IV Consolidated Fiscal Position of State Governments

The consolidated budgetary position of the States for 2011-12 reflected the States' commitment to carry forward fiscal correction as evident from the emergence of surplus in the consolidated revenue account after a gap of two years and a consequent reduction in the fiscal deficit-GDP ratio. While expecting a moderation in revenue growth, the States have budgeted for deceleration in aggregate expenditure growth reflecting their stance of controlling committed expenditures during 2011-12. The envisaged fiscal deficit-GDP ratio for 2011-12 is, however, higher than the Thirteenth Finance Commission's annual path, mainly on account of higher capital outlay.

1. Introduction

4.1 The consolidated fiscal position of the States, which had deteriorated in 2008-09 and 2009-10, following discretionary fiscal stimulus measures undertaken to revive the sluggish economy in the aftermath of the global crisis, showed improvement in 2010-11, indicating a resumption of the fiscal consolidation path. The States proposed to carry forward the fiscal consolidation process in 2011-12 in keeping with the recommendation of the Thirteenth Finance Commission (ThFC). If the fiscal outcome remains in line with the budgeted expectations, the fiscal deficit-GDP ratio for 2011-12 could turn out to be lower than that prevailing during the pre-crisis rule-bound fiscal consolidation phase (2004-08) (Table IV.1, Appendix Table 1).

2. Accounts: 2009-10

4.2 The fiscal position of the States in terms of key deficit indicators had deteriorated during 2009-10 over the previous year, leading to the re-surfacing of revenue deficit after a three-year gap. A sharp increase in committed expenditure on account of pay/ pension revisions and arrear payments under the Sixth Pay Commission award had primarily contributed to the fiscal expansion. The extent of fiscal deterioration, however, turned out to be much less and the fiscal outcome of the States at the consolidated level showed marked improvement when the revised estimates for 2009-10 translated into accounts. Lower-than-anticipated revenue expenditure more than offset the shortfall in revenue receipts, resulting in a 0.2 percentage point reduction in the consolidated

Table IV.1: Major Deficit Indicators of State Governments

(Amount in ₹ billion)

Item	1990-98	1998-2004	2004-08	2008-09	2009-10	2010-11 (BE)	2010-11 (RE)	2011-12 (BE)
	Average (Per cent of GDP)							
1	2	3	4	5	6	7	8	9
Gross Fiscal Deficit	2.8	4.3	2.3	1346	1888	1985	2,067	1977
				(2.4)	(2.9)	(2.6)	(2.7)	(2.2)
Revenue Deficit	0.8	2.5	0.0	-127	310	244	252	-197
				(-0.2)	(0.5)	(0.3)	(0.3)	(-0.2)
Primary Deficit	1.0	1.7	0.0	316	760	699	797	576
				(0.6)	(1.2)	(0.9)	(1.0)	(0.6)

BE: Budget Estimates. RE: Revised Estimates.

Notes : 1. Negative (-) sign indicates surplus.
2. Figures in parentheses are percentages to GDP.
3. The ratios to GDP at current market prices from 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.

revenue deficit to GDP ratio in 2009-10 *vis-à-vis* the revised estimates for the year.

4.3 The reduction in revenue expenditure in 2009-10 (Accounts) over 2009-10(RE) was seen in both the development and non-development components (Table IV.2). All major categories of development revenue expenditure registered decline over the respective revised estimates. Within non-development expenditure, the reduction in committed expenditure (comprising administrative services, pension and interest payments) contributed to over 72 per cent of the overall reduction in non-development expenditure in 2009-10 (Accounts) over 2009-10(RE).

4.4 Revenue receipts during 2009-10(Accounts) were lower than the revised estimates mainly on account of a sharp decline in grants from the Centre which contributed to over two-thirds of the total decline

Table IV.2: Variation in Major Items - 2009-10 (Accounts) over 2009-10 (RE)

(Amount in ₹ billion)

Item	2009-10 (RE)	2009-10 (Accounts)	Variation		Share in variation* (Per cent)
			Amount	Per cent	
1	2	3	4	5	6
I. Revenue Receipts (i+ii)	**8,073.9**	**7,681.4**	**-392.5**	**-4.9**	**100.0**
(i) Tax Revenue (a+b)	5,310.0	5,280.8	-29.3	-0.6	7.5
(a) Own Tax Revenue	3,655.3	3,630.6	-24.7	-0.7	6.3
of which: Sales Tax	2,252.3	2,206.4	-45.8	-2.0	11.7
(b) Share in Central Taxes	1,654.8	1,650.1	-4.7	-0.3	1.2
(ii) Non-Tax Revenue	2,763.8	2,400.6	-363.2	-13.1	92.5
(a) States' Own Non-Tax Revenue	971.8	890.9	-80.9	-8.3	20.6
(b) Grants from Centre	1,792.1	1,509.7	-282.3	-15.8	71.9
II. Revenue Expenditure	**8,540.5**	**7,991.5**	**-549.0**	**-6.4**	**100.0**
of which:					
(i) Development Expenditure	5,159.3	4,771.8	-387.5	-7.5	70.6
of which:					
Education, Sports, Art and Culture	1,615.2	1,516.7	-98.5	-6.1	17.9
Transport and Communications	225.2	215.9	-9.3	-4.5	1.7
Power	342.5	313.3	-29.2	-8.5	5.3
Relief on account of Natural Calamities	103.8	84.1	-19.7	-19.0	3.6
Rural Development	296.4	288.3	-8.1	-2.7	1.5
(ii) Non-Development Expenditure	3,165.0	3,013.9	-151.1	-4.8	27.5
of which:					
Administrative Services	712.5	675.0	-37.5	-5.3	6.8
Pension	872.7	831.6	-41.1	-4.7	7.5
Interest Payments	1,159.0	1,128.1	-31.0	-2.7	5.6
III. Capital Receipts	**2,373.6**	**2,395.0**	**21.4**	**0.9**	**100.0**
of which:					
Non-Debt Capital Receipts	3.61	8.12	4.5	125.2	21.1
IV. Capital Expenditure	**2,265.8**	**2,161.8**	**-104.0**	**-4.6**	**100.0**
of which:					
Capital Outlay	1,604.1	1,492.1	-111.9	-7.0	107.6
of which:					
Capital Outlay on Irrigation and Flood Control	473.5	414.5	-59.0	-12.5	56.7
Capital Outlay on Energy	177.1	171.7	-5.4	-3.0	5.2
Capital Outlay on Transport	320.6	312.8	-7.8	-2.4	7.5
Memo Item:					
Revenue Deficit	466.6	310.2	-156.5	-33.5	
Gross Fiscal Deficit	2,161.0	1888.2	-272.8	-12.6	
Primary Deficit	1,002.0	760.1	-241.9	-24.1	

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.

in revenue receipts. States' own revenue (both tax and non-tax) as well as transfers from the Centre were also lower than was anticipated in the revised estimates. While States' own tax revenue was mainly affected by a sharp reduction in sales tax collections due to the slowdown in economic activity, the decline in States' own non-tax revenue reflected mainly lower realisation under interest receipts.

4.5 The lower-than-anticipated revenue deficit together with a decline in capital outlay resulted in a reduction of 0.4 percentage point in the gross fiscal deficit (GFD)-GDP ratio in 2009-10 (Accounts) over the revised estimates. Consequently, the primary deficit of the States was also contained in 2009-10 (Accounts) as compared with 2009-10(RE).

3. Revised Estimates: 2010-11

4.6 The strengthening of the growth momentum in 2010-11 boosted revenues and improved the consolidated fiscal position of the States, as evident from the reduction in the key deficit-GDP ratios over the previous year. The growth in revenue receipts in 2010-11(RE) over 2009-10 (Accounts) more than offset the increase in revenue expenditure, which, together with a sharp increase in GDP, resulted in a narrowing of the revenue deficit - GDP (RD-GDP) ratio by 0.2 percentage point over the preceding year. The RD-GDP ratio in 2010-11(RE), however, remained unchanged over the budget estimates for the year. The GFD-GDP ratio in 2010-11(RE) was higher by 0.1 percentage point over the budget estimates, mainly on account of an increase in capital outlay.

4.7 Revenue receipts in 2010-11(RE) were higher than the budget estimates for the year on account of higher States' own tax revenue (OTR) as well as Central transfers to States. States' OTR in 2010-11(RE) exceeded the budgeted levels mainly on account of higher collections from sales tax, stamp and registration fees, taxes and duties on electricity, state excise and taxes on vehicles. States also benefited from increased buoyancy in the Centre's gross tax revenues and enhancement in the States' share in shareable central taxes in accordance with the ThFC's recommendation. Non-tax revenue of the States was higher in 2010-11(RE) due to higher grants from the Centre. The States' own non-tax revenue (ONTR) was, however, lower, mainly on account of lower receipts from 'state lotteries', 'urban development', and 'dividends of State Public Sector Undertakings (PSUs)'.

4.8 Revenue expenditures in the revised estimates of 2010-11 were higher than the budget estimates, mainly on account of higher development expenditure, with social services contributing to over 52 per cent of the increase in total revenue expenditure. 'Education, sports, art and culture' and 'relief on account of natural calamities' were the major contributors to the increase in expenditure on social services; the increase in expenditure on economic services was led by 'power' and 'transportation and communications.' Non-development revenue expenditure was also higher in 2010-11(RE) than in 2010-11(BE) on account of higher pension outgo, which more than offset the decline in expenditure on administrative services and interest payments (Table IV.3).

4.9 GFD at the consolidated level was higher in 2010-11(RE) than in 2010-11(BE) on account of higher than budgeted capital outlay, particularly in 'energy' and 'transportation'; higher 'net lending of the States'; and lower realisation of disinvestment proceeds than the budgeted level.

4. Budget Estimates : 2011-12

Key Deficit Indicators

4.10 The consolidated revenue account of the States is budgeted to record surplus in 2011-12, indicative of the return to the fiscal consolidation path as envisaged by the ThFC. The improvement in the revenue account is expected to not only provide the necessary resource for increased capital outlay but also enable a reduction in the GFD-GDP ratio by 0.5 percentage point in 2011-12(BE) over 2010-11(RE). In line with the budgeted decline in the GFD-GDP ratio, there is a reduction of 0.4 percentage point in the budgeted primary deficit, which bodes well for the long-run sustainability of State finances.

Table IV.3: Variation in Major Items - 2010-11 (RE) over 2010-11 (BE)

(Amount in ₹ billion)

Item	2010-11 (BE)	2010-11 (RE)	Variation Amount	Variation Per cent	Share in variation* (Per cent)
1	2	3	4	5	6
I. Revenue Receipts (i+ii)	**9,130.4**	**9,680.7**	**550.3**	**6.0**	**100.0**
(i) Tax Revenue (a+b)	6,271.5	6,734.2	462.7	7.4	84.1
(a) Own Tax Revenue	4,266.8	4,582.7	315.9	7.4	57.4
of which: Sales Tax	2,648.5	2,819.3	170.8	6.4	31.0
(b) Share in Central Taxes	2,00,4.7	2,151.5	146.8	7.3	26.7
(ii) Non-Tax Revenue	2,858.9	2,946.5	87.6	3.1	15.9
(a) States' Own Non-Tax Revenue	1,026.1	979.0	-47.1	-4.6	-8.6
(b) Grants from Centre	1,832.8	1,967.5	134.7	7.4	24.5
II. Revenue Expenditure	**9,374.1**	**9,932.5**	**558.4**	**6.0**	**100.0**
of which:					
(i) Development Expenditure	5,597.1	6,066.1	469.0	8.4	84.0
of which:					
Education, Sports, Art and Culture	1,847.5	1,976.8	129.3	7.0	23.1
Transport and Communication	208.2	239.6	31.5	15.1	5.6
Power	333.1	369.8	36.8	11.0	6.6
Relief on account of Natural Calamities	53.2	119.6	66.4	124.8	11.9
Rural Development	335.0	356.3	21.3	6.4	3.8
(ii) Non-Development Expenditure	3,514.8	3,590.8	76.1	2.2	13.6
of which:					
Administrative Services	831.9	803.9	-28.0	-3.4	-5.0
Pension	950.2	1,065.7	115.5	12.2	20.7
Interest Payments	1,286.6	1,269.5	-17.1	-1.3	-3.1
III. Capital Receipts	**2,428.6**	**2366.0**	**-62.6**	**-2.6**	**100.0**
of which:					
Non-Debt Capital Receipts	31.6	9.6	-22.0	-69.7	35.1
IV. Capital Expenditure	**2,371.8**	**2431.0**	**59.3**	**2.5**	**100.0**
of which:					
Capital Outlay	1,667.0	1704.0	37.0	2.2	62.4
of which:					
Capital Outlay on Irrigation and Flood Control	492.7	459.7	-33.0	-6.7	-55.7
Capital Outlay on Energy	145.3	168.4	23.1	15.9	39.0
Capital Outlay on Transport	324.2	343.1	19.5	6.0	32.0
Memo Item:					
Revenue Deficit	243.7	251.8	8.1	3.3	
Gross Fiscal Deficit	1,985.4	2,066.7	81.3	4.1	
Primary Deficit	698.8	797.2	98.4	14.1	

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.

Revenue Receipts

4.11 The consolidated States' OTR as well as tax devolution from the Centre are, however, budgeted to decelerate during 2011-12 from their high growth rates of the previous year. Growth in non-tax revenue is also budgeted to decelerate in 2011-12(BE) as compared with 2010-11(RE), primarily on account of a significant moderation in the growth of grants from the Centre (Table IV.4 and Appendix Tables 2 & 3). Barring receipts from the transport sub-sector, all other ONTR of the States are budgeted to grow at a slower pace in 2011-12 than the previous year.

4.12 Revenue receipts-GDP ratio is, budgeted to remain unchanged in 2011-12 despite a marginal increase in the ratio of tax devolution from the Centre-GDP[9]. On the non-tax revenue front, while States'

[9] Nominal GDP growth in 2011-12 is estimated lower at 16.1 per cent against 18.8 per cent in 2010-11.

Table IV.4: Variation in Major Items - 2011-12 (BE) over 2010-11 (RE)

(Amount in ₹ billion)

Item	2010-11 (RE)	2011-12 (BE)	Variation		Share in variation* (Per cent)
			Amount	Per cent	
1	2	3	4	5	6
I. Revenue Receipts (i+ii)	**9,680.7**	**11,218.4**	**1,537.7**	**15.9**	**100.0**
(i) Tax Revenue (a+b)	6,734.2	7,904.8	1,170.6	17.4	76.1
(a) Own Tax Revenue	4,582.7	5,395.9	813.1	17.7	52.9
of which: Sales Tax	2,819.3	3,340.3	521.0	18.5	33.9
(b) Share in Central Taxes	2,151.5	2,508.9	357.5	16.6	23.2
(ii) Non-Tax Revenue	2,946.5	3,313.7	367.2	12.5	23.9
(a) States' Own Non-Tax Revenue	979.0	1,026.2	47.2	4.8	3.1
(b) Grants from Centre	1,967.5	2,287.5	319.9	16.3	20.8
II. Revenue Expenditure	**9,932.5**	**11,021.4**	**1,088.9**	**11.0**	**100.0**
of which:					
(i) Development Expenditure	6,066.1	6,680.0	613.9	10.1	56.4
of which:					
Education, Sports, Art and Culture	1,976.8	2,254.4	277.6	14.0	25.5
Transport and Communications	239.6	259.4	19.8	8.3	1.8
Power	369.8	380.2	10.4	2.8	1.0
Relief on account of Natural Calamities	119.7	81.3	-38.3	-32.0	-3.5
Rural Development	356.3	407.2	50.9	14.3	4.7
(ii) Non-Development Expenditure	3,590.8	4,019.1	428.3	11.9	39.3
of which:					
Administrative Services	803.9	965.2	161.3	20.1	14.8
Pension	1,065.7	1,168.8	103.1	9.7	9.5
Interest Payments	1,269.5	1,401.3	131.8	10.4	12.1
III. Capital Receipts	**2,366.0**	**2,750.8**	**384.8**	**16.3**	**100.0**
of which:					
Non-Debt Capital Receipts	9.6	20.4	10.9	113.9	3.3
IV. Capital Expenditure	**2,431.0**	**2,876.0**	**445.0**	**18.3**	**100.0**
of which:					
Capital Outlay	1,704.0	2,027.5	323.5	19.0	72.7
of which:					
Capital Outlay on Irrigation and Flood Control	459.7	583.6	124.0	27.0	27.9
Capital Outlay on Energy	168.4	162.7	-5.7	-3.4	-1.3
Capital Outlay on Transport	343.1	390.6	47.4	13.8	10.5
Memo Item:					
Revenue Deficit	251.8	-197.0	-448.8	-178.2	
Gross Fiscal Deficit	2,066.7	1,977.2	-89.5	-4.3	
Primary Deficit	797.2	575.9	-221.3	-27.8	

RE: Revised Estimates. BE: Budget Estimates. *: Denotes percentage share in relevant total.
Note: See Notes to Table IV.2.
Source: Budget Documents of the State Governments.

ONTR-GDP ratio is budgeted to marginally decline due to fall in interest receipts, grants from Centre-GDP ratio is expected to remain stable at the previous year's level (Chart IV.1, Table IV.5 and Appendix Table 3).

4.13 Among the non-tax resources of the States, the cost recovery of public services has been an important area of concern. While the cost recovery of services[10] had improved over the years, it is budgeted to decline in 2011-12(BE) for all important social and economic services, with the exception of the road sector (Table IV.6).

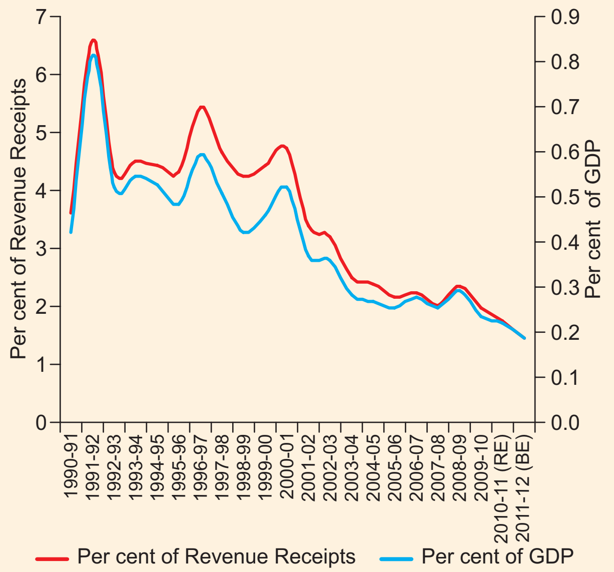
Expenditure Pattern

Revenue Expenditure

4.14 Fiscal correction of the States for 2011-12 has been budgeted primarily based on controlling revenue expenditure. The growth in consolidated

[10] Cost recovery of services is measured in terms of their contribution to the revenue receipts as a proportion to non-plan revenue expenditure on them by the States.

Chart IV.1: Trend in Interest Receipts



revenue expenditure of the States is budgeted to decelerate substantially in 2011-12(BE) as compared with 2010-11(RE), on account of a deceleration in both development and non-development components. Within development revenue expenditure, social services witnessed a sharper deceleration than economic services. Non-development expenditure growth is budgeted to decelerate in 2011-12 under all major categories, barring economic services. Interest payments, which accounts for over one-third of the non-development revenue expenditure of States, is budgeted to show lower growth in 2011-12. Committed expenditure as a ratio of revenue receipts is, therefore, expected to decline to 31.5 per cent in 2011-12(BE) from 32.4 per cent in 2010-11(RE) (Chart IV.2, Table IV.7, Appendix Table 4).

Table IV.5: Aggregate Receipts of State Governments

(Amount in ₹ billion)

Item	1990-98	1998-2004	2004-08	2008-09	2009-10	2010-11	2011-12	Variation (Per cent)	
	(Average)					(RE)	(BE)	Col.7/6	Col.8/7
1	2	3	4	5	6	7	8	9	10
Aggregate Receipts (1+2)	1,515.2 (15.5)	3,666.2 (16.4)	6,496.6 (16.1)	8,912.9 (15.8)	10,076.3 (15.6)	12,046.7 (15.7)	13,969.2 (15.7)	19.6	16.0
1. Revenue Receipts (a+b)	1,143.5 (11.6)	2,400.8 (10.8)	4,872.1 (11.9)	6,946.6 (12.3)	7,681.4 (11.9)	9,680.7 (12.6)	11,218.4 (12.6)	26.0	15.9
a. States' Own Revenue (i+ii)	696.2 (7.0)	1,501.2 (6.7)	2,921.1 (7.2)	4,036.8 (7.2)	4,521.5 (7.0)	5,561.7 (7.2)	6,422.1 (7.2)	23.0	15.5
i. States' Own Tax	518.0 (5.2)	1,187.8 (5.3)	2,333.6 (5.7)	3,219.3 (5.7)	3,630.6 (5.6)	4,582.7 (6.0)	5,395.9 (6.1)	26.2	17.7
ii. States' Own Non-Tax	178.2 (1.8)	313.4 (1.4)	587.5 (1.4)	817.5 (1.5)	890.9 (1.4)	979.0 (1.3)	1,026.2 (1.2)	9.9	4.8
b. Central Transfers (i+ii)	447.3 (4.6)	899.6 (4.0)	1,951.0 (4.7)	2,909.8 (5.2)	3,159.9 (4.9)	41,19.0 (5.4)	4,796.4 (5.4)	30.4	16.4
i. Shareable Taxes	254.3 (2.6)	517.0 (2.3)	1,110.7 (2.7)	1,610.5 (2.9)	1,650.1 (2.6)	2,151.5 (2.8)	2,508.9 (2.8)	30.4	16.6
ii. Grants-in Aid	193.0 (2.0)	382.6 (1.7)	840.4 (2.0)	1,299.2 (2.3)	1,509.7 (2.3)	1,967.5 (2.6)	2,287.5 (2.6)	30.3	16.3
2. Capital Receipts (a+b)	371.8 (3.8)	1,265.4 (5.6)	1,624.5 (4.2)	1,966.3 (3.5)	2,395.0 (3.7)	2,366.0 (3.1)	2,750.8 (3.1)	-1.2	16.3
a. Loans from Centre@	180.8 (1.9)	260.9 (1.2)	117.4 (0.3)	70.1 (0.1)	81.1 (0.1)	133.9 (0.2)	179.2 (0.2)	65.2	33.8
b. Other Capital Receipts	191.0 (2.0)	1,004.5 (4.4)	1,507.1 (3.9)	1,896.3 (3.4)	2,313.9 (3.6)	2,232.0 (2.9)	2,571.6 (2.9)	-3.5	15.2

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 earlier included under loans from the 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, therefore, exclude loans against small savings, for the purpose of comparability.

Note: 1. The period averages provided in this table reflect the different fiscal phases of the States.
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.

Table IV.6: Cost Recovery of Select Services

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

(Per cent)

	2000-04	2004-08	2008-09	2009-10	2010-11 (RE)	2011-12 (BE)
	Average					
1	2	3	4	5	6	7
A. Social Services						
of which:						
(a) Education *	1.5	2.6	2.7	3.7	4.1	3.8
(b) Health **	5.2	5.2	6.8	3.7	4.2	4.1
B. Economic Services						
of which:						
(a) Irrigation #	9.8	15.3	15.3	16.9	20.4	20.2
(b) Power	6.4	14.3	15.6	20.7	18.0	18.0
(c) Roads @	18.3	10.1	5.8	5.9	6.7	7.3

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.

Source: Compiled from the Budget documents of the State governments.

Capital Expenditure

4.15 Capital expenditure is budgeted to grow at a faster rate in 2011-12 mainly on account of accelerated growth in capital outlay. While development capital outlay is budgeted to record higher growth in 2011-12(BE) than in the previous year, non-development capital outlay is budgeted to decelerate. Within development capital outlay, the growth in 'medical and public health' under social services and 'major and medium irrigation' under economic services are budgeted to increase at a faster rate than in 2010-11(RE). Loans and advances by the States are budgeted to grow at a higher rate in 2011-12(BE) than in 2010-11(RE) mainly on account of a sharp increase in loans for social services (Table IV.7 and Appendix Table 6).

Development Expenditure

4.16 The pattern of aggregate expenditure of the States in 2011-12(BE) shows a marginal decrease in the share of development expenditure in total expenditure. This is attributable to a decline in the share of the revenue expenditure component, particularly in 'relief on account of natural calamities' under social services, and 'power' under economic services. The share of development capital outlay in total expenditure is, however, expected to increase in 2011-12(BE) by 0.7 percentage point mainly on account of a sharp increase in the share of 'major and medium irrigation and flood control' under economic services (Table IV.8, Appendix Tables 8 to 14).

Chart IV.2: Composition of Committed Expenditure

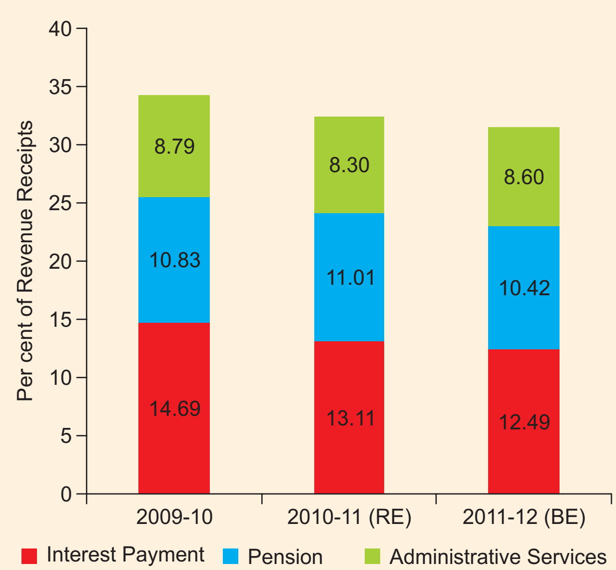


Table IV.7: Expenditure Pattern of State Governments

(Amount in ₹ billion)

Item	1990-98	1998-2004	2004-08	2008-09	2009-10	2010-11 (RE)	2011-12 (BE)	Variation (Per cent)	
	(Average)							Col.7/6	Col.8/7
1	2	3	4	5	6	7	8	9	10
Aggregate Expenditure (1+2 = 3+4+5)	1,511.5 (15.4)	3,670.8 (16.4)	6,311.8 (15.7)	8,823.3 (15.7)	10,153.3 (15.7)	12,363.5 (16.1)	13,897.5 (15.6)	21.8	12.4
1. Revenue Expenditure *of which:*	1,230.5 (12.5)	2,959.7 (13.3)	4,818.0 (11.9)	6,819.9 (12.1)	7,991.5 (12.4)	9,932.5 (12.9)	11,021.4 (12.4)	24.3	11.0
Interest payments	181.3 (1.8)	570.1 (2.5)	908.6 (2.3)	1,029.6 (1.8)	1,128.1 (1.7)	1,269.5 (1.7)	1,401.3 (1.6)	12.5	10.4
2. Capital Expenditure *of which:*	280.9 (2.9)	711.1 (3.1)	1,493.8 (3.7)	2,003.5 (3.6)	2,161.8 (3.3)	2,431.0 (3.2)	2,876.0 (3.2)	12.5	18.3
Capital outlay	146.2 (1.5)	328.1 (1.5)	886.5 (2.2)	1,426.3 (2.5)	1,492.2 (2.3)	1,704.0 (2.2)	2,027.5 (2.3)	14.2	19.0
3. Development Expenditure	993.1 (10.2)	2,093.6 (9.4)	3,682.9 (9.1)	5,670.9 (10.1)	6,377.3 (9.9)	7,841.0 (10.2)	8,783.6 (9.9)	23.0	12.0
4. Non-Development Expenditure	444.0 (4.4)	1,270.1 (5.7)	2,050.7 (5.1)	2,549.8 (4.5)	3,075.5 (4.8)	3,696.3 (4.8)	4,154.9 (4.7)	20.2	12.4
5. Others*	74.4 (0.8)	307.1 (1.3)	578.2 (1.5)	602.7 (1.1)	700.5 (1.1)	826.2 (1.1)	959.0 (1.1)	17.9	16.1

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. Figures in parentheses are percentages to GDP.

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

Source: Budget documents of the State governments.

4.17 Social sector expenditure by the States, which had declined both as a proportion of total expenditure as well as GDP during the fiscal consolidation phase, particularly in the initial years, has shown substantial improvement since 2008-09 on account of the renewed focus in this area, which constitutes one of the primary responsibilities of the States (Table IV.9). Within social services, the shares of 'education, sports, art and culture', 'urban development', 'welfare of SCs, STs and OBCs', and 'social security and welfare' are expected to increase in 2011-12(BE) as compared with those in 2010-11(RE) (Table IV.10, Appendix Table 15). It may be noted that apart from increased allocations, an improvement in efficiency and delivery of services is required to achieve the desired outcomes.

5. Assessment

Consolidated Position

4.18 The consolidated position of the States, as per budgetary data, indicates that most States expect further improvement in their finances during 2011-12 (Table IV.11). The consolidated revenue account is budgeted to switch from deficit to surplus during 2011-12 after a gap of two years, with 23 out of the 28 States expecting to record revenue surplus. Of these, eight states expect to record a turnaround in their revenue account from deficit to surplus while nine expect to record increases in their revenue surpluses as ratios

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

(Amount in ₹ billion)

Year	Development Revenue Expenditure	Development Capital Outlay	Development Loans & Advances	Total Development Expenditure
1	2	3	4	5
2009-10	4,771.8 (47.0)	1,435.0 (14.1)	170.5 (1.7)	6,377.3 (62.8)
2010-11(RE)	6,066.1 (49.1)	1603.9 (13.0)	171.0 (1.4)	7841.0 (63.4)
2011-12(BE)	6,680.0 (48.1)	1899.2 (13.7)	204.4 (1.5)	8783.6 (63.2)

RE: Revised Estimates. BE: Budget Estimates.

Note: Figures in parentheses are percentages to aggregate expenditure.

Source: Budget documents of the State governments.

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

(Per cent)

Item	1990-98	1998-2004	2004-08	2008-09	2009-10	2010-11 (RE)	2011-12 (BE)
	(Average)						
1	2	3	4	5	6	7	8
TE/GDP	15.4	16.4	15.7	15.7	15.7	16.1	15.6
SSE/GDP	5.6	5.6	5.2	5.9	6.1	6.4	6.2
SSE/TE	36.6	34.5	33.1	37.6	38.7	40.0	40.0

RE: Revised Estimates. BE: Budget Estimates. GDP: Gross Domestic Product.
TE: Total Expenditure. SSE: Social Sector Expenditure.
Source: Budget Documents of the State governments.

to their GSDP. Three States have budgeted for a reduction in their revenue deficit during the year. The expected improvement of 0.5 percentage point in the revenue balance to GDP ratio in 2011-12(BE), is to be contributed by a commensurate reduction in revenue expenditure to GDP ratio.

4.19 Reflecting the improvement in the revenue account, the consolidated GFD-GDP ratio is expected to decline in 2011-12(BE), despite a marginal increase in the overall CO-GDP ratio. The GFD-GSDP ratio is expected to decline in 10 States during 2011-12(BE). Fifteen States, most of which have shown improvement in their revenue account, have budgeted for absolute contraction in fiscal deficit during 2011-12. Although the majority of States have budgeted for higher capital outlay in absolute terms, the capital outlay (CO)-GSDP ratio is expected to decline in eleven States during 2011-12(BE).

Decomposition and Financing of Gross Fiscal Deficit

4.20 As the consolidated States' revenue account is expected to revert to surplus position in 2011-12(BE) after a gap of two years, the decomposition of the consolidated GFD of the States has undergone a change (Appendix Table 16). The surpluses in the revenue account have reduced nearly one tenth of the borrowing requirements for meeting the expenditure on capital outlay and net lending. Non-debt capital receipts are expected to increase by 0.5

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

(Per cent of total expenditure on social services)

Item	1990-98	1998-2004	2004-08	2008-09	2009-10	2010-11 (RE)	2011-12 (BE)
	(Average)						
1	2	3	4	5	6	7	8
Expenditure on Social Services (a to l)	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
(a) Education, Sports, Art and Culture	51.9	52.6	47.3	43.3	45.3	46.1	46.9
(b) Medical and Public Health	14.7	12.1	11.3	10.2	10.6	10.3	10.3
(c) Family Welfare	1.0	2.1	1.6	1.6	1.7	1.6	1.6
(d) Water Supply and Sanitation	7.3	7.6	8.2	7.4	6.0	4.9	4.7
(e) Housing	2.9	2.9	2.9	3.8	2.4	3.0	3.0
(f) Urban Development	2.4	3.2	5.4	8.9	8.4	8.1	8.5
(g) Welfare of SCs, ST and OBCs	6.6	6.3	7.0	7.0	6.7	6.7	6.9
(h) Labour and Labour Welfare	1.4	1.1	1.1	1.0	1.0	1.1	1.1
(i) Social Security and Welfare	4.4	4.7	6.5	8.9	9.8	9.8	10.0
(j) Nutrition	2.2	2.2	2.5	2.9	3.3	3.6	3.3
(k) Expenditure on Natural Calamities	2.8	3.3	4.0	2.9	2.4	2.7	1.6
(l) Others	2.4	2.0	2.2	2.0	2.4	2.1	2.0

RE: Revised Estimates. BE: Budget Estimates.
Source : Budget Documents of the State governments.

Table IV.11 : State-wise Correction of RD and GFD - 2011-12 (BE) over 2010-11 (RE)

State	Revenue Balance		Gross Fiscal Deficit	
	Correction over 2010-11 (RE) (₹ billion)	Per-centage to Total	Correction over 2010-11 (RE) (₹ billion)	Per-centage t0 Total
1 2	3	4	5	
1. Andhra Pradesh	-32.9	8.4	39.3	-68.4
2. Bihar	-38.7	9.9	-25.3	44.0
3. Chhattisgarh	-2.7	0.7	9.9	-17.2
4. Goa	5.0	-1.3	5.8	-10.0
5. Gujarat	-60.1	15.3	-17.4	30.2
6. Haryana	-18.0	4.6	-7.4	12.9
7. Jharkhand	-38.5	9.8	-9.1	15.7
8. Karnataka	3.2	-0.8	7.8	-13.6
9. Kerala	18.0	-4.6	28.5	-49.5
10. Madhya Pradesh	8.6	-2.2	-3.4	6.0
11. Maharashtra	-57.5	14.7	-22.4	38.9
12. Odisha	-3.8	1.0	11.0	-19.1
13. Punjab	1.7	-0.4	21.1	-36.7
14. Rajasthan	-12.4	3.2	5.1	-8.9
15. Tamil Nadu	-33.0	8.4	-7.3	12.6
16. Uttar Pradesh	-41.8	10.7	-39.3	68.4
17. West Bengal	-88.8	22.7	-54.5	94.7
Total (A)	**-391.6**	**100.0**	**-57.5**	**100.0**
1. Arunachal Pradesh	5.9	-10.3	0.7	-2.2
2. Assam	-63.7	111.3	-51.8	161.8
3. Himachal Pradesh	-2.1	3.6	-1.9	5.9
4. Jammu and Kashmir	14.0	-24.5	15.9	-49.7
5. Manipur	1.0	-1.8	-0.1	0.4
6. Meghalaya	-3.0	5.2	0.4	-1.3
7. Mizoram	-3.1	5.3	-5.6	17.5
8. Nagaland	-1.0	1.8	1.1	-3.5
9. Sikkim	-4.9	8.6	-3.5	11.1
10. Tripura	-3.1	5.3	-2.2	7.0
11. Uttarakhand	2.6	-4.5	15.1	-47.0
Total (B)	**-57.2**	**100.0**	**-32.0**	**100.0**
Grand Total (A + B)	**-448.8**	**100.0**	**-89.5**	**100.0**
Memo item:				
1. NCT Delhi	50.1	-	12.5	-
2. Puducherry	-3.7	-	0.6	-

RE : Revised Estimates. BE : Budget Estimates.
Note : Negative (-) sign indicates improvement in deficit indicators.
Source : Budget Documents of the State governments.

percentage point in 2011-12(BE) over 2010-11(RE), mainly on account of the sale of land by a State (Karnataka) (Table IV.12).

4.21 Market borrowings would continue to remain the major source of financing the GFD of the States. Its share in GFD financing, which had declined in 2010-11(RE), is expected to increase sharply in 2011-12 on account of a decrease in the share of securities issued to the NSSF due to an anticipated decline in small savings collections. As the revised estimates for 2010-11 show a significant drawdown of cash balances/cash investment accounts of the States to finance their GFD, a modest build up in the cash balances is budgeted for 2011-12, resulting in a negative contribution to GFD (Table IV.12). The share of loans from the Centre is expected to rise more than two-fold during 2011-12(BE), although it will continue to remain a minor contributor in GFD financing.

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

4.22 Significant differences exist between the budget estimates presented in the State Budgets and the Union Budget for common items. In general, States tend to overestimate the grants and loans they receive from the Centre but underestimate their share in Central taxes. This trend is also seen in the budget estimates for 2011-12. Since 2008-09, States have been underestimating the flows from the NSSF (Table IV.13).

Table IV.12: Decomposition and Financing Pattern of Gross Fiscal Deficit - 2009-10 (Accounts) to 2011-12 (BE)

(Per cent to GFD)

Item	2009-10	2010-11 (RE)	2011-12 (BE)
1	2	3	4
Decomposition (1+2+3-4)	**100.0**	**100.0**	**100.0**
1. Revenue Deficit	16.4	12.2	-10.0
2. Capital Outlay	79.0	82.5	102.5
3. Net Lending	5.0	5.8	8.5
4. Non-debt Capital Receipts	0.4	0.5	1.0
Financing (1 to 11)	100.0	100.0	100.0
1. Market Borrowings	59.7	50.4	71.5
2. Loans from Centre	-0.9	2.3	4.8
3. Special Securities issued to NSSF	12.8	17.9	8.8
4. Loans from LIC, NABARD, NCDC, SBI and Other Banks	4.3	1.9	3.5
5. Provident Funds other Funds.	12.3	11.0	13.0
6. Reserve Funds	-1.1	1.2	3.3
7. Deposits and Advances	6.6	1.9	1.7
8. Suspense and Miscellaneous	3.1	-2.6	3.5
9. Remittances	1.6	4.3	-3.6
10. Others	-2.4	-3.6	-3.0
11. Overall Surplus (-)/Deficit (+)	4.1	15.3	-3.6

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.

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

(Amount in ₹ billion)

Item	2009-10 (BE)			2010-11 (BE)			2011-12 (BE)		
	State Budgets	Union Budget	Diffe-rence*	State Budgets	Union Budget	Diffe-rence*	State Budgets	Union Budget	Diffe-rence*
1	2	3	4	5	6	7	8	9	10
1. Shareable Taxes from Centre	1,857.2	1,643.6	213.6 (13.0)	2,004.7	2,090.0	-85.3 (-4.1)	2,508.9	2,634.6	-125.7 (-4.8)
2. Grants-in-Aid	1,686.8	1,398.5	288.4 (20.6)	1,832.8	1,519.6	313.2 (20.6)	2,287.5	1,871.3	416.2 (22.2)
3. Loans from Centre (Net)	92.9	30.9	62.0 (200.4)	69.7	33.6	36.1 (107.2)	95.9	17.3	78.6 (454.6)
4. NSSF (Net)	90.3	117.4	-27.2 (-23.1)	120.8	298.6	-177.8 (-59.6)	174.9	341.7	-166.8 (-48.8)

*: Negative (-)/Positive (+) sign implies underestimation/overestimation in State budgets in comparison with Union Budget.
Note: Figures in parentheses are percentage variations over Union Budget.
Source: Budget Documents of the State governments and the Central government.

Performance of States vis-à-vis the Projections of Thirteenth Finance Commission

4.23 The ThFC expected the States to resume their fiscal correction path by 2011-12, allowing for a year of adjustment in 2010-11. Although the consolidated GFD-GDP ratio for 2011-12 as budgeted by the States is lower than that projected by the ThFC, this is on account of the upward revision implicit in the new GDP series. If the GDP projection of the ThFC, based on the old series, is taken into account, the GFD-GDP ratio works out higher at 2.7 per cent than the projected level of 2.5 per cent by the ThFC. The Commission had also made a State-wise assessment of own receipts and select expenditure for each of the years in the award period of 2010-2015. Benchmarking these select fiscal indicators with the latest fiscal position for 2010-11 and 2011-12 (relative to GSDP projections of the ThFC), two features emerge. First, the States' own resources (both tax revenue and non-tax revenue)-GSDP ratio during 2010-11(RE) and 2011-12(BE), are higher than the assessment made by the ThFC for these years. Second, with regard to committed expenditure, while interest payments-GSDP ratio during 2011-12(BE) was lower than the respective ratios as assessed by the ThFC, pension-GSDP ratio during 2010-11(RE) and 2011-12(BE) were higher than the ThFC assessment (Table IV.14).

Table IV.14: Performance of the States *vis-à-vis* Thirteenth Finance Commission Assessment

(Per cent of GSDP)

Item	2010-11		2011-12	
	Based on			
	13th Finance Commission Assessment	Revised Estimates	13th Finance Commission Assessment	Budget Estimates
1	2	3	4	5
Own Revenue Receipts (1+2)	10.1	10.5	10.1	10.7
1. Own Tax Revenue	8.5	8.7	8.6	9.0
2. Own Non-tax Revenue	1.6	1.8	1.5	1.7
Revenue Expenditure				
of which:				
Interest Payments	2.4	2.4	2.4	2.3
Pension	1.5	2.0	1.5	2.0

Note: As the GSDP series were revised after the release of the Thirteenth Finance Commission (ThFC) report, the GSDP projected by the ThFC has been used uniformly to make the data comparable.

6. Conclusion

4.24 The foregoing analysis of the consolidated budgetary fiscal position of the State governments for 2011-12 suggests continued endeavour by the States for a graduated reduction in deficit-GDP ratios enabled by a switchover to revenue account surplus. The fiscal position for 2009-10 (Accounts) in comparison with revised estimates for the year reflected less fiscal deterioration, as actual expenditures fell below the earlier assessed levels, particularly in respect of committed revenue expenditures. The favourable impact of economic recovery on revenues improved the fiscal position for 2010-11(RE) *vis-à-vis* 2009-10, although key deficit levels remained moderately higher than the budget estimates. The fiscal correction at the consolidated State level for 2011-12(BE) envisaged a surplus in the revenue account after a gap of two years, generated primarily through lower growth in revenue expenditures. The post-crisis progress of fiscal consolidation for the States, at a consolidated level, has remained in consonance with the path of the ThFC. Although the consolidated GFD-GDP ratio for the States, in terms of revised GDP series, remains within the target of 2.5 per cent for 2011-12 set by the ThFC, the ratio works out higher if the projected GDP series of the ThFC is taken into account. The fiscal deficit ratio, in terms of aggregate projected GSDP, also works out higher than the ThFC target for 2011-12. The States have budgeted for higher grants from the Centre than provided for in the Union Budget, non-realisation of which could wipe out the envisaged surplus in the revenue account. Within States' non-tax receipts, the continued poor performance in recovery of services is an area of concern. On the expenditure front, the States have budgeted substantial deceleration in aggregate expenditure growth for 2011-12, to be achieved through reduced growth in development revenue expenditure, interest payment and pension expenditure. On the other hand, States have proposed an accelerated growth in capital outlay, a part of which would be financed by the surpluses they expect to generate on their revenue account. Any slippage in controlling committed expenditure or realisation of revenue surplus could adversely affect the achievement of the fiscal deficit target and/or compress capital outlay. There is a need to accord sufficient emphasis to the quality of the fiscal consolidation process by ensuring that the States do not cut back development expenditure in order to meet their deficit targets.