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A Study on the Trends of State Governments' Finances: 2001-02 to 2017-18

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Abstract

Sharp deterioration in state finance during the last decade has been a matter of serious concern to policy makers in India. The deterioration in State Finance is largely an outcome of the fact that in the fact of a limited resource base the states had to cope with a significant growth in their committed expenditure. Correcting the fiscal imbalance today is the single most important objective of the new economic policy in India. The crucial issue therefore is to bring out improvement in State Finance with a view to restructuring the expenditure in favor of development expenditure in order to enable a higher growth. The states took policy measures which helped them to avoid further worsening of their fiscal position to some extent. The present study attempting to bring out the emerging trends in state finances of India in recent years.

Key Words: State Governments, Finances, Revenue, Expenditure, Fiscal position, Resources, Deficit, Development

INTRODUCTION:

According to federal system of India, the states have very crucial role in the process of overall economic development. State governments have been assigned large social and economic developmental responsibilities under the provision of Constitution of India. To carry out these responsibilities successfully, the state governments have to incur much expenditure. State Finances is a comparative study of State Government Budgets. The study of state finances is very important in the present scenario because states play significant role in economic development. The finance is the sum total of economic relations in the process of which monetary fund of the state or economy are formed. The finance and financial policies of the state is an efficient instrument for the development of the economy. The growing importance of state finance in the macro economy is evident from the fact that the size of overall development expenditure of the states has always been higher than that of centre and this difference has got widened rather significantly in the 1990s. Assignment of functions and sources of finances among different tiers of government is crucial for the efficient organization of any federal fiscal system. To enhance welfare gains, the lower level jurisdiction would have to provide all public services of a non-national character and thereby promote growth. The states have the primary responsibility to undertake tasks pertaining to developing economic and social infrastructure. However their ability to undertake such development functions is critically determined by their financial position. States are starved of funds to meet the essential investment needs in social and infrastructure sector. Large borrowings are restored to by several states just to meet the current expenditure. Against this background, this paper provides an analytical review of fiscal situation of the states since 2001-02.

Specifically, the study would focus on the following issues:

1 To give a brief description of the fiscal imbalances of state governments in India.
2 To analyze the growth and trends of revenue and expenditure of state governments.
3 To analyze the trends of central transfers to state governments.
4 To suggest measures for restructuring the states' fiscal position.

DATABASE AND METHODOLOGY:

The study has been conducted with the help of primary and secondary sources of information as provided in the books, journals and newspapers. The secondary data available from various government and institutional resources like Central Government Receipt Budget, Indian Public Finance Statistics, Economic Survey-Government of India, Reserve Bank of India Bulletins, State Finances-A study of budgets of various years were collected for the purpose of analysis, and the results were tabulated.

TRENDS IN FINANCES OF STATE GOVERNMNETS:

The paper starts with the analysis of the fiscal imbalance as it provides a bird's eye view of the net outcome of the performance of the various revenues and expenditures. There are four major indicators of state government fiscal imbalance-Gross Fiscal Deficit, Revenue Deficit, Primary Deficit, Primary Revenue Deficit. Table 1 provides the profile of the different indicators of fiscal imbalance in respect of state finances since 2001-02.

Table1: Major Deficit Indicators of State Governments (as percentage to GDP)

Year	Gross Fiscal Deficit	Revenue Deficit	Primary Deficit	Primary Revenue Deficit
2001-02	4	2.5	1.7	0.2
2005-06	4	2.6	1.4	-0.1
2006-07	3.9	2.3	1.2	-0.5
2007-08	4.2	2.2	1.4	-0.6
2008-09	3.3	1.2	0.7	-1.5
2009-2010	2.4	0.2	0.2	-2.1
2010-11	1.8	-0.6	-0.4	-2.7
2011-12	1.5	-0.9	-0.5	-2.9
2012-13	2.4	-0.2	0.6	-2.1
2013-14	2.9	0.5	1.2	-1.3
2014-15	2.1	0	0.5	-1.6
2015-16	1.9	-0.3	0.4	-1.8
2016-17(RE)	2.1	-0.2	0.8	-1.7

2017-18(BE)	2.4	-0.5	0.6	-1.9

RE: Revised Estimates, BE: Budget estimates

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

Source: State Finance in India-A study of budgets of various years.

Note: 1. Revenue Deficit is the difference between revenue expenditure and revenue receipts.

2. Gross Fiscal Deficit is aggregate expenditure minus revenue receipts and non-debt capital receipts.
3. Primary Deficit is gross fiscal deficit minus interest payments.
4. Primary Revenue Deficit is revenue deficit minus in interest payments.

The fiscal position of state governments indicates continuation of the process of fiscal consolidation which was resumed in 2010-11 consequent to the amendments in their FRBM Acts, in line with the target set by the Thirteenth Finance Commission. Fiscal consolidation gained further momentum in 2011-12, with an improvement in all the key deficit indicators at the consolidated level. Revenue surpluses were a result of the combined effect of a reduction in revenue expenditure and increase in own revenues relative to GDP as compared to the post crisis period (2008-10). However, revenue surpluses declined somewhat in 2016-17 and the gross fiscal deficit-gross domestic product ratio rose on account of increase in capital outlay and development expenditure. All key indicators are budgeted to improve in 2018-19.

Table 2: Revenue Receipts of States

(Rs. In crores)

Year	Tax Revenue	Non-Tax Revenue	Grants from the Centre	Transfer from funds	Total
	1	2	3	4	1+2+3+4
2001-02	162157.68	20148.68	37430.69	2054.21	221791.26
2002-03	180712.07	22640.34	42936.37	2211.9	248500.68
2003-04	192363.44	24850.91	42560.23	3786.3	263560.88
2004-05	225885.65	28767.5	49977.41	4357.06	308987.62
2005-06	267876.8	29627.03	57167.64	5264.03	359945.5
2006-07	316563.05	34476.12	77479.79	6243.02	434761.98
2007-08	383547.06	53194.4	95793.1	6814.29	539348.85
2008-09	423583.1	54266.95	107234.8	4326.56	589411.42
2009-2010	464683	55441.44	126944.33	4841.36	651910.13
2010-11	543673.44	64678.01	150382.26	2633.44	761367.15
2011-12	697741.1	63481.32	169398.19	1670.85	932291.46

2012-13	833080.86	68382.29	226992.46	2753.64	1131209.25
2013-14	971430	84101	191295	2726.04	1246827
2014-15	1058515	96098	208565	---	1363179
2015-16	1129095	103242	329049	----	1561386
2016-17(RE)	1441419	121281	392373	----	1955073
2017-18(BE)	1634454	155345	472796	----	2262594

Source: State Finance in India-A study of budgets of various years.

Table 2 shows the growth in revenue receipts of the states over the period 2001-02 to 2017-18. The total revenue receipts of the states have increased from Rs. 221791.26 crore in 2001-02 to 2262594 crore in 2017-18(BE). The contribution of tax revenue in total revenue receipts has increased from 73.12 percent in 2000-01 to 74 percent in 2017-18(BE).The percent share of non-tax revenue was estimated at 5.82 percent in 2017-18(BE). Similarly, the grants from Centre to the states do not represent a healthy situation for state finances. Grants from Centre constitute only 15.7 percent of revenue receipts of states.

To increase states' own tax revenue, many states have raised taxes on tobacco and liquor products, besides a few other products, and some states have proposed measures for simplifying tax procedures and for improving tax compliance. Measures on the expenditure front include increased outlays for the power sector to meet commitments under the financial restructuring plan for state power utilities, strengthening the public distribution system and creating adequate storage facilities for implementation of the National Food Security Act, besides continuing to accord importance to education, health, agriculture and infrastructure.

Some of the policy initiatives of the central government, like the restructuring of centrally sponsored schemes and the implementation of the National Food Security Act of 2013 have entailed an additional responsibility at the state level. Hence the finance of the states is not only being shaped by their own policies but also by the policies of the central government.

Table 3: Revenue Expenditure of States (Rs. In crores)

Year	Non-Development Expenditure	Development Expenditure	Transfer of funds	Revenue Expenditure
	1	2	3	(1,2,3)
2001-02	129010.88	138415.82	4539.65	271966.35
2002-03	150845.96	148946.77	5650.08	305442.81
2003-04	159605.85	151256.47	6918.17	317780.49
2004-05	181267.55	178882.46	7853.44	368003.45
2005-06	203853.29	180633.24	9650.67	394137.2
2006-07	218431.9	209285.4	7796.49	435513.79

2007-08	244373.61	256688.95	8574.9	509637.46
2008-09	257739.32	277538.55	5564.9	540842.65
2009-2010	290140.34	341150.55	4918.02	636208.91
2010-11	362434.53	418263.53	7950.44	788648.5
2011-12	434198.79	535122.66	11507.29	980828.74
2012-13	480749.83	628485.76	12863.92	1122099.51
2013-14	513428	708082	14168.76	1275433.18
2014-15	610720	757583	---	1368303
2015-16	669991	920652	---	1590643
2016-17(RE)	801229	1177891	---	1979120
2017-18(BE)	900734	1335528	---	2236262

Source: State Finance in India-A study of budgets of various years.

Table 3 indicates the profile of revenue expenditure of states over the period from 2001-02 to 2017-18(BE).The revenue expenditure of the states has increased from Rs.271966.35 crore in 2001-02 to 2236262 crore in 2017-18(BE).Non-development expenditure constitutes 43.69 percent of the total revenue expenditure in 2017-18(BE).The percentage share of development expenditure of states has increased from 50.89 in 2000-01 to 55.66 percent in 2017-18(BE). As the capital receipts cover up the shortfall between revenue receipts and total expenditure of the Government, now it turns towards the profile of capital receipts and capital expenditure. However the distinctive feature of the capital receipts has been changing its pattern over a period of time. Table 4 shows the growth of capital receipts of the state governments.

Table 4: Capital Receipts of States
(Rs. In crore)

Year	Capital Receipts
2001-02	92718.41
2002-03	92808.57
2003-04	128771.49
2004-05	117885.82
2005-06	124703.96
2006-07	23401.5
2007-08	88429.5
2008-09	88429.5
2009-2010	132164.93
2010-11	186210.39
2011-12	181079.55

2012-13	197911.87
2013-14	215883.06
2014-15	235565
2015-16	299170
2016-17(RE)	450847
2017-18(BE)	453779

Source: State Finance in India-A study of budgets of various years.

Capital receipts of the states have increased from Rs.92718.41 crore in 2000-01 to Rs. 453779 crore in 2017-18(BE)).This increase is due to increase in interest receipts and increase in investment in the core sectors. This changing profile of capital receipts also had adverse impact on the Government finances, as both market borrowing and small savings are more expensive sources of capital receipts and invariably lead to higher interest burden in future if the returns on investment are not commensurate.

Table5: Capital Expenditure of States (Rs. In crores)

Year	Non-Development Expenditure	Development Expenditure	Loan Advances by States and UTs (Net)	Capital Expenditure
	1	2	3	(1,2,3)
2001-02	252.58	29985.6	4484.82	34723
2002-03	515.49	30763.34	4514.93	35793.76
2003-04	883.36	33029.79	10254.42	44167.57
2004-05	833.9	50241.95	10899.62	61975.47
2005-06	1298.29	58845.71	10784.84	70928.84
2006-07	1038.36	77717.41	8099.9	86855.67
2007-08	1816.65	98378.12	9496.11	109690.88
2008-09	2287.16	112717.32	9254.31	124258.79
2009-2010	1980.4	133208.78	7832.32	143021.5
2010-11	1462.53	151784.1	14422.52	167680.15
2011-12	2659.27	152819.65	19256.49	174735.41
2012-13	6381.93	193477.89	21264.59	221124.41
2013-14	7287	218336	21944	247567
2014-15	7569	264477	16470	288516
2015-16	9914.52	232704.49	24702.12	267321.13
2016-17(RE)	14055	373899	83507	471461
2017-18(BE)	16314	434757	26597	477668

Source: State Finance in India-A study of budgets of various years.

As shown in table 5, the percentage of non-development expenditure in total capital expenditure has increased from 0.7 percent in 2000-01 to 3.7 percent in 2017-18(BE).The percent share of development expenditure of states has increased from 86.35 percent in 2000-01 to 87.05 in 2017-18(BE).

Table 6: Mean, Standard Deviation and Coefficient of Variation

	Revenue Receipts	Revenue Expenditure	Capital Receipts	Capital Expenditure
Mean	597427.42	611272.5415	128492.19	118636.66
Standard Deviation	339439.78	318411.4765	52257.25	70610.55
Coefficient of Variation	176.0039	191.9756	245.8839	168.0154

Source: Based on table 2-5.

On the basis of coefficient of variation if we compare revenue receipts, revenue expenditure, capital receipts and capital expenditure, capital receipts recorded more variation i.e. 245.8839.

Table 7: Transfer of Resources from Centre to States (Rs. crore)

Year	States' share in central taxes	Grants from the centre	Gross Loans from the centre	Gross transfer	Repayment of loans and interest payment liabilities	Net transfer of resources from the centre
	I	ii	Iii	iv=(i+ii+iii)	V	vi=(iv-v)
2001-02	51945	37684	20490	110119	11691	98428
2002-03	53528	42489	24528	120545	14002	106543
2003-04	56841	43167	28231	128239	30303	97936
2004-05	67366	48430	25449	141245	61179	80066
2005-06	80159	53872	24806	158838	59737	99101
2006-07	95887	73677	5654	175218	8799	166419
2007-08	122330	90185	4970	217485	15338	202147
2008-09	153600	108377	6706	268683	8290	260393
2009-2010	161979	124090	7115	293184	2711	290473
2010-11	167992	140955	7907	316853	8664	308189
2011-12	223203	157181	10299	390683	9327	381356
2012-13	259412	177426	10088	446926	10754	436172
2013-14	294357	177708	14059	486124	9511	476613
2014-15	322880	194119	11090	528089	10119	517969
2015-16	341269	331648	12012	684929	10658	674271
2016-17(RE)	512103	301973	12679	826755	9193	817562
2017-18(BE)	576787	275117	12682	8645860	9573	855014

Source: Indian Public Finance Statistics 2017-18.

As shown in table 7, gross transfer to states comprising of states' share in central taxes, grants from the centre and gross loans from the centre are estimated at 8645860 crore in 2017-18 (BE). Contribution of States' share in central taxes in gross transfers has increased from 47.53 percent in 2001-02 to 54.24 percent in 2017-18(BE) .Percentage share of grants from the centre in gross transfer to states has increased from 34.9 in 2001-02 to 44.37 in 2017-18(BE).Gross loans from centre has decreased from 17.5percent in 2001-02 to 2.9 percent in 2017-18(BE). Contribution of states' share in central taxes in total gross transfer to states should increase further, as it reflects the strong fiscal position of the states and their increasing revenue generating capacity.

Table 8: Outstanding liabilities of state governments

Year	Outstanding Liabilities (Rs. Crore)	%age of GDP
2011-12	1684800	21.64
2012-13	1850369	21.18
2013-14	2065434	20.77
2014-15	2325454	20.70
2015-16	2556592	20.51
2016-17(RE)	3013621	22.21
2017-18(BE)	3425098	22.74

The outstanding state government liabilities as a ratio to GDP showed a declining trend. There was, however, an increase in market borrowings, which along with the tight liquidity situation pushed up the average interest rate on fresh market borrowings during 2012-13. In their budgets for 2012-13and 2013-14, most state governments have indicated a move towards fiscal consolidation. In recent years, efforts by the state governments to adhere to the debt ceilings stipulated under their amended FRBM Acts also resulted in a graduated reduction in their individual debt-GSDP ratios.

CONCLUSION: Based on the analysis of data with regard to deficit indicators, revenue receipts, revenue expenditure, capital receipts and capital expenditure, we found that there is a serious problem of growing fiscal imbalances at state level in terms of widening gap between revenue and expenditure. This is largely an outcome of the fact that in the fact of a limited resource base, the states had to cope with a significant growth in their committed expenditure. The crucial issue therefore is to bring out improvement in the state finance with a view to restructuring the expenditure in order to enable a higher growth. The recent fiscal developments at State level put emphasis on the on-going fiscal and institutional reforms and seem to follow the path of reforms.

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