Kerala's Acute Fiscal Crisis

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Objectives

- The paper examines the nature, magnitude and causes of fiscal crisis of Kerala
- It also presents the great fiscal crisis of Kerala between 1998 and 2000 and the present crisis.
- The paper examines the fiscal extravagance and the poor fiscal management
- The effects of the resource crunch on core areas of capital formation and infrastructure
- Data sources are Budget documents of Government of Kerala, reports of the Comptroller and Auditor General of India, RBI data on state finances.

Hypothesis

- The unsound fiscal policies pursued by successive governments neglecting the own resource mobilisation on the one hand and fiscal extravagance to satisfy the powerful vested interest groups and poor fiscal management on the other have contributed to the persistent fiscal crisis.
- The failure of successive governments to correct the unsound policies and fiscal imbalances have resulted in deepening the crisis and led the state to a fiscal crisis trap
- This trap has led to a continuous decline in fiscal capacity of the State to mobilises the resources for annual plan and public investment in core areas of capital formation and infrastructure.

The Great Fiscal Crisis of Kerala, 1998-2001 (White Paper 2001)

- Kerala’s fiscal crisis is not a temporary or a short term problem.
- It is a basic, structural and persistent problem of the State
- State has been experiencing fiscal crisis since the second half of 1980’s
- But the State faced the worst fiscal crisis during the period of 1998-2001(The Great Fiscal Crisis)
- Persistent huge revenue deficit (RD,GSDP ratio) since 1998-99 (3.3–5.2 %)

- Alarming growth in fiscal deficit, FD, GSDP rato (4.8 – 6.6 %)
- Steep increase in public debt (25.2 – 32.9% of GDP)
- The crisis started with borrowing to meet the deficit arising due to pay revision in 1997
- The salary expenditure increased from 16 % in 1998-99 to 38% in 1999-2000 resulting in a spurt in revenue deficit
- Finance liability due to Plus Two school scheme implemented in 1999-2000
- Unrealistic and highly inflated fixation of resources of annual plan without considering resource availability

- Accumulation of losses of public sector undertakings and failure to pay profits and other dues to the governments
- Liberal financial support to PSUs from the borrowed funds of the State
- Reckless expenditure without regard to Government’s ability to finance
- Fiscal extravagance to satisfy the powerful vested interest groups
- Ad hoc resource mobilisation – short term borrowing

Consequences of the Fiscal Crisis, 1998-2000

- Unable to pay cash to cheques issued by the Government
- Dishonored cheques are being revalidated after the expiry of date (6 months)
- Courts are attaching Government property, vehicles and furniture for failure to pay liabilities
- The retired Government employees are unsure about when they will receive their gratuity and other pensionary benefits.
- Severe restrictions on withdrawal of Provident Fund of employees
- Cut in plan outlay and development expenditure to finance non-plan revenue expenditure
- The State had lost its ability for meeting expenditure on annual plan, capital and core infrastructure

Measures of UDF Government in 2001

- Hard measures were taken to solve the crisis by increasing revenue receipts and curtailing revenue expenditure
- Severe expenditure cuts were effected by reducing the number of staff, salary, pension, administrative expenditure
- Payment of DA increase due are deferred
- Measures to increase revenue receipts
- New recruits to Government were paid only basic pay
- Due to the measures, there had been a gradual improvement in fiscal situation
- It took more than six years to improve the fiscal situation to the pre-crisis level
- When the fiscal situation regained, reckless expenditure resumed

Table 1
Trends in Revenue Deficit between 1996-2001 (RD)

Year	RD (Rs crore)	Total Revenue Expenditure (Rs crore)	RD as percentage of revenue expenditure	RD as percentage of GSDP
1995-96				0.9
1996-97	643	6788	9.5	1.3
1997-98	1123	8241	13.6	2.1
1998-99	2030	9228	22.0	3.3
1999-2000	3624	11566	31.3	5.2
2000-01	3147	11878	26.5	4.3

Source: GoK 2001: White Paper on State Finances; DES 2010 : Gross State Domestic Product of Kerala from 1970-71 to 2008-09   (Base year 1992000), pp 9-10

Table 2
Trends in Gross Fiscal Deficit between 1996-2001 (GFD)

Year	GFD (Rs crore)	Total expenditure (Rs crore)	GFD as percentage of total expenditure	GFD as percentage of GSDP
1995-96	1303	6389	20.4	3.1
1996-97	1542	7411	20.8	3.2
1997-98	2414	8980	26.9	4.4
1998-99	3012	9880	30.5	4.8
1999-2000	4533	12214	37.1	6.6
2000-01	3878	12726	30.5	5.3

Source: GoK 2001: White Paper on State Finances;
DES 2010 : Gross State Domestic Product of Kerala from 1970-71 to 2008-09 (Base year 1999-2000), pp 9-10

Table 3
Trends in Public Debt between 1996-2001

Year	Public Debt (Rs crore)	Rate of Growth (%)	Debt/GSDP Ratio (%)
1995-96	10114	14.7	23.8
1996-97	11421	12.9	23.4
1997-98	12868	12.7	23.5
1998-99	15700	22.0	25.2
1999-2000	20176	28.5	29.2
2000-01	23919	18.6	32.9

Source: GoK 2001: White Paper on State Finances; DES 2010 : Gross State Domestic Product of Kerala from 1970-71 to 2008-09 (Base year 1999-2000), pp 9-10

Kerala’s current Fiscal Situation

- Kerala is facing an acute fiscal crisis
- Revenue deficit has been at high levels during the last 15 years
- Fiscal deficit has been at high levels during the last 15 years
- Nearly one-fourth of the total expenditure is met by borrowing since 2011-12
- Public debt is higher than the target fixed by KFR Act, 2011
- Revenue receipts/GSDP ratio remained on the same level during the last 15 years

- Kerala has highest rate of revenue deficit, among non-special category States (17 States) and special category States (11 States) during 2013-14
- This indicates that the revenue deficit GSDP ratio was the highest in India
- Fiscal deficit rate was also the highest among the non-special category States (17 States) during 2013-14
- With regard to highest Debt GDP ratio, Kerala’s rank was third among non-special category States in 2014 (17 States)
- West Bengal and Punjab had the first and second position

Table 4
Trends in Revenue Deficit (RD)

Year	Revenue deficit (Rs Crore)	RD as % of revenue expenditure	RD as % of GSDP	RD as per KFR Act (%)
2000-01	3147	26.5	4.3	
2001-02	2606	22.3	3.3	
2002-03	4122	27.9	4.7	
2003-04	3680	23.7	3.8	
2004-05	3669	21.4	3.1	
2005-06	3129	17.0	2.3	
2006-07	2638	12.7	1.7	
2007-08	3785	15.2	2.1	
2008-09	3712	13.1	1.8	
2009-10	5023	16.1	2.2	
2010-11	3674	10.6	1.3	
2011-12	8035	17.4	2.6	1.4
2012-13	9352	17.5	2.7	0.9
2013-14	11309	18.7	2.9	0.5
2014-15	13796	19.2	3.1	0.0

Source: (i) CAG 2012; CAG 2016(a) (ii) GoK 2011; GoK 2016(b)

Table 5
Trends in Gross Fiscal Deficit (GFD)

Year	GFD (Rs crore)	GFD as % of total expenditure	GFD as % of GSDP	GFD Target as per KFR Act (%)
2000-01	3878	31.1	5.3	
2001-02	3269	26.7	4.2	
2002-03	4987	31.9	5.7	
2003-04	5539	31.9	5.7	
2004-05	4452	24.7	3.7	
2005-06	4182	21.4	3.1	
2006-07	3822	17.3	2.5	
2007-08	6100	22.4	3.5	
2008-09	6346	20.5	3.1	
2009-10	7872	23.1	3.4	
2010-11	7731	19.9	2.9	
2011-12	12815	25.2	4.1	3.5
2012-13	15002	25.3	4.3	3.5
2013-14	16944	25.5	4.3	3.0
2014-15	18642	24.2	4.1	3.0

Source: Same as Table 4

Table 6
Trends in public debt

Year	Public debt (Rs Crore)	Rate of growth (%)	Debt/GSDP (%)	Target as per KFR Act (Debt-GSDP Ratio)
2000-01	23919	-	32.9	
2001-02	26950	12.7	34.6	
2002-03	31060	15.3	35.7	
2003-04	37452	20.6	38.7	
2004-05	41878	11.8	35.1	
2005-06	45929	9.7	33.5	
2006-07	49875	8.6	32.4	
2007-08	55410	11.1	31.6	
2008-09	63300	14.2	31.5	
2009-10	70969	12.1	30.8	
2010-11	78673	10.9	31.2	
2011-12	89418	13.7	29.8	32.2
2012-13	103561	15.8	31.2	31.7
2013-14	119009	14.9	31.3	30.7
2014-15	135440	13.8	31.4	29.8

Source: Same as Table 4

White Paper 2016

- The State is facing an acute fiscal crisis
- Entire borrowing is just sufficient to meet the day to day expenditure
- The budgets presented are highly unrealistic in resource mobilisation and expenditure
- Inflated annual plans- not based on resources
- Fall in plan expenditure
- Very low rate of capital expenditure

- Anticipate a virtual fiscal anarchy in 2017-18
- By 2021, State is likely to default payments on salaries, pension and loan repayments
- Crisis has two dimensions :

  (1). Excessive growth in revenue expenditure (salaries, interest, pension etc)

  (2). Poor resources mobilisation- under performance of tax collection machinery- huge amounts of arrears due to stay orders- failure to implement technology in tax collection

Total Receipts

- Revenue and Capital are the two streams of receipts
- Revenue receipts consists of tax revenue, non-tax revenue, State's share of union taxes and duties and grand in aid from the GOI
- Capital receipts comprises of non-debt capital receipts such as miscellaneous capital receipts, recoveries of loans and advances, and public debt resources from internal sources
- Public debt receipts accounts for 19-24 % of the total receipts since 2010-11

Table 7
Trends in Total Receipts in the Consolidated Fund*(Rs crore)

Year	Total revenue receipts	Non-debt capital receipts	Public debt receipts	Total receipts	Total receipts (Growth in per cent)
2000-01	8731	117	2156	11004	-
2005-06	15295	52	5823	21170	-
2010-11	30991	69	7189	38249	-
2011-12	38010	71	9799	47880	25.2
2012-13	44137	89	13261	57487	20.1
2013-14	49177	123	14461	63761	10.9
2014-15	57950	152	18509	76611	20.2
2015-16	71020	225	17615	88860	16.0

*****Excluding public account receipts
Source: Same as Table 4

Revenue receipts

- Fiscal policy pursued by successive governments had given very low priority for increasing State own resources
- Frequent elections at one or two year intervals had prompted postponement of revision of rate of taxes and non-tax items
- The booms and recessions in the State economy used to affect the collection of State own resources
- Poor performance of commercial taxes department in the collection of sales tax and VAT.
- Non realisation of additional resource mobilisation targeted in the budget
- Inflated plan outlays without considering resource availability

- Fall in dividends and profits from public sector undertakings
- Accumulation of arrears of revenue and inefficiency to collect the same
- Inefficient and poor collection of taxes and non-tax items
- Tax concession given to certain sections, failure to implement e-governance in tax administration etc
- The recessionary situations of State economy in the recent years have contributed to the decline in the growth rate of tax revenue
- The norms followed by the successive Union Finance Commission for devolution of central taxes were not favourable to Kerala.

Table 8
Total Revenue Receipts (Rs crore)

Year	Own taxes	Non-tax revenue	Central tax transfer	Grant-in-aid	Total revenue receipts	Revenue receipts/ GSDP (%)
2000-01	5867 -	655 -	1589 -	620 -	8731 -	12.5
2005-06	9779 -	937 -	2518 -	2061 -	15295 -	12.9
2010-11	21722 -	1931 -	5142 -	2196 -	30991 -	11.5
2011-12	25719 (18.4)	2592 (34.2)	5990 (16.5)	3709 (68.9)	38010 (22.6)	12.1
2012-13	30077 (16.9)	4198 (62.0)	6841 (14.2)	3021 (-18.5)	44137 (16.1)	12.1
2013-14	31995 (6.4)	5575 (32.8)	7469 (9.2)	4138 (37.0)	49177 (11.4)	12.4
2014-15	35232 (10.1)	7284 (30.7)	7926 (6.1)	7508 (81.4)	57950 (17.8)	12.8
2015-16	39882 (13.2)	8911 (22.3)	13122 (65.6)	9105 (21.3)	71020 (22.6)	12.1

Figures in brackets are growth rate in per cent
Source: Same as Table 4

Table 9
Percentage share of Total revenue receipts

Year	Own taxes	Non-tax revenue	Central tax transfer	Grant-in-aid	Total revenue receipts
2000-01	67.19	7.50	18.19	7.10	100
2005-06	63.9	6.12	16.46	13.47	100
2010-11	70.09	6.23	16.59	7.08	100
2011-12	67.66	6.81	15.75	9.75	100
2012-13	68.14	9.51	15.49	6.84	100
2013-14	65.06	11.33	15.18	8.41	100
2014-15	60.79	12.56	13.67	12.95	100
2015-16	56.16	12.55	18.48	12.82	100

Table 10
Trend in State Own Tax Revenue (Rs crore)

Year	Sales tax and VAT	Stamps and registration	State excise	Taxes on vehicles	Other taxes	Total
2000-01	4344 -	341 -	689 -	395 -	101 -	5870 -
2005-06	7038 -	1101 -	841 -	629 -	170 -	9779 -
2010-11	15833 -	2552 -	1700 -	1331 -	306 -	21722 -
2011-12	18939 (19.6)	2987 (17.0)	1883 (10.8)	1587 (19.2)	323 (5.6)	25719 (18.4)
2012-13	22511 (18.9)	2938 (-1.6)	2314 (22.9)	1925 (21.3)	389 (20.4)	30077 (16.9)
2013-14	24885 (10.5)	2593 (-11.7)	1942 (-16.1)	2161 (12.3)	414 (6.4)	31995 (6.4)
2014-15	27908 (12.1)	2659 (2.5)	1777 (-8.5)	2365 (9.4)	523 (26.3)	35232 (10.1)
2015-16	31193 (11.8)	3040 (14.3)	2086 (17.4)	2837 (20.0)	726 (38.8)	39882 (13.2)

Figure in brackets are growth rates in per cent

Source: Same as Table 4

Table 11

Trends in non-tax revenue (Rs in crore)

Year	Interest receipts	Dividends and profits	State lotteries	Forestry and wild life	Other non-tax receipts	Grand total
2000-01	37 -	13 -	_ -	141 -	468 -	659 -
2005-06	46 -	18 -	_ -	190 -	683 -	937 -
2010-11	172 -	75 -	571 -	274 -	839 -	1931 -
2011-12	136 (-20.9)	67 (-10.7)	1283 (124.7)	221 (-19.3)	885 (5.5)	2592 (34.2)
2012-13	172 (26.5)	48 (-28.4)	2674 (108.4)	237 (7.2)	1067 (20.6)	4198 (62.0)
2013-14	149 (-13.4)	101 (110.4)	3796 (42.0)	330 (39.2)	1199 (12.4)	5575 (32.8)
2014-15	102 (-31.5)	74 (-26.7)	5445 (43.4)	300 (-9.1)	1363 (13.7)	7284 (30.7)

Figure in brackets are growth rate in per cent

Source: Same as Table 4

Table 12
Amount of Tax and Non-Tax Arrears outstanding (Rs crore)

Year (as on March)	Total amount of arrears	Amount of arrears for more than five years	Amount of arrears for more than five years (Per cent)
2011	5358	1679	31.3
2012	10273	3768	36.7
2013	12244	4389	35.8
2015	10436	1872	17.9

Source: CAG 2016(b)

Total Expenditure (TE)

- Expenditure is classified as revenue and capital
- During last five years the annual average growth rate of total expenditure was 18.2%
- The growth rate was 31.2% in 2011-12. This was mainly due to the pay revision.
- The total expenditure-GSDP ratio range between 15.22 to 17%
- A revenue gap of 25% is to meet total expenditure
- This means that nearly one fourth of the expenditure is met through borrowing

Table 13
Total expenditure – Basic Parameters

Year	Total expenditure(TE) (Rs crore)	Rate of growth (%)	TE/GSDP (%)	Revenue receipts/TE (%)	Buoyancy of TE with respect to GSDP
2000-01	12726	-	18.2	68.6	0.8
2005-06	19528	-	16.4	78.3	0.6
2010-11	38791	-	14.4	79.9	1.0
2011-12	50896	31.2	16.1	74.7	1.7
2012-13	59228	16.4	16.3	74.5	1.5
2013-14	66244	11.8	16.7	74.2	0.8
2014-15	76744	15.9	17.0	75.5	1.1
2015-16	88960	15.9	15.2*	79.8	1.3*

* Based on provisional GSDP

Source: Same as Table 4

Revenue Expenditure (RE)

- RE accounts for more than 90% of TE
- Annual Growth rate of RE range between 13-17%
- Pay revisions ones in five years is the major factor which influences the growth of RE
- During 2011-12 the growth rate in RE was 32.8% mainly due to pay revision
- Only a small share of TE spends for Capital Expenditure
- To find resources for RE, cut in Capital Expenditure are effected
- The buoyancy of RE with respect to GSDP suggest a higher expenditure of RE in recent years

Table 14

Revenue Expenditure – Parameters (Rs in crore)

Year	Revenue expenditure (RE)	Growth rate of RE (%)	RE to total expenditure (%)	Buoyancy of RE with respect to GSDP
2000-01	11878	-	93.3	0.5
2005-06	18424	-	94.3	0.5
2010-11	34665	-	89.4	0.8
2011-12	46045	32.8	90.5	1.8
2012-13	53489	16.2	90.3	1.4
2013-14	60486	13.1	91.3	0.9
2014-15	71746	18.6	93.5	1.3
2015-16	81834	14.1	92.0	1.1*

* Based on provisional GSDP

Source: Same as Table 4

Non Plan Revenue Expenditure (NPRE)

- The NPRE is to spend to meet items like salaries, pension, interest, subsidies, establishment, administration, grants-in-aid, etc.
- NPRE accounts for 78-81% of total expenditure
- NPRE as percent of revenue receipts was more than 100% in recent years
- This suggest that the entire revenue receipts are not sufficient to meet NPRE
- So to meet NPRE, government is forced to borrow
- The major factor which influence NPRE is salary, pension and DA revision
- Rapid rise in NPRE is the root cause of the Fiscal Crisis

Table 15
Non Plan Revenue Expenditure (NPRE)

Year	NPRE (Rs in crore)	Rate of Growth (per cent)	NPRE/GSDP Ratio	NPRE as per cent of TE	NPRE as per cent of revenue receipts
2005-06	15201	-	11.1	78.0	99.4
2010-11	30469	-	11.6	78.5	98.3
2011-12	40718	33.6	13.0	80.0	107.1
2012-13	46640	14.5	13.4	78.7	105.7
2013-14	53412	14.5	13.5	80.6	108.6
2014-15	61462	15.1	13.6	80.1	106.1
2015-16	69570	13.2	11.9*	78.2	98.0

* Based on provisional GSDP

Source: Same as Table 4

Salary and Pension Expenditure

- The root cause of the fiscal crisis has been the revision of salary and pensions once in five years
- Revision of salary results in an increase in expenditure of about 45 per cent during the year of its implimentation
- The revision of pension results in 50 per cent increase in expenditure
- The total expenditure of salary and pension ranged between 43 to 48 per cent of total expenditure
- Salaries and pensions are revised once in five years to satisfy the demands of powerful trade unions
- In Central Government, salaries are revised once in ten years

- Starting new private aided institutions and courses involving huge financial commitment to satisfy vested interest groups
- Large amount of funds are unnecessarily spent to support uneconomic Government and private aided schools and excess teachers in the institutions
- The Public Expenditure Committee 2012-13 reported that a total number of 33061 temporary surplus staff are retained in government departments unnecessarily
- Due to lack of norms for utilisation of Government vehicles for personal purposes, widespread misutilisation is taking place
- There is a tendency to appoint unnecessary temporary staff in Government Departments, semi-Government organisations, public sector undertakings, local governments involving huge financial liability

Table 16
Total Staff: Different Categories

	Category	Number in March 2008	Number in March 2012	Number in March 2016	Growth Rate (%) 2008-12	Growth Rate (%) 2012-16
1	State Government	487196	485757	489398	-0.3	0.7
2	Consolidated Pay	746	592	1896	-20.6	220.3
3	All India Services	191	197	301	3.1	52.8
4	UGC	10724	13544	13563	26.3	0.1
5	AICTE	3928	1877	3022	-52.2	61.0
6	Judicial	408	525	529	28.7	0.8
7	Others	13	183	99	1307.7	-45.9
	Total	503206	502675	508808	-0.1	1.2

Source: GoK, Appendix 1 Details of Staff, Various issues of Kerala Budget

Table 17
Revision of Scales of Pay: Lowest and Highest Scales (Rs)

Date of Pay Revision	Lowest Scale of Pay
1-3-1997	2610-60-3150-65-3540-70-3680
1-7-2004	4510-120-4990-130-5510-140-5930-150-6230
1-7-2009	8500-230-9190-250-9940-270-11020-300-12220-330-13210
1-7-2014*	16500-35700
	Highest Scale of Pay
1-3-1997	16300-450-19900
1-7-2004	26600-650-33750
1-7-2009	48640-1100-57440-1200-59840
1-7-2014*	93000-120000

*implemented on 20-01-2016

Source: Same as Table 16

Table 18
Salary Expenditure (Rs in crore)

Year	Salary Expenditure	Growth (per cent)	Total Expenditure	Share (per cent)
2000-01	4451	-	12726	34.9
2004-05	5346	3.9	18048	29.6
2005-06	5581	4.4	19528	28.6
2006-07	6560	17.5	22077	29.7
2007-08	7693	17.3	27260	28.2
2008-09	9064	17.8	30904	29.3
2009-10	9799	8.1	34068	28.8
2010-11	11178	14.07	38791	28.8
2011-12	16229	45.1	50896	31.8
2012-13	17505	7.8	59228	29.5
2013-14	19554	11.7	66244	29.5
2014-15	21621	10.5	76744	28.1

Table 19
Pension Expenditure (Rs in crore)

Year	Pension Expenditure	Growth (per cent)	Total Expenditure	Share (per cent)
2000-01	1929	-	12726	15.1
2004-05	2601	8.0	18048	14.4
2005-06	2861	10.0	19528	14.7
2006-07	3295	15.2	22077	14.9
2007-08	4925	49.5	27260	18.1
2008-09	4685	-4.9	30904	15.2
2009-10	4706	0.4	34068	13.8
2010-11	5767	22.5	38791	14.8
2011-12	8700	50.8	50896	17.09
2012-13	8867	1.9	59228	14.9
2013-14	9971	12.4	66244	15.05
2014-15	11253	12.8	76744	14.6

Table 20
Salary and Pension Expenditure (as % of Total Expenditure)

Year	Share of salary in Total Expenditure	Share of pension in Total Expenditure	Share of salary and pension in Total Expenditure
2000-01	34.9	15.1	50
2004-05	29.6	14.4	44
2005-06	28.6	14.7	43.3
2006-07	29.7	14.9	44.6
2007-08	28.2	18.1	46.3
2008-09	29.3	15.2	44.5
2009-10	28.8	13.8	42.6
2010-11	28.8	14.8	43.6
2011-12	31.8	17.09	48.8
2012-13	29.5	14.9	44.4
2013-14	29.5	15.05	44.5
2014-15	28.1	14.6	42.7

Table 21
Annual Average Growth Rate of Salary and Pension Expenditure

Period	Salary	Pension	Total
2000-01 to 2005-06	5.4	8.6	6.2
2005-06 to 2010-11	14.6	16.5	15.0
2010-11 to 2015-16	16.8	19.0	17.5

Source: Calculated based on the sources given in Table 4

Table 22
Expenditure on interest (Rs crore)

Year	Interest	Growth rate of total (%)	Total as % of RE
2005-06	3799	-	-
2006-07	4190	10.3	20.12
2007-08	4330	3.3	17.40
2008-09	4660	7.6	16.51
2009-10	5292	13.6	17.00
2010-11	5690	7.5	16.41
2011-12	6294	10.6	13.67
2012-13	7205	14.5	13.47
2013-14	8265	14.7	13.66
2014-15	9770	18.2	13.62

Source: Same as Table 4

Capital and Plan expenditure

- A negative growth in Capital Expenditure since 2012-13
- Fall in plan expenditure since 2012-13
- Negative growth in plan expenditure in 2014-15
- To meet NPRE, a cut was effected in plan expenditure
- Acute resource crunch for annual plan, capital expenditure and infrastructure
- Kerala is likely to remain backward with regard to development of core infrastructure due to fiscal crisis

- Development of the following sectors will be adversely affected
- Transport infrastructure like development of roads, road widening, construction of new bypass and bridges, development of water transport, ports, etc.
- Essential infrastructure like major drinking water supply projects, electricity generation and distribution
- development of urban infrastructure, industrial parks, infrastructure development and connectivity in tourism centres, development of backward and hilly districts, prevention of sea erosion, provision of basic facilities in coastal areas, environmental protection, etc.

Table 23
Capital and Plan Expenditure

Year	Capital Expenditure (Rs crore)	Growth rate (%)	Plan Expenditure (Revenue + Capital) (Rs crore)	Growth rate (%)
2000-01	577	-	3303	-
2005-06	817	-	4231	-
2010-11	3364	-	10025	-
2011-12	3853	14.54	11758	17.29
2012-13	4603	19.47	14737	25.34
2013-14	4294	-6.71	14901	1.11
2014-15	4255	-0.91	14252	-4.36

Source: Same as Table 4

Conclusion

- To face the acute fiscal crisis, there is a need to change the fiscal policy, fiscal targets and fiscal management. Reduce the revenue deficit to zero within three years through a medium term fiscal plan by adopting measures to curtail NPRE and increasing revenue mobilisation.
- There is a need to control the fiscal deficit through a medium term fiscal plan to the level suggested by the central government. It will help to reduce the fiscal liability on interest payment and debt repayment
- The fiscal policy should aim to utilize the entire borrowing for annual plan, capital expenditure and major development projects

- Increase the mobilisation of tax and non-tax resources through a variety of measures (periodical revision, efficient collection, prompt collection of arrears, strengthening the collection machinery, enhancement of user charges, improving the efficiency in check posts, modernisation of tax administration, changing the turnover required for registration of traders in tax net, eliminating the corruption in tax administration, etc.)
- Curtail the growth of major items of non-plan expenditure such as salaries, pensions, teaching grants to private aided educational institutions, interest payments, wasteful administrative expenses, unwanted staff expansion, distribution of undue benefits to the vested interest groups, etc.
- The revision of salary and pensions should be implemented once in ten years as in the case of Central government.

- Instead of appointing full time staff, some of the unimportant activities may be outsourced
- Governmental non-plan expenditure may be limited to the level of the availability of revenue receipts
- The present practice of distributing the scare resources of the State to different categories of vested interest groups for political benifits should be stopped (private aided education institutions, trade unions of government employees, vested interest group of public sector undertakings, bureaucracy, others indulging in fiscal extravagance and populist oriented spending)
- In order to achieve this, strong political will and determination is required on the part of political leaders and political parties in power

THANK YOU