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Fiscal Consolidation in Rajasthan

Seema and Rajesh Kumar

Abstracts

After the global economic crisis in 1991, the fiscal position of the central as well as state governments of Rajasthan has worsened. The high fiscal deficit, the unproductive expenditure and tax distortion as percentage to GSDP ratio has became Questionable. To overcome these deficits and Debt Problems the center and state governments has taken some measures for improving the fiscal health of the central and state governments. This paper examines the fiscal consolidation process after adopting the Fiscal Responsibility and Budget Management (FRBM) Act of the state government of Rajasthan in 2005. The Objective of FRBM Act was to control the fiscal deficit to 3% of the Gross State Domestic Product (GSDP) and revenue deficit at Zero percent level by 2008. This paper analyses the experience of the fiscal management of Rajasthan and improvement in the fiscal situation of Rajasthan. The study is based on secondary data. The data has been taken from the reports of center for Monitoring Indian Economy (CMIE) and the RBI Database. It was concluded that up to 2007-08, under the rule based framework, the state government was able to control the fiscal deficit and debt sustainability target set under by the FRBM/FRLs.

Key Words: Fiscal Consolidation, Fiscal Deficit, FRBM, Revenue Deficit.

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Introduction

After the global economic crisis in 1991, the fiscal health of the state government of Rajasthan has worsened. As per the handbook of statistics on state governments' finances, the high fiscal deficit, the unproductive expenditure and the tax distortion as percentage to GSDP ratio has become questionable. To overcome these, the central as well as state government of Rajasthan was enacted the Fiscal Responsibility and Budget Management Act 2003, 2005. The main purpose of the FRBM was to cut down the fiscal deficit 3% of GSDP and to eliminate the revenue deficit of the state government of Rajasthan. It provides a legal institutional framework for fiscal consolidation. It is mandatory for the central as well as state governments to take measures to eliminate the fiscal deficit, to reduce the fiscal deficit and to generate the revenue surplus in the economy. Rajasthan is considered a BIMARU state. Most of its Socio-Economic Indicators are now comparable with all India figures; it can be seen from the table 1:

Table-1

Socio-Economic Indicators of Rajasthan Vis-à-vis All India

Sr. No	Socio-Economic Indicators	Rajasthan	All India	Data Source
1.	% Share of Primary sector in state Income(2002-03 to 2013-14)	17.07	11.33	CMIE Database
2.	% Share of Secondary sector in state Income(2002-03 to 2013-14)	14.2	13.8	Do
3.	% Share of Tertiary sector in state Income(2002-03 to 2013-14)	14.41	14.8	Do
4.	Per Capita Income in Rs: 2012-13	60844	67839	Planning Commission
5.	Percentage of Literacy (2011)	66.1	73.0	Census Report 2011
6.	Decadal Growth Rate of Population(2001-11)	21.34	17.69	Do
7.	Infant Mortality Rate per thousand live births (2012)	49	44	Economic Survey, GOI (2014-15)
8.	Sex Ratio(2011)	928	943	Census Report 2011

In this paper, the fiscal consolidation process of the state government of Rajasthan has been analyses under three major areas: (i) Revenue management (ii) Expenditure management (iii) Deficit and debt management after adopting the FRBM Act.

Research Methodology

The study is based on secondary data. The objectives of the study examined by covering the time period from 2003-04 to 2014-15. The data has been sourced from the reports of Center for Monitoring Indian Economy (CMIE) and the RBI study of state finances. For the purpose of analysis and logical conclusion from the data Least Square Growth Rate is calculated for the key variables of state finances.

Objectives:

The objective of this paper is to maintain fiscal stability of the state government of Rajasthan.

(i) Revenue Management

The Revenue position of the state government of Rajasthan during the study period is shown in Table 2. Total Revenue Receipts of Rajasthan have increasing trend over the period growing at a LSGR of about 17%. A major share comes from the tax Revenue. It may be highlighted that tax revenue constitutes more than 70% share in total Revenue Receipts except 2003-04. Furthermore, it can be seen that among the state taxes, vat constitutes more than 60% of total taxes, followed by state excise, stamps and registration fees and taxes on vehicles. Together these taxes constitute more than 85% of the state own receipts.

Similarly, a major share comes from the state Own-Non Tax Revenue in total Non-Tax Revenue Receipts of the state government. It is constituted around 29% during the study period. It may be emphasized that the dependency of central government has been increasing during the study period. The least square growth rate of state share in the central taxes is more than the own tax revenue of the state government.

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Table-2 Resource mobilization of Rajasthan (Rs. Lakh)

Years	1.Tax Revenue	1.1 Own Tax Revenue	1.2 Share in Central Taxes	2. Non Tax Revenue	2.1 Own Tax Revenue	2.2 Grants in Aid from Central Government	3. Total Revenue Receipts (1+2)
2003-04	10848 (70)	72461 (47)	36022 (23)	45754 (30)	2072 (13)	2504 (17)	15424 (100)
2004-05	12270 (72)	8415 (47)	4306 (25)	5043 (28)	2146 (12)	2897 (16)	17764 (100)
2005-06	15180 (73)	98802 (47)	53000 (26)	5629 (27)	2738 (13)	2921 (14)	20839 (100)
2006-07	18369 (72)	11608 (45)	6770 (27)	7224 (28)	3431 (13)	3793 (15)	25592 (100)
2007-08	21802 (71)	13275 (43)	8528 (28)	8978 (29)	4054 (13)	4924 (16)	30781 (100)
2008-09	23942 (72)	14943 (45)	8999 (27)	9527 (28)	3888 (11)	5638 (17)	333469 (100)
2009-10	25672 (73)	16414 (46)	9258 (27)	9713 (27)	4558 (13)	5154 (14)	35385 (100)
2010-11	33614 (73)	20758 (45)	12856 (28)	12314 (27)	6294 (14)	6020 (13)	45928 (100)
2011-12	39204 (70)	24227 (43)	14977 (27)	16917 (30)	8658 (15)	8258 (15)	56121 (100)
2012-13	44539 (71)	26832 (43)	17707 (28)	18608 (29)	8951 (14)	9657 (15)	63147 (100)
2013-14	52151 (70)	33478 (45)	18673 (25)	22320 (30)	13575 (18)	8745 (12)	74470 (100)
2014-15	58490 (64)	38673 (42)	19817 (22)	32837 (36)	13230 (14)	19617 (22)	91327 (100)
*LSGR	17%	16%	19%	17%	18%	16%	17%

Source: 1. State Finances: Study of State Budgets, RBI.
2. Center for Monitoring Indian Economy (CMIE).

Note: Figure in brackets represents the percentage to total Revenue Receipts.
***Least Square Growth Rate for the period from 2002-03 to 2012-13**

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(ii) Expenditure Management

Table-3

Trend and Growth of Expenditure of Government of Rajasthan (Rs. crore)

Years	1. Revenue Expenditure	Developmental Revenue Expenditure	Non-Development Revenue Expenditure	2. Capital Expenditure	3. Total Expenditure (1+2)
2003-04	18848 (25)	10400 (55.17)	8444 (44.83)	56267 (75)	75115 (100)
2004-05	19906 (24)	11253 (56.22)	8622 (43.48)	64789 (76)	84695 (100)
2005-06	21499 (19)	12677 (58.96)	8820 (41.04)	91555 (81)	113054 (100)
2006-07	24594 (20)	14597 (58.49)	10349 (41.51)	98152 (80)	123106 (100)
2007-08	29128 (18)	18189 (62.44)	10992 (37.56)	130465 (82)	159592 (100)
2008-09	34296 (17)	21320 (62.16)	12950 (37.84)	171220 (83)	205515 (100)
2009-10	40132 (18)	24466 (60.96)	15647 (39.04	188879 (82)	229011 (100)
2010-11	44873 (19)	28115 (62.65)	16738 (37.35)	190750 (81)	235623 (100)
2011-12	55678 (21)	36308 (65.21)	19075 (34.79)	206760 (79)	262438 (100)
2012-13	62219	41727	20193	152279	214508

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	(29)	(67.06)	(32.94)	(71)	(100)
2013-14	755095 (80.02)	51922 (55.17)	233392 (24.85)	185914 (19.98)	941011 (100)
2014-15	945419 (81.28)	666737 (57.32)	278681 (23.96)	217635 (18.72)	1163054 (100)
*LSGR	15%	17%	12%	15%	15%

Source: 1. State Finances: Study of State Budgets, RBI.

2. Center for Monitoring Indian Economy (CMIE).

Note: Figure in brackets represents the percentage to total Revenue Expenditure.

*** Least Square Growth Rate for the period from 2002-03 to 2012-13.**

Table 3 shows that the government expenditure has grown a lesser rate than revenues during the study period. It shows that the share of revenue expenditure in total expenditure was decline over the period except last three years. About two third part of total development expenditure spent on salaries, pension, interest payments and subsidy and in respect of merit goods like education, health, water supply and sanitation spent a negligible percentage of total expenditure. It was also emphasized that in revenue expenditure the growth of developmental expenditure is higher than the non development expenditure. Further, the non-development expenditure has been rising 12% of a LSGR, which limited the state's ability to spend more on development.

The table highlighted that capital expenditure constituted a major share in the total expenditure of the state government, which constituted more than 70% during the study period. The capital expenditure was spent on economic services for creation of physical infrastructure like road, power projects and irrigation facilities. Capital expenditure grew at a LSGR of 15% during this period.

(iii) Deficit and Debt Management

This section examines how the implementation of FRBM Act impacted the fiscal position of the state government. As shown in the Table 4, a significant improvement was seen in the fiscal indicators of state government after implementation of the FRBM Act. All the deficit indicators declined during 2003-04 to 2008-09. The state had a revenue surplus after implementing FRBM in 2006-07 to 2007-08. Fiscal deficit of the state government which was 6.54% of GSDP in 2003-04 declines to less than 3% in 2008-09. After that, it starts again increased in 2009-10 due to the implementation of the recommendations of sixth pay commission and held the election in 2009. But after disturbance in 2009-10 the 13th Finance Commission revised the roadmap for fiscal consolidation. According to this revised roadmap of fiscal consolidation the state governments have to achieve the target of 3% fiscal deficit and zero revenue deficit by 2011-12 and maintain it 2014-15. After the recommendation of 13th Finance Commission the state government achieved well and fiscal deficit of the state government which was 3.6% in 2009-10 declined to 3.3% in 2014-15. Similarly the revenue deficit eliminated again 0.67% of GSDP in 2012-13 and till 2014-15, it was completely eliminated.

As shown in the Table 5, the study indicates that the process of fiscal correction of the states has taken place through reduction in expenditure as well as rise in the revenue. The Revenue Receipts of state government as a ratio to GSDP have moved up continuously from 13.81% in 2003-04 to 15.79% in 2007-08 and after that there was decline in revenue receipts due to economic slowdown in the economy. On the expenditure side, there was marginal decline in the revenue expenditure; it was 16.80% of GSDP in 2003-04 declines to 16.45% in 2014-15. Among the components of revenue expenditure, interest payments and pensions rose significantly during the study period.

Table-4
Deficit and debt Indicators of State Government (as % of GSDP)

Years	Fiscal Deficit	Revenue Deficit	Primary Deficit	Budgetary Deficit	Total Outstanding Liabilities
2003-04	6.54	3.04	3	53.48	47.48
2004-05	4.77	1.64	1	42.39	46.19
2005-06	3.58	0.42	0	64.83	46.40
2006-07	2.28	-0.35	-1	57.01	41.51
2007-08	1.74	-0.82	-1	66.11	39.52
2008-09	2.98	0.34	0	74.49	36.37
2009-10	3.76	1.76	2	72.83	34.23
2010-11	2.07	1.52	0	55.48	28.96
2011-12	2.30	1.31	0	49.50	24.01
2012-13	1.93	0.67	0	32.96	23.96
2013-14	2.94	0.20	-0.20	0.00	25.10
2014-15	3.31	0.56	-0.52	0.04	24.11

Source: 1. State Finances: Study of State Budgets, RBI.

2. Center for Monitoring Indian Economy (CMIE).

But there was an increased in the capital expenditure of the state government, it was 50.41% in 2003-04 as a ratio to GSDP, increased to 55.79% in 2010-11 and after that, it was declined to 30.59% of GSDP in 2014-15.The most interesting aspect of the expenditure pattern of the state government is that expenditure for development purposes has not been cut off and non-developmental purpose, it was cut-off significantly during the study period.

Table-5

Fiscal Indicators of State Government (as % of GSDP)

Items	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Total Revenue Receipts	13.81	13.90	14.65	14.96	15.79	14.49	13.31	13.43	13.46	13.75	14.38	15.89
State's Own Tax Revenue	6.49	6.58	6.94	6.78	6.81	6.47	6.17	6.07	5.81	5.84	6.47	6.75
Own-Non Tax Revenue	1.85	1.68	1.92	2.00	2.08	1.68	1.71	1.84	2.07	1.94	2.62	2.30
Share in The Central Tax	3.22	3.37	3.72	3.95	4.37	3.89	3.48	3.76	3.59	3.85	3.60	3.44
Grant in Aid from Center	2.24	2.26	2.05	2.21	2.52	2.44	1.93	1.76	1.98	2.10	1.68	3.41
Revenue Expenditure	16.80	15.58	15.11	14.58	14.95	14.84	15.09	13.12	13.35	13.54	14.59	16.45
Capital Expenditure	50.41	50.71	64.36	57.38	66.96	74.13	71.05	55.79	49.61	33.16	30.59	30.78
Total Development Expenditure	9.31	8.80	8.91	8.53	9.33	9.23	9.20	8.22	8.71	9.08	10.03	11.60
Total Non-Development Expenditure	7.56	6.77	6.20	6.05	5.64	5.60	5.88	4.89	4.57	4.39	4.50	4.85

Source: 1. State Finances: Study of State Budgets, RBI.

2. Center for Monitoring Indian Economy (CMIE).

Conclusion

It is observed that, the fiscal performance of the state government has been improving to achieve the objectives of fiscal consolidation. The major improvement has been seen in the direction of reducing the key deficit indicators. The target achieved is quite consistent with the target set under the Fiscal Responsibility and Budget Management Act (FRBM). On the Revenue side revenue buoyancy of state government due to improvement in the own tax revenue and share in the central taxes, has mainly been responsible for the fiscal correction. On the expenditure side the study highlighted that the revenue expenditure of state government as ratio of total revenue expenditure increased from 75% in 2003-04 to 79% in 2012-13 and capital expenditure decreased from 25% in 2003-04 to 21% in 2012-13. But only increased in the Revenue buoyancy and cut off the expenditure side cannot be considered better way of fiscal consolidation. On the basis of above discussion we can say that the public finance of Rajasthan in a healthy situation though some areas of concern. Its own revenues have registered appreciable growth during the study period and dependency of the central grants has continuously reduced. But continuously increasing committed expenditure on salary, pension, interest payments and subsidy restricts the scope of developmental expenditure. Therefore, it is suggested that for economic development point of view the state government should focus more to increase the capital expenditure and there is an urgent need to cut down on subsidy and other unproductive expenditure to bring the problem under control.

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