

# Chapter - 2

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### **STUDY OF THE OVERALL BUDGETARY SITUATION IN MAHARASHTRA STATE : 1990-91 TO 2005-06**

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### **STUDY OF THE OVERALL BUDGETARY SITUATION IN MAHARASHTRA STATE : 1990-91 TO 2005-06**

#### **2.1 Introduction**

This chapter examines the overall budgetary situation of the state government of Maharashtra and their comparative position during the period between 1990-91 to 2003-04. As such, comparative study is necessary for gaining some useful knowledge of the state governments finance.

In India the central as well as state levels budget is divided into two parts i) Revenue Account and ii) Capital Account. Therefore, we begin our analysis with the budgetary operation on the revenue account as well as capital account during the period under study.

#### **2.2 Overall Budgetary Operation of Maharashtra**

It is necessary to see the overall budgetary operations of the government of Maharashtra to present the compact picture of the budgetary operation with the help of the concept of budget deficit.

Table No. 2.1 gives the details regarding the aggregate receipts and aggregate expenditure and the relative extents of these two i. e. the Revenue Surplus or Deficit of the state government of Maharashtra during the period under study.

Table No. 2.1 shows the aggregate receipts and aggregate expenditure of state government of Maharashtra during the period under study. There has been phenomenal growth of aggregate receipt and aggregate expenditure of Maharashtra state.

**Table No. 2.1**  
**Overall Budgetary Operation of Maharashtra : 1990-91 to 2005-06**

(Rs. in crores)

Year	Aggregate Receipts	Aggregate Expenditure	Surplus (+)/Deficit (-)
1990-91	10999.10	10772.20	226.90
1991-92	12973.60	12051.50	922.10
1992-93	13299.20	14013.60	-714.40
1993-94	15923.80	15983.10	-59.30
1994-95	20632.60	20026.30	606.30
1995-96	21571.30	21376.50	194.80
1996-97	24821.20	25005.00	-183.80
1997-98	27919.00	27675.10	243.90
1998-99	31071.80	30317.20	754.60
1999-00	36456.50	38243.60	-1787.10
2000-01	42479.70	42280.20	271.50
2001-02	41592.20	42479.50	-887.30
2002-03	47212.60	47217.00	-4.40
2003-04	52592.10	52781.19	-189.09
2004-05 (RE)	42882.95	62680.89	-19797.94
2005-06 (BE)	63265.18	72772.82	-9507.64
Increase in 2005-06 over 1990=91	5.78	6.75	
CGR	11.86	13.22	

Source : Monthly Bulletin of RBI specially related of State Finance, March 1993, Feb. 1994, Oct. 1994, Dec. 1995, Feb. 1997, Feb. 1998, Oct. 2000, Nov. 2003, Feb. 2006

Centre for Monitoring India Economy (CMIE), Special Issue related to Public Finance, March 2002, Nov. 2003, Nov. 2004

[www.rbi.org.in](http://www.rbi.org.in)

State Finance – A Study of Budget, May 10, 2004, February 21, 2003, July 2004, March 8, 2002, January 2005, January 2006

The aggregate receipts of Maharashtra was increased from Rs. 10999.10 crores in 1990-91 to Rs. 42479.70 crores in 2000-01 and further it increased to Rs. 63265.18 crores in 2005-06 (BE).

The aggregate receipts of state government of Maharashtra has increased more than 5 fold in 2005-06 over 1990-91. It was 5.78 fold and compound growth rate of aggregate receipts of Maharashtra state was 11.86 percent during 1990-91 to 2005-06. A trend of aggregate receipts of Maharashtra has been increasing since 1990-91.

The Table No. 2.1 also reveals the aggregate expenditure of state government of Maharashtra. It was Rs. 10772.20 crores in 1990-91, which increased to Rs. 42208.20 crores in 2000-01, and rose up to Rs. 72772.82 crores in 2005-06. The aggregate expenditure has increased more than 6 fold in 2005-06 over 1990-91. It's compound growth rate was 13.22 percent during 1990-91 to 2005-06.

The aggregate expenditure of state government of Maharashtra shows increasing trend. It means growth rate of aggregate expenditure is larger than growth rate of aggregate receipts during the period under study. It indicates the continuous increase in deficits.

### **Budgetary Deficit**

Budgetary deficit is also called as conventional deficit. The budgetary deficit is the difference between the total expenditure and total receipts.

$$\text{Budget Deficit} = \text{Total Expenditure} - \text{Total Receipts}$$

In this case, total expenditure includes aggregate of both revenue expenditure and capital expenditure. Likewise, total receipts are the addition of revenue receipts and capital receipts, which includes market borrowing and other liabilities. It was this budgetary deficit, which was financed by deficit financing by the government of India. While the central government meets its overall budgetary deficit by reduction in its such cash balance and net sale of treasury bills to the Reserve Bank of India. The state governments meet their budgetary deficit by –

- i) decrease in their cash balance
- ii) sale of securities in the market
- iii) through ways and means advance and overdrafts from Reserve Bank of India

Table No. 2.1 elaborates the overall budgetary deficit in the state government of Maharashtra. In the 1990-91, the overall budgetary trend of state government of Maharashtra was in surplus position. It was 226.90 crores in 1990-91, but 2005-06 the overall budgetary trend of state government of Maharashtra shows deficit position. It was – 9507.64 crores. The overall budgetary trend of government of Maharashtra shows fluctuation trends.

In the year 1990-91 to 1991-92, 1994-95 to 1995-96, 1997-98 to 1998-99 and 2000-01 budgetary situation was in surplus. It's range was Rs. 226.90 to Rs. 922.10 crores. On the other hand, in the remaining years budgetary situation was in deficit. It ranges between Rs. 4.40 crores

to Rs. 19797.94 crores. It means trend of overall budgetary deficit of government of Maharashtra during the period under study is fluctuating.

### **2.3 Budgetary Operation of Revenue Account**

This section concentrates mainly on the surplus and deficit on this account and their trends during the period the study. An attempt is also made to point out briefly the implication of these trends.

Table No. 2.2 gives the details regarding the revenue receipts, revenue expenditure and the relative extents of these two that is revenue surplus or deficit.

The aggregate revenue receipts of a state government of Maharashtra (all states) consist of total tax revenue and total non-tax revenue. The aggregate<sup>4</sup> revenue receipts of a state government assume great importance because the state government's level of revenue expenditure depends upon it. It means that, the mobilisation of aggregate revenue by a state government determining its level of revenue expenditure.

The revenue expenditure usually show the outing or spending of a recurring nature on normal running of the government department, various services and interest charge on debts incurred by the government etc.

**Table No. 2.2**  
**Overall Budgetary Operation of Government of Maharashtra**  
**on Revenue Account : 1990-91 to 2005-06**

(Rs. in crores)

Year	Revenue Receipts	Revenue Expenditure	Surplus (+)/Deficit (-)
1990-91	8699.00	8753.60	-54.60
1991-92	9772.60	10048.70	-276.10
1992-93	10818.20	11546.70	-728.50
1993-94	12986.80	13108.70	-121.90
1994-95	15089.50	14812.20	277.30
1995-96	16559.30	17168.40	-609.10
1996-97	19225.20	20845.80	-1620.60
1997-98	20316.60	22896.50	-2579.90
1998-99	21737.10	25663.00	-3925.90
1999-00	25269.50	29538.20	-4268.70
2000-01	29566.90	37401.00	-7834.10
2001-02	30092.90	38281.50	-8188.60
2002-03	31103.00	40474.00	-9371.00
2003-04	34372.52	42680.06	-8309.54
2004-05 (RE)	42882.95	52082.92	-9199.97
2005-06 (BE)	50429.82	50163.96	265.86
Increase in 2005-06 over 1990-91	5.80	5.73	
CGR	11.62	13.12	

Source : Same as of Table No. 2.1

Table No. 2.2 shows that the revenue receipts as well as revenue expenditure of the state government of Maharashtra during the period under study has increased tremendously.

The revenue receipts of Maharashtra state was only Rs. 8699.00 crores in 1990-91, which increased to Rs. 50429.82 crores in 2005-06 representing more than 5.8 fold over the period of 16 years. However, it is found from the above table that the revenue receipts of Government of Maharashtra state started to increase rapidly since 1994-95. However, it is found from the same table that revenue receipts had increased



to Rs. 15089.50 crores in 1994-95. It was more than revenue expenditure (Rs. 14812.20 crores) of same year. In the year, 1994-95 revenue account was in surplus. Revenue account of Maharashtra government was in deficit during the study period except 1994-95 and 2005-06.

Revenue receipts of state government of Maharashtra was increased 5.80 fold and its compound growth rate was 11.62 percent during the study period. The substantial increase in revenue receipts is the result of deepening and widening of tax structure, increase in tax rates, growth in State Domestic Product (SDP) and increase in magnitude of revenue transfers from the centre.

Table No. 2.2 also reveals that the revenue expenditure of state government of Maharashtra has also increased tremendously. It was Rs. 8753.60 crores in 1990-91, which increased to Rs. 50163.96 crores in 2005-06. The revenue expenditure of state government of Maharashtra has increased 5.73 fold in 2005-06 over 1990-91. It indicates that the revenue expenditure was increased tremendously. The compound growth rate of revenue expenditure of Maharashtra government was 13.12 percent during the study period. The table also shows that the revenue expenditure has risen appreciable from 1995-96 to 2005-06.

Table No. 2.2 also explains the percentage of revenue expenditure to aggregate expenditure. It was 81.26 percent in 1990-91, which decreased to 68.93 percent in 2005-06. The percentage of revenue expenditure to total expenditure shows decreasing trend.

## **Revenue Deficit**

Revenue deficit is a simple and straight concept. Revenue expenditure is met out of current or revenue receipts, which include net tax revenue and non-tax revenue of the state government. The revenue deficit represents the difference between the revenue expenditure and the revenue receipts of a state government.

$$\text{Revenue Deficit} = \text{Revenue Expenditure} - \text{Revenue Receipts}$$

Table No. 2.2 reveals that the magnitude of the revenue deficit is increased over the period under study. For example the revenue deficit of Maharashtra state in 1990-91 Rs. 54.60 crores, which is increased to Rs. 9199.97 crores in 2004-05 showing more than 168.50 fold increase over the period 2004-05 over 1990-91 except the year 1994-95. It was in surplus by Rs. 277.30 crores. The revenue deficit as percent of revenue receipts was 0.62 percent in 1990-91. It increased to 21.45 percent in 2004-05 respectively. The percentage of revenue deficit to revenue receipts shows continuously rising trend.

### **2.4 Budgetary Operation on Capital Account of Maharashtra**

The Union as well as State budget in India are divided in two part viz. Revenue Budget and Capital Budget. The revenue budget consists of tax revenue and non-tax revenue and expenditure met from these revenue.

The capital budget consists of capital receipts and capital disbursement. The capital receipts of a state government depends upon the borrowing power of the state government.

The disbursement on capital account usually indicate outlays incurred on construction or acquisition of capital assets, repayment of loans and money lent to various bodies like local bodies and autonomous and semi autonomous institutions for a variety of purpose. This know as capital expenditure or disbursements.

Table No. 2.3 gives details about the budgetary operation of the state government of Maharashtra on capital account during the period under study.

**Table No. 2.3**  
**Overall Budgetary Operation of Government of Maharashtra on Capital Account : 1990-91 to 2005-06**

(Rs. in crores)

Year	Capital Receipts	Capital Expenditure	Surplus (+)/Deficit (-)
1990-91	2300.10	2018.60	281.50
1991-92	3201.00	2002.80	1198.20
1992-93	2481.00	2466.90	14.10
1993-94	2937.00	2874.40	62.60
1994-95	5543.10	5214.10	329.00
1995-96	5012.00	4208.10	803.90
1996-97	5596.00	4159.20	1436.80
1997-98	7602.40	4778.60	2823.80
1998-99	9334.70	4654.20	4680.50
1999-00	11187.00	8705.40	2481.60
2000-01	12912.80	4807.20	8105.60
2001-02	11499.30	4198.00	7301.30
2002-03	16109.60	6743.00	9366.60
2003-04	18221.58	10101.13	8120.45
2004-05 (RE)	19679.10	10777.97	8901.13
2005-06 (BE)	12835.36	9861.93	2973.43
Increase in 2005-06 over 1990-91	5.58	4.89	
CGR	15.36	10.87	

Source : Same as of Table No. 2.1

The budgetary operation on capital account in Maharashtra state has increased substantially during the study period. In the year 1990-91 the capital receipts and disbursements of Maharashtra state was Rs. 2300.10 crores and Rs. 2118.60 crores respectively. It representing surplus of Rs. 281.50 crores and after further capital receipts and disbursement increased to Rs. 12835.36 crores and Rs. 9861.93 crores in 2005-06. It representing surplus of Rs. 2973.43 crores.

Table No. 2.3 reveals that in case of the state government of Maharashtra under the study also there has been substantial increase in the fiscal operation on capital account. The capital receipts of the state government of Maharashtra has increased 5.58 fold in 2005-06 over 1990-91. Its compound growth rate was 15.36 percent during the period under study.

Table No. 2.3 also shows the percentage of capital expenditure to aggregate expenditure. It was 18.73 percent in 1990-91, which decreased to 11.38 percent in 2000-01. The capital expenditure total expenditure shows decreasing trend during the period under study. The capital expenditure of state government of Maharashtra has increased 4.89 fold in 2005-06 over 1990-91. Its compound growth rate was 10.87 percent during the period under study.

Percentage of capital receipts to aggregate receipts was 20.91 percent in 1990-91, which increased to 34.65 percent in 2003-04. It means percentage of capital receipts to aggregate receipts shows increasing trend during the period 1990-91 to 2003-04.

### **Capital Deficit**

Capital deficit is also a simple and straight concept. The capital deficit is the difference between the capital disbursement/expenditure and the capital receipt of a state government. We can express this equationally as follows :

$$\text{Capital Deficit} = \text{Capital Disbursement} - \text{Capital Receipts}$$

Table No. 2.3 depicts the most importance feature of the budgetary operation on capital account in the state during study period. It is continuously increasing except in the year 1992-93. In 1992-93 the capital account was certainly surplus but it was to much less amount, it was 14.10 crores. Only the exceptional 1992-93 year the surplus on capital account continuously increased that is capital receipts has exceeded capital expenditure. For example during the period under study capital receipts has increased 5.58 fold and capital disbursement increased 4.89 fold in 2005-06 over 1990-91 and compound growth rate of capital receipts and capital expenditure was 15.36 percent and 10.87 percent respectively. It means growth rate of capital expenditure is not exceeded with growth rate of capital revenue, capital expenditure is equal with capital receipt. Before study the capital receipts and excess was mainly financed through revenue surplus. This was a positive development from the 1990-91 to 2005-06 during the period under study. Capital expenditure and capital receipts have been increasing continuously. It result from since 1992-93 the capital account is increasing. This implies that the capital receipts were being used for revenue account financing which implies that on the one hand state

government of Maharashtra was using debt receipts to finance their day to day expenditure as a result of which each state is cutting down capital expenditure which is very much needed for infrastructural development and modernisation. State capital outlays need increased budgetary provision as the basic infrastructure at the district and village level needs improvisation. So that the much needed private sector investment spreads on the state level.

## **2.4 Major Deficit Indicators of Government of Maharashtra**

### **Gross Fiscal Deficit**

Overall budgetary deficit was used to denote financing for a long time by the government of India. Accordingly it excluded government borrowings from the market or raising other funds from the public. These receipts come under capital receipts and they formed part of the total receipts of the government for the calculation of budgetary deficit. This traditional concept of deficit financing was restrictive and it could just indicate the extent of monetary deficit.

B. R. Shenoy was the first economist to point out in 1954-55, the dangerous implications of regarding market borrowings and other capital receipts as part of government receipts and equating overall budget deficit as deficit financing. But his warning was not accepted by other economists and the government of India. Finally, Monetary System in India, stated that the real deficit of the fiscal operations should include not only budgetary deficit but also market borrowings and other liabilities. The government

of India accepted this and started the third concept of deficit known as Fiscal Deficit.

### **Meaning of Gross Fiscal Deficit**

In simple terms fiscal deficit is budgetary deficit plus market borrowing and other liabilities. We can put the more clearly as –

$$\text{Fiscal Deficit} = \text{Revenue Receipts (Net Tax and Non-Tax Revenue) + Capital Receipts (Only recoveries of loans and other receipts) - Total Expenditure (Plan and Non-Plan)}$$

Fiscal deficit can be calculated in two ways –

- a) The difference between total expenditure and total revenue receipts and capital receipts but excluding the borrowing and other liabilities.
- b) It is the sum of budget deficit plus borrowings and other liabilities.

The term Gross Fiscal Deficit as is used in state finance is defined in RBI Bulletins, "Gross Fiscal Deficit is the difference between aggregate disbursement net of debt repayment and recovery of loans revenue receipts and non debt capital receipts."

Major deficit indicators of state government of Maharashtra are revenue deficit, fiscal deficit and primary deficit. The magnitude of these deficits are indicated in table No. 2.4.

**Table No. 2.4**  
**Major Deficit Indicators of Government of Maharashtra : 1990-91 to 2004-05**

(Rs. in crores)

Year	Gross Fiscal Deficit	Primary Deficit	Revenue Deficit
1990-91	1610.90 (2.6)	730.1 (0.3)	54.70 (0.1)
1991-92	1656.90 (3.3)	497.30 (1.8)	276.10 (0.4)
1992-93	2585.60 (2.0)	1248.80 (0.6)	728.50 (0.8)
1993-94	2265.30 (2.0)	755.20 (0.7)	121.90 (0.1)
1994-95	2861.40 (2.8)	1101.40 (1.5)	-277.30 (-0.2)
1995-96	4150.80 (2.8)	2095.40 (1.5)	609.10 (0.4)
1996-97	4953.70 (2.7)	2506.50 (1.3)	1590.60 (0.9)
1997-98	6442.20 (3.4)	3538.60 (1.9)	2579.90 (1.3)
1998-99	7462.40 (3.8)	3789.30 (2.1)	3925.90 (1.8)
1999-00	1706.20 (4.1)	6822.60 (2.1)	4268.80 (1.8)
2000-01	8975.80 (3.6)	3751.30 (4.1)	7834.00 (3.3)
2001-02	10897.70 (4.0)	4468.70 (1.6)	8188.60 (3.1)
2002-03	14289.90 (5.0)	7595.33 (2.6)	9371.2 (3.2)
2003-04	15474.29 (4.6)	7138.81 (2.1)	8309.4 (2.5)
2004-05	13775.97 (3.6)	4883.50 (1.3)	9199.97 (-0.1)
Increase in 2005-06 over 1990-91	168	6.69	8.55

Source : As of Table No. 2.1, Economic Survey of Maharashtra

Note : Figures in brackets are percentage to GSDP

A more complete measure of macro economic imbalance used internationally i) the concept of gross fiscal deficit. This deficit fully reflects the indebtedness of the government. Table No. 2.4 shows that gross fiscal



deficit of the state government of Maharashtra from Rs. 1610.90 crores in 1990-91, which is raised to Rs. 13775.97 crores in 2004-05. It has increased 8.55 fold in 2004-05 over the year 1990-91. The fiscal deficit increased in term of GSDP to 3.6 percent in 2004-05 from 2.6 percent in 1990-91. The gross fiscal deficit of the state government of Maharashtra has shown continuous increase during the study period. The fiscal deficit used to meet out the revenue deficit and capital deficit. The government of Maharashtra diverted most of borrowed funds towards meeting revenue deficit or current consumption, which did not create productive asset. The mounting magnitude of this fiscal deficit manifests the fact the state is slipping slowly into the debt trap.

### **The Primary Deficit**

The primary deficit is a fiscal deficit less interest payment. This deficit indicates new borrowing required to finance the real expenditure of the government. It is also a barometer of level of government's indebtedness. Table No. 2.4 also shows the primary deficit of the state government of Maharashtra increased from Rs. 730.1 crores in 1990-91, which rose to Rs. 4883.50 crores in 2004-05. It was raised 9.77 fold in 2004-05 over the year 1990-91. The primary deficit increased in term of GSDP to 1.3 percent in 2004-05 from 0.3 percent in 1990-91. The increasing primary deficit indicates seriousness of cash scarcity of the state government.

### **Revenue Deficit**

Revenue deficit is revenue expenditure – Revenue Receipts.

Table No. 2.4 shows that the revenue deficit of the state increased from Rs. 54.70 crores in 1990-91, which is raised to Rs. 9199.97 crores in 2004-05. It has raised 168 fold in 2004-05 over 1990-91. The revenue deficit increased in terms of GSDP to 2.4 percent in 2004-05 from 0.1 percent in 1990-91.

The increase in the revenue deficit is mainly due to inadequate buoyancy in revenue receipts and rising level of revenue expenditure is observed much more higher in the gross fiscal deficit.

**References**

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2. Reserve Bank of India Bulletin, February 1997, p. 19