

**ASSOCHAM**

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**Fiscal Position of States**

**October 2007**

## Haryana, Gujarat, TN among financially sound states, says AEP study

Haryana, Orissa, Chhatisgarh, Gujarat , Tamil Nadu and Karnataka are among the best performing states in terms of their financial health while Bihar, Jharkhand, Kerala and West Bengal need to put their house in order and cut both fiscal and revenue deficits, an Assocham Eco Pulse has shown.

Haryana had the minimum fiscal deficit of 0.6 per cent in FY07 though marginally up from 0.3 per cent in the previous year. Delhi appeared at the second position with 0.7 per cent fiscal deficit while its revenue account showed a surplus of 3.57 per cent.

Though Orissa recorded the fiscal deficit of 1.1 per cent in FY07, higher than 0.4 per cent in FY06, it managed to remain well under the three per cent figure as recommended by the 12<sup>th</sup> Finance Commission. Its revenue surplus has increased from 0.76 per cent to 0.9 per cent during the same period.

Gujarat (2.5 per cent), Chhattisgarh (2.6 per cent), Tamil Nadu (2.7 per cent) and Karnataka (2.8 per cent) are the other states which have been able to keep their expenditures in the financial year 2006-07 in line with the target of 3 per cent fiscal deficit.

But in view of the continuous high fiscal and revenue deficits witnessed by the states of Bihar, Jharkhand, Kerela and West Bengal, the financial stability of these States may become a matter of concern, the AEP study showed.

As per the AEP on 'Fiscal Position of States', the gap between the total receipts and expenditure of the state governments as measured by the 'ratio of gross fiscal deficit to gross state domestic product(GSDP)' has been widening during last two years. The AEP Study is based on the data provided from RBI, Ministry of Finance and budget documents of the States.

Bihar, which tops the chart on this count, has seen a rise in the fiscal deficit from 6.1 per cent in the financial year 2005-06 to 10.4 per cent in FY2006-07. The revenue earnings also fell short of the revenue expenses by 1.14 per cent in fiscal 07.

"There are many factors which can be attributed to the wide fiscal gap in some of the states, including growing interest payments, pension liabilities, unrestrained administrative expenditures, low growth in tax collections", said Mr. Venugopal Dhoot, President, ASSOCHAM.

Jharkhand is also facing the problem of huge fiscal deficit of 10.1 per cent in FY07, though it has recorded a marginal decline from 10.3 per cent in FY06.

Kerala is facing huge budgetary imbalances with the fiscal deficit rising from 3.5 per cent in FY06 to 6.1 per cent in FY07 and revenue deficit burgeoning to 4.36 per cent in financial year 2007 from 2.6 per cent in the previous year.

West Bengal is another state which had high fiscal of 4.5 per cent and revenue deficit of 3.2 per cent in the fiscal 07.

But the collective figures of the states present a different picture. The aggregate revenue deficit has been continuously declining in past two years from 1.2 per cent in FY05 to 0.04 per cent in FY06, the financial year 2007 witnessed revenue surplus of 0.01 per cent.

The overall gross fiscal deficit of the state governments, measured in proportion to GDP, has witnessed a marginal increase from 2.4 per cent in FY06 to 2.6 per cent in FY07.

The 12th Finance Commission has set the target for the states to achieve a revenue balance by 2008-09 and restrict fiscal deficit to 3 per cent by 2009-10. While eight states have become revenue surplus in FY2007, seven states have reduced their fiscal deficit within the limit of 3 per cent.

**Ratio of Gross Fiscal Deficit to State Domestic Product (in per cent)**

| STATES                                    | FY2005-06 | FY2006-07 (RE) |
|---|-----------|----------------|
| <b>States with lowest fiscal deficit</b>  |           |                |
| Haryana                                   | 0.3       | 0.6            |
| Delhi                                     | -0.2      | 0.7            |
| Orissa                                    | 0.4       | 1.1            |
| Gujarat                                   | 2.9       | 2.5            |
| <b>States with Maximum Fiscal Deficit</b> |           |                |
| West Bengal                               | 4.2       | 4.5            |
| Kerala                                    | 3.5       | 6.1            |
| Jharkhand                                 | 10.3      | 10.1           |
| Bihar                                     | 6.1       | 10.4           |

There are States which are showing improvement in their financial statements by reducing and reprioritizing expenditures. Andhra Pradesh reduced its fiscal deficit from 3.7 per cent in FY06 to 3.1 per cent in FY07. Madhya Pradesh witnessed the decline in the gap between total expenditure and receipts as the ratio of fiscal deficit to state GDP fell from the level of 4.2 per cent to 3.7 per cent during the same period.

States of Maharashtra and Rajasthan also registered considerable decline in fiscal deficit in the financial year 2006-07. In Maharashtra, the deficit proportion came down from 4.1 per cent to 3.1 per cent and in Rajasthan, the deficit reduced from 4.2 per cent in FY06 to 3.4 per cent in FY07.

The AEP stated that the challenge of bringing fiscal consolidation can be met by the State Governments by adopting measures including rationalizing assistance to State Local Bodies, universities, easing the spending process, acquiring cheaper loans for infrastructure development and capital projects.

The aggregate expenditure of the state governments has risen by 16.4 per cent in FY2006-07, though maximum rise is accounted by the revenue component of the expenses. The revenue expenditure has increased by 12.6 per cent while the developmental outlay has grown by 10 per cent in financial year 2007.