Chapter – V

REVIEW OF STATE FINANCES

Existing Fiscal Scenario:

5.1 The Government of Assam has been passing through a severe financial crisis since the last decade. Virtually every year, revenue expenditures have outstripped revenue receipts, resulting in burgeoning revenue and fiscal deficits and acute cash flow problems.

5.2 As a matter of fact, after 1998-99 there has been an alarming deterioration in the fiscal health of the State, as reflected by the revenue and fiscal deficits, with a surplus of Rs.287.10 crores in the revenue account in 1997-98 giving way to a huge deficit of Rs.1004.73 crores in 1999-2000, not to speak of a steep increase in the fiscal deficit from Rs.168.87 crores to Rs.1605.82 over the same period. The deepening fiscal crisis of Government of Assam is also reflected by the steady rise in fiscal deficit as a proportion of GSDP, which rose from 0.62% of GSDP in 1997-98 to 6.87% in 2002-03(RE). Even more disturbing is the high proportion of revenue deficits, which on an average accounted for about 56% of the total fiscal deficit over the period 1999-2000 to 2001-2002 and indicated that borrowings were being used to largely finance revenue expenditure rather than the creation of capital assets.

5.3 These crippling deficits have occurred despite a significant improvement in the state's own tax revenues which rose from Rs. 982.56 crores in 1998–99 to Rs.1819.45 crores (RE) in 2002-03. During the same period non tax revenues increased from Rs.451.97 crores to Rs.750.28 crores (RE) largely on account of increased oil royalty collections. On the other hand, revenue expenditures shot up, soaring from 4416.34 crores in 1998-99 to Rs.8888.80 crores (RE) in 2002-03. Undoubtedly, to a very large extent the present crisis is the direct outcome of the rampant growth in revenue expenditure.

5.4 An examination of the decadal growth rates of revenue receipts and expenditures reveals that although the compound annual growth rate of revenue receipts over the period 1990-91 to 1999-2000 was 11.78%, revenue expenditures mounted inexorably at the rate of 12.72% during this period. A component-wise study of revenue receipts shows the compound annual growth rates in respect of the state's own tax revenues, non tax revenues, and central transfers were 12.63%, 5.37% and 12.33% respectively.

5.5 The principal factors responsible for the burgeoning revenue expenditure are :

(i) Relentless increase in expenditure on salaries, wages and pensions, mainly on account of pay revision and increase in dearness allowance and dearness relief. Expenditure on this account which was to the tune of Rs.2436 crores in

1997-98 jumped to Rs.4154.75 crores in 1999-2000, and is projected to rise to Rs.51931.14 crores (BE) in 2003-04.

(ii) Growing debt servicing burden on account of a significant increase in borrowings, mostly to meet revenue expenditure requirements. Interest payments which were of the order of Rs.638.93 crores in 1997-98 rose to Rs.1061.99 crores to 2001-02 and are expected to go up to Rs.1737.24 crores (BE) during 2003-04.

(iii) High level of financial support to public sector undertakings necessitated by their inability to meet their current obligations and by their continuing defaults on government guaranteed loans and bonds and on the repayment of their overdues to central public sector undertakings.

5.6 On the other hand, the primary reasons for the shortfall in revenue receipts are :

(i) Failure of state's own revenues, particularly non tax revenues (other than oil royalty), to achieve accelerated growth rates.

(ii) Sluggish growth in central transfers to the State in recent years on account of in the following :

(a) Significant shortfall in central tax devolutions. During 1995-2000 central transfers by way of share of central taxes fell short by Rs.675.73 crores as against the amounts projected by the Tenth Finance Commission. During 2000-01, 2001-02, and 2002-03, there were shortfalls in central tax devolutions amounting to Rs.92.94 crores, Rs.339.56 crores and Rs.599.95 crores respectively.

(b) Sharp decline in the deficit grant awarded by the Eleventh Finance Commission (EFC). During the Tenth Finance Commission award period, the State Government was awarded Rs.712.03 crores as deficit grant. However, the Eleventh Finance Commission (EFC) drastically curtailed this grant to just Rs.110.68 crores over the five year period 2000-05, with the entire grant coming to the State in the year 2000-01.

Debt and Contingent Liabilities :

5.7 The State Government's rising debt is a matter of grave concern. Incremental borrowings to fund revenue expenditures are primarily responsible for the State Government's heavy debt servicing obligations and have directly contributed to the increase in the already sizeable revenue deficits. Consequently, the outstanding debt of the Government of Assam

which was estimated at Rs.6083.87 crores as on April 1, 1998, rose to Rs. 10067.02 as on April 1, 2001 and to Rs.13826.22 crores as on April 1, 2003. The bulk of the loans outstanding were accounted for by loans from the central government, which constituted 45% of the total loan outstanding as on April 1,2003. On the other hand, market borrowings accounted for 28% of the total outstanding debt. That the present high level of debt is unsustainable is brought out by the fact that the debt - GSDP ratio has climbed to 36.76% in 2001-02 from 26.23% in 1998-99.

5.8 The contingent liabilities of the State Government, comprising of government guaranteed loans and bonds availed by the State Government public sector undertakings, local bodies, co-operative institutions have also cast a shadow on the State's finances because of the continuing defaults by the borrowing institutions. As most of the PSUs and other borrowing institutions have been unable to service their debt liabilities, the liability of repayment of principal and interest has eventually almost entirely fallen on the State Government as guarantor. Since most government guaranteed loans are long overdue, the State Government is now having to contend with invocations of government guarantee and is also embroiled in litigation against banks and financial institutions over guaranteed dues. Consequently, the State Government has been constrained to initiate negotiations for one time settlement of such guaranteed loan dues with several banks and financial institutions. As on April 1, 2002, the total guarantees outstanding is estimated to be Rs.1853.77 crores, with Rs.1124.63 crores outstanding against loan principals and Rs.729.14 crores against interest.

Ways and Means :

5.9 The continuing fiscal crisis has had a severe fall out on the cash flows of the State Government, compelling it to rely heavily on the ways and means and overdraft facility of the Reserve Bank of India. With the State Government slipping into overdraft repeatedly and payments on the State Government's account being suspended by the Reserve Bank of India virtually every month, the ways and means problem has adversely affected the normal functioning of the Government. In fact, the State Government was on overdraft for as many as 294 days during 2000-01, out of which payments on the State Government's account were suspended by the RBI for 175 days. During 2001-02 and 2002-03, the State Government was on overdraft for 312 and 255 days respectively, out of which payments were suspended for 174 and 154 days respectively. Consequently, payments of salaries and pension have often been delayed, not to speak of frequent and long interruptions in the flow of funds to developmental programmes and other essential activities. During 2002-03, pressure on the State Government's ways and means eased somewhat, largely due to the receipt of additional market borrowings of Rs.232.37 crores and medium term loan of Rs.465.00 crores from Government of India.

Fiscal Reforms :

5.10 The continuing fiscal crisis resulting from severe structural imbalances has prompted the State Government to undertake a programme of fiscal consolidation and related structural adjustments. In fact, the Government of Assam finalized a fiscal reforms programme in consultation with Government of India on January 13, 2000. The broad features of the fiscal reforms programme are listed below:

(i) Maintenance of non plan non salary revenue expenditure at 1998-99 actuals;

(ii) Ban on the taking over of new private institutions in education and other areas;

(iii) Rationalisation of manpower in Government through the abolition of non essential vacant posts and redeployment of surplus manpower;

(iv) Tax reforms including the introduction of entry tax, review of tax concessions to industries, improvement in tax compliance and rationalization of sales tax;

(v) Improvement in cost recovery by revising user charges in education, irrigation, water supply schemes and industrial estates;

(vi) Power sector reforms including the constitution of a State Electricity Regulatory Commission;

(vii) Reform of Public sector undertakings including introduction of VRS and leasing of PSUs.

5.11 In pursuance of the recommendations of the Eleventh Finance Commission (EFC) and the guidelines framed by the Ministry of Finance, Government of India in this regard, the Government of Assam prepared, a Medium Term Fiscal Reforms Programme (MTFRP) to attain fiscal balance and stabilization in consultation with the Government of India. This initiative of the State Government culminated in the signing of a Memorandum of Undertaking (MoU) with the Central Government on March 26, 2003. The key performance indicator as detailed in the MoU is the ratio of revenue deficit to revenue receipts, which is to be reduced by five percentage points every year from an estimated (-) 14.54% in 2000-01 to (-) 0.84% in 2004-05. To achieve this target, the MoU proposes a range of measures by way of tax reforms, non tax revenue measures, expenditure reforms, strengthening and modernization of the fiscal management system, and public sector reforms including power sector reforms.

5.12 Measures to augment the revenues of the State Government include steps for enlargement of the tax base, abolition of tax incentives, revision of tax rates, collection of tax arrears, indexation of user charges, and revision of various fees and rates. Expenditure reforms cover measures such as employee survey and pensioner verification, ban on the creation of posts, termination of illegal appointments, rationalization in the number of posts, review of grants-in-aid, and sound debt management. Public sector reforms including the reform of the power sector envisage restructuring, disinvestment, closure and VRS on a case by case basis. The projections of the MTFRP may be seen at **Annexure V-1.**

5.13 The Asian Development Bank (ADB) has, with the approval of Government of India, decided to adopt Assam as one of their focal states and agreed to support the Government of Assam in undertaking power sector and fiscal reforms. The ADB has accordingly proposed a Assam Power Sector Development Loan for an estimated US $ 200 million and an Assam Governance and Public Resource Management Loan for an estimated US $ 150 million in their Country Plan 2003-05. Steps to provide technical assistance to support the aforesaid loan programme have already been initiated by ADB. Another ADB technical assistance programme for budgetary procedure reforms, computerization, and expenditure management systems has also been initiated.

Twelfth Finance Commission :

5.14 The Twelfth Finance Commission (TFC) has recently been constituted. As per its terms of reference, the TFC will, inter-alia, recommend the share of central taxes and non plan revenue grants to be awarded to each state, and shall suggest a plan for the restructuring of public finances which would result in the restoration of budgetary balance. The State Government is in the process of preparing a detailed memorandum that will highlight its fiscal needs and problems before the TFC. In this connection, the State Government has started the process of normalization of all posts under plan by transferring them in phases to the non plan budget. As a matter of fact, committed salary liabilities amounting to Rs.176.50 crores were transferred from plan to non plan during the last financial year, while salary liabilities amounting to Rs.523.50 crores are to be transferred to non plan during the current year. The additional financial liability that will fall on the State Government as a consequence of the implementation of the recommendations of this Commission may be projected before the TFC.