Analysis of State Budgets 2017-18: Emerging Issues

POLICY BRIEF ON STATE FINANCES 2017

Pinaki Chakraborty
Manish Gupta
Lekha Chakraborty
Amandeep Kaur

Introduction

While the Union Government finances show a degree of consolidation in the last couple of years, the finances of State Governments show signs of increasing fiscal imbalance reflected in the levels of both revenue and fiscal deficits in large number of States. If we consider all-State trends in State finances, it appears that all States' fiscal deficit after a sharp reduction has started increasing in recent years. The RBI Study on State Finances for the year 2016-17 also observed that States started borrowing more in recent years compared to the period from 2005-06 to 2011-12 reflecting rising trend in fiscal imbalance at the all States level. Growing fiscal imbalance has the potential to derail fiscal consolidation at the general government level.

Medium term fiscal challenges at the State level are many. The most important being the taking over of DISCOM liabilities under the UDAY scheme by the State governments resulting in an increase in deficit at the State level. Implications of UDAY in-terms of higher debt liability and interest outgo requires clear understanding, particularly when the impact is asymmetric across States. It is also argued that potential fiscal risk due to farm loan waivers can really put pressure on the level of deficit. Though, the roll out of Goods and Services Tax (GST) from 1 July, 2017 is historic, benefits of GST would only start flowing in when the new tax system stabilizes. The medium term fiscal challenge would be to maintain fiscal balance, improve quality of fiscal deficit by reducing revenue deficit and make resources available for key priority areas of spending under social and economic services. Keeping these objectives in mind, this analysis on State finances has been prepared based on the 2017-18 State budgets for 28 States.[1] The objective is to understand emerging issues in State finances based on State Budgets 2017-18 in a comparative perspective, State-level fiscal policy stance and key sectoral spending. The other major objective of this exercise is also to have a fair understanding of the aggregate fiscal position of both Union and States for the current fiscal year.

Finances of the Union and State Governments

Table 1 provides a comparative picture of the finances of the Union and State Governments for the period 2011-12 to 2017-18BE. From the examination of key fiscal indicators, it is evident that between 2011-12 and 2017-18BE, there has been an improvement in the finances of the Union Government with major fiscal parameters like revenue deficit, fiscal deficit, primary deficit and outstanding liabilities expressed as percentage of GDP. The revenue deficit of the union government as percent of GDP declined from 4.51 per cent in 2011-12 to 2.51 per cent in 2015-16 and is budget to improve further to 1.91 per cent in 2017-18BE, while fiscal deficit declined from 5.91 per cent to 3.24 per cent during the same period. The primary deficit also showed considerable improvement declining from 2.78 per cent in 2011-12 to 0.14 per cent in 2017-18BE and outstanding liabilities as percentage of GDP declined from 51.71 per cent in 2011-12 to 47.27 per cent in 2017-18BE.

The combined finances of the State governments, however, showed deterioration during this period (table 1). We find a deterioration of the fiscal position of States since 2013-14. Surpluses in revenue account turned into deficit and we observe re-emergence of revenue deficit in 2013-14. The number of States hav

[1] This excludes data relating to 2017-18 budget of Manipur.

National Institute of Public Finance and Policy, New Delhi. IDRC project on 'Intergovernmental Fiscal Transfers in India'.

Table 1: Finances of the Union and States

(% of GDP)

	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17 RE	2017-18 BE
Revenue Deficit							
Union Government	-4.51	-3.66	-3.18	-2.94	-2.51	-2.05	-1.91
State Governments	0.27	0.20	-0.09	-0.37	-0.04	-0.23	0.03
Fiscal Deficit							
Union Government	-5.91	-4.93	-4.48	-4.10	-3.89	-3.52	-3.24
State Governments	-1.93	-1.97	-2.21	-2.63	-3.03	-3.67	-2.69
Primary Deficit							
Union Government	-2.78	-1.78	-1.14	-0.87	-0.67	-0.34	-0.14
State Governments	-0.36	-0.45	-0.70	-1.01	-1.48	-1.99	-0.97
Outstanding Liabilities							
Union Government	51.71	50.99	50.47	50.16	50.45	49.01	47.27
State Governments	22.34	21.80	21.40	21.49	22.83	23.91	24.10

Note: Surplus (+) / Deficit (-); GDP is at current prices (2011-12 series); Fiscal Deficit of States in 2015-16 and 2016-17BE includes DISCOM debt taken over by the States under UDAY; For 2016-17RE and 2017-18BE the data is for 28 States. As the 2017-18 budget of Manipur was not available, it could not be included in the analysis.

Source: 1) Union Government: Budget Documents (various years); 2) State Government: Finance Accounts (various years) and Budget Documents 2017-18; 3) Economic Survey 2016-17, Vol. 2.

Table 2: States with Revenue Deficit/Surplus

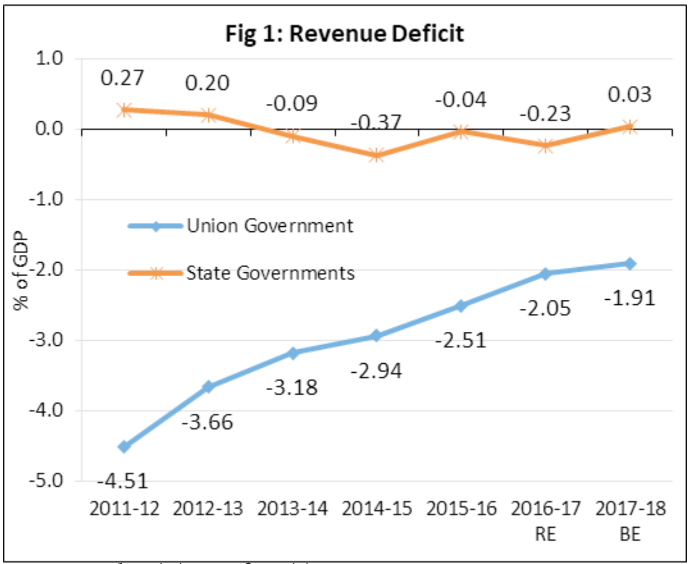
Revenue Deficit in 2013-14	Revenue Deficit in 2014-15	Revenue Deficit in 2015-16	Revenue Deficit in 2016-17 RE	Revenue Deficit in 2017-18 BE
Chh, Goa, Har, HP, Ker, Mah, Miz, Pun Raj, TN, WB	AP, Ass, Chh, Har, HP, J&K, Jha, Ker, Mah, Miz, Pun, Raj, TN, Utt, WB	AP, Har, J&K, Ker, Mah, Pun, Raj, TN, Utt, WB	AP, Ass, Har, HP, Ker, Mah, Nag, Pun, Raj, TN, Utt, WB	AP, Har, HP, Ker, Mah, Pun, Raj, TN
11 States	15 States	10 States	12 States	8 States

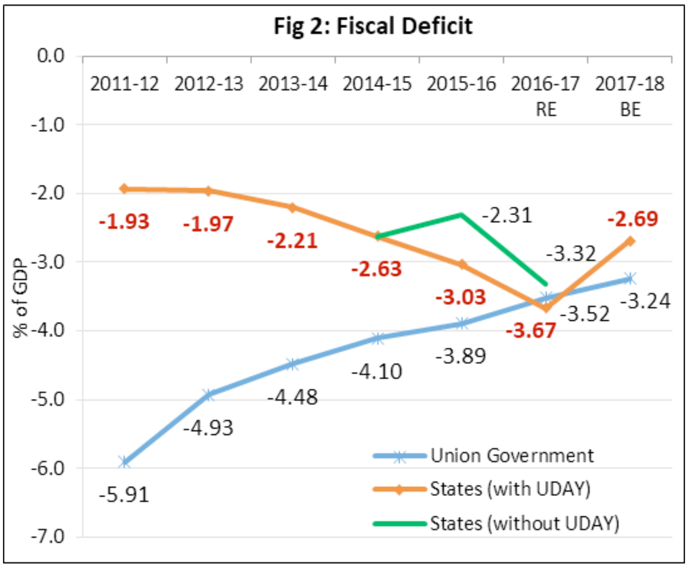
Note: Data for Manipur for the year 2016-17RE and 2017-18BE not available

Source: Finance Accounts of State (various years) and Budget Documents 2017-18.

ing revenue deficit increased from 6 in 2011-12 to 11 in 2013-14 and further to 15 in the following year. In 2015-16, 10 states had deficit in their revenue account. Although the combined revenue account of all States show a small surplus to the tune of 0.03 per cent of GSDP in 2017-18BE (see fig 1), 8 States have budgeted for revenue deficit as can be seen from table 2.

Fiscal deficit aggregated across States also deteriorated during this period. Fiscal deficit as percentage of GDP declined from 1.93 per cent in 2011-12 to 3.03 per cent in 2015-16 and is budgeted to further decline to 3.67 per cent in 2016-17RE (fig 2). The FD-GDP ratio in 2015-16 exceeded the 3 per cent FRBM ceil





Note: Surplus (+) / Deficit (-)

Source: Finance Accounts of State (various years) and Budget Documents 2017-18; Economic Survey 2016-17, Ministry of Finance, Government of India.

ing of fiscal prudence for the first time since 2004-05. High fiscal deficit in 2015-16 and 2016-17RE is on account of State governments taking over 75 per cent of the DISCOM debt under UDAY. If we exclude the UDAY liabilities the FD-GDP ratio would be around 2.31 per cent in 2015-16 and 3.32 per cent in 2016-17RE. Number of States having fiscal deficit greater that 3 percent, increased from 9 in 2011-12 to 14 in 2014-15 and further to 19 in 2016-17RE as can be seen from table 3. In 2017-18, fiscal deficit of all States as percentage of GDP is budgeted to be around 2.69 per cent (table 1) and 11 States have budgeted for FD-GDP ratio greater than 3 percent.

The primary deficits of all States taken together also show deterioration with primary deficit as percentage of GDP increasing from 0.36 per cent in 2011-12 to 1.99 per cent in 2016-17RE as evident from table 1. In 2017-18BE, the primary deficit is budgeted to decline by more than 1 percentage points to 0.97 percent.

Outstanding liabilities aggregated across all States as per cent of GDP from 22.34 per cent in 2011-12 to 21.40 per cent in 2013-14, thereafter it increased to 22.83 per cent in 2015-16 and is budgeted to be around 24.10 per cent in 2017-18 (table 1). RBI's recent report on State finances attribute UDAY to result in an increase in outstanding liabilities as percentage

Table 3: States with Fiscal Deficit/Surplus

	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17 RE	2017-18 BE
FD > 3%	**9** ArP, J&K, Ker, Man, Meg, Miz, Nag, Pun, WB	**7** HP, J&K, Ker, Miz, Nag, Pun, WB	**7** ArP, Goa, HP, J&K, Ker, Miz, WB	**14** AP, Chh, HP, J&K, Jha, Ker, Man, Meg, Miz, Raj, Tri, UP, Utt, WB	**12** AP, Goa, Har, J&K, Jha, Ker, Raj, Sik, Tel, Tri, UP, Utt	**19** AP, Ass, Bih, Goa, Har, HP, J&K, Ker, MP, Meg, Miz, Nag, Odi, Pun, Raj, TN, Tel, Tri, UP	**11** Chh, Goa, HP, J&K, Ker, MP, Meg, Odi, Pun, Tel, Tri
FD < = 3%	**17**	**19**	**19**	**14**	**14**	**9**	**17**
Fiscal Surplus	**2** Odi, Tri	**2** Odi, Tri	**2** Man, Tri	**1** ArP	**3** ArP, Ass, Miz	**0**	**0**
Total	**28**	**28**	**28**	**29**	**29**	**28**	**28**

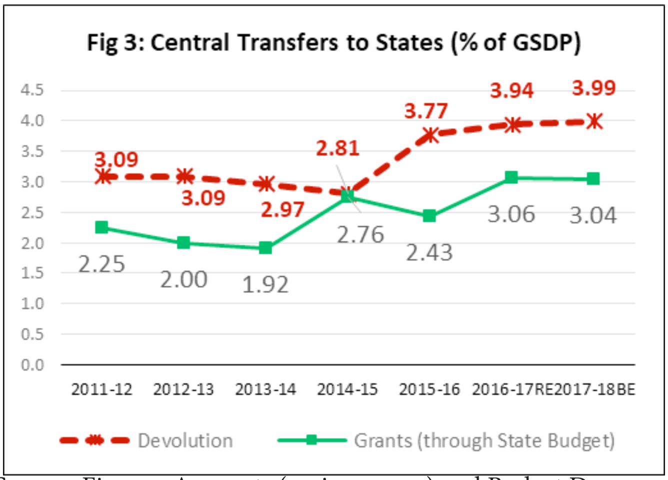
Note: Data for Manipur for the year 2016-17RE and 2017-18BE not available.

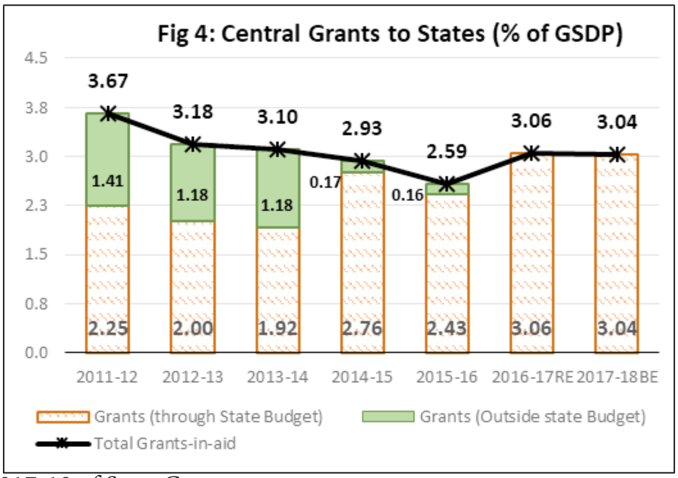
Source: Finance Accounts of State (various years) and Budget Documents 2017-18.

of GDP by about 1.5 per cent in 2016 over 2015 and by 0.7 per cent in 2017 over 2016. The report further cautions about the increase in future liabilities of States if farm loan waivers become the norm. State-wise analysis show that between 2014-15 and 2015-16 and between 2015-16 and 2016-17RE, outstanding liabilities as percentage of GSDP increased in 18 and 17 States respectively.

2015-16 (Fig 4). This is not surprising given the restructuring of grants to accommodate enhanced tax devolution. However, total grants to States are budgeted to increase in 2016-17RE.

However, if we compare transfer to GSDP ratio between 2011-12 and 2017-18BE, it declined sharply from 6.76 per cent in 2011-12 to 5.74 per cent in 2014-15 (Fig 5). Post FFC award there is a significant



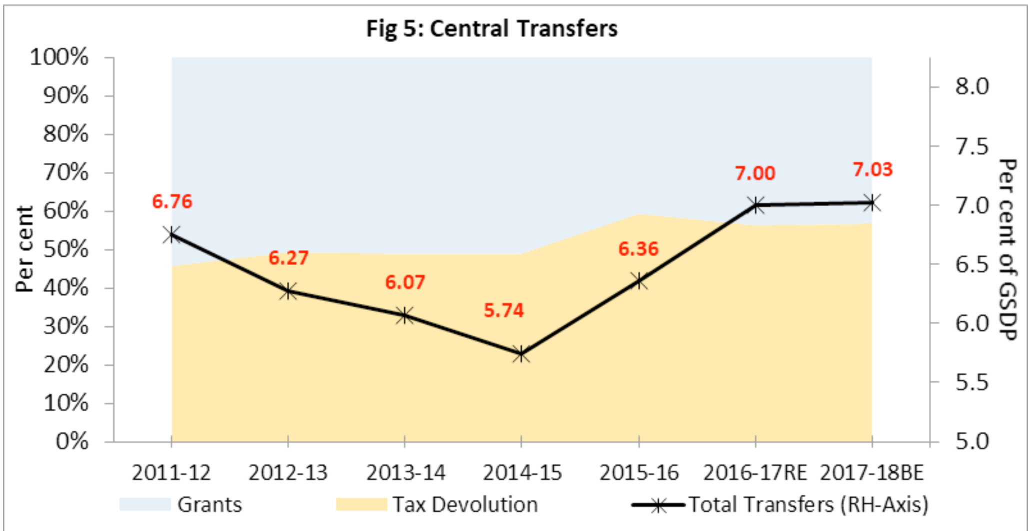


Source: Finance Accounts (various years) and Budget Documents 2017-18 of State Governments.

Trends in Central Transfers to States

While tax devolution as percentage of GSDP[2] aggregated across all States increased for all States in 2015-16, the first year of the award of the Fourteenth Finance Commission (FFC) as compared to 2014-15-the terminal year of the Thirteenth Finance Commission award, grants (through State budgets) as percentage of all State GSDP declined (Fig 3). If we add to it, grants that were going directly to State implementing agencies bypassing the State budgets, we find total grants as a percentage of GSDP have also declined in

increase in transfer to GSDP ratio to 6.36 per cent in 2015-16. Total transfers are budgeted to increase further to 7.00 per cent in 2016-17RE and 7.03 per cent in 2017-18BE. Not only has the total transfers to States increased, its composition has also undergone a change during this period. Due to the increase in devolution to 42 per cent of shareable taxes, untied and formula based transfers (i.e., tax devolution) have become the dominant form of transfers accounting for about 56.8 per cent of total central transfers to State governments in 2017-18BE.

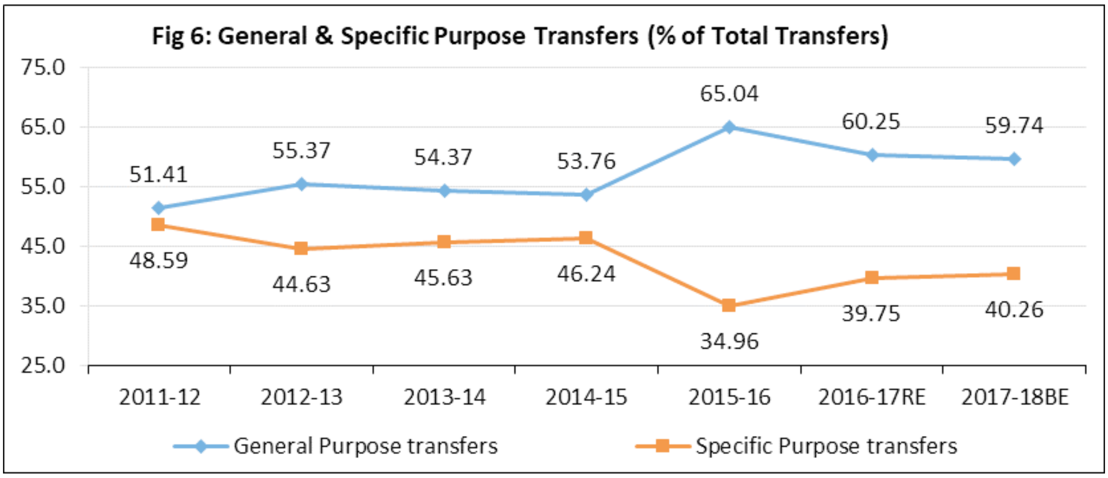


Source: Finance Accounts (various years) and Budget Documents 2017-18 of State Governments.

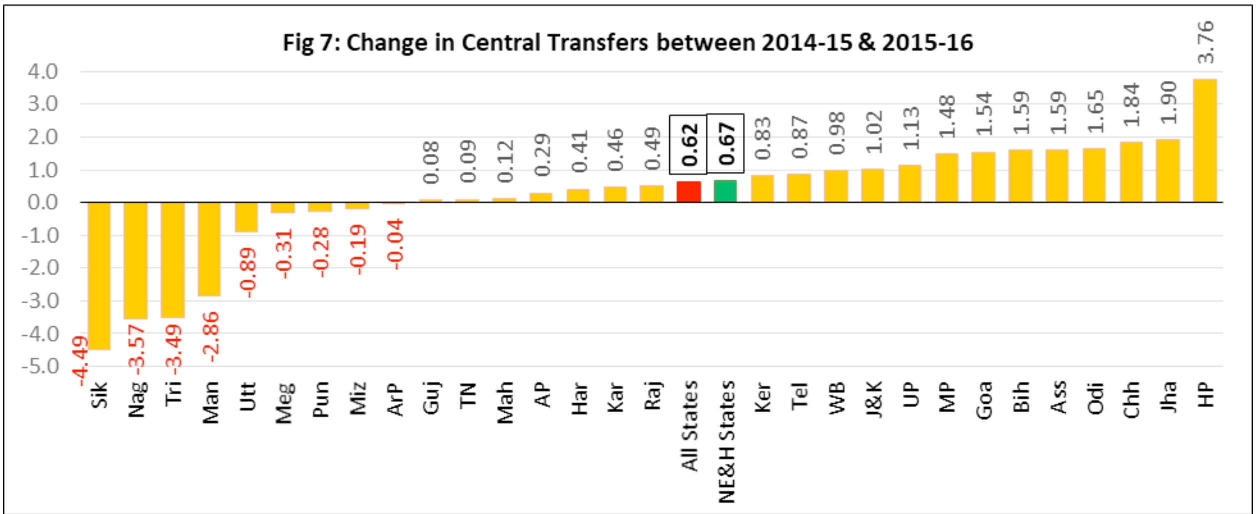
[2] GSDP number used in the analysis is at current prices-2011-12 series.

The share of general purpose transfers,[3] which are unconditional in nature, in total transfers increased from 51.41 per cent in 2011-12 to 59.74 per cent in 2017-18BE while that of specific purpose transfers, which are conditional in nature, have declined from 48.59 per cent to 40.26 per cent during this period (fig 6).

State-wise analysis reveal that, while all States benefitted from the increase in tax devolution in 2015-16 as compared to 2014-15, many of them experienced a reduction in central grants during this period. Total central transfers to States (including those going outside the State budgets) as percentage of GSDP declined for a number of States in 2015-16 vis-à-vis 2014-15 as evident from fig 7.



Source: Finance Accounts and Budget documents of States; Ministry of Finance, Government of India



Source: Finance Accounts (various years) and Budget Documents 2017-18 of State Governments.

12 and 2017-18BE mainly due to the fall in own tax revenues as evident from table 4. Own non-tax revenues have largely remained stagnant during this period. Between 2014-15 and 2015-16 own-tax revenues as percentage of GSDP declined in 19 States. States showing an increase in own tax revenues during this period are - Assam, Bihar, Goa, Haryana, Himachal Pradesh, J&K, Odisha, Mizoram, Rajasthan, and Telangana. A total of 14 States show a decline in own tax revenues in 2016-17 as compared to 2015-16 while the number of States where own tax revenues as percentage of GSDP have declined in 2017-18BE over 2016-17RE are 13.

Own Tax Revenue of States

There has been a decline in own revenues aggregated across all States as percentage of GSDP between 2011-

Analysis of own-tax revenues reveal that the most important state tax is the Sales tax/VAT which account for about 62-64 per cent of own-tax revenues

[3] We have considered tax devolution by Finance Commissions, Normal Central Assistance (or plan grants to State though Gadgil-Mukherjee formula) and post-devolution Non-plan Revenue Deficit/Revenue Deficit Grants recommended by Finance Commissions as General Purpose transfers.

Table 4: Own Revenues of States

(INR In Crores)

	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17 RE	2017-18 BE
Own Tax Revenue (OTR)	557396	654550	712417	780007	848035	955477	1098264
Own Non-Tax Revenue (ONTR)	99128	117262	132543	143721	153653	184325	195056
Own Revenue Receipts (ORR)	656523	771811	844960	923728	1001689	1139801	1293320
OTR as % of GSDP	6.74	6.95	6.64	6.51	6.33	6.35	6.44
ONTR as % of GSDP	1.20	1.24	1.24	1.20	1.15	1.23	1.14
ORR as % of GSDP	7.94	8.19	7.88	7.70	7.48	7.58	7.58

Source: Finance Accounts and Budget documents of States.

in aggregate. The other important state taxes are State Excise and Stamp and Registration fees. These three taxes together account for around 85-86 per cent of own-tax revenues aggregated across states (see table 5). Nine states account for about 69-70 per cent of own tax revenues of all states taken together. These are Andhra Pradesh, Gujarat, Karnataka, Maharashtra, Rajasthan, Tamil Nadu, Telangana, Uttar Pradesh and West Bengal.

As percentage of all states GSDP, these taxes also show a marginal decline between 2011-12 and 2017-18BE. State Sales tax/VAT as per cent of GSDP declined from 4.17 per cent in 2011-12 to 3.94 per cent in 2015-16 and is budgeted to be around 3.99 per cent in 2017-18BE, state excise declined from 0.87 per cent to 0.75 per cent and stamp and registration fee from 0.78 per cent to 0.61 per cent during this period.

With the roll out of GST from 1 July, 2017, a number of state taxes have been subsumed under GST. These are State VAT, central sales tax, purchase tax, luxury tax, entry tax (all forms), entertainment tax (not levied by local governments), tax on advertisements, taxes on lotteries, betting and gambling and state surcharges and cesses so far as they relate to supply of goods and services. What will be its impact on the own tax revenues of the state governments will depend on the revenue buoyancy of the GST. However, for the next five years the Union government has guaranteed all states governments a compensation equivalent to 14 per cent annual growth in revenues.

Expenditures

Expenditures aggregated across all States between 2014-15 and 2015-16 show total expenditure as percentage of all State GSDP to be higher in 2015-16 as evident from table 6. While revenue expenditure increased marginally during this period, the increase in total expenditures is largely driven by increase in capital expenditure which as percentage of GSDP increased from 2.27 per cent in 2014-15 to 2.49 per cent in 2015-16. In 2017-18BE, both Revenue and Capital

Table 5: Composition of Own Tax Revenues of States

(percent)

	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17 RE	2017-18 BE
State Sales Tax/VAT	61.91	61.70	63.72	63.33	62.36	63.88	64.37
State Excise	12.88	12.62	11.42	11.70	11.91	11.73	12.04
Stamp & Registration Fees	11.55	11.55	10.85	10.96	10.92	9.76	9.78
Other State Taxes	13.67	14.13	14.01	14.01	14.81	14.63	13.82
Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00
As % of GSDP							
State Sales Tax/VAT	4.17	4.29	4.23	4.05	3.94	4.05	3.99
State Excise	0.87	0.88	0.76	0.75	0.75	0.74	0.75
Stamp & Registration Fees	0.78	0.80	0.72	0.70	0.69	0.62	0.61
Other State Taxes	0.92	0.98	0.93	0.90	0.94	0.93	0.86

Source: Finance Accounts and Budget documents of States.

expenditure are budgeted to increase to 14.57 per cent and 2.79 per cent of GSDP respectively. Capital expenditure on general services as percentage of GSDP has largely remained unchanged between 2014-15 and 2017-18BE. The entire increase in capital expenditures is primarily due to the increase in capital expenditure on economic and social services. However, there are State-wise variations. The capital expenditure on social services as percentage of GSDP increased from 0.53 per cent in 2014-15 to 0.70 per cent in 2017-18BE while capital expenditure on economic services increased by 0.34 percentage points during this period and was budgeted to be around 1.92 per cent in 2017-18BE. Total expenditure as percentage of GSDP declined in 2015-16 vis-à-vis 2014-15 in 14 States while 3 States have budgeted for an increase in total expenditures in 2016-17RE over 2015-16. Although capital expenditures as percentage of GSDP is higher in 2015-16 as compared to 2014-15, 12 States show a decline. These are Assam, Gujarat, Karnataka, Manipur, Meghalaya, Mizoram, Nagaland, Punjab, Sikkim, Tamil Nadu, Tripura and Uttarakhand. In 2016-17RE, 9 States budgeted for a decline in capital expenditure (as per cent of GSDP) over 2015-16.

remain unchanged at around 31.30 percent.

The expenditure on social services aggregated across all States as per cent of all State GSDP show an increase between 2014-15 and 2017-18BE. Expenditures on education and health,[4] which account for about 53-55 per cent of total social sector expenditures, have not shown a major increase when measured as a percentage of GSDP. The increase in expenditures in social services as percentage of GSDP is largely driven by the increase in expenditures in urban development, water supply and sanitation, housing, and welfare of SCs, STs and backward classes.

State-wise analysis show that between 2014-15 and 2015-16, expenditure as percentage of GSDP -

a) on social services declined in 15 States, namely Andhra Pradesh, Arunachal Pradesh, Assam, Chhattisgarh, Gujarat, Maharashtra, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, Tamil Nadu, Tripura, Uttarakhand and West Bengal;

b) on education declined in 20 States. These are Andhra Pradesh, Assam, Chhattisgarh, Gujarat, Haryana, Himachal Pradesh, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Manipur, Meghalaya, Mizoram, Nagaland, Rajasthan, Sikkim, Tamil Nadu, Tripura, Uttarakhand and West Bengal; and

c) on health declined in 10 States viz., Andhra Pradesh, Arunachal Pradesh, Himachal Pradesh, Karnataka, Meghalaya, Mizoram, Nagaland, Sikkim, Tripura, and Uttarakhand.

Table 6: Trends in Expenditure Aggregated Across States

(% of GSDP)

	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17 RE	2017-18 BE
Total Expenditure	15.06	15.12	14.92	15.92	16.21	17.59	17.36
Revenue Expenditure	12.99	13.07	12.86	13.66	13.72	14.81	14.57
Capital Expenditure	2.07	2.05	2.06	2.27	2.49	2.77	2.79
Expenditure on General Services	4.66	4.55	4.46	4.46	4.39	4.08	4.11
Expenditure on Economic Services	4.29	4.40	4.23	4.98	5.11	5.51	5.44
Expenditure on Social Services	5.58	5.63	5.61	5.81	6.04	6.71	6.45
Social Services							
Expenditure On Education	2.68	2.67	2.63	2.70	2.68	2.79	2.69
Expenditure on Health	0.59	0.60	0.60	0.67	0.70	0.78	0.73

Source: Finance Accounts and Budget documents of States

Between 2014-15 and 2015-16, while total expenditure on general services as percentage of GSDP have declined from 4.46 per cent to 4.39 percent, expenditures on social services and economic services have increased (table 6). Expenditures on general services are budgeted to decline further in 2017-18BE. Between 2014-15 and 2017-18BE, the share of expenditure on social services in total expenditure is budgeted to increase from 36.47 per cent to 37.17 per cent while that of expenditure on economic services have largely

[4] Expenditure on 'Education' pertains to expenditure on 'Education, Sports, Arts and Culture, while expenditure on 'Health' consists of expenditure on Medical and Public Health.

Table 7: States spending lower (in per capita terms) than All State Average Expenditure on Social Sector

	2014-15	2015-16
Social Services	Bihar, Jharkhand, Madhya Pradesh, Odisha, Punjab, Telangana, Uttar Pradesh, West Bengal **(8 States)**	Assam, Bihar, Jharkhand, Madhya Pradesh, Odisha, Punjab, Uttar Pradesh, West Bengal **(8 States)**
Education	Bihar, Jharkhand, Madhya Pradesh, Odisha, Punjab, Telangana, Uttar Pradesh, West Bengal **(8 States)**	Bihar, Jharkhand, Madhya Pradesh, Odisha, Punjab, Telangana, Uttar Pradesh, West Bengal **(8 States)**
Health	Assam, Bihar, Haryana, Jharkhand, Madhya Pradesh, Rajasthan, Telangana, Uttar Pradesh, West Bengal **(9 States)**	Bihar, Jharkhand, Madhya Pradesh, Rajasthan, Uttar Pradesh **(5 States)**

If we examine the trend in per capita expenditures on social sector we find that between 2011-12 and 2015-16, per capita expenditures of all States, in real terms, in education, health and social services increased at an annual average rate of 6.39 percent, 10.81 per cent and 8.28 per cent respectively. The rate of growth of per capita expenditures (in real terms) was much lower for the North-Eastern and Himalayan (NE&H) States. However, the per capital social sector expenditures of aggregated across 11 NE&H is on an average higher than that of the general category States. Eight States were spending less than the all States average per capita expenditure on social services and education in 2014-15 and 2015-16. As regards expenditure on health, 9 States were spending less than all State per capita expenditure in 2014-15 and 5 States in 2015-16 as can be seen from table 7. From the table it is evident that States spending lower than all States average per capita expenditures in social sector are mostly States with lowest per capita GSDP in the country, except Punjab which is a high income State and West Bengal which is a middle income State. These low per capita income States are also the States having some of the lowest human development indicators in the country.

In order to examine whether State-level equalisation is happening or not with respect to social sector expenditures we compare the ratio of per capita expenditure of highest per capita income State and lowest per capita expenditure State between 2014-15 and 2015-16 among the general category States and also among the NE&H States. Among the general category States we find that per capita expenditures on education, health and social services are not converging and the gap between the State with the highest and lowest per capita expenditure has increased. However, among the NE&H States the gap between States with the highest and lowest per capital expenditure on health and social services have declined in 2015-16 vis-à-vis 2014-15, but in case of education we find that the gap have increased.

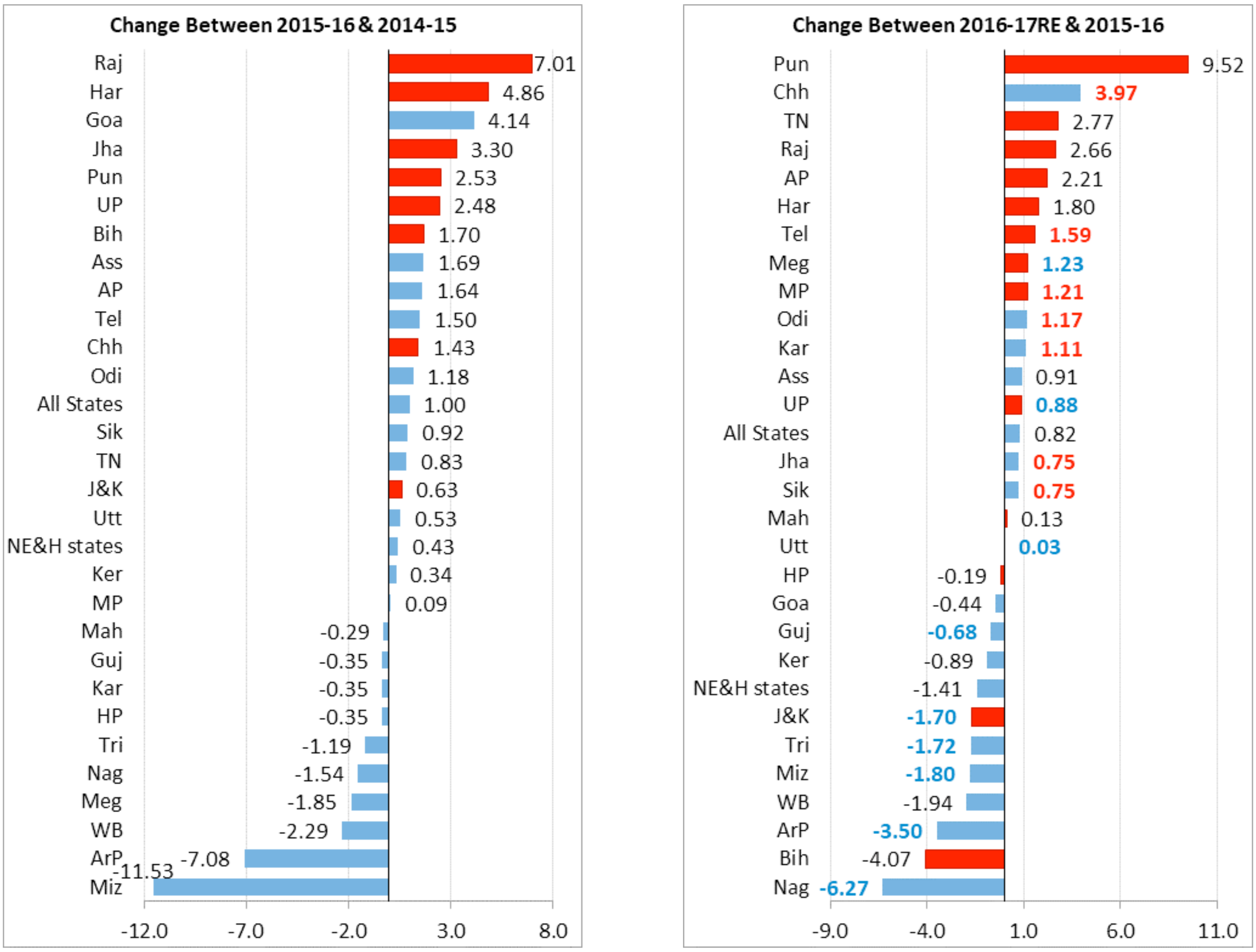
Outstanding Liabilities

Outstanding liabilities aggregated across all States as percentage of GSDP have declined from 23.60 per cent in 2011-12 to 22.31 per cent in 2014-15 and it increased by one percentage point to 23.31 per cent in the following year. Outstanding liabilities are budgeted to further increase to 24.13 per cent in 2016-17RE. In 2015-16, 18 States report an increase in outstanding liabilities as percentage of GSDP over 2014-15, while 17 States budget for an increase in 2016-17RE. As per information from RBI, during 2015-16 eight States[5] borrowed INR 98960 crores under UDAY while in 2016-17 thirteen States[6] borrowed under UDAY. The increase in liabilities of the State governments in 2015-16 and 2016-17 could be due to UDAY liabilities, as these liabilities add to the debt of the States. Moreover, the new framework of borrowing recommended by the FFC provided additional borrowing to fiscally

[5] The 8 States are Bihar, Chhattisgarh, Haryana, Jammu & Kashmir, Jharkhand, Punjab, Rajasthan and Uttar Pradesh

[6] These States are Uttar Pradesh, Maharashtra, Haryana, Punjab, Rajasthan, Bihar, Jammu & Kashmir, Andhra Pradesh, Tamil Nadu, Himachal Pradesh, Telangana, Madhya Pradesh and Meghalaya.

Fig 8: Change in Outstanding Liabilities of states between 2015-16 & 2014-15 and 2016-17RE & 2015-16 (as per cent of GSDP)



Note: Does not include Manipur; States with Red bars are the States that have taken over DISCOM debt in 2015-16 and 2016-17. State with bold red numbers are eligible to 0.50 per cent additional borrowings in 2016-17 and those with blue red numbers eligible for additional 0.25 per cent borrowing based on FFC recommendations.

prudent States.[7] This facility came into operation in 2016-17, the second year of the award of the FFC. As per estimates by RBI, States eligible for additional borrowings are:

i) Additional borrowing of 0.25 per cent of GSDP: Arunachal Pradesh, Gujarat, Jammu & Kashmir, Manipur, Meghalaya, Mizoram, Nagaland, Tripura, Uttar Pradesh and Uttarakhand (9 States);

ii) Additional borrowing of 0.50 per cent of GSDP: Chhattisgarh, Jharkhand, Karnataka, Madhya Pradesh, Odisha, Sikkim and Telangana (7 States).

In addition to the liabilities on account of UDAY, the increase in outstanding liabilities aggregated across states in the fiscal year 2016-17 could be due to the additional borrowing limits recommended by the FFC.

The reduction in outstanding liabilities during 2011-12 and 2014-15 was accompanied by a decline in interest payments to GSDP ratio. Between 2011-12 and 2015-16, interest payments aggregated across all States as percentage of GSDP declined from 1.65 per cent to 1.60 percent. However, with the increase in liabilities of State governments from 2015-16, interest payment as percentage of all State GSDP is budgeted to increase to 1.69 per cent in 2016-17RE and further to 1.70 per cent in 2017-18BE.

Conclusion

Based on our analysis of State Budgets 2017-18, it is observed that all State fiscal deficit has increased in recent years. Fiscal deficit to GDP ratio in the year 2015-16 was 3.03 per cent. In the year 2016-17 (RE) and 2017-18 (BE) it is estimated to be 3.67 and 2.69

[7] For more details refer to Chakraborty et al. (2016).

per cent respectively. Without UDAY liabilities, it is expected to be 3.32 per cent in 2016-17 (RE). It needs to be emphasized that even though the deficit level is on the rise, without UDAY liability it remained well below the FRBM targets in 2015-16 and states in aggregate is expected to be revert to below 3 per cent target of deficit in 2017-18. However, the level of fiscal imbalance is asymmetric across States. Some of the big States in terms of size of government expenditure have slipped into revenue deficits in recent years, which is a cause for concern. Though there has been an increase in the level of capital expenditure in States, its sustenance would depend on what happens to the revenue deficit. Downside fiscal risks are many and needs to be tackled in the medium term so that fiscal space for development spending is enhanced.

References

Budget Documents of State Governments (2017-18).

Chakraborty, Lekha, Manish Gupta and Pinaki Chakraborty (2017), "State Level Debt–Deficit Dynamics Emerging Issues", Economic and Political Weekly, Vol. 52, No. 9, pp. 24-26.

Chakraborty, Pinaki (2017), "GST: Too Late for the Battle on Federalism and Fiscal Autonomy" NIPFP Blog, 26 May 2017. (Url: http://www.nipfp.org.in/blog/2017/05/26/gst-too-late-battle-federalism-and-fiscal-autonomy/)

Comptroller and Auditor General of India (CAG), Finance Accounts of State Governments (various years), CAG, New Delhi.

Finance Commission (2009): Report of the Thirteenth Finance Commission 2010–2015, New Delhi.

Finance Commission (2014): Report of the Fourteenth Finance Commission, New Delhi.

Government of India (2017), Economic Survey 2016-17, Vol. 2, Ministry of Finance, Government of India, New Delhi.

Government of India (2017), Union Budget 2017-18, Ministry of Finance, Government of India, New Delhi.

Reserve Bank of India (2017), State Finance: A Study of Budgets of 2016-17, RBI, Mumbai.