

# State Finances in India

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DEA/NIPFP Conference  
Goa, India

December 12 – 13, 2014



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# Questions for Discussion

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In presenting state finances in India, two questions are posed:

(1) Fiscal consolidation in Indian states: Has there been one in recent years & how was it achieved?

(2) What role has the Center (Federal Government) played in this process?

# Fiscal Adjustment in Indian States

## 1990s and 2000s

The picture that emerges...

Gross fiscal balance (in % of GDP)								
	Annual Averages				Recent Years			
	91-97	98-03	04-07	08 -12	10-11	11 -12 (RE)	12 -13 (BE)	
Gross Fiscal Balance	-2.6	-4.1	-2.3	-2.4	-2.1	-2.3	-2.1	
<u>Source:</u> Reserve Bank of India publications.								

# Fiscal Adjustment by States

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## Questions:

- How have the states managed their fiscal adjustments?
- How much of this fiscal consolidation was by curtailing spending & how much was due to increased revenue?

Purely a positive analysis by looking at numbers.

# States' Own Efforts in Fiscal Consolidation

(in % of GDP)

		Annual Averages				Recent Years		
		91-97	98-03	04-07	08-12	10-11	11-12 (RE)	12-13 (BE)
<b>1</b>	Total Expenditure*	12.1	12.1	11.9	13.2	12.5	13.5	13.9
<b>1a</b>	Revenue expenditure*	10.3	10.5	9.6	10.7	10.4	11.1	11.3
<b>1b</b>	Capital expenditure*	1.8	1.7	2.3	2.4	2.1	2.4	2.6
<b>2</b>	States own revenues	6.9	6.5	7.2	7.2	7.1	7.3	7.6
<b>2a</b>	Tax revenues	5.1	5.2	5.7	6.0	5.9	6.1	6.4
<b>2b</b>	Non-tax revenues	1.8	1.4	1.4	1.3	1.2	1.2	1.2
<b>3</b>	<b>Balance before T&amp;I**</b>	<b>-5.3</b>	<b>-5.6</b>	<b>-4.7</b>	<b>-5.9</b>	<b>-5.4</b>	<b>-6.2</b>	<b>-6.2</b>
* Less interest; ** Balance before central transfers and interest.								

# Accounting for Central Transfers & Interest

(in % of GDP)

		Annual Averages				Recent Years		
		91-97	98 -03	04 -07	08 -12	10 -11	11-12 RE	12-13 BE
3	Balance before T&I*	-5.3	-5.6	-4.7	-5.9	-5.4	-6.2	-6.2
4	Central Transfers	4.4	3.9	4.7	5.2	4.9	5.4	5.6
5	Interest	-1.8	-2.5	-2.3	-1.7	-1.6	-1.6	-1.6
6	Fiscal Balance	-2.6	-4.1	-2.3	-2.4	-2.1	-2.3	-2.1
* Balance before transfers and interest. ** Debt at end of period								

## A different picture emerges

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- ❖ It seems that fiscal adjustments by the states are more likely due to:
  - Growing transfers from the Center; and
  - Prevailing low or negative real interest rates on government debt during this period.
- ❖ Looking at those fiscal elements over which states have greater control – own expenditure and revenue – it does not appear that states have achieved a lot in fiscal consolidation through their own efforts.

# Revenue expenditures of states: What explains the rising numbers?

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Let's look at the composition of revenue expenditures



# States' Revenue Expenditure (excluding interest) (in % of total states' expenditure)

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	Total		Plan		Non-Plan	
	2004-07	2008-11	2004-07	2008-11	2004-07	2008-11
<b>Revenue expenditure</b>	<b>66.6</b>	<b>71.0</b>	<b>14.2</b>	<b>18.6</b>	52.3	52.4
<b>Development</b>	<b>46.5</b>	<b>50.5</b>	<b>13.9</b>	<b>18.0</b>	32.7	32.5
<b>Non-Development</b>	20.1	20.5	0.3	0.6	19.6	19.9

# Center's Influence in States' Expenditures

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Increase in States' Revenue Expenditure was due to:

- Higher Five-Year Plan revenue expenditure, a category over which the Centre largely determines the specific content
- Plan revenue expenditure rose from 13.9 to 18% of the total expenditure of the States
- The largest increase was in Plan revenue expenditure on social services, in particular on social security and social welfare programs, and, to a lesser extent on education, housing and urban development, and health.

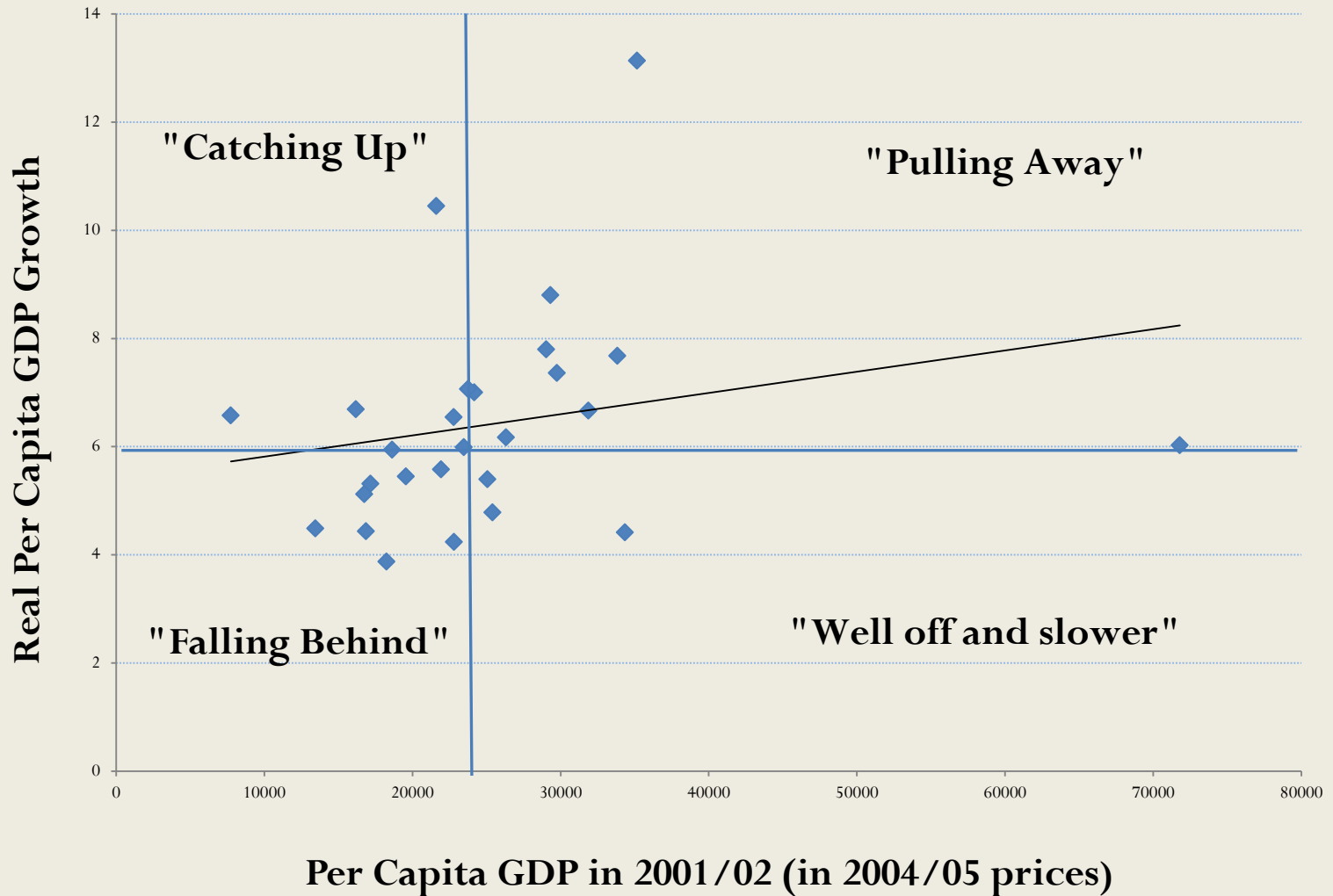
# Catching Up or Falling Behind Framework

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## A Typology of States

# 27 Indian States

## Initial Income (2001) versus Growth (2001 to 2012)



# Catching Up or Falling Behind Framework

(Sample of 17 states)

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- **“Pulling away”**

Andhra Pradesh, Gujarat, Haryana, Karnataka, Kerala, Maharashtra & Tamil Nadu.

- **“Catching up”**

Bihar, Odisha & Uttarakhand

- **“Well off and slower”**

Punjab

- **“Falling behind”**

Chhattisgarh, Jharkhand, Madhya Pradesh, Rajasthan, Uttar Pradesh & West Bengal

# Catching Up or Falling Behind Framework

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- Is there anything different about the patterns of financing and expenditure within these four broad groups of Indian states?

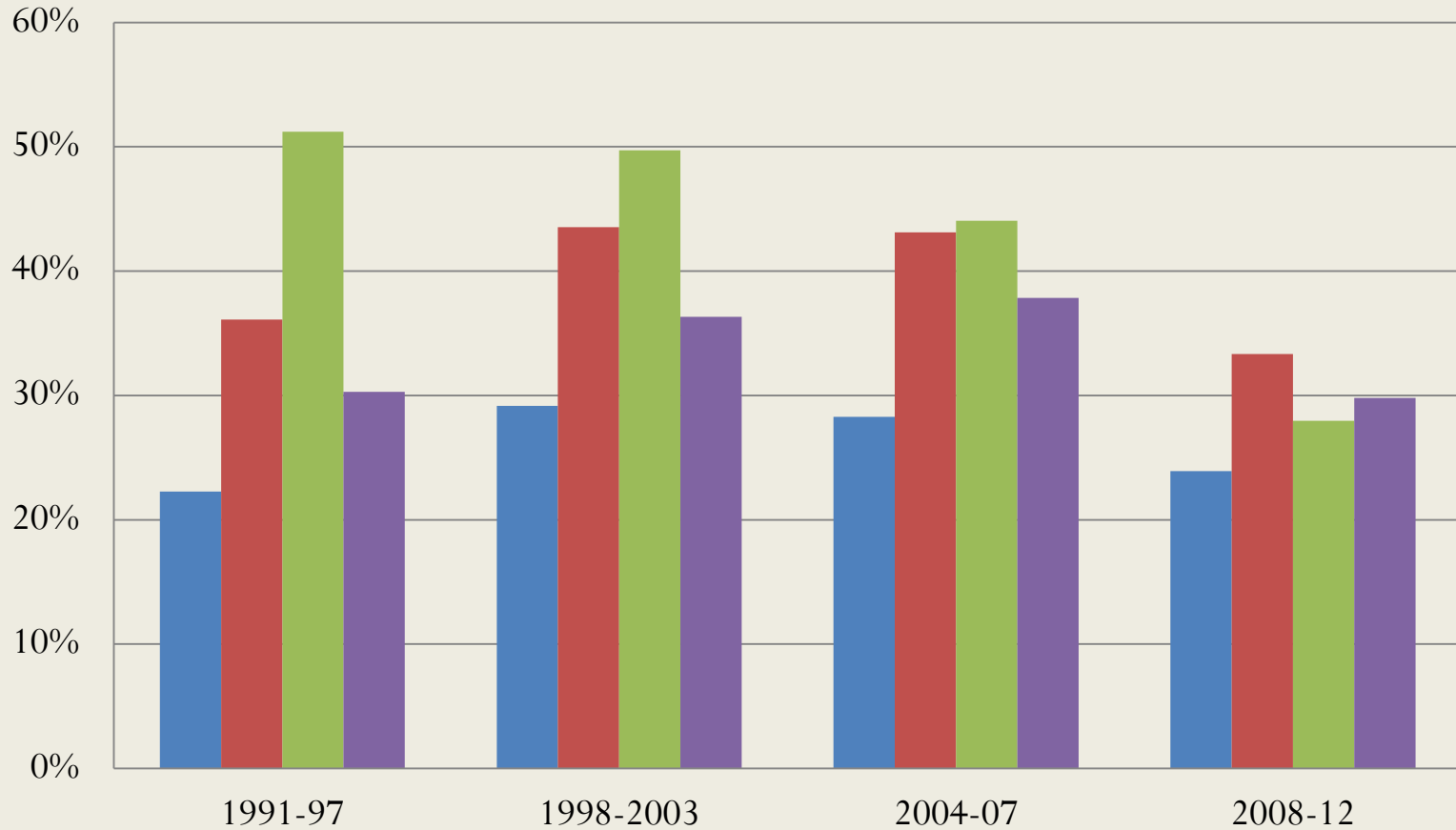
# Trend in state finances for four distinct time periods

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- **1991-97**: the national balance of payments crisis and its aftermath
- **1998-03**: a period of fiscal slippage
- **2004-07**: the implementation of the FRBM & the subsequent period of fiscal consolidation
- **2008-12**: the recent financial crisis & its aftermath.

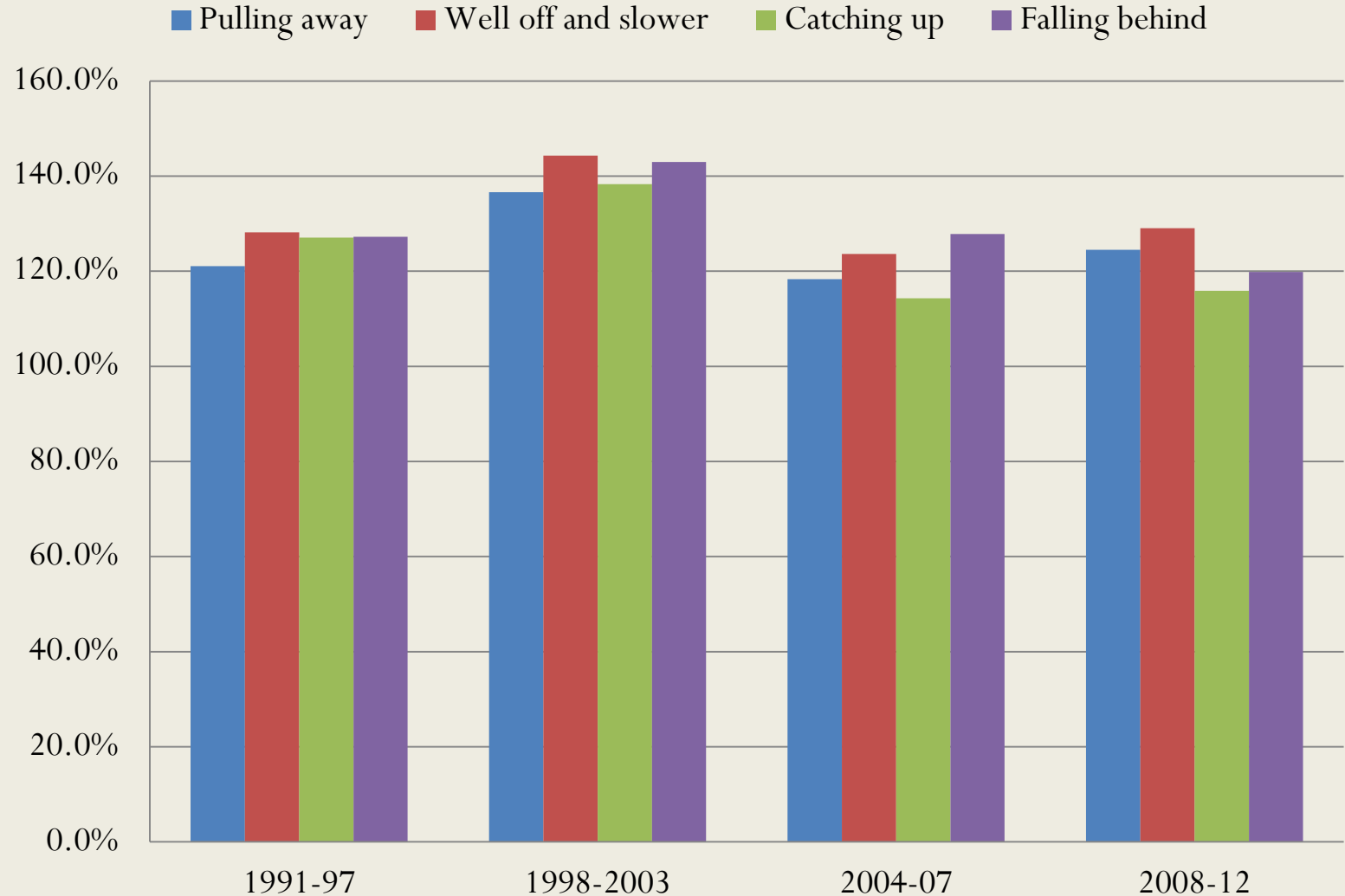
# Outstanding Liabilities / GSDP

■ Pulling away ■ Well off and slower ■ Catching up ■ Falling behind

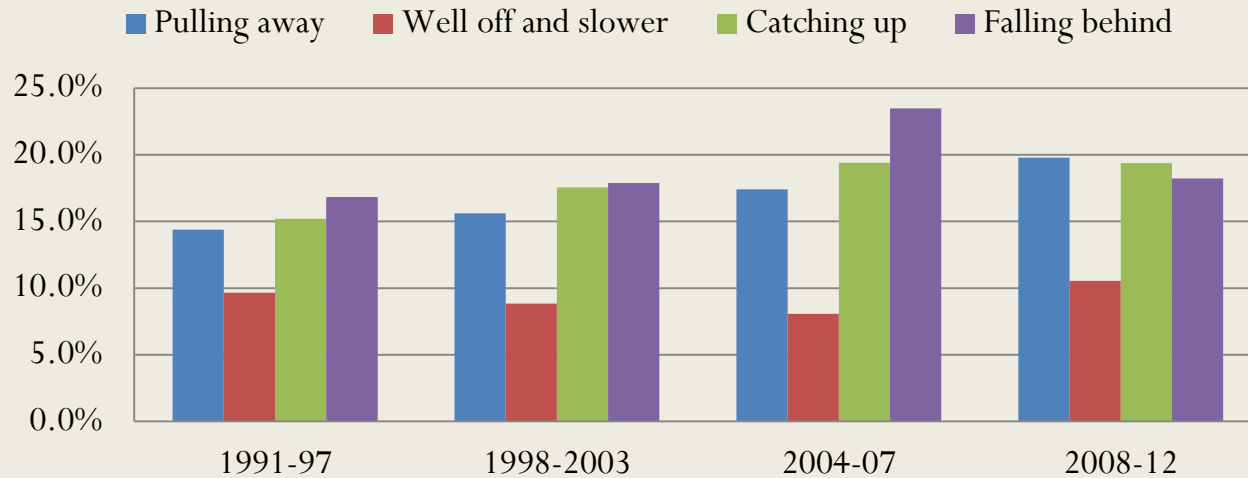




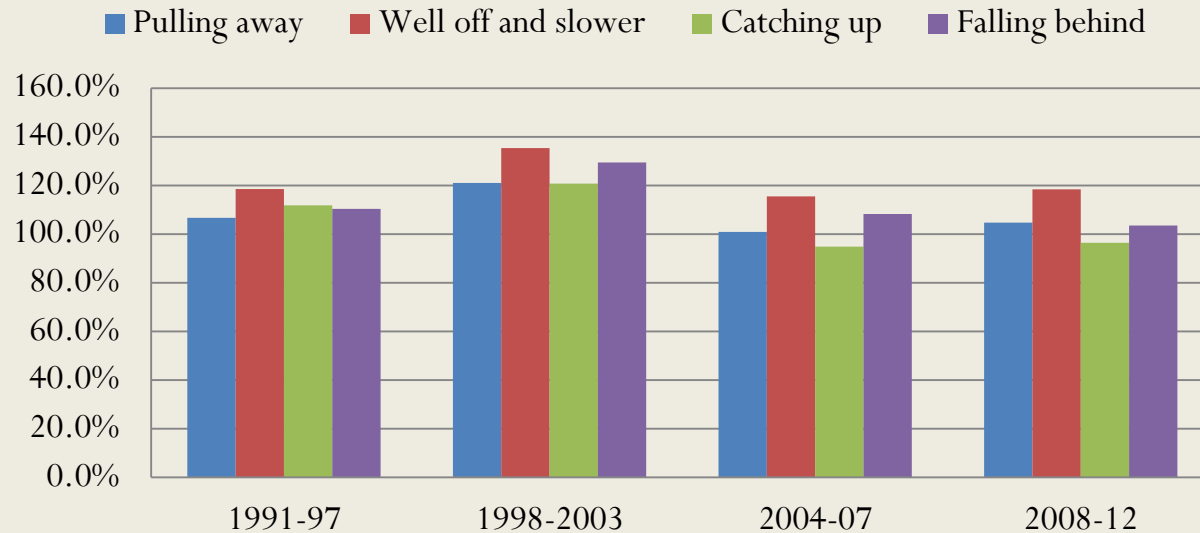
# Total Expenditure / Revenue Receipts



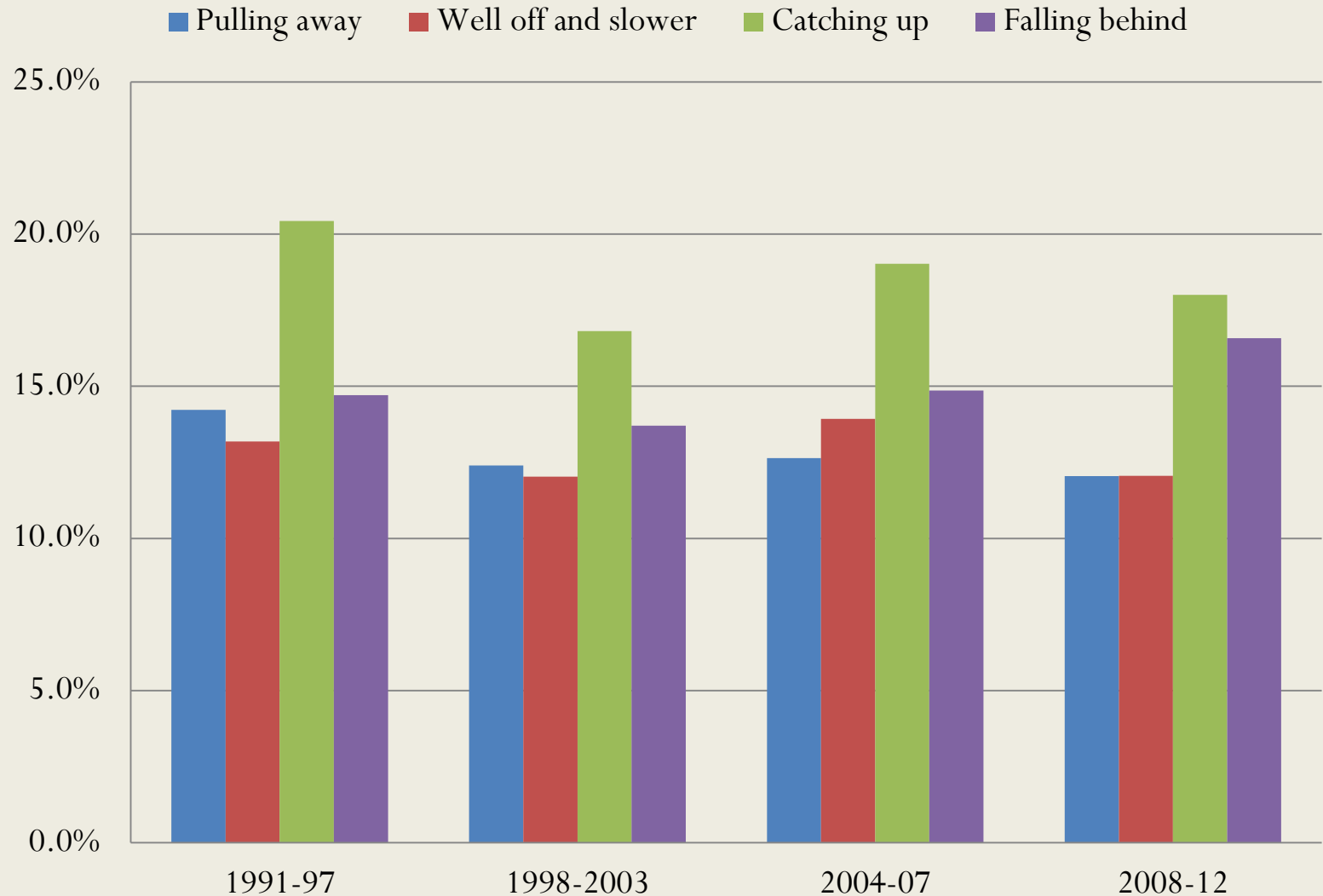
## Capital expenditure / Revenue receipts



## Revenue expenditure / Revenue receipts

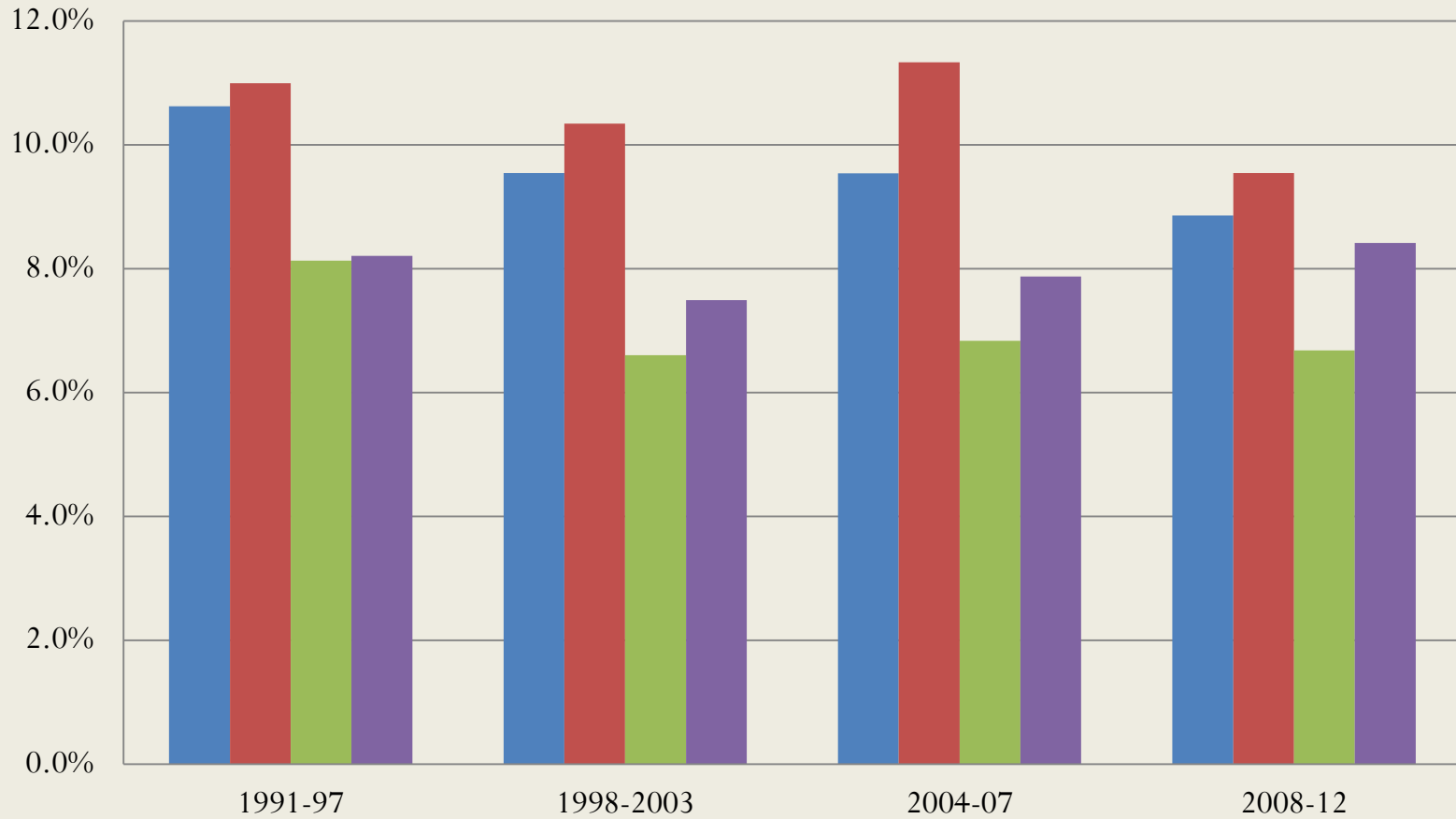


# Revenue receipts / GSDP

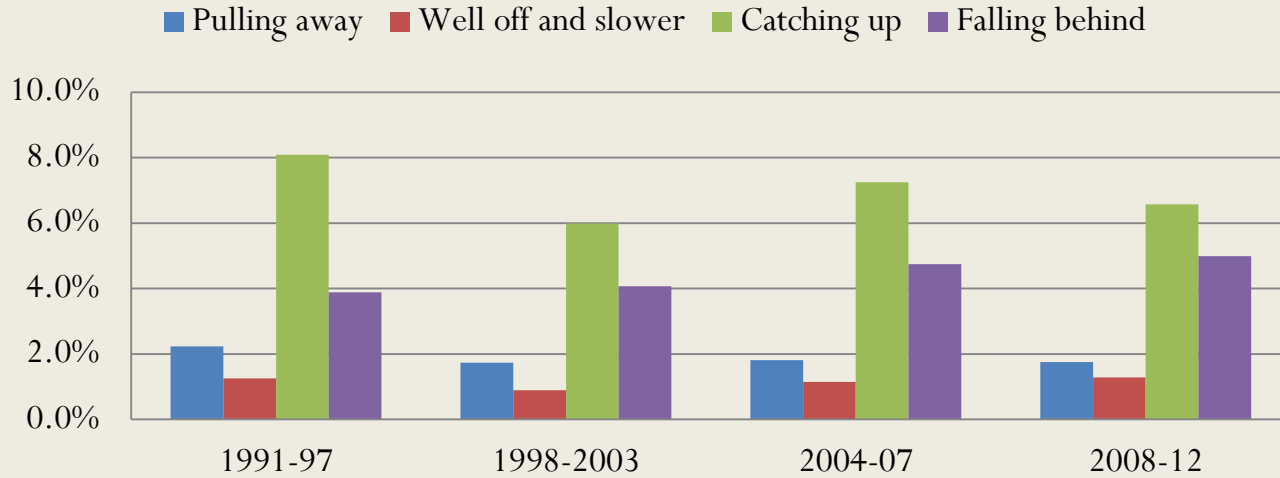


## States' own revenues / GSDP

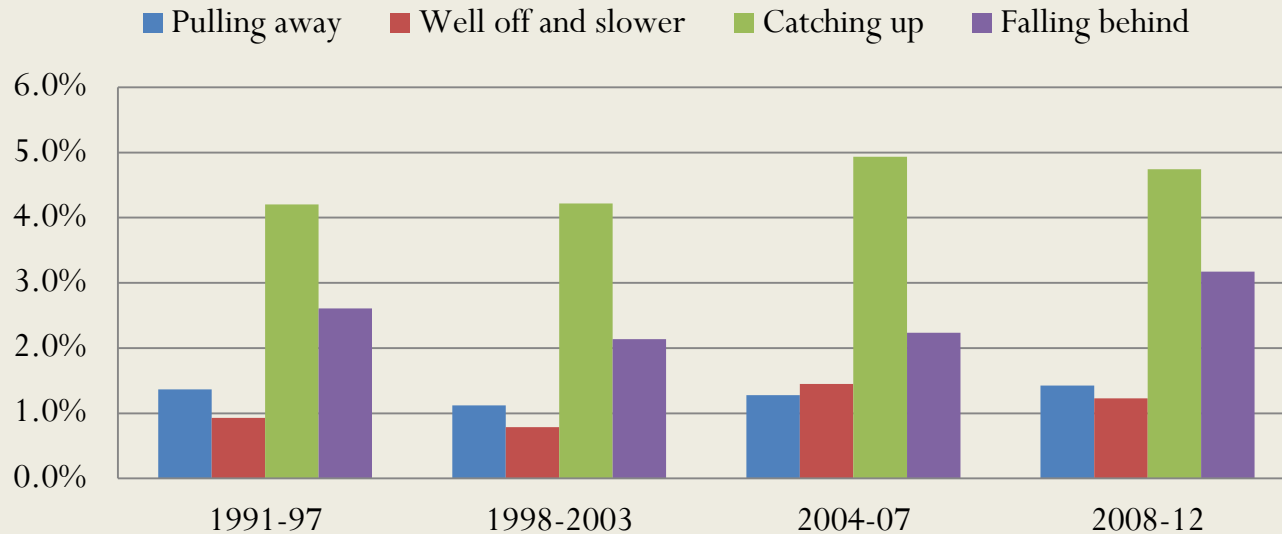
■ Pulling away   ■ Well off and slower   ■ Catching up   ■ Falling behind



## Tax: Share in central / GSDP



## Grants from the Centre / GSDP



## Concluding thoughts...

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- The single most important trend in state finances in recent years is **an increase in the influence** of the Centre relative to that of the State Government – both with regard to the allocation of spending and sources of financing
- The increase in State revenue expenditures was due to higher Five-Year Plan revenue expenditure

## Concluding thoughts (contd.)...

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- There has been a resurgence of grants from the Center to States – Grants received for Centrally Sponsored Schemes and their share of gross budgetary support has gone up from 31 to above 40 percent.
- The improvement in the States' fiscal positions since 2004 has been due less to their own adjustment efforts than to growing transfers from the Centre and to prevailing low or negative real interest rates on government debt.