State Finances : A Study of Budgets of 2001-02[1]

The States have a crucial role in the growth process, especially in view of the developmental tasks assigned to them. States have been entrusted with the responsibilities of developing social and economic infrastructure as well as maintaining law and order. In recent years, the State finances have been under pressure as reflected in various fiscal indicators, such as fiscal deficit, revenue deficit, primary deficit, the level of debt and rise in debt service obligations. The gross fiscal deficit of the States has shown continuous increase over the years, mainly due to higher level of revenue deficit. The increase in the revenue deficit has resulted from inadequate buoyancy in revenue receipts and rising level of revenue expenditure.

The fiscal reforms at the State level have assumed critical importance in recent years. A number of reform measures have been taken in many States for achieving fiscal stability. The States have shown increasing awareness about the urgent need for fiscal correction as reflected in their recent budgets. The State budgets for 2001-02 contain various policy measures comprising fiscal, institutional and sectoral reforms. The budgets continue to lay emphasis on fiscal consolidation through expenditure management, revenue augmentation and Public Sector Undertakings (PSUs) reforms.

This Study provides a detailed analysis of the finances of the State Governments during 2001-02, mainly based on their budget documents and other supplementary information received from them[2] .

The rest of the Study is divided into five sections. A broad overview of the fiscal stance of the State Governments and the policy initiatives as proposed in the budgets for 2001-02 is presented in Section II. This also covers initiatives for State level power sector reforms and Reserve Bank's recent initiatives on State finances. Section III provides an analysis of the revised estimates for 2000-01. An analysis of the receipts and expenditures as per the budget estimates for 2001-02 is provided in Section IV. Trends in market borrowings, debt and contingent liabilities of the State Governments are discussed in Section V. Certain emerging issues and perspectives are outlined in Section VI.

Section II

Budgetary Stance and Policy Developments

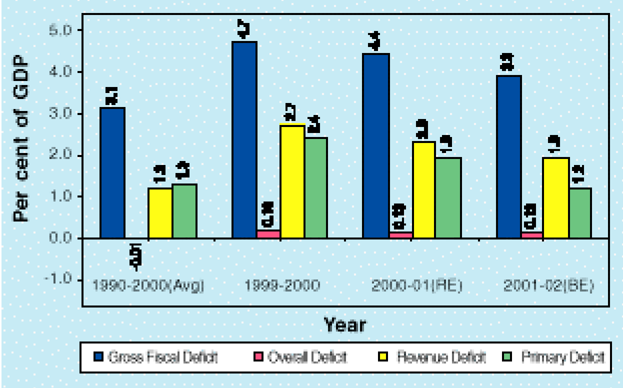
A. Budgetary Stance

The State budgets for 2001-02 reveal continued emphasis on fiscal consolidation process. The measures have focused on augmenting both tax and non-tax revenue receipts and containing expenditure to prune the resource gap. As a result, the gross fiscal deficit of the States declined from 4.7 per cent of GDP in 1999-2000 to 4.4 per cent of GDP in 2000-01 (revised estimates) and is budgeted to decline further to 3.9 per cent of GDP in 2001-02 (Table 1). Over the years, the revenue deficit has accounted for a major proportion of the gross fiscal deficit. Keeping this in view, the fiscal consolidation process essentially aims at limiting the revenue imbalances. The revenue deficit as a percentage of GDP declined from 2.7 per cent in 1999-2000 to 2.3 per cent of GDP in the revised estimates for 2000-01 and further to 1.9 per cent of GDP in 2001-02 (BE) (Graph 1).

The revenue receipts are sought to be enhanced by additional resource mobilisation (ARM) measures to the extent of Rs.2,583.4 crore and by improvement in States' own tax collections. The revenue receipts of States are expected to show a growth of 14.2 per cent in 2001-02 over the previous year (Table 2). Total tax revenue receipts are budgeted to increase by 18.1 per cent to Rs.2,03,490 crore as compared with the growth of 17.5 per cent in 2000-01(RE).

The States’ own tax and non-tax receipts are budgeted to increase by 18.8 per cent and 10.4 per cent in 2001-02 as compared with 17.5 per cent and 0.4 per cent, respectively in 2000-01 (RE). Consequently, the States’ own revenue receipts are expected to finance 53.0 per cent of revenue expenditure and 43.9 per cent of total expenditure, as compared with 50.0 per cent and 41.1 per cent, respectively, in the revised estimates for 2000-01. The gross transfers from the Centre in the form of the States’ share in Central taxes, grants and loans (excluding share of small savings collections) at Rs.1,37,280 crore would rise by 11.2 per cent in 2001-02 compared with 28.2 per cent in the previous year.

Graph 1: Major Deficit Indicators of State Governments



The aggregate expenditure is budgeted to rise by 9.6 per cent as compared with 16.7 per cent in 2000-01 (RE). The growth in both revenue and capital expenditure is also estimated to decelerate in 2001-02 as compared with the previous year. However, non-developmental expenditure is budgeted to increase by 17.2 per cent in 2001-02 as compared with 12.5 per cent in the previous year. Expenditure towards the developmental heads, on the other hand, is budgeted to rise by 4.7 per cent in 2001-02 compared with 19.6 per cent in the previous year (Tables 12 and 13). In order to meet the growing imbalance between revenue receipts and aggregate expenditure, States have taken recourse to borrowings. The combined public debt of States is estimated to rise to 23.9 per cent of GDP at end-March 2002 from 23.1 per cent at end-March 2001.

B. Policy Developments

(i) State-level Budgetary Policy Initiatives

The fiscal reforms at the State level have gained increasing focus in recent years in India. The States have embarked upon a number of corrective measures towards fiscal consolidation. The objective has been to restore fiscal stability and achieve a balanced revenue account, which is an important indicator of fiscal prudence, in the medium-term. Accordingly, the State budgets for 2001-02 have placed emphasis on fiscal consolidation, improvement in physical and social infrastructure and growth enhancing sectoral policies.

The policy initiatives proposed in the State budgets could be classified broadly into fiscal consolidation, institutional and sectoral reforms. Fiscal consolidation measures aim at expenditure moderation and revenue augmentation. Several States have begun to focus on expenditure management by setting up expenditure reforms/review committees and identifying performance indicators to assess the quality of expenditure restructuring. Many States have proposed to conserve resources by compressing non-plan revenue expenditure.

Along with the economy measures such as freeze on non-essential recruitment, review of manpower requirements and cut in establishment expenses, efforts are underway to review the organisational structure of major departments to achieve rationalisation, efficiency and economy. Some States aim at undertaking a comprehensive rationalisation of posts. Some of the States have also proposed zero-based budgeting. Several States have envisaged measures for reduction in non-merit subsidies through better targeting.

To augment the revenue receipts, the budget proposals include enhancement/restructuring of land revenue rates, vehicle tax, entertainment tax, sales tax and betting tax. Introduction of profession tax has also been proposed in some States. A number of States have focused on efficient utilisation of existing resources through simplification/ rationalisation of tax structure, better enforcement and tax compliance and review of user charges for power, water, transport, etc. Further, preparations are underway for the introduction of value added tax (VAT). Several States have undertaken a comprehensive examination of the issues concerning introduction of VAT. Maharashtra proposes to make administrative and institutional changes and introduce a new scheme of summary assessment to dispose of all pending cases of tax assessment by April 2003. Karnataka proposes to introduce a Self Assessment Scheme under Sales Tax and Entry Tax Act, while Tamil Nadu has initiated steps to set up a VAT Cell to analyse and process various aspects of VAT and the steps that need to be taken towards its implementation. Karnataka has also set up a Tax Reforms Commission for examining the tax structure and making recommendations to enhance tax receipts.

The institutional reforms proposed in the State budgets essentially aim at facilitating the fiscal consolidation process. The important areas of focus in this regard relate to improvements in governance and pursuit of decentralisation. The financial health and management of State level PSUs has been a cause for concern in the last few years. In this context, the initiatives proposed by States include undertaking a comprehensive review of the functioning of the State PSUs and their restructuring. To address the issue, Karnataka has come out with a Policy Paper on restructuring of public sector enterprises, while Maharashtra has introduced a Bill for setting up a Board for Restructuring of the State PSUs. In order to restore financial viability of electricity boards, some States have signed Memorandum of Understanding (MoU) with the Central Government for bringing reforms in the power sector. Several States have set up State Electricity Regulatory Commissions (SERCs) in order to determine electricity tariff in a rational and remunerative manner. Some States have proposed to set up infrastructure development funds. In order to strengthen the administrative machinery, many States have proposed to computerise their records.

Sectoral reforms aim at strengthening the basic infrastructure sectors, which have relatively high potential for growth and revenue generation. information technology (IT) is yet another area where the State Governments have shown keen interest. Several States have proposed setting up of IT parks/institutes of information technology. Himachal Pradesh has decided to confer the status of industry on all IT projects in order to promote the future growth and expansion of this sector, while the IT policy of Haryana provides incentives in the shape of preferential allotment of land, uninterrupted power supply and priority in term-lending. Some States have proposed to set up software technology parks in order to provide enabling environment at the State level for private resources to flow into the IT sector. In the agricultural sector, the reform initiatives include further strengthening of horticulture, floriculture, animal husbandry, farm mechanisation and wasteland development.

The important policy initiatives proposed by States in their budgets for 2001-02 are presented in Table A.

Table A: Major Policy Initiatives Proposed in State Budgets for 2001-02

States	Fiscal Measures	Institutional Measures	Sectoral Measures
1. Andhra Pradesh	* Annual budget preparation in multi-year context by formulating a medium-term rolling fiscal framework, which would provide realistic estimate of the margin of the resources available to finance new programmes and to prevent expenditure from exceeding available resources.	* Setting up Task Force for speedy and transparent implementation of identified social and infrastructure projects. * Setting up an Infrastructure Development Fund. * Setting up of a specialised institution for monitoring and evaluation of Public Sector Enterprises.	* Establishment of Cyber Park in all districts.
2. Arunachal Pradesh	* Efficient utilisation of resources to enhance the share of State's own revenues * Measures to contain the expenditure through a ban on the purchase of vehicles, foreign tours, creation or filling up of posts, engagement of contingent staff, etc.	* Operationalisation of the State Power Tariff Commission.	* Rationalisation of Public Sector Undertakings * Focus on horticulture/ marketing of surplus agricultural produce. * Preparation of a policy paper to address the administrative and economic problems.
3. Assam	* Imposition of a ceiling on Government guarantees. * Review of all the existing user charges.	* Setting up State Electricity Regulatory Commission.	* Setting up food processing park. * Encouraging private investment particularly in tourism infrastructure and services.
4. Bihar	* Introduction of Zero-Based Budgeting. * Increase in tax revenue through rationalisation of taxes.	* Setting up Consolidated Sinking Fund. * Modernisation and computerisation of treasury.	* Review of power tariff.
5. Chhattisgarh	* Preparation of Mid-term Fiscal Reforms Programme in order to improve the fiscal position.	* Setting up Revenue and Taxation Committee for simplification of taxation process.	* Improvement in irrigation facilities by taking up work on 14 incomplete Irrigation Plans with the help of NABARD.
6. Goa	* Simplification of sales tax procedure and increasing the rate of sale tax marginally on certain items. * In view of the proposed switchover to VAT, State intends to enhance registration and renewal fees for various categories of dealers/hoteliers. * Rationalisation of excise duty structure.	* Setting up of Guarantee Redemption Fund * Restructuring of Public Sector Undertakings.	* Focus on investment intensive tourism related projects through the Infrastructure Development Corporation. * Setting up Centre for Information Technology.

7. Gujarat	* Cutting down wasteful expenditure. * Reforms in tax structure.	* Preparation of Vision 2010 document for the next 10 years to ensure that the efforts for development are comprehensive and holistic.	* Development of agro-based industries, *viz*. agro processing, value added products cold storage, etc., by framing Agro- Industrial Policy. * Bringing more areas under horticulture.
8. Haryana	* Adoption of a composite strategy comprising fiscal restructuring measures, traditional economy measures and review of the organisational structures of major departments.	* Setting up Sinking Fund and creation of a State Economic Renewal Fund.	* Setting up a Department of Information Technology and Indian Institute of Information Technology.
9. Himachal Pradesh	* Rationalisation of tax structure and user charges to improve realisation. * Rationalisation of posts in State Government Departments. * Comprehensive review of Plan Schemes.	* Setting up State Electricity Regulatory Commission * Preparation of Memoranda of Agreement to be signed with the Central Power Ministry.	* Agreement with the Water and Sanitation Programmes sponsored by World Bank and UNDP. * Setting up Software Technology Park. * Establishment of an Infrastructure Development Board. * Conferring the status of industry on all information technology projects.
10. Jammu and Kashmir	* Rationalisation of sales tax. * Ban on purchase of new vehicles in Government departments. * Revision of toll tax on goods.	* Golden handshake for PSUs employees. * Setting up Standing Audit Committees to curtail non-productive spending.	
11. Jharkhand	* Reduction in unproductive expenditure. * Simplification of tax rules and procedures. * Strengthening of treasuries through computerisation.	* Establishing 10 Joint Check Posts on the border to prevent revenue theft and to regulate trade.	* Focusing on the programmes based on agriculture and rural development.
12. Karnataka	* Increase in the rates of tax and levy tax on certain commodities. * Preparation of the Medium Term Fiscal Reform Plan.	* Constitution of Expenditure Review Committee. * Setting up Industrial Infrastructure Development Fund. * Intends to bring Fiscal Responsibility Bill and prepare a Policy Paper on restructuring of PSEs.	* State to sign multipartite agreement with the IDFC for reforms linked financing of power projects. * Upgradation of infrastructure in the existing industrial areas and location specific Industrial Parks.

13. Kerala	* Preparation for introduction of Value Added Tax and widening the tax base. * Revision in the rate of taxes.	* Establishing the State Electricity Regulatory Commission. * Setting up Industrial Growth Fund.	* Formation of a Hill Area Development Authority to develop the hilly region. * Creating Special Tourism Zones. * Development of 'Special Industrial Zones' (SIZ) for industries to attract investments.
14. Madhya Pradesh	* Rationalisation of tax rates. * Revision of user charges. * Freeze on direct recruitment.	* Computerisation of sales tax department prior to implementing the VAT.	* "Single Agency Clearance" for the rapid establishment of industries. * Setting up an Export Promotion Industrial Park and Food Park with the co operation of Government of India.
15. Maharashtra	* Restriction on creation of new posts and filling up of vacancies. * Move towards a multi-year budgetary framework for improving the predictability of the budgetary outlays. * Preparation for introduction of VAT.	* Introduction of a Bill for setting up a Board for restructuring of the State PSUs. * Restructuring and streng-thening of large and critical departments. * Computerisation of budgetary process and the operations of treasuries.	* Special attention for development of Information Technology and Biotechnology. * Setting up a Task Force for the development of these sectors.
16. Manipur	* Reduction in expenditure through downsizing the government and austerity measures in various departments.	* Emphasis on extensive computerisation of the operations pertaining to treasuries and accounts department.	* Emphasis on Information Technology Policy. * Stress on rural development.
17. Meghalaya	* Increase in the rate of various taxes in order to generate additional revenues.		* Creation of a Department of Information Technology. * Implementation of a project for the development of Forestry and Non-Timber Forest Produce.
18. Mizoram	* Revision of user charges. * Initiation of economy measures.	* Creation of Mizoram Fiscal Reforms Committee in order to improve fiscal health of the State.	* Setting up of an Export Promotion Industrial Park.
19. Orissa	* Conservation of resources through enforcing fiscal discipline and cutting down unproductive non-plan revenue expenditure.	* Computerisation of maintenance of P.F. accounts, land records and treasuries. * Constitution of Western Orissa Development Council. * Reviewing the unnecessary and outlived schemes.	* Implementation of the new Irrigation Programme and to provide irrigation facilities to unirrigated lands.

20. Punjab	* Rightsizing the Government. * Rationalisation of tax structure. * Compression of non-productive expenditure. * Revision of user charges.	* Constitution of Public Expenditure Reforms Commission and Public Sector Disinvestment Commission. * Preparation of MoU with the Government of India on power sector reforms. * State Electricity Regulatory Commission notified.	* Setting up Agri-marketing and Export Promotion Fund. * Emphasis on research and development in agricultural sector. * Strengthening small and medium enterprises. * Focus on Information Technology and Biotechnology.
21. Rajasthan	* Simplification of tax procedures. * Transparency in tax administration.	* Extensive computerisation of Government departments.	* Initiatives for development of tourism and information technology.
22. Sikkim	* Examining various revenue sourcing measures such as levy of tax on advertisement and hoarding. * Rationalisation/ revision of land tax. * Restructuring and revision of taxes on forest produce.	* Constitution of a Cabinet Sub-Committee to examine the issues on fiscal management reforms.	* Constitution of a Cabinet Sub-Committee with a mandate to examine and make appropriate recommendations to promote tourism including the prospects of attracting private investment.
23. Tamil Nadu	* Introduction of entry tax on certain commodities, materials, articles and goods. * Setting up a VAT Cell to analyse and process various aspects of VAT.	* Constitution of Staff and Expenditure Review Commission to examine the scope of curtailing avoidable expenditure in administration.	* Creation of a new Department of Agri-Buisness to facilitate development of horticulture and food-processing industries.
24. Tripura	* Preparation for introduction of VAT. * Widening the tax base.	* Setting up State Electricity Regulatory Commission. * Introducing computerised system of billing.	* Formulation of a 10-year perspective plan for the development of horticulture.
25. Uttaranchal	* Rationalisation of taxes and user charges.	* Setting up High-level Tourism Development Council. * Setting up State Finance Commission.	* Formulation of an industrial policy. * Preparation of draft for information technology policy. * Conservation and management of forests through *panchayats*.
26. Uttar Pradesh	* Broadening the tax base. * Economy in administrative expenses. * Reduction in non-developmental expenditure.	* Setting up Resource and Expenditure Commission to review the plans under different departments.	* Development of agro-based industries, infrastructure facilities and information technology with the co-operation of private sector.
27. West Bengal	* Simplification of procedures in order to augment revenues.	* Efficient running of Public Sector Enterprises. * Decentralisation in all spheres of infrastructure.	* The revival of the traditional industries of the State, such as jute and tea.

28. NCT Delhi	* Rationalisation of tax laws. * Preparation for introduction of VAT and upgradation of software for the same.	* Computerisation of sales tax department.	* Establishment of a Rural Area Development Board for planned development of rural areas. * Setting up Bio-Technology Research and Development Centre in collaboration with Delhi University.

Both the Centre and the States have taken measures to reform the power sector, which is crucial for the fiscal reforms programme. The power sector reforms have focused on setting up of independent electricity regulatory commissions and restructuring electricity boards in order to separate the power generation, transmission and distribution functions. So far, fifteen States have set up their respective State Electricity Regulatory Commission (SERC). While the States of Orissa, Andhra Pradesh and Haryana have set up SERC under their own Acts, the other States, *viz.*, Uttar Pradesh, Madhya Pradesh, Punjab, NCT Delhi, West Bengal, Gujarat, Rajasthan, Tamil Nadu, Maharashtra, Arunachal Pradesh, Himachal Pradesh and Karnataka, have set up SERCs under the Central Electricity Regulatory Commission Act. The details of the initiatives taken by individual States for power sector reforms and restructuring are presented in Table B.

Table B: Initiatives for State Level Power Sector Reforms

States	Status of Reforms and Restructuring
Andhra Pradesh	Andhra Pradesh Electricity Regulatory Commission has become operational since April 1999. APSEB has been unbundled into Andhra Pradesh Generation Company Ltd. and Andhra Pradesh Transmission Company Ltd (APTRANSCO). APTRANSCO has been further split into four distribution companies. The APERC has issued its first tariff order. The World Bank has committed a loan assistance of US$ 790 million for power sector reforms programme.
Arunachal Pradesh	SERC constituted.
Assam	Administrative Staff College of India (ASCI) report on reforms and restructuring submitted. Power Finance Corporation (PFC) is conducting a study on tariff rationalisation. A Selection Committee for the selection of Chairperson/Members of the SERC constituted.
Bihar	State has commissioned reforms studies.
Delhi	The State Government proposes to unbundle Delhi Vidyut Board and form separate companies for generation, transmission and distribution functions. SERC has been set up.
Goa	Government is proceeding with restructuring for which PFC has sanctioned a grant. The notification for setting up SERC has been issued. The State Government has appointed consultants to advise and implement privatization of transmission and distribution system.
Gujarat	Restructuring programme has emphasised metering all categories of consumers and imposing cap on agricultural subsidy. SERC has become functional from March 1999 and is proposing undertaking tariff and reform related studies. SERC has issued first tariff order. Draft Power Sector Bill has been cleared by the Government of India for introduction in the State Assembly. An assistance of US$ 350 million is expected from Asian Development Bank for power sector reforms.
Haryana	State Reforms Act came into force in August 1998 and SERC has become operational. SEB has been unbundled into separate transmission and distribution companies. The Regulatory Commission has given its first tariff order. The World Bank has committed a loan assistance of US$ 600 million for Power Sector Reforms Programme for 10 years.

Himachal Pradesh	State Government is committed to undertake reforms with technical and financial assistance of PFC. The State has constituted SERC. The State has also signed MoU with the Ministry of Power for further reforms in the power sector.
Jammu and Kashmir	Administrative Staff College of India (ASCI) has submitted a report regarding reforms and formulation of long-term perspective plan for 20 years. The State has drafted its own Electricity Regulatory Commission Bill in consultation with ASCI.
Karnataka	State Electricity Reforms Act came into force from June 1999. Two new companies have been incorporated. SERC has become functional since November 1999. SERC has issued one tariff order. Transmission and distribution function is entrusted to Karnataka Power Transmission Corporation Ltd. (KPTCL). As per the MoU signed by the State with the Union Power Ministry, the State proposes to further restructure the KPTCL and form separate distribution companies by December, 2001.
Kerala	The State aims to reorganise the Electricity Board into three profit centres for generation, transmission and distribution. Distribution Company to be further split into three profit centres.
Madhya Pradesh	SERC has become operational since January 1999. The State has formulated a reform model, which envisages setting up separate companies for power generation, trading, transmission and distribution. Measures proposed include 100 per cent metering, reduction of T&D losses, realisation of outstanding revenue, etc. The State has signed MoU with Ministry of Power detailing out the milestones for the reform process. Important provisions being 100 per cent electrification of villages, metering of all supplies by December 2001 and at least 75 per cent of the cost of supply of electricity to be collected from consumers.
Maharashtra	State is committed to reforms with technical and financial assistance of PFC. Action has been initiated for undertaking tariff and reform related studies. SERC has become functional since October 1999. MSEB intends formation of Joint Venture Company for distribution of electricity in Bhiwandi area, Thane. MERC has issued first tariff order. The State has signed MoU with the Ministry of Power for further reforms in the power sector.
Meghalaya	The SEB of Meghalaya has commissioned studies for capital restructuring and assessed revaluation.
Orissa	First State to initiate power sector reforms. OSEB has been unbundled. Four distribution companies have been privatised by disinvesting 51 per cent Government equity. OERC has issued three tariff orders. The State is getting a loan of US$ 350 million from the World Bank and DFID assistance of £ 64.5 million.
Punjab	The State proposes to carry out power sector reforms with the assistance from PFC. SERC has been constituted. The State Government has signed a MoU with Ministry of Power for reform and restructuring of the power sector.
Rajasthan	State Reforms Act enforced. Rajasthan Electricity Board to be unbundled into one generation company, one transmission company and three distribution companies. Rajasthan Electricity Regulatory Commission has been constituted. SERC has issued a tariff order. The World Bank has sanctioned a loan of US$ 180 million.
Tamil Nadu	SERC has been set up. The State proposes to undertake reforms with the technical and financial assistance from Power Finance Corporation. The State has appointed consultants for reforms study.
Uttar Pradesh	State Reforms Act enforced. UPSEB has been unbundled into two generation companies and one transmission and distribution company. UPERC has become functional. First tariff order has been issued by UPERC. Privatisation of distribution in Kanpur is in the process. The World Bank has committed a loan of US$ 150 million for power sector reforms.

Source: *Annual Report on the Working of State Electricity Boards and Electricity Departments,* Planning Commission, Government of India, June 2001.

Pursuant to the recommendations of the Eleventh Finance Commission (EFC), the Centre has set up an Incentive Fund to expedite fiscal reforms at the State level. The Fund would provide incentive to encourage the State Governments to implement fiscal reforms in a time-bound manner (Box 1). Several States are in the process of implementing the fiscal reforms to increase their revenue receipts, contain the expenditure and improve its quality. A number of States have prepared Medium-Term Fiscal Reform Plans, which aim at phasing out revenue deficit and reducing fiscal deficit.

Box I: Incentive Fund for State Fiscal Reforms

In pursuance of the Additional Terms of Reference given to the Eleventh Finance Commission (EFC), it was required to draw a monitorable fiscal reforms programme aimed at reduction of revenue deficit of the States and recommend the manner in which the grants to the States to cover the assessed deficit in their non-plan revenue account may be linked to the progress in implementing the programme. In order to encourage the State Governments to implement fiscal reforms in a time-bound manner, the EFC recommended setting up of an Incentive Fund comprising of two parts. The first part of the Fund would comprise 15 per cent of the withheld portion of the Grants recommended to cover the deficit of the States on non-plan revenue account. The second part of the Incentive Fund would be created by contribution from the Central Government equivalent to 15 per cent of the revenue deficit grants recommended by the EFC. The EFC recommended that the total amount of the Fund comprising both parts at Rs.10,607.7 crore for five year period from 2000-01 to 2004-05 to be apportioned at the rate of Rs.2,121.5 crore per year. The year-wise composition of the Incentive Fund proposed by the EFC is as under:

Composition of the Incentive Fund

(Rs. crore)

Year	Withheld portion of the revenue deficit grants	Contribution of the Centre	Total
1	**2**	**3**	**4**
2000-01	1,523.06	598.48	2,121.54
2001-02	1,080.43	1,041.11	2,121.54
2002-03	994.64	1,126.91	2,121.55
2003-04	861.74	1,259.81	2,121.55
2004-05	843.99	1,277.55	2,121.54
Total	5,303.86	5,303.86	10,607.72

The amount from the Incentive Fund will be available to a State in proportion to the level of performance in the implementation of the monitorable fiscal reforms programme in each year. If any State is unable to get the full amount initially earmarked for it in any year, such amount will not lapse, but will continue to be available to the same State in subsequent years. However, if any State is not able to draw the amount in the first four years, the amount undisbursed to a State would form part of the common pool and would be distributed to the performing States in the fifth year. The EFC report also provided broad parameters for monitoring fiscal reforms.

In pursuance of the recommendations of the EFC, an Incentive Fund for State fiscal reforms has been set up at the Centre. The release from the Incentive Fund will be based on a single monitorable fiscal objective. Accordingly, each State would need to achieve a minimum improvement of 5 per cent in the revenue deficit/surplus as a proportion of their revenue receipts each year till 2004-05. For this, the base year will be 1999-2000. Accordingly, the State Governments are required to draw up the Medium-Term Fiscal Reforms Plan. This would be the basis of a Memorandum of Understanding between the State Government and the Ministry of Finance, Government of India, as a preliminary exercise. In pursuance of this, many States have prepared Medium-Term Fiscal Reforms Plans.

(ii) Reserve Bank's Initiatives on State Finances

Reserve Bank of India has been organising conferences of State finance secretaries twice a year, thereby providing a forum for discussing various issues relating to State finances. With a view to analyse the growing interest burden on States, the Reserve Bank constituted a Group of State Finance Secretaries in November 2000. The Group's draft recommendations for bringing about reduction in the States' interest burden were discussed in the conferences of State Finance Secretaries held in May and November 2001. Also, as a follow up of decisions taken in the Conference held in May 2001, a Group has been set up to examine the issue of fiscal risk under different types of guarantees issued by the States. Reserve Bank provides Ways and Means Advances (WMA) and also operates an Overdraft Regulation Scheme whereby limits are fixed for WMA and limits for amounts and periods for overdraft are regulated. These arrangements are reviewed periodically. The WMA limits for the State Governments have been revised under the WMA Scheme 2001 and made effective from February 1, 2001 (Box II).

Box II: Revision of Ways and Means Advances (WMA) to State Governments

Under Section 17(5) of the Reserve Bank of India Act, 1934, the Reserve Bank has been providing Ways and Means Advances (WMA) to the State Governments to help them tide over temporary mismatches in the cash flow of receipts and payments. There are two types of WMA- normal and special. The normal WMA are clean or unsecured advances, while Special WMA are given against the pledge of Central Government securities and treasury bills held by State Governments. The WMA limits are fixed by the Reserve Bank of India from time to time.

The Reserve Bank of India had constituted an Informal Group of State Finance Secretaries to review the then existing scheme of WMA and to make recommendations. The Group submitted its report in January 2001. Based on the recommendations of the Group, the scheme of WMA to the States has been revised and made effective from February 1, 2001. The main features of the scheme are as follows:

(i) The normal WMA limits are worked out taking into account the three years' average of revenue receipts and capital expenditure for fiscal years 1997-98, 1998-99 and 1999-2000 and applying to this base a ratio of 2.4 per cent for non-special category States and 2.9 per cent for special category States.

(ii) As per the revised scheme, the total normal WMA limits work out to Rs.5,283 crore as against the earlier limit of Rs.3,941 crore.

(iii) The special WMA limits continue to be linked to the investments made by State Governments in the Government of India dated securities and treasury bills.

(iv) A State is allowed to run an overdraft for 12 consecutive working days instead of 10 days earlier.

(v) The overdraft shall not exceed 100 per cent of normal WMA limits. If overdraft exceeds 100 per cent of normal WMA limits in a financial year, the Reserve Bank will on the first occasion advise the State Government; on the second or subsequent occasions, the State shall be given only five working days instead of the notice period of three working days earlier to bring down the overdraft amount within the level of 100 per cent limit. If this is not adhered to, payments will be stopped.

(vi) The WMA Scheme 2001 is subject to review in its entirety at the end of two years.

With regard to the bonds guaranteed explicity or implicity through letters of comfort, etc., the Reserve Bank of India in its Mid-Term Review of the Monetary and Credit Policy announced in October 2001 advised the banks and financial institutions to eschew any proposal of direct or indirect financing of Government budgets, directly or through Special Purpose Vehicles. The proposals should be for specific monitorable projects, particularely in capital intensive and high cost sectors, including infrastructure. Components of financing and returns need to be well defined and assessed. Further, mere availability of such guarantees should not be the criterion for lending decision. The banks and financial institutions have been advised to undertake due diligence on the intrinsic viability and bankability of the projects financed through issuance of such bonds. Recent initiatives taken by the Reserve Bank are presented in Table C.

Table C: Reserve Bank's Recent Initiatives on State Finances

Reserve Bank's Initiatives	Status of Initiatives
Setting up of a Committee of State Finance Secretaries on Voluntary Disclosure Norms for State Budgets.	The Core Group on Voluntary Disclosure Norms for State Governments submitted its report on January 2001. The transparency in State budgets is sought to be enhanced in stages and a model format of the disclosure norms has been prescribed for the States. The States are being sensitised on the principle of transparency in government operations so as to ensure macro fiscal sustainability and fiscal rectitude. In the Budgets for 2001- 02, several States have published '*Budget at a Glance'* along the lines of the Union Budget as a first step.
Setting up a Consolidated Sinking Fund (CSF).	The Consolidated Sinking Fund was set up in 1999-2000 to meet redemption of market loans of States. So far, eleven States, *viz*, Andhra Pradesh, Arunachal Pradesh, Assam, Chhattisgarh, Goa, Maharashtra, Meghalaya, Mizoram, Tripura, Uttaranchal and West Bengal have established the CSF.
Introduction of flexibility in market borrowings of State Governments by encouraging the States to directly access the market for resources ranging 5 to 35 per cent of gross borrowings, with the States deciding on the method, timing and maturities of the borrowings.	The States that have gone in for the borrowing through auction/tap issue so far, include – Punjab, Andhra Pradesh, Arunachal Pradesh, Jammu and Kashmir, Tamil Nadu, Karnataka, Madhya Pradesh, Maharashtra, West Bengal, Kerala, Gujarat and Uttar Pradesh. The introduction of flexibility in market borrowings helps the better managed States gain through lower yields as compared to the combined borrowing programme, and thus put in place incentives for sound fiscal management.
Constitution of an informal Group of State Finance Secretaries on implementation of State Governments' WMA/ Overdraft Regulation Scheme.	The Group submitted its report to Reserve Bank of India in January 2001. In line with the Group's recommendations, the WMA scheme was revised effective February 1, 2001.

Constitution of Group of Finance Secretaries on Interest Burden on State Governments	The Group deliberated on various issues pertaining to the subject in its meeting held on May 25, 2001. Various suggestions emerging from the Group deliberations were further discussed in the conferences of State Finance Secretaries held on May 26, 2001 and November 28, 2001. The Group's Report is in draft stage.
Constitution of Group of Finance Secretaries to examine the Fiscal Risk of Guarantees extended by States.	The Group has been constituted to analyse and classify different type of guarantees including letters of comfort issued by the States and to examine the fiscal risk under each type of guarantee.
Finances of Local Bodies	The need for compilation of data of finances of local bodies is broadly recognised as the local bodies form the third tier of the Government Sector. The efforts pertaining to compilation of data on finances of local bodies on a uniform basis with the help of State Governments are underway.

Section III

Revised Estimates: 2000-01

As per the revised estimates for 2000-01, the combined gross fiscal deficit of the States is estimated at Rs.95,277 crore as compared with Rs.91,480 crore in 1999-2000, showing an increase of 4.2 per cent. However, in terms of GDP, the overall resource gap is placed lower at 4.4 per cent than 4.7 per cent in the previous year. The other fiscal indicators, such as revenue deficit and primary deficit also recorded some improvement in 2000-01 over the previous year. The revenue deficit declined from 2.7 per cent of GDP in 1999-2000 to 2.3 per cent of GDP in 2000-01 and the primary deficit declined from 2.4 per cent of GDP to 1.9 per cent of GDP during the same period. The share of revenue deficit in gross fiscal deficit, which showed a significant rise particularly in the second half of 1990s, declined from 58.8 per cent in 1999-2000 to 53.9 per cent in 2000-01.

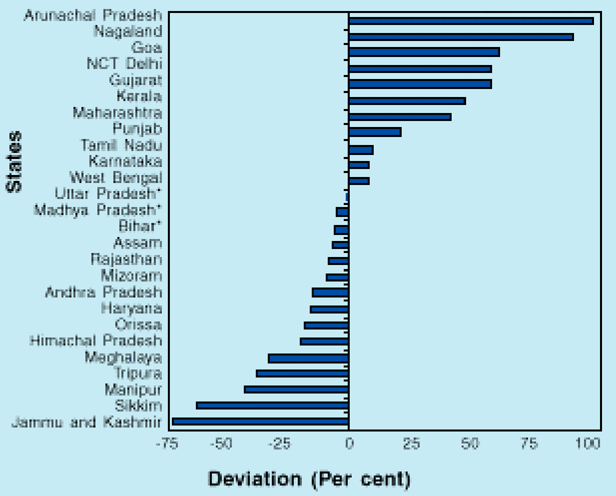
The revenue account showed improvement during 2000-01 with revenue receipts showing a higher growth of 20.5 per cent than 15.3 per cent in revenue expenditure. In the capital account, on the other hand, the growth in capital expenditure at 23.3 per cent was more pronounced than the growth in capital receipts at 9.9 per cent.

A noteworthy development during 2000-01 was the compositional shift in the expenditure pattern in favour of developmental expenditure. The developmental expenditure rose by 19.6 per cent in 2000-01, while the non-developmental expenditure increased by 12.5 per cent. Consequently, the share of developmental expenditure in aggregate expenditure increased from 59.7 per cent in 1999-2000 to 61.2 per cent in 2000-01. More than 50 per cent of the increase in developmental expenditure was on account of economic services. Under the non-developmental expenditure, interest payments accounted for about 64 per cent of the increase.

While the revised estimates for 2000-01 showed an improvement in GFD-GDP ratio over 1999-2000, it was 0.3 percentage point higher than the budget estimates. In absolute terms, the gross fiscal deficit at Rs.95,277 crore was higher by 5.7 per cent than the budget estimates of 2000-01. However, the inter-State analysis reveals considerable deviation in the revised estimates from the budget estimates (Graph 2). The revenue deficit in the revised estimates for 2000-01 overshot its projected level by 12.3 per cent to Rs.51,318 crore. In terms of GDP, the revenue deficit of States is estimated at 2.3 per cent in 2000-01 (RE) as compared with 2.1 per cent in the budget estimates. The primary deficit or the non-interest deficit as a percentage of GDP, was higher at 1.9 per cent than the budgeted level of 1.6 per cent.

In the revised estimates for 2000-01, revenue receipts at Rs. 2,49,615 crore showed a marginal increase of 1.9 per cent over the budget estimates (Table 2). The rise in revenue receipts was on account of the higher growth in current transfers from the Centre comprising shareable taxes and grants. At Rs.99,133 crore, these were higher than the budget estimates by 12.9 per cent. The grants from the Centre at Rs.47,306 crore showed a rise of 54.5 per cent over the previous year, reflecting the impact of the implementation of the recommendations of the Eleventh Finance Commission. However, the States' own tax revenue receipts at Rs.1,20,503 crore in the revised estimates was lower by 4.0 per cent than the budgeted level (Table 3). The shortfall in States' own tax revenue receipts was mainly due to lower realisation in taxes on commodities and services and property, which were lower by 3.9 per cent and 6.6 per cent, respectively, than the budget estimates. Collections under sales tax, the major item under States revenue receipts, at Rs.74,479 crore showed a decline of 1.3 per cent in the revised estimates over the budgeted level.

Graph 2: Deviation of GFD in the Revised Estimates from the Budget Estimates in 2000-01



* The revised estimates and budget estimates are not comparable in case of Bihar, Madhya Pradesh and Uttar Pradesh due to the bifurcation of these States in November 2000.

The share of States' own tax revenue in the total revenue receipts declined from 51.3 per cent in the budget estimates to 48.3 per cent in the revised estimates. The interest receipts under States' non-tax receipts recorded a growth of 12.8 per cent, while the receipts from State lotteries are estimated to show a decline of 6.7 per cent over the budget estimates.

During 2000-01, the consolidated capital receipts of States at Rs.1,13,811 crore were higher by Rs.12,208 crore (12.0 per cent) than the budget estimates. The growth in capital receipts was due to the rise in market borrowings, special securities issued to NSSF[3] , borrowings from financial institutions and recovery of loans and advances by States (Table 5).

In the revised estimates, the aggregate expenditure of States exceeded the budget estimates by Rs.15,308 crore during 2000-01. Component-wise, the revenue expenditure showed a growth of 3.5 per cent, while the capital expenditure was higher than the budgeted level by 8.3 per cent. In the revised estimates for 2000-01, while the developmental expenditure was higher by 7.5 per cent, non-developmental expenditure was lower by 1.2 per cent than the budget estimates. This was mainly on account of lower expenditure on administrative services and miscellaneous general services.

Section IV

Budget Estimates: 2001-02

Overall Resource Gap

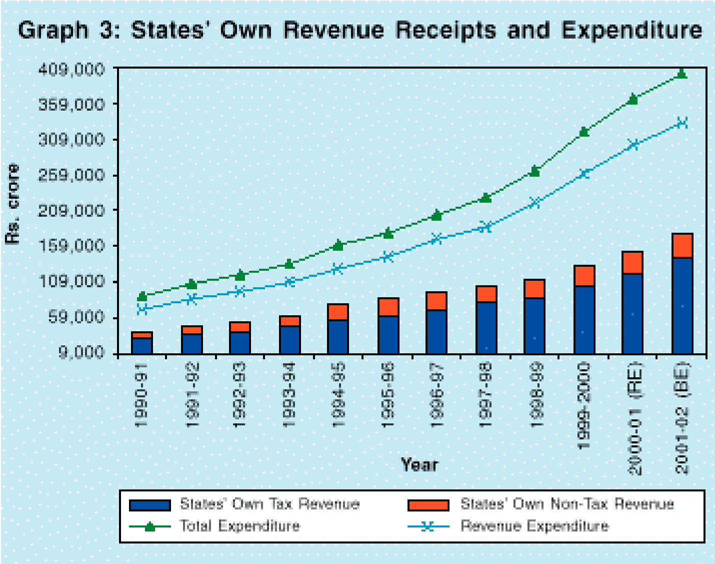
The State budgets for 2001-02 continued to lay emphasis on fiscal consolidation process through measures for revenue augmentation and expenditure containment. Reflecting this, the resource gap measured in terms of revenue deficit and gross fiscal deficit as a ratio of GDP is expected to decline in 2001-02. The aggregate revenue deficit of the States taken together at Rs.47,596 crore in 2001-02 is projected to decline by 7.3 per cent over the previous year. In terms of GDP, the revenue deficit is estimated to decline from 2.3 per cent in 2000-01 to 1.9 per cent in 2001-02. In absolute terms, the gross fiscal deficit is projected at Rs.95,622 crore, higher by 0.4 per cent over the previous year. The overall resource gap (GFD) as a percentage of GDP is budgeted to decline from 4.4 per cent in the revised estimates for 2000-01 to 3.9 per cent in 2001-02. The primary deficit at Rs.30,777 crore (1.2 per cent of GDP) is expected to decline by 25.4 per cent from Rs.41,245 crore (1.9 per cent of GDP) in the revised estimates for 2000-01 (Graph 1).

Pattern of Receipts

The aggregate receipts at Rs.3,98,977 crore are budgeted to be higher by Rs.35,551 crore or 9.8 per cent over the previous year. The revenue receipts at Rs.2,85,132 crore would account for 71.5 per cent of the aggregate receipts and the capital receipts would account for the rest.

Revenue receipts

The aggregate revenue receipts of States (including additional resource mobilisation of Rs.2,583 crore) at Rs.2,85,132 crore during 2001-02 are budgeted to be higher by 14.2 per cent than in the previous year. Tax receipts at Rs.2,03,490 crore are budgeted to be higher by 18.1 per cent over the previous year. In this rise, the States' own-tax revenue receipts would contribute 72.6 per cent, while the rest would be contributed by the States' share in Central tax receipts. The States' own tax revenue receipts at Rs.1,43,140 crore are estimated to record an increase of 18.8 per cent in 2001-02 as compared with a rise of 17.5 per cent in the previous year. However, the collections from sales tax are estimated to show a lower growth of 17.0 per cent than 19.5 per cent in 2000-01. On the other hand, States' own non-tax revenue receipts at Rs.33,085 crore are projected to increase by 10.4 per cent in 2001-02 as compared with the marginal rise of 0.4 per cent in 2000-01. In contrast, the interest receipts of States are projected to decline by 14.4 per cent in 2001-02 as against the growth of 8.9 per cent in 2000-01. Grants from the Centre in 2001-02 at Rs.48,557 crore are estimated to record a growth of 2.6 per cent as compared with a sharp rise of 54.5 per cent in 2000-01. States' own revenue receipts comprising States' own tax revenue and non-tax revenue are expected to finance 53.0 per cent of the revenue expenditure and 43.9 per cent of the aggregate expenditure in 2001-02, as compared with 50.0 per cent and 41.1 per cent, respectively, in 2000-01 (Graph 3).



Capital Receipts

During 2001-02, the aggregate capital receipts of States are budgeted at Rs.1,13,846 crore marginally higher than in the previous year. Recovery of loans and advances is estimated at Rs.4,909 crore, 40.9 per cent lower than the previous year. The receipts from small savings, provident fund, etc., and deposits and advances are estimated to decline by 5.1 per cent and 51.3 per cent, respectively, over the previous year. The receipts on account of special securities issued to National Small Savings Fund (NSSF) are estimated at Rs.33,641 crore and would be higher by 2.5 per cent over the revised estimates of 2000-01. Loans from the Centre[4] at Rs.28,373 crore are projected to be higher by 16.5 per cent during 2001-02 as against the growth of 12.8 per cent in the previous year.

Transfer of Resources from the Centre

The aggregate resource flows from the Centre in the form of share in Central tax revenue, grants and loans (excluding share of small savings collections) are budgeted at Rs.1,37,280 crore in 2001-02 as compared with Rs.1,23,492 crore in the previous year. However, the growth in such flows at 11.2 per cent in 2001-02 would be lower than the growth of 28.2 per cent in 2000-01, mainly on account of lower growth in grants.

The current transfers from the Centre in the form of States' share in Central tax revenue and grants budgeted at Rs. 1,08,907 crore during 2001-02 would be higher by 9.9 per cent over the previous year. The current transfers in 2001-02 are estimated to account for 38.2 per cent of revenue receipts of States as compared with 39.7 per cent in the previous year.

Pattern of Expenditure

During 2001-02, the total expenditure of States at Rs.4,01,395 crore is projected to grow by 9.6 per cent, as compared with the growth rate of 16.7 per cent in the previous year (Table 2). The lower growth in expenditure is reflective of the expenditure compression measures undertaken by the States. Over 90 per cent of the budgeted increase in the aggregate expenditure would be on account of revenue expenditure as compared with 85 per cent in 2000-01. The growth in revenue and capital expenditures are budgeted to decelerate to 10.6 per cent and 5.3 per cent in 2001-02 from 15.3 per cent and 23.3 per cent, respectively, in 2000-01. The revenue expenditure at Rs.3,32,727 crore would account for 82.9 per cent of aggregate disbursements, marginally higher than 82.2 per cent in the revised estimates for 2000-01.

Budget estimates for 2001-02 show an increase of 4.7 per cent in the developmental expenditure as compared with a rise of 19.6 per cent in the previous year. The expenditure on social services (including loans and advances) is budgeted to rise by 9.6 per cent in 2001-02 as compared with a rise of 16.4 per cent in the previous year, while expenditure on economic services (including loans and advances) is budgeted to decline by 0.9 per cent in 2001-02, as against a growth of 23.5 per cent in the previous year. On the other hand, the non-developmental expenditure is estimated to grow by 17.2 per cent in 2001-02 as compared with 12.5 per cent in the previous year. The rise in non-developmental expenditure is mainly due to rise in interest payments (20 per cent), administrative services (14.7 per cent) and pensions (9.7 per cent). These components taken together would account for 30.4 per cent of total expenditure in 2001-02 as compared with 28.6 per cent in the revised estimates for 2000-01.

Revenue Expenditure

Revenue expenditure continues to absorb a major portion of States' aggregate receipts. The decomposition of revenue expenditure reveals that the developmental expenditure is budgeted to rise by 5.4 per cent as against a rise of 15.3 per cent in 2000-01. On the other hand, the non-developmental expenditure is estimated to grow by 18 per cent in 2001-02 compared with 15.2 per cent increase in the previous year. The interest payments are budgeted to rise by 20 per cent during 2001-02 and would account for about 34 per cent of the increase in revenue expenditure. Within the developmental revenue component, the expenditures on account of social and economic services are budgeted to increase by 8.5 per cent and 0.2 per cent, respectively. A noteworthy development is the increased budgetary allocation for expenditure for natural calamities. The budgetary allocation for meeting expenditure relating to natural calamities showed a rise of 63.7 per cent at Rs.8,185 crore in 2001-02 (Table 4).

Capital Disbursements

The capital disbursements of States at Rs.68,667 crore are budgeted to rise by 5.3 per cent over the previous year. Of this, the capital outlay is estimated at Rs.40,307 crore, higher by 9.1 per cent over the revised estimates for 2000-01 and would absorb 42.2 per cent of total borrowing requirements (GFD) as compared with 38.8 per cent in 2000-01. Under developmental capital outlay, expenditure on 'water supply and sanitation' and 'food storage and warehousing' at Rs.2,828 crore and Rs.504 crore, respectively, are estimated to be lower by 17.7 per cent and 52.9 per cent, respectively over the revised estimates of 2000-01. The non-developmental capital outlay at Rs.1,510 crore is budgeted to rise by 7.3 per cent over the revised estimates. The repayment of loans to the Centre budgeted at Rs.11,539 crore would show a growth of 11.4 per cent over the previous year. However, loans and advances extended by States at Rs.12,628 crore in 2001-02 are estimated to decline by 17.7 per cent over the previous year. This would be mainly due to the decline of 15.2 per cent in loans and advances extended by the States for developmental purposes.

State-wise Analysis

A comparative analysis of the budgetary positions of the States reveals considerable variation across the States in the fiscal consolidation initiatives envisaged in the budgets for 2001-02. While the gross fiscal deficit of all States shows a marginal growth of 0.4 per cent over the previous year, State-wise analysis reveals that seven States have estimated more than 20 per cent growth in the gross fiscal deficit over the revised estimates for 2000-01. The inter-State differences in the GFD of State Governments as ratio of their NSDP are set out in Table D.

Inter-State variations are also reflected in the revenue account. In their budgets for 2001-02, five States have estimated a revenue surplus position, while six States have anticipated a rise of more than 30 per cent in the revenue deficit. The revenue deficit would still account for a major portion of the fiscal deficit in 12 States, indicating continued use of borrowed resources for meeting revenue expenditure.

Table D : Gross Fiscal Deficit as a Ratio to NSDP

(Per cent)

States	1990-91	1995-96	1997-98	1998-99	1999-2000
1	**2**	**3**	**4**	**5**	**6**
1 Andhra Pradesh	3.2	3.4	2.8	5.5	4.5
2 Bihar	7.0	4.1	1.9	4.1	9.7
3 Goa	9.4	3.5	3.5	6.6	-
4 Gujarat	7.4	2.7	4.0	6.3	-
5 Haryana	2.6	3.8	3.4	5.9	5.1
6 Karnataka	2.7	2.9	2.5	4.1	5.0
7 Kerala	6.6	3.7	5.0	5.3	-
8 Madhya Pradesh	3.8	2.8	2.6	5.2	-
9 Maharashtra	2.8	2.9	3.8	5.8	5.5
10 Orissa	6.4	6.0	6.6	9.8	11.4
11 Punjab	7.4	4.0	5.8	7.9	5.8
12 Rajasthan	3.0	6.1	4.4	8.9	9.1
13 Tamil Nadu	4.1	1.8	2.3	4.5	4.7
14 Uttar Pradesh	6.2	4.3	5.8	7.8	6.7
15 West Bengal	5.2	4.0	4.5	6.7	9.5

- : Not Available.
Note : 1. Figures of NSDP from 1993-94 onwards are as per the new 1993-94 series.
2. NSDP Data are provisional.
Source: Budget Documents of State Governments and Central Statistical Organisation.

The State-wise growth in aggregate receipts during 2001-02 indicates that the States of Gujarat (21.1 per cent), Karnataka (19.6 per cent), Andhra Pradesh (17.4 per cent), Goa (16.9 per cent), Orissa (14.4 per cent) and Tamil Nadu (12.4 per cent) have budgeted higher growth in their aggregate receipts than the average growth rate of 9.8 per cent for all the States. The States where the growth rate in revenue receipts are estimated to be higher than the growth rate in 2000-01 are Gujarat (25.1 per cent), Karnataka (16.2 per cent) and Tamil Nadu (13.7 per cent).

The States that have proposed a significant growth in their own revenue receipts over the revised estimates include Goa (27.2 per cent), Gujarat (21.6 per cent), Kerala (17.9 per cent), Haryana (17.3 per cent) and Uttar Pradesh (17.1 per cent). Comparative position of the States by relative changes in revenue receipts and aggregate expenditure during 2001-02 *vis-à-vis* the revised estimates for the previous year is presented in Table E. It can be seen from the table that four States budgeted higher growth rate in revenue receipts and lower growth in aggregate expenditure. As against this, two States budgeted lower growth rate in revenue receipts and higher growth in aggregate expenditure.

Table E : Relative Changes in Revenue Receipts and Total Expenditure of States in 2001-02 (BE) over 2000-01 (RE)

	Lower rate of growth in Total Expenditure	Higher rate of growth in Total Expenditure

Lower rate of growth in Revenue Receipts	Assam, Madhya Pradesh, Manipur, Mizoram, Sikkim.	Himachal Pradesh, Jammu and Kashmir.
Higher rate of growth in Revenue Receipts	Arunachal Pradesh, Bihar, Maharashtra, NCT Delhi.	Andhra Pradesh,Goa, Gujarat, Haryana, Meghalaya,Nagaland, Orissa, Karnataka, Kerala, Punjab, Rajasthan, Tamil Nadu, Tripura, Uttar Pradesh and West Bengal.

Source: Budget Documents of State Governments.

Special Category States*

The combined revenue deficit of special category States is estimated to rise from Rs.816 crore in 2000-01 to Rs. 3,807 crore in the 2001-02. The revenue deficit of special category States would account for 41.9 per cent of their gross fiscal deficit (GFD) in 2001-02 as compared with 13.8 per cent in the revised estimates of the previous year. The gross fiscal deficit of these States at Rs.9,088 crore is estimated to grow by 54.1 per cent, much higher than the growth of 21.1 per cent in the previous year. However, three States, *viz*, Arunachal Pradesh, Jammu and Kashmir and Sikkim, have budgeted revenue surplus for 2001-02.

During 2001-02, four special category States budgeted lower revenue receipts than the revised estimates for 2000-01. On the expenditure front, five States have budgeted a decline in their aggregate expenditure over the revised estimates. The non-developmental revenue expenditure of all special category States is projected to absorb 47.4 per cent of revenue receipts in 2001-02, higher than 41.4 per cent in the revised estimates.

Section V

Borrowings, Debt and Contingent Liabilities of States

Market Borrowings

Net market borrowings of the State Governments increased from Rs. 12,405 crore in 1999-2000 to Rs.12,880 crore (gross Rs.13,300 crore) in the revised estimates of 2000-01. As a part of the policy to move towards the system of auctioning of State loans, since 1999, the State Governments have been allowed to raise 5 per cent to 35 per cent of the allocated borrowings through auctions along with the flexibility to decide the timing. The States opting for such auctions raised an aggregate amount of Rs.1,670 crore during 2000-01 at cut-off rates ranging between 11.57 per cent and 11.80 per cent. The amount mobilised through pre-announced issues aggregated to Rs.11,630 crore. During 2000-01, with general moderation in interest rates in the economy, the weighted average cost of States' market borrowings declined to 10.99 per cent from 11.89 per cent in the previous year (Table F).

For the fiscal year 2001-02, gross and net market borrowings provisionally allocated to States amounted to Rs.14,303.70 crore and Rs.12,857.30 crore, respectively. During the current fiscal year up to December 28, 2001, the State Governments have raised an amount of Rs.11,849 crore constituting 83 per cent of gross market borrowings programme for the full fiscal year. The amount was raised through pre-announced issues as well as through auctions. Borrowings were made through the auction/tap route by Andhra Pradesh (Rs.825 crore), Arunachal Pradesh (Rs.5.17 crore), Gujarat (Rs.440 crore), Jammu and Kashmir (Rs.45 crore), Kerala (Rs.628.55 crore), Karnataka (Rs.315 crore), Madhya Pradesh (Rs.148 crore), Maharashtra (Rs.431.20 crore), Punjab (Rs.130 crore), Tamil Nadu (Rs.320 crore), Uttar Pradesh (Rs.207.35 crore) and West Bengal (Rs.250 crore). The downward trend in the interest rate on State's market borrowings continued during 2001-02. The weighted average interest rates on State Government securities declined to 9.79 per cent during 2001-02 (up to December 28, 2001) from 10.99 per cent in 2000-01.

The declining weighted average interest rate on market borrowings by State Governments has some positive implications on the States' servicing cost of their market borrowings. It is, however, important to note that repayment by States on account of market borrowings is expected to show a sharp rise from Rs.1,446 crore in 2001-02 to Rs.15,870 crore in 2010-11 (Table G).

Table F: Market Borrowings and Interest Rates on State Government Dated Securities

Fiscal Year	Market Borrowings (Rs. crore)		Coupon/Cut-off Yield (Per cent per annum)	
	Gross	Net	Range	Weighted average
1985-86	1,414	973	9.75	9.75
1990-91	2,569	2,569	11.50	11.50
1991-92	3,364	3,364	11.50-12.00	11.82
1992-93	3,805	3,471	13.00	13.00
1993-94	4,145	3,638	13.50	13.50
1994-95	5,123	5,123	12.50	12.50
1995-96	6,274	5,931	14.00	14.00
1996-97	6,536	6,536	13.75-13.85	13.83
1997-98	7,749	7,193	12.30-13.05	12.82
1998-99	12,114	10,700	12.15-12.50	12.35
1999-2000	13,706	12,405	11.00-12.25	11.89
2000-01	13,300	12880	10.50-12.00	10.99
2001-02*	11849	10403	8.37-10.53	9.79

* Up to December 28, 2001.
Note : Interest rate since 1999-2000 include preannounced and cut-off yield in auctions.
Source : Reserve Bank Records.

Table G: Repayment Schedule of Market Borrowings of State Governments

(Provisional) **(Position as at end-March 2001)**

(Rs. crore)

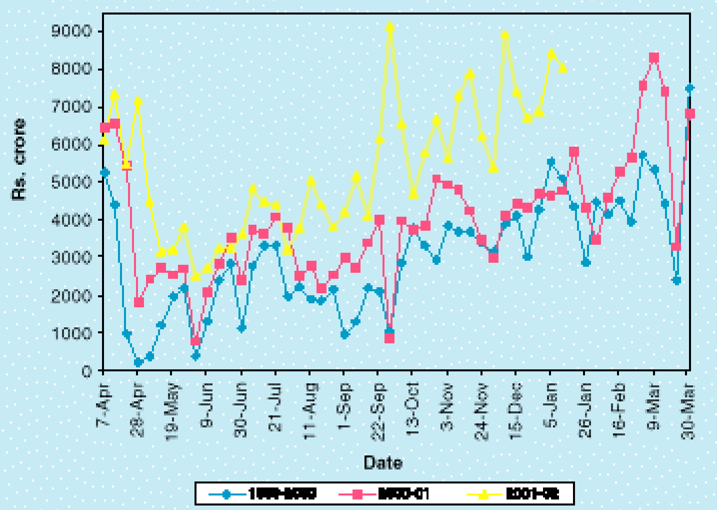
Year	Amount of Repayment
2001-02	1,446
2002-03	1,789
2003-04	4,145
2004-05	5,123
2005-06	6,274
2006-07	6,551
2007-08	11,554
2008-09	14,400
2009-10	16,261
2010-11	15,870

Source : Reserve Bank of India, *Annual Report 2000-01*.

Ways and Means Advances

The Ways and Means Advances (WMA) are extended by the Reserve Bank to alleviate any temporary mismatch between receipts and payments of the State Governments. With a view to facilitating liquidity management by State Governments, the Reserve Bank revised the WMA scheme for States with effect from February 1, 2001 (Box II).

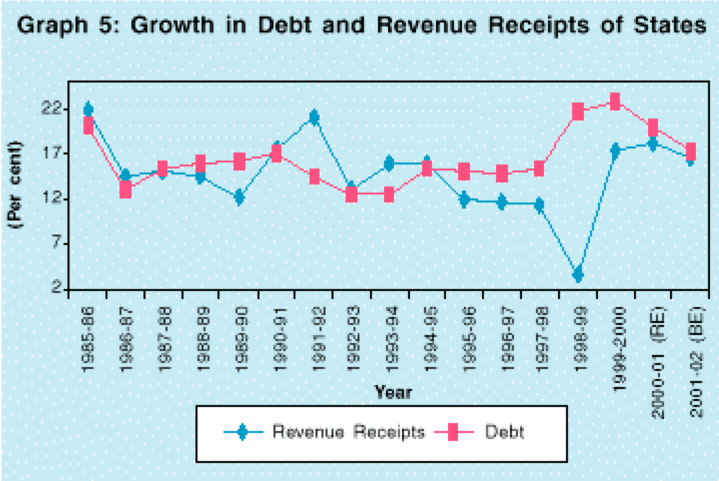
Graph 4: Outstanding WMA and Overdrafts to States (Weekly)



Note : The relevant date of weeks specified pertain to 2000-01; for other years it relates to corresponding weeks.

The recourse to WMA by States was generally higher during 2000-01 than in the previous year, indicating considerable pressure on liquidity management of States (Graph 4). However, as on March 31, 2001, State Governments' outstanding WMA and overdrafts from the Reserve Bank amounted to Rs.6,811 crore, as against Rs.7,519 crore as at the end of March 2000. The number of States resorting to overdrafts during 2000-01 remained at nineteen, the same as in the previous year. During 2000-01, three States could not clear their overdrafts with the Reserve Bank within the stipulated time limit and consequently the Reserve Bank had to stop payments on their behalf.

Debt Position of State Governments



The combined debt of States has been rising over the years due to high levels of gross fiscal deficit. The States' outstanding debt rose by about 20 per cent during 2000-01 and amounted to Rs.5,04,248 crore or 23.1 per cent of GDP at end-March 2001. The debt-GDP ratio is estimated to go up further to 23.9 per cent as at the end of March 2002 (Table 8).

The average annual growth in the debt stock during the second half of the 1990s, was 17.9 per cent, significantly above the growth rate of State revenues at 11.2 per cent, reflecting the deterioration in the fiscal position at the sub-national level (Graph 5). The rising debt levels have resulted in growing interest burden on States. The interest payments pre-empted 21.6 per cent of the revenue receipts of States in 2000-01 as against 13.0 per cent in 1990-91.

Besides loans from the Centre and market borrowings, the other sources of growth in liabilities of States in recent years have been loans from financial institutions and the public account liabilities. However, the share of public account borrowings in financing the GFD declined from 33.4 per cent in 1999-2000 to 21.9 per cent in 2000-01 (Table H).

Contingent Liabilities/Guarantees of State Governments

The fiscal position of the State Governments is also influenced by the nature and levels of contingent liabilities, which include guarantees, indemnities, etc. As per the available data, the outstanding guarantees extended by the 17 major States amounted to Rs.1,24,813 crore as at end-March 2000. In terms of GDP, the outstanding guarantees rose to 6.4 per cent as at end-March 2000 from 5.5 per cent as at end-March 1999 (Graph 6 and Table I). Many States have taken initiatives to place ceiling on guarantees. The statutory ceilings on guarantees have been put in place by Gujarat, Karnataka, Sikkim and West Bengal. The States of Rajasthan and Assam have imposed administrative ceilings, while Tamil Nadu has taken a decision to charge guarantee commission on outstanding guaranteed amount. The main features of ceilings on guarantees placed by various States are presented in Table J.

Table H : Financing of GFD through Public Account Borrowings

(Per cent)

	States	1990-91	1999-2000	2000-01 (R. E.)
	1	2	4	5
1	Andhra Pradesh	13.7	12.4	6.7
2	Bihar	20.3	24.5	23.8

3	Goa	33.4	32.3	27.8
4	Gujarat	56.6	41.9	13.2
5	Haryana	37.6	32.5	21.7
6	Karnataka	66.2	38.2	23.1
7	Kerala	42.2	63.3	35.0
8	Madhya Pradesh	54.7	27.0	26.0
9	Maharashtra	41.3	41.7	27.6
10	Orissa	33.5	43.7	29.4
11	Punjab	12.4	38.0	21.9
12	Rajasthan	26.3	29.4	21.4
13	Tamil Nadu	31.7	43.3	17.4
14	Uttar Pradesh	30.6	10.6	34.8
15	West Bengal	28.7	36.6	15.5
All States' Average		**32.5**	**33.4**	**21.9**

Source : Budget Documents of State Governments.

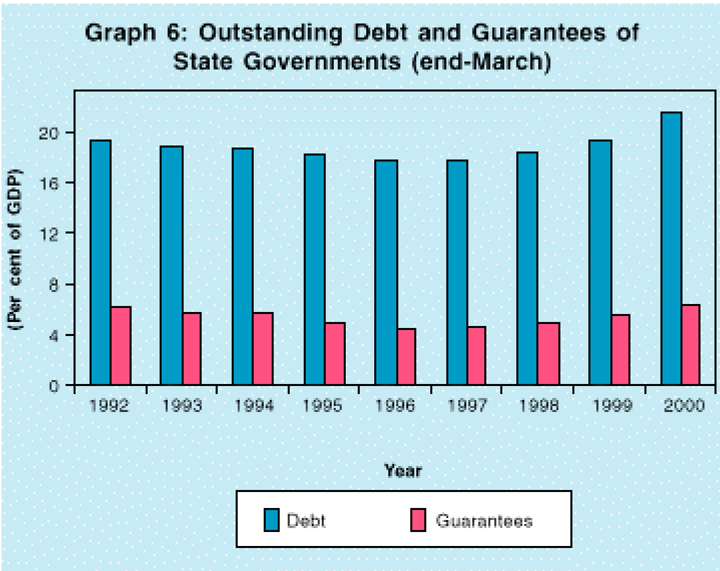


Table I : State Government Guarantees (Outstanding at end-March)

Year	**Amount (Rs. crore)**	**Percentage to GDP**
1992	40,159	6.1

1993	42,515	5.7
1994	48,866	5.7
1995	48,479	4.8
1996	52,631	4.4
1997	63,409	4.6
1998	73,751	4.8
1999	97,454	5.5
2000	1,24,813	6.4

Note: Pertains to 17 major States.

Table J : Main Features of Ceilings on Guarantees

State	Statutory/ Administrative (Year)	Ceiling	Other Important Features
1. Assam	* Administrative ceiling (2000)	* The ceiling on guarantee issued by the Government against loan principals is fixed at Rs.1500 crore.	
2. Gujarat	* Statutory ceiling (1963)	*The ceiling on guarantees issued by the Government was originally fixed at Rs.60 crore in 1963. This ceiling has been revised from time to time. As per the latest revision (March 2001), the ceiling on guarantees has been fixed at Rs.20,000 crore.	
3. Karnataka	* Statutory ceiling (1999)	* The total outstanding Government guarantees as on the first day of April of any year shall not exceed eighty per cent of revenue receipts of the second preceding year as they stood in the books of the Accountant General of Karnataka. * The ceiling on the Government guarantee shall not apply for any additional borrowing for implementation of the Upper Krishna Project.	* The Government will charge a minimum of one per cent as guarantee commission, which shall not be waived under any circumstances.
4. Rajasthan	* Administrative ceiling (1999)	* The loans of State Government (which do not include other liabilities) and outstanding guarantees issued by the State Government i.e., the total of loans and guarantees on the last day of any financial year shall not exceed double the amount of estimated receipts in the consolidated fund of the State for that financial year and also that the outstanding guarantees issued by the State Government shall not exceed the amount of receipts in the consolidated fund of the State.	
5. Sikkim	* Statutory ceiling (2000)	* The total outstanding Government guarantees as on the first day of April of any year shall not exceed thrice the State's tax revenue receipts of the second preceding year as in the books of the Accountant General of Sikkim.	

6. West Bengal	* Statutory ceiling (2001)	* The total outstanding Government guarantees as on the first day of April of any year shall not exceed ninety per cent of revenue receipts of the second preceding year as they stood in the books of the Accountant General of West Bengal. * The ceiling on the Government guarantee shall not apply for any loan raised by the West Bengal Infrastructure Development Finance Corporation Limited under the guarantee given by the Government and fully availed of by the Government itself for funding different infrastructure projects and for repayment of which there is specific provision in the budget of the State.	* A minimum of one per cent guarantee commission will be charged by the Government, which shall not be waived under any circumstance.

Note: Based on the information received from States up to December 31, 2001.

Fiscal Stability and Budgetary Flexibility of State Governments

Notwithstanding some improvement in the States' fiscal position in 2000-01, fiscal correction at the State level continues to be an area of concern. The improvement in the fiscal position would require: (i) enhancing the revenue receipts by ensuring adequate buoyancy in tax and non-tax receipts and (ii) containing the expenditure. This would eventually lead to the reduction in the gross fiscal deficit. The States have limited flexibility with regard to a number of expenditure items, such as salaries, pensions and interest payments. These items being of a committed nature, significant reduction in the same is difficult to achieve, at least in the short term.

Sustainability of States' fiscal deficit or debt position can be assessed in the light of various factors such as magnitude of debt, composition and terms of borrowing, ability to enhance States' own revenue receipts, the manner of utilization of borrowed funds, etc. In this context, assessment of the fiscal situation and the flexibility available to the States in pursuing their fiscal goals can be attempted through certain broad ratios, such as primary deficit to NSDP, outstanding debt to NSDP, interest payments to revenue receipts, share of State's own revenue receipts to aggregate expenditure, etc. Trends in the above indicators are presented in Tables K and L.

The extent to which the State's own tax and non-tax revenues meet the expenditure needs, provides an indicator of the degree of flexibility available to a State in the conduct of its budgetary operations. The trend witnessed between 1990-91 and 2000-01 shows some deterioration in States' own revenues as ratio to aggregate expenditure from 43.5 per cent to 41.5 per cent. As against this, the interest payments have shown a sharp increase. While the interest payments accounted for 13 per cent of the revenue receipts in 1990-91, their share increased to 21.6 per cent in 2000-01 and are budgeted to rise further to 22.7 per cent in 2001-02. The increase in the interest burden has been mainly due to rise in the level of debt. As a result of the increase in the gross fiscal deficit, debt/GDP ratio, which had declined during 1990s till 1996-97, has been rising continuously since then. The debt-GDP ratio of the States, which was 19.4 per cent during 1990-91 rose to 23.1 per cent during 2000-01 (RE).

The primary deficit of the States which stood at 1.8 per cent of GDP during 1990-91, increased to 2.4 per cent of GDP during 1999-2000. However, it is estimated to be lower at 1.9 per cent of GDP in 2000-01 (RE) and 1.2 per cent in 2001-02 (BE).

Table K : Indicators of State's Fiscal Stability and Budgetary Flexibility - All States
(Per cent)

Year	Debt/ GDP	PD/ GDP	IP/ RR	Guarantee/ GDP	SOR/ AD
1990-91	19.4	1.8	13.0	-	43.5
1995-96	17.9	0.8	16.0	4.4	48.9
1996-97	17.8	0.9	16.7	4.6	46.7
1997-98	18.5	0.9	17.7	4.8	46.3
1998-99	19.4	2.2	20.3	5.5	42.5
1999-2000	21.5	2.4	21.8	6.4	41.5
2000-01(RE)	23.1	1.9	21.6	-	41.1
2001-02(BE)	23.9	1.2	22.7	-	43.8

PD = Primary Deficit IP = Interest Payments RR = Revenue Receipts
SOR = States' Own Revenues AD = Aggregate Disbursements
Source : Budget Documents of State Governments.

Table L : Indicators of States' Fiscal Stability and Budgetary Flexibility - State-wise

(Per cent)

	States	PD/NSDP Ratio		Debt/NSDP Ratio		Interest Burden (IP/RR Ratio)		States' Own Resources/ Aggregate Expenditure	
		1990-95	1995-2000	1990-95	1995-2000	1990-95	1995-2000	1990-95	1995-2000
1	Andhra Pradesh	1.5	1.5	22.0	23.2	12.1	16.9	49.8	45.0
2	Assam	0.0	-0.4	37.6	32.8	13.8	15.0	27.1	25.1
3	Bihar	1.2	0.7	41.6	41.1	20.5	20.2	30.4	30.4
4	Gujarat	1.9	1.8 *	22.4	18.6 *	15.4	17.4	59.2	58.0
5	Haryana	0.5	1.8	22.2	23.9	12.4	15.7	69.4	62.7
6	Himachal Pradesh	3.9	8.5 *	47.7	58.1 *	15.4	17.3	19.0	23.0
7	Jammu & Kashmir	-0.1	-1.7 *	98.6	65.1 *	18.3	14.1	12.7	11.3
8	Karnataka	1.6	1.4	20.7	20.4	11.4	13.6	56.6	58.4
9	Kerala	1.8	1.8 *	33.3	27.9 *	16.5	19.5	49.7	51.4
10	Madhya Pradesh	0.9	1.2 *	23.9	22.5 *	12.1	14.8	46.9	46.4
11	Maharashtra	1.0	2.3	15.5	17.0	11.5	15.1	62.6	60.6
12	Orissa	2.2	3.7	44.2	48.1	19.7	26.1	28.7	27.3
13	Punjab	3.3	0.9	39.9	41.4	19.3	32.6	53.9	55.7
14	Rajasthan	1.4	3.1	30.6	33.4	15.2	22.9	42.1	40.1
15	Tamil Nadu	1.8	1.3	19.3	18.3	10.1	13.8	52.8	57.3
16	Uttar Pradesh	2.3	2.3	30.2	31.3	18.2	27.2	33.4	33.0
17	West Bengal	1.3	3.1	24.3	25.8	18.1	28.9	41.8	34.0

* Data pertain to 1995-99 NSDP : Net State Domestic Product '-' Indicates Surplus Position
PD= Primary Deficit RR= Revenue Receipts IP= Interest Payments
Source : Budget Documents of State Governments and Supplementary information received from State Governments.

Section VI

State Finances: Issues and Perspectives

(a) Growing Resource Gap

The fiscal position of the State Governments has been under stress since the mid-eighties. While the gross fiscal deficit has been quite high, a very high proportion of the same has resulted from the revenue deficit. The States' fiscal stress stems from inadequacy of receipts in meeting the growing expenditure. The level of resource flows to the States is determined by the efforts of the States in the generation of their own resources as well as resource transfers from the Centre. The declining tax and non-tax/GDP ratios have adversely affected the States' financial position. The internal resource mobilisation by the States has been further constrained as the State PSUs, especially, electricity boards and transport undertakings have been incurring losses putting further pressure on the States' resources.

In due recognition of the need for fiscal restructuring, many States have embarked upon a host of measures focusing on revenue augmentation, expenditure containment and PSU reforms. The objective is to phase out revenue deficit and reduce the gross fiscal deficit. The States have displayed increasing awareness about the urgent need for fiscal correction measures and have taken policy decisions in that direction.

The reduction in the fiscal deficit requires either (i) enhancing the revenues or (ii) containing the expenditure. The measures, taken/envisaged by the States, have aimed at both these objectives. Expenditure compression has been a major constraining problem for the States. A drastic reduction in the same is not easy at least in the immediate future, in view of the significantly high proportion of committed items of expenditure such as salaries, pension payments and interest payments. With the result, States have been constrained to cut non-committed expenditure, which may not always be non-essential. This is also reflected in the declining share of developmental expenditure from about 70 per cent of the aggregate expenditure during 1985-90 to less than 60 per cent in 2000-01. Within the developmental expenditure, the decline in the share of expenditure on economic services has been more pronounced over the years.

The States have a crucial role in the development process, in view of their responsibilities for developing social and economic infrastructure. Fiscal adjustments based predominantly on expenditure reduction could have adverse implications for the growth process. The States, for a durable fiscal consolidation, need fiscal empowerment, i.e., expanding the scope and size of revenue flows into the budget. This would allow them to enhance their revenue receipts so as to ensure adequate resources for developmental activities. A major challenge to the States in the medium-term is to reverse the declining trend in the tax-GDP ratio, and to enhance the buoyancy in their tax receipts. In this regard, the issue of a State-level VAT that includes inter-State trade assumes importance. A comprehensive taxation of services at the Central level with appropriate assignment to States and local bodies would help in enhancing the States' revenue receipts[5] . In addition, the States would need to enhance non-tax revenues, especially through cost recovery in respect of commercial services and ensuring appropriate rate of return on their investment. At the same time, appropriate expenditure management strategy assumes importance for reducing non-developmental expenditure.

It has been recognised that the envisaged fiscal corrections can take place only in the medium-term. Towards this, as recommended by the Eleventh Finance Commission, the Government of India has created an Incentive Fund linking release of funds to the progress achieved in the fiscal consolidation process by individual States. The medium-term fiscal plans envisaged by several States provides for a framework for fiscal restructuring in a time-bound manner.

(b) Fiscal Transparency

The need for enhanced transparency in States' fiscal position has been well recognised, especially in the context of mobilisation of large resources from the market. Availability of timely and comprehensive information on State finances would facilitate the market participants in their investment decisions. This calls for adequate disclosure of States' financial position, which would also include information on guarantees, performance of State-owned enterprises, etc. The *Core Group on Voluntary Disclosure Norms for State Budgets (2001)* had made a number of recommendations to enhance transparency and to enable uniformity in the dissemination of information by the States. While there has been some progress with a number of States publishing *Budget At a Glance* as recommended by the Group, full implementation of the recommendations by all the States will go a long way in enhancing transparency in State finances. The Advisory Group on Fiscal Transparency (Chairman: Dr. M. S. Ahluwalia) observed that in the absence of full transparency at the level of States, a consistent approach to fiscal policy at the State level would be difficult. Accordingly, the Advisory Group has recommended that the State Finance Secretaries Forum could review the Report of Advisory Group on Fiscal Transparency and determine a set of minimum standards on transparency, which all State Governments should achieve within a three-year period.

(c) State Government Guarantees

The contingent liabilities of the States in the form of outstanding guarantees have increased in recent years. In view of their fiscal implications, the issues pertaining to monitoring of contingent liabilities, imposition of ceilings on the level of guarantees, budgetary provisions, etc., have received increasing attention. The *Technical Committee on State Government Guarantees (1999)* suggested a number of measures such as selectivity in the provision of guarantees, institution of ceiling, setting up of guarantee redemption funds, etc. Many States have since taken initiatives by placing ceiling on guarantees and institution of guarantee redemption fund.

It should be recognised that exact quantification of the likely impact of guarantees on the State finances poses some difficulties. As the contingent liabilities are to be discharged in the event of a default by the borrower, these form an implicit burden on the State finances. In view of this, the States would need to prepare themselves for meeting any eventual payment obligation arising from invocation of guarantees by the lending institutions. For this purpose, the States would need to put in place a mechanism for accurate accounting and monitoring of all such guarantees. A broad assessment of the fiscal risks of guarantees based on the nature of the guarantee, the risks involved, the likelihood of default, etc., would facilitate appropriate budgetary provisions for meeting any payment obligations arising from the same.

(d) Sustainability of States' Debt

The outstanding debt of State Governments has been rising during the 1990s, reflecting persistent fiscal deficits. The Eleventh Finance Commission (EFC) has observed that in order to ensure sustainability of debt over a medium-term, the proportion of interest payments to revenue receipts of States including devolution and grants should be about 18 per cent. The

EFC has, therefore, recommended that the States should keep this as their medium-term objective. Currently, the proportion of interest payments to revenue receipts is more than 18 per cent in the combined position of all States and individually in many States. The need to contain the debt level arises from the associated debt service obligations.

The fiscal reforms at the State level have gained significance in recent years. The State budgets for 2001-02 have proposed a number of measures reflecting the urgency to expedite the fiscal consolidation process, while focusing on infrastructure development and growth enhancing sectoral policies. The measures taken by the States to strengthen reform process have a potential for some positive impact on State finances. These measures include setting up of consolidated sinking fund, guarantee redemption fund, infrastructure development fund, expenditure review/reform committee, placing statutory limits on guarantees, restructuring the PSUs and comprehensive rationalisation of posts. The medium-term fiscal plan drawn up by State Governments provide time-frame for implementing fiscal reforms programme and for achieving fiscal soundness.

Further improvement in the fiscal position requires measures aiming at widening the tax base, rationalising user charges, better targeting of subsidies, comprehensive restructuring of State-level public sector enterprises and rationalisation and prioritisation of expenditure.

Explanatory Note on Data Sources and Methodology

Data Sources

This Study is based on the receipts and expenditure data presented in the Budget documents of the 28 State Governments and the National Capital Territory of Delhi. The analysis strictly conforms with the data presented in the State Budgets and the accounting classification thereof. Some supplementary information regarding Additional Resource Mobilisation (ARM) efforts and the level of guarantees (contingent liabilities) extended by States are also incorporated. Material received from Planning Commission relating to State-wise Plan outlays are also incorporated. The analysis conforms with the accounting classification into *Revenue* and *Capital Accounts* and their bifurcation into 'Plan' and 'Non-Plan'.

Methodology

As set out in the Budget documents, the analysis of the expenditure data is also disaggregated into developmental and non-developmental expenditure. All expenditures relating to *Revenue Account, Capital Outlay* and *Loans and Advances* are categorised into general services, social services and economic services. Broadly, the social and economic services constitute developmental expenditure, while expenditure on general services is treated as non-developmental. This reclassification is done without altering the total receipts, expenditure and overall balance presented in the budget.

The Overall Deficit (Conventional Deficit) used in the analysis is financed by the Cash deficit, which is the difference between the closing balance and opening balance, the increase/decrease in Cash Balance Investment Account and the increase/decrease in WMA extended by Reserve Bank of India.

---

* Special Category States are : Arunachal Pradesh, Assam, Himachal Pradesh, Jammu & Kashmir, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, Tripura and Uttaranchal.

[1] A special Study prepared by a team in the Division of State and Local Finances of the Department of Economic Analysis and Policy headed by Dr. G.S. Bhati, Adviser and consisting of Dr. B.N. Anantha Swamy, Director, Shri R.K. Jain, Assistant Adviser and Shri Rajmal, Research Officer. Statistical assistance was provided by the staff of the Division of State and Local Finances, *viz*., Smt. M.V. Kulkarni, Kum. G.F. Colabawalla, Shri S.R. Ghanshani and Shri P.P. Joshi, under the supervision of Shri P.R. Jamma, Assistant Manager. The Study has been prepared under the overall guidance of Dr. Y.V. Reddy, Deputy Governor.

[2] The analysis is based on the budgets of 28 States and the National Capital Territory of Delhi and uses supplementary information on additional resource mobilisation measures received from the States. The budget estimates for 2001-02 include the three new States, *viz.*, Chhattisgarh, Jharkhand and Uttaranchal formed in November 2000. As the new States were carved out of the existing States of Madhya Pradesh, Bihar and Uttar Pradesh, the data for 1999-2000 and 2000-01 (BE) are inclusive of the three new States. The revised estimates for 2000-01 include the data of Chhattisgarh for the period November 2000 to March 2001 and do not include those of Jharkhand and Uttaranchal.

[3] Prior to 1999-2000, States' share in the small savings was included under the head 'loans from the Centre'. Under the revised accounting procedure, the same are treated as receipts against special securities issued to National Small Savings Fund (NSSF). In their budgets, while some States continue to show it as loans from the Centre, other States show it as part of their internal debt as special securities issued to NSSF. In view of the change in the accounting procedure in 1999-2000 and with the objective of having uniformity in data presentation for all the States, States' share in small savings has been shown as a separate item as special securities issued to NSSF of the Central Government and not as 'loans from the Centre'.

[4] Due to the change in the accounting procedure since 1999-2000, the loans from the Centre exclude the States' share in small savings collections.

[5] Reserve Bank of India, *Annual Report 2000-01*.