FISCAL RESPONSIBILITY AND BUDGET MANAGEMENT ACT

A Review of the Performance of Enacted States

The Institute of Chartered Accountants of India

(Set up by an Act of Parliament)

New Delhi

Fiscal Responsibility and Budget Management Act – A Review of the Performance of Enacted States

Committee on Public Finance and Government Accounting

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Edition	:	February, 2012
Committee/Department	:	Committee on Public Finance and Government Accounting
E-mail	:	cpf_ga@icai.org
Website	:	www.icai.org
Price	:	₹ 100/-
ISBN	:	978-81-8441-
Published by	:	The Publication Department on behalf of the Institute of Chartered Accountants of India, ICAI Bhawan, Post Box No. 7100, Indraprastha Marg, New Delhi - 110 002.
Printed by	:	Sahitya Bhawan Publications, Hospital Road, Agra-282 003.
		February/2012/1,000 Copies

Foreword

The Fiscal Responsibility and Budget Management Act provides a legal institutional framework for fiscal consolidation. It is now mandatory for the Central government to take measures to reduce fiscal deficit, to eliminate revenue deficit and to generate revenue surplus in the subsequent years. The Act binds not only the present government but also the future Government to adhere to the path of fiscal consolidation. The Government can move away from the path of fiscal consolidation only in case of natural calamity, national security and other exceptional grounds which Central Government may specify.

Originally Fiscal Responsibility and Budget Management Act mandated that the revenue deficit should be eliminated and fiscal deficit contained at 3% of GDP by March 2008. In 2004, the target was shifted to March 2009 by an amendment of the Act. The annual deficit reduction targets could not be adhered to in 2005-06 as the Centre pressed the 'pause button' to accommodate the higher transfers recommended by Finance Commission-XIII. The revenue deficit of the Centre declined to 1.11% of GDP in 2007-08, its lowest level since 1990-91. In 2008-09, there was a total reversal of fiscal correction with the revenue deficit reaching a level of 4.53% of GDP. The Union Budget for 2009-10, which was formulated against the backdrop of the global downturn and subdued domestic demand, envisaged a revenue deficit of 4.83% of GDP. Hon'ble Finance Minister Shri Pranab Mukherjee ji in his budget speech 2011-12 has highlighted the importance of FRBM and said that the Central Government would introduce an amendment to FRBM Act laying down the fiscal roadmap for the next five years.

Taking the cue from the above and realizing the need to educate our stakeholders on the topic of FRBM, I appreciate the efforts of CA. Anuj Goyal, Chairman, Committee on Public Finance & Government Accounting and the entire Committee team for their untiring efforts in bringing out this publication on "Fiscal Responsibility and Budget Management Act: A Review of the Performance of Enacted States".

I am sure that this publication would enrich the readers and be immensely helpful and beneficial to various stakeholders, members of the profession and other readers.

February, 2012 — CA. G. Ramaswamy
New Delhi — *President, ICAI*

Preface

Since its external crisis of the early nineties, India has witnessed a turnaround on most indicators of macro-economic performance. The process of economic reform, including widespread liberalization and reduction in protectionism, launched in 1991, and steadily pursued thereafter has yielded positive results by eliminating some longstanding structural rigidities, and created potential for higher growth. Over the last decade or so India has made transition from an onerous trade regime to a market-friendly system encompassing both trade and current payments. Despite a decade of economic reform, there is still persistence of huge fiscal and revenue deficit thereby widening the gap between revenue and expenditure, forcing the political thinkers to enact a law for fiscal correction and ultimately during 2003-04, the Fiscal Responsibility and Budget Management Act was enacted and put into operation. The Fiscal Responsibility and Budget Management Act-2003 is in place for around eight years now. The objective of the Act is to ensure inter-generational equity in fiscal management, long run macroeconomic stability, better coordination between fiscal and monetary policy, and transparency in fiscal operation of the Government. The Act is based on the presumption that the fiscal deficit is the key parameter adversely affecting all other macroeconomic variables. It is argued that lower fiscal deficits lead to higher as well as sustainable growth and higher fiscal deficits apparently lead to inflation. It is also argued that large fiscal deficits may lead to huge accumulation of public debt.

The Committee on Public Finance & Government Accounting (CPF&GA) has prepared a publication on "Fiscal Responsibility and Budget Management Act: A Review of the Performance of Enacted States".

I would like to convey my sincere thanks to our Honourable President CA. G Ramaswamy, Vice-President CA. Jaydeep N Shah for their constant support and co-operation to the Committee.

I gratefully acknowledge the efforts of CA. Shalini Jindal, Secretary (CPF&GA), Dr. Nikhil Saket, Sr. Asst. Secretary (CPF&GA) and the staff of the Committee for bringing out this publication.

I believe that this publication would be very useful to all concerned.

CA. Anuj Goyal

February, 2012 — *Chairman*

New Delhi — *Committee on Public Finance & Government Accounting*

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The Fiscal Responsibility Legislation

Introduction

The Fiscal Responsibility and Budget Management Act 2003 (FRBM Act) is in place for around eight years now. The Act is based on the presumption that the fiscal deficit is the key parameter adversely affecting all other macroeconomic variables. It is argued that lower fiscal deficits lead to higher as well as sustainable growth and higher fiscal deficits apparently lead to inflation. It is also argued that large fiscal deficits may lead to huge accumulation of public debt.

The FRBM Act, which became effective from July 5, 2004 mandated the Central Government to eliminate revenue deficit by March, 2009 and to reduce fiscal deficit to an amount equivalent to 3 per cent of GDP by March,2008. The annual targets for fiscal correction were to be specified by Rules to be framed under the Act. Accordingly the Government notified the Rules under the FRBM Act on July 2, 2004, which came into force w e f, 5th July, 2004. The Rules specify the annual targets for reduction of fiscal and revenue deficits, annual targets for assuming contingent liabilities in the form of guarantees and the total liabilities as a percentage of GDP. The Rules also prescribe the formats for the medium term fiscal policy statement, the fiscal policy strategy statement and the macro-economic framework statement, which are required to be presented to the Parliament along with the annual financial statement. Fiscal indicators to be presented in the medium term fiscal policy statement have also been prescribed in the rules.

Highlights of the Fiscal Responsibility and Budget Management Rules, 2004

- Reduction of revenue deficit by an amount equivalent of 0.5 per cent or more of the GDP at the end of each financial year, beginning with 2004-05.
- Reduction of fiscal deficit by an amount equivalent of 0.3 per cent or more of the GDP at the end of each financial year, beginning with 2004-05.
- No assumption of additional liabilities (including external debt at current exchange rate) in excess of 9 per cent of GDP for the

financial year 2004-05 and progressive reduction of this limit by at least one percentage point of GDP in each subsequent year.

- No guarantees in excess of 0.5 per cent of GDP in any financial year, beginning with 2004-05.
- The four fiscal indicators to be projected in the medium term fiscal policy statement, are revenue deficit as a percentage of GDP, fiscal deficit as a percentage of GDP, tax revenue as percentage of GDP and total outstanding liabilities as percentage of GDP.
- For greater transparency in the budgetary process, Rules mandate the Central Government to disclose changes, if any, in the Accounting Standards, policies and practices that have a bearing on the fiscal indicators. The Government is also mandated to submit statements of receivables and guarantees and a statement of assets, at the time of presenting the annual financial statement, latest by Budget 2006-07.
- The Rules prescribe the form for the quarterly review of the trends of receipts and expenditures. The Rules mandate the Central Government to take appropriate corrective action in case of revenue and fiscal deficits exceeding 45 per cent of the budget estimates, or total non-debt receipts falling short of 40 per cent of the budget estimates at the end of first half of the financial year.

The salient features of the FRBM Acts of various States are set out in the ensuing chapters…………..

Chapter 2

Andhra Pradesh FRBM Act-2005

The Andhra Pradesh Fiscal Responsibility and Budget Management Act, 2005 came into force with effect from the 3rd June, 2005.This Act has been amended by the Andhra Pradesh Fiscal Responsibility and Budget Management (Amendment) Act, 2006.

Key Highlights

- The State is entitled to a debt waiver of around ₹ 3,400 crores over a five year span, starting 2005-06. Ironically, Andhra Pradesh had a revenue surplus in 2006-07, two years ahead of the deadline set-out under the FRBM Act.
- As per the FRBM Act, the State can raise finances up to 3% of the Gross State Domestic Product (GSDP) during a particular year.
- The decision to raise additional funds may increase fiscal deficit, as a percentage of GSDP beyond 3% in the current year, Hence the amendment was necessary. The State will raise loans from domestic and overseas investors.
- In fact, Andhra Pradesh had successfully managed its fiscal imbalances by reducing the fiscal deficit to 2.16% and 2.82% during in 2006-07 and 2007-08 respectively, before the target year of 2008-09.

Fiscal Indicators

MEDIUM TERM FISCAL POLICY STATEMENT

A. Fiscal Indicators - Rolling Targets

(in percentages)

		Previous Year (Y-2) (Actuals) 2007-08	Current Year (Y-1) 2008-09 (BE)	Current Year (Y-1) 2008-09 (upto June)		Ensuing Year (Y); Budget Estimates (BE)	Targets for next Two Years #	
							Y + 1	Y + 2
1	Revenue Deficit / Surplus as percentage of Total Revenue Receipts (TRR)	0.29	1.00	27.47	*	2009-10 BE under preparation	Surplus	Surplus
2	Fiscal Deficit as percentage of GSDP	-2.82	-2.82	3.48	*	2009-10 BE under preparation	3.00	3.00
3	Total outstanding Liabilities as percentage of GSDP	26.46	27.29	27.29		2009-10 BE under preparation	35.00	35.00
4	[Any additional target(s)]	Nil	Nil	Nil		Nil	Nil	Nil

As per the targets set by AP FRBM Act, 2005.

* Surplus

Source- http://www.apfinance.gov.in/html/frbm.htm

Gross Fiscal Deficit: - Reduced to 3% of GSDP by March 2010.

- **Revenue Deficit: -** Nil by March 2009 and generate revenue surplus thereafter.
- **Guarantees: -** Limit the amount of annual incremental risk weighted guarantees to 90% of total revenue receipts.
- **Liabilities: -** Not to exceed 35% of GSDP by March 2010.

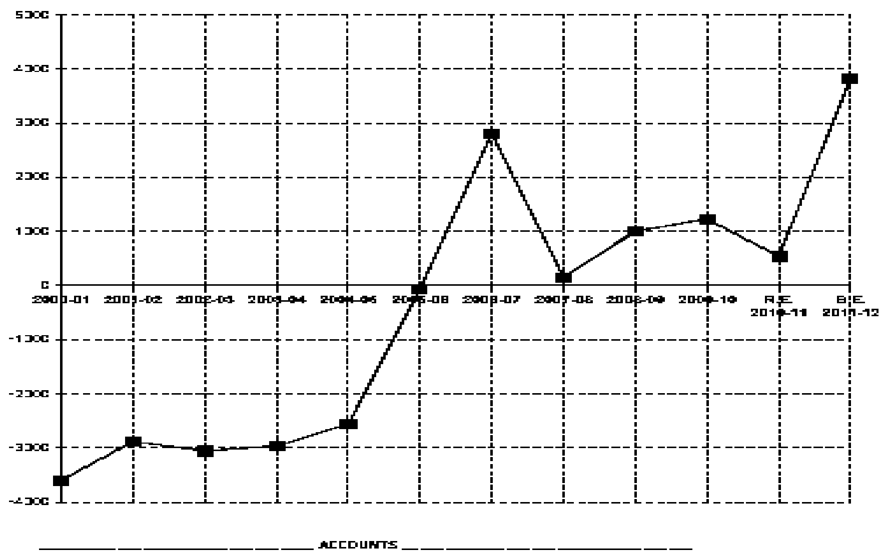
Growth and Composition of GSDP

- Reduce revenue deficit by an amount equivalent to at least 0.32% point of G.S.D.P. in each financial year, beginning from the 1st day of April 2005, so as to eliminate it by 31st March 2009 and generate revenue surplus thereafter.
- Reduce fiscal deficit by an amount equivalent to at least 0.25% point of GSDP in each financial year beginning from the 1st day of April, 2005, so as to bring it down to not more than 3% by the year ending March 2010.
- Ensure within a period of five years, beginning from the initial financial year from the 1st day of April 2005, and ending on the 31st day of March

2010, that the outstanding total liabilities do not exceed 35% of the estimated GSDP for that year.

Trend of Revenue Surplus / Deficit

₹ crores



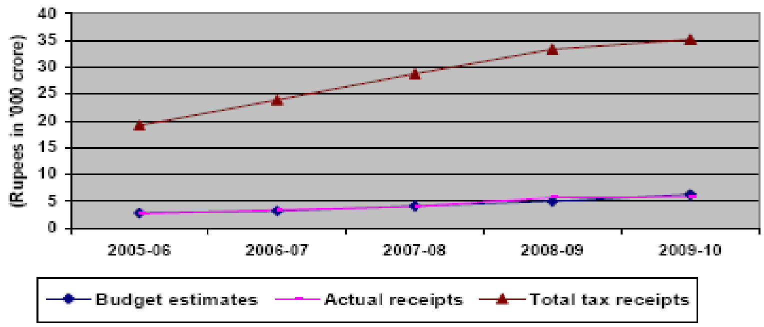
Source: http://www.apfinance.gov.in/html/frbm.htm

The fiscal deficit during 2009-10 was Rs.14,010 crores which is 3.40% of GSDP arrived at that time i.e. well below the limit of 4% allowed by the Government of India for that year. For the financial year 2011-12, it is programmed for an expenditure of ₹ 1,28,542 crores out of which ₹ 80,984 crores is under Non-plan and ₹ 47,558 crores is under Plan. It is estimated that the revenue surplus would be ₹ 3,826 crores. The fiscal deficit is estimated to be ₹ 17,602 crores, which would be 2.95 percent of GSDP.

Resources of the State as per Annual Finance Accounts

Actual receipts from State Excise during the year 2005-06 to 2009-10 along with the total tax receipts during the same period is exhibited in the following table and graph.

Year	Budget estimates	Actual receipts	Variation excess (+)/ shortfall (-)	Percentage of variation	Total tax receipts of the State	Percentage of actual receipts vis-à-vis total tax receipts
2005-06	2,851.18	2,684.57	(-) 166.61	(-) 5.84	19,207.41	13.98
2006-07	3,250.00	3,436.63	(+) 186.63	(+) 5.74	23,926.20	14.36
2007-08	4,125.00	4,040.69	(-) 84.31	(-) 2.04	28,794.05	14.33
2008-09	4,991.25	5,752.61	(+) 761.36	(+) 15.25	33,358.29	17.24
2009-10	6,260.00	5,848.59	(-) 411.41	(-) 6.57	35,176.68	16.63



Source: CAG Report

- The State's own tax revenues have grown by 5.45% in the year 2009-10 over the previous year i.e. 2008-09 and stood at Rs.35176 crores.
- Tax collections increased by 5.45% during the year 2009-10 over the year 2008-09. The average rate of growth of tax revenue stands during last 3 years at 13.88%. Introduction of VAT resulted in initial hiccups in the year 2005-06, However the period 2006-07 to 2009-10 has seen good growth rate in VAT and APGST collections.
- The non-tax revenue collections decreased in the year 2009-10 over 2008-09. The main reason for the decrease in non-tax revenue was the recovery of the debt waiver amount of Rs.703.08 crores during 2009-10, though the State Government had strictly implemented the provisions under Andhra Pradesh Fiscal Responsibility and Budget Management (APFRBM) Act.
- The own non-tax revenue has declined to Rs.7803 crores in the year 2009-10 where as the actual for the year 2008-09 was Rs.9683 crores.
- Interest payments against Government debt have gone up from Rs.8057 Crores in 2008-09 to Rs.8914 Crores in 2009-10.

Performance of the State during recent years
Overall Budgetary Position 2011-12

(₹ In crores)

Revenue Receipts		100995.27
Public Debt		26475.77
Loan Recoveries		235.06
Public Account (Net)		1063.95
	Total	128770.05
Revenue Expenditure		97169.63
Capital Expenditure		17854.54
Public Debt Repayment		9709.75
Loans and Advances		3808.10
	Total	128542.02
	Net - Surplus	228.03

Source: http://budget.ap.gov.in/BIB.htm

Recent Findings

In the year 2011-12, the revenue receipts were ₹ 100995.27 crores against the revenue expenditure of ₹ 97169.63 crores. Public Debt was ₹ 26475.77 crores and the public debt repayment for the same period was ₹ 9709.75 crores.

The state government on 28th March 2011 introduced in the Legislative Assembly a new Fiscal Responsibility and Budget Management (FRBM) Act with targets for total outstandings in proportion to the Gross State Domestic Product (GSDP) and fiscal deficit for 2010-11 to 2014-2015 to be maintained.

The new FRBM Act 2011 is to ensure within the subsequent period of five years beginning April 1, 2010 that the total outstanding liabilities do not exceed 27.6 per cent of the GSDP as prescribed by the Centre based on the recommendations of the Thirteenth Finance Commission. The targets for each of these five years are 30.3 per cent in 2010-11, 29.6 per cent in 2011-12, 28.9 per cent in 2012-13, 28.2 per cent in 2013-14 and 27.6 per cent in 2014-15.

The State's total public debt outstanding, which stands at ₹ 1,23,226 crores (RE) and ₹ 1,41,150 crores (BE) for the years 2010-11 and 2011-12 respectively are much lower than the envisaged targets for the years as the projected outstandings in proportion of the GSDP in 2011-12 is only 23.62 per cent, according to the budget estimates. Fiscal deficit is estimated to be 2.6 per cent and 2.95 per cent for the respective years

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Chapter 3
Arunachal Pradesh FRBM Act 2006

The Arunachal Pradesh Fiscal Responsibility and Budget Management (APFRBM) Act, 2006 came into force with effect from 30th March, 2006 and the Fiscal Responsibility and Budget Management (FRBM) Rules, 2007 came into force with effect from 12th February, 2007. The objective of these legislature measures were:

- To maintain at least the level of revenue surplus in the base year (average of 2001-02 to 2003-04), in the subsequent years, beginning with the financial year 2005-06 and ending with 2008-09 and adhere to it thereafter.
- To reduce every year the fiscal deficit by a minimum of 0.3 % of GSDP by the end of each financial year, beginning with financial year 2005-06 so as to reduce the same to 3% or below by 2008-09 and adhere to it thereafter.

In 2006-07, the State was in revenue surplus of ₹ 694.95 crores which was 20.30 per cent of GSDP. In 2006-07, instead of a fiscal deficit, there was fiscal surplus of ₹ 106.90 crores. The figures for 2007-08 indicated that revenue surplus was ₹ 743.46 (being 19.88 per cent of GSDP) and fiscal deficit during the year was estimated at Rs.9.94 crores (being 0.27% of GSDP). Therefore, maintenance of revenue surplus and reduction of fiscal deficit mandated under the APFRBM Act were achieved in 2007-08.

Fiscal Indicators-Rolling Targets:

	2006-07 Actual	*2007-08 Actual*	*RE 2008-09*	*BE 2009-10*
Revenue Surplus as percentage of GSDP	20.30	19.88	9.21	-20.39
Fiscal Deficit as percentage of GSDP	-	-0.27	-	-28.15
Gross Tax revenue as percentage of GSDP	10.96	20.19	9.67	9.29
Total outstanding liabilities at the end of the year(₹ Crore)	2214.16	2504.67	2881.41	3243.15
Liabilities as percentage of GSDP	64.67	66.98	69.47	70.49

Source: www.arunachalplan.nic.in

Performance of the State during 2009-10

The performance of the State during 2009-10 in terms of key fiscal targets set for selected parameters laid down in APFRBM Act vis-à-vis achievements are given in the following table.

Fiscal parameters	Targets as per prescribed in FRBM Act	2009-10	
		Projections made in Medium Term Fiscal Policy Statement	Actual
Revenue Deficit	Eliminate by 2008-09		-
Revenue Surplus/(as % GSDP)	-	20.39	
Fiscal Deficit (Rupees in crore)	-	-	
Fiscal Deficit/GSDP (*per cent*)	3 *per cent* by 2008-09	- 28.15	
Total Outstanding Liabilities/GSDP (*per cent*)	Not more than 28 *per cent* of GSDP	70.49	

Source: CAG Report

The State Government has developed its own Fiscal Correction Path (FCP) detailing the structural adjustments required for mobilising additional resources and identifying areas where expenditure could be compressed, to achieve the targets set out in the APFRBM Act.

Growth and Composition of GSDP

The Gross State Domestic Product, a major fiscal indicator is considered to be a key factor for assessing the performance of the State's economy. It is prepared on the basis of income generating approach that measures gross income generated by factors of production physically located within the geographical boundaries of the State and also represents the volume of goods and services produced within the State. As per GSDP series furnished (October 2010) by the Directorate of Economics and Statistics of the State Government, during 2009-10, the advance estimated GSDP for the State was Rs.6,257.88 crores, which was arrived at on the basis of current price taking into account the 1999-2000 as base year. The table below shows the trend of growth of GSDP during the last five years.

Trends in Gross State Domestic Product (GSDP)

	2005-06	2006-07	2007-08	2008-09	2009-10
Gross State Domestic Product *(Rupees in crore)*	2918.34	3412.88	3888.25	4536.45	6257.88
Growth rate of GSDP	2.27	16.95	13.93	16.67	37.95

Source: Figures furnished by the State Government, Department of Economics and Statistics, (2005-06 & 2006-07-Revised estimate, 2007-08-Provisional estimate, 2008-09-Quick estimate and 2009-10 – Advance estimate)

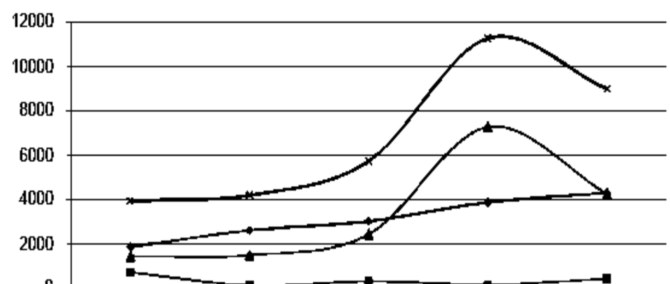
Source: CAG Report

The GSDP at current prices increased from ₹ 4536.45 crores in 2008-09 to ₹ 6257.88 crores in 2009-10, representing an increase of 37.95 per cent. Considering GSDP figures (base year 1999-2000), the average compounded annual growth rate in respect of GSDP for Arunachal Pradesh between 2000-01 and 2008-09 was 12.38 per cent, which was higher than that of NE average of 11.81 per cent.

Resources of the State as per Annual Finance Accounts

Revenue and capital are the two streams of receipts that constitute the resources of the State Government. Revenue receipts consist of tax revenue, non-tax revenue, State's share of Union taxes and duties and grants-in-aid from the Government of India (GOI). Capital receipts comprise miscellaneous capital receipts such as proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources (market loans, borrowings from financial institutions/commercial banks) and loans and advances from GOI as well as accruals from Public Account.

Graph Depicting the trends in various components of the receipts of the State during 2005-10.



	2005-06	2006-07	2007-08	2008-09	2009-10
Revenue Receipts	1849.41	2592.17	3003.01	3855.97	4294.87
Capital Receipts	716.89	112.7	294	146.66	418.9
Public Account Receipts	1425.12	1484.2	2423.76	7255.58	4264.84
Total Receipts	3930	4189.07	5720.77	11258.21	8978.61

Source: CAG Report

Highlights

- Total Receipts during the current year (2005-10) has decreased by ₹ 2,279.60 (25.39 per cent) over the previous year. Of the increase in total receipts, revenue receipts formed 48 per cent (Rs.4,294.87

crores) followed by public account receipts 48 per cent (Rs.4,264.84 crores) and capital receipts, 5 per cent (Rs.418.90 crores).

- Revenue Receipts of the State increased steadily from Rs.1,849.41 crores in 2005-06 to Rs.4294.87 crores in 2009-10 (132.23 per cent) at a CAGR of 23.45 per cent.
- State's own tax revenue increased by 179.34 per cent from Rs.62.09 crores in 2005-06 to ₹ 173.44 crores in 2009-10. However, State's own tax revenue was only around 3 to 4 per cent of the revenue receipts during the period 2005-10.
- Though in absolute terms State's share of Union taxes and duties increased gradually from ₹ 272.15 crores in 2005-06 to ₹ 475.40 crores in 2009-10 as a percentage of revenue receipts it has decreased from 15 per cent in 2005-06 to 11 per cent in 2009-10.
- Similarly though in absolute terms, Grants-in-aid from GOI increased from ₹ 1312.81 crores in 2005-06 to ₹ 3134.79 crores in 2009-10, as a percentage of revenue receipts it fluctuated during the year 2005-10 and was 73 per cent in 2009-10.

The above statistics indicate that though the State was successful in restricting the Fiscal Deficit GSDP ratio as prescribed in the APFRBM Act, the ratio of Total Outstanding Liabilities GSDP far surpassed the target fixed in the Act. Hence the State Government has to initiate requisite measures to contain the Total Outstanding Liabilities GSDP ratio within the permissible limit.

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Chapter 4
Bihar FRBM Act, 2006

The economy of Bihar has been showing a steady growth trend. Economic growth has to be sustainable through interlinkages in the economy, growth in one sector pushing the growth in other sectors. This growth process was feasible by making massive investments in physical infrastructure by the State Government, strengthening of the social sector, particularly education and health, and improvement in functioning of the government. There has been major shift in the focus of administration. With the momentum generated in the economy, it is likely that Bihar would achieve all the targets envisaged in the Eleventh Plan (2007-12). In recent years, not only the pace of growth has been accelerated but it has become more inclusive in nature.

The growth rate of Bihar's economy was not uniform over the years. During the first five years since 1999-2000, the economy had grown at an annual rate of 3.50 percent. With the economic policies pursued by the State Government since 2005-06 which included much higher levels of annual plan outlays, the economy had grown at an annual rate of 10.93 per cent during 2004-05 to 2010-11 at constant prices. This is one of the highest among the growth rates of different states of India.

Bihar FRBM Act:

The State Legislature passed the Bihar Fiscal Responsibility and Budget Management Act in February 2006. In doing so, the State Government made the following commitments:

1. State Government to take appropriate steps to eliminate the revenue deficit by 2008-09 and build up adequate revenue surpluses thereafter.
2. State Government to take appropriate steps to bring down fiscal deficit to a level of three percent of GSDP by 2008-09 and maintain it thereafter.
3. State Government to pursue policies to raise non-tax revenue with due regard to cost and equity.
4. State Government to lay down norms for prioritization of capital expenditure and pursue expenditure policies that would provide impetus for economic growth, poverty reduction and improvement in human welfare.

With the passing of the Bihar FRBM Act, the focus of the State Government has shifted to finding ways and means to finance the existing deficit through appropriate debt management and tax mobilization without compromising the essential development expenditure. But this is a tightrope walk as growth-enhancing policies require huge public investment in the face of infrastructure disability afflicting the State, and this in turn threatens breach of fiscal limit year after year. Notwithstanding this sword dangling over Government's head, the State Government has done reasonably well to gain the confidence of the people. However, the FRBM targets need to be designed to sustain the State Government's ability to fulfill its commitment to the needs of public expenditure, in an economy where private investment is abysmally low.

Ever since the enactment of Bihar FRBM Act ,the state has taken a number of proactive steps to effect fiscal adjustment and fiscal consolidation to successfully meet the FRBM Act targets. By 2007-08 all fiscal targets indicated in the FRBM Act have been achieved by the State Government. In particular, it included bringing the debts within manageable limits that was once threatening to go out of control. But then came the aftershocks of the global economic downturn, which also affected India, although to a much lesser extent than other Western countries. Bihar also could not completely shield itself from its consequences. The year 2009-10 mostly bore its brunt and, in that year, revenue surplus of the State Government decreased and the fiscal deficit increased, although it remained well within the enhanced limit of 4 per cent FRBM Act. If 2009-10 was the year of reckoning, 2010-11 has been a year of recovery with the economy again bouncing back. The policies that the State Government has been following for the last five years and the system it was trying to build, at last started yielding the results, encouraging the State Government to take further initiatives to strengthen the system.

Overview of Financial Position

The last five years have been unprecedented in Bihar's history in many respects. In particular, it showed unmistakable signs of extraordinary growth in the midst of a recession afflicting the national economy, bringing hope of resurgence in the State. From a revenue surplus of only ₹ 2498 Crores in 2006-07, Bihar increased it to ₹ 6557 Crores in 2010-11. This surplus has increased continuously since 2006-07, except a temporary decline during 2009-10 when the entire country and most part of the world, witnessed a severe economic downturn. This financial turnaround has been brought about gradually by a careful planning to address the basic problems in state finances.

Fiscal and Financial Performance Indicators

Indicators	2006-07	2007-08	2008-09	2009-10	2010-11 BE
A. Sustainability					
Balance from Current Revenue (Rs. crore)	2999	5124	6337	6368	10521
Interest Ratio	18.35	15.92	14.13	12.07	12.19
Capital Outlay / Capital Receipts	220	373	108	119	160
State`s Own Tax Receipts / GSDP	3.97	4.30	4.26	4.70	5.28
State`s Own Non-Tax Receipts / GSDP	0.50	0.44	0.80	0.97	0.60
Buoyancy of State`s Own Tax Receipts w.r.t. GSDP	0.55	1.57	0.95	1.66	1.84
Buoyancy of State`s Own Non-Tax Receipts w.r.t. GSDP	-0.09	0.17	5.30	2.40	-1.62
Growth in outstanding debt	4.07	0.56	9.87	7.96	9.31
Growth in total revenue receipts	29.41	22.21	16.91	7.72	32.96
B. Flexibility					
Capital Repayment / Capital Borrowings	57	116	38	47	41
Total Tax Receipts / GSDP	17.07	18.46	16.46	15.27	16.98
Average Interest Rate on Government Borrowing	7.15	7.15	NA	NA	7.82
Debt Outstanding / GSDP	43.57	37.58	33.70	30.65	28.59
C. Vulnerability					
Revenue Deficit (Rs. crore)	-2498	-4647	-4469	-2943	-6557
Fiscal Deficit (Rs. crore)	3021	1703	2507	5273	4593
Primary Deficit (Rs. crore)	-395	-2004	-1246	1587	80
Primary Deficit / Fiscal Deficit	-13	-118	-51	30	2
Revenue Deficit / Fiscal Deficit	-83	-273	-178	-56	-143
Arrears of Revenue (Rs. crore)	**1477**	**NA**	**1703**	**NA**	**NA**
Arrears of Revenue/ Total Own Revenue (%)	**32.51**	**NA**	**27.59**	**NA**	**NA**

Source: Finance Accounts and State Government`s Budget. GOB

The year 2006-07 marked the beginning of the reform process in public finances in Bihar. From that year, the State Government had started spending on social and economic services substantially, along with enhancing the capital outlay. The moderate increase in expenditure on general services was mainly due to expenditure on District Administration, police and public works, besides pension and interest payments, the latter being charged expenditure and hence outside budgetary control. The gap between plan and non-plan expenditure also started closing since 2005-06. In that year, non-plan expenditure was 3.6 times the plan expenditure, compared to 1.9 times in 2006-07. In 2010-11 budget estimates, the non-plan expenditure was only 1.2 times the plan expenditure. The year 2006-07 also marked the beginning of fiscal discipline in Bihar, as seen in the containment of the Gross Fiscal Deficit (GFD) within the FRBM Act limits of 3 per cent of GSDP. The GFD: GSDP ratio of Bihar was 4.53 percent in 2005-06; but this was kept well within the 3 per cent limit in all the subsequent years barring 2009-10, in which it was just marginally higher at 3.06 per cent, but well within the enhanced FRBM Act limit of 4 per cent In absolute terms, the GFD reduced from ₹ 3 thousand Crores in 2006-07 to ₹ 1.7 thousand Crores in 2007-08, but a consequent to the financial crisis all over, it subsequently increased to ₹ 4.6 thousand crores in the budget estimates of 2010-11.

During the last five years, the State Government has managed its public finances remarkably well and has enforced significant fiscal discipline in expenditure, reduced low priority expenditure and enhanced its revenues to meet the requirements of increased capital outlay and social sector spending. Being committed to fiscal responsibility and having substantially increased the capital outlays, the State Government is today poised to move forward and turn Bihar into one of the most rapidly developing States of India.

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Chapter 5
Chhattisgarh FRBM Act, 2005

Chhattisgarh is one of the newest States of India. Constituted on 1st November, 2000, Chhattisgarh is located in the heart of India, and shares its borders with six other States namely, Uttar Pradesh to the north, Jharkhand to the north-east, Orissa to the east, Madhya Pradesh to the west and north-west, Maharashtra to the south-west and Andhra Pradesh to the south-east. The geographical area of the State is over 135,000 square kilometres and the total population in 2001 was 20,833,803 (2.08 crores1). Since the day of its formation in 2000, Chhattisgarh has been working on to achieve a steady and stable economic growth. The State economy is entirely dependent on the most basic primary sectors, such as agriculture and allied activities.

Being one of the newest and fastest growing economies in India, Chhattisgarh is offering with enormous prospects. It has a vast reserve of natural resources, full of mineral wealth including diamond, forest resource, water resource, and many more, Mining, iron ore and steel, cement and power are some of the key thrust areas, where Chhattisgarh holds advantage over other States.

The Chhattisgarh Fiscal Responsibility and Budget Management Act, 2005

To ensure prudence in fiscal management and fiscal stability by progressive elimination of revenue deficit, reduction in fiscal deficit, prudent debt management consistent to the fiscal sustainability, greater transparency in fiscal operations of the Government and conduct of fiscal policy in a medium term framework and for matters connected therewith or incidental thereto, the Chhattisgarh Fiscal Responsibility and Budget Management Act, 2005 was enacted. To give effect to the fiscal management principles as laid down in the Act, and /or the rules framed (February 2006) there under, the following fiscal targets were prescribed for the State Government:

Financial Data

(Figures in percent)

CAGR		2001-02 to 2008-09		2001-02 to 2009-10
		General Category States	**Chhattisgarh**	**Chhattisgarh**
a	of Revenue Receipts.	16.01	19.99	19.46
b	of Own Tax Revenue.	14.79	18.66	17.26
c	of Non-Tax Revenue.	14.70	17.27	19.69
d	of Total Expenditure.	13.47	17.71	18.16
e	of Capital Expenditure.	25.56	29.71	24.48
f	of Revenue Expenditure on Education.	11.17	19.69	21.69
g	of Revenue Expenditure on Health.	10.44	11.88	14.70
h	of Salary and Wages.	9.37	10.49	15.15
i	of Pension.	12.34	10.69	13.21

Source : Financial data is based on figures in Finance Accounts, BPL (Planning Commission & NSSO data, 61st Round-http://planning commission.nic.in/data/database/Data0910/tab%2021.pdf), Gini Coefficient(unofficial estimates of Planning Commission & NSSO data, 61st round 2004-05 MRP), Life Expectancy at birth (Office of the Registrar General of India: Ministry of Home Affairs, Economic Survey 2009-10), Infant mortality rate (SRS Bulletin October 2009), Density of population (Office of the Registrar General and Census Commissioner of India, Ministry of Home Affairs) and Literacy (Office of the Registrar General of India, Ministry of Home Affairs.

Following are the significant changes during 2009-10 over the previous year:

- Revenue receipts increased by 15.90 *per cent* (₹ 2,490.90 crores), mainly due to increase in tax revenue by 8.03 *per cent* (Rs.529.53 crores), non tax revenue by 38.18 *per cent* (₹ 840.80 crores), State's share of Union taxes and duties by 2.8 *per cent* (₹ 122.75 crores) and grants in aid from the Government of India by 38.25 *per cent* (₹ 997.82 crores).
- Revenue expenditure increased by 25.17 per cent (₹ 3,471.74 crores) over the previous year due to increase in Plan expenditure by 25.77 per cent (Rs.1,396.85 crores) and Non Plan expenditure by 24.78 per cent (₹ 2,074.89 crores).
- Capital expenditure decreased by 6.64 *per cent* (Rs.195.24 crores) over the previous year mainly due to decrease in expenditure under the heads: Major Irrigation and Minor Irrigation, Roads and Bridges, Social Security and Urban Development. The capital expenditure was 33.38 *per cent* (₹ 1,375.12 crores) less than the assessment made by the State Government in its Medium Term Fiscal Policy Statement (MTFPS).

- Both the public debt receipts and repayment increased by Rs.900.87 crores and Rs.162.21 crores respectively during the year. The increase in public debt receipts was mainly due to the increase in market loans (Rs.700.02 crores) and special securities issued to the National Small Savings Fund (NSSF) (₹ 185.05 crores).
- Public Account receipts and disbursements increased by ₹ 4,467.67 crores and ₹ 4,293.48 crores respectively over the previous year. Thus, the increase in net receipts during the year was ₹ 174.19 crores.

Trends in Gross State Domestic Product (GSDP)

	2005-06	**2006-07**	**2007-08**	**2008-09**	**2009-10**
Gross State Domestic Product (₹ in crore)	50998.84	64706.28	79418.50	95204.19	107848.23
Growth rate of GSDP (in *per cent*)	17.00	26.88	22.74	19.88	13.28
Source: Economic and Statistical Department, Government of Chhattisgarh					

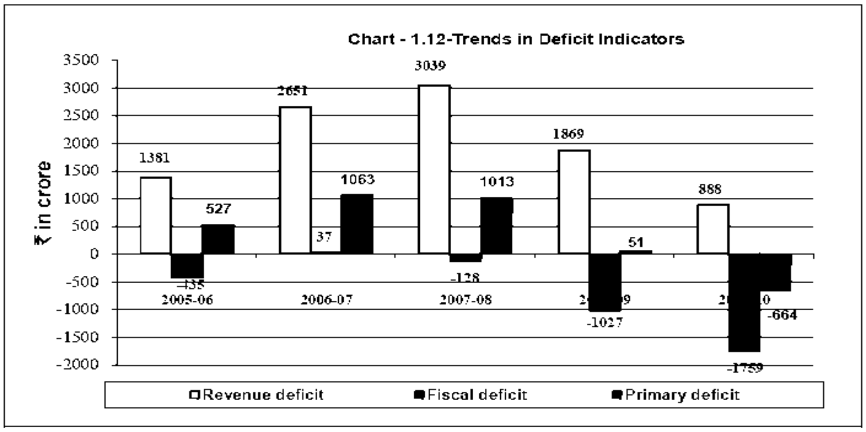
The fiscal performance of the State

Fiscal forecasts	**FRBM Targets**	**Projection as per FRBM Act**	**Actual**
Revenue deficit (-)/Surplus (+) *(₹ in crore)*	To be wiped out by 2008-09	(+)806.16	(+) 888.22
Fiscal deficit (-)/Surplus (+)	To reduce to not more than three *per cent* of GSDP by 2008-09	2.98 *per cent* of GSDP	1.63 *per cent* of GSDP

(Source : FRBM Act , 2009-10 and Finance Accounts of the respective year.)

The State Government achieved revenue surplus five years ahead of the scheduled period of 2008-09. The fiscal deficit as a percentage of GSDP was within the limit as prescribed in the FRBM Act/by TFC. The State's actual own tax revenue receipts, non-tax revenue receipts and Non Plan expenditure were more than the normatively assessed level of the TFC by ₹ 1,465.07 crores (25.89 *per cent*), ₹ 1,338.35 crores (78.51 *per cent*) and ₹ 2,894.03 crores (38.31 *per cent*) respectively but the interest payments were less by ₹ 378.62 crores (25.70 *per cent*).

Trends in Deficits



Source: http://www.cag.gov.in

The fiscal target of eliminating the revenue deficit by March 2009 as laid down in FRBM Act was achieved by the State in the year 2004-05. Thereafter, the State maintained a revenue surplus, which increased from ₹ 1,381 crores in 2005-06 to ₹ 3,039 crores in 2007-08.

(₹ in crore)

	2005-06	2006-07	2007-08	2008-09	2009-10
Revenue deficit (-) / surplus (+)	(+)1,381	(+)2,651	(+)3,039	(+)1,869	(+)888
Fiscal deficit (-) / surplus (+)	(-)435	(+)37	(-)128	(-)1,027	(-)1,759
Primary deficit (-)/ surplus (+)	(+)527	(+)1,063	(+)1,012	(+)51	(-)664

Source: http://www.cag.gov.in

The decrease in revenue surplus began in 2008-09 and it declined sharply by 52.48 per cent from ₹ 1,869.06 crores in 2008-09 to ₹ 888.22 crores in 2009-10. The decrease was mainly due to lower increase of 15.90 per cent (₹ 2,490.90 crores) in revenue receipts in comparison to an increase of 25.17 per cent (₹ 3,471.74 crores) in revenue expenditure during 2009-10.

The State achieved the targets of zero revenue deficit as laid down in the FRBM Act and maintained the fiscal deficit below three *per cent* of GSDP.

Further measurers needed

- The State may explore the possibilities of widening the tax base so that there is greater fiscal space for undertaking developmental projects.

- The tax recovery mechanism needs to be strengthened to realize the arrears of revenue.
- The expenditure on salaries and pension items is expected to stabilize in the coming years.
- The State Government should step up asset creation through capital expenditure, as this would enhance future growth prospects.
- The State shared Formulate guidelines for quick completion of incomplete projects and strictly monitor time and cost.

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Chapter 6

Assam FRBM Act, 2005

The State Government enacted the Assam Fiscal Responsibility and Budget Management (AFRBM) Act, 2005 and Assam Fiscal Responsibility and Budget Management Act (Amendment), 2005 to ensure fiscal stability, sustainability, improve efficiency and transparency in management of public finances of the State, enhance the availability of resources by achieving sufficient revenue surplus, reduce fiscal deficit and remove the impediments to effective conduct of fiscal policy and prudent debt management for improving the social and physical infrastructure and human development in the State. Under FRBM act fiscal targets for the State Government were as under.

- Eliminate revenue deficit within four financial years beginning on the 1st day of April, 2005 and ending on the 31st day of March, 2009.
- By the year 2010, the expenditure on account of salary and wages of the employees of the State Government to be contained within 60 *per cent* of the total tax and non-tax revenue of the State Government.
- Restrict the revenue expenditure under Annual State Plan to one third of the Plan outlay in a financial year.
- Reduce fiscal deficit to three *per cent* of the estimated Gross State Domestic Product within a period of four financial years beginning on the 1st day of April, 2005 and ending 31st day of March, 2009.
- Restrict the total debt stock of the State Government including the Government guarantees to 45 *per cent* of the GSDP of the previous year at current prices within a period of five years beginning on the 1st day of April, 2005.

Roadmap to Achieve the Fiscal Targets as laid down in AFRBM Act/Rules

Keeping in view the fiscal targets laid down in the AFRBM Act and the Rules made thereunder and the anticipated annual rate of reduction of fiscal deficit of the State worked out by the Government of India for the Twelfth Finance Commission (TFC) award period following its recommendation, the State Government developed its Own Fiscal Correction Path indicating the milestones of outcome indicators with target dates of implementation during the period from 2005-06 to 2009-10 (Table given below)

Outcome Indicators of the States' Own Fiscal Correction Path

(Rupees in crore)

	Base year estimate	2004-05 Actual	2005-06 (R.E)	2006-07 (B.E)	2007-08	2008-09	2009-10
A. STATE REVENUE ACCOUNT							
1. Own Tax Revenue.	2364.83	2711.75	3365.76	3826.88	4209.57	4630.52	5093.58
2. Own Non-Tax Revenue.	693.69	1070.03	1387.46	1469.92	1543.42	1620.59	1701.61
3. Own Tax + Non-Tax Revenue (1 + 2)	**3058.52**	**3781.78**	**4753.22**	**5296.80**	**5752.99**	**6251.11**	**6795.19**
4. Share in Central Taxes & Duties.	1894.12	2585.90	3074.31	3674.80	4042.28	4446.51	4891.16
5. Plan Grants.	2324.63	3115.80	5341.00	5648.12	5904.94	6179.74	6473.78
6. Non-Plan Grants.	299.41	453.79	1116.51	1041.73	1024.00	1083.66	1148.78
7. Total Central Transfer (4 to 6)	**4518.16**	**6155.49**	**9531.82**	**10364.65**	**10971.22**	**11709.91**	**12513.72**
8. Total Revenue Receipts (3+7)	**7576.68**	**9937.27**	**14285.04**	**15661.45**	**16724.21**	**17961.02**	**19308.91**
9. Plan Expenditure.	1859.35	2021.37	4278.77	3443.13	3615.29	3796.05	3985.85
10. Non-Plan Expenditure.	6662.05	8207.77	10337.75	12653.10	12833.22	13263.89	13666.06
11. Salary Expenditure.	3903.98	4925.85	5097.84	6335.73	6652.52	6985.14	7334.40
12. Pension.	830.58	1062.39	1046.16	1466.46	1539.78	1616.77	1697.61
13. Interest Payments.	1379.44	1403.53	2103.27	2314.29	2430.00	2575.80	2756.11
14. Subsidies-General.	0.00	0.00	0.00	0.00	0.00	0.00	0.00
15. Subsidies-Power.	0.00	0.00	0.00	0.00	0.00	0.00	0.00
16. Total Revenue Expenditure (9+10)	**8521.40**	**10229.14**	**14616.52**	**16096.23**	**16448.51**	**17059.94**	**17651.91**
17. Salary–Interest+Pensions(11–12–13)	6114.00	7391.77	8247.27	10116.48	10622.30	11177.72	11788.12
18. As % of Revenue Receipts (17/8)	80.69	74.38	57.73	64.59	63.51	62.23	61.05
19. Revenue Surplus/Deficit (8-16)	**-944.72**	**-291.87**	**-331.48**	**-434.78**	**275.70**	**901.08**	**1657.00**
B. Consolidated Revenue Account:							
1. Power Sector loss/profit net of actual subsidy transfer.	-94.67	-101.27	-48.80	0.00	0.00	0.00	0.00
2. Increase in debtors during the year in power utility accounts [Increase (-)]	0.00	-14.44	89.33	67.00	50.25	37.69	11.31
3. Interest payment on off budget borrowings & SPV borrowings made by PSU/SPUs outside budget.	0.00	0.00	0.00	0.00	0.00	0.00	0.00
4. Total (1 to 3)	-94.67	-115.71	40.53	67.00	50.25	37.69	11.31
5. Consolidated Revenue Deficit (A 19+ B 4)	**-1039.39**	**-407.58**	**-290.95**	**-367.78**	**325.95**	**938.77**	**1668.31**
C. CONSOLIDATED DEBT:							
1. Outstanding debt and liability.	13212.82	16417.72	18007.26	19492.22	21968.24	23746.01	25286.79
2. Total outstanding guarantee of which (a) guarantee on account of off budgeted borrowing and SPV borrowing.	1855.84	1382.95	1272.93	1209.28	1148.82	1091.38	1036.81
		0.00	0.00	0.00	0.00	0.00	0.00
D. CAPITAL ACCOUNT:							
1. Capital Outlay.	733.63	2180.53	2565.01	2779.62	2640.64	2561.42	3073.70
2. Disbursement of Loans and Advances.	170.35	974.19	199.74	148.12	158.49	169.58	181.45
3. Recovery of Loans and Advances.	28.83	1389.14	43.55	43.10	47.41	52.15	57.37
4. Other capital receipts.	0.00	0.00	0.00	0.00	0.00	0.00	0.00
E. GROSS FISCAL DEFICIT (GFD)	**1819.87**	**2057.45**	**3052.68**	**3319.42**	**2476.02**	**1777.77**	**1540.78**
GSDP (Rs. crore) at current prices.		43529.85 Quick	47012.24	50773.22	54835.07	59221.88	63959.63
Assumed Nominal Growth Rate (%)		-	8%	8.0%	8%	8%	8%
F. Fiscal Deficit/GSDP (%).		**4.73**	**6.49**	**6.54**	**4.52**	**3.00**	**2.41**

Performance of the State during 2009-10

According to the AFRBM Act, 2005 the State Government was to eliminate revenue deficit by the end of 2008-09 and reduce the fiscal deficit to 3.5 *per cent* of the estimated Gross State Domestic Product (GSDP) by 2009-10. Further, the Act envisaged to cap State Government guarantees at any point of time to 50 *per cent* of the State's own tax and non-tax revenue of the second preceding year, as reflected in the books of accounts as maintained by the Accountant General.

The performance of the State during 2009-10 in terms of key fiscal targets set for selected variables laid down in AFRBM Act, 2005 *vis-à-vis* achievements are given in the following Table

Trends in major fiscal parameters/variables *vis-à-vis* projections for 2009-10

(₹ in crore)

Fiscal variables	2009-10			
	Targets as per prescribed in FRBM Act	Projections made in		Actual
		Fiscal Correction Path	Five Year Fiscal plan Statement	
Revenue Deficit (₹ in crore)	0.0 (By 31.3.2009)	(+) 1,657	(-) 305	(-) 1,348
Fiscal Deficit (₹ in crore)	-	(-) 1,541	(-) 2,972	(-) 4,043
Fiscal Deficit/GSDP (*per cent*)	3.5 *per cent* of GSDP (By 31.3.2010)	2.41	3.37	4.59
Salary as percentage of State's Own Resources and devolution from GOI except Plan Grants	60 *per cent* (By 31.3.2010)	57	88	56
Ratio of the Total Debt Stock including Government Guarantees to GSDP of the previous year	45 *per cent* (By 31.3.2010)	44	32	30
Ratio of State Guarantees to State's Own Resources of second preceding year	50 *per cent*	18	13	5

Source: http://www.cag.gov.in

The above Table indicates that the State has achieved the targets, prescribed in the Act except containing Fiscal Deficit GSDP ratio. Although the Central Government allowed the State Government to raise additional market borrowings to the extent of 0.5 *per cent* of GSDP for undertaking capital investment thereby permitting the Fiscal Deficit GSDP ratio to the level of 4 *per cent* the State had exceeded this limit during 2009-10. Therefore the State Government has to initiate requisite measures to contain the Fiscal Deficit GSDP ratio within the permissible limit.

The increase in Fiscal Deficit GSDP ratio during 2009-10 is fraught with the chances of being dependent on further market borrowings in order to minimize fiscal deficit. The State Government should increase revenue receipts by initiating measures like reduction of cost recovery and collection of arrears of revenue and to bridge the growing gap.

Resources of the State as per Annual Finance Accounts

The following table depicts the trends in various components of the receipts of the State during 2005-10.

Trends in growth and composition of receipts

(₹ in crore)

	Sources of State's Receipts	2005-06	2006-07	2007-08	2008-09	2009-10
I	**Revenue Receipts**	12,045	13,667	15,325	18,077	19,884
II	**Capital Receipts (CR)**	1,417	1,151	1,178	2,913	2,223
	Miscellaneous Capital Receipts	-	-	-	-	-
	Recovery of Loans and Advances	38	35	40	35	33
	Public Debt Receipts	1,379	1,116	1,138	2,878	2,190
	Rate of growth of debt capital receipts	(-) 57.05	(-) 19.07	1.97	152.90	(-) 23.91
	Rate of growth of non-debt capital receipts	(-) 97.26	(-) 7.89	14.29	(-) 12.50	(-) 5.71
	Rate of growth of GSDP	9.25	11.44	11.17	10.68	11.03
	Rate of growth of CR (*per cent*)	(-) 69.20	(-) 18.77	2.34	147.28	(-) 23.69
III	**Contingency Fund**	-	-	-	-	-
IV	**Public Account Receipts**	4,146	4,846	6,093	7,794	10,630
	a. Small Savings, Provident Fund etc.	617	566	608	628	755
	b. Reserve Fund	149	370	506	318	733
	c. Deposits and Advances	1,637	2,150	2,739	3,852	5,580
	d. Suspense and Miscellaneous	(-) 155	(-) 158	(-) 3	87	(-) 136
	e. Remittances	1,898	1,918	2,243	2,909	3,698
	Total Receipts	17,608	19,664	22,596	28,784	32,737

Source: http://www.cag.gov.in

The total receipts of the State Government for 2009-10 was ₹ 32,737 Crores, of which Rs.19,884 Crores (61 per cent) came from revenue receipts and balance (39 per cent) came from borrowings and Public Account. The total receipts of the State increased by 86 per cent from Rs.17,608 Crores in 2005-06 to ₹ 32,737 Crores in 2009-10. The share of revenue receipts in total receipts of the State decreased from 68 per cent (₹ 12,045 Crores) in 2005-06 to 61 per cent (₹ 19,884 Crores) in 2009-10 due to decrease in receipt in tax revenue and grants-in-aid from GOI. On the other hand, the Capital receipts together with Public Account ranged between 30 and 39 per cent of total receipts during 2005-10.

- Revenue receipts increased steadily by 65 per cent from Rs.12,045 Crores in 2005-06 to ₹ 19,884 Crores in 2009-10, whereas debt capital receipts which create future repayment obligation decreased from ₹ 1,417 Crores (8 per cent of total receipts) in 2005-06 to ₹ 2,223 Crores (7 per cent of total receipts) in 2009-10. The Public Account receipts increased steadily from ₹ 4,146 Crores (24 per cent of total receipts) in 2005-06 to ₹ 10,630 Crores (32 per cent of total receipts) in 2009-10.

- The rate of growth of debt capital receipts decreased from 152.90 per cent in 2008-09 to (-) 23.91 per cent in 2009-10 while the ratio of growth of non-debt capital receipts increased from (-) 12.50 per cent in 2008-09 to (-) 5.71 per cent in 2009-10.
- The rate of growth of debt capital receipts increased from (-) 57.05 per cent in 2005-06 to (-) 23.91 per cent in 2009-10 while the rate of growth of GSDP increased from 9.25 per cent in 2005-06 to 11.03 per cent in 2009-10.
- The rate of growth of non-debt capital receipts increased from (-) 97.26 per cent in 2005-06 to (-) 5.71 per cent in 2009-10.

The above fact indicate that an improvement in the fiscal situation in recent years (2005-06 to 2008-09) was achieved by the State by pursuing the fiscal correction and consolidation process under a rule based fiscal framework coupled with larger devolution and transfer by the Twelfth Finance Commission through shareable Central Taxes and Grants-in-aid. Consequently, the State achieved surplus during the period from 2005-06 to 2008-09. However, in 2009-10, it has turned into fiscal deficit of Rs.4,043 crores.

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Chapter 7
Goa FRBM Act, 2006

Goa became a State on 30 May 1987 before which it was a Union Territory having a Legislative Assembly. It has a land area of 3,702 sq. km. and a coastline of 104 km. It has two Districts, 11 Talukas and 359 Villages, with a relatively lower population density of 258 persons compared to the all India average of 325 persons per sq.km. Goa has one of the highest literacy rates among all the States of the country. Besides, the infant mortality rate and the population living below the poverty line is very low as compared to the all India average. For the period 2000-2001 to 2008-09, the Compounded Annual Growth Rate (CAGR) of the Gross State Domestic Product (GSDP) of Goa was 14.35 *per cent* which was higher than the growth of GSDP of other General Category States.

The enactment of the Fiscal Responsibility and Budget Act, 2006 by the Government of Goa is a landmark development. The objective of the Act is to ensure fiscal stability and sustainability through progressive elimination of revenue deficit and planned reduction of fiscal deficit. Besides, it will help in prudent and sustainable debt management as also transparency in the fiscal operations of the Government.

Significant changes of 2009-10 over the previous year:

- Revenue receipts grew by Rs.572 Crores (16 *per cent*) over the previous year. The increase was mainly contributed by tax revenue (₹ 69 Crores), non-tax revenue (₹ 495 Crores) and share of Union taxes and duties (₹ 13 Crores), offset by a decrease of ₹ 4 Crores in grants from the Government of India.
- Revenue expenditure increased by ₹ 802 Crores over the previous year. The increase was mainly in respect of Education, Sports, Art and Culture (₹ 160 Crores), Pension and Retirement benefits (Rs.129 Crores), Power (₹ 76 Crores) and Health and Family Welfare (₹ 53 Crores).
- Receipts under Public Debt decreased by Rs.31 Crores and repayment of Public Debt increased by ₹ 11 crores over the previous year.

- Public Account receipts and disbursements increased by ₹ 1,152 Crores and ₹ 829 crores respectively over the previous year.
- The Cash balance at the end of the year decreased by Rs.78 Crores.

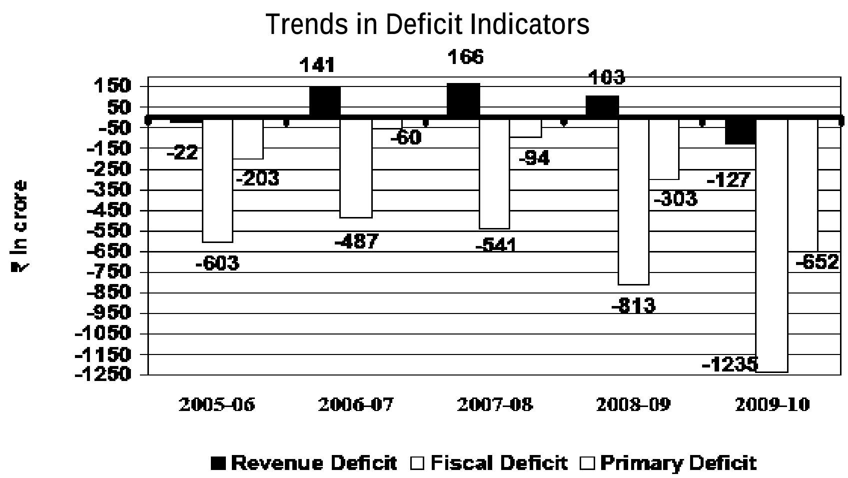
Review of fiscal situation

As per the normative projections made by the Twelfth Finance Commission (TFC), the State's own tax revenue and own non-tax revenue were estimated at ₹ 1,985.83 crores and ₹ 509.25 Crores respectively during 2009-10 against which the Government collected a tax revenue of ₹ 1,762.34 crores and non-tax revenue of ₹ 1,731.20 crores. Similarly, against a Non-Plan revenue expenditure projection of ₹ 1,748.89 crores, the actual non Plan revenue expenditure incurred was ₹ 3,468.92 crores.

The overall fiscal liabilities of the State increased from ₹ 5,018 crores in 2005-06 to ₹ 7,902 crores in 2009-10. This included loan of ₹ 149.49 crores given by GOI to the erstwhile Union Territory of Goa, Daman and Diu. The growth rate of fiscal liabilities was 11.96 *per cent* during 2009-10 over the previous year. The ratio of fiscal liabilities to GSDP decreased from 37.58 *per cent* in 2005-06 to 35.10 *per cent* in 2009-10. This ratio is still on the higher side keeping in view the target of 30 *per cent* to be achieved by 31 March 2009 as laid down in the Goa FRBM act 2006. The fiscal deficit during 2009-10 was 5.49 *per cent* of GSDP.

In the post FRBM framework, the State is expected to keep its fiscal deficit (and borrowings) not only at low levels but also meet its capital expenditure/investment (including loans and advances) requirements. In addition, in a transition to complete dependence on marketbased resources, the State Government needs to initiate measures to earn adequate returns on its investments, recover its cost of borrowed funds rather than bearing the same on its budget in the form of implicit subsidies and take requisite steps to infuse transparency in financial operations.

Three key fiscal parameters revenue, fiscal and primary deficits indicate the extent of overall fiscal imbalances in the finances of the State Government during a specified period. The deficit in the Government accounts represents the gap between its receipts and expenditure. The nature of deficit is an indicator of the prudence of fiscal management of the Government. Further, the ways in which the deficit is financed and the resources raised and applied are important pointers to its fiscal health.



Source: goa-esurvey-2010-2011

As per the Goa FRBM Act 2006, the Government had to reduce the revenue deficit to 'nil' by 31 March 2009 and adhere to it thereafter. The revenue deficit of ₹ 22 crores in 2005-06 was reduced to a surplus of ₹ 103 crores in 2008-09. However, the State again recorded a revenue deficit of ₹ 127 crores in 2009-10, which indicates that no effective measures have been adopted yet to sustain the zero revenue deficit position.

The Goa FRBM Act 2006, prescribed a road map of reducing the Fiscal Deficit (FD) by 0.5 *per cent* of GSDP in each financial year beginning from 1 April 2006. The ratio of FD to GSDP increased by 1.08 *per cent* during 2008-09 over the year 2007-08 and further increased by 1.21 *per cent* during 2009-10 over the previous year.

The primary deficit increased from ₹ 303 crores to ₹ 652 crores during the year. As per the Goa FRBM Act 2006, the ratio of interest payments to total revenue should not exceed 15 *per cent* by 31 March 2009 and to adhere to it thereafter. The State has been within the norms set and there has been a gradual decrease of interest payment from 18.44 *per cent* of revenue receipts in 2005-06 to 14.22 *per cent* in 2009-10.

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Chapter 8

Gujarat FRBM Act, 2005

Gujarat Fiscal Responsibility and Budget Management Act, 2005 and Gujarat Fiscal Responsibility and Budget Management Rules, 2005 have been enacted by the Government of Gujarat to make the State Government accountable for ensuring prudence in fiscal management and to ensure fiscal stability by progressive elimination of revenue deficit, sustainable debt management consistent with fiscal stability, greater transparency in fiscal operations and to chart the course of fiscal policy in a medium term frame work.

By Section 3 of the Act, the State Government is required to lay before the legislature in every financial year, the Medium Term Fiscal Policy Statement, and the Fiscal Policy Strategy Statement along with the Budget. The Medium Term Fiscal Policy Statement and the Fiscal Policy Strategy Statement set out the fiscal objectives, strategic priorities of the State Government and a three-year rolling target for fiscal management.

The targets for fiscal consolidation have been specified in Section 5 of the Act.

- In the wake of the Global financial crisis, The Government of India relaxed the fiscal deficit target for FY 2008-09 and FY 2009-10 by 0.5% and 1% of GSDP, respectively. This was to spur infrastructural development and employment generation by undertaking capital expenditure. In addition, the Debt Consolidation and Relief Facility (DCRF) requirement of maintaining revenue deficit at zero was also relaxed for 2008-09 and 2009-10. The Government of India had suggested to the States to amend their Fiscal Responsibility Legislations (FRLs) accordingly.
- A Bill seeking amendment to the GFRBM Act 2005 was introduced in the Assembly in June 2009 wherein it was mentioned that the revenue deficit and fiscal deficit may exceed the limits specified under Section 5 of GFRBM Act 2005 due to unforeseen demands on the finances of the State Government arising out of internal disturbance or natural calamity or due to any other exceptional ground specified by the State Government.

Overview of the State Economy

The State has a target of 11.2 per cent growth rate for the Eleventh Five Year Plan (2007-12) as against 9 per cent growth rate of the nation. The State economy at current prices has recorded an annualized growth rate of 15.04 % for the last six years (2004-05 to 2009-10), one of the highest in the country. GSDP at current prices in 2009-10 has been estimated at ₹ 3,81,028 crores as against ₹ 3,37,217 crores in 2008-09, showing an increase of 13 per cent during the year. Table below shows the GSDP of the State over the years.

Gross State Domestic Product

(Rs. crores)

Sr. No.	Year	Current Prices	Percent Growth Over Previous Year
1	2	3	4
1	1999-00	109861	-
2	2000-01	111139	1.16
3	2001-02	123573	11.19
4	2002-03	141534	14.53
5	2003-04	168080	18.76
6	2004-05	189118	12.52
7	2005-06	226897	19.98
8	2006-07	262723	15.79
9	2007-08 (P)	303734	15.61
10	2008-09 (Q)	337217	11.02
11	2009-10 (A)	381028	12.99

P = Provisional Estimates, Q = Quick Estimates, A = Advance Estimates (Base Year: 1999 – 2000)

Source: Directorate of Economics and Statistics, Gandhinagar

It can be observed that while there was a slight decline in GSDP growth during 2008-09, in keeping with recessionary pressure felt by the Indian economy due to Global financial crisis, the State's economy has been quick to rebound in 2009-10 and continues to maintain its high growth trajectory.

Status of Adherence to FRBM Targets

The State Government undertook a number of steps to move forward on the path of fiscal correction and achieved all set parameters of GFRBM Act well before its stipulated timeline.

Achievement of FRBM targets

Particulars	Target	Achievement
Revenue Deficit	Zero by 2007-08	Achieved in 2006-07
Fiscal Deficit against GSDP	3 % by 2008-09	Achieved in 2006-07
Public Debt against GSDP	30 % by 2007-08	Achieved in 2006-07
Outstanding Guarantees	Rs. 16000 crores by 2007-08	Achieved in 2006-07

To ensure that adequate fiscal stimulus was made available to the economy, the State Governments were allowed to have revenue deficit in the years 2008-09 and 2009-10. The revenue deficit of Gujarat for the year 2008-09 and 2009-10 (RE) was ₹ 66 crores and ₹ 4356 crores respectively. This was primarily on account of additional financial burden of ₹ 3622 crores in FY 2009-10 alone due to implementation of Sixth Pay Commission recommendations. In order to provide additional fiscal space to the State Governments, the Government of India had revised the FRBM target for Fiscal Deficit as a percentage of GSDP from 3 % to 3.5 % in 2008-09 and further to 4 % in 2009-10. Against this, the State reported a Fiscal Deficit of ₹ 10437 crores (3.1 % of GSDP) in 2008-09 and ₹ 12628 crores (3.31 % of GSDP) in 2009-10 (RE). The Government has not only continued to be on the path of fiscal consolidation through adherence to the prescribed FRBM targets, but has also kept the deficits much below the FRBM limits, ensuring prudence.

Particulars	Revised Targets 2008-09	Achievement 2008-09	Revised Targets 2009-10	Revised Estimate 2009-10
Revenue Deficit	Revenue Deficit was allowed	-66 crores	Revenue Deficit was allowed	-4356 crores
Fiscal Deficit against GSDP	3.5 %	3.1 %	4.0 %	3.31 %
Public Debt against GSDP	30 %	25.8%	30%	25.86%
Outstanding Guarantees	Rs. 16000 crores	Rs. 10340 crores	Rs.16000 crores	Rs.10257 crores

Source: http://www.cag.gov.in

The State has thus successfully adhered to FRBM targets despite the impact of exogenous shocks on the State's economy and Government's finances. However, going forward the State's finances would have to absorb full impact of implementation of Sixth Pay Commission in the current inflationary scenario as also the recommendation of 13th Finance Commission, which will have significant on the finances of the State Government. The fiscal balance would also be greatly impacted by the pace of the economic recovery. All these uncertainties make it difficult to estimate their impact on the Government finances and would be deciding factors in assessment of future outlook.

Fiscal Policy Statement

Sr. No.	Item	Previous Year		Current Year	Current Year	Ensuing Year	Target for the next Two Years #	
		2007-08	2008-09	2009-10 (BE)	2009-10 (RE)	2010-11	2011-12	2012-13
1	2	3	4	5	6	7	8	9
1	Revenue Deficit (-) / Surplus (+) (Rs. crores)	2150	-66	-3913	-4356	-4502	-2500	0
2	Fiscal Deficit (-) / Surplus (+) (Rs. crores)	-4771	-10437	-12148	-12628	-15143	-14986	-17234
3	Public Debt (Rs. crores)	79309	87010	98085	98528	112462	126148	142082
4	GSDP (Rs.crores)	303734	337217	406498	381028	434371	499526	574455
5	Fiscal Deficit as percentage of GSDP	1.57	3.10	2.99	3.31	3.49	3.00	3.00
6	Public Debt as percentage of GSDP	26.11	25.80	24.13	25.86	25.89	25.25	24.73
7	Government Guarantees (Rs. crores)	11561	10340	16000*	10257	16000*	16000*	16000*

Source: Finance Accounts & Budgets of the relevant years.

*New guarantees will be given subject to vacation of guarantees and will be kept below Rs. 16000 crores

The projections are subject to recommendations of the Thirteenth Finance Commission

With various measures taken for resource mobilization and controlling the expenditure, the State Government is committed to continuing with its policy of fiscal consolidation in the coming years. However, the imperatives of growth are such that some amount of stimulus will have to be retained to ensure that momentum of growth is not maintained.

In keeping with the requirement of fiscal transparency, which is considered to be the cornerstone of good governance, the current budgetary process involves placing all financial statements and underlying information and assumptions on the Table of the House. The accompanying statements and an assessment of future outlook are to further the objectives of Gujarat Fiscal Responsibility and Budget Management Act , 2005.

Chapter 9

Haryana FRBM Act, 2005

The Haryana Fiscal Responsibility and Budget Management Act came into effect in 2005.

Key Highlights

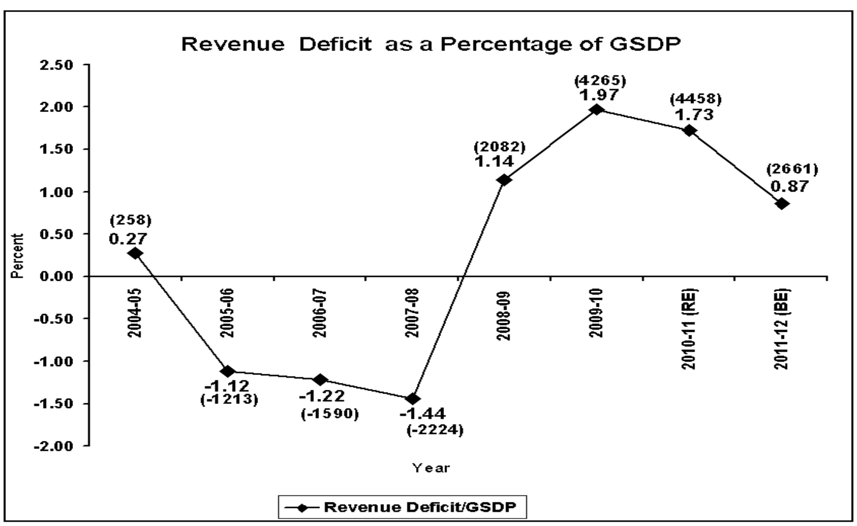
a) To bring out annual reduction in revenue deficit from the financial year 2005-06, so as to bring it down to zero by 2008-09 and generate revenue surplus thereafter;

b) To bring out annual reduction in fiscal deficit from the financial year 2005-06, so as to bring it down to 3% of GSDP by the year ending March, 2009.

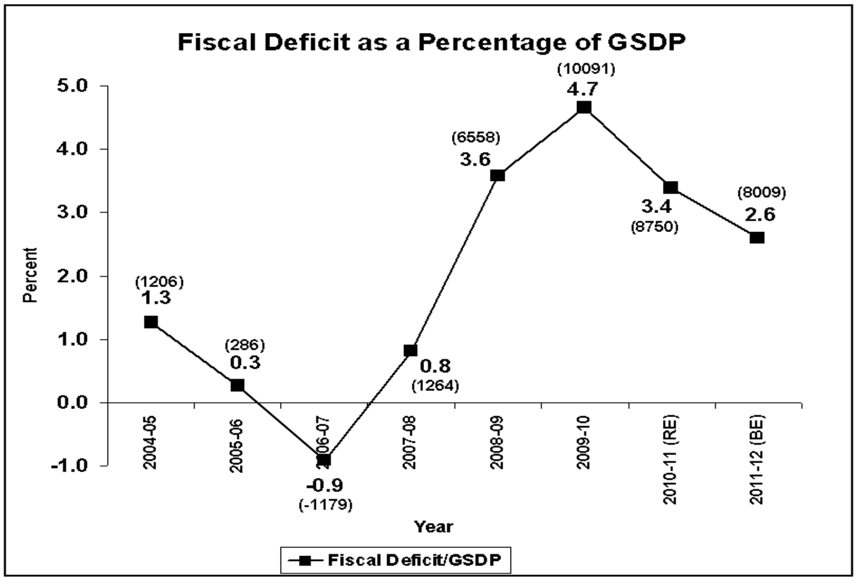
c) To reduce fiscal deficit to 3.5% or less of GSDP by FY 2010-11,3% or less of GSDP by FY 2011-12.

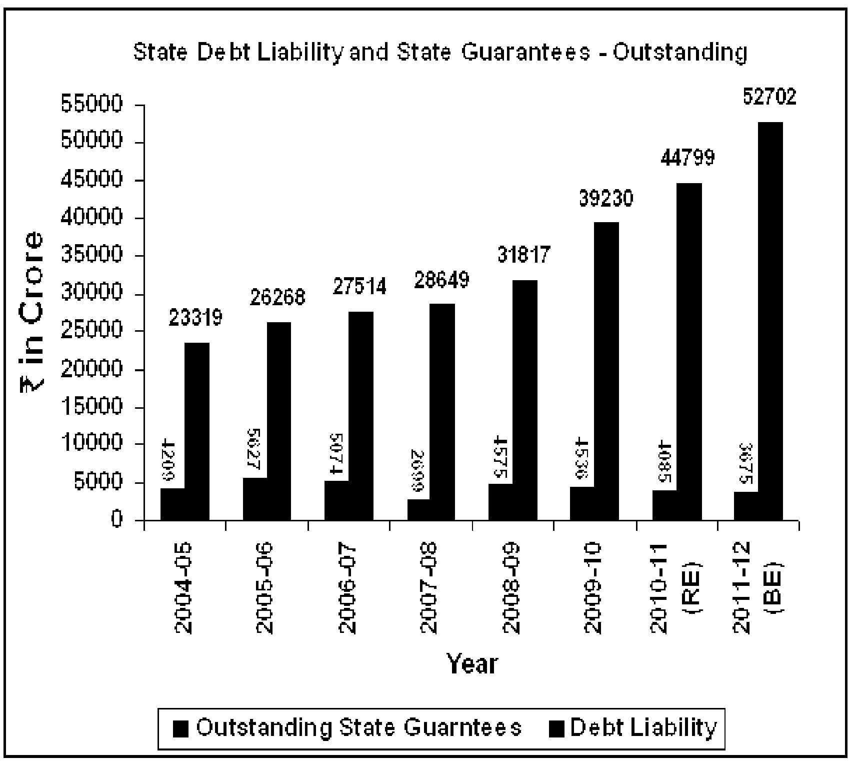
d) To ensure within a period of five years, beginning from the financial year 2005-06 and ending on 31st March, 2010, that the outstanding total debt including contingent liabilities do not exceed 28 per cent of the estimated GSDP for that year:

Fiscal Indicators:



Source: http://haryana.gov.in/





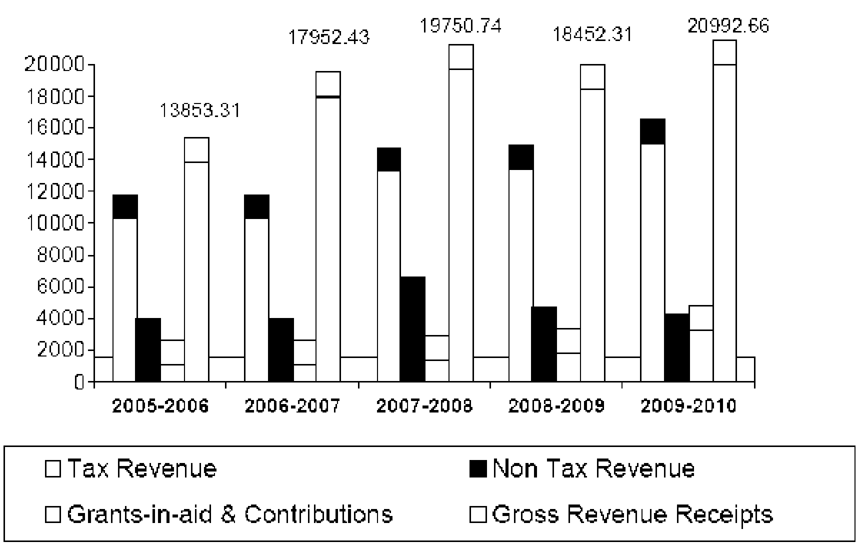
Source: http://haryana.gov.in/

Growth and composition of GSDP

Outstanding Public Debt at the end of 2009-2010 was ₹ 2,87,94.76 crores, (comprising internal debt of ₹ 2,67,98.04 crores and loans and advances from Central Government ₹ 1996.72 crores) and other liabilities accounted under Public Account ₹ 10542.05 crores.

The State also acts as a banker and trustee in respect of deposits like small savings collections, provident funds and deposits. There was an overall increase of ₹ 861.93 crores in respect of such liabilities of State Government during 2009-2010 as compared to last year. Interest payments on debt and other liabilities totaling ₹ 2736.53 crores constituted 10.83 *per cent* of revenue expenditure of ₹ 25257.38 crores. Interest payments on public debts were ₹ 2164.95 crores (Internal debt ₹ 2058.54 crores and loans and advances from Central Governments ₹ 106.41 crores) and ₹ 571.58 crores on other liabilities. Expenditure on account of interest payments increased by ₹ 397.62 crores during 2009-2010. Internal debt of ₹ 8319.96 crores was raised during 2009-2010. Also expenditure on (i) discharge of debt obligations ₹ 2576.41 crores and (ii) payments of interest on debt obligation Rs.2164.95 crores was made during 2009-10.

REVENUE RECEIPTS

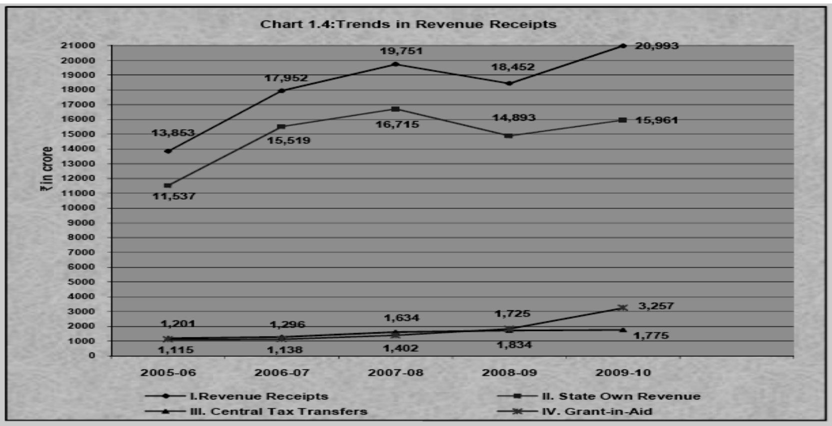


Source: http://haryana.gov.in/

During 2009-10, the total receipts amounted to ₹ 31305.55 crores comprising of ₹ 20992.66 crores revenue receipts (₹ 14993.97 * crores Tax revenue, ₹ 2741.40 crores Non-Tax revenue and ₹ 3257.29 crores Grants-in-aid and

Contributions) and Rs.10312.89 crores capital receipts (recovery of loans and advances Rs.212.84 crores, net of borrowing and other liabilities etc. ₹ 10090.66 crores and other receipts of ₹ 9.39 crores.)

Resources of the state as per annual financial accounts



(Source: State Finance Accounts of the respective years.)

Performance of the State during recent years

The ratio of fiscal liabilities to GSDP showed a consistently declining trend and decreased from 0.254 *per cent* in 2005-06 to 0.188 *per cent* in 2009-10.

Total liabilities including guarantees (₹ 43,873 crores) during 2009-10 stood at 21 *per cent* of the GSDP which was well within the limit of 28 *percent* for the year ended 31 March 2010 to be achieved by 31 March 2010, but were higher than the amount (₹ 39,654 crores) projected in the MTFPS for 2009-10.

The quantum spread together with primary deficit further decreased from (-) ₹ 1,283 crores in 2008-09 to (-) ₹ 5,594 crores in 2009-10. As a result, the debt-GSDP ratio has risen, which can deteriorate the debt sustainability of the State in the medium to long run, if no corrective measures are taken.

Recent findings

Under the Budget Estimates 2011-12 the total receipts (net of public debt) are projected at ₹ 39170.45 crores, of which revenue receipts are ₹ 32018.19 crores, while capital receipts (net of public debt) are Rs.7152.26 crores. These signify an increase of ₹ 6651.67 crores, ₹ 4421.45 crores and ₹ 2230.22 crores respectively over the corresponding projections in the revised estimates 2010-11. The total expenditure (excluding the repayments) under the Budget Estimates 2011-12 is projected at ₹ 40276.28 crores, of which revenue expenditure is ₹ 34678.87 crores and the capital expenditure is ₹ 5597.41 crores. These signify an increase of ₹ 3704.58 crores, ₹ 2623.75 crores and ₹ 1080.83 crores respectively over the corresponding projections in the revised estimates 2010-11. The Budget Estimates 2011-12 project a revenue deficit of ₹ 2660.68 crores and Fiscal Deficit of ₹ 8008.60 crores. The balance from current revenue for 2011-12 is projected to be ₹ 4052.69 crores.

Fiscal deficit is estimated at 2.61% of GSDP in 2011-12

Fiscal deficit (Budgeted Estimates)

Particulars	2008-09 (in Crores)	2009-10 (in Crores)	2010-11 (in Crores)	2011-12 (in Crores)
Fiscal deficit	₹ 6,559	₹ 8,360	₹ 8,816	₹ 8,008.6

As against the annual plan projections in the Budget Estimates 2010-11 at ₹ 11100 crores, the allocation for the annual state plan 2011-12 is proposed and approved at ₹ 13200 crores. In addition to it, an outlay of ₹ 2136.83 crores for the Centrally Sponsored Schemes has also been included on the Plan side, boosting the composite Plan outlay in the Budget Estimates 2011-12 to ₹ 15336.83 crores.

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Chapter 10
Jammu and Kashmir FRBM Act, 2006

The State of Jammu and Kashmir is treated as Special Category State. The States economy is poised to perform better, and all efforts have to be put in to attain a higher trajectory of growth, which should be both sustainable and inclusive. For this the State has set a target of 8% average annual growth in the State Domestic Product (SDP) for 11th Plan period in real terms and a double digit growth is expected by 2020. Redressing regional imbalances and ensuring equitable development of all regions and sub regions is a vital objective of the development process in the State. On fiscal prudence, higher levels of public spending are needed in many sectors but they must be achieved through improvements in revenue mobilization and greater efficiency in expenditure. The revenue from own resources in the State is very low. The States income has grown at a lower rate of six per cent as compared to the growth of national income at 8.2 per cent during the last five years.

The Jammu and Kashmir Fiscal Responsibility and Budget Management Act was enacted on 09 August 2006. , The rules were framed much later.

Finances of the State

The operationalisation of the Fiscal Responsibility and Budget Management Act by the Centre in 2004-05 ushered in an era of rule-based management of public finances. The introduction of Value Added Tax (VAT) in the State in 2005-06 considerably enhanced the tax base as it did in other States. The revenue of the State is further envisaged to be augmented by the recommendations of the Thirteen Finance Commission. First of all, the share of all the States in the net tax revenue of the Centre has been raised from 30.5 percent to 32 percent. The share of J&K has been increased from 1.297% to 1.551% of the divisible taxes. The Commission has recommended grant-in-aid of revenues for State for non-plan revenue deficit, elementary education, environment related issues, improving outcomes, maintenance of roads and bridges, local bodies, disaster relief, GST implementation and State specific grants under Article 275 of the Constitution.

Overview of State Government Finances:

Fiscal position of Jammu & Kashmir has seen a steady deterioration through the 1990s due to several of reasons including rising cost of salary and pension bills, burgeoning hidden subsidies including power deficit, rising interest liabilities and loan repayments. The deterioration has been much sharper since 1995-96 , due to deficit on account of Non-tax Revenue and steep increase in Salary bill occasioned by the Fifth Pay Commission recommendations. With the implementation of Sixth Pay Commission, the position has further deteriorated.

Total Receipts and Expenditure for the year 2009-10.

The total budget of the State for 2009-10 (RE) was ₹ 22885 crores to which own revenues of the State, including share of central taxes, contributed Rs.6249 crores i.e. 27.31% against which 'Central Transfers' contribution was ₹ 13432 crores i.e. 58.69%. The rest 14% was from borrowings and capital receipts.

On expenditure side, an amount of ₹ 15672 crores goes to finance non-plan expenditure mainly on interest, salaries, pension, power purchase, repayment of loans and the balance Rs.7213 crores represents expenditure under plan including Prime Minister's Reconstruction Plan.

Own Resources

States own revenues including share of Central Taxes (Tax + Non-tax + share of Central Taxes) to GSDP (at current prices) ratio is 16.32%. This has shown a slight improvement over the years. Relatively higher rate of growth of tax receipts is likely to be sustained in future also because of proposed introduction of unified Goods and Services Tax (GST) across the nation from 2011-12.

The present tax revenues (Tax + Non-Tax) to GSDP (at current prices) ratio stands at 11.41%. As the States Economy is expected to grow at an annual rate of 8% over the Eleventh Five Year Plan Period (EFPP), it will be states endeavour to increase "Own Revenues to GSDP" ratio by 1% over the existing level of 11.25%. This is expected to register higher growth with the introduction of GST from financial year 2011-12.

Tax Performance

Aided by the fact that state had very successfully managed its transition to the new VAT regime, its tax performance as a result of diversification of States economy and a higher GSDP growth has become a possibility. This, coupled with continued improvement on security front, is sure to provide an environment conducive for faster paced expansion of 'Services' and

'Industry' sectors with revival of tourism and investments likely to flow largely in food processing industry.

As a result of increased in VAT collections, State's own tax revenue which was at a level of ₹ 2683 crores for the FY 2008-09, has been estimated at Rs.3075 corers for the year 2009-10 (RE) and Rs.3505 crores for 2010-11 (BE).

Non-Tax Performance

As far as tax revenues are concerned, the growth has been appreciable. However, on the non-tax revenue side the performance has not been satisfactory particularly in sectors like Public Distribution, Public Health, Irrigation, Forest, both on account of collections as well as applicable rates. This needs to be brought at par with the national standards and there is a need to draw a road map by the respective Departments for next five years in this regard to improve the situation else the utility services may become unsustainable.

Conclusion

The overall fiscal position of the State as reflected in terms of key parameters– revenue, fiscal and primary deficits indicates mixed trends in the fiscal situation during 2009-10 over the previous years. While the revenue surplus increased and reached the peak level of ₹ 2264 crores in the current year, the fiscal and primary deficits have deteriorated over the previous year.

- The continued prevalence of fiscal and primary deficits indicates the increasing reliance of the State on borrowed funds. This coupled with non collection of revenue arrears for the past several years which are compounding day by day. The increasing fiscal liabilities accompanied by a negligible rate of return on Government investments and inadequate interest cost recovery on loans and advances might lead to an unsustainable debt situation in the medium to long run unless suitable measures are initiated to compress the non plan revenue expenditure and mobilise additional resources both through the tax and non tax sources in the ensuing years.
- The Government should take appropriate expenditure measures and lay emphasis on provision for increase spending under social and economic sectors.
- Recourse to borrowed funds should be carefully assessed and managed so that the recommendations of the Thirteenth Finance

Commission to bring Fiscal Liabilities GSDP ratio to around 25 per cent could be achieved during next five years.

- The State should make efforts to reduce primary and fiscal deficit.

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Chapter 11
Jharkhand FRBM Act, 2007

Jharkhand, the 28th State of the Indian Union was carved out of the southern part of Bihar State on 15 November 2000 in terms of the Bihar Re-organisation Act 2000, with 18 Districts. The State is known for its vast forest resources and is the leading producer of mineral wealth having 40 per cent of the country's mineral reserves.

The significant changes effected during 2009-10 as compared to the previous year are given below:

- Revenue receipts of the State increased by Rs.1906 crores (14 per cent) over the previous year. The increase was due to increase in tax revenue by ₹ 747 crores (20 per cent), non-tax receipts by ₹ 302 crores (15 per cent), State's share of Union taxes and duties by ₹ 155 crores (three per cent) and grants-in-aid by ₹ 701 crores (33per cent).
- Against the normative assessment made by the Twelfth Finance Commission (TFC) the tax revenue of the State was less by ₹ 417crores (eight per cent), whereas, non-tax revenue was more by ₹ 495 crores (28per cent).
- Revenue expenditure increased by ₹ 2251.34 crores (17per cent) mainly due to increase in expenditure on General Services (₹ 1681 crores), Social Services (₹ 225 crores) and Economic Services (₹ 380 crores).
- Capital expenditure decreased by ₹ 348 crores (11 per cent) over the previous year.
- Recovery of loans and advances increased by ₹ 3 crores (16 per cent) and disbursement decreased by ₹ 98 crores (23 per cent) in 2009-10 over the previous year.
- Public Debt receipts and repayment increased by ₹ 933 crores (38 per cent) and ₹ 327 crores (38per cent) respectively over the previous year.
- Public Account receipts decreased by ₹ 93 crores (one per cent) while disbursements increased by ₹ 105 crores (one per cent).

- The net impact of these transactions was an increase of ₹ 120 crores in the cash balance at the end of the year of the State over the previous year.

Review of JFRBM Act

As per the Jharkhand Fiscal Responsibility and Budget Management Act, 2007, in line with the recommendations of the TFC, the State Government was to eliminate the revenue deficit by the end of March 2009 and reduce the fiscal deficit to not more than three per cent of the estimated Gross State Domestic Product (GSDP) by March 2009. The State had achieved the target set in the FRBM Act by eliminating the revenue deficit in 2006-07 by turning the deficit into a huge revenue surplus (₹ 946 crores), which further improved to ₹ 1195 crores in 2007-08. However, the surge in revenue expenditure vis-a-vis revenue receipts which started in 2008-09 continued and the fiscal situation of revenue surplus could not be retained during 2009-10 as there was a revenue deficit of Rs.10 crores.

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Chapter 12

Karnataka MTFP Act 2002 (Medium Term Fiscal Plan)

Karnataka, India’s eighth largest State in terms of geographical size (191,791 sq km) is home to 5.28 crores people (2001 census) accounting for 5.1 % of India’s population. The population density in the State has risen from 235 in 1991 to 275 in 2001. It is lower than the corresponding figures for the country (267 and 324 respectively). The State is divided into 30 districts and 176 taluks.

The economic growth of the State was on par with the other General Category States as the compounded annual growth rate of its GSDP for the year 2000-01 to 2008-09 was 12.71 *per cent* as against 12.54 *per cent* of the General Category States. However, the population growth rate of the State during 2000-2010 (10.57 *per cent*) was lower than that of the General Category States (13.42 *per cent*) which indicated higher *per capita* income growth in the State.

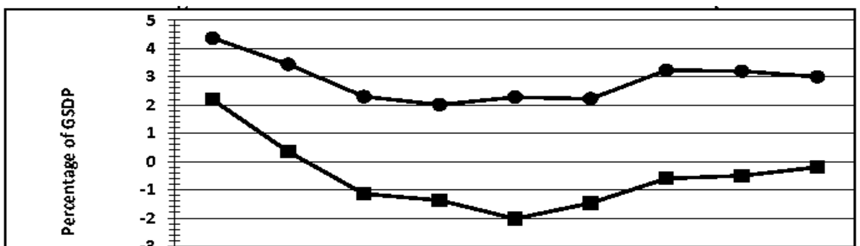
Karnataka was the **first State** to enact (September 2002) the **Fiscal Responsibility Act** (FRA) providing statutory backing to MTFP. The Act aims to ensure fiscal stability and sustainability, enhance the scope for improving social and physical infrastructure and human development by achieving revenue surplus, reducing fiscal deficit, removing impediments to the effective conduct of fiscal policy and prudent debt management through limits on borrowings, debt and deficits and greater transparency in fiscal operations by the use of medium-term fiscal framework. To give effect to the fiscal management principles, the Act prescribed the following fiscal targets for the State Government.

- Elimination of revenue deficit by the end of the financial year 2005-06.
- Reduction of fiscal deficit to not more than three *per cent* of the estimated GSDP by the end of the financial year 2005-06.
- Limiting the total liabilities to not more than 25 per cent of the estimated GSDP within a period of 13 financial years, i.e., by the end of the financial year 2014-15.
- Maintaining outstanding guarantees within the limit stipulated under the Karnataka Ceiling on Government Guarantees Act, 1999.

Karnataka A Fiscal Backdrop:

The recent fiscal consolidation initiatives of the state have yielded good gains to the state finances as revealed by the broad fiscal and revenue deficit trends. Targets as stipulated in the Fiscal Responsibility Act (FRA) 2002 for the fiscal and revenue deficits have been achieved well within the stipulated timelines and the resultant revenue surpluses have helped in the enhancement of capital outlays. The enhanced fiscal deficit limits suggested by the Central Government as a measure to fight the recessionary trends, to 3.5 percent and 4 percent limits during 2008-09 and 2009-10 respectively, too have been very well adhered to. The state's other important fiscal indicators reflect the sound fiscal position of the state in the post FRA period.

Table 1: Trends in Fiscal & Revenue Deficits/Surplus:



	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11 (BE)
FD as a % of GSDP	4.37	3.44	2.30	2.01	2.28	2.22	3.23	3.20	3.00
RD as a % of GSDP	2.19	0.35	-1.14	-1.37	-2.02	-1.47	-0.60	-0.50	-0.20

Source: Economic Survey of Karnataka 2010-11

Following are the significant changes during 2009-10 over the previous year:

- Revenue receipts grew by ₹ 5,866 crores (14 *per cent*) due to increase in own tax revenue (₹ 2,934 crores), Government of India (GOI) grants (Rs.2,551 crores), State's share of Union taxes and duties (₹ 206 crores) and non tax revenue (₹ 175 crores). However, revenue receipts during the current year fell short of projection in the Medium Term Fiscal Plan (MTFP) 2008-12 by ₹ 4,348 crores.

  The compounded annual growth rate of revenue receipts of the State during 2000-2009 was 14.34 per cent as against 14.40 per cent of General Category States. This was mainly due to the lower compounded growth rate of non-tax revenue which was at 8.38 per *cent in the State as against 12.08 per cent with respect to General Category States.*

- Revenue expenditure increased by ₹ 5,878 crores (14 *per cent*). Increase was under social services sector (₹ 3,246 crores), economic services sector (₹ 2,045 crores), general services sector (₹ 487 crores) and grants-in-aid (₹ 100 crores). It fell short of MTFP projection for the year by ₹ 1,445 crores.

  The compounded annual growth rate of revenue expenditure of the State under social sector such as education and health during 2000-2009 was at 11.78 per cent and 8.78 per cent respectively as against 9.33 per cent and 8.95 per cent of General Category States.

- Miscellaneous capital receipts (₹ 70 crores) represented the sale proceeds of Government land as in previous year. The projection made in MTFP for the year, however, was ₹ 3,377 crores.

- Capital outlay was more by ₹ 2,267 crores (23 *per cent*). Increase was under economic services sector (₹ 2,156 crores), social services sector (₹ 96 crores) and general services sector (15 crores). *The compounded annual growth rate of capital expenditure of the State during 2000-2009 was 22.50 per cent as against 21.41 per cent of General Category States.*

- Public debt receipts (excluding ways and means advances) decreased by ₹ 601 crores (seven *per cent*) while repayment of public debt increased by ₹ 530 crores (30 *per cent*).

- Public Accounts receipts and disbursements increased by ₹ 10,568 crores (17 *per cent*) and ₹ 9,246 crores (17 *per cent*) respectively.

- Cash balance of the State Government increased by ₹ 1,954 crores (25 *per cent*)

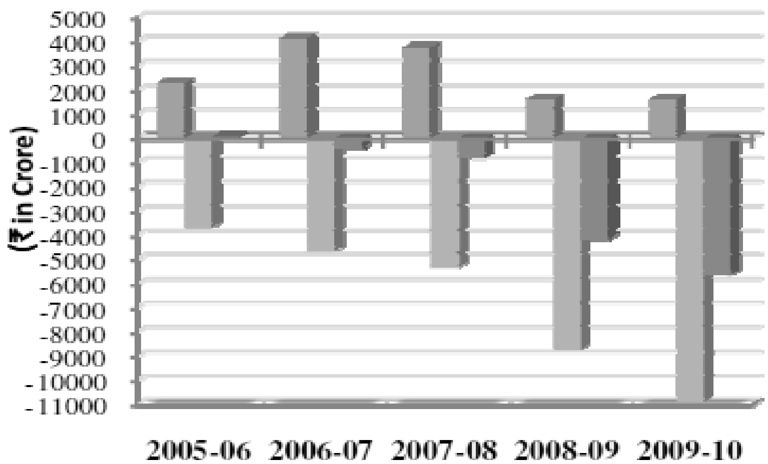
Fiscal imbalances

Three key fiscal parameters - revenue, fiscal and primary deficits, indicate the extent of overall fiscal imbalances in the State finances during a specified period.

The deficit in the Government account represents the gap between receipts and expenditure. The nature of deficit is an indicator of the prudence of fiscal management of the Government. Further, the ways in which the deficit is financed and the resources raised are applied are important pointers to fiscal health. This section presents trends, nature, magnitude and the manner of financing these deficits and also the assessment of actual levels of revenue and fiscal deficits *vis-à- vis* targets set under FRA for the financial year 2009-10.

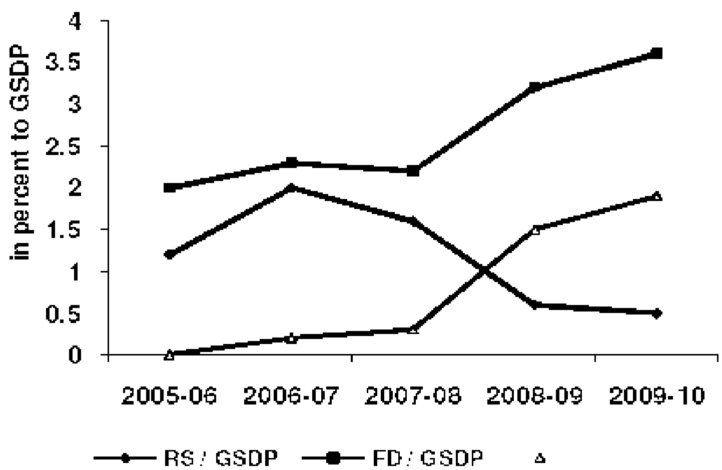
Trends in deficits

Fiscal Imbalance



Source: Source: Economic Survey of Karnataka 2010-11

Trends in deficit indicators relative to GSDP



Source: Economic Survey of Karnataka 2010-11

The fiscal target of wiping out revenue deficit by March 2006 as laid down in FRA was achieved by the State one year ahead in 2004-05. Thereafter the State maintained revenue surplus till 2009-10 with inter-year variation.

Decrease in the amount of revenue surplus began in 2007-08. In 2008-09, revenue surplus of the State decreased by ₹ 2,145 crores due to increase in revenue expenditure by ₹ 4,215 crores (11 *per cent*) as against increase in revenue receipts by ₹ 2,140 crores (five *per cent*). In 2009-10, revenue surplus continued to decrease and was ₹ 1,619 crores.

FRA target of reducing fiscal deficit GSDP ratio to less than three *per cent* was also achieved one year ahead in 2004-05 and in 2008-09 the State continued to maintain fiscal deficit as a ratio of GSDP within the revised FRA limit of 3.5 *per cent*.

In 2009-10, decrease in revenue surplus (₹ 12 crores), increase in non-debt capital receipts (₹ 387 crores) and increase in capital expenditure (₹ 2,517 crores) increased the fiscal deficit by ₹ 2,143 crores over the previous year, but fiscal deficit was within the revised FRA limit of four *per cent* of GSDP.

Despite increase in revenue and non-debt receipts by ₹ 6,253 crores in 2009-10 over the previous year, primary deficit increased by ₹ 1,462 crores as the incremental non-debt receipts were short of incremental primary expenditure by ₹ 1,462 crores.

Primary deficit of ₹ 5,622 crores at the end of the year implied that non-debt receipts were sufficient for meeting primary revenue expenditure and that the State had to depend on borrowed funds for meeting 10 *per cent* (₹ 5,622 crores) of its primary expenditure. This underlined the need for augmentation of own revenue for fiscal correction and consolidation.

In 2009-10, the State was on the road to recovery from the effects of economic slow-down. Decrease in revenue surplus was contained, if not reversed, and in 2009-10 revenue surplus decreased by only ₹ 12 crores over the previous year. This was possible because the growth rate of revenue receipts (13.5 *per cent*) more or less matched the growth rate of revenue expenditure (14.1 *per cent*) in 2009-10, unlike in 2008-09 when the growth rate of revenue expenditure was twice the growth rate of revenue receipts. In 2009-10, the growth rate of revenue receipts improved over the previous year because of increase in the growth rate of revenue from Motor Vehicle Tax and Sales, Trade, etc.

The increase in fiscal deficit in 2009-10 was less pronounced than the increase in fiscal deficit in 2008-09 mainly because of increase in non-debt capital receipts by ₹ 387 crores and containment of decrease in revenue surplus (₹ 2,133 crores). Primary deficit increased by ₹ 1,462 crores in 2009-10 as against an increase by ₹ 3,374 crores in 2008-09. The increase in primary deficit was also contained in 2009-10 because of improvement in the growth rate of non-debt receipts also.

Fiscal challenges:

- Sustain the fiscal gains and enhance fiscal space in the long-run by prudent expenditure planning and management. Enhance the allocative efficiency by reprioritizing to reflect the societal needs and weed out the schemes that have outlived their utility. Shifting of focus from incremental budgeting to results based budgeting.
- Protect the capital investments and developmental expenditure from fiscal adversities.
- Arrest the declining levels of non tax revenue by undertaking measures through better enforcement and continuous review to enhance non tax revenue and enhance the recovery of user charges.
- Enhance utilization of funding support available under Centrally Sponsored and Central Plan schemes.

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Chapter 13
Kerala FRBM Act, 2003

The State of Kerala, located at the southern end of the country, accounts for one per cent of the total area of the country and about three per cent of the population. The State ranks high in the human development index with a literacy rate of 90.92 per cent and life expectancy at birth of 74 years when compared to the General Category States' averages. The infant mortality rate (13 per thousand) of the State is very low compared to the General Category States' average. The Gross State Domestic Product (GSDP) of Kerala has been growing at a compound annual growth rate (12.76 per cent) as compared to other General Category States' growth rate (12.54 per cent). However, the State has slightly higher urban and rural inequality compared to the All India average

Kerala Fiscal Responsibility Act

The State Government enacted the Kerala Fiscal Responsibility Act, 2003 which came into force on 5 December 2003 to ensure prudence in fiscal management and fiscal stability by progressive elimination of revenue deficit and sustainable debt management consistent with fiscal stability, greater transparency in fiscal operations of the Government and conduct of fiscal policy in a medium term framework and for matters connected therewith or thereto. To give effect to the fiscal management principles as laid down in the Act, State Government prescribed the following fiscal targets

- reduce revenue deficit to 'nil' within a period of four years commencing from 1 st April 2003 and ending on 31 st March 2007 and generate revenue surplus thereafter;
- to reduce fiscal deficit to two *per cent* of the estimated Gross State Domestic Product within a period of four years commencing from 1 st April 2003 and ending on 31 st March 2007.

The Twelfth Finance Commission (TFC) in its report recommended elimination of the State's revenue deficit and reduction of fiscal deficit to three per cent of GSDP by March 2009. The Medium Term Fiscal Plan for the years 2007-08 to 2009-10 presented to Legislature with the Budget for 2007-08 indicated that the elimination of revenue deficit would be pushed back by a year to March 2010 primarily as a result of the financial impact of the Pay Commission award. However, the Medium Term Fiscal Plan for the years

2009-10 to 2011-12 presented to the Legislature with the budget for 2009-10 set to achieve the target for elimination of revenue deficit and keeping the fiscal deficit to 3.25 per cent of GSDP by the end of 2010-11. But the Kerala Fiscal Responsibility Act has not been amended till date taking into consideration either the recommendations of the TFC or the projections made in the two medium term fiscal plan. The Finance Department intimated (June 2010) that Government is in the process of amending Kerala Fiscal Responsibility Act 2003 in line with the target dates suggested by the Thirteenth Finance Commission for the elimination of revenue deficit by 2014-15 and containment of fiscal deficit to three per cent of GSDP by 2013-14.

State Finance

The economic downturn in the domestic economy of the State was much lower than what was expected. The growth of the State domestic economy by 14.57 percent helped to moderate a sharp increase in revenue and fiscal deficits as a ratio to the GSDP. The major deficit indicators for the period from 1999-2000 to 2010-11(BE) are given in the following Table. The revenue deficit increased to ₹ 5022.97 crores, during 2009-10 about 35 percent higher when compared to the previous year. The revenue deficit to GSDP ratio had declined from 2.16 percent in 2007-08 to 1.85 percent in 2008-09, but it increased back to 2.18 percent in 2009-10. Similiarly there was a sharp increase in fiscal deficit to ₹ 7871.60 crores, about 24 percent above the previous year. As a result the fiscal deficit to GSDP ratio that had declined from 3.48 per cent in 2007-08 to 3.16 percent in 2008-09, increased back to 3.42 per cent in 2009-10. The quality of the fiscal deficit also deteriorated. While 58 percent of the fiscal deficit was utlised for financing revenue deficit in 2008-09, the share increased to 63 per cent in 2009-10. The deceleration in the revenue receipts is primarily responsible for the deterioration of the fiscal balance of the State. The total expenditure of the State Government increased to 13.366 per cent in 2008-09 when compared to the previous year. It grew only by 10.24 per cent in 2009-10. In contrast the growth of revenue declined from 16.13 per cent in 2008-09 to 6.52 per cent in 2009-10. State's own resources increased only 11 per cent. The central transfer declined 4.74 per cent. An important feature of the 2009-10 is the initiation of ₹ 5000 crores stimulus package consisting of investment in infrastructure. Even though the actual expenditure during 2009-10 did no pick up as fast as it was expected given the very nature of this investment project it gave an important psychological boost to the economy.

Table

Major Deficit Indicators (` crore)

Year	Revenue Deficit		Fiscal Deficit		Primary Deficit	
	Amount	**% to GSDP**	**Amount**	**% to GSDP**	**Amount**	**% to GSDP**
1999-00	3624.21	5.8	4534.56	7.25	2582.29	4.13
2000-01	3147.06	4.51	3877.8	5.56	1620.20	2.32
2001-02	2605.64	3.28	3269.4	4.12	779.94	0.98
2002-03	4118.66	4.53	4990.04	5.49	2043.28	2.25
2003-04	3680.30	3.83	5539.05	5.77	- 2210.75	- 2.30
2004-05	3668.92	3.08	4451.90	3.73	-839.36	- 0.70
2005-06	3129.15	2.29	4181.72	3.06	-382.00	- 0.28
2006-07	2637.95	1.72	3821.87	2.49	+367.83	0.24
2007-08	3784.84	2.16	6100.21	3.48	-1770.56	-1.01
2008-09	3711.67	1.85	6346.21	3.16	-1686.52	- 0.84
2009-10	5022.97	2.18	7871.60	3.42	- 2579.12	- 1.12
2010-11(BE)	3629.55	1.37	8543.28	3.22	-2756.80	-1.04

Source: Finance department, Govt. of Kerala

The following are the significant changes in fiscal transactions during 2009-10 over the previous year:

- Revenue receipts grew by 6.5 *per cent* (₹ 1,597 crores) relative to the previous year. The increase was under tax revenue (₹ 1,635 crores), State's share of Union taxes and duties (₹ 123 crores) and non tax revenue (₹ 293 crores). The increase was offset by decrease in grant in aid from the Government of India (GOI) (₹ 454 crores).
- Revenue expenditure and capital expenditure increased by 10.3 *per cent* (₹ 2,909 crores) and 21.5 *per cent* (₹ 364 crores) respectively over the previous year.
- Public debt receipts decreased by ₹ 306 crores, mainly due to decrease in internal debt by ₹ 100 crores and borrowings from GOI by ₹ 206 crores. Public debt repayment increased by ₹ 115 crores.
- Public Account receipts and disbursements increased by ₹ 5368 crores and ₹ 4322 crores respectively over the previous year. Thus, increase in net receipts during the year was ₹ 1046 crores.
- The cash balance of the State as on 31 March 2010 increased to ₹ 3291.03 crores from ₹ 2629.55 crores as on 31 March 2009.

Recommendations

The State Government had not achieved the Kerala Fiscal Responsibility Act, 2003 in reducing the revenue deficit to nil and the fiscal deficit to two *per cent* of the GSDP, which needs urgent attention by effective revenue collection and curtailing unproductive expenditure.

The Government needs to consider enhancing the priority to capital expenditure, as the proportion of capital expenditure to aggregate expenditure in Kerala is lower than the all State's average.

The performance of public sector undertakings needs to be monitored to improve the average rate of returns on the capital invested. Systems have to be built to monitor funds directly received by the State implementing agencies from the Government of India.

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Chapter 14

Maharashtra FRBM Act, 2005

Maharashtra occupies the western and central part of the country and has a long coastline stretching nearly 720 kilometers along the Arabian Sea. Ranges of Sahyadri mountain provide a physical backbone to the State on the west, while the Satpuda hills along the north and Bhamragad- Gadchiroli-Gaikhuri ranges on the east serve as natural borders.

Maharashtra is the second largest state in India both in terms of population and geographical area (3.08 lakh sq. km.). The State has a population of around 10 crores (2001 Census) which is 9.4 per cent of the total population of India. The population of the State is expected to reach 11.5 crores by 2011. The State is highly urbanised with 42 per cent people residing in urban areas.

The gross state domestic product (GSDP) at current prices for 2009-10 is estimated at ₹ 9,01,330 crores and contributes about 14.7 per cent of the GDP. The GSDP has been growing at a rapid pace over the last few years. The State boasts of a very vibrant industrial and services sector. Both these sectors presently contribute about 89 per cent of the State's domestic product. The agriculture & allied activities sector contributes 11 per cent to the State's income.

Maharashtra FRBM act

The State Government has enacted the Fiscal Responsibility and Budget Management (FRBM) Act, 2005 to ensure prudence in fiscal management and to maintain fiscal stability in the State. To improve the fiscal position and to bring fiscal stability, the Act envisages progressive elimination of revenue deficit, reduction in fiscal deficit and prudent debt management consistent with fiscal operations of the Government and conduct of fiscal policy in a medium term framework and matters connected therewith or thereto. The Fiscal Responsibility and Budgetary Management Rules (MFRBMR) were, however, framed in February 2006. The major fiscal targets for the State are as under :

- Reduce the revenue deficit by one per cent or more of the GSDP in the first year, 1.5 per cent or more in the first two years, two per cent or more in the first three years, beginning from the financial year 2005-06 and the entire deficit by 2008-09.

- Reduce the fiscal deficit by an amount equivalent to 0.3 per cent or more of the GSDP at the end of each financial year beginning with the financial year 2005-06 until the fiscal deficit is brought down to not more than three per cent of the GSDP. The fiscal deficit in 2008-09 and thereafter should not exceed three per cent of GSDP. (Considering the overall slowdown in the economy, the GoI had allowed the States to increase their fiscal deficit to as much as to 3.5 per cent of their GSDP).

Medium Term Fiscal Policy Statement

- As prescribed in the Act, the State Government laid a Medium Term Fiscal Policy Statement (MTFPS) and a Fiscal Policy Strategy Statement along with the budget before the Legislature. MTFPS presents three years rolling targets, assumptions underlying the fiscal indicators and assessment of sustainability relating mainly to (i) balance between revenue receipts and revenue expenditure and (ii) the use of capital receipts for generating productive assets.
- The effect of revision of salaries of employees' consequent to the report of the Sixth Pay Commission is reflected in the Budget Estimates for 2009-10. This has seriously disturbed the revenue balance. To avoid a squeeze on plan expenditure, it would be necessary to resort to more borrowing. The attempt is to ensure that the growth momentum in the economy is maintained and even increased, even though this may mean increased public expenditure. The medium term objective would be to revert back to the trajectory of high economic growth with consequent high growth in revenues and low deficits. At the same time, it has been ensured that public investment in Agriculture, Human Development and Infrastructure is not squeezed and is expected that the economy soon reverts to its high growth path.

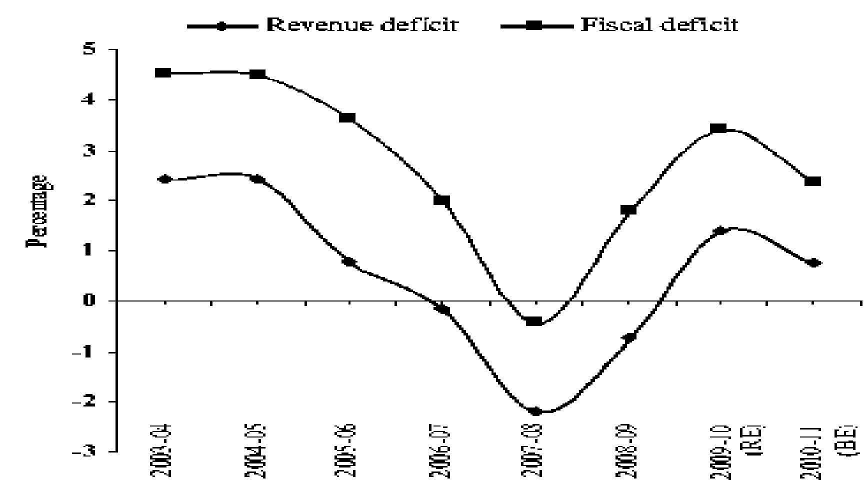
  The State Government has developed its own Fiscal Correction Path (FCP) indicating the milestones of outcome indicators with target dates of implementation during the period from 2004-05 to 2009-10 keeping in view the fiscal targets laid down in the FRBM Act and/or the rules made thereunder.

In the recent past, the State finance has experienced transition from fiscal deficit to surplus, then to deficit and again returning on the path of recovery. The downward trends were mainly because of global recession, high inflation and salary hikes. Various measures taken by the Government such as enactment of Fiscal Responsibility & Budgetary Management (FRBM) Act, implementation of Value Added Tax (VAT) etc. have resulted in consolidation of State finances. During 2009-10, in spite of salary burden, the State Government has not squeezed development programmes and financed highest ever annual plan of Rs.35,909 crores.

The year 2010 was the Golden Jubilee year of formation of Maharashtra State. The State Government has adopted a development strategy to improve economic and social development indices, making Maharashtra the most preferred investment destination, accelerating economic growth, enhancing opportunities for employment and self-employment for youth of the State and to improve human development index thereby to achieve inclusive growth.

The percentage of revenue deficit to GSDP which was 2.4 per cent in 2003-04, declined to 0.8 per cent in 2005-06, as a result of fiscal reforms adopted by the Government. Thereafter, for three consecutive years i.e. 2006-07 to 2008-09, the State enjoyed revenue surplus. But due to increased salary burden, revenue deficit was 1.4 per cent of GSDP during 2009-10. During 2010-11, though expected increase in revenue expenditure is by about 3.4 per cent, the percentage of revenue deficit to GSDP is expected to reduce to 0.7 per cent.

Percentage of Revenue and Fiscal Deficit to GSDP:



Source: Economic Survey of Maharashtra 2010-11

Another important fiscal indicator i.e. percentage of fiscal deficit to State GSDP is also declining year by year. The fiscal deficit, which was 4.5 per cent of GSDP in 2003-04, has gradually declined to (-) 0.4 per cent of GSDP in 2007-08. However, in 2010-11 the percentage of fiscal deficit to GSDP is again expected to increase to 2.4 per cent. The State was about to move on the path of fiscal consolidation but the overall economic situation forced the Government to go slow on the path of fiscal consolidation.

Although there was slippage in 2009-10 in achieving the revenue deficit targets, this could be attributed largely to the slump in the economy (which impacted revenue receipts) as well as the Sixth Pay Commission award (which increased committed expenditure). However, the State has the reasonable prospect of achieving the targets set out in FRBM Act of 2005 provided an effort is made to increase tax compliance, make efforts to collect revenue arrears and prune unproductive expenditure so that deficits are contained to the levels envisaged in the Act.

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Chapter 15

Manipur FRBM Act (2005)

The State of Manipur is known as the Switzerland of the East. Agriculture and allied activities form the backbone of the economy of Manipur. Manipur, one of the “eight sisters” of the North Eastern Region of India, is an isolated hill- girt State stretching between 92°58´E to 94°45´E longitudes and 23°50´N to 25°42´N latitudes. It is a charming place encircled by nine hill ranges on all sides with a small and beautiful oval shaped valley at the centre. The State has 352 kms. long international border with Burma (Myanmar) to the south-east and 502 kms. long border with the adjacent states of Nagaland on the north, Cachar District of Assam on the west and Chin Hills (Myanmar) and Mizoram on the south and the south-west and Surma Tract and upper Chindwin of Myanmar (Burma) on the East. The altitude of the State above the mean sea level varies from 790 metres to 2020 metres. It has sub-tropical temperate climate. The actual rainfall of Manipur in 2004 was 2075.1 mm as against the normal rainfall of 1969.5 mm as recorded by the India Meteorological Department. The State has a salubrious climate.

The Fiscal Responsibility and Budget Management Act, 2005

The State Government enacted the Manipur Fiscal Responsibility and Budget Management Act in August 2005 to ensure prudence in fiscal management and fiscal stability by achieving sufficient revenue surplus, reduction in fiscal deficit, prudent debt management consistent with fiscal sustainability, greater transparency in fiscal operations of the Government. The Act prescribed the following fiscal targets for the State Government:

(i) strive to remain revenue surplus by making a balance in revenue receipts and expenditure and build up further surplus;

(ii) strive to bring down fiscal deficit to 3 per cent of Gross State Domestic Product;

(iii) limit the amount of outstanding Government guarantees as per the provisions of the Manipur Ceiling on State Government Guarantee Act, 2004;

(iv) follow a recruitment and wage policy, in a manner such that the total salary bill relative to revenue expenditure excluding interest payments and pensions does not exceed 35 *per cent*:

As per Manipur FRBM Rules 2005 (framed in December 2005 and subsequently amended in January 2006 and in July 2006) following fiscal targets in respect of revenue surplus and fiscal deficit were set:

- Remain revenue surplus and build up further surplus having regard to the norms of Central Assistance for the State Plan and the tax and non-tax revenue potential of the State.
- Reduce the fiscal deficit by a minimum of 1 per cent of the Gross State Domestic Product by the end of each financial years, beginning with the financial year 2005-06 so as to reduce the same to 3 per cent or below by 2008-09 provided that, in the event of shortfall in the reduction of revenue and fiscal deficit as envisaged, the target of reduction of deficit in the succeeding year shall stand enhanced by the amount of shortfall in the preceding year.

Following are the significant changes effected during 2009-10 over the previous year:

- **Revenue receipts** increased marginally by ₹ 0.52 crores (0.01 *per cent*) over the previous year. Though tax revenue increased by ₹ 25.97 crores and State's share of Union Taxes and Duties by Rs.16.75 crores, Non–tax revenue and Grants-in-aid from Government of India decreased by Rs.13.71 crores and Rs.28.49 crores respectively, resulting in the stagnating position of Revenue receipt. The Revenue receipts at Rs.3873.14 crores is, however, higher by Rs.354.58 crores than the assessment made by the State Government in its Fiscal Correction Path (FCP) (₹ 3518.56 crores), but lower by Rs.131.45 crores than the assessment made in its Medium Term Fiscal Policy Statement (MTFPS) (Rs.4004.59 crores) for the year 2009-10.
- **Revenue expenditure** and **Capital expenditure** increased by ₹ 392.12 crores (14.95 *per cent*) and ₹ 120.98 crores (8.25 *per cent*) respectively over the previous year. The Revenue expenditure was higher by ₹ 380.10 crores than the FCP (₹ 2634.30 crores) but lower by ₹ 41.51 crores than the MTFPS (₹ 3055.91 crores). Capital expenditure was higher by ₹ 602.30 crores than the FCP (₹ 985.48 crores) and by ₹ 115.65 crores than the MTFPS (₹ 1472.13 crores);
- **Disbursement of Loans and Advances** increased by ₹ 5.81 crores, more than five times over the previous year. Recoveries of Loans and

advances also increased by ₹ 2.62 crores, more than four times over the previous year.

- While **Public Debt receipts** increased by ₹ 205.35 crores (65.28 *per cent*) its repayments decreased by ₹ 193.04 crores (62.31 *per cent*) over the previous year.
- **Public Accounts receipts and disbursements** increased by ₹ 370.49 crores (13.01 *per cent*) and ₹ 577.58 crores (22.56 *per cent*) over the previous year. Thus, net receipts decreased by ₹ 207.09 crores during the year;
- **Cash balance** of the State decreased by ₹ 248.65 crores (40.36 *per cent*) over the previous year.

As per recommendation of the Twelfth Finance Commission, and **the Manipur Fiscal Responsibility and Budget Management Act, 2005**, the State Government prepares a Medium Term Fiscal Policy Statement (MTFPS) showing the rolling fiscal targets, each year for placement in the State Assembly. The performance of the State during 2009-10 in terms of fiscal targets fixed for selected variables laid down in the FRBM Act, MTFPS and the Fiscal Correction Path (FCP) *vis-à-vis* achievements is given in the following table:

(₹ in crore)

Fiscal variables	Targets as per FRBM Act	Projections made in		Actual
		FCP	MTFPS	
Revenue Surplus	Revenue deficit targeted at 0.00 (by 31.3.2009)	884.27	948.68	858.74
Fiscal Deficit	--	(-) 11.40	(-) 407.20	(-) 732.66
Fiscal Deficit/ GSDP *(per cent)*	3 *per cent* of GSDP (by 31.3.2009)	0.19 (GSDP - 6074.58)	6.05 (GSDP - 6724.23)	8.43 (GSDP - 8686.81)
State's outstanding guarantees	Not to exceed thrice the State's Own tax Revenue receipts of the second preceding year i.e.₹ 442.35 crore.	87.34	--	195
Salary expenditure	35 *per cent* of Revenue expenditure net interest payment and pension *i.e.*₹ 839.52 crore.	912.47	1,366.91	1140.77*

* including ₹ 1.99 crore on wages

Source: http://www.cag.gov.in

The above Table reveals that except for containing revenue deficit and State's guarantees *vis-à-vis* FRBM targets, none of the FRBM/FCP/MTFPS targets could be achieved.

The State Government should increases revenue collection and tax compliance, makes efforts for more devolution of funds from the Central Government, reduces tax collection costs, collects revenue arrears and prunes unproductive expenditure so that deficits are contained and also apply scare resources judiciously for timely completion of projects/schemes.

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Chapter 16
Meghalaya FRBM Act, 2006

Meghalaya, a Special Category State, is situated in the North-East region of India and is bounded on the north by Goalpara and Nowgong Districts of Assam on the east by Karbi Anglong and North Cachar Hills Districts of Assam and on south and west by Bangladesh. With a geographical area of about 22,429 sq. km., Meghalaya provides shelter to 0.23 *per cent* population of of the country. According to the Census of India, 2001, the population of the State stands at 23,18,822 (Male: 11,76,087; Female: 11,42,735) and the density of population of the State is 103 per sq. km. State's Gross Domestic Product during the year 2009-10 was ₹ 12,502 crores (base year 2004-05). The estimated per capita income of the State stood at ₹ 48,494 during 2009-10.

The Fiscal Responsibility and Budget Management Act

The State Government has enacted the Meghalaya Fiscal Responsibility and Budget Management (MFRBM) Act, 2006 to (i) ensure fiscal prudence, stability and efficiency, (ii) achieve fiscal consolidation fo facilitating the generation of revenue surplus for enhancing the scope for improvement of investment in the social and economic sectors/ infrastructure, (iii) ensure fiscal and debt sustainability through progressive reduction of the fiscal deficit and proper debt management system and (iv) provide a more transparent and accountable system of budgeting that will ensure an efficient and effective system of governance. The MFRBM Act, 2006 came into effect on 6 November 2006. To give effect to the fiscal management principles as laid down in the Act and/ or the rules framed there under, the Act prescribed *inter alia* the following targets:

- Reduce fiscal deficit in each of the financial years beginning from 1st day of April 2006, in a manner that will enable the State to achieve fiscal deficit of 3 *per cent* of GSDP by 2008-09;
- ensure that total outstanding liabilities on the Consolidated Fund are not mere than 28 *per cent* of the GSDP;
- restrict issuing of guarantees except on selective basis where the quality and viability of the scheme to be guaranteed is properly analysed;

- bring out an annual statement that gives a perspective on the State's economy and related fiscal strategy; and,
- bring out a special report along with the budget giving details of the number of employees in the Government, Public Sector Undertakings and aided institutions and related salaries, not later than two years from the date on which the Meghalaya Fiscal Responibility Rules, 2006 came into force.

The Act also provides that the above limits may exceed on account of unforeseen circumstances such as natural calamities, internal disturbances and shortfall in the transfer of financial resources from the GOI.

Fiscal Policy Statements

As prescribed in the Act, the State Government had incorporated the following statements in the Budget for the year 2009-10:

- Macro Economic Statement giving an overview of the State economy.
- Medium Term Fiscal Policy (MTFP) Statement prescribing fiscal targets and assumptions for achieving them. The targets for the year 2009-10 were as under:

  Revenue surplus as a percentage of total revenue receipts: 5.70

  Total outstanding liabilities as a percentage of GSDP 34.87

  Fiscal deficit as a percentage of GSDP 6.67
- Fiscal Policy Strategy Statement of the State for the ensuring year relating to taxation, expenditure, borrowings, etc.

Roadmap to Achieve the Fiscal Targets as laid down in FRBM Act/ Rules

The State Government has also developed its own Fiscal Correction Path (FCP) detailing the structural adjustments required for mobilizing additional resources and identifying areas where expenditure could be compressed, to achieve the targets set out in the MFRBM Act.

State Finances

An analysis of the financial position of the State, shows that after a fall in the revenue surplus of the State for two consecutive years 2007-09 on account of global financial meltdown, the revenue surplus of the State bounced back to Rs.264.94 crores in 2009-10 as compared to Rs.127.87 crores in 2008-09.

Primary deficit also showed a major improvement from (-) Rs.223.05 crores in 2008-09 to (-) Rs.2.31 crores in 2009-10. However, the fiscal deficit is likely to increase from (-) Rs.266.29 crores or 2.1% of GSDP in 2009-10 to (-) ₹ 376 crores or 2.6% of GSDP in 2010-2011. The fiscal deficit is estimated at (-) ₹ 418.81 crores or 2.5% of GSDP in 2011-12.

Trends in major fiscal parameters for 2009-10

Fiscal Parameters	**2009-10**			
	Targets as per prescribed in FRBM Act	**Projections made in**		**Actual**
		FCP	**Medium Term Fiscal Policy Statement**	
Revenue Deficit	Eliminate by 2008-09	-	-	-
Revenue Surplus/ Total Revenue Receipts	-	11.52	5.70	7.69
Fiscal Deficit (Rupees in crore)	-	242	-	226
Fiscal Deficit/GSDP (*per cent*)	3 *per cent* by 2008-09	3	6.67	1.81
Total Outstanding Liabilities/ GSDP (*per cent*)	Not more than 28 *per cent* of GSDP	27.62	34.87	38.05

Source: http://www.cag.gov.in

The above table indicates that though the State was successful in restricting the Fiscal Deficit-GSDP ratio as prescribed in the MFRBM Act, the ratio of Total Outstanding Liabilties-GSDP far surpassed the target fixed in this Act. The State Government has to initiate requisite measures to contain the Total Outstanding Liabilities-GSDP ratio within the permissible limit.

Fiscal Consolidation

The slight increase in fiscal estimation for the ensuing fiscal year, 2011-12 is basically due to the impact of the higher expenditure commitments relating to the creation of the 6th Meghalaya Police Battalion, revised pay scale and arrears for both sitting and non-sitting MLAs of the State and expenditure in connection with the census operation. However, relative to the target on fiscal deficit i.e. 3% of GSDP set out in the Meghalaya Fiscal Responsibility and Budget Management Act, 2006, the expected fiscal performance of the State on the whole is still better and this has been possible on account of the efforts of the State to achieve fiscal consolidation through resource mobilization by way of enhancement and rationalization of tax rates, fines, and fees, besides measures like management through fiscal austerity, restriction on Non Plan Expenditure, and the implementation of the Meghalaya Fiscal Responsibility and Budget Management Act, 2006 were enforced. In addition, stringent corrective action to plug loopholes in collection of tax and non-tax revenue will help in fiscal consolidation.

The State Government has proposed a Plan size of Rs.2727 crores for the year 2011-12.The actual size of the annual plan will be finalized in the meeting between the State Government and the Planning Commission.

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Chapter 17
Mizoram FRBM Act, 2006

Mizoram is a mountainous region, and became the 23rd State of the Indian Union in February 1987.It was one of the Districts of Assam till 1972 when it became a Union Territory. Sandwiched between Myanmar in the east and south and Bangladesh in the west, Mizoram occupies an area of great strategic importance in the north-eastern corner of India. It has a total of 722 Km. boundary with Myanmar and Bangladesh.

The Mizoram Fiscal Responsibility And Budget Management Act, 2006

According to Mizoram Fiscal Responsibility and Budget Management (MAFRBM) Act, 2006, the State Government envisaged to:

(1) Eliminate Revenue deficit by the end of 2008-09 to zero per cent

(2) Reduce Fiscal deficit to 3 per cent of the estimated GSDP by 2008-09 which was amended in 2009 to achieve the target by 2009-10 and again amended in 2010 to reduce fiscal deficit to 3 per cent of GSDP by 2014-15

(3) Ensure that total outstanding debt, excluding Public Account and Risk Weighted Outstanding Guarantees in a year shall not exceed twice of the estimated receipt in the Consolidated Fund of the State at the close of the financial year.

As per recommendation of the Twelfth Finance Commission, the Mizoram Fiscal Responsibility and Budget Management (MZFRBM) Act, 2006, the State Government prepares a Medium Term Fiscal Policy Statement (MTFPS) showing the rolling fiscal targets, each year for placement in the State Assembly.

The performance of the State during 2009-10 in terms of Fiscal targets fixed for selected variables laid down in the FRBM Act, MTFPS and the Fiscal Correction Path (FCP) vis-à-vis achievement is given in the table below:

Trends in Major fiscal parameters for 2009-10

(₹ in crore)

Fiscal variables	Targets as per FRBM Act	Projections made in		Actual
		FCP	MTFPS	
Revenue Surplus	Revenue deficit targeted at 0.00 (by 31.03.09)	178	178	261
Fiscal Deficit	3 *per cent* of GSDP by 2008-09 which was amended in July, 2009 to achieve the target by 2009-10 and was further amended in October, 2010 to achieve the target by 2014-15	(-) 412	(-) 412	(-) 311
Fiscal Deficit/GSDP (*per cent*)	3 *per cent* of GSDP (by 31.03.15)	(-) 8.46	(-) 8.46	(-) 5.54
State's Outstanding Liabilities	Not to exceed twice the estimated receipt in the Consolidated Fund of the State at the close of the financial year i.e. ₹ 6018 crore	3368	3368	3628
Salary expenditure	35 *per cent* of revenue expenditure net of interest payment and pension as per TFC recommendation i.e. ₹ 800 crore	1035	1035	1079

Source: http://www.cag.gov.in

The above table reveals that the State Government achieved the target of revenue deficit well before the targeted period by achieving revenue surplus in the last 5 years. However, the Government should endeavour to increase the revenue surplus in the coming years to minimize the resource gap.

The Fiscal deficit during the current year could not be kept within the limit set in the MZFRBM Act. The fiscal deficit in 2009-10 was ₹ 311 crores which was ₹ 101 crores less than the assessment made in the FCP (₹ 412 crores). However, the fiscal deficit increased to ₹ 311 crores in 2009-10 from ₹ 94 crores in 2008-09. The increase in Fiscal deficit in the current year was mainly due to increase in Revenue expenditure (₹ 389 crores) and Capital expenditure (₹ 132 crores) partially offset by increase in Revenue receipt (₹ 311 crores) over the previous year. With that in view, the Government should pursue a policy of reducing revenue expenditure so as to confine the stiff increase of Fiscal deficit.

While the State's outstanding liabilities (₹ 3,628 crores) in 2009-10 was within prescribed limit of MZFRBM Act (₹ 6,018 crores), it was more than assessment in FCP (₹ 3,368crores) The States outstanding liabilities increased by ₹ 14 crores (0.39 per cent) in the current year over 2008-09; and the State Government should adopt conscious efforts to slowly move to efficient management of debt of taking initiative for repayment of high cost loans at manageable interest.

The State Government could not contain the level of salary expenditure (₹ 1,079 crores) at 35 per cent of revenue expenditure net of interest payment and pension as envisaged in the TFC recommendation and stood at 47 per cent of revenue expenditure net of interest payment and pension. The relatively higher level of salary expenditure is a major concern for the State Government. The State Government should endeavour to keep the salary expenditure within the prescribed limit to maintain fiscal sustainability.

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Chapter 18

Madhya Pradesh FRBM Act, 2005

Madhya Pradesh is an agrarian landlocked State and also one of the leading States in the country in mineral production. The composite State of Madhya Pradesh was founded on 1 November 1956. In terms of the Madhya Pradesh Reorganization Act 2000 (No.28 of 2001), 16 district of the erstwhile State of Madhya Pradesh formed the new state of Chattisgarh on 1 November 2000.

The following are the major changes during 2009-10 over the previous year:

- Revenue receipts increased by 23 per cent mainly due to increase in the States own tax revenue by 27 per cent, non-tax revenue by 91 per cent. State's share of Union taxes and duties by three per cent and grants from Government of India (GOI) by 14 per cent. The State also received debt relief of ₹ 363.06 crores under the Debt Consolidation and Relief Facility (DCRF) from GOI.
- Revenue expenditure increased by 22 per cent {(Non-Plan: 19 per cent and Plan: 29 per cent)} and Capital expenditure increased by 18 per cent (Non-Plan decreased by 71 per cent and Plain increased by 21 per cent).
- The recovery of loans and advances decreased by 56 per cent during the current year as compared to the previous year mainly due to decrease under Loans for Industries and Minerals (₹ 17 crores) and Water Supply, Sanitation and Urban Development (₹ 10 crores). Disbursement of loans and advances by the State Government increased by ₹ 1,955 crores mainly on account of loans under power projects (₹ 1,989 crores) and Miscellaneous General Services (₹ 18 crores), partly offset by decrease under Water Supply, Sanitation, Housing and Urban Development (₹ 33 crores) and Transport (₹ 19 crores).
- Public debt receipts and repayments increased by 31 per cent and 22 per cent respectively in 2009-10 over the previous year. The increase in public debt receipts was mainly due to increase in internal debt by ₹ 1,859 crores and loans and advances by GOI (₹ 191 crores).
- Public Account receipts and disbursements increased by ₹ 5,893 crores and ₹ 4,883 crores respectively in 2009-10 relative to the previous year resulting in a net increase of ₹ 1,010 crores.

- As a result of inflow/outflow of the funds stated above, the cash balances of the State at the close of 2009-10 increased by ₹ 1,491 crores over the previous year.

Review of the Fiscal Position

In response to the Twelfth Finance Commission's (TFC) recommendation, the Government of Madhya Pradesh enacted its FRBM Act, 2005 which came into force from 1 January 2006 with a view to ensure prudence in fiscal management and fiscal stability by progressive elimination of revenue deficit, sustainable debt management consistent with fiscal deficit, greater transparency in fiscal operations of the Government and conduct of fiscal policy in a medium term fiscal framework.

- An increase of 22 per cent in revenue expenditure during 2009-10 in comparison to that of 23 per cent increase in revenue receipts resulted in an increase in the revenue surplus from ₹ 4,063 crores in 2008-09 to ₹ 5,498 crores in 2009-10.
- Given an increase of ₹ 1,435 crores in the revenue surplus and decrease of ₹ 31 crores in non-debt capital receipts during the year accompanied by increase of ₹ 1,212 crores in capital expenditure and increase of ₹ 1,958 crores in the disbursement of loans and advances including inter-state settlement, there was an increase of ₹ 1,766 crores in the fiscal deficit in 2009-10 over the previous year.
- Given the increase in fiscal deficit (₹ 1,766 crores) as well as in interest payments (₹ 262 crores), the primary deficit of ₹ 241 crores in 2008-09 increased to ₹ 1,745 crores in 2009-10.

The fiscal performance of the State vis-à-vis FRBM targets and those framed in the Mid-Term Fiscal Policy Statement (MTFPS) for the year 2009-10 is given below:

Fiscal forecasts	FRBM Targets	Projection as per MTFPS	Actual
Revenue Deficit (-) Surplus (+) (₹ in crore)	To be wiped out by 2008-09	*(+) 1,600*	(+) 5,498
Fiscal Deficit (-) Surplus (+) (₹ in crore)	To reduce to not more than 4 *per cent* of GSDP by 2009-10 (₹ *7777* crore)	(-) 6,436 (3.73 *per cent* of GSDP)	(-) 6,199 (3.19 *per cent* of GSDP)
Total Fiscal Liabilities (including guarantees)	40 *per cent* of GSDP by 31 March 2015	41.24 *per cent* of GSDP	35.74 *per cent* of GSDP
Outstanding Guarantees	Not to exceed 80 *per cent* of the total RR of preceding year	*** *per cent of RR of preceding year*	4.85 *per cent* of RR of preceding year*

*** To the extent information was available in Finance Accounts.**
**** BE figure of outstanding guarantees for 2009-10 not available**
(Source: Statement laid before the legislature under FRBM Act during 2009-10 and State Finance Accounts of the respective years)

The State Government had achieved revenue surplus five years ahead of the scheduled period of 2008-09. The table above reveals that the fiscal deficit was within the amended limit of four per cent of GSDP prescribed in the FRBM targets/TFC and less than the 3.73 per cent of the projections of MTFPS. The total fiscal liabilities (including guarantees) to GSDP ratio at 35.74 per cent was within the FRBM target to be achieved by 31 March 2015 and was significantly less than the projected 41 per cent in MTFPS. The outstanding guarantees during the year were only 4.85 per cent of the revenue receipts of the preceding year.

The key fiscal indicators viz revenue surplus and fiscal deficit showed improvement with reference to the budget estimates (BE) while primary deficit was more than the BE. Revenue expenditure and interest payments were well within the BE while capital expenditure and non-tax revenue were more than the BE. Tax revenue was more than the BE mainly due to more receipts under taxes and duties on electricity (₹ 1,147 crores). Stamps duty and registration fees (₹ 223 crores) and State excise (₹ 192 crores), partly offset by less receipt under taxes on sales, trades etc. (₹ 288 crores) and taxes on goods and passengers (₹ 127 crores). Capital expenditure was more than the BE mainly due to more expenditure under Power Projects (₹ 512 crores), partly offset by less expenditure under Major Irrigation (₹ 213 crores).

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Chapter 19
Nagaland FRBM Act, 2005

Nagaland, part of Assam and North East Frontier Agency (NEFA) in 1947, became the 16th State of India in 1963. Statehood came as a result of a political agreement. In this respect Nagaland's case is unique and special constitutional protection was also provided under Article 371(A) of the Indian Constitution to safeguard the culture, traditions and way of life of the Nagas. One of the smaller hill states of India, Nagaland is known for its myriad Tribes with their rich culture and traditions. The State has a distinct character both in terms of its social composition as well as in its developmental history.

The Fiscal Responsibility and Budget Management (FRBM) Act, 2005

The State Government enacted (August 2005) the NFRBM Act, 2005 to ensure prudence in fiscal management and fiscal stability by achieving revenue surplus, reduction in fiscal deficit, prudent debt management consistent with fiscal sustainability greater fiscal transparency in fiscal operations of the Government and conduct of fiscal policy in a medium term framework. To give effect to the fiscal management principles, the Act prescribed the following fiscal targets for the State Government:

- Strive to remain revenue surplus by building up further surplus;
- Bring down fiscal deficit to 3 per cent of GSDP by the year ending 31 March 2011.
- Ensure within a period of 5 years, beginning 1 April 2005 and ending 31 March 2010, that the total debt stock does not exceed 40 per cent of the estimated GSDP in the year preceding the current year, whichever is lower;
- Follow a recruitment and wage policy, where the total salary bill relative to revenue expenditure net of interest payments and pensions does not exceed 61 per cent in any financial year.

Though the NFRBM Act was enacted in August 2005, the rules governing the Act were framed by the Government in February 2007. But the rules did not prescribe any annual target for adjustments in these parameters.

The following are the significant changes during 2009-10 over the previous year:

- Revenue receipts increased by ₹ 318.87 crores (9.38 per cent) from ₹ 3400.89 crores in 2008-09 to ₹ 3719. 76 crores in 2009-10 mainly due to increase in grants from Government of India (GOI) (₹ 336.39 crores), State's Own Tax revenue (₹ 24.49 crores) and State's share of union taxes and duties (₹ 12.19 crores). The revenue receipts at ₹ 3719.76 crores was however, higher than the assessment made by the State Government in its fiscal Correction Path (FCP) for the year 2009-10 by ₹ 517.99 crores.
- Revenue expenditure of the State, on the other hand increased by ₹ 362.90 crores (12.56 per cent) from ₹ 2889.54 crores in 2008-09 to 3252.44 crores in 2009-10, mainly under the head Administrative services (₹ 123.95 crores), Interest payment and Services of Debt (₹ 50.18 crores), Pension and Miscellaneous General Services (₹ 50.79 crores), Education, Sports and Art & Culture (₹ 64.94 crores) and Agriculture and Allied Activities (₹ 58.66 crores). The revenue expenditure exceeded the assessment made by the State Government in its FCP for the year 2009-10 by ₹ 579.05 crores.
- Capital Expenditure increased by ₹ 136.44 crores (15.99 per cent) from ₹ 853.09 crores in 2008-09 to ₹ 989.53 crores in 2009-10, mainly under the head Transport (₹ 152.28 crores) offset by decrease in Energy (₹ 37.53 crores).
- Recoveries of Loans and Advances increased by ₹ 1.63 crores and disbursement also increased by ₹ 2.09 crores in 2009-10 over the previous year.
- Public debt receipts increased by ₹ 153.71 crores and repayment increased by ₹ 69.22 crores during 2009-10 over the previous year.
- Public account Receipts increased by ₹ 532.05 crores and disbursement increased by ₹ 656.75 crores during 2009-10 over the previous year.

Performance of Nagaland FRBM Act, 2005

With the enactment of a Fiscal Responsibility and Budget Management Act (FRBM) Act, 2005 at the centre, Twelfth Finance Commission (TFC) recommended that each State must enact a fiscal responsibility legislation prescribing specific annual targets with a view to eliminate the revenue deficit by 2008-09 and reducing fiscal deficit based on a path for reduction of borrowing and guarantees. The targets prescribed in NFRBM Act and projections made by State Government in its medium Term Fiscal Policy Statement via-a-visa achievements during the year 2009-10 is detailed in the table below:

Trends in major Fiscal parameters for 2009-10

Fiscal Parameters	Targets as prescribed in NFRBM Act.	Projections made by State Government in MTFPS*	Actual
Revenue deficit	Strive to remain revenue surplus by building up further surplus	No revenue deficit	Revenue surplus - 12.56 *per cent* of RR
Fiscal deficit	3 *per cent* of GSDP	6.46 *per cent* of GSDP	6.15 *per cent* of GSDP
Consolidated debt	40 *per cent of* GSDP	53.87 *per cent of* GSDP	63.74 *per cent of* GSDP
Incremental risk Guarantee	1 *per cent of* GSDP	No projection made	0.13 *per cent* of GSDP-

** Medium Term Fiscal Policy Statement.*

Source: http://www.cag.gov.in

It can be seen from the table above that the State Government was able to achieve two out of the four targets set in NFRBM Act but could not achieve the Fiscal deficit target of 3 per cent of GSDP (actual being6.15 per cent of GSDP) and Consolidated debt of 40 per cent of GSDP (actual being 63.74 per cent of GSDP). Besides, the State Government could also not achieve the projections made in the MTFPS in respect of consolidated debt of 53.87 per cent of GSDP.

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Chapter 20
Odisha FRBM Act, 2005

Odisha has a glorious and ancient history spanning a period of over 2000 years. In ancient times, it was the proud kingdom of Kalinga. Kalinga was a major seafaring nation that controlled most of the sea routes in the Bay of Bengal. For several centuries, a substantial part of Southeast Asia, such as Kampuchea (Cambodia), Java, Sumatra, Bali and Thailand were colonies of Orissa.

Fiscal Policy of the State Government has been guided by the FRBM Act, 2005 and recommendations of successive Finance Commissions. The State Government has adopted a rule based fiscal policy with medium term fiscal targets through enactment of the Fiscal Responsibility and Budget Management Legislation. The reform efforts broadly focus on critical areas like augmentation of revenues, rationalization of expenditure, debt restructuring through swaps and pre-payment of high cost loan, public enterprises and power Sector reform and restructuring and above all strict enforcement of fiscal discipline and accountability.

The thirteenth Finance Commission has recommended a number of amendments to the Fiscal Responsibility Legislation prescribed guiding principles for Fiscal Policy of the State Government for the period 2010-15. Fiscal reform measures undertaken by the State Government including expenditure rationalization and revenue generation measures have helped in achieving perceptible improvement in the fiscal situation of the State Government. As a result, the financial year 2005-06 ended with Revenue surplus of Rs.481.19 crores. The improved scenario has been sustained in successive years with generation of Revenue balance. The State’s Own Tax and Non Tax Revenue have increased substantially. All these factors have helped the State Government in creation of fiscal space for increasing Plan Outlay and Capital investment.

The average growth of the State's economy during the Tenth Plan period, has been 9.51% compared to growth of national economy at 7.8% and during the initial 3 years of the Eleventh Plan period, the average growth has been 9.57% compared to national average of 7.79% (2004-05 base). The contribution of agriculture & allied sector to the GSDP has come down from 23.89% in 2004-05 to 18.44% in 2009-10 (Q). Contribution of Transport & Communication sector to GSDP has increased from 8.46% in 2004-05 to 9.95% in 2009-10 (Q). The Finance and Insurance sector is witnessing much higher growth in recent years. Its contribution to GSDP, which was 22.54% in 2007-08, has increased to 24.40% in 2009-10 (Q).

Trends in Deficits

Parameters	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Revenue deficit (-)/ surplus(+) (₹ in crore)	**(+) 481**	**(+) 2261**	**(+) 4244**	**(+) 3420**	**(+)1138**	**(+)3908**
Fiscal deficit (-)/ surplus(+) (₹ in crore)	(-) 276	(+) 824	(+) 1323	(-) 334	(-)2266	(-)658
Primary deficit (-)/ surplus(+) (₹ in crore)	(+) 3421	(+) 4012	(+) 4492	(+) 2555	(+)778	(+)2403
RD/GSDP (*per cent*)	(+) 0.61	(+) 2.48	(+) 4.11	(+) 2.79	(+)0.75	(+)2.10
FD/GSDP (*per cent*)	(-) 0.35	(+) 0.90	(+) 1.28	(-) 0.27	(-)1.50	(-)0.35
PD/GSDP (*per cent*)	(+) 4.35	(+) 4.40	(+) 4.35	(+) 2.09	(+)0.51	(+)1.29
RD/FD (*per cent*)	(-)174.28	(+)274.39	(+)320.78	(-)1023.95	(-)50.22	(-)593.92

Source: Finance Accounts of Government of Odisha for respective years

Revenue surplus

In the year 2005-06, after a gap of 22 years, the State was able to achieve a revenue surplus of ₹ 481 crores. This surplus steeply increased to ₹ 4244 crores during 2007-08 and declined to ₹ 1138 crores during 2009-10 and once again increased to ₹ 3908 crores during the current year. Thus, the achievement was in line with the State's FRBM Act, 2005 which prescribed reduction of revenue deficit to zero by 2008-09.

Fiscal surplus/deficit

The fiscal deficit comprises the total borrowings of the Government. Fiscal deficit consistently decreased from ₹ 1366 crores in 2004-05 to ₹ 276 crores in 2005-06 and in fact formed into fiscal surplus in 2006-07 and 2007-08. But it again slipped back to deficit during 2008-09 and the same stood at Rs.658 crores (0.35 *per cent* of GSDP) in 2010-11 which was well within the State's FRBM target of not more than three per cent of GSDP.

Primary surplus

The primary surplus in the State of Rs.3421 crores in 2005-06 decreased to ₹ 2403 crores in 2010-11 and was lower than the three *per cent* of GSDP norm prescribed in the State's FRBM Act, 2005.

Assumption on Gross State Domestic Product:

The variation in the real growth rate of GSDP from 2005-06 to 2009-10 (Q) is in the range of 5.51% to 12.99%. Similarly, the nominal growth rate of GSDP varies from 9.55% to 26.95%. The average growth rate of GSDP in constant prices from 2005-06 to 2009-10 (Q) is 9.44% and the annual average growth rate of GSDP at Current Prices is 16.38% during the same period. The following Table shows the GSDP figures and growth rate over the previous year.

(Rs. in crore and growth In Percentage)

Description	2005-06	2006-07	2007-08	2008-09(P)	2009-10(Q)
GSDP at Current Prices	83891	100221	127234	142728	162327
Rate of Growth	*9.55%*	*19.47%*	*26.95%*	*12.18%*	*13.73%*
GSDP at Constant Prices	80798	91294	101250	108584	120057
Rate of Growth	*5.51%*	*12.99%*	*10.91%*	*7.24%*	*10.57%*

Source: Orissa Annual Budget 2011-12

It is pertinent to mention here that Thirteenth Finance Commission had assumed a nominal growth rate of 12.5% in GSDP for Orissa during the period 2010-15 (page 396 of the Report). The average annual growth of GSDP at constant prices during eighth Plan (1992-93 to 1996-97) was 2.3% during Ninth Plan (1997-98 to 2001-02) 5.2% and during Tenth Plan (2002-03 to 2007-08) is 9.51%. The corresponding average annual growth rate of GSDP at current prices was 12.6% during Eight Plan, 9.9% during Ninth Plan and is estimated to be around 15.43% during Tenth Plan. For the Eleventh Plan, the State had made projection of GSDP growth of 13% at current prices and 8% at constant prices. During the initial 4 years of the 11th Plan period, the average growth has been 16.92% at current prices and 8.65% at constant prices which is higher than State's projection.

The recovery from global recession has created opportunity for reasonably high growth of the economy. Accordingly, the GSDP is expected to grow @9% in real terms and 15% in nominal terms during the year 2011-12 and during the projection period 2012-13 and 2013-14, the nominal growth rate of

GSDP is expected at 13% (real growth of 8% and inflation of 5%). Keeping in view the recommendations of the Thirteenth Finance Commission, the Fiscal Deficit is projected at 2.79% of GSDP during 2011-12. However, the deficit is proposed to be partly met from the public account through a draw down of the cash balance by which the net borrowing is proposed to be reduced to 2.29% of GSDP.

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Chapter 21
Punjab FRBM Act, 2003

State's economy and GSDP growth:

The economy of Punjab grew at an average growth rate of 5.13%, consistently under-performing against the national average of 7.8% during the 10th plan (2002-2007). The 11th plan target of growth for the State was fixed at 5.90% against the target of 9% for the country. The economic growth in the State is estimated to be 6.54% during 2007-08. The advanced estimates for 2008-09 project a growth rate of 6.26% against the national growth rate of 7.09%. The increase in MSP of wheat and paddy and their record procurement has mainly contributed to high growth in the primary sector.

The Gross State Domestic Product (GSDP) at constant prices has risen from ₹ 91354 Cr. to ₹ 97325 Cr. during the year 2007-08, over the previous year. As per quick estimates, the primary sector which comprises of Agriculture and Allied Sectors is expected to grow at a rate of 5.08% in the year 2008-09 as compared to 4.87% in 2007-08. The Secondary Sector which encompasses manufacturing, construction and power sectors is expected to grow at a rate of 6.50% as against growth rate of 8.82% in 2007-08. The Tertiary Sector which includes Trade, Transport, Banking and Insurance and Public Administration, is expected to record a growth rate 6.96% during 2008-09 against a growth rate of 6.43 % in 2007-08.

The reason for the slow growth rate of GSDP has been the investment in the state that was not able to pick up. On one hand there is not enough public investment building up due to state's poor finances and on the other hand the concessions given to other states by GOI to Himachal Pradesh, Uttrakhand and Jammu & Kashmir are driving many companies to do their business in neigbouring states. The consequence of which has a direct bearing on revenue collected by way of VAT.

Fiscal Responsibility and Budget Management (FRBM) Act, 2003 (as amended upto January, 2008)

The Government of Punjab had enacted the Punjab Fiscal Responsibility and Budget Management Act, 2003 (amended upto January 2008) to ensure prudence in fiscal management and to achieve fiscal stability in the State. To improve the fiscal position and to bring fiscal stability, the Act envisages progressive elimination of the revenue deficit, reduction in fiscal deficit and prudent debt management consistent with fiscal sustainability. The Act also provides for greater fiscal transparency in fiscal operations of the Government and conduct of fiscal policy in a medium term framework and matters connected therewith or thereto. The Act, as amended, prescribed the following fiscal targets for the State:

(a) reduce the fiscal deficit from the financial year 2005-06 so as to bring it down to three per cent of Gross State Domestic Product (GSDP) by the year 2008-09.

(b) reduce the revenue deficit from the financial year 2005-06 so as to bring it down to zero by the year 2008-09 and generate revenue surplus thereafter;

(c) attempt to bring the ratio of debt including contingent liabilities to GSDP down to 28 per cent within a period of five years from 2005-06 to 2009-10;

(d) cap the outstanding guarantees on long term debt to 80 per cent of the revenue receipts of the previous year. Guarantees on short term debt were to be given only for working capital or food credit in which case this must be fully backed by physical stocks.

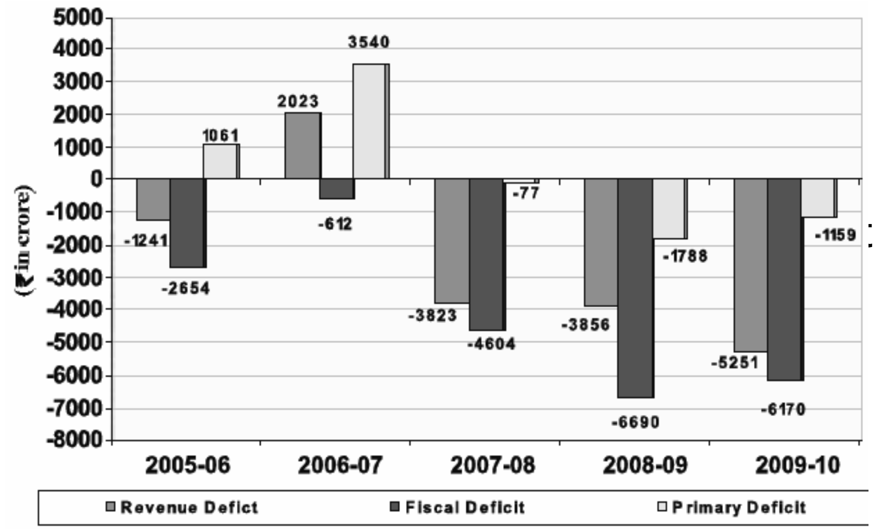
In exercise of the powers conferred by Section 7 of the Act, as amended, the State Government framed the Punjab Fiscal Responsibility and Budget Management Rules in December 2006 with a sole target to reduce the fiscal deficit from the financial year 2005-06 so as to bring it down to three per cent of GSDP by the year 2009-10 (amended as 2008-09 in December 2007).

As per recommendations of Twelfth Finance Commission (TFC), the State has drawn its Fiscal Correction Path (FCP) for the year 2005-06 to 2009-10. Under this path, the State was to eliminate the revenue deficit by 2008-09. But keeping in view the economic crises world over, the Government of India (GOI) relaxed it to be eliminated by 2009-10. The State has also planned to reduce its fiscal deficit to three per cent of GSDP by 2009-10 and to raise the Capital expenditure to about three per cent of GSDP. In view of the global recession and consequent slow down in tax revenue of the Central and State Government, the GOI has allowed the State's net borrowing (fiscal deficit) to the extent of four per cent of their respective GSDP for the year 2009-10. The condition of elimination of the revenue deficit was also relaxed for 2009-10.

The appreciable design features of the *Punjab Act* are as follows:

- The quantified limits to revenue and overall fiscal imbalances are in general specified for a stated target year, 2006-07. Punjab has annual path limits as shown in the table above.
- The correction of the revenue deficit is sharper than the correction of the fiscal deficit, which permits high rate of increase in capital expenditure, but requires a sharp reduction in (non-interest) revenue expenditure.
- The single most effective element, the inflexible limit imposed on long term government guarantees, i.e., 80 percent of revenue receipts of the previous ear, is a good design feature.
- The act clearly states that for the purpose of the definition of fiscal deficit, off budget borrowings shall be treated as borrowings by the state government, and the expenditure incurred on subsidies due to the enterprises in the power sector, whether paid or not, shall be treated as expenditure by the state government. This introduces transparency in borrowings and expenditure of the government.
- The act also ensures that government shall present before the State Legislative Assembly in each financial year, the medium term fiscal policy statement along with the annual budget. This will include an assessment of sustainability relating to balance between revenue receipts and expenditure, use of capital receipts and market borrowings for generating productive assets, fiscal performance of the state and future prospects for growth.
- For ensuring that the government adheres to the programme, the act provides for corrective measures that are automatically to be undertaken once the actual deficits show signs of exceeding their targeted value in any year.
- The act protects against election year opportunism as it carries a specific ban on fiscal sops 6 months before elections.

Trends in Fiscal Deficit Indicators



The fiscal deficit of the State increased from ₹ 2,654 crores in 2005-06 in to ₹ 6,170 crores in 2009-10 with inter year variations. It was mainly met from market borrowings ₹ 4,361 crore, special securities issued to NSSF ₹ 1,004 crores and small savings, provident funds etc., ₹ 849 crores. Special securities issued to NSSF and the small savings, provident funds etc. increased by 571.36 and 17.92 per cent respectively in the current year over the previous year, whereas the net market borrowing decreased by 6.11 per cent over the previous year.

High ratio of fiscal liabilities to GSDP: The fiscal liabilities of the Government has been on the rise and it increased from ₹ 51,364 crores in 2005-06 to ₹ 67,971 crores in 2009-10. The ratio of fiscal liabilities to GSDP stood at 35.33 per cent in 2009-10 against the norm of 28 per cent targeted to be achieved by 2009-10 as per the Punjab Fiscal Responsibility and Budget Management (FRBM) Act, 2003. The Thirteenth Finance Commission has further recommended that by 2014-15 all States should bring down the fiscal liabilities to 25 per cent of GSDP. *Therefore, the State Government should set in place a strategy to limit the quantum of fiscal liabilities in the next five years.*

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Chapter 22

Rajasthan FRBM Act, 2005

With an area of 3,42,239 sq kms., Rajasthan accounts for 10.4 per cent of the total geographical area of the country and 5.5 per cent of national population (Census, 2001). The west and north-west part of the State comprising of twelve Districts having about 61 per cent of the total area of the State is either desert or semi-desert and is known as the Great Indian Desert, “Thar”.

In simple terms, the Gross Domestic Product (GDP) is the combined monetary value of all the finally produced goods and rendered services within an economy in an accounting year. To take into account the structural changes of an economy and to present the true picture of the economy, the ‘Base Year’ of macro economic aggregates needs constant revision so that all kinds of economic activities get included in the GDP calculation. In a followup of the guidelines of National Accounts Division, The Ministry of Statistics and Programme Implementation, the base year of Gross State Domestic Product (GSDP) estimates has been shifted from 1999-2000 to 2004-05.

The year-wise estimates of gross/net state Domestic Product (GSDP/NSDP) and Per Capita Income (on NSDP) since the 2006-07 at current prices are as under:

Year	Current Prices		
	GSDP (₹crore)	NSDP (₹crore)	PCI (₹)
2006-07	1,71,043	1,51,428	24,055
2007-08	1,94,822	1,72,250	26,882
2008-09 P	2,25,254	1,99,457	30,592
2009-10 Q	2,55,295	2,25,730	34,042
2010-11 A	3,03,358	2,69,381	39,967

P-Provisional Q-Quick A-Advance

Source: Rajasthan Economic Review 2010-11

Fiscal Responsibility and Budget Management (FRBM) Act, 2005

The State Government has enacted the Rajasthan Fiscal Responsibility and Budget Management (FRBM) Act, 2005 to ensure prudence in fiscal management and to maintain fiscal stability in the State. The objectives of the Act are to improve the fiscal position and to bring fiscal stability, the Act envisages progressive elimination of revenue deficit, reduction in fiscal deficit and prudent debt management consistent with fiscal sustainability, to ensure fiscal prudence the Act also provides for greater fiscal transparency in fiscal operations of the Government and conduct of fiscal policy in a medium term framework and matters connected therewith or thereto; to give effect to the fiscal management principles as laid down in the Act, and/or the rules framed thereunder prescribed the following fiscal targets for the State Government :

- Reduce revenue deficit to zero within a period of four financial years beginning 1st day of April 2005 and ending on the 31st day of March, 2009 by following a path of average annual reduction of three per cent in the ratio of revenue deficit to revenue receipt.
- Reduce fiscal deficit to three per cent of the estimated Gross State Domestic Product (GSDP) by following a path of minimum average annual reduction of 0.4 per cent in the ratio of fiscal deficit to GSDP; (Considering the overall slowdown in the economy, the Government of India (GoI) has allowed the States to increase their fiscal deficit to as much as to 4.0 per cent to their GSDP)
- Ensure that total outstanding debt, excluding public account and risk weighted outstanding guarantees in a year shall not exceed twice the estimated receipts in the Consolidated Fund of the State at the close of the financial year.
- Require to bring out annual statement giving prospects for the State economy and related fiscal strategy.

The State Government has developed its own Fiscal Correction Path (FCP) indicating the milestones of outcome indicators with target dates of implementation during the period from 2004-05 to 2009-10 keeping in view the fiscal targets laid down in the FRBM Act and/or the rules made thereunder.

Fiscal Management

With continuous efforts coupled with appropriate measures in previous years, the Government succeeded in eliminating revenue deficit during 2006-07, building up revenue surplus and containing fiscal deficit to three percent, two years ahead of the target date fixed by Fiscal Responsibility and Budget Management (FRBM) Act, 2005. With a view to increasing the public expenditure, Government of India relaxed the norms for fiscal deficit, and it was to be contained at 3.5 per cent in the year 2008-09 and 4.0 per cent in 2009-10. In addition, the Debt Consolidation and Relief Facility (DCRF) requirement of elimination of revenue deficit was also relaxed by the Government of India for the years 2008-09 and 2009-10.

The performance of the State during 2009-10 in terms of key fiscal targets as laid down in the FRBM Act, 2005 is as under :-

Fiscal Variables	**TFC/ FRBM Act**	**FCP**	**MTFPS**	**Actual**
Revenue Deficits (-)/ Surplus (+) (₹ in crore)	0.00 (31.3.2010)	959.05	(-)3992.87	(-) 4747
Revenue Deficits/ Revenue Receipts ratio (in percent)	0.00 (31.3.2010)	2.98	(-)10.73	(-) 13.42
Fiscal Deficit (₹ in crore)	-	(-)5957.08	(-)9900.12	(-)10299
FD/GSDP Ratio	4.0% or Below (2009-10)	3%	3.50%	(-)4.03%
Ratio of outstanding public debt and outstanding risk weighted guarantee to total receipts of Consolidated Fund of the State (in %)	Not to exceed 200%	-	165%	155%

(TFC - Twelfth Finance Commission, FCP - Fiscal Correction Path, MTFPS - Medium Term Fiscal Policy Statement)

Trends in deficit: - The fiscal deficit, which represents the need of total borrowings of the State was Rs.10,299 crores in 2009-10 in place of ₹ 9,900.12 crores assumed in Revised Estimates 2009-10. The Fiscal Deficit to Gross State Domestic Product ratio remained 4.03% in 2009-10, in place of 3.9% which was estimated in Revised Estimates of 2009-10. The ratio of revenue deficit to fiscal deficit indicates the extent to which borrowed funds were used for current consumption. However, owing to global economic slow down and implementation of sixth Pay Commission recommendations, the gains made in 2006-07 and 2007-08 were negated and the State had to suffer revenue deficit of ₹ 827 crores and ₹ 4,747 crores in the years 2008-

09 and 2009-10 respectively. Global economic meltdown adversely affected the revenues of the State Government. Implementation of recommendations of sixth Pay Commission also resulted in a substantial increase in non plan expenditure, particularly on salary and pension.

As a result of achieving FRBM targets, the State Government has been receiving debt relief of ₹ 308.70 crores from Government of India every year, commencing from the year 2005-06. The debt relief has been received upto the year 2007-08. The Government of India has recovered the debt relief granted for the year 2008-09 due to (i) using estimates of figures of GSDP calculated at their level (ii) by not considering the receipt of ₹ 308.70 crores as a revenue receipts, and (iii) not taking into account the figures of GSDP published by Central Statistical Organisation (CSO) for the year 2008-09.

Following are the significant changes during 2009-10 over the previous year :

- Revenue receipts grew by 5.7 per cent over the previous year. The increase was mainly contributed by tax revenue, non-tax revenue and State's share of Union taxes and duties. The revenue receipts were 10 per cent higher than the assessment made by the State Government in its FCP (₹ 32,153 crores) but 8 per cent lower than the MTFPS (₹ 38,268 crores) for the year 2009-10.
- Revenue expenditure increased by 17 per cent over the previous year. The increase was mainly under General Education, Pensions and Other Retirement Benefits, Interest Payments, Police, Other Rural Development Programmes, Medical and Public Health and Water Supply and Sanitation. The revenue expenditure exceeded the assessments made by the State Government both in its FCP (₹ 31,194 crores) and MTFPS (₹ 39,677 crores) for the year 2009-10.
- Capital Expenditure decreased by 12.3 per cent over the previous year. The decrease was mainly under Rajasthan State Investment Fund, Water Supply and Sanitation and Urban Development. During 2007-08, the State Government has transferred Rs.900 crores from the Consolidated Fund of the State (Capital outlay on Other Fiscal Services) to Rajasthan State Investment Fund (Public Account of the State), whereas the State Government during 2008-09 and 2009-10 transferred ₹ 212 crores and ₹ 688 crores respectively from the Rajasthan State Investment Fund to Capital outlay on Other Fiscal Services (Consolidated Fund of the State) to meet the liabilities arising due to arrears of Sixth Pay Commission and the impact of continuous recession on the State Fiscal position. During 2009-10, no expenditure was incurred under the Head Capital outlay on Other

Fiscal Services. The Capital expenditure was lower than the assessment made by the State Government both in its FCP (₹ 6,558 crores) and MTFPS (₹ 6,864 crores) for the year 2009-10.

- The recovery of loans and advances increased by 25.8 per cent and its disbursement increased by 46.5 per cent over the previous year. Thus, net loans given increased by 53.8 per cent over 2008-09.
- Public Debt receipts and repayments increased by ₹ 1,319 crores respectively over the previous year. Thus, net receipts increased during the year by ₹ 807 crores.
- Public Account receipts and disbursements increased by ₹ 15,777 crores) and Rss. 15,935 crores respectively over the previous year. Thus, net receipts decreased during the year by ₹ 158 crores. During 2009-10, the State Government transferred ₹ 1,539 crores (Rajasthan Development Poverty Alleviation Fund : ₹ 851 crores and Rajasthan State Investment Fund : ₹ 688 crores from Reserve Fund (Public Account of the State) to Consolidated Fund of the State (₹ 851 crores in Miscellaneous General Services under Non-Tax Revenue and ₹ 688 crores in Capital Outlay on Other Fiscal Services).
- Cash balance of the State decreased by ₹ 2,804 crores over the previous year.

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Chapter 23

Tamil Nadu FRBM Act, 2003

The main provisions of the Tamil Nadu Fiscal Responsibility Act are:

- To reduce the ratio of fiscal deficit to Gross State Domestic Product every year by 0.25 per cent to 0.30 per cent beginning from financial year 2002-2003 with medium term goal of not being more than three per cent of fiscal deficit to Gross State Domestic Product to be attained by 31st March 2012 and adhere to it thereafter.
- The State Government shall take suitable measures to ensure greater transparency in its fiscal operations, in public interest, in the preparation of the Budget.
- The Budget and policies announced at the time of the budget, shall be consistent with objectives and targets specified in the Medium Term Fiscal Plan for the coming and future years.

Fiscal Indicators-Rolling Targets

Indicators	2007-08 Accounts	2008-09 BE	2008-09 RE	2009-10 BE	Targets for next two years	
					2010-11	2011-12
Revenue Surplus(+)/ Deficit(-) as percentage of Total Revenue Receipts (TRR)	9.57%	0.16%	0.01%	-1.76%	0.11%	0.12%
Fiscal Surplus(+)/ Deficit(-) as percentage of GSDP	-1.22%	-2.98%	-2.65%	-2.99%	-2.73%	-2.73%
Total Outstanding Liabilities* as	21.40%	22.74%	21.42%	21.61%	21.69%	21.76%

percentage of GSDP						
State's Own Tax Revenue as % of GSDP	9.80%	10.10%	9.89%	9.76%	9.63%	9.30%

* Outstanding Liabilities excluding Ways and Means Advance.

The Medium Term Fiscal Plan has also taken into the account the felt and likely impact of the economic slowdown. It recognises the fact that the when private investment is slowing down, governments need to step in by increasing public expenditure on infrastructure and social sectors which would in turn, protect the poor and boost demand in the economy and thus preserve the momentum of economic growth.

The significant changes brought about during 2008-09 as compared to the previous year are given below:

- Revenue receipts of the State increased by ₹ 7,522 crores (16 per cent) over the previous year, mainly due to increase in the State’s own tax revenue (₹ 4,065 crores) and non-tax revenue (₹ 2,408 crores).
- Revenue expenditure increased by ₹ 10,615 crores (25 per cent) over the previous year, mainly due to increase in expenditure on General Services (₹ 2,449 crores) and Social Services (₹ 5,645 crores) and Economic Services (₹ 1,890 crores).
- While the expenditure on Social Services registered an increase of 36 per cent, expenditure on Economic Services increased by 24 per cent.
- Capital expenditure on asset creation increased by ₹ 1,642 crores (22 per cent) over the previous year.
- Public Account receipts and disbursements increased by ₹ 15,492 crores (24 per cent) and ₹ 13,768 crores (21 per cent) respectively. Net receipts under Public Account increased by ₹ 1,724 crores over the previous year.
- The net impact of these transactions led to a significant increase of ₹ 4,057 crores in the cash balance at the end of the year over pervious year.

Share in Central Taxes:

Share in Central Taxes for the State has been estimated at ₹ 9096.21 crores during 2009-2010. The fall in indirect tax revenue of the Union Government due to the general economic conditions and the various tax concessions given by it to provide stimulus to the economy has led to an adverse impact on the State's share in Central Taxes. This estimate is based on the Budget Estimates of Government of India for the year 2009-2010. Budget Estimates for 2009-2010 assumes a 12.5% growth over this low receipts and the same growth is projected for 2010-2011 and 2011-2012.

State's own tax revenue:

The Tax-GSDP ratio of the State is 9.8% and is one of the highest in the country. State's Own Tax Revenue is estimated at ₹ 38,578 crores for 2009-2010. For the future years, the overall growth in the State's Own Tax Revenue has been assumed at 12.5%. The salient features of the major components of the State's Own Tax Revenue are discussed below:

a) The receipts under Commercial Taxes is estimated at ₹ 24514.33 crores in the Budget Estimates 2009-2010. This takes into consideration a growth of only 10.9% over the Revised Estimates 2008-2009. A growth rate of 12.5% has been projected for the future years.

b) State Excise Receipts has been estimated at ₹ 6565.55 crores during 2009-2010. This is 15% higher than the Revised Estimates 2008-2009. For the future years, 13% growth rate has been assumed.

c) The slow down in the real estate sector has affected the revenue from Stamp Duty. The Revised Estimates for 2008-2009 is lower than the Budget Estimates by ₹ 459.08 crores. The Budget Estimate for 2009-2010 is ₹ 5,093.99 crores which is only ₹ 205 crores more than the Budget Estimate for 2008-2009. In the future years, receipts under this head has been projected at a growth rate of 12%.

d) The receipts from Taxes on Vehicles has been projected at ₹ 1994.4 crores for the next year. For the future years, growth of 12% has been assumed.

Non-Tax Revenue

Non-Tax Revenue is estimated at ₹ 3404.27 crores in the Budget Estimates 2009-2010. The State's Own Non Tax Revenue contributes only 5.8% of Total Revenue Receipts and there is not much potential to increase this component as most of the user charges has been collected and retained by various agencies who are providing these services. Also, with a view to benefiting students, the incumbent Government has waived tuition and examination fees. The interest receipts also will show a declining trend in the coming years in view of reduced lending by the Government to various Public Sector Undertakings and Statutory Boards. Taking all these factors into consideration, Non-Tax Revenue has been projected to grow at only 5% in the future years.

Grants-in- Aid from the Union Government

Projections have been made taking into account various grants recommended by the Twelfth Finance Commission for local bodies, State specific needs, Calamity Relief Fund and Maintenance and other transfers from Union Government like compensation for loss on account of VAT. The grants accruing on account of externally aided projects sanctioned before 1.4.2005 have also been reflected in the projection for receipts under Grants in Aid. Totally, this Grants-in-Aid from the Government of India has been estimated at ₹ 7,192.66 crores in the Budget Estimates 2009-2010.

Revenue Expenditure

The revenue expenditure during 2009-2010 is estimated at ₹ 59,295.28 crores which shows a growth of 7% over Revised Estimates 2008-2009. This is mainly on account of filling up of vacant posts in various departments, additional expenditure for the implementation of new schemes of the Government and on account of higher expenditure on salaries and pensions due to Sixth Pay Commission Recommendations.

Salary and pension as a percentage of State's Own Tax Revenue will be 79% and the same as a percentage of State's Total Revenue Receipts will be 52%.

The Government will continuously monitor the sustainability of the debt stock and Medium Term Fiscal Plan envisages to keep the ratio of interest rates to Total Revenue Receipts below 15% as recommended by the Twelfth Finance Commission.

FRBM Outcomes

- The State has achieved all the targets as per FRBM Act in 2007-2008 and expect to do it in 2008-2009 also. Although the State faces a marginal revenue deficit in 2009-2010, it will achieve the overall fiscal deficit and all other targets and it is expected that the all fiscal targets will be achieved in the future years also. The Fiscal Responsibility Act will be suitably amended, if necessary.

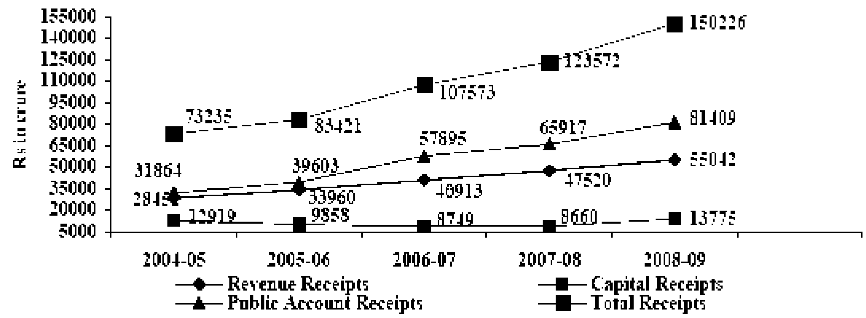
- While containing the Fiscal Deficit at below 3% level, a record capital outlay of ₹ 10,071.89 crores is provided in the Budget Estimates 2009-2010.
- The scope of social safety net has been vastly enlarged and the total outlay of social safety net has been increased to ₹ 15519.63 crores in 2009-2010.
- Provisions for maintenance of existing assets have been provided for as per the Twelfth Finance Commission recommendations. The outlays on Education, Nutrition and Health have been increased significantly. These outlays would be ensured during the future years also. The capital outlay on health and family welfare has been increased from ₹ 144.60 crores in RE 2008-09 to ₹ 531.08 crores in BE 2009-10.
- The State will achieve all the targets set under this Revised Medium Term Fiscal Plan.

Review of the fiscal situation

As per the Tamil Nadu Fiscal Responsibility Act, 2003 (FRBM Act), in line with the recommendations of the Twelfth Finance Commission (TFC), the State Government was to eliminate the revenue deficit by the end of 2007-08 and reduce the fiscal deficit to not more than three per cent of the Gross State Domestic Product (GSDP) by 2008-09. Further, the Act envisaged to cap outstanding guarantees at a level not exceeding the previous year's revenue receipts or 10 per cent of GSDP, whichever was the least.

The State has achieved and retained all the goals set in the FRBM Act. However, the surge in revenue expenditure vis-à-vis revenue receipts during 2008-09, if allowed to continue, poses a substantial threat to retention of the present fiscal situation.

Trends in Receipts

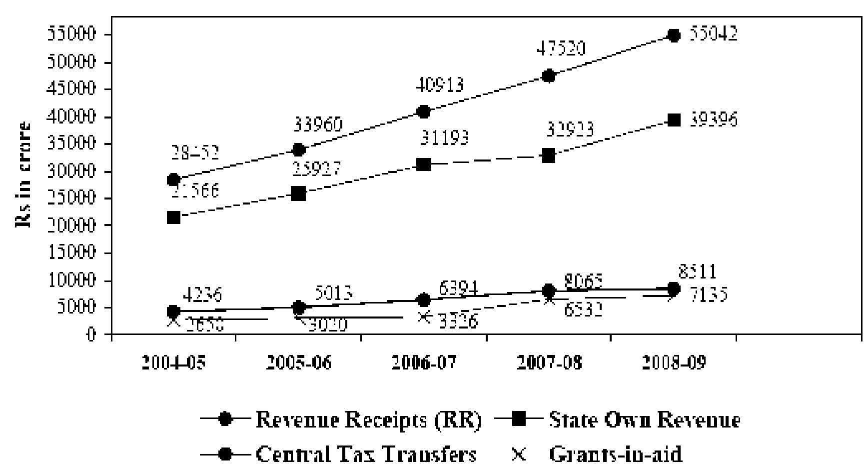


Source: http://www.cag.gov.in

The total resources of the State increased by ₹ 26,654 crores (22 per cent) over the previous year, mainly due to increase of ₹ 15,492 crores (24 per cent) in Public Account receipts and ₹ 7,522 crores (16 per cent) in revenue receipts.

The State's tax revenue increased from ₹ 29,619 crores in 2007-08 to ₹ 33,684 crores in 2008-09 (increase of 14 per cent), but the percentage of tax receipts to revenue receipts declined from 62 per cent in 2007-08 to 61 per cent in 2008-09.

Trends in Revenue Receipts

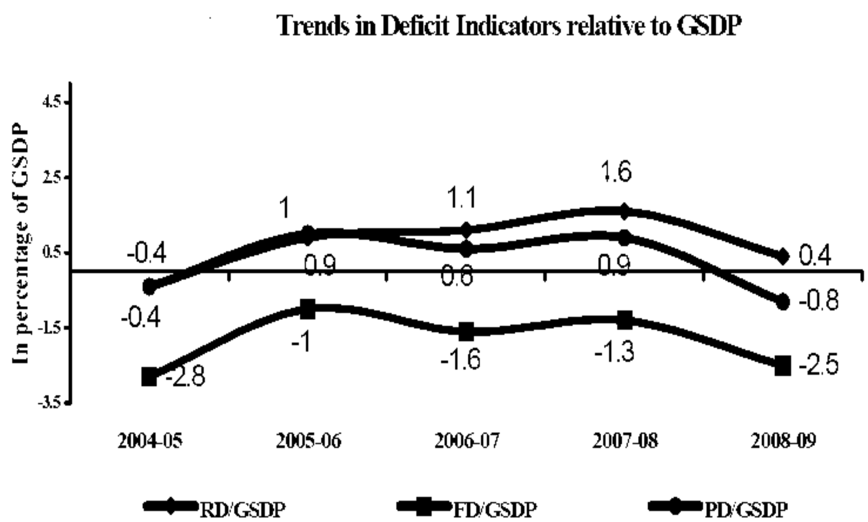


Source: http://www.cag.gov.in

The revenue receipts of the State grew by ₹ 7,522 crores over the previous year. The growth was subdued at 16 per cent as against the average annual growth of 19 per cent during 2005-08. The sluggish growth in revenue receipts was due to the overall slowdown in the economy which impacted the State's own taxes and also the State's share of Union taxes.

The increase of ₹ 7,522 crores in revenue receipts (16 per cent) did not keep pace with the increase of ₹ 10,615 crores in revenue expenditure (25 per cent).

The outstanding fiscal liabilities have shown a steady increase from ₹ 55,144 crores at the end of 2004-05 to ₹ 83,662 crores as at the end of 2008-09.



Source: http://www.cag.gov.in

The primary surplus, which prevailed during the last three continuous years, turned negative with a deficit of ₹ 2,585 crores.

• The fiscal deficit increased by ₹ 4,862 crores over 2007-08.

The fiscal deficit increased from ₹ 3,686 crores in 2007-08 to ₹ 8,548 crores in 2008-09 (132 per cent) due to decrease in the revenue surplus from ₹ 4,545 crores in 2007-08 to ₹ 1,452 in 2008-09 (68 per cent) and increase in the net capital expenditure and net loans and advances from ₹ 8,231 crores in 2007-08 to ₹ 10,000 crores in 2008-09 (21 per cent).

The percentage of revenue receipts to GSDP, which was 17 in 2007-08, came down to 16.23 in 2008-09. The excess of revenue receipts over revenue expenditure led to a revenue surplus of ₹ 1,452 crores (0.43 per cent of GSDP) as against a deficit of ₹ 9,792 crores (2.89 per cent of GSDP) envisaged in the budget.

The fiscal deficit at 2.5 per cent of GSDP during 2008-09, though within the statutory stipulation of three per cent of GSDP, increased from 1.3 per cent in 2007-08.

Recommendations

- Government may institute a mechanism for centralised monitoring of utilisation of funds released directly to State implementing agencies by the Government of India.
- Execution of large projects should be closely monitored to avoid blocking of funds in incomplete projects.
- The Government needs to tone up its cash balance management system, ensure proper planning for borrowings and curtail off-budget borrowings.

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Chapter 24

Tripura FRBM Act, 2005

Under Section 5 and 10 of The Tripura Fiscal Responsibility and Budget Management Act, 2005 Fiscal Policy Statements and Disclosures were placed at the time of presentation of Budget for the year 2009-10.

Key Highlights

With the enactment of FRBM legislation in 2005 the State has achieved revenue surplus consistently for the last four years. As far as fiscal deficit is concerned the State expected a small fiscal deficit during 2008-09 but was likely to be within 3% of GSDP. As a result of these achievements, the State got benefits of debt consolidation and relief facility from the Finance Ministry as per TFC recommendations for the year 2005-06 and 2006-07.The State also became eligible for getting benefits in 2007-08. State's own tax revenue collection has remained buoyant. Growth in 2006-07 was 15.35% and in the year 2007-08, it was 11.80% compared to the collection of the previous year. As per 2008-09 RE the growth is expected to be 18.21%. On account of receipt of share of Central taxes, higher devolution was received due to buoyant collection of Central taxes.

Fiscal Indicators-Rolling Targets

The following Table shows the select fiscal indicators for BE 2008-09 and RE 2008-09 with rolling targets for 2009-10:

	2007-08 Actuals	BE2008-09	RE2008-09	Targets for 2009-10
Revenue surplus as percent of revenue receipts	24.45%	18.35%	17.71%	15.68%
Fiscal Deficit/Surplus as percent of GSDP	-0.15%	-6.6%	-6.13%	2.83%
Total outstanding liabilities as percent of GSDP	40.54%	37.24%	37.24%	36.36%

Note: Computation made taking revised GSDP assessed taking 1999-2000 as the base

Trends in major fiscal variations *vis-à-vis* projections for 2009-10

Fiscal Parameters	Targets as prescribed in TFRBM Act	Projections made by State Government in MTFPS*	Actual
Revenue surplus	Strive to remain revenue surplus during the entire award period	15.68 *per cent* of RR	4.26 *per cent* of RR
Fiscal Deficit (-) / surplus (+)	FD to be 3 *per cent* of GSDP	(-) 2.83 *per cent* of GSDP	(-) 10.63 *per cent* of GSDP
Consolidated debt	40 *per cent* of GSDP	36.36 *per cent* of GSDP	52.98 *per cent* of GSDP
Incremental risk Guarantee	1 *per cent* of GSDP	No projections made	-

*** Medium Term Fiscal Policy Statement.**

Source: http://www.cag.gov.in

The State has achieved only one out of four TFRBM Act targets as fixed in the FRBM Act. The fiscal deficit –GSDP ratio during 2009-10 stood at 10.63% against the FRBM target of 3 % and MTFPS target of 2.83 %.The reasons for such an increase in the ratio of fiscal deficit to GSDP were attributed mainly to shortfall in collection of revenue and increase in revenue expenditure in both General and social services.

The increase in fiscal deficit during 2009-10 is fraught with the chances of being dependent on further market borrowings in order to minimize fiscal deficit. The State Government should increase revenue receipts by initiating measures like collection of arrears of revenue, reduction in cost of recovery and minimising the expenditure on collection of revenue to bridge the growing gap.

TFC recommendations *vis-à-vis the actual*

(Rupees in crore)

Year	TFC Recommendation			Actual			Shortfall (percentage)		
	Tax	Non-Tax	Total	Tax	Non-Tax	Total	Tax	Non-Tax	Total
2005-06	392.80	94.62	487.42	296.09	63.62	359.71	96.71 (25)	31.00 (33)	127.71 (26)
2006-07	444.65	113.25	557.90	341.55	94.97	436.52	103.10 (23)	18.28 (16)	121.38 (22)
2007-08	503.35	135.09	638.44	370.70	115.41	486.11	132.65 (26)	19.68 (15)	152.33 (24)
2008-09	569.79	160.89	730.68	442.50	149.04	591.54	127.29 (22)	11.85 (7)	139.14 (19)
2009-10	645.00	191.57	836.57	527.01	125.40	652.51	117.99 (18)	66.17 (35)	184.06 (22)

Source: Twelfth Finance Commission Report and Finance Accounts.

The State could not achieve the targets fixed by the TFC in the collection of revenue from own sources both in TAX and non-tax sectors. Though the trend in collection was gradually increasing, there was shortfall of about 22% at the end of 2009-10. A major shortfall in respect of Non-Tax revenue (35%) was noticed during 2009-10, the reason for which was attributed mainly to shortfall in collection of non-tax revenue in general services which fell short by 39% over its budget estimate.

Growth and composition of GSDP

GSDP , a major fiscal indicator is considered to be a key factor for assessing the performance of the State's economy. During 2009-10, the advance estimated GSDP for the state of Tripura was ₹ 10,905 crores , which are arrived at on the basis of constant price. The table below shows the trend of growth of GSDP for last five years.

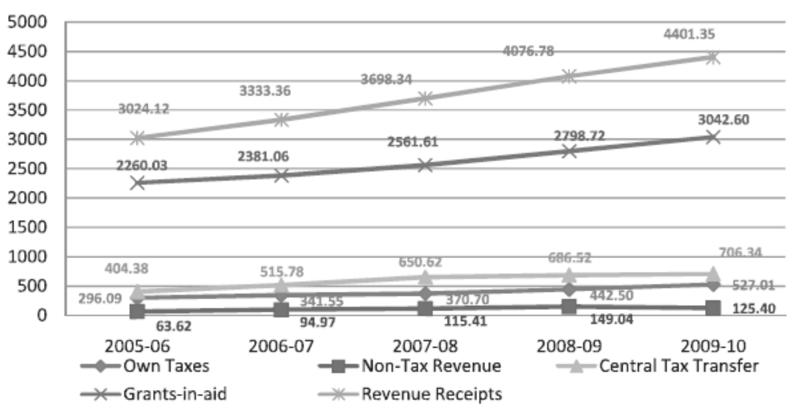
GSDP and the rate of growth during 2005-10

	2005-06	2006-07	2007-08	2008-09	2009-10
GSDP	7,296.61	7,888.98(P)	8,521.68(P)	10,008.26 (A)	10,905.00 (A)
ROG	9.90	8.11	8.02	17.44	8.96

(P) – Provisional, (A)– Advance Estimates

Though the average compounded annual growth rate of GSDP in respect of Tripura (1999-2000 to 2008-09) is 10.95% which is just around the NE average of 11.97% yet the state ranks sixth amongst the other NE States.

Trends in Revenue Receipts



Source: http://www.cag.gov.in

Though the average compounded annual growth rate of revenue receipts for NE States between 1999-2000 and 2008-09 was 14.10% which was higher than that of Tripura (12.27%), Tripura lies far behind amongst the other NE GSDP in absolute value during 2008-09 and 2009-10.

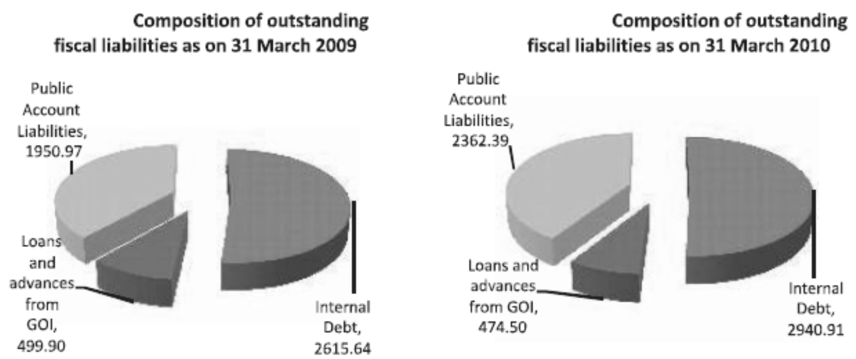
The trends in revenue receipts relative to GSDP are given below-

Trends in Revenue Receipts relative to GSDP					
	2005-06	2006-07	2007-08	2008-09	2009-10
Revenue Receipts (RR) *(Rupees in crore)*	3,024.12	3,333.36	3,698.34	4,076.78	4,401.35
Rate of growth of Revenue Receipts (*per cent*)	17	10	11	10	8
Revenue Receipts / GSDP (*per cent*)	41.44	42.25	43.40	40.73	40.36
Buoyancy Ratios[7]					
State's Own Tax Buoyancy with respect to GSDP	2.38	1.89	1.06	1.11	2.13

Source: http://www.cag.gov.in

Though the State's Own Tax Buoyancy with respect to GSDP has increased from 1.11% in 2008-09 to 2.13 % in 2009-10, it does not reveal a healthy fiscal state for Tripura as the rate of growth of revnue receipts during 2009-10 has declined to 8% from 10% during 2008-09.Though the current growth rate of GSDP (9%) is less than the previous year (17%), the growth of GSDP during 2009-10 was attributed to increase in sectors like agriculture , industries and service sectors by 6.33%, 7.05% and 12.10% respectively.

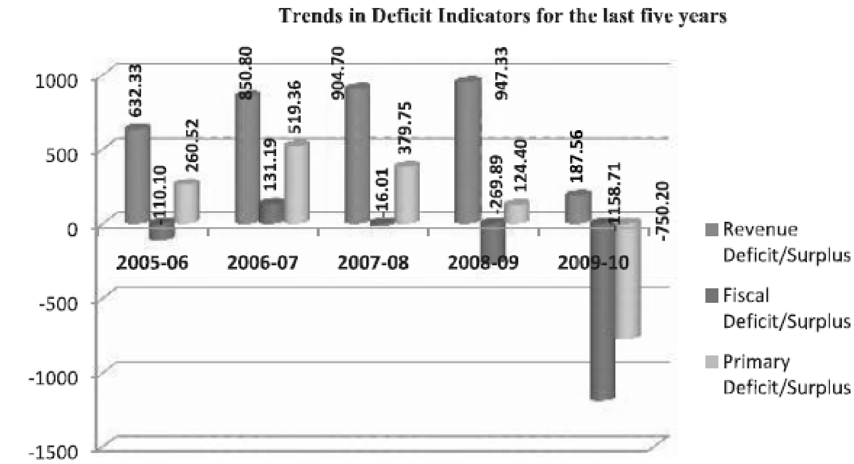
Composition of outstanding fiscal liabilities



Source: http://www.cag.gov.in

The outstanding fiscal liabilities of the State as on 31st March 2010 was ₹ 5,777.80 crores against the liabilities of ₹ 5,066.51 crores as on 1st April 2009 with an increase of ₹ 711.29 crores (14.04%) during the period.

Trends in Deficit



Source: http://www.cag.gov.in

Upon recommendations of TFC as well as the TFRBM Act 2005 enacted by the Govt., the State received more Central grants and debt wavier relief. The balance from current revenue stands at negative ₹ 769.32 crores against ₹ 142.95 crores in 2008-09.

To sum up :

- Revenue receipts grew by 8% during 2009-10 mainly due to increase in tax revenue by 19.10%, Central tax transfer by 2.89% and grants from GOI by 8%. However, the non-tax revenue decreased by 15.865 during 2009-10.
- Revenue expenditure increased by 35% during 2009-10 over the previous year mainly due to increase in General Services by 38.79%.
- During 2009-10 the State has continued to remain revenue surplus which as percentage to revenue receipts stood at 4.26%.
- Capital expenditure increased by 10.80 % over the previous year.

Recommendations

- The State Govt. should mobilize additional resources both through tax and non-tax sources by expanding the tax base and rationalizing the user charges. It should make efforts to collect revenue arrears.
- A monitoring agency should be put in place to ensure effective budgetary system and keep a vigil on how prudently the Govt. money

are being utilised so that value for money is chanelized in its entirety to the intended beneficiaries.

- There is a reasonable prospect of returning back to a fiscal correction path if efforts are made to increase tax compliance, reduce tax collection costs, collection of revenue arrears and prune unproductive expenditure so that deficits are contained.
- To lay more emphasis on provision of expending more under social and economic sectors.
- A proper debt management taken up by the State Government through advance planning could reduce the need for holding further cash surplus.
- A performance based system of accountability should be put in place in the Government Companies/Statutory Corporations so as to derive profitability and improve efficiency in service.
- The State should make efforts to return to primary surplus and continue to be revenue surplus.
- Raising the ratio of State's own tax and non-tax revenue to GSDP would be a possible way of creating fiscal space.

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Chapter 25
Uttarakhand FRBM Act, 2005

Uttarakhand is a Special Category State because of its mountainous terrain, due to which there are higher infrastructure and transaction costs, as well as higher costs of governance. Despite this, the State has seen considerable economic growth in the past decade and the compound annual growth rate of its Gross State Domestic Product (GSDP) for the period 2001-02 to 2009-10 has been over 17 *per cent*. This is much higher than GSDP growth for Himachal Pradesh which also being another special category State is in many ways comparable to Uttarakhand. Compared to Himachal Pradesh however, Uttarakhand has a much higher poverty level, lower literacy level and higher growth of population. This means that special privileges are given to Uttarakhand, including financial assistance from the Centre in the ratio 90% grant and 10% loan, unlike non-special category states which get 70% grant and 30% loan.

Key Financial Indicators

- Revenue Receipts were short by 13% in 2009-10 due to less receipt under Non tax Revenue. The State Government, in its Mid Term Policy Statement attributed the shortfall revenue collection to the recession in the economy and financial burden that arose by ₹ 2,500 crores after the implementation of Sixth Pay Commission recommendations.
- Capital Expenditure in 2009-10 remained unutilized to the extent of 16%, due to less disbursement under education, rural development and irrigation sector.
- Over the last 5 years, the budget projections for Revenue Deficit and Fiscal Deficit have not been achieved. The State could not achieve the fiscal deficit target of 4% of Gross State Domestic Product as prescribed in the Fiscal Responsibility and Budgetary Management Act, 2005 for the year 2009-10 which stood at 5.94%.

Key Financial Indicators for Uttarakhand

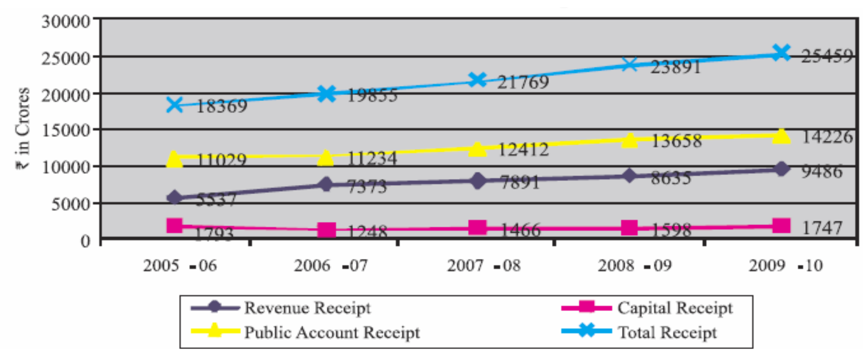
All figures in Rs. Crore	2005-06	2006-07	2007-08	2008-09	2009-10
Revenue Receipts	5,537	7,373	7,891	8,635	9,486
Revenue Expenditure	5,610	6,476	7,254	8,394	10,567
Revenue Deficit	-73	897	637	241	-1,081
Capital Accounts Receipts	1,793	1,248	1,466	1,598	1,747
Capital Expenditure	1,705	1,699	2,235	2,016	1,647
Fiscal Deficit	-1,878	-885	-1,744	-1,843	-2,783

Source: Association for Democratic Reforms

Resources of the State

Revenue and capital are the two streams of receipts that constitute the resources of the State Government. Revenue receipts consist of tax revenue, non-tax revenue, State's share of Union taxes and duties and grants-in-aid from the Government of India (GOI). Capital receipts comprise miscellaneous capital receipts such as proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources (market loans, borrowings from financial Institutions/commercial banks) and loans and advances from GOI as well as accruals from Public Account.

Trends in Receipts



Source: http://www.cag.gov.in

The total receipts of the Government grew from ₹ 18,369 crores in 2005-06 to ₹ 25,459 crores in 2009-10 (39 per cent). Of the receipts of ₹ 25,459 crores in 2009-10, receipts of ₹ 14,226 crores came from the Public Account (56 per cent). Revenue receipts were ₹ 9,486 crores (37 per cent) and Capital receipts of ₹ 1,747 crores (seven per cent) came from borrowings.

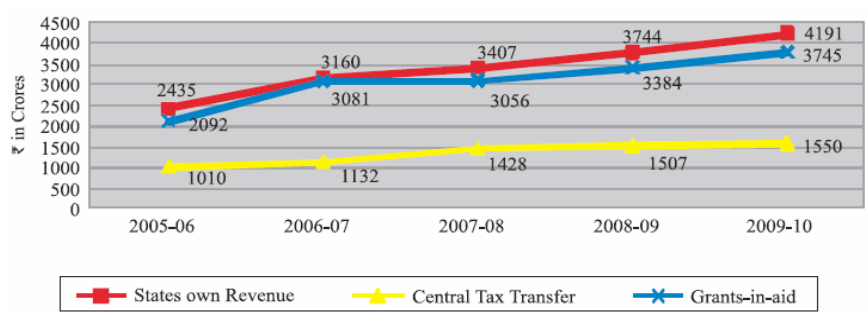
Trends in Public Account receipts

- Receipts under Small Savings, Provident Fund etc increased by ₹ 554 crores over the previous year mainly because 70 *per cent* of arrears of Pay and Allowances drawn in favor of State Government employees as 2nd Installment was credited to the Provident Fund Account.
- Reserve funds declined during the year by 69 *per cent*. However, deposits increased by 27 *per cent*. *The State Government investment in sinking fund for amortization of internal debt was less than the normative figure prescribed under FRBM Act, 2005 resulting in reduction of receipts under reserve funds by ₹ 117 crores.*
- Suspense and miscellaneous receipts increased by 20 *per cent* mainly due to increase under the suspense head for cheques and bills. This suspense head is credited while issuing the cheques and is cleared on receipt of information from the bank regarding encashment of cheques. The increase was offset by clearance of previous year's balances under this suspense head, leaving a debit balance of ₹ 722 crores.

Revenue Receipts

The revenue receipts consist of its own tax and non tax revenues, central tax transfers and grant in aid from GOI. The trends and composition of revenue receipts over the period 2005-06 to 2009-10 are presented in given below:

Trends in Revenue Receipts



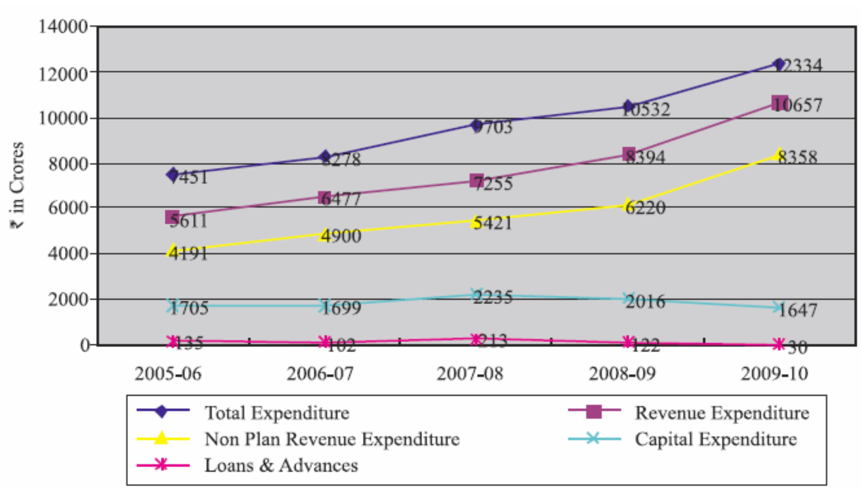
Source: http://www.cag.gov.in

The revenue receipts have shown a constant increase over the period 2005-06 to 2009-10. It increased from ₹ 5537 crores in 2005-06 to ₹ 9486 ccrores in 2009-10 at an average rate of 19%.

Application of Resources

Within the framework of fiscal responsibility legislations, there are budgetary constraints in raising public expenditure financed by deficit or borrowings. It is, therefore, important to ensure that the ongoing fiscal correction and consolidation process at the State level is not at the cost of expenditure, especially expenditure directed towards development and social sectors. Trend and composition of expenditure is given below:

Total Expenditure: Trends and Composition



Source: http://www.cag.gov.in

Expenditure of the State increased at an average rate of 16 % per annum during 2005-10. An increase of 17 per cent in total expenditure during 2009-10.

Fiscal Responsibility and Budgetary Management (FRBM) Act, 2005

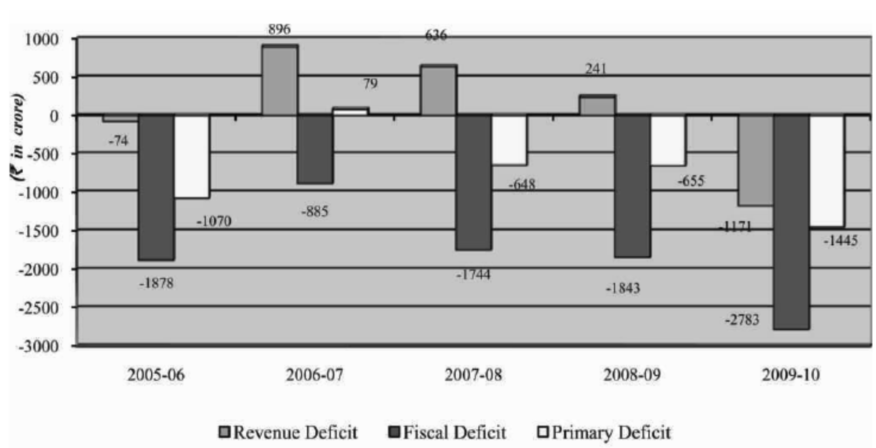
To provide for the responsibility of the State Government to ensure fiscal stability and sustainability and to enhance the scope for improving social and physical infrastructure and human development by achieving sufficient revenue surplus reducing fiscal deficit and removing impediments to the effective conduct to fiscal policy and prudent debt management through limits on State Government borrowings Government guarantees debt and deficits greater transparency in fiscal operations of the State Government and use of a medium term fiscal framework and for matters connected therewith or incidental thereto.

Fiscal Imbalances

Three key fiscal parameters - revenue, fiscal and primary deficits - indicate the extent of overall fiscal imbalances in the Finances of the State Government during a specified period. The deficit in the Government accounts represents the gap between its receipts and expenditure. The nature of deficit is an indicator of the prudence of fiscal management of the Government. Further, the ways in which the deficit is financed and the resources raised are applied are important pointers to its fiscal health. This section presents trends, nature, magnitude and the manner of financing these deficits and also the assessment of actual levels of revenue and fiscal deficits *vis-à-vis* targets set under FRBM Act/Rules for the financial year 2009-10.

Trends in deficit indicators are given below for the period 2005-06 to 2009-10

Trends in Deficits indicators



Source: http://www.cag.gov.in

Uttarakhand experienced a revenue surplus from 2006-07 to 2008-09. But 2009-10 showed a considerable revenue deficit. The fiscal deficit has been on the higher side during 2009-10 and was (5.94 % of GSDP) above the four percent as had been set forth in FRBM , Act 2005. Government had been curtailing the cpital expenditure over the years, they had not been able to control the revenue deficit which had to become zero by the end of the 2009-10 but is still hovering around 6 percent of the GSDP. Therefore in order to keep the fiscal deficit under control, the Government needs to improve its revenue collection. The State could not achieve the fiscal deficit target of 4 *per cent* (revised) of GSDP as prescribed in the FRBM Act, 2005 for the year 2009-10 which stood at 5.94 *per cent.*

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Chapter 26
West Bengal FRBM Act, 2010

The West Bengal FRBM Act came into effect in July 2010. Under the Act, it is the responsibility of the State government to ensure prudence in fiscal management and also fiscal stability by progressive elimination of revenue deficit, reduction in fiscal deficit and prudent debt management consistent with fiscal sustainability, greater transparency in fiscal operations of the State Government and conduct of fiscal policy in a medium-term framework.

As regards the FRBM targets for key fiscal indicators, the Act prescribes that the State Government shall progressively reduce the revenue deficit and achieve a balance within five years. The revenue deficit as a ratio to GSDP, targetted at 1.6 per cent in 2011- 12, is to be reduced to zero by 2014-15 and the surplus built up in the revenue account be used to discharge liabilities in excess of assets. As per the Act, the GFD-GSDP envisaged at 3.5 per cent during 2011-12 is to be reduced to 3 per cent by 2013-14.

Apart from defining the deficit indicators, the Act provides that a medium-term fiscal policy statement and a fiscal policy strategy statement (FPSS) along with the annual budget should be laid before the State Legislative Assembly. Like most other States, the Act provides for three-year rolling targets for fiscal indicators. The emphasis is on greater transparency and disclosures with regard to underlying assumptions, accounting standards, use of capital receipts, policies of the State government for taxation and expenditure for the ensuing financial year, strategic priorities, borrowing and other liabilities, lending and investment, underwriting and guarantees, and activities of State PSUs that can have budgetary implications.

The West Bengal FRBM Act states that the State Government should disclose information on (i) outstanding contractual liabilities, (ii) revenue demand raised but not realised, (iii) committed liabilities in respect of major works and supply contracts, (iv) losses incurred in providing public goods and services, and (v) off-budget borrowings and contingent liabilities created out of guarantees. As per the Act, a Public Expenditure Review Committee is to be appointed, which would prepare a review report giving a full account of each item that deviates from the fiscal target during the previous year. The State Budget has to specify the contingent measures to control the increase in deficit beyond specified levels during the coming year.

The enactment of the FRBM is a major step towards rule-based fiscal policy in West Bengal. However, the State government would need to spell out specific policies to achieve the key targets defined under the Act. Even though the Act is likely to facilitate greater transparency and disclosures, it does not prescribe any quantitative limits on outstanding debt and guarantees to be incurred by the State government. Further, with the enactment of the FRBM, the West Bengal government may benefit from recommendations made by the Thirteenth FC particularly in respect of (i) State-specific grants, (ii) extension of the Debt Consolidation and Relief Facility and (iii) interest relief on the NSSF and the write-off. The benefits under these schemes were recommended by the Thirteenth FC subject to amendment/ enactment of the FRBM by the respective States.

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