

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 Goa are laid out in nineteen statements, presenting receipts and expenditure, revenue as well as capital, in the Consolidated Fund, Contingency Fund and the Public Account of the State of Goa. The layout 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 Government of Goa for the year 2006-07 covering revenue receipts and expenditure, capital receipts and expenditure and public accounts 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
2168.87	Revenue receipts	2609.76	2190.72	Revenue expenditure	1984.50	483.81	2468.31
1096.49	Tax revenue	1291.54	742.95	General Services	779.18	6.34	785.52
761.16	Non-tax revenue	917.62	480.71	Social Services	298.74	269.78	568.52
244.70	Share of Union Taxes/Duties	312.11	670.96	Economic Services	692.01	113.09	805.10
66.52	Grants from Government of India	88.49	296.10	Grant-in-aid and Contributions	214.57	94.60	309.17
Section-B: Capital and others							
-	Misc Capital Receipts	-	580.35	Capital Outlay	4.45	621.89	626.34
6.33	Recoveries of Loans and Advances	5.78	7.05	Loans and Advances Disbursed	3.30	4.84	8.14
698.39	Public Debt Receipts*	639.48	70.60	Repayment of Public Debt*	-	73.28	73.28
0.22	Contingency Fund	-	-	Contingency Fund	-	-	-
3285.19	Public Account Receipts	3611.39	3134.22	Public Account Disbursements	-	3519.36	3519.36
148.74	Opening Cash Balance	324.80	324.80	Closing Cash Balance	-	495.78	495.78
6307.74	Total	7191.21	6307.74	Total	1992.25	5198.96	7191.21

* Excluding Ways and Means Advances and Overdraft

- The revenue receipts grew by Rs 441 crore over previous year. The increase was mainly contributed by tax revenue (Rs 196 crore), non-tax

revenue (Rs 157 crore), and state's share of union taxes and duties (Rs 67 crore).

- Revenue Expenditure and Capital Expenditure increased by Rs 278 crore and Rs 46 crore respectively.
- Public debt receipts have decreased by Rs 59 crore over previous year while repayments increased by Rs 12 crore in 2006-07 over the previous year.
- Public Accounts receipts have increased by Rs 326 crore while disbursement increased by Rs 385 crore over previous year resulting net outflow of Rs 59 crore during the year.
- Cash balances at the close of 2006-07 as a result of cash flows listed above increased by Rs 171 crore over previous year.

1.1.2 State 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 the previous year is given in **Table 1.2.**

Table 1.2: Key Fiscal Indicators

(Rupees in crore)

2005-06	Sr. No	Major Aggregates	2006-07
2169	1.	Revenue Receipts (2+3+4)	2610
1096	2.	Tax Revenue (Net)	1292
761	3.	Non-Tax Revenue	918
312	4.	Other Receipts	400
6	5.	Non-Debt Capital Receipts	6
6	6.	<i>Of which</i> Recovery of Loans & Advances	6
2175	7.	Total Receipts (1+5)	2616
1781	8.	Non-Plan Expenditure	1992
1776	9.	On Revenue Account	1985
400	10.	<i>Of which</i> Interest Payments	427
1	11.	On Capital Account	4
4	12.	On Loans disbursed	3
997	13.	Plan Expenditure	1111
415	14.	On Revenue Account	484
579	15.	On Capital Account	622
3	16.	On Loans disbursed	5
2778	17.	Total Expenditure (13+8)	3103
(-) 22	18.	Revenue Deficit (-)/Surplus (+) (9+14-1)	(+) 141
(-)603	19.	Fiscal Deficit (17-1-5)	(-) 487
(-)203	20.	Primary Deficit (19-10)	(-) 60

During the current year revenue receipts increased by Rs 441 crore (20 per cent), Revenue Expenditure increased by Rs 278 crore (13 per cent) over previous year resulting in a surplus of Rs 163 crore in revenue account as compared to the deficit of Rs 22 crore in 2005-06. The surplus in revenue account, alongwith an increase of Rs 47 crore in Capital Expenditure including disbursement of loans and advances led to a decline of Rs 116 crore in fiscal deficit during 2006-07 from Rs 603 crore in the previous year. The decline in fiscal deficit alongwith an increase of Rs 27 crore in interest payments resulted in a decline of Rs 38 crore in primary deficit in 2006-07 from Rs 203 crore in 2005-06.

1.2 Methodology Adopted for the Assessment of Fiscal Position

The trends in the major fiscal aggregates of receipts and expenditure as emerged from the Statements of Finance Accounts are analyzed wherever necessary over the period of last five years and observations are made on their behaviour. In its Restructuring Plan of State finances, Twelfth Finance Commission (TFC) recommended the norms/ceiling for some fiscal aggregates and also made normative projections for others. In addition, TFC also recommended that all States are required to enact the Fiscal Responsibility Acts and draw their fiscal correction path accordingly for the five year period (2005-06 to 2009-10) so that fiscal position of State could be improved as committed in their respective FR Acts/Rules during medium to long run. The norms/ceilings prescribed by the TFC as well as its projections for fiscal aggregates along with the commitments/projections made by the State Governments in their Fiscal Responsibility Acts and in other Statements required to be laid in the legislature under the Act are used to make qualitative assessment of the trends and pattern of major fiscal aggregates during the current year. Assuming that 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 Gross State Domestic Product (GSDP) at current market prices.

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)	9947	9290	10219	11685	12854
Growth rate of GSDP	11.45	(-) 6.60	10.00	14.36	10.00

The buoyancy coefficients for tax revenues, non-tax revenues, revenue expenditure etc., with reference to the base represented by GSDP have also been worked out to assess as to whether the mobilization of resources, pattern of expenditure etc., are keeping pace with the change in the base or these fiscal aggregates are also affected by factors other than GSDP. The key fiscal aggregates for the purpose are grouped under four major heads: (i) Resources by Volume and Sources, (ii) Application of Resources, (iii) Assets and Liabilities, and (iv) Management of Deficits. 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 “The Goa Fiscal Responsibility and Budget Management (FRBM) Act, 2006” in May 2006 to ensure fiscal stability and sustainability through progressive elimination of revenue deficit, planned reduction of fiscal deficit and prudent and sustainable debt management consistent with fiscal stability through limits on State Government’s borrowings including off-budget borrowings. To give effect to the fiscal management principles as laid down in the Act, the following fiscal targets have been prescribed for the State Government:

- Reduce the revenue deficit to nil by 31 March 2009 and adhere to it thereafter;
- reduce the ratio of fiscal deficit to Gross State Domestic Product beginning from the financial year 2006–2007 with medium term goal of not being more than three *per cent* to be attained by 31 March 2009 and adhere to it thereafter;
- ensure that by 31 March 2009, the total liabilities do not exceed 30 *per cent* of the GSDP and adhere to it thereafter; and
- cap the total outstanding guarantees within the specified limit under the Goa State Guarantees Act, 1993. Currently, the limit has been fixed at Rs 800 crore.

The State Government has not yet framed the Fiscal Responsibility and Budget Management Rules.

1.2.2 The Medium Term Fiscal Plan

As the FRBM Act 2006 was enacted in May 2006, the Medium Term Fiscal Policy (MTFP) was presented along with the Budget for 2007-08. The MTFP 2006-10 projected revenue surplus of 0.70 *per cent* of GSDP and fiscal deficit of three *per cent* of GSDP by 2009-10. The outstanding debt was projected at 33.15 *per cent* of GSDP.

1.3 Trends in Aggregate Resources: By Volumes and Sources

Resources of the State Government consist of revenue receipts and capital receipts. Revenue receipts consist of tax revenues, non-tax revenues, State’s share of union taxes and duties and grants-in-aid from the Government of India (GoI). Capital receipts comprise miscellaneous capital receipts such as proceeds from disinvestments, recoveries of loans and advances, debt receipts

from internal sources (market loans, borrowings from financial institutions/commercial banks) and loans and advances from GoI as well as accruals from Public Account **Table-1.4** presents the trends in growth and composition of the total receipts of the State Government during the period 2002-07.

Table-1.4: Trends in Growth and Composition of the Total Receipts

(Rupees in crore)

Sources of State's Receipts	2002-03	2003-04	2004-05	2005-06	2006-07
I Revenue Receipts	1833.00	1623.00	1820.00	2168.87	2609.76
II Capital Receipts	504.00	799.00	708.00	704.72	645.26
Recovery of Loans and Advances	7.00	7.00	6.00	6.33	5.78
Public Debt Receipts	497.00	792.00	702.00	698.39	639.48
Miscellaneous Capital Receipts	-	-	-	-	-
III Contingency Fund	14.00	-	1.00	0.22	-
IV Public Account Receipts	2755.00	3239.00	3157.00	3285.19	3611.39
a. Small Savings, Provident Fund etc.	106.00	111.00	118.00	126.16	135.82
b. Reserve Fund	8.00	20.00	28.00	29.54	32.94
c. Deposits and Advances	94.00	119.00	93.00	86.34	113.08
d. Suspense and Miscellaneous	1176.00	1537.00	1430.00	1521.83	1567.22
e. Remittances	1371.00	1452.00	1488.00	1521.32	1762.33
Total Receipts	5106.00	5661.00	5686.00	6159.00	6866.41

The revenue and capital receipts constituted 38 and 62 *per cent* of total receipts respectively. The total receipts of the state increased from Rs 5,106 crore in 2002-03 to Rs 6,866 crore in 2006-07. The Debt Capital Receipts which creates future repayment obligation has increased from Rs 497 crore in 2002-03 to Rs 639 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 its own tax and non-tax revenues, central tax transfers and grants-in-aid from GoI. Overall revenue receipts, its annual rate of growth, ratio of these receipts to the GSDP and its buoyancies are indicated in **Table-1.5**.

Table-1.5: Revenue Receipts - Basic Parameters

Sources of Revenue Receipts	2002-03	2003-04	2004-05	2005-06	2006-07
Revenue Receipts (RR) (Rupees in crore)	1833	1623	1820	2169	2610
Own Taxes (Rupees in crore) (Percentage share in RR)	602 (32.84)	710 (43.75)	857 (47.09)	1096 (50.53)	1292 (49.50)
Non-Tax Revenue (Rupees in crore) (Percentage share in RR)	1039 (56.68)	725 (44.67)	729 (40.05)	761 (35.09)	918 (35.17)
Central Tax Transfers (Rupees in crore) (Percentage share in RR)	115 (6.27)	136 (8.38)	162 (8.90)	245 (11.30)	312 (11.96)
Grants-in-aid (Rupees in crore) (Percentage share in RR)	77 (4.20)	52 (3.20)	72 (3.96)	67 (3.09)	88 (3.37)

Rates of growth					
Revenue Receipts (per cent)	(-)2.14	(-) 11.46	12.14	19.18	20.33
State's own taxes	5.80	17.94	20.70	27.89	17.88
Non-Tax Revenue	(-)8.54	(-) 30.22	0.55	4.39	20.63
RR/GSDP (per cent)	18.43	17.47	17.81	18.56	20.30
Buoyancy Ratios					
Revenue Receipts with GSDP	≠	≠	1.21	1.92	2.03
State's own taxes with GSDP (ratio)	0.51	≠	2.07	2.79	1.79
Revenue buoyancy with reference to State's own taxes	≠	≠	0.59	0.69	1.14
GSDP Growth (per cent)	11.45	* (-) 6.61	10.00	14.35	10.00

General Trends: Revenue receipts of the State increased from Rs 1,833 crore in 2002-03 to Rs 2,610 crore in 2006-07 with a marginal dip in 2003-04 as the lottery business was stopped in the State with effect from August 2002. The trends in relative share of the composition of revenue receipts indicate a significant improvement in the share of tax revenue while relative share of non tax revenue has sharply declined over the period 2002-07. The share of central tax transfers has gradually improved while the grants-in-aid exhibited relative stability in its share during the period. This increase was mainly under Value Added Tax (Rs 111.45 crore), Power (Rs 86.76 crore) and Stamps and Registration fees (Rs 55.43 crore).

Tax Revenue: The State's own Tax Revenue mainly consisting of Sales Tax/VAT, Taxes on Goods and Passengers, Stamps and Registration fees, State Excise and Luxury Tax have increased from Rs 602 crore in 2002-03 to Rs 1,292 crore in 2006-07. In absolute terms, there was an increase of Rs 111.45 crore in Sales Tax/VAT and Rs 55.43 crore in Stamps and Registration fees in 2006-07 compared to the previous year.

Non-Tax Revenue: The non-tax revenue of the State has gradually decreased from Rs 1,039 crore in 2002-03 to Rs 729 crore in 2004-05 due to stoppage of lottery business with effect from August 2002. Non-Tax Revenue has exhibited increasing trend thereafter as it increased from Rs 761 crore in 2005-06 to Rs 918 crore in 2006-07. A sharp increase of 21 per cent in 2006-07 (Rs 157 crore) was mainly due to an increase of Rs 86.76 crore in Power and Rs 57.16 crore under other Administrative Services compared to the previous year.

Central Tax Transfers: The Central Tax Transfers have increased from Rs 115 crore in 2002-03 to Rs 312 crore in 2006-07. The increase was due to higher realisation of Central Tax revenue by the Central Government.

≠ Growth in revenue receipts during 2002-03 and 2003-04 was negative as also GSDP growth during 2003-04.

* GSDP figures for 2005-06 have been revised by the State Government as Rs 11,685 crore.

Grants-in-aid: The position of flow of grants from the Centre to the States in respect of State Plan Scheme, Central Plan, Centrally Sponsored Scheme and Non-Plan Grant during 2002-03 to 2006-07 is as follows:

(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07
Non Plan grants	7.08	5.19	1.48	6.84	20.21
State Plan Schemes	50.30	30.97	55.03	29.95	49.18
Central Plan Scheme	3.55	2.97	4.05	4.95	4.53
Centrally sponsored scheme	16.09	13.42	11.60	24.78	14.57
Special Plan scheme	-	-	-	-	-
Total	77.02	52.55	72.16	66.52	88.49

- **Non Plan Grant:** There was a decrease in the flow of Non Plan Grants from Rs 7.08 crore in 2002-03 to Rs 1.48 crore in 2004-05 whereas during the year 2005-06 and 2006-07 the state received Rs 6.84 crore and Rs 20.21 crore respectively towards Non Plan Grant. The increase in Non Plan Grant during 2006-07 was mainly due to more receipt of Rs 1.61 crore towards contribution to Calamity Relief Fund and Rs 13.56 crore under other Grants.
- **State Plan Scheme:** There was a decrease in receipt of grants pertaining to State Plan Scheme from Rs 50.30 crore in 2002-03 to Rs 29.95 crore during 2005-06 which again increased to Rs 49.18 crore in 2006-07 due to increase of Rs 6.71 crore under Block Grants and Rs 11.91 crore in other Grants compared to previous year.
- **Centrally Sponsored Schemes:** The receipt of grants-in-aid decreased from Rs 16.09 crore in 2002-03 to Rs 11.60 crore in 2004-05 and widely fluctuated thereafter as they peaked to Rs 24.78 crore in 2005-06 and reduced sharply to Rs 14.57 crore in 2006-07.

Revenue arrears

The arrears of revenue as on 31 March 2007 in respect of some principal heads of revenue amounted to Rs 532.31 crore as detailed below.

(Rupees in crore)

Head of Revenue	Amount of arrears as on 31 March 2007	Arrears more than three years old	Cases pending in court		Amount involved in Cases pending due to other reasons
			No.	Amount	
Commercial Tax	285.12	68.57	118	27.72	257.40
Excise	0.37	0.10	-	-	0.37
Taxes on vehicles	6.90	3.68	-	-	6.90

Chief Engineer - Public works Department					
i) Rent of Building / Shops	0.43	0.20	1	0.02	0.41
ii) Water charges, meter rent and sewerage charges	29.43	12.61	1867	4.85	24.58
Chief Engineer - Water Resources Department					
(i) Water Charges	14.72	0.45	147	0.03	14.69
(ii) Rent on building/shops	1.16	0.48	22	0.07	1.09
(iii) Hire charges of machinery	0.36	0.24	--	--	0.36
Chief Electrical Engineer Energy charges	190.40	Not furnished	3689	55.56	134.84
Director General of Police	0.33	0.17	10	0.04	0.29
Agriculture	3.09	2.84	4	--	3.09
Total	532.31	89.34	6928	88.29	444.02

The arrears of revenue increased by 79.83 *per cent* in five years from Rs 296 crore in 2002-03 to Rs 532.31 crore at the end of 2006-07. In 2006-07 arrears were 24.10 *per cent* of state's own resources. Of this, Rs 89.34 crore were outstanding for a period of more than three years. Of Rs 532.31 crore, Rs 88.29 crore were pending in Revenue Recovery courts. The increasing arrears of revenue showed a slackening of the revenue realizing efforts of the State Government.

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, extend the network of these services through capital expenditure and investments and discharge their debt service obligations. The total expenditure of the State increased from Rs 2,292 crore in 2001-02 to Rs 3,103 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-1.6**.

Table-1.6: Total Expenditure – Basic Parameters

	2002-03	2003-04	2004-05	2005-06	2006-07
Total expenditure (TE) [^] (Rupees in crore)	2218	2075	2376	2778	3103
Rate of Growth (<i>per cent</i>)	- 3.23	- 6.45	14.51	16.92	11.70
TE/GSDP Ratio (<i>per cent</i>)	22.30	22.34	23.25	23.77	24.14
RR /TE Ratio (<i>per cent</i>)	82.64	78.22	76.60	78.08	84.11
Buoyancy of Total Expenditure with reference to:					
GSDP (ratio)	▼	▼	1.45	1.18	1.17
RR (ratio)	▼	▼	1.20	0.88	0.58

The Total Expenditure during the current year was Rs 3,103 crore of which Revenue Expenditure was Rs 2,469 crore, Capital Expenditure contributed Rs 626 crore and repayment of Loans and Advances Rs eight crore. Out of Rs 3,103 crore, the non plan expenditure stood at Rs 1,992 crore and plan expenditure at Rs 1,111 crore.

The ratio of revenue receipts to total expenditure reflecting State's reliance on borrowed funds indicated a decreasing trend during 2002-03 to 2004-05, however, it indicated an increasing trend during 2005-07. Ratio indicated that 84 *per cent* of State's total expenditure during 2006-07 was met from its current revenues and the balance financed mostly from borrowings. The buoyancy of total expenditure to GSDP stood at 1.17 in 2006-07.

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-1.7**.

Table-1.7: Components of Expenditure – Relative Share*(In per cent)*

	2002-03	2003-04	2004-05	2005-06	2006-07
General Services	41.75	29.40	29.59	30.17	28.01
Of which Interest payments	12.17	13.17	12.61	14.39	13.77
Social Services	27.28	31.47	31.94	29.99	30.72
Economic Services	30.43	38.65	38.18	39.60	41.04
Grants-in-aid	10.19	11.28	9.22	10.66	9.96
Loans and Advances	0.54	0.48	0.29	0.25	0.26

[^] Total expenditure includes revenue expenditure, capital expenditure and loans and advances.

[▼] Growth of TE was negative during 2002-03 and 2003-04.

The expenditure sharply declined in 2003-06 due to stoppage of lottery business in the state. There was a gradual increase of expenditure under Economic Services from 30.43 *per cent* in 2002-03 to 41.04 *per cent* in 2006-07, whereas under Social Services the percentage of expenditure decreased to 29.99 during 2005-06 and again increased to 30.72 *per cent* in 2006-07.

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 any addition to the States infrastructure and service network. The overall revenue expenditure, its rate of growth, ratio of revenue expenditure to GSDP and to revenue receipts and its buoyancy are indicated in **Table-1.8**.

Table-1.8: Revenue Expenditure: Basic Parameters

(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07
Revenue Expenditure (RE) Of which	2000	1764	1943	2191	2469
Non-Plan Revenue Expenditure (NPRE)	1782	1480	1578	1776	1985
Plan Revenue Expenditure (PRE)	218	284	365	415	484
Rate of Growth (<i>per cent</i>)					
Revenue Expenditure	(-) 2.08	(-)11.46	12.14	19.18	20.33
NPRE	(-) 7.09	(-)16.95	6.62	12.55	11.77
PRE	19.78	30.28	28.52	13.70	16.63
Ratios					
RE as <i>per cent</i> of TE	90.17	85.01	81.78	78.87	79.57
NPRE as <i>per cent</i> of TE	80.34	71.33	66.41	63.93	63.97
NPRE as <i>per cent</i> of RR	97.22	91.19	86.70	81.88	76.05
Buoyancy Ratio of RE with reference to					
GSDP	∞	∞	1.01	0.89	1.27
Revenue Receipts	2.31	1.03	0.84	0.67	0.62

∞ Growth in Revenue Expenditure during 2002-03 and 2003-04 was negative as also GSDP growth during 2003-04.

The revenue expenditure indicated an increasing trend during 2002-07 with a dip in 2003-04 due to stoppage of lottery business. It showed an increasing trend under Plan from 2004-07 due to more expenditure under Urban & Rural Water Supply Scheme, Advertising & Visual Publicity, General Education and Urban & Rural Health Programme. The NPRE has shown a consistent increase at average rate of 12 *per cent* during 2005-07 and continued to share the dominant proportion consisting 80 *per cent* of Revenue Expenditure. The increase in NPRE during the current year was mainly due to more expenditure on power (Rs 107 crore) and interest payments (Rs 27 crore). The NPRE at

Rs 1,985 crore was significantly higher than the normatively assessed level of Rs 1,321 crore by the TFC for the State for the current year.

1.4.3 Committed Expenditure

1.4.3.1 Expenditure on Salaries and Wages

Table 1.9: Expenditure on Salaries

(Rupees in crore)

Heads	2002-03	2003-04	2004-05	2005-06	2006-07
Expenditure on Salaries					
Of which	333.35	381.04	422.05	440.22	471.50
Non-Plan Head	280.33	319.93	352.79	367.76	391.87
Plan Head	53.02	61.11	69.26	72.46	79.63
As per cent of GSDP	3.35	4.10	4.13	3.77	3.67
As per cent of RR	18.19	23.48	23.19	20.30	18.07

There was an increasing trend on expenditure on salaries during the period 2002-2007, which grew by 11.72 per cent during 2006-07 over the previous year. The salary expenditure at 25 per cent of revenue expenditure net of interest and pension payment during 2006-07 which was well within the norm of 35 per cent recommended by the TFC.

1.4.3.2 Pension Payments

Table 1.10: Expenditure on Pensions

(Rupees in crore)

Heads	2002-03	2003-04	2004-05	2005-06	2006-07
Expenditure on Pensions	140.54	113.33	140.34	158.86	150.28
As per cent of GSDP	1.41	1.22	1.37	1.36	1.17
As per cent of RR	7.67	6.98	7.71	7.32	5.76

Pension payments increased from Rs 140.54 crore in 2002-03 to Rs 158.86 crore in 2005-06 and declined to Rs 150.28 crore in 2006-07.

1.4.3.3 Interest payments

Table-1.11: Interest payments

Interest payments	2002-03	2003-04	2004-05	2005-06	2006-07
Interest payments (Rupees in crore)	292	321	323	400	427
Interest payments as per cent to					
Revenue Receipts	16	20	18	18	16
Revenue Expenditure	15	18	17	18	17

In absolute terms, interest payment increased by Rs 135 crore from Rs 292 crore in 2002-03 to Rs 427 crore in 2006-07 primarily due to continued reliance on borrowings for financing the fiscal deficit. The rate of interest on open market borrowings/outstanding at the end of 2006-07, varied from 13.85 *per cent* to 5.60 *per cent*. The ratio of interest payments to revenue receipts fluctuated within the range of 16 to 20 *per cent* during the period 2002-07 and was at the lower limit of the range both in 2002-03 and the current year. The State could maintain it at reasonable level especially if it is assessed in view of the TFC recommendation to gradually reduce it to 15 *per cent* by 2009-10.

1.4.3.4 Subsidies

The State Government has been paying subsidies to various Corporations, etc. The trends in the subsidies given by the State Government are given in **Table 1.12**.

Table-1.12: Subsidies

Year	2002-03	2003-04	2004-05	2005-06	2006-07
Total Subsidies (Rupees in crore)	30.66	29.21	30.44	43.70	39.72
Percentage change over the previous year	13.09	(-) 4.73	4.21	43.56	(-) 9.11
Total subsidies as per cent of					
Revenue Expenditure	1.53	1.66	1.57	1.99	1.61
Total Expenditure	1.38	1.41	1.28	1.57	1.28

In absolute terms the disbursement of subsidy increased from Rs 30.66 crore in 2002-03 to Rs 43.70 crore in 2005-06 and then decreased to Rs 39.72 crore in 2006-07. Though the subsidies are a drain on State finance, the Government is extending subsidies keeping in view the welfare of the State. The share of subsidy in total expenditure varied within a range of 1.28 to 1.57 *per cent* during the period 2002-07. The sharp decline in disbursement of subsidy during 2006-07 (9.11 *per cent*) over the previous year was mainly due to less subsidies given under General and Social services. The areas which received major chunk of subsidies are Transport (Rs 11.68 crore), Fisheries (Rs 11.42 crore), Crop Husbandry (Rs 5.11 crore) and Dairy Development (Rs 3.51 crore).

1.5 Expenditure by Allocative Priorities

1.5.1 Quality of Expenditure

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

Table 1.13 – Indicators of Quality of Expenditure

(Rupees in crore)

Components of Expenditure	2002-03	2003-04	2004-05	2005-06	2006-07
Capital Expenditure	206	301	426	580	626
Revenue Expenditure	2000	1764	1943	2191	2469
Revenue Expenditure on Social and Economic Services, of which					
(i) Salary Component	- Not available -			319	341
(ii) Non-Salary Component	▲1280	▲1455	▲1666	1129	1342
As per cent of Total Expenditure					
Capital Expenditure	9.29	14.51	17.93	20.88	20.17
Revenue Expenditure	90.17	85.01	81.78	78.87	79.57
As per cent of GSDP					
Capital Expenditure	2.07	3.24	4.17	^o 4.96	4.87
Revenue Expenditure	20.11	18.99	19.01	^o 18.75	19.21

▲ Includes both salary and non-salary component. Separate breakup is not available.

The ratio of capital expenditure to total expenditure increased from 9.29 per cent in 2002-03 to 20.17 per cent in 2006-07. Similarly, the ratio of capital expenditure to GSDP increased from 2.07 per cent in 2002-03 to 4.87 per cent in 2006-07. Roads and Bridges (Rs 115 crore), Power Projects (Rs 103 crore) and Major and Medium Irrigation (Rs 126 crore) were the major beneficiary sectors. The share of non-salary component in the revenue expenditure incurred on social and economic services was not only significantly higher (80 per cent) relative to its salary component but it increased sharply (19 per cent) during 2006-07 over the previous year. The progressive increase in capital expenditure during the last five years along with relatively higher share of non-salary component of revenue expenditure indicate improvement in the quality of expenditure and it seems that the impetus is being given to asset formation.

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 of social services in the State during 2002-07.

Table 1.14: Expenditure on Social Services

(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07
General Education					
Revenue Expenditure	277.60	280.62	336.51	333.08	405.14
<i>Of which</i>					
(a) Salary Component	-	-	-	85.07	90.87
(b) Non-Salary Component	-	-	-	248.01	314.27

^o change in GSDP figure

Capital Expenditure	8.72	11.72	17.87	16.47	28.94
Health and Family Welfare					
Revenue Expenditure	92.08	101.98	112.39	124.06	135.48
<i>Of which</i>					
(a) Salary Component	-	-	-	81.61	88.69
(b) Non-Salary Component	-	-	-	42.45	46.79
Capital Expenditure	4.56	6.93	7.10	15.17	9.90
Water Supply, Sanitation, Housing and Urban Development					
Revenue Expenditure	97.33	80.03	96.02	149.21	155.01
<i>Of which</i>					
(a) Salary Component	-	-	-	10.98	12.06
(b) Non-Salary Component	-	-	-	138.23	142.95
Capital Expenditure	39.35	68.15	65.49	63.14	82.10
Other Social Services					
Revenue Expenditure	82.83	101.62	122.80	130.76	135.72
<i>Of which</i>					
(a) Salary Component	-	-	-	22.19	23.39
(b) Non-Salary Component	-	-	-	108.57	112.33
Capital Expenditure	2.65	1.88	0.38	1.10	1.00
Total (Social Services)	605.12	652.93	758.56	832.99	953.29
Revenue Expenditure	549.84	564.25	667.72	737.11	831.35
<i>Of which</i>					
(a) Salary Component	-	-	-	199.85	215.01
(b) Non-Salary Component	-	-	-	537.26	616.34
Capital Expenditure	55.28	88.68	90.84	95.88	121.94

- Not available

Although the overall percentage of increase in Revenue and Capital Expenditure under Social Services during the period 2002-03 to 2006-07 was 51.20 and 120.59 respectively but the share of Revenue Expenditure remained on an average around 88 *per cent* during the period. In respect of Water Supply, Sanitation, Housing and Urban Development, Revenue Expenditure increased by 59.26 *per cent* and Capital Expenditure by 108.64 *per cent* during the period 2002-03 to 2006-07.

Recognizing the need to improve the quality of education and health services, TFC recommended that the non-plan salary expenditure under Education and Health and Family Welfare should increase only by five to six *per cent* while non-salary expenditure on non-plan heads should increase by 30 *per cent* per annum during the award period. However, trends in expenditure (taking expenditure under both plan and non-plan heads) reveal that the salary component under education increased by seven *per cent*. The increase in non-salary component on the other hand under Education Sector was 27 *per cent* and in Health and Family Welfare sector 10 *per cent*. The expenditure pattern both in education and health services needs correction in the ensuing years.

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 State's economy. The expenditure on Economic Services (Rs 1,272.64 crore in 2006-07)

accounted for 41.01 *per cent* of the total expenditure (**Table 1.15**). Of this, Agriculture and Allied activities, Irrigation and Flood Control, Energy and Transport constituted nearly 89.24 *per cent* of the expenditure.

Table-1.15: Expenditure on Economic Sector*(Rupees in crore)*

	2002-03	2003-04	2004-05	2005-06	2006-07
Agriculture, Allied Activities					
Revenue Expenditure	36.44	44.41	47.26	66.37	69.81
<i>Of which</i>					
(a) Salary Component	-	-	-	28.97	30.45
(b) Non-Salary Component	-	-	-	37.40	39.36
Capital Expenditure	3.31	7.89	12.72	13.98	12.76
Irrigation and Flood Control					
Revenue Expenditure	15.55	15.33	17.43	22.34	26.06
<i>Of which</i>					
(a) Salary Component	-	-	-	10.53	10.85
(b) Non-Salary Component	-	-	-	11.81	15.21
Capital Expenditure	28.54	38.74	56.77	158.69	157.95
Power & Energy					
Revenue Expenditure	370.24	421.48	419.89	429.55	536.99
<i>Of which</i>					
(a) Salary Component	-	-	-	46.71	50.23
(b) Non-Salary Component	-	-	-	382.84	486.76
Capital Expenditure	50.06	51.34	88.14	102.28	102.95
Transport					
Revenue Expenditure	50.08	57.51	66.27	95.62	105.95
<i>Of which</i>					
(a) Salary Component	-	-	-	16.75	18.28
(b) Non-Salary Component	-	-	-	78.87	87.67
Capital Expenditure	49.98	73.53	96.77	102.78	123.29
Other Economic Services					
Revenue Expenditure	66.38	78.95	91.81	96.78	112.63
<i>Of which</i>					
(a) Salary Component	-	-	-	16.08	16.55
(b) Non-Salary Component	-	-	-	80.70	96.08
Capital Expenditure	4.09	13.46	11.10	11.59	24.25
Total(Economic Services)	674.67	802.64	908.16	1099.98	1272.64
Revenue Expenditure	538.69	617.68	642.66	710.66	851.44
<i>Of which</i>					
(a) Salary Component	-	-	-	119.04	126.36
(b) Non-Salary Component	-	-	-	591.62	725.08
Capital Expenditure	135.98	184.96	265.50	389.32	421.20

- Not available

The Revenue as well as the Capital Expenditure on Economic services consistently increased during the period 2002-07. In relative terms the overall increase in Revenue Expenditure pertaining to the Economic services was 58.06 *per cent* while in Capital Expenditure it was 209.75 *per cent* during the period 2002-03 to 2006-07. However, during 2006-07, the increases in Revenue Expenditure were relatively more as compared to the corresponding increase in Capital Expenditure in almost all the economic services except in case of transport. For instance, in respect of Irrigation and Flood Control, the

Revenue Expenditure during 2006-07 increased by 16.65 *per cent* whereas the Capital Expenditure decreased by 0.47 *per cent*, over the previous year. Similarly, there was an increase of 25.01 *per cent* in Revenue Expenditure during the year on Power and Energy over the previous year 2005-06, whereas the Capital Expenditure increased by 0.65 *per cent* over the previous year 2005-06. In respect of Transport Sector, the Revenue Expenditure on the other hand increased by 10.80 *per cent* during the year 2006-07 over the previous year whereas Capital Expenditure increased by 19.96 *per cent* during the same period.

1.5.4 Financial Assistance by State Government to local bodies and other institutions

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

Table-1.16: Financial Assistance

(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07
Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.)	170.67	162.36	153.60	196.47	206.82
Municipal Corporations and Municipalities	21.29	17.72	16.96	35.96	40.39
Zilla Parishads and Other Panchayati Raj Institutions	24.44	24.87	32.75	39.70	41.98
Development Agencies	-	-	-	-	-
Other Institutions	9.48	9.54	15.02	23.99	24.81
Total	225.88	214.49	218.53	296.12	314.00
Assistance as per percentage of RE	11.29	12.16	11.25	13.52	12.72

The financial assistance to local bodies and other institutions has increased by 6.04 *per cent* during the year 2006-07 over the previous year due to delegation of more power to Urban Local Bodies, more grants to social security welfare, rural employment etc.

1.5.5 Delay in furnishing utilisation certificates

Of the 3,646 utilisation certificates (UCs) due in respect of grants and loans aggregating Rs 207.13 crore paid upto 2005-06, 3,494 UCs for an aggregate amount of Rs 201.08 crore were in arrears. Details of department-wise break-up of outstanding UCs are given in **Appendix 1.2**.

1.5.6 Non-submission of accounts

In order to identify the institutions which attract audit under Sections 14 and 15 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971, the Government/Heads of the Department are required to furnish to Audit every year detailed information about the financial assistance given to various institutions, the purpose of assistance granted and the total expenditure of the institutions. As of 30 June 2007, seven departments of the Government had not furnished details for the year 2005-06 as shown in **Appendix 1.3**.

1.5.7 Abstract of performance of the autonomous bodies

The status of entrustment of audit, rendering of accounts to audit, issuance of Separate Audit Report and its placement in the Legislature of five bodies in respect of whom the Separate Audit Reports are to be placed in the legislature is indicated in **Appendix 1.4**.

1.6 Misappropriations, losses, defalcations, etc.

State Government reported 16 cases of misappropriation, losses, etc., involving Government money amounting to Rs 150.20 lakh up to the period June 2007 on which final action was pending. The department-wise break up of pending cases is given in **Appendix 1.5**.

1.6.1 Write off of losses, etc.

During the year 2006-07, losses amounting to Rs 1.60 lakh in 73 cases were written off by competent authorities. The losses mainly pertained to unserviceable articles (Rs 1.01 lakh of the health department). The Department-wise details of write off are given in **Appendix 1.6**.

1.7 Assets and Liabilities

1.7.1 Trends in Growth and Composition of 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 1.7** 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 Appendix consist mainly of internal borrowings, loans and advances from the GoI, receipts from the Public Account and Reserve Funds, the assets comprise mainly the capital outlay and loans and advances given by the State Government and cash balances. **Appendix 1.8** depicts the time series data on State Government finances for the period 2002-2007.

1.7.2 Financial Analysis of Government Investments

1.7.2.1 Financial Results of Irrigation Works

Irrigation works have not been declared as Commercial Undertakings in the State of Goa, hence the financial results in respect of Irrigation works have not been worked out.

1.7.2.2 Incomplete projects

The department-wise information pertaining to incomplete projects as on 31 March 2007 is given in **Table 1.17**.

Table 1.17: Department-wise Profile of Incomplete Projects

(Rupees in crore)

Department	Number of Incomplete Projects	Initial Budgeted Cost	Revised Total Cost of Projects	Cost Over Runs	Cumulative Actual Expenditure as on 31.3.2007
Public Works Department	6	73.85	-	-	54.25
Directorate of Fisheries	1	0.45	-	-	0.35
Directorate of Settlement & Land records	1	3.94	-	-	3.18
State Directorate of craftsmen training	2	0.29	-	-	0.93
Water Resources Department (i) Tillari Irrigation Project	1	161.18	698.17 [^]	536.99	509.31
Total	11	239.71	698.17	536.99	568.02

The cost overrun in Tillari Irrigation Project was due to delay in execution of the Project.

1.7.2.3 Departmental Commercial Undertakings

Activities of *quasi*-commercial nature are performed by departmental undertakings of certain Government departments. These undertakings are required to prepare annually Proforma accounts in prescribed format showing the results of financial operations so that Government can assess the results of their working. The department-wise position of arrears in preparation of *proforma* accounts and the investment made by the Government are given in **Appendix 1.9**. The summarized financial statement of these undertakings is given in **Appendix 7.6**.

1.7.2.4 Investments and returns

As of 31 March 2007, Government had invested Rs 266.06 crore in Statutory Corporations, Rural Banks, Joint Stock Companies and Co-operatives (**Table 1.18**). The return on this investment ranged between 0.15 and 0.01

[^] Indicates the share of the Government of Goa in revised total cost of the project (Rs 952.44 crore) as per the last revision by the State Government in 2000-01.

per cent in the last five years while the Government paid interest at an average rate of 7.89 to 9.25 *per cent* on its borrowings during 2002-2007.

Table-1.18: Return on Investment

	2002-03	2003-04	2004-05	2005-06	2006-07
Investment at the end of the year (Rupees in crore)	189.81	202.93	220.93	235.84	266.06
Return (Rupees in crore)	0.19	0.03	0.27	0.18	0.40
Return (<i>per cent</i>)	0.10	0.01	0.12	0.07	0.15
Average rate of interest on Government borrowing (<i>per cent</i>)	9.25	8.95	7.89	8.54	7.97
Difference between interest rate and return (<i>per cent</i>)	9.15	8.94	7.77	8.47	7.82

The State Government has invested Rs 18.02 crore in two statutory corporations for more than five years. However, Government has not received any returns on this investment. Similarly, Government has invested Rs 208.42 crore in 17 Government Companies and Dividend/interest received during the year 2006-07 was only Rs 0.30 crore. Of these, 11 Government Companies with Capital employed amounting to Rs 306.71 crore up to 2006-07 were incurring losses and their accumulated losses amounted to Rs 233.56 crore as per the latest accounts furnished by these companies.

1.7.2.5 Loans and advances by State Government

In addition to investments in Co-operative societies, Corporation and Companies, Government has also been providing loans and advances to many of these institutions/organizations. Total outstanding loans and advances as on 31 March 2007, was Rs 52.74 crore (**Table 1.19**). Interest received as *per cent* to average outstanding loans during the year remained on an average around four *per cent* during 2002-07 as against average interest rate varying between 7.8 and 9.25 *per cent* paid by the Government on its borrowings during 2002-07.

Table-1.19: 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	38.90	44.50	47.78	49.66	50.38
Amount advanced during the year	12.20	9.83	7.46	7.05	8.14
Amount repaid during the year	6.60	6.55	5.58	6.33	5.78
Closing Balance	44.50	47.78	49.66	50.38	52.74
Net addition	(+)5.60	(+)3.28	(+)1.88	(+) 0.72	(+) 2.36
Interest Receipts	1.70	1.65	2.44	2.10	2.03
Interest receipts as <i>per cent</i> to average outstanding Loans and advances	3.98	3.58	5.01	4.20	3.94

Interest payments as <i>per cent</i> to outstanding Fiscal liabilities of the State Government	8.76	8.46	7.43	7.97	7.50
Difference between interest payments and interest receipts (<i>per cent</i>)	(-) 5.27	(-) 5.37	(-) 2.88	(-) 4.28	(-) 4.03

Out of Loans and Advances of Rs 8.14 crore advanced during the year, 58 *per cent* were advanced to Social Sector, 1.5 *per cent* to Economic services and 40.54 *per cent* to Government servants. Out of Rs 52.74 crore outstanding loans, 49.05 *per cent* of loans pertained to Social Sector, 23.45 *per cent* pertained to Economic Sector and 27.50 *per cent* to Government Servants. Out of Rs 2.03 crore of interest received, 84.63 *per cent* of interest was received from Government Servants and 13.38 *per cent* from Social and 1.99 *per cent* from Economic Services.

1.7.3 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 has been put in place. The operative limit for Normal Ways and Means Advances is reckoned on the three year average of revenue receipts and the operative limit for Special Ways and Means Advances is fixed by Reserve Bank of India from time to time depending on the holding of Government securities.

Ways and Means Advances and Overdrafts availed, the number of occasions it was availed and interest paid by the State is detailed in **Table 1.20**.

Table-1.20: 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	619.21	536.74	498.60	Nil	Nil
Number of Occasions	- Not available -				
Outstanding WMAs, if any	53.41	53.61	-		
Interest Paid	2.18	1.34	1.13		
Overdraft					
Number of Days	259	249	221	Nil	Nil
Availed in the year	137.80	112.92	37.30		
Number of Occasions	8	21	7		
Number of Days	34	21	12		
Interest Paid	0.19	0.23	0.05		

1.8 Undischarged Liabilities

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 and advances from the Central Government. The Constitution of India provides that a State may borrow, within the territory of India, upon the security of its Consolidated Fund, within such limits, as may from time to time, be fixed by the Act of its Legislature and give guarantees within such limits as may be fixed. Other liabilities, which are a part of public account, include deposits under small savings scheme, provident funds and other deposits.

Table-1.21 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-1.21: Fiscal Liabilities – Basic Parameters

	2002-03	2003-04	2004-05	2005-06	2006-07
Fiscal Liabilities (<i>Rs in crore</i>)	3335	3838	4350	5018	5694
Rate of Growth (<i>per cent</i>)	11.95	15.08	13.34	15.36	13.47
Ratio of Fiscal Liabilities to					
GSDP (<i>per cent</i>)	33.53	41.31	42.57	42.94	44.30
Revenue Receipts (<i>per cent</i>)	181.90	236.48	239.01	231.35	218.16
Own Resources (<i>per cent</i>)	203.23	267.46	274.27	270.22	257.65
Buoyancy of Fiscal Liabilities to					
GSDP (ratio)	1.04	≠	1.33	1.07	1.35
Revenue Receipts (ratio)	≠	≠	1.10	0.80	0.66
Own Resources (ratio)	≠	≠	1.27	0.90	0.71

Overall fiscal liabilities of the State increased from Rs 3,335 crore in 2002-03 to Rs 5,694 crore in 2006-07. This included Rs 409.35 crore being loan given by GoI to the erstwhile Union Territory of Goa, Daman and Diu. The growth rate of fiscal liabilities was 13.47 *per cent* during 2006-07 over the previous year. The ratio of fiscal liabilities to GSDP also increased from 33.53 *per cent* in 2002-03 to 44.30 *per cent* in 2006-07. This ratio seems to be on the higher side keeping in view the target of 30 *per cent* to be achieved by 31 March

≠ Growth of Revenue Receipts and Own Resources during 2002-03 and 2003-04 was negative as also GSDP growth during 2003-04.

2009 as laid down in Goa Fiscal Responsibility and Budget Management Act, 2006. The buoyancy of these liabilities with respect to GSDP during the year was 1.35 indicating that for each one *per cent* increase in GSDP, fiscal liabilities grew by 1.35 *per cent*. Fiscal Liabilities constituted Market Loans comprising of Rs 1,107.68 crore, Loans and Advances from Central Government of Rs 3,465.52 crore, Loans from Financial Institutions to the extent of Rs 116.81 crore and Public Account liabilities of Rs 1,004.12 crore. Government has constituted a sinking fund for amortization of loans raised in the open market during 2006-07; Rs 10 crore was contributed towards the fund as on 31 March 2007. The outstanding balance in the sinking fund was Rs 86.80 crore.

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 the Statement 6 of the Finance Accounts, the maximum amount for which guarantees were given by the State and outstanding guarantees at the end of year since 2002-03 are given in **Table 1.22**.

Table-1.22: Guarantees given by the Government of Goa

(Rupees in crore)

<i>Guarantees</i>	2002-03	2003-04	2004-05	2005-06	2006-07
Maximum amount guaranteed	534.83	612.20	719.32	709.32	714.62
Outstanding amount of guarantees	215.69	513.76	621.05	631.33	623.99
Percentage of maximum amount guaranteed to total revenue receipt	29.17	37.72	39.52	32.70	27.38

There was an increasing trend in giving the guarantees upto the year 2004-05. Thereafter it decreased in 2005-06 and again increased in 2006-07. The percentage of maximum amount guaranteed to Revenue Receipts stood at 39.52 *per cent* in 2004-05. The same declined to 32.70 *per cent* and 27.38 *per cent* in 2005-06 and 2006-07 respectively.

The Goa Fiscal Responsibility and Budget Management Act, 2006 specified that the Government shall cap the total outstanding guarantees within the specified limit under the Goa State Guarantees Act, 1993. The Goa Legislature fixed a limit of Rs 800 crore for the purpose in March 2005. The outstanding guarantees at Rs 624 crore during 2006-07 were well within the ceiling limit specified by the Legislature. The State has set up the Guarantee Redemption Fund. The amount invested against this fund as on 31 March 2007 was Rs 39.52 crore.

1.8.3 Off-Budget Borrowings

For financing loan cum grant scheme to aided educational institutions, Government availed a loan of Rs 30 crore from Goa State Infrastructure Development Corporation between 2001 and 2007. However, this was not

routed through the Consolidated Fund. This resulted in understatement of expenditure and fiscal deficit of the Government, thereby giving an incorrect picture of financial position of the State.

1.9 Debt Sustainability

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

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 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.

Table-1.23: Debt Stabilisation: Indicators and Trends

(In per cent)

	2002-03	2003-04	2004-05	2005-06	2006-07
Weighted Interest Rate (per cent)	9.25	8.95	7.89	8.54	7.97
GSDP Growth (per cent)	11.45	(-) 6.61	10.00	♥14.35	10.00
Interest spread (per cent)	2.20	(-) 15.56	2.11	5.81	2.03
Outstanding Debt (Rupees in crore)	2979	3335	3838	4350	5018
Quantum Spread (Rupees in crore)	65.54	-518.93	80.98	252.74	101.87
Primary Deficit (Rupees in crore)	(-) 86	(-) 124	(-) 227	(-) 203	(-) 60

Table 1.23 reveals that quantum spread together with primary deficit has been negative from 2002-03 and 2004-05 indicating rising trend in debt-GSDP ratio during the period. In fact due to a huge negative value of primary deficit together with quantum spread, debt-GSDP ratio increased steeply in 2003-04 by almost eight percentage points over the previous year. The primary deficit

♥ GSDP figures for 2005-06 have been revised by the State Government, hence change in growth rate.

continued to persist even thereafter mitigating the favorable impact of positive quantum spread resulting in increasing debt-GSDP ratio although at a lesser pace during 2005-06 and 2006-07. Therefore State need to reduce the primary deficit to zero or negligible in ensuing years for debt stabilization.

1.9.2 Sufficiency of Non-debt Receipts

Another indicator for debt stability and its sustainability is the adequacy of incremental non-debt receipts of the State to cover the incremental interest liabilities and incremental primary expenditure. The debt sustainability could be significantly facilitated if the incremental non-debt receipts could meet the incremental interest burden and the incremental primary expenditure. **Table 1.24** indicates the resource gap as defined for the period 2002-07.

Table 1.24: Incremental revenue receipts and Revenue Expenditure

(Rupees in crore)

Period	Incremental				Resource Gap
	Non-Debt Receipts	Primary Expenditure	Interest Payments	Total Expenditure	
2002-03	(-) 39	(-) 105	31	(-) 74	(+) 35
2003-04	(-)210	(-) 172	29	(-)143	(-) 67
2004-05	196	299	2	301	(-)105
2005-06	349	325	77	402	(-) 53
2006-07	441	298	27	325	(+)116

The positive resource gap strengthens the capacity of the State to sustain the debt in the medium to long run. **Table 1.24** however reveals persistence of negative resource gap during the period 2002-06 resulting in deteriorating debt sustainability position of the State. It was only in 2006-07 the resource gap turned into positive indicating sufficiency of incremental non debt receipts relative to the expenditure requirements of the State. For debt stability and enhancing the capacity of the State to sustain the debt, resource gap need to be maintained in positive in ensuing years.

1.9.3 Net Availability of Borrowed Funds

The debt sustainability of the State also depends on (i) the ratio of the debt redemption (Principal + Interest Payments) to total debt receipts and (ii) application of available borrowed funds. The ratio of debt redemption to debt receipts indicates the extent to which the debt receipts are used in debt redemption indicating the net availability of borrowed funds. The solution to the Government debt problem lies in application of borrowed funds, i.e. they are (a) not 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 1.25 gives the position of the receipt and repayment of internal debt and other fiscal liabilities of the State as well as the net availability of the borrowed funds over the last five years.

Table-1.25: Net Availability of Borrowed Funds

(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07
Internal Debt					
Receipt	181	273	151	86	100
Repayment (Principal + Interest)	197	202	246	324	352
Net Fund Available	(-) 16	71	(-) 95	(-) 239	(-) 252
Net Fund Available (<i>per cent</i>)	-	26	-	-	-
Loans and Advances from GoI					
Receipt	269	519	551	613	539
Repayment (Principal + Interest)	226	409	191	89	86
Net Fund Available	43	110	360	524	453
Net Fund Available (<i>per cent</i>)	16	21	65	85	84
Other obligation					
Receipt	197	226	207	208	245
Repayment (Principal + Interest)	202	250	217	226	196
Net Fund Available	(-) 5	(-) 24	(-) 10	(-) 18	49
Net Fund Available (<i>per cent</i>)	-	-	-	-	20
Total liabilities					
Receipt	647	1018	909	907	884
Repayment (Principal + Interest)	625	861	654	639	634
Net Fund Available	22	157	255	268	250
Net Fund Available (<i>per cent</i>)	3	15	28	29	28

The State Government raised market loans of Rs 100.00 crore during 2006-07 with rate of interest of 7.99 *per cent*. As on 31 March 2007, 31 *per cent* of the existing market loans of the State Government carried the interest rate exceeding 10 *per cent*. The maturity profile of the State Government market loans indicate that nearly 46 *per cent* of the total market loans are repayable within the next five years while the remaining 54 *per cent* of the loans are required to be repaid after 5 to 10 years.

1.10 Management of deficits

The surplus in the Government accounts represents the gap between its receipts and expenditure. The nature of surplus 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 Deficits/Surplus

The revenue deficit of the State which indicates the excess of its revenue expenditure over revenue receipts, decreased from Rs 167 crore in 2002-03 to Rs 22 crore in 2005-06. The State registered a revenue surplus of Rs 141 crore in 2006-07. The fiscal deficit, which represents the total borrowing of the Government and its total resource gap, increased from Rs 378 crore in 2002-03 to Rs 487 crore in 2006-07. The State also had a primary deficit of

Rs 86 crore in 2002-03 which decreased to Rs 60 crore in 2006-07 as indicated in Table-1.26.

Table-1.26: Fiscal Imbalances: Basic Parameters

(Rupees in crore)

Parameters	2002-03	2003-04	2004-05	2005-06	2006-07
Revenue deficit (-)/Surplus (+)	(-) 167	(-) 141	(-) 123	(-) 22	(+) 141
Fiscal deficit (-)/Surplus (+)	(-) 378	(-) 445	(-) 550	(-) 603	(-) 487
Primary deficit <i>(Rupees in crore)</i>	(-) 86	(-) 124	(-) 227	(-) 203	(-) 60
RD/GSDP <i>(per cent)</i>	1.68	1.52	1.20	0.19	∞
FD/GSDP <i>(per cent)</i>	3.80	4.79	5.38	5.16	3.79
PD/GSDP <i>(per cent)</i>	0.86	1.33	2.22	1.74	0.47
RD/FD <i>(per cent)</i>	44.18	31.69	22.36	3.65	∞

As per the Goa FRBM Act 2006, the Government shall reduce the revenue deficit to nil by 31 March 2009 and adhere to it thereafter. The revenue deficit was reduced from Rs 167 crore in 2002-03 to a revenue surplus of Rs 141 crore in 2006-07. During the year the revenue deficit was decreased by Rs 163 crore over the previous year due to mobilization of tax revenue by switching over to VAT system, more receipts from sale of stamps and fees for registering documents, more receipts under Power Sector, from luxury tax and under Other Administrative Services being Sale of land. Revenue Deficit (RD) would have been Rs 3.68 crore during 2006-07 had the receipts (Rs 681.67 crore) and expenditure (Rs 536.99 crore) of Power Department which is declared a quasi commercial activity were kept out of Government accounts. The percentage of Revenue surplus to Revenue Receipts during the year 2006-07 was 5.40. The percentage of Fiscal Deficit to total receipts was 18.58 during the year 2006-07 as against 28 per cent during the year 2005-06. The Goa FRBM Act 2006 prescribed a road map of reducing the Fiscal Deficit (FD) by 0.5 per cent of GSDP in each of the financial year beginning from 1 April 2006. The ratio of FD to GSDP was reduced by 1.38 per cent during the year 2006-07 over the previous year.

1.10.2 Quality of Deficit/Surplus

The ratio of RD to FD and the decomposition of Primary deficit into primary revenue deficit 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. Further, persistently, high ratio of revenue deficit to fiscal deficit also indicates that the asset base of the State was continuously shrinking and a part of borrowings (fiscal liabilities) were not having any asset backup. The ratio of revenue deficit to fiscal deficit has consistently declined from 2002-03 to 2005-06 and the revenue deficit was completely wiped out during the current year. This trajectory indicates significant improvement in the quality of the deficit over the period 2002-07. The bifurcation of the primary deficit would indicate the extent to which the deficit has been on

∞ There was no revenue deficit during 2006-07.

account of enhancement in capital expenditure which may be desirable to improve the productive capacity of the State's economy.

Table 1.27: Primary deficit/Surplus – Bifurcation of factors

(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	1840	1708	206	12	1926	132	(-) 86
2003-04	1630	1443	301	10	1754	187	(-) 124
2004-05	1826	1620	426	7	2053	206	(-) 227
2005-06	2175	1791	580	7	2378	384	(-) 203
2006-07	2616	2042	626	8	2676	574	(-) 60

The bifurcation of factors resulting into primary deficit or surplus of the State during the period 2002-03 to 2006-07 reveals that the deficit was mainly on account of capital expenditure incurred by the State Government. The non-debt receipts of the State were enough to meet the primary revenue expenditure 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. This indicates the extent to which the primary deficit has been on account of enhancement in capital expenditure which may be desirable to improve the production capacity of the State's economy.

1.11 Fiscal Ratios

The finances of a State should be sustainable, flexible and non-vulnerable. **Table-1.28** below presents a summarized position of Government finances over 2002-2007, with reference to certain key indicators classified in five groups: (i) Resource Mobilisation, (ii) Expenditure Management, (iii) Management of Fiscal Imbalances, (iv) Management of Fiscal Liabilities and (v) Other Fiscal Health 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-1.28: Indicators of Fiscal Health (in per cent)

Fiscal Indicators	2002-03	2003-04	2004-05	2005-06	2006-07
1	2	3	4	5	6
I Resource Mobilisation					
Own Tax Revenue/GSDP	6.05	7.64	8.39	9.38	10.05
Own Non Tax Revenue/GSDP	10.45	7.80	7.13	6.51	7.14
Central Transfers/GSDP	1.16	1.46	1.59	2.10	2.43
II Expenditure Management					
Total Expenditure/GSDP	22.30	22.34	23.25	23.77	24.14

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Total Expenditure/Revenue Receipts	82.64	78.22	76.60	78.08	84.11
Revenue Expenditure/Total Expenditure	90.17	85.01	81.78	78.87	79.57
Revenue Expenditure on Social Services/Total Expenditure	24.30	27.18	28.11	26.53	26.78
Revenue Expenditure on Economic Services/Total Expenditure	24.80	29.78	27.02	25.59	27.46
Capital Expenditure/Total Expenditure	9.34	14.58	17.98	20.93	20.17
Capital Expenditure on Social and Economic Services/Total Expenditure	8.61	13.16	14.98	17.46	17.50
III Management of Fiscal Imbalances					
Revenue deficit(Surplus)/GSDP	-1.68	-1.52	-1.20	-0.19	1.10
Fiscal deficit/GSDP	-3.80	-4.79	-5.38	-5.16	-3.79
Primary Deficit (Surplus)/GSDP	-0.86	-1.33	-2.22	-1.74	-0.47
Revenue Deficit/Fiscal Deficit	44.18	31.69	22.36	3.65	NA
IV Management of Fiscal Liabilities					
Fiscal Liabilities/GSDP	33.53	41.31	42.57	42.94	44.30
Fiscal Liabilities/RR	181.94	236.48	239.01	231.35	218.16
Primary deficit vis-à-vis quantum spread	86/ 73.43	124/ 88.76	227/ 89.91	203/ 73.33	60/ 115.70
Debt redemption (Principal + Interest)/Total Debt Receipts	125.62	108.75	93.21	91.50	99.14
V Other Fiscal Health Indicators					
Return on Investment	0.10	0.01	0.12	0.07	0.15
Balance from Current Revenue (Rs in crore)	(-) 88.24	(-) 18.48	109.65	191.33	353.15
Financial Assets/Liabilities	0.63	0.74	0.73	0.74	0.78

During 2002-2007, the ratio of own tax revenue to GSDP showed a continued improvement whereas the ratio of non tax revenue to GSDP showed a mixed trend during the above period. During 2003-06 it showed a declining trend whereas in 2006-07 it showed a slight increase.

Various ratios concerning the expenditure management of the State indicate quality of its expenditure and sustainability of these in relation to its resource mobilization efforts. The Revenue Expenditure as a percentage to total expenditure reduced to 78.87 *per cent* in 2005-06 from 90.17 *per cent* in 2002-03. The increasing proportion of Capital Expenditure in the total expenditure indicates improvement in developmental and quality of expenditure. Increasing reliance on revenue receipts to finance the total expenditure during the last three years (2004-07), which amounts to 84 *per cent* during 2006-07, indicates decreasing dependence on borrowed funds. This is also reflected by the decreasing ratio of financial liabilities to revenue receipts during this period.

Revenue surplus and significant decline in fiscal deficit during 2006-07 indicates an improvement in fiscal position of the State. The Balance from Current Revenue (Rs 353.15 crore) increased by 85 *per cent* over previous year indicating availability of funds for creation of assets.

1.12 Conclusion

Management of state finances calls for a delicate balance between debt position on one hand and expenditure on services and creation of infrastructure on the other. The quality of expenditure, i.e. expenditure on social and economic services, is influenced by resource mobilization efforts and debt level. The Goa FRBM Act 2006 envisaged bringing revenue deficit to nil by March 2009. The target stands achieved two years ahead of schedule. Further, the target of reducing fiscal deficit to 3 *per cent* of GSDP by March 2009 is well within sight as the fiscal deficit stood at 3.78 *per cent* in 2006-07. The State has succeeded in improving its fiscal health during 2006-07 relative to the previous year due to realization of more tax revenue under Value Added Tax System and more receipts under Power Sector, from Luxury Tax and on account of Sale of Land. The expenditure pattern of the State on the other hand reveals that the Revenue Expenditure as a percentage to total expenditure although exhibited a declining trend but it still constituted around 80 *per cent* during the current year leaving inadequate resources for expansion of services and creation of assets. Within Revenue Expenditure, NPRES at Rs 1,985 crore in 2006-07 constituted around 80 *per cent* and remained significantly higher than the normatively assessed level of Rs 1,321 crore by TFC for the year. Further, the salaries and wages, pensions, interest payments and subsidies continued to consume a major share of NPRES which was around 55 *per cent* during 2006-07. The continued prevalence of fiscal as well as primary deficits in the finance accounts of the State indicates the increasing reliance on the borrowed funds resulting in increasing fiscal liabilities of the State over this period which stood at 44 *per cent* of the GSDP in 2006-07 and appears to be quite high especially in view of the fact that Goa FRBM Act 2006 envisaged the fiscal liabilities level at 30 *per cent* of GSDP by March 2009. Achieving the FRBM target within two years appears ambitious and would require containing the expenditure. The increasing fiscal liabilities accompanied with negligible rate of return on Government investments and inadequate interest cost recovery on loans and advances might put a fiscal stress on the State in the medium to long run unless suitable measures are initiated especially to compress the non plan revenue expenditure and to mobilize the additional resources both through the tax and non tax sources in ensuing years.