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FISCAL DISCIPLINE IN RAJASTHAN

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Abstract

Enactment of the Fiscal Responsibility and Budget Management (FRBM) Act at the national as well as state level was one of the major milestones of the fiscal reforms undertaken in India. To ensure debt sustainability and control the increasing deficit, the Government of Rajasthan adopted a Fiscal Responsibility and Budget Management (FRBM) Act in 2005. The target of FRBM was to control the fiscal deficit to 3% of the Gross State Domestic Product (GSDP) and Revenue deficit at zero percent level by 2008-09. In this regard, the state of Rajasthan has taken various steps to control the fiscal deficits in line with the objectives of the FRBM act. This paper analyses the experience of the State of Rajasthan and improvement in the fiscal position of Rajasthan. The study is based on secondary data. The data has been sourced from the reports of Center for Monitoring Indian Economy (CMIE) and the RBI Database. It concludes that there are some improvements in the fiscal health of the state government. The state was able to control the fiscal deficits over the years. However there are huge challenges before the state government that need to be addressed carefully only then the objective of fiscal sustainability can be achieved.

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I. Introduction

Rajasthan was formed in 1949 and it is the first largest state in the country in terms of geographical area and has eighth rank in population in India (5.67%). It has a geographical area of 3,42,239 sq.km, which constitutes 10.41 per cent area of the Country. However, according to the per capita income, Rajasthan has lower per capita income among the states of India. The per capita income of Rajasthan was Rs. 53735 crore in 2012-13. Moreover, the Human Development Index was also very low, it was ranked 20th out of 29 states in India in the same year.

Therefore, given the poor socio-economic profile, the state government has many responsibilities of economic and social development such as public health, medical, education, public safety and women empowerment. To carry out these responsibilities, expenditure of the state government is increasing faster than their ability to raise resources. However, the government revenues are not rising as compared to its expenditure. According to the latest Handbook of Statistics on state governments' finances, Rajasthan has faced deficits and debt burden during the last two decades. The increasing fiscal deficit of the state government was one of the highly debated issues. One of the important reasons behind these increasing fiscal deficits was the increase in salaries after the implementation of fifth Pay Commission. Further, the inability of state governments to raise their own tax revenue has compounded the problem.

For the purpose of debt sustainability and to control the increasing fiscal deficit, the central and state government of Rajasthan adopted a Fiscal Responsibility and Budget Management (FRBM) Act in 2003 and 2005. The target of FRBM was to achieve a fiscal deficit to GSDP ratio of 3% by 2008-09 and Revenue deficit at zero percent level. Some initiatives have been taken by the State Government in order to achieve the target specified under the FRBM Act. Therefore, to study the impact of FRBM Act on financial health of the state government is a critical issue in the context of state finance. That is why this study was initiated to make an impact assessment of the Impact of FRBM Act.

Review of Relevant Literature

Kanagasabapathy K, Vaidya Deepa S, Tilak Vishakha G (2013): conducted a study on budgeting for fiscal consolidation. The main aim of the study was to study the sustainability of its gross fiscal deficit at a lower than 3% of GDP. The time period under consideration was from 2000-01 to 2012-13 and the data was taken from the Economic and Political Weekly Research Foundation using budget documents. It was found that after adopting the FRBM Act and fiscal consolidation in India the fiscal deterioration of the center government remained unchanged and adversely affected investor sentiment. The study also pointed out that during the pre crisis period the gross tax revenue to GDP ratio has been improved significantly from 8.4% in 2003-04 to 11.9% in 2007-08 and the total expenditure as a proportion of GDP was came down from 15.4% in 2004-05 to 13.6% in 2006-07. This shows that during the pre crisis period the center government could achieve the path of fiscal

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consolidation but after the post crisis period the center government expenditure is greater than their revenue. It was suggested that there is a need to carry forward the way of fiscal consolidation for the coming years.

Chakraborty Pinaki, Chakraborty Lekha (2013): made an attempt to examine the path of fiscal consolidation and growth in budget 2013-14. The main objective of the study was to evaluate the 2013-14 budgets keeping in mind the twin objectives of revival and sustenance of growth and the path of fiscal consolidation. The study covered the time period from 2004-05 to 2013-14 and the data was taken from the union budget 2013-14. It was pointed out that there was a sharp reduction in the fiscal and revenue deficits during the period from 2004-05 to 2007-08 and the tax-GDP growth was 24.87% during the same period. The study also pointed out that after adopting the path of fiscal consolidation the share of revenue deficit was 76.43% in 2011-12 due to finance the revenue expenditure of the central government. It was suggested that if we want to grow our economy we have to cut the non-development expenditure and there is a need for public investment in social and physical Infrastructure.

Dutta, Mr. Parag, Dutta Kanti Mrinal (2011): made an attempt to examine the level of fiscal deficit and debt sustainability. The main objective of the study was to analyse the trend and composition of the fiscal deficit in Assam. The study covered the time period from 1990-91 to 2009-10 and obtained its data from Reserve Bank of India, Report of the Comp -troller and Auditor General of India, Government of Assam various issues during 1990-2010 and CSO reports. It was found that the state enjoyed a revenue surplus in 1990-91 to 1993-94 and again in the year 2005-06 to 2008-09 mainly due to the state declared as a special category state in 1990-91. But in 2009-10, the state again faced a huge fiscal deficit due to the implementation of the Assam pay recommendation 2008. The study also found that the high fiscal deficit and debt adversely affected the GDP growth in Assam. It was suggested that the fiscal health of the state governments deteriorate further if appropriate measures are not taken to control the fiscal deficit and public debt.

Ganguly, Kaushik (2009): made an attempt to analyse the fiscal performance of the states. The main objective of the study was to analyse the fiscal position among the states. The time period of the study was from 1999-2000 to 2008-09 and the study obtained its data from A State Finances: Study of Budgets of 2008-09, RBI. It was observed that most of the states found a surplus on revenue accounts, which helped him control the fiscal deficit. It was also found that the state governments recorded a revenue surplus of 0.6% of GSDP for the first time in the last two decades. It was also pointed out that the gross fiscal deficit of the state governments increased from 1.9% of GDP in 2006-07 to 2.3% in 2008-09. The rise in the fiscal deficit of the state governments was due to a rise in the capital expenditure of the state governments. The study suggested that the state governments should apply tax-reforms broadening their tax-base and softening their fiscal deficit targets.

Kannan R, Pillai S M, Kausaliya R, Chander Jai (2004): examined the efficacy of Finance Commission awards to bring about fiscal stability in the states. The main aim of this study was to examine whether the Finance Commission awards have been successful in bringing fiscal stability among the states. The time period of under consideration was 1980-81 to 2002-03 and for the purpose of analysis the data was taken from various finance commission reports. It was found that in the 1990s, there was a considerable deterioration in the fiscal position of states. In 1990-98 the consolidated gross fiscal deficit of states averaged 2.9%, and 4.3% in 1998-99 and in 1999-2000, it reached the highest level of 4.7% of GDP. This deterioration was due to the sustained decline in the revenues and consistent increase in expenditures. Under the Finance Commission the share of resource transfer to control the fiscal deficit of states had revealed a declined trend from an average of 15.1% to 13.2% between 1980s and 1990s. After a careful perusal distribution of Finance Commission awards among various states, no significant improvement had been seen. It was suggested that to reduce the fiscal deficit at state level we should distinguish between various states according to the flexibility and scope available rather than use a broad brush approach across all states.

Research Methodology

The present study intends to analyse the impact of FRBM Act on the fiscal position of state government of Rajasthan. The study is based on secondary data. The objectives of the study were examined by covering the time period from 2003-04 to 2012-13. 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.

II. Trends in State Finances

In this section the study intends to analyse the trends of state finances of the government of Rajasthan. Table 1 shows the trends in the Revenue Receipts of the state government. 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, a major share of own tax revenue constituted in the tax revenue of the state government.

Similarly, a major share comes from the state Own-Non Tax Revenue in total Non-Tax Revenue Receipts of the state government. It constituted around 29% during the study period. It may be emphasized that the dependency of the 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.

Table-1

Revenue Receipts of Rajasthan Government (Rs. Lakh)

Items	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	*LSGR
1. Tax Revenue	1084840 (70)	1272043 (72)	1518030 (73)	1836861 (72)	2180233 (71)	2394217 (72)	2567240 (73)	3361375 (73)	3920390 (70)	4453916 (71)	17%
1.1 Own Tax Revenue	724619 (47)	841482 (47)	988022 (47)	1160824 (45)	1327473 (43)	1494345 (45)	1641427 (46)	2075813 (45)	2422686 (43)	2683231 (43)	16%
1.2 Share in Central Taxes	360221 (23)	430561 (25)	530008 (26)	676037 (27)	852760 (28)	899872 (27)	925813 (27)	1285562 (28)	1497704 (27)	1770685 (28)	19%
2. Non Tax Revenue	457545 (30)	504316 (28)	565889 (27)	722357 (28)	897829 (29)	952663 (28)	971260 (27)	1231445 (27)	1691723 (30)	1860766 (29)	17%
2.1 Own Non Tax Revenue	207165 (13)	214615 (12)	273767 (13)	343061 (13)	405393 (13)	388846 (11)	455822 (13)	629412 (14)	865825 (15)	895113 (14)	18%
2.2 Grants in Aid from Central Government	250380 (17)	289701 (16)	292122 (14)	379296 (15)	492436 (16)	563817 (17)	515439 (14)	602033 (13)	825898 (15)	965653 (15)	16%
3. Total Revenue Receipts (1+2)	1542385 (100)	1776359 (100)	2083919 (100)	2559218 (100)	3078062 (100)	3346880 (100)		4592820 (100)	5612113 (100)	6314682 (100)	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 2003-02 to 2012-13**

Table-2

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

Items	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	*LSGR
1. Revenue Expenditure	1884829 (25)	1990618 (24)	2149921 (19)	2495379 (20)	2912765 (18)	3429560 (17)	4013220 (18)	4487335 (19)	5567789 (21)	6221922 (29)	15%
Development Revenue Expenditure	1039957 (55.17)	1125271 (56.52)	1267731 (58.96)	1459745 (58.49)	1818882 (62.44)	2131959 (62.16)	2446629 (60.96)	2811484 (62.65)	3630768 (65.21)	4172687 (67.06)	17%
Non-Development Revenue Expenditure	844363 (44.83)	865221 (43.48)	882032 (41.04)	1034878 (41.51)	1099228 (37.56)	1294989 (37.84)	1564705 (39.04)	1673750 (37.35)	1907493 (34.79)	2019303 (32.94)	12%
2. Capital Expenditure	5626700 (75)	6478882 (76)	9155516 (81)	9815204 (80)	13046469 (82)	17121978 (83)	18887920 (82)	19074997 (81)	20676008 (79)	15228902 (71)	15%
3. Total Expenditure (1+2)	7511529 (100)	8469500 (100)	11305437 (100)	12310583 (100)	15959234 (100)	20551538 (100)	22901140 (100)	23562332 (100)	26243797 (100)	21450824 (100)	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 2003-02 to 2012-13.**

Table 2 shows the trends and growth of the government of Rajasthan. 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 share of revenue expenditure decreased significantly except 2012-13. It was also emphasized that in revenue expenditure the growth of developmental expenditure is higher than the non development expenditure. Further, there is a decline in the share of non-development expenditure in the revenue expenditure during the study period.

III. Impact of FRBM on State Fiscal Balance

This section examines how the implementation of FRBM Act impacted the fiscal position of the state government. As shown in Table 1, a significant improvement was seen in the fiscal indicators of the 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 declined to less than 3% in 2008-09. After that, it started again in 2009-10 due to the implementation of the recommendations of the sixth pay commission and held the election in 2009. But after a 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 the 13th Finance Commission the state government achieved well and the fiscal deficit of the state government which was 3.6% in 2009-10 declined to 1.03% in 2012-13. Similarly the revenue deficit eliminated 0.67% of GSDP in 2012-13 and till 2014-15, it was completely eliminated.

As shown in the Table 2, 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 a marginal decline in the revenue expenditure; it was 16.80% of GSDP in 2003-04 and declined to 13.54% in 2012-13. Among the components of revenue expenditure, interest payments and pensions rose significantly during the study period.

Table-1

Deficit Indicators of State Government (as % of GSDP)

Years	Fiscal Deficit	Revenue Deficit	Total Outstanding Liabilities	Budgetary Deficit
2003-04	6.54	3.04	47.48	53.48
2004-05	4.77	1.64	46.19	42.39
2005-06	3.58	0.42	46.40	64.83
2006-07	2.28	-0.35	41.51	57.01
2007-08	1.74	-0.82	39.52	66.11
2008-09	2.98	0.34	36.37	74.49
2009-10	3.76	1.76	34.23	72.83
2010-11	2.07	1.52	28.96	55.48
2011-12	2.30	1.31	24.01	49.50
2012-13	1.93	0.67	23.96	32.96

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 33.16% of GSDP in 2012-13.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-2

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
Total Revenue Receipts	13.81	13.90	14.65	14.96	15.79	14.49	13.31	13.43	13.46	13.75
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
Own-Non Tax Revenue	1.85	1.68	1.92	2.00	2.08	1.68	1.71	1.84	2.07	1.94
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
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
Revenue Expenditure	16.80	15.58	15.11	14.58	14.95	14.84	15.09	13.12	13.35	13.54
Capital Expenditure	50.41	50.71	64.36	57.38	66.96	74.13	71.05	55.79	49.61	33.16
Total Development Expenditure	9.31	8.80	8.91	8.53	9.33	9.23	9.20	8.22	8.71	9.08
Total Non-Development Expenditure	7.56	6.77	6.20	6.05	5.64	5.60	5.88	4.89	4.57	4.39

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 management. The major improvement has been seen in the direction of reducing the key deficit indicators. The targets achieved are quite consistent with the target set under the Fiscal Responsibility and Budget Management Act (FRBM). Revenue buoyancy of the state government due to improvement in the own tax revenue and share in the central taxes, has mainly been responsible for the fiscal correction. But only increased in the Revenue buoyancy and cut off the expenditure side cannot be considered a better way of fiscal consolidation. On the expenditure side, the study highlighted that the revenue

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expenditure of the state government as a 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. Therefore, it is concluded that from an economic development point of view the state government should focus more to increase the capital expenditure. And it should also provide the due attention on the composition of the non-development expenditure. It is because the non-development expenditure is mainly spent on interest payments and pension during the study period. Only then, it can be stated as a step forward in order to ensure better fiscal management.

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