



TRENDS IN STATE FINANCES IN INDIA FROM 1990-91 TO 2020-21

Dr.T.Sudarsana Reddy

Associate Professor, Department of Economics, Yogi Vemana University, Kadapa, Andhra Pradesh

ABSTRACT

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The frequent changes in the political parties in power in states have influenced the revenue mobilisation and expenditure policies of the state governments in India. Economic and political factors over a period of time are responsible for leading the state government to a fiscal crisis. Rapid deterioration of state governments' finances in India has been a serious issue in recent decades in India. The deterioration of State governments' finances is mainly due to increase of committed revenue expenditure and implementation of too many welfare schemes and freebies. As per RBI report 2022-23, the state governments' debt to GDP ratio is 29.5 percent in India in 2022-23. But it is more than the FRBM limit of 20 percent. The state governments' total expenditure is about one and half times more than the Centre expenditure. After implementation of GST in 2017 in India, GST is the major source of revenue (42 %) for state governments. This paper examines a comprehensive analysis of trends in state finances in India during the last 30 years period.

KEYWORDS: State Finances, Fiscal Imbalances, Revenue, Expenditure, Deficits.

1.1 INTRODUCTION

In India, state governments play an important role in public welfare and human development. Most of the human development related expenditures are executed at the state level. The State Governments' Fiscal Policy strategy is to control revenue expenditure on the one hand and mobilize enough resources on the other hand, so as to enhance investment in productive capital assets and social sectors in order to attain sustainable and equitable economic growth. After the implementation of economic reforms in India, state governments' has influenced the revenue mobilisation and expenditure policies of the state.

The Public finances of states illustrate dynamic changes in recent decades. In fact, public expenditure has recorded a continuous increase over time particularly in recent years. The size and composition of public revenue, expenditure and debt have been undergoing rapid changes in states after GST implementation in 2017. The size, composition and growth of state finances in India assume very crucial

importance from the point of view of growth, equity and economy. According to latest study of RBI, many states such as Punjab, Rajasthan, Kerala, West Bengal, Bihar, Andhra Pradesh, Jharkhand, Madhya Pradesh, Uttar Pradesh and Haryana have a significantly high debt burden. These ten states account for around half of the total expenditure by all State governments in India. Among these states, Andhra Pradesh, Bihar, Rajasthan and Punjab exceeded both debt and fiscal deficit targets for 2020-21 set by the 15th Finance Commission. The cumulative debt of States has risen from 19.1% in 2018-19 to 25.1% in 2021-22. This situation is a result of multiple factors like high revenue expenditure and the rising freebie culture. Therefore, the present paper explores the trends in state finances in India from 1990-91 to 2020-21.

The present paper is presented in four sections. Section I deals with the introduction, significance, objectives and methodology of the study. The review of literature has been presented in section II. The trends in finances of state governments in India have

been analysed in section III. Section IV presents conclusions and Policy suggestions.

1.2 OBJECTIVES

1. To analyze the growth and composition of revenue receipts of state governments in India from 1990-91 to 2020-21.
2. To examine the pattern of expenditure of state government of India from 1990-91 to 2020-21.
3. To study the trends in the growth of public debt of state governments in India.
4. To examine the state finances in terms of public revenue, expenditure and debt sustainability in India since 1990-91.
5. To suggest suitable policy measures for strengthening state fiscal performance.

1.3 METHODOLOGY

The present study is based on secondary data only. The main data sources are budget documents of India and State Governments (various years), Handbook of Statistics on Indian Economy, RBI, 2019-20 and Budget document 2020-21, Reserve Bank of India Bulletins and published annual publications, Reports of Finance Commission, Plan documents etc. The period of study has been covered from 1990-91 to 2020-21. Various statistical tools like Percentages, compound growth rates, etc, are used for analysis.

II. REVIEW OF LITERATURE

N. J. Kurian (1999) opined that the impact of pay revision of the state government employees has led to further deterioration of government finances in the subsequent years. In almost all the states, irrespective of their level of development, the fiscal burden on account of this has become unbearable with effect from 1998-99. Part of the additional burden of expenditure is being met by increased market borrowings, impounding of salary arrears in provident funds and diversion of plan funds. As a result, realisation of plan outlay during 1998-99 is likely to be considerably below the projected levels. Further, excessive borrowings during the current year will increase the interest burden considerably in the subsequent years.

Nirupam Bajpai and Jeffrey D. Sachs (1999) stated that financial condition of the state governments in India is deteriorating. The main drawbacks of state governments' finances in India are increases in non-developmental expenditure, particularly the revenue component of the non-developmental expenditure, and interest payments as a proportion of revenue receipts. Structural imbalances in the form of large revenue deficits, rising interest burden, increasing distortions in the pattern of expenditure, and very slow growing

non-tax revenues are major problem areas for state finances. He stated that state expenditure to GDP declined from 17 percent in 1990-91 to 16.6 percent in 1996-97 and further to 15.7 percent in 1997-98. The non-development expenditure increased about 20 percent. The share of state governments' tax revenue to GDP in 1997-98 is stagnant at the level of 5.7 percent in the second half of 1980s. State governments' non-tax revenue declined to 1.6 percent of GDP in 1997-98 from 1.9 percent in 1996-97.

Vadra, R. (2010) opined that the financial position of the state governments has been deteriorating in India between 1990-91 and 2009-10. He suggested that there is a need of strong political will and administrative competence and involvement of public in the reform process.

Srivastava, D.K. and Rao, C.B. (2011) stated that state governments are more depended on share in central taxes. In terms of groups of states, the extent of dependence is relatively quite high for the special category states.

Dasgupta Z (2012) found that the share of development expenditure of state governments in India declined from 12 percent in the GDP in 1980s to 8 percent of GDP in post liberalisation period. This is mainly due to dependency of states on centre to a large extent. He suggested that the states should be provided proper autonomy in their revenue mobilisation.

Mukherjee, Sacchidananda (2022) opined that economic growth and revenue mobilization has improved in recent years in India and this helped states to increase expenditures. However, fiscal deficit of 18 major states increased from 2.5 percent of aggregate GSDP in 2018-19 to 2.6 percent in 2019-20 and 3.9 percent in 2020-21. Similarly, the public debt of these states increased from 19.6 percent of GSDP in 2018-19 to 20.5 percent in 2019-20 and 23.1 percent in 2020-21.

III. FINANCES OF STATE GOVERNMENTS IN INDIA

3.1 Revenue of State Governments

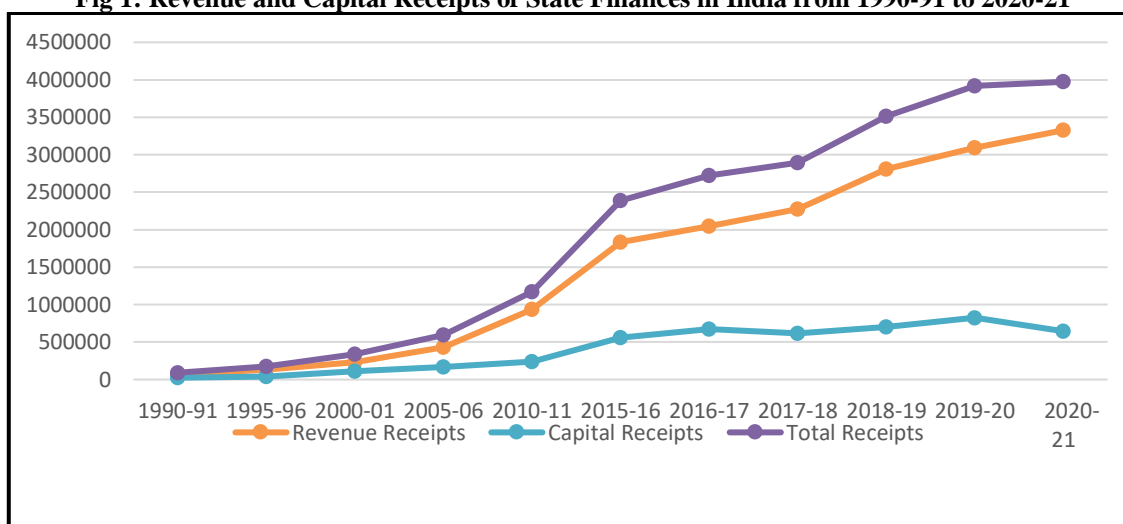
The share of Revenue Receipts and Capital Receipts in the Total States Receipts are presented in table 1. The total states receipts have increased from Rs. 91,160 crore in 1990-91 to Rs. 39,73,000 crore by 2020-21. Similarly, revenue receipts have also rose to Rs. 33,27,000 crore by 2020-21 from Rs. 66,467 crore in 1990-91. However, the share of revenue receipts has been oscillating between 70% and 80%. In 2020-21, capital receipts account for a share of 16.26% out of total receipts.

Table 1: Revenue and Capital Receipts of State Finances in India from 1990-91 to 2020-21

Year	Revenue Receipts		Capital Receipts		Total Receipts	
	Rs. crore	percent	Rs. crore	percent	Rs. crore	Percent
1990-91	66467	72.91	24693	27.09	91160	100
1995-96	134507	75.86	42805	24.14	177312	100
2000-01	232509	67.94	109705	32.06	342214	100
2005-06	431021	72.36	164607	27.64	595628	100
2010-11	935347	79.70	238228	20.30	1173575	100
2015-16	1832885	76.66	557960	23.34	2390845	100
2016-17	2046401	75.19	675383	24.81	2721784	100
2017-18	2276571	78.71	615848	21.29	2892420	100
2018-19	2810480	79.96	704353	20.04	3514833	100
2019-20	3096781	78.95	825634	21.05	3922415	100
2020-21	3327000	83.74	646000	16.26	3973000	100

Sources: 1. Handbook of Statistics on Indian Economy, RBI, 2019-20
2. Union Budget Documents (various years)

Fig 1: Revenue and Capital Receipts of State Finances in India from 1990-91 to 2020-21



3.2 Revenue Receipts

Tax and Non-tax Receipts of States in India

Table 2 presents the two components of total revenue collections: tax and non-tax receipts. Tax income has risen from Rs. 44,586 crore in 1990-91 to Rs. 23,15,000 crore in 2020-201. And so has its fair share.

The proportion of tax revenue has risen from 67.08 % in 1990-91 to 69.58 % in 2020-21. The proportion of non-tax revenue has been progressively decreasing. Its proportion was 32.92% in 1990-91, but decreased to 27.28% in 2010-11 before rising to 30.42% by the end of 2020-21.

Table 2: Tax and Non-Tax Receipts of Central Government from 1990-91 to 2020-21

Year	Tax Revenue		Non-Tax Revenue		Total Revenue Receipts	
	Rs. Crore	Percent	Rs. Crore	percent	Rs. Crore	Percent
1990-91	44586	67.08	21881	32.92	66467	100
1995-96	90802	67.51	43705	32.49	134507	100
2000-01	64314	70.67	68195	29.33	232509	100
2005-06	306332	71.07	124690	28.93	431021	100
2010-11	680198	72.72	255149	27.28	935347	100
2015-16	135336	73.84	479549	26.16	1832885	100
2016-17	1520773	74.31	525628	25.69	2046401	100
2017-18	1697456	74.56	579115	25.44	2276571	100
2018-19	1986907	70.70	823573	29.30	2810480	100
2019-20	2215248	71.53	881533	28.47	3096781	100
2020-21	2315000	69.58	1012000	30.42	3327000	100

Sources: 1. Handbook of Statistics on Indian Economy, RBI, 2019-20
2. Union Budget Documents (various years)

However, as the overall revenue of the states rises, so will the money from revenue receipts. As a result, both the tax and non-tax components of revenue receipts have grown. In the years from 1990-91 to 2010-11, non-tax revenue grew from Rs.21,881 crore to Rs.2,55,149 crore and to Rs.10,12,000 crore by 2020-21.

3.3 Expenditure Pattern of State Governments

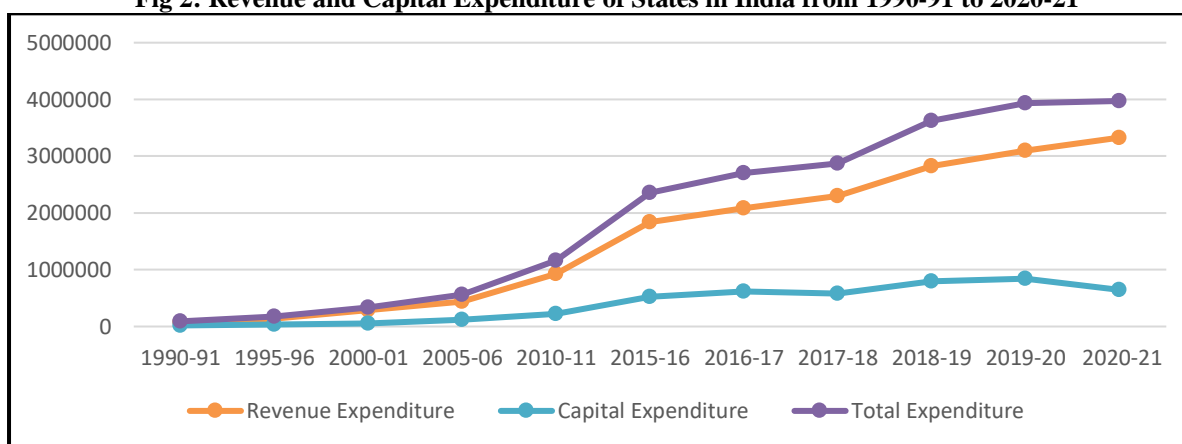
The revenue and capital expenditure from the total spending of the States are presented in Table 3. With very minimal variation, the percentage of revenue spending has stayed more or less the same. In 1990-91, out of Rs. 91,088 crore of total expenditure, the proportion of revenue expenditure is 78.80% (Rs.71,776 crore).

Table 3: Revenue and Capital Expenditure of States in India from 1990-91 to 2020-21

Year	Revenue Expenditure		Capital Expenditure		Total Expenditure	
	Rs. Crore	percent	Rs. Crore	percent	Rs. Crore	Percent
1990-91	71776	78.80	19312	21.20	91088	100
1995-96	143127	81.96	31506	18.04	174632	100
2000-01	287825	84.70	52010	15.30	339835	100
2005-06	438034	77.99	123648	22.01	561682	100
2010-11	932297	80.46	226433	19.54	1158730	100
2015-16	1838267	77.89	521962	22.11	2360229	100
2016-17	2086892	77.06	621323	22.94	2708215	100
2017-18	2300520	79.97	576381	20.03	2876901	100
2018-19	2828243	77.95	800233	22.05	3628476	100
2019-20	3093898	78.60	842371	21.40	3936269	100
2020-21	3327000	83.74	646000	16.26	3973000	100

Sources: 1. Handbook of Statistics on Indian Economy, RBI, 2019-20
2. Union Budget Documents (various years)

Fig 2: Revenue and Capital Expenditure of States in India from 1990-91 to 2020-21



By 2010-11, this figure climbed to Rs.9,32,297 crore with an 80.46% share but decreased to 83.74%, but revenue expenditure rose to Rs.33,27,000 crore by 2020-21. The total expenditure of states has significantly increased from Rs. 91,088 crore in 1990-91 to Rs.39,73,000 crore by 2020-21.

Table 4 shows the development and non-development expenditures, as well as their percentage of overall spending during a 30-year period. By 2020-21, the

relative share of development and non-development spending was 3:1, up from 16:9 in 2000-01. Total state expenditure was Rs.39,73,000 crore by 2020-21, up from Rs.85,970 crore in 1990-91. The percentage of development expenditure has decreased from 73.71 % in 1990-91 to 66.85 % in 2010-11, but rose to 74.73% by 2020-21. In 2019-20, over 70% (Rs. 25,25,765 crore) of total expenditure goes to development, with the remaining 30% (Rs. 10,86,665 crore) going to non-development.

Table 4: Development and Non-Developmental Expenditure of States in India from 1990-91 to 2020-21

Year	Development Expenditure		Non-Development Expenditure		Total Expenditure	
	Rs. Crore	Percent	Rs. Crore	percent	Rs. Crore	Percent
1990-91	63370	73.71	22600	26.29	85970	100
1995-96	112888	67.42	54544	32.58	167432	100
2000-01	205671	63.78	116823	36.22	322494	100
2005-06	330044	63.46	190021	36.54	520065	100
2010-11	720355	66.85	357287	33.15	1077642	100
2015-16	1584006	71.57	629349	28.43	2213355	100
2016-17	1831164	72.05	710365	27.95	2541529	100
2017-18	1842791	69.31	816028	30.69	2658819	100
2018-19	2363379	70.84	972700	29.16	3336079	100
2019-20	2525765	69.92	1086665	30.08	3612430	100
2020-21	2669000	74.73	1304000	25.27	3973000	100

Sources: 1. Handbook of Statistics on Indian Economy, RBI, 2019-20
2. Union Budget Documents (various years)

3.4 State Governments Liabilities

Table 5 provides a detailed explanation of the state liabilities. Total state liabilities in 2019-20 are Rs. 52,58,469 crore, up from Rs. 5,94,147 crore in 2000-01. Internal debt, Central Government loans, total provident funds, reserve funds, deposits and advances, and contingency funds are the primary components of total states liabilities. From 1990-91 to 2010-11, the percentage of domestic debt grew from 15.04 % to 65.41 %. It rose to 73.20 % by 2020-21. Central

government loans, which constituted for half of total liabilities (57.37 percent in 1990-91 and 7.88 percent in 2010-11), have now fallen to 3.40% 2020-21. Total provident was 15.76 % in 2000-01 but has since fallen to 9.70% in 2020-21. Reserve funds represent for 4.30% of total state liabilities in 2020-21, up from 3.87 % in 2000-01. Deposits and advances, which had a 9.99% share in 2000-01, dropped to 8.9% in 2020-21. Furthermore, from 2000-01 and 2020-21, the share of contingency funds decreased from 0.12 % to 0.10 %.

Table 5: Source-wise State Governments Liabilities from 1990-91 to 2020-21

Year	Share of Internal Debt	Share of Loans from Central Govt.	Share of Total Provident Funds	Share of Reserve Funds	Share of Deposits & Advances	Share of Contingency Funds	Total Liabilities
1990-91	15.04	57.37	13.16	3.69	9.96	0.78	100(128155)
1995-96	17.59	51.80	15.31	4.24	10.68	0.37	100(249535)
2000-01	30.12	40.17	15.76	3.85	9.99	0.12	100(594147)
2005-06	60.88	13.68	12.27	5.50	7.55	0.12	100(1147717)
2010-11	65.41	7.88	12.48	5.64	8.40	0.18	100(1828976)
2015-16	71.95	4.61	10.94	4.30	8.07	0.13	100(3218126)
2016-17	73.30	4.03	10.66	3.22	8.67	0.12	100(3809357)
2017-18	72.67	3.77	10.26	4.10	9.10	0.10	100(4292495)
2018-19	73.34	3.75	10.09	4.10	8.63	0.09	100(4714997)
2019-20	74.80	3.70	9.66	3.97	7.77	0.09	100(5258469)
2020-21	73.20	3.40	9.70	4.30	8.90	0.10	100(5343000)

Sources: 1. Handbook of Statistics on Indian Economy, RBI, 2019-20
2. Union Budget Documents (various years)

IV CONCLUSIONS AND POLICY SUGGESTIONS

4.1 Conclusions

The comprehensive analysis of 30 years of data on finances of state governments in India with regard to revenue, expenditure and debt position reveals there is a huge gap between revenue and expenditure. This is mainly caused by a limited resource base, the States had to cope with a significant growth in their

committed expenditure. Therefore, the major issue is to bring out improvement in the States' finances with a view to restructuring the expenditure in favour of development expenditure in order to enable a higher growth. The recent fiscal developments at State level put emphasis on the on-going fiscal and institutional reforms and seem to follow the path of reforms.

4.2 Policy Suggestions

1. The own revenue of the state governments can be increased by reducing the loopholes such as high cost of collection, huge arrears of own tax and non-tax revenue of the state etc. It is suggested that steps should be taken to increase both tax revenue and non-tax revenues.
2. The proportion of non-tax revenue is very low. State governments should be improve from non-tax revenue by efficiently using administrative machinery.
3. State governments should increase in development expenditure by reducing the non development expenditure and also need to reprioritize expenditure to more productive sectors and weed out expenditure programs that have outlived their utility.
4. Regarding capital receipts of states, care should be given on rising interest payments. The capital receipts should be reduced and the amount of interest should not go beyond a particular ceiling.
5. Steps should be taken to control over the revenue expenditure and the targets of revenue deficits by FRBM act. The FRBM act should be strictly implemented in order to minimize the fiscal deficit and revenue deficit.

Institute for International Development, Harvard University

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