Economics

June 13, 2013

State Update – Government of Maharashtra

The state of Maharashtra has registered a growth of more than 8% between FY07 to FY12, establishing itself as a strong growth driver for the country. Maharashtra is the second largest state in India both in terms of population and geographic area (3.08 lakh sq. km.). The State has a population of 11.24 crore (Census 2011) which is 9.3% of the total population of India.

The gross state domestic product (GSDP) at current prices for FY12 is estimated at Rs 11,99,548 crore and contributes about 14.4% to India's GDP. The GSDP has been growing at a rapid pace over the last few years. Presently industrial and services sector both together contribute about 87.1% of the State's income. The agriculture & allied activities sector contributes 12.9% to the State's income. At the micro-level, the state records a per capita income of Rs 95,339 (as of 2011-12), significantly above the national average level of Rs 61,564 for the same year, indicative that benefits of growth are reaching at the individual level.

This update broadly covers the current economic scenario in the state of Maharashtra along with the government's performance in terms of fiscal management; the state recently having announced its budget for 2013-14.

Demographics

- **Population –** 11.2 crore persons (as on March 1, 2011), with decadal growth of 16% (2001-2011), lower than national level decadal growth rate of 17.6%. Population density of 365 persons per square kilometre, below national average of 382 persons per square kilometre.
- **Urbanization –** 45.2% of population stays in urban areas
- **Literacy** – 82.9% (as per Census 2011)
- **Gender ratio -** 925 females per thousand males (Census 2011)

Maharashtra's Economy

Maharashtra's economy has not been immune to the macro-economic environment prevailing at the national level. As per the Advance Estimates released by the Directorate of Economics and Statistics, the GSDP (constant prices) growth rate in FY13 is estimated to be 7.1% same as the growth registered in FY12.

After registering a healthy growth of 4.6% in FY12, agricultural growth is estimated to record a negative growth of 2.1% in FY13. This is mainly because of the rain fed agriculture sector is affected by less than the normal rainfall. Increase in price and wage inflation has led to higher costs of inputs thereby increasing the cost of production, causing slowdown in production (IIP) which recorded growth of 1% in first nine months of FY13.

Growth in manufacturing sector is expected to settle at 5.1%. However, expected growth of 11.2% in construction sector will help Industry sector to grow with 7.0%. The Services sector with a growth of 8.5% over the previous year would help GSDP to maintain its growth same as FY12 at 7.1%.

Budget 2013-14

Budget 2013-14, presents actual accounts (A) for the year 2011-12 and revised estimates (RE) for accounts in 2012-13 along with budgeted estimates (BE) for the year 2013-14. We examine Budget 2013-14 for the state with respect to its revenue and capital accounts and performance thereof –

Revenue Account Profile

Maharashtra in FY13, moved from a revenue deficit position (Rs 2,267 crore in FY12) to a revenue surplus of Rs 27 crore. However, according to the Thirteenth Finance Commission (ThFC) roadmap for fiscal consolidation, the same should have been achieved in FY12 itself. The revenue surplus is estimated to increase to Rs 184 crore in FY14. The government is working towards tax rationalization measures and expenditure prudence.

Table 1: Revenue Account FY12 – FY14 (Rs crore)

Revenue A/c Heads	FY12 (A)	FY13 (RE)	FY14 (BE)
Revenue Receipts	**121,287**	**144,623**	**155,987**
Tax revenue	*100,952*	*115,775*	*125,371*
Non-tax revenue	*8,168*	*11,069*	*11,994*
Revenue Expenditure	**123,554**	**144,596**	**155,803**
Development expenditure	*79,681*	*94,070*	*98,543*
Non-development expenditure	*42,853*	*49,036*	*55,690*
Of which, interest expenses	18,513	20,449	22,690
Revenue Deficit	**2,267**	**-27**	**-184**

Source: Budget 2013-14, Government of Maharashtra

- On the tax front, the state increased tax on cigarettes by 5%, unbranded tobacco by 12.5% and cheaper IMFL brands by 25% among others.
- Tax allocation from the centre to state has declined post FY11 particularly because central tax collections have moderated against a constrained economic environment.
- Non-tax revenue receipts (royalties, fees, user charges, central government compensations to state, etc.), is one component that is heavily influenced by extraneous factors. Given that its share in the revenue receipts is just about 6.0% - 8.0%, it does not critically impact budget performance, particularly when in the case of Maharashtra own-revenue funds account for around 90% of revenue flows.
- In terms of expenditure, most of the government expenses are developmental in nature and targeted towards funding the creation of social services (education, health, social development, etc.), which in turn helps support improve quality of human capital in the state.
- In particular, the state has been proactive in curtailing growth in its debt-service obligations and has successfully lowered the growth in interest expenses from 11.9% in FY12 to 10.5% in FY13 (BE).

Capital Account Profile

The capital account of the state remains in deficit until FY13, primarily because project capital expenditure of the state remains high. This may however, be viewed as a positive; with the state government increasing capital expenditure directed towards the creation of physical infrastructure. The state is however expected to post a surplus of Rs 16 crore in FY14.

Table 2: Capital Account FY12 – FY14 (Rs crore)

Capital A/c Heads	FY12 (A)	FY13 (RE)	FY14 (BE)
Capital Receipts	**28,336**	**27,557**	**38,248**
Internal Debt	*24,146*	*20,247*	*28,013*
Loans from GoI	*306*	*1,487*	*2,755*
Capital Expenditure	**25,673**	**27,422**	**38,264**
Capital Outlay	*17,879*	*19,025*	*23,891*
Repayment of Public Debt	*6,958*	*6,970*	*13,135*
Capital Deficit	**-2,663**	**-135**	**16**

Source: Budget 2013-14, Government of Maharashtra

- Maharashtra has been self-reliant in its capital fund base, with internal debt accounting for majority share (nearly 85% of total capital receipts in FY12). Consequently, share of loans from the Government of India (GoI) in capital receipts of the state has been low, indicating lower dependence on central government borrowings.
- Borrowing of the state are diverted through capital outlay for capacity building, a lion's share of the same being development in nature
- The State of Maharashtra has endeavored to maintain its Gross Public Debt at prudent levels as required under the fiscal management principles.

Budget Management & Fiscal Prudence

Maharashtra has over the years displayed commitment towards budget management and fiscal prudence. It has successfully adhered to the targets of the Thirteenth Finance Commission (except on the Revenue Deficit front). Table 3 below provides a snapshot of timeframe and targets for fiscal consolidation and achievement of the same by the state.

Table 3: Key Fiscal and Debt Norms

	ThFC Target		Achievement	
	Year	Level	Year	Level
Revenue Deficit	2011-12	0	2011-12	Rs 2,267cr
Fiscal Deficit/ GSDP	2011-12	3.0%	2011-12	1.7%
Public Debt/ GSDP	2014-15	25.3%	2011-12	18.8%

Source: Budget 2013 -14, Government of Maharashtra

- Maharashtra has registered a revenue deficit of Rs 2,267 crore in FY12; however the state in its FY13 revised number poses a revenue surplus of Rs 27 crore which is expected to further increase to Rs 184 crore in FY14. Fiscal deficit for the state at 1.7% of GSDP has been well within the prudential norm of 3.0% in FY12. The same is budgeted at a marginally lower level of 1.6%
- The stock of outstanding liabilities of the state is rather high at Rs 246,447 crore in FY13, budgeted to further increase to Rs 270,551 crore in FY14. While the deployment of these borrowings may be towards infrastructure yielding potential benefits, the servicing of these debt-obligations could constrain fiscal flexibility for the state. There are hence, consistent efforts are curtailing public debt relative to GSDP, which stood at 18.8% in FY13 well within targets.
- Maharashtra government has not set up a Guarantee redemption fund (GRF) so far despite the recommendations of the TFC and commitment made in the MTFP of FY09 laid before the state legislature, to meet the contingent liabilities arising from the guarantees given by the Government. However, GoM has a consolidated sinking fund (CSF) with a corpus of approximately Rs. 1,200 crore as on FY12.
- The state also has well-managed short-term liabilities, as is evident from the fact that it has not availed of the ways and means advances (WMA) or overdraft facility of the RBI to tide over temporary liquidity constraints.

Contact:

Madan Sabnavis
Chief Economist
madan.sabnavis@careratings.com
91-022-67543489

Anuja Jaripatke Shah
Associate Economist
anuja.jaripatke@careratings.com
91-022-67543552