Finances of State Governments

2.55 The finances of State Governments traditionally follow a pattern similar to that of the Centre, albeit with a lag. State's own tax receipts, as a proportion of GDP, increased from 5.3 per cent in 1990-91 to 6.3 per cent in 2005-06 (RE) and are projected to marginally decline to 6.2 per cent of GDP in 2006-07 (BE). When measured as proportion of GDP, with a marginal decline in States' own tax and non-tax receipts between 2005-06 (RE) and 2006-07 (BE), total revenue receipts of the States' is expected to decline from 12.7 per cent of GDP in 2005-06 (RE) to 12.5 per cent of GDP in 2006-07(BE). But, again as a proportion of GDP, with an expected decline in revenue expenditure by 0.6 percentage points from 13.2 per cent in 2005-06 (RE) to 12.6 per cent in 2006-07 (BE), all the States together are expected to achieve the FRBMA mandated target of eliminating revenue deficit two years ahead of the scheduled 2008-09. Similarly, with a one percentage point reduction in total disbursements as a proportion to GDP, the consolidated fiscal deficit of all the States is expected to be lower than the FRMBA mandated target of 3 per cent two years ahead of schedule (Table 2.11).

Table 2.11 : Receipts and disbursements of State Governments

		1990-91	2001-02	2002-03	2003-04	2004-05	2005-06 (RE)	2006-07 (BE)
					(Rs. crore)			
I.	Total receipts(A+B)	91,160	373,886	425,073	527,097	582,910	616,397	665,260
	A. Revenue receipts (1+2)	66,467	255,675	280,339	316,535	372,075	454,152	513,166
	1. Tax receipts	44,586	180,312	198,798	226,999	267,683	317,502	360,898
	of which							
	State's own tax revenue	30,344	128,097	142,143	159,921	189,132	224,780	252,573
	2. Non-tax receipts	21,881	75,363	81,541	89,536	104,392	136,650	152,268
	of which:							
	Interest receipts	2,403	9,205	9,502	8,617	9,470	9,666	9,648
	B. Capital receipts	24,693	118,211	144,734	210,562	210,835	162,245	152,094
	of which:							
	Recovery of loans & advances	1,501	7,766	3,905	16,414	8,568	7,456	4,813
II.	Total disbursements(a+b+c)	91,088	377,311	420,461	526,023	572,354	610,751	659,530
	a) Revenue	71,776	314,863	335,450	377,681	408,497	471,437	514,952
	b) Capital	13,556	50,145	70,664	122,429	144,014	120,495	129,848
	c) Loans and advances	5,756	12,303	14,347	25,913	19,843	18,819	14,730
III.	Revenue deficit	5,309	59,188	55,111	61,145	36,423	17,284	1,786
IV.	Gross fiscal deficit	18,797	95,994	102,123	123,070	109,256	113,978	105,895
					(As per cent of GDP)			
I.	Total receipts(A+B)	16.0	16.4	17.3	19.1	18.6	17.3	16.2
	A. Revenue receipts (1+2)	11.7	11.2	11.4	11.4	11.9	12.7	12.5
	1. Tax receipts	7.8	7.9	8.1	8.2	8.6	8.9	8.8
	of which							
	State's own tax revenue	5.3	5.6	5.8	5.8	6.0	6.3	6.2
	2. Non-tax receipts	3.8	3.3	3.3	3.2	3.3	3.8	3.7
	of which:							
	Interest receipts	0.4	0.4	0.4	0.3	0.3	0.3	0.2
	B. Capital receipts	4.3	5.2	5.9	7.6	6.7	4.5	3.7
	of which:							
	Recovery of loans & advances	0.3	0.3	0.2	0.6	0.3	0.2	0.1
II.	Total disbursements(a+b+c)	16.0	16.5	17.1	19.0	18.3	17.1	16.1
	a) Revenue	12.6	13.8	13.6	13.7	13.1	13.2	12.6
	b) Capital	2.4	2.2	2.9	4.4	4.6	3.4	3.2
	c) Loans and advances	1.0	0.5	0.6	0.9	0.6	0.5	0.4
III.	Revenue deficit	0.9	2.6	2.2	2.2	1.2	0.5	0.0
IV.	Gross fiscal deficit	3.3	4.2	4.2	4.5	3.5	3.2	2.6

Note :
1. **The ratios to GDP for 2006-07 (BE) are based on CSO's Advance Estimates. GDP at current market prices prior to 1999-2000 based on 1993-94 series and from 1999-2000 based on new 1999-2000 series.**
2. **Capital receipts include accounts on a net basis.**
3. **Capital disbursements are exclusive of public accounts.**

Source : Reserve Bank of India.

2.56 Most recent indicators of State finances show a distinctly improved picture. The causative factors of fiscal deterioration in the past will, however, need to be monitored in the future as well to sustain this progress and keep the balance at the desired level. The causative factors are: interest payment; pension liabilities; losses of State PSUs; lack of proper user charges; and lack of buoyancy in taxes. The successful introduction of VAT by 30 States/UTs and the TFC incentive to enact State-level FRBM legislations appear to have deepened State-level fiscal reforms and put them on the path towards fiscal sustainability.