

# **New Generation Fiscal Reform Frameworks to deliver Effective Counter Cyclical Fiscal Policy: Indian and International Experience**

**Experience from the States**

# Fiscal Rules

- Discipline and Solvency context
- Effectiveness - Design
- Financial Management

# Financial Management in States

- States Risk Averse
- “ Poor ” States have unutilized fiscal space
- Implementation Related issues

### Available Resources and Plan Performance Gap in select States

		( IN RS CRS)					
SL.No	STATE	Revenue Surplus(+)/ Deficit(-)		Available Debt while maintaining 3% F.D		Expenditure Shortfall Annual Plan Outlay minus Actual Exp.	
		2009-10	2010-11	2009-10	2010-11	2009-10	2010-11
1	Assam	1,348.00	-53.00	1550.74	1288.65	976.91	761.90
2	Bihar	2,943.00	6,316.00	0.00	1415.00	1,816.49	1,282.42
3	Jharkhand	-10.00	836.00	414.00	2107.00	1,671.12	972.41
4	Madhya Pradesh	5,498.00	6,843.00	466.00	691.00	1,564.16	1,156.84
5	Maharashtra	-8,006.00	-590.00	5562.79	7443.76	8,228.35	5,339.22
6	Meghalaya	302.00	248.00	77.36	57.39	682.13	120.80
7	Odisha	1,139.00	3,908.00	2371.00	3237.00	1,772.25	894.33
8	Punjab	-6,048.00	-5,289.00	570.71	NA	3,626.22	825.63
9	Rajasthan	-4,747.00	1,055.00	87.00	528.00	-700.68	2,459.72
10	Uttar Pradesh	7,047.00	3,508.00	0.00	0.00	1,788.48	699.30
11	UttaraKhand	-1,171.00	-13.00	0.00	0.00	2,286.72	2,324.90

Source: Finance Accounts of the respective states and RBI's study of State budgets for different years.

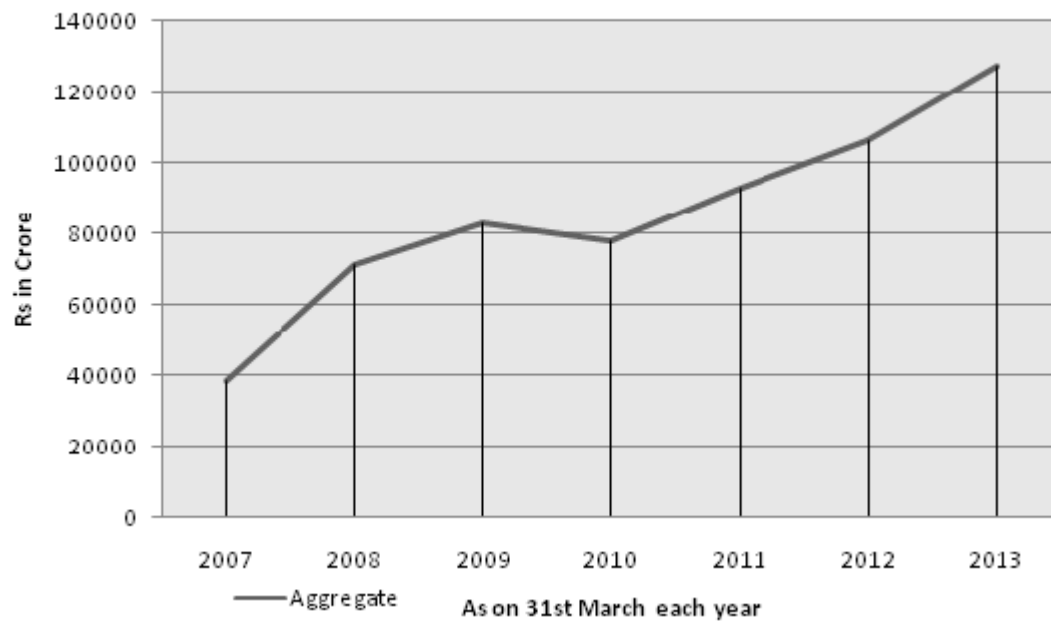
# Three Challenges

- Cash Balances
- Underfunded investment approvals
- Creative Accounting

**Table 1: Cash Balances of Select States (in ` Crs)****as on 31st March**

Sl.No	State	2007	2008	2009	2010	2011	2012	2013
1	Maharashtra	4,651	7,502	16,480	19,083	22,758	25,549	36,481
2	Uttar Pradesh	NA	15,184	9,056	3,393	10,292	13,433	15,159
3	Gujarat	5,907	9,185	8,565	6,472	9,373	13,019	NA
4	Tamil Nadu	8,394	9,491	13,806	17,027	12,975	11,834	16,253
5	Rajasthan		4,228	4,901	2,102	5,682	9,343	12,085
6	Karnataka	5,756	3,570	7,161	8,732	6,214	7,643	6,940
7	Madhya Pradesh		1,457	2,091	3,518	6,507	7,375	6,544
8	Odisha	4,417	4,985	5,320	4,419	5,142	6,418	7,318
9	Assam	2,697	3,956	8,031	6,773	5,775	5,032	NA
10	Andhra Pradesh	3,128	6,162	1,998	2,306	4,303	3,894	4,008
11	Bihar	1,198	2,071	3,239	1,811	1,868	341	2,263
	<b>Total</b>	<b>38,155</b>	<b>70,499</b>	<b>82,655</b>	<b>77,696</b>	<b>92,900</b>	<b>105,893</b>	<b>127,115 *</b>

Cash Balances held by Select State Governments



State	8-Oct	8-Dec	9-Jan	9-Feb	9-Mar	9-Apr	9-May	9-Jun	9-Jul	9-Aug	9-Sep	9-Oct
Uttar Pradesh	4,860	6,225	6,224	4,532	8,805	3,918	3,119	2,290	610	108	2,419	3,228
Maharashtra	4,500	6,501	9,048	12,542	17,313	11,518	11,481	10,744	13,068	12,131	15,092	16,082
Gujarat	4,213	5,952	6,713	8,481	7,454	5,540	5,641	5,274	6,164	6,537	7,281	7,833
Tamil Nadu	10,629	13,650	11,752	11,673	14,442	12,812	12,653	12,348	11,205	9,803	11,770	12,109
Rajasthan	2,425	3,698	2,949	3,315	5,268	3,016	2,709	2,253	1,759	1,252	1,542	2,112



**Table 2 - Availment of WMA and Overdraft from the Reserve Bank by General Category States**

State	Normal WMA			Overdraft					
	2011-12	2012-13	2013-14 #	2011-12		2012-13		2013-14#	
	Number of Days	Number of Days	Number of Days	Number of Occasions*	Number of Days	Number of Occasions*	Number of Days	Number of Occasions*	Number of Days
1	2	3	4	5	6	7	8	9	10
1. Andhra Pradesh	—	—	—	—	—	—	—	—	—
2. Bihar	—	—	—	—	—	—	—	—	—
3. Chhattisgarh	—	—	—	—	—	—	—	—	—
4. Goa	—	—	2	—	—	—	—	—	—
5. Gujarat	—	—	—	—	—	—	—	—	—
6. Haryana	22	12	1	2	6	1	5	—	—
7. Jharkhand	4	14	6	—	—	—	—	—	—
8. Karnataka	—	—	—	—	—	—	—	—	—
9. Kerala	—	—	1	—	—	—	—	—	—
10. Madhya Pradesh	—	—	—	—	—	—	—	—	—
11. Maharashtra	—	—	—	—	—	—	—	—	—
12. Odisha	—	—	—	—	—	—	—	—	—
13. Punjab	177	232	120	6	26	14	139	17	49
14. Rajasthan	—	—	—	—	—	—	—	—	—
15. Tamil Nadu	—	—	—	—	—	—	—	—	—
16. Uttar Pradesh	—	—	—	—	—	—	—	—	—
17. West Bengal	59	48	15	5	28	5	13	4	7

# : up to January 10, 2014.

\* : Refers to fresh occurrences of overdraft during the year.

Source: Reserve Bank of India : State Finances - A study of Budgets 2012-13

# Possible Approach-amend fiscal rules ?

- Define a cash balance norm ?
- Incorporate Cash balances in the RD/FD definition?
- Include in Borrowing oversight ?
- Encourage W&M Borrowing from RBI

# Underfunded Investment Approvals

Table 3. Budget Provisions / Spill over commitments of main works departments

1	2	3	4	Amount in crores		6
Sl. No.	Departments	B.E. 11-12	Spill over commitments as on 01-04-2011	Sanctions during 2011-12	Total	% Sanctions against BE
1	Irrigation Department	15000	128641	214	128856	859%
2	Transport, Roads and Buildings Department	803	3655	887	4543	565%
3	Municipal Administration and Urban Development D	3802	1073	1845	2919	76%
4	Panchayat Raj and Rural Development Department	5389	1853	5257	7110	131%
5	EFS & T	67	16	20	37	55%
	<b>Total</b>	<b>25062</b>	<b>135240</b>	<b>8225</b>	<b>143466</b>	<b>572%</b>

# Possible Approach- Amend Fiscal Rules ?

- Sum of Spill over + fresh sanctions < 3 times BE
- Scheduled works < 1.5 times budget committment

# Creative Accounting

- Liabilities – deferred or made so
- Future liabilities - Mandatory inclusion in the reporting framework – less credible than in the rules framework

# How to Address Creative Accounting ?

- Hybrid Accounting?
- Accrual on the Expenditure side
- Cash on the Revenue side

# States Performance

- Central Transfers – FC and PC
- FC – rule based
- PC- NCA rule based
- ACA- Performance based
- Spl CA- CSS – most Entitlement based ; Some discretion based
- Resurgence of grants from entitlement legislation