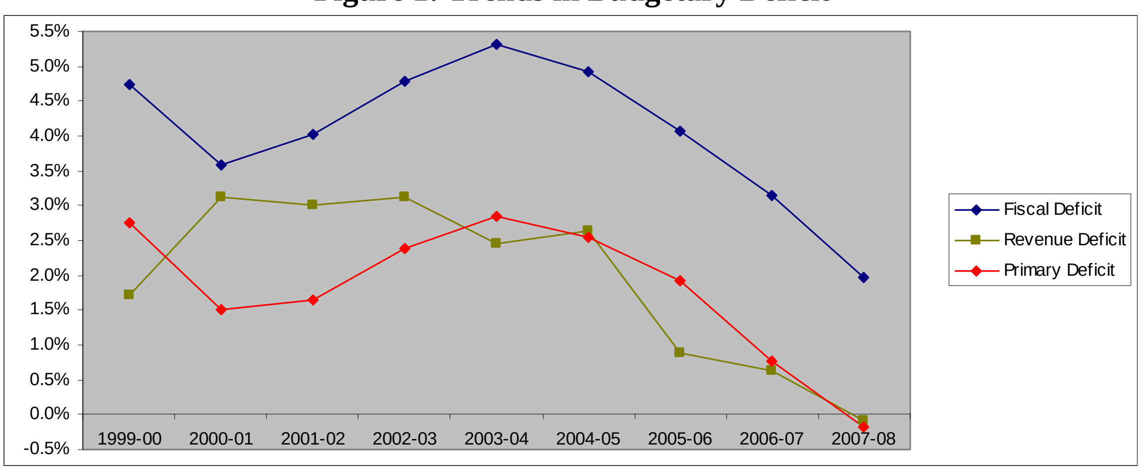
Maharashtra's Fiscal Sustainability-Short Note[1]

This quick assessment of Government of Maharashtra's fiscal sustainability was motivated by an impending request from Government of Maharashtra for scaling up of World Bank assistance in a range of sectors. The potential size of the program could range between USD 2.1 and 4 billion.

Maharashtra underwent a period of fiscal crisis beginning from the mid nineties resulting in a doubling of Maharashtra's debt to GSDP ratio. An economic powerhouse state, Maharashtra experienced a fiscal crisis from the middle of the nineties due to the implementation of the fifth Pay Commission's recommendations, slowing economic growth, increasing state subsidies and rising servicing requirements of off budget borrowings taken for road and irrigation projects. The crisis manifested in rapidly growing revenue (current) and fiscal deficits, debt and contingent liabilities. The fiscal deficit grew from 2% of GSDP in 1993/94 to 5.3% of GSDP in 2003/04 and the revenue deficit from 0.1% of GSDP in 1993/94 to 3% of GSDP in 2002/03 (Figure 1). Over the same period debt grew from 13.5% of GSDP to 29% in 2003-04. Rising debt stock increased interest expenditure – to 29% of revenue in 2003/04, making Maharashtra a debt stressed state under Government of India's guidelines.

However, Maharashtra is affecting a successful fiscal turnaround. From the peak of the crisis in 2003-04 there has been a sharp improvement in the state's finances. There was more than a one percent point improvement in the fiscal deficit by 2005-06 and nearly 2 percent point improvement in the revenue deficit. Between 2003-04 and 2006-07, 89% of the improvement in the fiscal deficit was contributed to by an improvement in revenue and 11% from expenditure adjustment. If compared with the 2007-08 budget estimates, the contribution of expenditure adjustment to fiscal deficit adjustment could increase to 45%. However, we may have to wait for the estimates of the budget outturn (tabled with budget 2008-09) to confirm if the adjustment will indeed be achieved. Due to improvement in the fiscal position, the liquidity position of the state government has also improved and the state did not have to utilize the temporary overdraft facility which is ways and means support to cover temporary mismatch between revenue and expenditure provided by the Reserve Bank of India in 2006-07.

Figure 1: Trends in Budgetary Deficit



[1] Prepared by Mohan Nagarajan with research assistance from Pralhad H. Burli. Many thanks are due to V. J. Ravishankar for his active guidance.

Maharashtra has followed a reform plan to effect a fiscal turn around. The Government of Maharashtra first adopted a Medium Term Fiscal Reforms Programme (MTFRP) in December 2001. This has been revised twice after the enactment of the Maharashtra Fiscal Responsibility and Budgetary Management Act, 2005 (FRBM). In tune with the recommendations of the Twelfth Finance Commission and the FRBM, the MTFRP 2007-08 seeks to eliminate the revenue deficit by 2008-09 (and maintain revenue surplus thereafter) and reduce the fiscal deficit (interpreted by ratio of expenditure on interest to revenue receipts as defined in the FRBM). Although the fiscal deficit target is not defined by the FRBM, the understanding is that the fiscal deficit to GSDP target to be attained by 2008-09 is 3% (as required by the Finance Commission). In discussions officials maintained that the policy stance is to hold the fiscal deficit at that level or improve thereafter from 2009-10 onwards. In the MTFRP statement, outstanding debt of the state is proposed to be reduced to about 22% of GSDP by 2009-10 and outstanding guarantees to about 5.6% of GSDP (from about 14% of GSDP as on March 31, 2007).

Maharashtra's fiscal policy strategy statement presents a combination of policy measures to achieve the Government's fiscal targets. The main fiscal strategies are: (i) improve tax administration for widening the tax base through better compliance and recovery of tax arrears. The measures outlined to achieve this objective being: computerization of sales tax department, better enforcement of excise duty regime combined with revision of rates, revision of motor vehicles taxes, rationalization of tax on non-agricultural land and expanding entertainment tax (ii) policy to fix user charges and fees based on the nature of the levy and cost of providing the services accompanied by some revision (iii) reorienting plan expenditure to finish incomplete works to make the investments productive, review and rationalization of non-plan schemes and convergence of plan schemes (iv) restructuring of non-merit subsidies; and (v) containing off-budget liabilities (off budget borrowing has been abolished with effect from 2005-06) and review of specific purpose funds created in the state's public account in the name of various implementing agencies, such as Societies or PSUs , to whom amounts are transferred from the Consolidated Fund of the state. About 25 specific purpose funds have been abolished so far and a few more will be wound up.

Revenue has been growing healthily facilitating the fiscal turnaround. The state's revenue growth picked up from 2004-05 growing by about 20% annually every year. There has been a gain of almost 2 percentage points of GSDP in revenue from 2003-04, increasing from 10.2% of GSDP to 12.1% of GSDP in 2006-07. While the state's own tax revenue grew well in 2004-05 and 2006-07 (22% and 20% respectively thus gaining half a percent of GSDP), there has been a jump in the growth of state's share in central tax revenue and grants as compared to 2005-06 (by about a percent point of GSDP in 2006-07), being the first year of the implementation of the Twelfth Finance Commission's award. The share of grants has been high because of the compensation the state received from the central government for slower growth from VAT as compared to projected VAT derived using annual average growth rates based on three best years in the period 2000/01 to 2004/05). Under the compensation scheme the central government compensated states 100% of the shortfall in VAT growth in the first year, 75% in the second year and 50% in the third year after VAT introduction. In 2005-06 the compensation was Rs. 2115 crore while the figure for 2006-07 could not be known.

Figure 2: Composition of Revenue

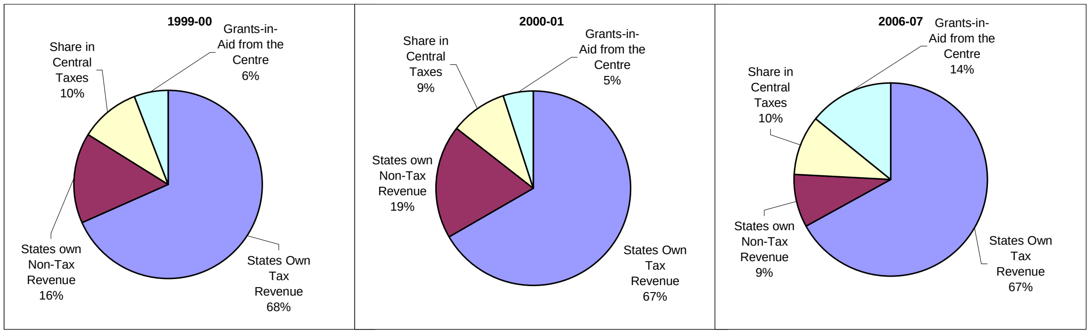
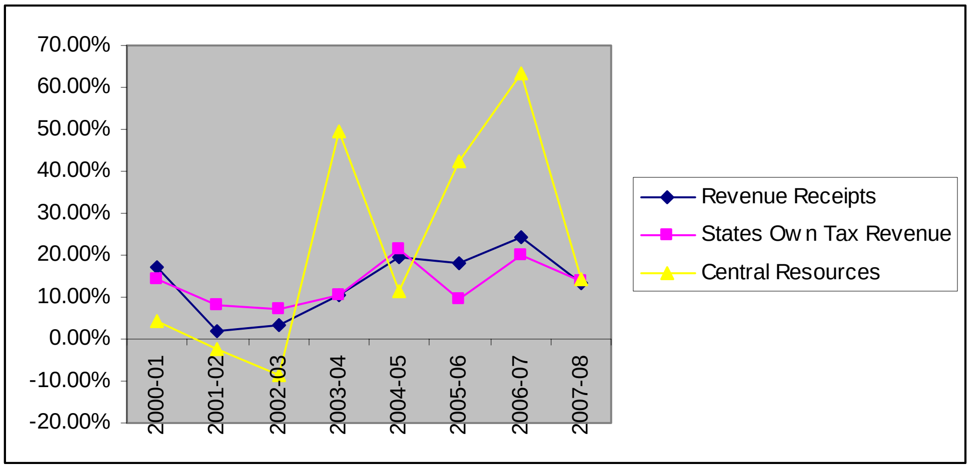


Figure 3: Growth in Revenue



Expenditure profile is improving. Maharashtra's expenditure composition has shown distinct improvement. Much of the improvement has resulted from control over salaries resulting in its declining share in current expenditure. Hiring against vacant positions had been frozen but has resumed from the last fiscal year. A snapshot of the changing composition of GoM's current expenditure in presented in Figure 4. Current expenditure has been tightly controlled showing a decreasing trend as a share in GSDP from 15% of GSDP in 2000-01 to 12.8% of GSDP in 2006-07. The adjustment has been sharper after 2004-05. From 2005-06 onwards, capital expenditure has also adjusted downwards (negative growth in 2006-07 and 2007-08) to meet the fiscal deficit target of 3% of GSDP by 2008-09 (Figure 5 and 6). In the tenth plan period (ended 2006-07), the state spent only 83% of planned outlay as against 99% in the ninth plan as a result of expenditure adjustments.

Although we have no direct figure for non-wage operations and maintenance expenditure, calculations from the object wise expenditure presented in the Medium Term Fiscal Policy statement of the state government show that this was close to 10% of total expenditure in 2005-06 and estimated at 14% in 2007-08. This is close to the levels at the beginning of the fiscal crisis of 11%-12% between 2000/01 and 2001/02.

Figure 4: Changing composition of current expenditure

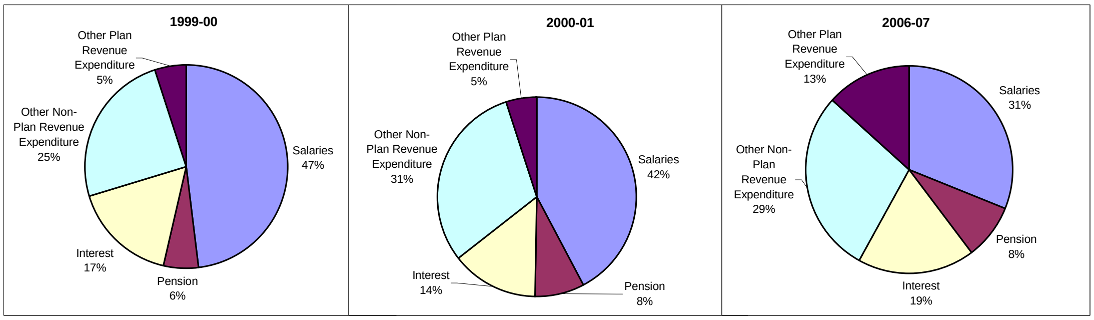


Figure 5: Expenditure Trend

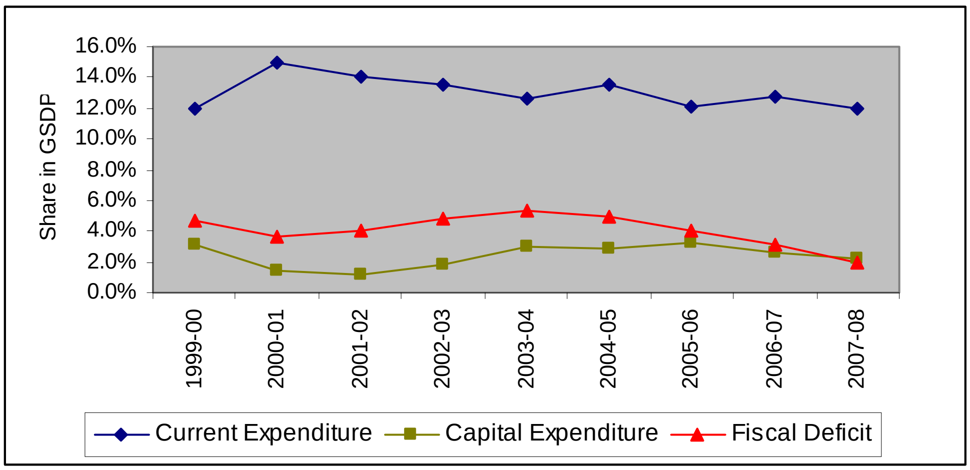
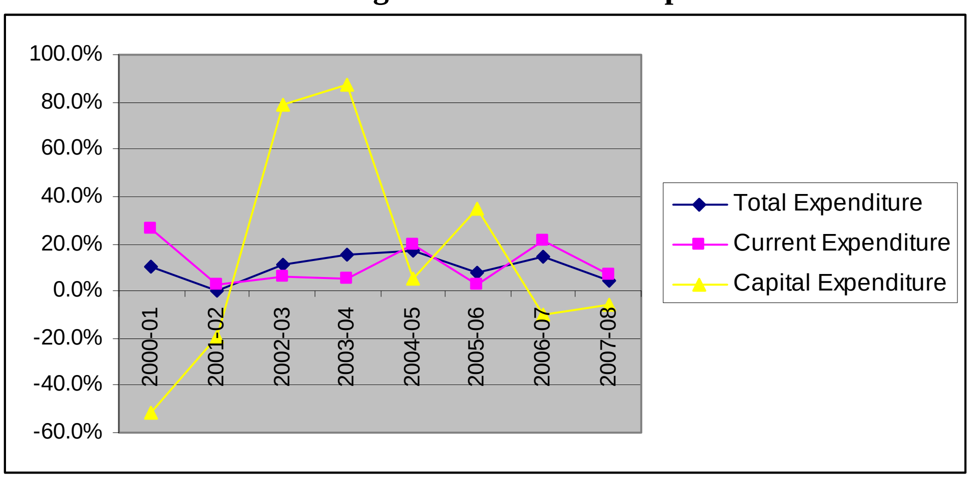


Figure 6: Growth in Expenditure

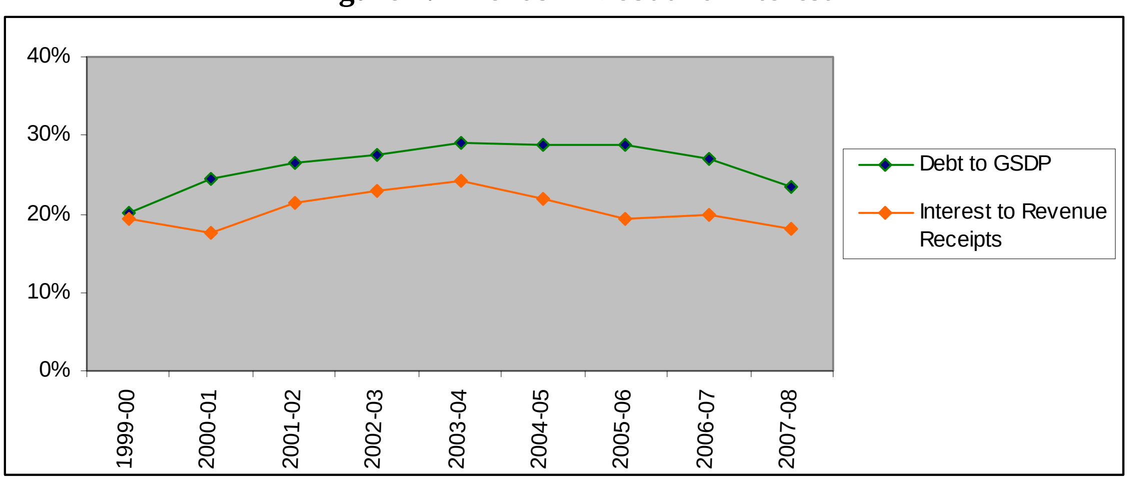


Control of subsidies remains a challenge. Maharashtra faces a steep challenge in rationalizing and targeting direct subsidies. The total amount of direct subsidies in 2006-07 was Rs. 3779 crore amounting to nearly 5% of total expenditure with the bulk being provided for subsidized electricity (Rs. 1700 crore) to the state Electricity Board and transport subsidy (Rs. 300 crore) to the state's public sector transport agency. The state has managed to prune some other subsidies. Subsidy given under the state's Cotton Monopoly Procurement Scheme has been pruned by adopting the minimum support price issued by the Central Government rather than the earlier practice of adopting a higher state's own minimum support price. The policy change has worked so far because higher market prices for cotton meant no pressure on public procurement of cotton by the government. However, sugar market crisis has meant that the state has begun to subsidize sugar production and the estimated expenditure is Rs. 200 crore in 2007-08. This could potentially fuel demand for similar support from other horticulture producers such as mango onions, grapes, pomegranates etc. close to an election year.

Balancing regional development expenditure. The state's major challenge in expenditure management is to balance development expenditure between the state's three main regions: Vidarbha, Marathwada and the Rest of Maharashtra. The statutory requirement originates from the integration of these regions during the state's formation. Under this unique feature of planning and budgeting - in line with a constitutional provision created in 1994, the Governor of Maharashtra (on behalf of the President of India) issues Directives every year for the Annual Plan. These consist of (i) Directives for Irrigation sector, and (ii) Directives for sectors excluding irrigation, eight in all – Roads, General Education, Technical Education, Public Health, Urban Water Supply, Soil Conservation, Veterinary Services and Energisation of pump-sets. The Directives specify region-wise allocation of plan expenditure between Vidarbha, Marathwada and the Rest of Maharashtra, specifying sectoral allocation requirements for "backlog removal". The emphasis is on eliminating financial rather than physical backlog. The statutory expenditure equity requirement can have a role in the design of projects supported by the World Bank in irrigation and other sectors in the state.

Maharashtra's debt profile is improving. After peaking at 29% of GSDP in 2003-04, Maharashtra's debt to GSDP ratio has begun to improve. At the end of 2006-07(RE) the debt to GSDP ratio is expected to have declined to 27.1% (Figure 7).

Figure 7: Trends in Debt and Interest



Government of Maharashtra has been restructuring its debt from 2003-04. Like other states, it first took advantage of the debt swap scheme run by the central government for swapping high cost central debt between 2002-03 and 2004-05 (Rs. 14,671 crore), followed by restructuring of financial institution loans such as NABARD. This was in turn followed by the restructuring of Government of India loans under the twelfth Finance Commission's award (TFC). Under the TFCs award, Rs. 7812 crore of GoI debt was restructured and reissued at a lower coupon rate of 7.5% for 20 years with an inbuilt feature of write-off of annual repayments if agreed fiscal adjustment targets were achieved annually. The potential savings are Rs. 1,133 crore from debt write-off and Rs. 1,217 crore from interest savings over the period 2005-10. Because of the debt swap the average cost of debt has declined from 12% in 2001-02 to 9.3% in 2006-07.

During the late nineties, Government of Maharashtra had resorted to off-budget borrowing using state guarantees provided to special purpose vehicles set up in the public sector to complete road and irrigation projects. Most of the borrowings were short term (upto five years) used to finance the creation of assets with long construction and gestation periods and added to the debt servicing burden of the government. Off-budget borrowing was also undertaken to support the cotton monopoly procurement scheme and provision of rural drinking water through public sector enterprises set up for the purpose. The off-budget debt has been consolidated with on – budget debt since 2000-01 and the government stopped off-budget borrowing from 2005-06. The amount of off- budget debt has since declined from a peak of Rs. 13,578 crore in 2003 to Rs. 6,793 crore by March 31, 2007, about half its original level.

There are other indications also of improvement in Maharashtra's debt profile. The ratio of debt stock to revenue receipts which was 256% in 2005-06 is expected to decline to 211% by the end of 2007-08. Similarly, debt service charges as a proportion of revenue receipts is set to decline from 36% in 2005-06 to 29% in 2007-08. Interest to revenue receipts ratio has declined to 18.7% in 2006-07, effectively removing Maharashtra from Government of India's categorization of debt stressed states.

However, contingent liabilities in the form of guarantees continue to be large (the result of off- budget borrowing from the late nineties) and remains a concern. As of March 31st, 2007, outstanding guarantees' (at Rs. 63,509 crore) were 13% of GSDP (taking overall liabilities to 39%), the highest among Indian states. The Government's target is to bring this down to 5.6% of GSDP by 2009-10. Scrutiny process for issuance of guarantees has been tightened through a Government Resolution 99. Guarantees now require cabinet approval. However, there is no target under the state's fiscal responsibility legislation capping guarantees. Introduction of such a provision is required for strengthening the management of guarantees. Other states such as Karnataka and Tamil Nadu already have such a provision in their respective FRBM.

The management of guarantees is being strengthened in other ways following a crisis resulting from guarantee invocation in 2003 when Maharashtra's state guarantee was invoked by lenders to sugar cooperatives following a payment default. This along with the worsening position of the state government's finances led to the state government's credit rating being downgraded to speculative grade by credit rating agencies. The credit rating has since been restored to investment grade in 2005 reflecting improvement in the state's fiscal position. Monitoring of guarantees is being strengthened through the creation of a database of guarantees (underway), efforts to restructure legal agreements towards greater risk sharing by lenders (a note has been prepared for the state cabinet) and closer watch over guarantee invocation instances.

Fiscal Projections

Based on discussions with Government of Maharashtra's Finance and Planning Department officials we have tried to project Maharashtra's finances. At the outset it must be stated that these are our own views of Maharashtra's fiscal trajectory. The Government did not share with us its fiscal projections. It was suggested to us that we prepare our own projections for analysis purposes. However, the Government provided information on two critical fiscal events: (i) the likely impact of the sixth Pay Commission and (ii) size of the eleventh five year plan (Rs. 1,27,000 crore including central share). In addition, it was made known to the team that the government's fiscal stance would be to reduce the fiscal deficit to GSDP ratio below 3% in order to be comfortably under the Government of India's debt stressed state definition (interest to revenue receipts exceeding 20%).

The fiscal projections are presented in Tables 1c and 1d. They show that the Pay Commission payout (Rs. 15,000 crore) will result in stress in the state's finances in 2008-09 and 2009-10. To sustain plan spending and keep to the fiscal adjustment targets some contraction in other non-plan expenditure growth combined with a slightly more aggressive revenue growth would be necessary. In 2008-09, the year of implementation of the Pay Commission's award, plan spending will have to be curtailed (by 14%). Plan spending (both on revenue and capital accounts) will decline and will assume its 2007-08 level from 2010-11 onwards. Maintenance of a revenue surplus from 2009-10 onwards (or even elimination of the revenue deficit in 2008-09) is unlikely due to the Pay Commission related spending pressures. An exact determination of whether the proposed assistance of between USD2 - 4bn in World Bank assistance could be provided without affecting fiscal sustainability could not be made as the Government has not determined whether the proposed projects are already included in the state plan or are additionalities. To the extent that these are included in the state plan (and that should be the Bank's position) they could be protected but would need to be phased given the nearly USD 3.8 bn impact from pay revision in 2008-10.

If an overall conservative fiscal stance is maintained, key ratios will be comfortable with an outlook of sustainability. The fiscal deficit to GSDP ratio can potentially decline to 1.6%, interest to revenue receipts may reach 17% and debt to GSDP could decline to 23% by 2011-12. While one could argue for a relaxation of the fiscal deficit targets, the discussion here is based on projections constructed to reflect Government of Maharashtra's view of its desired fiscal trajectory (viz., aggressively reducing interest to revenue receipts ratio).

Debt Sustainability Analysis

A simple debt sustainability analysis was conducted using the fiscal projections as base and projecting forward until 2020. In the baseline scenario, real interest rate is initially set at 5% from 2008-09 onwards. Real GSDP growth is assumed to decline from 9.2% in 2005-06 to 8.5% by 2011-12 and thereafter grows at 7.5% over the next plan period. The fiscal stance as mapped by the primary deficit is assumed at 0.1% of GSDP. Under the baseline scenario, if projected forward to 2019-20, debt to GSDP should decrease to about 20.3% from 26.9% in 2005-06.

The government's baseline scenario was subjected to various stress tests. Assuming that the GSDP growth rate experiences a slowdown starting 2012-13 (twelfth Plan period) and slows to an average GSDP growth rate of 5.3% (as observed during 1997-2002), debt to GSDP will decrease to 23.9 percent by 2015 and further to 22.5 percent by 2020. A pure interest rate shock of, say, 3 percentage points in 2011-12 and 4 percentage points in 2012-13 over the baseline does not have a significant impact on the debt stock in 2020. However, if a decline in central transfers (during the fourteenth Finance Commission period) results in an increase in the primary deficit to an average -0.9% of GSDP (as against -0.1% of GSDP assumed in the baseline), debt to GSDP could increase to 24% by 2020.

In the improbable event of simultaneous materialization of all three shocks, the projected Debt to GSDP ratio increases over the baseline by nearly 7.6 percent of GSDP in 2019/20 to 27.9 percent compared to the baseline case of 20.3 percent. Under each scenario it is observed that all the indicators stabilize after the shocks subside, however the state needs to stay on a strong fiscal correction path to achieve the debt to GSDP ratio indicated in the baseline.

Debt Projections under various Scenarios (percent GSDP)

Scenarios	**2006**	**2012**	**2015**	**2020**
Baseline	26.9	23.6	22.3	20.3
Growth shock to baseline and decline in central transfers	26.9	24.8	27.4	26.4
Interest rate shock combined with decline in central transfers	26.9	25.5	27.5	25.3
Combined interest rate shock in 2012-13 GSDP shock during 2013-2017 and a primary deficit between 2012-2016.	26.9	25.5	29.0	27.9

Conclusions

Maharashtra’s fiscal correction program has taken it on a path of fiscal sustainability. While Fiscal deficit has declined from a peak of 5.3% of GSDP in 2003-04 to 3.1% in 2006-07, debt to GSDP ratio has declined from 29% in 2003-04 to 27% in 2006-07. But the level of guarantee is high at 13% of GSDP significantly adding to the level of overall liabilities. Maharashtra has strengthened the institutional framework for fiscal management by enacting an FRBM underpinned by the preparation of rolling MTFRP broadly aligned with the objective of eliminating the revenue deficit and reducing the fiscal deficit to 3% of GSDP by 2008-09. Fiscal policy had been tightened characterized by higher revenue effort, restraint on hiring, keeping expenditure within available resources, cleaning up of off budget liabilities and debt restructuring. Revenue growth, in the form of central devolution and own revenue, has been strong and has been the dominant factor in fiscal adjustment. The strategy has paid off by putting Maharashtra on to a path of fiscal sustainability, improved its liquidity position, removed it from Government of India’s category of debt stressed states and enabled the raising of its credit rating from speculative to investment grade.

Discussion with the Finance Department of the Government of Maharashtra has indicated preference for conservative fiscal policy stance going forward by keeping the fiscal deficit within levels that will support long term debt sustainability. While this is encouraging, the fiscal stance also implies hard policy choices are inevitable in the immediate future. Some policy choices appear to be inalienable, eg. implementation of the Sixth Pay Commission’s recommendations, and the run up to elections may lead to populist measures. The big fiscal risk is the Sixth Pay Commission that has the potential of absorbing the fiscal space created over the past few years through conservative fiscal management. Our projection based on discussions with Finance Department officials over the fiscal stance and, incorporating the eleventh five year plan and sixth

Pay Commission impact, shows that the implementation of the Pay Commission's recommendations (Rs. 15,000 crore including wage arrears) will squeeze fiscal space. Expenditure adjustment is likely to be borne by capital investment outlay and maintenance expenditure at least in the years of payout of salary arrears following the Pay Commission award (2008-09 and 2009-10). Spending on capital outlay will resume 2006-07 levels from 2010-11 onwards. However, a conservative fiscal stance (as projected) will result in capital outlay declining to about 1.5% of GSDP. Capital outlay (and fiscal deficit) can be safely raised by atleast half a percent of GSDP from 2010 and 2011 onwards (as compared with the projections) with marginal impact on fiscal and debt sustainability.

There appears to be need for better coordination between finance and line departments to make informed expenditure and investment choices. A formal process of internal consultation by line departments with the state's finance department may be desired at least for World Bank funded projects. The FRBM which provides the legal framework for overall fiscal management requires strengthening by: (a) incorporating ceilings on guarantees which is currently non-existent and (b) widening the coverage of indicators targeted under the FRBM to explicitly include fiscal deficit targets (as opposed to the limited targeting of interest to revenue receipts). This will provide the state's fiscal managers more teeth to control off budget borrowings and enable expenditure prioritization through inter-departmental consultations.

After discussion with the Planning Department of the state it is not clear to what extent the proposed World Bank assistance is included within the scope of the state's eleventh Five Year Plan. Given fiscal space considerations it is important that the proposed World Bank assistance be included as part of the state's Plan expenditure and not be seen as an additionality. Therefore it would be good practice to encourage scrutiny of projects by the Finance and Planning Departments at the formulation stage itself to ensure they are well crafted and are supported during project preparation and implementation.

A long term debt sustainability analysis was also conducted as part of this study. A conservative fiscal stance will be required to ensure that Maharashtra's debt position as indicated by the debt to GSDP ratio and debt servicing indicators continues to improve at the end of the five year period. Debt sustainability analysis shows long-term improvement is possible if fiscal parameters attained at the end of 2011-12 are maintained. In the base case, debt to GSDP ratio can decline to 20% of GSDP by 2020. But there could be a 5-6% increase in the debt to GSDP ratio if there is deviation modeled by interest rate and growth shocks and decline in central devolution. Finally, some ***phasing of the proposed World Bank assistance may be required in view of the Pay Commission's impact in 2008-10*** as this will reduce the state's ability to absorb expanded assistance in these years.

Table 1a: Fiscal Table

(Rs. Crore)

Major Fiscal Indicators									
Item	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
	Actuals	Actuals	Actuals	Actuals	Actuals	Actuals	Actuals	RE	BE
GSDP	247457	250642	271293	299279	337495	378839	432413	497172	565284
Revenue Receipts	25269	29567	30093	31103	34371	41013	48438	60267	68299
States Own Revenue	21202	25323	25959	27332	28730	34724	39475	45646	51622
States Own Tax Revenue	17265	19727	21304	22814	25181	30605	33540	40323	45874
States Own Non-Tax Revenue	3937	5596	4655	4517	3549	4119	5935	5322	5748
Central Resources	4068	4244	4134	3771	5640	6290	8963	14622	16677
Share in Central Taxes	2609	2781	2452	2265	3370	3596	4982	6024	7128
Grants-in-Aid from the Centre	1459	1463	1681	1506	2270	2694	3981	8598	9549
Revenue Expenditure	29538	37401	38282	40474	42680	51047	52280	63460	67788
Salaries	14199	15771	15279	15515	16496	17201	18755	19819	22805
Pension	1642	3079	3576	2951	2980	3312	3868	5326	5643
Interest	4884	5225	6429	7130	8335	8979	9347	11769	12114
Other Revenue Expenditure	8814	13326	12997	14879	14869	21555	20310	26545	27226
Non-Plan	7363	11504	10768	12542	12369	18117	16136	18142	17107
Plan	1451	1823	2230	2336	2500	3439	4175	8404	10119
Revenue Deficit/Surplus	4269	7834	8189	9371	8310	10033	3842	3192	-511
Capital Outlay	3761	4463	2948	3684	8199	7877	10078	10516	10690
Net Lending	3676	-3321	-239	1235	1420	710	3710	1911	978
Capital Expenditure (Net)	7437	1142	2709	4919	9619	8587	13789	12427	11668
Total Expenditure	36976	38543	40991	45393	52299	59633	66069	75887	79457
Fiscal Deficit	11706	8976	10898	14290	17929	18620	17630	15620	11158
Primary Deficit/Surplus	6823	3751	4469	7160	9593	9641	8283	3850	-956
Debt Stock	49924	61081	72122	82549	97674	109167	124365	134495	144324
Government Debt Stock	42667	50319	59870	68971	84257	96802	115863	127701	139110
Off-Budget Debt Stock	7257	10762	12252	13578	13417	12365	8502	6793	5214
Memo Items									
Total Expenditure	37227	41138	41289	45862	52781	61674	66620	76392	79991
Non-Plan	31260	34318	36523	40796	45155	52445	53714	58269	59214
Plan	5967	6820	4766	5066	7626	9230	12906	18123	20777
Outstanding Guarantees							58945	59470	

Table 1b: Fiscal Table

Percent GSDP	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Revenue Receipts	10.21%	11.80%	11.09%	10.39%	10.18%	10.83%	11.20%	12.12%	12.08%
States Own Revenue	8.57%	10.10%	9.57%	9.13%	8.51%	9.17%	9.13%	9.18%	9.13%
States Own Tax Revenue	6.98%	7.87%	7.85%	7.62%	7.46%	8.08%	7.76%	8.11%	8.12%
States Own Non-Tax Revenue	1.59%	2.23%	1.72%	1.51%	1.05%	1.09%	1.37%	1.07%	1.02%
Central Resources	1.64%	1.69%	1.52%	1.26%	1.67%	1.66%	2.07%	2.94%	2.95%
Share in Central Taxes	1.05%	1.11%	0.90%	0.76%	1.00%	0.95%	1.15%	1.21%	1.26%
Grants-in-Aid from the Centre	0.59%	0.58%	0.62%	0.50%	0.67%	0.71%	0.92%	1.73%	1.69%
Revenue Expenditure	11.94%	14.92%	14.11%	13.52%	12.65%	13.47%	12.09%	12.76%	11.99%
Salaries	5.74%	6.29%	5.63%	5.18%	4.89%	4.54%	4.34%	3.99%	4.03%
Pension	0.66%	1.23%	1.32%	0.99%	0.88%	0.87%	0.89%	1.07%	1.00%
Interest	1.97%	2.08%	2.37%	2.38%	2.47%	2.37%	2.16%	2.37%	2.14%
Other Revenue Expenditure	3.56%	5.32%	4.79%	4.97%	4.41%	5.69%	4.70%	5.34%	4.82%
Non-Plan	2.98%	4.59%	3.97%	4.19%	3.66%	4.78%	3.73%	3.65%	3.03%
Plan	0.59%	0.73%	0.82%	0.78%	0.74%	0.91%	0.97%	1.69%	1.79%
Revenue Deficit/Surplus	1.73%	3.13%	3.02%	3.13%	2.46%	2.65%	0.89%	0.64%	-0.09%
Capital Outlay	1.52%	1.78%	1.09%	1.23%	2.43%	2.08%	2.33%	2.12%	1.89%
Net Lending	1.49%	-1.33%	-0.09%	0.41%	0.42%	0.19%	0.86%	0.38%	0.17%
Capital Expenditure (Net)	3.01%	0.46%	1.00%	1.64%	2.85%	2.27%	3.19%	2.50%	2.06%
Total Expenditure	14.94%	15.38%	15.11%	15.17%	15.50%	15.74%	15.28%	15.26%	14.06%
Fiscal Deficit	4.73%	3.58%	4.02%	4.77%	5.31%	4.92%	4.08%	3.14%	1.97%
Primary Deficit/Surplus	2.76%	1.50%	1.65%	2.39%	2.84%	2.55%	1.92%	0.77%	-0.17%
Debt Stock	20.17%	24.37%	26.58%	27.58%	28.94%	28.82%	28.76%	27.05%	25.53%
Government Debt Stock	17.24%	20.08%	22.07%	23.05%	24.97%	25.55%	26.79%	25.69%	24.61%
Off-Budget Debt Stock	2.93%	4.29%	4.52%	4.54%	3.98%	3.26%	1.97%	1.37%	0.92%
Memo Items									
Total Expenditure	15.04%	16.41%	15.22%	15.32%	15.64%	16.28%	15.41%	15.37%	14.15%
Non-Plan	12.63%	13.69%	13.46%	13.63%	13.38%	13.84%	12.42%	11.72%	10.48%
Plan	2.41%	2.72%	1.76%	1.69%	2.26%	2.44%	2.98%	3.65%	3.68%
Outstanding Guarantees							13.63%	11.96%	

Table 1c: Fiscal Projections

							(Rs, crore)
Item	**2005-06**	**2006-07**	**2007-08**	**2008-09**	**2009-10**	**2010-11**	**2011-12**
	Actuals	**Actuals**	**LE**	**Proj.**	**Proj.**	**Proj.**	**Proj.**
GSDP	432413	497172	565284	642728	730782	829438	941412
Revenue Receipts	48438	62195	68873	75121	84299	94538	106374
States Own Revenue	39475	47617	52461	58477	65928	73334	81908
States Own Tax Revenue	33540	40098	46147	52376	59447	66284	73906
States Own Non-Tax Revenue	5935	7518	6315	6101	6481	7050	8002
Central Resources	8963	14579	16412	16644	18371	21204	24466
Share in Central Taxes	4982	6024	7128	8340	9758	11416	13357
Grants-in-Aid from the Centre	3981	8555	9284	8304	8614	9787	11109
Revenue Expenditure	52280	61385	71833	83588	92554	99228	107329
Salaries	18755	19882	23544	29412	32500	35912	39683
6th Pay Commn Impact				3000	5000	2000	
Pension	3868	4119	5643	7708	8517	9411	10400
Interest	9347	11656	12458	13577	14493	16545	18106
Other Revenue Expenditure	20310	25729	30188	29891	32044	35359	39140
Non-Plan	16136	18372	19727	20910	22165	24492	27186
Plan	4175	7357	10461	8981	9879	10867	11954
Revenue Deficit/Surplus	3842	-810	2960	8467	8255	4690	955
Capital Outlay	10078	10092	12504	8022	10500	11000	12000
Net Lending	3710	2271	1541	1353	1431	1659	1883
Capital Expenditure (Net)	13789	12363	14044	9376	11931	12659	13883
Total Expenditure	66069	73748	85877	92964	104485	111886	121212
Fiscal Deficit	17630	11553	17004	17843	20186	17349	14837
Primary Deficit/Surplus	8283	-103	4546	4266	5693	804	-3268
Debt Stock	124365	133723	145800	163643	183828	201177	216015
Government Debt Stock	115863	126930	140585				
Off-Budget Debt Stock	8502	6793	5214				
Debt/ Revenue Receipts		215%	212%	218%	218%	213%	203%
Interest/Revenue Receipts		18.7%	18.1%	18.1%	17.2%	17.5%	17.0%
Outstanding Guarantees	58945	63509					

Table 1d: Fiscal Projections (% to GSDP)

Percent GSDP	**2005-06**	**2006-07**	**2007-08**	**2008-09**	**2009-10**	**2010-11**	**2011-12**
Revenue Receipts	11.20%	12.51%	12.18%	11.69%	11.54%	11.40%	11.30%
States Own Revenue	9.13%	9.58%	9.28%	9.10%	9.02%	8.84%	8.70%
States Own Tax Revenue	7.76%	8.07%	8.16%	8.15%	8.13%	7.99%	7.85%
States Own Non-Tax Revenue	1.37%	1.51%	1.12%	0.95%	0.89%	0.85%	0.85%
Central Resources	2.07%	2.93%	2.90%	2.59%	2.51%	2.56%	2.60%
Share in Central Taxes	1.15%	1.21%	1.26%	1.30%	1.34%	1.38%	1.42%
Grants-in-Aid from the Centre	0.92%	1.72%	1.64%	1.29%	1.18%	1.18%	1.18%
Revenue Expenditure	12.09%	12.35%	12.71%	13.01%	12.67%	11.96%	11.40%
Salaries	4.34%	4.00%	4.17%	4.58%	4.45%	4.33%	4.22%
6th Pay Commn Impact				0.47%	0.68%		
Pension	0.89%	0.83%	1.00%	1.20%	1.17%	1.13%	1.10%
Interest	2.16%	2.34%	2.20%	2.11%	1.98%	1.99%	1.92%
Other Revenue Expenditure	4.70%	5.18%	5.34%	4.65%	4.38%	4.26%	4.16%
Non-Plan	3.73%	3.70%	3.49%	3.25%	3.03%	2.95%	2.89%
Plan	0.97%	1.48%	1.85%	1.40%	1.35%	1.31%	1.27%
Revenue Deficit/Surplus	0.89%	-0.16%	0.52%	1.32%	1.13%	0.57%	0.10%
Capital Outlay	2.33%	2.03%	2.21%	1.25%	1.44%	1.33%	1.27%
Net Lending	0.86%	0.46%	0.27%	0.21%	0.20%	0.20%	0.20%
Capital Expenditure (Net)	3.19%	2.49%	2.48%	1.46%	1.63%	1.53%	1.47%
Total Expenditure	15.28%	14.83%	15.19%	14.46%	14.30%	13.49%	12.88%
Fiscal Deficit	4.08%	2.32%	3.01%	2.78%	2.76%	2.09%	1.58%
Primary Deficit/Surplus	1.92%	-0.02%	0.80%	0.66%	0.78%	0.10%	-0.35%
Debt Stock	28.76%	26.90%	25.79%	25.46%	25.16%	24.25%	22.95%
Government Debt Stock	26.79%	25.53%	24.87%				
Off-Budget Debt Stock	1.97%	1.37%	0.92%				
Outstanding Guarantees	13.63%	12.77%					

Table 1e: Growth Rates

Growth rates	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
GSDP		14.98%	13.70%	13.70%	13.70%	13.50%	13.50%
Revenue Receipts		28.40%	10.74%	9.07%	12.22%	12.15%	12.52%
States Own Revenue		20.63%	10.17%	11.47%	12.74%	11.23%	11.69%
States Own Tax Revenue		19.55%	15.08%	13.50%	13.50%	11.50%	11.50%
States Own Non-Tax Revenue		26.68%	-16.01%	-3.39%	6.23%	8.79%	13.50%
Central Resources		62.65%	12.58%	1.41%	10.38%	15.42%	15.38%
Share in Central Taxes		20.90%	18.33%	17.00%	17.00%	17.00%	17.00%
Grants-in-Aid from the Centre		114.90%	8.52%	-10.56%	3.73%	13.63%	13.50%
Revenue Expenditure		17.42%	17.02%	16.36%	10.73%	7.21%	8.16%
Salaries		6.01%	18.42%	24.92%	10.50%	10.50%	10.50%
6th Pay Commn Impact							
Pension		6.49%	37.02%	36.58%	10.50%	10.50%	10.50%
Interest		24.70%	6.88%	8.99%	6.75%	14.16%	9.44%
Other Revenue Expenditure		26.68%	17.33%	-0.98%	7.20%	10.35%	10.69%
Non-Plan		13.86%	7.37%	6.00%	6.00%	10.50%	11.00%
Plan		76.22%	42.20%	-14.15%	10.00%	10.00%	10.00%
Revenue Deficit/Surplus		-121.09%	-465.38%	186.06%	-2.51%	-43.19%	-79.64%
Capital Outlay		0.14%	23.89%	-35.84%	30.88%	4.76%	9.09%
Net Lending		-38.80%	-32.16%	-12.15%	5.73%	15.93%	13.50%
Capital Expenditure (Net)		-10.34%	13.60%	-33.24%	27.25%	6.10%	9.67%
Total Expenditure		11.62%	16.45%	8.25%	12.39%	7.08%	8.33%
Fiscal Deficit		-34.47%	47.18%	4.93%	13.13%	-14.05%	-14.48%
Primary Deficit/Surplus		-101.24%	-4527.20%	-6.17%	33.45%	-85.87%	-506.40%
Debt Stock		7.52%	9.03%	12.24%	12.34%	9.44%	7.38%
Government Debt Stock		9.55%	10.76%				
Off-Budget Debt Stock		-20.10%	-23.24%				
Outstanding Guarantees		7.74%					

Assumptions used in constructing Government of Maharashtra's Fiscal Trajectory

1) Using the latest estimate figures for 2007-08 as the base, the MTFRP projects States Own Tax Revenue to grow at a rate of 13.5% in the years 2008-09 and 2009-10 and slows to a growth rate of 11.5% in the later years The Non-Tax Revenue of the state is also assumed to pick up gradually.

2) The MTFRP also assumes that the sixth Pay Commission will be implemented in 2008-09. The overall impact of the recommendations of the Pay commission is roughly Rs. 15000 Cr on account of increased salaries and pensions (including arrears).

3) If the government decides to take on a larger proportion of the shock in the early years it will have to do so at the expense of a sharp contraction in the expenditure on capital outlay. This would also lead to an increase in the Fiscal deficit as a percentage of GSDP beyond 3%.We have assumed that the government spreads this expenditure over a period of 3 years (as against two years indicated by Government). This will also lead to an increase in the absolute fiscal deficit and revenue deficit in the initial years but subsequent trajectory will be in line with the overall objectives of the government. The expenditures on Capital Outlay will experience a slowdown during the years 2008-09 and 2009-10 ie. when the impact of the Pay Commission kicks in.

4) In the absence of actual information on retirement and pension liability projections, pensions have been assumed to move in tandem with salary growth. These projections will need to be refined in due course as the pension liability projections provide more information.

5) Government of Maharashtra's average interest cost is assumed at 9% on outstanding Debt stock.

6) The Interest Expenditure as a percentage of Revenue Receipts has been maintained in accordance with the targets set by the state government.