

V

State-wise Analysis of Fiscal Performance

Finances in most States remained under stress during 2008-09 and 2009-10. In 2008-09, revenue account was impacted across 19 States largely due to the upward revision of salaries in a few States and the impact of a slowdown on own tax and non-tax collections. Poor Central tax collections also led to lower tax devolutions as a ratio of GSDP across 26 States, albeit partly compensated through higher grants from the Centre. Deterioration in revenue account was evident in higher GFD-GSDP ratios across the majority of States in 2008-09. Nonetheless, with the fiscal headroom generated in previous years, 21 States could continue to achieve revenue surplus in 2008-09. In 2009-10, many States were still in the process of implementing the revised pay structures which, along with the expansionary fiscal stimulus measures undertaken by many States, resulted in a more pronounced deterioration in the revenue account. The re-emergence of a revenue deficit after three years and higher capital outlay led to a higher GFD-GSDP ratio across States in 2009-10. A noticeable point is that two States with chronic revenue deficits, viz., Kerala and Punjab, recorded marginal improvements in revenue account in 2008-09 and 2009-10. With most States envisaging to improve their revenue accounts in 2010-11, States seem to have shown their inclination to revert to the path of fiscal consolidation suggested by the Thirteenth FC. The emerging pattern of expenditure, however, shows that as a ratio to GSDP, development expenditure, capital outlay and social sector expenditure are expected to be lower in many States, raising concerns about the quality of fiscal adjustment being undertaken at the State level.

1. Introduction

5.1 This chapter assesses the fiscal position across States, focusing on 2008-09 (Accounts) and 2009-10 (RE). A broad overview of the State-wise fiscal position emerging from their budget estimates for 2010-11 is also presented in this chapter. The analysis focuses on three aspects of state finances broadly classified as: (i) deficit indicators; (ii) revenue augmentation; and (iii) expenditure management. Most of the fiscal indicators are expressed in terms of GSDP at current prices as provided by the Central Statistics Office (CSO). GSDP data were not available for one State for 2008-09, five States for 2009-10 and six States for 2010-11; therefore, GSDP for these States have been worked out on the basis of the respective average GSDP growth rates for the previous three years. States are segregated into non-special category and special category States. Data for two Union Territories with Legislature, viz., NCT Delhi and Puducherry, are also provided in the tables as

a memo item. The detailed State-wise data on various fiscal indicators are set out in Statements 1 to 48.

5.2 Reflecting the impact of overall moderation in economic activities along with implementation of the recommendations of the Sixth Central/State(s) Pay Commission(s) (CPC/SPCs), the key fiscal indicators showed deterioration across States in 2008-09 and 2009-10. While only a few States were affected in 2008-09 (Accounts), deterioration in fiscal position became more pronounced and widespread across States in 2009-10 (RE). An analysis of the State-wise budgets for 2010-11 (BE) shows that the majority of States expect to make modest progress towards fiscal consolidation, *albeit* not specifically announced in their budget speeches.

5.3 Against this backdrop, this chapter examines (i) how States were affected during 2008-09 and 2009-10 and (ii) how States intend to restructure their finances in 2010-11 (BE).

2. Deficit Indicators of State Governments

5.4 The period from 2004-05 to 2007-08 was characterised by a significant improvement in fiscal position, measured in terms of key deficit indicators especially in the case of non-special category States. The position was, however, reversed in 2008-09 (Accounts) and 2009-10 (RE). The deterioration in key deficit indicators was more pronounced in 2009-10 (RE) when both revised pay structures and stimulus measures undertaken across States weighed upon their finances. In contrast, the impact of developments in 2008-09 and 2009-10 on special category States was relatively less, as they depended more on receipt of grants from the Centre.

Non-Special Category States

5.5 An important aspect of the fiscal consolidation phase from 2004-05 to 2007-08 related to institutional reform initiatives undertaken by non-special category States, which account for around 90 per cent of the total expenditure of all States. Suggesting the restructuring of public finances at the State level, the Twelfth FC had recommended that the States achieve revenue balance by 2008-09 and reduce GFD to 3 per cent of GSDP by 2009-10. Following a rule-based fiscal policy, most of the non-special category States made credible progress towards fiscal consolidation by achieving their key deficit targets well ahead of schedule. The enactment of FRLs by all non-special category States (except West Bengal)⁶ not only ensured fiscal discipline but also provided impetus to fiscal stability, sustainability and improved efficiency and transparency. However, the fiscal consolidation achieved from 2004-05 to 2007-08 could not be sustained in 2008-09 (Accounts) and 2009-10 (RE) as States had to implement the revised wages and salaries and also undertake expansionary fiscal policy measures in response to the moderate slowdown. The deterioration in State finances was found to be more widespread in 2009-10 (RE) compared with 2008-09 (Accounts) (Table V.1).

5.6 In 2008-09, the majority of non-special category States witnessed a deterioration in revenue account. Revenue surplus as a ratio to GSDP either declined or turned into deficit in the case of 13 non-special category States. Gujarat, Haryana and Rajasthan turned from revenue surplus to revenue deficit position. Among the four non-special category States which had a revenue deficit in 2007-08, Jharkhand, Punjab and Kerala recorded improvement in revenue account (in terms of GSDP), while West Bengal recorded an increase in the RD-GSDP ratio in 2008-09 (Accounts) over 2007-08 (Accounts). Nonetheless, 11 non-special category States recorded a revenue surplus in 2008-09 (Accounts) compared with 13 States in 2007-08. Among the non-special category States, seven States witnessed the adverse impact of the economic slowdown and upward pay revision as reflected both in terms of decline in revenue receipts as a ratio to GSDP (RR-GSDP) and increase in revenue expenditure as a ratio to GSDP (RE-GSDP). These States were Chhattisgarh, Gujarat, Madhya Pradesh, Maharashtra, Rajasthan, Uttarakhand and Uttar Pradesh. In the case of four non-special category States, viz., Bihar, Haryana, Karnataka and Punjab, the impact was evident only in terms of decline in RR-GSDP ratio. In contrast, the four other non-special category States, viz., Goa, Jharkhand, Tamil Nadu and West Bengal, witnessed substantive increases in the RE-GSDP ratio in 2008-09 (Accounts) over 2007-08 (Accounts). Only two States, viz., Andhra Pradesh and Kerala, were able to show improvements in terms of higher RR-GSDP as well as lower RE-GSDP ratios in 2008-09 (Accounts).

5.7 The deterioration in revenue account of States in 2008-09 was reflected mostly in higher gross fiscal deficit as a ratio of GSDP (GFD-GSDP) in the case of 15 non-special category States. Since two States, viz., Orissa and Maharashtra, also turned from gross fiscal surplus to a deficit position in 2008-09, most non-special category States were under fiscal stress during this period. On the other hand, two non-special category States, viz.,

⁶ West Bengal enacted the FRBM Act in July 2010.

Jharkhand and Kerala, were able to reduce their GFD-GSDP ratio during 2008-09, *albeit* remaining higher than 3 per cent of GSDP. This reflected a moderate improvement in their revenue accounts as well as parsimony in terms of capital outlay in 2008-09. Notwithstanding the improvement in revenue account and decline in capital outlay as a ratio to GSDP, Andhra Pradesh recorded a higher GFD-GSDP ratio in 2008-09 mainly due to a significant decline in non-debt capital receipts. There were 11 States with GFD-GSDP ratios of above 3.0 per cent in 2008-09. The increase in the GFD-GSDP ratio in 2008-09 was evident in the higher primary deficit as a ratio to GSDP (PD-GSDP) in 15 non-special category States in 2008-09 (Accounts) compared with 9 States in 2007-08. The State-wise position in respect of primary revenue balance (PRB) shows that all the non-special category States, except West Bengal, continued to record primary revenue surplus (PRS). However, the coexistence of primary revenue surplus and RD in five States, *viz.*, Gujarat, Haryana, Kerala, Punjab and Rajasthan, implied that revenue deficit in these States was largely driven by higher interest payments in 2008-09. In contrast, West Bengal, having a revenue deficit as well as a primary revenue deficit, indicated that the State could not contain its non-interest revenue expenditure and net borrowing has been used to finance current non-interest expenditure, with no potential scope for generating debt-financing income.

5.8 As stated earlier, the impact of the economic slowdown and upward revision of wages and salaries of State employees was more perceptible in 2009-10 (RE). The number of non-special category States with revenue deficits increased from six in 2008-09 (Accounts) to 11 in 2009-10 (RE). In fact, deterioration in the revenue account over 2008-09 was observed in 12 non-special category States, while 5 non-special category States either recorded higher revenue surpluses (as a ratio to GSDP) or lower RD-GSDP ratios. Deterioration in the revenue account in 2009-10 (RE) was more pronounced in Bihar, Chhattisgarh, Goa, Gujarat, Maharashtra, Orissa, Tamil Nadu, Rajasthan and West Bengal. Own revenue collections (own tax and non-tax revenue)

as a ratio to GSDP in some of these States were lower in 2009-10 (RE). Similarly, tax devolution from the Centre (as a ratio to GSDP) was lower in all non-special category States (except Punjab), *albeit* largely compensated by the higher grants-in-aid from the Centre (GR-GSDP) during 2009-10 (RE). The impact of deterioration in revenue account was discernible in higher GFD-GSDP ratios across non-special category States (except Jharkhand, Kerala, Punjab and Uttar Pradesh). As regards primary deficit, all non-special category States (except Jharkhand, Kerala and Punjab) recorded higher PD-GSDP ratios in 2009-10 (RE). Among the non-special category States, Haryana joined West Bengal in having a primary revenue deficit along with a revenue deficit, indicating the predominance of non-interest revenue expenditure.

5.9 In 2010-11 (BE), 13 non-special category States have budgeted improvements in revenue account in terms of a lower RD-GSDP ratio or a higher revenue surplus-GSDP ratio. Two States, *viz.*, Chhattisgarh and Goa, are expected to shift from a revenue deficit to a revenue surplus position. States that are budgeting significant improvement in revenue account (*i.e.*, by more than 1.0 percentage point of GSDP) in 2010-11 (BE) include Bihar, Goa, Chhattisgarh, Rajasthan and West Bengal. Nonetheless, nine States would continue to have a revenue deficit in 2010-11 (BE). Among non-special category States, the RD-GSDP ratio during 2010-11 (BE) would remain the highest in West Bengal, followed by Punjab. The budgeted key deficit indicators across States seem to bode well as per the revised roadmap outlined by the Thirteenth FC (Box V.1).

5.10 Some beginning towards fiscal consolidation in terms of reduction in GFD-GSDP ratio is expected across States in 2010-11 (BE). Of 17 non-special category States, 11 States have proposed to reduce their GFD-GSDP ratios in 2010-11 (BE). However, the source of correction in GFD-GSDP ratio does not appear to be uniform across States. For instance, five States, *viz.*, Andhra Pradesh, Haryana, Jharkhand, Maharashtra and Orissa, propose to bring down their GFD-GSDP ratio

Box V.1: Fiscal Consolidation: Revised Roadmap for States

The post-FRBM period since 2004-05 was marked by significant improvements in States' finances in terms of key deficit indicators reflected in reduced debt-GSDP ratios, which was attributable to various institutional reforms undertaken by State governments. In fact, most States had achieved their FRBM targets in 2007-08, well before the stipulated period. However, with a moderation in economic growth and the implementation of the revised pay structure across States, State finances suffered a setback in 2008-09 and 2009-10. Keeping in view the deterioration in overall fiscal performance at the Central and State levels, the Thirteenth FC was assigned the additional task of reviewing the roadmap for fiscal adjustment and suggesting a revised roadmap that would sustain the gains of fiscal consolidation through 2010-15. Accordingly, a revised roadmap of fiscal correction for both the Centre and the States was recommended by the Thirteenth FC. Outlining the revised fiscal roadmap for States in the medium term, the Thirteenth FC has adopted a segmented approach based on the past fiscal performance of States (till 2007-08) and accordingly prescribed different timelines for different groups of States. The year 2010-11 is expected to be a year of adjustment, with States reverting to a fiscal correction path by 2011-12. Under the revised roadmap, it is stipulated that:

- i) The non-special category States that incurred zero revenue deficit or achieved revenue surplus in 2007-08 should eliminate their revenue deficit by 2011-12 and maintain a revenue balance or attain a surplus thereafter. Other States should eliminate the revenue deficit by 2014-15.
- ii) The non-special category States with a zero revenue deficit or a revenue surplus in 2007-08 should also achieve a fiscal deficit of 3 per cent of GSDP by 2011-12 and maintain it thereafter. Other non-special category States need to achieve 3 per cent fiscal deficit by 2013-14.
- iii) All special category States with base fiscal deficit of less than 3 per cent of GSDP in 2007-08 could incur a fiscal deficit of 3 per cent in 2011-12 and maintain it thereafter. Manipur, Nagaland, Sikkim and Uttarakhand should reduce their fiscal deficit to 3 per cent of GSDP by 2013-14.

- iv) Jammu and Kashmir and Mizoram should limit their fiscal deficit to 3 per cent of GSDP by 2014-15. States should amend/enact the FRBM Acts to build in the fiscal reform path envisaged by the Commission. State-specific grants recommended for a State should be released upon compliance.

Accordingly, all non-special category States, except four States, would need to achieve a revenue balance by 2011-12. While four States (Jharkhand, Kerala, Punjab and West Bengal) with a revenue deficit in 2007-08 have to achieve revenue balance by 2014-15, they need to contain their GFD-GSDP ratio to 3 per cent by 2013-14. Of the 11 special category States, different fiscal adjustment paths have been suggested for six States, viz., Jammu and Kashmir, Manipur, Mizoram, Nagaland, Sikkim and Uttarakhand. Comparing the roadmap of the Thirteenth FC *vis-à-vis* the Twelfth FC, Chakraborty (2010) argues that the roadmap suggested by the former is not fundamentally different from what was proposed by the latter as far as the level of fiscal deficit is concerned; the only difference is in respect of fiscal adjustment paths recommended for States with relatively high fiscal imbalances, with mandated deficit reduction targets for every year to arrive at a fiscal deficit of 3 per cent of GSDP by the end of 2014-15. Even though the States have shown some commitment towards fiscal correction as reflected in the budgeted key fiscal indicators of 2010-11 (BE), its sustenance would largely depend on how macroeconomic conditions evolve in the medium term. However, the States may define their new targets taking into account the revised roadmap outlined by the Thirteenth FC.

References

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through improvements in revenue account as well as lower capital outlay as a ratio to GSDP (CO-GSDP). While four States, viz., Bihar, Goa, Rajasthan and West Bengal, would achieve budgeted correction only through revenue account, Karnataka would achieve it largely through an increase in non-debt capital receipts and lower CO-GSDP ratio. Uttar Pradesh has envisaged a decline in the GFD-GSDP ratio through a decline in the CO-GSDP ratio in 2010-11 (BE). Reflecting the lower GFD-GSDP ratio in 2010-11 (BE), the PD-GSDP ratio is budgeted to be lower in 12 non-special category States. The primary revenue deficit is expected to persist in two non-special category States, i.e., Haryana and West Bengal.

Special Category States

5.11 Special category States account for nearly one-tenth of the total size, measured in terms of aggregate expenditure, of all State governments. The typical features of a special category State, i.e., hilly terrain, sparsely populated habitation and high transport costs, etc. lead to high cost of delivering public services. With the relatively lower level of economic activity in most special category States, their tax base is limited *vis-à-vis* non-special category States. These States, to a large extent, depend on transfers from the Centre (comprising grants and tax devolutions) for their resource needs. The fiscal correction observed in special category

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Table V.1: Deficit Indicators of State Governments

(Per cent)

State	2005-08 (Avg.)*				2008-09				2009-10 (RE)				2010-11 (BE)			
	RD/ GSDP	GFD/ GSDP	PD/ GSDP	PRB/ GSDP	RD/ GSDP	GFD/ GSDP	PD/ GSDP	PRB/ GSDP	RD/ GSDP	GFD/ GSDP	PD/ GSDP	PRB/ GSDP	RD/ GSDP	GFD/ GSDP	PD/ GSDP	PRB/ GSDP
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
I. Non-Special Category																
1. Andhra Pradesh	-0.3	2.7	0.1	-3.0	-0.3	3.3	1.2	-2.4	-0.7	3.5	1.3	-2.9	-0.8	3.0	0.6	-3.1
2. Bihar	-2.2	3.1	-0.7	-6.0	-3.1	1.8	-0.9	-5.8	-0.1	6.3	3.6	-2.8	-3.9	2.7	0.0	-6.6
3. Chhattisgarh	-3.5	0.3	-1.3	-5.2	-2.0	1.1	-0.1	-3.1	0.1	2.9	1.9	-0.9	-0.8	3.0	1.9	-2.0
4. Goa	-0.6	3.6	0.8	-3.4	-0.5	4.1	1.5	-3.1	1.2	6.7	4.1	-1.3	0.0	5.6	3.0	-2.5
5. Gujarat	-0.4	2.2	-0.4	-3.0	0.0	3.1	0.8	-2.3	1.1	3.3	1.1	-1.1	1.0	3.5	1.2	-1.2
6. Haryana	-1.3	0.1	-1.7	-3.0	1.1	3.6	2.3	-0.1	1.7	4.0	2.6	0.3	1.6	3.6	2.0	0.0
7. Jharkhand	2.2	8.8	7.0	0.4	-0.8	5.0	2.1	-3.7	-3.1	2.1	-0.5	-5.8	-3.9	0.7	-1.6	-6.3
8. Karnataka	-1.6	2.2	0.2	-3.6	-0.6	3.2	1.6	-2.3	-0.2	3.8	2.0	-1.9	-0.2	3.0	1.0	-2.1
9. Kerala	2.2	3.2	0.4	-0.6	2.0	3.3	0.9	-0.5	1.9	3.1	0.7	-0.5	1.5	3.5	1.1	-0.9
10. Madhya Pradesh	-2.0	2.6	-0.3	-4.9	-2.4	2.6	0.1	-4.8	-2.7	3.4	0.9	-5.2	-0.8	4.0	1.5	-3.3
11. Maharashtra	-0.6	1.9	-0.2	-2.7	-0.8	2.0	0.2	-2.6	1.5	3.7	2.0	-0.2	0.9	2.7	0.9	-0.9
12. Orissa	-2.2	-0.5	-4.1	-5.8	-2.6	0.3	-1.9	-4.7	1.0	3.7	1.3	-1.3	0.6	3.4	1.1	-1.7
13. Punjab	1.7	3.1	-0.2	-1.6	2.3	4.0	1.1	-0.6	2.2	3.4	0.6	-0.6	2.2	3.6	0.9	-0.5
14. Rajasthan	-0.3	2.8	-0.9	-4.0	0.4	3.5	0.4	-2.7	1.8	4.5	1.4	-1.3	0.5	3.5	0.4	-2.6
15. Tamil Nadu	-1.1	1.2	-0.8	-3.1	-0.4	2.5	0.8	-2.2	1.3	3.4	1.6	-0.4	0.8	3.7	2.0	-1.0
16. Uttar Pradesh	-0.7	3.5	0.3	-3.9	-0.5	5.0	2.2	-3.2	-0.4	4.9	2.3	-2.9	-0.1	4.4	1.8	-2.7
17. West Bengal	3.0	4.1	0.0	-1.0	4.2	3.8	0.4	0.7	5.6	6.7	3.5	2.4	3.4	4.6	1.7	0.5
II. Special Category																
1. Arunachal Pradesh	-15.2	1.7	-3.2	-20.2	-21.7	7.3	2.5	-26.5	-32.3	3.8	-1.0	-37.1	-29.0	1.9	-2.7	-33.5
2. Assam	-3.2	-0.9	-3.3	-5.6	-4.8	-1.8	-3.8	-6.8	6.1	11.5	9.0	3.6	6.1	9.5	7.0	3.6
3. Himachal Pradesh	-1.2	2.6	-3.2	-7.0	0.4	6.2	1.0	-4.8	0.4	5.4	0.7	-4.3	1.1	5.1	0.4	-3.6
4. Jammu and Kashmir	-6.8	6.4	1.3	-11.9	-9.7	6.7	2.1	-14.3	-11.6	5.8	0.5	-16.9	-12.3	4.6	-0.7	-17.6
5. Manipur	-12.4	4.1	-0.9	-17.4	-19.7	3.4	-1.5	-24.7	-22.7	4.8	-0.2	-27.6	-16.2	3.5	-1.0	-20.7
6. Meghalaya	-2.2	2.1	-0.5	-4.8	-1.3	4.5	2.3	-3.5	-2.0	5.6	3.4	-4.2	-2.6	3.0	0.9	-4.8
7. Mizoram	-4.8	10.8	4.0	-11.6	-8.9	2.5	-3.4	-14.8	-6.0	9.1	3.0	-12.1	-7.1	0.9	-4.3	-12.3
8. Nagaland	-6.5	4.8	0.3	-11.0	-7.2	4.8	0.4	-11.7	-5.5	12.1	7.3	-10.3	-11.8	3.5	-1.4	-16.8
9. Sikkim	-12.4	5.2	-0.2	-17.9	-14.5	9.0	3.5	-19.9	-22.1	12.0	6.2	-27.8	-16.0	10.8	5.0	-21.9
10. Tripura	-7.8	0.0	-3.8	-11.6	-8.0	2.3	-1.1	-11.3	-1.6	13.2	9.6	-5.2	-5.8	7.2	3.5	-9.5
11. Uttarakhand	-1.4	4.9	1.9	-4.5	-0.6	4.6	1.6	-3.5	2.4	8.3	5.1	-0.8	-0.3	3.3	0.3	-3.2
All States#	-0.4	1.9	-0.2	-2.6	-0.2	2.4	0.6	-2.1	0.7	3.3	1.5	-1.1	0.3	2.5	0.9	-1.3
<i>Memo Item:</i>																
1. NCT Delhi	-3.7	0.5	-1.2	-5.4	-2.8	1.7	0.2	-4.3	-3.5	1.8	0.5	-4.8	-3.1	1.4	0.2	-4.3
2. Puducherry	0.3	4.1	1.8	-2.0	1.0	3.1	0.9	-1.3	3.1	6.1	3.9	0.9	1.7	6.6	4.7	-0.2

Avg. : Average.

RD : Revenue Deficit.

PD : Primary Deficit.

GSDP : Gross State Domestic Product.

* : Data for Puducherry pertain to 2006-07.

: Data for All States are as per cent to GDP.

Note: Negative (-) sign indicates surplus.

Source: Based on Budget Documents of the State Governments.

RE : Revised Estimates.

GFD : Gross Fiscal Deficit.

PRB : Primary Revenue Balance.

States during 2004-05 to 2007-08 was largely on account of higher devolution and transfers from the Centre, while there was some improvement in own revenue receipts as well. Given the large dependence on central transfers (instead of own

tax base), the impact of the overall macroeconomic slowdown in the economy on the revenue account of special category States remained relatively muted in 2008-09. As the overall economy witnessed further moderation in 2009-10 (RE), the

consolidated revenue surplus position of special category States persisted, *albeit* at a lower level, while the same turned into a deficit in the case of non-special category States. Similarly, the deterioration in consolidated GFD-GDP ratio of special category States was lower than that of non-special category States (Table V.2).

5.12 A state-wise analysis shows that all special category States (except Himachal Pradesh) registered a revenue surplus during 2008-09 (Accounts). States with higher revenue surpluses (as a ratio to GSDP) included Arunachal Pradesh, Assam, Jammu and Kashmir, Mizoram and Nagaland. In spite of having revenue surpluses, States, *viz.*, Arunachal Pradesh, Manipur, Meghalaya, Sikkim and Tripura, recorded higher GFD-GSDP ratios in 2008-09 (Accounts). In 2009-10 (RE), the revenue account position of Assam, Mizoram, Nagaland, Tripura and Uttarakhand was adversely affected; in fact, Assam and Uttarakhand showed a revenue deficit as against a revenue surplus position in 2008-09 (Accounts). In total, only eight States were able to achieve revenue surplus in 2009-10 (RE) compared with 10 States in 2008-09 (Accounts). Revenue expenditure in six States rose faster than that in their revenue receipts, possibly following the additional financial burden from implementing the revised pay structure. However, the GFD-GSDP ratio worsened in most

of the special category States in 2009-10 (RE). Overall, only three special category States, *viz.*, Arunachal Pradesh, Himachal Pradesh and Jammu and Kashmir, registered lower GFD-GSDP ratios in 2009-10 (RE) that were reflected in their lower PD-GSDP ratios as well. In 2009-10 (RE), Assam was the only State with both a revenue deficit and a primary revenue deficit on account of the high level of non-interest revenue expenditure.

5.13 The majority of special category States (9 out of 11) have proposed to achieve a revenue surplus in 2010-11 (BE). In total, six special category States have budgeted improvement in the revenue account in 2010-11. Two States, *viz.*, Jammu and Kashmir and Nagaland, expect to improve their revenue account position mainly through a higher revenue receipts-GSDP ratio, while Mizoram and Uttarakhand intend to achieve the same by bringing down their RE-GSDP ratios. Meghalaya and Tripura have budgeted improvement both in terms of RR-GSDP as well as RE-GSDP ratios. The GFD-GSDP ratio of all special category States is budgeted to decline in 2010-11 (BE). The lower CO-GSDP ratio is expected to help two revenue deficit States, *viz.*, Assam and Himachal Pradesh, achieve lower GFD-GSDP ratios in 2010-11 (BE). Primary surplus is expected to emerge in a few special category States, *viz.*, Arunachal Pradesh, Jammu and Kashmir, Manipur, Mizoram and Nagaland in 2010-11 (BE). The primary revenue deficit and revenue deficit are expected to co-exist in Assam.

Table V.2: Share of Special and Non-special Category States in Deficit Indicators

(Per cent of GDP)

	2007-08	2008-09	2009-10 (RE)	2010-11 (BE)
1	2	3	4	5
Consolidated RD-GDP Ratio	-0.86	-0.23	0.71	0.31
Special Category States	-0.21	-0.21	-0.04	-0.06
Non-Special Category States	-0.66	-0.01	0.76	0.37
Consolidated GFD-GDP Ratio	1.51	2.41	3.30	2.52
Special Category States	0.10	0.12	0.35	0.23
Non-Special Category States	1.41	2.29	2.95	2.29

Source: Based on Budget documents of the State Governments.

3. Revenue Account of State Governments

5.14 Between 2004-05 and 2007-08, there was an improvement in all components of the revenue receipts of States. Taking advantage of the conducive macroeconomic environment during this period, States undertook various revenue-enhancing measures which helped them increase their revenue collections. In addition to implementation of VAT, efforts were made to raise collections from excise and other tax and non-tax sources through rationalisation, better tax compliance and enforcement measures. While there was moderation in own revenue collections

across many States during 2008-09 and 2009-10, the revenue account is expected to record an improvement in 2010-11 (BE), as most of the States expect higher revenue buoyancy as well as lower RE-GSDP ratio during the year. Various indicators pertaining to the revenue receipts of States are presented in Table V.3, while those pertaining to revenue expenditure are set out in Table V.4.

Non-special Category States

5.15 Non-special category States account for around 90 per cent of revenue receipts and the revenue expenditure of all States. Therefore, the impact of fiscal developments in these States on the consolidated position of State finances is much more pronounced than that of special category States as has been observed in the recent phase of the economic slowdown.

Revenue Receipts

5.16 Among the non-special category States, revenue receipts as a ratio to GSDP (RR-GSDP) in 2008-09 (Accounts) were adversely affected in 11 States, viz., Bihar, Chhattisgarh, Gujarat, Haryana, Karnataka, Madhya Pradesh, Maharashtra, Orissa, Punjab, Rajasthan and Uttar Pradesh. Apart from dismal revenue collections from own tax and non-tax sources, transfers from the Centre in the form of tax devolutions were also lower in most of the States, attributable to poor Central tax collections. However, the impact on revenue account was compensated to some extent in some States, as higher grants-in-aid were provided by the Centre in 2008-09 (Table V.3).

5.17 In 2009-10 (RE), while the RR-GSDP ratio declined further in Gujarat, Karnataka, Maharashtra and Orissa, a few other non-special category States, viz., Kerala, Tamil Nadu and West Bengal, were also impacted. Own tax collections were poor in Chhattisgarh, Goa, Gujarat, Jharkhand, Karnataka, Kerala, Maharashtra, Orissa and Tamil Nadu, resulting in lower OTR-GSDP ratios. However, a few States including Andhra Pradesh, Bihar, Haryana, Madhya Pradesh, Punjab, Rajasthan, Uttar Pradesh, and West Bengal

recorded improvements in OTR-GSDP ratios in 2009-10 (RE). The OTR-GSDP ratio was the highest in Andhra Pradesh, followed by Karnataka, Tamil Nadu and Madhya Pradesh. A decline in the ONTR-GSDP ratio was also observed in a number of States, mainly due to poor recovery in medical and public health services and also lower receipts of interest, dividends and profits across States. In addition to lacklustre performance in terms of own revenue receipts, all non-special category States (except Punjab) witnessed lower tax devolution (from the Centre) as a ratio to GSDP. However, grants-in-aid as a ratio to GSDP (GR-GSDP) provided by the Central government were higher across the majority of non-special category States. In total, grants-in-aid by the Centre to non-special category States increased by around 37.4 per cent in 2009-10 (RE) compared to an increase of 21.8 per cent in 2008-09 (RE).

5.18 As far as the State-wise position of RR-GSDP in 2010-11(BE) is concerned, 12 non-special category States expect to receive higher revenue receipts in 2010-11, attributable both to higher tax buoyancy and an increase in tax devolutions from the Centre. While States' own tax revenue collections are expected to increase by 16.8 per cent in 2010-11 (BE) as against 13.6 per cent in 2009-10 (BE), tax devolution from the Centre to non-special category States is estimated to go up by 18.9 per cent (2.7 per cent during 2009-10). However, a number of non-special category States have budgeted lower ONTR-GSDP and GR-GSDP ratios in 2010-11. In fact, a few of them have budgeted an absolute decline in own non-tax revenues and grants from the Centre. States expect lower own non-tax revenues on account of a decline in interest receipts and lower receipts from the power sector in 2010-11. With better growth prospects, most States expect to receive lower grants-in-aid from the Centre during 2010-11 (BE) (Table V.3).

5.19 The adoption of State-level VAT has been one of the major tax reforms undertaken by State governments. VAT is the most important tax revenue for States, contributing more than one-half of their own tax receipts. Notwithstanding the

Table V.3: Revenue Receipts of the State Governments

(Per cent)

State	2005-08 (Avg.)*				2008-09				2009-10 (RE)				2010-11 (BE)			
	RR/ GSDP	OTR/ GSDP	ONTR/ GSDP	CT/ GSDP	RR/ GSDP	OTR/ GSDP	ONTR/ GSDP	CT/ GSDP	RR/ GSDP	OTR/ GSDP	ONTR/ GSDP	CT/ GSDP	RR/ GSDP	OTR/ GSDP	ONTR/ GSDP	CT/ GSDP
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
I. Non-Special Category																
1. Andhra Pradesh	15.7	8.5	2.2	5.1	16.7	8.8	2.6	5.3	19.1	9.9	3.4	5.7	20.7	10.8	3.6	6.4
2. Bihar	23.4	4.3	0.5	18.6	23.1	4.3	0.8	18.0	24.4	5.3	0.6	18.5	28.1	6.3	0.7	21.0
3. Chhattisgarh	17.5	7.6	2.4	7.5	16.5	6.9	2.3	7.2	17.2	6.2	3.2	7.8	19.4	7.1	4.1	8.2
4. Goa	16.9	8.2	5.9	2.7	17.9	8.6	6.3	3.0	18.9	8.5	6.7	3.8	19.5	8.6	6.1	4.7
5. Gujarat	11.5	7.1	1.6	2.9	11.5	7.0	1.5	3.0	11.4	6.9	1.3	3.2	11.4	7.0	1.4	3.0
6. Haryana	13.2	8.2	3.0	2.0	10.1	6.4	1.8	1.9	11.0	6.7	1.5	2.8	10.0	6.7	1.4	1.8
7. Jharkhand	15.9	5.1	2.4	8.4	21.3	6.7	2.9	11.7	23.9	6.7	3.6	13.6	22.2	6.6	3.5	12.1
8. Karnataka	17.3	10.8	1.8	4.7	16.0	10.2	1.2	4.6	15.5	9.8	0.8	4.9	16.3	11.0	0.9	4.4
9. Kerala	12.5	8.1	0.7	3.7	12.9	8.4	0.8	3.7	12.4	8.1	0.8	3.4	12.7	8.5	0.9	3.3
10. Madhya Pradesh	19.1	7.9	1.9	9.3	19.6	7.9	1.9	9.7	22.3	9.0	3.2	10.1	21.7	9.3	2.2	10.2
11. Maharashtra	12.0	7.7	1.9	2.4	11.7	7.5	1.4	2.8	10.6	6.7	0.8	3.1	11.0	7.2	1.2	2.6
12. Orissa	18.5	6.2	2.3	10.0	18.4	6.0	2.4	10.1	18.3	5.9	1.9	10.5	18.5	6.1	1.9	10.6
13. Punjab	14.3	7.5	3.7	3.0	12.5	6.7	3.5	2.3	13.2	7.2	3.3	2.8	13.2	7.5	3.1	2.6
14. Rajasthan	16.8	7.6	2.2	7.0	16.6	7.4	1.9	7.3	16.9	7.6	2.3	7.0	17.6	7.9	2.1	7.6
15. Tamil Nadu	14.9	9.9	1.1	3.9	16.2	9.9	1.7	4.6	14.3	9.3	1.2	3.8	14.4	9.5	0.9	4.0
16. Uttar Pradesh	18.3	7.0	1.6	9.7	18.9	7.0	1.6	10.3	20.0	7.2	3.1	9.7	21.8	8.3	2.9	10.6
17. West Bengal	10.0	4.4	0.5	5.1	10.4	4.1	1.4	4.9	9.6	4.1	0.8	4.7	9.8	4.1	0.7	4.9
II. Special Category																
1. Arunachal Pradesh	72.2	2.3	10.8	59.0	85.0	3.0	17.0	65.0	108.5	2.4	29.5	76.6	84.1	2.4	6.3	75.4
2. Assam	21.1	5.2	2.8	13.1	22.8	5.2	2.9	14.7	27.8	4.9	3.3	19.6	26.9	5.1	2.8	19.0
3. Himachal Pradesh	27.1	5.9	4.3	16.9	25.2	6.1	4.8	14.4	24.9	6.2	4.2	14.5	24.1	6.2	3.7	14.3
4. Jammu and Kashmir	42.8	6.7	2.6	33.5	45.4	7.7	3.2	34.5	51.1	8.0	3.4	39.6	53.4	8.3	3.1	42.0
5. Manipur	53.5	2.2	2.6	48.7	61.0	2.7	4.0	54.4	70.1	3.1	4.7	62.4	66.2	3.6	5.6	57.0
6. Meghalaya	28.4	3.9	2.4	22.1	29.2	3.8	2.3	23.1	34.7	3.7	2.2	28.8	35.0	3.7	2.1	29.2
7. Mizoram	61.6	2.2	4.2	55.3	69.7	2.5	4.2	63.0	75.3	2.7	3.4	69.2	68.1	2.5	3.5	62.1
8. Nagaland	44.6	2.0	1.7	40.9	48.2	2.2	2.6	43.4	51.5	2.0	1.8	47.6	64.1	2.4	2.0	59.7
9. Sikkim	109.5	8.4	56.3	44.9	102.3	7.1	46.1	49.1	119.0	6.3	45.0	67.8	107.9	6.4	38.4	63.2
10. Tripura	32.9	3.3	0.9	28.7	34.5	3.7	1.3	29.5	36.6	4.1	1.2	31.3	40.2	4.9	1.4	33.9
11. Uttarakhand	22.2	7.5	2.1	12.6	21.5	7.6	1.7	12.2	23.4	7.5	3.0	12.8	22.7	7.5	2.1	13.1
All States#	12.2	5.8	1.4	4.9	12.4	5.8	1.5	5.2	12.3	5.6	1.5	5.3	11.6	5.4	1.3	4.9
<i>Memo Item:</i>																
1. NCT Delhi	10.1	8.2	1.2	0.6	9.9	7.3	1.4	1.1	11.0	6.8	1.8	2.4	9.8	7.0	1.8	1.0
2. Puducherry	24.0	6.9	6.9	10.1	20.9	6.2	5.3	9.4	22.0	6.9	5.1	10.0	21.3	8.7	6.5	6.2

Avg. : Average. RE : Revised Estimates.

RR : Revenue Receipts. OTR : Own Tax Revenue.

ONTR : Own Non-Tax Revenue. CT : Current Transfers.

GSDP : Gross State Domestic Product.

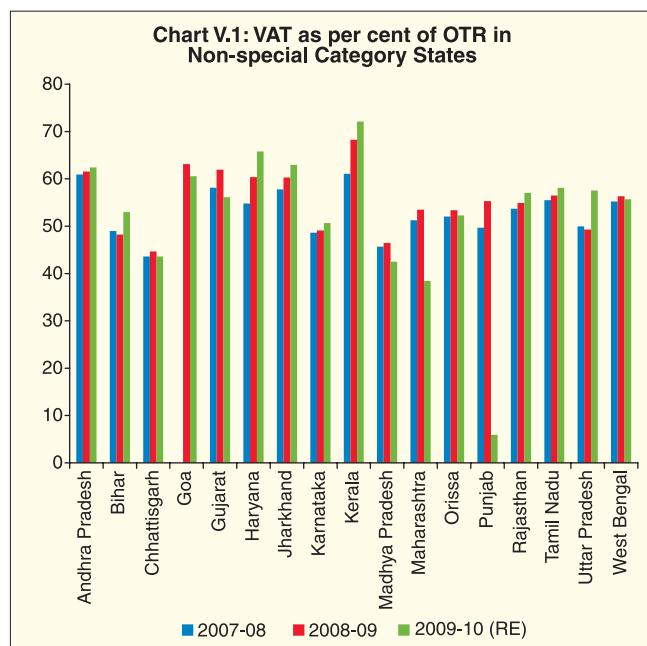
* : Data for Puducherry pertain to 2006-07.

: Data for All States are as per cent to GDP.

Source: Based on Budget Documents of the State Governments.

slowdown, VAT receipts as a per cent of OTR increased in the case of 9 non-special category States in 2009-10 (RE). Andhra Pradesh registered the highest VAT receipts-GSDP (VAT-OTR) ratio of 6.2 per cent, followed by Kerala (5.8 per cent) and Tamil Nadu (5.4 per cent). In 2010-11 (BE), ten non-special category States are expected to record

higher VAT-OTR ratios, reflecting better growth prospects. The proposal to implement GST to replace VAT, along with some other indirect taxes, is still under discussion, but when implemented it would simplify the system of taxation, improve efficiency and increase tax buoyancy and compliance (Chart V.1).



Revenue Expenditure

5.20 In recent years, the expenditure strategy of State governments is manifested in efforts to control non-development revenue expenditure, mostly administrative services and debt services expenditure, so as to provide more resources for development expenditure in social sectors. Although the level of revenue expenditure increased steadily in absolute terms during 2004-05 to 2007-08, the RE-GDP ratio recorded a decline due to various expenditure reform measures. The RE-GDP ratio, however, increased in 2008-09 due to the upward revision of wages and salaries in some States. An increase in RE-GSDP ratio was seen in all non-special category States except Andhra Pradesh, Bihar, Haryana, Karnataka, Kerala and Punjab in 2008-09. Development revenue expenditure as a ratio to GSDP (DRE-GSDP) also increased in non-special category States; the exceptions were Karnataka and Punjab, which witnessed a marginal decline in 2008-09. Within development revenue expenditure, the expenditure on social services increased substantially, while growth in expenditure on economic services decelerated in many States (Table V.4 and Statements 12 and 13).

5.21 Reflecting the impact of fiscal stimulus measures undertaken to sustain the growth

momentum in 2009-10, the RE-GSDP ratio increased across non-special category States; the exceptions were Karnataka, Kerala and Tamil Nadu, where the ratio showed a marginal decline. It may be noted that Kerala was among the few States which announced a dedicated fiscal stimulus package in 2009-10. The focus, in general, was more on undertaking development activities, resulting in higher DRE-GDP ratio at a consolidated level. However, the increase in RE-GSDP was largely due to higher non-development revenue expenditure in the case of Jharkhand, Uttar Pradesh and West Bengal. In States like Andhra Pradesh, Chhattisgarh and Haryana, development expenditure accounted for more than 70 per cent of total revenue expenditure in 2009-10 (RE), while it was less than 50 per cent in the case of Kerala and Punjab. While education, sports, art & culture, medical & public health and rural development continued to be priority areas of development, there were significant differences across States in the order of prioritising expenditure. The States of Jharkhand, Madhya Pradesh, Andhra Pradesh, Uttar Pradesh, Karnataka and Bihar seem to be better placed in terms of primary revenue surplus as a ratio to interest payments (Chart V.2).

5.22 A State-wise comparison shows that Bihar with the highest DRE-GSDP ratio as well as NDRE-GSDP ratio recorded the highest RE-GSDP ratio in 2009-10 (RE). Jharkhand registered the second highest RE-GSDP ratio, followed by Goa. Apart from Bihar, the DRE-GSDP ratio remained relatively higher in some States, viz., Goa, Chhattisgarh, Jharkhand and Andhra Pradesh, than in other States. Haryana, Chhattisgarh and Gujarat displayed comparatively lower NDRE-GSDP ratios in 2009-10 (RE). Within non-development revenue expenditure, interest payments as a ratio to GSDP (IP-GSDP) increased in five non-special category States in 2009-10 (RE), while in three States it has remained almost stable. In general, the IP-GSDP ratio showed a gradual decline during the 2000s (till 2008-09) reflecting the impact of the Debt Swap Scheme and the Debt Consolidation and Relief Facility (DCRF) recommended by the Eleventh and Twelfth

Table V.4: Revenue Expenditure of State Governments

(Per cent)

State	2005-08 (Avg.)*					2008-09					2009-10 (RE)					2010-11 (BE)				
	RE/ GSDP	DRE/ GSDP	NDRE/ GSDP	IP/ GSDP	PN/ GSDP	RE/ GSDP	DRE/ GSDP	NDRE/ GSDP	IP/ GSDP	PN/ GSDP	RE/ GSDP	DRE/ GSDP	NDRE/ GSDP	IP/ GSDP	PN/ GSDP	RE/ GSDP	DRE/ GSDP	NDRE/ GSDP	IP/ GSDP	PN/ GSDP
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17				
I. Non-Special Category																				
1. Andhra Pradesh	15.3	9.7	5.6	2.6	1.5	16.4	11.3	5.0	2.1	1.5	18.3	12.8	5.4	2.2	1.7	19.9	13.4	6.5	2.3	1.9
2. Bihar	21.2	12.0	9.2	3.8	2.7	20.0	12.6	7.4	2.6	2.4	24.3	15.2	9.1	2.7	3.0	24.2	15.0	9.2	2.7	3.5
3. Chhattisgarh	14.0	9.2	4.1	1.6	0.9	14.5	10.2	3.8	1.1	1.0	17.4	13.0	3.9	1.0	1.0	18.5	13.3	4.8	1.1	1.2
4. Goa	16.3	11.1	5.2	2.8	1.0	17.3	12.0	5.4	2.6	1.1	20.1	13.9	6.2	2.5	1.8	19.5	13.1	6.4	2.5	1.9
5. Gujarat	11.1	6.4	4.7	2.6	0.9	11.5	7.5	4.0	2.3	0.9	12.6	8.2	4.3	2.3	1.1	12.4	7.9	4.5	2.3	1.0
6. Haryana	11.9	7.9	3.8	1.7	0.9	11.2	7.8	3.3	1.3	0.9	12.7	9.0	3.7	1.4	1.0	11.6	7.9	3.6	1.6	0.9
7. Jharkhand	18.2	11.9	6.2	1.8	1.2	20.4	13.1	7.3	2.8	1.5	20.7	12.9	7.8	2.7	2.1	18.3	11.8	6.5	2.4	1.5
8. Karnataka	15.7	9.9	5.0	2.0	1.3	15.4	10.0	4.5	1.7	1.5	15.4	10.1	4.5	1.8	1.2	16.2	10.4	4.9	1.9	1.4
9. Kerala	14.7	6.8	7.0	2.8	2.5	14.9	7.0	6.7	2.5	2.5	14.3	6.8	6.3	2.4	2.2	14.2	6.9	6.2	2.4	2.2
10. Madhya Pradesh	17.1	9.7	6.4	2.9	1.3	17.2	10.2	5.9	2.4	1.4	19.5	11.9	6.4	2.5	1.6	20.9	12.3	7.1	2.5	1.7
11. Maharashtra	11.5	6.7	4.6	2.1	0.7	10.9	6.9	3.8	1.8	0.7	12.2	8.0	4.0	1.7	0.8	11.8	7.4	4.3	1.8	0.8
12. Orissa	16.3	8.5	7.6	3.6	1.6	15.9	10.4	5.2	2.2	1.6	19.4	11.9	7.2	2.4	2.6	19.1	11.7	7.2	2.3	2.6
13. Punjab	16.0	6.7	9.0	3.3	1.6	14.8	6.2	8.5	3.0	1.7	15.4	6.9	8.2	2.8	1.6	15.4	6.9	8.0	2.7	1.4
14. Rajasthan	16.5	9.9	6.6	3.7	1.4	17.0	10.6	6.4	3.1	1.6	18.7	11.5	7.3	3.1	2.3	18.0	11.1	6.9	3.1	2.1
15. Tamil Nadu	13.8	7.5	5.4	2.0	1.9	15.8	9.1	5.5	1.8	2.3	15.6	9.2	5.3	1.8	2.1	15.2	8.6	5.5	1.8	2.3
16. Uttar Pradesh	17.6	9.1	7.6	3.2	1.6	18.4	10.4	7.2	2.8	1.7	19.6	10.2	8.6	2.5	2.3	21.7	11.4	9.5	2.6	2.5
17. West Bengal	13.0	6.2	6.7	4.0	1.4	14.6	8.6	5.9	3.4	1.3	15.2	8.1	7.0	3.2	2.2	13.2	7.5	5.6	2.9	1.3
II. Special Category																				
1. Arunachal Pradesh	57.0	40.6	16.4	4.9	2.5	63.3	46.2	17.1	4.8	2.5	76.2	53.1	23.1	4.8	3.2	55.1	39.4	15.6	4.5	2.6
2. Assam	17.9	11.0	6.9	2.4	1.8	18.0	10.4	6.8	2.0	1.8	33.9	16.6	14.2	2.4	2.7	32.9	19.3	10.1	2.4	2.6
3. Himachal Pradesh	25.9	14.8	11.1	5.7	2.9	25.6	14.9	10.6	5.1	3.1	25.3	15.0	10.3	4.7	3.1	25.2	14.4	10.8	4.7	3.9
4. Jammu and Kashmir	36.0	21.0	15.0	5.1	3.2	35.8	20.4	15.4	4.6	3.3	39.4	22.4	17.1	5.3	3.9	41.1	22.4	18.7	5.3	4.2
5. Manipur	41.2	25.7	15.4	5.0	3.8	41.3	24.1	17.3	4.9	4.2	47.4	27.7	17.9	4.9	4.2	49.9	30.1	18.7	4.5	4.9
6. Meghalaya	26.2	16.7	9.5	2.7	1.5	27.9	18.2	9.8	2.2	1.8	32.7	23.0	9.6	2.2	1.6	32.3	23.1	9.2	2.1	1.6
7. Mizoram	56.8	37.1	19.7	6.8	2.9	60.7	39.6	21.1	5.9	3.3	69.3	45.6	23.7	6.1	3.8	60.9	38.7	22.2	5.1	4.3
8. Nagaland	38.1	20.6	17.5	4.5	3.5	40.9	21.8	19.1	4.4	3.2	46.0	25.3	20.7	4.8	4.0	52.3	29.5	22.8	4.9	5.9
9. Sikkim	97.1	32.5	64.7	5.5	2.3	87.8	35.8	52.0	5.5	2.3	96.9	42.8	54.1	5.8	4.2	91.9	43.2	48.0	5.9	4.4
10. Tripura	25.1	13.0	11.6	3.8	2.7	26.5	14.5	11.3	3.3	3.0	35.0	19.6	14.7	3.6	4.2	34.4	17.8	15.8	3.7	4.4
11. Uttarakhand	20.7	12.4	7.6	3.1	1.7	20.9	12.5	7.7	3.0	2.1	25.7	15.7	9.2	3.2	2.8	22.4	13.7	7.7	2.9	1.9
All States#	11.8	6.6	4.8	2.1	1.1	12.2	7.4	4.5	1.8	1.2	13.0	7.9	4.8	1.8	1.3	11.9	7.1	4.5	1.6	1.2
<i>Memo Item:</i>																				
1. NCT Delhi	6.4	3.7	2.2	1.7	—	7.1	4.7	2.1	1.5	—	7.5	5.2	2.0	1.4	—	6.7	4.7	1.8	1.2	0.0
2. Puducherry	24.3	18.7	5.6	2.4	1.3	21.8	16.0	5.8	2.2	1.4	25.1	18.4	6.7	2.2	2.2	23.0	18.5	4.4	1.9	1.0

Avg. : Average.

RE : Revised Estimates.

RE : Revenue Expenditure.

DRE : Development Revenue Expenditure.

NDRE : Non-development Revenue Expenditure.

IP : Interest Payment.

PN : Pension.

GSDP : Gross State Domestic Product.

— : Nil/Negligible/Not applicable.

* : Data for Puducherry pertain to 2006-07.

: Data for All States are as per cent to GDP.

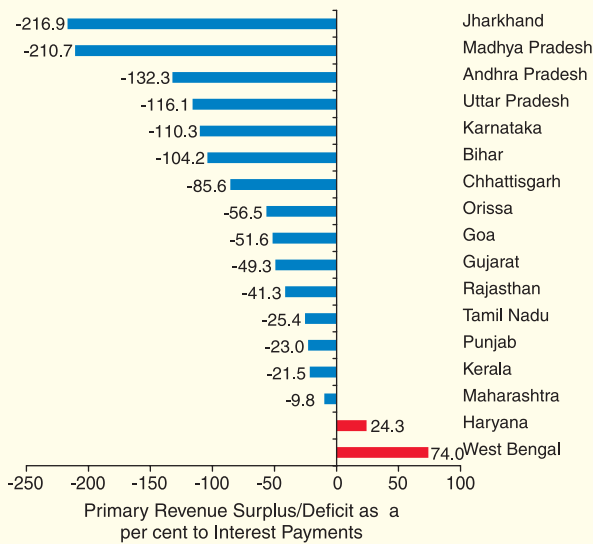
Source: Based on Budget Documents of the State Governments.

FCs, respectively. Not having benefited from these facilities, the IP-GSDP ratio was the highest in West Bengal in 2009-10 (RE). Therefore, interest payments continued to pre-empt a significant

portion of revenue receipts in West Bengal, followed by Punjab, Gujarat and Kerala. Similarly, pension payments as a ratio to GSDP was observed to be higher across the majority of non-

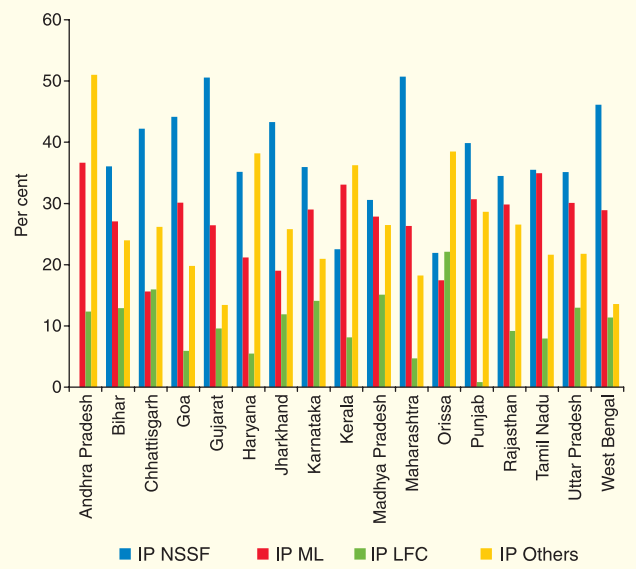
State-wise Analysis of Fiscal Performance

Chart V.2: Financing of Interest Payments by Primary Revenue Balance in Non-special Category States - 2009-10 (RE)



special category States in 2009-10 (RE), as the level of pension obligations of State governments might have increased under the Sixth Central/ State Pay Commissions. In 2009-10 (RE), pension expenditure rose sharply in West Bengal (102.8 per cent), Orissa (91.4 per cent), Goa (87.0 per cent), Uttar Pradesh (65.4 per cent), Jharkhand (53.1 per cent) and Rajasthan (50.8 per cent) (Statement 17, Chart V.3 and Chart V.4).

Chart V.4: Composition of Interest Payments in Non-special Category States - 2009-10 (RE)



5.23 In 2010-11(BE), 11 non-special category States have budgeted lower RE-GSDP ratios. Non-special category States would account for 88.2 per cent of the total decline in consolidated RE/GDP ratio in 2010-11 (BE). The decline in the RE-GSDP ratio is expected to be more than 1 percentage point in Haryana, Jharkhand and West Bengal.

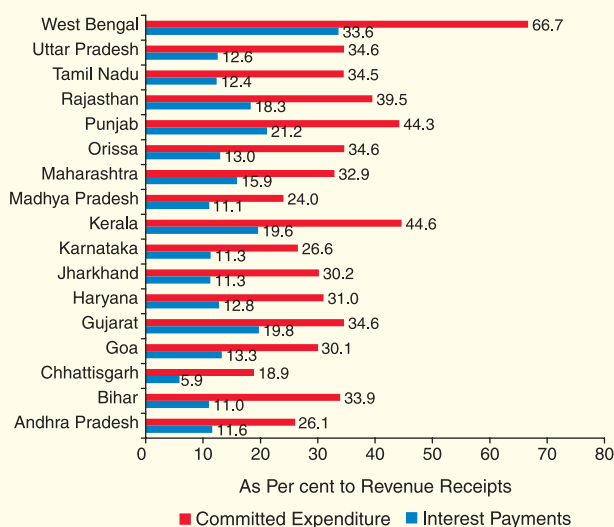
Special Category States

5.24 Revenue receipts in special category States are driven by transfers from the Centre in the form of revenue-gap grants. Given the low level of economic activity in most special category States, the impact of unfavourable macroeconomic developments in the previous two years on the fiscal position of these States was relatively limited.

Revenue Receipts

5.25 During 2008-09, among the special category States, the RR-GSDP ratio declined in three States, viz., Himachal Pradesh, Sikkim and Uttarakhand, which were mainly affected through lower transfers from the Centre in the form of grants (except Sikkim) and tax devolution (as a ratio to GSDP). While the OTR-GSDP ratio was lower in the case of Sikkim, the ONTR-GSDP ratio was lower in Assam, Himachal Pradesh, Meghalaya, Sikkim and Uttarakhand in

Chart V.3: Pre-emption of Revenue Receipts by Interest Payments and Committed Expenditure in Non-special Category States - 2009-10 (RE)



2008-09. All special category States, barring Jammu and Kashmir received lower receipts by way of their share in Central taxes which were adversely affected during 2008-09. In contrast, grants-in-aid as a ratio to GSDP (GR-GSDP) were found to be higher in special category States, except Himachal Pradesh, Manipur, Tripura and Uttarakhand.

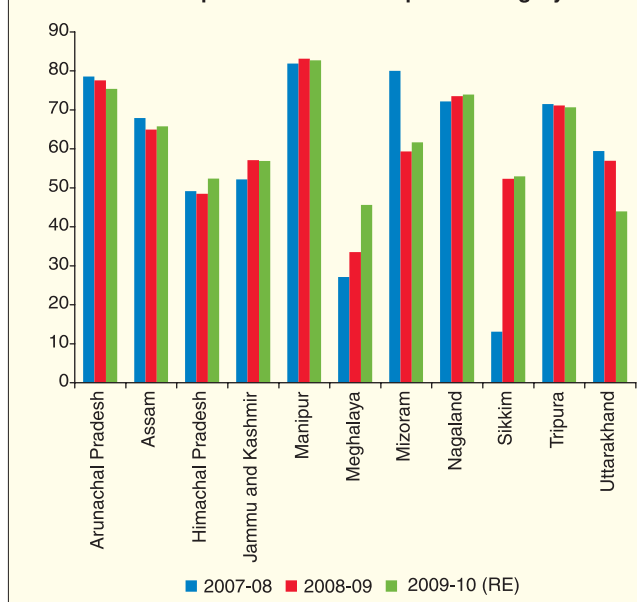
5.26 In 2009-10 (RE), the RR-GSDP ratio was found to be lower only in the case of Himachal Pradesh mainly due to the lower ONTR-GSDP as well as the decline in tax devolutions from the Centre. Special category States which suffered a modest setback in terms of OTR-GSDP ratio included Arunachal Pradesh, Assam, Meghalaya, Nagaland, Sikkim and Uttarakhand. Apart from Himachal Pradesh, five other States, viz., Meghalaya, Mizoram, Nagaland, Sikkim, and Tripura, witnessed lower ONTR-GSDP ratios in 2009-10 (RE). Even though all special category States received lower tax transfers in terms of GSDP in 2009-10 (RE), higher grants provided by the Centre compensated for the same (Statements 18-23).

5.27 Among special category States, six States recorded lower VAT-OTR ratios in 2008-09. In 2009-10 (RE), five special category States, viz., Arunachal Pradesh, Jammu and Kashmir, Manipur, Tripura and Uttarakhand, recorded lower VAT-OTR ratios. In 2009-10 (RE), Manipur recorded the highest VAT-OTR ratio at 82.7 per cent, followed by Arunachal Pradesh and Nagaland (Chart V.5). In terms of GSDP, VAT collections were highest in Jammu and Kashmir and lowest in Nagaland in 2009-10 (RE) among the special category States. While Jammu and Kashmir continues to be at the top in terms of VAT-GSDP ratio in 2010-11 (BE), Mizoram was at the bottom.

Revenue Expenditure

5.28 In 2008-09, revenue expenditure as a ratio of GSDP increased in eight special category States, viz., Arunachal Pradesh, Assam, Manipur, Mizoram, Meghalaya, Nagaland, Tripura and Uttarakhand. While Arunachal Pradesh recorded the highest increase in RE-GSDP ratio in 2008-09 (Accounts) on account of increase in development expenditure, Sikkim registered the highest decline

Chart V.5: VAT as per cent of OTR in Special Category States



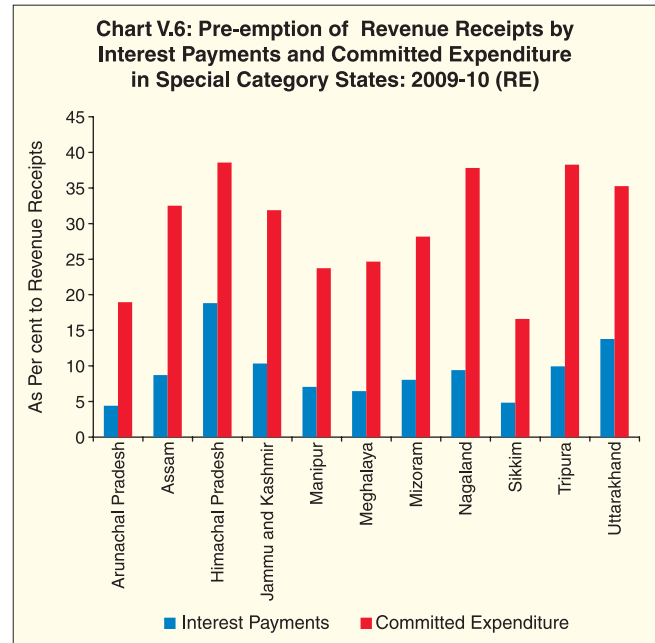
in RE-GSDP ratio mainly due to the lower DRE-GSDP ratio. Among special category States, RE-GSDP ratio was the highest in Sikkim (87.8 per cent), followed by Arunachal Pradesh (63.3 per cent) and Mizoram (60.7 per cent). Within revenue expenditure, DRE-GSDP ratio was higher in all special category States except Assam and Himachal Pradesh in 2008-09. During the same period, Assam, Jammu and Kashmir, Sikkim and Tripura witnessed a decline in the non-development component of revenue expenditure (NDRE) as a percentage of GSDP. Mizoram registered the highest increase in NDRE-GSDP ratio in 2008-09 over 2007-08, followed by Arunachal Pradesh. The IP-GSDP ratio showed a decline in all special category States except Arunachal Pradesh, Nagaland and Sikkim. However, pension payments as a per cent of GSDP increased in all special category States, except Assam, Arunachal Pradesh, Jammu and Kashmir and Nagaland during the same period.

5.29 In 2009-10 (RE), all special category States, except Himachal Pradesh, recorded increases in the RE-GSDP ratio. The DRE-GSDP ratio increased in all special category States in 2009-10 (RE). Two special category States, viz., Himachal Pradesh and Meghalaya, posted a decline in the NDRE-GSDP ratio during the same period. Within the

category of non-development revenue expenditure, the IP-GSDP ratio was found to be higher in all special category States except Himachal Pradesh and Manipur, while pensions as a ratio of GSDP showed a decline in Himachal Pradesh, Manipur and Meghalaya (Table V.4).

5.30 Interest payments on loans from the Centre contributed a small portion of total interest payments in most special category States in 2009-10 (RE). The share of interest payments on NSSF securities was the highest in Uttarakhand, followed by Assam and Tripura, while it was only 4.0 per cent in the case of Nagaland. Nagaland registered the highest interest payments on market loans, followed by Mizoram and Meghalaya.

5.31 In 2010-11 (BE), a number of special category States, viz., Arunachal Pradesh, Assam, Himachal Pradesh, Meghalaya, Mizoram, Sikkim, Tripura and Uttarakhand have proposed to undertake lower revenue expenditure as a ratio to GSDP. To ensure a decline in the RE-GSDP ratio, States like Arunachal Pradesh, Himachal Pradesh, Mizoram, Tripura and Uttarakhand plan to reduce the DRE-GSDP ratio, while Arunachal Pradesh, Assam, Meghalaya, Mizoram, Sikkim and Uttarakhand have budgeted a lower NDRE-GSDP ratio in 2010-11. Within non-development revenue expenditure, the IP-GSDP ratio is expected to be lower in the case of Arunachal Pradesh, Himachal Pradesh, Manipur, Meghalaya, Mizoram and Uttarakhand, while pension expenditure as a ratio to GSDP is likely to increase in all special category States except Arunachal Pradesh, Assam and Uttarakhand. It is observed that committed revenue expenditure (CE), including interest payments, administrative services, and pensions, is quite high for special category States. Himachal Pradesh with a CE-RR ratio of 38.6 per cent leads the pack of non-special category States, followed by Tripura and Nagaland in 2009-10 (RE). Himachal Pradesh recorded the highest IP-RR ratio of 18.8 per cent, followed by Uttarakhand and Jammu and Kashmir in 2009-10 (RE). In 2010-11 (BE), the IP-RR ratio is expected to be the highest in Himachal Pradesh, followed by Uttarakhand (Statements 17, 36 and 37 and Chart V.6).



4. Expenditure Pattern of State Governments

5.32 In recent years, the pattern of State expenditure has shown a desirable shift as evident in the ratio of revenue deficit to fiscal deficit. The ratio, which indicates the extent to which borrowings are used to meet current expenditure, declined from nearly 64.1 per cent in 2001-02 to 7.8 per cent in 2005-06, before improving further in 2006-07 and 2007-08 with the emergence of revenue surplus. The consolidated revenue surplus during 2006-07 to 2008-09 indicated that a portion of total revenue receipts was used to undertake capital expenditure. This shift in favour of capital expenditure has been the result of expenditure management policies with a focus on linking expenditure to monitorable as well as quantifiable physical outputs and outcomes, while also placing greater emphasis on increasing the capital outlay. Some special category States have provided adequate funding to ensure that projects in the pipeline are completed. The quality of expenditure management undertaken by States can be examined by analysing the pattern of expenditure in terms of development expenditure, capital outlay and social sector expenditure, even though they are not mutually exclusive categories of expenditures. The data on these expenditure categories for the period 2005-08 (Average), 2008-09 and 2009-10 (RE) and 2010-11 (BE) for

both non-special and special category States are presented in Table V.5. A salient point that emerges from this analysis is the decline in the ratio of major expenditure categories (*i.e.*, development expenditure, capital outlay and social sector expenditure) to GDP in 2010-11 (BE), which has important implications for the growth and development prospects of States in the medium to long run.

Non-special Category States

5.33 Non-special category States as a group exhibited an increase in development expenditure (both revenue and capital) as a ratio to aggregate expenditure (DE-AE) from 2004-05 to 2008-09. This was reflected in a higher DE-AE ratio of 64.3 per cent at a consolidated level in 2008-09 as against 51.8 per cent in 2004-05. There was, however, some deviation from this trend as States had to undertake additional expenditure obligations related to upward revision of salaries and fiscal stimulus measures during 2009-10 (RE). As a result, the DE-AE ratio was lower in Gujarat, Jharkhand, Orissa, Rajasthan Tamil Nadu, Uttar Pradesh and West Bengal in 2009-10 (RE). The DE-AE ratio was the highest in Chhattisgarh, followed by Haryana, while it was the lowest in Punjab and Kerala. In 2010-11 (BE), the DE-AE ratio is expected to decline as 15 non-special category States have budgeted lower DE-AE ratios as compared with 2009-10 (RE).

5.34 Notwithstanding the above, the development expenditure in terms of GDP (DE-GDP) showed a steady increase during 2004-05 to 2009-10 (RE). Although there was an improvement in the DE-GDP ratio at the consolidated level in 2009-10 (RE), a few States, *viz.*, Gujarat, Jharkhand, Kerala, Tamil Nadu, Uttar Pradesh and West Bengal, recorded a decline in DE-GSDP ratio. Development expenditure as a ratio to GSDP (DE-GSDP) was the highest in Bihar, followed by Goa while it was the lowest in Kerala and Punjab. In 2010-11 (BE), all non-special category States except Andhra Pradesh, Chhattisgarh, Karnataka, Kerala and Uttar Pradesh have budgeted a decline in DE-GSDP

ratios (Table V.5 and Statement 12). While non-development expenditure as a ratio to GSDP is expected to increase in 13 non-special category States in 2010-11 (BE), in absolute terms it is expected to increase in all non-special category States, barring Jharkhand and West Bengal (Statement 13).

5.35 Social sector expenditure as a ratio to GSDP (SSE-GSDP) increased in 14 non-special category States in 2009-10 (RE) and declined or remained stable in three States, *viz.*, Jharkhand, Kerala and Tamil Nadu in 2009-10 (RE). Bihar and Chhattisgarh remained among the States with high SSE-GSDP ratios, while the same was the lowest in Punjab. In 2010-11 (BE), nine non-special category States expect to spend less on social sector expenditure in terms of GSDP; these include Bihar, Gujarat, Haryana, Jharkhand, Orissa, Punjab, Rajasthan, Tamil Nadu and West Bengal. However, Bihar and Chhattisgarh will continue to have high SSE-GSDP ratios, while Punjab and Kerala expect to record low SSE-GSDP ratios in 2010-11 (BE) (Table V.5 and Statements 41, 42, 46 and 47).

5.36 As regards capital outlays, an upward trend in CO-GDP was observed from 2004-05 to 2008-09 but halted in 2009-10 (RE). Of 17 non-special category States, nine States recorded a decline in the CO-GSDP ratio in 2009-10 (RE); these States were Chhattisgarh, Gujarat, Haryana, Jharkhand, Maharashtra, Rajasthan, Tamil Nadu, Uttar Pradesh and West Bengal. Bihar recorded the highest CO-GSDP ratio, followed by Goa and Uttar Pradesh, while West Bengal, Haryana and Punjab fell in the category of States with low CO-GSDP ratios. In 2010-11 (BE), the CO-GSDP ratio is expected to fall in nine non-special category States. The sharpest fall in CO-GSDP is budgeted in Andhra Pradesh and Uttar Pradesh (by 0.6 percentage points). West Bengal, Punjab and Kerala are expected to continue with low CO-GSDP ratios among the non-special category States. The top States in terms of CO-GSDP ratio in 2010-11 are expected to be the same as in the previous fiscal year, *viz.*, Bihar, Goa and Uttar Pradesh (Table V.5).

Table V.5: Expenditure Pattern of State Governments

(Per cent)

State	2005-08 (Avg.)*			2008-09			2009-10 (RE)			2010-11 (BE)		
	DEV/ GSDP	SSE/ GSDP	CO/ GSDP	DEV/ GSDP	SSE/ GSDP	CO/ GSDP	DEV/ GSDP	SSE/ GSDP	CO/ GSDP	DEV/ GSDP	SSE/ GSDP	CO/ GSDP
1	2	3	4	5	6	7	8	9	10	11	12	13
I. Non-Special Category												
1. Andhra Pradesh	13.7	6.8	3.6	15.0	8.3	2.7	17.1	8.5	3.9	17.2	9.1	3.3
2. Bihar	17.2	11.4	4.4	17.4	11.5	4.5	21.5	13.9	6.1	21.4	13.7	6.2
3. Chhattisgarh	13.3	8.7	3.4	13.7	9.3	3.1	16.6	12.4	2.8	18.0	12.7	3.8
4. Goa	14.7	6.6	4.2	15.8	7.4	4.5	18.3	9.0	5.3	17.2	8.7	5.5
5. Gujarat	9.3	4.9	2.8	10.6	5.4	3.0	10.4	6.0	2.1	10.3	6.1	2.4
6. Haryana	9.8	4.5	1.9	10.3	5.4	2.5	11.2	6.2	1.9	9.9	5.6	1.4
7. Jharkhand	18.3	11.5	4.6	18.6	13.0	5.2	18.0	12.1	4.5	16.2	11.0	4.2
8. Karnataka	13.6	6.9	3.6	13.7	7.6	3.6	13.9	8.6	3.7	14.2	8.6	3.6
9. Kerala	7.8	5.5	0.7	8.4	5.7	0.9	8.0	5.7	0.9	8.8	6.0	1.7
10. Madhya Pradesh	15.1	8.1	4.7	15.2	8.6	3.9	18.0	9.9	4.2	17.0	10.6	4.0
11. Maharashtra	9.2	5.3	2.0	9.7	5.3	2.7	10.2	6.3	2.1	9.3	6.3	1.8
12. Orissa	10.3	6.7	1.7	13.2	8.3	2.8	14.7	9.8	2.8	14.5	9.3	2.7
13. Punjab	8.4	3.7	1.7	7.8	4.1	1.7	8.6	4.8	1.9	8.2	4.6	1.4
14. Rajasthan	13.3	8.3	3.4	13.7	9.6	2.9	14.5	10.2	2.5	13.9	9.5	3.1
15. Tamil Nadu	10.1	6.3	2.1	12.6	7.9	2.7	11.9	7.6	2.3	11.4	7.5	2.8
16. Uttar Pradesh	13.3	7.8	4.1	15.8	9.6	5.4	15.4	9.8	5.1	15.8	10.4	4.5
17. West Bengal	7.4	5.1	0.8	9.8	5.5	1.0	9.2	7.2	1.0	8.7	6.7	1.1
II. Special Category												
1. Arunachal Pradesh	57.0	24.9	17.0	74.2	28.2	28.4	90.7	35.7	36.0	49.3	18.4	30.8
2. Assam	13.3	8.1	2.2	13.5	8.5	3.0	21.9	13.4	5.4	22.7	14.0	3.4
3. Himachal Pradesh	18.5	11.4	3.8	20.6	12.4	5.6	20.0	11.6	5.0	18.3	10.9	3.7
4. Jammu and Kashmir	32.5	15.4	13.1	34.3	16.1	16.2	36.9	18.0	17.3	36.4	18.6	16.7
5. Manipur	39.5	19.3	15.7	46.3	22.8	23.1	53.5	24.3	27.4	49.1	23.2	21.8
6. Meghalaya	20.9	12.0	4.3	23.6	12.7	5.5	30.1	16.4	7.4	28.3	15.7	5.5
7. Mizoram	53.0	26.7	15.9	51.0	30.2	11.6	60.3	38.7	15.2	46.8	27.8	8.1
8. Nagaland	30.5	15.4	11.3	31.8	15.8	12.1	40.4	19.7	17.3	42.0	21.7	15.4
9. Sikkim	48.9	27.7	17.7	56.3	31.3	23.4	71.9	40.6	32.7	69.4	37.6	26.8
10. Tripura	19.9	12.2	7.8	23.2	14.2	10.2	32.4	20.7	14.6	27.2	16.7	12.8
11. Uttarakhand	18.4	10.4	6.0	17.3	10.4	5.0	22.1	13.3	6.1	17.5	11.6	3.7
All States#	9.1	5.2	2.3	10.2	5.9	2.6	10.5	6.4	2.4	9.3	5.8	2.1
<i>Memo Item:</i>												
1. NCT Delhi	7.4	4.5	1.8	8.9	5.4	2.4	9.4	5.6	2.5	8.3	4.9	2.2
2. Puducherry	22.2	10.5	3.9	18.0	9.0	2.2	21.3	11.8	3.2	23.2	13.3	5.0

Avg. : Average.

RE : Revised Estimates.

DEV : Development Expenditure.

SSE : Social Sector Expenditure.

CO : Capital Outlay.

GSDP : Gross State Domestic Product.

* : Data for Puducherry pertain to 2006-07.

: Data for All States are as per cent to GDP.

Source: Based on Budget Documents of the State Governments.

Special Category States

5.37 The focus on undertaking development spending has been noticed in special category States as evident from a steady increase in the growth rate in development expenditure in these States during 2005-06 to 2009-10 (RE). The uptrend in development expenditure was also

discernible in 2009-10 (RE) in terms of growth rate as well as the DE-GSDP ratio in most States. Development expenditure increased by 39.9 per cent in 2009-10 (RE) compared with an increase of 16.1 per cent in 2008-09, with 10 States recording higher DE-GSDP ratios during the same period. However, the share of development expenditure in aggregate expenditure (DE-AE) was

lower in 2009-10 (RE) in the case of Arunachal Pradesh, Assam, Jammu and Kashmir and Mizoram. While the highest DE-AE was recorded in Arunachal Pradesh, the lowest DE-AE ratio was witnessed in Sikkim. In 2010-11 (BE), the rate of growth in development expenditure is expected to decelerate significantly. All special category States except Assam and Nagaland are expected to record lower DE-GSDP ratios. The DE-GSDP ratio is budgeted to be the highest in Sikkim and the lowest in Uttarakhand (Table V.4).

5.38 State-wise analysis in terms of social sector expenditure shows that the SSE-GSDP ratio witnessed an increase in all special category States, except Himachal Pradesh, in 2009-10 (RE). Sikkim and Mizoram recorded the highest increase in the SSE-GSDP ratio, while Himachal Pradesh recorded a decline of 0.8 percentage points in the ratio in 2009-10 (RE). In 2010-11 (BE), 8 out of 11 special category States have budgeted lower SSE-GSDP ratios. While the decline in the SSE-GSDP ratio is expected to be significant in Arunachal Pradesh and Mizoram, it is budgeted to be relatively modest in six other special category States (Statements 46 and 47).

5.39 All special category States, except Himachal Pradesh, witnessed an increase in the CO-GSDP ratio in 2009-10 (RE) with Arunachal Pradesh and Sikkim registering the highest increases during the same period. However, the uptrend in the CO-GSDP ratio is expected to reverse in 2010-11 (BE). All special category States have budgeted lower CO-GSDP ratios, with the decline being sharp in Mizoram, Sikkim, Manipur and Arunachal Pradesh (Table V.4).

5. Conclusion

5.40 An analysis of State finances during 2008-09 to 2010-11 shows that finances in most States were adversely affected by the implementation of the recommendations of the Sixth/ State(s) Pay Commission during 2008-09 and 2009-10. Besides,

many States initiated expansionary fiscal measures in the form of tax concessions and exemptions and increased expenditure, particularly in 2009-10, in order to moderate the impact of the overall macroeconomic slowdown. Revenue receipts were significantly impacted in the case of many non-special category States, while the impact was quite modest in the finances of special category States. Reflecting the higher RD-GSDP ratio, most of non-special category States recorded higher GFD-GSDP ratios in 2009-10 (RE). The revenue account was adversely impacted in 18 States and the number of States with a revenue surplus decreased from 21 in 2008-09 to 14 in 2009-10 (RE). Of 28 States, 14 States (including 13 non-special category States) recorded a GFD-GSDP ratio of less than 4.0 per cent of GSDP although this was allowed by the Central Government. In 2010-11, 17 States have budgeted revenue surplus. In the majority of the States, the RR-GSDP ratio is expected to be higher, even though the RE-GSDP ratio is budgeted to be lower. In 2010-11 (BE), the OTR-GSDP ratio is likely to be higher, while improvement in the ONTR-GSDP ratio is expected in only a few States. Similarly, the majority of the States expect to receive higher tax devolutions from the Centre, which is reflected in higher CT-GSDP ratios across States. Reflecting the improvement in the revenue account across the majority of the States, the budgeted GFD-GSDP ratios are lower in 22 States in 2010-11 (BE). The persistence of the revenue deficit in 11 States indicates that these States would continue to use their borrowed resources to finance their revenue expenditures.

5.41 The emerging pattern of expenditure across States shows that 21 States have budgeted lower DE-GSDP ratios in 2010-11. Similarly, the decline in the CO-GSDP ratio in 20 States may have implications for raising the growth potential in these States. The fiscal correction through adjustments in development and capital expenditures raises concerns about the quality of fiscal adjustment being envisaged at the State level.