

# Chapter - 3

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# **OVERALL BUDGETARY SITUATION OF THE STATE GOVERNMENT OF MAHARASHTRA**

- 3.1 Introduction
- 3.2 Overall Budgetary Situation of Maharashtra
- 3.3 Budgetary Operation on Revenue Account
- 3.4 Budgetary Operation on Capital Account

## Chapter - 3

# OVERALL BUDGETARY SITUATION OF THE STATE GOVERNMENT OF MAHARASHTRA

### 3.1 Introduction

This chapter examines the overall budgetary trends of the State Government of Maharashtra and the comparative position during the period between 1991-92 and 2000-01. <sup>in regard to what?</sup> As such, a comparative study is necessary for gaining some useful knowledge of the state government's finances.

In India <sup>the</sup> at both Central as well as State level <sup>is</sup> budget is divided in revenue account and capital account. In India, such classification of the government's budgetary transaction of the Central budget is being followed since 1957-58. In our country, revenue expenditure <sup>is</sup> includes all current expenditure on administration, defence and public sector undertaking like railways, post and telegraphs, grant in aid. While capital expenditure <sup>is</sup> includes consists of all capital transaction of public commercial undertaking, <sup>it</sup> capital expenditure is further sub[divided into two heads as gross fixed capital includes the expenditures on building, construction, machinery equipment etc. While increase in inventories consist of stores and stocks of foodgrains etc. and capital formation to the states and union territories etc.

Sentence

Revenue expenditure and capital expenditure can be classified on the basis of budget. This classification is also popularly known as functional classification. Actually functional classification is nothing but a description of revenue and capital disbursement on various heads of expenditure in a detailed manner. Therefore we begin our analysis with the study of overall budgetary operation and then deal with the budgetary operation on the revenue account and capital account during the period under study.

For the last few years, finances of Maharashtra state government are under severe strain. A state known for prudent fiscal management started showing strain since the mid-1990's. Deterioration of state finances are partly due to high pay-outs in salary and pension on account of Fifth Pay Commission, huge off-budget borrowings, market intervention by State Government as in the case of sugar, cotton, onion and high subsidies on public services provided by the Government. The revenue deficit, the most important indicator of the state's fiscal position has shown deterioration. The revenue deficit has shown increasing trend and has increased to Rs. 6245 crores in the year 2001-02. The ever increasing government borrowings have raised the Government's debts sharply from Rs. 10724 crores in 1990-91 to Rs. 61123 crores in 2001-02. This excludes loans guaranteed by Government. The share of capital expenditure is decreasing during the last few years and most of the spending of the state government are on current consumption. Mounting

state government's debt has made management of debt and servicing one of the biggest challenges.

### 3.2 Overall Budgetary Situation of Maharashtra

The Table No. 3.1 shows the aggregate receipts and aggregate expenditure of State Government of Maharashtra during the period under study.

**Table No. 3.1**  
**Overall Budgetary Situation of Maharashtra**

Year	Aggregate Receipts	Aggregate Expenditure	Surplus (+)/ Deficit (-)
1991-92	13032.71	12051.56	981.15
1992-93	13299.34	14013.56	- 714.12
1993-94	15924.07	15983.12	- 59.050
1994-95	20632.57	20026.33	606.24
1995-96	21571.30	21377.10	194.20
1996-97	24851.60	25004.90	- 153.30
1997-98	27919.000	27675.10	243.90
1998-99	31071.70	30317.20	754.50
1999-2000	36456.50	38241.60	- 1785.10
2000-01	43328.60	43926.60	- 598.00
Increased in 2000-01 over 1991-92 (times)	3.32	3.64	-
CGR	14.44	14.95	-

Source : As of Table No. No. 2.1

CGR = Compound Growth Rate (percent)

There has been phenomenal growth of aggregate receipts and aggregate expenditure of Maharashtra. The aggregate receipts were Rs. 13032.71 crores in 1991-92, which is increased to Rs. 43328.6 crores in 2000-01. The aggregate receipts of State Government of Maharashtra *have* has been increased 3.32 fold in 2000-01 over 1991-92. It was 332 percent and compound growth rate of aggregate receipts of Maharashtra State was 14.44 percent during the period under study. Aggregate receipts of Maharashtra shows increasing trend.

Table No. 3.1 also reveals the aggregate expenditure of State Government of Maharashtra. The aggregate expenditure of Maharashtra was Rs. 12051.56 crores in 1991-92, which is increased to Rs. 43926.6 crores in 2000-01. The aggregate expenditure has increased 3.64 fold in 2000-01 over 1991-92. It was 364 percent and compound growth rate of aggregate expenditure was 14.95 percent. The aggregate expenditure of State Government of Maharashtra shows increasing trend.

The aggregate receipts of State Government of Maharashtra has increased 3.22 fold in 2000-01 over 1991-92. Growth rate of aggregate expenditure of State Government of Maharashtra was 3.64 fold. It means growth rate of aggregate expenditure is larger than growth rate of aggregate receipts during the period under study.

Table No. 3.1 gives information about the overall budgetary deficit in the State Government of Maharashtra during the period under our study. The State Government meets their budgetary deficit by -

1. decrease in their cash balance,
2. sale of securities in the market, and
3. Through way and means advances and overdrafts from Reserve Bank of India.

In 1991-92 the overall budgetary trend of State Government of Maharashtra was in surplus position. It was 981.15 crores in 1991-92 and in 2000-01, the overall budgetary trend of State Government of Maharashtra shows deficit position, that year deficit was 598 crores in 2000-01. The overall budgetary deficit trend of Government of Maharashtra shows fluctuation trends. In 1991-92, it was surplus of Rs. 981.15 crores. In 1992-93 and 1993-94, it was deficit of Rs. - 714.22 crores and Rs. - 59.05 crores respectively. Next two year, it was surplus position to Rs. 606.24 crores and Rs. 194.2 crores in 1994-95 and 1995-96 respectively. In 2000-01, it was in deficit position by Rs. 598 crores during the period under study. The Table No. 3.1 shows fluctuating trend of State Government of Maharashtra during the period under study.

### **3.3 Budgetary Operation on Revenue Account**

Table No. 3.2 gives the details regarding the revenue receipts and revenue expenditure and the relative mismatch of these two that is revenue surplus or deficit. It is essential to note here that, in depth analysis of revenue expenditure is attempted in fourth chapter of the study. Therefore, this section concentrates mainly on the surpluses and

deficits on this account and their trends during the period under the study.

Attempt is also made to point out briefly the implications of these trends.

**Table No. 3.2**  
**Budgetary Operation on Revenue Account of Maharashtra**

(Rs. in crores)

Year	Revenue Receipts	Revenue Expenditure	Surplus (+)/ Deficit (-)
1991-92	9752.59	10048.32	- 295.73
1992-93	10818.21	11546.70	- 728.49
1993-94	12986.79	13108.69	- 121.90
1994-95	15089.48	14812.19	277.29
1995-96	16559.30	17168.40	- 609.10
1996-97	19255.20	20845.80	- 1590.60
1997-98	20316.60	22896.50	- 2579.90
1998-99	21737.10	25663.00	- 3925.90
1999-2000	25269.50	29538.20	- 4268.70
2000-01	30271.00	36495.40	- 6224.40
Increase in 2000-01 over 1991-92 (times)	3.10	3.63	-
CGR	12.70	14.98	-

Source : As of Table No. 2.1

It is clear from the Table No. 3.2 that the revenue expenditure as well as revenue receipts of the State Government of Maharashtra has increased tremendously. The revenue receipts of Maharashtra State was only Rs. 9772.59 crores in 1991-92, which increased to Rs. 30271 crores in 2000-01 representing more than 3 fold increase over the period of 10 years study. However, it is found from the table that the revenue receipts have increased to Rs. 15089.48 crores in 1994-95 more than revenue expenditure Rs. 14812.19 crores of same year. In the year



1994-95 revenue account was in the surplus. Except for the year (1994-95) this year all years under the study shows deficit on this account.

The growth rate of revenue receipts of State Government of Maharashtra was 3.10 fold and the compound growth rate of revenue receipts for Maharashtra State during the period under study was 12.70 percent. This implies that the state has undertaken the measures for increasing revenue receipts.

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 and increase in the magnitude of revenue transfers from the Centre.

The table also reveals that the revenue expenditure for Maharashtra. The revenue expenditure of Maharashtra State was Rs. 10048.32 crores in 1991-92, which is increased to Rs. 36495.4 crores in 2000-01. During the period 1991-2001, it shows state expenditure of Maharashtra has increased tremendously. The revenue expenditure of State Government of Maharashtra has increased 3.63 fold in 2000-01 over 1991-92. The growth rate of revenue expenditure for Maharashtra State exceeded the growth rates at revenue receipts. The compound growth rate of revenue expenditure during the period under study was 14.98 percent. It was found that the revenue expenditure of Maharashtra State has risen appreciable from 1995 to 2001.

Table No. 3.2 shows the percentage of revenue expenditure to aggregate expenditure. It was 83.37 percent in 1991-92, which is increased to 84.64 percent in 1998-99. The percent of revenue expenditure to total expenditure shows increasing trend.

Table No. 4.2 reveals that, the magnitude of the revenue deficit is increasing over the period under study of Maharashtra State. For example, the revenue deficit of Maharashtra State, in 1991-92, it was Rs. 215.73 crores which is increased to Rs. 6224.4 crores in 2000-01 showing more than 22-fold increase over the period of 10 years with exceptional year of 1994-95. In that year revenue account was in surplus was Rs. 277.29 crores.

From the Table No. 3.2, a tendency towards increasing revenue deficit (exception year 1994-95) is noticed. The main reason for this changes, are the continuous expansion of current expenditure particular due to implementation of the Fifth Pay Commission scales for employees of government and administration service and rising interest payments.

Accordingly, revenue deficit has become a special feature of State Government budgetary operations. We can say that certain structural weakness persist in state finances in the form of large revenue deficit. It reflects the resource gap and imbalance in the fiscal operations in the government. This is the root cause of fiscal crisis in the state. A rapid growth of revenue deficit is attributable to rise in non-plan revenue expenditure. This led to more borrowing at market based interest rates

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which has contributed to increased interest burden and larger fiscal deficit. This necessitates the urgent steps on the part of the State Government for correcting imbalance on revenue account.

### 3.4 Budgetary Operation on Capital Account

Table No. 3.3 gives details about budgetary operation of State Government of Maharashtra on capital account during the period under study.

**Table No. 3.3**  
**Budgetary Operation on Capital Account of Maharashtra**

(Rs. in crores)

Year	Capital Receipts	Capital Expenditure	Surplus (+)/ Deficit (-)
1991-92	3260.12	2002.89	1257.23
1992-93	2481.13	2466.86	14.27
1993-94	2937.28	2874.43	62.85
1994-95	5543.09	5214.14	328.95
1995-96	5012.01	4208.70	803.31
1996-97	5596.40	4159.10	1437.30
1997-98	7602.40	4778.60	2823.80
1998-99	9334.60	4654.20	4680.40
1999-2000	11187.00	8705.40	2481.60
2000-01	13057.60	7431.20	5626.40
Increase in 2000-01 over 1991-92 (times)	4.00	3.71	-
CGR	19.84	14.79	-

Source : As of Table No. 2.1

CGR = Compound Growth Rate (percent)

It is clear from the Table No. 3.3 that the budgetary operation on capital account in Maharashtra State has increased substantially during period under study. The capital receipts and disbursement for

Maharashtra State in 1991-92 was Rs. 3260.12 crores and Rs. 2002.89 crores respectively, representing surplus of Rs. 1257.23 crores and these receipts and disbursement increased to Rs. 13057.60 and to Rs. 7431.20 crores in 2000-01 representing surplus of Rs. 5626.40 crores. The table reveals that in case of the state under 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 4 fold in 2000-01 over 1991-92. Compound growth rate of capital receipts was 19.84 percent during the period under study.

The Table No. 4.2 shows the percentage of capital expenditure to aggregate expenditure. It was 16.61 percent in the year 1991-92, which is decreased to 15.35 percent in 1998-99. The capital expenditure to total expenditure shows decreasing trend during the period under study.

The Table No. 3.3 depicts the most important feature of the budgetary operation on capital account in the state during the period under our study that in period there were surplus. The surplus during the period under our study was increasing exceptional year to 1992-93. In 1992-93 in the capital account there was certainly surplus but it was to much less amount. It was Rs. 14.27 crores. Only the exceptional 1992-93 year the surplus on capital account substantial increased that is capital receipts exceeded capital expenditure for example during the period under our study capital receipts has increased 4 fold and capital disbursement is increased 3.71 fold from 1991-92 to 2000-01. It means

growth rate of capital expenditure is not exceeded with the growth rate of capital revenue, capital expenditure is equal with capital receipt. Before our study, the capital disbursement exceeded the capital receipts and the excess was mainly financed through revenue surpluses. This was a positive development.

From the 1992-93 to 2000-01 during the period under our study capital expenditure and capital receipts have been increasing continuously. In result from 1992-93 the surplus of capital account is increasing. This implies that the capital receipt were being used for revenue account financing which implies that on the one hand State Government are using debt receipt 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 provisions as the basic infrastructure at the district and village level needs improvisation and modernisation so that the much needed private sector investment spreads the state level.

### **Fiscal Deficit**

A more complete measure of macro-economic imbalance used internationally is the concept of Gross Fiscal Deficit. The deficit reckons the total resource gap in terms of total government expenditure over revenue receipts and grants. It is generally defined as a difference between aggregate disbursement net of debt and repayment and

recovery, and revenue receipts and non-debt capital receipts. To be more precise, it is a difference between total expenditure (revenue + capital) and state's own revenue contribution. This deficit fully reflects the indebtedness of the government. The State of Maharashtra borrowed from Rs. 5693.32 crores in 1993 to Rs. 20239.73 crores in 2000-01. The fiscal deficit is used to meet out the revenue deficit and capital deficit. The Government of Maharashtra diverted most of the borrowed funds towards meeting revenue deficit or current consumption, which did not create productive asset. The mounting magnitude of this fiscal crisis manifests the fact that the state is slipping slowly into the debt trap. This too contributed to the fiscal crisis in Maharashtra.

### **The Primary Deficit**

The primary deficit is a fiscal deficit less interest payments. The deficit indicates new borrowing required to finance the real expenditure of the government. It is also a barometer of level of government's indebtedness. The primary deficit also climbed to Rs. 17078.10 crores in 2000-01 from Rs. 4764.71 crores in 1993. Generally, zero primary deficit denotes that the government's expenditure is continued within the limit of the total revenue raised. But unfortunately it crossed the limit and started increasing at a faster rate than revenue rising capacity in Maharashtra. This helped leading to fiscal crisis in the State.

Table No. 3.4 shows the trends in parameters of deficit in Maharashtra State budget.

**Table No. 3.4**  
**Trends in parameters of deficit in Maharashtra State Budget**

Year	Revenue Deficit	Primary Deficit	Fiscal Deficit
As percent of Gross State Domestic Product			
1991-92	0.4	1.8	3.3
1992-93	0.8	0.6	2.0
1993-94	0.1	0.7	2.0
1994-95	(-) 0.2	1.5	2.8
1995-96	0.4	1.5	2.8
1996-97	0.9	1.3	2.7
1997-98	1.3	1.9	3.4
1998-99	1.8	2.1	3.8
1999-2000	1.8	2.1	4.1
2000-01	3.3	1.4	3.6

Source : As of Table No. 2.1

Table No. 3.4 depicts the trends in parameters of deficit in Maharashtra State Budget.

1. In 1993-94, the Maharashtra State recorded the revenue deficit and fiscal deficit to 0.1 percent and 2.0 percent of GSDP respectively. After that the fiscal position of the state entered into a phase of rapid and significant fiscal deterioration. In the year 2000-01, the revenue deficit and fiscal deficit were recorded to 3.3 percent and 3.6 of GSDP respectively.
2. The primary deficit, which is defined as a fiscal deficit net of interest payment is considered as a better indicator

of current fiscal stance. In 1991-92, the primary deficit were recorded to 3.3 percent and 3.6 of GSDP in 2000-01.

### **Debt Position**

The total debt of the State Government mainly consist of (i) Internal debt of the State Government (i. e. market borrowing and loans from financial institutions), (2) loan from Central Government, and (3) Borrowings from Public Account transactions relating to provident fund and other Interest Bearing obligations from Reserve Funds and Civil Deposits.

The overall debt of the State Government in 1980-81 was of Rs. 2234 crores, increased to Rs. 10724 crores in 1990-91 i. e. increased by annual average growth rate of 17 percent during the decade. It increased further to Rs. 50319 crores in 2000-01 i. e. by annual average growth rate of 16.7 percent during the next decade.

### **Interest Burden**

The expenditure on interest payments which was Rs. 110 crores in 1980-81, increased to Rs. 881 crores in 1990-91 and reached to Rs. 5225 crores in 2000-01.

### **Expenditure on Wages and Salaries**

The salary expenditure of the State Government which includes the expenditure on account of wages, salaries and pensions of the State Government employees was Rs. 2197 crores in 1993-94 increased



to Rs. 7225 crores in 2000-01. The percentage share of salary expenditure to revenue receipts was 16.9 in 1993-94 increased to 29.2 percent in 1999-2000 due to payment of arrears regarding Fifth Pay Commission. This proportion to revenue receipts started decreasing from 2000-01 onwards.

It can be inferred that the major factors of fiscal mismanagement leading to the fiscal crisis in Maharashtra are deterioration in state's own tax revenue, massive negative balance from current revenue, state's unsustainable borrowing, mounting non-plan revenue expenditure, non-developmental expenditure, misallocation of sectoral expenditure and rising deficit. These weak fiscal areas should not remain unattended for a longer time. It is now high time to put very sincere and prudent fiscal efforts to correct the fiscal imbalances emerged during last decade. However, the Government of Maharashtra requires very strong political will to minimize prudent/irregularities in the fiscal operations. The prudent fiscal management will only help bringing Maharashtra's economy on the right path of the economic development.

- (i) Methodology as in the previous chapters
- (ii) Concluding observations — commendable.
- (iii) Analysis could be presented in a better way. It is somewhat mechanical.