STATE FINANCES: A STUDY OF BUDGETS OF 2008-09[1]

Introduction

The State Governments presented their budgets for 2008-09[2] against the backdrop of continued efforts to achieve fiscal correction and consolidation. The rule-based fiscal regime for the State Governments as stipulated in their respective Fiscal Responsibility Legislation (FRL) is slated to reach its final year during 2009-10 for majority of State Governments[3]. The efforts of State Governments towards reducing fiscal imbalances were aided by larger devolution and transfers from the Centre based on the recommendations of the Twelfth Finance Commission (TFC) along with improvement in tax buoyancy on the strength of macroeconomic fundamentals[4]. All States have implemented Value Added Tax (VAT) in *lieu* of State sales tax, which has turned out to be a buoyant source of revenues for the States.

The States, while presenting their budgets for 2008-09, announced a number of policy initiatives aimed at augmenting revenues and directing expenditure towards the priority areas. Allocations for agriculture and water conservation were proposed to be raised in 2008-09 by most of the States. All the States proposed higher expenditure on health and education sectors. State Governments also placed emphasis on development of infrastructure, with higher allocations for development of roads and urban transport. A few States proposed higher allocations for urban development and housing sectors. The State Governments are also undertaking construction of houses for low and middle income group families, slum dwellers and below poverty line families under various schemes, including Indira Awas Yojana and Jawaharlal Nehru National Urban Renewal Mission (JNNURM). A number of State Governments extended their support for providing health as well as life insurance benefits for the poor families. Several States also proposed computerisation of treasuries and tax departments. Some more States introduced gender budgeting for the empowerment of women.

The Government of India proposed various initiatives in the area of education, health, social security and agricultural insurance to provide support to the State Governments in their developmental role. The Reserve Bank, on its part, has been advising the State Governments on several issues, besides providing support in the form of ways and means advances (WMA)/ overdraft (OD) and raising of market borrowings. The Reserve Bank aided the State Governments in buy-back of outstanding State Development Loans (SDLs) and loans borrowed from the National Small Savings Fund (NSSF). The Reserve Bank has proposed to introduce non-competitive bidding in the auctions of State Government securities and aid State Governments in re-issuance of SDLs.

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2 An analysis of the consolidated fiscal position of State Governments based on the State budgets of twenty-eight States for 2008-09 has been published in the Reserve Bank of India Annual Report, 2007-08. This Study provides further details on the consolidated fiscal position of twenty-eight State Governments as also State-wise analysis covering budgetary data as well as additional information obtained from the State Governments and the Government of India. Information in respect of NCT Delhi and Puducherry are provided additionally as memo item.

3 All State Governments, except Sikkim and West Bengal, have enacted FRL.

4 In terms of Article 280 of the Indian Constitution, the Thirteenth Finance Commission was constituted on November 13, 2007, which will have an award period spanning 2010-15.

The remainder of the Study is organised as follows. Section II provides overview of the Study. Section III enumerates the policy initiatives of the State Governments, Government of India and of the Reserve Bank of India. Section IV gives analysis and assessment of the consolidated budgetary position of the State Governments. Section V brings out the State-wise assessment of the fiscal performance. Section VI provides an analysis and assessment of the outstanding liabilities, including market borrowings and contingent liabilities of the State Governments. As a special theme, an analysis of the trend and pattern of revenues of the States is presented in Section VII. The major emerging issues relating to State finances are presented in Section VIII followed by concluding observations.

Annex 1 sets out the State-wise major policy initiatives announced in the State budgets. The consolidated data on various fiscal indicators of the twenty-eight State Governments are set out in Appendix Tables 1-24, while State-wise data are provided in Statements 1-48. The detailed State-wise budgetary data are provided in the Appendix I-IV (Appendix I - Revenue Receipts, Appendix II - Revenue Expenditure, Appendix III - Capital Receipts, Appendix IV - Capital Expenditure).

II. OVERVIEW

The consolidated fiscal position of the State Governments has witnessed significant improvement in the recent years. The State Governments achieved a revenue surplus in 2006-07 (Accounts) (0.6 per cent of Gross Domestic Product (GDP) at market prices) for the first time after 1986-87. The surplus position is proposed to be maintained in the revised estimates (RE) for 2007-08 as well as the budget estimates (BE) for 2008-09 at 0.5 per cent of GDP. Reflecting the improvement on the revenue account, the ratio of gross fiscal deficit (GFD) to GDP was 1.9 per cent in 2006-07 (Accounts). GFD-GDP ratio was estimated higher at 2.3 per cent in 2007-08 (RE), but is budgeted to decline to 2.1 per cent during 2008-09. The increase in GFD-GDP ratio in 2007-08 (RE) over 2006-07 (Accounts) reflects an increase in capital outlay as a ratio to GDP to 2.7 per cent from 2.4 per cent. During 2008-09, the capital outlay to GDP ratio is budgeted to be maintained at 2.7 per cent. The State Governments generated a primary surplus (0.4 per cent of GDP) during 2006-07 (Accounts). However, in 2007-08 (RE) as well as 2008-09 (BE), the States have estimated primary deficit (PD) (0.1 per cent of GDP) in line with increase in GFD.

The key deficit indicators of the State Governments, *viz*., revenue deficit (RD), GFD and PD, recorded significant reduction when revised estimates of 2006-07 translated into accounts (Table 1). The trend in the revised estimates of 2007-08 indicates an improvement in the revenue account of the State Governments. The consolidated fiscal position of State Governments in 2008-09 (BE) indicates further improvement in terms of the major deficit indicators.

The marked improvement in consolidated fiscal position does not reveal the wide variation that exists across the States. During 2008-09, twenty-five States presented revenue surplus budgets and the remaining three States presented revenue deficit budgets. Seventeen States have budgeted their GFD at less than 3 per cent of Gross State Domestic Product (GSDP). However, a few States account for the major part of the overall correction. The achievement of the TFC targets

Table 1: Key Deficit Indicators

(Per cent of GDP)

Item	2006-07 (RE)	2006-07 (Accounts)	2007-08 (BE)	2007-08 (RE)	2008-09 (BE)
1	2	3	4	5	6
Revenue Deficit	0.1	-0.6	-0.3	-0.5	-0.5
Gross Fiscal Deficit	2.7	1.9	2.3	2.3	2.1
Primary Deficit	0.4	-0.4	0.1	0.1	0.1

Note : Negative (-) sign indicates surplus.
Source : Budget Documents of the State Governments.

ahead of the recommended schedule by a number of State Governments reflects strong growth in tax revenues, both States' own and devolution from the Centre, and higher grants-in-aid. It is significant to note that States have been able to scale up capital outlay, along with some rationalisation of revenue expenditure during the FRL period.

The outstanding liabilities of the State Governments, which had reached high levels in the first half of the current decade on account of large and persistent fiscal imbalances, have shown signs of improvement in the recent past. From the peak level of 33.2 per cent in 2004, the debt-GDP ratio of State Governments came down to 28.3 per cent in 2007-08 (RE) and is budgeted to be 27.4 per cent in 2008-09. The ratio of interest payments to revenue receipts of the State Governments deteriorated sharply from 13.0 per cent in 1990-91 to a high level of 26.0 per cent in 2003-04, but declined thereafter partly due to the Debt Swap Scheme (DSS) (2002-03 to 2004-05), and partly due to declining interest rates. The ratio of interest payments to revenue receipts is estimated to be 15.1 per cent in 2008-09 (BE).

A number of issues continue to be important for State finances, such as sustaining the fiscal improvement achieved in recent years in the post-FRL period, making the fiscal correction durable through generation of adequate own revenues, improving the quality of expenditure through expenditure prioritisation as well as efficient service delivery, reducing the existing level of debt obligations notwithstanding the improvement in recent years, and providing adequate financial support to the local bodies.

III. POLICY INITIATIVES

The State Governments, while presenting their budgets for 2008-09, continued to focus on fiscal correction and consolidation with due emphasis on allocating expenditure for social sectors. The States made substantial progress in meeting the targets stipulated under their FRLs, which have been enacted by all State Governments, except Sikkim and West Bengal. All States have implemented VAT in *lieu* of State sales tax with the last State (Uttar Pradesh) implementing VAT with effect from January 1, 2008. The State Governments have been preparing Medium Term Fiscal Plan (MTFP) as a requirement under their FRLs, which define the strategic priorities, key policies and rolling targets for various fiscal parameters.

One significant development, which would have implications for State finances in the medium-term, relates to constitution of the Thirteenth Finance Commission. In terms of Article 280 of the Indian Constitution, the Thirteenth Finance Commission was constituted on November 13, 2007, which will have an award period spanning 2010-15. As per its terms of reference, the Commission would make recommendations on the following:

- the distribution between the Union and the States of the net proceeds of taxes, which are to be or may be divided between them,
- the principles which should govern the grants-in-aid of the revenues of the States out of the Consolidated Fund of India, and
- the measures needed to augment the Consolidated Fund of a State to supplement the resources of the Panchayats and Municipalities in the State on the basis of the recommendations made by the Finance Commission of the State.

Apart from the above, the Commission will also consider, *inter alia*, (a) the impact of the proposed implementation of goods and services tax (GST); (b) the need to improve the quality of public expenditure; and (c) the need to manage ecology, environment and changed climate consistent with sustainable development (Box 1).

The Government of India proposed various initiatives in the area of education, health, irrigation and insurance to provide support to the State Governments in their developmental role. The

Box 1: Terms of Reference of the Thirteenth Finance Commission

The Commission shall make recommendations as to the following matters, namely:-

(i) the distribution between the Union and the States of the net proceeds of taxes, which are to be, or may be, divided between them under Chapter I Part XII of the Constitution and the allocation between the States of the respective shares of such proceeds;

(ii) the principles which should govern the grants-in-aid of the revenues of the States out of the Consolidated Fund of India and the sums to be paid to the States which are in need of assistance by way of grants-in-aid of their revenues under article 275 of the Constitution for purposes other than those specified in the provisos to clause (1) of that article;

(iii) the measures needed to augment the Consolidated Fund of a State to supplement the resources of the Panchayats and Municipalities in the State on the basis of the recommendations made by the Finance Commission of the State; and

(iv) having regard to the need to bring the liabilities of the Central Government on account of oil, food and fertilizer bonds into the fiscal accounting, and the impact of various other obligations of the Central Government on the deficit targets, the Commission may review the roadmap for fiscal adjustments and suggest a suitably revised roadmap with a view to maintaining the gains of fiscal consolidation through 2010 to 2015 (*additional ToR inserted vide Presidential Order dated 25th August, 2008).*

2. The Commission shall review the state of the finances of the Union and the States, keeping in view, in particular, the operation of the States' Debt Consolidation and Relief Facility 2005-2010 introduced by the Central Government on the basis of the recommendations of the Twelfth Finance Commission, and suggest measures for maintaining a stable and sustainable fiscal environment consistent with equitable growth.

3. In making its recommendations, the Commission shall have regard, among other considerations, to

(i) the resources of the Central Government, for five years commencing on 1st April 2010, on the basis of levels of taxation and non-tax revenues likely to be reached at the end of 2008-09;

(ii) the demands on the resources of the Central Government, in particular, on account of the projected Gross Budgetary Support to the Central and State Plan, expenditure on civil administration, defence, internal and border security, debt-servicing and other committed expenditure and liabilities;

(iii) the resources of the State Governments, for the five years commencing on 1st April 2010, on the basis of levels of taxation and non-tax revenues likely to be reached at the end of 2008-09;

(iv) the objective of not only balancing the receipts and expenditure on revenue account of all the States and the Union, but also generating surpluses for capital investment;

(v) the taxation efforts of the Central Government and each State Government and the potential for additional resource mobilisation to improve the tax-Gross Domestic Product ratio in the case of the Union and tax-Gross State Domestic Product ratio in the case of the States;

(vi) the impact of the proposed implementation of Goods and Services Tax with effect from 1st April, 2010, including its impact on the country's foreign trade;

(vii) the need to improve the quality of public expenditure to obtain better outputs and outcomes;

(viii) the need to manage ecology, environment and climate change consistent with sustainable development;

(ix) the expenditure on the non-salary component of maintenance and upkeep of capital assets and the non-wage related maintenance expenditure on plan schemes to be completed by 31st March, 2010 and the norms on the basis of which specific amounts are recommended for the maintenance of the capital assets and the manner of monitoring such expenditure; and

(x) the need for ensuring the commercial viability of irrigation projects, power projects, departmental undertakings and public sector enterprises through various means, including levy of user charges and adoption of measures to promote efficiency.

4. In making its recommendations on various matters, the Commission shall take the base of population figures as of 1971, in all such cases where population is a factor for determination of devolution of taxes and duties and grants-in-aid.

5. The Commission may review the present arrangements as regards financing of Disaster Management with reference to the National Calamity Contingency Fund and the Calamity Relief Fund and the funds envisaged in the Disaster Management Act, 2005 (53 of 2005), and make appropriate recommendations thereon.

6. The Commission shall indicate the basis on which it has arrived at its findings and make available the estimates of receipts and expenditure of the Union and each of the States.

7. The Commission shall make its report available by the 31st day of October, 2009, covering the period of five years commencing on the 1st day of April, 2010.

Source: Website of the Finance Commission, India (http://www.fincomindia.nic.in).

Reserve Bank, on its part, has been advising the State Governments on several issues, besides providing support in the form of WMA/OD and raising market borrowings. The Reserve Bank aided the State Governments in buy-back of outstanding SDLs and loans borrowed from the

NSSF. The Reserve Bank has proposed to introduce non-competitive bidding in the auctions of State Government securities and aid State Governments in re-issuance of SDLs.

The various policy initiatives and measures that have been proposed for implementation by the State Governments, the Government of India and the Reserve Bank of India are briefly narrated in this section.

III.1 State Governments

In their budgets for 2008-09, the State Governments have highlighted the importance of the ongoing process of fiscal correction while striving to provide higher allocation for improving economic and social infrastructure. The State Governments continued to emphasise reduction of non-plan expenditure and providing resources for capital investment. On the revenue side, the State Governments have adopted measures to improve enforcement and tax compliance. A few State Governments, including Maharashtra, have factored in the likely impact of the recommendation of the Sixth Central Pay Commission (CPC) while framing its budget for 2008-09. A few States, like Assam and Madhya Pradesh, have announced setting up of their own pay commissions. The major policy initiatives announced by the State Governments in their budgets for 2008-09 are summarised in the following paragraphs. The detailed State-wise policy measures are set out in Annex I.

III.1.1 Revenue Measures

All the State Governments and both the Union Territories with legislatures, *i.e.,* National Capital Territory (NCT) of Delhi and Puducherry, have implemented VAT. The States, in their budgets, have placed emphasis on improving tax administration for ensuring better tax compliance. For example, with a view to increasing its revenue collection, Goa proposes to overhaul and reorganise its commercial tax and excise department, while Bihar plans to undertake computerisation of commercial tax department. As an innovative measure to provide incentive for resource mobilisation, Himachal Pradesh proposes to give the concerned revenue collection departments one per cent of the additional tax collection made over and above their budget targets, which could be utilised by the concerned departments for their infrastructure development. Manipur and Rajasthan have announced plans to automate the treasuries. Uttarakhand proposes to inter-connect all treasuries in the State for efficient fiscal and cash management. West Bengal plans to operationalise a facility for electronic payment of tax by dealers at their option. Maharashtra proposes to implement a computerised budget distribution system aimed at improving the cash flow system.

As a revenue generating measure, Gujarat has imposed an additional tax, in addition to the VAT, on the sale of goods. Goa has imposed entry tax on vehicles (excluding goods vehicles) with other than Goa registration. Kerala has imposed one per cent cess on VAT. A few States have proposed a reduction in certain taxes aimed at rationalisation of tax rates and for providing incentives to specific sectors/industries. Assam and Haryana have announced a reduction in the rate of stamp duty for registration of immovable property. Rajasthan has announced a reduction in entertainment tax and abolished stamp duty on movable properties. In order to promote tourism, West Bengal has announced a reduction in the rate of luxury tax on hotels.

III.1.2 Expenditure Measures

State Governments continued to place emphasis on containment of non-developmental expenditure and channelising resources for productive purposes. State Governments are also taking measures to improve outcomes of their various schemes. Towards this end, Jammu and Kashmir has announced setting up of an Oversight and Monitoring Committee to monitor pace and implementation of Centrally Sponsored Schemes (CSS).

State Governments are paying special attention to improve the agricultural growth rate. Several States, including Maharashtra, Andhra Pradesh and Tamil Nadu, have announced initiatives in the area of agriculture, irrigation and water conservation. In the education sector, the States have placed emphasis on imparting computer-aided education (Andhra Pradesh, Goa and Himachal Pradesh). Andhra Pradesh proposes to implement a new scheme called SUCCESS (Scheme for Universal Access and Quality at Secondary Stage) in coordination with the Government of India. A number of States have announced extension of the mid-day meal scheme (Goa, Meghalaya and Uttarakhand). In the health sector, emphasis is being placed on improving the quality of infrastructure and services in health institutions. Several State Governments have announced extension of the Rural Employment Guarantee Scheme to more districts (Andhra Pradesh, Uttarakhand and Uttar Pradesh). State Governments have proposed several development schemes for the weaker sections of the society. A number of concessions have been announced by the States, especially towards reduction in interest burden on agricultural and housing loans extended to farmers and to the weaker sections (Assam, Goa, Haryana and Madhya Pradesh). A few States have also given priority to projects for development and security of women and children (Arunachal Pradesh). Several States have announced measures to promote milk production and provide infrastructure facilities for milk producing farmers (Jharkhand, Punjab and Uttar Pradesh).

A number of States have announced health insurance schemes for the poor families (Assam, Himachal Pradesh, Kerala, Sikkim and Uttarakhand), life insurance scheme for fishermen (Bihar and Kerala), life insurance (Haryana and Punjab), insurance scheme for weavers (Himachal Pradesh), health insurance scheme for artisans and craftsmen (Jammu and Kashmir), and insurance cover for students of government schools (Rajasthan). Mizoram proposes to implement National Agriculture Insurance Scheme on 50:50 sharing pattern with the Government of India.

III.1.3 Institutional Measures

During past few years, the State Governments have adopted various institutional measures, which were oriented towards further strengthening of fiscal discipline, such as legislation in respect of guarantees and fiscal responsibility. Twenty-six State Governments have enacted FRLs. The States have also implemented measures like introduction of new pension scheme (NPS), setting up of consolidated sinking fund (CSF) and guarantee redemption fund (GRF), and placing ceiling on guarantees (Table 2).

A number of States have proposed setting up of Committees/institutions/schemes for specific purposes, such as speedy addressal of grievances of sugarcane farmers (Bihar), self-employment of widowed/divorced women (Chhattisgarh), skilled agricultural services (Goa), training to women on various trades (Goa), financial assistance to non-school-going disabled children (Haryana), self-employment opportunities for unemployed youth (Himachal Pradesh), development of agriculture and allied activities (Karnataka), higher education (Karnataka), integrated development and welfare of children (Karnataka), and housing for poor people in rural areas (Orissa).

Assam plans to create a dedicated fund with Assam Infrastructure Financing Authority for development of major infrastructure projects in the State. Gujarat proposes to constitute Gujarat State Health Infrastructure Development Corporation to maintain the level of excellence in infrastructural construction, repairs and maintenance of health institutions. Karnataka proposes to set up Karnataka Water Resources Regulation Authority to facilitate improved water resources management and regulation. Punjab proposes to create Punjab State Development Fund to facilitate smooth flow of funds for activities in the field of education, health and social welfare. Sikkim will establish an Institute of Capacity Building. Uttarakhand plans to

Table 2: Institutional Reforms by State Governments*

	State	Value Added Tax (VAT) Implemented	Fiscal Responsibility Legislation (FRL) enacted	New Pension Scheme (NPS) introduced	Ceilings on Guarantee Imposed	Consolidated Sinking Fund (CSF)	Guarantee Redemption Fund (GRF)
1.	Andhra Pradesh	April 2005	June 2005	September 2004	Yes	Yes	Yes
2.	Arunachal Pradesh	April 2005	March 2006	No	No	Yes	No
3.	Assam	May 2005	September 2005	February 2005	Yes	Yes	No
4.	Bihar	April 2005	April 2006	September 2005	No	No	No
5.	Chhattisgarh	April 2006	September 2005	November 2004	Yes	Yes	No
6.	Goa	April 2005	May 2006	August 2005	Yes	Yes	Yes
7.	Gujarat	April 2006	March 2005	April 2005	Yes	Yes	Yes
8.	Haryana	April 2003	July 2005	January 2006	Yes	Yes	Yes
9.	Himachal Pradesh	April 2005	April 2005	May 2003	No	No	No
10.	Jammu and Kashmir	April 2005	August 2006	No	No	No	Yes
11.	Jharkhand	April 2006	May 2007	December 2004	No	No	No
12.	Karnataka	April 2005	September 2002	April 2006	Yes	No	No
13.	Kerala	April 2005	August 2003	No	Yes	Yes	No
14.	Madhya Pradesh	April 2006	May 2005	January 2005	Yes	No	Yes
15.	Maharashtra	April 2005	April 2005	November 2005	No	Yes	No
16.	Manipur	July 2005	August 2005	January 2005	Yes	Yes	Yes
17.	Meghalaya	April 2006	March 2006	No	No	Yes	No
18.	Mizoram	April 2005	October 2006	No	No	Yes	No
19.	Nagaland	April 2005	August 2005	No	Yes	Yes	Yes
20.	Orissa	April 2005	June 2005	January 2005	Yes	Yes	Yes
21.	Punjab	April 2005	October 2003	No	Yes	Yes	No
22.	Rajasthan	April 2006	May 2005	January 2004	Yes	No	No
23.	Sikkim	April 2005	No	April 2006	Yes	Yes	Yes
24.	Tamil Nadu	January 2007	May 2003	April 2003	Yes	Yes	No
25.	Tripura	October 2005	June 2005	No	No	Yes	No
26.	Uttarakhand	October 2005	October 2005	October 2005	No	Yes	Yes
27.	Uttar Pradesh	January 2008	February 2004	April 2005	No	No	No
28.	West Bengal	April 2005	No	No	Yes	Yes	No
Sum-up		**28**	**26**	**19**	**17**	**20**	**11**

*: Position as at end-November, 2008.
Source : Based on Information received from respective State Governments.

constitute Uttarakhand Infrastructure Development Corporation to ensure speedy and effective completion of Government projects. Himachal Pradesh proposes to create a new Directorate of Energy. Karnataka plans to set up a new undertaking called the Karnataka Public Lands Corporation to raise resources for development through sale or lease of valuable government land through a competitive process. A number of State Governments are undertaking projects in different sectors under the Public Private Partnership (PPP) mode (Box 2).

Several States have announced introduction/extension of gender budgeting to ensure empowerment and active participation of women in various developmental schemes (Arunachal Pradesh, Assam, Chhattisgarh and Uttarakhand). Kerala plans to set up a Gender Board. Several State Governments are giving a special boost to the promotion of self-help groups (SHGs), especially women SHGs (Arunachal Pradesh, Assam, Karnataka and Tamil Nadu). Support through various means including providing interest-free loans and technical support of financial institutions like NABARD is being envisaged.

A few States have proposed to set up GRF (Assam and Manipur). Manipur will set up CSF. Goa has announced setting up of a pension liability fund for its employees. Madhya Pradesh proposes to

Box 2: Public Private Partnership at the State Government Level

Public private partnership (PPP) is a mode of implementing government programmes/schemes in partnership with the private sector. Under PPP, the public sector may collaborate with the private sector in the following three forms: as a funding agency, as a buyer, and as a coordinator. The public sector retains the responsibility of providing the service and legal ownership of assets. However, the nature and scope of service is contractually determined and the risks and rewards are shared between the public sector and the private sector. Further, throughout the implementation phase, Government has to perform an oversight role and ensure that services are delivered up to the expectations. The potential benefits deriving from PPP are cost effectiveness of the project, higher productivity, accelerated delivery, enhanced social service and recovery of user charges. However, for reaping the full benefits from the PPP projects, the Government has to design a suitable policy framework detailing the use of PPPs as well as its rationale, political commitment and support for the programme. Moreover, the public sector should develop adequate human capacities to handle the different aspects of PPPs such as transaction skills needed for the programme, selecting the projects to be pursued as PPPs, estimating the fiscal costs of PPPs, oversight and contract management and ex-post evaluation and auditing of the performance of PPPs. The Government can even go for PPP legislation to put in place a common legal framework for the contracts.

As under PPP, the Government can access the private sector funds in a non-debt creating manner, it is considered a good way of creating fiscal space for the developmental activities. In India, the Government has set up a PPP Department in the Ministry of Finance to administer various proposals and coordinate activities to promote PPPs. The Government has also undertaken a number of initiatives in identifying the capacity-building needs of State Governments, providing assistance for setting up State-level PPP cells as a nodal agency, streamlining the PPP approval process, developing PPP toolkits, model concession agreements, bidding documents and project preparation manuals. A viability gap funding (VGF) scheme has also been created to support the financial viability of those infrastructure projects which are economically justifiable but not commercially viable in the immediate future. Further, the India Infrastructure Finance Company Limited (IIFCL) attaches overriding priority to the projects on PPP mode while providing long-term finance to infrastructure projects. The Government also developed a Central database and website on PPPs to disseminate updated information to the States and the private sector.

Almost all the State Governments have also taken initiatives to take up projects on a PPP basis. The States have highlighted some areas such as VGF, quicker approval procedures, relaxation of the project details currently required for an in-principle approval, inclusion of projects awarded through the Special Purpose Vehicle (SPV) route, inclusion of land costs under VGF financing, *etc.,* where they need Central assistance. Given the variations in the formats, bidding procedures, agreements, and overall execution of PPPs among the various States and agencies, the private sector has also highlighted the need for standardised pre-qualification and bidding procedures and guidelines for ensuring efficiency, predictability and ease of approval process.

Apart from financing high cost infrastructure projects, PPPs are also being used in several other areas. In their budgets for 2008-09, a number of State Governments have announced several projects on PPP basis such as, survey and exploitation of mines and minerals (Arunachal Pradesh), development of industrial estates (Gujarat), setting up of medical colleges (Himachal Pradesh and Rajasthan), development of Karwar port (Karnataka), providing for emergency health care/ambulance service (Karnataka and Uttarakhand), development of road network (Madhya Pradesh), setting up of Indian Institute of Information Technology and an IT Estate (Meghalaya), Chirayu scheme for old age homes and university for disabled persons (Rajasthan), construction of eight-lane Ganga Expressway, construction of four other important link expressways, and development of infrastructure facilities for Lucknow city (Uttar Pradesh).

References:

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2. Planning Commission (2004), *Report of the PPP Sub-Group on Social Sector*, November.

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start a contributory pension scheme for people working in the unorganised sector.

A number of States have taken developmental initiatives at the level of rural local bodies, like establishment of common service centre in every Panchayat to provide Information Technology (IT)-based services to the general public (Bihar), providing connectivity to all Panchayats (Himachal Pradesh), and setting up of cyber kendras (Karnataka). Kerala proposes to restructure Kerala Rural and Urban Development Finance Corporation for providing loans to local Government institutions.

III.1.4 Other Initiatives

Gujarat has placed emphasis on inclusive growth and providing equal opportunities to all. Karnataka will prepare a vision document ‘Karnataka 2020’, which will unfold the strategy for achieving the total eradication of poverty, eliminating regional imbalances in the State, upgrading the facilities for an orderly and comfortable life for the people in both rural and urban areas, and promoting social and economic equality in the State. Assam proposes to launch a special programme for all round socio-economic development of the minorities.

As a measure to improve transparency, Madhya Pradesh proposes to present off-budget figures for the funds received directly from the Centre for health sector and welfare schemes for women, girl child and tribals. Assam has started submitting a separate statement with the budget documents showing the flow of funds through different channels to the Panchayats. Madhya Pradesh plans to conduct independent audit for Panchayats in order to strengthen them and will constitute a separate Directorate for this purpose. While Bihar has proposed e-procurement and e-tendering system in all the departments to enhance speediness and transparency in procurement and tendering process, Puducherry has introduced e-tendering to usher greater transparency. Tamil Nadu proposes to implement e-governance programme in three main departments, *viz*., Food and Civil Supplies Department, Commercial Taxes Department and Treasury Department. Chhattisgarh has announced computerisation of public distribution shops to strengthen and introduce transparency in the public distribution system. Karnataka plans to set up a revolving fund of Rs.500 crore to ensure remunerative prices by using market intervention in case of falling prices. Kerala also plans to implement a price stability scheme for the agricultural produce. West Bengal proposes to set up a marketing corporation for procurement and supply of commodities at fair price through SHGs. Assam plans to set up a bio-technology park. Himachal Pradesh and Jharkhand will set up IT parks-cum-townships to attract more IT industries. Jharkhand proposes to constitute 'Bio Gram' to develop Jharkhand as a Bio State. West Bengal would set up 20 bio-villages. Bihar and Rajasthan plan to set up State Wide Area Network to provide communication network to all the district and divisional headquarters. Assam proposes to promote the use of solar energy by electrifying all remote villages through solar lighting. Jammu and Kashmir introduced demat for stamps in order to have a scientific management of stamps.

III.2 Government of India

In the Union Budget 2008-09, the Government of India outlined several initiatives to assist the State Governments in their developmental and social role. The progress of eight flagship schemes under Bharat Nirman would continue to aid the development process in the State Governments. The allocation for Bharat Nirman is proposed to be increased by Rs.6,677 crore (27 per cent) during 2008-09 by the Union Government.

The focus of Sarva Shiksha Abhiyan (SSA), the flagship scheme for education sector under Bharat Nirman, will shift from access and infrastructure at the primary level to enhancing retention, improving quality of learning and ensuring access to upper primary classes. A Model School programme, with the aim of establishing 6,000 high quality model schools, will be implemented in 2008-09. The Centre will establish Navodaya Vidyalayas in 20 districts that have a high concentration of Scheduled Castes (SCs) and Scheduled Tribes (STs). The Mid-day Meal Scheme will be extended to upper primary classes in Government and Government-aided schools in all blocks in the country. With a view to promote higher education, the Government will establish one Central University in each of the hitherto uncovered States. Three IITs will also be set up in Andhra Pradesh, Rajasthan and Bihar; two Indian Institute of Science, Education and Research (IISERs) in Madhya Pradesh and Kerala; and two Schools of Planning and Architecture in Madhya Pradesh and Andhra Pradesh. Based on the recommendations of the National Knowledge Commission, the Government proposes to inter-connect all knowledge institutions through an electronic digital broadband network. Most of the States will be joining the Rashtriya Swasthya Bima Yojana that will provide a health cover of Rs.30,000 for every worker in the unorganised sector falling under the below poverty line (BPL) category and his/her family. A National Programme for the elderly will be started in 2008-09. The Government will implement a multi-sectoral development plan for each of the 90 minority concentration districts.

The Union Government had announced support for a desalination plant to be installed in Tamil Nadu (near Chennai). The plant will be set up under PPP with the financial support of the Centre. Agreements have been signed with the World Bank by the Governments of Tamil Nadu, Andhra Pradesh and Karnataka for projects to repair, renovate and restore water bodies. Some other State Governments are expected to sign the agreements soon. The Centre will establish the Irrigation and Water Resources Finance Corporation with an initial capital of Rs.100 crore. State Governments and other financial institutions will also be invited to contribute to equity. In order to promote research on plantation sector, the Centre will give a one-time grant to the Centre for Development Studies, Thiruvananthapuram. Further, the National Plant Protection Training Institute at Hyderabad will be converted and upgraded into an autonomous National Institute of Plant Health Management. In order to scale up both infrastructure and production in the textile sector, the Government will take up six centres for development as mega-clusters. In order to monitor scheme-wise and State-wise releases for the Central plan and CSS, the Government will put in place a Central Plan Scheme Monitoring System. A comprehensive Decision Support System and Management Information System will also be established.

III.3 Reserve Bank of India

The Reserve Bank as the banker and manager of public debt to the State Governments has been sensitising the State Governments on fiscal issues. In this direction, the Reserve Bank has been organising a bi-annual Conference of State Finance Secretaries since 1997 to establish a consultative approach to issues pertaining to the finances of State Governments. This institutional mechanism has helped in providing solution to many of the financial issues of the State Governments. The Reserve Bank provides the facility of WMA/OD to the State Governments and manages market borrowing programmes of the States.

The following measures have been initiated by the Reserve Bank to strengthen debt management operations of the State Governments.

III.3.1 Market Borrowings through Auction Route

The Reserve Bank, in its Annual Policy Statement for the year 2006-07, had proposed that "State Governments may be encouraged to progressively increase the share of market borrowings under auction route with a view to covering the entire market borrowings through auctions as early as possible". Accordingly, since the financial year 2006-07, the market borrowings of State Governments have been raised entirely through the auction method.

III.3.2 Indicative Calendar for Market Borrowings of State Governments

The Annual Policy Statement for the year 2006-07 proposed, *inter alia,* that "States, at their discretion and initiative, would be encouraged to develop an advance indicative open market borrowing calendar". In order to initiate a step towards greater transparency in market borrowings of State Governments in a progressive manner, the Reserve Bank issued a Press Release on Market Borrowings of State Governments on September 12, 2007 detailing net allocation, maturities, amount raised and the amount that could be raised during the remaining period of 2007-08. Further, the Reserve Bank issued a press release on June 17, 2008 indicating that the gross borrowings of the State Governments were estimated around Rs.59,000 crore including repayments of Rs.14,371 crore during the year 2008-09.

III.3.3 Use of Cash Balances to Retire Debt

The build-up of large surplus cash balances by the State Governments in recent years and the negative spread earned on the investment of such balances prompted some State Governments to utilise them to retire outstanding debt. The scheme for the buy-back of outstanding SDLs, which was made operative during 2006-07 through two rounds of reverse auctions, continued during 2007-08. A total amount of Rs.156 crore covering 11 SDLs of Government of Orissa was purchased through these operations, which were conducted through secondary market purchases on NDS-OM platform in February and March 2008. Two State Governments, *viz.,* Orissa and Tamil Nadu, also bought back the loans amounting to Rs.217 crore and Rs.1,178 crore, respectively, borrowed from the NSSF.

III.3.4 Conference of State Finance Secretaries

The 20th Conference of State Finance Secretaries was held on August 24, 2007. Apart from operational issues pertaining to Government transactions, the discussions primarily focused on issues relating to the framework for investment of the cash balances of the State Governments, investment portfolio of the States, management of foreign exchange risk by the States in the context of back-to-back transfer of external loans from the Centre and the Standing Technical Committee on the borrowings of the States. The issues focused in the 21st Conference held on May 15, 2008 related to surplus cash balances of the State Governments, market borrowings, budget management and management of various funds of the States.

III.3.5 Re-issuance of State Development Loans

In the 19th Conference of State Finance Secretaries held on January 24, 2007 at Pune, the proposal of introduction of reissuance of SDLs under the market borrowing programme of State Governments was deliberated upon. To begin with, State Governments agreed to consider issuing two new securities for raising resources under the market borrowing programme with one each in the first half and second half during the financial year 2007-08. These securities could be reissued for subsequent tranches during the first half and second half of the year. Accordingly, Reserve Bank, in its Annual Policy Statement for the year 2007-08, proposed that the Reserve Bank in consultation with the State Governments would introduce a system of reissuances. The re-issue of SDLs may be done in case a request from the State Governments is received.

III.3.6 Scheme of Non-Competitive Bidding Facility in the Auctions of State Development Loans

With a view to widening the investor base and enhancing the liquidity of SDLs, a scheme for Non-Competitive Bidding Facility has been approved by the State Governments. Accordingly, the General Notifications on issue of SDLs have been amended by the State Governments. The NDS Auction Module (Version 2), which would facilitate introduction of the scheme, is under development by the Clearing Corporation of India Ltd. (CCIL). The parallel run of the new Version 2 will commence shortly and the scheme will be operationalised by end-December 2008.

IV. CONSOLIDATED FISCAL POSITION OF STATE GOVERNMENTS

The consolidated fiscal position of the State Governments showed noticeable improvement in the recent years owing to fiscal and institutional reforms, particularly the enactment of FRLs, higher devolution and transfers from the Centre as recommended by the TFC and improvement in tax buoyancy at the State level. The State Governments achieved a revenue surplus (0.6 per cent of GDP) in 2006-07 (Accounts) after a gap of nearly two decades and a historically low level of GFD (1.9 per cent of GDP). All the major deficit indicators, as ratios to GDP, were substantially lower as compared to the high level of deficits in the recent past (Table 3). This section[5] provides a broad perspective in terms of critical changes in the major

5 The analysis in this section and also in the Study pertains to 2006-07 (Accounts), 2007-08 (Revised Estimates) and 2008-09 (Budget Estimates) provided in the budgets of 2008-09 of twenty-eight State Governments.

Table 3: Major Deficit Indicators of State Governments

(Amount in Rs. crore)

Item	1990-95	1995-00	2000-05	2005-06	2006-07	2007-08 (BE)	2007-08 (RE)	2008-09 (BE)
	Average							
1	2	3	4	5	6	7	8	9
Gross Fiscal Deficit				90,084	77,509	1,08,323	1,07,958	1,12,653
	(2.8)	(3.4)	(4.0)	(2.5)	(1.9)	(2.3)	(2.3)	(2.1)
Revenue Deficit				7,013	-24,857	-11,973	-22,526	-28,426
	(0.7)	(1.7)	(2.2)	(0.2)	-(0.6)	-(0.3)	-(0.48)	-(0.54)
Primary Deficit				6,060	-15,654	5,648	5,080	4,270
	(1.1)	(1.4)	(1.3)	(0.2)	-(0.4)	(0.1)	(0.1)	(0.1)

BE: Budget Estimates. RE: Revised Estimates.

Note : 1. Negative (-) sign indicates surplus.
2. Figures in parentheses are percentages to GDP.

Source : Budget Documents of the State Governments.

fiscal aggregates of the State Governments during 2006-07, 2007-08 (RE) and 2008-09 (BE).

IV.1 Accounts: 2006-07

Consolidated State Government finances showed improvement when the revised estimates of 2006-07 translated into accounts. All the major key deficit indicators of the State Governments, *viz*., RD, GFD and PD showed marked improvement. The consolidated revenue account of the State Governments registered a surplus of Rs.24,857 crore (0.6 per cent of GDP) in 2006-07 (Accounts) as compared with a deficit of Rs.5,566 crore (0.1 per cent of GDP) in 2006-07 (RE) (Table 4 and Appendix Table 1). The correction in the revenue account between 2006-07 (RE) and 2006-07 (Accounts) was, however, largely due to the compression of revenue expenditure by Rs.31,296 crore (0.8 per cent of GDP). The developmental expenditure on the revenue account declined substantially by Rs.19,137 crore (0.5 per cent of GDP) contributing 61.1 per cent of the decline in revenue expenditure. The reduction in expenditure on education, arts, sports and culture (by 5.5 per cent), rural development (by 12.8 per cent) and expenditure on medical and public health (by 11.1 per cent) contributed to the decline in the revenue expenditure when 2006-07 (RE) translated into accounts. It may be mentioned that committed expenditure consisting of interest payments, administrative services and pension also declined by 3.7 per cent, contributing 22.2 per cent of decline in revenue expenditure.

The revenue receipts declined by Rs.873 crore (0.2 per cent) in the accounts of 2006-07 over revised estimates. There was a decline in grants from the Centre by Rs.8,504 crore (8.3 per cent) and States' own tax revenue (OTR) by Rs.4,532 crore (1.8 per cent), which was partly compensated by increase in their own non-tax revenue (ONTR) by Rs.7,606 crore (13.7 per cent) and States' share in Central taxes by Rs.4,556 crore (3.9 per cent). The increase in ONTR was mainly on account of increase in interest receipts (by 33.2 per cent) and revenue from education, arts, sports and culture (by 12.0 per cent).

Apart from the substantial correction on the revenue account primarily owing to reduction in revenue expenditure, there was a decline in capital outlay by Rs.6,879 crore (6.6 per cent) and net lending by the State Governments in 2006-07 (Accounts) over 2006-07 (RE). This enabled the State Governments to reduce the GFD by Rs.36,405 crore (0.9 per cent of GDP) to Rs.77,508 crore (1.9 per cent of GDP) in 2006-07 (Accounts) from Rs.1,13,913 crore (2.7 per cent of GDP) in 2006-07 (RE). The consolidated fiscal position of States exhibited a primary surplus of Rs.15,672 crore in 2006-07 (Accounts) for the first time in the history of State finances.

Table 4: Variation in Major Items - 2006-07 (Accounts) over 2006-07 (RE)

(Amount in Rs. crore)

Item	2006-07 (RE)	2006-07 (Accounts)	Variation		Contribution* (Per cent)
			Amount	Per cent	
1	2	3	4	5	6
I. Revenue Receipts (i+ii)	**5,31,429**	**5,30,556**	**-873**	**-0.2**	**100.0**
(i) Tax Revenue (a+b)	3,72,817	3,72,841	25	0.0	-2.8
(a) Own Tax Revenue	2,57,080	2,52,548	-4,532	-1.8	519.1
of which: Sales Tax	1,58,113	1,53,573	-4,540	-2.9	520.0
(b) Share in Central Taxes	1,15,737	1,20,293	4,556	3.9	-521.9
(ii) Non-Tax Revenue	1,58,612	1,57,714	-898	-0.6	102.8
(a) States' Own Non-Tax Revenue	55,657	63,263	7,606	13.7	-871.3
(b) Grants from Centre	1,02,955	94,451	-8,504	-8.3	974.1
II. Revenue Expenditure (i + ii)	**5,36,995**	**5,05,699**	**-31,296**	**-5.8**	**100.0**
of which:					
(i) Development Expenditure	3,03,934	2,84,797	-19,137	-6.3	61.1
of which:					
Education, Sports, Art and Culture	94,816	89,578	-5,237	-5.5	16.7
Medical and Public Health and Family Welfare	24,977	22,205	-2,772	-11.1	8.9
Rural Development	22,156	19,315	-2,840	-12.8	9.1
(ii) Non-Development Expenditure	2,19,709	2,07,390	-12,319	-5.6	39.4
of which:					
Administrative Services	42,511	38,964	-3,546	-8.3	11.3
Pension	47,739	46,861	-878	-1.8	2.8
Interest Payments	95,704	93,180	-2,525	-2.6	8.1
III. Capital Receipts	**1,43,154**	**1,43,049**	**-105**	**-0.1**	**100.0**
of which:					
Non-Debt Capital Receipts	3,054	1,906	-1,148	-37.6	1089.4
IV. Capital Expenditure	**1,50,951**	**1,51,582**	**630**	**0.4**	**100.0**
of which:					
Capital Outlay	1,04,942	98,063	-6,879	-6.6	-1,091.4
of which:					
Capital Outlay on Rural Development	5,773	5,388	-385	-6.7	-61.1
Capital Outlay on Irrigation and Flood Control	32,751	31,553	-1,197	-3.7	-190.0
Capital Outlay on Special Area Programmes	2,551	1,695	-856	-33.6	-135.8
Capital Outlay on Transport	20,233	19,831	-402	-2.0	-63.8
Memo Item:					
Revenue Deficit	5,566	-24,857	-30,423	-546.6	
Gross Fiscal Deficit	1,13,913	77,508	-36,405	-32.0	
Primary Deficit	18,209	-15,672	-33,881	-186.1	

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.

Source : Budget Documents of the State Governments.

IV. 2 Revised Estimates: 2007-08

The assessment of the variation in the revised estimates of 2007-08 over those of budget estimates revealed that there was an increase in revenue surplus to Rs. 22,526 crore (0.5 per cent of GDP) in 2007-08 (RE) from Rs.11,973 crore (0.3 per cent of GDP) in 2007-08 (BE) (Table 5 and Appendix Table 2). On the revenue account, increase in revenue receipts by Rs.22,009 crore

Table 5: Variation in Major Items - 2007-08 (RE) over 2007-08 (BE)

(Amount in Rs. crore)

Item	2007-08 (BE)	2007-08 (RE)	Variation		Contribution* (Per cent)
			Amount	Per cent	
1	2	3	4	5	6
I. Revenue Receipts (i+ii)	**6,06,733**	**6,28,742**	**22,009**	**3.6**	**100.0**
(i) Tax Revenue (a+b)	4,30,222	4,41,526	11,304	2.6	51.4
(a) Own Tax Revenue	2,94,038	2,93,392	-646	-0.2	-2.9
of which: Sales Tax	1,82,973	1,78,198	-4,775	-2.6	-21.7
(b) Share in Central Taxes	1,36,184	1,48,134	11,951	8.8	54.3
(ii) Non-Tax Revenue	1,76,511	1,87,216	10,705	6.1	48.6
(a) States Own Non-Tax Revenue	59,191	62,578	3,387	5.7	15.4
(b) Grants from Centre	1,17,320	1,24,638	7,318	6.2	33.2
II. Revenue Expenditure (i + ii)	**5,94,760**	**6,06,216**	**11,456**	**1.9**	**100.0**
of which:					
(i) Development Expenditure	3,38,251	3,55,099	16,848	5.0	147.1
of which:					
Education, Sports, Art and Culture	1,03,870	1,06,474	2,604	2.5	22.7
Energy	23,980	28,599	4,619	19.3	40.3
Agriculture and Allied Activities	28,615	32,926	4,311	15.1	37.6
(ii) Non-Development Expenditure	2,40,585	2,34,386	-6,200	-2.6	-54.1
of which:					
Administrative Services	49,066	47,694	-1,372	-2.8	-12.0
Pension	54,263	56,002	1,739	3.2	15.2
Interest Payments	1,02,675	1,02,878	203	0.2	1.8
III. Capital Receipts	**1,60,962**	**1,34,635**	**-26,327**	**-16.4**	**100.0**
of which:					
Non-Debt Capital Receipts	10,102	8,400	-1,702	-16.8	6.5
IV. Capital Expenditure	**1,71,859**	**1,81,273**	**9,414**	**5.5**	**100.0**
of which:					
Capital Outlay	1,18,796	1,28,331	9,535	8.0	101.3
of which:					
Capital Outlay on Irrigation and Flood Control	36,406	39,128	2,722	7.5	28.9
Capital Outlay on Transport	23,460	25,275	1,814	7.7	19.3
Memo Item:					
Revenue Deficit	-11,973	-22,526	-10,553	88.1	
Gross Fiscal Deficit	1,08,323	1,07,958	-364	-0.3	
Primary Deficit	5,648	5,080	-567	-10.0	

BE: Budget Estimates. RE: Revised Estimates. * : Denotes percentage share in relevant total.
Note : See Notes to Table 4.
Source : Budget Documents of the State Governments.

(0.5 per cent of GDP) in 2007-08 (RE) over 2007-08 (BE) more than compensated the increase in revenue expenditure by Rs.11,456 crore (0.2 per cent of GDP). The increase in Central transfers in the form of share in Central taxes Rs.11,951 crore and grants Rs.7,318 crore accounted for 87.5 per cent of increase in revenue receipts of the States in 2007-08 (RE) over 2007-08 (BE). Revenue expenditure increased in 2007-08 (RE) over 2007-08 (BE) mainly due to an increase in developmental expenditure by Rs.16,848 crore (0.4 per cent of GDP) as against a decline in non-developmental expenditure by Rs.6,200 crore (0.1 per cent of GDP). The increase in development expenditure was primarily due to increase in expenditure on energy and agriculture and allied activities.

The GFD declined only marginally by Rs.364 crore to Rs.1,07,958 crore in 2007-08 (RE) over the budget estimates, despite substantial improvement on the revenue account and lower net lending. This was on account of increase in capital outlay by Rs.9,535 crore along with a decline in non-debt capital receipts by Rs.1,702 crore. Accordingly, capital outlay, as a ratio to GDP, rose to 2.7 per cent in 2007-08 (RE) from the budgeted level of 2.5 per cent. The higher capital outlay was mainly in respect of irrigation and flood control, transport and water supply and sanitation.

The assessment of revised estimates of 2007-08 *vis-a-vis* budget estimates reveals that fiscal performance of the State Governments further strengthened mainly due to an improvement on the revenue account, despite upward revision in the capital outlay. Incentives provided by the TFC and budgetary rules framed under FRLs have played a composite role in deterring State Governments to slip on their budgeted fiscal position.

IV.3 Budget Estimates: 2008-09

The major policy initiatives of the State Governments as discussed in the earlier Section emphasise the need to strengthen infrastructure for the sustainable overall development. Accordingly, State Governments have initiated several policy initiatives aimed at revenue augmentation and expenditure management. State Governments, while presenting their budgets for 2008-09, have shown further commitment to continue the process of fiscal correction and consolidation in line with their FRLs. The gradual improvement in State finances during the recent years in terms of reduction in key deficit indicators has been envisaged to continue during 2008-09.

IV.3.1 Budget Estimates 2008-09 - Key Deficit Indicators

During 2008-09, the consolidated revenue surplus of the State Government is budgeted to increase by Rs.5,899 crore (0.06 per cent of GDP) to Rs.28,426 crore (0.54 per cent of GDP) over 2007-08 (RE) (Chart 1 and Table 6). The correction in the revenue account in 2008-09 is budgeted to be achieved primarily through higher growth of the revenue receipts (14.5 per cent) as compared with the growth in revenue expenditure (14.1 per cent) over the previous year. Consequent upon the budgeted increase in revenue surplus as well as non-debt capital receipts, the GFD-GDP ratio at the consolidated level is budgeted to decline by 0.2 percentage points to 2.1 per cent, although, in absolute terms, GFD would increase by Rs.4,695 crore in 2008-09 (BE) over 2007-08 (RE). PD is budgeted to decline by Rs.810 crore (0.03 per cent of GDP) to Rs.4,270 crore (0.08 per cent of GDP) in 2008-09 from Rs.5,080 crore (0.11 per cent of GDP) in 2007-08 (RE). The primary revenue surplus (PRS) budgeted to be 2.6 per cent of GDP would account for 79.2 per cent of interest payments in 2008-09.

The deficit reduction envisaged in the budgets of 2008-09 reflects the commitment of the State Governments to undertake fiscal restructuring in the direction of fiscal correction path as suggested by TFC. The TFC had stipulated enactment of FRL by the State Governments as a precondition for availing the debt-relief scheme recommended by it. So far, twenty-six States have

Chart 1: Major Deficit Indicators

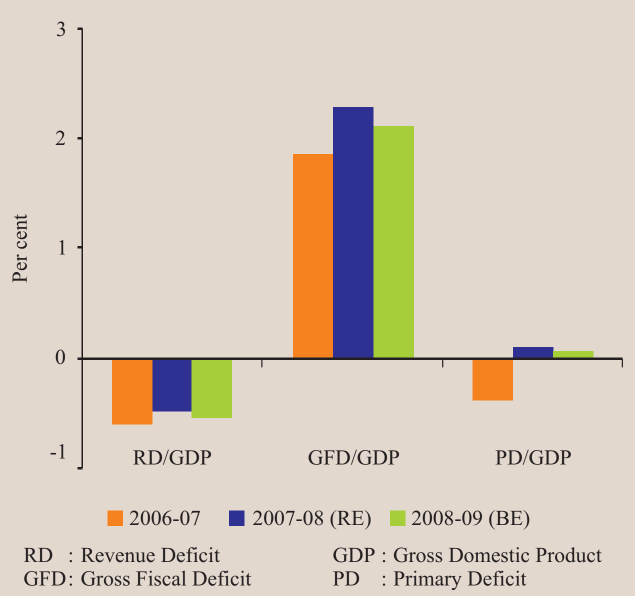

Table 6: Variation in Major Items - 2008-09 (BE) over 2007-08 (RE)

(Amount in Rs. crore)

Item	2007-08 (RE)	2008-09 (BE)	Variation		Contribution* (Per cent)
			Amount	Per cent	
1	2	3	4	5	6
I. Revenue Receipts (i+ii)	**6,28,742**	**7,19,835**	**91,093**	**14.5**	**100.0**
(i) Tax Revenue (a+b)	4,41,526	5,09,957	68,431	15.5	75.1
(a) Own Tax Revenue	2,93,392	3,36,810	43,418	14.8	47.7
of which: Sales Tax	1,78,198	2,03,623	25,425	14.3	27.9
(b) Share in Central Taxes	1,48,134	1,73,147	25,013	16.9	27.5
(ii) Non-Tax Revenue	1,87,216	2,09,878	22,662	12.1	24.9
(a) States Own Non-Tax Revenue	62,578	66,848	4,270	6.8	4.7
(b) Grants from Centre	1,24,638	1,43,030	18,392	14.8	20.2
II. Revenue Expenditure (i + ii)	**6,06,216**	**6,91,409**	**85,193**	**14.1**	**100.0**
of which:					
(i) Development Expenditure	3,55,099	4,02,810	47,710	13.4	56.0
of which:					
Education, Sports, Art and Culture	1,06,474	1,22,072	15,598	14.6	18.3
Medical and Public Health and Family Welfare	27,760	32,224	4,463	16.1	5.2
Energy	28,599	26,483	-2,116	-7.4	-2.5
Rural Development	23,454	29,750	6,296	26.8	7.4
Agriculture and Allied Activities	32,926	36,376	3,450	10.5	4.0
(ii) Non-Development Expenditure	2,34,386	2,68,665	34,279	14.6	40.2
of which:					
Administrative Services	47,694	62,905	15,211	31.9	17.9
Pension	56,002	62,729	6,727	12.0	7.9
Interest Payments	1,02,878	1,08,383	5,505	5.4	6.5
III. Capital Receipts	**1,34,635**	**1,75,306**	**40,671**	**30.2**	**100.0**
of which:					
Non-Debt Capital Receipts	8,400	15,000	6,600	78.6	16.2
IV. Capital Expenditure	**1,81,273**	**2,01,374**	**20,101**	**11.1**	**100.0**
of which:					
Capital Outlay	1,28,331	1,45,159	16,828	13.1	83.7
of which:					
Capital Outlay on Urban Development	2,833	4,289	1,455	51.4	7.2
Capital Outlay on Irrigation and Flood Control	39,128	44,525	5,397	13.8	26.9
Capital Outlay on Energy	15,652	16,690	1,038	6.6	5.2
Capital Outlay on Transport	25,275	27,618	2,344	9.3	11.7
Memo Item:					
Revenue Deficit	-22,526	-28,426	-5,899	26.2	
Gross Fiscal Deficit	1,07,958	1,12,653	4,695	4.3	
Primary Deficit	5,080	4,270	-810	-15.9	

RE: Revised Estimates. BE: Budget Estimates. * : Denotes percentage share in relevant total.
Note : See Notes to Table 4.
Source : Budget Documents of the State Governments.

enacted FRLs and most of them have availed the benefit of debt consolidation and debt waiver. Implementation of VAT by the States is observed to have augmented mobilisation of their tax revenue.

IV.3.2 Revenue Receipts

The revenue receipts are budgeted to increase by 14.5 per cent in 2008-09 to Rs.7,19,835 crore (13.6 per cent of GDP) from Rs.6,28,742 crore (13.3 per cent of GDP) in 2007-08 (RE). The increase in revenue receipts by Rs.91,093 crore in 2008-09 (BE) would mainly be contributed by own tax revenue (47.7 per cent), share in central taxes (27.5 per cent) and grants from Centre (20.2 per cent) (Table 7 and Appendix Table 3).

States' own tax revenue, share in Central taxes and grants from Centre would register an increase as a ratio to GDP in 2008-09 (BE) as compared with 2007-08 (RE). State Governments are witnessing a robust growth in revenue collection from sales tax on account of successful implementation of VAT across States. Apart from the collections from Sales tax/VAT which contribute 58.6 per cent of the budgeted increase in the States' own tax revenue, other major contributors are stamps and registration fees (14.3 per cent), State excise duty (12.1 per cent) and taxes from vehicles (5.7 per cent).

It is pertinent to mention that, as a ratio to GDP, the States' own non-tax revenue would be maintained at previous year's level of 1.3 per cent, although it will register an increase by Rs.4,270 crore in absolute terms. The growth in States' own non-tax revenue is budgeted to accelerate to 6.8 per cent during 2008-09 against a decline of 1.1 per cent in the preceding year. The budgeted

Table 7: Aggregate Receipts of State Governments

(Amount in Rs. crore)

Item	1990-95	1995-00	2000-05	2005-06	2006-07	2007-08 (RE)	2008-09 (BE)	Variation (Per cent)	
	(Average)							Col.7/6	Col.8/7
1	2	3	4	5	6	7	8	9	10
Aggregate Receipts (1+2)	1,23,415 (16.0)	2,31,618 (14.8)	4,40,076 (17.2)	5,95,627 (16.6)	6,73,605 (16.2)	7,63,377 (16.2)	8,95,141 (16.9)	13.3	17.3
1. Revenue Receipts (a+b)	92,679 (12.0)	1,65,416 (10.7)	2,85,662 (11.2)	4,31,020 (12.0)	5,30,556 (12.8)	6,28,742 (13.3)	7,19,835 (13.6)	18.5	14.5
a. States' Own Revenue (i+ii)	55,546 (7.2)	1,03,542 (6.7)	1,78,171 (7.0)	2,60,246 (7.3)	3,15,812 (7.6)	3,55,970 (7.6)	4,03,658 (7.6)	12.7	13.4
i. States' Own Tax	41,158 (5.3)	78,733 (5.1)	1,41,933 (5.6)	2,12,307 (5.9)	2,52,548 (6.1)	2,93,392 (6.2)	3,36,810 (6.4)	16.2	14.8
ii. States' Own Non-Tax	14,388 (1.8)	24,809 (1.6)	36,238 (1.4)	47,939 (1.3)	63,263 (1.5)	62,578 (1.3)	66,848 (1.3)	-1.1	6.8
b. Central Transfers (i+ii)	37,133 (4.8)	61,874 (4.0)	1,07,491 (4.2)	1,70,774 (4.8)	2,14,744 (5.2)	2,72,772 (5.8)	3,16,177 (6.0)	27.0	15.9
i. Shareable Taxes	19,790 (2.6)	37,608 (2.4)	61,047 (2.4)	94,024 (2.6)	1,20,293 (2.9)	1,48,134 (3.1)	1,73,147 (3.3)	23.1	16.9
ii. Grants-in Aid	17,343 (2.3)	24,267 (1.6)	46,444 (1.8)	76,750 (2.1)	94,451 (2.3)	1,24,638 (2.6)	1,43,030 (2.7)	32.0	14.8
2. Capital Receipts (a+b)	30,737 (4.0)	66,202 (4.1)	1,54,415 (6.0)	1,64,607 (4.6)	1,43,049 (3.5)	1,34,635 (2.9)	1,75,306 (3.3)	-5.9	30.2
a. Loans from Centre@	14,632 (1.9)	26,440 (1.7)	24,337 (1.0)	8,097 (0.2)	5,717 (0.1)	11,291 (0.2)	15,348 (0.3)	97.5	35.9
b. Other Capital Receipts	16,104 (2.1)	39,762 (2.4)	1,30,078 (5.0)	1,56,510 (4.4)	1,37,331 (3.3)	1,23,344 (2.6)	1,59,958 (3.0)	-10.2	29.7

RE: Revised Estimates. BE: Budget Estimates.

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

Note : 1. The 5-year averages have been provided for a more meaningful comparison across periods.
2. Figures in parentheses are percentages to GDP.
3. Capital Receipts include public accounts on a net basis. Also see Notes to Appendices.

Source : Budget Documents of the State Governments.

increase in non-tax revenue would mainly be contributed by increase in receipts from economic services, *inter alia,* industries, power and forestry and wildlife. Low recovery from various social and economic services has been a serious cause of concern for the State Governments. While the recoveries from power and roads have shown improvement, recoveries from irrigation, education and health are more or less stagnant at the previous year's level. The cost recovery in 2008-09 is budgeted at 1.4 per cent for education, 4.4 per cent for public health, 14.7 per cent for irrigation, 25.4 per cent for power and 7.7 per cent for roads (Table 8 and Chart 2). It may be noted that the return in terms of dividend and profits from investments made by the State Governments in State public sector undertakings (PSUs) has been quite low due to their lacklustre performance. For raising the level of non-tax revenue of the State Governments, there is a need for enhancing the cost recovery by way of levying of appropriate user charges and restructuring of the State PSUs. Improvement in the quality of delivery of services would enable the State Governments to raise the level of non-tax revenue. One of the ways to create fiscal space is revenue augmentation, which has assumed added significance under the rule-based fiscal framework on account of implicit cap on financing of expenditure by borrowings (Box 3).

Chart 2: Cost Recovery of Select Services
(Ratio of Non-Tax Revenue to Non-Plan Revenue Expenditure)

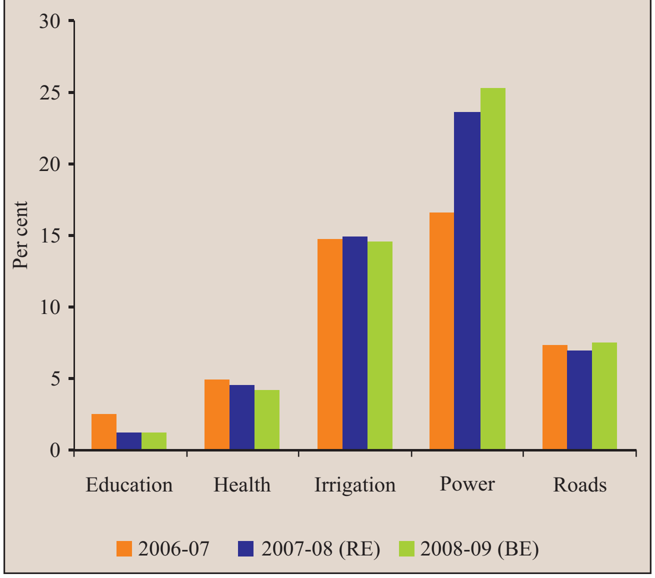

Table 8: Cost Recovery of Select Services

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

(Per cent)

Item	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08 (RE)	2008-09 (BE)
1	2	3	4	5	6	7	8	9	10
A. Social Services	**2.8**	**3.1**	**3.3**	**3.6**	**3.7**	**4.2**	**5.8**	**4.0**	**3.8**
of which:									
(a) Education $	1.2	1.3	1.6	1.8	2.1	2.8	2.6	1.4	1.4
(b) Health *	4.6	6.2	5.4	4.7	6.2	4.7	5.1	4.7	4.4
B. Economic Services	**25.3**	**27.6**	**30.8**	**26.6**	**39.6**	**33.4**	**32.8**	**32.3**	**38.1**
of which:									
(a) Irrigation #	8.1	7.5	8.4	15.3	16.4	14.5	15.0	15.2	14.7
(b) Power	6.5	6.5	9.7	2.8	11.7	12.3	16.7	23.8	25.4
(c) Roads @	16.3	19.6	15.6	21.5	14.6	11.6	7.6	7.2	7.7

RE: Revised Estimates. BE: Budget Estimates.
$: Also includes expenditure on sports, art and culture.
* : Includes expenditure on medical and public health and family welfare.
# : Relates to irrigation and flood control for non-plan revenue expenditure while it pertains to major, medium and minor irrigation for non-tax revenue.
@ : Relates to roads and bridges for non-plan revenue expenditure while it pertains to road transport for non-tax revenue.

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

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

Box 3: Fiscal Space in the context of Sub-National Governments

Fiscal space is an evolving concept. It can be defined as 'the gap between the current level of expenditure and the maximum level of expenditure a government can undertake without impairing its solvency' (IMF-World Bank, 2006). It can also be defined as 'the availability of budgetary room that allows a government to provide resources for a desired purpose without any prejudice to the sustainability of a government's financial position' (Heller, 2005). Both these definitions conceptualise fiscal space in residual terms ('gap' or 'room'). In contrast, fiscal space is also characterised as 'concrete policy actions for enhancing domestic resource mobilisation and the reforms necessary to secure the enabling governance, institutional and economic environment for these policy actions to be effective' (Roy, *et al*, 2007). The focus on domestic resource mobilisation in this definition underscores the fact that ultimately the sustainability and solvency of an economy depends on (a) the extent to which domestic financing mechanisms are able to support public expenditures, and (b) the fact that the mobilisation of resources in a sustainable manner is a function of political economy context within which fiscal space is secured.

Operationally, fiscal space is a country-specific matter. For developing countries, fiscal space may seem a more immediate issue than in advanced countries as it would provide additional fiscal room that can go for some meritorious public spending such as health, education and infrastructure, which, in turn, would increase medium-term growth and expand the revenue base of the economy in the long-run. However, while creating fiscal space for a particular activity, the Governments would need to assess whether any future expenditure related to it could be met from the normal future revenue of the Government. If the fiscal space is created for repaying the past debt of the Government, the Government can save money on account of interest outflow in future (Tanzi, 2007). In contrast, if the future budgetary resources of the Government are tied up with the projected committed expenditure of the Government, it would create a negative fiscal space for the meritorious expenditure of the Government in future.

In the context of the finances of sub-national Governments, fiscal space assumes significance in view of their greater expenditure responsibilities than the Central Government. The fiscal space at the sub-national level can be created in a number of ways such as increasing tax rates, strengthening tax administration, cutting down low priority expenditure, implementing expenditure programmes efficiently, raising additional borrowings and acquiring higher transfers from the Central Government (Heller, 2005). Though cutting down low priority expenditure is a desirable way of creating fiscal space, there is a need to ensure that in doing so a particular sector is not weakened, so as to avoid the costs of rebuilding the entire sector in future. Similarly, if fiscal space is created through additional borrowings, it should be assessed in terms of its impact on the Government's capacity to generate the revenue needed to service that debt.

Creation of fiscal space is critical in India for reaping the benefits of demographic dividend in the coming decades. The Eleventh Five Year Plan document has stated that for achieving the growth target of 9 per cent, it is important to overcome the infrastructure deficit in the country. Creating fiscal space would enable the undertaking of large investment in both social and physical infrastructure sectors of the country. In India, raising the ratio of States' own tax and non-tax revenues to GSDP would be a possible way of creating fiscal space at the sub-national level. Fiscal space can be created on the spending side by structural reforms: (a) that reduce inefficiency in public spending, or (b) that eliminate programmes that have no strong reason to be in public sector and that can be shifted to the private sector. Apart from these, better targeting of subsidies can also create fiscal space by cutting down non-merit subsidies. It may be worth emphasising here the quality of public finance management (PFM) in this respect. Ideally, not only well structured, transparent and systematically enforced processes for budget preparation, execution, accounting, reporting and auditing to be in place, but also a meaningful programme classification for the budget; reliable and timely cost accounting for such programmes; and appropriate indicators of their effectiveness need to be developed, to facilitate an assessment of efficiency of programmes (including through a benchmarking of performances).

The Debt Swap Scheme (DSS) operated during 2002-05 and Debt Consolidation and Relief Facility (DCRF) recommended by the Twelfth Finance Commission have created fiscal space at the State level in India by reducing the expenditure on interest payments. The rule-based framework adopted under FRLs brought in fiscal discipline to the States. It has been the endeavour of some States to create earmarked fiscal space through Special Purpose Vehicles (SPV). The States may take adequate care to assess the rate of return of the projects financed by SPVs to avoid pressure on their budgets in future. In recent years, the State Governments have also initiated some one-off measures such as sale of land and property to create fiscal space. However, if the expenditure financed by such fiscal space demands more expenditure in future, it may exert pressure on the normal budget in future. Furthermore, many State Governments have used public-private partnership (PPP) as a way to create fiscal space mainly for financing infrastructure. Through PPP, State Governments can access the private funds in a non-debt creating manner to finance the public projects.

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IV.3.3 Revenue Expenditure

During 2008-09, the growth in revenue expenditure is budgeted to decelerate to 14.1 per cent from 19.9 per cent in the previous year. The budgeted increase in revenue expenditure by Rs.85,193 crore would be mainly on account of increase in developmental expenditure, which will contribute 56.0 per cent of the increase. The increase in developmental expenditure will be primarily due to increase in expenditure on education, sports, art and culture, medical and public health, and rural development (Table 9 and Appendix Table 4). Apart from the developmental expenditure, increase in committed expenditure (*i.e.,* expenditure on interest payments, pensions and administrative services) by 13.3 per cent will contribute 32.2 per cent of the increase in revenue expenditure. Committed expenditure is, however, estimated to pre-empt marginally lower proportion (32.5 per cent) of revenue receipts in 2008-09 (BE) as compared to the previous year (32.9 per cent) (Chart 3).

IV.3.4 Capital Receipts

Capital receipts are budgeted to increase by 30.2 per cent during 2008-09 as against a decline of 5.9 per cent in the preceding year, mainly on account of sharp increase in the budgeted amount of special securities issued to NSSF, reserve fund (net), and miscellaneous capital receipts. In 2007-08 (RE), NSSF receipts declined by 73.6 per cent over the budget estimates. NSSF receipts are budgeted to grow by 86.8 per cent during 2008-09. The State Governments have budgeted lower recovery of loans and advances by 16.8 per cent. Gross loans from the Centre are budgeted to increase by 35.9 per cent during 2008-09 as compared with the previous year (Table 7 and Appendix Table 5). Loans from the Centre, however, are being phased out as State Governments are taking recourse to market borrowings for their

Table 9: Expenditure Pattern of State Governments

(Amount in Rs. crore)

Item	1990-95	1995-00	2000-05	2005-06	2006-07	2007-08 (RE)	2008-09 (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)	1,22,270 (15.9)	2,33,441 (14.9)	4,37,299 (17.1)	5,61,682 (15.7)	6,57,280 (15.9)	7,87,489 (16.7)	8,92,783 (16.8)	19.8	13.4
1. Revenue Expenditure *of which:*	98,009 (12.7)	1,93,816 (12.4)	3,40,752 (13.4)	4,38,034 (12.2)	5,05,699 (12.2)	6,06,216 (12.9)	6,91,409 (13.0)	19.9	14.1
Interest payments	13,605 (1.7)	31,421 (2.0)	69,685 (2.7)	84,024 (2.3)	93,180 (2.2)	1,02,878 (2.2)	1,08,383 (2.0)	10.4	5.4
2. Capital Expenditure *of which:*	24,261 (3.2)	39,625 (2.5)	96,547 (3.6)	1,23,648 (3.5)	1,51,582 (3.7)	1,81,273 (3.8)	2,01,374 (3.8)	19.6	11.1
Capital outlay	11,893 (1.5)	21,044 (1.4)	41,856 (1.6)	77,559 (2.2)	98,063 (2.4)	1,28,331 (2.7)	1,45,159 (2.7)	30.9	13.1
3. Development Expenditure	81,989 (10.7)	1,45,852 (9.4)	2,39,576 (9.4)	3,30,044 (9.2)	3,92,165 (9.5)	4,93,563 (10.5)	5,57,116 (10.5)	25.9	12.9
4. Non-Development Expenditure	33,734 (4.3)	76,035 (4.8)	1,50,715 (5.9)	1,90,021 (5.3)	2,11,872 (5.1)	2,41,019 (5.1)	2,75,609 (5.2)	13.8	14.4
5. Others*	6,547 (0.9)	11,554 (0.7)	47,009 (1.7)	41,617 (1.2)	53,243 (1.3)	52,907 (1.1)	60,058 (1.1)	-0.6	13.5

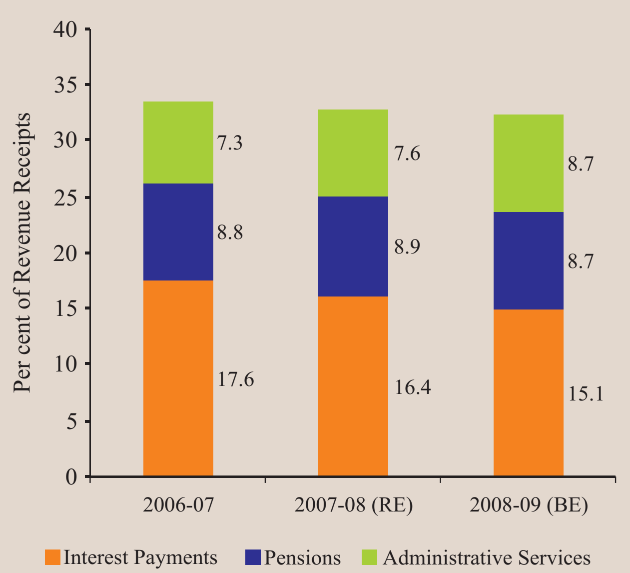
RE: Revised Estimates. BE: Budget Estimates.

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

Note : 1. The 5-year averages have been provided for a more meaningful comparison across periods.
2. Figures in brackets are percent to GDP.
3. Capital Expenditure is given exclusive of Public Accounts. Also see Notes to Appendices.

Source : Budget Documents of the State Governments.

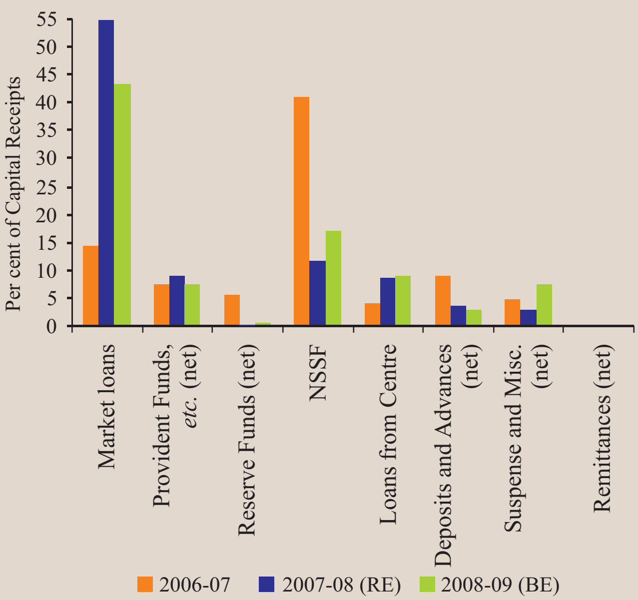
Chart 3: Expenditure on Interest Payments, Pensions and Administrative Services



Plan schemes in terms of the recommendations of the TFC. The major components of capital receipts as a ratio to total capital receipts (net of recoveries) of the States are presented in Chart 4.

In addition of borrowed funds, two States have proposed to mobilise funds through sale of land (disinvestment). Accordingly, States' non-debt capital receipts are budgeted to increase by

Chart 4: Major Components of Capital Receipts



Rs.6,600 crore (78.6 per cent) in 2008-09 as compared with 2007-08 (RE). In 2008-09 (BE), Andhra Pradesh and Karnataka have budgeted Rs.12,000 crore and Rs.3000 crore, respectively under non-debt capital receipts. State Governments have also increased recource to external assistance. Externally aided projects, however, are concentrated among a few States (Box 4).

IV.3.5 Capital Expenditure

The total capital expenditure of the State Governments is budgeted to increase by 11.1 per cent during 2008-09 as compared with an increase of 19.6 per cent in the previous year (Table 9 and Appendix Table 6). Enhancement in capital outlay would account for 83.7 per cent of the increase in capital disbursements, primarily representing developmental outlays in economic services and social services. As a ratio to GDP, however, capital outlay would remain unchanged at the level of 2.7 per cent as in the preceding year. All the components of the capital expenditure have been budgeted to increase over the previous year's level except loans and advances by the State Governments, which would decline by 4.0 per cent.

IV.3.6 Devolution and Transfer of Resources from the Centre

Gross devolution and transfer of resources from the Centre (*i.e.*, shareable taxes, grants and loans and advances) are budgeted to increase by 16.7 per cent to Rs.3,31,525 crore in 2008-09 (Appendix Table 7). As a ratio to GDP, gross devolution and transfers from the Centre would increase to 6.3 per cent in 2008-09 (BE) from 6.0 per cent in the previous year. It may be stated that gross devolution and transfer from the Centre would finance 37.1 per cent of the aggregate disbursements of the State Governments during 2008-09 (BE) as compared with 36.1 per cent in the preceding year.

Box 4: Externally Aided Projects

External assistance plays a significant role in financing major infrastructure projects, social sector projects and in building up of institutional capacity. Externally Aided Projects (EAPs) are important potential sources of augmenting the State's resources and can play a vital role in development of the State. Heavy investments for larger size projects both in the infrastructure and social sectors has necessitated increasing reliance on EAPs beginning with the Eighth Plan. External aid has been used primarily for the development of infrastructural facilities such as the development of roads, irrigation, water supply and power projects. Consequently, EAPs now form a major component of the total plan resources of the State. Over time, the scope of EAPs has been widened and State Governments have been able to create assets in the field of energy, irrigation, roads, health, forestry, animal husbandry, *etc*. through external assistance. External assistance has been obtained from agencies such as the World Bank, United States Agency for International Development (USAID), European Economic Community (EEC), Overseas Economic Cooperation Fund (OECF), KfW of Germany and International Fund for Agricultural Development (IFAD). It is important to note that the structure of external assistance in India is skewed in favour of a few states. Central sector/multi-State sector projects and few States, *viz*., Andhra Pradesh, West Bengal, Uttar Pradesh, Gujarat, Tamil Nadu and Gujarat account for nearly 90 per cent of the disbursements. Disbursements to other States and the special category States are negligible.

A large number of States have suggested that external loans should be passed on to States on the same terms and conditions as granted by the lending agency. External assistance to India is project-based except for structural adjustment assistance. The financing terms for EAPs and programmes vary according to projects and lending agencies. There are grants, soft loans and non-concessional loans, provided by lending agencies, depending upon the nature, the financial viability of the project and the revenue earning potential of a project. The external assistance received for States' project, however, used to be passed on as 70 per cent loan and 30 per cent grant (10 per cent and 90 per cent, respectively in case of special category States). Interest rates applied were those applicable to block loans. While the external assistance from some sources and for some projects is highly concessional, in other cases it may be expensive. In the process of pooling and fixing a uniform interest rate in rupee terms, an element of cross-subsidisation occurs at two levels: between Centre and all States, and among the States. In the case of cross-subsidisation between Centre and all the States, the gain/loss to one side *vis-a-vis* another depends on the rate of depreciation of the Indian rupee against major foreign currencies.

Government of India accepted the recommendations of the Twelfth Finance Commission (TFC) to pass on external assistance on the same terms and conditions on which it was received. Accordingly, in the case of new projects signed on or after April 1, 2005, the external assistance is being transferred on a 'back-to-back' basis. However, under this arrangement, the service costs are now passed on to the States. The special category States, however, requested for restoration of old arrangement of transfer of external assistance on a 90:10 grant and loan basis, which was restored in 2006. State Governments cannot access external aid directly either through bilateral or multilateral sources.

The external assistance by multilateral agencies to the States has traditionally been routed through the Central Government as part of the Central assistance, with the Centre bearing the foreign exchange risk. However, as part of the policy of disintermediation of the Centre in the borrowings by the States, it was decided by the Central Government that there should be a back-to-back transfer of external assistance to the States. At the 16th Conference of the State Finance Secretaries, some of the State Finance Secretaries suggested that the RBI could play an advisory role in assisting the States in hedging their exchange rate risks arising from the policy of back-to-back transfer of external assistance. In the context of the TFC recommendations and following the discussions at the 19th Conference of the State Finance Secretaries, held in January 2007, a Workshop on the management of foreign exchange risk by the States through the financial markets was organised by the Reserve Bank in May 2007, for the benefit of the State Government officials. The States have also proposed alternative mechanisms for providing for foreign exchange risk by setting aside funds in their budgets, where the Reserve Bank is expected to play a role in managing these funds on the lines of the CSF. These proposals were discussed at the 20th Conference of the State Finance Secretaries held in August 2007 (Reddy, 2008).

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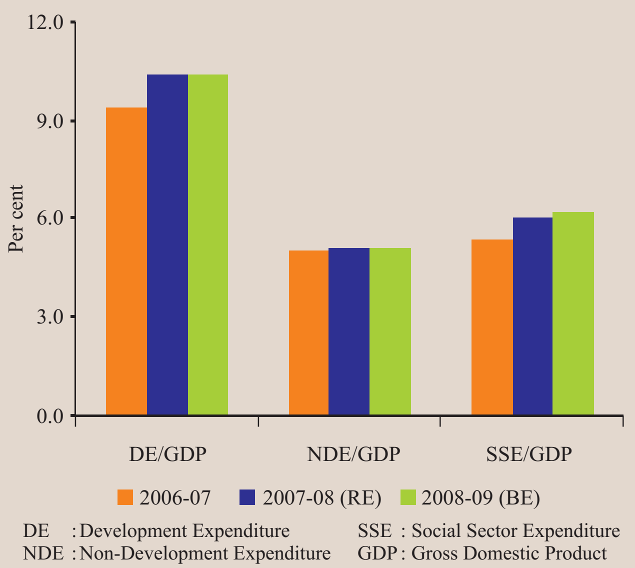
IV.3.7 *Developmental and Non-Developmental Expenditure*[6]

During 2008-09, total developmental expenditure (revenue plus capital) is budgeted to remain unchanged at 10.5 per cent of GDP, while non-developmental expenditure is budgeted to increase by 0.1 percentages points to 5.2 per cent of GDP over 2007-08 (RE) (Chart 5). It may be noted that the developmental expenditure as a ratio of aggregate expenditure is budgeted to decline to 62.4 per cent in 2008-09 from 62.7 per cent in 2007-08 (RE) (Table 10). However, the share of developmental revenue expenditure and developmental capital outlay in total developmental expenditure is budgeted to increase to 72.3 per cent and 25.0 per cent in 2008-09, from 71.9 per cent and 24.8 per cent respectively, in 2007-08 (RE). In view of the importance of public expenditure on development heads from the point of view of social and economic development, it is important for the State Governments to take appropriate expenditure rationalisation measures and lay emphasis on provision of core public and merit goods (Box 5).

6 Refer to explanatory note on data sources and methodology.

Chart 5: Development and Non-Development Expenditure



The growth rate of almost all major developmental heads (both revenue and capital expenditure) is budgeted to decelerate in 2008-09. Non-plan non-developmental expenditure, as ratio to GDP, would be placed at 5.0 per cent in 2008-09 (BE), showing a marginal increase of 0.1 per cent over the previous year's level (Appendix Tables 8-14). It may be mentioned that committed expenditure (consisting of interest payments, administrative services and pension) as a ratio to revenue expenditure, which had been rising in the past, showed some signs of stabilising in the recent years. As a percentage of revenue expenditure, committed

Table 10: Development Expenditure *vis-à-vis* Total Expenditure

(Amount in Rs. crore)

Year	Development Revenue Expenditure	Development Capital Outlay	Development Loans & Advances	Total Development Expenditure
1	2	3	4	5
2006-07	2,84,797	94,165	13,202	3,92,165
	(43.3)	(14.3)	(2.0)	(59.7)
2007-08 (RE)	3,55,099	1,22,315	16,149	4,93,563
	(45.1)	(15.5)	(2.1)	(62.7)
2008-09 (BE)	4,02,810	1,39,013	15,294	5,57,116
	(45.1)	(15.6)	(1.7)	(62.4)

RE: Revised Estimates. BE: Budget Estimates.
Note : Figures in brackets are per cent to aggregate expenditure.
Source : Budget Documents of the State Governments.

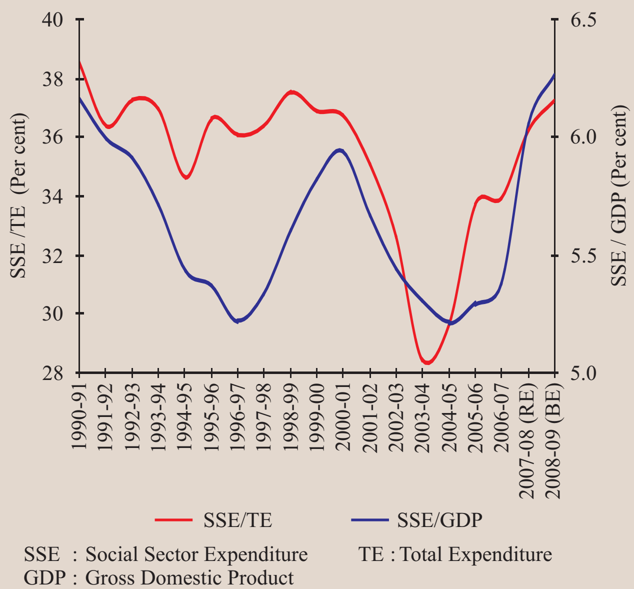
expenditure would remain at around 33.8 per cent. As a ratio to own revenue, it will remain stagnant at around 58.0 per cent.

IV.3.8 Social Sector Expenditure[7]

Social sector expenditure (SSE) (comprising social services, rural development, and food storage and warehousing) is budgeted at 6.3 per cent of GDP in 2008-09 as compared with 6.1 per cent in 2007-08 (RE). The share of SSE in total expenditure (TE) of the State Governments, which exhibited a declining trend in the first half of this decade, showed an improvement during the recent years (Chart 6). From an average of 32.5 per cent during 2000-05, the ratio of SSE-TE increased to 33.9 per cent in 2006-07. It is budgeted to increase to 37.2 per cent during 2008-09 (Table 11 and Appendix Table 15). It may be noted that SSE as a ratio to GDP registered a marked improvement during the recent years and is budgeted at 6.3 per cent in 2008-09.

In recent years, the share of capital outlay and loans and advances in SSE showed a rising trend. The share of capital outlay in SSE increased to 10.1 per cent in 2006-07 from the average level of 4.3 per cent in 1990-95. The share

Chart 6: Trend in Social Sector Expenditure



7 Social Sector Expenditure includes expenditure on social services, rural development and food, storage and warehousing under revenue expenditure, capital outlay and loans and advances given by the State Governments.

Box 5: Evolving Pattern of Public Expenditure of the State Governments

In terms of the Indian Constitution, expenditure responsibilities relating to the social sector and economic infrastructure are largely assigned to the State Governments. Enhancing human development levels requires the States to step up their expenditure on key social services like education and health along with improving delivery mechanisms of public services to obtain the desired outcomes. Within the framework of Fiscal Responsibility Legislations (FRLs), there are budgetary constraints on substantially raising public expenditure financed by deficit or borrowings. This necessitated the adoption of a revenue-led strategy with measures of expenditure rationalisation to gain fiscal space in undertaking social and other development expenditures by the State Governments.

An assessment of the consolidated expenditure pattern of the State Governments reveals that their average total expenditure (revenue and capital) as a ratio to GDP declined from 15.9 per cent during 1991-95 to 14.9 per cent during 1996-2000, reflecting decline in both revenue and capital components (Table 1). The ratio improved to 17.1 per cent during 2001-05, but declined to 15.9 per cent in 2006-07. In contrast to the compression of aggregate expenditure and revenue receipts in the second half of the 1990s which led to the deterioration of State finances, the fiscal consolidation under the FRL framework in the recent period has been brought about by an increase in revenue receipts and curtailment of revenue expenditure. The resultant improvement in the revenue balances of the States facilitated some rise in capital expenditure relative to GDP.

Given the limitation in increasing public expenditure, the State Governments have been setting up Expenditure Reform Commissions and undertaking several measures in the direction of expenditure rationalisation. In view of the predominance of non-development components in the State Governments' expenditure, however, the expenditure reform has remained a challenge at the sub-national level. With the rising level of fiscal deficits, interest payments constituted a significant proportion of the expenditure of the State Governments, rising from 1.7 per cent of GDP during 1991-95 to 2.7 per cent of GDP during 2001-05. A positive feature in recent years relates to the measures taken towards reducing fiscal deficit under the fiscal consolidation process and restructuring of the State Government liabilities, which facilitated reduction in the ratio of interest payments to GDP. After touching a peak of 2.9 per cent of GDP in 2003-04, interest payments declined to 2.2 per cent of GDP in 2006-07, partly due to the Debt Swap Scheme (2002-05) and Debt Consolidation and Relief Facility recommended by the Twelfth Finance Commission and partly on account of declining interest rates. Second, pension obligations, another important non-discretionary component, increased from 0.6 per cent of GDP during 1991-95 to 1.2 per cent during 2001-05. Nineteen State Governments have introduced the New Pension Scheme (NPS) based on defined contribution, which has tended to stabilise the pension obligations. Third, the expenditure on administrative services has been relatively stable in view of policy to arrest the growth of Government personnel since the early 1990s.

The expenditure for development purposes showed signs of improvement in the recent years. However, it is still lower than the levels achieved in the early 1990s. The average development expenditure (revenue and capital) as a ratio to GDP declined from 10.7 per cent during 1990-91 to 1994-95 to 9.4 per cent during 2001-05 but increased to 10.5 per cent in 2007-08 (RE). The average social sector expenditure (social services, rural development and food storage and warehousing), as a ratio to GDP, declined from 5.8 per cent to 5.5 per cent between 1991-95 and 2001-05, but increased to 6.1 per cent in 2007-08 (RE).

The evolving pattern of expenditure by the States brings to the fore a number of issues relating to public expenditure management reforms. First, the States have to adhere to fiscal discipline (hard budget constraints) under the rule-based framework of FRL. Second, there is a need to improve allocation towards development expenditure, particularly in view of the fiscal space being created on account of decline in debt servicing in recent years. Third, the States may reprioritise expenditure by focusing on provision of core public and merit goods. Finally, the State Governments may relate expenditures to outcomes in terms of quality, reach and the impact of government expenditures. In this context, quality of public finance management assumes importance (see Box 3).

References:

1. Reserve Bank of India (2008), *Annual Report*.
2. Schick, Allen (2007), 'Managing Public Expenditure', Paper presented at the G-20 Workshop on Fiscal Policy, July 1-2, Istanbul.
3. Sen, T. K. and K. Karmarkar (2007), 'Reprioritisation of Public Expenditure for Human Development', Working Paper No. 2, *Financing Human Development,* National Institute of Public Finance and Policy, June.

Table 1: Trends in Expenditure by State Governments

(Per cent to GDP)

Item	1990-91 to 1994-95 (Average)	1995-96 to 1999-00 (Average)	2000-01 to 2004-05 (Average)	2005-06	2006-07	2007-08 (RE)	2008-09 (BE)
Total Expenditure (1+2)	**15.9**	**14.9**	**17.1**	**15.7**	**15.9**	**16.7**	**16.8**
1. Revenue Expenditure	12.7	12.4	13.4	12.2	12.2	12.9	13.0
of which:							
(a) Interest Payments	1.7	2.0	2.7	2.3	2.2	2.2	2.0
(b) Pensions	0.6	0.8	1.2	1.1	1.1	1.2	1.2
(c) Administrative Services	1.2	1.1	1.1	1.0	0.9	1.0	1.2
2. Capital Expenditure	3.2	2.5	3.6	3.5	3.7	3.8	3.8
of which:							
(a) Capital Outlay	1.5	1.4	1.6	2.2	2.4	2.7	2.7
(b) Loans and Advances by State Governments	0.9	0.6	0.5	0.4	0.3	0.4	0.3
Memo items:							
(i) Development Expenditure	10.7	9.4	9.4	9.2	9.5	10.5	10.5
(ii) Social Sector Expenditure	5.8	5.5	5.5	5.3	5.4	6.1	6.3

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

Table 11: Trend in Aggregate Social Sector Expenditure of State Governments

(Per cent)

Item	1990-95	1995-00	2000-05	2005-06	2006-07	2007-08 (RE)	2008-09 (BE)
		(Average)					
1	2	3	4	5	6	7	8
TE/GDP	16.0	15.0	17.1	15.7	15.9	16.7	16.8
SSE/GDP	5.8	5.5	5.5	5.3	5.4	6.1	6.3
SSE/TE	36.8	36.7	32.5	33.7	33.9	36.3	37.2

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

is budgeted to increase to 11.6 per cent in 2008-09. On the other hand, the revenue component of the social sector expenditure shows a gradual decline from 93.3 per cent in 1990-95 to 87.7 per cent in 2006-07, and is budgeted to decline further to 85.6 per cent in 2008-09 (Table 12). Expenditure on social

Table 12: Trend in Composition of Social Sector Expenditure

(Per cent to SSE)

Item	Revenue Expenditure	Capital Outlay	Loans and Advances	Total (2+3+4)
1	2	3	4	5
1990-91 to 1994-95 (Average)				
Social Services	78.9	3.8	2.4	85.1
Rural Development	13.6	0.4	–	14.0
Food Storage and Warehousing	0.7	0.1	–	0.9
Total	**93.3**	**4.3**	**2.4**	**100.0**
1995-96 to 1999-00 (Average)				
Social Services	82.2	4.0	2.0	88.2
Rural Development	10.2	0.4	–	10.6
Food Storage and Warehousing	1.1	0.1	0.1	1.2
Total	**93.4**	**4.5**	**2.1**	**100.0**
2000-01 to 2004-05 (Average)				
Social Services	80.8	5.5	2.0	88.3
Rural Development	8.7	1.6	–	10.2
Food Storage and Warehousing	0.8	0.5	0.1	1.4
Total	**90.3**	**7.6**	**2.1**	**100.0**
2005-06				
Social Services	78.7	7.5	1.1	87.2
Rural Development	9.3	2.1	–	11.4
Food Storage and Warehousing	0.9	0.1	0.4	1.4
Total	**88.9**	**9.7**	**1.5**	**100.0**
2006-07				
Social Services	78.3	7.8	1.6	87.7
Rural Development	8.7	2.4	–	11.1
Food Storage and Warehousing	0.8	-0.1	0.5	1.2
Total	**87.7**	**10.1**	**2.1**	**100.0**
2007-08 (RE)				
Social Services	76.2	9.2	2.9	88.3
Rural Development	8.2	2.1	–	10.3
Food Storage and Warehousing	0.8	0.2	0.5	1.4
Total	**85.2**	**11.4**	**3.4**	**100.0**
2008-09 (BE)				
Social Services	76.1	9.5	2.4	88.0
Rural Development	8.9	2.0	–	11.0
Food Storage and Warehousing	0.5	0.1	0.4	1.0
Total	**85.6**	**11.6**	**2.8**	**100.0**

SSE: Social Sector Expenditure. RE: Revised Estimates. BE: Budget Estimates. '–' : Nil/Negligible.
Note : Totals may not add up due to rounding off of figures.
Source : Budget Documents of the State Governments.

services (encompassing twelve sub-heads) constitutes the major component of SSE, followed by rural development and food storage and warehousing. The shares of expenditure on education and health, which constituted around 52.1 per cent and 13.4 per cent respectively, of States' expenditure on social services during 1990-91 to 2004-05, have shown a declining trend and are budgeted at the level of 43.3 and 11.0 per cent respectively, during 2008-09. On the other hand, there has been an increase in the shares of expenditure on services like housing, urban development and social security and welfare, and welfare of SCs, STs and other backward classes (OBCs) (Table 13).

IV.3.9 *Expenditure on Operations and Maintenance* and *Wages and Salaries*[8]

The level of expenditure on operations and maintenance is vital for the upkeep of the capital assets of the Government. The TFC emphasised on increasing the level of expenditure on maintenance of assets and also recommended specific grants for this purpose. The proportion of operations and maintenance expenditure in total revenue expenditure, by and large, exhibited a gradual decline over the years. This has implications for returns from Plan projects. On the other hand, the share of wages and salaries in revenue expenditure will increase to 29.4 per cent in 2008-09 as compared to 27.6 per cent in the previous year (Table 14). A large share of wages and salaries in total revenue expenditure (more than one-fourth) is one of the primary reason for downward rigidity in revenue expenditure.

In this context, it may be mentioned that the Sixth CPC constituted by the Government of India has submitted its report in March 2008. Many of the State Governments follow the CPC award to improve the pay structure of their employees. Several State Governments constitute their own Pay Commissions. It is pertinent to mention that State finances experienced deterioration in the latter part of the 1990s subsequent to their adopting the recommendations of the Fifth CPC for their employees. The States, therefore, need to be

Table 13: Expenditure on Social Services (Revenue and Capital Accounts) - Composition

(Per cent to expenditure on social services)

Item	1990-95	1995-00	2000-05	2005-06	2006-07	2007-08 (RE)	2008-09 (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	52.2	52.6	51.3	48.2	47.0	43.7	43.3
(b) Medical and Public Health	16.0	12.6	11.7	11.6	11.4	10.9	11.0
(c) Family Welfare	–	2.4	2.0	1.7	1.6	1.6	1.7
(d) Water Supply and Sanitation	7.3	7.5	7.8	8.2	7.9	8.1	7.2
(e) Housing	2.9	2.9	2.9	2.3	2.7	4.4	4.4
(f) Urban Development	2.2	2.7	3.7	4.2	5.7	7.5	9.0
(g) Welfare of SCs, STs and OBCs	6.6	6.5	6.5	7.1	6.9	7.5	7.1
(h) Labour and Labour Welfare	1.4	1.3	1.0	1.0	1.3	1.1	1.0
(i) Social Security and Welfare	4.5	4.2	5.1	5.7	6.7	7.5	8.3
(j) Nutrition	1.7	2.7	2.1	2.4	2.5	2.6	2.9
(k) Expenditure on Natural Calamities	2.5	2.8	3.8	5.2	4.0	2.7	1.9
(l) Others	2.5	1.9	2.1	2.3	2.3	2.4	2.2

RE: Revised Estimates. BE: Budget Estimates. '–' : Not available.
Source : Budget Documents of the State Governments.

8 The data on wages and salaries and also that of operations and maintenance are not readily available in the budget documents of all the State Governments. An attempt has been made to collate the above data after obtaining the same from the State Governments.

Table 14: Administrative Expenditure of State Governments - Wages and Salaries and Operations and Maintenance

Year	Wages and Salaries			Operations and Maintenance		
	Amount (Rs. crore)	Per cent of Revenue Expenditure	Per cent of GDP	Amount (Rs. crore)	Per cent of Revenue Expenditure	Per cent of GDP
1	2	3	4	5	6	7
1990-91	18,515	37.3	3.3	6,922	16.5	1.2
1991-92	23,042	35.2	3.5	7,302	12.9	1.1
1992-93	26,234	35.5	3.5	9,281	14.6	1.2
1993-94	29,431	35.6	3.4	9,037	12.7	1.0
1994-95	33,317	34.3	3.3	10,585	12.5	1.0
1995-96	37,672	34.4	3.2	11,368	11.9	1.0
1996-97	45,746	33.3	3.3	12,642	11.1	0.9
1997-98	58,282	35.9	3.8	14,872	10.3	1.0
1998-99	71,234	37.1	4.1	17,710	9.8	1.0
1999-00	86,285	38.1	4.4	17,522	8.3	0.9
2000-01	94,507	36.3	4.5	19,529	7.9	0.9
2001-02	93,008	34.0	4.1	19,591	7.5	0.9
2002-03	94,717	32.8	3.9	22,438	8.2	0.9
2003-04	98,741	30.0	3.6	25,464	8.1	0.9
2004-05	1,03,924	29.4	3.3	29,164	8.6	0.9
2005-06	1,04,158	29.1	2.9	33,976	9.3	0.9
2006-07	1,16,431	27.5	2.8	41,807	9.8	1.0
2007-08 (RE)	1,39,395	27.6	3.0	48,635	9.5	1.0
2008-09 (BE)	1,63,915	29.4	3.1	54,950	9.8	1.0

RE: Revised Estimates. BE: Budget Estimates.

Note : 1. Statements 44 and 45 provide State-wise details. The number of States included in each year differ.
2. Data as per cent of revenue expenditure (Col. 3 and 6) is based on the number of States included in that year.

Source : Based on information received from State Governments.

cautious on decisions relating to salary levels and balance it with their fiscal capacity, employee strength, size of population and the required complementary expenditure for productive employment.

IV.3.10 Plan Outlay of State Governments

During 2008-09, the approved Plan outlay of the State Governments is placed at Rs.2,93,664 crore (5.5 per cent of GDP), registering a growth of 28.9 per cent over the previous year. It may be noted that non-special category States account for 91.0 per cent of the total approved Plan outlay during 2008-09 as compared with 90.2 per cent during the previous year. The State-wise details of Plan outlays of State Governments are set out in Statement 30.

IV.4 Assessment

IV.4.1 Consolidated Position

The steady and gradual improvement in State finances, in terms of reduction in key deficit indicators, has been envisaged to continue in the State budgets for 2008-09. The trend in the key deficit indicators as set out in Table 15 and Chart 7 reveals marked fiscal correction and consolidation witnessed in recent years after recording progressive deterioration during the second half of the 1990s. Adherence to rule-based fiscal policy supplemented by the larger devolution and transfers from the Centre based on recommendations of the TFC and improvement in tax buoyancy enabled the State Governments to bring the key deficit indicators to the lower levels. The consolidated fiscal position of the State Governments during 2008-09 is budgeted to register a revenue surplus of Rs.28,426 crore (0.54 per cent of GDP). This along with the Rs.15,000 crore of non-debt capital receipts would enable the States to limit the GFD at 2.1 per cent of GDP despite an increase in capital outlay and net lending. PD is budgeted to decline by Rs.810 crore to Rs.4,270

Table 15: Trends in Major Deficit Indicators of State Governments

(Amount in Rs. crore)

Year	Revenue Deficit		Gross Fiscal Deficit		Primary Revenue Balance		Primary Deficit	
1		2		3		4		5
1999-00	54,548	(2.8)	90,099	(4.6)	9,907	(0.5)	45,458	(2.3)
2000-01	55,316	(2.6)	87,923	(4.2)	4,331	(0.2)	36,937	(1.8)
2001-02	60,398	(2.7)	94,260	(4.1)	-1,198	(-0.1)	32,665	(1.4)
2002-03	57,179	(2.3)	99,726	(4.1)	-11,848	(-0.5)	30,699	(1.3)
2003-04	63,407	(2.3)	1,20,631	(4.4)	-16,989	(-0.6)	40,235	(1.5)
(Net of Power Bonds)			94,086	(3.4)				
2004-05	39,158	(1.2)	1,07,774	(3.4)	-47,263	(-1.5)	21,353	(0.7)
2005-06	7,013	(0.2)	90,084	(2.5)	-77,011	(-2.2)	6,060	(0.2)
2006-07	-24,857	(-0.6)	77,508	(1.9)	-1,18,037	(-2.8)	-15,672	(-0.4)
2007-08 (RE)	-22,526	(-0.5)	1,07,958	(2.3)	-1,25,404	(-2.7)	5,080	(0.1)
2008-09 (BE)	-28,426	(-0.5)	1,12,653	(2.1)	-1,36,809	(-2.6)	4,270	(0.1)

RE : Revised Estimates. BE : Budget Estimates.

Note : 1. Negative (-) sign indicates surplus.
2. Figures in parentheses are percentages to GDP.
3. State Governments had issued power bonds amounting to Rs.28,984 crore during 2003-04 to CPSUs under one-time settlement scheme for dues of State Electricity Boards.

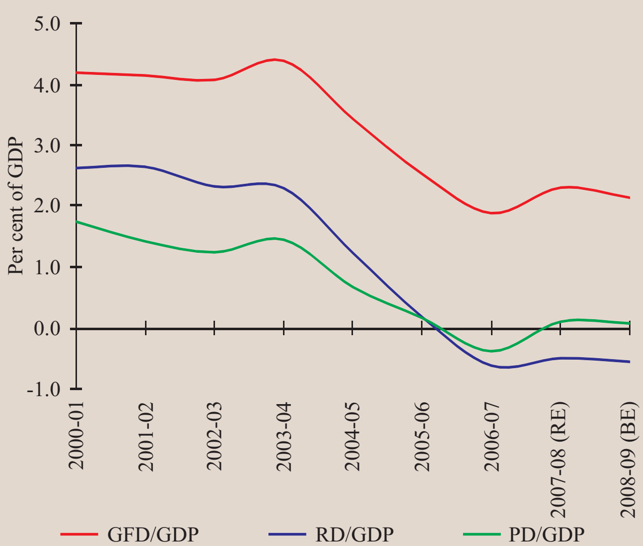
Source : Budget Documents of the State Governments.

crore (0.08 per cent of GDP) in 2008-09 from (0.11 per cent of GDP) in 2007-08 (RE).

IV.4.2 State-wise Correction of Deficits

At the consolidated level, all States have budgeted a revenue surplus of 0.54 per cent of GDP and GFD at the level of 2.1 per cent of GDP during 2008-09. However, State-wise analysis of revenue account and GFD reveals that there are wide variations across the States. During 2008-09, twenty-five States have presented revenue surplus budgets, and remaining three States have presented a revenue deficit budget. Seventeen States have budgeted their GFD less than 3 per cent of GSDP.

Chart 7: Trend in Major Deficit Indicators



GFD : Gross Fiscal Deficit GDP : Gross Domestic Product
RD : Revenue Deficit PD : Primary Deficit

As far as the overall correction in the revenue account is concerned, it revolves around the budgeted surpluses of few States (Table 16). During 2008-09 (BE), special category States will account for 74.2 per cent correction in the revenue account. Among the special category States, some of the major contributors are Assam, Jammu and Kashmir and Uttarakhand, which have proposed a correction of Rs.2,063 crore, Rs.1,174 crore and Rs.687 crore, respectively. Among non-special category States, Jharkhand, Uttar Pradesh, Kerala, and Rajasthan have budgeted a correction in the revenue surplus of Rs.3,684 crore, Rs.1,963 crore, Rs.1,277 crore and Rs.936 crore, respectively. Correction in the consolidated revenue balance of the States would depend to a large extent on the performance of above mentioned States.

Despite correction in the revenue account, GFD is budgeted to increase to Rs.1,12,653 crore

Table 16 : State-wise Correction of RD and GFD - 2008-09 (BE) over 2007-08 (RE)

State	Revenue Deficit		Gross Fiscal Deficit	
	Correction over 2007-08 (RE) (Rs. crore)	Percentage to Total	Correction over 2007-08 (RE) (Rs. crore)	Percentage to Total
1	2	3	4	5
A. Non-Special Category				
1. Andhra Pradesh	-259	17.0	421	5.8
2. Bihar	-820	53.8	-250	-3.5
3. Chhattisgarh	11	-0.7	146	2.0
4. Goa	-222	14.6	82	1.1
5. Gujarat	2,287	-150.0	2,665	36.9
6. Haryana	80	-5.3	317	4.4
7. Jharkhand	-3,684	241.6	-3,931	-54.5
8. Karnataka	1,454	-95.4	944	13.1
9. Kerala	-1,277	83.8	-1,275	-17.7
10. Madhya Pradesh	517	-33.9	243	3.4
11. Maharashtra	1,795	-117.7	2,839	39.4
12. Orissa	1,118	-73.4	1,423	19.7
13. Punjab	310	-20.3	720	10.0
14. Rajasthan	-936	61.4	-319	-4.4
15. Tamil Nadu	832	-54.5	2,381	33.0
16. Uttar Pradesh	-1,963	128.7	1,415	19.6
17. West Bengal	-768	50.4	-608	-8.4
Total (A)	**-1,525**	**100.0**	**7,214**	**100.0**
B. Special Category				
1. Arunachal Pradesh	-275	6.3	-974	38.7
2. Assam	-2,063	47.2	-1,462	58.0
3. Himachal Pradesh	-115	2.6	603	-23.9
4. Jammu and Kashmir	-1,174	26.8	-420	16.7
5. Manipur	10	-0.2	25	-1.0
6. Meghalaya	-14	0.3	42	-1.7
7 Mizoram	203	-4.6	-7	0.3
8. Nagaland	-117	2.7	-259	10.3
9. Sikkim	-19	0.4	109	-4.3
10. Tripura	-124	2.8	276	-11.0
11. Uttarakhand	-687	15.7	-451	17.9
Total (B)	**-4,375**	**100.0**	**-2,519**	**100.0**
Grand Total (A + B)	**-5,899**	**100.0**	**4,695**	**100.0**
Memo item:				
1. NCT Delhi	-1,373	–	-371	–
2. Puducherry	652	–	595	–

RE : Revised Estimates. BE : Budget Estimates.
'–' : Not applicable.
Note : Negative (-) sign indicates improvement in deficit indicators.
Source : Budget Documents of the State Governments.

in 2008-09 from Rs.1,07,958 crore in 2007-08 (RE), though as a per cent of GDP, it would come down to 2.1 per cent from 2.3 per cent. The increase in GFD at the consolidated level by Rs.4,695 crore would entirely be contributed by higher GFD of non-special category States (by Rs.7,214 crore), while special category States have budgeted a reduction in GFD (by Rs.2,519 crore). Among non-special category, States such as Maharashtra (Rs.2,839 crore), Gujarat (Rs.2,665 crore), and Tamil Nadu (Rs.2,381 crore) have proposed an increase in GFD over the previous year. However, Jharkhand, Kerala and West Bengal have envisaged correction in their GFD of Rs.3,931 crore, Rs.1,275 crore, and Rs.608 crore respectively, during 2008-09 (BE). Among the special category States, Assam (Rs.1,462 crore), Arunachal Pradesh (Rs.974 crore) and Uttarakhand (Rs.451 crore) have proposed lower GFD as compared to the previous year, while Himachal Pradesh (Rs.603 crore), Tripura (Rs.276 crore) and Sikkim (Rs.109 crore) have proposed an increase in GFD. Thus, the overall GFD correction of the States during 2008-09 would to a great extent depend upon the fiscal performance of Jharkhand and Kerala in the non-special category and Assam in the special category.

IV.4.3 Decomposition and Financing of Gross Fiscal Deficit

Improved revenue surplus and higher estimates for non-debt capital receipts have changed the decomposition of GFD of the State Governments. The decomposition of consolidated GFD of all State Governments based on their budget documents reveals that the surplus on the revenue account would finance GFD to the tune of 25.2 per cent in 2008-09 (BE), as compared with 20.9 per cent in 2007-08 (RE). Non-debt capital receipts would finance 13.3 per cent of GFD in 2008-09 (BE) as compared with 7.8 per cent in 2007-08 (RE). Accordingly, the share of capital outlay in GFD would increase from 118.9 per cent to 128.9 per cent (Appendix Table 16).

The financing pattern of GFD of the State Governments has undergone a compositional shift with the market borrowings emerging as the major source of financing of GFD as against special securities issued to NSSF, which used to be the major source of financing of GFD during past few years. Owing to the sharp reduction in the collections under small savings, the special securities issued to NSSF financed only 8.8 per cent of GFD in 2007-08 (RE) as compared with 72.3 per cent in 2006-07 (Accounts). In 2008-09, the special securities issued to NSSF are budgeted to finance 19.6 per cent of GFD, while market borrowings would finance 56.7 per cent of GFD (Table 17). It is important to note that even though the TFC had recommended phasing out of loans from the Centre, the loans from Centre are estimated to finance fiscal deficit of the States to the tune of Rs.3,435 crore in 2007-08 (RE) as against net repayment of Rs.8,887 crore in 2006-07. Such loans are budgeted to increase to Rs.6,942 crore in 2008-09 (Appendix Table 17-18).

IV.4.4 Budgetary Data Variation - State Budgets vis-à-vis Union Budget

A perusal of Union Budget in conjunction with State Budgets for last three years reveals that States generally overestimate grants-in-aid from the Centre while the amount of shareable Central taxes is underestimated in the State Budgets. As far as financing of GFD is concerned, the flows from NSSF are overestimated in the State budgets for the year 2008-09. Loans from the Centre are generally overestimated in the State budgets. The difference in budget estimates as per the State Budgets and that of the Union Budget for these budgetary heads are set out in Table 18.

Table 17: Decomposition and Financing Pattern of Gross Fiscal Deficit - 2006-07 (Accounts) to 2008-09 (BE)

(Per cent of GFD)

Item	2006-07	2007-08 (RE)	2008-09 (BE)
1	2	3	4
Decomposition (1+2+3-4)	**100.0**	**100.0**	**100.0**
1. Revenue Deficit	-32.1	-20.9	-25.2
2. Capital Outlay	126.5	118.9	128.9
3. Net Lending	8.0	9.8	9.7
4. Non-debt Capital Receipts	2.5	7.8	13.3
Financing (1 to 11)	**100.0**	**100.0**	**100.0**
1. Market Borrowings	16.9	58.9	56.7
2. Loans from Centre	-11.5	3.2	6.2
3. Special Securities issued to NSSF/Small Savings	72.3	8.8	19.6
4. Loans from LIC, NABARD, NCDC, SBI & Other Banks	5.1	6.8	6.5
5. Small Savings, P.F., *etc.*	13.4	11.3	11.5
6. Reserve Funds	9.8	-8.9	1.1
7. Deposits & Advances	16.5	4.7	4.3
8. Suspense & Miscellaneous	6.0	-4.5	-1.6
9. Remittances	-0.4	-0.3	0.1
10. Others	-7.1	-2.2	-2.2
11. Overall Surplus (-) / Deficit (+)	-21.1	22.3	-2.1

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.

In view of the underestimation of the shareable taxes from the Centre to the tune of Rs.5,618 crore in State budgets for 2008-09 and

Table 18: Budgetary Data Variation- State Budgets and Union Budget

(Amount in Rs. crore)

Item	2006-07 (BE)			2007-08 (BE)			2008-09 (BE)		
	State Budgets	Union Budget	Difference*	State Budgets	Union Budget	Difference*	State Budgets	Union Budget	Difference*
1	2	3	4	5	6	7	8	9	10
1. Shareable Taxes from Centre	1,09,420	1,13,448	-4,028 -(3.6)	1,36,184	1,42,450	-6,267 -(4.4)	1,73,147	1,78,765	-5,618 -(3.1)
2. Grants-in-Aid	99,291	83,098	16,193 (19.5)	1,17,320	99,583	17,737 (17.8)	1,43,030	1,18,901	24,129 (20.3)
3. Loans from Centre (Net)	4,827	-2,507	7,334 -(292.6)	6,485	2,984	3,501 (117.3)	6,942	1,479	5,463 (369.3)
4. NSSF (Net)	59,141	83,490	-24,349 -(29.2)	53,679	46,990	6,689 (14.2)	22,044	18,626	3,418 (18.4)

BE: Budget Estimates.

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

Note : Figures in brackets are percentage variation over Union Budget.

Source : Budget Documents of the State Governments and the Union Government.

overestimation of grants by Rs.24,129 crore, the level of revenue receipts would differ from those budgeted by the State Governments. The States' revenue surplus and GFD would, therefore, differ from those budgeted by the State Governments. It may be noted that the consolidated position of revenue surplus of the State Governments (in terms of their budgets for 2008-09) as a percentage of GDP has been estimated at 0.5 per cent, while GFD has been estimated at 2.1 per cent. Assessing the State Budgets in conjunction with Union Budget 2008-09 indicates that grants-in-aid have been overestimated by 20.3 per cent while shareable Central taxes have been underestimated by 3.1 per cent. Adjusting for the data of Union Budget 2008-09, the revenue surplus of the State Governments would be placed lower at Rs.9,915 crore (0.2 per cent of GDP). Correspondingly, GFD would be placed higher at Rs.1,31,164 crore (2.5 per cent of GDP).

With regard to financing of GFD, both loans and advances from the Centre and loans against securities issued to the NSSF have been overestimated by Rs.5,463 crore and Rs.3,418 crore respectively, in the State budgets of 2008-09. Thus, the financing pattern of GFD gets distorted due to such overestimation/ underestimation of the budgetary heads of State Governments as compared with that of the Union Budget. Taking into account the data on loans from Centre and flows from NSSF based on Union Budget 2008-09 and allocation of market borrowings (as per Reserve Bank records), the consolidated financing pattern of the GFD of the State Governments is set out in Table 19. There is

Table 19: Financing of Gross Fiscal Deficit (GFD) - 2008-09 (Adjusted)

(Amount in Rs. crore)

Item	2008-09 (BE)		Variation	
	State Budgets	Adjusted	Amount	Per cent
1	2	3	4	5
Gross Fiscal Deficit (GFD)	**1,12,653 (100.0)**	**1,31,164 (100.0)**	**18,511**	**16.4**
1. Market Borrowings*	63,842 (56.7)	57,103 (43.5)	-6,739	-10.6
2. Loans from Centre@	6,942 (6.2)	1,479 (1.1)	-5,463	-78.7
3. Special Securities issued to NSSF@	22,044 (19.6)	18,626 (14.2)	-3,418	-15.5
4. Loans from LIC, NABARD, NCDC, SBI and other Banks	7,360 (6.5)	7,360 (5.6)	–	–
5. Small Savings and Provident Fund, *etc.*	13,001 (11.5)	13,001 (9.9)	–	–
6. Reserve Funds	1,203 (1.1)	1,203 (0.9)	–	–
7. Deposits and Advances	4,813 (4.3)	4,813 (3.7)	–	–
8. Suspense and Miscellaneous	-1,851 -(1.6)	-1,851 -(1.4)	–	–
9. Remittances	85 (0.1)	85 (0.1)	–	–
10. Others	-2,429 -(2.2)	-2,429 -(1.9)	–	–
11. Overall Surplus (-)/Deficit (+)	-2,358 -(2.1)	31,774 (24.2)	34,132	-1,447.6

*: Data are adjusted as per the allocation under market borrowing programme for the State Governments during 2008-09.
@: Data are adjusted as per the Union Budget 2008-09. BE: Budget Estimates. '–': Nil.
Note : 1. Figures in brackets are percentages to GFD.
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 and the Union Government, and Reserve Bank records.

a decline in the share of flows from NSSF, market borrowings and loans from the Centre in financing of GFD. Thus, variation in budget estimates of State Budgets *vis-à-vis* that of Union Budget pose problems for making fiscal analysis in a true perspective.

V. STATE-WISE ANALYSIS OF FISCAL PERFORMANCE

The analysis based on consolidated data of State Governments masks the variation that exists across the States. This Section presents State-wise assessment of fiscal situation based on revised estimates for 2007-08 *vis-à-vis* 2004-07 (Avg.). The analysis is based on various fiscal indicators, which can be broadly divided into four parts, *viz*., (i) deficit indicators, (ii) revenue account, (iii) expenditure pattern (both revenue and capital), and (iv) per capita expenditure. The fiscal indicators in the first three parts are expressed in terms of GSDP[9], while in the fourth part, apart from GSDP, aggregate expenditure and population[10] have also been used as the denominator for the fiscal variables. The data on the fiscal variables of the two Union Territories with Legislature, *viz*., NCT Delhi and Puducherry, are also provided in the Tables as memo item. The detailed State-wise data on various fiscal indicators are set out in Statements 1 to 48.

V.1 Deficit Indicators of the State Governments

This section analyses the deficit indicators, *viz.,* RD, GFD and PD, across the States over the period 2004-07 (Avg.) to 2007-08 (RE). The data on RD, GFD, PD and primary revenue balance (PRB) as a ratio to GSDP for the non-special and special category States are set out in Table 20 (also see Statements 1 to 5).

V.1.1 Non-Special Category States

The State-wise analysis depicts a diverse picture, though most of the States have achieved the TFC target with regard to elimination of RD in 2007-08 (RE). Out of the seventeen non-special category States, thirteen States have recorded revenue surplus in 2007-08 (RE) as compared with seven States during 2004-07 (Avg.). Four States, *viz*., Kerala, West Bengal, Jharkhand and Punjab, recorded RD in 2007-08 (RE). The revenue accounts of Karnataka, Kerala and Tamil Nadu witnessed deterioration in 2007-08 (RE) over their respective 2004-07 (Avg.) position even though Karnataka and Tamil Nadu remained in revenue surplus.

Bihar registered the highest revenue surplus at 3.6 per cent of GSDP in 2007-08 (RE), followed by Chhattisgarh (2.6 per cent of GSDP), Uttar Pradesh (2.6 per cent of GSDP) and Madhya Pradesh (2.4 per cent of GSDP) (Chart 8). The revenue surplus of higher order in these States would help them to finance their capital expenditure, there by reducing reliance on borrowed funds. At the other end of the spectrum, Kerala registered the highest RD of 3.1 per cent of GSDP followed by West Bengal (2.6 per cent of GSDP), Jharkhand (1.9 per cent of GSDP) and Punjab (1.2 per cent of GSDP) in 2007-08 (RE).

In 2007-08 (RE), nine States achieved the TFC target of reducing GFD-GSDP ratio to 3 per cent, two years ahead of the recommended time frame. GFD-GSDP ratio has come down in seven States in 2007-08 (RE) over 2004-07 (Avg.). Among the States which have witnessed an increase in GFD-GSDP ratio over the same period, the position of Jharkhand, Kerala and Goa are noteworthy since they are still far away from the TFC target with regard to GFD-GSDP ratio. Orissa registered the lowest GFD-GSDP ratio of 1.1 per cent of GSDP

9 The Gross State Domestic Product (GSDP) at current prices, used in the Study, is mainly sourced from the Central Statistical Organisation (CSO). Wherever data were not available with the CSO, the projections of the respective State Government, as given in their budget documents as also forwarded by them to RBI, have been used. Further, data have been projected based on the three-year annual average growth rate wherever it was not available from the respective State Governments.

10 State-wise population figures projected by Census of India for the year 2007-08 have been used in the Study.

Table 20: Deficit Indicators of State Governments

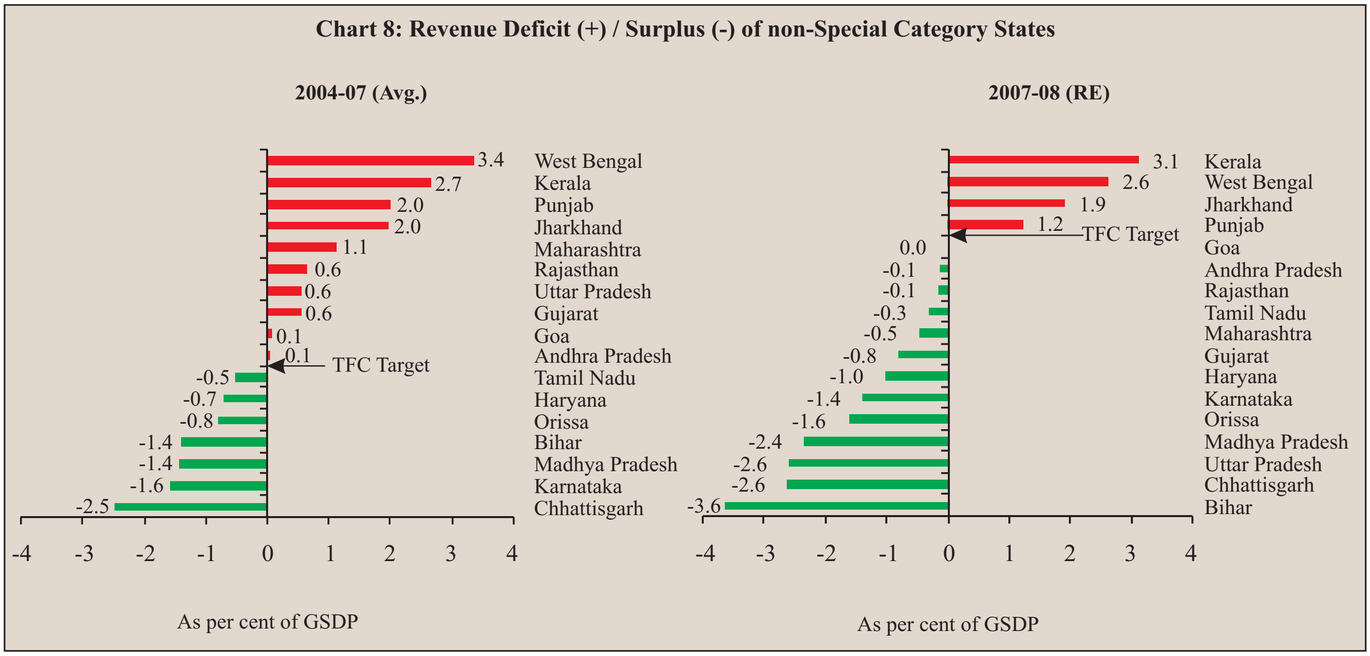
(Per cent)

State	2004-07 (Avg.)*				2007-08 (RE)			
	RD/ GSDP	GFD/ GSDP	PRB/ GSDP	PD/ GSDP	RD/ GSDP	GFD/ GSDP	PRB/ GSDP	PD/ GSDP
1	2	3	4	5	6	7	8	9
I. Non-Special Category								
1. Andhra Pradesh	0.1	3.2	-2.9	0.2	-0.1	3.0	-2.9	0.2
2. Bihar	-1.4	3.2	-5.7	-1.1	-3.6	3.4	-7.3	-0.2
3. Chhattisgarh	-2.5	1.1	-4.5	-0.9	-2.6	2.6	-4.3	1.0
4. Goa	0.1	4.4	-3.0	1.4	0.0	4.6	-2.9	1.7
5. Gujarat	0.6	3.3	-2.4	0.3	-0.8	1.7	-3.3	-0.8
6. Haryana	-0.7	0.2	-2.8	-1.8	-1.0	1.2	-2.6	-0.4
7. Jharkhand	2.0	7.3	0.8	6.0	1.9	8.0	-0.6	5.5
8. Karnataka	-1.6	2.4	-3.9	0.0	-1.4	2.8	-3.6	0.6
9. Kerala	2.7	3.5	-0.6	0.3	3.1	4.6	-0.1	1.4
10. Madhya Pradesh	-1.4	4.0	-4.6	0.9	-2.4	3.2	-5.3	0.2
11. Maharashtra	1.1	3.8	-1.1	1.5	-0.5	1.8	-2.6	-0.3
12. Orissa	-0.8	0.5	-5.1	-3.8	-1.6	1.1	-5.5	-2.8
13. Punjab	2.0	3.4	-1.6	-0.2	1.2	3.6	-1.9	0.5
14. Rajasthan	0.6	4.1	-3.6	-0.1	-0.1	3.3	-3.7	-0.3
15. Tamil Nadu	-0.5	1.8	-2.7	-0.4	-0.3	2.5	-2.4	0.4
16. Uttar Pradesh	0.6	4.0	-3.2	0.2	-2.6	3.0	-5.8	-0.2
17. West Bengal	3.4	4.5	-0.9	0.2	2.6	3.9	-1.1	0.2
II. Special Category								
1. Arunachal Pradesh	-8.8	6.4	-14.2	1.1	-17.6	9.2	-22.6	4.2
2. Assam	-1.8	0.7	-4.4	-1.8	-0.1	4.3	-2.7	1.8
3. Himachal Pradesh	1.3	4.7	-5.1	-1.7	0.1	4.2	-5.3	-1.3
4. Jammu and Kashmir	-6.6	5.0	-11.2	0.4	-6.9	8.1	-13.2	1.8
5. Manipur	-5.3	7.0	-9.9	2.4	-15.9	1.5	-19.9	-2.5
6. Meghalaya	-1.2	3.0	-4.1	0.1	-6.7	1.1	-9.6	-1.9
7. Mizoram	-5.1	10.2	-12.4	2.9	-11.8	4.2	-17.3	-1.3
8. Nagaland	-4.5	3.6	-8.5	-0.5	-5.6	6.0	-9.1	2.6
9. Sikkim	-10.9	8.2	-16.7	2.4	-18.9	11.6	-24.5	5.9
10. Tripura	-6.7	0.9	-10.7	-3.1	-5.8	4.7	-9.2	1.3
11. Uttarakhand	0.5	6.6	-2.8	3.3	-3.2	4.7	-6.6	1.2
All States#	**0.3**	**2.6**	**-2.2**	**0.2**	**-0.5**	**2.3**	**-2.7**	**0.1**
Memo Item:								
1. NCT Delhi	-3.6	0.6	-5.3	-1.1	-3.8	1.7	-5.7	-0.2
2. Puducherry	0.3	5.6	-2.7	2.6	3.4	7.3	0.3	4.2

Avg. : Average. RE : Revised Estimates. RD : Revenue Deficit.
GFD : Gross Fiscal Deficit. PD : Primary Deficit. PRB : Primary Revenue Balance.
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.

in 2007-08 (RE), followed by Haryana (1.2 per cent of GSDP), Gujarat (1.7 per cent of GSDP) and Maharashtra (1.8 per cent of GSDP) (Chart 9). Though achieving the TFC target is important, reducing the GFD-GSDP ratio to almost half of the TFC target connotes a safe stand taken by these States to restrain financing of expenditure by resorting to borrowings. On the other side, Jharkhand stands out with a GFD-GSDP ratio of 8.0 per cent in 2007-08 (RE). Kerala and Goa registered GFD-GSDP ratio of 4.6 per cent followed by West Bengal (3.9 per cent) in 2007-08 (RE).

In 2007-08 (RE), the capital outlay was more than the respective GFD of the thirteen revenue surplus States. It may be mentioned that one-off receipts from disinvestments and sale of



land and property in Andhra Pradesh (Rs.8,200 crore) and Karnataka (Rs.200 crore) also helped these State Governments to bring down their GFD in 2007-08 (RE).

In 2007-08 (RE), all the non-special category States recorded PRS. However, the co-existence of PRS and RD in four States, *viz*., Kerala, West Bengal, Jharkhand and Punjab, implies that PRS was not enough to finance the interest payment obligations in these States in 2007-08 (RE). PRS financed 2.4 per cent, 25.1 per cent, 28.9 per cent and 61.2 per cent of interest payments in Kerala, Jharkhand, West Bengal and Punjab, respectively in 2007-08 (RE) (Chart 10). This underlines the importance of revenue augmentation for further fiscal correction and consolidation on the revenue account in these States.

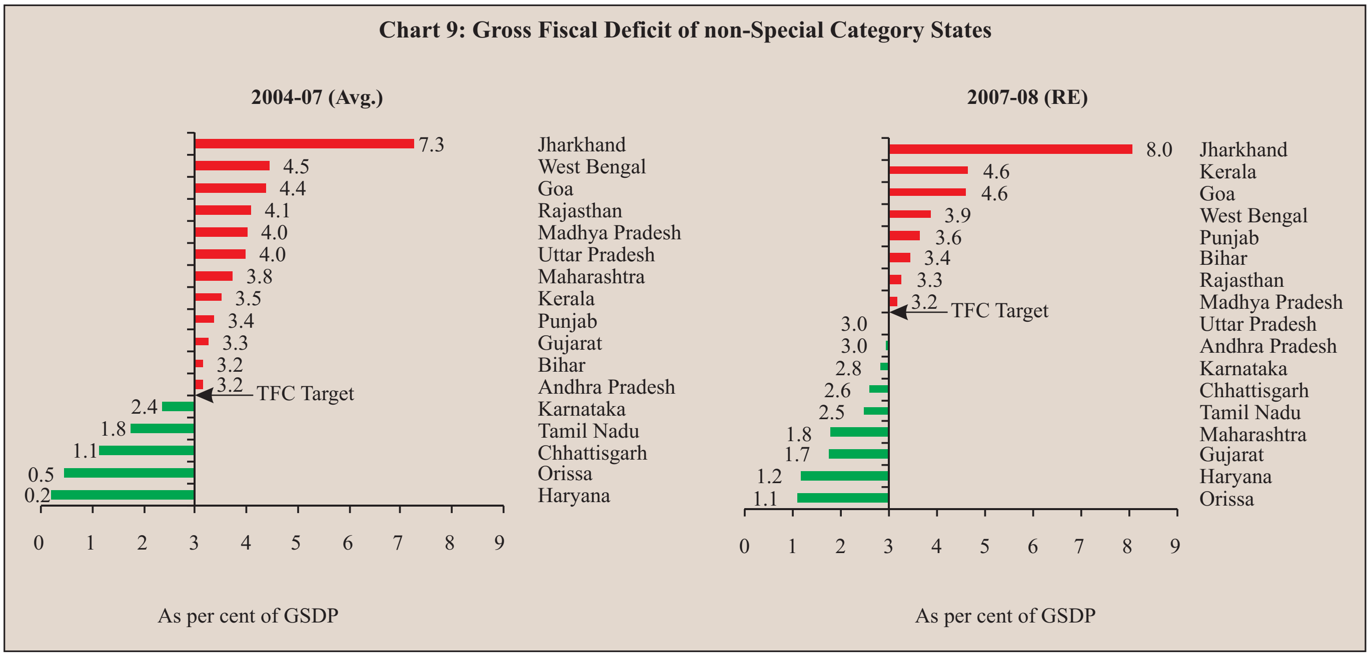
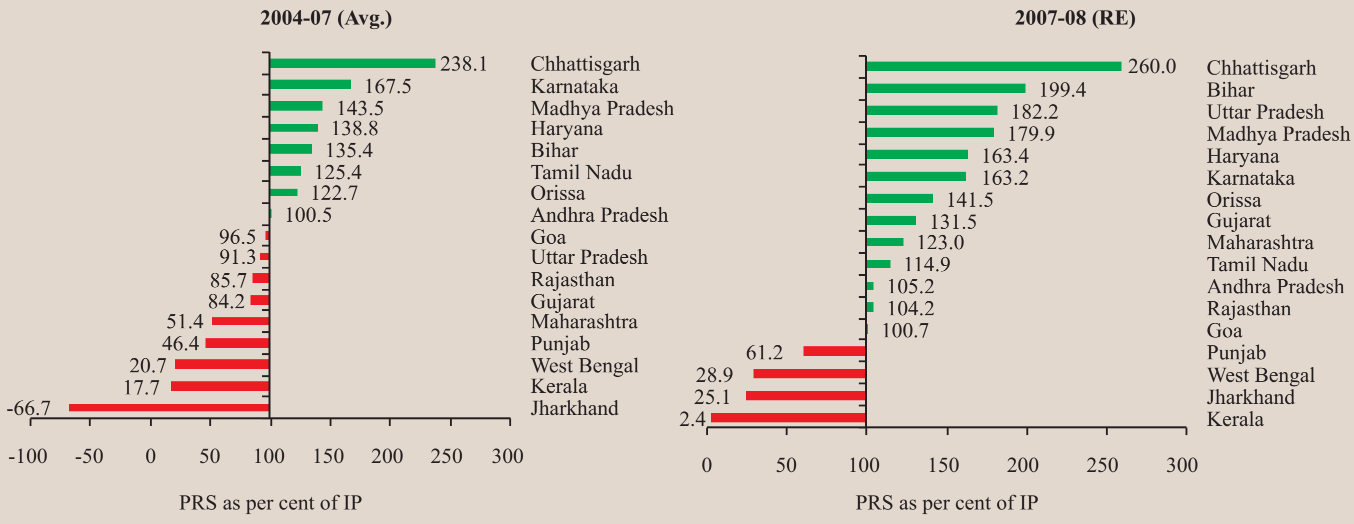


Chart 10: Financing of Interest Payments by Primary Revenue Surplus in non-Special Category States



PRS : Primary Revenue Surplus IP : Interest Payments

Out of the seventeen non-special category States, seven States recorded primary surplus in 2007-08 (RE). Orissa recorded the highest primary surplus of 2.8 per cent of GSDP followed by Gujarat (0.8 per cent). Jharkhand registered the highest primary deficit of 5.5 per cent of GSDP followed by Goa (1.7 per cent) and Kerala (1.4 per cent).

V.1.2 Special Category States

In 2007-08 (RE), among the eleven special category States, all States except Himachal Pradesh registered revenue surplus as compared with nine States during 2004-07 (Avg.) (Table 20 and Chart 11). However, Assam and Tripura recorded lower revenue surplus in 2007-08 (RE) than 2004-07 (Avg.). Sikkim registered the highest

Chart 11: Revenue Deficit (+) / Surplus (-) of Special Category States

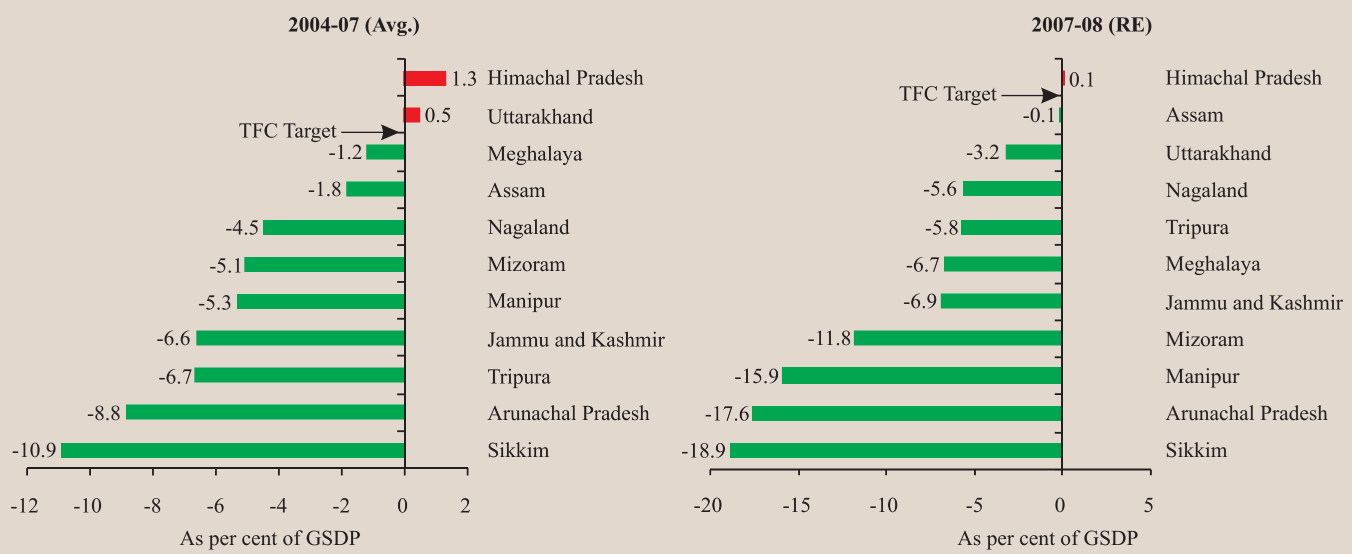
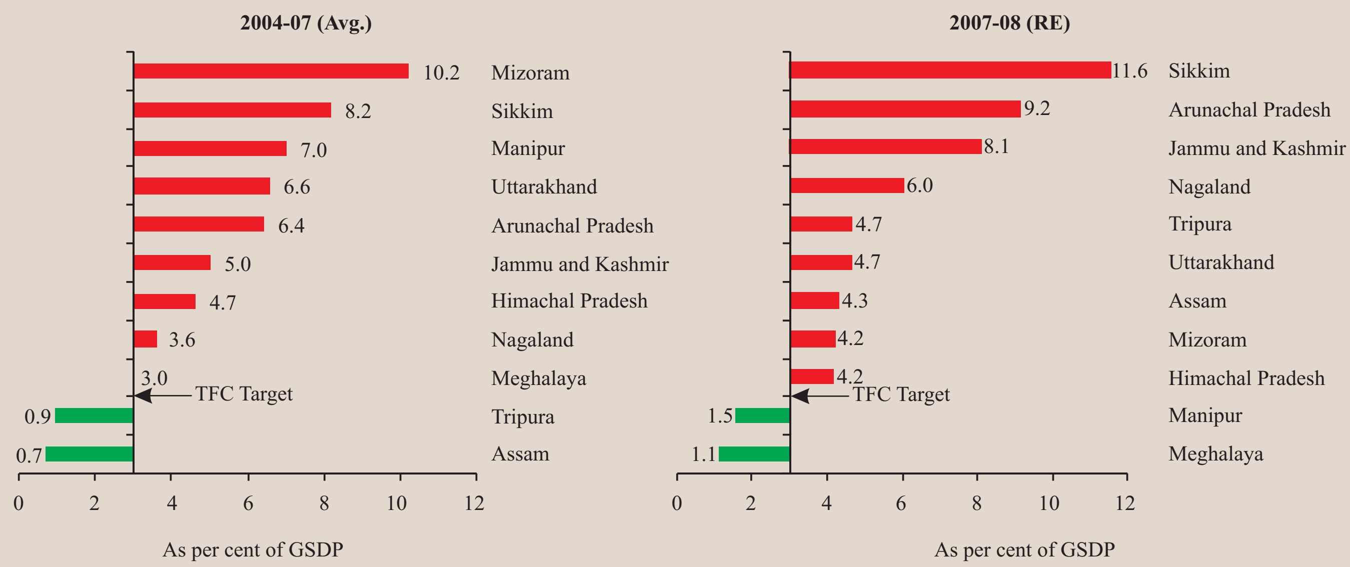


Chart 12: Gross Fiscal Deficit of Special Category States



revenue surplus of 18.9 per cent of GSDP followed by Arunachal Pradesh (17.6 per cent), Manipur (15.9 per cent) and Mizoram (11.8 per cent) in 2007-08 (RE).

In contrast to the trend observed in the revenue account correction, the special category States are far behind the non-special category States with regard to the correction GFD. In 2007-08 (RE), except Meghalaya and Manipur, all other special category States recorded a GFD-GSDP ratio of more than 3 per cent (Chart 12). Among the eleven special category States, seven states recorded higher GFD-GSDP ratio during 2007-08 (RE) as compared with their respective position during 2004-07 (Avg.). Sikkim registered the highest GFD-GSDP ratio of 11.6 per cent followed by Arunachal Pradesh (9.2 per cent), Jammu and Kashmir (8.1 per cent) and Nagaland (6.0 per cent). It may be noted that all these States are far away from the TFC target of GFD-GSDP of 3 per cent. However, the co-existence of large revenue surplus and large GFD indicates that borrowings are directed towards capital outlay.

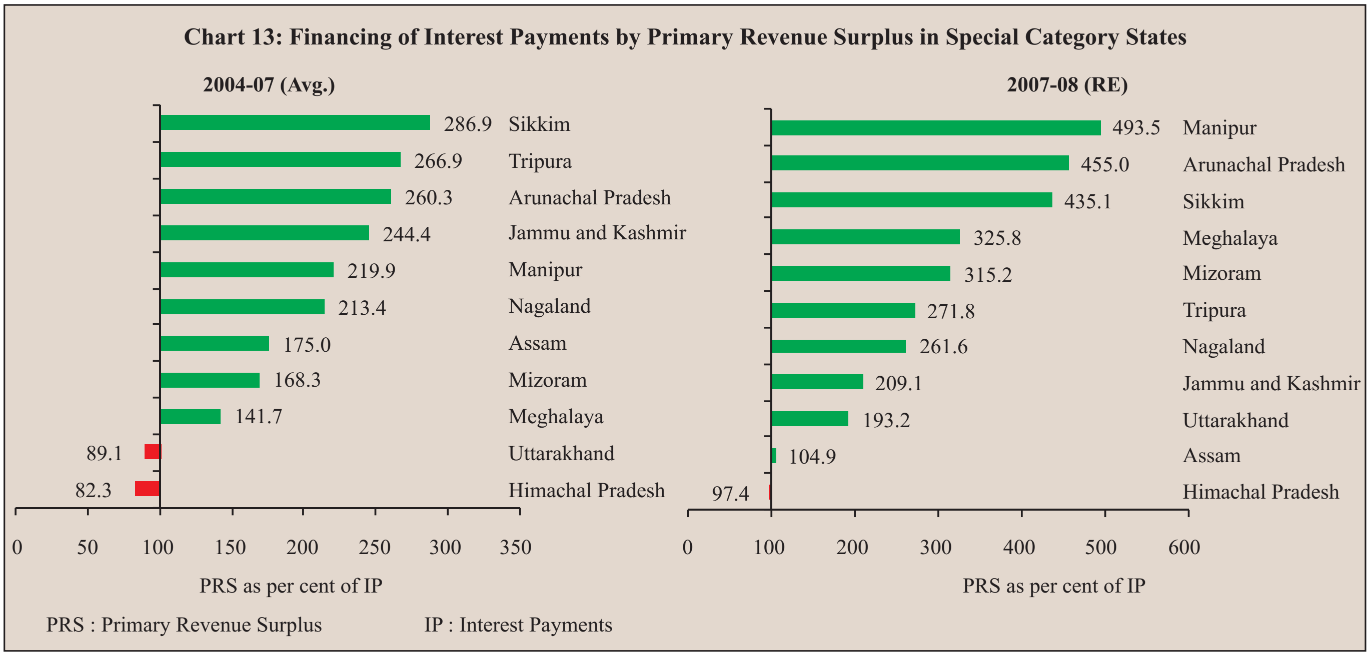
In 2007-08 (RE), all the special category States recorded PRS. Importantly, except for Himachal Pradesh, in all other special category States PRS is enough to meet the interest payments. In Himachal Pradesh, PRS is estimated to finance 97.4 per cent of the interest payments in 2007-08 (RE) (Chart 13). However, as many as seven States recorded PD in 2007-08 (RE).

V.2 Revenue Account of the State Governments

This section analyses the revenue account of the State Governments, both receipts and expenditure, to understand the process of revenue account correction. The indicators pertaining to revenue receipts of the State Governments are set out in Table 21, while those pertaining to revenue expenditure of the State Governments are set out in Table 22.

V.2.1 Non-Special Category States

The non-special category States accounted for 23.7 per cent of the total revenue account correction of all the State Governments in 2007-08 (RE) over 2004-07 (Avg.). Uttar Pradesh accounted for 3.3 per cent of the total revenue account correction of all the State Governments followed by Bihar (2.2 per cent) during the above-mentioned period.



Revenue Receipts

The total revenue receipts of all the non-special category States have increased in 2007-08 (RE) over 2004-07 (Avg.) in terms of GSDP. However, in majority of States the increase is more due to Central transfers and less due to their own effort. Only in Andhra Pradesh and Kerala, the increase in revenue receipts is more due to own effort than Central transfers. In some of the States such as Tamil Nadu, Karnataka, Madhya Pradesh, Maharashtra, Goa, Orissa and West Bengal, the own revenue effort came down in 2007-08 (RE) over 2004-07 (Avg.). Andhra Pradesh recorded the highest improvement in own revenue effort in 2007-08 (RE) over 2004-07 (Avg.) followed by Uttar Pradesh, Kerala and Chhattisgarh (Table 21 and Chart 14).

Bihar had the highest RR-GSDP ratio of 27.4 per cent in 2007-08 (RE), mainly backed by the highest CT-GSDP ratio of 22.3 per cent. The States such as Orissa (20.7 per cent), Uttar Pradesh (22.1 per cent), Madhya Pradesh (21.0 per cent) and Chhattisgarh (21.2 per cent) also recorded relatively higher RR-GSDP ratios. In all of these States, the Central transfers contributed more than half of the revenue receipts. However, among these States, Uttar Pradesh, Madhya Pradesh and Chhattisgarh displayed a relatively higher OTR-GSDP ratio in 2007-08 (RE) (Table 21 and Statements 22, 23 and 25).

Karnataka had the highest OTR-GSDP ratio of 12.6 per cent in 2007-08 (RE) followed by Andhra Pradesh (10.0 per cent), Tamil Nadu (9.8 per cent) and Kerala (9.4 per cent). It may be noted

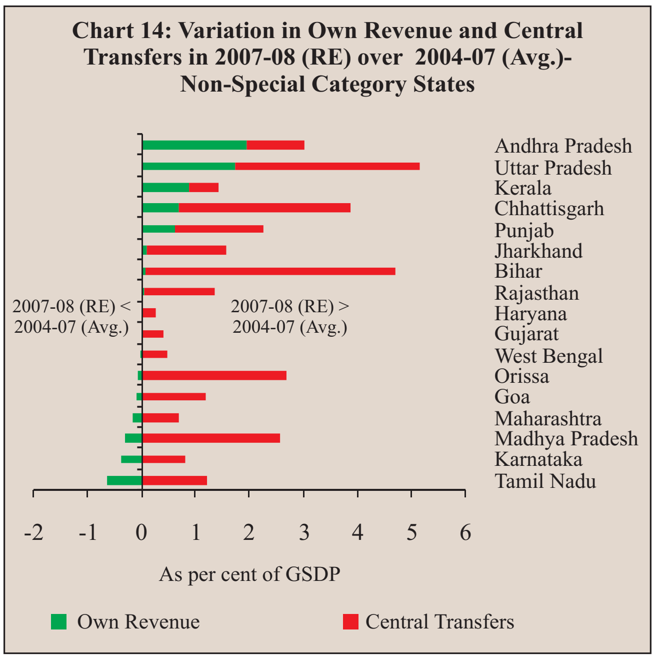


Table 21: Revenue Receipts of the State Governments

(Per cent)

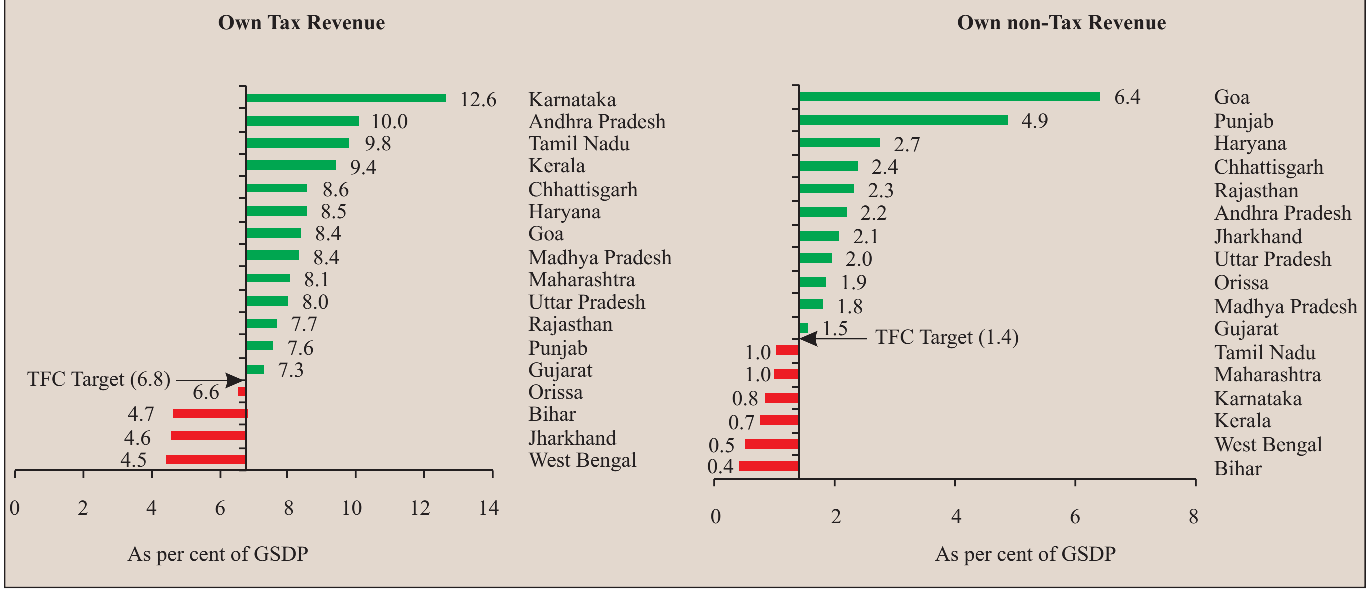
State	2004-07 (Avg.)*				2007-08 (RE)			
	RR/ GSDP	OTR/ GSDP	ONTR/ GSDP	CT/ GSDP	RR/ GSDP	OTR/ GSDP	ONTR/ GSDP	CT/ GSDP
1	2	3	4	5	6	7	8	9
I. Non-Special Category								
1. Andhra Pradesh	15.0	8.3	2.1	4.6	18.0	10.0	2.2	5.7
2. Bihar	22.7	4.4	0.6	17.7	27.4	4.7	0.4	22.3
3. Chhattisgarh	17.4	7.8	2.5	7.1	21.2	8.6	2.4	10.3
4. Goa	17.4	8.6	6.4	2.5	18.5	8.4	6.4	3.7
5. Gujarat	11.5	7.2	1.7	2.7	11.9	7.3	1.5	3.1
6. Haryana	13.0	8.4	2.9	1.8	13.3	8.5	2.7	2.0
7. Jharkhand	13.5	4.4	2.1	6.9	15.0	4.6	2.1	8.4
8. Karnataka	18.5	11.4	2.5	4.7	19.0	12.6	0.8	5.5
9. Kerala	13.1	8.5	0.8	3.8	14.5	9.4	0.7	4.3
10. Madhya Pradesh	18.7	7.8	2.7	8.3	21.0	8.4	1.8	10.8
11. Maharashtra	11.4	7.9	1.3	2.2	11.9	8.1	1.0	2.9
12. Orissa	18.1	6.3	2.2	9.6	20.7	6.6	1.9	12.3
13. Punjab	14.4	7.5	4.3	2.6	16.7	7.6	4.9	4.2
14. Rajasthan	16.7	7.8	2.2	6.8	18.1	7.7	2.3	8.1
15. Tamil Nadu	15.1	10.3	1.2	3.6	15.6	9.8	1.0	4.8
16. Uttar Pradesh	16.9	6.8	1.4	8.7	22.1	8.0	2.0	12.1
17. West Bengal	9.7	4.5	0.5	4.7	10.1	4.5	0.5	5.2
II. Special Category								
1. Arunachal Pradesh	64.3	2.1	7.2	55.0	87.5	2.1	15.6	69.8
2. Assam	20.2	5.4	2.5	12.4	24.0	4.8	2.7	16.5
3. Himachal Pradesh	24.5	5.7	3.4	15.4	24.6	6.1	3.4	15.0
4. Jammu and Kashmir	41.5	6.2	2.5	32.7	43.2	7.1	3.1	33.0
5. Manipur	40.4	1.7	1.8	36.8	49.5	2.0	2.8	44.8
6. Meghalaya	27.7	3.9	2.4	21.5	42.5	4.3	2.4	35.7
7. Mizoram	62.8	2.0	4.0	56.8	71.9	2.1	3.9	65.8
8. Nagaland	35.3	1.6	1.4	32.3	37.6	1.5	1.3	34.8
9. Sikkim	110.3	8.0	56.7	45.6	124.4	6.4	60.2	57.7
10. Tripura	32.2	3.2	1.3	27.8	31.6	3.3	1.0	27.3
11. Uttarakhand	21.4	7.2	2.4	11.8	26.8	8.4	2.6	15.9
All States#	**12.1**	**5.9**	**1.4**	**4.7**	**13.3**	**6.2**	**1.3**	**5.8**
Memo Item:								
1. NCT Delhi	10.0	8.3	1.2	0.5	11.3	8.9	1.4	1.1
2. Puducherry	30.8	8.7	8.8	13.2	28.4	8.6	8.2	11.5

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.

that the OTR-GSDP ratio of Bihar (4.7 per cent) is the lowest among non-special category States in 2007-08 (RE), clearly pointing out that central transfers is the crucial factor behind the fiscal correction achieved by this State with highest revenue surplus in terms of GSDP. A few States such as West Bengal, Jharkhand, Bihar and Orissa were below the TFC target of OTR-GSDP ratio of 6.8 per cent in 2007-08 (RE) (Chart 15 and Statements 18 and 19).

The ONTR played a significant role in Goa (ONTR-GSDP ratio of 6.4 per cent) and Punjab (ONTR-GSDP ratio of 4.9 per cent) in bringing down the deficit indicators. Some of the States such as Bihar (0.4 per cent), West Bengal (0.5 per cent), Kerala (0.7 per cent) and Karnataka (0.8 per cent)

Chart 15: Own Tax and non-Tax Revenue in non-Special Category States – 2007-08 (RE)



displayed dismal performance in own non-tax revenue in terms of GSDP. Six States, *viz*., Bihar, West Bengal, Kerala, Karnataka, Maharashtra and Tamil Nadu were below the TFC target of ONTR-GSDP ratio of 1.4 per cent (Chart 15 and Statements 20 and 21).

VAT is the most important tax revenue of the States contributing almost half of the total own tax receipts. Kerala had the highest VAT-OTR ratio of 65.9 per cent in 2007-08 (RE) followed by Goa (62.5 per cent), Bihar (61.4 per cent) and Andhra Pradesh (59.7 per cent) (Chart 16). Other important sources of tax revenue for the States are State excise, stamps and registration fees and motor vehicle tax.

Revenue Expenditure

The total revenue expenditure as a ratio to GSDP showed an increase in all the non-special category States except Gujarat, Maharashtra and West Bengal in 2007-08 (RE) over 2004-07 (Avg.) (Table 22). The increase in total revenue expenditure in most of the States was mostly on account of increase in development expenditure. Importantly, the non-development revenue expenditure came down in most of the States during the same period, which played a significant role in the on-going revenue account correction (Chart 17 and Statements 12 and 13).

In 2007-08 (RE), Bihar recorded the highest RE-GSDP ratio of 23.8 per cent followed by Uttar Pradesh (19.5 per cent), and Orissa (19.1 per cent). Bihar recorded the highest development revenue expenditure (DRE) in terms of GSDP (13.8 per cent) followed by Chhattisgarh (13.0 per cent), Goa (13.0

Chart 16: Value Added Tax in non-Special Category States - 2007-08 (RE)

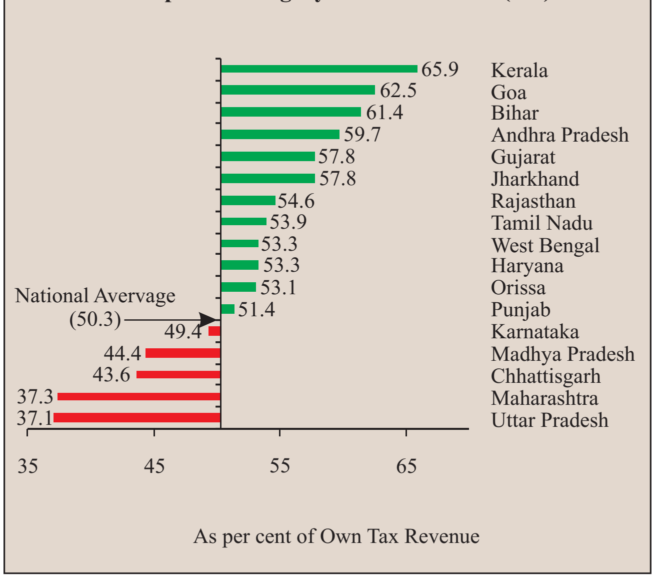


Table 22: Revenue Expenditure of the State Governments

(Per cent)

State	2004-07 (Avg.)*					2007-08 (RE)				
	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
I. Non-Special Category										
1. Andhra Pradesh	15.0	9.1	5.9	3.0	1.4	17.8	11.6	6.1	2.8	1.5
2. Bihar	21.3	11.2	10.1	4.3	3.0	23.8	13.8	10.0	3.7	3.0
3. Chhattisgarh	14.9	9.5	4.7	2.0	1.0	18.6	13.0	4.8	1.7	1.1
4. Goa	17.5	11.8	5.7	3.0	1.2	18.5	13.0	5.5	2.9	0.9
5. Gujarat	12.1	6.9	5.1	2.9	1.0	11.1	6.6	4.5	2.5	0.9
6. Haryana	12.3	7.7	4.5	2.1	1.0	12.3	8.5	3.6	1.6	0.9
7. Jharkhand	15.5	10.3	5.2	1.2	1.3	17.0	10.7	6.3	2.6	0.9
8. Karnataka	17.0	10.3	6.0	2.3	1.4	17.6	11.5	5.2	2.2	1.5
9. Kerala	15.7	7.9	7.4	3.2	2.4	17.6	7.8	8.3	3.2	3.1
10. Madhya Pradesh	17.3	9.6	6.7	3.2	1.3	18.6	10.8	6.7	3.0	1.4
11. Maharashtra	12.5	7.0	5.3	2.3	0.7	11.4	7.1	4.2	2.1	0.8
12. Orissa	17.3	8.4	8.7	4.3	1.7	19.1	10.4	8.3	3.9	2.0
13. Punjab	16.4	6.8	9.4	3.6	1.5	17.9	8.2	9.2	3.2	1.5
14. Rajasthan	17.4	10.1	7.3	4.2	1.4	17.9	11.3	6.6	3.6	1.6
15. Tamil Nadu	14.5	7.7	5.9	2.2	2.0	15.3	8.3	5.9	2.1	2.3
16. Uttar Pradesh	17.5	8.5	8.2	3.8	1.5	19.5	10.9	7.5	3.2	1.7
17. West Bengal	13.1	5.9	7.0	4.2	1.5	12.8	6.4	6.2	3.7	1.3
II. Special Category										
1. Arunachal Pradesh	55.5	38.6	16.9	5.4	2.4	69.9	53.3	16.6	5.0	2.1
2. Assam	18.4	11.4	7.0	2.5	1.9	23.9	15.2	8.4	2.6	2.0
3. Himachal Pradesh	25.9	14.3	11.5	6.4	2.8	24.7	13.7	11.0	5.4	3.3
4. Jammu and Kashmir	34.9	20.7	14.2	4.6	3.0	36.3	19.9	16.4	6.3	3.3
5. Manipur	35.1	21.7	13.3	4.6	3.4	33.6	20.7	13.0	4.0	3.0
6. Meghalaya	26.5	16.7	9.8	2.9	1.5	35.8	25.7	10.1	2.9	1.5
7. Mizoram	57.7	37.2	20.6	7.3	3.2	60.0	40.7	19.3	5.5	3.2
8. Nagaland	30.8	16.2	14.6	4.1	2.6	32.0	17.5	14.5	3.5	3.0
9. Sikkim	99.4	33.7	65.6	5.8	2.2	105.5	35.6	70.0	5.6	2.1
10. Tripura	25.6	13.7	11.4	4.0	2.6	25.8	13.6	11.6	3.4	2.7
11. Uttarakhand	21.9	13.1	8.1	3.3	1.7	23.6	14.3	8.4	3.4	1.9
All States#	**12.4**	**6.8**	**5.3**	**2.4**	**1.2**	**12.9**	**7.2**	**5.1**	**2.2**	**1.2**
Memo Item:										
1. NCT Delhi	6.4	3.7	2.2	1.7	0.0	7.5	4.6	2.5	1.9	0.0
2. Puducherry	31.0	24.0	7.0	3.0	1.1	31.9	24.1	7.7	3.1	1.7

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.

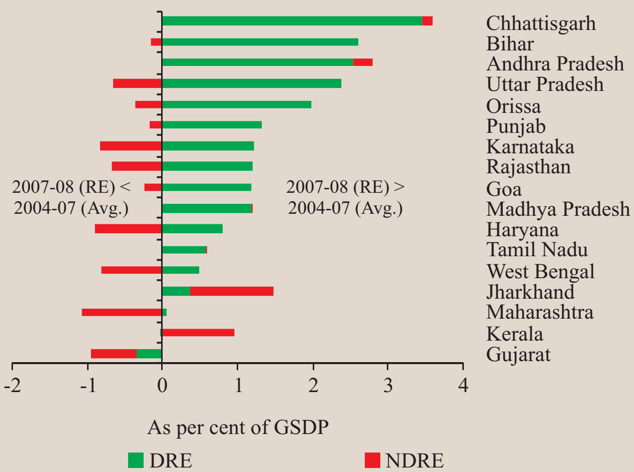
*: Data for Puducherry pertain to 2006-07. #: Data for All States are as per cent to GDP.

Source : Based on Budget Documents of the State Governments.

per cent), Andhra Pradesh (11.6 per cent) and Karnataka (11.5 per cent). Haryana recorded the lowest non-development revenue expenditure (NDRE) as a ratio to GSDP of 3.6 per cent in 2007-08 (RE) followed by Maharashtra (4.2 per cent), Gujarat (4.5 per cent) and Chhattisgarh (4.8 per cent) in 2007-08 (RE).

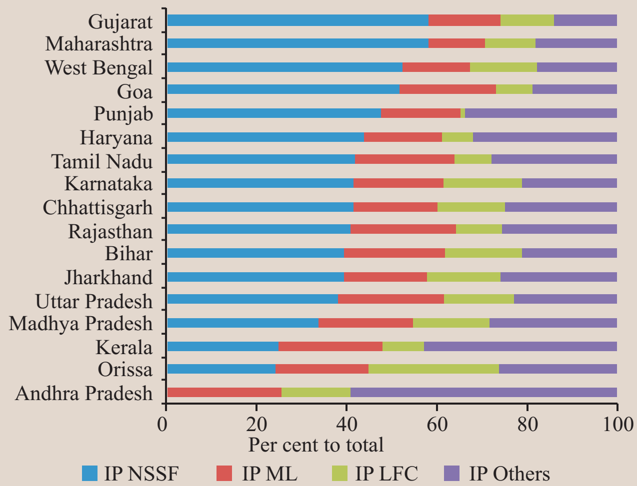
Interest payments as a per cent of GSDP came down in all the States, except Jharkhand. The lowest IP-GSDP ratio was recorded by Haryana (1.6 per cent) followed by Chhattisgarh (1.7 per cent), Tamil Nadu (2.1 per cent) and Maharashtra (2.1 per cent) in 2007-08 (RE). The moderation in the interest payments of the States reflects the impact of DSS and Debt Consolidation and Relief Facility (DCRF) along with declining interest rates. However, it may be noted that interest payments on special securities issued to NSSF, which is kept

Chart 17: Variation in Development and Non-Development Revenue Expenditure in 2007-08 (RE) over 2004-07 (Avg.) - Non-Special Category States



DRE : Development Revenue Expenditure
NDRE : Non-Development Revenue Expenditure

Chart 18: Composition of Interest Payments in non-Special Category States - 2007-08 (RE)



IP : Interest Payments
NSSF : National Small Savings Fund
LFC : Loans from Centre
ML : Market Loans

Note : Andhra Pradesh does not give data on interest on NSSF in their Budget Documents.

out of the purview of DCRF, constituted more than half of the total interest payments obligations in a number of States such as Gujarat (58.3 per cent), Maharashtra (58.2 per cent), West Bengal (52.5 per cent) and Goa (51.7 per cent) and more than forty per cent in many other States such as Punjab (47.6 per cent), Haryana (43.9 per cent), Tamil Nadu (41.8 per cent), Karnataka (41.5 per cent) and Chhattisgarh (41.4 per cent) in 2007-08 (RE). Further, interest payments on market loans constituted almost one fourth of the total interest payments in some of the States such as Andhra Pradesh (25.5 per cent), Uttar Pradesh (23.6 per cent) and Kerala (23.3 per cent) in 2007-08 (RE). DCRF had an impact on the interest payments on loans from Centre, which constitute less than 20 per cent of the total interest payments in all the non-special category States except Orissa (Chart 18 and Statement 17).

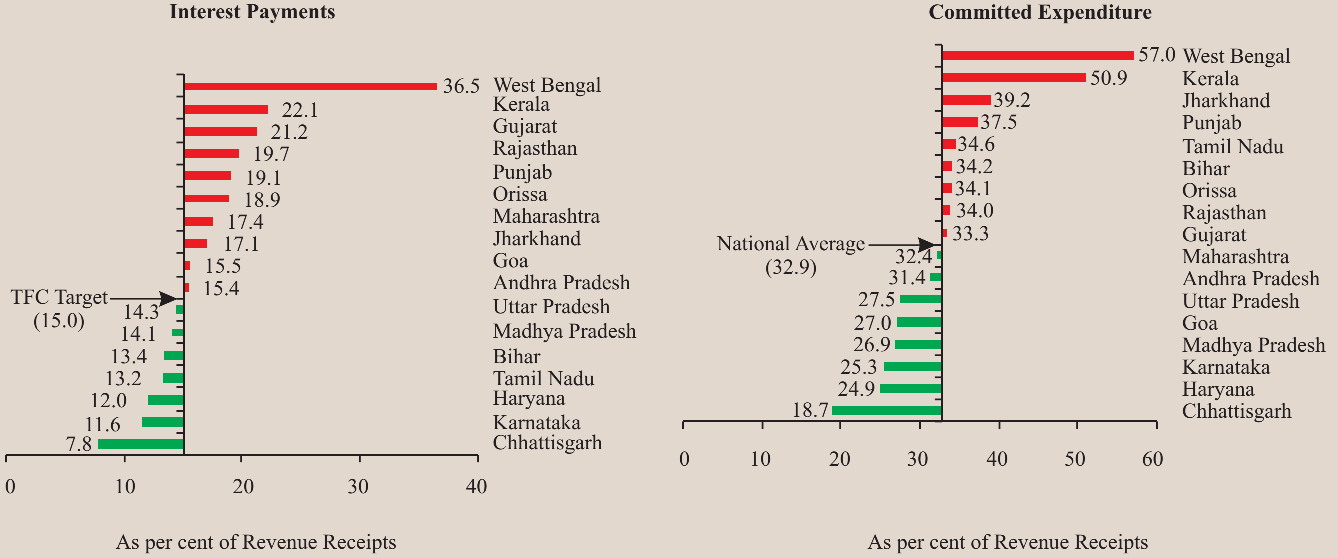
Expenditure on pensions as a per cent of GSDP came down in a few States such as Goa, Gujarat, Haryana, Jharkhand and West Bengal during the same period. Maharashtra had the lowest pension to GSDP ratio (0.8 per cent) in 2007-08 (RE). Four States, *viz.,* Goa, Gujarat, Haryana and Jharkhand had low pension to GSDP ratio at 0.9 per cent in 2007-08 (RE).

In West Bengal, interest payments pre-empted 36.5 per cent of revenue receipts in 2007-08 (RE) followed by Kerala (22.1 per cent), Gujarat (21.2 per cent) and Rajasthan (19.7 per cent). Seven non-special category States achieved the TFC target in respect of IP-RR (15.0 per cent) in 2007-08 (RE). The committed expenditure pre-empted 57.0 per cent of revenue receipts in West Bengal followed by Kerala (50.9 per cent), Jharkhand (39.2 per cent) and Punjab (37.5 per cent). This reduces the flexibility of the State Governments in determining the allocation of expenditure (Chart 19 and Statements 36 and 37).

V.2.2 Special Category States

The special category States accounted for 76.3 per cent of total revenue account correction of all the State Governments in 2007-08 (RE) over 2004-07 (Avg.). Manipur accounted for 10.6 per cent of the total revenue account correction followed by Arunachal Pradesh (8.8 per cent), Sikkim (8.0 per cent), Mizoram (6.7 per cent) and Meghalaya (5.5 per cent) during the same period.

Chart 19: Pre-emption of Revenue Receipts by Interest Payments and Committed Expenditure in non-Special Category States – 2007-08 (RE)



Revenue Receipts

Similar to the trend observed among the non-special category States, the total revenue receipts in terms of GSDP increased in all the special category States in 2007-08 (RE) over 2004-07 (Avg.). However, in 2007-08 (RE), two States, *viz*., Himachal Pradesh and Tripura, witnessed a decline in CT-GSDP ratio over 2004-07 (Avg.). The increase in CT-GSDP ratio was more than the own revenue effort in some of the States such as Arunachal Pradesh, Meghalaya, Manipur and Mizoram during the same period. The own revenue effort increased in all the special category States in 2007-08 (RE) as compared with 2004-07 (Avg.). Sikkim recorded the highest increase in own revenue effort in 2007-08 (RE) over 2004-07 (Avg.) followed by Uttarakhand, Jammu and Kashmir and Arunachal Pradesh. The increase in own revenue effort was more than the increase in CT-GSDP ratio in majority of the special category States such as Sikkim, Uttarakhand, Jammu and Kashmir, Himachal Pradesh, Assam, Tripura and Nagaland. This implies that own revenue effort has played a significant role in the higher revenue surplus recorded by the special category States in 2007-08 (RE) over 2004-07 (Avg.) (Chart 20 and Statements 18-23).

Sikkim recorded the highest RR-GSDP ratio of 124.4 per cent in 2007-08 (RE) followed by Arunachal Pradesh (87.5 per cent), Mizoram (71.9 per cent) and Jammu and Kashmir (43.2 per cent). Current transfers from the Centre constitute the major portion of the total revenue receipts in all the special category States, except Sikkim. In contrast to the trend observed in other special category States, in Sikkim, ONTR, mainly

Chart 20: Variation in Own Revenue and Central Transfers in 2007-08 (RE) over 2004-07 (Avg.) - Special Category States

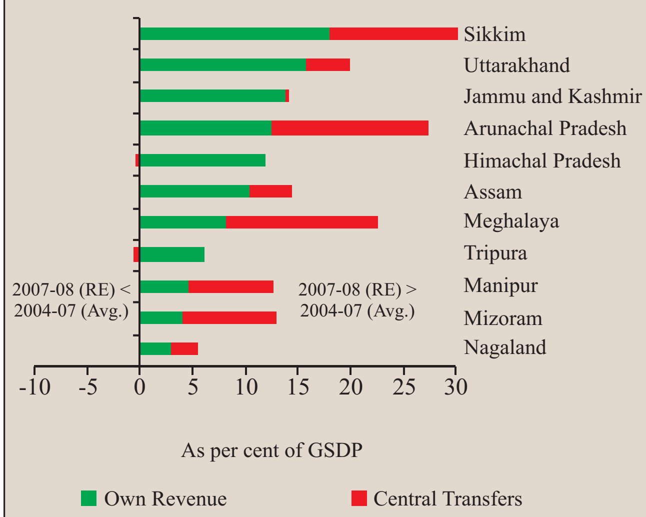
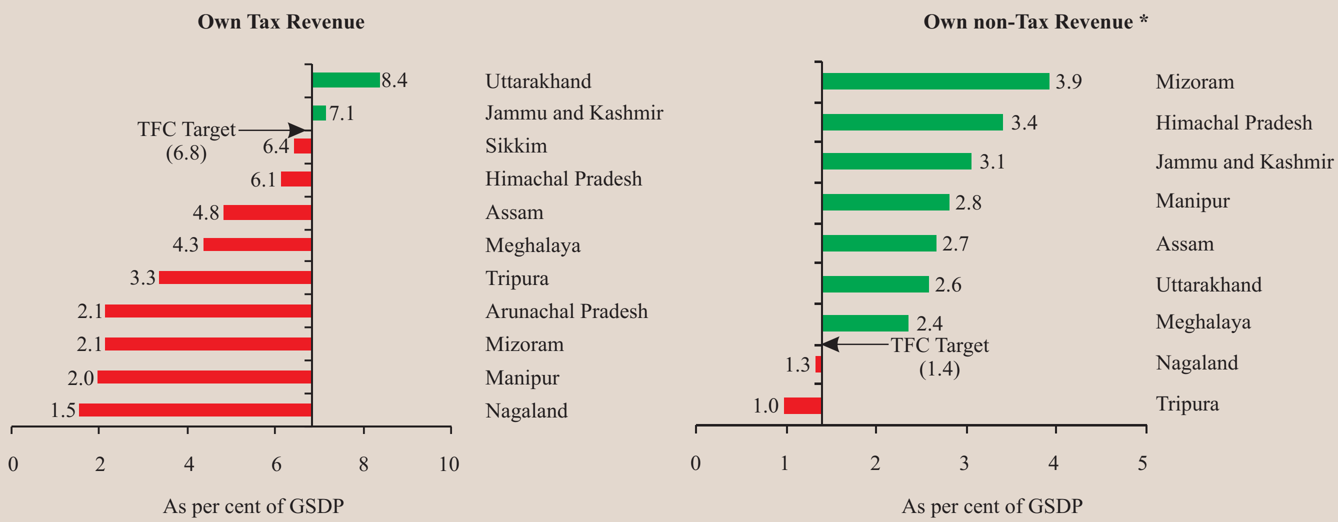


Chart 21: Own Tax and non-Tax Revenue of Special Category States – 2007-08 (RE)



* : Sikkim and Arunachal Pradesh have been excluded from this chart due to their very high values.

State lotteries, constitutes the major portion of total revenue receipts (60.2 per cent). Uttarakhand registered the highest own tax effort of 8.4 per cent in 2007-08 (RE) followed by Jammu and Kashmir (7.1 per cent) and Sikkim (6.4 per cent) (Chart 21 and Statement 19).

VAT constituted more than fifty per cent of OTR in majority of the special category States (Chart 22). The VAT-OTR ratio was the highest in Manipur (80.5 per cent) followed by Mizoram (79.8 per cent) and Arunachal Pradesh (78.6 per cent) in 2007-08 (RE) (Chart 22).

Revenue Expenditure

Revenue expenditure in terms of GSDP increased in nine special category States, *viz.,* Meghalaya, Arunachal Pradesh, Assam, Jammu and Kashmir, Mizoram, Nagaland, Uttarakhand, Sikkim and Tripura in 2007-08 (RE) over 2004-07 (Avg.). Except in four States, *viz.,* Jammu and Kashmir, Himachal Pradesh, Manipur and Tripura, development component of the revenue expenditure in terms of GSDP increased during 2007-08 (RE) over 2004-07 (Avg.). In five States, *viz*., Arunachal Pradesh, Mizoram, Nagaland, Himachal Pradesh and Manipur the non-development component of revenue expenditure declined in terms of GSDP in 2007-08 (RE) over 2004-07 (Avg.) (Chart 23). Arunachal Pradesh registered the highest increase in DRE to GSDP ratio in 2007-08 (RE) over 2004-07 (Avg.) followed by Meghalaya, Assam and Mizoram. Sikkim registered the highest increase in the NDRE-GSDP ratio in 2007-08 (RE) over 2004-07 (Avg.) followed by Jammu and Kashmir and Assam. In seven special category States, *viz.,* Arunachal Pradesh,

Chart 22: Value Added Tax in Special Category States - 2007-08 (RE)

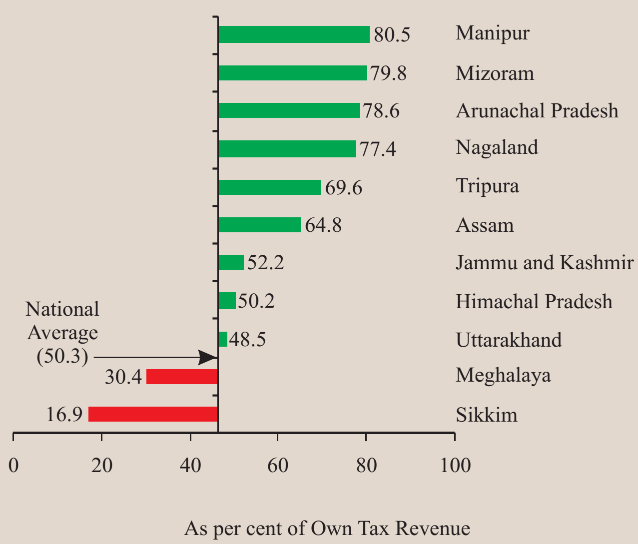


Chart 23: Variation in Development and non-Development Expenditure in 2007-08 (RE) over 2004-07 (Avg.) - Special Category States

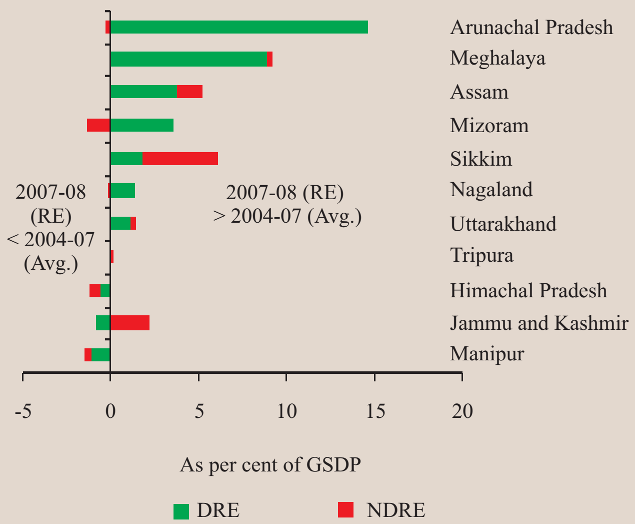
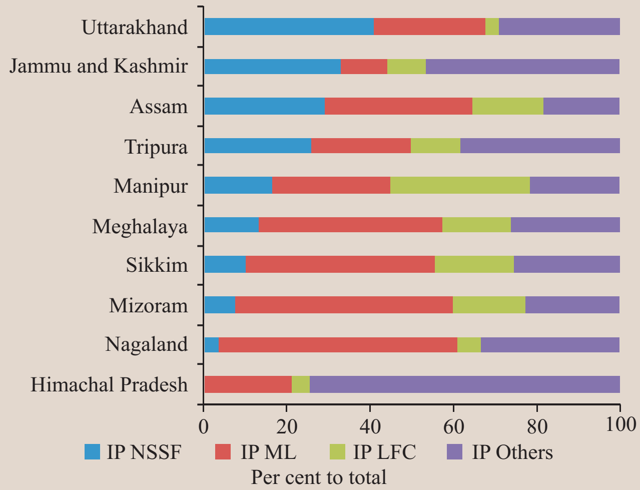


Chart 24: Composition of Interest Payments in Special Category States - 2007-08 (RE)



IP : Interest Payments NSSF : National Small Savings Fund
LFC : Loans from Centre ML : Market Loans

Note: 1. Himachal Pradesh does not give data on interest on NSSF in their Budget documents.
2. Arunachal Pradesh is excluded from this chart due to the unavailability of composition of interest payments in the budget documents.

Himachal Pradesh, Manipur, Mizoram, Nagaland, Sikkim and Tripura, the interest payments as ratio to GSDP came down in 2007-08 (RE) over 2004-07 (Avg.). However, pension as a per cent of GSDP came down only in three States, *viz.,* Arunachal Pradesh, Manipur and Sikkim during the same period (Table 22 and Statements 12 and 13).

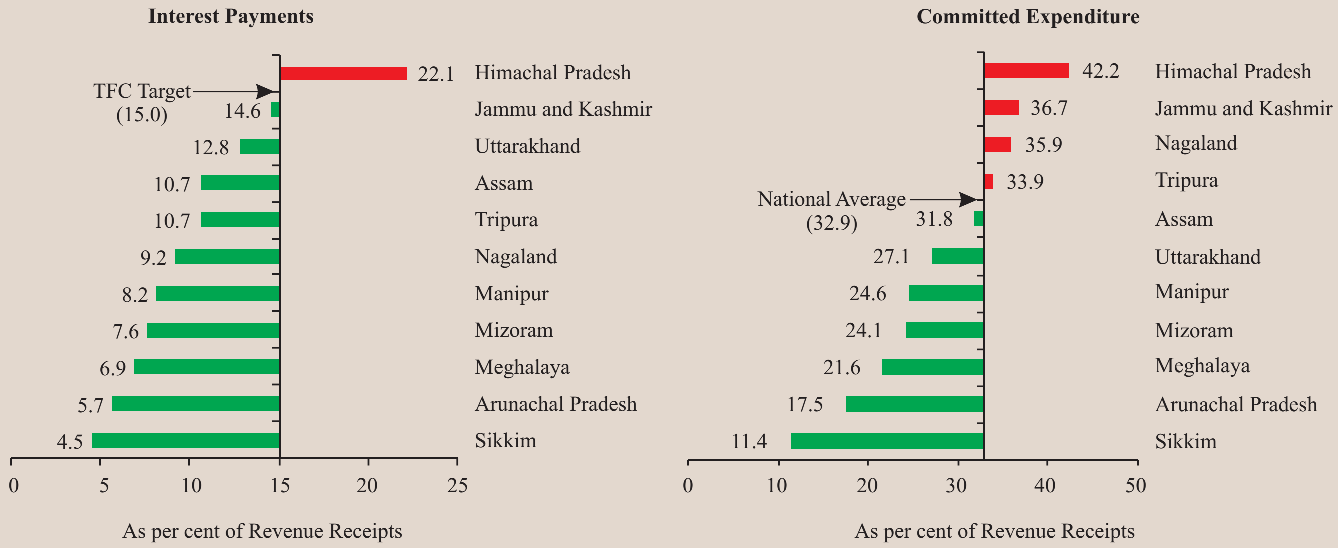
Sikkim displayed the highest RE-GSDP ratio of 105.5 per cent followed by Arunachal Pradesh (69.9 per cent) and Mizoram (60.0 per cent). Arunachal Pradesh registered the highest DRE-GSDP ratio of (53.3 per cent) followed by Mizoram (40.7 per cent) and Sikkim (35.6 per cent). Sikkim stands out with a NDRE-GSDP ratio of 70.0 per cent in 2007-08 (RE). Jammu and Kashmir registered the highest IP-GSDP ratio of 6.3 per cent followed by Sikkim (5.6 per cent) and Mizoram (5.5 per cent) in 2007-08 (RE). Jammu and Kashmir and Himachal Pradesh registered the highest pension-GSDP ratio of 3.3 per cent in 2007-08 (RE) (Table 22).

The interest payments on loans from Centre contributed a small portion of total interest payments in all the special category States (Chart 24). Interestingly, all the special category States except Himachal Pradesh achieved the TFC target in respect of IP-RR (15.0 per cent) in 2007-08 (RE). The committed expenditure (comprising interest payments, pensions and administrative services) pre-empted 42.2 per cent of revenue receipts in Himachal Pradesh followed by Jammu and Kashmir (36.7 per cent), Nagaland (35.9 per cent) and Tripura (33.9 per cent) in 2007-08 (RE) (Chart 25 and Statements 17, 36 and 37).

V.3 Expenditure Pattern of the State Governments

The analysis of the allocation of expenditure at the State Government level presumes significance since the major expenditure responsibilities are entrusted with them. It is important to ensure that the on-going fiscal correction and consolidation process at the State level is not at the cost of expenditure, especially expenditure directed towards development and social sectors. This section analyses some of the qualitative categories of expenditure, *viz.,* capital outlay, development expenditure and social sector expenditure. The data on these expenditure categories for the period 2004-07 (Avg.) and 2007-08 (RE) for both the non-special and special category States are set out in Table 23.

Chart 25: Pre-emption of Revenue Receipts by Interest Payments and Committed Expenditure in Special Category States – 2007-08 (RE)



Non-Special Category States

The development expenditure (DE) as a ratio to GSDP witnessed an increase in all the non-special category States except Gujarat and Maharashtra in 2007-08 (RE) over 2004-07 (Avg.). Chhattisgarh registered the highest increase in DE to GSDP ratio in 2007-08 (RE) over 2004-07 (Avg.) followed by Bihar, Andhra Pradesh and Uttar Pradesh. Bihar recorded the highest DE to GSDP ratio (20.7 per cent), followed by Chhattisgarh (18.8 per cent), Andhra Pradesh (17.4 per cent) and Goa (16.9 per cent) in 2007-08 (RE) (Table 23, Chart 26 and Statement 12).

The non-special category States displayed a similar trend in social sector

Chart 26: Development Expenditure in non-Special Category States

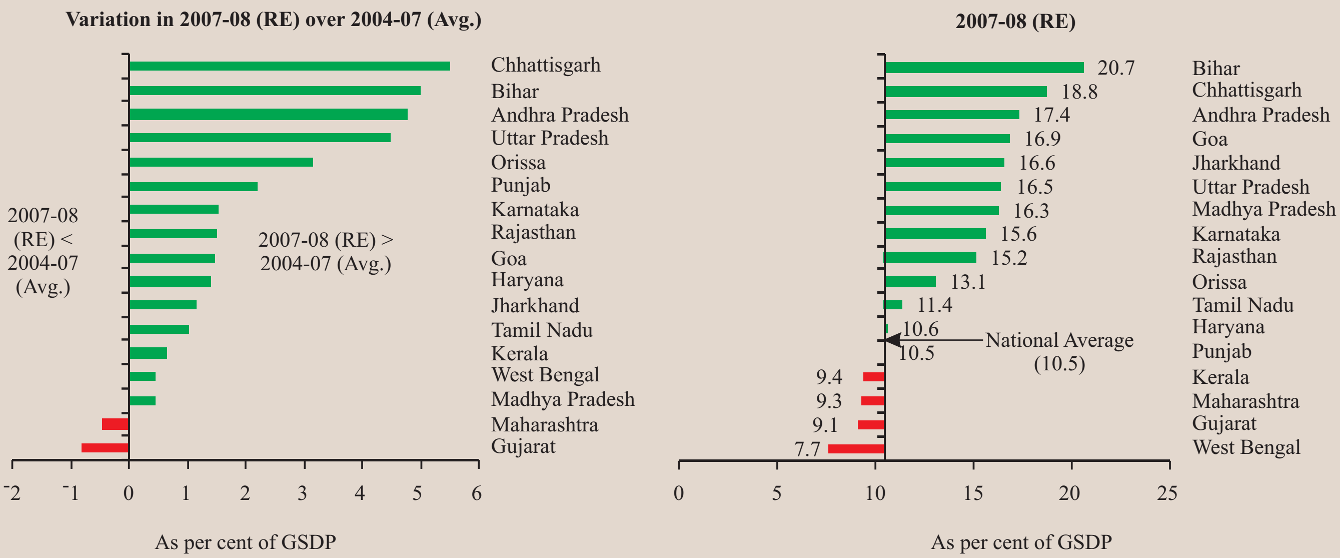


Table 23: Expenditure Pattern of State Governments

(Per cent)

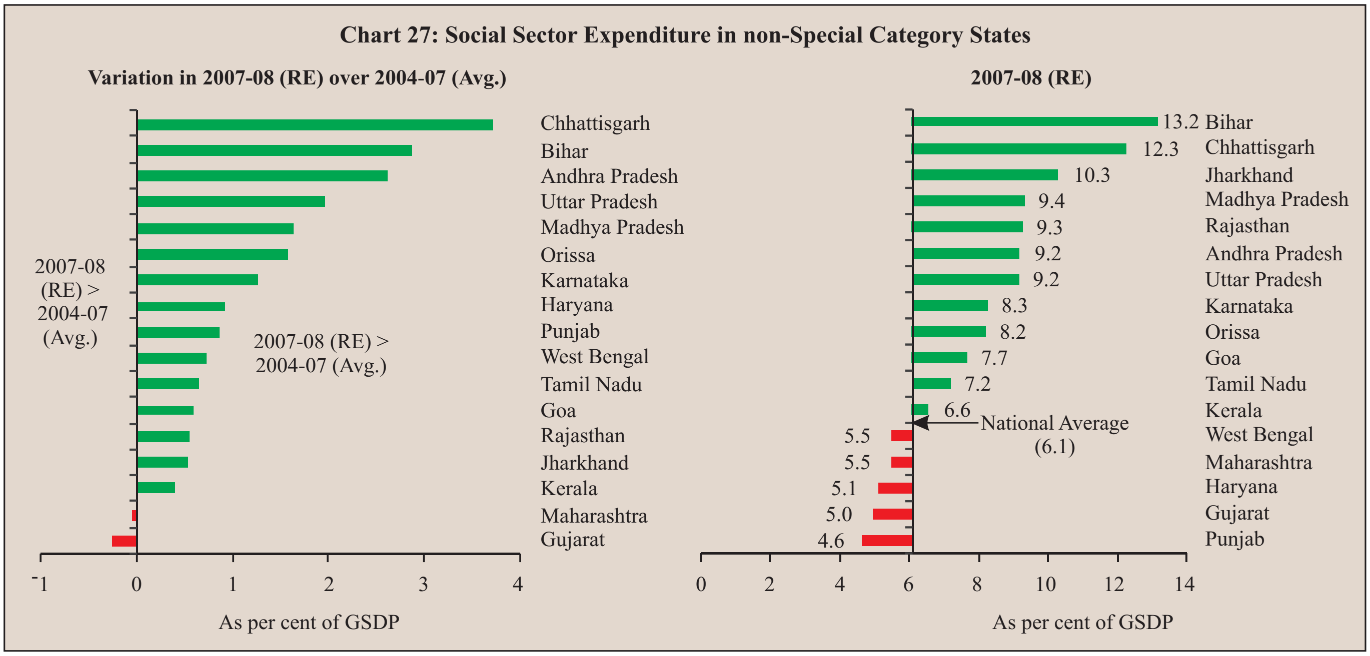
State	2004-07 (Avg.)*			2007-08 (RE)		
	DEV/ GSDP	SSE/ GSDP	CO/ GSDP	DEV/ GSDP	SSE/ GSDP	CO/ GSDP
1	2	3	4	5	6	7
I. Non-Special Category						
1. Andhra Pradesh	12.6	6.6	3.2	17.4	9.2	4.1
2. Bihar	15.7	10.3	3.3	20.7	13.2	6.7
3. Chhattisgarh	13.3	8.6	3.1	18.8	12.3	5.2
4. Goa	15.5	7.1	4.3	16.9	7.7	4.6
5. Gujarat	10.0	5.2	2.8	9.1	5.0	2.5
6. Haryana	9.2	4.2	1.5	10.6	5.1	2.1
7. Jharkhand	15.4	9.8	3.7	16.6	10.3	4.9
8. Karnataka	14.1	7.0	3.7	15.6	8.3	4.1
9. Kerala	8.7	6.2	0.7	9.4	6.6	1.0
10. Madhya Pradesh	15.8	7.7	4.8	16.3	9.4	4.8
11. Maharashtra	9.8	5.5	2.1	9.3	5.5	2.1
12. Orissa	9.9	6.7	1.5	13.1	8.2	2.7
13. Punjab	8.3	3.8	1.4	10.5	4.6	2.5
14. Rajasthan	13.6	8.7	3.3	15.2	9.3	4.3
15. Tamil Nadu	10.4	6.6	2.1	11.4	7.2	2.6
16. Uttar Pradesh	12.0	7.2	3.3	16.5	9.2	5.5
17. West Bengal	7.2	4.8	0.8	7.7	5.5	0.9
II. Special Category						
1. Arunachal Pradesh	53.3	24.4	15.2	79.1	28.4	26.7
2. Assam	14.9	8.3	2.7	19.6	12.4	4.3
3. Himachal Pradesh	17.6	11.0	3.3	17.7	10.8	4.0
4. Jammu and Kashmir	30.8	14.3	11.5	32.8	15.9	14.9
5. Manipur	32.2	16.6	11.5	36.6	17.6	17.3
6. Meghalaya	21.0	12.2	4.2	33.1	17.3	7.6
7. Mizoram	52.7	26.6	15.3	56.9	29.2	16.5
8. Nagaland	23.4	12.0	8.1	27.9	13.9	11.6
9. Sikkim	51.8	28.2	19.1	64.3	33.2	30.5
10. Tripura	20.5	12.5	7.6	22.7	14.4	10.5
11. Uttarakhand	18.8	10.6	5.8	21.9	12.5	7.5
All States#	**9.3**	**5.3**	**2.1**	**10.5**	**6.1**	**2.7**
Memo Item:						
1. NCT Delhi	7.3	4.4	1.5	9.3	5.7	2.9
2. Puducherry	28.9	13.6	5.4	27.5	13.9	3.9

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.

Note :
1. The development expenditure includes the development components of revenue expenditure, capital outlay and loans and advances by the State Governments.
2. The social sector expenditure includes expenditure on social services, the expenditure on food storage and warehousing and rural development under revenue expenditure, capital outlay and loans and advances by the State Governments.
3. Capital outlay includes both development and non-development capital outlay of the State Governments.

Source : Based on Budget Documents of the State Governments.

expenditure (SSE) in 2007-08 (RE) over 2004-07 (Avg.). Among the non-special category States, only Maharashtra and Gujarat experienced a fall in the SSE-GSDP ratio during the same period. Chhattisgarh registered the highest increase in SSE-GSDP ratio followed by Bihar, Andhra Pradesh and Uttar Pradesh. Bihar recorded the highest SSE-GSDP ratio of 13.2 per cent followed by Chhattisgarh (12.3 per cent) and Jharkhand (10.3 per cent) in 2007-08



(RE) (Table 23 and Chart 27) (also see Statements 41, 42 and 47).

Gujarat, Maharashtra and Madhya Pradesh witnessed a slight reduction in ratio of capital outlay (CO) to GSDP in 2007-08 (RE) over 2004-07 (Avg.). Bihar registered the highest increase in CO-GSDP ratio followed by Uttar Pradesh, Chhattisgarh and Orissa during the same period. Bihar registered the highest CO-GSDP ratio of 6.7 per cent followed by Uttar Pradesh (5.5 per cent) and Chhattisgarh (5.2 per cent) in 2007-08 (RE). Some of the States such as West Bengal (0.9 per cent) and Kerala (1.0 per cent) had very low CO-GSDP ratio in 2007-08 (RE) (Table 23 and Chart 28).

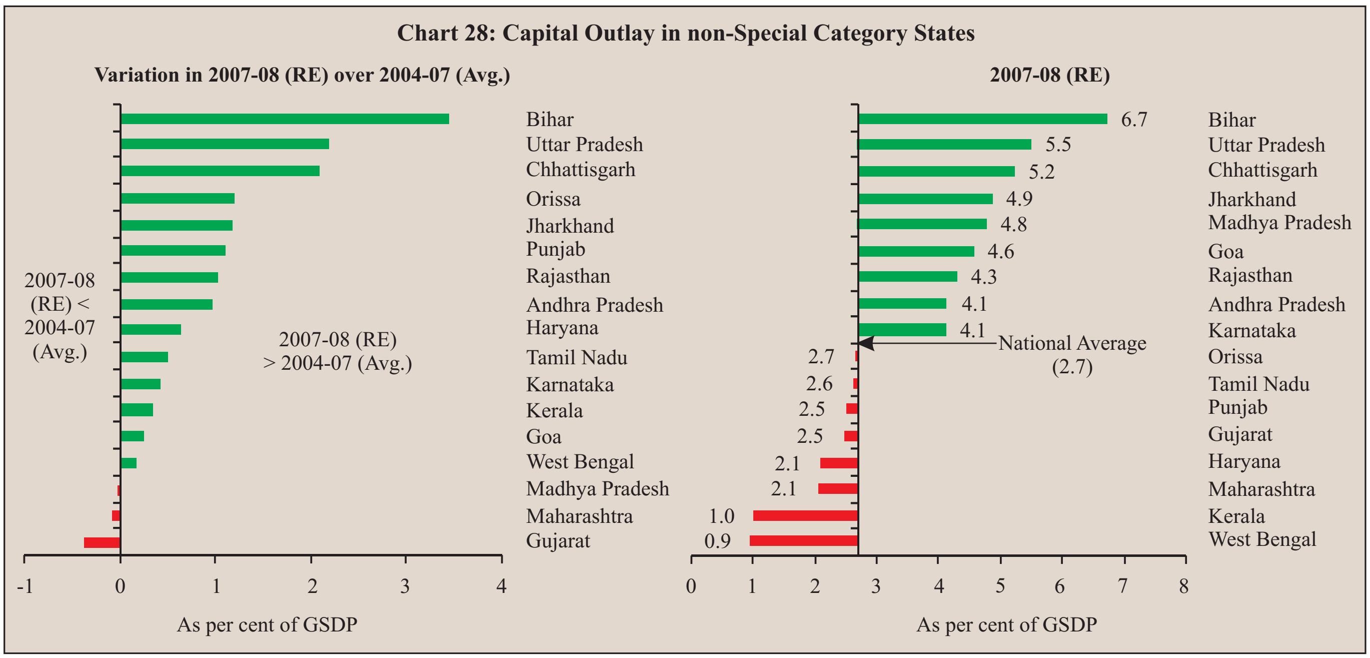
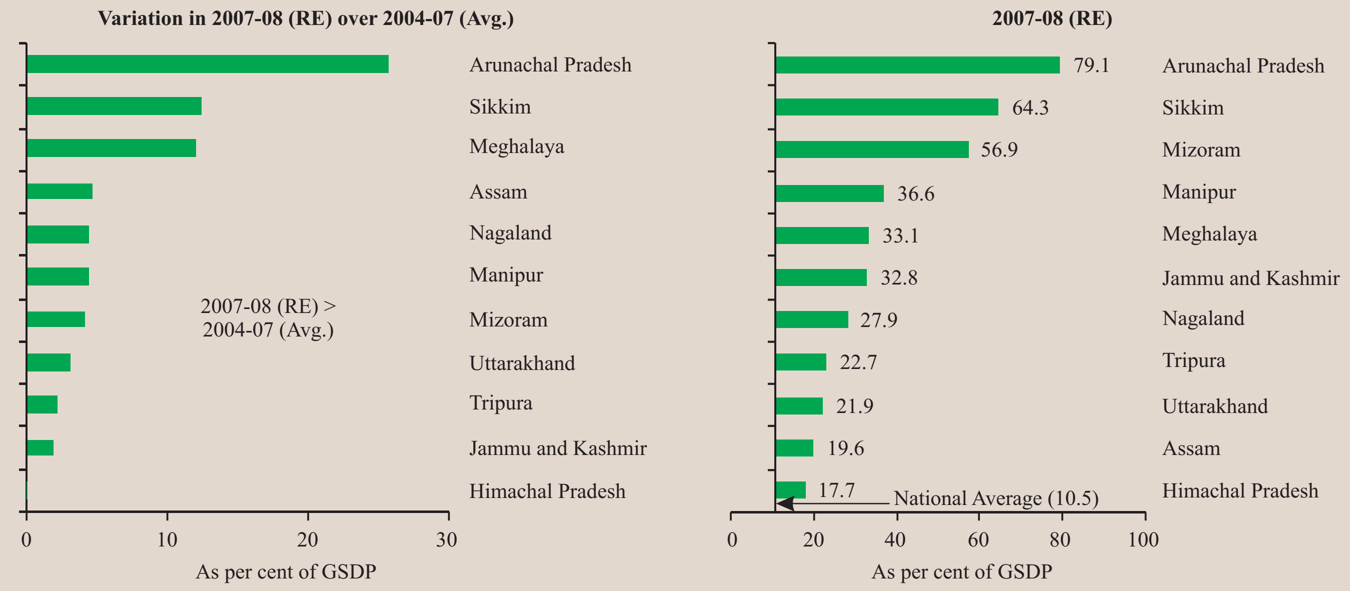


Chart 29: Development Expenditure in Special Category States

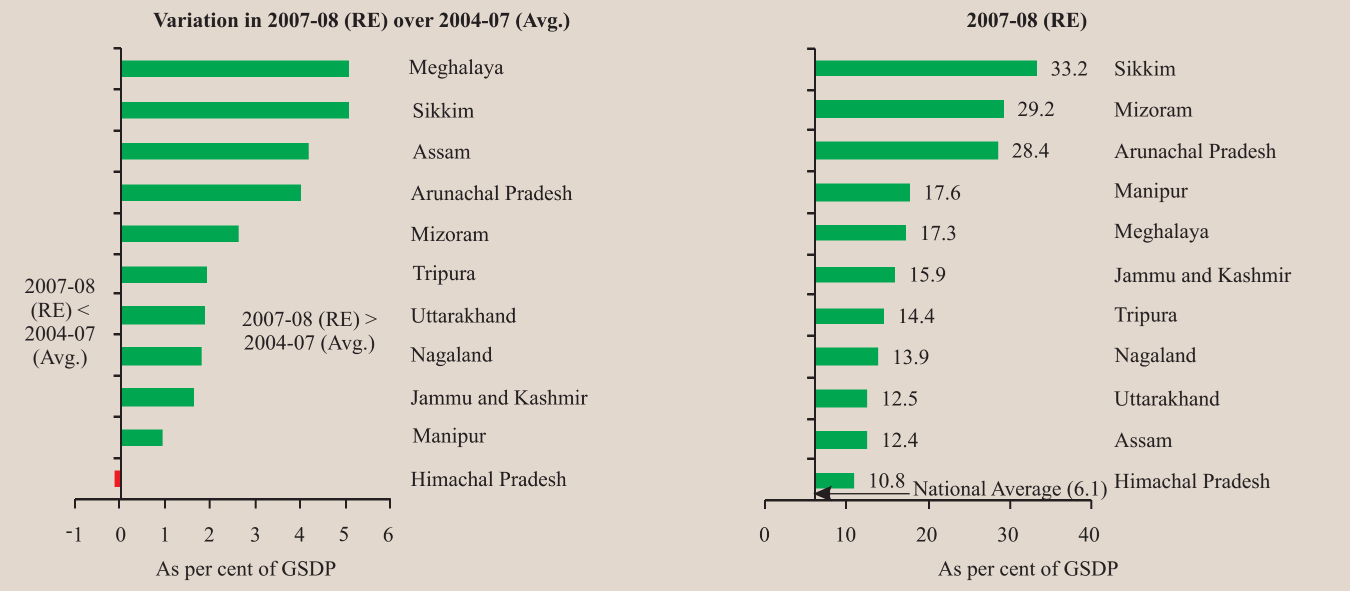


V.3.2 Special Category States

All the special category States witnessed an increase in the DE-GSDP ratio in 2007-08 (RE) over 2004-07 (Avg.). Arunachal Pradesh witnessed the highest increase in the DE-GSDP ratio followed by Sikkim, Meghalaya and Assam during the same period. Among the special category States, Arunachal Pradesh registered the highest DE-SDP ratio of 79.1 per cent followed by Sikkim (64.3 per cent) and Mizoram (56.9 per cent) in 2007-08 (RE) (Table 23, Chart 29 and Statement 12).

The SSE-GSDP ratio witnessed an increase in all the special category States, except Himachal Pradesh in 2007-08 (RE) over 2004-07 (Avg.) (Chart 30). Meghalaya recorded the highest

Chart 30: Social Sector Expenditure in Special Category States



increase in SSE-GSDP ratio followed by Sikkim and Assam during the same period. Among the special category States, Sikkim had the highest SSE-GSDP ratio of 33.2 per cent during 2007-08 (RE) followed by Mizoram (29.2 per cent) and Arunachal Pradesh (28.4 per cent) (Table 23 and Statements 41, 42 and 47).

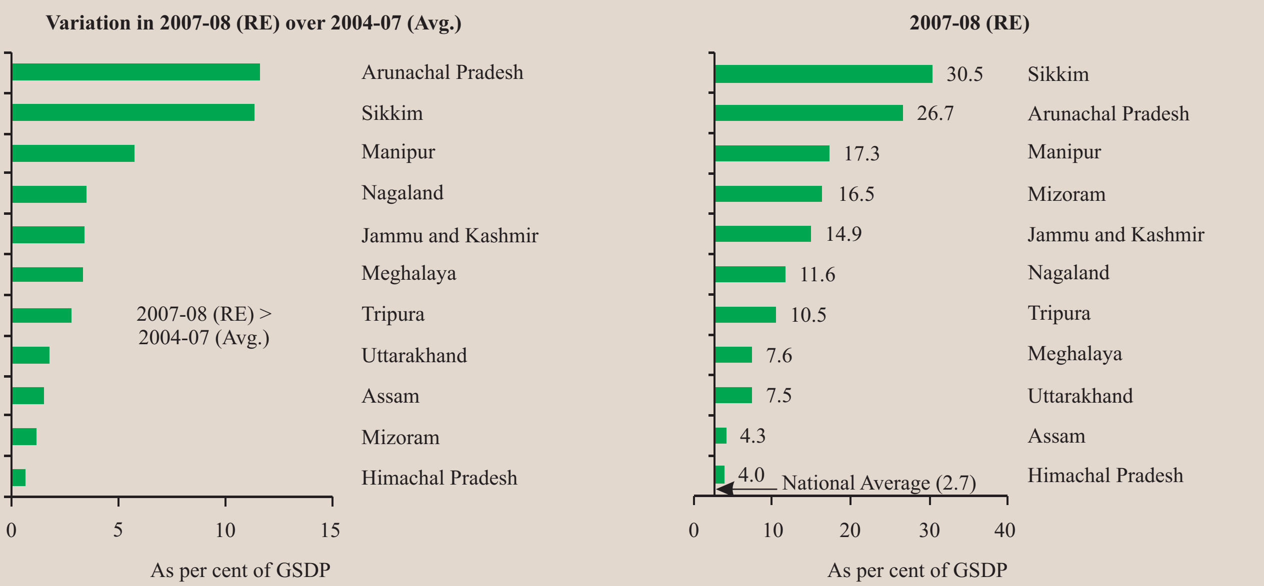
All the special category States witnessed an increase in CO-GSDP ratio in 2007-08 (RE) over 2004-07 (Avg.). Arunachal Pradesh registered the highest increase in CO-GSDP ratio during the same period followed by Sikkim and Manipur. Among the special category States, the highest CO-GSDP ratio was registered by Sikkim (30.5 per cent) followed by Arunachal Pradesh (26.7 per cent) and Manipur (17.3 per cent) in 2007-08 (RE) (Table 23 and Chart 31).

V.4 Per Capita Expenditure of the State Governments

It is well documented in the literature that the low level of spending on any sector in a particular State may happen due to two reasons, *i.e.*, low fiscal priority attached by the State Government and low fiscal capacity of the State Government[11]. The low level of spending may be due to low fiscal priority (ratio of expenditure category to aggregate expenditure) attached to a particular sector if it is below the respective national average. On the other hand, the low level of spending may be due to low fiscal capacity, *i.e.,* the State's per capita expenditure is below the respective national average even after having a fiscal priority that is more than or equal to the national average. In some of the States, both the factors may work together resulting in a low level of spending.

This section analyses the fiscal priority and fiscal capacity of the State Governments. For working out the fiscal priority by the State Governments to a particular sector, two variables, *viz*., aggregate expenditure to GSDP and the respective expenditure category to aggregate expenditure have been taken (Table 24). Data on respective expenditure categories in per capita terms and adjusted per capita terms for the non-special and special category States are set out in

Chart 31: Capital Outlay in Special Category States



11 Government of India (2004), Report of the Twelfth Finance Commission, October.

Table 24: Fiscal Priority by State Governments - 2007-08 (RE)

(Per cent)

State	AE/ GSDP	DE/ AE	SSE/ AE	CO/ AE
1	2	3	4	5
I. Non-Special Category				
1. Andhra Pradesh	25.2	68.9	36.5	16.4
2. Bihar	32.4	63.7	40.7	20.7
3. Chhattisgarh	25.1	74.9	49.0	20.7
4. Goa	23.7	71.5	32.6	19.3
5. Gujarat	14.4	63.6	34.4	17.1
6. Haryana	15.1	70.4	33.9	13.9
7. Jharkhand	23.8	69.8	43.5	20.4
8. Karnataka	22.5	69.4	36.7	18.3
9. Kerala	20.1	46.6	32.8	5.0
10. Madhya Pradesh	25.3	64.2	36.9	18.8
11. Maharashtra	14.2	65.6	38.5	14.4
12. Orissa	24.2	54.0	34.0	11.0
13. Punjab	21.3	49.4	21.8	11.7
14. Rajasthan	23.5	64.6	39.5	18.3
15. Tamil Nadu	19.7	57.9	36.6	13.3
16. Uttar Pradesh	25.9	63.6	35.6	21.2
17. West Bengal	15.5	49.4	35.3	6.1
II. Special Category				
1. Arunachal Pradesh	101.4	78.0	28.0	26.4
2. Assam	29.5	66.5	42.2	14.5
3. Himachal Pradesh	31.4	56.4	34.6	12.8
4. Jammu and Kashmir	53.0	61.9	30.0	28.1
5. Manipur	55.4	66.1	31.7	31.2
6. Meghalaya	45.2	73.3	38.2	16.8
7. Mizoram	80.2	71.0	36.4	20.5
8. Nagaland	45.7	61.1	30.3	25.4
9. Sikkim	138.4	46.5	24.0	22.0
10. Tripura	37.3	61.0	38.7	28.1
11. Uttarakhand	32.8	66.9	38.0	23.0
All States	**16.7***	**62.7**	**36.3**	**16.3**

AE : Aggregate Expenditure. SSE: Social Sector Expenditure.
DE : Development Expenditure. CO : Capital Outlay.
*: As per cent to GDP. RE : Revised Estimates.
Source : Based on Budget Documents of the State Governments.

Table 25. The methodology for calculating fiscal capacity is explained in Box 6.

V.4.1 Non-Special Category States

Among the non-special category States, the per capita development expenditure (PCDE) is below the national average of Rs.4,308 in eight State Governments, *viz*., Bihar, West Bengal, Uttar Pradesh, Madhya Pradesh, Orissa, Rajasthan, Kerala and Jharkhand in 2007-08 (RE). Out of these States, in West Bengal and Orissa, even after adjusting for AE-GSDP and DE-AE, the PCDE falls below the national average of Rs.4,308. While in Kerala, after adjustment the PCDE goes above the national average. In rest of the States, no adjustment is made since the AE-GSDP and DE-AE ratios fall above the respective national averages. However, even with higher AE-GSDP and DE-AE ratios, their PCDE falls below the national average. On the other hand, some of the States such as Tamil Nadu, Maharashtra, Punjab and Haryana, exhibit a PCDE higher than the national average of Rs.4,308, though their respective AE-GSDP and DE-AE ratios or either of them are lower than the respective national average. Thus, after adjustment their PCDE increases further. In States like Karnataka, Goa, Chhattisgarh and Andhra Pradesh, the PCDE as well as the respective AE-GSDP and DE-AE ratios fall above the respective national averages. Thus, no adjustment is made in the case of these States. After adjusting for AE-GSDP ratio and DE-AE ratio to the respective national averages, the national average of PCDE increases to Rs.4,725 from Rs.4,308. The PCDE increases in eight State Governments, *viz*., Gujarat, Haryana, Kerala, Maharashtra, Orissa, Punjab, Tamil Nadu and West Bengal after the adjustment (Tables 24, 25 and Chart 32).

Among the non-special category States, spending on social sectors in per capita terms was lower than the national average in seven States, *viz*., West Bengal, Uttar Pradesh, Rajasthan, Punjab, Orissa, Madhya Pradesh and Bihar, in 2007-08 (RE). In West Bengal, Uttar Pradesh and Orissa, even after adjustment, the per capita social sector expenditure (PCSE) remains below the national average of Rs.2,492. In Punjab, after adjusting for AE-GSDP and SSE-AE ratios, the PCSE goes above the national average. In Rajasthan, Madhya Pradesh and Bihar, the AE-GSDP and SSE-AE ratios are already above the respective national average; hence no adjustment was made. However, the PCSE falls below the national average in these three States. In Goa, Gujarat, Haryana, Kerala and Maharashtra, the

Table 25: Per Capita Expenditure of State Governments - 2007-08 (RE)

(Amount in Rupees)

State	Per Capita			Adjusted Per Capita*		
	DEV	SSE	CO	DEV	SSE	CO
1	2	3	4	5	6	7
I. Non-Special Category						
1. Andhra Pradesh	6,607	3,505	1,571	6,607	3,505	1,571
2. Bihar	2,294	1,465	744	2,294	1,465	744
3. Chhattisgarh	5,390	3,527	1,494	5,390	3,527	1,494
4. Goa	16,371	7,467	4,409	16,371	8,302	4,409
5. Gujarat	4,749	2,572	1,278	5,518	3,146	1,485
6. Haryana	6,594	3,177	1,299	7,307	3,761	1,690
7. Jharkhand	4,272	2,660	1,249	4,272	2,660	1,249
8. Karnataka	5,858	3,104	1,548	5,858	3,104	1,548
9. Kerala	4,069	2,861	438	5,476	3,168	1,424
10. Madhya Pradesh	3,343	1,923	979	3,343	1,923	979
11. Maharashtra	5,046	2,961	1,110	5,928	3,478	1,474
12. Orissa	3,385	2,133	687	3,928	2,272	1,021
13. Punjab	5,414	2,384	1,281	6,862	3,970	1,784
14. Rajasthan	3,909	2,390	1,110	3,909	2,390	1,110
15. Tamil Nadu	5,115	3,235	1,177	5,536	3,235	1,439
16. Uttar Pradesh	2,988	1,670	995	2,988	1,703	995
17. West Bengal	2,701	1,933	334	3,687	2,133	959
II. Special Category						
1. Arunachal Pradesh	24,909	8,949	8,419	24,909	11,581	8,419
2. Assam	4,759	3,019	1,037	4,759	3,019	1,167
3. Himachal Pradesh	8,631	5,292	1,962	9,599	5,553	2,496
4. Jammu and Kashmir	8,531	4,131	3,870	8,639	4,998	3,870
5. Manipur	10,127	4,863	4,787	10,127	5,557	4,787
6. Meghalaya	9,972	5,200	2,279	9,972	5,200	2,279
7. Mizoram	19,100	9,806	5,525	19,100	9,806	5,525
8. Nagaland	10,714	5,317	4,458	10,996	6,361	4,458
9. Sikkim	24,874	12,845	11,773	33,537	19,400	11,773
10. Tripura	7,434	4,718	3,421	7,640	4,718	3,421
11. Uttarakhand	7,974	4,535	2,745	7,974	4,535	2,745
All States	**4,308**	**2,492**	**1,120**	**4,725**	**2,717**	**1,316**

DEV: Development Expenditure. SSE: Social Sector Expenditure. CO: Capital Outlay.

* : Adjusted per capita expenditure is calculated as per the methodology explained in Box 6.

Source : Based on Budget Documents of the State Governments.

PCSE is higher than the national average albeit their AE-GSDP and SSE-AE ratios or either of them fall below the respective national average. Thus, after adjustment the respective PCSE of these States increases further. In some of the other States such as Andhra Pradesh, Chhattisgarh, Jharkhand, Karnataka and Tamil Nadu, both the PCSE and AE-GSDP and SSE-AE ratios are higher than the national average. Therefore, no adjustment has been made in these States. The national average of PCSE increases to Rs.2,717 after adjustments in AE-GSDP ratio and SSE-AE ratio to the respective national averages. PCSE increased in nine non-special category States after the adjustment (Tables 24, 25 and Chart 33).

Eight States, *viz*., Bihar, Kerala, Madhya Pradesh, Maharashtra, Orissa, Rajasthan, Uttar Pradesh and West Bengal spent less than the national average on capital outlay in per capita terms in 2007-08 (RE). In West Bengal and Orissa, even after adjustment for AE-GSDP and CO-AE ratios the per capita capital outlay (PCCO) falls below the national average. In Maharashtra and Kerala, the PCCO goes above the national average, after adjusting for AE-GSDP and CO-AE ratios. In

Box 6: Fiscal Capacity of the State Governments: Methodology

For working out the fiscal capacity of the State Governments, the following methodology given in Twelfth Finance Commission report has been adopted.

1. Calculate the national average of AE-GSDP and CO/DE/SSE–AE.

2. Based on the national average of AE-GSDP ratio, derive the aggregate expenditure so that no State is having a ratio AE-GSDP less than the national average, *i.e.,* if
   AE/GSDP = x
   AE = x * GSDP ………(1)
   where x is the national average of AE-GSDP ratio.
   Wherever the States are having AE-GSDP ratio higher than national average, no adjustments were made. Wherever this ratio was less than average, it was made equal to the national average.

3. Based on the national average of DE-AE, SSE-AE and CO-AE, derive the respective DE, SSE and CO, so that no State is having these ratios less than national average, *i.e.*, if
   DE/AE = y
   DE = y * AE ………………(2)
   where y is the national average of DE-AE ratio.
   Substituting (1) in (2), we get
   DE = y * x * GSDP …………(3)
   Wherever the States are having DE-AE, SSE-AE and CO-AE ratio higher than national average, no adjustments have been made. Wherever these ratios were less than average, it was made equal to the national average.

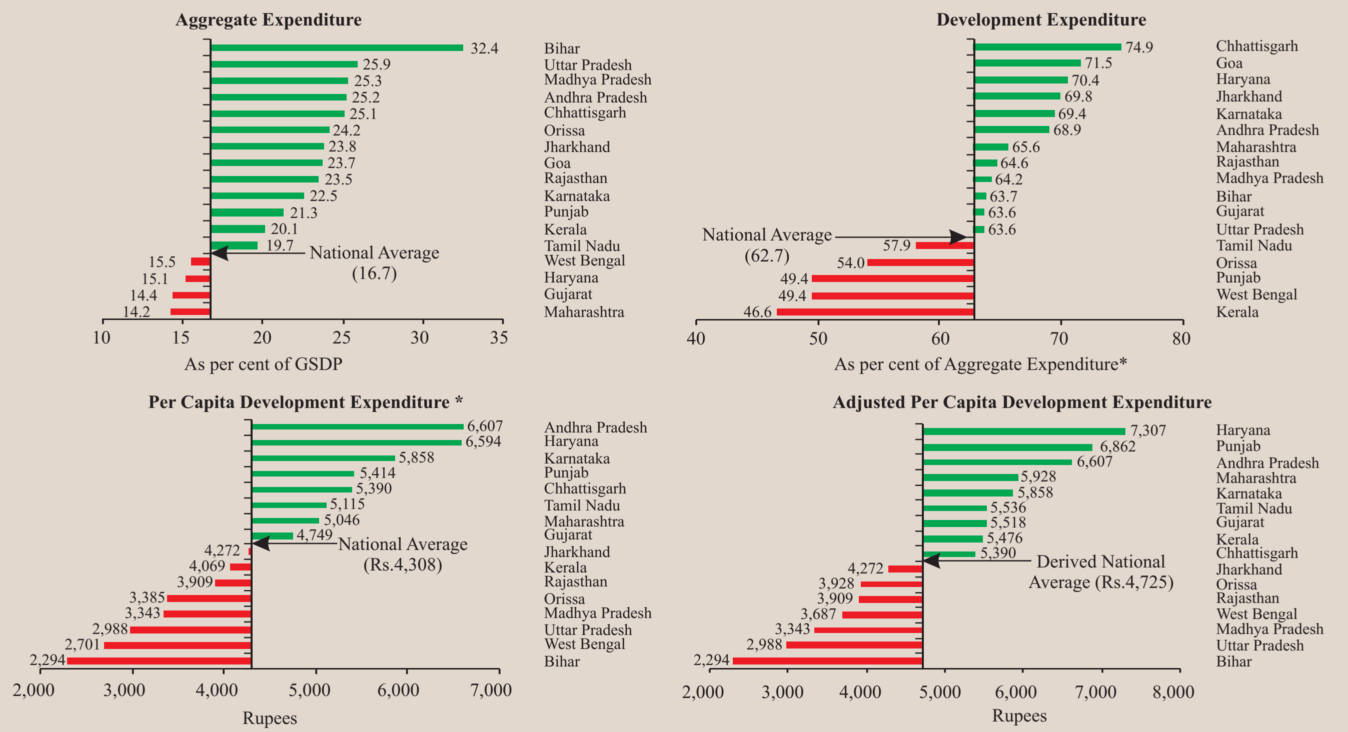
4. Based on the derived DE, SSE and CO as per equation (3), respective per capita expenditure was calculated, *i.e.*,
   PCDE = DE/P ……………….(4)
   where PCDE is the per capita development expenditure and P is the population.
   Substituting (3) in (4), we get
   PDE = (y * x * GSDP)/P …………………..(5)
   Equation (5) provides the adjusted per capita expenditure. If the adjusted per capita expenditure is less than the national average of per capita expenditure, then the States' low level of spending is due to the low fiscal capacity. This gives a picture of actual level of expenditure when all the State Governments are attaching fiscal priority to these sectors equivalent to the national average.

Reference:

Government of India (2004), *Report of the Twelfth Finance Commission*, October.

Uttar Pradesh, Rajasthan, Madhya Pradesh and Bihar, no adjustment is made as their AE-GSDP and CO-AE ratios are higher than the respective national average. However, their PCCO falls below the national average. In Tamil Nadu, Punjab, Haryana and Gujarat, the PCCO is higher than

Chart 32: Development Expenditure in non-Special Category States - 2007-08 (RE)



* : Goa is excluded from this chart due its very high value.

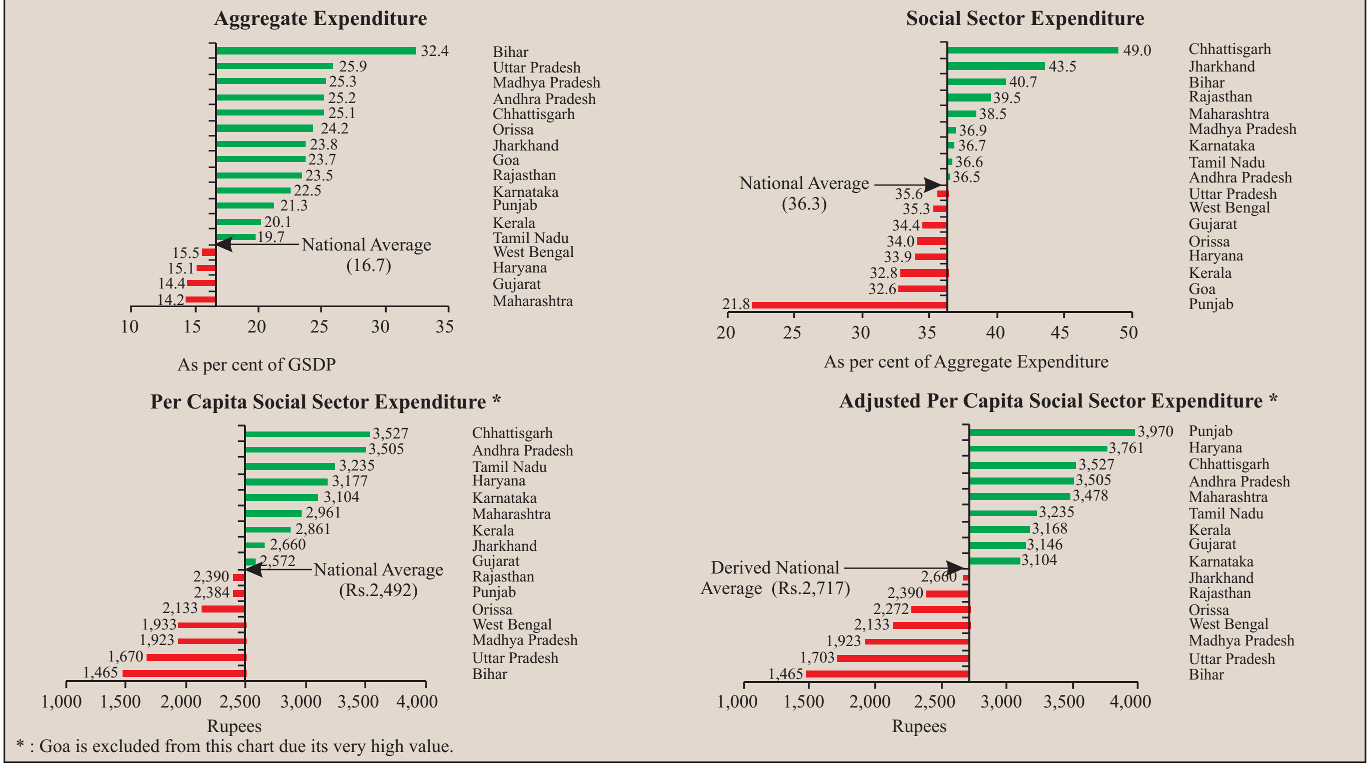


Chart 33: Social Sector Expenditure in non-Special Category States – 2007-08 (RE)

national average though AE-GSDP and CO-AE ratios or either of them is less than average. Thus, after adjustment, their PCCO increases further. In Andhra Pradesh, Chhattisgarh, Goa, Jharkhand and Karnataka, the PCCO, AE-GSDP and CO-AE ratios are higher than the respective national average. After adjusting for the deficiencies in fiscal priority in a number of States, the national average of PCCO increased to Rs.1,316 from Rs.1,120. After adjustment, eight State Governments witnessed an increase in the PCCO (Tables 24, 25 and Chart 34).

V.4.2 Special Category States

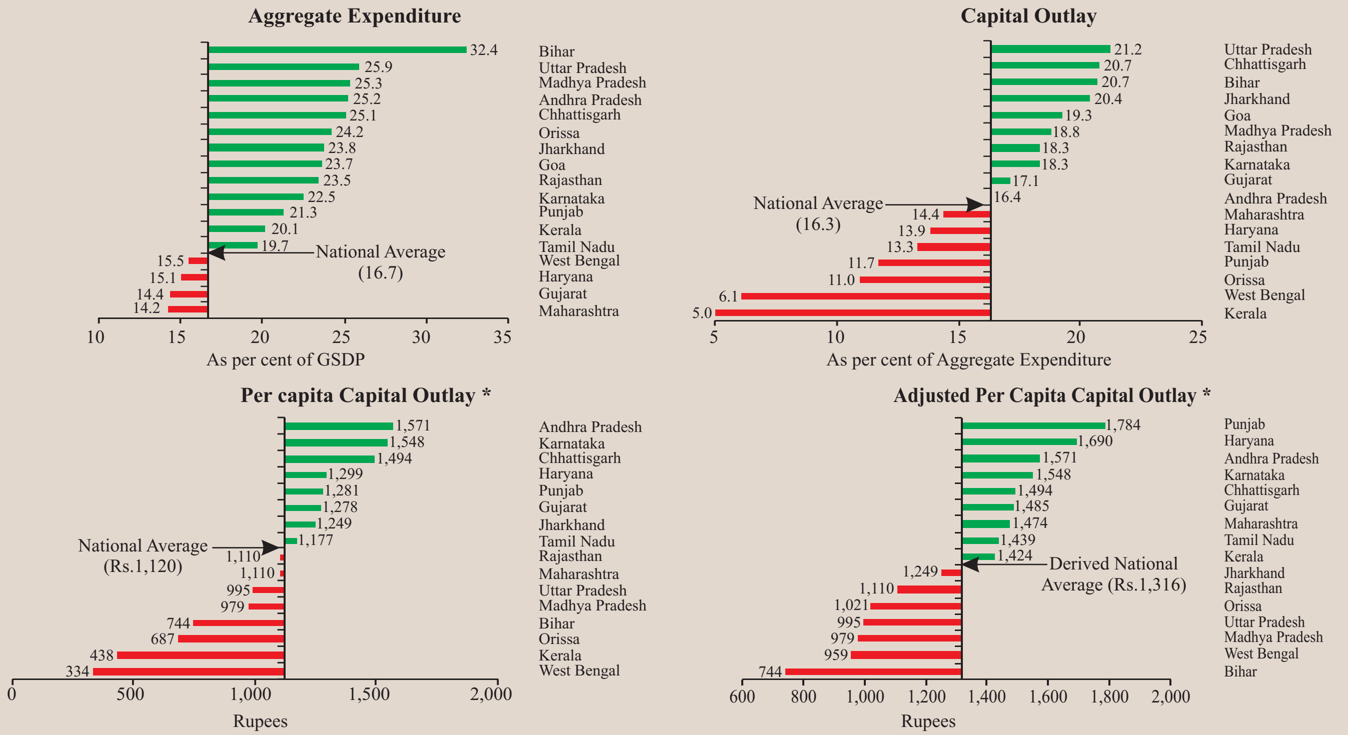
It is important to note that the PCDE of all the special category States is above the national average of Rs.4,308 in 2007-08 (RE). However, some of the State Governments, *viz*., Jammu and Kashmir, Nagaland, Tripura, Himachal Pradesh and Sikkim are having DE-AE ratio lower than the national average. These States experienced an increase in PCDE after adjustment (Tables 24, 25 and Chart 35).

Similarly, in terms of the PCSE, all the special category States fall above the national average of Rs.2,492. However, in a number of States such as Sikkim, Arunachal Pradesh, Jammu and Kashmir, Nagaland, Manipur and Himachal Pradesh, the SSE-AE ratio falls below the national average (Tables 24, 25 and Chart 36).

Among the special category States, only in Assam the PCCO is less than the national average of Rs.1,120. In Assam and Himachal Pradesh, CO-AE ratio is less than the national average. However, in Himachal Pradesh, the PCCO falls above the national average (Tables 24, 25 and Chart 37).

Thus, it is clear from the above analysis that correction in the revenue account and the consequent revenue surplus facilitated rise in development expenditure, social sector expenditure and capital outlay for both the special and non-

Chart 34: Capital Outlay in non-Special Category States – 2007-08 (RE)



* : Goa is excluded from this chart due its very high value.

Chart 35: Development Expenditure in Special Category States – 2007-08 (RE)

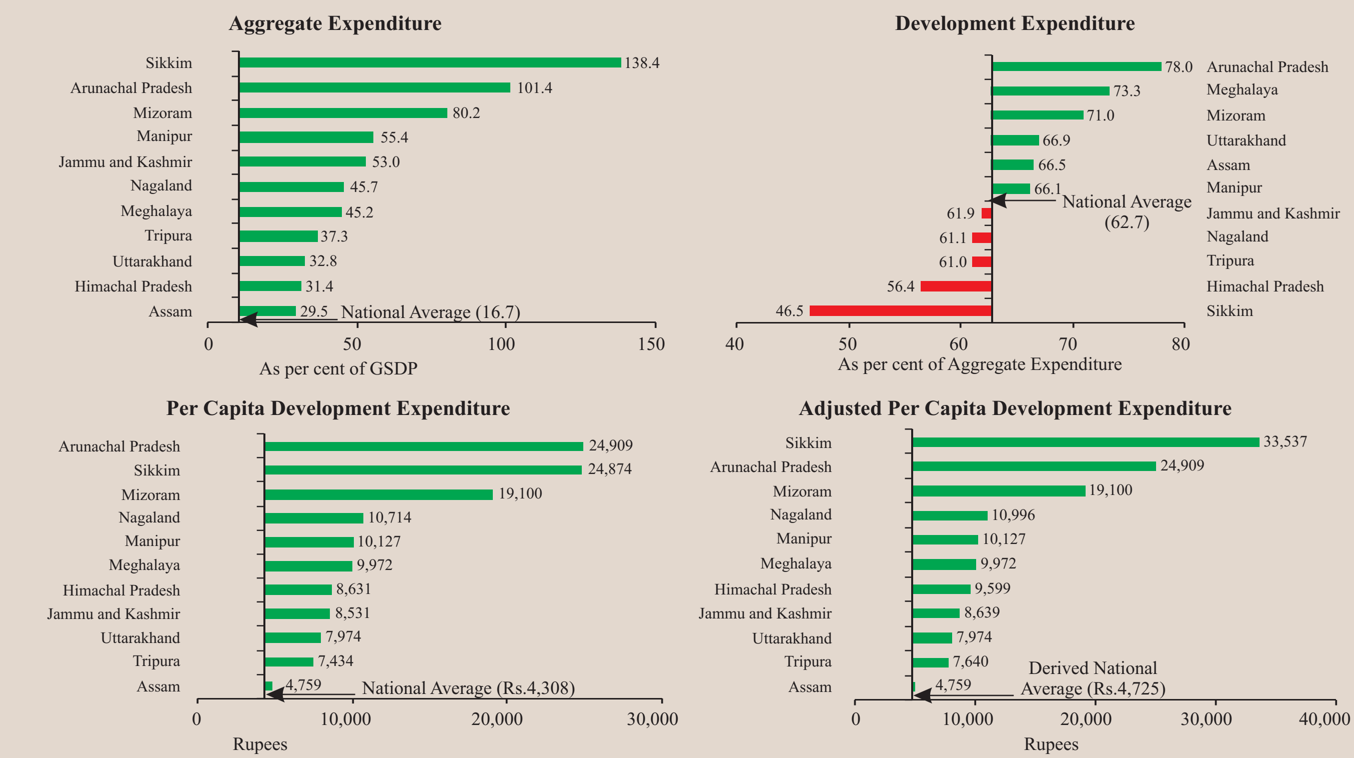


Chart 36: Social Sector Expenditure in Special Category States – 2007-08 (RE)

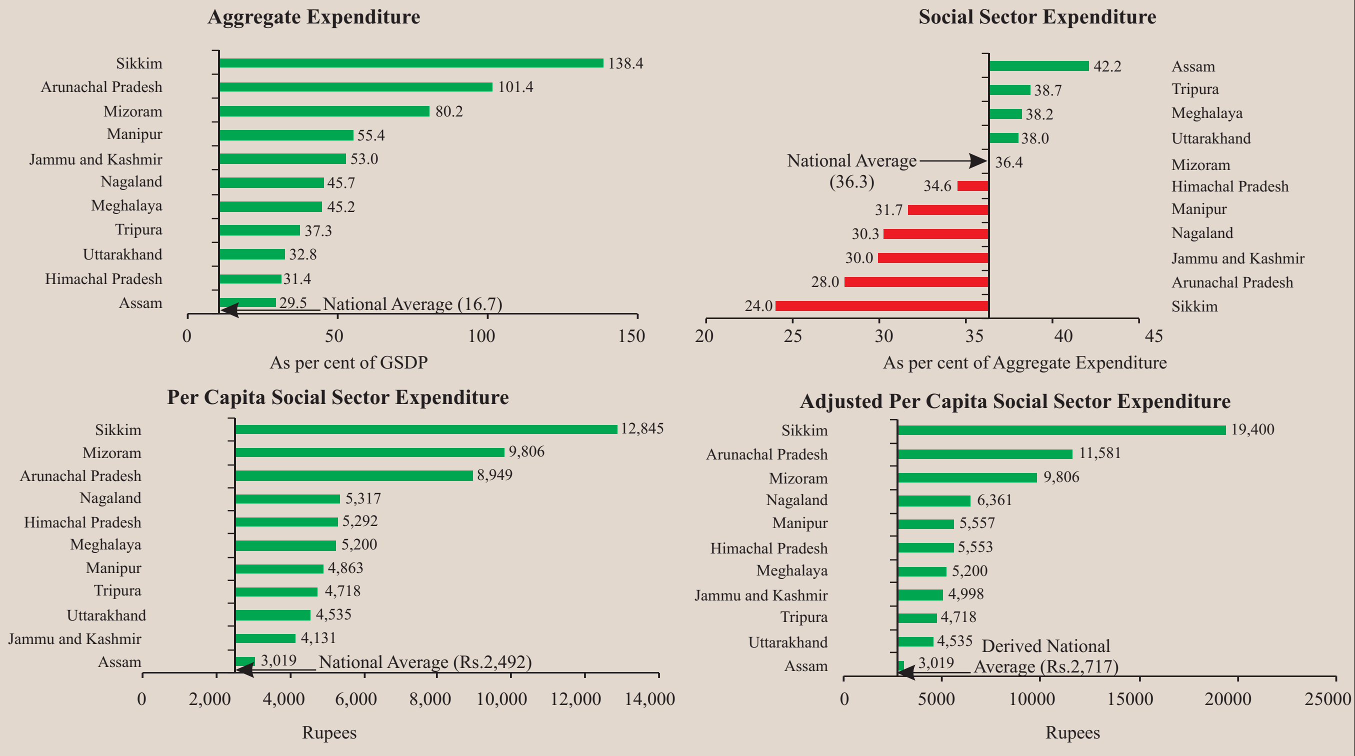
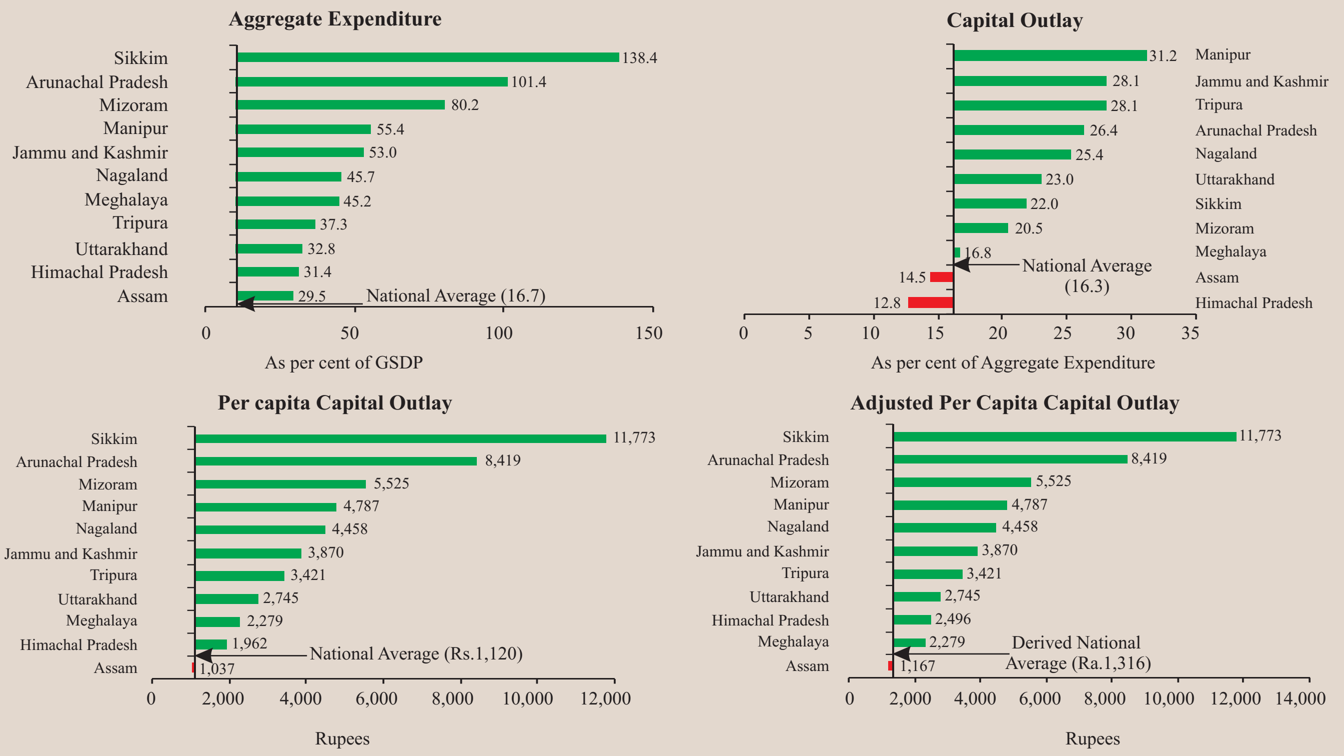


Chart 37: Capital Outlay in Special Category States – 2007-08 (RE)



special category States. However, in some of the States, inadequate fiscal capacity stands in the way of a quantum increase in these expenditure categories. In some other States, the low fiscal priority attached to these expenditure categories are leading to a lower per capita expenditure. Both the factors work together in some of the States resulting in a lower level of spending. It may be mentioned that in view of low per capita expenditure, the TFC recommended special grants for education and health sector to specific State Governments. With disparity in per capita development expenditure continuing to be wide across States, there may be merit in continuing with such special grants.

The analysis in this section points out that there exists wide variation in fiscal performance across the State Governments in spite of the noticeable improvement in the consolidated fiscal position of all States in the recent years. A number of fiscal reform measures have been undertaken by the State Governments during the past few years as highlighted in the case study of Orissa presented in Box 7. While some of State Governments have already achieved the TFC targets with regard to several indicators well ahead of the time frame, there are some other States where the fiscal correction is slow. It is clear that the correction in the revenue account and the consequent revenue surplus resulted in higher allocation of expenditure towards development and social sectors in almost all the States.

To conclude, some common elements such as implementation of VAT in *lieu* of State sales tax, enactment of FRLs (by twenty-six States), and consequent debt reliefs and higher devolution by the Centre to the States in terms of shareable taxes and grants based on recommendations of the TFC have facilitated the fiscal correction and consolidation process across the States. But State-specific fiscal conditions, including fiscal priority and low fiscal capacity also play important role in the fiscal restructuring design.

VI. OUTSTANDING LIABILITIES, MARKET BORROWINGS AND CONTINGENT LIABILITIES OF STATE GOVERNMENTS

The outstanding debt of the State Governments, which had grown to a high level in the first half of the current decade on account of large and persistent fiscal imbalances, has shown signs of improvement in the recent past. The contingent liabilities of States have also declined. States' reliance on market borrowings has increased on account of reduction in collections under NSSF and phasing out of loans from the Centre. This section analyses the outstanding liabilities, market borrowings, contingent liabilities and WMA/OD of the State Governments.

VI.1 Outstanding Liabilities[12]

VI.1.1 Magnitude

The structural weaknesses of the State finances manifested in large and persistent RD resulting in high GFD and large accumulation of debt and a concomitant increase in debt service burden. Between 1991 and 2004, the consolidated debt-GDP ratio of States increased by 10.7 percentage points to 33.2 per cent. The TFC recommended a target of 30.8 per cent for debt-GDP ratio and 15.0 per cent for IP/RR ratio to be achieved by 2009-10. The debt relief mechanism prescribed by the TFC, incentivised by adherence to rule-based fiscal regime helped to contain the magnitude of outstanding liabilities. From the peak

12 The outstanding liabilities of State Governments have been compiled from various sources, including Combined Finance and Revenue Accounts of the Union State Governments, Finance Accounts of Union Government, budget documents of the State Governments information obtained from Ministry of Finance, and Reserve Bank records.

Box 7: Fiscal Reforms – A Case Study of Orissa

In recognition of the need to improve the health of its finances, Orissa Government initiated a number of reforms. As a first step, the Government of Orissa disseminated all information relating to the fiscal problem through the publication of two white papers in 1999 and in 2001. The State discussed various aspects of fiscal problems with the different stakeholders in the workshops organised at the State/district level. In 1999 and 2001, the State signed Memorandum of Understanding (MoU) with the Government of India to implement an agreed set of reform measures. The State implemented Fiscal Responsibility Legislation in 2005 and formulated Medium Term Fiscal Plan with monitorable fiscal targets. The major reform measures initiated by the Government of Orissa fall into three categories, *viz*., revenue step-up measures, expenditure compression measures and staff rationalisation measures.

The revenue step-up measures included measures aimed at augmenting both tax and non-tax revenues. The State has introduced VAT with effect from April 1, 2005. It also implemented entry tax and tax on professions. The State has also undertaken rationalisation of tax rates and stamp duty and registration fees. The State has taken measures to check under-valuation of property to improve collection under stamp duty and registration fees and phase out exemptions under sales tax. Measures to improve tax administration such as computerisation of commercial taxes, on-line registration and e-filing of returns, computerisation of land records, *etc.,* were taken. Surveillance over movement of goods and vehicles and tracking of taxable transactions also received attention from the State Government. The State has introduced new excise policy. Measures to improve non-tax revenue included revision of water rates, time bound revision of water supply tariff and introduction of user charges in health, education and veterinary services.

Orissa Government introduced defined contributory pension scheme with effect from January 1, 2005 for the new recruits with a view to containing future outgo of pension. To curb the growing interest payment obligations, the State has swapped and bought back high cost debt and accessed low cost and concessional borrowings from external funding agencies through Government of India. The State Government has withdrawn the surrendered leave encashment with effect from April 1, 2002 and abolished non-practicing allowance for doctors with effect from November 1, 2003. The Government has introduced fast track mechanism for completion of infrastructure projects. The State also introduced self-financing courses in educational and technical institutions. The Government has attempted right sizing of man power through contractual appointment on consolidated salary as per requirement, abolition of vacant posts and identification of surplus manpower and their redeployment in areas where there is need for manpower. The Government has also initiated on-line verification of budgetary allocation to check excess expenditure and accounting and generating reports on-line for better monitoring of expenditure against targeted outlay. The State Government has also decided to stop extending subsidies to the power sector once the power sector reforms are over. The closure, privatization and restructuring of loss-making PSUs are also under the active consideration of the State Government.

The staff rationalisation measures initiated by the Government of Orissa included introduction of voluntary retirement scheme for State Government employees with effect from January 27, 2003 and restriction on fresh recruitments excepting doctors, nurses, primary school teachers, personnel in police, prison and fire services. Further, the new primary school teachers are being engaged as 'Sikhya Sahayak' at consolidated salary of Rs.3,000 on contractual basis.

The policy strategy in the medium term includes improvement of public expenditure management to ensure value for money and enhancement of accountability for public money through prompt response to audit observations and remedial measures. Linking outlay to outcome with quantifiable and monitorable physical and financial targets is under consideration. The State Government introduced efficient procurement and contract management system to speed up infrastructure projects. The State Government is planning to reduce the dependence on borrowings by keeping net borrowings at a low level and also aiming at debt restructuring to reduce interest burden and free fiscal space for development. In the medium term, the Government will also try to step up revenue surplus further in order to step up capital outlay. Larger funds for the development of social sector will also receive attention in the medium term.

Source:
Government of Orissa (2008), *Background Note for State Level Seminar on State's Memorandum to the 13th Finance Commission,* Bhubaneswar, October 17.

level of 33.2 per cent at end-March 2004, the debt-GDP ratio of State Governments came down to 28.3 per cent in 2007-08 (RE) and is budgeted at 27.4 per cent in 2008-09 (Table 26, Chart 38 and Appendix Tables 19-20).

VI.1.2 Composition of Debt

Outstanding debt of the States comprises internal debt (mainly market borrowings, special securities issued to NSSF loans from banks and financial institutions, and WMA and OD from the Reserve Bank), loans from the Centre, public accounts liabilities (including small savings, State provident funds, reserve funds and deposits and advances), and contingency fund.

The composition of outstanding liabilities of the State Governments shows a sharp decline in the share of loans from the Centre with an upsurge in the share of loans from NSSF, market borrowings and loans from banks and other financial institutions. Loans from NSSF will remain the dominant component (31.2 per cent) of outstanding liabilities during 2008-09 (BE), though its share has come down since 2007. This will be followed by market borrowing at 25.0 per cent in

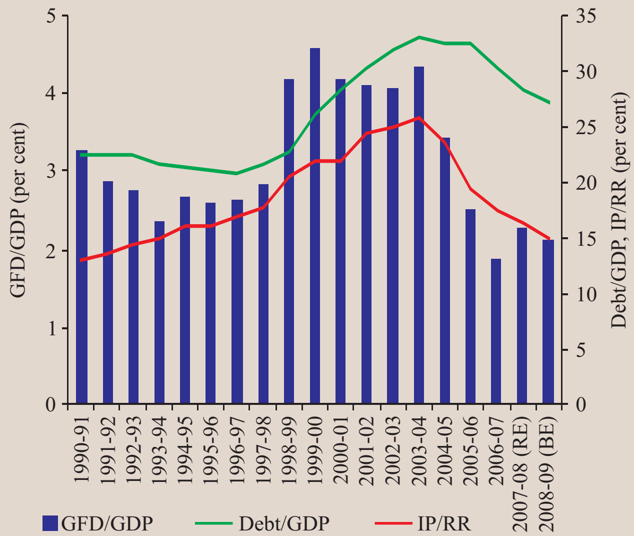
Table 26: Outstanding Liabilities of State Governments

Year (end-March)	Amount (Rs. crore)	Annual Growth	Debt /GDP
		(Per cent)	
1	2	3	4
1991	1,28,155	–	22.5
1992	1,47,030	14.7	22.5
1993	1,68,365	14.5	22.4
1994	1,87,875	11.6	21.7
1995	2,16,473	15.2	21.3
1996	2,49,535	15.3	20.9
1997	2,85,898	14.6	20.7
1998	3,30,816	15.7	21.7
1999	3,99,576	20.8	22.8
2000	5,09,529	27.5	26.1
2001	5,94,148	16.6	28.3
2002	6,90,747	16.3	30.3
2003	7,86,427	13.9	32.0
2004	9,13,376	16.1	33.2
2005	10,29,174	12.7	32.7
2006	11,67,866	13.5	32.6
2007	12,57,362	7.7	30.3
2008 (RE)	13,33,656	6.1	28.3
2009 (BE)	14,51,026	8.8	27.4

RE : Revised Estimates. BE : Budget Estimates.
'–' : Not applicable.
Source : 1. Budget Documents of the State Governments.
2. Combined Finance and Revenue Accounts of the Union and State Governments in India, CAG, GOI.
3. Ministry of Finance, Government of India.
4. Reserve Bank records.
5. Union Finance Accounts, GOI.

2008-09 (BE), which stood at 19.3 per cent in 2006-07 (Accounts). On the other hand, loans from the Centre, which formed 57.4 per cent of outstanding debt in 1991 declined substantially

Chart 38: Deficit, Debt and Interest Burden



GFD : Gross Fiscal Deficit GDP : Gross Domestic Product
IP : Interest Payments RR : Revenue Receipts

and are budgeted to contribute only 10.8 per cent during 2008-09 (BE). The share of public accounts in total liabilities has remained in the range of 25-30 per cent (Table 27 and Chart 39).

It may be mentioned that the budget documents of the State Governments do not provide sufficient details of their outstanding liabilities including the amounts under various categories and associated terms and conditions (such as rate of interest and maturity structure). This is particularly evident in the case of negotiated loans from banks

Table 27: Composition of Outstanding Liabilities of State Governments

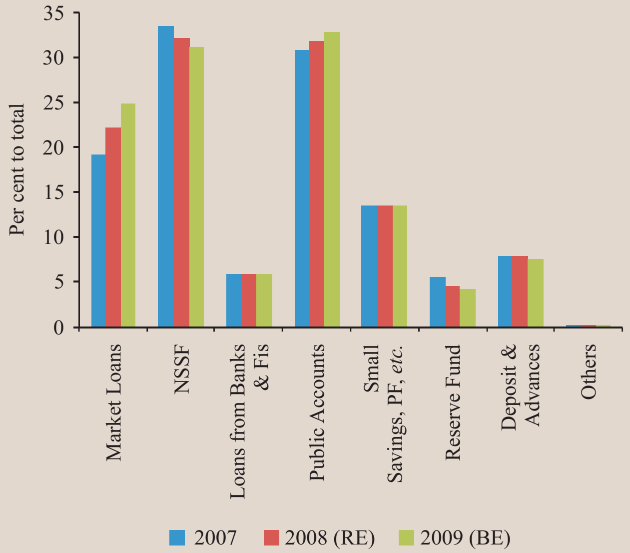
(As at end-March)

(Per cent)

Item	1991	2000	2005	2006	2007	2008 (RE)	2009 (BE)
1	2	3	4	5	6	7	8
Total Liabilities (1 to 4)	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
1. Internal Debt	15.0	24.8	57.8	59.8	61.1	62.5	63.7
of which:							
(i) Market Loans	12.2	14.8	20.7	19.6	19.3	22.4	25.0
(ii) Special Securities issued to NSSF	–	5.0	27.4	31.3	33.8	32.3	31.2
(iii) Loans from Banks and FIs	2.0	3.4	6.6	6.2	5.8	6.0	6.0
2. Loans and Advances from the Centre	57.4	45.2	15.6	13.4	11.7	11.3	10.8
3. Public Accounts (i to iii)	26.8	29.9	26.6	26.6	27.2	26.2	25.4
(i) Small Savings, State PF, *etc.*	13.2	15.8	14.2	13.8	13.6	13.8	13.5
(ii) Reserve Funds	3.7	3.9	5.1	5.4	5.6	4.6	4.3
(iii) Deposits and Advances	10.0	10.2	7.3	7.4	7.9	7.8	7.5
4. Contingency Fund	0.8	0.3	0.1	0.1	0.1	0.1	0.1

RE : Revised Estimates. BE : Budget Estimates.
'–' : Not applicable.
Source : Same as Table 26.

Chart 39: Composition of Outstanding liabilities
(As at end-March)



and financial institutions. Consequently, in-depth analysis of the debt position of the State Governments remains circumscribed. The detailed composition of outstanding liabilities of State Governments from 1990-91 to 2008-09 (BE) is presented in Appendix Tables 19 and 20, while the State-wise composition of outstanding liabilities is provided in Statements 26-28.

VI.1.3 State-wise Debt Position[13]

This section presents the State-wise variation in the level of debt among the non-special and special category States. The State-wise debt-GSDP position is presented in Table 28.

Table 28: State-wise Debt-GSDP Position

(Per cent)

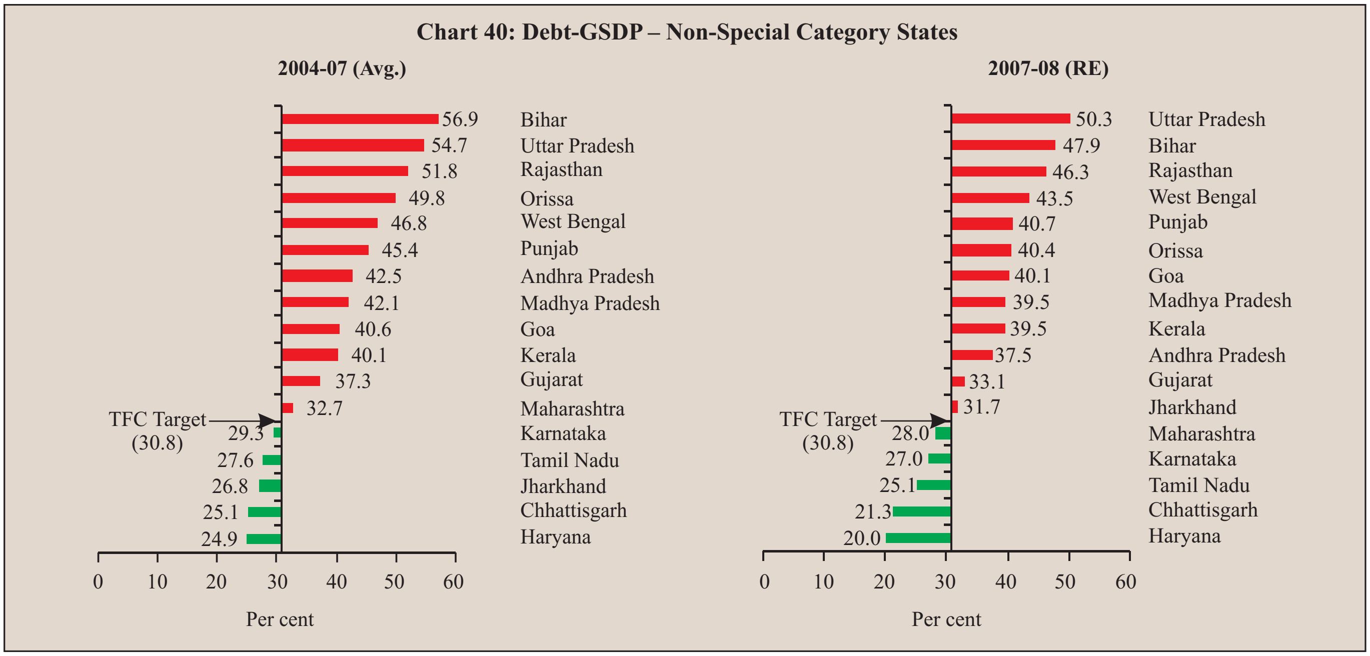
State	2004-07* (Avg.)	2007-08 (RE)
1	2	3
I. Non-Special Category		
1. Andhra Pradesh	42.5	37.5
2. Bihar	56.9	47.9
3. Chhattisgarh	25.1	21.3
4. Goa	40.6	40.1
5. Gujarat	37.3	33.1
6. Haryana	24.9	20.0
7. Jharkhand	26.8	31.7
8. Karnataka	29.3	27.0
9. Kerala	40.1	39.5
10. Madhya Pradesh	42.1	39.7
11. Maharashtra	32.7	28.0
12. Orissa	49.8	40.4
13. Punjab	45.4	40.7
14. Rajasthan	51.8	46.3
15. Tamil Nadu	27.6	25.1
16. Uttar Pradesh	54.7	50.3
17. West Bengal	46.8	43.5
II. Special Category		
1. Arunachal Pradesh	77.9	79.8
2. Assam	31.3	28.0
3. Himachal Pradesh	68.0	60.5
4. Jammu and Kashmir	67.2	70.5
5. Manipur	70.4	62.8
6. Meghalaya	40.2	39.4
7. Mizoram	115.6	104.8
8. Nagaland	46.5	43.5
9. Sikkim	70.7	72.2
10. Tripura	57.1	48.4
11. Uttarakhand	45.2	42.5
All States#	**31.8**	**28.3**
Memo Item:		
1. NCT Delhi	19.8	18.9
2. Puducherry	40.0	45.7

Avg. : Average. RE : Revised Estimates.
* : Data for Puducherry pertain to 2006-07.
\# : Data for All States is as per cent to GDP.
Source: Same as Table 26.

Non-Special Category States

Among non-special category States, Uttar Pradesh recorded the highest debt-GSDP ratio of 50.3 per cent followed by Bihar (47.9 per cent) and Rajasthan (46.3 per cent) in 2007-08 (RE). On the other hand, Haryana had the lowest debt-GSDP ratio of 20.0 per cent followed by Chhattisgarh (21.3 per cent) and Tamil Nadu (25.1 per cent) in 2007-08 (RE). Five State Governments, *viz*., Haryana, Chhattisgarh, Tamil Nadu, Karnataka, Maharashtra have already achieved the TFC target of debt-GSDP ratio of 30.8 per cent in 2007-08 (RE) (Chart 40). The debt-GSDP ratio witnessed a declining trend across the non-special category States, except Jharkhand, in 2007-08 (RE) over 2004-07 (Avg.). The debt-GSDP ratio of Jharkhand increased from 26.8 per cent in 2004-07 (Avg.) to 31.7 per cent in 2007-08 (RE). Orissa recorded the highest decline in the debt GSDP ratio, followed by Bihar and Rajasthan over the same period. The ratio of IP-RR, which has a bearing on the debt sustainability, was below the TFC target of 15.0 per cent in seven non-special category States in

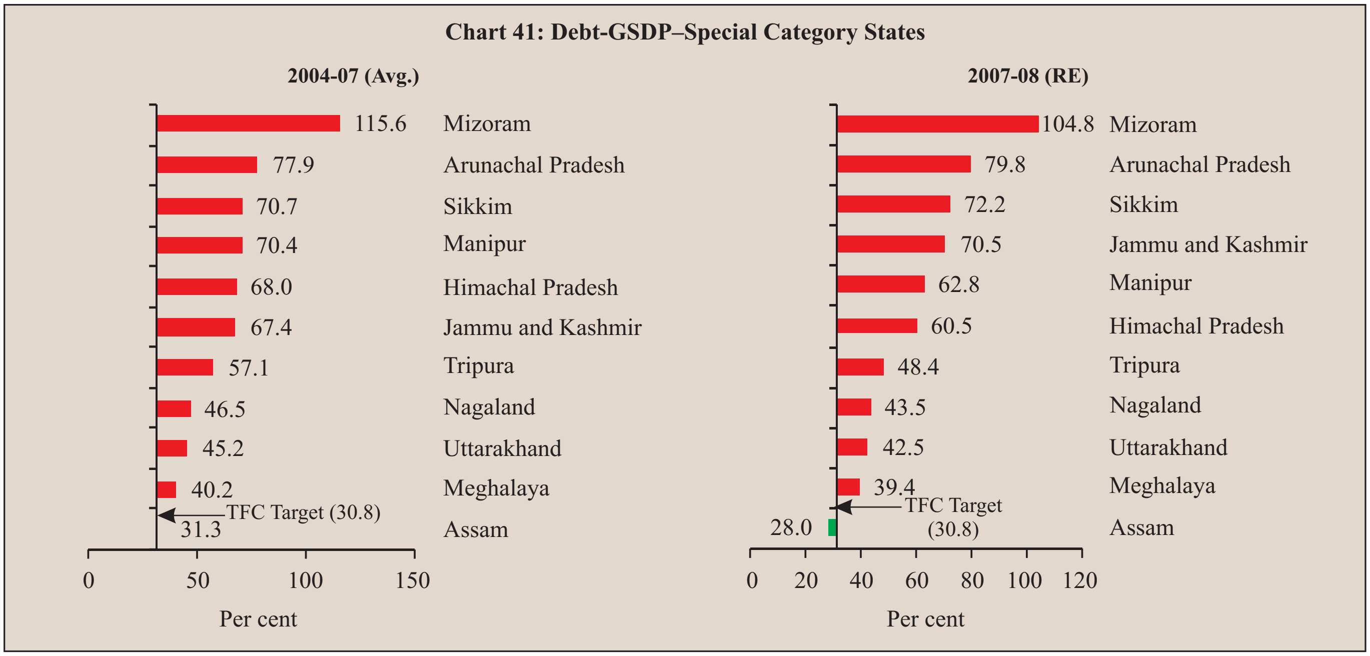
13 The detailed State-wise and component-wise break-up of outstanding liabilities are provided in Statements 26-28. The outstanding liabilities as at end-March 2000 of the three bifurcated States (Bihar, Madhya Pradesh and Uttar Pradesh) have been apportioned to the three newly formed States (Jharkhand, Chhattisgarh and Uttarakhand), respectively on the basis of their respective proportion of population.



2007-08 (RE). The IP-RR ratio for West Bengal was at 36.5 per cent in 2007-08 (RE) (refer to Chart 19).

Special Category States

The debt-GSDP ratio was comparatively higher for special category States than non-special category States. It was higher than the national average for all special category States except Assam. Mizoram recorded the highest debt-GSDP ratio of 104.8 per cent in 2007-08 (RE) followed by Arunachal Pradesh (79.8 per cent), Sikkim (72.2 per cent) and Jammu and Kashmir (70.5 per cent). Assam recorded the lowest debt-GSDP ratio of 28.0 per cent, followed by Meghalaya (39.4 per cent) in 2007-08 (RE). Among the special category States, only Assam has achieved the TFC target of debt-GSDP ratio of 30.8 per cent in 2007-08 (RE) (Chart 41). Except Arunachal Pradesh, Jammu and



Kashmir and Sikkim, all other special category States experienced a decline in the debt-GSDP ratio over the period 2004-07 (Avg.) to 2007-08 (RE). The debt-GSDP ratio of Arunachal Pradesh, Jammu and Kashmir and Sikkim, increased from 77.9 per cent, 67.4 per cent and 70.7 per cent in 2004-07 (Avg.) to 79.8 per cent, 70.5 per cent and 72.2 per cent in 2007-08 (RE) respectively. Mizoram experienced the highest decline in debt-GSDP ratio, followed by Tripura, Himachal Pradesh and Manipur in 2007-08 (RE) over 2004-07 (Avg.). The IP-RR ratio was below the TFC target of 15.0 per cent in all the special category States except Himachal Pradesh in 2007-08 (RE) (refer to Chart 25).

VI.2 Market Borrowings

VI.2.1 Consolidated Position

The State Governments issue dated securities of varying tenures (mostly 10 years' maturity) that are mostly subscribed by the banks and financial institutions. The share of market borrowings in the aggregate outstanding liabilities of State Governments gradually moved up from 14.8 per cent as at end-March 2000 to 20.7 per cent as at end-March 2005 (Table 27). The share of market borrowings in total outstanding debt declined to 19.4 per cent as at end-March 2007, but is budgeted to increase to 25.0 per cent in 2008-09. The greater reliance on market borrowings is due to decline in collections under NSSF. The recent developments relating to market borrowings of State Governments are presented in Box 8.

The share of high cost market loans (interest rate over 10.0 per cent) of State Governments declined further during 2007-08. As at end-March 2008, the share of outstanding stock with interest rate of 10 per cent and above declined to 18.4 per cent from 27.4 per cent as at end-March 2007 (Table 29). However, there was a decline in share of outstanding market loans with interest rate of less than 8 per cent from 62.6 per cent as at end-March 2007 to 54.3 per cent as at end-March 2008. There was a corresponding increase in share of outstanding market loans with interest rate ranging between 8-10 per cent from 10.0 per cent as at end-March 2007 to 27.3 per cent as at end-March 2008, reflecting the general upward movement in interest rates.

Table 29: Interest Rate Profile of Outstanding Stock of State Government Securities

(As at end-March)

Range of Interest Rate	Outstanding Amount (Rs. crore)		Percentage to Total	
	2007	2008	2007	2008
1	2	3	4	5
5.00-5.99	33,825	33,825	13.9	11.3
6.00-6.99	58,564	58,564	24.1	19.6
7.00-7.99	59,638	69,759	24.6	23.4
8.00-8.99	18,791	76,112	7.7	25.5
9.00-9.99	5,412	5,412	2.2	1.8
10.00-10.99	14,468	14,418	6.0	4.8
11.00-11.99	16,934	16,869	7.0	5.7
12.00-12.99	25,960	23,550	10.7	7.9
13.00-13.99	9,186	–	3.8	–
Total	**2,42,777**	**2,98,508**	**100.0**	**100.0**

'–' : Nil.
Source: Reserve Bank records.

VI.2.2 Allocation of Market Borrowings during 2008-09

The net allocations of market borrowings to the State Governments, as per Reserve Bank records, have increased steadily since 2002-03 (Table 30). The total net allocations increased sharply to Rs.69,015 crore during 2007-08 as compared with Rs.20,045 crore in the previous year on account of additional allocation[14] of Rs.35,780 crore due to NSSF shortfall. The net allocation under market borrowing programme for State Governments during 2008-09 is placed at Rs.57,103 crore. Taking into account repayments of Rs.14,371 crore, the gross allocation amounts to Rs.71,474 crore, showing a decline of 13 per cent over the previous year (Appendix Table 21). During 2008-09 (up to December 11, 2008), the

14 Additional allocation is sanction of market borrowings to State Governments during the course of the year in addition to the allocation made at the beginning of the financial year.

Box 8: Recent Developments in Market Borrowing Programme of the State Governments

Owing to the decline in the collections under NSSF, market loans have emerged as the most important source of financing the GFD of the State Governments. Market loans financed 58.9 per cent of GFD during 2007-08 (RE) as compared with 16.9 per cent during the previous year. In 2008-09, the market loans would be financing 56.7 per cent of GFD of the State Governments. During 2007-08, Government of India provided additional allocation of Rs.35,780 crore to States on account of shortfall in collections under the NSSF. Thus, in 2007-08, the gross allocation of market borrowings amounted to Rs.80,570 crore (including repayments of Rs.11,555 crore) as compared with Rs.26,596 crore (including repayments of Rs.6,551 crore) during the previous year. The gross allocation of market borrowings stands at Rs.71,474 crore during 2008-09. The State Governments raised 84.1 per cent of their gross allocation during 2007-08. During 2008-09 so far (up to December 11, 2008), the State Governments have raised 51.1 per cent of the gross allocation of market borrowings.

Since 2006-07, all the State Governments have been raising market loans through the auction route. The weighted average interest rate on market loans witnessed a rising trend during the recent years. The weighted average interest rate increased to 8.25 per cent in 2007-08 as compared with 7.49 per cent in 2002-03. In 2008-09, weighted average interest rate on market borrowings raised up to December 11, 2008 firmed up to 8.35 per cent. It may be noted that the weighted average interest rate ranges from 9.4 per cent for Mizoram to 7.0 per cent for Sikkim and Manipur during 2008-09 so far (up to December 11, 2008). The loans raised during 2007-08 had interest rates in the range of 7.84-8.90 per cent, while those raised during 2008-09 so far (December 11, 2008) were in the range of 6.95-9.90 per cent. West Bengal raised Rs.800 crore at the highest cut-off rate of 9.90 per cent in July 2008.

Four State Governments, *viz*., Chhattisgarh, Haryana, Orissa and Tripura did not participate in the market borrowing programme of the State Governments during 2007-08. On the other hand, twelve State Governments, *viz*., Arunachal Pradesh, Gujarat, Himachal Pradesh, Jammu and Kashmir, Kerala, Manipur, Meghalaya, Nagaland, Punjab, Rajasthan, Tamil Nadu and West Bengal raised 100 per cent of their gross allocation during 2007-08. Further, in 2007-08, in view of the large surplus cash balances and the negative spread earned on it, Orissa bought back 11 securities worth Rs.156 crore. In 2008-09 so far (up to December 11, 2008), twenty State Governments have participated in the market borrowing programme of the State Governments including Puducherry. thirteen State Governments including Puducherry have already raised more than 50 per cent of their respective gross allocation of market borrowings as on December 11, 2008.

In the 19th Conference of State Finance Secretaries held in January 2007, it was decided to introduce 'Non-Competitive Bidding Scheme' in the auctions of State Development Loans from next financial year 2007-08. A scheme for Non-Competitive Bidding Facility was incorporated in the Revised General Notification issued by all State Governments during July 2007. The scheme will be introduced as a part of the RBI-NDS Auction Module (Version 2) currently under development by the Clearing Corporation of India Ltd.

To bring in greater transparency in market borrowing programme of State Governments, in the Annual Policy Statement for the year 2006-07, the Reserve Bank proposed, *inter alia*, that 'States, at their discretion and initiative, would be encouraged to develop an advance indicative open market borrowing calendar'. After detailed discussions in the Conference of State Finance Secretaries, it was decided to disseminate information on borrowings of the State Governments. Accordingly, the Reserve Bank issued a press release titled 'Greater Transparency in Market Borrowing Programme of State Governments – 2007-08' on September 12, 2007 indicating net allocation, maturities, the amount raised till then and the balance to be raised during the remaining period of 2007-08. An attempt was also made to obtain period-wise borrowing requirements from the State Governments during 2007-08. On June 17, 2008, a press release titled 'Market Borrowing Programme of State Governments – 2008-09' detailing estimated gross requirements of market borrowings for the year 2008-09 was issued. The press release reiterated that 'the State Governments/Reserve Bank of India will have the flexibility to review the borrowing requirements and bring about modifications in the borrowings keeping in view the emerging requirements of the State Governments, market conditions and other relevant factors'.

References:

1. Reserve Bank of India (2007), 'Greater Transparency in Market Borrowing Programme of State Governments – 2007-08', *Press Release*, September 12.
2. ——— (2008), *Annual Report - 2007-08*.
3. ——— (2008), 'Market Borrowing Programme of State Governments – 2008-09', *Press Release*, June 17.

States have raised market loans amounting to Rs.36,551 crore (or 51.1 per cent of gross allocation) through auctions with a cut-off rate in the range 6.95-9.90 per cent.

The weighted average interest rate on market loans increased marginally to 8.35 per cent during 2008-09 (up to December 11, 2008) as compared with 8.25 per cent during 2007-08 (Table 31). In 2008-09 so far (up to December 11, 2008), the entire amount of market borrowings was raised through the auction route as in 2007-08.

VI.3 Liquidity Position and Cash Management

The revised scheme of WMA and OD for State Governments put in place in 2006-07 following the recommendations of the Advisory Committee on WMA and OD to State Governments (Chairman: Shri. M.P. Bezbaruah)

Table 30: Market Borrowings of State Governments

(Rs. crore)

Item	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09*
1	2	3	4	5	6	7	8
1. Net Allocation	12,722	12,767	13,969	16,112	17,242	28,781	49,439
2. Additional Allocation	6,422	4,893	3,236	3,522	2,803	40,234 #	7,664
3. Allocation under DSS	10,000	29,000	19,766	–	–	–	–
4. Total (1+2+3)	29,144	46,660	36,971	19,634	20,045	69,015	57,103
5. Repayments	1,789	4,145	5,123	6,274	6,551	11,555	14,371
6. Gross Allocation (4+5)	30,933	50,805	42,094	25,908	26,596	80,570	71,474
7. Amount raised under DSS	10,000	26,623	16,943	–	–	–	–
8. Amount raised to prepay RIDF loans	–	–	1,386	–	–	–	–
9. Total Amount Raised (i + ii)	30,853	50,521	39,101	21,729	20,825	67,779	36,551
(i) Tap Issues	27,880	47,626	38,216	11,186	–	–	–
(ii) Auctions	2,973	2,895	885	10,543	20,825	67,779	36,551
	(13)	(8)	(3)	(24)	(22	(21)	(20)
10. Net Amount Raised (9-5)	29,064	46,376	33,978	15,455	14,274	56,224	22,179
11. Net Amount Raised (other than DSS) (10-7)	19,064	19,753	17,035	15,455	14,274	56,224	22,179
12. Net Amount Raised (other than DSS & RIDF) (11-8)	19,064	19,753	15,649	15,455	14,274	56,224	22,179
Memo item:							
(i) Coupon/Cut-off Yield Range (%)	6.60-8.00	5.78-6.40	5.60-7.36	7.32-7.85	7.65-8.66	7.84-8.90	6.95-9.90
(ii) Weighted Average Interest Rate (%)	7.49	6.13	6.45	7.63	8.10	8.25	8.35
(iii) Average Maturity (in years)	10.00	10.05	10.01	10.00	10.00	10.00	10.00

* : Amount raised upto December 11, 2008. '–' : Nil/Not Applicable.

: Including additional allocation of Rs.35,780 crore in *lieu* of expected fall in NSSF.

DSS : Debt Swap Scheme. RIDF: Rural Infrastructure Development Fund.

Note : (i) Figures in brackets represent number of States opting for the auction route. Since 2006-07, all States have been raising market borrowings through the auction route.

(ii) Data on market borrowings as per RBI records may differ from that reported in the budget documents of the State Governments.

(iii) Data from 2007-08 are inclusive of Puducherry.

Source : Reserve Bank records.

was continued during 2007-08. The Reserve Bank entered into an agreement with the Government of the Union Territory of Puducherry effective December 17, 2007 for carrying out its general banking business and managing rupee public debt and its normal WMA limit was fixed at Rs.50 crore. The State-wise normal WMA limits for 2008-09 were reviewed. Accordingly, it was decided to retain the extant State-wise normal WMA limits of Rs.9,925 crore for 2008-09 (inclusive of Rs.50 crore for the Union Territory of Puducherry) (Table 32).

During 2008-09, the average utilisation of normal WMA, special WMA and overdrafts by the States remained low reflecting improvement in the overall cash position resulting in build-up of high level of surplus cash balances by most of the State Governments. The utilisation of WMA and overdraft (average of daily outstanding) by the States at Rs.389 crore during 2008-09 (up to November 30, 2008) was substantially lower than that of Rs.903 crore in the corresponding period of the previous year (Chart 42). During 2008-09 (up to November 30, 2008), six States availed of WMA for a period of 2-33 days, of which three States resorted to overdraft for a period ranging between 4-14 days (Statement 38). The availment of WMA was lower for the States like West Bengal and Kerala, among non-special category States and Nagaland among the special category States as compared with the previous year. However, the availment of WMA increased in some other States

Table 31: Yield on State Government Securities

Year	Yield Range (Per cent)	Weighted Average Yield (Per cent)	Amount Raised (Rs. crore)
1	2	3	4
1990-91	11.50	11.50	2,569
1991-92	11.50-12.00	11.82	3,364
1992-93	13.00	13.00	3,805
1993-94	13.50	13.50	4,145
1994-95	12.50	12.50	5,123
1995-96	14.00	14.00	6,274
1996-97	13.75-13.85	13.83	6,536
1997-98	12.30-13.05	12.82	7,749
1998-99	12.15-12.50	12.35	12,114
1999-00	11.00-12.25	11.89	13,706
2000-01	10.50-12.00	10.99	13,300
2001-02	7.80-10.53	9.20	18,707
2002-03	6.60-8.00	7.49	30,853
2003-04	5.78-6.40	6.13	50,521
2004-05	5.60-7.36	6.45	39,101
2005-06	7.32-7.85	7.63	21,729
2006-07	7.65-8.66	8.10	20,825
2007-08	7.84-8.90	8.25	67,778
2008-09*	6.95-9.90	8.35	36,551

* Up to December 11, 2008.
Source: Reserve Bank records.

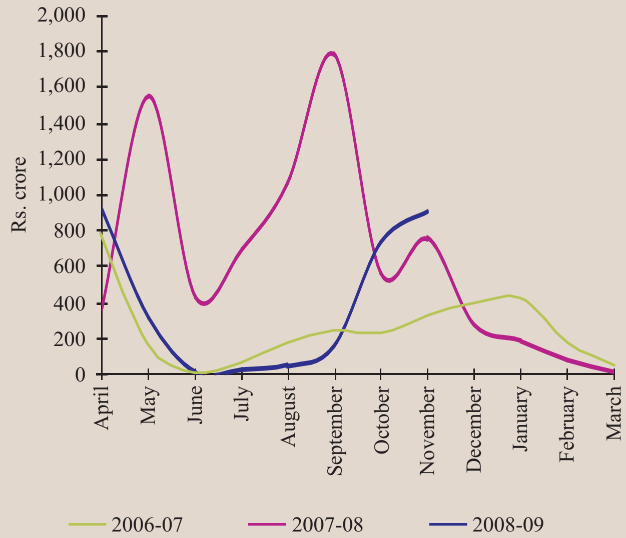
such as Punjab, and Uttarakhand during 2008-09 as compared with the previous year. Centre's (gross) WMA to the State Governments, as reported in the budget documents of the State Governments, has consistently declined from Rs.3,329 crore in 2002-03 (twelve States) to Rs.50 crore in 2007-08 (RE) (one State). However, it is budgeted to increase to Rs.360 crore in 2008-09 (two States). Assam among the special Category States and Kerala among the non-special Category States

Table 32: Normal WMA Limits – 1996 to 2008

Period	Amount (Rs. crore)
1	2
i. August 1996 to February 1999	2,234
ii. March 1999 to January 2001	3,941
iii. February 2001 to March 2002	5,283
iv. April 2002 to March 2, 2003	6,035
v. March 3, 2003 to March 31, 2004	7,170
vi. April 1, 2004 to March 31, 2005	8,140
vii. April 1, 2005 to March 31, 2006	8,935
viii. April 1, 2006 to March 31, 2007	9,875
ix. April 1, 2007 to March 31, 2008	9,925
x. April 1, 2008 to March 31, 2009	9,925

Source: Reserve Bank records.

Chart 42: Utilisation of WMA and Overdraft by State Governments
(Average of Daily Outstandings)



have budgeted for such advances during 2008-09 (Statement 39).

VI.4 Contingent Liabilities

State Governemets have been issuing guarantees and letters of comfort on behalf of PSUs and other institutions (including Urban Local Bodies) to enable them to raise resources to meet the requirements of public investment. This is primarily because the States are not in a position to provide budgetary support for such investments. Although contingent liabilities do not form part of the debt of States, in the event of default by the borrowing entities, the States will be required to meet the debt service obligations. At the same time, non-adherence to the payment obligations committed by the States in respect of guarantees provided by them would have adverse implications on the sovereign credibility. In view of the fiscal implications of rising level of guarantees, States have taken initiatives to place ceiling (statutory or administrative) on guarantees. Seventeen State Governments have so far fixed statutory/administrative ceilings on guarantees. Eleven States have set up GRF.

In terms of information made available by select State Governments, the outstanding guarantees of State Governments increased sharply from Rs.1,32,059 crore (6.8 per cent of GDP) as of end-March 2000 to Rs.2,19,658 crore (8.0 per cent of GDP) as at end-March 2004. The outstanding guarantees of State Governments have declined thereafter to Rs.1,54,183 crore (3.7 per cent of GDP) as at end-March 2007 (Table 33 and Statement 43).

VI.5 Assessment of Debt Position of State Governments

Apart from the magnitude of debt of State Governments, it is important to analyse various indicators that determine the sustainability of the debt. This section assesses the sustainability of debt of State Governments in terms of burden of interest payments and maturity pattern of State Government securities and issues arising in the context of liquidity management by the State Governments.

VI.5.1 Interest Payments

The ratio of IP-RR of the State Governments, which is an important indicator of debt sustainability, deteriorated sharply from 13.0 per cent in 1990-91 to 26.0 per cent in 2003-04, but declined thereafter to 16.4 per cent in 2007-08 (RE) partly due to interest benefit under the DSS (2002-03 to 2004-05) and partly due to declining interest rates. The high burden of interest payments tends to widen the RD and in turn, GFD. Consequently, a vicious circle of deficit, debt and interest payments gets created (refer to Chart 38). The TFC as per its suggested path of restructuring recommended that IP-RR ratio be gradually brought down to 15 per cent by all the States by the end of the final year (2009-10) of the award period.

Table 33: Outstanding Guarantees of State Governments

Year (end-March)	Amount (Rs. crore)	Percentage of GDP
1	2	3
1992	40,158	6.1
1993	42,515	5.6
1994	48,865	5.6
1995	48,479	4.8
1996	52,631	4.4
1997	65,339	4.7
1998	73,751	4.8
1999	79,457	4.5
2000	1,32,029	6.8
2001	1,68,719	8.0
2002	1,65,386	7.3
2003	1,84,294	7.5
2004	2,19,658	8.0
2005	2,04,426	6.5
2006 P	1,96,914	5.5
2007 P	1,54,183	3.7

P : Provisional.

Note : Data pertain to 17 States up to 2005,16 States for 2006 and 19 States for 2007.

Source : Information received from State Governments and Budget Documents of the State Governments.

There has been progressive reduction in the IP-RR ratio at the consolidated level with the IP/RR being budgeted at 15.1 per cent during 2008-09. The deceleration in the growth of debt in recent years is the manifestation of the efforts of the State Governments towards containing RD and GFD. The debt relief provided by the Centre to the States has facilitated in reining in the debt level in recent years. The impact of an array of initiatives taken by the State and Central Governments including DSS (*i.e.*, to prepay high cost debt to the Centre) is evident from the reduction in the average interest rate on outstanding debt of the State Governments from the peak level of 11.2 per cent in 1999-2000 to 10.2 per cent in 2003-04 and 8.1 per cent in 2008-09 (Table 34).

VI.5.2 Maturity Profile of State Government Securities

In terms of maturity profile of the outstanding stock of State Governments securities, about 44.9 per cent of the outstanding stock of State Government securities as at end-March 2008 belonged to the maturity bracket of 7 years and above, while 21.9 per cent was under 5-7 years bracket, and 33.1 per cent was below 5 years bracket (Table 35).

The maturity profile of market borrowings shows large repayment obligations from 2012-13 onwards due to high amount of borrowings during 2002-03 and 2004-05 under the DSS. The

Table 34: Average Interest Rate on Outstanding Liabilities of State Governments

(Per cent)

Year	Average Interest Rate*
1	2
1991-92	8.5
1992-93	9.0
1993-94	9.4
1994-95	10.3
1995-96	10.1
1996-97	10.2
1997-98	10.4
1998-99	10.7
1999-00	11.2
2000-01	10.0
2001-02	10.4
2002-03	10.0
2003-04	10.2
2004-05	9.5
2005-06	8.2
2006-07	8.0
2007-08 (RE)	8.2
2008-09 (BE)	8.1

RE: Revised Estimates. BE: Budget Estimates.

* : Worked out by dividing interest payments of the current year by outstanding debt of the previous year.

Source : Same as Table 26.

repayment obligations will be more than double in 2017-18 over the previous year on account of the large magnitude of borrowings during 2007-08 to meet the NSSF shortfall (Table 36) (also see Statements 34-35).

VI.5.3 Investment of Cash Balances

The State Governments continue to hold a large amount of surplus cash balances as reflected in their investments in 14-day Intermediate Treasury Bills (ITBs) and Auction Treasury Bills (ATBs). The weekly average investment by the States in 14-day ITBs and ATBs during 2008-09 (up to November 30, 2008) amounted to Rs.79,221 crore, higher than that of Rs.70,727 crore in the corresponding period of the previous year (Chart 43). The States earn a lower rate of return on these investments than their borrowed resources. Therefore, outstanding cash balances may have a negative effect on the revenue account.

VI.5.4 Debt Consolidation and Relief

The debt consolidation and relief facility (DCRF) put forward by TFC has two components – (i) a general scheme of debt relief applicable to

Table 35: Maturity Profile of Outstanding State Government Securities

(As at end-March 2008)

State	Per cent of Total Amount Outstanding				
	0-1 years	1-3 years	3-5 years	5-7 years	Above 7 years
1	2	3	4	5	6
1. Andhra Pradesh	6.11	12.80	19.86	18.71	42.53
2. Arunachal Pradesh	1.60	5.07	11.06	12.19	70.09
3. Assam	5.67	11.64	20.68	16.93	45.09
4. Bihar	6.85	12.99	25.61	24.16	30.39
5. Chhattisgarh	7.33	20.54	30.94	21.85	19.34
6. Goa	6.51	11.58	17.19	16.36	48.37
7. Gujarat	3.56	9.58	19.93	19.95	46.98
8. Haryana	6.13	12.84	23.57	34.84	22.63
9. Himachal Pradesh	2.70	8.44	18.64	22.43	47.78
10. Jammu & Kashmir	2.26	6.99	16.16	11.85	62.74
11. Jharkhand	5.24	9.94	19.51	18.52	46.79
12. Karnataka	6.95	16.76	24.22	33.35	18.72
13. Kerala	4.46	8.95	14.54	17.29	54.76
14. Madhya Pradesh	4.03	11.25	15.66	28.27	40.79
15. Maharashtra	2.87	6.51	9.21	25.67	55.75
16. Manipur	3.62	7.24	12.49	14.30	62.35
17. Meghalaya	5.77	11.98	14.87	12.27	55.12
18. Mizoram	3.58	8.35	19.32	10.11	58.65
19. Nagaland	4.68	12.41	17.50	12.81	52.59
20. Orissa	8.35	14.88	29.34	27.93	19.50
21. Punjab	3.14	7.73	12.10	22.76	54.27
22. Rajasthan	6.01	14.15	19.58	20.32	39.94
23. Sikkim	6.09	11.07	4.95	5.26	72.63
24. Tamil Nadu	3.93	10.50	18.14	21.82	45.61
25. Tripura	7.00	16.95	17.51	17.56	40.98
26. Uttarakhand	2.54	4.83	23.81	21.45	47.38
27. Uttar Pradesh	7.18	13.65	18.67	20.77	39.73
28. West Bengal	2.70	6.34	12.34	22.07	56.55
All States	**4.81**	**10.69**	**17.63**	**21.93**	**44.94**

Source: Reserve Bank records.

all States, and (ii) a write-off scheme linked to fiscal performance with a view to providing an incentive for achievement of revenue balance by 2008-09. The availment of DCRF is subject to the enactment of FRL, the quantum of reduction in RD in each successive year and the containment of GFD at the level of 2004-05. During 2007-08, twenty-one State Governments benefited from debt relief and twenty-five State Governments benefited from interest relief. The aggregate debt and interest relief given to the State Governments during 2007-08 amounted to Rs.4,812 crore and Rs.3,903 crore respectively. Three State Governments, *viz*., Jammu and Kashmir, Sikkim and West Bengal failed to receive either debt or interest relief during 2007-08 (Statement 48).

Table 36: Maturity Schedule of Outstanding State Development Loans and Power Bonds

(As at end-March 2008)

(Rs. crore)

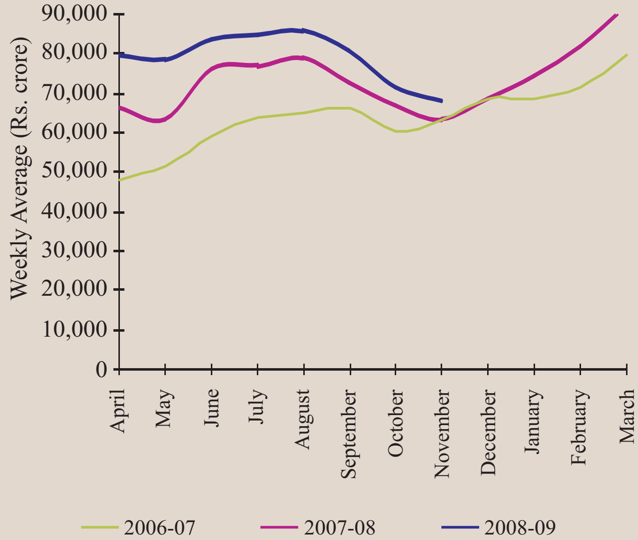
Year	State Development Loans	Power Bonds	Total
1	2	3	4
2008-09	14,371	1,453	15,825
2009-10	16,238	2,907	19,145
2010-11	15,660	2,907	18,566
2011-12	21,993	2,907	24,900
2012-13	30,628	2,870	33,498
2013-14	32,079	2,870	34,949
2014-15	33,384	2,870	36,254
2015-16	35,191	2,907	38,098
2016-17	31,522	1,453	32,975
2017-18	67,442	–	67,442
Total	**2,98,508**	**23,144**	**3,21,652**

'–' : Nil.

Source: Reserve Bank records.

Chart 43: Investments in 14-day Intermediate and Auction Treasury Bills by State Governments

(Average of Daily Outstandings)



VII. REVENUE RECEIPTS OF THE STATE GOVERNMENTS – TREND AND COMPOSITION

The finances of State Governments had deteriorated sharply during the 1990s on account of structural infirmities as reflected in persistent expansion in RD and GFD, rising share of committed but non-developmental expenditure, declining share of social sector expenditure, and low and declining non-tax revenues. Against this backdrop, the State Governments undertook fiscal reforms aimed at fiscal correction and consolidation, including progressive implementation of FRLs backed by incentive mechanism provided by the TFC and institutional reforms. The finances of the State Governments have shown noticeable improvement since 2003-04 supported by strong growth in their revenues.

Revenues receipts of the States can be broadly classified into tax and non-tax revenues. Tax revenues comprise States' own tax revenues and share in Central taxes, and non-tax revenues comprise States' own non-tax revenues and grants from the Centre. Under the existing federal fiscal structure, the States' rights to collect taxes are largely confined to indirect taxes, predominantly commodity taxes like sales tax and other indirect levies, such as State excise duties, service tax on entertainment, and tax on movement of passengers and goods. Direct taxes of the State Governments are basically limited to land revenue and agricultural income tax. The States undertook tax reforms aimed at simplification and rationalisation of both direct and indirect taxes and removing anomalies in the tax structure drawing mainly from the recommendations of various tax reform committees constituted at the State level. The positive impact of the tax reform process was reflected in the gradual improvement of the revenue collections from own tax revenues at the State level. On the non-tax front, the progress in reforms has been comparatively slower.

This section analyses the broad trend and pattern of revenue receipts of the State Governments since 1980-81. The analysis in this section focuses on own revenue receipts, both tax and non-tax, of the State Governments. It may be mentioned that fiscal transfers from the Centre to the State Governments were analysed in detail as a special theme in last year's study[15].

15 State Finance - A Study of Budgets of 2007-08, pp. 58-75, Reserve Bank of India, November 2007.

VII.1 Revenue Reforms at the State Level

After giving a snapshot of the tax structure in India, this section narrates the major revenue reforms that have taken place at the State Government level during the recent years. In order to meet the targets set out in the respective FRLs, the State Governments have undertaken intensive revenue reforms. As the own tax revenues of the States form the predominant component of the own revenue, tax reforms have been accorded priority at the State level.

VII.1.1 Tax Structure in India

The Seventh Schedule to the Constitution of India specifies revenue sources of the Centre and the States, respectively in the Union and State lists. In Indian federal set up, the major taxes such as income tax, corporation tax, custom duties, excise duties, *etc*. are assigned to the Central Government. The various taxes assigned to the State Governments are State sales tax/VAT, State excise, taxes on vehicles, stamps and registration fees, agricultural income tax, *etc*. The resultant skewness in the revenue raising powers of the Central Government and the State Governments is addressed through a system of inter-governmental transfers. The share in Central taxes, which is devolved from the Central Government to different State Governments through the Finance Commission is the most important channel of inter-Governmental transfers in India. Currently, as per the recommendations of the TFC, 30.5 per cent of the net tax collection of the Central Government devolves to the State Governments.

VII.1.2 Tax Reforms by State Governments

Tax reforms by the State Governments mainly focused on simplification and rationalisation of both direct and indirect taxes aimed at augmenting tax collections, removal of anomalies in the tax structure, improvement in tax administration and modernisation of tax collection process through computerisation.

The most significant tax reform that has been implemented by the State Governments relates to the introduction of VAT in *lieu* of State sales tax. Starting with Haryana in April 2003, all the State Governments have implemented VAT. Uttar Pradesh was the last State to implement VAT in January 2008. VAT has made the tax structure simpler by reducing the number of prevalent tax rates and by minimising tax concessions. The Central Government facilitated implementation of VAT by extending technical support. A compensation formula was devised for providing compensation by the Centre to the States for any loss on account of introduction of VAT. The transition to the new system was smooth at the State Government level. A related reform for successful functioning of VAT was phasing out of Central Sales Tax (CST). The CST is levied on inter-State trade in commodities. During the pre-VAT regime, CST was levied at the rate of 4 per cent. The rate of CST was reduced to 3 per cent with effect from April 1, 2007 and further to 2 per cent with effect from April 1, 2008. A compensation formula for providing compensation to the States for losses arising out of the phased elimination of CST was also worked out. Other steps initiated by the States to improve efficiency of VAT include audit assessment of VAT, denying input tax credit to dealers who have taken into account tax paid on inputs while fixing sale price, expediting refund of input tax credit to export-oriented units, simplification of VAT return form, and streamlining the procedure for payment of refund. On the tax front, a major area of reform would be the implementation of a comprehensive Goods and Services Tax (GST) with effect from April 1, 2010. GST will provide a rational system by subsuming State and Central level indirect taxes on goods and services.

State Governments have introduced several new taxes in the recent years aimed at enhancement of revenues, have widened the existing tax net, and increased the tax rate of several taxes. Some of the revenue enhancement measures include imposition of tax on resale of certified used cars by registered dealers (Goa), luxury tax on income of cable operators and rentals received by certain premises such as hotels, clubs, *etc*. (Kerala), 'Green Tax' on old vehicles to control air pollution and discourage their use (Rajasthan), luxury tax on hotels outside the Kolkata Metropolitan Planning Area (West Bengal), increase in excise duties and fees relating to liquor trade (Assam), increase in special road tax and profession tax covering all salaried employees (Himachal Pradesh), special entry tax for certain items (Karnataka), luxury tax on hotels and lodging houses and other luxury houses (Mizoram), and entry tax of Rs.100 per vehicle on vehicles with other than Goa registration (Goa). In an attempt to accelerate revenue collection, the State Governments have also imposed cess on various State taxes targeted towards specific expenditures like education and setting up of price stabilisation fund. Efforts have also been made to reduce the incidence of taxation and rationalise tax rates by reducing the number of slabs.

In addition to tax reforms, an integral part of reforms undertaken by the State Governments was measures to strengthen tax administration. Many State Governments such as West Bengal, Punjab, Assam, Manipur, Madhya Pradesh, Bihar, Jharkhand, Rajasthan and Uttarakhand have undertaken computerisation of treasuries/tax departments to bolster tax administration. Other steps include launching of website of the tax department containing all information related to taxes (Assam), setting up of integrated check post at nine places to make the tax collection process more systematic and transparent (Jharkhand), introduction of golden and silver card schemes offering special privileges to honest tax payers (Assam), setting up of new toll plaza in Lakhanpur to facilitate free movement of goods round the clock (Jammu and Kashmir), explicit provision for advance collection of tax on evasion-prone commodities and streamlining of commercial tax department (Kerala), simplification of tax administration (Karnataka), and facility for electronic payment of tax by dealers at their option (West Bengal). Few States including Bihar, Uttarakhand, Jharkhand and Assam have introduced self tax assessment scheme and simplified existing assessment system to bring in more transparency and compliance in tax administration. In order to ensure speedy recovery of outstanding dues under various State taxes, several State Governments (including West Bengal, Jammu & Kashmir, Gujarat, Assam, Karnataka and Kerala) have come out with different amnesty schemes and schemes like one-time settlement of arrears during the recent years.

The efforts of the State Governments to enhance tax revenues went alongside a number of concessions to provide incentives to specific sectors/industries. A wide range of exemptions/concessions have been provided by the States for life saving and other drugs (Arunachal Pradesh and Assam), entry tax on crude oil from refineries (Assam), entry tax on crude oil used in manufacture of petroleum products exported (Karnataka), entertainment tax (Bihar, Haryana, Jammu & Kashmir, Uttarakhand and Rajasthan), luxury tax on hotels (Jammu & Kashmir and West Bengal), profession tax for State Government employees (Himachal Pradesh), stamp duty on sale/purchase of securities (Maharashtra), revival of jute and tea industries (West Bengal), stamp duty for housing loan and educational loan documents (Maharashtra), stamp duty for registration of immovable property (Assam and Haryana), and stamp duty on movable properties (Rajasthan).

VII.1.3 Non-Tax Reforms by State Governments

The State Governments also undertook non-tax reforms in some key areas. The major areas of reform on the non-tax front include reforms in the power sector, restructuring of State-level PSUs and cost recovery by imposition/rationalisation of user charges. The imposition of user charges is a promising source for raising revenues depending upon the type of services being provided by the State Governments (Box 9).

Box 9: Cost Recovery from Public Services

The non-tax revenue of the State Governments consists of a wide range of receipts ranging from interest receipts on the loans provided by the State Governments, dividends and profits received by the State Governments, revenue from general services such as State lotteries, revenue from user charges imposed on different social and economic services provided by the State Governments. During the recent years, the revenue from user charges contributed more than 50 per cent of the total own non-tax revenue of the State Governments. However, it is well known that the user charges hardly finance the cost of providing these services (both social and economic) to the public. In the absence of firm data on cost recovery, the ratio of non-tax revenue to non-plan revenue expenditure is taken as a proxy for the cost recovery from these services. This ratio stands at 4.0 per cent for the social services and 32.3 per cent for economic services in 2007-08 (RE), indicating low cost recovery in respect of both these services. This brings out the urgent need for redesigning the system of user charges. However, there are several issues that need to be considered while raising user charges on these services.

The advocates of user charges argue that user charges will enable the State Governments to pass on the cost of providing the services either fully or partially to the public. This can prevent the financing of these services from the tax revenue of the Government, whose benefits accrue to specific individuals rather than the society as a whole. Illustratively, government water supply to the individual households can be charged based on a meter reading. Such a system once implemented may also prevent the wasteful usage of water by the households. The user charges are also useful in changing the mass consumer behaviour. For example, tolls on roads can be differentiated based on peak and off-peak hours. This will encourage the public to reduce the use of a particular road or bridge during the peak hours, thus, reducing congestion.

However, some other social services such as education and health provided by the Government, fall into the category of merit goods, which all the citizens can consume irrespective of their economic background. Further, the private sector is also equally active in providing these services to the public. However, the market-determined user charges as in the private hospitals and educational institutions may not be affordable to the poorer sections of population. Thus, providing quality education and health care to the poorer sections of population becomes a primary responsibility of the Government. The same argument applies to water supply also, where the water connection to below poverty line households needs to be subsidised. Thus, in addition to identifying specific individual beneficiaries, the Government may also have to differentiate the beneficiaries based on their economic background.

In the case of economic services where the service such as power is used to generate profit, Government should impose market determined user charges. This can finance the expenditure for providing that particular service to the public. Further, if the Government is providing pure private goods to the public, it should impose market determined user charges to compete qualitatively with the private sector. Since the user charges are a quid-pro-quo receipt, the maximum amount collected through the user charges should not be more than the cost of providing services to the public. The entire money collected through user charges should be spent on that particular service and should not be diverted to finance other expenditure of the Government. The user charges should also be linked to the quality of service provided to the public to make it more acceptable.

References:

1. Das-Gupta, Arindam (2005), ‘Non-Tax Revenues in Indian States: Principles and Case Studies’, Paper prepared for Asian Development Bank, ‘Policy Research Networking to Strengthen Policy Reform’.
2. National Conference of State Legislatures – The Forum for America’s Ideas (1999), *The Appropriate role of User Charges in State and Local Finance*, July.

A number of State Governments such as Bihar, West Bengal, Punjab, Karnataka, Tripura and Jammu and Kashmir embarked on power sector reforms to reduce losses and power theft and thereby improve revenues from this sector. Uttar Pradesh has set up a new power trading company in the area of electricity distribution. Few State Governments such as Meghalaya, Manipur, Punjab and Himachal Pradesh proposed to rationalise the structure of user charges. Sikkim introduced all feasible user charges while taking steps for qualitative improvement in the standard of services. Meghalaya proposed to reduce the implicit subsidies offered to the different sectors of the economy. Tamil Nadu proposed to review all non-tax revenue sources and take initiatives towards adequate cost recovery of services. Kerala has introduced a package to reduce the losses of Kerala State Road Transport Corporation.

Several States have taken specific measures to increase non-tax revenue. Himachal Pradesh increased the electricity duty for all categories of consumers and imposed additional duty on power-intensive industries. Jammu and Kashmir increased water and irrigation rates to align it with expenditures. The State has also intensified efforts to recover arrears of power tariff and water charges payable by the Government departments and municipal bodies and private entities. Meghalaya proposed to introduce registration fees in a few select veterinary hospitals. Mizoram imposed tolls on roads and bridges and water cess in selected areas on minor irrigation. It has also decided to assess water charges based on meter reading. Meghalaya imposed limited water user charges on water available for irrigation. Goa levied an energy cess of 0.5 per cent on the gross electricity consumption to those consuming more than 500 units per month.

The State Governments also took institutional measures to improve non-tax revenue. Haryana constituted a Committee to address the issue of pending power dues from farmers. Himachal Pradesh set up a Power Tariff Commission for various services such as transport, education, health, water, irrigation, *etc*. Nagaland has set up an Independent Pricing Tribunal and Regulatory Authority for rendering justice in determining the due rates of costs/prices of goods and services delivered to the people. Jammu and Kashmir has set up a four-member Ministerial Committee to review the progress of collection of non-tax revenues on a quarterly basis. Karnataka has set up a Revenue Reforms Commission to review the tax and non-tax revenue sources of the Government.

Along with taking measures to improve non-tax revenue, the State Governments granted subsidies and concessions to specific sectors. Some measures which have a bearing on the non-tax revenue collection are the following: Andhra Pradesh extended additional subsidy for supply of free power to farmers. The outstanding arrears of farmers have also been waived. The State has also extended power subsidy to newly established industries, ferro alloys industry and other sectors. Gujarat also provided full exemption from electricity duty to the farmers. Assam exempted household sector from payment of electricity duty on generation of power through generator sets. Goa has extended subsidy of 25 per cent for purchase of power tillers, electric water pump and cost for laying down water conveying pipes. Jammu and Kashmir proposed an amnesty scheme for the liquidation of arrears of power dues. Karnataka extended free power within a limit to certain category of customers. The State has also decided to provide free power to large number of households under Dalit Basti Scheme. Further, the State has waived power bill arrears of all the Bhagya Jyothi and Kutira Jyothi BPL households pending as on March 31, 2006 subject to metering of the connection. Haryana has remitted the arrears of power bills of all farmers in order to enable payment of current bills. Himachal Pradesh provided subsidy to Himachal Pradesh State Electricity Board to provide power at the old tariff rate. Gujarat has reduced the electricity charges across the large sections of consumers. Tamil Nadu extended 50 per cent subsidy for small and marginal farmers taking up drip and sprinkler irrigation systems. The State has also decided to supply power free of cost to 2,40,000 agricultural connections given under the self-financing scheme, 100 units bi-monthly to handloom weavers who are having their own worksheds and are engaged in weaving and 500 units bi-monthly to the power loom weavers who run their own powerlooms. West Bengal reduced duty on energy produced from generating sets to provide relief to industries with captive generation plants. Punjab has enhanced the entitlement of free domestic power to SC families from 50 units to 200 units per month. Rajasthan proposed to exempt captive power generation from paying of duties on electricity to encourage industries in the State. Orissa provided free water supply for Lift Irrigation Scheme.

VII.2 Revenue Receipts of State Governments - Trend and Composition

The State Governments achieved a revenue surplus at the consolidated level in 2006-07 (Accounts) after a gap of two decades. Augmentation of revenue receipts is a major contributory factor for the emergence of revenue surplus. The revenue receipts of the States as a ratio to GDP increased to 12.9 per cent during 2005-09 from an average of 11.0 per cent during 1980-85 and 10.7 per cent during 1995-00 (Table 37 and Appendix Table 24). Broadly, own tax revenue as well as current transfers (including tax devolutions

Table 37: Revenue Receipts of State Governments

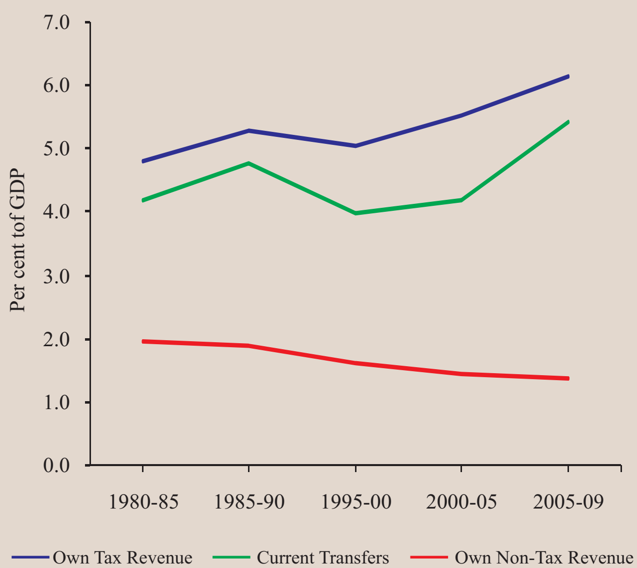
(Per cent to GDP)

Year (Average)	Own Revenue			Current Transfers			Revenue Receipts
	Own Tax Revenue	Own Non-Tax Revenue	Own Revenue	Share in Central Taxes	Grants from the Centre	Total Current Transfers	
1	2	3	4=2+3	5	6	7=5+6	8=4+7
1980-85	4.8	1.9	6.8	2.4	1.8	4.2	11.0
1985-90	5.3	1.9	7.2	2.6	2.2	4.8	12.0
1990-95	5.3	1.8	7.2	2.6	2.3	4.8	12.0
1995-00	5.1	1.6	6.7	2.4	1.6	4.0	10.7
2000-05	5.6	1.4	7.0	2.4	1.8	4.2	11.2
2005-09	6.1	1.4	7.5	3.0	2.4	5.4	12.9

Source: Budget Documents of the State Governments.

and grants) from the Centre show a rising trend, during the last three decades, while the non-tax revenue of States shows a declining trend (Chart 44). The average own tax revenue of States registered a marked improvement from 4.8 per cent of GDP in 1980-85 to 6.1 per cent of GDP in 2005-09. On the other hand, there was a gradual deterioration in own non-tax revenue. Current transfers from the Centre declined, on an average, from 4.8 per cent of GDP during 1985-90 to 4.0 per cent of GDP during 1995-2000, but improved to 5.4 per cent of GDP during 2005-09. However, States' non-tax revenue declined from an average of 1.9 per cent of GDP in 1980-85 to 1.6 per cent in 1995-00 and further to 1.4 per cent during the current decade. It may be noted that during the last three decades, own revenue, on an average, constituted around 60 per cent of the revenue receipts of the States, while current transfers constituted around 40 per cent. Thus, the revenue performance of the States depends on their own efforts as well as buoyancy of the Central taxes and other transfers.

Chart 44: Trend in Major Components of Revenue Receipts



VII.2.1 Own Tax Revenue – Trend and Composition

The main sources of own tax revenue (OTR) of the State Governments are direct taxes like agricultural income tax, profession tax, taxes on property and capital transactions, and indirect taxes on commodities and services including VAT, State excise, taxes on vehicles, entertainment tax, *etc*. OTR as a ratio to GDP showed a steady improvement from the average level of 5.1 per cent during 1995-00 to 6.1 per cent during 2005-09, substantially higher as compared to average level of 4.8 per cent in the first half of 1980s. The own tax collection of States had deteriorated in the second half of the 1990s mainly on account of deceleration in taxes on commodities and services. The share in Central taxes also witnessed some slowdown during this period. It may be emphasised that the augmentation in OTR in the current decade took place mainly on account of improved revenue generation from States' sales tax/VAT and stamp and registration fees. Taxes on commodities and services, on an average, increased to 5.2 per cent of GDP in 2005-09 from 4.5 per cent of GDP during 1995-00. Component-wise, State sales tax/VAT witnessed a rising trend, State excise showed a downward trend, while taxes on vehicles almost stagnated at around 0.3 per cent of GDP. One of the major constraints in improving OTR of States is the performance of taxes on income, which stagnated at less than 0.1 per cent of GDP during the past three decades. However, taxes on property and capital transactions performed better after the second half of the 1990s mainly on account of better performance of stamp and registration fees, which doubled to 0.8 per cent of GDP in 2005-09 from 0.4 per cent of GDP in the 1990s (Table 38).

Taxes on commodities and services form the major component of OTR of the States. However, taxes on commodities and services as a ratio to OTR showed a declining trend and averaging at 84.8 per cent during 2005-09 as compared with 90.1 per cent during 1980-85, mainly due to the decline in share of State excise and taxes on vehicles. The contribution of State sales tax/VAT in OTR shows a gradual increase to 50.4 per cent during 2005-09 from 42.7 per cent during 1980-85. It may be noted that stamps and registration fees as a ratio to OTR witnessed a steady increase over the three decade period and more than doubled to 12.7 per cent during 2005-09 as compared with 6.1 per cent during 1980-85. The share of taxes on income and land revenue in OTR remained miniscule (Table 39 and Chart 45).

Taxes on property and capital transactions include land revenue, stamp and registration fees and urban immovable property tax. Stamps and registration fees contributed 90.2 per cent of revenue from taxes on property and capital transactions during 2005-09 as compared with 72.5 per cent during 1980-85. The improvement in collections under this head reflects the upturn in real estate industry (Table 40).

Taxes on commodities and services comprise State sales tax/VAT, State excise, taxes on vehicles, taxes on goods and passengers, electricity duty, entertainment tax and other taxes

Table 38: Trend in Own Tax Receipts

(Per cent to GDP)

Item	1980-85	1985-90	1990-95	1995-00	2000-05	2005-09
			(Average)			
1	2	3	4	5	6	7
A. Direct Taxes (a + b)	**0.48**	**0.56**	**0.60**	**0.60**	**0.70**	**0.94**
a. Taxes on Income	0.07	0.08	0.09	0.08	0.09	0.07
of which:						
Taxes on Professions, Trades and Employment	0.05	0.06	0.07	0.07	0.09	0.07
b. Taxes on Property and Capital Transactions	0.40	0.48	0.51	0.53	0.60	0.87
of which:						
Land Revenue	0.11	0.13	0.10	0.07	0.07	0.08
Stamps and Registration Fees	0.29	0.34	0.41	0.45	0.53	0.78
B. Indirect Taxes - Taxes on Commodities and Services	**4.34**	**4.74**	**4.74**	**4.45**	**4.85**	**5.21**
of which:						
State Sales Tax/VAT	2.06	2.41	2.41	2.35	2.62	3.10
State Excise	0.67	0.76	0.81	0.69	0.71	0.72
Taxes on Vehicles	0.28	0.31	0.29	0.30	0.33	0.33
C. Own Tax Revenue (A+B)	**4.82**	**5.30**	**5.34**	**5.05**	**5.55**	**6.15**
D. Share in Central Taxes	**2.42**	**2.63**	**2.57**	**2.43**	**2.39**	**2.98**
E. Total Tax Revenue (C+D)	**7.24**	**7.93**	**7.91**	**7.48**	**7.94**	**9.13**

Source: Budget Documents of the State Governments.

Table 39: Composition of Own Tax Receipts

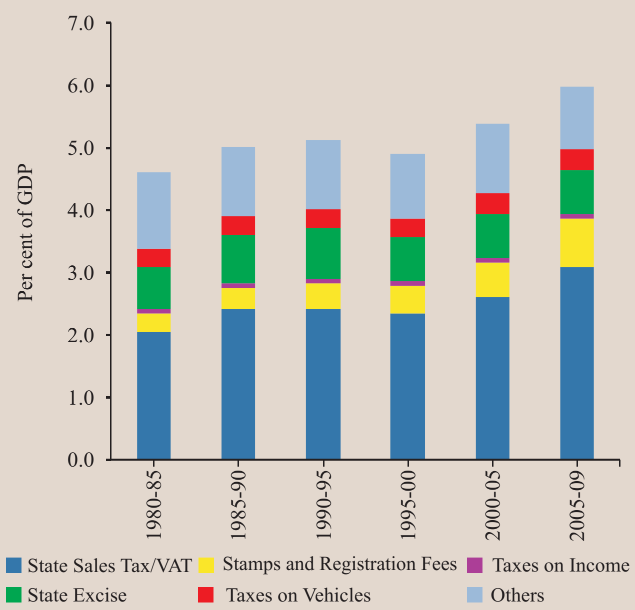
(Per cent to total)

Item	1980-85	1985-90	1990-95	1995-00	2000-05	2005-09
			(Average)			
1	2	3	4	5	6	7
A. Direct Taxes (a + b)	**9.9**	**10.6**	**11.3**	**11.9**	**12.6**	**15.2**
a. Taxes on Income	1.5	1.6	1.6	1.5	1.7	1.1
of which:						
Taxes on Professions, Trades and Employment	0.9	1.1	1.2	1.3	1.7	1.1
b. Taxes on Property and Capital Transactions	8.4	9.0	9.6	10.4	10.9	14.1
of which:						
Land Revenue	2.2	2.5	1.8	1.5	1.3	1.3
Stamps and Registration Fees	6.1	6.4	7.8	8.8	9.5	12.7
B. Indirect Taxes - Taxes on Commodities and Services	**90.1**	**89.4**	**88.7**	**88.1**	**87.4**	**84.8**
of which:						
State Sales Tax/VAT	42.7	45.5	45.1	46.5	47.3	50.4
State Excise	14.0	14.4	15.2	13.7	12.9	11.7
Taxes on Vehicles	5.8	5.8	5.4	5.9	6.0	5.4
C. Own Tax Revenue (A+B)	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: Budget Documents of the State Governments.

and duties. The share of sales tax under this head witnessed a steady increase to 71.6 per cent during 2005-09 as compared with 64.8 per cent during 1980-85 mainly on account of improved performance of State sales tax/VAT. The share of State excise, which contributed around 17.1 per cent during 1990-95 per cent declined to 13.8 per cent during 2005-09. The share of taxes on vehicles increased to 6.9 per cent during 2000-05 from 6.4 per cent during 1980-85, but declined to 6.3 per cent during 2005-09 (Table 41).

Chart 45: Major Components of Own Tax Revenue



Recognising the need for strengthening their finances, States have initiated several measures towards enhancement/restructuring of various taxes, such as vehicle tax, entertainment tax, sales tax, electricity duty, *etc*.

VII.2.2 Own Non-Tax Revenue – Trend and Composition

The non-tax revenue of State Governments includes interest receipts, dividends and profits, earnings by way of user charges from various social, economic and other services. The own non-tax revenue (ONTR) of States as ratio to GDP has gradually declined from 1.9 per cent during the 1990s to 1.4 per cent in the current decade (Table 42). All the components of ONTR either showed a declining trend or stagnated at the lower levels. Economic services, which are the main contributor to ONTR, showed a declining trend and stagnated at the level of 0.6 per cent of GDP since 1995-00 mainly due to poor recoveries from power, road and industries. Interest receipts

Table 40: Composition of Taxes on Property and Capital Transactions

(Per cent to total)

Item	1980-85	1985-90	1990-95	1995-00	2000-05	2005-09
	(Average)					
1	2	3	4	5	6	7
Taxes on Property and Capital Transactions (i+ii+iii)	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
i. Land Revenue	26.6	27.6	18.8	14.0	12.4	9.3
ii. Stamps and Registration Fees	72.5	71.7	80.4	85.1	87.0	90.2
iii. Urban Immovable Property Tax	0.9	0.7	0.8	0.9	0.6	0.5

Source: Budget Documents of the State Governments.

also showed a declining trend and stood at 0.3 per cent of GDP in 2005-09. Recovery from social services stagnated at the level of around 0.1 per cent of GDP, while that from general services declined to 0.3 per cent of GDP in the current decade from 0.4 per cent during 1990s.

Looking at the contribution of various heads to ONTR, it may be observed that the share of recoveries from economic and social services increased in the current decade after a sharp decline during the 1990s. The share of economic services improved to 45.7 per cent during 2005-09 from the average of 37.4 per cent during 1995-00. However, it was still lower than the average of 51.1 per cent during 1985-90 (Table 43 and Chart 46). The share of social services in ONTR collections increased to 9.6 per cent during 2005-09 from 5.9 per cent during 1990-95. The share of general services increased to 24.3 per cent during 2005-09 from 12.1 per cent during 1985-90.

Within social services, the contribution of recovery from expenditure on urban development improved substantially to 34.0 per cent during 2005-09 from average of 6.0 per cent during 1990-95. However, the share of recovery from provision of medical and public health declined from 31.0 per cent during 1990-95 to 14.5 per cent during 2005-09. The contribution of recovery from water supply and sanitation increased during 1990-95, but declined thereafter (Table 44).

The major heads of revenue from economic services are industries, power, forestry and wild life.

Table 41: Composition of Taxes on Commodities and Services

(Per cent to total)

Item	1980-85	1985-90	1990-95	1995-00	2000-05	2005-09
	(Average)					
1	2	3	4	5	6	7
Taxes on Commodities and Services (i to vii)	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
i) Sales Tax	64.8	64.9	66.3	67.2	69.3	71.6
of which:						
State Sales Tax/VAT	47.4	50.9	50.8	52.8	54.1	59.5
Central Sales Tax	12.1	10.8	11.7	9.2	9.1	7.5
Sales Tax on Motor Spirit and Lubricants	2.7	2.6	3.1	4.7	4.3	3.0
ii) State Excise	15.5	16.1	17.1	15.6	14.7	13.8
iii) Taxes on Vehicles	6.4	6.5	6.1	6.7	6.9	6.3
iv) Taxes on Goods and Passengers	4.7	4.1	3.6	2.7	3.0	3.2
v) Taxes and Duties on Electricity	3.8	4.9	4.7	4.5	4.4	3.9
vi) Entertainment Tax	3.9	2.3	1.3	0.9	0.7	0.3
vii) Other Taxes and Duties	1.0	1.2	1.0	2.3	1.1	0.9

Source : Budget Documents of the State Governments.

Table 42: Trends in Own Non-Tax Receipts

(Per cent to GDP)

Item	1980-85	1985-90	1990-95	1995-00	2000-05	2005-09
	(Average)					
1	2	3	4	5	6	7
Own Non-Tax Revenue (a to f)	**1.95**	**1.87**	**1.84**	**1.62**	**1.42**	**1.36**
a. Interest Receipts	0.52	0.53	0.57	0.49	0.36	0.27
b. Dividends and Profits	0.01	0.01	0.01	0.01	0.01	0.01
c. General Services	0.30	0.23	0.38	0.41	0.34	0.33
d. Social Services	0.18	0.14	0.11	0.10	0.11	0.13
e. Fiscal Services	–	–	–	–	–	–
f. Economic Services	0.94	0.96	0.78	0.60	0.60	0.62
of which:						
Forest and Wild Life	0.36	0.28	0.18	0.11	0.07	0.06
Power	0.03	0.04	0.03	0.04	0.06	0.10
Industries	0.06	0.27	0.27	0.25	0.24	0.28
Irrigation	0.06	0.05	0.04	0.03	0.03	0.04
Road	0.06	0.05	0.04	0.04	0.03	0.02

'–' : Nil/Negligible.
Source: Budget Documents of the State Governments.

The contribution of industries increased substantially to 45.1 per cent during 2005-09 from 6.2 per cent during 1980-85. Similarly recovery from power increased to 16.1 per cent in 2005-09 from the low level of 3.0 per cent in 1980-85. On the other hand, a gradual decline was observed in the contribution of forest and wildlife from 37.7 per cent in 1985-90 to 8.9 per cent in 2005-09 (Table 45).

The State Governments account for nearly three-fourth of total spending on social services and more than half of the total spending on economic services provided by the public sector. User charges recovered from such services are much lower as compared with spending on such heads. Apart from low user charges on the services rendered by the Government, the sluggishness in non-tax revenue also arises from inadequate returns on public investment. States have undertaken measures to enhance non-tax revenues by reviewing/ rationalising the royalties payable to them, including

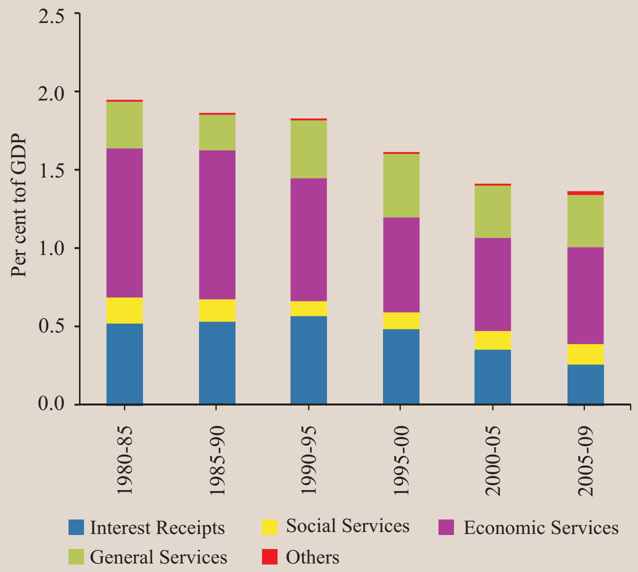
Table 43: Composition of Own Non-Tax Receipts

(Per cent to total)

Item	1980-85	1985-90	1990-95	1995-00	2000-05	2005-09
	(Average)					
1	2	3	4	5	6	7
Own Non-Tax Revenue (a to f)	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
a. Interest Receipts	26.8	28.6	30.7	30.7	25.3	19.5
b. Dividends and Profits	0.6	0.4	0.5	0.5	0.7	0.9
c. General Services	14.8	12.1	20.1	25.0	23.7	24.3
d. Social Services	9.1	7.7	5.9	6.3	8.0	9.6
e. Fiscal Services	–	0.1	–	–	–	–
f. Economic Services	48.8	51.1	42.8	37.4	42.2	45.7
of which:						
Forest and Wild Life	18.3	15.0	9.9	6.7	5.0	4.1
Power	1.4	2.2	1.9	2.4	4.4	7.4
Industries	3.0	14.3	14.7	15.2	17.1	20.6
Irrigation	2.9	2.7	2.3	1.8	2.4	2.7
Road	3.1	2.8	2.5	2.2	2.2	1.4

'–' : Nil/Negligible.
Source: Budget Documents of the State Governments.

Chart 46: Components of Own non-Tax Revenue



those on minerals, forestry and wildlife, revision of tuition fees, medical fees, irrigation/water rates and tariffs on urban water supply. Charging appropriate charges for the various public services provided by the State Governments continues to be a debatable issue.

VII.3 State-wise Revenue Receipts

This section presents the State-wise trends and composition of own revenue receipts across the State Governments.

VII.3.1 State-wise Trends in Own Tax Revenue

Non-Special Category States

The trend in OTR as a per cent of GSDP shows that over the last three decades, eight non-special category States, *viz*., Goa, Karnataka, Kerala, Madhya Pradesh, Orissa, Rajasthan, Tamil Nadu and Uttar Pradesh, witnessed a steady improvement in the ratio. In some of the State Governments such as Andhra Pradesh, Haryana, Maharashtra and Punjab, the own tax ratio declined during the nineties as compared with eighties, but it increased during the current decade. In case of Bihar and West Bengal, the own tax ratio declined during 2000-09, as compared with the eighties and nineties. During 2000-09, Karnataka registered the highest OTR/GSDP ratio of 10.7 per cent followed by Tamil Nadu (9.5 per cent), Kerala (8.6 per cent) and Andhra Pradesh (8.4 per cent). Bihar and West Bengal registered the lowest OTR/GSDP ratio of 4.4 per cent followed by Jharkhand (5.2 per cent) during the same period (Table 46).

Special Category States

Among the special category States, as many as seven State Governments, *viz*., Arunachal Pradesh, Assam, Himachal Pradesh, Jammu and

Table 44: Composition of Non-Tax Revenue from Social Services

(Per cent to total)

Item	1990-95	1995-00	2000-05	2005-09
		(Average)		
1	2	3	4	5
Social Services (i to ix)	**100.0**	**100.0**	**100.0**	**100.0**
i) Education, Sports, Art and Culture	26.4	24.9	30.9	28.9
ii) Medical and Public Health	31.0	25.0	21.2	14.5
iii) Family Welfare	–	–	0.1	0.9
iv) Housing	6.0	6.0	5.9	3.2
v) Urban Development	3.5	7.4	8.0	34.0
vi) Labour and Employment	5.5	5.8	4.6	4.3
vii) Social Security and Welfare	8.2	9.7	6.4	2.9
viii) Water Supply and Sanitation	–	13.2	12.7	8.4
ix) Others	19.4	8.1	10.3	2.7

'–' : Not available.

Note: Detailed break-up of social services prior to 1990 are not available.

Source: Budget Documents of the State Governments.

Table 45: Composition of Non-Tax Revenue from Economic Services

(Per cent to total)

Item	1980-85	1985-90	1990-95	1995-00	2000-05	2005-09
	(Average)					
1	2	3	4	5	6	7
Economic Services (i to xvii)	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
i) Crop Husbandry	–	2.8	2.0	2.0	2.0	1.0
ii) Animal Husbandry	1.0	0.7	0.6	0.6	0.5	0.4
iii) Fisheries	0.5	0.4	0.4	0.4	0.4	0.3
iv) Forestry and Wildlife	37.7	29.3	18.0	18.0	11.9	8.9
v) Plantations	–	0.1	–	–	–	–
vi) Co-operation	1.6	1.7	1.7	1.7	1.5	1.1
vii) Other Agricultural Programmes	3.6	0.5	0.6	0.6	0.3	0.3
viii) Major and Medium Irrigation projects	6.0	5.2	4.8	4.8	5.7	5.9
ix) Minor Irrigation	–	1.3	1.1	1.1	0.7	0.8
x) Power	3.0	4.4	6.2	6.2	9.8	16.1
xi) Petroleum	–	3.5	3.1	3.1	3.8	5.3
xii) Village and Small Industries	–	1.0	0.8	0.8	0.5	0.4
xiii) Industries @	6.2	28.2	40.6	40.6	40.7	45.1
xiv) Ports and Light Houses	–	0.1	0.2	0.2	0.5	0.6
xv) Road Transport	6.3	5.4	5.9	5.9	5.4	3.2
xvi) Tourism	–	0.1	0.2	0.2	0.2	0.4
xvii) Others*	34.2	15.3	13.9	13.9	16.0	10.3

@ : Include non-ferrous mining and metallurgical industries and other industries. '–' : Nil/Negligible/Not available.

* : Include receipts from dairy development, land reforms, other rural development programmes, hill areas, civil aviation, inland water transport, foreign trade and export promotion, non-conventional energy sources, general economic services, civil supplies, roads and bridges, *etc.*

Source: Budget Documents of the State Governments.

Kashmir, Meghalaya, Mizoram and Tripura experienced steady improvement in OTR/GSDP ratio over the last three decades. Though OTR-GSDP ratio witnessed a decline during the nineties for the rest of the Special Category States, it increased for the above seven States during 2000-09. Sikkim registered the highest OTR-GSDP ratio of 7.3 per cent during 2000-09 followed by Uttarakhand (6.3 per cent), Jammu and Kashmir (5.8 per cent) and Himachal Pradesh (5.5 per cent). The lowest OTR-GSDP ratio was registered by Nagaland (1.5 per cent) followed by Mizoram (1.6 per cent), Manipur (1.8 per cent) and Arunachal Pradesh (1.9 per cent) during the same period (Table 46).

VII.3.2 State-wise Trends in Value Added Tax

Non-Special Category States

Six State Governments, *viz*., Andhra Pradesh, Haryana, Karnataka, Kerala, Orissa and Tamil Nadu, witnessed a steady increase in the ratio of VAT-GSDP over the last three decades. Three State Governments such as Bihar, Gujarat and West Bengal witnessed an increase in the VAT-GSDP ratio in the nineties as compared with eighties but experienced a decline during 2000-09. Madhya Pradesh, Punjab and Rajasthan experienced a decline in the VAT-GSDP ratio during the nineties as compared with the eighties but the ratio increased during 2000-09. Kerala and Tamil Nadu recorded the highest VAT-GSDP ratio of 6.2 per cent during 2000-09 followed by Karnataka (5.6 per cent) and Andhra Pradesh (5.4 per cent). The lowest VAT-GSDP ratio was recorded by Bihar (2.5 per cent) followed by West Bengal (2.6 per cent) in 2000-09 (Table 47).

Special Category States

Six State Governments, *viz*., Assam, Jammu and Kashmir, Manipur, Mizoram, Sikkim

Table 46: State-wise Trends in Own Revenue

(Per cent)

State	OTR/GSDP			ONTR/GSDP			TOTAL/GSDP		
	1980-90	1990-00	2000-09	1980-90	1990-00	2000-09	1980-90	1990-00	2000-09
	(Average)			(Average)			(Average)		
1	2	3	4	5	6	7	8	9	10
I. Non-Special Category									
1. Andhra Pradesh	7.4	6.4	8.4	2.4	2.0	2.0	9.8	8.3	10.4
2. Bihar	5.4	6.0	4.4	3.8	2.8	0.6	9.2	8.7	4.9
3. Chhattisgarh	–	–	7.0	–	–	2.4	–	–	9.4
4. Goa	2.6	7.7	8.2	2.0	8.5	9.3	4.6	16.2	17.5
5. Gujarat	7.1	7.6	7.2	2.4	2.4	2.1	9.5	10.0	9.3
6. Haryana	6.8	6.7	8.0	3.4	5.5	2.6	10.3	12.2	10.6
7. Jharkhand	–	–	5.2	–	–	2.0	–	–	7.2
8. Karnataka	8.1	8.7	10.7	2.8	1.9	1.7	10.9	10.6	12.4
9. Kerala	7.0	7.8	8.6	1.7	1.1	0.8	8.7	8.8	9.4
10. Madhya Pradesh	6.8	6.9	7.4	4.1	3.4	2.1	10.9	10.3	9.5
11. Maharashtra	7.6	7.0	7.8	2.8	2.0	1.4	10.4	9.0	9.2
12. Orissa	3.6	4.2	5.9	1.9	1.8	1.8	5.5	6.0	7.7
13. Punjab	6.8	6.1	7.1	1.8	3.4	4.4	8.5	9.5	11.5
14. Rajasthan	5.1	5.3	7.2	2.7	2.8	2.0	7.8	8.1	9.2
15. Tamil Nadu	7.8	8.2	9.5	1.4	1.2	1.1	9.2	9.4	10.6
16. Uttar Pradesh	4.5	4.9	6.7	1.6	1.5	1.3	6.2	6.4	8.0
17. West Bengal	4.9	4.9	4.4	0.9	0.5	0.5	5.7	5.3	4.9
II. Special Category									
1. Arunachal Pradesh	0.2	0.6	1.9	3.9	6.6	6.2	4.1	7.3	8.1
2. Assam	2.8	3.3	4.7	2.5	1.7	2.1	5.3	5.0	6.8
3. Himachal Pradesh	4.0	4.5	5.5	3.6	2.3	2.2	7.6	6.8	7.7
4. Jammu and Kashmir	–	3.2	5.8	–	2.0	2.2	–	5.3	8.0
5. Manipur	1.4	1.3	1.8	2.9	2.0	1.7	4.3	3.3	3.4
6. Meghalaya	2.8	3.0	3.6	2.9	1.8	2.2	5.7	4.8	5.9
7. Mizoram	0.3	0.6	1.6	1.2	6.7	3.1	1.5	7.3	4.7
8. Nagaland	2.8	1.4	1.5	6.4	2.2	1.2	9.2	3.7	2.7
9. Sikkim	4.4	3.6	7.3	8.5	71.9	61.4	12.9	75.5	68.6
10. Tripura	1.4	2.0	3.0	2.4	1.3	1.4	3.7	3.3	4.3
11. Uttarakhand	–	–	6.3	–	–	1.9	–	–	8.2
All States*	**5.1**	**5.2**	**5.8**	**1.9**	**1.7**	**1.4**	**7.0**	**6.9**	**7.2**

OTR: Own Tax Revenue. ONTR: Own non-Tax Revenue. GSDP: Gross State Domestic Product.
*: Data for all States are as per cent to GDP. '–' : Not applicable/Not available.
Source: Budget Documents of the State Governments.

and Tripura, witnessed a steady increase in the ratio of VAT-GSDP over the last three decades. Arunachal Pradesh, Meghalaya and Nagaland experienced a decline in the VAT-GSDP ratio during the nineties as compared with eighties but witnessed an increase during 2000-09. During 2000-09, Assam recorded the highest VAT-GSDP ratio of 3.6 per cent followed by Uttarakhand (3.4 per cent) and Jammu and Kashmir (3.3 per cent). The lowest VAT-GSDP ratio was recorded by Nagaland (1.0 per cent) during the same period (Table 47).

VII.3.3 State-wise Trends in Own non-Tax Revenue

Non-Special Category States

Over the last three decades, only two State Governments, *viz*., Goa and Punjab, witnessed a steady increase in the ratio of ONTR to GSDP. In Andhra Pradesh, Orissa and West Bengal, the ONTR/GSDP ratio declined in the nineties as compared with eighties and remained stagnant during the current decades. In Gujarat, the ONTR-GSDP ratio was stagnant at 2.4 per cent during

Table 47: State-wise Trends in VAT/GSDP

(Per cent)

State	1980-90	1990-2000	2000-09
	(Average)		
1	2	3	4
I. Non-Special Category			
1. Andhra Pradesh	3.8	4.0	5.4
2. Bihar	3.7	4.0	2.5
3. Chhattisgarh	–	–	3.6
4. Goa	1.9	5.5	5.5
5. Gujarat	4.8	5.1	3.4
6. Haryana	3.2	3.5	4.9
7. Jharkhand	–	–	3.6
8. Karnataka	4.3	5.1	5.6
9. Kerala	4.4	5.4	6.2
10. Madhya Pradesh	3.4	3.1	3.6
11. Maharashtra	4.8	4.3	4.6
12. Orissa	2.0	2.6	3.5
13. Punjab	3.1	2.8	3.8
14. Rajasthan	3.0	2.8	4.0
15. Tamil Nadu	5.2	5.4	6.2
16. Uttar Pradesh	2.4	2.4	3.8
17. West Bengal	2.8	3.0	2.6
II. Special Category			
1. Arunachal Pradesh	0.1	0.0	1.2
2. Assam	1.8	2.0	3.6
3. Himachal Pradesh	1.6	1.6	2.6
4. Jammu and Kashmir	0.0	1.3	3.3
5. Manipur	0.5	0.7	1.2
6. Meghalaya	1.5	1.4	2.3
7. Mizoram	0.0	0.2	1.2
8. Nagaland	1.6	0.9	1.0
9. Sikkim	1.0	1.3	2.9
10. Tripura	0.8	1.1	2.0
11. Uttarakhand	–	–	3.4
All States*	**2.9**	**3.1**	**2.8**

'–' : Not applicable. VAT : Value Added Tax.
GSDP : Gross State Domestic Product.
*: Data for all States are as per cent to GDP.
Source: Budget Documents of the State Governments.

the eighties and nineties, but declined to 2.1 per cent during 2000-09 mainly owing to a decline in interest receipts. A number of State Governments, *viz*., Bihar, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Rajasthan, Tamil Nadu and Uttar Pradesh witnessed a steady decline in the own non-tax ratio over last three decades. Though Haryana witnessed an increase in the ONTR-GSDP ratio during the nineties as compared with the eighties, it declined during the recent years. Goa recorded the highest ONTR-GSDP ratio of 9.3 per cent during the current decade, followed by Punjab (4.4 per cent). The ratio of ONTR-GSDP ratio stands low at 0.5 per cent in West Bengal, 0.6 per cent in Bihar and 0.8 per cent in Kerala during the same period (Table 46).

Special Category States

Among the special category States, Himachal Pradesh, Manipur and Nagaland witnessed a steady decline in the ONTR-GSDP ratio over the last three decades. In some of the special category States, such as Assam, Meghalaya and Tripura, though the ONTR-GSDP ratio declined during the nineties, it has increased during 2000-09. In Arunachal Pradesh, Mizoram and Sikkim, the ONTR-GSDP witnessed an increase during the nineties as compared with eighties, but declined thereafter. Sikkim registered the highest ONTR-GSDP ratio of 61.4 per cent during 2000-09 followed by Arunachal Pradesh (6.2 per cent) and Mizoram (3.1 per cent) during the same period (Table 46).

VII.3.4 State-wise Composition of Own Tax Revenue

Non-Special Category States

In majority of the non-special category States, taxes on commodities and services constituted more than 80 per cent of the total OTR during 2007-08 (RE). State sales tax, VAT, was the most important component of taxes on commodities and services in all the non-special category States during 2007-08 (RE). VAT constituted 65.9 per cent of OTR in Kerala, followed by Goa (62.5 per cent) and Bihar (61.4 per cent) in 2007-08 (RE). On the other hand, it constituted only 37.1 per cent of OTR in Uttar Pradesh, followed by Maharashtra (37.3 per cent) in 2007-08 (RE). Apart from VAT, state excise tax (SET) and taxes on vehicles (TV) are the other major components of taxes on commodities and services. SET constituted 17.2 per cent of OTR in Karnataka, followed by Punjab (16.7 per cent), Uttar Pradesh (16.6 per cent) and Tamil Nadu (15.8 per cent) in 2007-08 (RE). However, it constituted only 0.2 per cent of OTR in Gujarat followed by Goa (5.4 per cent), Jharkhand (5.9 per cent) and West Bengal (7.1 per cent) in

2007-08 (RE). TV constitutes 8.4 per cent of OTR in Rajasthan followed by Orissa (8.1 per cent) in 2007-08 (RE). However, in Haryana and Uttar Pradesh, it constituted only 2.0 per cent and 2.4 per cent of OTR, respectively (Table 48).

Taxes on income constituted around 1 per cent of OTR, while taxes on property and capital transactions (TP) constituted around 15 per cent of OTR in 2007-08 (RE). There are, however, wide variations among States. For example, TP constituted only 4.1 per cent of OTR in Jharkhand, 6.1 per cent in Goa, 8.7 per cent in Orissa and 9.8 per cent in Chhattisgarh in 2007-08 (RE). In West Bengal, TP constituted 19.4 per cent of OTR followed by Uttar Pradesh (18.8 per cent) and Maharashtra (18.7 per cent) in 2007-08 (RE). In as many as ten non-special category States, stamps and registration fees constituted more than 90 per cent of TP in 2007-08 (RE). Stamps and registration fees constituted 17.3 per cent of OTR in Uttar

Table 48: Composition of Own Tax Receipts - 2007-08 (RE)

(Per cent)

State	TI	TPT & E	TP	SRF	LR	DT	TC	SST/VAT	SET	TV	IDT	OTR
1	2	3	4	5	6	7=2+4	8	9	10	11	12=8	13=7+12
I. Non-Special Category												
1. Andhra Pradesh	1.2	1.2	12.5	11.9	0.4	13.7	86.3	59.7	13.1	6.0	86.3	100.0
2. Bihar	–	–	12.8	11.3	1.5	12.8	87.2	61.4	9.7	4.6	87.2	100.0
3. Chhattisgarh	0.4	0.4	9.8	8.1	1.7	10.1	89.9	43.6	14.4	5.1	89.9	100.0
4. Goa	–	–	6.1	5.5	0.6	6.1	93.9	62.5	5.4	6.4	93.9	100.0
5. Gujarat	0.7	0.7	10.0	7.4	2.1	10.6	89.4	57.8	0.2	6.1	89.4	100.0
6. Haryana	–	–	16.0	15.9	0.1	16.0	84.0	53.3	10.7	2.0	84.0	100.0
7. Jharkhand	–	–	4.1	3.0	1.1	4.1	95.9	57.8	5.9	5.2	95.9	100.0
8. Karnataka	1.5	1.5	14.3	14.0	0.3	15.8	84.2	49.4	17.2	6.6	84.2	100.0
9. Kerala	–	–	15.1	14.2	0.4	15.1	84.9	65.9	8.5	6.3	84.9	100.0
10. Madhya Pradesh	1.6	1.6	14.0	13.0	1.0	15.6	84.4	44.4	14.7	6.5	84.4	100.0
11. Maharashtra	3.1	3.1	18.7	17.2	1.5	21.8	78.2	37.3	8.2	4.8	78.2	100.0
12. Orissa	1.2	1.2	8.7	5.3	3.4	9.9	90.1	53.1	8.2	8.1	90.1	100.0
13. Punjab	–	–	16.6	16.4	0.2	16.6	83.4	51.4	16.7	5.1	83.4	100.0
14. Rajasthan	–	–	13.0	11.7	1.0	13.0	87.0	54.6	13.6	8.4	87.0	100.0
15. Tamil Nadu	–	–	14.0	13.5	0.5	14.0	86.0	53.9	15.8	5.1	86.0	100.0
16. Uttar Pradesh	0.1	0.1	18.8	17.3	1.4	18.8	81.2	37.1	16.6	2.4	81.2	100.0
17. West Bengal	2.1	2.1	19.4	10.7	8.6	21.5	78.5	53.3	7.1	4.2	78.5	100.0
II. Special Category												
1. Arunachal Pradesh	–	–	2.7	0.9	1.9	2.7	97.3	78.6	13.7	5.0	97.3	100.0
2. Assam	3.5	3.4	5.4	3.1	2.3	8.9	91.1	64.8	5.6	4.9	91.1	100.0
3. Himachal Pradesh	–	–	4.7	4.6	0.1	4.7	95.3	50.2	19.5	6.6	95.3	100.0
4. Jammu and Kashmir	–	–	3.2	2.9	0.3	3.2	96.8	52.2	10.4	3.0	96.8	100.0
5. Manipur	9.8	9.8	2.9	2.1	0.8	12.7	87.3	80.5	2.8	3.1	87.3	100.0
6. Meghalaya	0.4	0.4	2.5	2.4	0.1	2.9	97.1	30.4	21.6	3.2	97.1	100.0
7. Mizoram	7.0	7.0	2.0	0.3	1.7	9.0	91.0	79.8	2.4	6.9	91.0	100.0
8. Nagaland	11.8	11.8	1.2	0.7	0.5	13.1	86.9	77.4	2.3	6.2	86.9	100.0
9. Sikkim	28.4	28.4	2.1	1.4	0.6	30.5	69.5	16.9	19.6	2.7	69.5	100.0
10. Tripura	6.4	6.4	5.1	4.3	0.8	11.5	88.5	69.6	10.5	6.2	88.5	100.0
11. Uttarakhand	0.2	0.2	16.8	16.1	0.7	17.0	83.0	48.5	16.0	5.9	83.0	100.0
All States*	**1.1**	**1.1**	**14.6**	**13.1**	**1.4**	**15.6**	**84.4**	**50.3**	**11.7**	**5.3**	**84.4**	**100.0**

TI : Taxes on Income.
TP : Taxes on Property and Capital Transactions.
LR : Land Revenue.
TC : Taxes on Commodities and Services.
VAT : Value Added Tax
TV : Taxes on Vehicles.
OTR : Own Tax Revenue.
TPT&E : Taxes on Professions, Trade, Callings and Employment.
SRF : Stamps and Registration Fees.
DT : Direct Taxes.
SST : State Sales Tax.
SET : State Excise Tax.
IDT : Indirect Taxes
'–' : Nil/Negligible.

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

Source: Budget Documents of the State Governments.

Pradesh, 17.2 per cent of OTR in Maharashtra and 16.4 per cent of OTR in Punjab in 2007-08 (RE). It may be noted that land revenue constituted 8.6 per cent of OTR in West Bengal in 2007-08 (RE) followed by Orissa (3.4 per cent) and Gujarat (2.1 per cent), whereas in all other non-special category States it constitute around 1 per cent or less than that of OTR (Table 48).

Special Category States

In as many as six special category States, taxes on commodities and services constituted more than 90 per cent of OTR in 2007-08 (RE). In rest of the special category States, except Sikkim, it constituted more than 80 per cent of OTR in the same year. VAT was the major item of taxes on commodities and services in all the special category States except Sikkim and Meghalaya in 2007-08 (RE). In Sikkim, VAT constituted only 16.9 per cent of OTR and in Meghalaya it constituted 30.4 per cent of OTR in 2007-08 (RE). On the other hand, VAT constituted 80.5 per cent of OTR in Manipur followed by Mizoram (79.8 per cent) and Arunachal Pradesh (78.6 per cent) in 2007-08 (RE). SET constituted 21.6 per cent of OTR in Meghalaya followed by Sikkim (19.6 per cent) and Himachal Pradesh (19.5 per cent) in 2007-08 (RE). On the contrary, it constituted only 2.3 per cent in Nagaland, 2.4 per cent in Mizoram, 2.8 per cent in Manipur, in 2007-08 (RE). TV constituted 6.9 per cent of OTR in Mizoram followed by Himachal Pradesh (6.6 per cent), Tripura (6.2 per cent) and Nagaland (6.2 per cent) in 2007-08 (RE). In Sikkim, TV constituted only 2.7 per cent of OTR in 2007-08 (RE) (Table 48).

In contrast to the trend observed among the non-special category States, taxes on income constituted a higher percentage of OTR in some of the special category States such as Sikkim (28.4 per cent), Nagaland (11.8 per cent), Manipur (9.8 per cent), Mizoram (7.0 per cent), Tripura (6.4 per cent) and Assam (3.5 per cent) in 2007-08 (RE). TP constituted 16.8 per cent of OTR in Uttarakhand followed by Assam (5.4 per cent) and Tripura (5.1 per cent in 2007-08 (RE). In the rest of the special category States, it constituted less than 5 per cent of OTR during the same year. Stamps and registration fees constituted 16.1 per cent of OTR in Uttarakhand in 2007-08 (RE). Land revenue constituted 2.3 per cent of OTR in Assam followed by Arunachal Pradesh (1.9 per cent) and Mizoram (1.7 per cent) in 2007-08 (RE). In the rest of the special category States, land revenue constituted less than 1 per cent of the OTR in 2007-08 (RE) (Table 48).

VII.3.5 State-wise Composition of Own non-Tax Revenue

Non-Special Category States

The collection of user charges from the various economic services provided by the State Governments constituted 90 per cent of total ONTR in Jharkhand in 2007-08 (RE) followed by Chhattisgarh (86.5 per cent) and Goa (86.4 per cent). In Punjab, it constituted only 6.4 per cent of total ONTR in 2007-08 (RE) followed by West Bengal (25.1 per cent) and Haryana (25.3 per cent). In majority of the non-special category States, revenue from industries contributed a significant portion of the revenue from economic services. However, in Goa and Uttar Pradesh, revenue from power constituted 78.7 per cent and 31.1 per cent of ONTR respectively, in 2007-08 (RE). In Madhya Pradesh, revenue from forestry and wild life contributed 21.2 per cent of ONTR followed by Chhattisgarh (15.5 per cent) and Kerala (13.4 per cent) in 2007-08 (RE). Revenue from irrigation formed 11.8 per cent, 9.8 per cent and 6.3 per cent of ONTR in Maharashtra, Gujarat and Bihar respectively, in 2007-08 (RE). In Haryana, revenue from roads contributed 16.1 per cent of ONTR in 2007-08 (RE) followed by Punjab (3.3 per cent) (Table 49).

Revenue from general services, especially State lotteries constituted 69.3 per cent of ONTR in Punjab in 2007-08 (RE). Similarly, in Kerala 47.8

Table 49: Composition of Own Non-Tax Receipts - 2007-08 (RE)

(Per cent)

State	IR	GS	SS	ES	*of which*						ONTR@
					F&WL	Power	Industries	Irrigation	Road	Others #	
1	2	3	4	5	6	7	8	9	10	11	12 =2 to 5
I. Non-Special Category											
1. Andhra Pradesh	52.4	4.5	3.6	38.5	2.1	0.4	25.5	1.0	–	9.5	100.0
2. Bihar	14.1	22.2	16.5	47.0	1.1	–	29.9	6.3	–	9.7	100.0
3. Chhattisgarh	8.9	2.7	1.8	86.5	15.5	–	61.1	5.9	–	4.0	100.0
4. Goa	1.1	2.2	10.1	86.4	0.2	78.7	2.9	1.0	–	3.7	100.0
5. Gujarat	5.8	18.3	7.8	67.1	1.1	–	49.8	9.8	–	6.4	100.0
6. Haryana	17.7	3.9	52.9	25.3	0.8	0.1	4.5	2.9	16.1	0.9	100.0
7. Jharkhand	3.8	2.6	3.3	90.0	1.8	–	85.5	0.7	–	2.1	100.0
8. Karnataka	10.4	28.4	7.7	53.3	7.9	2.4	25.2	1.3	–	16.5	100.0
9. Kerala	4.5	47.8	15.9	28.7	13.4	–	3.1	0.5	–	11.7	100.0
10. Madhya Pradesh	7.2	20.3	2.0	68.1	21.2	–	42.4	1.3	–	3.2	100.0
11. Maharashtra	19.4	12.4	10.2	57.8	3.9	9.7	17.4	11.8	–	15.0	100.0
12. Orissa	20.3	5.8	6.1	66.0	3.3	0.1	55.3	3.8	–	3.5	100.0
13. Punjab	21.0	69.3	3.1	6.4	0.2	–	0.2	0.3	3.3	2.3	100.0
14. Rajasthan	28.4	26.1	6.9	37.8	1.3	–	31.3	1.4	–	3.7	100.0
15. Tamil Nadu	33.8	18.0	16.2	30.9	3.5	–	18.7	0.7	–	7.9	100.0
16. Uttar Pradesh	24.3	25.3	3.6	46.7	2.7	31.1	6.6	2.6	–	3.7	100.0
17. West Bengal	49.0	16.5	9.2	25.1	2.9	–	1.0	0.5	–	20.6	100.0
II. Special Category											
1. Arunachal Pradesh	3.7	2.8	1.0	92.5	1.6	79.2	5.1	–	3.7	2.9	100.0
2. Assam	9.1	7.3	1.1	81.2	1.9	–	–	–	–	79.2	100.0
3. Himachal Pradesh	1.2	6.0	7.3	85.4	4.5	74.4	4.8	–	–	1.8	100.0
4. Jammu and Kashmir	2.0	3.7	4.0	87.2	3.7	79.2	1.6	0.2	–	2.5	100.0
5. Manipur	19.6	29.9	2.7	47.8	1.1	31.8	–	4.2	–	10.7	100.0
6. Meghalaya	3.3	12.7	2.0	81.8	9.9	–	67.3	–	–	4.6	100.0
7. Mizoram	4.8	16.6	6.3	72.2	2.5	62.0	1.2	–	1.3	5.2	100.0
8. Nagaland	3.1	14.0	5.5	77.4	5.8	61.2	0.1	–	8.9	1.4	100.0
9. Sikkim	0.5	91.4	0.4	7.7	0.5	5.8	–	–	1.0	0.4	100.0
10. Tripura	30.1	42.7	6.5	18.8	4.9	–	8.7	–	–	5.2	100.0
11. Uttarakhand	2.4	23.2	6.0	68.4	21.2	35.4	7.9	–	0.1	3.7	100.0
All States*	**20.8**	**22.2**	**9.0**	**47.3**	**3.8**	**9.9**	**20.5**	**3.0**	**1.5**	**8.6**	**100.0**

IR : Interest Receipts. GS : General Services. SS : Social Services.
ES : Economic Services. F&WL : Forestry and Wild Life. ONTR : Own Non-Tax Revenue.
'–' : Nil/Negligible.
: Includes crop husbandry, Animal husbandry, fisheries, plantations, co-operations, other agricultural programmes, petroleum, ports and light houses and tourism.
@ : Also includes revenue from dividendes and profits, which constitutes less than 1 per cent of own non-tax revenue.
* : Data for All States are as per cent to GDP.
Source: Budget Documents of the State Governments.

per cent of ONTR originated from general services followed by Karnataka (28.4 per cent), Rajasthan (26.1 per cent) and Uttar Pradesh (25.3 per cent) in 2007-08 (RE). In Andhra Pradesh and West Bengal, revenue from interest receipts constituted 52.4 per cent and 49.0 per cent of ONTR, respectively in 2007-08 (RE). In Haryana, revenue from various social services provided by the Government contributed 52.9 per cent of ONTR in 2007-08 (RE). Revenue from social services contributed 16.5 per cent of ONTR in Bihar followed by Tamil Nadu (16.2 per cent) in 2007-08 (RE) (Table 49).

Special Category States

Revenue from economic services was the major component of ONTR in all the special category States except Sikkim and Tripura in 2007-08 (RE). It may be noted that 92.5 per cent of ONTR in Arunachal Pradesh originated from economic services in 2007-08 (RE) followed by Jammu and Kashmir (87.2 per cent) and Himachal Pradesh (85.4 per cent). Unlike the trend observed among non-special category States, revenue from power formed a significant portion of revenue from economic services in majority of the special category States. Revenue from power formed 79.2

per cent of ONTR in Arunachal Pradesh and Jammu and Kashmir in 2007-08 (RE). In Meghalaya, revenue from industries contributed 67.3 per cent of ONTR in 2007-08 (RE). In Uttarakhand, revenue from power formed 35.4 per cent and revenue from foresty and wild life formed 21.2 per cent of ONTR in 2007-08 (RE) (Table 49).

Revenue from general services especially State lotteries formed 91.4 per cent of ONTR in Sikkim followed by Tripura (42.7 per cent), Manipur (29.9 per cent) and Uttarakhand (23.2 per cent) in 2007-08 (RE). In Tripura 30.1 per cent of ONTR originated from interest receipts followed by Manipur (19.6 per cent) in 2007-08 (RE). Revenue from social services formed 7.3 per cent of ONTR in Himachal Pradesh followed by Tripura (6.5 per cent) and Mizoram (6.3 per cent) in 2007-08 (RE) (Table 49).

VII.4 Assessment of Revenue Receipts

VII.4.1 Own Revenue and Deficit Correction

The consolidated RD of States improved from 2.3 per cent of GDP in 2003-04 to a surplus of 0.5 per cent of GDP in 2007-08 (RE). The correction in the revenue account over the period 2003-04 to 2007-08 (RE) thus works out to 2.8 per cent of GDP. Out of this correction of 2.8 per cent of GDP, OTR contributed 0.6 per cent, while current transfers from the Centre including tax devolution and grants contributed 1.5 per cent. ONTR-GDP ratio witnessed a decline of 0.02 per cent over this period. A part of the correction (0.7 per cent of GDP) was on account of compression of revenue expenditure. Thus, the increase in revenue receipts by 2.1 per cent of GDP contributed 76.1 per cent of the total correction in RD over the period 2003-04 to 2007-08 (RE). Increase in own revenue receipts contributed 21.9 per cent, and increase in Central transfers contributed 54.2 per cent of the correction in RD over the period 2003-04 to 2007-08 (RE) (Table 50). The State Governments may emphasise fiscal empowerment, *i.e.*, by expanding the scope and size of revenue flows, that would contribute in making the fiscal correction durable.

VII.4.2 Financing of Aggregate Expenditure by Own Revenue

The trends in financing of aggregate expenditure by OTR show a gradual improvement, while financing aggregate expenditure by ONTR witnessed a declining trend since the early 1980s. Some slippage was witnessed in the first half of the current decade on account of decline in both OTR and ONTR. During 2005-09, OTR on an average financed 37.8 per cent of aggregate expenditure as compared with 32.6 per cent during 2000-05. It may be noted that the financing of aggregate expenditure by ONTR stagnated during the same period. The share of own revenue as a

Table 50: Change in Revenue Receipts and Correction of Deficit

(As per cent of GDP)

Year	OTR	ONTR	SCT	GIA	RR	Rev. Exp.	RD
1	2	3	4	5	6=2 to 5	7	8
2003-04	5.60	1.40	2.44	1.85	11.29	13.53	2.30
2004-05	5.80	1.50	2.49	1.79	11.58	12.79	1.24
2005-06	5.90	1.30	2.63	2.14	11.97	12.23	0.20
2006-07	6.10	1.50	2.90	2.28	12.78	12.20	-0.60
2007-08 (RE)	6.20	1.30	3.14	2.64	13.28	12.86	-0.48
Change*	**0.60**	**-0.02**	**0.70**	**0.80**	**2.08**	**-0.70**	**-2.80**

OTR : Own Tax Revenue. ONTR : Own Non-tax Revenue. SCT : Share in Central Taxes.
GIA : Grants-in-Aid. Rev. Exp. : Revenue Expenditure. RD : Revenue Deficit.
RE : Revised Estimates.
* : Change between 2003-04 and 2007-08 (RE).
Source: Budget Documents of the State Governments.

percentage to aggregate expenditure improved to 46.2 per cent during 2005-09 from 41.0 per cent during 2000-05. In this context, it may be noted that increase in share of own revenue for financing aggregate expenditure reduces the dependence on current transfers to finance expenditure (Table 51). At the disaggregated level, the financing of aggregate expenditure by own revenue ranged widely between 18.0 per cent (Bihar) and 68.9 per cent (Haryana) among non-special category States, and between 6.1 per cent (Nagaland) and 52.0 per cent (Sikkim) among special category States during the period 2000-09.

VII.4.3 Trends in State Sales Tax/VAT

All States have implemented VAT in *lieu* of State sales tax. At the consolidated level, State sales tax/VAT as a ratio to GDP improved from 2.1 per cent during 1980-85 to 3.1 per cent during 2005-09. State sales tax/VAT as a ratio to OTR increased from 42.7 per cent during 1980-85 to 50.4 per cent during 2005-09, registering a marked increase of 7.7 percentage points over the period. State sales tax/VAT as a ratio to total revenue receipts also showed a gradual improvement over the last three decades. As far as financing of aggregate disbursements by VAT is concerned, State sales tax/VAT financed 19.1 per cent of aggregate expenditure during 2005-09 as against 13.5 per cent during 1980-85 (Table 52).

Table 51: Financing of Aggregate Expenditure by Own Revenue

(Per cent)

Year (Average)	OTR/AE	ONTR/AE	OR/AE
1	2	3	4=2+3
1980-85	31.5	12.7	44.3
1985-90	32.8	11.6	44.4
1990-95	33.6	11.6	45.2
1995-00	34.0	10.9	44.8
2000-05	32.6	8.4	41.0
2005-09	37.8	8.4	46.2

OTR : Own Tax Revenue. AE : Aggregate Expenditure.
ONTR : Own Non-Tax Revenue. OR : Own Revenue.
Source: Budget Documents of the State Governments.

Table 52: State Sales Tax/VAT

(Per cent)

Year (Average)	VAT/OTR	VAT/TRR	VAT/AE	VAT/GDP
1	2	3	4	5
1980-85	42.7	18.8	13.5	2.1
1985-90	45.5	20.2	14.9	2.4
1990-95	45.1	20.0	15.2	2.4
1995-00	46.5	22.1	15.8	2.3
2000-05	47.3	23.5	15.4	2.6
2005-09	50.4	24.0	19.1	3.1

VAT : Value Added Tax. OTR : Own Tax Revenue.
TRR : Total Revenue Receipts. AE : Aggregate Expenditure.
GDP : Gross Domestic Product.
Source: Budget Documents of the State Governments.

VII.4.4 Growth Rates and Buoyancy of Own Tax Revenue

During 2005-09, OTR grew at an annual average rate of 16.6 per cent, much higher as compared with the growth of 13.0 per cent during 1995-00 and 2000-05. Tax buoyancy[16], which captures the responsiveness of the OTR to the growth in economy, increased to 1.3 per cent during 2000-05 as compared with 1.0 per cent during the 1990s. The buoyancy, however, came down to 1.2 per cent during 2005-09 as the growth in own taxes despite being high was lower than that in GDP. The average annual growth of sales tax/VAT has improved substantially in the current decade as compared with the second half of 1990s. Similarly, buoyancy of sales tax improved substantially in the first half of the current decade, but declined thereafter (Table 53).

At the disaggregated level, among the non-special category States, Bihar registered the highest own tax buoyancy of 2.2 per cent followed by Rajasthan (1.9 per cent) during the period 2003-04 to 2007-08 (RE). The lowest own tax buoyancy is recorded by Jharkhand (0.8 per cent) during the same period. Among the special category States, Mizoram registered the highest own tax buoyancy of 2.4 per cent followed by Meghalaya (1.96 per cent) and Jammu and Kashmir (1.94 per cent)

16 For individual States' Buoyancy is calculated with respect to GSDP.
Buoyancy is calculated as : B = [(OTRt - OTRt-1)/OTRt-1]/[(GDPt - GDPt-1)/GDPt-1]
Where B is the buoyancy of own tax revenue, OTR is the own tax revenue and GDP is the gross domestic product.

Table 53: Growth Rates and Buoyancy of OTR and State Sales Tax/VAT

Year (Average)	OTR		State Sales Tax/VAT	
	Growth Rate (Per cent)	Buoyancy	Growth Rate (Per cent)	Buoyancy
1	2	3	4	5
1980-85	16.8	1.2	16.7	1.1
1985-90	16.2	1.2	17.9	1.3
1990-95	15.7	1.0	16.7	1.1
1995-00	13.0	1.0	12.6	0.9
2000-05	13.0	1.3	15.2	1.6
2005-09	16.6	1.2	15.2	1.3

OTR: Own Tax Revenue. VAT: Value Added Tax.
Source: Budget Documents of the State Governments.

during 2003-08. Sikkim registered the lowest own tax buoyancy of 0.6 per cent among the special category States during the same period (Table 54).

To sum up, the revenue receipts of the State Governments witnessed an upsurge during the recent years, mainly due to higher devolution and transfer of resources from the Centre and improvement in OTR. VAT introduced recently in *lieu* of State sales tax has proved to be a buoyant source of revenue for the State Governments. However, the State Governments experienced sluggish performance in ONTR. On the non-tax front, revenue from user charges on various social and economic services provided by the State Governments constituted around 50 per cent of the total ONTR of the State Governments. It is germane to note that the improvement in revenue receipts contributed 76.1 per cent of the total revenue account correction during the period 2003-08. The buoyancy of OTR has been above 1 per cent during the last three decades.

VIII. ISSUES AND PERSPECTIVES

The Reserve Bank in the bi-annual Conference of State Finance Secretaries has been sensitising the State Governments about various issues and challenges pertaining to their finances in general and market borrowings in particular. From time to time, various Working Groups have been constituted by the Reserve Bank to study relevant issues and make recommendations for consideration by the State Governments. This Section presents the major challenges facing the State Governments.

VIII.1 Revenue Augmentation

Generation of adequate revenues to finance expenditure responsibilities bestowed upon

Table 54: State-wise OwnTax Buoyancy

State	2003-08 (Average)	State	2003-08 (Average)
1	2	3	4
I. Non-Special Category States		**II. Special Category States**	
1. Andhra Pradesh	1.52	1. Arunachal Pradesh	1.60
2. Bihar	2.22	2. Assam	1.25
3. Chhattisgarh	1.38	3. Himachal Pradesh	1.56
4. Goa	1.47	4. Jammu and Kashmir	1.94
5. Gujarat	1.16	5. Manipur	1.19
6. Haryana	1.19	6. Meghalaya	1.96
7. Jharkhand	0.82	7. Mizoram	2.44
8. Karnataka	1.73	8. Nagaland	1.37
9. Kerala	1.22	9. Sikkim	0.62
10. Madhya Pradesh	1.73	10. Tripura	1.43
11. Maharashtra	1.11	11. Uttarakhand	1.79
12. Orissa	1.30		
13. Punjab	1.22		
14. Rajasthan	1.92		
15. Tamil Nadu	1.18		
16. Uttar Pradesh	1.54		
17. West Bengal	1.14		

Source: Based on the Budget Documents of the State Governments.

the State Governments is an ongoing challenge for the States Governments. Revenue augmentation through non-debt-creating sources is the most crucial element for creating fiscal space for the State Governments. In this context, it is important to mention that nearly 40 per cent of the revenues of the State Governments are in the nature of devolution and transfers from the Central Government and are, therefore, determined by exogenous factors. The remaining 60 per cent of revenues are generated by the State Governments through their own tax and non-tax sources. The discretionary or endogenous capabilities of State Governments to generate additional revenues are, therefore, limited to their own sources of revenue. On the tax front, the implementation of VAT by all the States has turned out to be a buoyant source of revenue for the States. States have made considerable progress in simplifying tax administration through computerisation of treasuries. A major area of reform in the next few years would be the implementation of GST. While the Empowered Committee of State Finance Ministers is looking into various aspects of the implementation of GST, this issue will also be examined by the Thirteenth Finance Commission. The GST is planned to be implemented with effect from April 1, 2010.

The revenue generation from non-tax sources (as a ratio to GDP) has remained more or less stagnant in the recent years and even declined as compared to the 1990s. The States would need to take appropriate steps to improve cost recovery from various public services, which is dependent upon concomitant improvement in the delivery of the services provided by the States. The restructuring of State PSUs aimed at making them profitable entities and closing down the chronically sick and non-viable units also needs to be given attention by the States.

VIII.2 Quality of Expenditure

An issue that has gathered substantial interest in the wake of fiscal correction at the State Government level is the need to ensure that the correction is not at the cost of reduction in either quantity or quality of expenditure. In this context, it needs to be mentioned that in the post-FRL period, there has been some reduction in revenue expenditure as a ratio to GDP. States have also not been able to step up the developmental component of expenditure, though capital outlay as a ratio to GDP has shown an upward trend. In view of the importance of this aspect, the Thirteenth Finance Commission has for the first time been mandated to consider "the need to improve the quality of public expenditure to obtain better outputs and outcomes". The Twelfth Finance Commission had also emphasised the significance of improving outputs and outcomes by expenditure restructuring.

When talking about improving the quality of expenditure, it involves three aspects, *viz.,* expenditure adequacy (*i.e.*, adequate provisions for providing public services), effectiveness (*i.e.*, assessment of performance/output indicators for select services), and efficiency of expenditure use. There are several issues that arise in the context of expenditure quality. First, a sizeable part of expenditure of State Governments comprises of committed or non-developmental expenditure, including interest payments, wages and salaries, pension obligation and administrative expenditure. This automatically reduces the discretionary component of expenditure. States need to place due emphasis on reducing committed expenditures in their budgets and focus on expenditure that is "growth-oriented". Second, States need to place emphasis on achieving an optimum mix of the programme design and inputs to achieve the desired 'outcomes'. Third, it has been well documented that public services fail to reach the poor people in terms of both quantity and quality. In this context, it is important to highlight the basic constituents of the framework provided by the World Bank for using resources more effectively by making services work for the poor people[17] - (i) focusing on those services that have the most direct link with human

17 World Bank (2004), World Development Report: Making Services Work for the Poor, World Bank.

development – education, health, water, sanitation, and electricity; (ii) greater accountability in three key relationships in the service delivery chain: between the poor and service providers, between the poor and policy makers, between policy makers and service providers; (iii) increasing poor clients' choice and participation in service delivery that will help them monitor and discipline providers; (iv) rewarding effective delivery and penalising the ineffective providers; and (v) systematic evaluation and dissemination of information aimed at empowering the poor. Fourth, States have been extending guarantees to State-level PSUs, especially State Electricity Boards (SEBs), to enable them to borrow from market. However, with most of these entities incurring losses and showing negative return on capital, the servicing of such liabilities may devolve on the State Governments. This would leave less headroom for the State Governments to undertake development expenditure.

VIII.3 Debt and Cash Management

An important issue that continues to cloud the progress made in State finances is their high level of debt obligations. Though there has been some reduction in the interest obligations of the States on account of the incentive-based debt relief mechanism provided by the TFC, the scheme was restricted to the borrowings by States from the Centre. Nonetheless, it is heartening to note that the States on a consolidated basis have been able to generate a primary surplus in 2006-07, which is necessary (but not sufficient) condition for ensuring sustainability of debt in terms of a stable debt to GDP ratio. However, the States are likely to face bunching of repayments on their market borrowings around the middle of next decade, which will require large quantum of market borrowings and can put upward pressure on the interest rates. It may be mentioned that the Thirteenth Finance Commission has constituted a Technical Working Group to Review Debt Consolidation and Relief Facility (DCRF) 2005-10, which was recommended by the TFC.

A related issue is the maintenance of large surplus cash balances by the State Governments, which stood at Rs.74,857 crore as on December 17, 2008. Such high magnitude of cash balances raises questions about the cash management by State Governments. Though the build-up of surplus cash balances initially was contributed by the excessive autonomous inflow of NSSF collections, it is significant that the phenomenon of high surplus cash balances has persisted despite a sharp decline in NSSF inflows in recent years. As surplus cash balances are invested in treasury bills (14-day ITBs and ATBs) of the Government of India carrying a lower interest rate than the weighted average interest rate of the market borrowings of the State Governments, it would be prudent for the State Governments to finance fiscal deficit by reducing surplus cash balances. The surplus cash balances of the States also impart volatility to the cash balances of the Government of India.

VIII.4 States' Response to Sixth Central Pay Commission

The Sixth CPC, which was constituted by the Government on October 5, 2006, submitted its Report on March 24, 2008. Pay scales and revision of pension have been proposed to take effect retrospectively from January 1, 2006. As per the Sixth CPC, the likely impact of pay hike on the Government finances would be Rs.12,561 crore per annum and one-time impact on account of payment of arrears retrospectively from January 1, 2006 would be Rs.18,060 crore. The Union Government approved the recommendations of the Sixth CPC awards on August 14, 2008.

The State Governments by and large follow the CPC award to improve the pay structure of their employees. However, some State Governments constitute their own Pay Commissions. Kerala and Karnataka have adopted their respective State Pay Commission recommendations in 2006 and 2007, respectively. Rajasthan is reportedly the first State to implement award of CPC for its employees. It is important to note that State finances experienced deterioration in the latter part of 1990s subsequent to all but eight States adopting the recommendations of the Fifth CPC for their employees. The wage bill of the States rose to 39.1 per cent of revenue expenditure or 4.5 per cent of GDP in 2000-01 from 33.3 per cent of revenue expenditure and 3.3 per cent of GDP in 1996-97. The impact of Sixth CPC will differ from State to State depending upon the pace of adoption of recommendations and their implementation. Few States have already made interim provisions for salary revisions in their budgets for 2008-09. In view of the ongoing fiscal correction and consolidation process, the States may need to base their decisions relating to salary levels after due consideration to their fiscal capacity, employee strength, size of population and the required complementary expenditure for productive employment.

VIII.5 Financial Support to Local Bodies

In view of the important role assigned to third tier of Government by the Indian constitution, the Thirteenth Finance Commission will make recommendations on "the measures needed to augment the Consolidated Fund of a State to supplement the resources of the Panchayats and Municipalities in the State on the basis of the recommendations made by the Finance Commission of the State". The finances of local bodies, both urban and rural, in India portray a challenging picture. It has been well documented that the process of devolving funds to the local bodies based on recommendations of the State Finance Commissions (SFCs) has not yielded the desired outcomes. There are only a few States that have rigorously kept to a time table of setting up SFCs. The timing of setting up of SFCs has also not been synchronised with that of Finance Commissions, thus depriving latter of the crucial inputs as envisaged. There is also heterogeneity in the SFC reports. The Reports do not follow uniform criteria while making recommendations about *inter se* distribution between different tiers. Furthermore, the recommendations of SFCs are not strictly followed by the States. Thus, the role of SFCs in devolution of funds to local bodies leaves much scope for improvement. In the absence of a clear mechanism, the devolution of funds from the States to the local bodies remains unpredictable. Added to this, the ability of local bodies to raise their own revenues is rather limited. Some of the revenue sources of urban local bodies like property tax are, however, promising sources especially in view of the expansion of cities, but have not been tapped to full extent. In the case of Panchayati Raj Institutions (PRIs), the tax revenue sources assigned to them have very low tax bases coupled with low buoyancies. It needs to be emphasised that decentralisation as envisaged by 73rd and 74th constitutional amendment can yield desired results only if accompanied by sincere efforts aimed at fiscal empowerment of the third tier of Government. State Governments can play an active role in strengthening the local bodies especially in view of the improvement in their own financial position in the post-FRL period.

VIII.6 Post-FRL Fiscal Framework

The State Governments enacted FRLs beginning with 2002. The process gathered momentum after the TFC recommended a debt relief mechanism linking it to the enactment of FRLs. The fiscal correction path as stipulated in the FRLs of most States envisaged elimination of RD by 2008-09 and reduction in GFD to 3 per cent of GSDP by 2009-10. As has been presented in this Report, a large number of States have made considerable progress in achieving the targets stipulated under their FRLs. An important issue, therefore, is sustaining the gains of fiscal consolidation at the State Government level. It is well known that the fiscal correction process has been basically revenue-led with considerably less focus on expenditure management. It would be important for the States to design appropriate post-FRL fiscal architecture taking into account the experience gained so far. The States would need to continue to keep their deficit (and borrowing) levels low in view of a persisting high debt-GDP ratio. It is also important to generate primary revenue balance, which should be adequate enough to meet interest payments of the State Governments. It may also be desirable to fix some numerical targets in respect of certain categories of expenditure aimed at reprioritisation of expenditure. In addition, there is need to move completely to market-based sources for meeting borrowing requirements and take requisite steps to infuse transparency in financial operations.

IX. CONCLUDING OBSERVATIONS

The State Governments have witnessed noticeable improvement in their consolidated fiscal position during the recent years. The revenue account of States turned around from deficit to surplus during 2006-07 after a gap of two decades. The GFD and revenue surplus as per cent to GDP are placed at 2.3 per cent and 0.48 per cent, respectively in the revised estimates of 2007-08. In 2008-09 (BE), the State Governments budgeted a higher revenue surplus at 0.54 per cent of GDP. The GFD as a ratio to GDP is budgeted to decline to 2.1 per cent. It may be mentioned that many State Governments have already achieved the TFC target and targets set under FRLs with regard to RD and GFD in 2007-08 (RE).

The rule-based fiscal policy framework adopted by all States except two (Sikkim and West Bengal) facilitated the State Governments to move on a fiscal reform path. The improved own tax effort and some efforts at limiting non-development expenditure have aided the fiscal correction and consolidation process at the State level. Another key factor relates to higher devolution and transfer of resources from the Centre backed by the higher economic growth.

The conscious effort on the part of the State Governments to improve resource mobilisation is visible in the different policies announced by them in their budgets for 2008-09. To increase resource mobilisation, the State Governments have adopted measures to improve enforcement and tax compliance, proposed to impose new taxes, and proposed to provide incentive for resource mobilisation. On the expenditure side, the State Governments have proposed to take measures to improve outcomes of their various schemes. Further, the State Governments continued to emphasise reduction in non-plan expenditure and providing resources for capital investment.

Notwithstanding the overall improvement in consolidated fiscal position of the States, there exists wide variation across the State Governments with regard to fiscal performance. While some of State Governments have already achieved the TFC targets with regard to several indicators well ahead of the time frame, there are some other States where the fiscal correction is slow. The correction in the revenue account and the consequent revenue surplus resulted in higher allocation of expenditure towards development and social sectors in almost all the States. However, State-specific fiscal conditions, including fiscal priority and fiscal capacity, also play important role in designing of expenditure pattern.

The debt relief mechanism prescribed by the TFC incentivised by adherence to the rule-based fiscal regime brought about a marked improvement in debt servicing burden. The high level of debt as a result of the past deficits started showing a declining trend as ratio to GDP during the recent years and in 2007-08 (RE) stands below the TFC target of debt-GDP ratio at 30.8 per cent. However, in many States, the debt-GSDP ratio is well above the TFC target, thus, raising concerns about its sustainability. The ratio of interest payments to revenue receipts, which has a bearing on the debt sustainability, is well below the TFC target of 15.0 per cent in all the States except West Bengal in 2007-08 (RE). Significantly, all the State Governments have recorded a primary revenue surplus in 2007-08 (RE). However, it may be noted that the primary revenue surplus is not large enough to meet the interest payments in many of the States.

Generation of adequate revenues to finance expenditure responsibilities assigned to the States is an ongoing challenge for the State Governments. The implementation of VAT by all the States has turned out to be a buoyant source of revenue for the States. Implementation of GST would be a major area of reform. On the non-tax front, the States would need to take appropriate steps to improve cost recovery from various public services, which is dependent upon concomitant improvement in the delivery of the services provided by the States. The States may also explore rationalisation of subsidies and restructuring of State PSUs.

An issue that has gathered substantial interest in the wake of fiscal correction at the State Government level in line with TFC recommendations and their FRL is the need to ensure that the correction is not at the cost of reduction in either quantity or quality of expenditure. In this context, it may be mentioned that in the post-FRL period, there has been some reduction in revenue expenditure as a ratio to GDP. States have also not been able to step up the developmental component of expenditure, though capital outlay as a ratio to GDP has shown an upward trend. When talking about improving the quality of expenditure, it involves three aspects, *viz*., expenditure adequacy (*i.e*., adequate provisions for providing public services), effectiveness (*i.e*., assessment of performance/ output indicators for select services), and efficiency of expenditure use.

The Sixth CPC, which was constituted by the Government on October 5, 2006, submitted its Report on March 24, 2008. The Union Government approved the recommendations of the Sixth CPC awards on August 14, 2008. The State Governments by and large follow the CPC award to improve the pay structure of their employees. However, some State Governments constitute their own pay commissions. The impact of Sixth CPC will differ from State to State depending upon the pace of adoption of recommendations and their implementation. In view of the ongoing fiscal correction and consolidation process, the States may need to base their decisions relating to salary levels after due consideration to their fiscal capacity, employee strength, size of population and the required complementary expenditure for productive employment.

The finances of local bodies, both urban and rural, in India portray a dismal picture. It has been well documented that the process of devolving funds to the local bodies based on recommendations of the SFCs has not yielded the desired outcomes. Added to this, the ability of local bodies to raise their own revenues is rather limited. Some of the revenue sources of urban local bodies like property tax are, however, promising sources especially in view of the expansion of cities, but have not been tapped to full extent. It needs to be emphasized that decentralisation as envisaged by 73rd and 74th constitutional amendments can yield desired results only if accompanied by sincere efforts aimed at fiscal empowerment of the third tier of Government. State Governments can play an active role in strengthening the local bodies especially in view of the improvement in their financial position in the post-FRL period.

To conclude, the improvement in State finances during the recent years owes a great extent to the various fiscal reforms, *viz*., implementation of FRLs, introduction of VAT, imposition of new taxes and measures to improve tax administration, measures aimed at limiting non-development expenditure, *etc*. The larger devolution and transfer of resources from the Central Government backed by strong macroeconomic growth also aided the fiscal correction and consolidation process at the State Government level. The State Governments may pursue their efforts for improving revenue collection from non-tax resources, ensuring the quantity and quality of major expenditure heads, reducing recourse to borrowed funds for financing expenditure and enhancing devolution of resources to the local Government level. The State Governments may have to design post-FRL architecture after assessing their performance under the rule-based framework.