

Finances of State Governments

2.54 Though the fiscal deterioration of States began much later than that of the Centre, the fiscal stress of some of the State Governments is more acute and an important constraint in their development. The revenue account of States has been continuously in deficit since 1987-88. The deterioration in the revenue account of States has been more pronounced from the late nineties. As a proportion of GDP, revenue deficit of States which increased from 0.3 per cent in 1987-88 to 1.1 per cent in 1996-97, shot up to 2.5 per cent in 1998-99, following mainly the revision of pay scales of Government employees. The deficit continued to remain high till 2001-02. In 2002-03, the deficit declined to 2.2 per cent of GDP. Fiscal deficit of States as a proportion of GDP, increased from a level of 3.3 per cent in 1990-91 to 5.1 per cent in 2003-04 (RE). In BE for 2004-05, revenue and fiscal deficits of States are placed at 1.4 per cent and 3.6 per cent of GDP, respectively. As in the case of the Central Government, the quality of expenditure of States has deteriorated, as revealed by the proportion of revenue deficit to fiscal deficit. The share of revenue deficit

in fiscal deficit increased from an average of 25.0 per cent in the period 1990-95 to 48.6 per cent in the period 1995-2000, and further to 54.0 per cent in 2002-03. Growing revenue expenditure, particularly wages and salaries and pensions, burden of interest payments, losses of public sector enterprises, particularly power utilities, declining Central transfers as a proportion of GDP and inappropriate user charges have contributed in large measure to this deterioration. The slower growth in revenues in relation to expenditure and ambitious Plan outlays of States compounded the problem. Furthermore, most States resorted to off-budget borrowings, constrained by limitations on raising public debt through the budgetary process

2.55 States have done relatively better than the Centre in terms of raising own tax revenue. The own tax revenue of States increased from an average of 5.4 per cent of GDP in the period 1990-95 to 5.8 per cent of GDP in 2002-03. In contrast, Central transfers declined from 4.9 per cent of GDP to 4.1 per cent of GDP in the same period. The performance of States in mobilizing non-tax

revenue has deteriorated. Non-tax revenue to GDP ratio declined from an average of 4.1 per cent in the period 1990-95 to 3.3 per cent in 2002-03. Total expenditure of States increased from an average of 16.0 per cent of GDP in the period 1990-95 to 17.1 per cent of GDP in 2002-03. Within total expenditure, revenue expenditure increased from 12.8 per cent of GDP in 1990-95 to

13.9 per cent of GDP in 2001-02, while capital expenditure, after declining from 3.2 per cent of GDP to 2.7 per cent of GDP in the same period improved to 3.5 per cent of GDP in 2002-03. In revenue expenditure, the rise in interest payments from an average of 1.7 per cent of GDP in the period 1990-95 to 2.8 per cent of GDP in 2002-03 is much sharper (Table 2.9).

Table 2.9 : Receipts and disbursements of State Governments

	1990-91	1999-2000	2000-01	2001-02	2002-03	2003-04 (RE)	2004-05# (BE)
(Rs. crore)							
I. Total receipts(A+B)	91160	310775	349544	373886	425073	542385	552416
A. Revenue receipts (1+2)	66467	207201	237953	255675	280339	329927	374344
1. Tax receipts	44586	146703	168715	180312	198798	228103	263555
<i>of which</i>							
State's own tax revenue	30344	102582	117981	128097	142143	162806	185668
2. Non-tax receipts	21881	60498	69238	75363	81541	101824	110789
<i>of which:</i>							
Interest receipts	2403	9294	11438	9205	9501	10118	12918
B. Capital receipts	24693	103574	111591	118211	144734	212458	178072
<i>of which:</i>							
Recovery of loans & advances	1501	3361	6898	7766	3905	15790	6975
II. Total disbursements(a+b+c)	91088	313889	346971	377311	420462	554056	551368
a) Revenue	71776	260998	291522	314863	335451	402053	418063
b) Capital	13556	37359	43717	50145	70664	128830	118797
c) Loans and advances	5756	15532	11732	12303	14347	23173	14508
III. Revenue deficit	5309	53797	53569	59188	55111	72126	43718
IV. Gross fiscal deficit	18787	91480	89532	95994	102123	141010	111852
(As per cent of GDP)							
I. Total receipts(A+B)	16.0	16.0	16.7	16.5	17.3	19.7	17.8
A. Revenue receipts (1+2)	11.7	10.7	11.4	11.3	11.4	12.0	12.0
1. Tax receipts	7.8	7.6	8.1	7.9	8.1	8.3	8.5
<i>of which</i>							
State's own tax revenue	5.3	5.3	5.6	5.6	5.8	5.9	6.0
2. Non-tax receipts	3.8	3.1	3.3	3.3	3.3	3.7	3.6
<i>of which:</i>							
Interest receipts	0.4	0.5	0.5	0.4	0.4	0.4	0.4
B. Capital receipts	4.3	5.3	5.3	5.2	5.9	7.7	5.7
<i>of which:</i>							
Recovery of loans & advances	0.3	0.2	0.3	0.3	0.2	0.6	0.2
II. Total disbursements(a+b+c)	16.0	16.2	16.6	16.6	17.1	20.1	17.7
a) Revenue	12.6	13.5	14.0	13.9	13.6	14.6	13.4
b) Capital	2.4	1.9	2.1	2.2	2.9	4.7	3.8
c) Loans and advances	1.0	0.8	0.6	0.5	0.6	0.8	0.5
III. Revenue deficit	0.9	2.8	2.6	2.6	2.2	2.6	1.4
IV. Gross fiscal deficit	3.3	4.7	4.3	4.2	4.1	5.1	3.6
# The ratios to GDP for 2004-05 (BE) are based on CSO's Advance Estimates released in February, 2005.							
Note : Data are provisional.							
Source : Reserve Bank of India.							

2.56 Outstanding liabilities of States as a proportion of GDP, which was 18.2 per cent in 1994-95, after initial decline in the next two years, shot up to 29.2 per cent in 2003-04 (RE). It is budgeted at 29.4 per cent in 2004-05. Till 2002-03, the build-up of outstanding liabilities of State Governments was accounted for significantly by loans from the Centre. The internal debt of States is composed of loans from the Centre, NSSF, market borrowings and negotiated loans from banks and other institutions. In recent years, the share of loans from Central Government is on the decline on account of higher loans from NSSF and higher market borrowings (Table 2.10).

2.57 In addition to build up of debt, another worrisome feature of State finances is the rapid growth in off-budget borrowings. Available data indicate that outstanding guarantees of State Governments which increased from 4.4 per cent of GDP in 1995-96 to 8.1 per cent in 2000-01 declined to 7.5 per cent of GDP in 2002-03. Many of these guarantees have been given to special

Table 2.10 : Outstanding liabilities of States		
Year	Total liabilities (Rs crore)	Col(2)as per cent of GDP
1	2	3
1993-94	160075	18.6
1994-95	184530	18.2
1995-96	212224	17.9
1996-97	242867	17.8
1997-98	281211	18.5
1998-99	341981	19.6
1999-2000	420135	21.7
2000-01	498092	23.8
2001-02	586687	25.8
2002-03	686655	27.9
2003-04(RE)	807131	29.2
2004-05(BE)#	913103	29.4
# The ratios to GDP for 2004-05 (BE) are based on CSO's Advance Estimates released in February, 2005.		
Source : Reserve Bank of India.		

purpose vehicles, whose liabilities will ultimately revert to State Governments.