

CHAPTER – I

AN OVERVIEW OF THE FINANCES OF THE STATE GOVERNMENT

1.1 Introduction

This chapter discusses the financial position of the State Government based on the information contained in the Finance Accounts. The analysis is based on the trends in the receipts and expenditure, the quality of expenditure and financial management of the State Government. In addition, the chapter also contains a section on analysis of indicators of financial performance of the Government. Some of the terms used in this chapter are explained in *Appendix-I*.

1.2 Financial position of the State

The Government accounting system does not attempt a comprehensive accounting of fixed assets i.e. land and building, etc., owned by the Government. However, these accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred by it. Exhibit-I presents an abstract of such liabilities and the assets as on 31 March 2003, compared with the corresponding position on 31 March 2002. While the liabilities in this statement consist mainly of money owed by the State Government such as internal borrowings, loans and advances from the Government of India, receipts from the public account and reserve funds, the assets comprise mainly the capital expenditure and loans and advances given by the State Government. Exhibit-I shows that while the liabilities grew by 26.89 *per cent*, the assets grew by 19.55 *per cent* during 2002-03, mainly as a result of very high (55.36 *per cent*) growth in the deficit on the Government account. This shows an overall deterioration in the financial condition of the Government.

Exhibit-II shows the position of sources and application of funds, Exhibit-III shows receipts and disbursements of the Government during the year and Exhibit-IV shows Time Series Data on State Government finances for the five year period 1998-2003. These are placed at pages from 14 to 19.

1.3 Sources and application of funds

Exhibit-II gives the position of sources and application of funds during the current and the preceding year. The main sources of funds include revenue receipts of the Government, recoveries of loans and advances, public debt and receipts in the public account. These are applied mainly on revenue and capital expenditure and on lending for developmental and other purposes. Revenue receipts constituted the most significant source of fund for the State Government. Their relative share decreased from 77.23 *per cent* in 2001-02 to 63.14 *per cent* in 2002-03, even though there was increase in total gross

receipts by 24.38 *per cent*. The share of recoveries of loans and advances went down from 0.45 *per cent* to 0.35 *per cent*. There was a net inflow from public accounts, and the share of public debt receipts also increased from 10.94 *per cent* in 2001-02 to 27.13 *per cent* in 2002-03.

The revenue expenditure accounted for 70.61 *per cent* of total funds. This was higher than the share of revenue receipts in the total receipts. This led to increase in both revenue deficit and liabilities of the State which, to that extent, had no asset back up.

1.4 Revenue Receipts

The revenue receipts of the State consist mainly of its own taxes and non-tax revenue, central tax transfers and grants in aid from the Government of India. Overall revenue receipts of the State increased from Rs.989.38 crore in 1998-99 to Rs.1346.90 crore in 2002-03 at an average trend rate of 9.62 *per cent* per annum, whereas rate of growth of revenue receipts increased by 1.69 *per cent* only in 2002-03 over the previous year due to decline in the receipts from tax revenue and grants-in-aid. Overall annual revenue receipts, rate of growth, ratio of its receipts to the State Gross Domestic Product (GSDP) and its buoyancy are indicated in Table 1.1.

Table 1.1

Revenue Receipts-Basic Parameters (Values in Rupees crore and others in *per cent*)

	1998-99	1999-2000	2000-01	2001-02	2002-03	Average
Revenue Receipts	989.38	1131.46	1254.10	1324.53	1346.90	1209.27
Rate of Growth	14.91	14.36	10.84	5.62	1.69	9.62
Revenue Receipts/GSDP	37.67	38.13	37.40	34.95	31.45	35.53
Revenue Buoyancy	1.147	1.105	0.834	0.432	0.130	0.740
GSDP Growth	13.00	13.00	13.00	13.00	13.00	13.00

Though revenue receipts have grown in absolute terms during 1998-2003, its rate of growth has been declining from 14.91 *per cent* in 1998-99 to 1.69 *per cent* in 2002-03. The GSDP growth of the State remained stagnant at 13 *per cent* in nominal terms. This widening gap between rate of growth of GSDP and revenue receipt led to a continuous decline in buoyancy of revenue receipts from 1.147 in 1998-99 to 0.130 in 2002-03.

Composition of the revenue receipts of the State and the relative share of the four components over last five years is indicated in Table 1.2. On an average, around seven *per cent* of the revenue came from State's own resources, while central tax transfers and grants in aid together contributed major portion about 93 *per cent* of total revenue. The share of own tax revenue of the State increased from 3.09 *per cent* in 1998-99 to 4.6 *per cent* in 2002-03. Grants-in-aid as percentage to total revenue of the State witnessed a sharp growth from 48.26 *per cent* in 1998-99 to 88.72 *per cent* in 2002-03 and constituted the main source of revenue receipts.

Table 1.2

Components of Revenue Receipts – relative share in per cent

	1998-99	1999-00	2000-01	2001-02	2002-03	Average
Own Taxes	3.09	3.49	3.69	4.71	4.60	3.98
Non-Tax Revenue	4.46	3.43	3.13	3.28	3.26	3.47
Central Tax Transfers	44.19	46.49	7.69	1.75	3.42	18.67
Grants-in-aid	48.26	46.58	85.49	90.26	88.72	73.88

Overall growth of the four components of revenue during 1998-2003 also differed significantly. While non-tax revenue of the State recorded a trend growth of 6.79 per cent during 1998-2003, the central tax transfers declined by 45.23 per cent. Revenue from own tax and grants-in-aid were relatively buoyant with a growth of 17.60 and 28.14 per cent respectively during this period. The trend annual growth of the various components of State's revenue, their buoyancy, average ratio as percentage to GSDP and average annual rate of shift in the relative contribution is indicated in Table 1.3.

Table 1.3

Components of Revenue – Basic Parameters 1998-2003 (per cent)

	ROG	GSDP Share	Buoyancy	Relative Share	Shift Rate
Own Taxes	17.60	1.414	1.354	3.98	7.28
Non-Tax Revenue	6.79	1.232	0.522	3.47	-2.59
Central Tax Transfers	-45.23	6.634	*	18.67	-50.04
Grants-in-aid	28.14	26.248	2.165	73.88	16.89

* Central tax transfers had a respective growth

The State's own tax revenue and grants-in-aid had a high buoyancy of 1.354 and 2.165 respectively. The buoyancy of its non-taxes was, however, 0.522. As a result of the decline in central transfers and relatively lower buoyancy of its non-tax receipts compared to the other two components of revenue, the relative share of these in State's total revenue declined. Average annual shift rate was (-) 50.04 per cent for central tax transactions and (-) 2.59 per cent for the State's non-taxes. Nearly 74 per cent of the State's total revenue was generated through Grants-in-aid and its ratio with GSDP averaged 26.248 compared to a ratio of 1.232 for its non-tax revenue and 1.44 for the revenue from own taxes.

1.5 Expenditure

Over all expenditure of the State comprising revenue expenditure, capital expenditure and the loans and advances increased from Rs.1187.29 crore in 1998-99 to Rs.1849.29 crore in 2002-03, at an average annual trend rate of 10.91 per cent. While the rate of growth of expenditure was lower relative to the growth of GSDP, it remained higher relative to the growth of revenue receipt. As a result, the over all buoyancy of the total expenditure with GSDP

was 0.84 during 1998-2003. It indicated that for every one *per cent* increase in the State's GSDP, expenditure increased by 0.84 *per cent*. However, relative to revenue receipt for each one *per cent* increase in revenue receipts, expenditure increased by 1.13 *per cent*. Overall expenditure, its annual and trend growth ratio of total expenditure to State's GSDP and the buoyancy of expenditure indicated in Table 1.4 below:

Table 1.4

Total Expenditure – Basic Parameters (Value in Rupees crore and others in *per cent*)

	1998-99	1999-00	2000-01	2001-02	2002-03	Average
Total Expenditure	1187.29	1330.35	1531.98	1669.27	1849.29	1513.64
Rate of Growth	5.06	12.05	15.16	8.96	10.78	10.91
TE/GSDP Ratio	45.21	44.83	45.68	44.05	43.19	44.47
Revenue Receipts/TE ratio	83.33	85.05	81.86	79.35	72.83	79.89
Buoyancy of Total Expenditure with						
GSDP	0.39	0.93	1.17	0.69	0.83	0.84
Revenue Receipts	0.34	0.84	1.40	1.60	6.39	1.13

In terms of the activities total expenditure could be considered as being composed of expenditure on general, social and economic services, interest payments and loans and advances. The relative share of these components in the total expenditure is indicated in Table 1.5.

Table 1.5

Components of Expenditure-Relative Share (in *per cent*)

	1998-99	1999-00	2000-01	2001-02	2002-03	Average
General Services	28.32	30.38	30.99	32.21	32.92	31.20
Interest Payments	11.36	11.45	11.56	12.01	11.60	11.62
Social Services	29.39	30.63	28.21	28.52	28.90	29.06
Economic Services	29.32	26.78	28.11	27.06	26.44	27.43
Loans and Advances	1.61	0.77	1.13	0.21	0.13	0.69

The movement of relative share of these components indicate that while the share of economic services in total expenditure declined from 29.32 *per cent* in 1998-99 to 26.44 *per cent* in 2002-03, the relative share of general services and interest payments increased. Expenditure on social services and loans and advances decreased. Interest payments and expenditure on general services considered as non-developmental, together accounted for nearly 45 *per cent* of total expenditure in 2002-03 as compared to around 40 *per cent* in 1998-99.

In total expenditure, revenue expenditure had the predominant share, nearly 81 *per cent* in 2002-03. Revenue expenditure is incurred to maintain the current level of services and does not represent any addition in the State's service network. Overall revenue expenditure of the State increased from Rs.1012.40 crore in 1998-99 to Rs.1506.27 crore in 2002-03, at an average trend rate of 9.76 *per cent* per annum. Rate of growth of revenue expenditure reached its maximum in 2000-01 at 13.10 *per cent*. Revenue expenditure-GSDP ratio witnessed a decline from 38.55 *per cent* in 1998-99 to 35.18 *per cent* in 2002-03. Further, the ratio of revenue expenditure to total expenditure

decreased from 85.27 *per cent* in 1998-99 to 81.45 *per cent* in 2002-03. On an average 84 *per cent* of total expenditure of the State was on current consumption. The ratio of revenue expenditure to revenue receipt was on the rise indicating increasing dependence on borrowing for meeting the current expenditure. Overall revenue expenditure, its rate of growth, ratio of revenue expenditure to State's GSDP and revenue receipts and its buoyancy with both GSDP and revenue receipts are indicated in Table 1.6 below:

Table 1.6

**Revenue Expenditure-Basic Parameters
(Value in Rupees crore and others in *per cent*)**

	1998-99	1999-00	2000-01	2001-02	2002-03	Average
Revenue Expenditure	1012.40	1140.80	1290.23	1427.11	1506.27	1275.36
Rate of Growth	2.45	12.68	13.10	10.61	5.55	9.76
RE/GSDP	38.55	38.44	38.47	37.66	35.18	37.47
RE as % of TE	85.27	85.75	84.22	85.49	81.45	84.26
RE as % to Revenue Receipts	102.33	100.83	102.88	107.74	111.83	105.47
Buoyancy of Revenue Expenditure with						
GSDP	0.19	0.98	1.01	0.82	0.43	0.75
Revenue Receipts	0.16	0.88	1.21	1.89	3.28	1.01

The trend growth in revenue expenditure remained lower than the rate of growth of GSDP. However, relative to revenue receipt, revenue expenditure recorded a faster growth more particularly during the last three years.

The plan, capital and developmental expenditure reflect its quality. The higher the ratio of these components to total expenditure the better is the quality of expenditure. Table 1.7 below gives the ratio of these components to total expenditure:

Table 1.7

Quality of Expenditure (*per cent* to total expenditure)

	1998-99	1999-00	2000-01	2001-02	2002-03	Average
Plan Expenditure	30.63	30.95	29.50	28.29	31.56	30.17
Capital Expenditure	13.34	13.58	14.82	14.33	18.45	15.15
Development Expenditure	59.68	57.85	56.96	55.69	55.42	56.88

(Total expenditure do not include Loans and Advances)

Two out of the three components of expenditure though showing erratic trend, reflected a net increase during 1998-2003. Plan expenditure increased from 30.63 *per cent* of total expenditure in 1998-99 to 31.56 *per cent* in 2002-03. Similarly, capital expenditure also increased from 13.34 to 18.45 *per cent*. But there was decline in the share of development expenditure from 59.68 *per cent* in 1998-99 to 55.42 *per cent* in 2002-03.

Activity wise expenditure also revealed that the average trend growth of various components had significant variations. Expenditure on general services and interest payments were the fastest growing components with an average growth of 14.90 and 13.93 *per cent* per annum respectively. Loans

and advances of the State reflected a negative growth of 26.88 *per cent*. As percentage to GSDP, non-development expenditure comprising general services and interest payments averaged 19.05 *per cent*, social services 12.92 *per cent* and the economic services 12.20 *per cent*. Activity wise trend growth, ratio to GSDP, relative share of the various activities, shift in their relative share and buoyancy with GSDP and revenue receipt are indicated in Table-1.8.

Table 1.8

Activity wise Expenditure-Basic Parameters (in *per cent*)

	ROG	GSDP Share	Relative Share	Share Shift	Buoyancy with	
					GSDP	Revenue Receipt
General Services	14.90	13.88	31.20	3.58	1.15	1.55
Interest Payments	13.93	5.17	11.62	2.72	1.07	1.45
Social Services	11.05	12.92	29.06	0.13	0.85	1.15
Economic Services	6.53	12.20	27.43	-3.94	0.50	0.68
Loans and Advances	-26.88	0.31	0.69	-34.07	*	*

* Loans and advances had a negative growth

Expenditure on general services and interest payments had a buoyancy greater than one which respect to both GSDP and revenue receipts. These two components of expenditure also witnessed a positive shift in their relative share averaging 3.59 and 2.72 *per cent* per annum respectively. Expenditure on economic services had a buoyancy less than with respect to both GSDP and revenue receipt. Its relative share had a negative shift rate of 3.94 *per cent*.

1.6 Fiscal Imbalances

The deficits in the Government accounts represent 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 are important pointers to the fiscal health. The revenue deficit which is the excess of revenue expenditure over revenue receipts, increased from Rs.23.02 crore in 1998-99 to Rs.159.37 crore in 2002-03. The fiscal deficit, which represents the total borrowing of the Government and its total resource gap, increased from Rs.184.73 crore in 1998-99 to Rs.494.97 crore in 2002-03. State also had a primary deficit increasing from Rs.49.90 crore in 1998-99 to Rs.280.39 crore in 2002-03.

The existence of revenue deficit indicated that the revenue receipts of the State were not able to meet its revenue expenditure and Government had to borrow funds to meet its current obligations. The ratio of revenue deficit to fiscal deficit has also increased from 12.46 *per cent* in 1998-99 to 32.20 *per cent* in 2002-03. As proportion to GSDP revenue deficit had increased to 3.72 *per cent* in 2002-03 and fiscal deficit to 11.56 *per cent*.

Table 1.9

Fiscal Imbalances-Basic Parameters
(Value in Rupees crore and Ratio in per cent)

	1998-99	1999-00	2000-01	2001-02	2002-03	Average
Revenue deficit	-23.02	-9.34	-36.13	-102.58	-159.37	-66.09
Fiscal deficit	-184.73	-182.91	-271.43	-336.96	-494.97	-294.20
Primary deficit	-49.90	-30.63	-94.34	-136.49	-280.39	-118.35
RD/GSDP	-0.88	-0.31	-1.08	-2.71	-3.72	-1.94
FD/GSDP	-7.03	-6.16	-8.09	-8.89	-11.56	-8.64
PD/GSDP	-1.90	-1.03	-2.81	-3.60	-6.55	-3.48
RD/FD	12.46	5.11	13.31	30.44	32.20	22.46

1.7 Fiscal Liabilities – Public Debt and Guarantees

The Constitution of India provides that the State may borrow within the territory of India, upon the security of its consolidated funds, within such limits, as may from time to time, be fixed by an act of Legislature. However, no such law was passed by the State to lay down any such limit. Exhibit IV lists the amounts of guarantees given by the Government and the amount outstanding at the end of each year during 1998-2003. Table 1.10 below gives the fiscal liabilities of the State, its rate of growth, ratio of these liabilities to GSDP revenue receipts and own resources and the buoyancy of these liabilities with receipt to these parameters. It would be observed that the over all fiscal liabilities of the State increased from Rs.1419 crore in 1998-99 to Rs.2719 crore in 2002-03 at an average annual rate of 17.21 per cent. These liabilities as ratio to GSDP increased from 54.03 per cent in 1998-99 to 63.50 per cent in 2002-03.

In addition to these liabilities Government had guaranteed loans of its various Corporations and others which in 2002-03 stood at Rs.7.24 crore. However, no new guarantees have been reported by the Government in 2002-03. The guarantees are in the nature of contingent liabilities. Currently the fiscal liabilities including the contingent liabilities were more than twice the revenue receipt of the State. Fiscal liabilities of the State grew much faster compared to its rate of growth of GSDP, revenue receipts and own resources. On an average, from each one per cent increased in GSDP, revenue receipts, own resources the direct fiscal liabilities of the State increased by 1.32, 1.79 and 1.41 per cent respectively.

Table 1.10

Fiscal Liabilities-Basic Parameters

	1998-99	1999-00	2000-01	2001-02	2002-03	Average
Fiscal Liabilities	1419	1608	1930	2214	2719	1978
Rate of Growth	17.10	13.29	20.07	14.71	22.81	17.21
Ratio of Fiscal Liabilities to						
GSDP	54.03	54.16	57.56	58.43	63.50	58.11
Revenue Receipts	143	142	154	167	202	164
Own Resources	1,899	2,051	2,258	2,109	2,565	2,200
Buoyancy of Fiscal Liabilities to						
GSDP	1.32	1.02	1.55	1.13	1.75	1.32
Revenue Receipts	1.15	0.93	1.85	2.64	13.13	1.79
Own Resources	0.65	2.72	2.21	0.64	23.95	1.41

Increasing liabilities had raised the issue of sustainability. Fiscal liabilities are considered sustainable if the average interest paid on these liabilities is lower than the rate of growth of GSDP. This spread remained positive in last five years.

Table 1.11

Debt Sustainability-Interest Rate and GSDP Growth (in per cent)

	1998-99	1999-00	2000-01	2001-02	2002-03	Average
Weighted Interest Rate	10.25	10.06	10.01	9.65	8.72	9.74
GSDP Growth	13.00	13.00	13.00	13.00	13.00	13.00
Interest spread	2.75	2.94	2.99	3.35	4.28	3.26

Another important indication of debt sustainability is net availability of the funds after payment of the principal on account of the earlier contracted liabilities and interest. The Table 1.12 below gives the position of the receipt and repayment of fiscal liabilities over last 5 years. The net funds available on account of the internal debt, loans and advances from Government of India and other liabilities after providing for interest and repayments varied between (-) 19.73 per cent and 54.17 per cent.

Table 1.12

Net Availability of Borrowed Funds (Rupees in crore)

	1998-99	1999-00	2000-01	2001-02	2002-03	Average
Internal Debt						
Receipt	104.65	167.24	163.05	224.23	238.58	179.55
Repayment (principal + interest)	86.83	114.86	127.34	267.79	180.55	155.47
Loans and Advances from Government of India						
Receipt	46.83	51.99	49.58	62.01	447.67	131.62
Repayment (principal + interest)	48.65	54.95	63.66	86.73	76.61	66.12
Other Liabilities						
Receipt	91.23	159.36	192.03	143.31	242.88	165.76
Repayment (principal + interest)	95.82	94.57	189.47	159.77	168.68	141.66
Total Liabilities						
Receipt	242.71	378.59	404.66	429.55	929.13	476.93
Repayment (principal + interest)	231.30	264.38	380.47	514.29	425.84	363.26
Net Fund Available	11.41	114.21	24.19	(-) 84.74	503.29	113.67
Net Fund Available (per cent)	4.70	30.17	5.98	(-) 19.73	54.17	23.83

1.8 Investments and returns

As on 31 March 2003, Government had invested Rs.58.47 crore in Statutory Corporations, Rural Banks, Joint Stock Companies and Cooperatives. Return to Government on this investment was nil as indicated in Table 1.13 below:

Table 1.13

Return on Investment

(Rupees in crore)

Year	Investment at the end of the year	Return	Percentage of Return	Average rate of interest on Government Borrowing (percentage)
1998-99	46.00	0.00	0.00	10.25
1999-00	48.05	0.00	0.00	10.06
2000-01	51.04	0.00	0.00	10.01
2001-02	53.87	0.00	0.00	9.65
2002-03	58.47	0.00	0.00	8.72

In addition to its investment, Government has also been providing loans and advances to many of these organisations. Total outstanding loans was Rs.42.96 crore as on 31 March 2003. Interest received on these loans averaged 1.55 per cent as against average cost of borrowing of 9.74 per cent during 1998-2003 indicating an average annual implicit subsidy of 8.19 per cent on such loans.

Table 1.14

Average Interest Received on Loans Advanced by the State Government

	1998-99	1999-00	2000-01	2001-02	2002-03
Opening Balance	41.34	47.26	41.49	52.39	48.04
Amount advanced during the year	19.10	10.21	17.35	3.43	2.33
Amount repaid during the year	13.18	15.98	6.45	7.78	7.42
Closing Balance	47.26	41.49	52.39	48.04	42.96
Net addition	5.93	(-) 5.77	10.99	(-) 4.35	(-) 5.09
Interest received	0.54	0.65	0.73	0.93	0.75

1.9 Arrears of revenue

The arrears of revenue pending collection was Rs.26.22 crore as of March 1999. The outstanding arrears registered a secular increase of 112 per cent over the preceding year 1997-98 indicating poor tax compliance. Of the arrears, Rs.4.74 crore (17 per cent) pertaining mainly to sales tax (Rs.3.74 crore), central sales tax (Rs.0.71 crore) and professional tax (Rs.0.22 crore) were pending for more than five years. The overall deterioration in the position of arrears or revenue showed slackening of the revenue collection efforts of the State Government. Information on arrears of revenue for the year 1999-2000 to 2002-03 was not furnished by the department (January 2004) despite repeated reminders.

1.10 Management of Cash Balances

It is generally desirable that State's flow of resources should match its expenditure obligations. However, to take care of any temporary mis-matches in the flow of resources and the expenditure obligations, a mechanism of Ways and Means Advances (WMA) from Reserve Bank of India has been put in place. However, State has increasingly using this mechanism over the years.

Normally these advances should be liquidated during the year. Any outstanding balances of WMA indicate mis-match in the revenue and expenditure, which is not transient in nature. Resort to overdraft which is over and above the WMA limits, is all the more undesirable. The State has increasingly been drawing in excess of its WMA limits from Reserve Bank of India as indicated in Table 1.15.

Table 1.15

Ways and Means Advance and Overdrafts of the State and interest paid

(Rupees in crore)

	1998-99	1999-00	2000-01	2001-02	2002-03	Average
Ways and Means Advance						
Taken in the year	95.54	55.01	245.47	304.61	656.80	271.486
Outstanding	26.00	10.75	69.29	40.00	---	
Interest paid	0.22	0.25	0.54	0.93	1.77	0.742
Overdraft						
Taken in the year	306.95	140.28	208.57	363.82	349.55	273.834
Outstanding	168.83	34.50	99.30	177.63	5.23	97.098
Interest paid	0.72	0.97	20.60	0.52	0.71	4.704
Number of days State was in overdraft	19	64	56	73	158	74

1.11 Financial Indicators of the Government of Nagaland

The finances of a State should be sustainable, flexible and non-vulnerable. Table 1.16 below presents a summarized position of Government finances over 1998-03, with reference to certain key indicators that help assess the adequacy and effectiveness of available resources and their applications, highlight areas of concern and captures its important facets.

The ratios of revenue receipt and State's own taxes to GSDP indicate the adequacy of the resources. The buoyancy of the revenue receipt indicates the nature of the tax regime and the State's increasing access to resources. Revenue receipts comprises not only the tax and non-tax resources of the State but the Central transfers. It indicates the sum total of the State's access for which there is no direct service provision obligations, recovery of user's charges for the social and economic services provided by its entitlement from the Central pool of resources. The ratio of revenue/GSDP showed decline during the period 1998-2003 except for the year 1999-2000. The ratio of State's own taxes/GSDP showed a continuous improvement during 1998-99 to 2001-02 but declined during 2002-03. Overall revenue buoyancy of the State reflect a declining trend and has been less than one.

Various ratios concerning the expenditure management of the State indicate quality of its expenditure and sustainability of these in relation to its resource mobilisation. These indicators depict a mixed trend. While the development

expenditure as percentage of total expenditure has reflected a declining trend, the ratio of capital expenditure to total expenditure indicated an improvement. Both its revenue and total expenditure were buoyant compared to its revenue receipts, which indicated State's increasing dependence on borrowings for meeting its revenue expenditure. Revenue receipts was meeting increasingly a lesser proportion of revenue expenditure.

Table 1.16

Indicators of Fiscal Health (in per cent)

Fiscal Indicators	1998-99	1999-00	2000-01	2001-02	2002-03	Average
Resource Mobilisation						
Revenue Receipts/GSDP	37.67	38.13	37.40	34.95	31.45	35.53
Revenue Buoyancy	1.15	1.10	0.83	0.43	0.13	0.74
Own tax/GSDP	1.16	1.33	1.38	1.65	1.45	1.41
Expenditure Management¹						
Total Expenditure/GSDP	45.21	44.83	45.68	44.05	43.19	44.47
Revenue Receipts/Total Expenditure	83.33	85.05	81.86	79.35	72.83	79.89
Revenue Expenditure/Total Expenditure	85.27	85.75	84.22	85.49	81.45	84.26
Capital Expenditure/Total Expenditure	13.34	13.58	14.82	14.33	18.45	15.15
Development Expenditure/Total Expenditure	59.68	57.85	56.96	55.69	55.42	56.88
Buoyancy of TE with RR	0.34	0.84	1.40	1.60	6.39	1.13
Buoyancy of RE with RR	0.16	0.88	1.21	1.89	3.28	1.01
Management of Fiscal Imbalances						
Revenue deficit (Rs. in crore)	-23.02	-9.34	-36.13	-102.58	-159.37	-66.09
Fiscal deficit (Rs. in crore)	-184.73	-182.91	-271.43	-336.96	-494.97	-294.20
Primary deficit (Rs. in crore)	-49.90	-30.63	-94.34	-136.49	-280.39	-118.35
Revenue deficit/Fiscal deficit	12.46	5.11	13.31	30.44	32.20	22.46
Management of Fiscal Imbalances (FL)						
Fiscal Liabilities/GSDP	54.03	54.16	57.56	58.43	63.50	58.11
Fiscal Liabilities/RR	143	142	154	167	202	164
Buoyancy of FL with RR	1.15	0.93	1.85	2.64	13.13	1.79
Buoyancy of FL with OR	0.65	2.72	2.21	0.64	23.95	1.41
Interest Spread	2.75	2.94	2.99	3.35	4.28	3.26
Net fund available	4.70	30.17	5.98	-19.73	54.17	23.83
Other Fiscal Health Indicators						
Return on Investment	0.00	0.00	0.00	0.00	0.00	0.00
BCR (Rs. in crore)	-210.89	-277.14	-296.20	-974.63	-555.96	-462.96
Financial Assets/Liabilities	0.73	0.74	0.64	0.61	0.56	0.66

Revenue, fiscal, and primary deficits have shown a sharp upward trend during 1998-2003. Increasing revenue and fiscal deficit indicates growing fiscal imbalances of the State. Similarly, sharp increase in the ratio of revenue deficit and fiscal deficit during the same period indicates that the application of borrowed funds has largely been to meet current consumption. All the four indicators of fiscal imbalances show continuous deterioration over time indicating increasing unsustainability and vulnerability of State finances.

It is not uncommon for a State to borrow for increasing its social and economic infrastructure support and creating additional income generating assets. However, increasing ratio of fiscal liabilities to GSDP and revenue receipts together with a growing revenue deficit, indicate that the State is gradually getting into a debt trap. Similarly, the higher buoyancy of the debt both with regard to its revenue receipts and own resource indicate its increasing unsustainability. There has also been an erratic trend in net availability of funds from its borrowings due to a larger portion of these funds being used for debt servicing. The State's nil return on investment indicates an implicit subsidy and use of high cost borrowing for investments, which yields nothing to it. The ratio of State's total financial assets to liabilities has also deteriorated indicating that increasingly a greater part of liabilities are without an asset back up. This indicates that either the State has to generate more revenue from out of its existing assets or need to provide from its current revenues for servicing its debt obligations. The balance from current revenue of the State has also continued to be increasingly negative. The BCR plays a critical role in determining its plan size which has been negative during the five years and negative BCR adversely affects the same and reduces availability of fund for additional infrastructure support and other revenue generating investment.

EXHIBIT – 1
SUMMARISED FINANCIAL POSITION OF THE GOVERNMENT OF
NAGALAND AS ON 31 MARCH 2003

		<i>(Rupees in crore)</i>	
As on 31.03.2002	LIABILITIES		As on 31.03.2003
1037.15	Internal Debt		1193.07
733.86	Market loans bearing interest	901.36	
0.11	Market loans not bearing interest	0.11	
29.32	Loans from LIC	38.11	
233.86	Loans from other institutions	253.49	
40.00	Ways and Means Advances	0.00	
177.63	Overdrafts from Reserve Bank of India		5.23
481.15	Loans and Advances from Central Government		903.91
22.97	Pre-1984-85 loans	18.40	
65.02	Non-Plan Loans	431.77	
313.78	Loans for State Plan Schemes	345.53	
2.87	Loans for Central Plan Schemes	2.57	
13.57	Loans for Centrally Sponsored Plan Schemes	13.49	
57.15	Ways & Means Advances	84.58	
5.79	Loans for Special Schemes	7.57	
0.35	Contingency Fund		0.35
437.48	Small Savings, Provident Funds, etc.		456.02
78.63	Deposits		158.31
1.97	Reserve Funds		2.93
40.08	Suspense and Miscellaneous Balances		202.87
1.67	Remittance Balances		(-)59.87
31.71	Surplus on Government Account-		(-)127.66
134.29	Accumulated surplus upto 31 March 2002	31.71	
(-)102.58	Less deficit of current year	(-)159.37	
2287.82	Total		2735.16
	ASSETS		
2228.56	Gross Capital outlay on Fixed Assets-		2569.25
53.87	Investments in shares of Companies, Corporations, etc.	58.47	
2174.69	Other capital outlay	2510.78	
48.04	Loans and Advances		42.96
43.00	Other Development Loans	38.29	
5.04	Loans to Government servants' etc.	4.67	
1.98	Advances		2.07
	Suspense and Miscellaneous Balances		---
9.24	Cash Balance		120.88
0.17	Cash in Treasuries and Local Remittances	0.19	
(-)30.34	Deposits with Reserve Bank	(-)167.16	
31.20	Departmental Cash Balance including Permanent Advances	30.83	
8.21	Investment of earmarked funds	11.75	
---	Cash Balance Investments	245.27	
2287.82	Total		2735.16

EXHIBIT – II

SOURCES AND APPLICATION OF FUNDS

<i>(Rupees in crore)</i>			
		Sources	
2001-02			2002-03
1324.53	1.	Revenue Receipts	1346.90
7.78	2.	Recoveries of Loans and Advances	7.42
187.67	3.	Increase in Public debt other than overdraft	578.68
116.82	4.	Net receipts from Public account	200.33
	32.02	Increase in Small Savings, Provident Funds, etc.	18.54
	(-)12.67	Increase in Deposits and Advances	79.59
	(-)1.52	Increase in Reserve Funds	0.96
	111.62	Net effect of Suspense and Miscellaneous transactions	162.78
	(-)12.63	Net effect of Remittance transactions	(-)61.54
78.33	5.	Overdrafts from Reserve Bank of India (Net)	---
1715.13	Total		2133.33
		Applications	
1427.11	1.	Revenue expenditure	1506.27
3.43	2.	Lending for development and other purposes	2.33
238.73	3.	Capital expenditure	340.69
45.86	4.	Increase in closing cash balance	111.64
---	5.	Reduction of overdraft payable to Reserve Bank of India	172.40
1715.13	Total		2133.33

EXHIBIT – III

ABSTRACT OF RECEIPTS AND DISBURSEMENTS FOR THE YEAR 2002-2003

(Rupees in crore)

RECEIPTS			DISBURSEMENTS					
2001-02		2002-03	2001-02		Non-Plan	Plan	Total	2002-03
	SECTION A: REVENUE							
1324.53	I. Revenue Receipts	1346.90	1427.11	I. Revenue Expenditure				1506.27
62.39	Tax Revenue	62.00	723.88	General Services	786.33	12.34	798.67	
43.41	Non-tax Revenue	43.94	377.18	Social Services	286.35	99.22	385.57	
23.22	State's share of Union Excise Duties	46.01	209.66	Education, Sports, Art and Culture	175.49	24.82	200.31	
90.81	Non-Plan grants	555.45	78.47	Health and Family Welfare	65.54	15.35	80.89	
988.28	Grants of State Plan Scheme	400.38	28.66	Water Supply, Sanitation, Housing and Urban Development	19.92	12.41	32.33	
21.67	Grants for Central Plan Scheme	124.69	9.24	Information and Broadcasting	8.13	2.21	10.34	
78.45	Grants for Centrally Sponsored Plan Schemes	84.92	7.51	Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes	0.00	8.77	8.77	
16.30	Grant for Special Plan Scheme	29.51	4.37	Labour and Labour Welfare	4.36	1.08	5.44	
			34.67	Social Welfare and Nutrition	8.67	34.53	43.20	
			4.60	Others	4.24	0.05	4.29	
			326.05	Economic Services	190.69	131.34	322.03	
			120.25	Agriculture and Allied Activities	67.65	34.60	102.25	
			12.88	Rural Development	4.91	19.99	24.90	
			11.05	Special Areas Programme	2.26	17.77	20.03	
			13.47	Irrigation and Flood Control	5.46	8.00	13.46	
			59.06	Energy	57.74	0.36	58.10	
			43.64	Industry and Minerals	14.34	13.36	27.70	
			17.00	Transport	25.52	0.05	25.57	
			1.82	Science, Technology and Environment	0.23	2.04	2.27	
			46.88	General Economic Services	12.58	35.17	47.75	
102.58	II. Revenue Deficit carried over to Section-B	159.37		II. Revenue Surplus carried over to Section-B				---
1427.11	Total: Section A-Revenue	1506.27	1427.11	Total: Section A-Revenue				1506.27
	SECTION-B							
(-36.62)	III. Opening cash balance including Permanent Advances and Cash Balance Investment	9.24	---	III. Opening Overdraft from RBI				---
---	IV. Miscellaneous Capital Receipts	---	238.73	IV. Capital Outlay	0.79	339.90	340.69	340.69
			14.25	General Services	0.00	24.78	24.78	
			98.88	Social Services	0.00	148.91	148.91	
			11.23	Education, Sports, Art and Culture	0.00	9.73	9.73	
			2.25	Health and Family Welfare	0.00	8.29	8.29	
			85.11	Water Supply, Sanitation, Housing and Urban Development	0.00	122.89	122.89	
			0.05	Information and Broadcasting	0.00	0.01	0.01	
			0.04	Social Welfare and Nutrition	0.00	5.53	5.53	
			0.19	Others	0.00	2.47	2.47	
			125.61	Economic Services	0.79	166.21	167.00	
			13.58	Agriculture and Allied Activities	0.79	12.09	12.88	
			0.10	Rural Development	0.00	0.20	0.20	
			13.24	Special Areas Programme	0.00	10.13	10.13	
			54.35	Energy	0.00	74.26	74.26	
			8.31	Industry and Minerals	0.00	17.44	17.44	
			35.95	Transport	0.00	46.68	46.68	
			0.08	General Economic Services	0.00	0.18	0.18	

Audit Report (Civil) for the year ended 31 March 2003

(Rupees in crore)								
RECEIPTS				DISBURSEMENTS				
2001-02	2002-03			2001-02	Non-Plan	Plan	Total	2002-03
					Irrigation and Flood Control	0.00	5.20	5.20
					Science, Technology and Environment	0.00	0.02	0.02
7.78	V. Recoveries of Loans and Advances		7.42	3.43	V. Loans and Advance disbursed			2.33
1.44	From Government Servants	0.74		2.00	To Government Servants			0.37
6.34	From Others	6.68		1.43	To Others			1.96
--	VI. Revenue Surplus brought down		---	102.58	VI. Revenue deficit brought down			159.37
335.28	VII. Public Debt receipts-		473.85	69.28	VII. Repayment of Public Debt-			67.57
224.23	Internal debt other than Ways and Means Advances and Overdrafts	238.58		29.37	Internal debt other than Ways and Means Advances and Overdrafts			42.66
49.04*	Net transactions under:- Ways and Means Advances including overdrafts	(-212.40)		---	Net transactions under:- Ways and Means Advances including overdrafts			---
62.01	Loans and Advances from Central Government	447.67		39.91	Repayment of Loans and Advances to Central Government			24.91
---	VIII. Appropriation to Contingency Fund		---	---	VIII. Appropriation to Contingency Fund			---
---	IX. Amount transferred to Contingency Fund		---	---	IX. Expenditure from Contingency Fund			---
646.31	X. Public account receipts-		990.10	529.49	X. Public account disbursements-			789.77
100.99	Small Savings and Provident Funds	96.75		68.97	Small Savings and Provident Funds			78.21
0.51	Reserve Funds	3.56		2.03	Reserve Funds			2.60
124.84	Suspense and Miscellaneous	248.48		13.22	Suspense and Miscellaneous			85.70
368.62	Remittances	490.19		381.25	Remittances			551.73
51.35	Deposits and Advances	151.12		64.02	Deposits and Advances			71.53
	XI. Closing Overdraft from Reserve Bank of India			9.24	XI. Cash Balance at end-			120.88
				0.17	Cash in Treasuries and Local Remittances			0.19
				(-)30.34	Deposits with Reserve Bank			(-)167.16
				31.20	Departmental Cash balance including Permanent Advances			30.83
				8.21	Cash Balance Investment			245.27
				---	Investment in earmarked funds			11.75
952.75	Total		1480.61	952.75	Total			1480.61

Explanatory Notes for Exhibit I, II and III

1. The abridged accounts in the forgoing statements are based on the Finance Accounts for the year 2002-03-Government of Nagaland and are subject to notes and explanations contained therein.
2. Government accounts being mainly on cash basis, the revenue surplus or deficit has been worked out on cash basis. Consequently, items payable or receivable or items like depreciation or variation in stock figures etc. do not figure in the accounts.
3. The capital outlay represents capital expenditure booked in the accounts.
4. Under the Government system of accounting, the revenue surplus or deficit is closed annually to Government account, with the result that cumulative position of such surplus or deficit was not ascertainable. The balancing figure of Rs.127.72 crore as on 31 March 1983 was, therefore, treated as cumulative surplus for drawing up the first Statement of financial position for 1982-83 which took the place of balance sheet. The current figure as on 31 March 2003 was minus Rs.127.66 crore after accounting for the revenue deficit of Rs.159.37 crore during 2002-03.
5. Suspense and Miscellaneous balances include cheques issued but not paid, inter-departmental and inter-Governmental payments and other pending settlements.
6. The closing cash balance as reported by the Reserve Bank of India was Rs.127.18 crore (debit) against the general cash balance of Rs.166.97 crore (debit) shown in the accounts. The difference of Rs.39.79 crore (debit) as on 31 March 2003 is under reconciliation (January 2004).

EXHIBIT – IV

TIME SERIES DATA ON STATE GOVERNMENT FINANCES

	(Rupees in crore)				
	1998-99	1999-00	2000-01	2001-02	2002-03
Part A. Receipts					
I. Revenue Receipts	989.38	1131.46	1254.10	1324.53	1346.90
(i) Tax Revenue	30.56 (3)	39.50 (3)	46.25(4)	54.90 (4)	62.00 (5)
Sales Tax	23.04 (58)	23.04 (58)	27.30(59)	34.42(63)	41.16 (66)
State Excise	1.73 (4)	1.73 (4)	1.77(4)	1.87(3)	1.98 (3)
Taxes on Vehicles	4.59 (12)	4.59 (12)	5.28(11)	5.35(10)	4.74 (8)
Stamps and Registration fees	1.85 (5)	1.85 (5)	1.77(4)	0.91(2)	0.57 (1)
Land Revenue	0.26 (*)	0.26 (*)	0.35(1)	0.62(1)	0.41 (1)
Other Taxes	8.03 (20)	8.03 (20)	9.78(21)	11.73(21)	13.14 (21)
(ii) Non Tax Revenue	44.15 (5)	38.86 (3)	39.23(3)	43.41(3)	43.94 (3)
(iii) State's share in Union taxes and duties	437.19 (44)	526.04 (47)	96.48(8)	30.71(3)	46.01 (3)
(iv) Grants-in-aid from Government of India	477.48 (48)	527.06 (47)	1072.14(85)	1195.51(90)	1194.94 (89)
2. Misc. Capital Receipts	---	---	---	---	---
3. Total revenue and Non-debt capital receipts (1+2)	989.38	1131.46	1254.10	1324.53	1346.90
4. Recoveries of Loans and Advances	13.18	15.98	6.45	7.78	7.42
5. Public Debt Receipts	394.17	344.23	335.97	335.28	473.85
Internal Debt (excluding Ways & Means Advances and Overdrafts)	104.65	167.24	163.05	224.23	238.58
Net transactions under Ways and Means Advances and Overdraft	72.69	---	123.34	49.04	(-)212.40
Loans and Advances from Government of India ¹	216.83	176.99	49.58	62.01	447.67
6. Total receipts in the Consolidated Fund (3+4+5)	1396.73	1491.67	1596.52	1667.59	1828.17
7. Contingency Fund Receipts	---	---	---	---	---
8. Public account receipts	427.00	538.71	601.87	646.31	990.10
9. Total receipts of the State (6+7+8)	1823.73	2030.38	2198.39	2313.90	2818.27
Part B. Expenditure/Disbursement					
10. Revenue Expenditure	1,012.40	1140.80	1290.23	1427.11	1506.27
Plan	205.94 (20)	229.38 (20)	231.00(18)	232.65(16)	242.91 (16)
Non-Plan	806.46 (80)	911.42 (80)	1059.23(82)	1194.46(84)	1263.36 (84)
General Services (including interest payments)	460.41 (45)	544.60 (48)	623.33(48)	723.88(51)	798.67 (53)
Social Services	293.78 (29)	330.39 (29)	351.15(27)	377.18(26)	385.57 (26)
Economic Services	258.21 (26)	265.81 (23)	315.75(25)	326.05(23)	322.09 (21)
Grants-in-aid contribution	---	---	---	---	---
11. Capital Expenditure	155.78	179.34	224.40	238.73	340.69
Plan	151.83 (97)	179.21 (100)	215.85(96)	238.65(100)	339.90 (100)
Non-Plan	3.95 (3)	0.13 (*)	8.55(4)	0.08	0.79
General Services	10.63 (7)	11.80 (7)	28.51(13)	14.25(6)	24.78 (7)
Social Services	55.19 (35)	77.11 (43)	81.02(36)	98.87(41)	148.91 (44)
Economic Services	89.96 (58)	90.43 (50)	114.87(51)	125.60(53)	167.00 (49)
12. Disbursement of Loans and Advances	19.11	10.21	17.35	3.43	2.33
13. Total (10+11+12)	1187.29	1330.35	1531.98	1669.27	1849.29
14. Repayments of Public Debt	207.26	247.45	52.00	69.28	67.57
Internal Debt (excluding Ways & Means Advances and Overdrafts)	22.53	31.19	31.47	29.37	42.66
Net transactions under Ways and Means Advances and Overdraft	13.66	149.58	---	---	---
Loans and Advances from Government of India ¹	184.73	66.68	20.53	39.91	24.91
15. Appropriation to Contingency Fund	---	---	---	---	---
16. Total disbursement out of Consolidated Fund (13+14+15)	1394.55	1577.80	1583.98	1738.55	1916.86
17. Contingency Fund disbursements	---	---	---	---	---
18. Public account disbursements	396.22	443.39	590.70	529.49	789.77
19. Total disbursement by the State (16+17+18)	1790.77	2021.19	2174.68	2268.04	2706.63
Part C. Deficits					
20. Revenue Deficit (1-10)(-)/Surplus (+)	(-) 23.02	(-) 9.34	(-)36.13	(-)102.58	(-) 159.37
21. Fiscal Deficit (3+4-13)	184.73	182.91	271.43	336.96	494.97
22. Primary Deficit (21-23)	49.90	30.63	94.34	136.49	280.39
Part D. Other data					

¹ Includes Ways & Means Advances from Government of India.

* Indicates negligible percentage

Chapter I An Overview of the Finance of the State Government

(Rupees in crore)					
	1998-99	1999-00	2000-01	2001-02	2002-03
23. Interest payments (included in revenue expenditure)	134.83	152.28	177.09	200.47	214.58
24. Arrears of Revenue (Percentage of Tax & Non-Tax Revenue Receipts)		@	@	@	@
25. Financial assistance to local bodies etc.		31.94	19.12	15.76	11.91
26. Ways and Means Advances/Overdrafts availed (days)	402.49 (40)	195.29 (74)	454.04(192)	668.43 (261)	1006.35 (469)
27. Interest on WMA/Overdraft	0.94	1.22	21.14	1.45	2.48
28. Gross State Domestic Product (GSDP)	2626.23	2967.64	3353.43	3789.38	4282.00
29. Outstanding Debt (year end)	1,049.18	1145.96	1429.93	1695.93	2102.22
30. Outstanding guarantees (year end)	@	@	@	@	@
31. Maximum amount guaranteed (year end)	7.24	7.24	7.24	7.24	7.24
32. Number of incomplete projects	@	@	@	@	@
33. Capital blocked in incomplete projects	@	@	@	@	@

@ Information awaited from the Government (January 2004).

Note: Figures in brackets represents percentages (rounded off) to total of each sub-heading.