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EFFECTIVENESS OF HARYANA FISCAL RESPONSIBILITY AND BUDGET MANAGEMENT ACT IN FISCAL CONSOLIDATION OF THE STATE

DEEPAK VATS
RESEARCH SCHOLAR
PANJAB UNIVERSITY
CHANDIGARH

ABSTRACT

Government of India had enacted Fiscal Responsibility and Budget Management Act, 2003 to consolidate the fiscal position of the country. This suit was followed by all the state governments also. The present study attempts to evaluate the effectiveness of fiscal responsibility legislation in Haryana. It examines the fiscal situation of the State that necessitates the adoption of fiscal rules for the State. The study aims at analysing the key fiscal parameters of the State to examine the fiscal health of the State and finding out the role of Haryana Fiscal Responsibility and Budget Management Act in the fiscal consolidation process of the State. To analyse the effectiveness of the Act, the study period of 15 years (1997-98 to 2011-12) has been divided into two sub-periods of pre and post HFRBM Act period. Accordingly, an attempt has been made to evaluate the impact of the Act in improving the fiscal indicators of the State.

KEYWORDS

Deficits, Fiscal Policy Rules, Fiscal Responsibility.

INTRODUCTION

Fiscal performance of national and sub-national governments, both in developed and developing economies is an important measure to assess the macro-economic stability. With increasing trend of decentralization all over the world sub-national governments have gained more powers regarding raising revenues, disbursement of resources and the capacity to incur debt. This autonomy in many cases has resulted in the unsustainable fiscal situation, the burden of which ultimately falls on the central government eventually affecting the national fiscal health. As Liu and Webb (2011) observed, "When SNGs follow unsustainable fiscal policy, it can jeopardize the services they manage (but for which the central government may have ultimate political responsibility), the safety of the financial system, the country's international creditworthiness, and overall macroeconomic stability. Too often the central government then gets dragged in to provide bailouts, which can disrupt its own fiscal sustainability and reward the populist fiscal tactics of the recipient SNGs." Furthermore, sub-national governments have less incentive than the central governments to be concerned with macroeconomic impact of their policies because they do no bear the full cost of their actions (Vulovic, 2010).

In a Globalized world and with the introduction of New Economic Policy in India, states have been given more responsibility in the development of the basic infrastructure, providing better environment for investors apart from providing good quality basic necessities for the well-being of the residents. This has increased the sub-national expenditure to manifold which in some cases has resulted in huge debt accumulation & unsustainable fiscal situations. Adopting the target based fiscal rules in the form of Fiscal Responsibility Legislations (FRLs) is one of the effective solutions to avoid this problem.

Fiscal rules are considered as, "a permanent (or long lasting) constraint on fiscal policy, expressed in terms of a summary indicator of fiscal performance, such as the government budget deficit, borrowing, debt or a major component thereof" (Koptis and Symansky, 1998). Teresa Ter-Minassian (2007) identified that fiscal rules are typically enshrined in constitutional or legal provisions and are intended to influence policy design and anchor economic agents' expectations about a government's commitment to fiscal discipline over a relatively long horizon. At the same time, they also aim at enhancing accountability of policy makers, creating incentives for them to adhere to prudent policies. It is expected that these fiscal rules will deter the unsustainable and imprudent fiscal behaviour of the sub-national governments. These fiscal rules impose restriction on the policymakers to rationalise the spending behaviour and enhance the revenue raising capacity of the state to meet the increasing expenditure and to retain the debt at sustainable levels. Foremny (2011) indicated the introduction of the Maastricht Treaty and the Stability and Growth Pact as the cornerstone in the interest of such rules, which restrict governments in the way how they should keep their books in balance. The best way to make these rules effective is to introduce them in the form of legislations.

Fiscal rules are key to improve the performance at the sub-national level in decentralized governments particularly in a federal nation like India where share of sub-national expenditure is large enough to affect the overall macroeconomic performance. Indian Fiscal situation was very grave in the late 1990s and "there had hardly been any reduction in the central government fiscal deficit. On the contrary there has been a steady increase in the revenue deficits and a sharp reduction in the share of capital expenditures indicating significant deterioration in the quality of fiscal imbalance" (Rao and Amarnath, 2000). Finances of the Sub-national governments were also under huge stress because of increasing responsibilities of states under the New Economic Policy environment, recommendations of the Fifth Pay Commissions resulted in increasing wage bill and growing debt and interest burden.

Under such a situation, introduction of fiscal rules in the form of Acts in India both at national and sub-national level has given a new momentum to the process of fiscal consolidation. Government of India (GOI) had enacted the Fiscal Responsibility and Budget Management Act (FRBAM) in 2003 after which almost all the state government followed suit and enacted FRLs at sub-national level. Karnataka (2002) was the first state enacting the FRBM Act followed by Kerala (2003), Tamil Nadu (2003) and all other state governments. Government of Haryana enacted the Haryana Fiscal Responsibility and Budget Management Act (HFRBMA) in 2005. In the present paper an attempt has been made to analyse the effectiveness of sub-national fiscal rules in improving the fiscal consolidation process of Haryana state.

REVIEW OF LITERATURE

Since last one and half decade the importance of fiscal rules has increased tremendously and both developed and developing countries are adopting fiscal rules as a policy measure for consolidating fiscal situation at national and subnational level. Keeping this in view some important studies have been reviewed to analyse the effectiveness and importance of fiscal responsibility legislations.

Lahiri (2000) found that all state governments in India were under fiscal stress because of increasing interest burdens from debt contracted in the past, and increasing wage bills. By analysing the data for the period 1970-1995, it asserted that there were signs of the states catching up with the centre in terms of fiscal deficit. Therefore, it was imperative to effect a fiscal correction and safeguard developmental expenditure at the state level. While the 'hard' budget constraint at the state level will continue to provide some safeguard at the state level, such a safeguard can be bolstered by a Fiscal Responsibility Act at the central level. Author suggests that it may be useful for states also to enact fiscal responsibility acts to have a medium-term framework for containing debt and interest payments, and to impose ceilings on guarantees.

Koptis (2001) in his paper assessed the potential usefulness of fiscal policy rules for India, in the light of rapidly growing international experience in this area. Author highlighted that India's public deficit bias and indebtedness cannot be sustained much longer, especially with stepped-up external liberalisation. So the author strongly advocated for the adoption of fiscal responsibility legislation that involves: a high degree of transparency; well-designed fiscal policy rules at the national and subnational levels of government; short-run contingency measures and a multiyear macro-budgetary process and an institutional framework for implementation of rules. To ensure the success of fiscal rules, their implementation needs to be preceded by a determined outreach campaign, broad legislative consensus, and an adequate convergence path, all of which are beginning to be tackled in the context of the bill. Apart from this, the introduction of fiscal rules must be accompanied by an overarching structural reform effort covering intergovernmental fiscal relations, public sector employment, subsidies, and the financial system

Rangarajan and Srivastava (2005) observed that high level of fiscal deficit relative to GDP not only increased debt-GDP ratio, but also adversely affected savings and investment, and consequently growth of the economy. The FRBMA specified the target for achieving a fiscal deficit to GDP ratio of 3% and eliminating revenue deficit by FY 2008-09 at the central level. Here, the authors pointed out that the states' borrowings and debt contributed significantly to the overall fiscal deficit and debt relative to GDP, and had important macro consequence; therefore, it was important that the centre's FRBMA was to be complemented by state level fiscal responsibility legislations.

Bagchi (2006) asserted that with the implementation of FRBMA in most of the states, the focus of the states limited to deficit reduction only which unfavourably affected the public spending on social services in several states and caused reduction in public sector expenditure. Although there are effective opinions against inflexible targets but abandoning the discipline underlying fiscal responsibility legislation is questionable.

Ter-Minassian (2007) analysed different aspects of fiscal rules and concluded that fiscal rules cannot be a conduit to fiscal discipline if political commitment is lacking; nor can they cure poorly designed structures of intergovernmental fiscal relations. Fiscal rules, also, are not the only solution to improving the incentive structure faced by local politicians. However, under certain situations, these rules can offer a valuable policy framework.

Simone and Topalova (2009) in their paper analysed the fiscal performance at the central and subnational government levels since the implementation of Fiscal Responsibility and Budget Management Act (FRBMA) and the state Fiscal Responsibility Legislations (FRLs) provided a preliminary assessment of the impact of fiscal rules on fiscal discipline in India. The headline indicators showed that there is improvement in fiscal position but it is reduced when broader fiscal indicators for the same period are considered. The fiscal consolidation at the state level was achieved on the back of growing own revenues and higher resource transfers from the central government. Authors suggested some measures to improve the FRLs like, defining subnational debt targets that are consistent with national debt reduction objectives, continue to increase the transparency of fiscal policy, to focus medium-term fiscal policy on debt sustainability, prevent excessive use of escape clauses and frequent deviations from targets.

Kumar and Soumya (2010) in their paper traced out that the impact of the current global crisis on India has been significant in terms of fiscal imbalances and the lower GDP growth rate. This has sharply reversed the steady fiscal improvement over the past five years since 2003-04 and weakened public finances considerably. After the introduction of the FRBM Act, public debt steadily declined until 2008–2009. The concern now is that the high fiscal deficits of the past two years may suggest a long-term reversal of this trend. These trends also point to one of the main deficiencies in the FRBM Act, namely the failure to set a cap on public debt. The study pointed out a key challenge that involves balancing between public interventions and maintaining market confidence in the sustainability of public finances. This would involve focusing policy attention on removing some of the structural bottlenecks on raising the potential GDP growth rate.

Sucharita and Sethi (2011) in their paper analysed the role of FRBMA in restoring fiscal balance in India through a quantitative analysis. The study found out the major factor behind rising fiscal imbalance in India and to examine whether there is an electoral motive towards high fiscal deficit to GDP ratio. Ordinary Least Square (OLS) method was employed to examine the impact of FRBMA on fiscal deficit in India using the data for the period 1980-81 to 2008-09. After the implementation of the FRBM Act central government's major fiscal deficit indicators showed a declining trend. The improvement at central level was due to slight improvement in revenue receipts and mainly due to expenditure cut but there was a heavy deterioration in the capital expenditure which according to Fiscal Policy Rules (FPRs) should also take care of, as it was a major indicator of growth and priority should be given for increasing this expenditure rather than cutting it off in the fiscal consolidation process. The empirical results showed that FRBMA does not have a significant effect on the gross fiscal deficit to GDP ratio whereas GDP growth rate has a significant negative effect on the gross fiscal deficit to GDP ratio. The paper suggested that FRBM Act in India need to be accompanied by an overarching structural reform effort covering inter-governmental fiscal relations, public sector employment, subsidies, and the financial system and for achieving transparency, clarity in institutional arrangements in fiscal reporting and in accounting should be enhanced

Haseen and Kirmani (2012) asserted that the aim of central government is to decrease the burden of debt and correct fiscal and revenue deficit at both tier of government within targeted period assigned by FRBM Act. The fiscal position of Indian states worsened, before FRBM Act, fiscal deficit and revenue deficit continuously rose and after the implementation of FRBM Act, government introduced a number of policy actions to correct fiscal situation at state level. States show encouraging sign towards fiscal situation and improve their fiscal and revenue deficit. According to the study the adoption of FRBMA is effective to improve the fiscal health of the state governments in India.

IMPORTANCE OF THE STUDY

Fiscal consolidation has become a major challenge for all levels of government because of increasing public expenditure without any commensurate rise in the resources of the revenue. This unhealthy fiscal situation has shrunk the fiscal space of the governments to develop socio-economic indicators. Therefore, adoption of fiscal responsibility legislations has acted as a deterrent to curb the wasteful expenditure and to raise revenue through tax and non-tax sources and keep the books in balance. In India all the states have implemented the fiscal responsibility legislations as a measure of consolidating the fiscal health of the state. In this line, present study will analyse the effectiveness of Haryana Fiscal Responsibility and Budget Management Act (HFRBMA), 2005 in consolidating the fiscal position of the State.

OBJECTIVES OF THE STUDY

The present study has the following objectives:

1. To analyse the need for Fiscal Responsibility Legislation in Haryana.
2. To analyse the effectiveness of Haryana Fiscal Responsibility and Budget Management Act.
3. To evaluate the performance of key fiscal parameters in Pre-HFRBMA and Post-HFRBMA period.

PROFILE OF HARYANA

The present state of Haryana, as a separate unit of Indian union, came into existence on November 1, 1966 as a result of bifurcation of state of Punjab. The geographical area of Haryana is spread over 44212 sq. k.m. with a population around 25.35 million. The State has seen considerable economic growth in the past decade and the compound annual growth rate of its Gross State Domestic Product (GSDP) for the period 2001-02 to 2010-11 has been 16.42 per cent. During this period, its population grew by 19.90 from 2.11 crore in 2001 to 2.54 crore in 2011. Due to its higher GSDP growth rate and low population, the per capita income growth in Haryana fared better than that of other General Category States in the current decade. Since its inception, Haryana has been an agriculture dominant State but the structural changes that have taken place during last four and half decades has changed the scenario and share of primary sector has reduced to nearly 16 per cent in total GSDP of the State. The relative share of agriculture and allied activities has fallen from 60.7 per cent in 1969-70 to 16.30 per cent in 2011-12. During the same period, the relative share of industry and service sector has registered a higher contribution of 29.1 per cent and 54.6 per cent respectively, compared to 17.1 per cent and 21.7 per cent in 1969-70.

NEED FOR FISCAL RESPONSIBILITY LEGISLATION IN HARYANA

Fiscal indicators of the state government were in healthier position by the end of the 1980s. This healthy fiscal situation has started showing signs of deterioration by the second half of the 1990s. Fiscal deficit remained very high and in 1998-99 it reached to 5.13 per cent of the GSDP of the state. A major part of fiscal deficit was constituted by the revenue deficit which indicated that most of the government expenditure was made to finance the current needs and only a smaller proportion was devoted to the capital projects. The expenditure of the state had experienced a steep surge after the implementation of the recommendations of the Fifth Pay Commission. Fiscal deficit of the state had almost doubled and outstanding liabilities also became very high. Table 1 indicates that the liabilities of the state government (outstanding debt and contingent liabilities) reached to a very high level i.e. from 29.80 per cent in 1997-98 to 43.48 per cent in 2002-03.

TABLE 1: HARYANA: FISCAL INDICATORS IN PRE-HFRBMA PERIOD (Rs. Crores)

Year	Gross Fiscal Deficit (GFD)	Revenue Deficit (RD)	Outstanding Liabilities*/GSDP	Interest Payment as Per Cent to	
				Revenue Receipts (RR)	Revenue Expenditure (RE)
1997-98	1128 (2.98)	719 (1.90)	11261 (29.80)	13.90	12.39
1998-99	2240 (5.13)	1540 (3.53)	14227 (32.60)	18.20	14.20
1999-00	2133 (4.36)	1185 (2.42)	18126 (37.06)	23.53	19.52
2000-01	2265 (4.11)	608 (1.10)	22859 (41.52)	22.70	20.78
2001-02	2740 (4.52)	1056 (1.74)	26332 (43.48)	21.37	18.76
2002-03	1471 (2.10)	685 (0.98)	27638 (39.51)	22.48	20.83
2003-04	2933 (3.56)	274 (0.33)	28357 (34.39)	21.47	20.89
2004-05	1206 (1.29)	258 (0.28)	29149 (31.07)	20.05	19.59

* It includes outstanding debt and outstanding Guarantees; Notes: 1.Figure in parenthesis is per cent to GSDP 2.Figures are rounded-off.

Source: RBI Handbook of Statistics on State Finances; RBI State Finances: A Study of Budgets; Statistical Abstract of Haryana, various issues

With increasing debt burden interest payments also started mounting and more than 20% of the revenue receipts were spent to pay the interest on the outstanding loans of the State. In their study Rangarajan and Prasad (2012) categorized the states as High Debt Stressed whose Debt/GSDP ratio lies between 30% - 50% and ratio of interest payment to revenue receipt is between 15% - 25%. Keeping this in view it can clearly be stated that Haryana can be categorised as the Debt stressed state and the fiscal situation of the state needed some concrete action. However the situation had started improving from 2003-04 but by that time Finance Commission of India had become more cautious about the fiscal consolidation process of the states.

Apart from it Finance Commission of India has also changed its formula for Tax devolution and other grants. Eleventh Finance Commission proposed the index of fiscal discipline with a view to providing an incentive for better fiscal management. Under its new criteria for devolution a weightage of 7.5% was given to the index of fiscal discipline with a view to providing an incentive for better fiscal management. Report of the Twelfth Finance Commission also emphasised on the fiscal discipline of the sates and stated that, "Debt Relief often underwrites lack of fiscal discipline of the past……so it is clear that any debt relief will have to be linked to a desired path of fiscal adjustment including targets for revenue and fiscal deficit." Thus the relief under the Debt Consolidation and Relief Facility (DCRF) provided by the 12th Finance Commission was attached to the implementation of the Fiscal Responsibility and Budget Management Act. Twelfth Finance Commission stated that, "Only those states can avail this facility which has implemented the FRBMA for their respective states. We recommend that each state should enact fiscal responsibility legislation. This has been stipulated as a precondition for availing the debt-relief scheme as recommended by us. This legislation should, at a minimum, provide for

(a) eliminating revenue deficit by 2008-09;
(b) reducing fiscal deficit to 3 per cent of GSDP or its equivalent defined as ratio of interest payment to revenue receipts;
(c) bringing out annual reduction targets of revenue and fiscal deficits;
(d) bringing out annual statement giving prospects for the state economy and related fiscal strategy;
(e) bringing out special statements along with the budget giving in detail number of employees in government, public sector, and aided institutions and related salaries."

This situation made it imperative for the government to take some suitable steps to maintain the fiscal health of the state which can prevent the further deterioration in the state finances. Thus, the Reports of the Finance Commission, apart from the fiscal situation of the state, prepared the ground for the enactment and implementation of the Haryana Fiscal Responsibility and Budget Management Act, 2005.

Further, in this line the Thirteenth Finance Commission recommended a fiscal roadmap for the states and stated that, "we recommend that the states' enactment/amendment of their FRLs incorporating the above targets should be conditionality for release of all state-specific grants." Keeping these recommendations in view, HFRBM Act, 2005 amended the targets for the deficit indicators as well as for debt levels and state guarantees.

HARYANA FISCAL RESPONSIBILITY AND BUDGET MANAGEMENT ACT, 2005

The Act stated that the Haryana Fiscal Responsibility and Budget Management Act, 2005 (HFRBMA, 2005) is "An Act to provide for the responsibility of the State Government to ensure prudence in fiscal management and fiscal stability by progressive elimination of Revenue Deficit, reduction in Fiscal Deficit, prudent Debt management consistent with fiscal sustainability, greater transparency in fiscal operations of the government and conduct of fiscal policy in a medium term framework and for matters connected therewith". The HFRBMA, 2005 has been amended four times

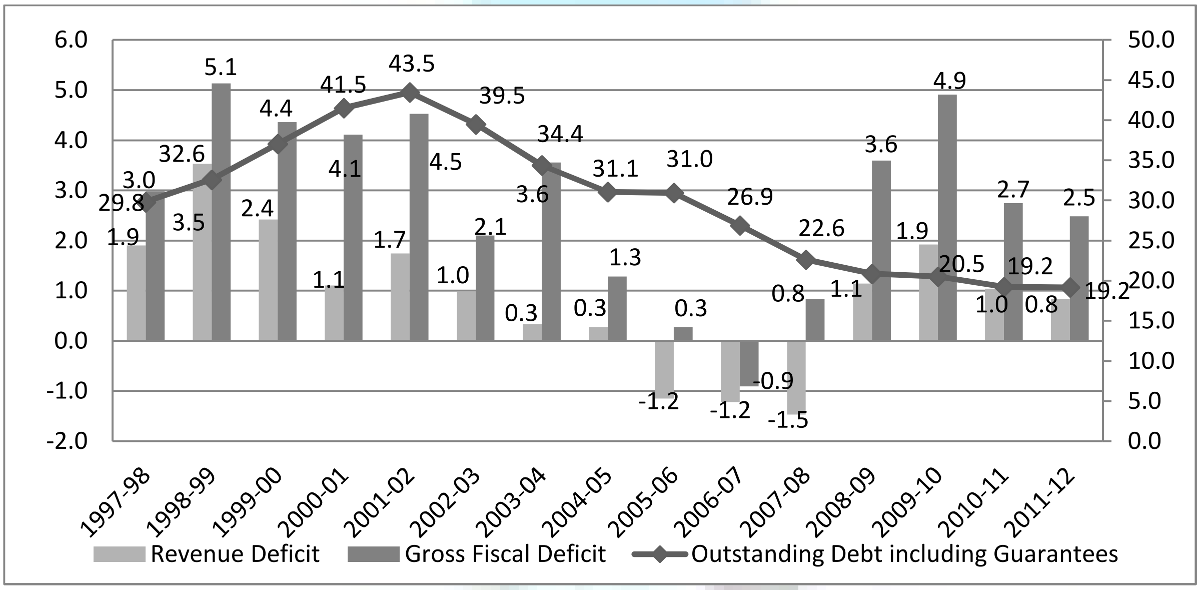
TABLE 2 HARYANA: HFRBM ACT AND ITS AMENDMENTS

Parameters → HFRBM Act and Amendments ↓	Fiscal Deficit	Revenue Deficit	Debt (including Outstanding Guarantees)
HFRBM Act, 2005	To reduce the fiscal deficit from 2005-06 to bring it down to 3% by the year 2009-10.	To reduce the revenue deficit from 2005-06 to bring it down to 0%of GSDP by the year 2008-09 and surplus thereafter.	To bring the ratio of debt GSDP down to 28 per cent within a period of five years from 2005-06 to 2009-10
HFRBM (Amendment) Act, 2006	To reduce the fiscal deficit from 2005-06 to bring it down to 3% by the year ending March 2009.	Unchanged	Unchanged
HFRBM (Amendment) Act, 2009	The annual reduction in fiscal deficit shall be 3.5% of GSDP for the years ending March 2009 and March 2010.	Condition for elimination of revenue deficit for the financial year 2008-09 and 2009-10 shall remain relaxed.	Unchanged
HFRBM (Amendment) Act, 2010	The annual reduction in fiscal deficit shall be 3.5% of GSDP for the year ending March 2009 and 4% for the year ending March 2010.	Unchanged	Unchanged
HFRBM Act (Amendment) Act, 2011 Targets	Achieve fiscal deficit 3 per cent of GSDP from 2010-11 and maintain the same till 2014-15.	Attain zero revenue deficit by 2011-2012 and maintain till 2014-15.	Outstanding debt as percentage of GSDP shall be 22.4 per cent (2010-11), 22.6 per cent (2011-12), 22.7 per cent (2012-13), 22.8 per cent (2013-14) and 22.9 per cent (2014-15).

FISCAL HEALTH OF THE STATE DURING THE STUDY PERIOD

Implementation of the HFRBM Act, 2005 was considered as a deterrent to the imprudent fiscal behaviour of the state government which would bring books of the state in balance. The government had also showed its commitment towards the implementation of the Act and the fiscal health of the state improved significantly. It can be seen in the Fig. 1 that 3 years following the implementation of the Act has shown great improvement in terms of fiscal deficit and debt indicators.

FIG.1 HARYANA: FISCAL INDICATORS AS PER CENT TO GSDP



Source: RBI Handbook of Statistics on State Finances; RBI State Finances: A Study of Budgets

After the implementation of the act the revenue deficit had eliminated altogether and fiscal deficit become very low. Target of generating revenue surplus was also achieved before the stipulated time. Soon this good fiscal situation started showing signs of deterioration and both the revenue and fiscal accounts once again pass on to deficits. It was because the macroeconomic slowdown and implementation of the recommendations of the Sixth Pay Commission negatively impacted the fiscal health of the state. Government of Haryana amended the HFRBMA in 2009 and again in 2010 to relax the targets but even then the target of fiscal deficit could not be achieved. The situation came within control in 2010-11 and government succeeded in keeping the fiscal deficit within the limits prescribed in the Act but the elimination of revenue deficit could not take place as yet.

TABLE 3 HARYANA: FISCAL INDICATORS IN POST-HFRBMA PERIOD *(Rs. Crores)*

Year	Gross Fiscal Deficit (GFD)	Revenue Deficit (RD)	Outstanding Liabilities*/GSDP	Interest Payment as Per Cent to	
				Revenue Receipts (RR)	Revenue Expenditure (RE)
2005-06	286 (0.27)	-1213 (-1.15)	32623 (30.95)	15.16	16.61
2006-07	-1179 (-0.91)	-1590 (-1.22)	35012 (26.90)	12.62	13.84
2007-08	1264 (0.83)	-2224 (-1.47)	34313 (22.63)	11.88	13.39
2008-09	6558 (3.59)	2082 (1.14)	38070 (20.86)	12.68	11.39
2009-10	10900 (4.91)	4260 (1.92)	45556 (20.52)	13.04	10.84
2010-11	7260 (2.75)	2750 (1.04)	50828 (19.24)	12.98	11.72
2011-12	7153 (2.48)	1457 (0.83)	59308 (19.17)	11.95	11.10

* It includes outstanding debt and outstanding Guarantees; Notes: 1.Figure in parenthesis is per cent to GSDP 2.Figures are rounded-off.

Source: RBI Handbook of Statistics on State Finances; RBI State Finances: A Study of Budgets; Statistical Abstract of Haryana, various issues

As far as the total outstanding liabilities of the State are concerned, it continuously declined in the post-HFRBMA period and debt to GSDP ratio dropped from 31.1% in 2004-05 to 19.2% in 2011-12. This has resulted in reducing the burden of interest payments. Ratio of interest payments to revenue receipts declined from around 20% in Pre-HFRBMA period to 15.16% in 2005-06 and further 11.95% by the end of 2011-12. Similarly, interest payments as per cent to revenue expenditure also fell from 19.59% in 2004-05 to 11.20% in 2011-12. This sharp decline in debt and debt service payments push the economy out of the debt stressed situation.

QUALITY OF DEFICITS

The ratio of Revenue Deficit and Primary Deficit to Fiscal Deficit would indicate the quality of deficit. Since fiscal deficit represents the aggregate of all the borrowings, the revenue deficit as a percentage of fiscal deficit would indicate the extent to which the borrowings of the Government are being used to finance revenue expenditure. Thus, higher the ratio the worse-off is the state because that would indicate that the debt burden is increasing without adding to the repayment capacity of the State. Table 4 shows that the ratio of revenue deficit to fiscal deficit was quite high in1998-99 and1999-00 and declined steeply to 26.84 per cent in 2000-01. This ratio has started increasing again and reached to 46.57 per cent in 2002-03 before declining sharply to 9.34 per cent in 2003-04. This implies that a large part of the borrowings was going to finance the current expenditure needs of the State.

TABLE 4 HARYANA: QUALITY OF DEFICITS

Pre-FRBMA Period							
Year	**1998-99**	**1999-00**	**2000-01**	**2001-02**	**2002-03**	**2003-04**	**2004-05**
RD/GFD	68.75	55.56	26.84	38.54	46.57	9.34	21.39
PD/GFD	55.49	36.33	34.13	40.69	-32.29	27.96	-85.32
Post-FRBMA Period							
Year	**2005-06**	**2006-07**	**2007-08**	**2008-09**	**2009-10**	**2010-11**	**2011-12**
RD/GFD	-424.13	134.86	-175.95	31.75	39.08	37.88	33.33
PD/GFD	-634.27	292.11	-85.60	64.33	67.43	54.27	43.49

However the situation improved greatly in post-FRBMA period and from 2005-06 to 2007-08 there were revenue surplus and ratio of revenue deficit to fiscal deficit was negative. In 2006-07 both revenue deficits and fiscal deficits were negative, due to which revenue deficit to fiscal ratio became 134.86 per cent. This three year period showed a significant improvement in the key fiscal indicators of the State government. This impressive progress soon disappeared and the ratio again reached to a high level in 2008-09 and became 31.75 per cent in 2008-09. Since 2008-09, this ratio remained more than 30 per cent and fluctuated between 31.77 per cent to 39.08 per cent.

CONCLUSION

Comparison of the key fiscal parameters during pre and post-FRBMA periods indicates that the implementation of the Act has benefitted the State in terms of improved performance and fiscal consolidation of the State. The State had also benefitted from various schemes like Debt Swap Schemes (DSS) and Debt Consolidaion and Relief Facility (DCRF) which were linked to the implementation of the Act and improved performance of the fiscal indicators. These schemes and incentives have helped the State in mitigating its burden of debt and interest payments. Although during the period of macroeconomic slowdown combined with increased burden of salaries and pensions because of the implementation of the recommendations of the Sixth Pay Commission, the performance of fiscal indicators worsened but State has come out of this deteriorated fiscal situation very soon.

The debt/GSDP ratio indicates that State can afford a larger debt as prescribed by the fiscal consolidation roadmap of the Thirteenth Finance Commission and these funds can be better utilized for the creation of large infrastructural base for the economic and social development. The quality of existing infrastructure of health, education and other social service can be greatly improved with this available fiscal space because social indicators of the State are not very good.

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