

IV

State-Wise Analysis of Fiscal Performance

A detailed State-wise analysis of various fiscal indicators shows that most of the States are faced with a deterioration in revenue balance and an increase in the level of GFD in 2008-09 (RE) and 2009-10 (BE) as compared to the earlier period of 2005-08. An analysis of the States' budget documents indicates inadequate fiscal transparency across the States. The States need to resume the process of fiscal correction and consolidation at the earliest through the adoption of revenue augmentation and expenditure rationalisation measures.

1. Introduction

4.1 This Chapter provides a State-wise assessment of the fiscal situation, primarily focusing on revised estimates of 2008-09 *vis-a-vis* 2005-08 (Average). State-wise assessment with regard to the emerging picture out of the budget estimates for 2009-10 has also been set out. The analysis focuses on three major categories which can be broadly classified as: (i) deficit indicators; (ii) revenue augmentation; and (iii) expenditure management. Most of the fiscal indicators are expressed in terms of GSDP⁶ at current prices as provided by the Central Statistical Organization (CSO). State-wise GSDP data were not available for three States for 2007-08, eight States for 2008-09 and ten States for 2009-10; GSDP for these States have been worked out on the basis of the respective average GSDP growth rates for the previous three years. States are segregated into non-special category and special category States. Data with regard to two Union Territories with Legislature, *viz.*, NCT Delhi and Puducherry, are also provided in the tables as a memo item. The detailed State-wise data on various fiscal indicators are set out in Statements 1 to 57.

4.2 With regard to the fiscal performance, both the Central and State governments have been able to significantly reduce their fiscal and revenue

deficits in recent years. The States' finances recorded a significant improvement and seemed to have an edge over the Central Government as far as the process of fiscal correction and consolidation is concerned. However, the process of fiscal correction and consolidation suffered some setback on account of the economic slowdown in 2008-09 and 2009-10. The impact of the economic slowdown on State finances appears to vary across States. As per an analysis of the State-wise budgets for 2009-10, some States have proposed to cross their targets of key fiscal indicators while others are expected to stick to their FRL targets. Against this backdrop, this Chapter attempts a State-wise analysis to examine the impact of the economic slowdown on their fiscal position. The focus of the Chapter is to undertake an inter-temporal comparison of States in terms of key fiscal indicators with reference to the targets prescribed by the TwFC.

2. Deficit Indicators of the State Governments

4.3 This Chapter analyses the State-wise movement of key deficit indicators, *viz.*, Revenue Deficit (RD), Gross Fiscal Deficit (GFD) and Primary Deficit (PD) during the period 2005-08 (Average) to 2008-09 (RE). State-wise progress during this period is presented in Table IV.1 (also see Statements 1 to 5).

⁶ The data on Gross State Domestic Product (GSDP) at current prices used in the Study are mainly sourced from the Central Statistical Organisation (CSO). Wherever data were not available with CSO, the projections of the respective State governments, as given in their budget documents as also forwarded by them to RBI, have been used. Further, data have been projected based on three year annual average growth rate, wherever it was not available from the respective State governments.

Table IV.1: Deficit Indicators of State Governments

(Per cent)

State	2005-08 (Avg.)				2008-09 (RE)			
	RD/ GSDP	GFD/ GSDP	PD/ GSDP	PRB/ GSDP	RD/ GSDP	GFD/ GSDP	PD/ GSDP	PRB/ GSDP
1	2	3	4	5	6	7	8	9
I. Non-Special Category								
1. Andhra Pradesh	-0.4	2.8	0.1	-3.1	-0.6	2.8	0.6	-2.8
2. Bihar	-2.2	3.1	-0.7	-6.0	-3.0	6.5	3.2	-6.3
3. Chhattisgarh	-3.9	0.3	-1.5	-5.7	-1.3	2.8	1.4	-2.7
4. Goa	-0.6	3.6	0.8	-3.4	-0.4	4.5	1.8	-3.2
5. Gujarat	-0.4	2.2	-0.4	-3.1	-0.1	2.9	0.7	-2.3
6. Haryana	-1.3	0.1	-1.7	-3.0	–	2.0	0.7	-1.3
7. Jharkhand	2.2	8.8	7.0	0.4	-0.8	4.9	2.1	-3.6
8. Karnataka	-1.6	2.2	0.2	-3.7	-0.3	3.5	1.7	-2.1
9. Kerala	2.2	3.3	0.4	-0.7	2.0	3.5	0.8	-0.6
10. Madhya Pradesh	-2.1	2.7	-0.3	-5.0	-2.0	3.5	0.6	-4.9
11. Maharashtra	-0.6	1.9	-0.2	-2.8	-0.6	2.3	0.6	-2.4
12. Orissa	-2.3	-0.6	-4.3	-6.0	-0.6	2.1	-1.4	-4.2
13. Punjab	1.8	3.1	-0.2	-1.6	2.5	4.5	1.3	-0.7
14. Rajasthan	-0.3	2.9	-0.9	-4.1	0.1	3.4	0.2	-3.1
15. Tamil Nadu	-1.1	1.2	-0.8	-3.1	–	2.7	0.9	-1.7
16. Uttar Pradesh	-0.7	3.6	0.3	-4.0	-1.1	5.3	2.4	-4.0
17. West Bengal	3.0	4.1	–	-1.0	3.7	3.7	0.1	0.1
II. Special Category								
1. Arunachal Pradesh	-15.6	1.7	-3.3	-20.6	-18.6	24.5	19.0	-24.1
2. Assam	-3.2	-1.0	-3.3	-5.6	-2.4	2.8	0.3	-4.9
3. Himachal Pradesh	-1.2	2.6	-3.2	-7.0	-0.9	5.0	-0.1	-6.0
4. Jammu and Kashmir	-6.8	6.4	1.3	-11.9	-9.7	6.7	2.1	-14.3
5. Manipur	-12.6	4.2	-1.0	-17.7	-18.4	7.7	2.6	-23.5
6. Meghalaya	-2.3	2.2	-0.6	-5.1	-6.2	1.5	-1.3	-9.0
7. Mizoram	-4.9	10.9	4.0	-11.8	-6.5	10.1	3.9	-12.8
8. Nagaland	-6.1	4.5	0.3	-10.3	-4.5	8.9	4.8	-8.6
9. Sikkim	-12.2	5.2	-0.2	-17.6	-22.1	12.9	7.6	-27.4
10. Tripura	-7.7	–	-3.7	-11.4	-6.0	6.1	2.9	-9.2
11. Uttarakhand	-1.5	5.0	1.9	-4.6	-1.5	3.9	0.7	-4.7
All States#	-0.4	1.9	-0.2	-2.6	-0.2	2.6	0.7	-2.1
<i>Memo Item:</i>								
1. NCT Delhi	-3.7	0.5	-1.2	-5.4	-2.2	2.5	1.0	-3.7
2. Puducherry	0.4	4.7	2.0	-2.3	7.6	11.8	9.0	4.8

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 All States are as per cent to GDP.
Note : Negative (-) sign indicates surplus .
Source : Based on Budget Documents of the State Governments.

Non-Special Category States

4.4 Adoption of a rule based fiscal correction and consolidation process has provided the impetus to State governments in the process of attaining fiscal sustainability. The enactment of FRLs by all the State

governments (except Sikkim and West Bengal) ensures fiscal stability, sustainability and improved efficiency and transparency in the management of public finances, besides enhancing the availability of resources and removing the impediments in the effective conduct of fiscal policy and prudent debt

management for improving social and physical infrastructure and human development in the States. One of the major objectives of the FRLs of various State governments is to affect a shift in the composition of total expenditure by increasing the share of capital expenditure that will help to achieve a higher growth trajectory. Progress in fiscal consolidation and implementation of FRL targets was found to be satisfactory. In addition to prescribing targets on various fiscal parameters, FRLs also envisaged to enhance transparency in budgetary operations by providing the Medium Term Fiscal Plans of the States. However, there still exist a number of issues with regard to fiscal transparency at the State level (Box IV.1).

4.5 Suggesting the restructuring of public finance at the State level, the TwFC had recommended that the States achieve revenue balance by 2008-09 and reduce GFD to 3 per cent of GSDP by 2009-10. Most of the States were following the fiscal reform path until 2007-08. During 2008-09, State-wise performance with regard to key deficit indicators deteriorated somewhat as their level of revenue surplus declined as compared with recent past. However, the revenue deficit (RD)-GSDP ratio in most of the States was well within the target of zero revenue balance. Out of seventeen non-special category States, thirteen States recorded revenue surplus in 2008-09 (RE) *albeit* at a lower level as compared with 2005-08 (Average).

4.6 During 2008-09 (RE), four States, *viz.*, West Bengal, Punjab, Kerala and Rajasthan recorded revenue deficit. Rajasthan was the new entrant in the list of revenue deficit States during 2008-09, while Jharkhand turned from a revenue deficit to a revenue surplus State. West Bengal, Kerala and Punjab remained revenue deficit States during the period. However, Kerala and Punjab *albeit* continued to be in deficit but recorded a decline in their revenue deficits.

4.7 The level of revenue surplus as a ratio to GSDP declined sharply in the case of Chhattisgarh (2.6 per cent), Orissa (1.7 per cent), Karnataka (1.4 per cent) and Haryana (1.2 per cent) in 2008-09

(RE) as compared with 2005-08 (Average). Notwithstanding the slowdown, Jharkhand, followed by Bihar and Uttar Pradesh witnessed a noticeable improvement in their RD-GSDP ratio in 2008-09 (RE) over 2005-08 (Average) (Table IV.1 and Statement 2).

4.8 During 2008-09, Bihar registered the highest revenue surplus of 3.0 per cent of GSDP, followed by Madhya Pradesh (2.0 per cent of GSDP), Chhattisgarh (1.3 per cent of GSDP) and Uttar Pradesh (1.1 per cent of GSDP) (Chart IV.1). The revenue surplus of higher order in these States would help them to finance their investment projects without accelerating their outstanding liabilities. On the other hand, West Bengal registered the highest revenue deficit of 3.7 per cent of GSDP, followed by Punjab (2.5 per cent of GSDP) and Kerala (2.0 per cent of GSDP) in 2008-09 (RE). RD formed a significant portion of GFD in these States, especially in West Bengal (99.9 per cent), followed by Kerala (59.1 per cent) and Punjab (55.6 per cent). Ideally, the borrowings should be utilised to generate assets to ensure income for the State governments. However, the perpetual deficit in the revenue account compelled these State governments to divert the funds from capital account to finance revenue deficit. However, during the recent years there have been sincere efforts by States to reduce their revenue deficits. The reduction in the level of borrowings to meet the revenue deficit has created fiscal space for the State governments to enhance expenditure on developmental activities. However, the implementation of the Sixth Central/State Pay Commission during 2008-09 and 2009-10 may put pressure on some State governments as revenue deficit will pre-empt borrowed funds for revenue expenditure (Table IV.1 and Statements 4 and 5).

4.9 During 2009-10, Tamil Nadu, Jharkhand, Rajasthan, Maharashtra, Gujarat, Kerala, Goa, Haryana, Orissa, Punjab and West Bengal will not be able to meet the target of revenue balance on account of the impact of revised pays and pensions, higher need for public spending and a decrease in the flow of revenue receipts in view of the economic slowdown.

Box IV.1: Fiscal Transparency in State Budgets

Enhanced fiscal transparency leads to sound economic management and effective policy formulation, strengthens accountability of the budgetary policies and enhances credibility. The recent turmoil in the financial markets has brought to the fore the importance of enhanced transparency and disclosure of information. In this regard, fiscal transparency at the State government level is very crucial on account of States' increased reliance on market borrowings for financing their GFD. Thus, in order to attract investments, more information is needed by the investors to base their appropriate investment decisions. Furthermore, improved transparency and disclosure would help the credit rating agencies to develop a credible credit rating system. Even though the level of fiscal transparency in the State budgets has increased in recent years, particularly during the post-FRL period, there are still a range of transparency issues that need to be addressed. The issues of fiscal transparency may be classified into three broad areas; viz., lack of availability of information, inconsistency in the available information and lack of uniformity in data reporting across the States. A related issue in the context of a number of variables is the mismatch of data provided by the State governments, the Union Government, the Controller General of Accounts (CGA) and the Comptroller and Auditor General (CAG) on a number of common fiscal variables.

Lack of Information in the State Governments Budget Documents

Budget documents of the State governments do not provide information on GFD financing with a detailed break-up. This information is important to understand how the State governments are financing their resource gaps. A few State governments viz., Arunachal Pradesh and Jammu and Kashmir do not provide detailed information on 'Discharge of Internal Debt' in their budgets. This makes it difficult to compile information on item-wise net borrowings of State governments and present a true picture of their GFD financing pattern. Many of the State governments do not publish data on outstanding liabilities in their budget documents. Some of the State governments publish this information in their budget documents, but not in the detailed format prescribed by the Working Group on the Methodology and Compilation of the State Government Liabilities. Budget documents of most of the State governments lack information on: i) wages and salaries; ii) operations and maintenance, iii) subsidies; and iv) interest rates and maturity profile of negotiated loans. There is vast divergence in terms of presentation of facts and figures stated in the budget documents across States. For instance, West Bengal, Nagaland, Kerala, Manipur (for the Accounts year) and Tamil Nadu do not provide code-wise and Plan/non-Plan-wise summary of all grants in their Annual Financial Statements (AFS) while the same is available in budget documents of Andhra Pradesh, Arunachal Pradesh, Chhattisgarh, Haryana, Jammu and Kashmir, Madhya Pradesh, Manipur, Punjab, Rajasthan, Sikkim, Tripura, Uttarakhand and Uttar Pradesh. Similarly, some State governments do not provide detailed code-wise summary of internal debt (Code 6003) from all the demands and interest payments (Code 2049) in a single budget document as is the practice followed by other State governments. While a break-up of interest payments is not available in budget documents of Arunachal Pradesh, interest payments on NSSF are not available for Andhra Pradesh and Himachal Pradesh (except Accounts years). Further, details of off-budget borrowings, if any, are not disclosed in the budget documents. The present

status of the disclosure of information by State governments is presented in Table 1.

Present Status - Disclosure of information by the State Governments#

S. No States	Information available on web	Budget at a Glance	Out-standing Liabilities	Out-standing Guarantees
Non-Special Category States				
1. Andhra Pradesh	√	√	√^	√\$
2. Bihar	√	√	—	√\$
3. Chhattisgarh	√	√	√	√
4. Goa	√	√	√^	—
5. Gujarat	√	√	—	—
6. Haryana	√	√	√	√
7. Jharkhand	√	X	—	—
8. Karnataka	√	√	√^	√\$
9. Kerala	√	√	√^	√\$
10. Madhya Pradesh	√	√	√	√
11. Maharashtra	√	√	√	√
12. Orissa	√	√	—	—
13. Punjab	√	√	√^	√\$
14. Rajasthan	√	√	√	√
15. Tamil Nadu	√	√	√	√
16. Uttar Pradesh	√	√	√^	√\$
17. West Bengal	√	√	—	—
Special Category States				
1. Arunachal Pradesh	X	√	—	—
2. Assam	X	√	—	√
3. Himachal Pradesh	√	X	√^	√\$
4. Jammu and Kashmir	√	√	—	—
5. Manipur	√	√	—	—
6. Meghalaya	√	√	√	—
7. Mizoram	√	√	√	√
8. Nagaland	√	√	√	√
9. Sikkim	√	√	—	—
10. Tripura	√	√	√	√
11. Uttarakhand	√	√	—	√\$

: As on February 11, 2010. '—' : Not available.

√^ : Not as per the prescribed format suggested by the Working Group on State Governments Liabilities.

√\$: Not as per the prescribed format suggested by the Working Group to assess the fiscal risk of State Government Guarantees.

Source: Budget documents of the State Governments.

Inconsistency in Available Information

In many of the State budgets a change in cash balance does not match with the difference between total expenditure and total receipts of all three accounts, viz., consolidated fund, contingency fund and public account (overall surplus/deficit). Wide discrepancies have been observed in data provided in the Annual Financial Statement (AFS), 'Budget at a Glance' and details of receipts and expenditure documents, which impedes data reconciliation and uniformity.

Lack of Uniformity in Data Reporting

Except for the Annual Financial Statement there is no uniformity in the nature and contents of the documents presented across the

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States. 'Budget at a Glance' published by the State governments do not have a uniform format across States. One of the important issues at the State government level relates to lack of uniformity in the accounting practices. One example is the accounting of power bonds in the budget, where States have been following diverse practices. Some states like Himachal Pradesh provide power bonds under loans from other institutions (Code 6003(109)) while States like Uttarakhand provide power bonds under market loans (Code 6003(101)) and some other States such as Bihar, Chhattisgarh and Haryana provide power bonds under compensation and other bonds (Code 6003(106)). Another example is the accounting of loans from NSSF. After the change in accounting practice in 1999-2000, the securities issued to NSSF were to be shown under internal debt. However, Assam, Goa, Rajasthan and West Bengal continue to show a part of the repayments/payments on account of small savings collections under loans and advances from the Central Government (Code 6004-102) whereas Andhra Pradesh shows the entire transactions of NSSF under public account (Code 8007). Accounting of debt relief in the budget is unclear. In Andhra Pradesh, debt relief is accounted under Miscellaneous Capital Receipts (Code – 4000-01-800-06). The accounting practice regarding sale of land and property is also not uniform. For example, in the Andhra Pradesh budget, sale of land and property is included under Miscellaneous General Services (Code – 0075-105-01) while Karnataka covers the same under Miscellaneous Capital Receipts (Code – 4000-01-800-01). Himachal Pradesh and Maharashtra reports data on VAT collection under two different codes, i.e.,

0040-800 (other receipts) and 0040-102 respectively, while other States reported this figure under the code 0040-110 (trade tax).

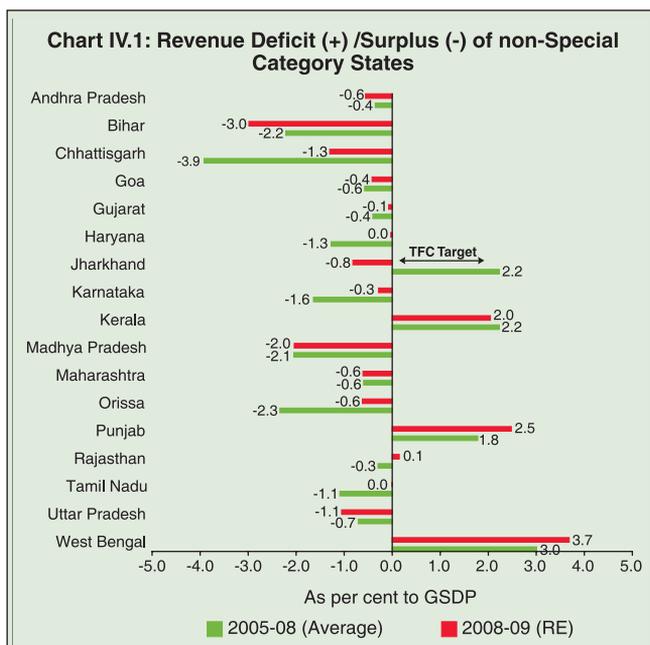
Mismatch of Data Published by Different Organisations

Data on share in Central taxes and grants-in-aid as per the State budgets and the Union Budget do not match. Further, the data on securities issued to NSSF budgeted in the State budgets are at variance from the figures available in the Union Budget and the figures available with the Ministry of Finance. Data on loans to the State governments as per the Union Finance Accounts, the CAG Report, State budgets and the figures available in the Union Budget do not match. With regard to market borrowings of the State governments, the figure budgeted in the State budgets and the figures as per the RBI record do not match.

All these issues pose serious problems in the compilation of a consolidated fiscal position of State governments. Some of these transparency issues at the State government level have also been discussed in the Report of Committee on Financial Sector Assessment (Chairman: Dr. Rakesh Mohan) released in March 2009.

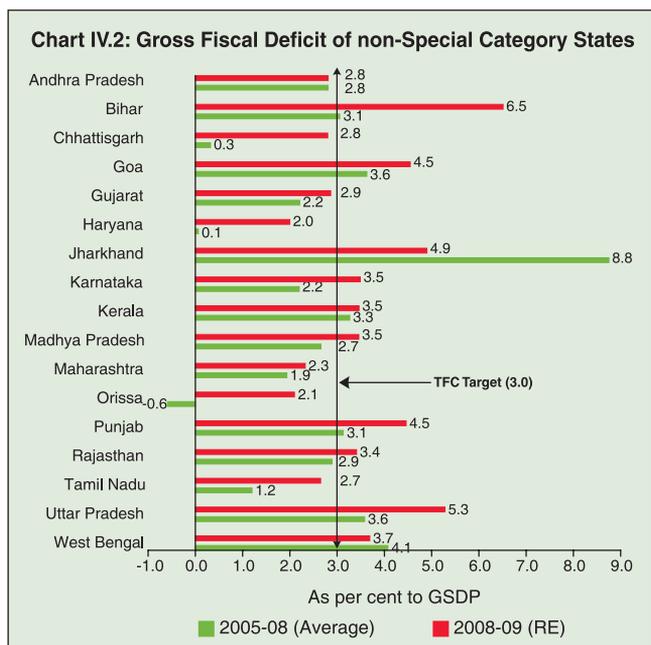
References:

1. Budget Documents of State Governments.
2. Reserve Bank of India (2009), 'Report of the Committee on Financial Sector Assessment', March 2009.



(RE), only seven States viz., Haryana, Orissa, Maharashtra, Tamil Nadu, Chhattisgarh, Andhra Pradesh and Gujarat could adhere to the TwFC target of reducing the GFD-GSDP ratio to 3.0 per cent, as compared to ten States in 2005-08 (Average). The GFD-GSDP ratio has increased to more than 3.0 per cent in case of ten States such as Bihar, Uttar Pradesh, Jharkhand, Goa, Punjab, West Bengal, Karnataka, Kerala, Madhya Pradesh and Rajasthan in 2008-09 (RE). Barring Jharkhand and West Bengal, all the non-special category States registered an increase in the GFD-GSDP ratio in 2008-09 (RE) as compared with 2005-08 (Average). However, the position of Andhra Pradesh remained the same at 2.8 per cent of GSDP during the period. Among the States which have witnessed an increase in the GFD-GSDP ratio over the same period, Bihar registered the highest GFD-GSDP ratio of 6.5 per cent of GSDP in 2008-09 (RE), followed by Uttar Pradesh (5.3 per cent of GSDP) and Jharkhand (4.9 per cent of GSDP) (Chart IV.2) (Table IV.1).

4.10 The Central Government allowed the States to raise additional market borrowings to the extent of 0.5 per cent of GSDP in 2008-09 for undertaking capital investments thereby permitting the GFD-GSDP ratio to the level of 3.5 per cent. In 2008-09



4.11 With the global melt-down in economic activities, there is an increasing need for the revival of the growth momentum through increased public investment and Plan expenditure, especially capital outlay. The Central Government allowed the States a GFD-GSDP ratio to the level of 4.0 per cent in 2009-10. GFD is estimated to exceed 3 per cent of GSDP during 2009-10 (BE) in States like Maharashtra, Madhya Pradesh, Andhra Pradesh, Rajasthan, Haryana, Orissa, Jharkhand, Uttar Pradesh, Punjab, West Bengal and Goa. However, despite the slowing down of revenue and the need for increased expenditure on account of the economic slowdown, States like Kerala, Bihar, Karnataka, Chhattisgarh, Gujarat and Tamil Nadu

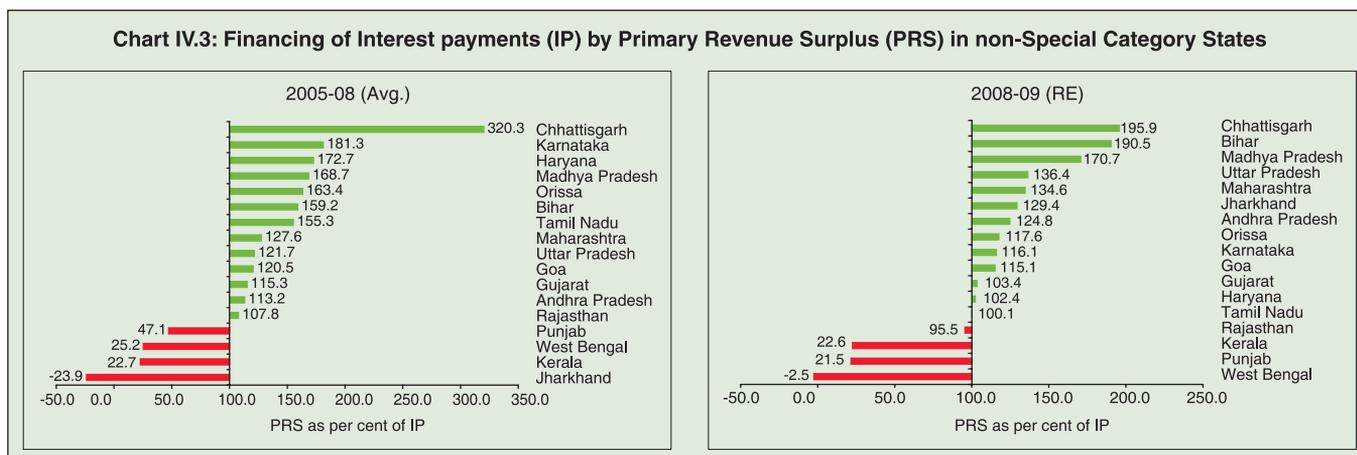
have been successful in limiting their fiscal deficit within the TwFC target of 3.0 per cent of their GSDP during 2009-10.

4.12 In 2008-09 (RE), all the non-special category States (except West Bengal) recorded primary revenue surplus (PRS). However, the co-existence of PRS and RD in the three States, viz., Kerala, Punjab and Rajasthan implies that PRS is not enough to finance the interest payment obligations in these States in 2008-09 (RE). PRS financed 21.5 per cent, 22.6 per cent and 95.5 per cent of interest payments in Punjab, Kerala and Rajasthan respectively in 2008-09 (RE) (Chart IV.3).

4.13 Out of the seventeen non-special category States, only Orissa recorded primary surplus in 2008-09 (RE) as compared to ten States in 2005-08 (Average). In 2008-09, Bihar registered the highest primary deficit of 3.2 per cent of GSDP, followed by Uttar Pradesh (2.4 per cent) and Jharkhand (2.1 per cent) (Table IV.1).

Special Category States

4.14 Special category States deserve special attention as the development efforts in these States remain mainly dependent upon transfers from the Central Government. Given the lack of private investments, low level of education and health, infrastructure bottlenecks and lack of PPP for infrastructure development, State government have to undertake high levels of public investment. This is reflected in the fact that these States are in revenue surplus coupled with very high levels of



GFD as compared to the non-special category States. The process of fiscal correction that took place in special category States was largely on account of higher devolution and transfers from the Centre and the incentive based reform process initiated by TwFC. The special category States have initiated a number of measures to institutionalise the path of fiscal correction. Measures such as rationalisation of the tax structure, ceiling on guarantees, introduction of VAT and new pension schemes have led to better fiscal management.

4.15 During 2008-09 (RE) all the eleven special category States registered revenue surplus. Despite the slowdown, six States, viz., Sikkim, Manipur, Meghalaya, Arunachal Pradesh, Jammu and Kashmir and Mizoram registered an increase in revenue surplus over 2005-08 (Average). Sikkim registered the highest revenue surplus of 22.1 per cent of GSDP in 2008-09 (RE), followed by Arunachal Pradesh (18.6 per cent), Manipur (18.4 per cent) and Jammu and Kashmir (9.7 per cent). Other special category States, viz., Tripura, Nagaland, Assam and Himachal Pradesh, however, remain in revenue surplus although at a lower level as compared with 2005-08 (Average) (Table IV.1 and Chart IV.4).

4.16 During 2009-10, three special category States have budgeted revenue deficits. Among these, the revenue deficit as percentage to GSDP

is budgeted to be the highest in Arunachal Pradesh (7.6 per cent), followed by Assam (7.3 per cent) and Uttarakhand (0.5 per cent).

4.17 In contrast to the improvement observed in terms of revenue account correction, the special category States are far behind the non-special category States with regard to correction in GFD. In 2008-09 (RE), except Meghalaya and Assam, all other special category States recorded a GFD-GSDP ratio of more than 3 per cent (Chart IV.5). Among the eleven special category States, eight States recorded a higher GFD-GSDP ratio during 2008-09 (RE) as compared with their respective positions during 2005-08 (Average). Arunachal Pradesh registered the highest GFD-GSDP ratio of 24.5 per cent followed by Sikkim (12.9 per cent) and Mizoram (10.1 per cent). All these States, except Assam and Meghalaya, are still far away from the TwFC target of a 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 (Table IV.1). During 2009-10 (BE), in all the special category States, deficit indicators are likely to remain at an elevated level.

4.18 In 2008-09 (RE), all the special category States recorded primary revenue surplus. In all special category States, the primary revenue surplus is enough to meet interest payments (Chart IV.6).

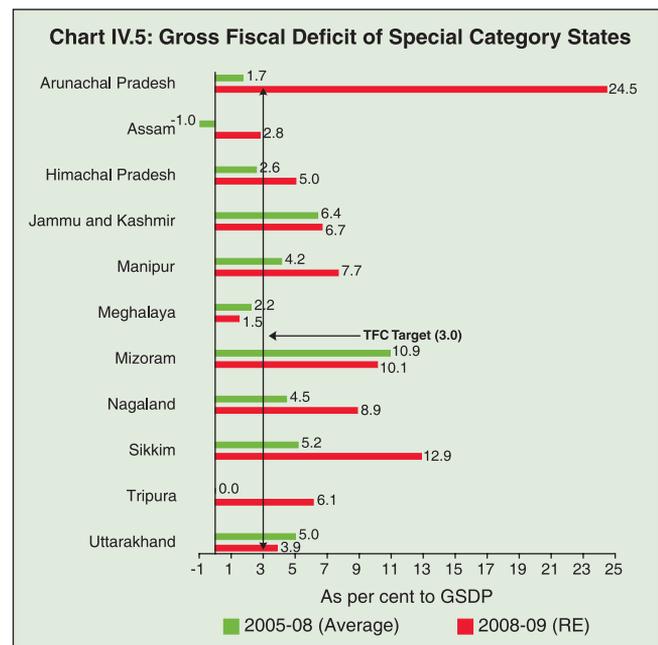
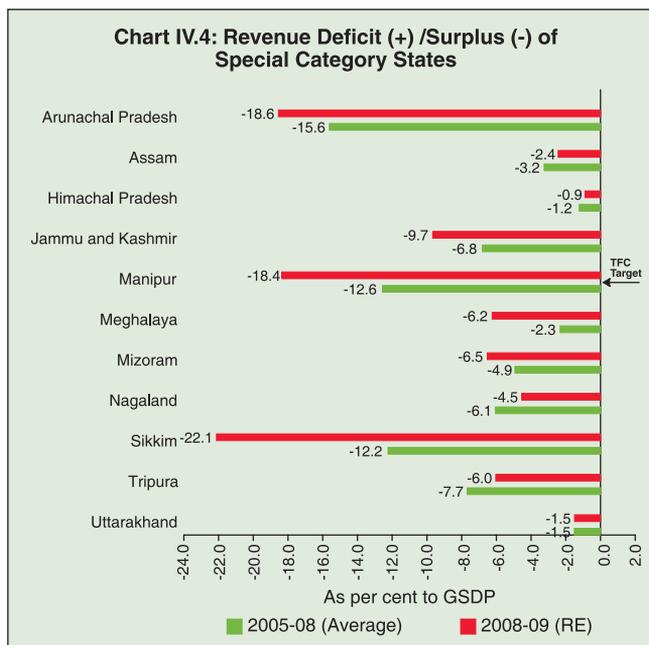
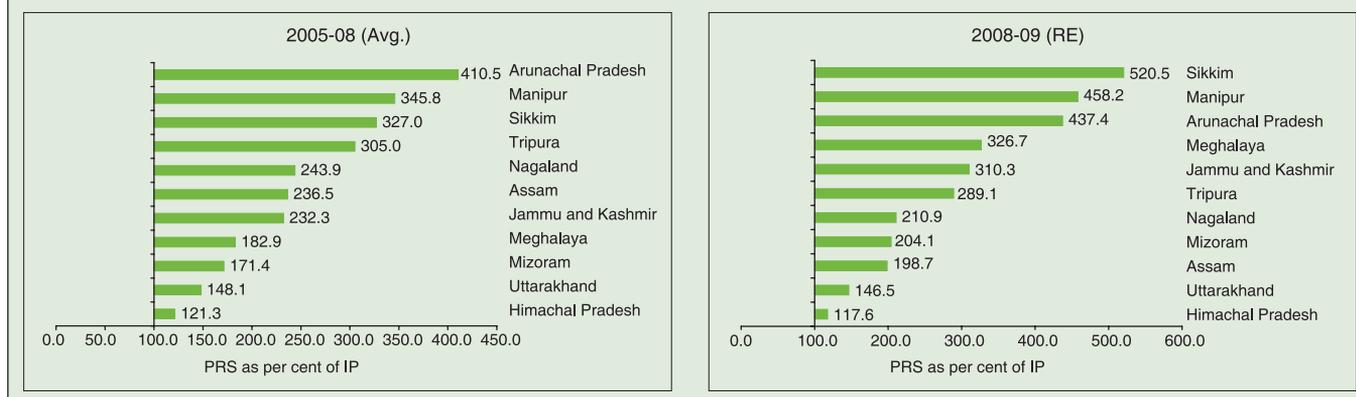


Chart IV.6: Financing of Interest payments (IP) by Primary Revenue Surplus (PRS) in Special Category States



However, as many as nine States recorded primary deficit in 2008-09 (RE) as compared with four States in 2005-08 (Average) (Table IV.1).

3. Revenue Account of the State Governments

4.19 The focus of State governments' taxation policy has been on streamlining the tax structure and better tax administration for better tax compliance and greater transparency. Measures towards simplification, rationalisation and modernisation of the tax administration with IT intervention and strengthening enforcement measures have been initiated by various State governments. Financial delegation of certain taxation powers by some of the State governments to the local bodies has led to better resource mobilisation. A number of States propose to undertake steps to further increase collections from VAT, excise and other tax and non-tax sources through rationalisation, better tax compliance and by strengthening the enforcement machinery. In this Chapter the focus is to evaluate both the augmentation of receipts and expenditure management measures in order to understand the process of revenue account correction. Various indicators pertaining to the revenue receipts of the State governments are presented in Table IV.2, while those pertaining to revenue expenditure of the State governments are set out in Table IV.3.

Non-special Category States

4.20 The taxation policy of State governments is in general aimed at moderating levels of taxation

with emphasis on an efficient and effective tax administration. The desirable path of fiscal correction lies through fiscal empowerment, *i.e.*, by expanding the scope and size of revenue flows into the budget. In general, State governments' strategy for revenue augmentation is through improvement of the tax administration, facilitation of revenue buoyancy, minimising of transaction costs and rationalisation of the tax structure. The focus is on streamlining and strengthening existing tax and non-tax collection mechanisms and plugging of revenue leakages.

Revenue Receipts

4.21 The total revenue receipts of all the non-special category States increased in 2008-09 (RE) over 2005-08 (Average) in terms of GSDP except Karnataka, Haryana, Gujarat and Maharashtra. However, in a majority of the States the increase is more due to Central transfers and less due to their own efforts. Only West Bengal is the exception, where the increase is more due to own efforts and less due to Central transfers. In some States such as Haryana, Karnataka, Maharashtra, Gujarat, Chhattisgarh, Orissa and Rajasthan own revenue collections (as per cent to GSDP) decreased in 2008-09 (RE) over 2005-08 (Average). Jharkhand recorded the highest improvement in own revenue effort in 2008-09 (RE) over 2005-08 (Average), followed by West Bengal, Goa, Bihar and Madhya Pradesh (Table IV.2 and Chart IV.7).

State-Wise Analysis of Fiscal Performance

Table IV.2: Revenue Receipts of the State Governments

(Per cent)

State	2005-08 (Avg.)				2008-09 (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	16.2	8.7	2.2	5.2	18.8	9.6	2.3	6.9
2. Bihar	23.4	4.3	0.5	18.5	31.6	5.5	0.4	25.7
3. Chhattisgarh	19.2	8.3	2.6	8.2	20.8	7.9	2.5	10.5
4. Goa	16.9	8.2	5.9	2.7	19.3	8.8	6.4	4.1
5. Gujarat	11.7	7.2	1.7	2.9	11.0	6.7	1.2	3.1
6. Haryana	13.2	8.2	3.1	2.0	11.7	7.7	2.1	2.0
7. Jharkhand	15.9	5.1	2.4	8.4	21.0	6.6	2.9	11.5
8. Karnataka	17.5	10.9	1.9	4.8	16.0	10.7	0.7	4.5
9. Kerala	12.7	8.2	0.7	3.7	13.7	8.7	0.7	4.3
10. Madhya Pradesh	19.6	8.1	1.9	9.6	22.5	9.0	2.0	11.5
11. Maharashtra	12.2	7.9	1.9	2.5	11.9	7.2	1.5	3.2
12. Orissa	19.3	6.4	2.4	10.4	21.9	6.3	2.1	13.5
13. Punjab	14.5	7.6	3.7	3.1	14.9	7.5	4.4	3.0
14. Rajasthan	17.2	7.8	2.3	7.1	17.9	7.9	2.0	8.0
15. Tamil Nadu	14.9	9.9	1.1	3.9	15.9	9.9	1.6	4.4
16. Uttar Pradesh	18.6	7.2	1.6	9.8	21.9	7.5	2.1	12.2
17. West Bengal	10.0	4.4	0.5	5.1	11.9	4.7	1.6	5.6
II. Special Category								
1. Arunachal Pradesh	73.7	2.4	11.2	60.2	88.8	2.4	7.3	79.1
2. Assam	21.3	5.3	2.8	13.2	30.1	5.2	2.9	22.0
3. Himachal Pradesh	27.1	5.9	4.3	16.9	27.2	6.2	3.9	17.1
4. Jammu and Kashmir	42.8	6.7	2.6	33.5	45.4	7.7	3.2	34.5
5. Manipur	54.2	2.2	2.6	49.4	64.3	2.6	3.2	58.5
6. Meghalaya	30.2	4.2	2.5	23.5	44.2	4.6	2.4	37.2
7. Mizoram	62.7	2.2	4.3	56.3	73.8	2.6	4.4	66.8
8. Nagaland	41.7	1.9	1.6	38.2	42.5	1.8	2.0	38.6
9. Sikkim	108.1	8.3	55.5	44.3	111.1	6.0	44.4	60.7
10. Tripura	32.5	3.3	0.9	28.4	34.1	3.7	1.1	29.3
11. Uttarakhand	22.7	7.7	2.2	12.9	21.8	7.6	1.6	12.6
All States#	12.2	5.8	1.4	5.0	13.2	5.9	1.4	5.9
<i>Memo Item:</i>								
1. NCT Delhi	10.1	8.2	1.3	0.6	9.6	7.5	1.3	0.8
2. Puducherry	27.2	7.9	7.9	11.4	25.8	7.7	6.2	11.9

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 All States are as per cent to GDP.

Source: Based on Budget Documents of the State Governments.

4.22 Bihar registered the highest revenue receipts (RR)-GSDP ratio of 31.6 per cent in 2008-09 (RE), mainly backed by the highest current transfers (CT)-GSDP ratio. Bihar was followed by Madhya Pradesh (22.5 per cent), Orissa (21.9 per cent), Uttar Pradesh

(21.9 per cent), Jharkhand (21.0 per cent) and Chhattisgarh (20.8 per cent). In all these States, Central transfers contributed significantly to the improvement in revenue receipts (Table IV.2 and Statements 22, 23 and 25).

Table IV.3: Revenue Expenditure of the State Governments

(Per cent)

State	2005-08 (Avg.)					2008-09 (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	15.8	10.0	5.7	2.7	1.5	18.2	12.9	5.2	2.2	1.5
2. Bihar	21.2	12.0	9.1	3.7	2.7	28.6	18.7	9.9	3.3	3.0
3. Chhattisgarh	15.3	10.1	4.4	1.8	1.0	19.5	14.0	4.9	1.4	1.1
4. Goa	16.3	11.1	5.2	2.8	1.0	18.9	12.9	6.0	2.8	1.4
5. Gujarat	11.3	6.5	4.8	2.7	1.0	10.9	7.0	3.8	2.2	0.8
6. Haryana	12.0	7.9	3.8	1.7	0.9	11.7	8.3	3.3	1.3	0.9
7. Jharkhand	18.2	11.9	6.2	1.8	1.2	20.2	12.9	7.2	2.8	1.5
8. Karnataka	15.9	10.1	5.1	2.0	1.3	15.7	9.6	5.2	1.8	1.6
9. Kerala	14.9	6.9	7.1	2.9	2.5	15.8	7.5	7.1	2.6	2.6
10. Madhya Pradesh	17.6	10.0	6.5	3.0	1.4	20.5	12.4	7.0	2.9	1.7
11. Maharashtra	11.6	6.8	4.6	2.2	0.7	11.3	7.2	3.9	1.8	0.7
12. Orissa	16.9	8.8	7.8	3.7	1.7	21.3	13.3	7.7	3.5	2.3
13. Punjab	16.2	6.8	9.2	3.4	1.6	17.4	7.7	9.1	3.2	1.6
14. Rajasthan	16.9	10.1	6.7	3.8	1.4	18.1	11.0	7.0	3.3	2.0
15. Tamil Nadu	13.8	7.5	5.4	2.0	1.9	15.9	9.1	5.6	1.7	2.3
16. Uttar Pradesh	17.9	9.3	7.7	3.3	1.6	20.8	12.2	7.7	2.9	1.7
17. West Bengal	13.0	6.2	6.7	4.0	1.4	15.5	9.3	6.1	3.6	1.3
II. Special Category										
1. Arunachal Pradesh	58.1	41.4	16.7	5.0	2.6	70.2	50.5	19.7	5.5	3.2
2. Assam	18.1	11.1	7.0	2.4	1.8	27.6	16.1	9.2	2.5	2.0
3. Himachal Pradesh	25.9	14.8	11.1	5.7	2.9	26.3	15.4	10.9	5.1	3.3
4. Jammu and Kashmir	36.0	21.0	15.0	5.1	3.2	35.8	20.4	15.4	4.6	3.3
5. Manipur	41.7	26.0	15.6	5.1	3.8	45.9	27.8	18.1	5.1	4.1
6. Meghalaya	27.8	17.8	10.1	2.8	1.6	38.0	27.3	10.7	2.8	1.5
7. Mizoram	57.8	37.8	20.0	6.9	2.9	67.2	45.3	21.9	6.3	2.9
8. Nagaland	35.6	19.3	16.4	4.2	3.3	37.9	20.6	17.3	4.1	3.4
9. Sikkim	95.9	32.1	63.8	5.4	2.3	89.0	37.9	51.1	5.3	2.2
10. Tripura	24.8	12.8	11.5	3.7	2.7	28.0	15.6	11.9	3.2	3.1
11. Uttarakhand	21.2	12.7	7.7	3.1	1.8	20.3	11.3	8.3	3.2	2.1
All States#	11.8	6.7	4.8	2.2	1.1	13.0	8.0	4.7	1.9	1.2
<i>Memo Item:</i>										
1. NCT Delhi	6.4	3.8	2.2	1.7	–	7.4	5.0	2.1	1.5	–
2. Puducherry	27.6	21.1	6.4	2.7	1.4	33.4	26.1	7.2	2.8	1.8

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.

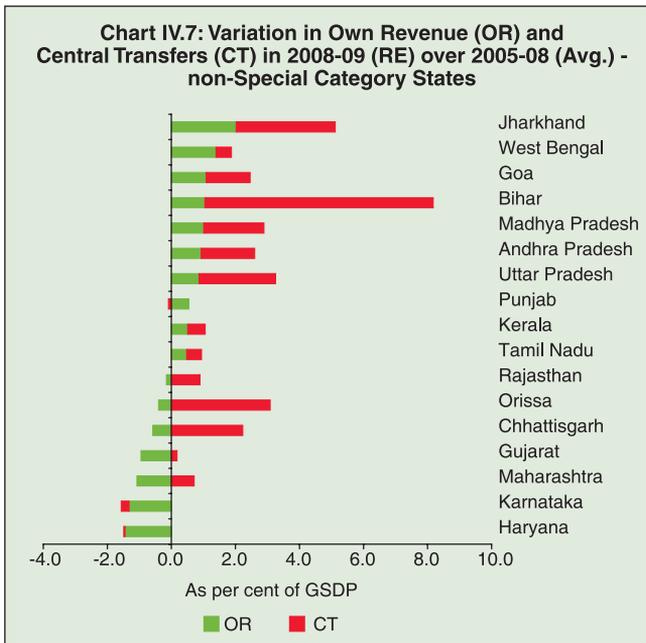
: Data for All States are as per cent to GDP.

Source : Based on Budget Documents of the State Governments.

4.23 Karnataka registered the highest own tax revenue (OTR)-GSDP ratio of 10.7 per cent in 2008-09 (RE), followed by Tamil Nadu (9.9 per cent), Andhra Pradesh (9.6 per cent) and Madhya Pradesh (9.0 per cent). It may be noted that the

OTR-GSDP ratio of West Bengal (4.7 per cent) was one of the lowest in the non-special category States, followed by Bihar (5.5 per cent), Orissa (6.3 per cent) Jharkhand (6.6 per cent) and Gujarat (6.7 per cent) in 2008-09 (RE). These five States are

State-Wise Analysis of Fiscal Performance



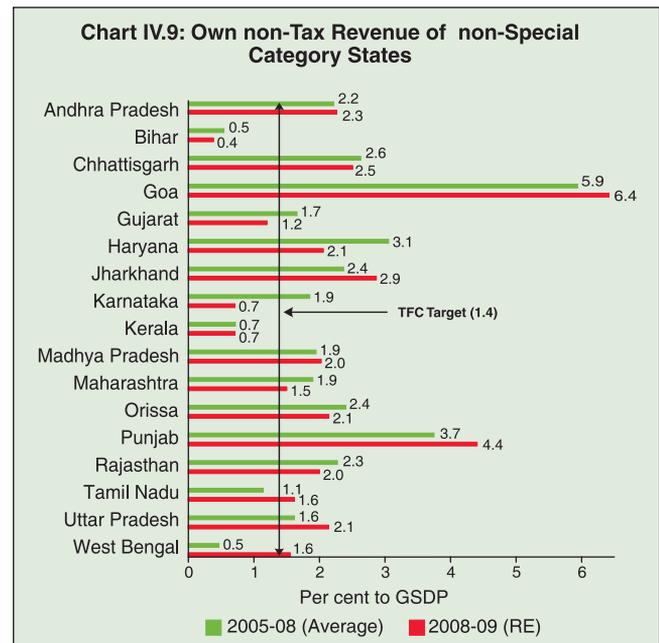
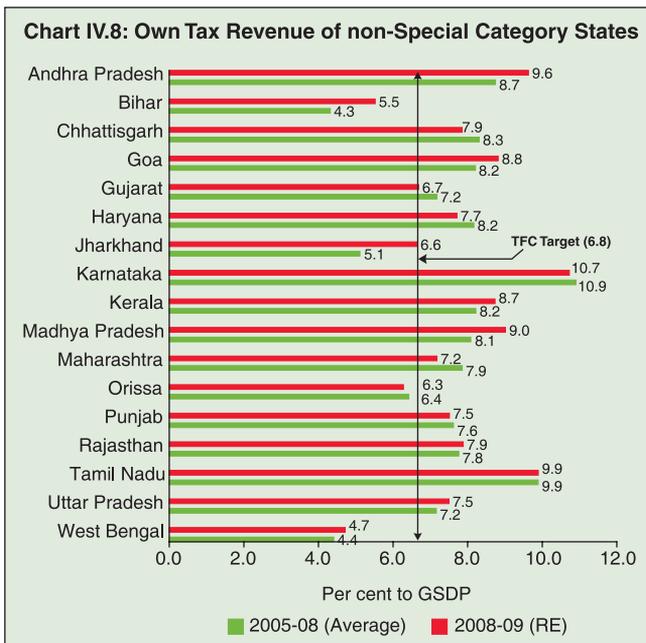
still below the TwFC target of the OTR-GSDP ratio of 6.8 per cent (Chart IV.8, Table IV.2 and Statements 18 and 19). State governments like Bihar need to improve their OTR-GSDP ratio as their level is quite low as compared to the TwFC target of 6.8 per cent.

4.24 Own non-tax revenue played a significant role in Goa (ONTR-GSDP of 6.4 per cent) and Jharkhand (ONTR-GSDP of 2.9 per cent) in bringing down the deficit indicators. Some States

such as Bihar (ONTR-GSDP of 0.4 per cent), Karnataka (ONTR-GSDP of 0.7 per cent), Kerala (ONTR-GSDP of 0.7 per cent) and Gujarat (ONTR-GSDP of 1.2 per cent) displayed dismal performances in own non-tax revenue efforts and these four States are below the TwFC target of the own non-tax revenue (ONTR)-GSDP ratio of 1.4 per cent (Chart IV.9, Table IV.2 and Statements 20 and 21). It is important to mention here that the expenditure on economic, social and general services by State governments is very high but the recovery from these services is insignificant. This is mainly on account of low cost recovery from publicly provided economic and social services, low profitability of Public Sector Undertakings (PSUs), low interest recovery from local bodies, cooperatives and others.

4.25 During the recent past, tax collections had increased due to a robust growth of States' economies and reforms in tax administration. However, considering the effect of the economic slowdown on the economy, the same pace of tax collections may not be achievable during 2009-10.

4.26 The adoption of State level VAT has been one of the biggest tax reforms undertaken by the State governments so far. The government intends to expand the scope of taxation of services not only by bringing in new services within the tax net but



also by increasing the rates of tax and non-tax revenues. In the long run, this will be beneficial for State finances. VAT is the most important tax revenue of the States, contributing almost half of their total own tax receipts. Despite a slowdown, all the non-special category States, except Gujarat and Maharashtra, registered an increase in VAT collections during 2008-09 (RE) as compared with 2007-08 (Accounts) (Chart IV.10). Andhra Pradesh registered the highest VAT-GSDP ratio of 6.1 per cent in 2008-09 (RE), followed by Kerala (5.9 per cent), Tamil Nadu (5.7 per cent) and Karnataka (5.5 per cent). Other important tax revenues of the States are state excise, stamps and registration fees and motor vehicle tax (Statement 49).

4.27 The effect of the slowdown on growth became perceptible only in the later part of 2008-09 and its full effect is likely to be seen in 2009-10. Specifically, the pace of collections under VAT and stamp duties and registration fees are likely to be subdued as compared to what was experienced in recent years.

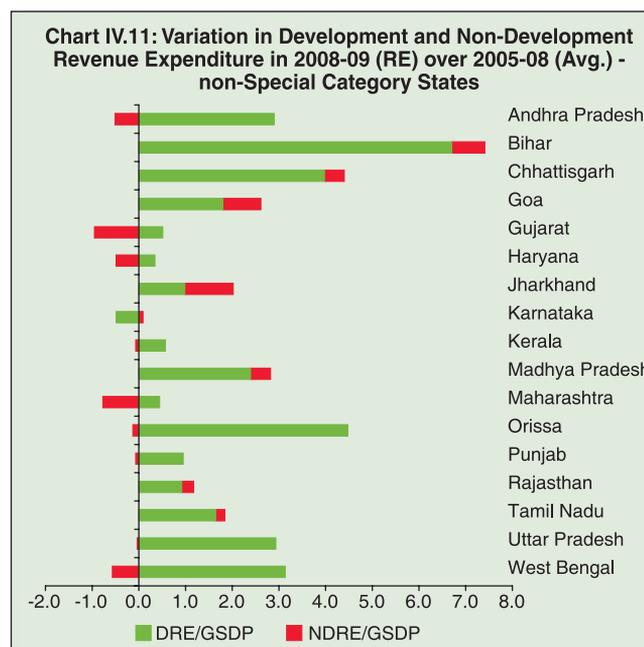
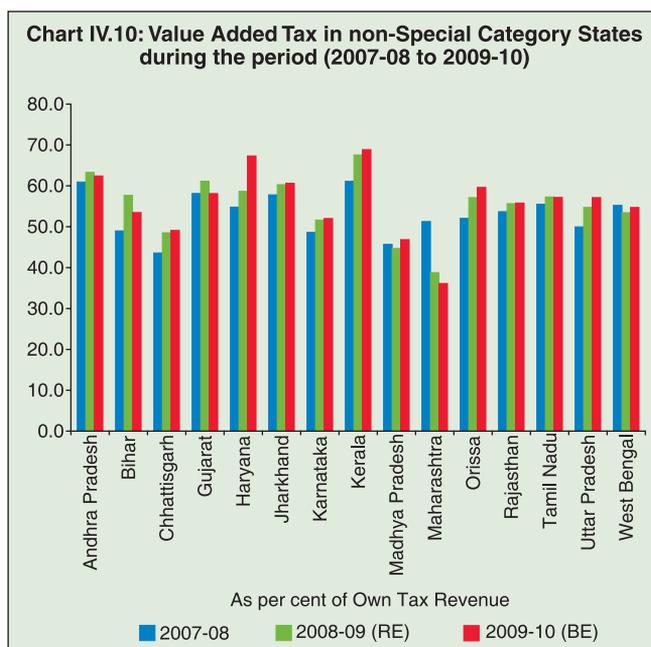
Revenue Expenditure

4.28 The State governments' strategy with regard to revenue expenditure is to control non-development expenditure, mostly administrative

services and debt services expenditure, so as to enhance development expenditure in social sectors.

4.29 The total revenue expenditure in terms of GSDP registered an increase in all the non-special category States except Gujarat, Haryana, Karnataka and Maharashtra in 2008-09 (RE) over 2005-08 (Average). Increase in development revenue expenditure is a major factor behind the increase in the total revenue expenditure in most of the States in 2008-09 (RE) over 2005-08 (Average). Non-development revenue expenditure in the eight States viz., Gujarat, Maharashtra, West Bengal, Andhra Pradesh, Haryana, Orissa, Kerala and Punjab came down during the same period, despite an increasing pressure from salaries and pension hikes on account of the implementation of the Sixth Central Pay Commission/ States' own Pay Commissions (Table IV.3, Chart IV.11 and Statements 12 and 13).

4.30 In 2008-09 (RE), Bihar with the highest development revenue expenditure (DRE)-GSDP ratio of 18.7 per cent and the highest non-development revenue expenditure (NDRE)-GSDP ratio of 9.9 per cent, recorded the highest revised estimates (RE)-GSDP ratio of 28.6 per cent. Orissa registered the second highest RE-GSDP ratio of



21.3 per cent, followed by Uttar Pradesh (20.8 per cent) and Madhya Pradesh (20.5 per cent). The DRE-GSDP ratio remained relatively higher in States, viz., Bihar (18.7 per cent), Chhattisgarh (14.0 per cent), Orissa (13.3 per cent) and Jharkhand (12.9 per cent). Haryana recorded the lowest NDRE-GSDP ratio of 3.3 per cent in 2008-09 (RE). Gujarat (3.8 per cent), Maharashtra (3.9 per cent) and Chhattisgarh (4.9 per cent) also displayed comparatively lower NDRE-GSDP ratios in 2008-09 (RE). All the States, except West Bengal and Gujarat, registered an increase in pensions in the revised estimates of 2008-09 following the implementation of the Sixth Central Pay Commission/States' own Pay Commissions, Bihar registered the highest increase in pension as a ratio to GSDP (3.0 per cent), followed by Kerala (2.6 per cent) and Tamil Nadu (2.3 per cent).

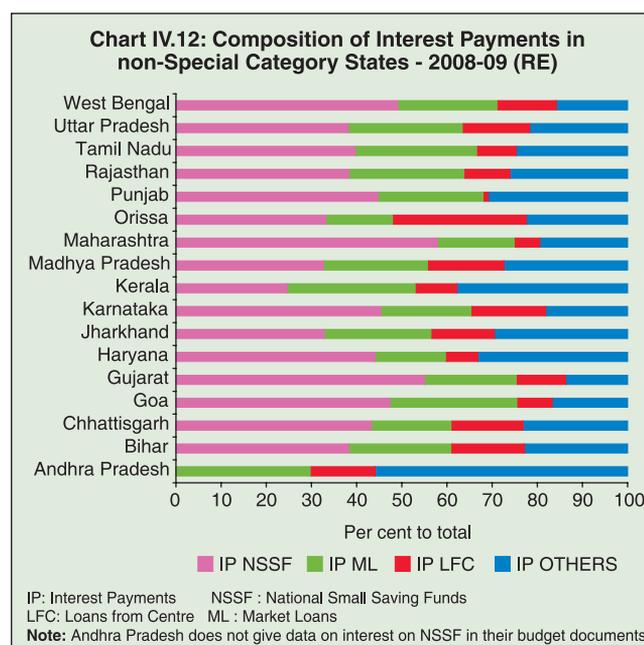
4.31 The revision of salaries consequent to the award of the Sixth Pay Commission has caused an upward shift in the revenue expenditure trajectory. Revenue surplus dried up in 2009-10 and all the States at the consolidated level would be in deficit of 0.5 per cent of GDP. The immediate task before State governments is to ensure that ongoing development and capital work does not get delayed because of a squeeze on resources. In the immediate future, this would require additional revenue mobilisation and also possibly a higher reliance on borrowings.

4.32 The lowest interest payments (IP)-GSDP ratio was registered by Haryana (1.3 per cent), followed by Chhattisgarh (1.4 per cent), Tamil Nadu (1.7 per cent) and Maharashtra (1.8 per cent) in 2008-09 (RE) (Table IV.3). The IP-GSDP ratio came down in all the States, except Jharkhand, and it remained at the previous year's level in Goa.

4.33 The moderation in the interest payments of the States reflects the impact of the Debt Swap Scheme and the Debt Consolidation and Relief Facility (DCRF) recommended by the Eleventh and Twelfth, respectively. However, it may be noted that interest payments on special securities issued to NSSF, which is kept out of the purview of DCRF, constituted more than half the total interest payments obligations in a number of States such

as Maharashtra (57.9 per cent) and Gujarat (55.1 per cent), and it accounted for more than 40 per cent in other States such as West Bengal (49.1 per cent), Goa (47.4 per cent), Karnataka (45.4 per cent), Punjab (44.7 per cent), Haryana (44.1 per cent) and Chhattisgarh (43.3 per cent) in 2008-09 (RE). Further, interest payments on market loans constituted more than one-fourth of the total interest payments in some States such as Andhra Pradesh, Kerala, Goa, Tamil Nadu, Rajasthan and Uttar Pradesh in 2008-09 (RE). Despite the initiation of DCRF, interest payment on account of loans from the Centre is quite high in States such as Orissa (29.4 per cent), Madhya Pradesh (16.7 per cent), Karnataka (16.3 per cent) Bihar (16.1 per cent) and Chhattisgarh (15.7 per cent) in 2008-09 (RE) as compared to States like Punjab (0.9 per cent), Maharashtra (5.5 per cent), Haryana (7.0 per cent), Goa (7.6 per cent) and Tamil Nadu (8.6 per cent) (Chart IV.12 and Statement 17). As per the recommendations of the Twelfth, the States need not compulsorily avail of the loan portion of the Normal Central Assistance.

4.34 In West Bengal, interest payments pre-empted 30.3 per cent of revenue receipts in 2008-09 (RE), followed by Punjab (21.2 per cent), Gujarat (19.9 per cent), Kerala (19.2 per cent), Rajasthan (18.2 per cent) and Orissa (16.1 per cent). All these



non-special category States are yet to achieve the TwFC target with respect to interest payments-revenue receipts (IP-RR) (15.0 per cent) in 2008-09 (RE). A higher share of the IP-RR ratio makes the expenditure management of State governments less flexible as a bulk of the resources cannot be used to finance the priority sectors, *i.e.*, social sector expenditure and development expenditure (Chart IV.13 and Statements 36 and 37).

Special Category States

4.35 In general, the taxable resource base in special category States is narrow as the percentage of BPL families is higher in these States. Considering this, these State governments have decided to augment tax collections by expanding the tax payer base under existing Acts and Rules, strengthening infrastructure, ensuring better compliance and making the tax administration more efficient.

Revenue Receipts

4.36 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, except Uttarakhand, in 2008-09 (RE) over 2005-08 (Average). The

increase in revenue receipts in 2008-09 (RE) in all the special category States, except Jammu and Kashmir, was mainly on account of current transfers rather than their own efforts. Sikkim registered the highest increase in CT followed by Arunachal Pradesh, Meghalaya, Mizoram, Assam and Manipur in 2008-09 (RE) as compared to 2005-08 (Average). During 2008-09 (RE), only Uttarakhand witnessed a decline in the current transfers (CT)-GSDP ratio over 2005-08 (Average). This implies that CT played a significant role in the higher revenue surplus recorded by the special category States in 2008-09 (RE) over 2005-08 (Average). Thus, the fiscal stability of the special category States is predominantly dependent on Central transfers (Chart IV.14 and Statements 18-23).

4.37 Sikkim recorded the highest revenue receipts (RR)-GSDP ratio of 111.1 per cent in 2008-09 (RE), followed by Arunachal Pradesh (88.8 per cent), Mizoram (73.8 per cent) and Manipur (64.3 per cent). Transfers and devolution from the Centre constitute a 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 own-non tax revenue, mainly State lotteries, constitutes a major portion of the State's total revenue receipts. Sikkim displays the highest own non-tax effort (44.4 per cent

Chart IV.13: Pre-emption of Revenue Receipts by Interest Payments and Committed Expenditure in non-Special Category States – 2008-09 (RE)

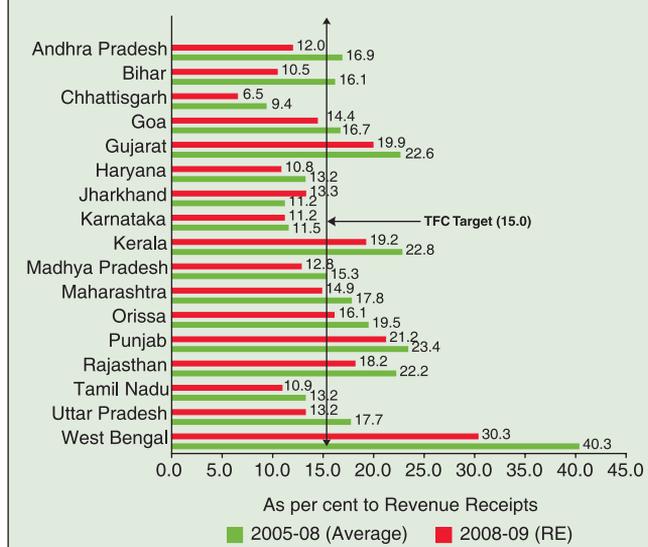
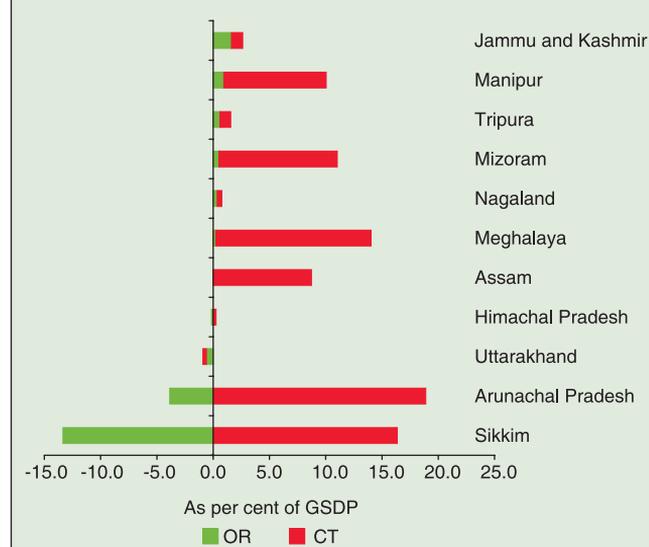


Chart IV.14: Variation in Own Revenue (OR) and Central Transfers (CT) in 2008-09 (RE) over 2005-08 (Avg.) - Special Category States



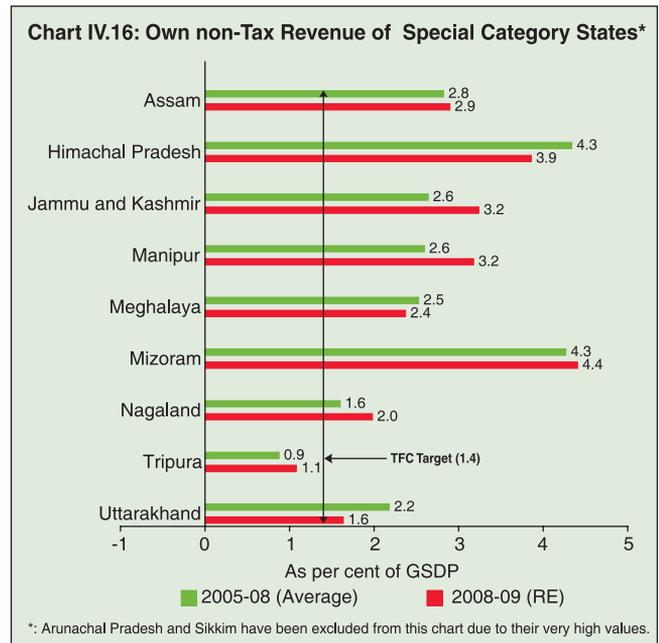
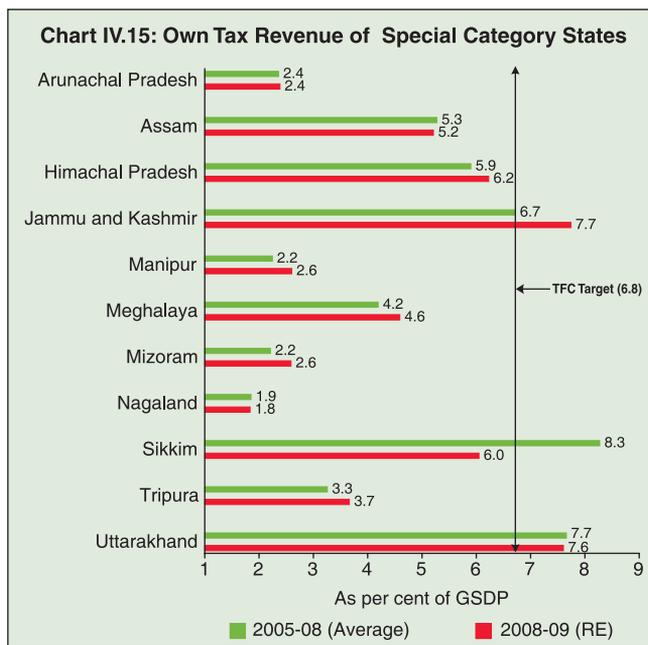
State-Wise Analysis of Fiscal Performance

of GSDP) among the special category States, followed by Arunachal Pradesh (7.3 per cent). Jammu and Kashmir registered the highest own tax effort of 7.7 per cent in 2008-09 (RE), followed by Uttarakhand (7.6 per cent) and Himachal Pradesh (6.2 per cent) (Charts IV.15, 16 and Statement 19).

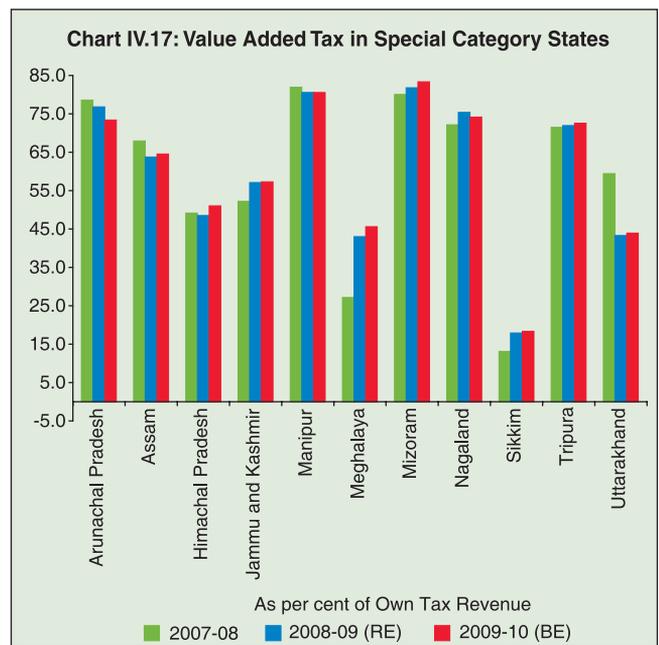
4.38 State governments have been initiating measures to make the VAT system more user friendly. At the same time they also propose to strengthen the audit and enforcement mechanisms to check evasion of taxes and to mobilise additional revenue. Despite the economic slowdown, the VAT-GSDP ratio in all the special category States, except in Uttarakhand and Arunachal Pradesh, registered an improvement in 2008-09 (RE) over 2007-08 (Accounts). During 2008-09 (RE), the VAT-GSDP ratio was the highest in Jammu and Kashmir (4.4 per cent), followed by Assam and Uttarakhand (3.3 per cent each). Among the tax revenue sources, state excise is next in order of importance after VAT among the special category States (Table IV.2 and Chart IV.17).

Revenue Expenditure

4.39 Revenue expenditure in terms of GSDP increased in the nine special category States, viz.,



Meghalaya, Arunachal Pradesh, Himachal Pradesh, Manipur, Assam, Mizoram, Nagaland and Tripura in 2008-09 (RE) over 2005-08 (Average). Except the two States of Jammu and Kashmir and Uttarakhand, the development component of revenue expenditure in terms of GSDP increased during 2008-09 (RE) over 2005-08 (Average). Meghalaya registered the highest increase in development revenue expenditure to GSDP ratio in 2008-09 (RE) over 2005-08 (Average), followed



by Arunachal Pradesh, Mizoram and Sikkim. During the same period, Sikkim witnessed the highest decline of 12.7 per cent in the non-development component of revenue expenditure (NDRE) as percentage to GSDP followed by Himachal Pradesh (decline by 0.2 per cent) (Chart IV.18). Arunachal Pradesh registered the highest increase in the NDRE-GSDP ratio in 2008-09 (RE) over 2005-08 (Average), followed by Manipur and Assam.

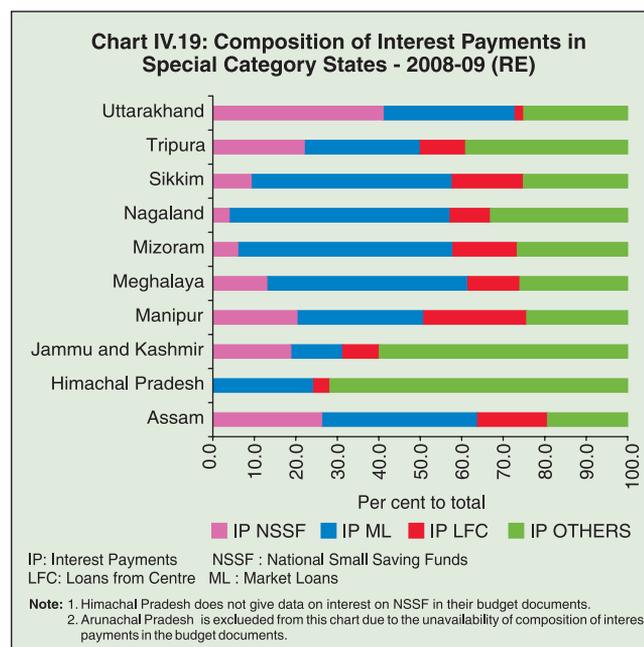
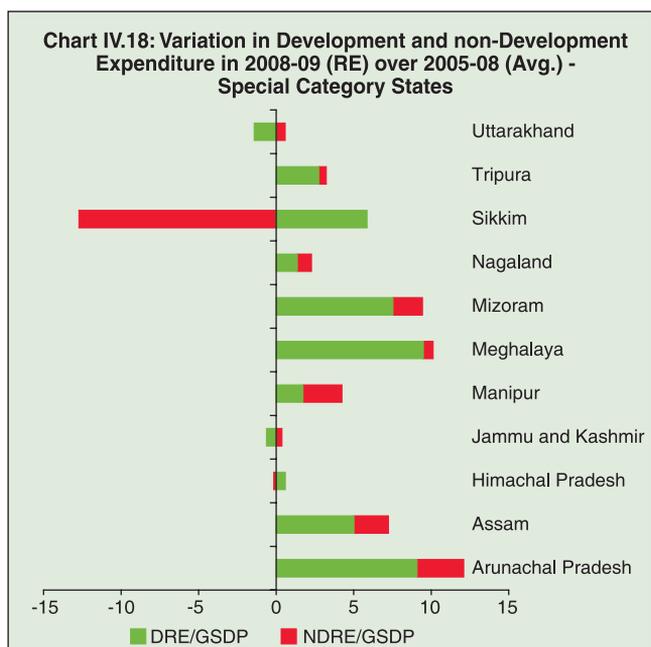
4.40 In the seven special category States, viz., Jammu and Kashmir, Meghalaya, Himachal Pradesh, Mizoram, Nagaland, Sikkim and Tripura, the interest payments as ratio to GSDP came down in 2008-09 (RE) over 2005-08 (Average). However, pension as a per cent of GSDP increased in all the special category States, except in Meghalaya and Sikkim, during the same period (Table IV.3 and Statements 12 and 13).

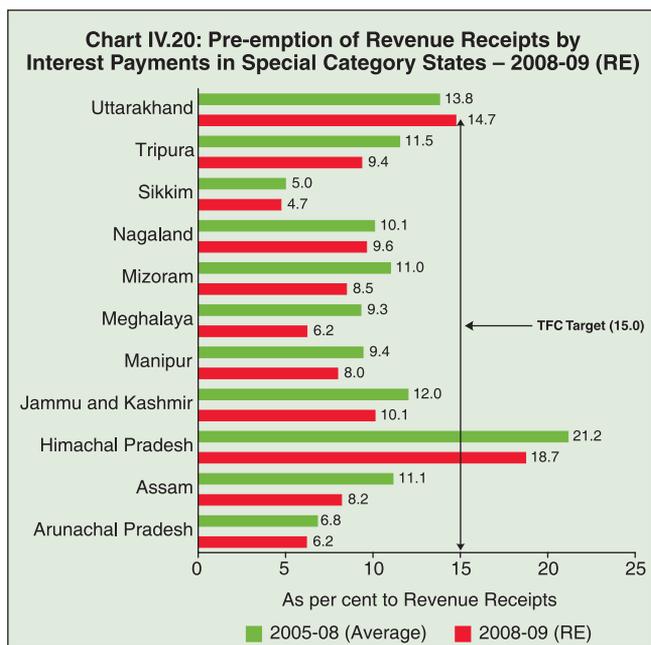
4.41 Sikkim displayed the highest RE-GSDP ratio of 89.0 per cent, followed by Arunachal Pradesh (70.2 per cent) and Mizoram (67.2 per cent). Development revenue expenditure constitutes a major portion of the total revenue expenditure in all the special category States. The level of development revenue expenditure is as high as 50.5 per cent in the case of Arunachal Pradesh, followed by Mizoram, Manipur and Sikkim. Despite

a significant decline of 12.7 per cent in terms of the NDRE-GSDP ratio in 2008-09 (RE) over 2005-08 (Average), Sikkim stood out with a NDRE-GSDP ratio of 51.1 per cent in 2008-09 (RE), followed by Mizoram and Arunachal Pradesh.

4.42 The interest payments on loans from Centre contributed a small portion of total interest payments in all the special category States, except Manipur, in 2008-09 (RE). Interest payment on NSSF was the highest in the case of Uttarakhand (41.1 per cent), followed by Assam (26.3 per cent) and Tripura (22.0 per cent). On the other hand, in case of Nagaland it was only 4.0 per cent. Nagaland registered the highest interest payment on market loans (53.3 per cent), followed by Mizoram (51.9 per cent) and Meghalaya (48.5 per cent) (Chart IV.19).

4.43 Mizoram registered the highest IP-GSDP ratio of 6.3 per cent, followed by Arunachal Pradesh (5.5 per cent) and Sikkim (5.3 per cent) in 2008-09 (RE). Manipur, Nagaland and Jammu and Kashmir registered the highest pension-GSDP ratio of 4.1 per cent, 3.4 per cent and 3.3 per cent respectively in 2008-09 (RE) (Table IV.3). The TwFC had envisaged that the States' interest payments should be brought down to 15 per cent of revenue receipts. All the special category States, except Himachal Pradesh, achieved the TwFC target with respect





to IP-RR (15.0 per cent) in 2008-09 (RE). The IP-RR ratio was the lowest in the case of Sikkim (4.7 per cent), followed by Arunachal Pradesh and Meghalaya (6.2 per cent each) (Chart IV.20 and Statements 17, 36 and 37).

4. Expenditure Pattern of State Governments

4.44 Public expenditure signifies the quantum of government spending on social and physical infrastructure for the development of States. The size, composition and productivity of public expenditure are important parameters to assess the effectiveness of public expenditure in accelerating the growth impulse of the economy. Expenditure management policies of State governments link expenditure to monitorable, quantifiable physical outputs and outcomes with greater emphasis on increasing the capital outlay. Priorities have been accorded to complete incomplete projects by adequate funding and close monitoring in some of the special category States.

4.45 An analysis of some of the qualitative categories of expenditure, viz., capital outlay⁷, development expenditure⁸ and social sector expenditure⁹ is attempted here. The data on these expenditure categories for the period 2005-08 (Average) and 2008-09 (RE) for both the non-special and special category States are presented in Table IV.4.

Non-special Category States

4.46 The development expenditure as a ratio to GSDP witnessed an increase in all the non-special category States, except Karnataka, in 2008-09 (RE) over 2005-08 (Average). Bihar registered the highest increase in development expenditure to GSDP ratio in 2008-09 (RE) over 2005-08 (Average), followed by Orissa, Uttar Pradesh and Chhattisgarh. Bihar recorded the highest development expenditure to GSDP ratio (27.9 per cent), followed by Chhattisgarh (18.9 per cent), Uttar Pradesh (18.4 per cent) and Jharkhand (18.3 per cent) in 2008-09 (RE) (Table IV.4, Chart IV.21 and Statement 12).

4.47 All the non-special category States experienced an increase in social sector expenditure (SSE) to GSDP ratio in 2008-09 (RE) over 2005-08 (Average). Bihar registered the highest increase in social sector expenditure to GSDP ratio, followed by Chhattisgarh, Orissa and Andhra Pradesh. Bihar recorded the highest SSE-GSDP ratio of 17.8 per cent, followed by Chhattisgarh (13.1 per cent) and Jharkhand (12.9 per cent) in 2008-09 (RE) (Table IV.4 and Chart IV.22) (also see Statements 41, 42, 46 and 47).

4.48 All the non-special category States, except Madhya Pradesh, Rajasthan and Karnataka, registered an increase in the capital outlay (CO)-GSDP ratio in 2008-09 (RE) over 2005-08 (Average). Bihar registered the highest increase

⁷ Capital outlay includes both development and non-development capital outlay of State governments.

⁸ Development expenditure includes the development components of revenue expenditure, capital outlay and loans and advances by the State governments.

⁹ Social sector expenditure includes expenditure on social services, expenditure on food storage and warehousing and rural development under revenue expenditure, capital outlay and loans and advances of the State governments.

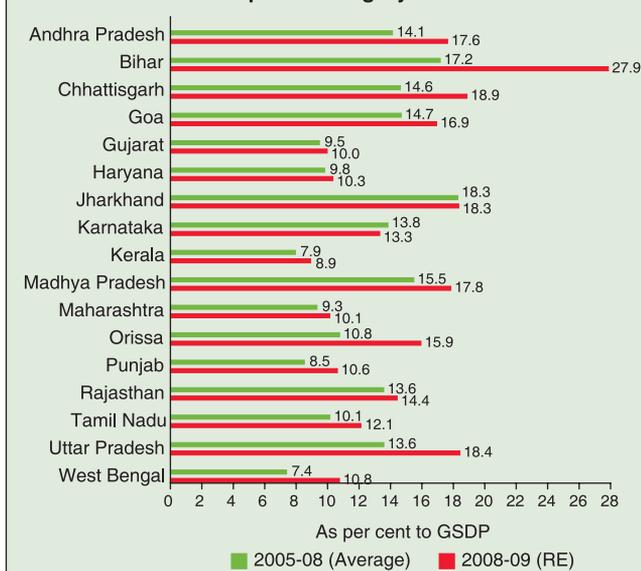
Table IV.4: Expenditure Pattern of State Governments

(Per cent)						
State	2005-08 (Avg.)			2008-09 (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	14.1	7.0	3.7	17.6	9.9	3.7
2. Bihar	17.2	11.4	4.4	27.9	17.8	8.9
3. Chhattisgarh	14.6	9.5	3.8	18.9	13.1	4.3
4. Goa	14.7	6.6	4.2	16.9	8.2	4.9
5. Gujarat	9.5	5.0	2.8	10.0	5.1	2.9
6. Haryana	9.8	4.5	1.9	10.3	5.3	2.0
7. Jharkhand	18.3	11.5	4.6	18.3	12.9	5.1
8. Karnataka	13.8	7.0	3.7	13.3	7.7	3.5
9. Kerala	7.9	5.5	0.7	8.9	6.2	0.9
10. Madhya Pradesh	15.5	8.4	4.8	17.8	10.6	4.3
11. Maharashtra	9.3	5.4	2.1	10.1	5.5	2.8
12. Orissa	10.8	7.0	1.8	15.9	10.6	2.7
13. Punjab	8.5	3.7	1.7	10.6	5.7	3.0
14. Rajasthan	13.6	8.5	3.5	14.4	10.1	3.1
15. Tamil Nadu	10.1	6.3	2.1	12.1	7.8	2.6
16. Uttar Pradesh	13.6	7.9	4.2	18.4	10.7	6.3
17. West Bengal	7.4	5.1	0.8	10.8	6.1	1.2
II. Special Category						
1. Arunachal Pradesh	58.2	25.4	17.3	91.4	32.3	42.4
2. Assam	13.4	8.2	2.2	21.3	12.8	5.1
3. Himachal Pradesh	18.5	11.4	3.8	21.2	13.1	5.7
4. Jammu and Kashmir	32.5	15.4	13.1	34.3	16.1	16.3
5. Manipur	40.0	19.6	15.9	52.9	24.7	26.0
6. Meghalaya	22.3	12.8	4.6	34.7	17.7	7.3
7. Mizoram	53.9	27.2	16.2	62.0	36.9	17.0
8. Nagaland	28.5	14.4	10.6	32.3	16.1	13.4
9. Sikkim	48.3	27.3	17.4	69.6	35.1	34.9
10. Tripura	19.7	12.0	7.7	25.9	15.7	11.9
11. Uttarakhand	18.8	10.7	6.2	16.6	9.2	5.6
All States#	9.1	5.2	2.3	11.0	6.5	2.8
<i>Memo Item:</i>						
1. NCT Delhi	7.4	4.5	1.8	9.2	5.7	2.4
2. Puducherry	25.1	11.9	4.3	30.0	14.4	4.3

Avg. : Average.
 RE : Revised Estimates.
 DEV : Development Expenditure.
 SSE : Social Sector Expenditure.
 CO : Capital Outlay.
 GSDP : Gross State Domestic Product.
 # : Data for All States are as per cent to GDP.
Source: Based on Budget Documents of the State Governments.

in the CO-GSDP ratio, followed by Uttar Pradesh, Punjab and Orissa during the same period. Bihar registered the highest CO-GSDP ratio of 8.9 per cent, followed by Uttar Pradesh (6.3 per cent) and Jharkhand (5.1 per cent) in 2008-09 (RE). However,

Chart IV.21: Development Expenditure of non-Special Category States

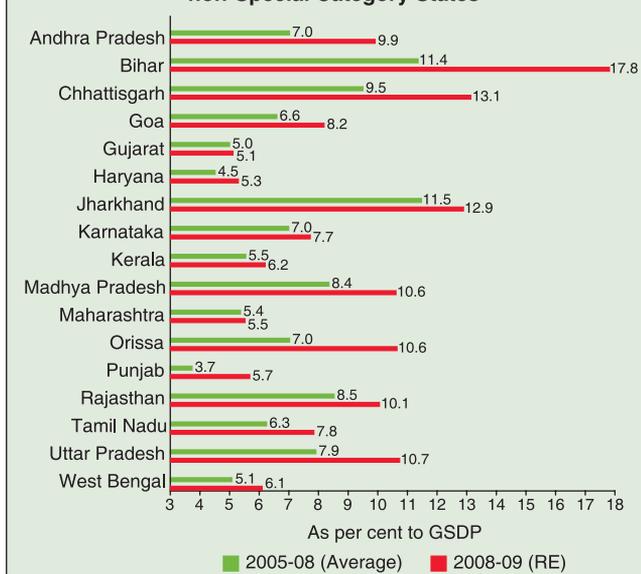


the level of the CO-GSDP ratio was quite low in States like Kerala, West Bengal, Haryana, Tamil Nadu, Orissa and Maharashtra in 2008-09 (RE) (Table IV.4 and Chart IV.23).

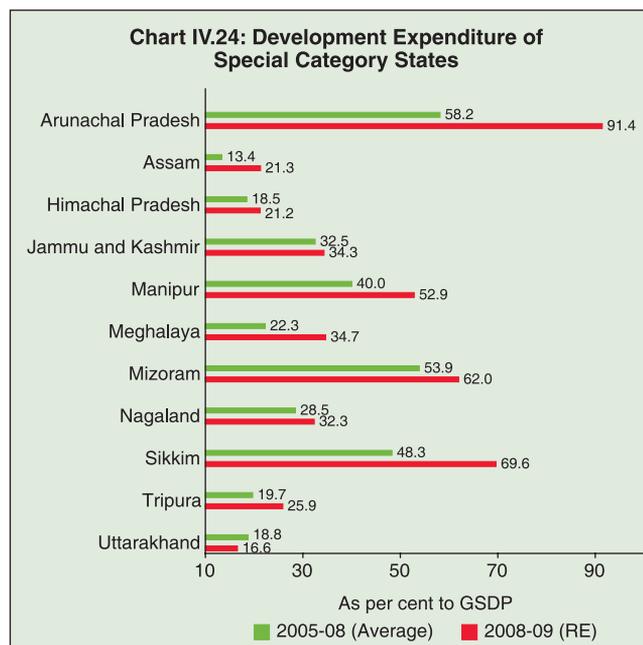
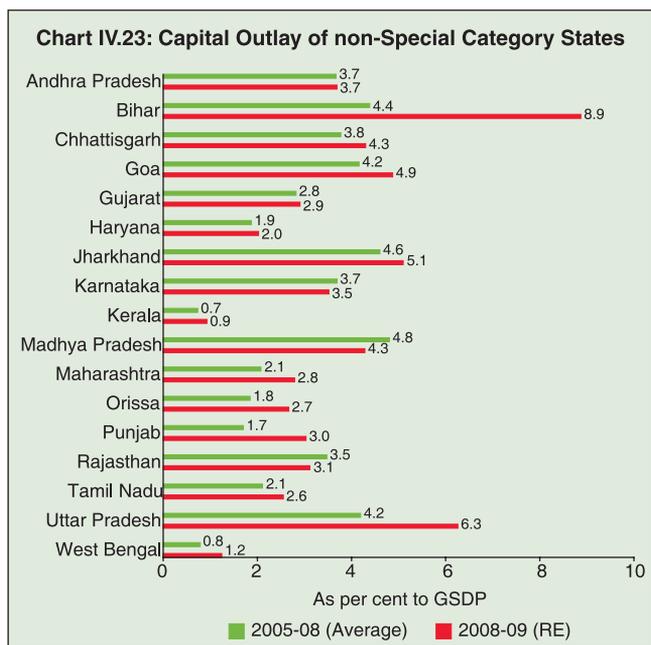
Special Category States

4.49 Special category States highlighted the need of improving the quality of expenditure by

Chart IV.22: Social Sector Expenditure of non-Special Category States



State-Wise Analysis of Fiscal Performance

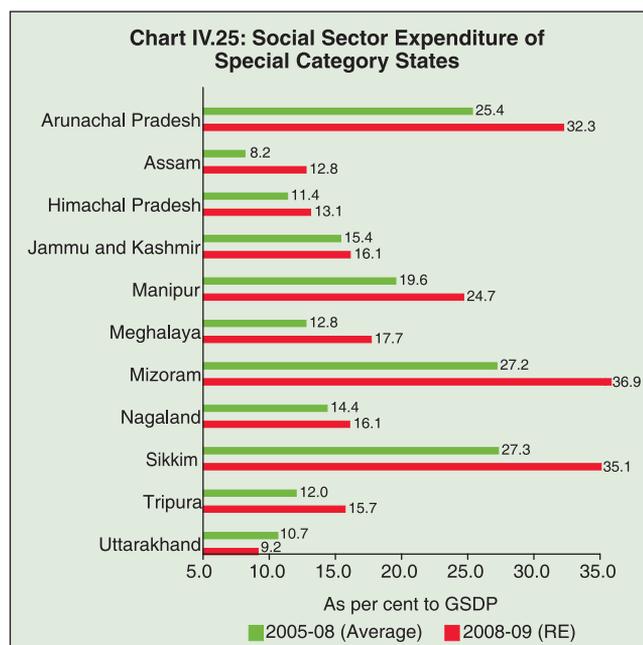


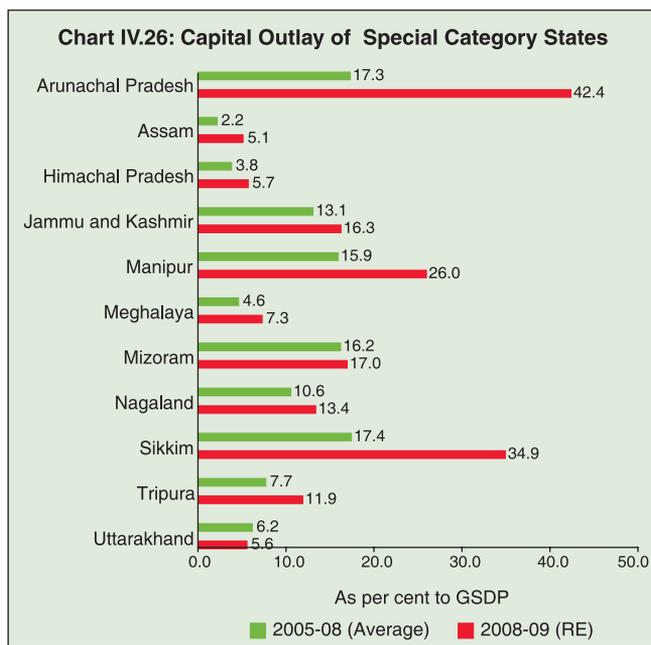
devoting higher expenditure to capital investments. All the special category States, except Uttarakhand, witnessed an increase in development expenditure to GSDP ratio in 2008-09 (RE) over 2005-08 (Average). Arunachal Pradesh witnessed the highest increase in the development expenditure to GSDP ratio, followed by Sikkim and Manipur during the same period. Among the special category States, Arunachal Pradesh registered the highest development expenditure to GSDP ratio of 91.4 per cent, followed by Sikkim (69.6 per cent) and Mizoram (62.0 per cent) in 2008-09 (RE) (Table IV.4, Chart IV.24 and Statement 12).

4.50 The SSE-GSDP ratio witnessed an increase in all the special category States, except Uttarakhand in 2008-09 (RE) over 2005-08 (Average). Among the special category States, Mizoram recorded the highest increase in social sector expenditure to GSDP ratio (36.9 per cent), followed by Sikkim (35.1 per cent) and Arunachal Pradesh (32.3 per cent) during the same period (Table IV.4, Chart IV.25 and Statements 41, 42, 46 and 47).

4.51 All the special category States, except Uttarakhand, witnessed an increase in the CO-

GSDP ratio in 2008-09 (RE) over 2005-08 (Average). Arunachal Pradesh registered the highest increase in the 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 Arunachal Pradesh (42.4 per cent), Sikkim (34.9 per cent) and Manipur (26.0 per cent) in 2008-09 (RE) (Table IV.4 and Chart IV.26).





5. Conclusion

4.52 The significant turnaround in State finances in the recent past as reflected in the improved level of deficit indicators till 2007-08 provided the necessary cushion to State governments to face the negative impact of the slowdown and also to absorb the increased pressure on account of the Sixth Pay Commission/State's own Pay Commissions during 2008-09, which was not the case during the implementation of the Fifth Pay Commission. The State-wise position shows that during 2008-09 (RE), a majority of the States were

able to maintain their surplus positions albeit at lower levels (except Kerala, West Bengal, Punjab and Haryana). Despite the slowdown, Meghalaya, Haryana, Orissa, Maharashtra, Tamil Nadu, Chhattisgarh, Assam, Andhra Pradesh and Gujarat were able to keep their GFD-GSDP ratio below 3.0 per cent.

4.53 However, the impact of the slowdown is evident in 2009-10 as the number of revenue surplus States has declined sharply to 14 States as compared with 24 States in 2008-09 (RE). This is mainly on account of higher growth in revenue expenditure *vis-à-vis* revenue receipts. As an outcome of this, all States at the consolidated level budgeted a revenue deficit of 0.5 per cent of GDP in 2009-10. In line with the decline in the revenue account, the surge in GFD was also seen across all the States except in the six States *viz.*, Kerala, Bihar, Karnataka, Chhattisgarh, Gujarat and Tamil Nadu. Non-special category States appear to be mainly responsible for the deterioration in deficit indicators during 2009-10 (BE). Non-special category States would account for 77.5 per cent of the total deterioration in the revenue account of States and 81.5 per cent of the increase in GFD in 2009-10 (BE) over 2008-09 (RE). There also exists a wide variation across States in terms of the OTR-GSDP ratio. Karnataka had the highest OTR-GSDP ratio of 10.7 per cent in 2008-09 (RE) while States like West Bengal and Bihar were at the lower level with 4.7 to 5.5 per cent.