



No. 007
August 2016

Performance of Sub-National Governments on Selected Fiscal Indicators: Pre-FRBM Vs Post-FRBM Period

In India, fiscal consolidation at sub-national or state level came up with a rule based framework with the enactment of Fiscal Responsibility and Budget Management (FRBM) Act in 2003, wherein states were required to decrease their revenue deficit, fiscal deficit, interest payments and public debt in order to maintain fiscal sustainability. The year of implementation of FRBM Act varies from state to state. Among the non-special category states, Karnataka is the first state to enact the FRBM Act in September 2002, while West Bengal is the last state in implementing the Act in July 2010.

This study attempts to find out the status of various fiscal indicators in 17 non-special category states of India during post-FRBM Period as compared to the pre-FRBM Period.

As different states have enacted the FRBM Act in diverse years, for uniformity the study takes the [five year averages of various fiscal indicators before and after the implementation of FRBM Act for the respective states except West Bengal.](#)¹ Further, the states are grouped into three groups i.e. high, middle and low income groups based on their average per-capita income level achieved in the last decade.

Research Findings:

- The status of Revenue Deficit to GSDP ratio has deteriorated in all categories of states. The Revenue surplus of high and low income states turned into deficit in post FRBM period. For the middle income group the revenue surplus has declined. **The larger unfavorable impact is on the low income states.**

¹ For West Bengal four year average of fiscal variables for the aforementioned period was taken due to unavailability of data for the year 2015-16.

- Fiscal Deficit to GSDP ratio, Interest Payments to revenue receipts ratio and debt to GSDP ratio have significantly improved in the post FRBM period. **Low-income states have shown highest development.**
- **Expenditure made on developmental activities has gone up for all categories of states in the post-FRBM period with the exception of high income states. *The increase in development expenditure is noted to be highest in case of low income groups.***
- Committed expenditure to GSDP ratio has declined in the post-FRBM period for all categories of states. However, the improvement is not much in case of the middle income group states.
- The total expenditure to GSDP ratio has declined in case of both high income and low income states during the post FRBM period. The middle income group has shown a slight improvement in the ratio.
- The compound annual growth rate in nominal GSDP in the post FRBM period is markedly higher than the pre-FRBM period for all the states.

Table 1. Per-capita Income of States 2004-05 to 2014-15 (Rs.)					
High Income		Middle Income		Low Income	
States	Per-capita Income	States	Per-capita Income	States	Per-capita Income
GOA	119447	KERALA	51720	CHHATTISGARH	28831
MAHARASHTRA	59218	PUNJAB	47453	RAJASTHAN	28426
HARYANA	58708	KARNATAKA	41893	ODISHA	26992
GUJARAT	55828	AP (U)	40586	JHARKHAND	25548
TAMIL NADU	52439	WEST BENGAL	32202	M.P	23092
				U.P	18395
				BIHAR	12126

Note: Average Real Per-capita GSDP

Indicators	Scenario	High Income	Middle Income	Low Income*	Odisha	All India
RD/GSDP	Pre-FRBM	2.19	1.48	2.10	3.03	1.92
	FRBM	0.33	1.16	0.63	-0.57	0.70
	Post-FRBM	-0.26	0.15	-1.56	-2.10	-0.56
FD/GSDP	Pre-FRBM	-4.02	-2.69	-4.83	-5.37	-3.85
	FRBM	-2.81	-2.76	-3.53	-0.32	-3.03
	Post-FRBM	-2.13	-1.56	-2.11	-0.02	-1.93
IP/RR	Pre-FRBM	20.59	27.06	23.70	33.19	23.78
	FRBM	20.13	25.69	19.34	26.25	21.72
	Post-FRBM	15.50	19.89	12.51	12.91	15.97
Debt/GSDP	Pre-FRBM	24.89	30.48	35.76	47.79	30.38
	FRBM	26.40	32.65	35.98	42.83	31.68
	Post-FRBM	21.43	28.80	27.52	26.48	25.92
DE/GSDP	Pre-FRBM	10.28	9.20	11.30	10.30	10.26
	FRBM	9.55	9.24	13.52	8.95	10.77
	Post-FRBM	9.65	9.48	12.92	10.85	10.68
CE/GSDP	Pre-FRBM	4.65	5.65	6.45	7.76	5.58
	FRBM	4.25	5.84	5.81	6.80	5.30
	Post-FRBM	3.70	5.21	5.09	4.83	4.67
TE/GSDP	Pre-FRBM	18.09	17.62	21.25	22.87	18.99
	FRBM	16.83	18.96	22.45	18.50	19.41
	Post-FRBM	14.98	17.76	20.84	18.32	17.86
Ggsdp	Pre-FRBM	11.44	10.23	9.86	12.56	10.51
	FRBM	13.91	11.48	14.23	9.48	13.21
	Post-FRBM	17.71	17.23	16.89	18.01	17.28

Notes: * Including Odisha. 1. RD: Revenue Deficit, FD: Fiscal deficit: (+ surplus/- deficit) 2. IP- Interest Payments, DE: Development Expenditure, CE: Committed Expenditure, TE: Total Expenditure. 3. Growth Rate in nominal GSDP is calculated by using the formula, $CAGR = \left(\frac{\text{End Value}}{\text{Initial Value}}\right)^{\frac{1}{n}} - 1$ 4. Source: EPWRF

Indicators	High Income	Middle Income	Low Income	Odisha	All India
RD/GSDP	Unfavourable	Unfavourable	Unfavourable	Unfavourable	Unfavourable
FD/GSDP	Favourable	Favourable	Favourable	Favourable	Favourable
IP/RR	Favourable	Favourable	Favourable	Favourable	Favourable
Debt/GSDP	Favourable	Favourable	Favourable	Favourable	Favourable
DE/GSDP	Unfavourable	Favourable	Favourable	Favourable	Favourable
CE/GSDP	Favourable	Favourable	Favourable	Favourable	Favourable
TE/GSDP	Unfavourable	Neutral	Unfavourable	Unfavourable	Unfavourable
Ggsdp	Favourable	Favourable	Favourable	Favourable	Favourable

Note: Same as table-1.

