Would UDAY brighten up Rajasthan finances?

DISCUSSION PAPER

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Introduction

Rajasthan is the largest State in India (in terms of area) with a geographical area of 342.24 thousand sq km which constitutes 10.41 per cent of the total geographical area of the country. It also accounts for 5.66 per cent of the total population of the country. Rajasthan is one of the low per capita income States. Per capita income as per the latest GSDP data (new series - 2011-12) for the year 2014-15 is INR 84837.30. Despite low per capita income, the State has made significant progress in social sector development and also reduced level of poverty in recent decades. The State also managed its fiscal deficit well. But power sector finances continued to be a significant drag on its fiscal resources. We analyse the aggregate picture of the finances of Rajasthan taking power sector into consideration.

Importance of Consolidated View of State Finances

Fiscal prudence in most countries, including India, is focused on general government deficit. Though, there is a strong merit in targeting total public sector borrowing requirements, paucity of data and its timeliness always prevented having a consolidated view of public sector borrowing. In the multilevel federal system of India also, the focus has always been in controlling fiscal deficit reflected in the State and union government budgets. In case of Rajasthan also, when we consider only government deficit, it remained well within the Fiscal Responsibility Act (FRA) target of 3 per cent of GSDP in recent years. But the story changed dramatically with the introduction of Ujwal DISCOM Assurance Yojana (UDAY). Under this scheme, 21 State governments including Rajasthan have taken over 75 per cent of the outstanding debt of the power sector-DISCOM companies in the year 2015-16 and 2016-17. With this, by the end of the fiscal year 2016-17, aggregate fiscal deficit of Rajasthan, shows an increase from 3.13 per cent of GSDP in 2014-15 to 9.38 per cent in 2015-16. It is expected to be 5.76 per cent in 2016-17 (RE). However, in 2017-18 (BE) fiscal deficit is expected to be 2.99 per cent of GSDP.

This restructuring of power sector debt has the following long run fiscal implications:

(a) An increase in deficits, particularly revenue deficit due to the increase in interest payment as a result of the increase in the stock of outstanding debt. A corresponding reduction in capital expenditure is inevitable if the State has to remain within the fiscal deficit target specified under the Fiscal Responsibility Act.

(b) As UDAY scheme has come into force post Fourteenth Finance Commission's (FFC's) recommendations, the fiscal framework for higher borrowing proposed by FFC for higher capital spending remains unclear for all the States participating in UDAY scheme.

(c) The FRBM framework proposed by the FRBM Review Committee suggests that aggregate State debt should be 20 per cent of GDP by 2023. What would that mean for States like Rajasthan needs clarity when the debt to GSDP ratio with power sector debt now is hovering around 34 per cent of GSDP and is likely to continue upto 2026-27.

Overview of State Finances

An overview of State Finances is presented in Table 1. As evident from the table, aggregate revenue receipts as a percent of GSDP has increased from 13.06 per

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

Table 1: An Overview of State Finances of Rajasthan (2011-12-to 2017-18)

(% of GSDP)

	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17 RE	2017-18 BE
Revenue Receipts	**13.06**	**13.55**	**13.55**	**15.06**	**14.91**	**15.53**	**15.73**
Revenue Expenditure	**12.29**	**12.85**	**13.74**	**15.59**	**15.79**	**17.91**	**17.36**
Capital Expenditure	**1.63**	**2.16**	**2.49**	**2.66**	**3.27**	**2.47**	**3.09**
Total Expenditure	**13.92**	**15.01**	**16.22**	**18.24**	**19.06**	**20.38**	**20.45**
Social Services	5.48	5.69	6.56	7.19	7.34	7.86	7.56
Economic Services	4.05	5.06	5.31	6.37	7.05	7.11	7.47
Revenue Deficit	0.77	0.70	-0.19	-0.53	-0.89	-2.38	-1.63
Fiscal Deficit	-0.83	-1.73	-2.76	-3.13	-9.38	-6.36	-2.99
Primary Deficit	0.98	-0.04	-1.11	-1.41	-7.59	-3.99	-0.62
Outstanding Liabilities	24.41	23.85	23.63	24.34	31.13	33.79	33.61

Source: Finance Accounts and 2017-18 Budget Documents of Government of Rajasthan.

cent to 15.73 percent between 2011-12 and 2017-18 BE. This increase is due to the increase in own tax to GSDP ratio and a notional increase in grants due to the changes in accounting of the flow of grants.[1] For the period from 2014-15 to 2017-18 BE, the increase in revenue to GSDP ratio is from 14.91 to 15.73 per cent. During the same period, total expenditure as per cent of GSDP is expected to increase from 15.59 to 17.36 per cent.

from 7.92 percent in 2011-12 to 8.56 percent in 2014-15. However, in 2015-16 own revenues declined to 7.97 percent mainly due to the fall in own non-tax revenues which declined from 2.18 percent of GSDP in 2014-15 to 1.62 percent in 2015-16. The fall in own non-tax revenues was due to the reduction in petroleum royalties, receipts under police and miscellaneous general services. Own tax revenues also fell during this period, but the decline was marginal. Own

Table 2: Revenue Receipts

(% of GSDP)

		2011-12	2012-13	2013-14	2014-15	2015-16	2016-17 RE	2017-18 BE
A	**Total Revenue Receipt (B+C)**	**13.06**	**13.55**	**13.55**	**15.06**	**14.91**	**15.53**	**15.73**
B	**Own Revenue Receipt**	**7.92**	**8.63**	**8.56**	**8.56**	**7.97**	**7.93**	**8.34**
	Own Tax Revenue	5.81	6.17	6.09	6.38	6.35	6.27	6.59
	Own Non-Tax Revenue	2.10	2.46	2.47	2.18	1.62	1.66	1.75
C	**Central Transfers**	**5.15**	**4.91**	**4.99**	**6.50**	**6.93**	**7.60**	**7.38**
	Tax Devolution	3.43	3.46	3.40	3.27	4.15	4.48	4.50
	Grants-in-aid	1.71	1.45	1.59	3.23	2.78	3.12	2.88
D	Grants outside State budget	1.61	1.60	1.56	0.09	--	--	--
	All Grants	3.33	3.05	3.15	3.33	2.78	3.12	2.88
E	**All Central Transfers (C+D)**	**6.76**	**6.51**	**6.55**	**6.59**	**6.93**	**7.60**	**7.38**

Source: Finance Accounts and 2017-18 Budget Documents of Government of Rajasthan.

Analysis of finances of the State of Rajasthan reveals that own revenues of the State as percentage of GSDP has been growing during the period 2011-12 to 2014-15. Own revenues as percentage of GSDP increased

Revenues (as percentage of GSDP) are expected to be around 7.93 percent in 2016-17 RE and 8.34 percent in 2017-18 BE as evident from table 2.

Following the recommendations of the FFC, there

[1] Grants for various centrally sponsored schemes earlier bypassed State budgets were routed through the State budgets from 2014-15 onwards (See Table 2). This resulted in an increase in the flow of grants to States in an accounting sense.

was an increase in tax devolution to States. The criteria and weights used by FFC in arriving at the inter se share to States resulted in a decline in Rajasthan's share by about 0.358 percentage as compared to the inter se share recommended by the Thirteenth Finance Commission (TFC).[2] Despite this, tax devolution to Rajasthan as percentage of its GSDP increased from 3.27 percent in 2014-15 to 4.15 percent in 2015-16 and is budgeted to further increase to 4.48 percent in 2016-17RE and 4.50 percent in 2017-18BE (table 2). However, between 2014-15 and 2015-16 central grants as percentage of GSDP declined from 3.23 percent to 2.78. This is due to the fact that grants were restructured based on the recommendations of the Committee of Chief Ministers post FFC.

Prior to 2014-15, a sizeable proportion of central grants to States were directly going to implementing agencies in the State, outside the State budgets. Between 2011-12 and 2013-15 they accounted for more than 1.50 percent of Rajasthan's GSDP. However, since 2014-15, these grants are routed through State budgets. The increase in central grants in 2014-15 (as percentage of GSDP) vis-à-vis 2013-14 is largely due to the change in the way in which central grants are routed to States. Total central transfers (including those going to implementing agencies) to Rajasthan as percentage of GSDP have increased from 6.59 percent in 2014-15 to 6.93 percent in 2015-16 and further to 7.60 percent in 2016-17RE and is budgeted to be around 7.38 percent in 2017-18BE as can be seen from table 2.

On the expenditure front we find that both revenue and capital expenditures as percentage of GSDP have increased between 2011-12 and 2015-16 (see table 3). In 2016-17RE capital expenditure as percentage of GSDP at 2.47 percent is lower as compared to that in 2015-16. Total expenditure as percentage of GSDP increase from 13.92 percent in 2011-12 to 19.06 percent in 2015-16 and is budgeted to increase to 20.45 percent in 2017-18BE. Expenditures on social services and economic services (as percentage of GSDP) also show an increasing trend during this period.

There has been a decline in interest payments (as percentage of GSDP) between 2011-12 and 2013-14. However, from 2014-15 onwards interest payments have been increasing. The sharp increase in interest payment in 2016-17RE is due to the servicing cost of DISCOM loans taken over by the State government under the UDAY scheme.[3] The interest burden due to UDAY would be around 1.20 percent of GSDP in 2016-17RE and 1.45 percent in 2017-18BE.

From the examination of key deficit indicators of the State we see that surplus on the revenue account in 2011-12 and 2012-13 turned into deficit and we have re-emergence of deficit in the revenue account from 2013-14 as is evident from table 4. The revenue account has been in deficit since then. In 2016-17RE, there was a sharp increase in the revenue deficit. Rev-

Table 3: Trends in Expenditures

(% of GSDP)

	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17 RE	2017-18 BE
Revenue Expenditure	12.29	12.85	13.74	15.59	15.79	17.91	17.36
Capital Expenditure	1.63	2.16	2.49	2.66	3.27	2.47	3.09
Total Expenditure, *of which*	**13.92**	**15.01**	**16.22**	**18.24**	**19.06**	**20.38**	**20.45**
Economic Services	4.05	5.06	5.31	6.37	7.05	7.11	7.47
Social Services	5.48	5.69	6.56	7.19	7.34	7.86	7.56
Education	2.67	2.65	2.80	3.20	3.16	3.43	3.35
Medical & Public Health	0.60	0.63	0.69	0.73	0.79	0.84	0.89
Interest Payment	1.81	1.69	1.65	1.73	1.79	2.37	2.37
of which due to UDAY					0.00	1.20	1.45

Source: Finance Accounts and 2017-18 Budget Documents of Government of Rajasthan.

[2] Rajasthan's inter se share declined from 5.853 percent under TFC to 5.495 percent under FFC.

[3] In January 2016, Rajasthan joined the UDAY scheme. The outstanding debt of the DISCOMs in Rajasthan as on 30.09.2015 was INR 80500 crore, out of which 75 per cent, i.e., INR 60500 crore would be taken over by the State, as envisaged in the scheme.

enue Deficit as percentage of GSDP increased from 0.89 percent in 2015-16 to 2.38 percent in 2016-17RE and in 2017-18BE it is budgeted to be around 1.63 percent. The sharp increase in RD in 2016-17RE was due to the increase in interest payment burden on account of joining the UDAY scheme. In the absence of UDAY, the revenue deficit would be around 1.18 percent in 2016-17RE and 0.18 percent in 2017-18BE.

As regards fiscal deficit (FD), we find that FD as percentage of GSDP in Rajasthan was well below 3 percent during 2011-12 and 2012-13-14. In 2014-15, the FD at 3.13 percent was marginally above the 3 percent mark. However, in 2015-16 the FD increased by more than 6.25 percentage points and was about 9.38 percent of GSDP. This sudden increase was due to the takeover of 50 percent of the DISCOMs debt (as on 30.09.2015) by the State. In 2016-17, the State is expected to take over another 25 percent of the DISCOM debt. As a result the FD in 2016-17RE would be around 6.36 percent of GSDP. However, in 2017-18BE, the FD was budgeted to be about 2.99 percent of GSDP. In the absence of UDAY scheme the FD of Rajasthan as percentage of GSDP would be 3.42 percent and 3.37 percent in 2015-16 and 2016-17RE respectively.

As a result of this takeover of DISCOM debt, the total outstanding liabilities of the State government as percentage of GSDP which were well below 25 percent during 2011-12 and 2014-15 increased to 31.13 percent in 2015-16 and further to 33.79 percent in 2016-17RE. In 2017-18BE they were budgeted to be around 33.61 percent (table 4).

Table 4: Debt and Deficits

(% of GSDP)

	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17 RE	2017-18 BE
Revenue Deficit	0.77	0.70	-0.19	-0.53	-0.89	-2.38	-1.63
RD (without UDAY)					-0.89	-1.18	-0.18
Fiscal Deficit	-0.83	-1.73	-2.76	-3.13	-9.38	-6.36	-2.99
FD (without UDAY)					-3.42	-3.37	-2.99
Outstanding Liabilities	24.41	23.85	23.63	24.34	31.13	33.79	33.61

Note: Deficit (-) / Surplus (+)

Source: Finance Accounts and 2017-18 Budget Documents of Government of Rajasthan.

Power Sector Finances and Consolidated Fiscal Position

So far, as the power sector of Rajasthan is concerned, the State government set up the State Electricity Regulatory on 2nd January, 2000 and it has been operational since then. Rajasthan State Electricity Board has been unbundled into 5 companies namely (1) Rajasthan Rajya Vidyut Utpadan Nigam Ltd. (2) Rajasthan Rajya Vidyut Prasaran Nigam Ltd. (3) Jaipur Vidyut Vitaran Nigam Ltd. (4) Jodhpur Vidyut Vitaran Nigam Ltd. And (5) Ajmer Vidyut Vitaran Nigam Ltd. In the year 2011-12, the State purchased 52 per cent of power requirement and produced the rest 48 per cent in the State. A large proportion of power comes from Thermal Coal Fired power plants (51 per cent) followed by Hydro power (15 per cent), Gas (6 per cent) and Nuclear (5 per cent) & Others account for 23 per cent in 2011-12 of the total installed capacity. The T&D losses of the most of the power DISCOMs although have declined it remained around 23 to 27 per cent in 2011-12. The total loss of the power utilities has gone up substantially from 1347.05 crore in 2008-09 to 19751.1 crore in 2011-12.

The UDAY scheme

Over the years, Power Distribution Companies (DISCOMs) have accumulated the loss of 3.8 lakh crores and outstanding debt of 4.3 lakh crores as on March 2015 (Press Information Bureau, 2015). The increase in the debt has been mainly because of non-revision of tariff commensurate with the increase in cost of supply. Moreover, inadequate subsidy receipt and non-improvement of efficiency level are also held responsible for the enormous increase in power debt. In spite of having surplus of power generation, DISCOMs are not able to provide electricity to the customers due to their debt liabilities. Against this backdrop, the Government of India launched Ujwal DISCOM Assurance Yojana (UDAY) (approved by the Union Cabinet on 5th November, 2015), which aims at the financial turnaround and revival of DISCOMs.[4] It is a tripartite agreement between Ministry of Power, State government and DISCOMs. It is optional for all States; however, States are encouraged to be a part of the scheme and benefit from the same.

UDAY seeks to set free DISCOMs of their debt in the next 2-3 years through the following four initiatives: (i) improving operational efficiencies of DISCOMs; (ii) reduction of cost of power; (iii) reduction in interest cost of DISCOMs; and (iv) enforcing financial discipline on DISCOMs through alignment with State finances.[5] It is argued that UDAY will be panacea for the DISCOM debts of the States. However, it has direct fiscal implications on State finances as States are expected to take over the DISCOM debts. If these impacts are large, the States might squeeze the other developmental expenditure given the Fiscal Responsibility Act (FRA) target of deficits.

Debt restructuring mechanism of the UDAY scheme

Under this scheme, States are expected to take over 75 per cent of DISCOMs debts as on 30th September, 2015 over two years - 50 per cent in 2015-16 and 25 per cent in 2016-17 (Press Information Bureau, 2015). This will reduce the interest taken over by States to around 8-9 per cent from 14-15 per cent. States will issue non-SLR State Development Loan (SDL) bonds in the market or directly to the respective banks/FIs holding the DISCOM debt (maturity period of these bonds will be 10-15 years). DISCOM debt not taken

Table 5: Selected 17 States - Date of Joining the UDAY

States	Date of joining
Andhra Pradesh	24.06.16
Bihar	22.02.16
Chhattisgarh	25.01.16
Goa	No liabilities
Gujarat	13.02.16
Haryana	11.03.16
J&K	15.03.16
Jharkhand	5.01.16
Karnataka	16.6.16
Madhya Pradesh	10.08.16
Maharashtra	07.10.16
Manipur	26.07.16
Punjab	04.03.16
Rajasthan	**27.01.16**
Uttar Pradesh	30.01.16
Uttarakhand	21.03.16
Puducherry	10.08.16

Source: MoU of the respective States.

[4] The earliest attempt by the central government to support DISCOMs after unbundling of erstwhile State Electricity Board (SEB) was in the form of Financial Restructuring Scheme (FRS), 2012. The scheme provided incentive by reimbursing 25 per cent of the loans taken over by the States and by providing grant for reduction of aggregate technical and commercial loss (ICRA, 2015). However, these measures did not provide the intended results as the outstanding debt continued to soar up.

[5] Measures of operational efficiency improvements include compulsory smart metering, upgradation of transformers, meters, etc., energy efficient measures like LED bulbs, agricultural pumps, fans and air-conditioners. These improvements are likely to bring down the gap between average revenue realized (ARR) and average cost of supply (ACS) from 22 per cent to 15 per cent by 2018-19. Increased supply of cheaper domestic coal, coal linkage rationalization, liberal coal swaps from inefficient to efficient plants, coal price rationalization based on gross calorific value (GCV), supply of washed and crushed coal, and faster completion of transmission lines are some of the ways to reduce cost of power.

Table 6: Total outstanding debt to be taken over by the States (INR crores)

States	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Andhra Pradesh	4231	2115.41				
Bihar	1555	777.27				
Chhattisgarh	870	435.06				
Goa	No outstanding liabilities					
Gujarat	all dues by 31.3.16					
Haryana	17300	8650				
Jammu & Kashmir	1769	884.388				
Jharkhand	583	292				
Karnataka						
Madhya Pradesh	7568	4622	4622	4622	4622	4621
Maharashtra		992	992	992	992	992
Manipur	all dues by 31.3.17					
Punjab	10419	5209.42				
Rajasthan	**40265**	**20133**				
Uttar Pradesh	26606	13302.8				
Uttarakhand	all dues					

Source: (Basic data), from the Tripartite MoU of the respective States.

by the States will be converted into loans or bonds with interest rate not more than the bank's base rate plus 0.1 per cent by banks/FIs. Moreover, States are expected to take over the future losses in a graded manner.[6]

Table 6 demonstrates the amount of DISCOM debt, which has to be covered by the States. The data on debt is extracted from the respective tripartite agreement, i.e., the MOU signed by the respective states.

Rajasthan: State-Specific Mechanism and Targets of UDAY

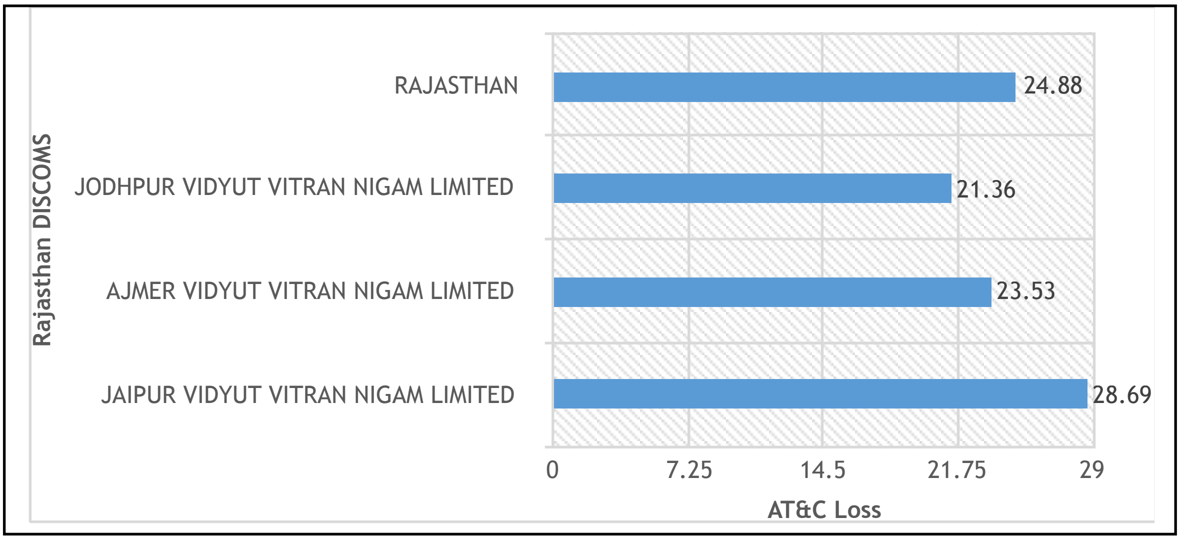
The Government of Rajasthan has signed MoU under the scheme UDAY (Ujwal DISCOM Assurance Yojana) with the Government of India and the DISCOMs of the State on January 2016 to ensure financial and operational turnaround of the DISCOMs. The DISCOMs signed include Jaipur Vidyut Vitran Nigam Limited, Jodhpur Vidyut Vitran Nigam Limited and Ajmer Vidyut Vitran Nigam Limited. The MOU stated that this agreement aims at the rapid electrification of villages[7] and distribution at reduced per unit cost to consumers. As on September 30, 2015, the outstanding debt of DISCOMs stood at INR 80500 crores. The scheme also provided for the balance debt of INR 20000 crore to be re-priced or issued as State guaranteed DISCOM bonds, at coupon rates around 3 per cent less than the average existing interest rate. This should result in savings of about INR 3000 crore in annual interest cost through reduction of debt and through reduced interest rates on the balance debt.[8] As of March 31, 2017, the bond issued by Rajasthan is INR 72090 crores, which is 94.71% of the bonds to be issued stipulated at INR 76120 Crores.

[6] States accepting UDAY and complying with the operational guidelines will be given additional/priority funding through Deendayal Upadhyaya Gram Jyoti Yojana (DDUGJY),Integrated Power Development Scheme (IPDS), Power Sector Development Fund (PSDF) or other such schemes of Ministry of Power and Ministry of New and Renewable Energy. So far 17 States/UTs (Andhra Pradesh, Bihar, Chhattisgarh, Goa, Gujarat, Haryana, Jammu & Kashmir, Jharkhand, Karnataka, Madhya Pradesh, Maharashtra, Manipur, Punjab, Rajasthan, Uttar Pradesh, Uttarakhand and Puducherry) have signed the MoU and the States of Telangana, Assam and Kerala have given 'in principle' approval. Table 5 shows the list of States and the date of signing the MoU.

[7] To ensure electrification of 396 villages and 30 lakh households in Rajasthan that are still without electricity.

[8] http://pib.nic.in/newsite/PrintRelease.aspx?relid=135834

Fig 1a: UDAY Financial Parameters (Progress in reducing AT&C Losses in Rajasthan, as of March 31, 2017)



Source: UDAY portal, Govt. of India. https://www.uday.gov.in/atc_india.php

Fig 1b: UDAY Financial Parameters: Progress in reducing ACS-ARR Gap in Rajasthan (as of March 31, 2017)

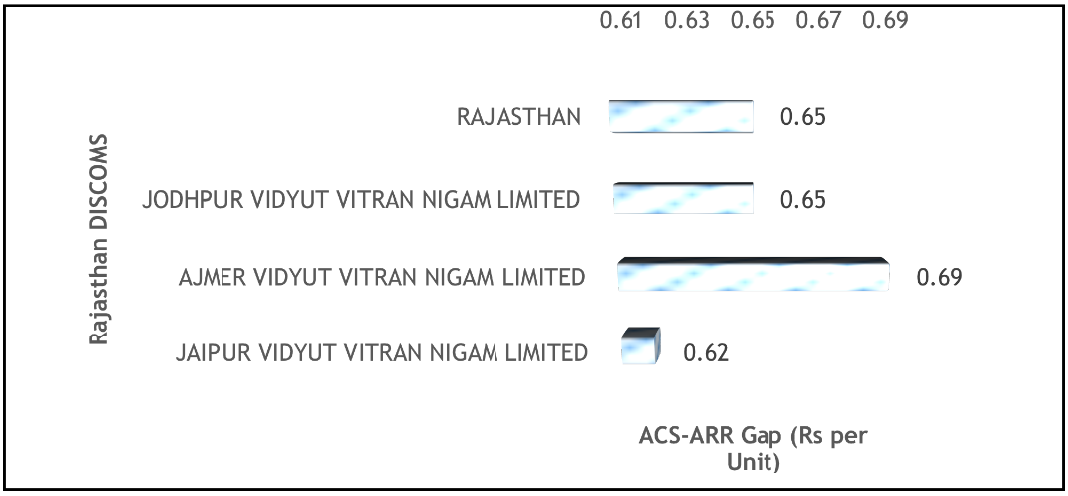
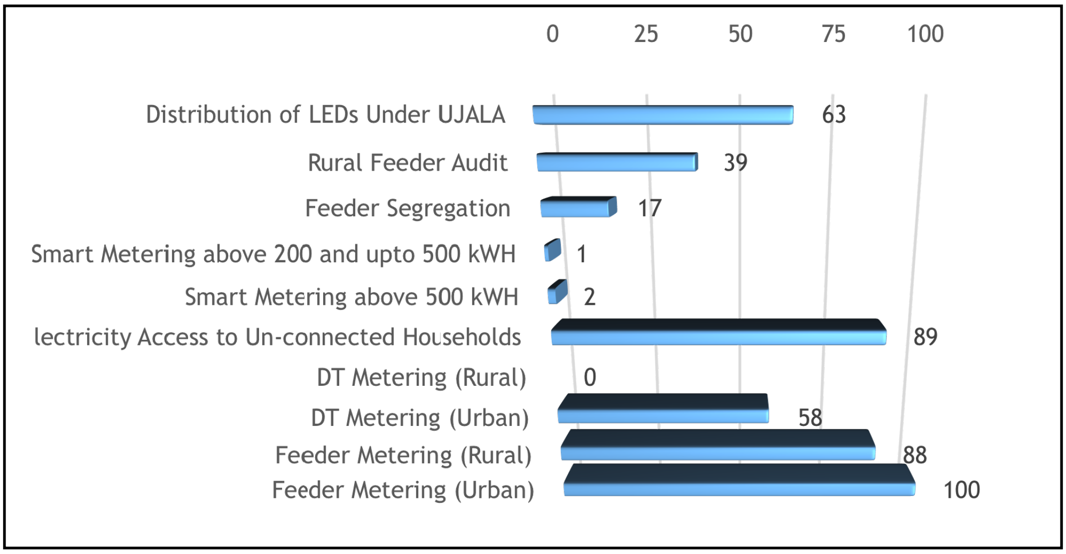


Figure 2: UDAY in Rajasthan: Progress in Operational Efficiency (as of March 2017)



Source: UDAY portal, Govt. of India. https://www.uday.gov.in/state.php?id=4&code=rajasthan

The progress in reducing the AT&C losses (Aggregate Technical and Commercial Loss) by Rajasthan DISCOMs is respectively 28.69 per cent by Jaipur Vidyut Vitran Nigam Limited, 21.36 per cent by Jodhpur Vidyut Vitran Nigam Limited and 23.53 per cent by Ajmer Vidyut Vitran Nigam Limited (Figure 1). The overall State progress is 24.88 per cent as of March 31, 2017.

Table 7: State Finances of Rajasthan: 2017-18 (BE) to 2026-27

(per cent to GSDP)

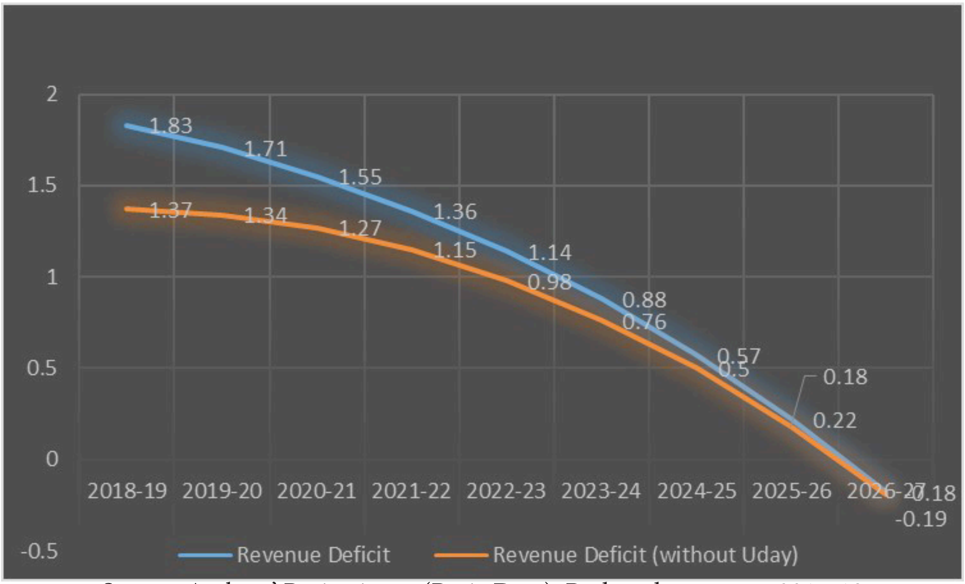
	2017-18 BE	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
Revenues	15.73	15.91	16.13	16.37	16.65	16.95	17.29	17.66	18.06	18.49
Own Tax Revenue	6.59	6.71	6.84	6.97	7.11	7.25	7.40	7.56	7.73	7.90
Stamps & Registration Fees	0.49	0.46	0.43	0.41	0.38	0.36	0.34	0.32	0.30	0.28
State Excise	1.00	1.05	1.11	1.17	1.23	1.29	1.36	1.43	1.50	1.58
Sales Tax	4.27	4.35	4.44	4.53	4.63	4.72	4.82	4.92	5.02	5.12
Taxes on Vehicles	0.49	0.50	0.51	0.51	0.52	0.53	0.54	0.55	0.56	0.57
Others	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35
Own Non-Tax Revenue	1.75	1.65	1.55	1.45	1.36	1.28	1.20	1.13	1.06	1.00
Central Transfers	7.38	7.56	7.75	7.95	8.18	8.42	8.68	8.96	9.27	9.60
Share in Central Taxes	4.50	4.75	5.02	5.30	5.59	5.91	6.24	6.59	6.96	7.35
Grants	2.88	2.81	2.73	2.66	2.58	2.51	2.44	2.38	2.31	2.25
Revenue Expenditure	17.36	17.75	17.84	17.93	18.01	18.09	18.16	18.23	18.28	18.32
General Services	5.31	5.62	5.63	5.64	5.64	5.64	5.63	5.61	5.58	5.53
Interest Payment (with UDAY)	2.37	2.65	2.63	2.61	2.59	2.56	2.51	2.46	2.39	2.31
Pension	1.71	1.71	1.71	1.71	1.71	1.71	1.71	1.71	1.71	1.71
Others	1.23	1.26	1.29	1.32	1.35	1.38	1.41	1.44	1.48	1.51
Social Services	6.37	6.45	6.53	6.61	6.69	6.78	6.86	6.95	7.03	7.12
Education	3.24	3.39	3.54	3.70	3.87	4.04	4.23	4.42	4.62	4.83
Health	0.73	0.77	0.81	0.84	0.88	0.93	0.97	1.02	1.07	1.12
Others	2.40	2.29	2.18	2.07	1.94	1.81	1.66	1.51	1.35	1.18
Economic Services	5.68	5.68	5.68	5.68	5.67	5.67	5.67	5.67	5.67	5.67
Capital Expenditure	3.09	2.71	2.68	2.66	2.64	2.62	2.59	2.57	2.55	2.53
Revenue Deficit	**1.63**	**1.83**	**1.71**	**1.55**	**1.36**	**1.14**	**0.88**	**0.57**	**0.22**	**-0.18**
Revenue Deficit (without UDAY)	**0.18**	**1.37**	**1.34**	**1.27**	**1.15**	**0.98**	**0.76**	**0.50**	**0.18**	**-0.19**
Fiscal Deficit	**2.99**	**4.61**	**4.45**	**4.27**	**4.05**	**3.80**	**3.51**	**3.17**	**2.80**	**2.38**
Fiscal Deficit (without UDAY)	**2.99**	**4.14**	**4.08**	**3.98**	**3.83**	**3.64**	**3.39**	**3.10**	**2.76**	**2.37**
Outstanding Liabilities	**33.61**	**34.85**	**35.81**	**36.49**	**36.88**	**36.99**	**36.79**	**36.27**	**35.44**	**34.26**
Outstanding Liabilities -without UDAY	**27.30**	**29.85**	**31.93**	**33.55**	**34.73**	**35.49**	**35.84**	**35.78**	**35.32**	**34.26**

Source: (Basic data), Budget Documents of Government of Rajasthan and Authors' Projections

The ACS-ARR gap (INR per unit) which indicates the commercial viability of the DISCOMs at State level is INR 0.65 per unit in Rajasthan; the DISCOM disaggregated gap is given in Figure 1b. The UDAY scheme emphasises on strengthening the operational efficiency of DISCOMs through many initiatives including compulsory Feeder and Distribution Transformer metering, providing electricity access to unconnected households, distribution of LEDs and smart metering. However, the progress in operational efficiency parameters has not been 100 per cent (Figure 2).[9] The next section would analyse the impact of these UDAY

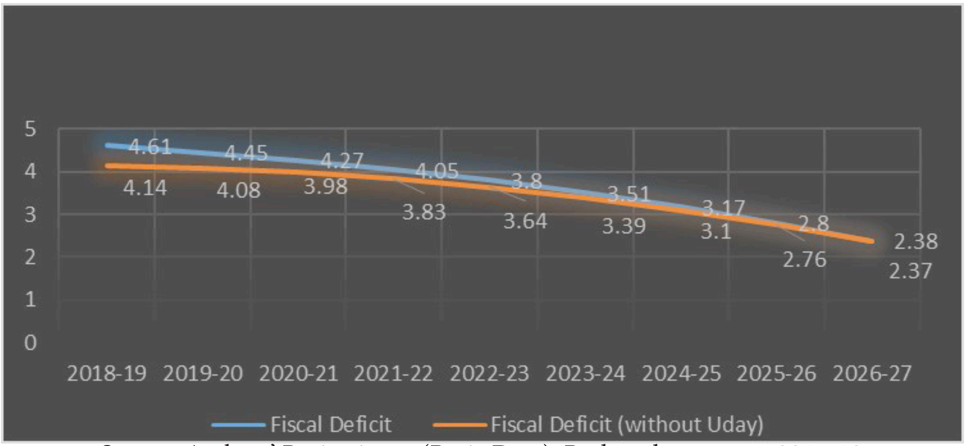
[9] As per the UDAY scheme, if the State meet all the financial and operational efficiency parameters, they would get additional/priority funding through the Central schemes DDUGJY, IPDS, Power Sector Development Fund or such other schemes of MOP and

Figure 3: Forecast of Revenue Deficit - with and without UDAY in Rajasthan



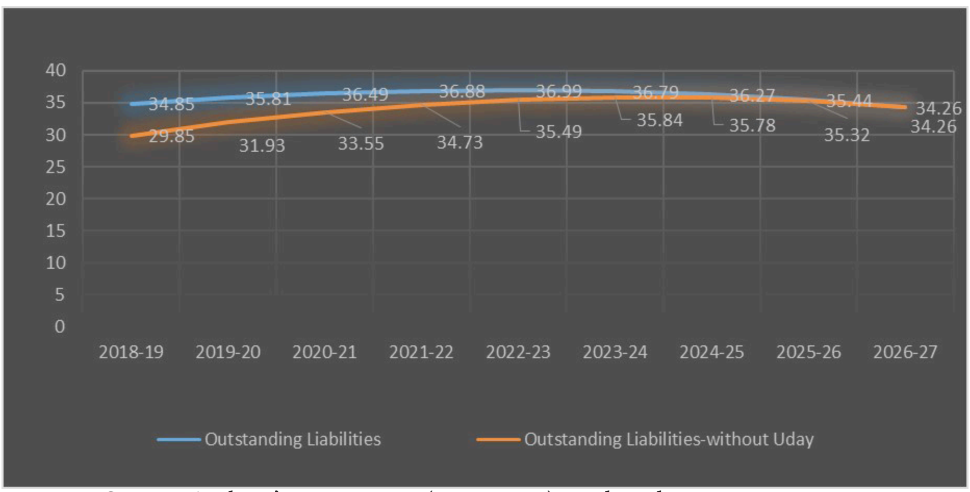
Source: Authors' Projections. (Basic Data), Budget documents, 2017-18, Ministry of Finance, Govt. of Rajasthan

Figure 4: Forecast of Fiscal Deficit - with and without UDAY in Rajasthan



Source: Authors' Projections. (Basic Data), Budget documents, 2017-18, Ministry of Finance, Govt. of Rajasthan

Figure 5: Forecast of Outstanding Liabilities - with and without UDAY in Rajasthan



Source: Authors' Projections. (Basic Data), Budget documents, 2017-18, Ministry of Finance, Govt. of Rajasthan reforms on public finances of Rajasthan.

Post UDAY Long Run Fiscal Trend: 2017-18 to 2026-27

We have projected fiscal profile of Rajasthan for the period from 2017-18 (BE) to 2026-27. This covers the period in which restructured power sector debt will be amortized. As evident from the Table, based on past trends for most components of revenue and expenditure, the State debt to GSDP ratio would increase from 33.6 per cent in 2017-18 (BE) to 34.26 per cent in 2026-27 (BE). This projection also shows that given post UDAY trend in State finances, the government of Rajasthan would be able to comply with the FRA target only in the year 2025-26 and produce a revenue surplus in the fiscal year 2026-27.

It is also to be noted that projected fiscal profile is based on a highly conservative fiscal stance as reflected in the following ratios presented in table 7:
1) Aggregate revenue receipts to GSDP ratio is projected to increase from 15.73 per cent of GSDP to 18.49 per cent of GSDP - an increase of more than 3 percentage point of GSDP in ten years. Own tax revenue to GSDP ratio is expected to increase from 6.59 to 7.90 per cent during this period.

2) Revenue expenditure shows an increase from 17.36 to 18.32 per cent primarily due to the increase in social sector expenditure.
3) Capital expenditure is expected to decline from 3.09 to 2.53 per cent.

The forecasts of revenue deficit, fiscal deficit and outstanding liabilities are shown in Figure 3, 4 and 5 respectively.

Conclusion and the Questions Forward

Given these trends in State finances incorporating UDAY power debt, the following questions would arise. How does one view the long run sustainability of State debt and deficits? What is the likely impact of the FRBM Committee's recommendations on the finances of Government of Rajasthan where debt to GSDP ratio of all States has to be brought down to 20 percent by 2023 Finally what should be the measureable indicator of fiscal prudence at the state level? Is it fiscal deficit incorporating UDAY debt or the one without UDAY?

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MNRE. If they meet all operational parameters, the State would also be supported through other benefits such as coal swapping, coal rationalization and the correction in coal grade slippage, which would gain the State around INR 3000 crores due to these coal reforms.