Finances of State Governments

2.33 The deterioration in State finances is more pronounced. The fiscal deficit of State Governments increased from 3.3 percent of GDP in 1990-91 to 4.6 percent in 2001-02 (RE). Higher growth of revenue expenditure has largely contributed to this deterioration. The revenue deficit has nearly trebled from 0.9 percent of GDP in 1990-91 to 2.6 percent of GDP in 2001-02 (RE). Revenue from States' own taxes witnessed a marginal improvement from 5.3 percent of GDP in 1990-91 to 5.8 percent of GDP in 2001-02. The shortfall in growth of central tax revenue has partly constrained the growth of total revenue receipts of States. In the State Budgets for 2002-03, the fiscal deficit is budgeted to come down to 4.2 percent of GDP as compared with the fiscal deficit of 4.6 percent of GDP in the previous year. The revenue deficit is budgeted to come down from 2.6 percent in 2001-02 (RE) to 2.0 percent in 2002-03 (Table 2.10).

2.34 A number of initiatives have been taken to address the problem of fiscal deterioration at the State level. These are indicated below.

State level fiscal reforms

2.35 The State of Karnataka has enacted the Fiscal Responsibility Act. The Governments of Maharashtra and Punjab have introduced a Fiscal Responsibility and Budget Management Bill in their State Legislatures. The Government of Kerala has expressed its intention to introduce the Fiscal Responsibility Bill in the State Legislature. These legislations aim at providing a statutory backing to the fiscal reform process initiated by the State Governments.

2.36 The Eleventh Finance Commission had recommended a monitorable fiscal reform programme for all the States. Fifteen percent of the revenue deficit grant, meant for 15 States during 2000-05, and a matching contribution by the Central Government were recommended to be credited into an incentive fund for distribution as grants for all the 25 (which subsequently became 28) States based on their fiscal performance. Accordingly, the Government of India had drawn up the States' Fiscal Reforms Facility 2000-01 to 2004-05 and an incentive fund of Rs.10,607 crore was earmarked to encourage States to implement fiscal reforms programme. So far, 18 States have drawn up medium term fiscal reform programmes, in consultation with the Central Government. The fiscal reforms cover areas such as fiscal consolidation, public enterprise reform, power sector reforms, etc.

2.37 The States of Andhra Pradesh, Delhi, Haryana, Karnataka, Madhya Pradesh, Orissa, Rajasthan, Uttar Pradesh and Uttranchal have enacted State Electricity Reforms Acts providing for unbundling/ corporatisation of State Electricity Boards (SEBs), setting up of State Electricity Regulatory Commissions (SERCs) etc. The SEBs of the above mentioned States have been unbundled/corporatised. Twenty two States have signed the Tripartite Agreement envisaged under the scheme for one time settlement of outstanding dues payable by the SEBs to the Central Public Sector Undertakings. The States of Andhra Pradesh, Karnataka, Madhya Pradesh, Maharashtra Uttar Pradesh and West Bengal have enacted anti-theft legislation making stringent penal provision for theft of electricity.

2.38 In order to address the growing debt burden of States, and to supplement the efforts of States in the direction of evolving their Medium Term Fiscal Reform Programme (MTFRP), a Debt Swap Scheme facilitated by the Government of India has been formulated. This scheme is focused on liquidating high cost loans given by the Government of India to the States. States have agreed to the revised Debt-Swap Scheme wherein 20 percent of net small savings proceeds releasable from September 2002 are envisaged to be utilised for enabling States to pre-pay high cost Government of India loans and advances outstanding as on March 31, 2002. The participating States would be enabled to further retire high cost Government of India loans and advances through allocation of additional market borrowings.

Table 2.10 : Receipts and disbursements of the State Governments								
		1990-91	1997-98	1998-99	1999-2000	2000-01	2001-02 (RE)	2002-03# (BE)
					(Rs. crore)			
I.	Total receipts(A+B)	91160	230238	262841	310775	349544	394432	425755
A.	Revenue receipts (1+2)	66467	170301	176447	207201	237953	270900	306943
	1. Tax receipts	44586	121641	128416	146703	168715	188483	215049
	of which							
	States' own tax revenue	30344	81230	88995	102582	117981	133079	152595
	2. Non-tax receipts	21881	48660	48031	60498	69238	82418	91894
	of which:							
	Interest receipts	2403	7910	7478	9294	11438	9205	9363
B.	Capital receipts	24693	59937	86394	103574	111591	123532	118812
	of which:							
	Recovery of loans & advances	1501	5492	3302	3361	6898	7850	3348
II.	Total disbursements(a+b+c)	91088	228135	266361	313889	347199	401571	430935
	a) Revenue	71776	186634	220090	260998	291522	331440	355166
	b) Capital	13556	30944	34924	37359	43945	54559	61480
	c) Loans and advances	5756	10557	11347	15532	11732	15572	14289
III.	Revenue deficit	5309	16333	43643	53797	53569	60540	48223
IV.	Gross fiscal deficit	18787	44200	74254	91480	89532	106595	102848
					(As percent of GDP)			
I.	Total receipts(A+B)	16.0	15.1	15.1	16.0	16.6	17.2	17.4
A.	Revenue receipts (1+2)	11.7	11.2	10.1	10.7	11.3	11.8	12.5
	1. Tax receipts	7.8	8.0	7.4	7.6	8.0	8.2	8.8
	of which							
	States' own tax revenue	5.3	5.3	5.1	5.3	5.6	5.8	6.2
	2. Non-tax receipts	3.8	3.2	2.8	3.1	3.3	3.6	3.7
	of which:							
	Interest receipts	0.4	0.5	0.4	0.5	0.5	0.4	0.4
B.	Capital receipts	4.3	3.9	5.0	5.3	5.3	5.4	4.8
	of which:							
	Recovery of loans & advances	0.3	0.4	0.2	0.2	0.3	0.3	0.1
II.	Total disbursements(a+b+c)	16.0	15.0	15.3	16.2	16.5	17.5	17.6
	a) Revenue	12.6	12.3	12.6	13.5	13.9	14.4	14.5
	b) Capital	2.4	2.0	2.0	1.9	2.1	2.4	2.5
	c) Loans and advances	1.0	0.7	0.7	0.8	0.6	0.7	0.6
III.	Revenue deficit	0.9	1.1	2.5	2.8	2.5	2.6	2.0
IV.	Gross fiscal deficit	3.3	2.9	4.3	4.7	4.3	4.6	4.2

 # The ratios to GDP at current market prices for 2002-03 (BE) are based on CSO's Advance Estimates released in February, 2003.

Source : Reserve Bank of India.

Value Added Tax

2.39 At the Conference of State Finance Ministers held on January 23, 2002 a final decision was taken that all States and Union Territories would introduce VAT from April 2003. This position was reiterated by all States at the Conference of State Chief Ministers held on October 18, 2002. Empowered Committee of State Finance Ministers endorsed the suggestion that every State Legislation on VAT should have a minimum set of common features. Accordingly, a model VAT Bill was circulated to all the States. Introduction of VAT is expected to increase revenue buoyancy, as the coverage expands to value addition at all stages of production and distribution chain. At a meeting of the Finance Ministers of all States/Union Territories on January 17, 2003, States and Union Territories again reiterated their firm commitment to introduce VAT from April 1, 2003. It was decided that the VAT legislations of all States and UTs would have common provisions in respect of all important matters and that a simple VAT legislation with maximum convergence would be implemented. It was also agreed that along with the introduction of VAT, the origin based

Central Sales Tax would be phased out. It was also agreed that the Additional Duties of Excise (Goods of Special Importance) Act would be suitably amended to empower States to levy sales tax/VAT on sugar, textiles and tobacco with a ceiling rate of 4 percent. This would be done without affecting the existing levy of Additional Duties of Excise on these items by the Union Government.

2.40 In view of the apprehensions expressed by a large number of States about possible revenue losses in the initial years of introduction of VAT, an assurance was given to the States that the Government of India would compensate the States to the extent of 100 percent of revenue loss in the first year (2003-04), 75 percent of the loss in the second year (2004-05) and 50 percent of the loss in the third year (2005-06).