

IV

Consolidated Fiscal Position of State Governments

The impact of the moderate slowdown in the Indian economy on State finances was witnessed in 2008-09 and 2009-10. Deterioration in State finances was significant, particularly in 2009-10, when revenue deficit re-emerged at a consolidated level after a gap of three years and the gross fiscal deficit shot up above 3 per cent of GDP. Revised estimates available for 2009-10 show further deterioration over the budget estimates. However, foreseeing better growth prospects, States have proposed to revert to the path of fiscal consolidation in 2010-11 as reflected in their budget estimates. Both revenue deficit and gross fiscal deficit are estimated to fall in 2010-11. At a consolidated level, the expected correction in revenue account in 2010-11 is envisaged to come entirely through compression in revenue expenditure (as a ratio to GDP). The emerging pattern of aggregate expenditure, however, shows that growth in development expenditure would be lower than non-development expenditure. In order to ensure sustainable progress towards fiscal consolidation, States need to explore sources of non-tax revenues and ensure a pattern of expenditure that not only ensures better growth but also enhances public welfare.

1. Introduction

4.1 In the past two years, the consolidated fiscal position of the States deteriorated significantly. Key fiscal indicators suffered a setback in 2008-09 and 2009-10 as States implemented the recommendations of the Sixth Central/State(s) Pay Commissions (CPC/SPCs) and also undertook various discretionary fiscal measures to moderate the impact of the overall macroeconomic slowdown. The progress in terms of fiscal consolidation till 2007-08 had created a space for the expansionary fiscal stance at the State level. Further, additional market borrowings up to 0.5 per cent of States' GSDP each in 2008-09 and 2009-10 were allowed by the Centre. Due to the moderation in

economic growth during 2008-09, revenue buoyancy suffered a setback and aggregate expenditure shot up. Consequent upon these developments, the revenue surplus declined sharply in 2008-09 as growth in revenue expenditure surpassed that in revenue receipts. The deterioration in State finances persisted in 2009-10 (RE), resulting in the re-emergence of revenue deficit of 0.7 per cent of GDP after a gap of three years. These developments in revenue account were also reflected in a rise in GFD-GDP ratios in 2008-09 (Accounts) and 2009-10 (RE). However, a significant turnaround is anticipated in the fiscal position of State governments in 2010-11 (BE) as evident from their key fiscal indicators (Table IV.1). This chapter provides the

Table IV.1: Major Deficit Indicators of State Governments

(Amount in ₹ crore)

Item	1990-95	1995-00	2000-05	2005-06	2006-07	2007-08	2008-09	2009-10 (BE)	2009-10 (RE)	2010-11 (BE)
	Average									
1	2	3	4	5	6	7	8	9	10	11
Gross Fiscal Deficit				90,084	77,508	75,455	1,34,589	1,99,510	2,16,101	1,98,539
	(2.8)	(3.4)	(4.0)	(2.4)	(1.8)	(1.5)	(2.4)	(3.0)	(3.3)	(2.5)
Revenue Deficit				7,013	-24,857	-42,943	-12,672	32,295	46,663	24,370
	(0.7)	(1.7)	(2.2)	(0.2)	(-0.6)	(-0.9)	(-0.2)	(0.5)	(0.7)	(0.3)
Primary Deficit				6,060	-15,672	-24,376	31,634	83,083	100,197	69,883
	(1.1)	(1.4)	(1.3)	(0.2)	(-0.4)	(-0.5)	(0.6)	(1.3)	(1.5)	(0.9)

BE: Budget Estimates.

RE: Revised Estimates.

Note: 1. Negative (–) sign indicates surplus.

2. Figures in parentheses are percentages to GDP.

3. The ratios to GDP at current market prices starting with 2004-05 are based on CSO's National Accounts 2004-05 series. Data on GDP for earlier years relate to 1999-2000 series.

Source: Budget Documents of the State Governments.

consolidated position of State finances in 2008-09 (Accounts), 2009-10 (RE) and 2010-11 (BE).

2. Accounts: 2008-09

4.2 The fiscal position of the States deteriorated somewhat in 2008-09 as revenue receipts were impacted by the overall macroeconomic slowdown, and revenue expenditure obligations grew with the implementation of the Sixth CPC/SPCs during the year. The fiscal outcome for 2008-09 at the consolidated level, however, turned out to be better than anticipated when the revised estimates were

translated into accounts. Accordingly, the consolidated surplus in the revenue account was higher while fiscal deficit was lower in the accounts position relative to the revised estimates for the year. As a ratio of GDP, the consolidated revenue surplus improved marginally, from 0.19 per cent in 2008-09 (RE) to 0.23 per cent in 2008-09 (Accounts). The improvement in the revenue account reflected a sharper reduction in revenue expenditure than the shortfall recorded in revenue receipts in the accounts *vis-à-vis* the revised estimates for the year (Table IV.2 and Appendix Tables 1 and 2).

Table IV.2: Variation in Major Items - 2008-09 (Accounts) over 2008-09 (RE)

(Amount in ₹ crore)

Item	2008-09 (RE)	2008-09 (Accounts)	Variation		Share in variation* (Per cent)
			Amount	Per cent	
1	2	3	4	5	6
I. Revenue Receipts (i+ii)	7,37,865	6,94,657	-43,208	-5.9	100.0
(i) Tax Revenue (a+b)	5,03,878	4,82,983	-20,895	-4.1	48.4
(a) Own Tax Revenue	3,30,405	3,21,930	-8,475	-2.6	19.6
<i>of which: Sales Tax</i>	2,02,610	1,98,327	-4,283	-2.1	9.9
(b) Share in Central Taxes	1,73,473	1,61,052	-12,421	-7.2	28.7
(ii) Non-Tax Revenue	2,33,987	2,11,675	-22,312	-9.5	51.6
(a) States' Own Non-Tax Revenue	79,614	81,751	2,137	2.7	-4.9
(b) Grants from Centre	1,54,373	1,29,923	-24,450	-15.8	56.6
II. Revenue Expenditure	7,27,165	6,81,985	-45,180	-6.2	100.0
<i>of which:</i>					
(i) Development Expenditure	4,45,889	4,14,452	-31,437	-7.1	69.6
<i>of which:</i>					
Education, Sports, Art and Culture	1,29,706	1,21,276	-8,430	-6.5	18.7
Transport and Communication	19,975	19,776	-200	-1.0	0.4
Power	36,715	37,337	622	1.7	-1.4
Relief on account of Natural Calamities	10,076	8,326	-1,750	-17.4	3.9
Rural Development	30,040	26,550	-3,489	-11.6	7.7
(ii) Non-Development Expenditure	2,60,899	2,49,016	-11,883	-4.6	26.3
<i>of which:</i>					
Administrative Services	57,144	52,431	-4,713	-8.2	10.4
Pension	66,938	65,440	-1,498	-2.2	3.3
Interest Payments	106,220	1,02,955	-3,265	-3.1	7.2
III. Capital Receipts	1,86,201	1,96,634	10,433	5.6	100.0
<i>of which:</i>					
Non-Debt Capital Receipts	5,314	266	-5,048	-95.0	-48.4
IV. Capital Expenditure	2,13,259	2,00,347	-12,912	-6.1	100.0
<i>of which:</i>					
Capital Outlay	1,57,254	1,42,628	-14,626	-9.3	113.3
<i>of which:</i>					
Capital Outlay on Irrigation and Flood Control	48,727	43,692	-5,035	-10.3	39.0
Capital Outlay on Energy	18,728	17,141	-1,587	-8.5	12.3
Capital Outlay on Transport	29,614	27,604	-2,010	-6.8	15.6
<i>Memo Item:</i>					
Revenue Deficit	-10,701	-12,672	-1,971	18.4	
Gross Fiscal Deficit	1,46,349	1,34,589	-11,760	-8.0	
Primary Deficit	40,128	31,634	-8,494	-21.2	

RE: Revised Estimates. * : Denotes percentage share in relevant total.

Note: 1. Negative (-) sign in deficit indicators indicates surplus.

2. Capital receipts include public accounts on a net basis while capital expenditure excludes public accounts.

3. Also see Notes to Appendices.

Source: Budget Documents of the State Governments.

4.3 The reduction in revenue expenditure occurred particularly in the development component, which declined sharply in 2008-09 (Accounts) over 2008-09 (RE). The decline was seen across major categories of development revenue expenditures, viz., 'education, sports and art and culture', 'medical and public health' and 'rural development'. Non-development revenue expenditure was also lower and contributed more than one-fourth of the decline in revenue expenditure in 2008-09 (Accounts) over 2008-09 (RE). Within non-development revenue expenditure, committed expenditure comprising administrative services, pension and interest payments declined by 4.1 per cent in 2008-09 (Accounts) over 2008-09 (RE).

4.4 The revenue receipts in 2008-09 (Accounts) turned out to be lower than the revised estimates, due to a decline in transfers from the Centre and own tax revenues of States. Grants from the Centre as well as the States' share in Central taxes declined in 2008-09 (Accounts) over 2008-09 (RE), thereby contributing around 85.3 per cent to the total decline in revenue receipts. Reflecting the impact of moderation in overall economic activity in the Indian economy, States' own tax revenue (OTR) collections in 2008-09 (Accounts) also fell short of the revised estimates. This was, however, partly compensated by an increase in States' own non-tax revenue receipts (ONTR) in 2008-09 (Accounts) over 2008-09 (RE).

4.5 The marginal improvement in revenue account was reflected in a decline in the GFD-GDP ratio, from 2.6 per cent in 2008-09 (RE) to 2.4 per cent in 2008-09 (Accounts). The decline in capital outlay to the extent of 9.3 per cent over the revised estimates led to a further decline in the GFD-GDP ratio. Consequently, the consolidated GFD of the States declined in 2008-09 (Accounts) as compared with 2008-09 (RE). Reflecting the decline in GFD, the States were able to compress the primary deficit in 2008-09 (Accounts) over 2008-09 (RE).

3. Revised Estimates: 2009-10

4.6 The deterioration in State finances persisted in 2009-10 as a few State governments, perceiving a further slowdown, announced dedicated fiscal stimulus measures including higher spending on infrastructure, while some other States announced tax exemptions and a reduction in their own tax rates to boost economic activities. The consolidated revenue deficit, therefore, re-emerged in 2009-10 after a gap of three years and GFD was higher in the revised estimates compared with budget estimates. The deterioration in the revenue account occurred as the marginal increase in total revenue receipts was more than offset by a surge in revenue expenditures of the States in 2009-10 (RE) over 2009-10 (BE) (Table IV.3). The revenue deficit as a ratio to GDP (RD-GDP) at 0.7 per cent in 2009-10 (RE) was marginally higher than 0.5 per cent in 2009-10 (BE).

4.7 According to the revised estimates of 2009-10, States' tax receipts declined over the budget estimates of that year, reflecting a perceptible fall in States' share in Central taxes and a marginal decline in States' own tax revenue (OTR). The sharp fall in the Centre's gross tax revenues in the wake of the economic slowdown led to lower than budgeted transfers under the States' share in Central taxes in 2009-10 (RE). States' OTR also recorded a marginal decline as revenue collections from stamp and registration fees, professional tax and land revenue fell short of their budgeted levels. States' non-tax revenues, however, rose, particularly on account of a sharp rise in the ONTR component, while grants-in-aid from the Centre increased moderately in 2009-10 (RE) over 2009-10 (BE). The improvement in the ONTR of States over the budgeted levels reflected higher collections from education, sports, art & culture; power; irrigation and interest receipts. Consequently, as the fall in tax receipts was entirely compensated by a rise in their non-tax revenue receipts, States recorded marginally higher than budgeted revenue receipts during 2009-10 (RE).

Table IV.3: Variation in Major Items - 2009-10 (RE) over 2009-10 (BE)

(Amount in ₹ crore)

Item	2009-10 (BE)	2009-10 (RE)	Variation		Share in Variation* (Per cent)
			Amount	Per cent	
1	2	3	4	5	6
I. Revenue Receipts (i+ii)	8,04,943	8,07,388	2,445	0.3	100.0
(i) Tax Revenue (a+b)	5,52,243	5,31,004	-21,239	-3.8	-868.7
(a) Own Tax Revenue	3,66,523	3,65,527	-995	-0.3	-40.7
of which: Sales Tax	2,25,009	2,25,227	218	0.1	8.9
(b) Share in Central Taxes	1,85,720	1,65,477	-20,243	-10.9	-827.9
(ii) Non-Tax Revenue	2,52,701	2,76,384	23,684	9.4	968.7
(a) States' Own Non-Tax Revenue	84,017	97,178	13,161	15.7	538.3
(b) Grants from Centre	1,68,683	1,79,206	10,523	6.2	430.4
II. Revenue Expenditure	8,37,238	8,54,051	16,813	2.0	100.0
of which:					
(i) Development Expenditure	4,92,443	5,15,929	23,486	4.8	139.7
of which:					
Education, Sports, Art and Culture	1,54,781	1,61,519	6,738	4.4	40.1
Transport and Communication	20,227	22,519	2,292	11.3	13.6
Power	32,020	34,248	2,228	7.0	13.3
Relief on account of Natural Calamities	5,540	10,378	4,838	87.3	28.8
Rural Development	43,147	29,640	-13,507	-31.3	-80.3
(ii) Non-Development Expenditure	3,21,907	3,16,504	-5,403	-1.7	-32.1
of which:					
Administrative Services	74,389	71,249	-3,140	-4.2	-18.7
Pension	87,220	87,271	51	0.1	0.3
Interest Payments	1,16,427	1,15,904	-524	-0.4	-3.1
III. Capital Receipts	2,25,014	2,37,355	12,341	5.5	100.0
of which:					
Non-Debt Capital Receipts	2,216	361	-1,855	-83.7	-15.0
IV. Capital Expenditure	2,18,540	2,26,580	8,041	3.7	100.0
of which:					
Capital Outlay	1,60,247	1,60,407	160	0.1	2.0
of which:					
Capital Outlay on Urban Development	2,502	2,833	331	13.2	4.1
Capital Outlay on Irrigation and Flood Control	45,905	47,346	1,440	3.1	17.9
Capital Outlay on Energy	15,478	17,713	2,236	14.4	27.8
Capital Outlay on Transport	28,859	32,062	3,203	11.1	39.8
Capital Outlay on Energy	16,690	18,728	2,038	12.2	25.4
Memo Item:					
Revenue Deficit	32,295	46,663	14,368	44.5	
Gross Fiscal Deficit	1,99,510	2,16,101	16,591	8.3	
Primary Deficit	83,083	1,00,197	17,115	20.6	

BE: Budget Estimates.

RE: Revised Estimates.

* : Denotes percentage share in relevant total.

Note: See Notes to Table III.2.**Source:** Budget Documents of the State Governments.

4.8 The increase in revenue expenditures of States in 2009-10 (RE) over 2009-10 (BE) was attributable entirely to an increase in development expenditure pertaining to education, sports and art & culture; relief on account of natural

calamities; power; irrigation and transport & communications. The States were able to contain their non-development expenditure mainly in respect of committed expenditure (by ₹3,613 crore) in 2009-10 (RE) over the budget estimates. As per

2009-10 (RE), expenditures on administrative services and interest payments were lower than their respective budget estimates. However, expenditure on administrative services was higher in 2009-10 (RE) over 2008-09 (Accounts), reflecting the impact of the increase in wages and salaries on account of the implementation of the Sixth CPC/SPCs during the year.

4.9 In view of the overall macroeconomic slowdown, the Central Government had allowed States to increase the limit of fiscal deficit to 4.0 per cent of GSDP during 2009-10. Thus, the States were allowed to raise additional market borrowings to the extent of 0.5 per cent of GSDP in 2009-10. This additional fiscal space was to be utilised for undertaking capital investments. While capital outlay and net lending of State governments remained close to their budgeted levels, the increase in GFD-GDP ratio from 3.0 per cent in 2009-10 (BE) to 3.3 per cent in 2009-10 (RE) was mainly due to an increase in revenue deficit over the budget estimate.

4. Budget Estimates: 2010-11

4.10 The deterioration in State finances during 2008-09 and 2009-10 resulting from counter-cyclical fiscal stimulus measures, a cyclical slowdown in growth of tax revenues mirroring the economic scenario (particularly in 2008-09) and the implementation of the Sixth CPC/SPCs led to a considerable departure from the targets envisaged under the FRLs of States during these two years. However, given the robust growth outlook for 2010-11, the States' fiscal position is expected to improve. The commitment of the States towards reverting to the fiscal consolidation path is evident from the budget estimates of key fiscal indicators for 2010-11.

Key Deficit Indicators

4.11 The consolidated revenue account of the State governments is budgeted to improve, with the revenue deficit placed lower at 0.3 per cent of GDP in 2010-11 (BE) as against 0.7 per cent in 2009-10 (RE). The improvement in the revenue account

during 2010-11 (BE) reflects growth in revenue receipts, outstripping that in revenue expenditure (Table IV.4). Revenue receipts are budgeted to show an increase mainly on account of higher growth in own tax revenues and States' share in Central taxes in 2010-11 (BE).

4.12 The decline in the revenue deficit-GDP ratio in 2010-11 (BE) along with lower capital outlay as a ratio to GDP is expected to contain the GFD at 2.5 per cent of GDP in 2010-11 (BE) compared with 3.3 per cent in 2009-10 (RE).

4.13 With the revenue deficit being budgeted to decline, a notable positive feature emerging from State finances is that capital outlay would account for a higher proportion of GFD in 2010-11 (BE) compared with 2009-10 (RE). It may be noted that from 2006-07 to 2008-09, States' capital outlay was higher than GFD, indicating that not only entire borrowings but a portion of revenue receipts was also spent on capital outlays. If most States are able to achieve a revenue balance or surplus by 2011-12 as envisaged by the Thirteenth FC, it would again restore the capital outlay-GFD ratio to 100 per cent or above and thereby help enhance the long-term growth potential of States.

Revenue Receipts

4.14 States appear to be reasonably optimistic regarding growth prospects, as evident from the higher budget estimates of both OTR and tax devolution from the Centre during 2010-11. While the economic slowdown had moderated States' OTR in 2008-09 and 2009-10 (RE), its impact on statutory transfer of tax revenues from the Centre to the States was more perceptible. In 2010-11 (BE), States' OTR and share in Central taxes are budgeted to increase significantly as compared with 2009-10 (RE). The increase in States' share in Central taxes is in line with the expected buoyancy in gross tax revenues of the Centre. In contrast, growth in the consolidated non-tax revenue receipts of States is expected to decelerate during 2010-11 (BE) with the lower growth budgeted for grants from the Centre to

Table IV.4: Variation in Major Items - 2010-11 (BE) over 2009-10 (RE)

(Amount in ₹ crore)

Item	2009-10 (RE)	2010-11 (BE)	Variation		Share in Variation* (Per cent)
			Amount	Per cent	
1	2	3	4	5	6
I. Revenue Receipts (i+ii)	8,07,388	9,13,038	1,05,650	13.1	100.0
(i) Tax Revenue (a+b)	5,31,004	6,27,147	96,143	18.1	91.0
(a) Own Tax Revenue	3,65,527	4,26,682	61,154	16.7	57.9
of which: Sales Tax	2,25,227	2,64,848	39,621	17.6	37.5
(b) Share in Central Taxes	1,65,477	2,00,466	34,989	21.1	33.1
(ii) Non-Tax Revenue	2,76,384	2,85,891	9,506	3.4	9.0
(a) States' Own Non-Tax Revenue	97,178	1,02,609	5,431	5.6	5.1
(b) Grants from Centre	1,79,206	1,83,282	4,075	2.3	3.9
II. Revenue Expenditure	8,54,051	9,37,408	83,357	9.8	100.0
of which:					
(i) Development Expenditure	5,15,929	5,59,713	43,785	8.5	52.5
of which:					
Education, Sports, Art and Culture	1,61,519	1,84,751	23,232	14.4	27.9
Transport and Communication	22,519	20,816	-1,702	-7.6	-2.0
Power	34,248	33,305	-942	-2.8	-1.1
Relief on account of Natural Calamities	10,378	5,323	-5,055	-48.7	-6.1
Rural Development	29,640	33,499	3,860	13.0	4.6
(ii) Non-Development Expenditure	3,16,504	3,51,476	34,972	11.0	42.0
of which:					
Administrative Services	71,249	83,187	11,938	16.8	14.3
Pension	87,271	95,018	7,747	8.9	9.3
Interest Payments	1,15,904	1,28,656	12,752	11.0	15.3
III. Capital Receipts	2,37,355	2,42,860	5,505	2.3	100.0
of which:					
Non-Debt Capital Receipts	361	3,155	2,794	774.3	50.8
IV. Capital Expenditure	2,26,580	2,37,176	10,596	4.7	100.0
of which:					
Capital Outlay	1,60,407	1,66,703	6,296	3.9	59.4
of which:					
Capital Outlay on Irrigation and Flood Control	47,346	49,265	1,919	4.1	18.1
Capital Outlay on Energy	17,713	14,531	-3,182	-18.0	-30.0
Capital Outlay on Transport	32,062	32,419	357	1.1	3.4
Memo Item:					
Revenue Deficit	46,663	24,370	-22,293	-47.8	
Gross Fiscal Deficit	2,16,101	1,98,539	-17,562	-8.1	
Primary Deficit	1,00,197	69,883	-30,314	-30.3	

BE: Budget Estimates.

RE: Revised Estimates.

* : Denotes percentage share in relevant total.

Note: See Notes to Table IV.2.**Source:** Budget Documents of the State Governments.

the States and States' ONTR as compared with 2009-10 (RE) (Table IV.5 and Appendix Table 3).

4.15 Revenue receipts as a ratio to GDP (RR-GDP) are budgeted to decline from 12.3 per cent in 2009-10 (RE) to 11.6 per cent in 2010-11(BE). Even though higher tax buoyancy is

anticipated at the Central level and a rise in the share of States in the net proceeds of shareable central taxes has been recommended by the Thirteenth FC, transfer through tax devolution from the Centre to States as a ratio to GDP in 2010-11 is expected to remain stable at the previous year's level. With declining grants and stable non tax

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revenue (as ratio to GDP), the overall current transfers to States are budgeted to decline by 0.4 percentage points of GDP in 2010-11 (BE). On the States' own revenue collection front, the ratio of their OTR to GDP is budgeted to decline from 5.6 per cent in 2009-10 (RE) to 5.4 per cent in 2010-11 (BE) (Table IV.5 and Appendix Table 3). Nevertheless, States expect higher collections from all major taxes, viz., VAT, stamp duty and registration fees, State excise duty and property tax. States' ONTR-GDP ratio is budgeted to remain marginally lower in 2010-11, mainly due to a decline in interest receipts and non-tax revenue from the power sector of State governments (Chart IV.1). As noted by the Thirteenth FC, the current level of recovery on loans advanced by the States is extremely poor.

4.16 Cost recovery on account of public services has been a critical issue for State finances. In

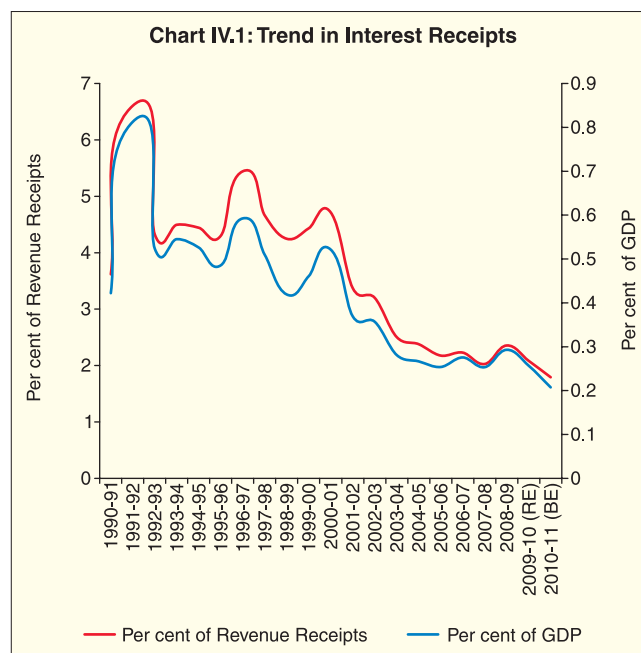


Table IV.5: Aggregate Receipts of State Governments

(Amount in ₹ crore)

Item	1990-95	1995-00	2000-05	2005-06	2006-07	2007-08	2008-09	2009-10 (RE)	2010-11 (BE)	Variation (Per cent)	
	(Average)									Col.9/8	Col.10/9
1	2	3	4	5	6	7	8	9	10	11	
Aggregate Receipts (1+2)	1,23,415 (16.0)	2,31,618 (14.8)	4,40,076 (17.1)	5,95,627 (16.1)	6,73,605 (15.7)	7,65,735 (15.4)	8,91,292 (16.0)	10,44,743 (15.9)	11,55,898 (14.7)	17.2	10.6
1. Revenue Receipts (a+b)	92,679 (12.0)	1,65,416 (10.7)	2,85,662 (11.1)	4,31,020 (11.7)	5,30,556 (12.4)	6,23,748 (12.5)	6,94,657 (12.4)	8,07,388 (12.3)	9,13,038 (11.6)	16.2	13.1
a. States' Own Revenue (i+ii)	55,546 (7.2)	1,03,542 (6.7)	1,78,171 (6.9)	2,60,246 (7.0)	3,15,812 (7.4)	3,63,723 (7.3)	4,03,682 (7.2)	4,62,705 (7.1)	5,29,291 (6.7)	14.6	14.4
i. States' Own Tax	41,158 (5.3)	78,733 (5.1)	1,41,933 (5.5)	2,12,307 (5.7)	2,52,548 (5.9)	2,86,546 (5.7)	3,21,930 (5.8)	3,65,527 (5.6)	4,26,682 (5.4)	13.5	16.7
ii. States' Own Non-Tax	14,388 (1.8)	24,809 (1.6)	36,238 (1.4)	47,939 (1.3)	63,263 (1.5)	77,178 (1.5)	81,751 (1.5)	97,178 (1.5)	1,02,609 (1.3)	18.9	5.6
b. Central Transfers (i+ii)	37,133 (4.8)	61,874 (4.0)	1,07,491 (4.2)	1,70,774 (4.6)	2,14,744 (5.0)	2,60,024 (5.3)	2,90,976 (5.2)	3,44,683 (5.3)	3,83,747 (4.9)	18.5	11.3
i. Shareable Taxes	19,790 (2.6)	37,607 (2.4)	61,047 (2.4)	94,024 (2.5)	1,20,293 (2.8)	1,51,402 (3.0)	1,61,052 (2.9)	1,65,477 (2.5)	2,00,466 (2.5)	2.7	21.1
ii. Grants-in Aid	17,343 (2.3)	24,267 (1.6)	46,444 (1.8)	76,750 (2.1)	94,451 (2.2)	1,08,622 (2.2)	1,29,923 (2.3)	1,79,206 (2.7)	1,83,282 (2.3)	37.9	2.3
2. Capital Receipts (a+b)	30,737 (4.0)	66,202 (4.1)	1,54,415 (5.9)	1,64,607 (4.5)	1,43,049 (3.3)	1,41,987 (2.8)	1,96,634 (3.5)	2,37,355 (3.6)	2,42,860 (3.1)	20.7	2.3
a. Loans from Centre@	14,632 (1.9)	26,440 (1.7)	24,337 (1.0)	8,097 (0.2)	5,717 (0.1)	7,252 (0.1)	7,005 (0.1)	12,783 (0.2)	15,445 (0.2)	82.5	20.8
b. Other Capital Receipts	16,104 (2.1)	39,762 (2.4)	1,30,078 (5.0)	1,56,510 (4.2)	1,37,331 (3.2)	1,34,736 (2.7)	1,89,629 (3.4)	2,24,571 (3.4)	2,27,414 (2.9)	18.4	1.3

RE: Revised Estimates.

BE: Budget Estimates.

@ With the change in the system of accounting with effect from 1999-2000, States' share in small savings which was included earlier under loans from Centre is included under internal debt and shown as special securities issued to National Small Savings Fund (NSSF) of the Central Government. The data for the years prior to 1999-2000 as reported in this Table, however, exclude loans against small savings, for the purpose of comparability.

Note: 1. The 5-year averages have been provided for a more meaningful comparison across periods.

2. Figures in parentheses are percentages to GDP.

3. Capital Receipts include public accounts on a net basis. Also see Notes to Appendices.

Source: Budget Documents of the State Governments.

general, cost recovery (measured as revenue receipts as a ratio to non-Plan revenue expenditure) in social services is found to be lower than that in economic services. The cost recovery in education is expected to improve while that of health services is expected to remain stable in 2010-11 (BE) (Table IV.6). The improvement in cost recovery in the irrigation sector, which was witnessed in 2009-10, is expected to continue in 2010-11 (BE). However, the power sector, which had shown some improvement in cost recovery during 2009-10 (RE), is likely to record a marginal fall in 2010-11 (BE). The Thirteenth FC estimates indicate that even the best-performing States need to increase their power tariff rates, on an average, by 7 per cent per annum to bridge the gap between cost and recovery, while the revision in tariff rates for poor-performing States is estimated at 19 per cent per annum. The poor recovery levels in the power sector are attributed to irrational power tariffs and high transmission and distribution losses.

4.17 The recovery position in respect of irrigation projects has been gradually improving, though it is not adequate to ensure the viability of irrigation

projects. In this regard, the issues relating to low water rates, poor collection efficiency, high establishment costs and lack of maintenance of irrigation projects need to be addressed. The Thirteenth FC also highlighted that receipts from the irrigation sector do not even cover the expenditure on operation and maintenance of irrigation projects. The recovery rate for irrigation is found to be abysmally low in the case of special category States. To address this issue, the Thirteenth FC has recommended the provision of water sector grants in addition to maintenance expenditure, subject to stepping up of the recovery rate as prescribed.

4.18 In terms of the Thirteenth FC's recommendations, all States need to draw up a roadmap for closure of non-working State-level public enterprises (SLPEs) by March 2011. It is suggested that divestment and privatisation of SLPEs should be considered and actively pursued by the States. The lack of operational efficiency and commercial viability of SLPEs has been a major drag on State finances (Box IV.1).

Table IV.6: Cost Recovery of Select Services

(Ratio of Non-Tax Revenue to Non-Plan Revenue Expenditure)

(Per cent)

Item	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10 (RE)	2010-11 (BE)
1	2	3	4	5	6	7	8	9	10	11	12
A. Social Services											
of which:											
(a) Education *	1.2	1.3	1.6	1.8	2.1	2.8	2.6	2.8	2.7	3.0	3.6
(b) Health **	4.6	6.2	5.4	4.7	6.2	4.7	5.1	4.7	6.8	4.6	4.6
B. Economic Services											
of which:											
(a) Irrigation #	8.1	7.5	8.4	15.3	16.4	14.5	15.0	15.5	15.3	17.7	20.2
(b) Power	6.5	6.5	9.7	2.8	11.7	12.3	16.7	16.5	15.6	22.6	20.4
(c) Roads @	16.3	19.6	15.6	21.5	14.6	11.6	7.6	6.5	5.8	5.8	7.8

RE: Revised Estimates.

BE: Budget Estimates.

* : Also includes expenditure on sports, art and culture. ** : Includes expenditure on medical and public health and family welfare.

: Relates to irrigation and flood control for non-plan revenue expenditure while it pertains to major, medium and minor irrigation for non-tax revenue.

@ : Relates to roads and bridges for non-plan revenue expenditure while it pertains to road transport for non-tax revenue.

Note: Accounting in respect of power sector has not been uniform across the States which has, at times, resulted in adjustment across years. Hence, the ratios may show fluctuations. Moreover, States have had one-time non-tax receipts under power, such as ₹2,749 crore grants received by Madhya Pradesh SEB as per the Ahluwalia Committee recommendation during 2003-04 that was returned to the Government of Madhya Pradesh in 2004-05, have been excluded. Further, receipts from Rural Electrification Corporation (REC) that are not in the nature of non-tax such as ₹240 crore in 2004-05, in the case of Uttar Pradesh and ₹134 crore in 2004-05 for Uttarakhand, have been excluded.

Source: Compiled from the Budget Documents of the State Governments.

Box IV.1: State Level Public Enterprises and State Finances

State-level public enterprises (SLPEs) have been an important segment of the Indian public sector system. In the past, SLPEs have been a potent tool for State governments to implement public policy. SLPEs are engaged in diverse activities such as industrial development, financial promotion, trading, marketing, contract and construction services, tourism and production of consumer and engineering goods, agro, minerals and metals. Many SLPEs were set up to provide necessary support to growth and development processes in the States. Based on data available for 25 States and one UT for 2008-09, the total turnover of 1,212 SLPEs (working and non-working) was ₹3.65 lakh crore, representing about 6.5 per cent of the GDP. As on March 2007, total employment in SLPEs stood at 18.7 lakh.

As at end-March 2009, the total investment in SLPEs was estimated at ₹4,39,511 crore. The power sector accounts for a major portion of total investment in SLPEs. The massive investment in the SLPEs in the form of equity capital and loans raises legitimate expectations of significant contribution by these enterprises towards States' exchequers. On the contrary, they have proved to be a drag on the finances of State governments.

On an aggregate basis, SLPEs of only nine States earned profits during 2008-09, while, in cumulative terms, only six States showed accumulated profits as at end-March 2009. The total losses incurred by all SLPEs during 2008-09 amounted to ₹9,453.2 crore. On a cumulative basis, SLPEs have accumulated losses to the extent of ₹68,771 crore as at end-March 2009. Since the SLPEs operating in most States are incurring losses, they depend on budgetary support from State governments to sustain their operations. Budgetary support to SLPEs is extended in the form of equity, loans and subsidies (Charts A and B). Despite such support, which has shown an uptrend over the years, there are no signs of any visible improvement in the performance of SLPEs. The average return on capital employed continues to be low in most States.

Based on the data provided in the CAG Audit Reports of 25 States and one UT, the total budgetary outgo (largely by State governments) towards equity, loans and subsidies/grants is estimated to be around ₹70,193.6 crore during 2008-09. Around 58.2 per cent of total budgetary outgo to SLPEs was in the form of subsidies, while equity and loans accounted for 31.3 per cent and 10.5 per cent, respectively. However, the return to State governments on investments in SLPEs has been negligible. Most States do not have a dividend policy for the SLPEs. Only a few States, viz., Punjab, Haryana, Himachal Pradesh, Uttar Pradesh,

Kerala and Madhya Pradesh have formulated a dividend policy. It is observed that only a few of the profit-making SLPEs have distributed dividends. For instance, of 894 working SLPEs, 440 SLPEs recorded profits in 2008-09, but only 73 SLPEs distributed a dividend that amounted to ₹572 crore. In other words, the dividend distribution policy, even in States where it exists, is not strictly followed by SLPEs. Thus, on average, dividends amounted to 0.5 per cent of total equity of all SLPEs (both profit and non-profit making) in 2008-09. The return is abysmally low and nowhere near the desired level of 5 per cent return on equity suggested by the Twelfth FC.

In addition to direct support, many State governments provide guarantees and waivers to SLPEs. During 2008-09, the total guarantees provided by State governments in respect of SLPEs were ₹63,707 crore, while the total guarantees committed by State governments as on March 2009 stood at ₹1,04,608 crore. Although States charge a fee in exchange for providing guarantees for borrowings by SLPEs, in some cases these have remained unpaid over the years. In 2008-09, the total amount waived by State governments by writing off interest and loans of SLPEs was ₹651 crore. All these forms of support to SLPEs have significant implications for State finances. The States with high level of subsidies to SLPEs have been Andhra Pradesh, Tamil Nadu, Gujarat, Karnataka, Maharashtra, Haryana and Punjab. The losses of SLPEs are mainly attributed to deficiencies in financial management, planning, implementation of projects, regular operations and monitoring.

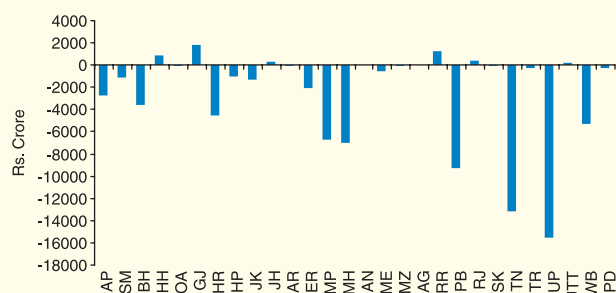
As regards restructuring of SLPEs, the Thirteenth FC recommends that there is a need to ensure that all working SLPEs, except those in the welfare and utility sectors, become financially viable. Loss-making PSUs which function in non-core areas could be considered for closure and all State governments, in consultation with the Accountant General, should draw up a roadmap by March 2011 to close these SLPEs. Another important concern is the finalisation of SLPEs' accounts, their financial accountability and fiscal transparency. Given the contingent liabilities of the State governments for these SLPEs, any future switchover to accrual accounting would require that the problem is tackled upfront.

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Comptroller and Auditor General of India, State Audit Reports, various issues.

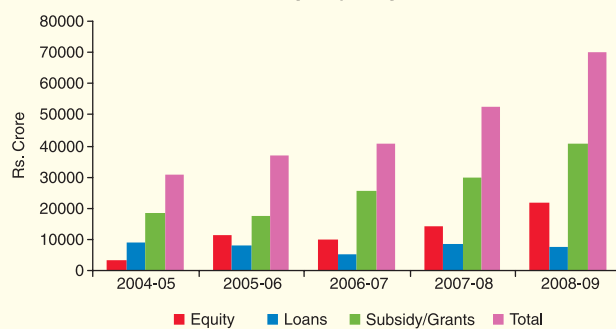
Government of India (2009), Report of the Thirteenth Finance Commission, December, Volume I.

Chart A: State-wise Accumulated Profits (+)/Losses (-) of SLPEs (As at end March 2009)



Source: Compiled from State Audit Reports, various issues.

Chart B: Total Budgetary Outgo for SLPEs

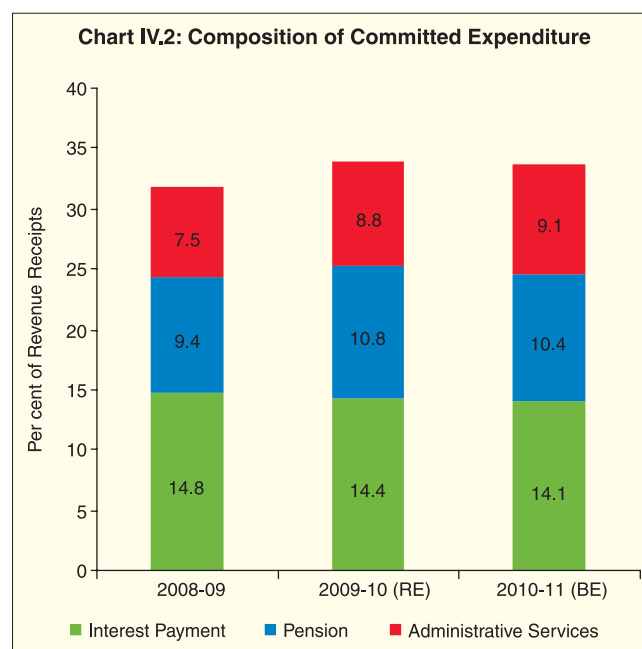


Revenue Expenditure

4.19 Growth in the consolidated revenue expenditure of State governments is budgeted to decelerate significantly in 2010-11 (BE) as compared with 2009-10 (RE) mainly due to lower growth expected in development revenue expenditure (both social and economic services). All major categories of social services expenditure, viz., education, sports, art & culture, medical and public health, family welfare, social security & welfare, welfare of SC/ST & other backward classes and urban development, are expected to show lower growth in 2010-11 (BE). In economic services, the States' expenditure on food storage & warehousing, co-operation, special area programmes, power and transport & communications sectors is budgeted to decline (in absolute terms) in 2010-11. In contrast, growth in revenue expenditure on rural development is placed marginally higher than in the previous year. Non-development revenue expenditure, contributing 37.5 per cent of total revenue expenditure, is budgeted to show a lower growth in 2010-11 mainly on account of lower interest outgo on loans from the Centre and only a modest rise in other major components of committed expenditure, viz., pensions, administrative services. Accordingly, committed expenditure as a ratio to revenue receipts is expected to decline marginally to 33.6 per cent in 2010-11 (BE) (Chart IV.2 and Appendix Table 4).

Capital Receipts

4.20 At a consolidated level, States have budgeted a lower growth in capital receipts for 2010-11 (BE) as compared with 2009-10 (RE), mainly on account of lower recovery of loans and advances and special securities issued to the National Small Savings Fund (NSSF). States expect lower recovery of loans and advances in 2010-11 (BE) as compared with 2009-10 (RE) while loans from the Centre are budgeted to increase during the same period. Similarly, States have budgeted a moderate increase of 5.8 per cent in market



borrowings (gross) to be raised in 2010-11 [an increase of 18.3 per cent in 2009-10 (RE) over 2008-09]. In 2009-10 (RE), small savings and provident fund collections (net) had increased significantly by 55.3 per cent in 2009-10, partly reflecting the impact of arrears received by State government employees. However, only a moderate decline of 7.7 per cent is expected in small savings and provident funds (net) in 2010-11 (BE) (Appendix Table 5).

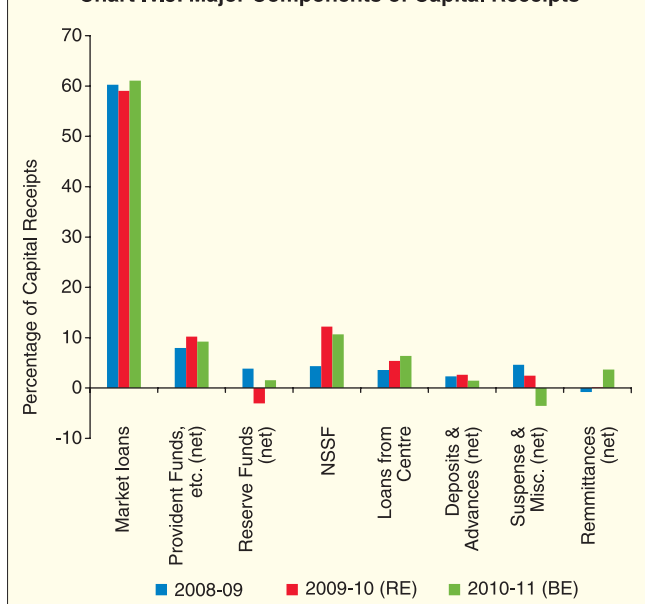
4.21 As regards the composition of capital receipts, the States' increasing dependence on market borrowings is evident in 2010-11 as well. While loans from the Centre (gross) are budgeted to account for 6.4 per cent in 2010-11 as against 5.4 per cent in 2009-10 (RE), the share of NSSF in capital receipts is budgeted to decline marginally in 2010-11 (BE) (Table IV.5 and Chart IV.3).

Capital Expenditure

4.22 While announcing their budgets, many State governments had proposed to undertake higher capital expenditure in 2009-10. In 2010-11 (BE), the level of capital expenditure is expected to record only a modest growth as compared with

Consolidated Fiscal Position of State Governments

Chart IV.3: Major Components of Capital Receipts



2009-10 (RE). While States have budgeted lower growth in capital outlay for development activities (1.6 per cent as against 12.0 per cent in

2009-10), the same for non-development activities is expected to be much higher at 58.0 per cent as against 25.5 per cent in 2009-10 (RE), although it accounts for merely 6.3 per cent in capital outlay. Similarly, loans and advances by the State governments are budgeted to decline by 14.5 per cent in 2010-11. In short, lower resource availability for development activities, as evident from the pattern of capital expenditure in 2010-11 (BE), raises concerns about the quality of fiscal adjustment being undertaken by the States (Table IV.7 and Appendix Table 6).

Devolution and Transfer of Resources from the Centre

4.23 A trend analysis shows that the composition of transfers from the Centre to States largely depends on the macroeconomic situation in the Indian economy. Based on the cyclical behaviour of tax devolutions and grants-in-aid, it is found that the former moves positively with GDP while the

Table IV.7: Expenditure Pattern of State Governments

(Amount in ₹ crore)

Item	1990-95	1995-00	2000-05	2005-06	2006-07	2007-08	2008-09	2009-10 (RE)	2010-11 (BE)	Variation (Per cent)	
	(Average)									Col.9/8	Col.10/9
1	2	3	4	5	6	7	8	9	10	11	
Aggregate Expenditure (1+2 = 3+4+5)	1,22,270 (15.9)	2,33,441 (14.9)	4,37,299 (17.0)	5,61,682 (15.2)	6,57,280 (15.3)	7,52,324 (15.1)	8,82,333 (15.8)	10,80,632 (16.5)	11,74,584 (14.9)	22.5	8.7
1. Revenue Expenditure of which:	98,009 (12.7)	1,93,816 (12.4)	3,40,752 (13.3)	4,38,034 (11.9)	5,05,699 (11.8)	5,80,805 (11.6)	6,81,985 (12.2)	8,54,051 (13.0)	9,37,408 (11.0)	25.2	9.8
Interest payments	13,605 (1.7)	31,421 (2.0)	69,685 (2.7)	84,024 (2.3)	93,180 (2.2)	99,831 (2.0)	102,955 (1.8)	1,15,904 (1.8)	1,28,656 (1.6)	12.6	11.0
2. Capital Expenditure of which:	24,261 (3.2)	39,625 (2.5)	96,547 (3.6)	1,23,648 (3.3)	1,51,582 (3.5)	1,71,520 (3.4)	2,00,347 (3.6)	2,26,580 (3.5)	2,37,176 (3.0)	13.1	4.7
Capital outlay	11,893 (1.5)	21,044 (1.4)	41,856 (1.6)	77,559 (2.1)	98,063 (2.3)	1,18,862 (2.4)	1,42,628 (2.6)	1,60,407 (2.4)	1,66,703 (2.1)	12.5	3.9
3. Development Expenditure	81,989 (10.7)	1,45,852 (9.4)	2,39,576 (9.4)	3,30,044 (8.9)	3,92,165 (9.2)	464,462 (9.3)	5,67,086 (10.2)	6,86,537 (10.5)	7,30,231 (9.3)	21.1	6.4
4. Non-Development Expenditure	33,734 (4.3)	76,035 (4.8)	1,50,715 (5.9)	1,90,021 (5.1)	211,872 (4.9)	2,33,233 (4.7)	2,54,981 (4.6)	3,23,657 (4.9)	3,62,492 (4.6)	26.9	12.0
5. Others*	6,547 (0.9)	11,554 (0.7)	47,009 (1.7)	41,617 (1.1)	53,243 (1.2)	54,630 (1.1)	60,265 (1.1)	70,437 (1.1)	81,861 (1.0)	16.9	16.2

Avg.: Average.

RE: Revised Estimates.

BE: Budget Estimates.

*: Includes repayment of loans to Centre, discharge of internal debt, grants-in-aid and contributions (compensation and assignments to local bodies).

Note: 1. The 5-year averages have been provided for a more meaningful comparison across periods.

2. Figures in brackets are percent to GDP.

3. Capital Expenditure is given exclusive of Public Accounts. Also see Notes to Appendices.

Source: Budget Documents of the State Governments.

latter is associated negatively (Chart IV.4)⁵. Such a trend was observed during 2008-09 and 2009-10 (RE) when tax devolution from the Centre was substantially lower (in terms of growth as well as a ratio to GDP) than during the upswing period, which to some extent was compensated through higher grants from the Centre. With growth recovery in 2010-11 (BE), States expect to receive higher resources through tax devolution (in absolute terms) while their dependence on grants is expected to diminish (in terms of GDP). Gross transfers from the Centre (*i.e.*, shareable taxes, grants-in-aid and loans from the Centre) are budgeted to decline from 5.5 per cent of GDP in 2009-10 (RE) to 5.1 per cent in 2010-11 (BE) mainly due to expected decline in grants as a ratio to GDP (Appendix Table 7).

Pattern of Aggregate Expenditure

4.24 Given the development needs of States, it is important to examine the trends in development as well as social sector expenditure of States. The pattern of aggregate expenditure of States in

2010-11 (BE) shows a decline in the share of development expenditure in total expenditure following a sharp decline in the share of development capital outlay particularly in the case of economic services, *viz.*, food storage and warehousing, co-operation and power projects. States' loans and advances for development purposes are also budgeted to decline in absolute terms in 2010-11 with a corresponding decline in their share in total development expenditure. A major portion of development expenditure continues to be expended through the revenue account of States (Table IV.8 and Appendix Tables 8 to 15).

4.25 A gradual rise in the share of social sector expenditure in the aggregate expenditure of States was evident in recent years, which, however, is expected to rise marginally in 2010-11 (BE) (Table IV.9). The ratio of social sector expenditure to GDP (SSE-GDP) is, however, likely to decline in 2010-11 (BE) as compared with 2009-10 (RE). Notwithstanding a decline in SSE-GDP ratio in 2010-11 (BE), education, sports, art & culture, medical and public health continue to be priority areas for State governments (Table IV.10). States,

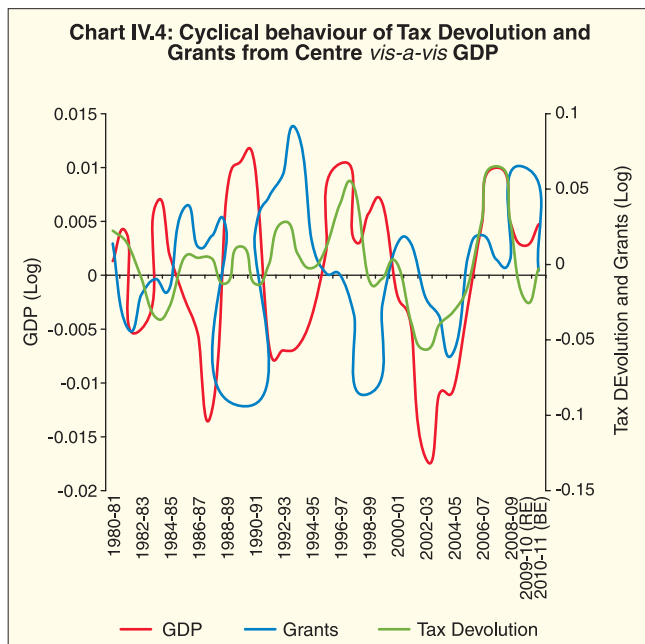


Table IV.8: Development Expenditure vis-à-vis Total Expenditure

(Amount in ₹ crore)

Year	Development Revenue Expenditure	Development Capital Outlay	Development Loans and Advances	Total Development Expenditure
1	2	3	4	5
2008-09	4,14,452 (47.0)	1,37,337 (15.6)	15,297 (1.7)	5,67,086 (64.3)
2009-10 (RE)	5,15,929 (47.7)	1,53,767 (14.2)	16,841 (1.6)	6,86,537 (63.5)
2010-11 (BE)	5,59,713 (47.7)	1,56,211 (13.3)	14,307 (1.2)	7,30,231 (62.2)

RE: Revised Estimates. BE: Budget Estimates.

Note: Figures in parentheses are percent to aggregate expenditure.

Source: Budget Documents of the State Governments.

⁵ The correlation between cyclical movement of tax devolution and real GDP is around (+)0.45, while the same between grants and real GDP is (-)0.21.

Table IV.9: Trend in Aggregate Social Sector Expenditure of State Governments

(Per cent)

Item	1990-95	1995-00	2000-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
	(Average)							(RE)	(BE)
1	2	3	4	5	6	7	8	9	10
TE/GDP	15.9	14.9	17.0	15.2	15.3	15.1	15.8	16.5	14.9
SSE/GDP	5.8	5.5	5.5	5.1	5.2	5.3	5.9	6.4	5.8
SSE/TE	36.8	36.7	32.5	33.7	33.9	35.3	37.6	39.1	39.2

RE: Revised Estimates.

BE: Budget Estimates.

GDP: Gross Domestic Product.

TE: Total Expenditure.

SSE: Social Sector Expenditure.

Source: Budget Documents of the State Governments.

however, need to enhance efficiency in resource spending so that momentum in development activities is not hampered.

5. Assessment

Consolidated Position

4.26 The consolidated position of the State governments deteriorated in 2008-09 and 2009-10 due to the overall macroeconomic slowdown in the Indian economy as well as the revised pay structure implemented by the State governments. However, the States appear to be reverting to the fiscal consolidation path in 2010-11 as reflected in key deficit indicators. Of 28 States, 17 are expected to record revenue surplus, while eight

States have budgeted a decline in revenue deficit-GSDP ratios in 2010-11 (BE) compared with 2009-10 (RE). In line with the improvement in revenue account, 22 States have budgeted lower GFD-GSDP ratios in 2010-11 (BE), while 18 States have budgeted an absolute contraction in GFD. As 2010-11 is to be treated as a year of fiscal adjustment by States as recommended by the Thirteenth FC, nine States are already expected to contain the GFD-GSDP ratio at 3 per cent (or below) as indicated in their budget estimates for the year (Table IV.11).

4.27 Apart from an improvement in revenue account, the decline in GFD-GSDP ratios across States is mainly due to a lower capital outlay-GSDP ratio (20 States) in 2010-11 (BE). Improvement in

Table IV.10: Expenditure on Social Services (Revenue and Capital Accounts) - Composition

(Per cent to total expenditure on social services)

Item	1990-95	1995-00	2000-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
	(Average)							(RE)	(BE)
1	2	3	4	5	6	7	8	9	10
Expenditure on Social Services (a to l)	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
(a) Education, Sports, Art and Culture	52.2	52.4	51.4	48.2	47.0	44.7	43.3	44.2	46.1
(b) Medical and Public Health	16.0	12.6	11.7	11.6	11.4	10.9	10.2	10.4	10.5
(c) Family Welfare	0.0	2.5	2.0	1.7	1.6	1.5	1.6	1.7	1.7
(d) Water Supply and Sanitation	7.3	7.5	7.7	8.2	7.9	8.2	7.4	5.9	5.0
(e) Housing	2.9	2.9	2.9	2.3	2.7	3.8	3.8	2.9	3.0
(f) Urban Development	2.3	2.6	3.7	4.2	5.7	7.2	8.9	8.9	8.9
(g) Welfare of SCs, STs and OBCs	6.6	6.5	6.5	7.1	6.9	7.1	7.0	6.7	6.9
(h) Labour and Labour Welfare	1.4	1.3	1.0	1.0	1.3	1.0	1.0	1.0	1.1
(i) Social Security and Welfare	4.5	4.2	5.1	5.7	6.7	7.8	8.9	9.7	9.6
(j) Nutrition	1.7	2.8	2.1	2.4	2.5	2.7	2.9	3.9	3.7
(k) Expenditure on Natural Calamities	2.6	2.9	3.8	5.2	4.0	2.9	2.9	2.8	1.3
(l) Others	2.5	2.0	2.1	2.3	2.3	2.4	2.0	2.1	2.3

RE: Revised Estimates.

BE: Budget Estimates.

—: Not available.

Source : Budget Documents of the State Governments.

Table IV.11 : State-wise Correction of RD and GFD - 2010-11 (BE) over 2009-10 (RE)

State	Revenue Deficit		Gross Fiscal Deficit	
	Correction over 2009-10 (RE) (₹ crore)	Per-centage to Total	Correction over 2009-10 (RE) (₹ crore)	Per-centage to Total
1	2	3	4	5
1. Andhra Pradesh	-606	3.0	-1,299	10.4
2. Bihar	-6,383	31.7	-5,176	41.4
3. Chhattisgarh	-1,018	5.1	71	-0.6
4. Goa	-274	1.4	-73	0.6
5. Gujarat	146	-0.7	2,515	-20.1
6. Haryana	280	-1.4	456	-3.6
7. Jharkhand	-937	4.7	-1,110	8.9
8. Karnataka	38	-0.2	-1,557	12.5
9. Kerala	-452	2.2	1,846	-14.8
10. Madhya Pradesh	3,727	-18.5	1,410	-11.3
11. Maharashtra	-5,076	25.2	-6,611	52.9
12. Orissa	-528	2.6	219	-1.8
13. Punjab	636	-3.2	1,153	-9.2
14. Rajasthan	-2,895	14.4	-1,439	11.5
15. Tamil Nadu	-1,623	8.1	3,362	-26.9
16. Uttar Pradesh	1,433	-7.1	-1,127	9.0
17. West Bengal	-6,613	32.8	-5,143	41.1
Total (A)	-20,145	100.0	-12,505	100.0
1. Arunachal Pradesh	-64	3.0	-86	1.7
2. Assam	629	-29.3	-774	15.3
3. Himachal Pradesh	350	-16.3	148	-2.9
4. Jammu and Kashmir	-754	35.1	-261	5.2
5. Manipur	206	-9.6	-38	0.8
6. Meghalaya	-114	5.3	-238	4.7
7. Mizoram	-85	3.9	-344	6.8
8. Nagaland	-570	26.5	-635	12.6
9. Sikkim	117	-5.4	8	-0.2
10. Tripura	-588	27.4	-701	13.9
11. Uttarakhand	-1,276	59.4	-2,135	42.2
Total (B)	-2,148	100.0	-5,057	100.0
Grand Total (A + B)	-22,293	100	-17,562	100.0
<i>Memo item:</i>				
1. NCT Delhi	-169	-	-445	-
2. Puducherry	-155	-	208	-

RE : Revised Estimates.

BE : Budget Estimates.

Note : Negative (-) sign indicates improvement in deficit indicators.**Source** : Budget Documents of the State Governments.

revenue account in 2010-11 (BE) is expected to be entirely on account of compression in RE-GDP ratio, fully compensating the budgeted decline in RR-GDP ratio. A sustained correction in the revenue account through compression in revenue expenditure (as a ratio to GDP) would not only make available more resources for capital spending but

also enhance the durability of the fiscal consolidation process. It is also important to note that the decline in GFD enabled by a decline in capital outlay (as a ratio to GSDP) can have implications for the growth prospects of State economies. Given the large development needs of States, they need to focus on (i) exploring other sources of non-tax revenues from service-providing sectors, (ii) enhancing their fiscal capacity, and (iii) implementing governance reforms for better monitoring and ensuring the productive use of resources.

Decomposition and Financing of Gross Fiscal Deficit

4.28 The consolidated revenue deficit, which re-emerged at the State level in 2009-10 (RE) after a gap of three years, contributed around one-fifth of the GFD. Since the revenue deficit is budgeted to decline in 2010-11 (BE), its share in GFD would also decline accordingly. Capital outlay would continue to be the dominant component in States' GFD in 2010-11 (BE). With the phasing out of loans from the Centre as recommended by the Twelfth FC and a decline in collections under NSSF, market borrowings have become a major source of financing the GFD in recent years. A similar trend is observed in 2010-11 (BE), as a major portion of the GFD would be met through market borrowings, followed by small savings and provident funds (Table IV.12 and Appendix Tables 16, 17 and 18).

Budgetary Variations: State Budget vis-à-vis Union Budget

4.29 The budgetary data provided by the Union budget and the State budgets have shown wide variations over the years. In general, States underestimate their share in Central taxes, while grants-in-aid and loans from the Centre are generally overestimated. A similar trend is observed in the budgets of States for 2010-11. During 2009-10 and 2010-11, States have budgeted a lower amount to be received through the NSSF than that shown in the Union budget (Table IV.13). Given the high-cost source of borrowing, States are perhaps

Table IV.12: Decomposition and Financing Pattern of Gross Fiscal Deficit - 2008-09 (Accounts) to 2010-11 (BE)

(Per cent to GFD)

Item	2008-09	2009-10 (RE)	2010-11 (BE)
1	2	3	4
Decomposition (1+2+3-4)	100.0	100.0	100.0
1. Revenue Deficit	-9.4	21.6	12.3
2. Capital Outlay	106.0	74.2	84.0
3. Net Lending	3.6	4.3	5.3
4. Non-debt Capital Receipts	0.2	0.2	1.6
Financing (1 to 11)	100.0	100.0	100.0
1. Market Borrowings	77.3	57.1	66.8
2. Loans from Centre	-0.6	2.2	3.5
3. Special Securities issued to NSSF/Small Savings	1.1	8.8	6.1
4. Loans from LIC, NABARD, NCDC, SBI and Other Banks	4.2	3.8	4.1
5. Small Savings, P.F., etc.	11.6	11.2	11.3
6. Reserve Funds	5.6	-3.3	1.9
7. Deposits and Advances	3.4	2.9	1.8
8. Suspense and Miscellaneous	6.5	2.5	-5.9
9. Remittances	-1.1	0.2	4.5
10. Others	-1.5	-2.0	-3.4
11. Overall Surplus (-) / Deficit (+)	-6.7	16.6	9.4

BE : Budget Estimates. RE : Revised Estimates.

Note : 1. See Notes to Appendix Table 17.

2. 'Others' include Compensation and Other Bonds, Loans from Other Institutions, Appropriation to Contingency Fund, Inter-State Settlement and Contingency Fund.

Source : Budget Documents of the State Governments.

showing their willingness to reduce their dependence on the NSSF by budgeting lower receipts under NSSF. However, being an

autonomous component, actual receipts under NSSF are generally found to be higher. In this connection, the Government has set up a committee (Chairperson: Shyamala Gopinath) to review the structure of the NSSF, including the deregulation of interest rates on such savings.

6. Conclusion

4.30 An analysis of State budgets at the consolidated level suggests that some improvement is expected in State finances during 2010-11. Various expansionary fiscal policy measures undertaken to address the overall macroeconomic slowdown along with the implementation of the Sixth CPC/SPCs resulted in the re-emergence of a revenue deficit in 2009-10 (RE) after a gap of three years. Even though at the consolidated level, the revenue deficit will persist for the second successive year in 2010-11 (BE), it is budgeted to decline significantly. Improvement in the revenue account would mainly come through lower growth in revenue expenditure. Therefore, improvement in the revenue account along with lower growth in capital outlay would be reflected in lower GFD (absolute and as a ratio to GDP) in 2010-11 (BE). The financing pattern of the GFD shows that market borrowings would be a major source of financing, followed by small savings and provident funds. States' dependence on loans from the Centre and other financial institutions is likely to increase marginally.

Table IV.13: Budgetary Data Variation - State Budgets and Union Budget

(Amount in ₹ crore)

Item	2007-08 (BE)			2008-09 (BE)			2009-10 (BE)			2010-11 (BE)		
	State Budgets	Union Budget	Difference*	State Budgets	Union Budget	Difference*	State Budgets	Union Budget	Difference*	State Budgets	Union Budget	Difference*
1	2	3	4	5	6	7	8	9	10			
1. Shareable Taxes from Centre	1,36,184	1,42,450	-6,267 (-4.4)	1,73,147	1,78,765	-5,618 (-3.1)	1,85,720	1,64,362	21,358 (13.0)	2,00,466	2,08,997	-8,531 (-4.1)
2. Grants-in-Aid	1,17,320	99,583	17,737 (17.8)	1,43,030	1,18,901	24,129 (20.3)	1,68,683	1,39,847	28,836 (20.6)	1,83,282	1,51,962	31,320 (20.6)
3. Loans from Centre (Net)	6,485	2,984	3,501 (117.3)	6,942	1,479	5,463 (369.3)	9,291	3,093	6,199 (200.4)	6,969	3,363	3,606 (107.2)
4. NSSF (Net)	53,679	46,990	6,689 (14.2)	22,044	18,626	3,418 (18.4)	9,026	11,744	-2,718 (-23.1)	12,075	29,859	-17,784 (-59.6)

* : Negative (-)/Positive (+) sign implies underestimation/overestimation in State budgets in comparison with Union Budget.

Note: Figures in brackets are percentage variation over Union Budget.**Source:** Budget Documents of the State Governments and the Union Government.

4.31 A major concern that emerges from the budget estimates of State governments is with regard to lower growth in development expenditure *vis-à-vis* non-development expenditure in both revenue and capital accounts. Given the resource requirements for development and the need to undertake fiscal

consolidation, States have to actively pursue reforms in terms of (i) efficient allocation of expenditure; (ii) exploring other avenues of non-tax revenues, such as adequate tariff policies in low cost recovery sectors; and (iii) examining the commercial viability of State public enterprises.