	1897	188	7.25	9.91

Interest payments increased by Rs.31 crore (19.75 per cent) during 2006-07 over the previous year. The major sources of borrowings are Market loans at interest rates varying from 5.60 per cent to 13.85 per cent. The increase in interest payments was mainly due to payment of interest on special securities issued to National Small Savings Fund of the Central Government (Rs.36 crore), Market loans (Rs.2 crore), other internal debt (Rs.2 crore), State Provident Fund (Rs.7 crore) and ways and means advances (Rs.7 crore) which was partly off set by decrease in payment of interest on Non-Plan Schemes (Rs.14 crore) and State Plan Schemes (Rs.4 crore). Interest payment of Rs.188 crore during the current year exceeded the assessments/projections made by TFC by Rs.13 crore and State Government assessment by Rupees seven crore.

1.4.3.4 Subsidies

The trends in subsidies given by the State Government are given in **Table 1.15**.

Table 1.15: Subsidies

Particulars	(Rupees in crore)					
	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Subsidies	22	22	31	19	2	3
Percentage of increase (+)/ decrease (-) over previous year	(+) 10	0	(+) 40.9	(-) 38.7	(-) 89.4	(+) 50
Percentage of subsidy in total expenditure ⁶	1.65	1.67	1.70	1.00	0.09	0.12

Source: Information furnished by the Finance Department for the years prior to 2005-06, for the years 2005-06 and 2006-07 figures of Finance Accounts of the State are adopted.

During the current year subsidies constituted 0.12 *per cent* of the total expenditure against 0.09 *per cent* in 2005-06 indicating marginal increase in subsidies by the State Government. The increase in subsidies (Rupees one crore) during 2006-07 was mainly on account of increase in payment of subsidies to Crop Husbandry and co-operation.

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 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 the quality of expenditure. **Table 1.16** gives those ratios during 2001-07.

Table 1.16: Indicators of Quality of Expenditure

	(Rupees in crore)					
	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Capital expenditure	302	290	433	375	438	586
Revenue expenditure	1030	1031	1392	1510	1668	1897
Of which						
Social and Economic Services with	692	667	954	1021	1179	1338
(i) Salary & wages component	267	278	313	328	350	548
(ii) Non-salary & wage component	425	389	641	693	829	790
As per cent of total expenditure (excluding loans and advances)						
Capital expenditure	22.67	21.95	23.73	19.89	20.80	23.60
Revenue expenditure	77.33	78.05	76.27	80.11	79.20	76.40
As per cent of GSDP						
Capital expenditure	15.55	14.77	19.14	15.26	16.43	20.27
Revenue expenditure	53.04	52.52	61.54	61.43	62.57	65.62

Though no specific norms were laid down for prioritisation of capital expenditure, there was increase in capital expenditure by Rs.149 crore during

⁶ Total expenditure excludes Loans and Advances

2006-07 over the previous year. Education, Sport, Art and Culture, Health and Family Welfare under Social Services and Transport under Economic services are the beneficiary sectors where capital expenditure was absorbed. The non-salary and wage component constituted 59 per cent of revenue expenditure under Social and Economic Services against 41 per cent in salary and wage component. These trends indicate improvement in the quality of expenditure and the impetus being given to asset formation.

1.5.2 Expenditure on Social Services

Given the fact 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 provisions of these services in the State. **Table 1.17** summarizes the expenditure incurred by 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)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Education, Sports, Art and Culture	183.21	165.59	198.66	223.92	240.41	296.77
Revenue expenditure	164.87	154.15	182.88	204.34	216.07	248.29
<i>Of which</i>						
(a) Salary & wage component	118.88	120.29	134.51	137.51	148.42	163.36
(b) Non-salary & wage component	45.99	33.86	48.37	66.83	67.65	84.93
Capital Expenditure	18.34	11.44	15.78	19.58	24.34	48.48
Health and Family Welfare	67.67	62.81	76.28	94.00	75.92	122.88
Revenue expenditure	61.77	58.72	67.51	77.07	70.83	92.63
<i>Of which</i>						
(a) Salary & wage component	44.26	47.43	52.11	56.25	60.46	68.54
(b) Non-salary & wage component	17.51	11.29	15.40	20.82	10.37	24.09
Capital Expenditure	5.90	4.09	8.77	16.93	5.09	30.25
Water Supply, Sanitation, Housing and Urban Development	83.40	82.46	106.56	153.74	198.06	221.12
Revenue expenditure	62.20	60.67	86.95	124.19	153.26	165.99
<i>Of which</i>						
(a) Salary & wage component	7.78	8.15	8.79	9.27	10.13	18.35
(b) Non-salary & wage component	54.42	52.52	78.16	114.92	143.13	147.64
Capital Expenditure	21.20	21.79	19.61	29.55	44.80	55.13
Other Social Services	59.83	55.54	109.37	72.90	146.87	132.67
Revenue expenditure	53.66	54.22	95.94	67.07	130.89	126.68
<i>Of which</i>						
(a) Salary & wage component	1.58	1.67	2.18	2.50	1.70	120.80
(b) Non-salary & wage component	52.08	52.77	93.76	64.57	129.19	5.88
Capital Expenditure	6.17	1.32	13.43	5.83	15.98	5.99
Total (Social Services)	394.11	366.40	490.87	544.56	661.26	773.44 (31)*
Revenue expenditure	342.50	327.76	433.28	472.67	571.05	633.59
<i>Of which</i>						
(a) Salary & wage component	172.50	177.54	197.59	205.53	220.71	372.29
(b) Non-salary & wage component	170.00	150.22	235.69	267.14	350.34	261.30
Capital Expenditure	51.61	38.64	57.59	71.89	90.21	139.85

* The figure in bracket against Total indicates the percentage of expenditure on social services to total expenditure.

The allocation of social sector increased from Rs.394 crore in 2001-02 to Rs.773 crore in 2006-07 indicating the Government commitment to improve social well being of the society. Expenditure on Social Sector during current year (Rs.773 crore) accounted for 31 *per cent* of total expenditure and 41 *per cent* of development expenditure. Expenditure on Education, Sports, Art and Culture increased by Rs.57 crore over previous year mainly due to more impetus given on Elementary education while the expenditure on Health and Family Welfare showed an increase of only Rs.47 crore over previous year. Recognising the need to improve the quality of education and health services, TFC recommended that the annual increase in salaries under non-plan salary expenditure under education and health and family welfare should not increase more than five to six *per cent* while non-salary expenditure under non-plan head 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 wages component under education sector increased by 10 *per cent* over 2005-06 while non-salary and wage component increased only by 26 *per cent*. Similarly, under Health and Family Welfare, the salary and wage component increased by 13 *per cent* while non-salary and wage component increased by 132 *per cent*.

1.5.3 Expenditure on Economic Services

The expenditure on Economic Services includes all such expenditure as to promote directly or indirectly, productive capacity within the States' economy. The expenditure on Economic Services (Rs.1,128 Crore) accounted for 45 *per cent* of the total expenditure and 59 *per cent* of the development expenditure (Table 1.18).

Table 1.18: Expenditure on Economic Services

	(Rupees in crore)					
	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Agriculture, Allied Activities	150.19	141.01	214.80	184.39	226.99	241.67
Revenue expenditure	144.50	135.83	208.40	179.55	204.44	226.04
<i>Of which</i>						
(a) Salary & wage component	67.58	71.83	78.86	85.77	90.31	100.89
(b) Non-Salary & wage component	76.92	64.00	129.54	93.78	114.13	125.15
Capital Expenditure	5.69	5.18	6.40	4.84	22.55	15.63
Irrigation and Flood Control	48.65	50.41	77.22	43.29	51.12	89.06
Revenue expenditure	43.18	45.49	59.57	39.43	45.25	76.73
<i>Of which</i>						
(a) Salary & wage component	7.67	8.00	9.77	10.23	10.84	12.81
(b) Non-salary & wage component	35.51	37.49	49.80	29.20	34.41	63.92
Capital Expenditure	5.47	4.92	17.65	3.86	5.87	12.33
Power & Energy	108.04	126.96	195.36	254.96	227.32	248.53
Revenue expenditure	16.37	14.33	25.00	105.55	103.23	120.25
<i>Of which</i>						
(a) Salary & wage component	7.64	7.96	8.78	9.14	10.34	11.78
(b) Non-salary & wage component	8.73	6.37	16.22	96.41	92.89	108.47
Capital Expenditure	91.67	112.63	170.36	149.41	124.09	128.28
Transport	114.24	117.65	188.67	144.50	165.77	267.68

Revenue expenditure	45.43	43.01	81.76	58.58	70.29	81.96
<i>Of which</i>						
(a) Salary & wage component	11.17	10.93	16.47	15.62	16.61	18.19
(b) Non-salary & wage component	34.26	32.08	65.29	42.96	54.13	63.76
Capital Expenditure	98.81	74.64	106.91	85.92	95.48	185.72
Other Economic Services	126.38	136.35	205.05	209.46	268.00	280.83
Revenue expenditure	100.24	100.39	145.69	164.84	184.66	199.06
<i>Of which</i>						
(a) Salary & wage component	0.97	1.16	1.30	1.31	1.36	31.91
(b) Non-salary & wage component	99.27	99.23	144.39	165.53	183.30	167.15
Capital Expenditure	26.14	35.95	59.36	44.62	83.34	81.77
Total (Economic Services)	577.50	572.37	881.10	836.60	939.20	1127.27 (45)⁷
Revenue expenditure	349.72	339.05	520.42	547.95	607.87	704.04
<i>Of which</i>						
(a) Salary & wage component	95.03	99.88	115.18	122.07	129.46	175.58
(b) Non-salary & wage component	254.69	239.17	405.24	425.88	478.41	528.46
Capital Expenditure	227.78	233.23	360.68	288.65	331.33	423.73

Out of the total expenditure on Economic Services during 2006-07, 24 per cent was incurred on Transport, 22 per cent on Power and Energy, 21 per cent on Agriculture, Allied Activities and eight per cent on Irrigation and Flood Control. The salary and wage component in total expenditure on Economic Services ranged between 13 and 17 per cent during the period. The non-salary component consistently increased from Rs.239 crore in 2002-03 to Rs.528 crore in 2006-07 at an average annual rate of 20 per cent per annum. The trends in revenue and capital expenditure on Economic Services indicate that revenue expenditure consistently increased from Rs.339 crore (59 per cent) in 2002-03 to Rs.704 crore (62 per cent) in 2006-07, while capital expenditure increased from Rs.233 crore (41 per cent) in 2002-03 to Rs.424 crore (38 per cent) in 2006-07. Of the revenue expenditure, salary and wage component ranged from 21 per cent to 29 per cent during 2001-07. It increased from Rs.95 crore (27 per cent) in 2001-02 to Rs.176 crore (25 per cent) in 2006-07, where as non-salary component increased from Rs.255 crore (73 per cent) in 2001-02 to Rs.528 crore (75 per cent) in 2006-07 indicating allocative priorities probably towards their maintenance and better quality of services.

⁷ The figure in the bracket against total expenditure shows percentage of expenditure on Economic Service to total expenditure.

1.5.4 Financial Assistance by State Government to local bodies and Other Institutions

The quantum of assistance provided by way of goods and loans to local bodies and others during the six years period 2001-2007 is presented in **Table 1.19**.

Table 1.19: Financial Assistance to local bodies and other institutions

	(Rupees in crore)					
	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Universities and Educational Institutions	8.01	10.12	15.89	24.43	16.49	10.14
Cultural Institutions/Voluntary Organisations for promotion of Art and Culture	0.27	0.12	0.21	0.09	5.21	24.62
State Institute of Rural Development	0.15	8.46	16.03	0.85	24.36	-
Social Welfare	0.09	0.50	0.46	0.70	0.15	0.15
Warehousing Corporations	-	0.77	4.77	-	4.94	14.93
Co-operation	0.36	-	-	-	-	-
Zilla Parishads/Village Panchayats etc.	-	-	-	0.48	-	-
Other Institutions	0.77	2.43	27.42	15.04	15.97	1.03
Total	10.46	22.40	64.78	41.59	66.94	50.87
Assistance as percentage of Revenue expenditure	1.02	2.17	4.65	2.75	4.02	2.68

The grants and loans extended to local bodies and other institutions with inter-year variations decreased by 24 per cent to Rs.50.87 crore in 2006-07 from Rs.66.94 crore in 2005-06. The share of grants and loans in revenue expenditure also shows inter year fluctuations which have increased from one per cent in 2001-02 to three per cent in 2006-07. The sharp increase of assistance under cultural institutions/voluntary organisations during 2006-07 was mainly due to release of more grant (Rs.19.41 crore) for promotion of Art and Culture in the State. Similarly, under the head 'Warehousing Corporation', the increase was due to release of more grants (Rs.9.99 crore) as compared to 2005-06.

1.5.5 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 Services) Act, 1971 (DPC Act), the Government/Heads of 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. Information for the year 2006-07 was called for in May 2007 from 19 institutions, but the reply was awaited from 13 institutions as of October 2007.

1.5.6 Abstract of performance of the Autonomous Bodies

The audit of accounts of the North Eastern Regional Institute of Science and Technology (NERIST) in the State has been entrusted to the Comptroller and Auditor General of India under Section 20(1) of CAG's (DPC) Act, 1971 upto 2011-2012. The preparation and audit of accounts of the Institute are current.

1.6 Misappropriations, losses, defalcations, etc

The State Government reported 38 cases of misappropriation, defalcation, etc, involving Government money amounting to Rs.8.96 crore upto the period March 2007 on which final action was pending. The department-wise break up of pending cases is given in **Appendix – 1.7**.

1.7 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 mainly comprise of the capital outlay and loans and advances given by the State Government and cash balances. **Appendix-1.6** depicts the time series data on State Government finances for the period 2001-2007.

1.7.1 Financial Analysis of Government Investments

1.7.1.1 Incomplete Projects

As per information contained in Appendix-II of Finance Accounts, the State Government incurred Rs.150.91 crore as on 31 March 2007 on 473 incomplete projects. A further analysis of the projects costing Rupees one crore or more reveals that there were 22 incomplete projects in department of PHE (10), PWD (3) and Power (9) as on 31 March 2007. The budgeted cost of these 22 projects has been reported to be Rs.117.22 crore, against the cumulative expenditure of Rs.80.96 crore as on 31 March 2007. Of these 22 projects, the revised cost has been furnished by the Government only in case of three projects which was Rs.62.89 crore as against the budgeted cost of Rs.23.63 crore indicating a cost overruns of Rs.39.26 crore on these three projects. These trends indicate that time and cost overruns are likely to be observed in other incomplete projects had their revised costs been made available by the State Government.

1.7.1.2 Government Investments and Returns

As of 31 March 2007, Government had invested Rs.32 crore in Government Companies, Co-operative Societies, Banks etc. (**Table – 1.20**). The return on this investment was nil in the last four years while the Government paid

interest at the average rate of 7.58 to 10.77 *per cent* on its borrowings during 2001-07.

Table 1.20: Return on Investment

(Rupees in crore)						
	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Investment (Rs.in crore)	15.24	16.08	16.13	16.23	27.77	31.76
Return (Rs.in Crore)	0.0034	0.0028	0.00	0.00	0.00	0.00
Percentage of return	0.02	0.02	0.00	0.00	0.00	0.00
Average Interest Rate ⁸	10.69	10.77	10.32	8.90	7.58	7.99
Differences between interest rate and return (<i>per cent</i>)	10.67	10.75	10.32	8.90	7.58	7.99

The investment of the State Government at the end of March 2007 included Rs.9.04 crore in five Government Companies *viz.*, Arunachal Pradesh Forest Corporation Limited (Rs.3.80 crore), Arunachal Pradesh Plywood Industries Limited (Rs.0.20 crore), Arunachal Pradesh Industrial Development Financial Corporation Limited (Rs.1.82 crore), Arunachal Pradesh Handloom and Handicraft Development Corporation Limited (Rs.0.83 crore) and Arunachal Pradesh Mineral Development and Trading Corporation (Rs.2.39 crore), Rs.10.53 crore in Arunachal Pradesh State Co-operative Apex Bank Limited and Rs.11.72 crore in 143 Co-operative Societies. However, none of the Companies/Co-operatives declared dividend during the current year.

1.7.1.3 Loans and Advances by State Government

In addition to investment in Co-operative societies, Government Companies and Banks, Government has also been providing loans and advances to many of these institutions/organisations. Total outstanding loans and advances as on 31 March 2007 were Rs.28 crore (**Table-1.21**). Interest received against these loans advanced was 1.89 *per cent* during 2006-07 as against nil in previous year.

Table 1.21: 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	16	19	20	21	25	25
Amount Advanced during the year	5	3	3	6	3	5
Amount repaid during the year	2	2	2	2	3	2
Closing Balance	19	20	21	25	25	28
Net Addition	3	1	1	4	-	3
Interest Received	0.69	-	-	0.49	-	0.54
Interest Received as <i>per cent</i> to loans advanced	3.83	-	-	2.13	-	2.00
Average Interest rate	10.69	10.77	10.32	8.90	7.58	7.99
Differences between interest paid and received (<i>per cent</i>)	6.86	10.77	10.32	6.77	7.58	5.99

⁸ Average interest rate is defined as the per centage of interest payment made to, average financial liabilities of the State during the year i.e (average of opening and closing balances of fiscal liabilities/2) x 100.

During the current year, major portion of loans was advanced to other Co-operatives (Rs.1.49 crore) and Government servants (Rs.2.39 crore).

1.7.2 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 RBI has been put in place. The operative limit of normal Ways and Means Advances is reckoned as 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.67 crore, the major portion of which (Rs.34.90 crore), were invested in GOI Securities. Ways and Means Advances and Overdrafts availed, the number of occasions it was availed and interest paid by the State during 2001-07 is detailed in (Table 1.22). It was however observed that the State Government on the one hand has maintained huge cash balances (Rs.67 crore) at the close of 2006-07 while on the other it had accrued liabilities on account of outstanding ways and means advances and paid interest amounting to Rs.8.18 crore on these liabilities during the current year.

Table 1.22: Ways and Means Advances and Overdrafts of the State and interest paid thereon

	(Rupees in crore)					
	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Ways and means Advances						
Taken in the year	14.73	27.39	-	146.65	42.20	-
Outstanding	-	-	-	55.40	88.70	55.64
Interest paid	0.03	0.04	-	0.24	0.21	8.18
Number of Days	5	28	-	74	59	-
Overdraft						
Taken in the year	-	-	-	45.22	201.50	-
Outstanding	-	-	-	0.50	172.98	-
Interest paid	-	-	-	0.50	0.90	-
Number of Days	-	-	-	6	35	-

1.8 Undischarged Liabilities

According to Arunachal Pradesh Fiscal Responsibility Act, 2006, the total liabilities means the liabilities under the Consolidated Fund of the State and the Public Account of the State.

1.8.1 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 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. However, no law has been passed in the State to lay down any such limit. Other liabilities, which are a part of public account, include deposits under small savings scheme, provident funds and other deposits.

Table 1.23 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 1.23 Fiscal Liabilities – Basic Parameters

(Value in Rupees crore and ratios in per cent)						
	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Fiscal Liabilities ⁹	1094	1227	1525	1778	2337	2371
Rate of growth	15.64	12.16	24.29	16.59	31.44	1.45
Ratio of Fiscal Liabilities to						
GSDP	56.33	62.51	67.42	72.34	87.66	82.01
Revenue Receipt	100.83	110.74	96.76	118.38	126.39	91.47
Own Resources	1072.55	1085.84	924.24	808.18	885.23	632.27
Buoyancy of Fiscal Liabilities with reference to						
GSDP	1.753	11.259	1.595	1.916	3.716	0.172
Revenue Receipt	1.212	5.736	0.575	(-) 3.530	1.361	0.036
Own Resources	0.782	1.128	0.528	0.498	1.572	0.034

Overall fiscal liabilities of the State increased from Rs.1,094 crore in 2001-02 to Rs.2,371 crore in 2006-07. Fiscal liabilities of the State comprised Consolidated Fund liabilities and Public Account liabilities. The Consolidated Fund liability (Rs.1,742 crore) comprised of market loan (Rs.446 crore), loan from GOI (Rs.465 crore) and other loans (Rs.831 crore). The Public Account liabilities (Rs.629 crore) comprise of Small Savings, Provident Fund (Rs.527 crore) interest bearing obligations (Rs.92 crore) and non-interest bearing obligations like deposits (Rs.10 crore). The growth rate of fiscal liabilities was 1.45 per cent during 2006-07 over the previous year. The ratio of fiscal liabilities to GSDP increased from 56.33 per cent in 2001-02 to 82.01 per cent in 2006-07. These liabilities stood at 0.91 times of revenue receipts and 6.32 times of the States own resources at the end of 2006-07. The buoyancy of these liabilities to GSDP during the year was 0.172.

The State Government set up a Sinking Fund during the financial year 1999-2000 for amortisation of open market loans. As of 31 March 2007, the outstanding balance in Sinking Fund was Rs.34.90 crore which is invested in GOI Securities.

⁹ Includes Internal Debt, Loans and Advances from GOI, Small Savings, Provident Funds, etc, Reserve Funds and Deposits.

1.8.2 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 1.24**.

Table 1.24: Guarantees given by the Government of Arunachal Pradesh

	(Rupees in crore)					
	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Maximum amount guaranteed	-	-	27	14	24	24
Outstanding guarantees	-	-	20	8	6	13
Revenue Receipts	1035	1108	1576	1502	1849	2592
Percentage of maximum amount guaranteed to total revenue receipts	-	-	1.71	0.93	1.30	0.93

Government had guaranteed loans raised by various corporations and others, which at the end of 2006-07 stood at Rs.13 crore and comprises 0.93 *per cent* of revenue receipts. No law under Article 293 of the Constitution had been passed by the State Legislature laying down the maximum limit within which Government may give guarantees on the security of the Consolidated Fund of the State. The APFR Act, 2006 also did not indicate any limit for the purpose. The State Government is yet to implement the recommendations of the TFC by setting up a guarantee redemption fund through earmarked guarantee fees.

1.9 Debt Sustainability

Debt sustainability is defined as the ability of the State to maintain a constant debt – GSDP 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 the increase in capacity to service the debt. A prior condition for debt sustainability is the debt stabilisation in terms of debt/GSDP ratio.

1.9.1 Debt Stabilisation

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

eventually be falling. Trends in fiscal variables indicating the progress towards debt stabilisation are indicated in **Table – 1.25**.

**Table 1.25: 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	10.69	10.77	10.32	8.90	7.58	7.99
GSDP Growth	8.92	1.08	15.23	8.66	8.46	8.44
Interest spread	(-) 1.77	(-) 9.69	4.91	(-) 0.24	0.88	0.45
Quantum spread (Rs.in crore)	(-) 19	(-) 199	75	(-) 14	21	11
Primary deficits (-)/Surplus (+)	(-) 140	(-) 88	(-) 108	(-) 239	(-) 100	(+) 294

The trends in **Table 1.25** reveal that in three out of six years during 2001-2007, the interest spread was negative. An analysis of the primary deficit vis-à-vis quantum spread reveals that their sums turned out to be negative in five out of six years during 2001-2006 indicating rising debt – GSDP ratio and deteriorating debt position of the State. It was only in 2006-2007 that the quantum spread together with primary deficit turned positive, resulting in decline in debt/GSDP ratio to 82.01 *per cent* in 2006-2007 from 87.66 *per cent* in 2005-2006 indicating a step towards stabilisation.

1.9.2 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 repayment indicating the net availability of borrowed funds. The solution to the Government debt problem lies in the application of borrowed funds, *i.e.* they are (a) not being used for financing revenue expenditure and (b) being used efficiently and productively for capital expenditure which either provides returns directly or results in increased productivity of the economy in general which may result in increase in Government revenue.

Table 1.26 gives the position of the receipt and repayment of internal debt and other fiscal liabilities of the State as well as the net availability of the borrowed funds over the last six years.

Table 1.26 Net Availability of Borrowed Funds

(Rupees in crore)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Internal debt						
Receipt	86	103	190	240	589	300
Repayment (Principal +Interest)	54	76	67	175	160	340
Net Fund Available	32	27	123	65	429	(-) 40
Net Fund Available (<i>per cent</i>)	37.2	26.2	64.7	27	72.8	-
Loan and Advances from GOI						
Receipt	69	67	116	71	203	17
Repayment Principal +Interest)	75	88	252	88	286	105
Net Fund Available	(-) 6	(-) 21	(-) 136	(-) 17	(-) 83	(-) 88
Net Fund Available (<i>per cent</i>)	-	-	-	-	-	-

Other Obligations						
Receipt	137	221	318	211	248	308
Repayment (Principal +Interest)	123	180	189	152	191	321
Net Fund Available	14	41	129	59	57	(-) 13
Net Fund Available (<i>per cent</i>)	102	18.6	40.6	28.0	23.0	-
Total Liabilities						
Receipt	292	391	624	522	1040	625
Repayment (Principal +Interest)	252	344	508	415	637	766
Net Fund Available	40	47	116	107	403	(-) 141
Net Fund Available (<i>per cent</i>)	13.7	12.0	18.6	20.5	38.8	-

The net fund available on account of internal debt and loans and advances from GOI and other obligations after providing for the interest and repayments decreased sharply from Rs.403 crore in 2005-06 to negative balance in 2006-07. The State Government raised internal debt amounting to Rs.300 crore comprising of market loans (Rs.107.73 crore), securities issued to National Small Savings Fund (NSSF) (Rs.130.53 crore) and NABARD and other institutions (Rs.61.48 crore). Against these receipts, Government discharged the past debt obligations (Principal + Interest) amounting to Rs.340 crore resulting in negative net funds available under the debt account. During the current year the Government repaid GOI loans including interest amounting to Rs.105 crore¹⁰ and also discharged other obligations of Rs.321 crore along with interest obligations which exceeded the total receipts resulting in negative net availability of funds during the year. During 2006-07, the focus of Government seems to be on discharging the past debt obligations.

1.10 Management of deficits

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

1.10.1 Trends in Deficit

The trends in fiscal parameters depicting the position of fiscal equilibrium in the State are presented in **Table 1.27**.

Table 1.27: Fiscal Imbalances – Basic Parameters

	<i>(Values in Rupees crore and ratio in per cent)</i>					
	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Revenue Deficit (-)/Surplus (+)	(+) 56	(+) 77	(+) 184	(-) 8	(+) 182	(+) 695
Fiscal Deficit (-)/Surplus (+)	(-) 249	(-) 124	(-) 250	(-) 386	(-) 257	(+) 106
Primary Deficit (-)/Surplus (+)	(-) 140	(-) 88	(-) 108	(-) 239	(-) 100	(+) 294
RD/GSDP	*	*	*	0.32	*	*
FD/GSDP	(-) 12.82	(-) 6.32	(-) 11.05	(-) 15.70	(-) 9.64	-
PD/GSDP	(-) 7.21	(-) 4.48	(-) 4.77	(-) 9.72	(-) 3.75	-
RD/FD	-	-	-	2.07	-	-

* There was revenue surplus.

¹⁰ Includes Rs.20.21 crore debt relief from Government of India under DCRF to States.

Table 1.27 reveals that the revenue account experienced a situation of huge surplus of Rs.695 crore during the current year. The turnaround situation in revenue account during the current year was mainly on account of an increase of Rs.743 crore in revenue receipts (40 *per cent*) against the increase of Rs.229 crore (14 *per cent*) in revenue expenditure. The sharp increase in revenue receipts during 2006-07 was mainly on account of increase in non-tax revenue (Rs.95 crore), grants-in-aid from GOI (Rs.557 crore) and Central tax transfers (Rs.75 crore) over the previous year.

The fiscal deficit, which persisted till the previous year took a turnaround and resulted in a fiscal surplus during the current year mainly on account of substantial increase of Rs.743 crore in revenue receipts during the current year.

The primary deficit which persisted in the State budget till 2005-06 also turnaround to primary surplus during the current year. Fiscal surplus together with moderate increase of Rs.31 crore in interest payments resulted into a primary surplus of Rs.294 crore, during the current year.

1.10.2 Quality of Deficit/Surplus

The ratio of RD to FD and the decomposition of Primary deficit¹¹ into primary revenue deficit¹² and capital expenditure (including loans and advances) indicate the quality of deficit in the State's finances. The ratio of revenue deficit to fiscal deficit indicates the extent to which borrowed funds were used for current consumption. In the past two years, the RD was wiped out and turned into surplus. During 2006-07 all borrowings (fiscal liabilities) were used in activities resulting in expansion in the asset back up of the State.

The bifurcation of the factors resulting into primary deficit or surplus of the State during the period 2001-2007 reveals (**Table – 1.28**) that throughout this period, the primary deficit 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 sufficient to meet the primary expenditure¹³ requirements in the revenue account and left some receipts to meet the expenditure under capital account. But the surplus non-debt receipts were not enough to meet the expenditure requirements under capital account resulting in primary deficit till 2005-06. This indicates the extent to which the primary

¹¹ Primary deficit defined as the fiscal deficit net of interest payments indicates the extent of deficit which is an outcome of the fiscal transactions of the States during the course of the year.

¹² Primary revenue deficit defined as the 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.

¹³ Primary expenditure of the State defined as the total expenditure net of interest payments indicates the expenditure incurred on the transactions undertaken during the year.

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 – 1.28: Primary Deficit/Surplus – Bifurcation of factors

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)
2001-02	1087	921	302	5	1228	(+) 166	(-) 141
2002-03	1111	906	290	3	1199	(+) 205	(-) 88
2003-04	1579	1250	433	4	1687	(+) 329	(-) 108
2004-05	1504	1363	375	6	1744	(+) 141	(-) 240
2005-06	1852	1511	438	4	1953	(+) 341	(-) 101
2006-07	2594	1709	586	5	2300	(+) 885	(+) 294

1.11 Fiscal Ratios

The finances of a State should be sustainable, flexible and non-vulnerable. **Table 1.29** below presents a summarised position of Government finances over 2001-2007, with reference to certain key indicators that help to assess the adequacy and effectiveness of available resources and their applications, highlights areas of concern and captures its important facts.

Table – 1.29: Indicators of Fiscal Health (in per cent)

Fiscal Indicators	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
I. Resources Mobilisation						
Revenue Receipt /GSDP	55.87	56.44	69.67	61.10	69.35	89.66
Revenue Buoyancy	1.446	1.962	2.772	(-) 0.542	2.730	4.760
Own tax/GSDP	1.59	1.90	1.93	2.03	2.33	2.71
Own Tax Buoyancy	5.337	17.916	1.242	1.575	2.836	3.058
II. Expenditure Management						
Total Expenditure/GSDP	68.80	67.45	80.86	76.93	79.11	86.06
Revenue Receipts/Total Expenditure	81.21	83.69	86.17	79.43	87.67	104.18
Revenue Expenditure/Total Expenditure	77.06	77.87	76.11	79.85	79.07	76.27
Plan Expenditure/Total Expenditure	56.67	53.75	53.61	50.30	55.11	56.14
Capital Expenditure/Total Expenditure	22.56	21.90	23.69	19.83	20.75	23.54
Development Expenditure/Total Expenditure	72.73	70.88	75.02	73.05	75.89	76.43
Buoyancy with TE with RR	0.553	(-) 0.425	0.903	(-) 0.721	0.499	0.447
Buoyancy with RE with RR	0.395	0.047	0.829	(-) 1.804	0.453	0.342
Revenue Deficit (Rs.in crore)	-	-	-	8	-	-
Fiscal Deficit (Rs.in crore)	249	124	250	386	257	-
Primary Deficit (Rs.in crore)	140	88	108	239	100	-
Revenue Deficit/Fiscal Deficit	-	-	-	0.32	-	-
IV. Management of Fiscal Liabilities (FL)						
Fiscal Liabilities/ GSDP	56.33	62.51	67.42	72.34	87.66	82.01
Fiscal Liabilities/RR	100.83	110.74	96.76	118.38	126.39	91.47
Buoyancy of FL with RR	1.212	5.736	0.575	(-) 3.530	1.361	0.036
Buoyancy of FL with own receipts	0.782	1.128	0.528	0.498	1.572	0.034
Interest spread	(-) 1.77	(-) 9.69	4.91	(-) 0.24	0.88	0.45
Net Funds Available	13.7	12.0	18.6	20.5	38.8	-
V. Other Fiscal Health Indicators						
Return on Investment	0.02	0.02	-	-	-	-
BCR (Rs.in crore)	(-) 136	(-) 131	(-) 210	(-) 211	(-) 8.00	37
Financial Assets/Liabilities	2.76	2.46	2.50	2.27	2.09	2.39

The ratio of revenue receipts and State's own taxes to GSDP indicate adequacy of the resources. The buoyancy of the revenue receipts indicates the nature of tax regime and the State's increasing access to resources. Revenue receipts comprise 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 was 89.66 *per cent*, an increase of 20.31 percentage points over the previous year. During 2001-07, the ratio of own taxes to GSDP showed continuous improvement.

Various ratios concerning expenditure management of the State indicate quality of expenditure and sustainability of these in relation to its resource mobilisation efforts. The revenue expenditure as a percentage to total expenditure also declined to 76.27 *per cent* in 2006-07 from 79.07 *per cent* in 2005-06. Increasing reliance on revenue receipts particularly from 2005-06, to finance the total expenditure indicates decreasing dependence on borrowed funds. This is also reflected in the decreasing ratio of financial liabilities to revenue receipts, during the current year. Increasing proportion of plan expenditure and capital expenditure in the total expenditure also indicates improvement in both development and quality of expenditure.

Revenue surplus and fiscal surplus during 2006-07 indicates an improvement in fiscal position of the state. The Balance from Current Revenue (BCR) (Rs.37 crore) had turned to positive indicating availability of funds for creation of assets and to meet expenditure under State plan schemes.

1.12 Conclusion

During 2006-07, the State Government succeeded in taking appropriate measures to eliminate revenue deficit and build up revenue surplus. The improvement in fiscal position should however, be viewed in the light of the fact that the State finances are heavily dependent on Central transfers comprising State's share in Union taxes and duties and grants-in-aid from GOI, which accounted for more than 85 *per cent* of its revenue receipts. These transfers contributed a little over 85 *per cent* of incremental receipts of the State during 2006-07 due to which, the State Government was able to enhance the revenue surplus during the year. The expenditure pattern of the State reveals that the revenue expenditure as a percentage to total expenditure hovered around the average of 78 *per cent* during the period 2001-07 with inter year variations leaving inadequate resources for expansion of services and creation of assets. Moreover, within the revenue expenditure, non-plan revenue expenditure in 2006-07 was significantly higher than the normative assessment of TFC for the State for the year and the four components – salary expenditure, pension liabilities, interest payments and subsidies – constituted about 87 *per cent* of the NPRES during 2006-07. These trends in expenditure indicate the need for change in allocative priorities. The fiscal liabilities of the State have consistently increased and stood at as high as 82 *per cent* of GSDP in 2006-07 and appear to be quite high especially when compared with the TFC norm of 31 *per cent* to be achieved by the terminal year of its award period. The increasing fiscal liabilities accompanied by negligible rate of

return (less than one *per cent*) on Government's investment and inadequate interest cost recovery continued to be a cause of concern and might lead to an unsustainable debt position in medium to long run unless suitable measures are initiated to compress the non plan revenue expenditure and to mobilize the additional resources especially by exploiting the untapped taxable sources in ensuing years as the tax revenue of the State in the current year (Rs.78 crore) is far below the normative assessment of TFC (Rs.121 crore) for the year.