Research Report No.5/2018-19

Government of Karnataka
FISCAL POLICY INSTITUTE

Kengeri Post, Bangalore-Mysore Road, Bengaluru-560060
Phone: +91 80 26971000, Fax: +91 80 26971010,
e-Mail: director[at]fpibangalore[dot]gov[dot]in

Research Report

on

Compliance of Karnataka State to Karnataka Fiscal Responsibility Act, 2002: A Review

Dr. M. R. Anantha Ramu
Consultant (Academic & Research)

January, 2020

Certificate

This report titled *"Compliance of Karnataka State to Karnataka Fiscal Responsibility Act, 2002: A Review"* is a report on the study taken up at the Fiscal Policy Institute (FPI) in 2018-19.

The report is prepared by Dr. Anantha Ramu M R, Research Consultant, FPI under the mentorship of then Special Officer Ms. Nelleri Umeshwari.

All opinion and conclusions expressed in this report are of the Research Consultant and usual disclaimer applies.

Sujit Kumar Chowdhury
Director, FPI

Institute's Seal

TABLE OF CONTENTS

Abstract 4

Executive Summary 5

List of Chapters 7

List of Tables 7

List of Illustrations 7

Abstract

Subnational fiscal rules have gained prominence across the countries since early 90s. It was opined that fiscal discipline at subnational level is necessary to achieve the general government fiscal balance. Government of India enacted the Fiscal Responsibility and Budget Management Act in the year 2003 which laid down a fiscal consolidation roadmap to the Central government. Central Finance Commissions and Government of India, through several incentives, encouraged the Indian states to enact fiscal responsibility legislations. By the year 2010, all Indian states have enacted state-specific fiscal responsibility legislations.

Karnataka government is the frontrunner in enacting the fiscal responsibility legislation even before the Central government. This report critically examines the compliance of Karnataka Government to Karnataka Fiscal Responsibility Act (KFRA), 2002. Since enactment of the KFRA, Karnataka government has not breached the fiscal targets with the exception of distress years 2008-09 and 2009-10 due to the global financial crisis. The state has surplus on the revenue account and is in line with the Golden Rule. Government is adhering to all most all the fiscal management principles and fiscal transparency codes. The report concludes that Karnataka state finances are on track and stand at the top among subnational governments in India with regard to fiscal management and discipline.

Executive Summary

Higher fiscal deficits and debt are found to be adversely affecting the macro economy. Many of the governments at national as well as subnational level are following the rule-based fiscal correction mechanism by fixing numerical ceilings on deficits and debt. There are broadly four types of fiscal rule, namely Balanced Budget Rule, Debt Rule, Expenditure Rule and Revenue Rule. By the year 2015, a total of 93 countries have adopted fiscal rules of one kind or the other. It was found that for successful fiscal consolidation of the general government, controlling deficits through fiscal rule at subnational level is necessary. In the 1990s, enactment of fiscal rules got momentum.

In India, the fiscal consolidation process started in the early 90s. However, it was constitutionally made mandatory with the enactment of the Fiscal Responsibility and Budget Management Act only in 2003. As per the Act, numerical ceilings on fiscal deficit and debt are fixed at 3% and 60% of GSDP respectively. A recently constituted FRBM review committee has revised the numerical ceilings and consolidation road map. The Eleventh and Twelfth Central Finance Commissions have asserted the importance of subnational fiscal rules in maintaining the general government fiscal balance. Schemes recommended by Central Finance Commissions like Fiscal Reforms Facility, Debt Swap Scheme etc have incentivised as well as mandated the states to enact fiscal responsibility legislations.

The government of Karnataka enacted a fiscal responsibility legislation in the year 2002, a year ahead of the Central government. Karnataka Fiscal Responsibility Act, 2002, fixes a cap on the fiscal deficit at 3% of GSDP, debt at 25% of GSDP and surplus on the revenue account. The Act also contains procedural rules to be followed by the state. The Medium Term Fiscal Plan has to be laid before the legislature every year. Seventeen fiscal management principles is a unique feature of the Act. The state has to adhere to these principles, as per the Act.

Since the enactment of KFRA, the state has never breached the fiscal targets except for the year 2008-09 and 2009-10 due to global financial crisis. In these years, the fiscal deficit target has been increased to 3.5% of GSDP in 2008-09 and 4% of GSDP in 2009-10 by amending the Act. The total outstanding liabilities are within the specified limit of 25% of GSDP. The state is having a surplus on the revenue account since 2004-05. However, the surplus is coming down in recent years. Guarantees given by the state are far below the prescribed ceiling. The state is following almost all fiscal management principles except a few. Non-tax revenue collections have to be strengthened by revising the rates and base. The government has to keep a check on the budgetary support given to public sector undertakings. Net revenue from the PSUs are going down over the years. As per the Act, the government has provided open access

to all the public finance data. Budget documents, MTFP documents, annual financial statements, quarterly reviews of fiscal indicators etc are provided on the website of the Finance Department. The government has also set up the Fiscal Policy Institute to conduct extensive research on fiscal area and other emerging issues and also to train the government officers in prudent fiscal management. Overall, Karnataka is fiscally a well-managed and disciplined state.

List of Chapters

Chapter 1

Fiscal Rules: International Experience 9 - 11

Chapter 2

Fiscal Rule in India 12 - 19

Chapter 3

Fiscal Rule in Karnataka 20- 23

Chapter 4

State's Compliance to KFRA 24 – 28

Chapter 5

Conclusion and Policy Implications 29 - 30

Bibliography 31 – 32

List of Tables

4.1 Deficits & KFRA Ceilings 25

4.2 Outstanding Liabilities & KFRA Ceilings 26

List of Illustrations

2.1 Deficit Indicators of Central Government (% of GDP) 13

2.2 Liabilities of Central Government (% of GDP) 14

3.1 Fiscal Deficit and Revenue Deficit of Karnataka (% of GDP) 20

4.1 Outstanding Guarantees 26

Compliance of Karnataka State to Karnataka Fiscal Responsibility Act, 2002: A Review

The International Monetary Fund (IMF) defines Fiscal Rule as a rule which imposes a long lasting constraint on fiscal policy through numerical limits on budgetary aggregates. Fiscal imbalance was one of the major macroeconomic problems being faced in India. The fiscal situation reached the worst condition in the early 1990s at the Central government level. The government had to take several measures to control the fiscal imbalance. However, in the late 90s and early 2000s, the fiscal situation started deteriorating again. Public spending priorities are most often politically driven. To control the government's excessive expenditure and reduce deficits over the years, Government of India followed the path of a rule-based fiscal correction mechanism. In 2003, the Fiscal Responsibility and Budget Management Act was enacted.

A cap on government spending is required; otherwise, it would result in higher deficits and debt, given the level of revenues. High deficits are found to be adversely affecting the macro economy. Ramu (2016) and Ramu & Gayithri (2016 & 2017) have observed that high fiscal deficits lead to high inflation, low economic growth and high external deficits. Khundrakpam & Pattnaik (2010) have also observed that excessive deficits are the risk factors for a high level of inflation.

In the late 90s and early 2000s, fiscal deficits and the debt situation of many of the state governments in India got worsened. Combined fiscal deficits of Central and state governments crossed 9% of the GDP in 2001-02. Following the Central government, many states have enacted fiscal responsibility acts. Among the Indian states, Karnataka was the first state to adopt the Fiscal Responsibility Act in the year 2002, even before the Central government.

The remainder of the report is divided into four chapters. The first chapter presents a discussion on fiscal rules being followed across the world, particularly at the subnational level. The second chapter discusses fiscal phenomena at the Central government level and also among the Indian states. In the third chapter, a brief review of the KFRA Act 2002 is presented. Compliance of the Karnataka state government to KFRA Act in terms of achieving its objectives are discussed in the fourth chapter. The fifth chapter concludes the report while mentioning a few policy implications.

Chapter 1

Fiscal Rules: International Experience

Basically, there are four types of fiscal rules, namely budget balance rule, debt rule, expenditure rule and revenue rule. Fiscal rules vary from one country to another. A few countries are following the budget balance rule and in some of the countries, the level of debt is restricted as percentage of GDP. Several countries put a cap on the expenditure and revenue to be raised. Quite often, these rules are combined.

Fiscal rules are needed to support fiscal sustainability and short term stability. They help in creating a framework condition for achieving balanced economic growth. Fiscal rules also help in reducing the size of the public sector. They also help in promoting allocative efficiency.

Provincial governments in Canada have different sets of fiscal rules that vary across the provinces. The fiscal rules followed in Canadian provinces are Balanced Budget Act, Taxpayer Protection Act, Fiscal Stabilization Fund Act, Fiscal Responsibility and Balanced Budget Act, Fiscal Transparency and Accountability Act, Expenditure Control Act, Financial Management Act etc (Lledo et al., 2017). The Canadian Central government is following the balanced budget rule, expenditure rule and debt rule since 1998.

In Brazil, personnel expenditure is limited to 60% of the net current revenue for states and municipalities. The senate sets the debt limit for states and municipalities (Lledo et al., 2017). There was never an agreement reached on the debt limit of the Central government. The government sets numerical multi-year targets specifying the deficit level and expenditure level. A special feature of Brazil's Fiscal Responsibility law is dictating the fiscal crime law. It sets penalties for mismanagement of public funds and it ranges from fines to loss of job and even jail terms. The golden rule is being followed with respect to borrowing.

The fiscal rule exists in Denmark since 1992. However, it was constitutionalised in 2014. The rule applies to the general government. Ceilings have been set as legally binding limits for the expenditure of Centre, regions and municipalities. The expenditure ceilings are to be adopted in parliament and cover a continuous period of four years (Lledo et al., 2017). The revenue rule is also being followed in Denmark. As per the revenue rule, direct and indirect taxes cannot be raised and derogation from the rule is allowed only if the tax rate is raised for environmental reasons or to fulfill the obligations set by the European Union. The balanced budget rule in Denmark specifies that the annual structural fiscal balance should not exceed a deficit of half

a per cent of GDP at the time of the budget proposal for a given year unless extraordinary circumstances are present.

The Central government of France follows the revenue rule and expenditure rule whereas the budget balance rule applies to the General government. Germany is following the balanced budget rule since 1969 and it was revised in 2010. Borrowing is limited only for investment purposes. As per the amendments in the fiscal rules of Germany, balanced budget rule will be applicable to states with effect from 2020 (Lledo et al., 2017). The expenditure rule applies to both the Centre and states as per which on an average, expenditure cannot grow faster than revenue. Spain follows the expenditure rule and it applies to the General government. As per Spain's fiscal rule, nominal expenditure growth for Central and local governments shall not exceed Spain's nominal medium term GDP growth. The balanced budget rule will come into force from 2020 for local governments.

Indonesia is following the debt rule and balanced budget rule. As per the debt rule of Indonesia, the Central and local government debt should not exceed 60% of the GDP. The balanced budget rule specifies a budget deficit limit of 3% of GDP consolidating the Centre and the states.

The Fiscal Responsibility Act of New Zealand is one of the well defined as well as followed fiscal rules in the world. It was enacted in 1994 comprising debt rule and balanced budget rule. As per the Act, the government needs to run operating surpluses annually until prudent debt levels are achieved. Once these are achieved, on an average, total operating balances should not exceed total operating revenues (Lledo et al., 2017). The government needs to set out specific debt targets as a percentage of GDP with three-year and ten-year objectives.

In Austria, the Domestic Stability Pact was introduced in 1999 and revised in 2001. It sets certain obligations and sanctions for sub-Central governments. The pact mandates a balanced budget for municipalities and surpluses for the regions, with financially stronger Laender (region) contributing more to overall target (Southerland et al., 2006).

A Domestic Stability Pact was imposed in Italy in the year 1999. The pact sets limits at which deficit can grow. If Italy is fined under European Union's excessive deficit procedure, the fines are allocated to the governments that failed to meet their targets in proportion to their contribution to the national overshot (Southerland et al., 2006).

Spain's Fiscal Stability Law, 2001 determines that from 2003, budgets of all levels of government should be at least in balance. If a sub-Central government runs a deficit, it should submit an action plan to resolve this situation within four years (Southerland et al., 2006). The action plan will be ratified by the Supervisory Council for Fiscal and Financial Policy

composed of officials from the Central government's Ministry of Finance and the sub-Central government.

Under the Stability and Growth Pact of the European Union and Maastricht Treaty, setting borrowing caps in terms of general government deficit made the Central government accountable for deficits and debt incurred by the sub-Central government. Following the Act, many European Union countries have aligned domestic fiscal rules with their supra national commitments.

At subnational level, many of the states follow the balanced budget rule and debt rule. However, a few states stress the importance of containing expenditure growth over revenue growth. Almost all the subnational governments' fiscal rule is based on the 'golden rule' of Public Finance, as per which borrowed money has to be used for productive investments.

Chapter 2

Fiscal Rule in India

The fiscal consolidation process was started in India in the early 1990s. The combined fiscal deficit levels of the Central and state governments were approaching almost double digit in 1991. The Central government's fiscal deficit alone was as high as 7.6% of the GDP in 1990-91 (refer Figure 2.1). The Central government took measures to control the deficit level by cutting expenditure and bringing in tax reforms. It appointed a Tax Reforms Committee under the chairmanship of Raja Chellaiah in the year 1991. The committee recommended that the government widen the tax base, bring in the service sector under the tax net, reduce the corporate tax, undertake computerisation of the tax system and improve the quality of the tax administration. The thrust of the Tax Reforms Committee was to reduce the share of trade tax in total tax revenue, increase domestic consumption tax and increase the relative contribution of direct tax. Reduction in marginal tax rates has improved compliance significantly. Revenues from corporate and personal income taxes have shown appreciable increase after the reforms were initiated in spite of reduction in tax rates (Rao, 2000). Even though there was reduction in indirect taxes, the contribution of direct taxes has increased significantly. Government could achieve reduction in fiscal deficits between 1991-92 and 1993-94 with increase in revenues and reduction in non-interest expenditure. The fiscal deficit of the Central government as a percentage of GDP declined from 7.6% in 1990-91 to 5.19% in 1993-94. Major elements of decline were reduction in defence spending, subsidies and expenditure on financial assets (GoI, 1994).

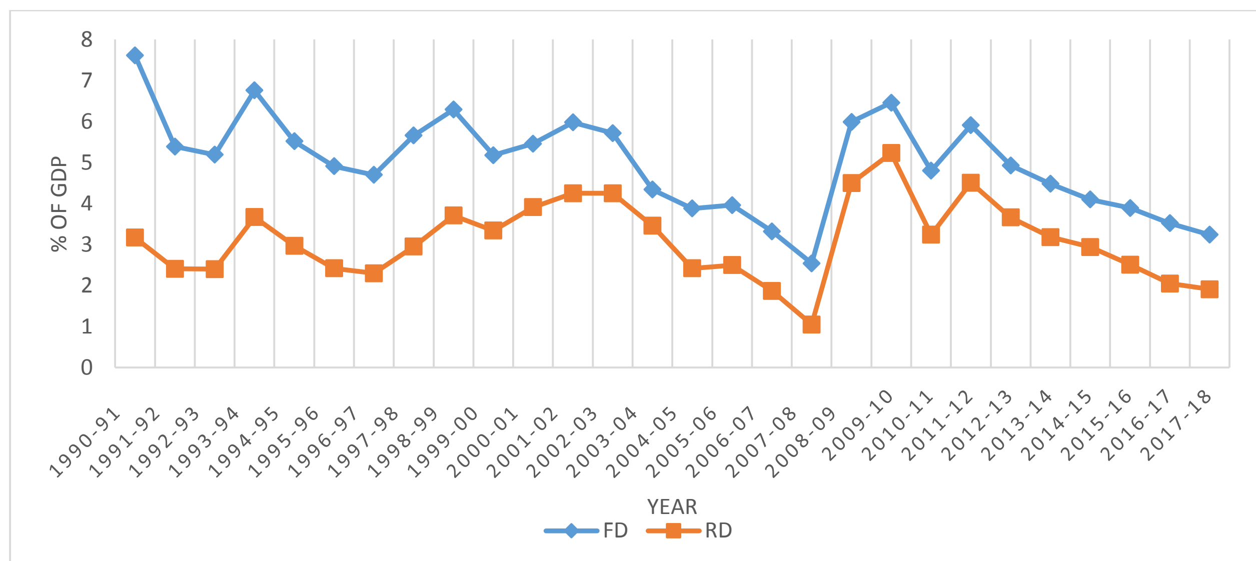
The fiscal situation started deteriorating again in 1997 with the implementation of the 5th Central Pay Commission's recommendations. There was a sharp escalation in the salary and pension bill. These two items of expenditure constituted around 16.3% of the total revenue expenditure. The implementation of the 5th Central Pay Commission recommendations at the Centre has provided a benchmark for pay revisions at the state level. This has led to a substantial increase in the states' salary and pension expenditure, thereby adversely affecting fiscal health (GoI, 1999). Increase in the military spending due to the Kargil War in 2000 and political inconsistency in the late 2000s has resulted in a rise in deficits and debt. The fiscal deficit of the Central government was around 5.98 % of the GSDP in 2001-02 and the revenue deficit was 4.25% (refer Figure 2.1). The debt situation of the Central government got worsened as total liabilities reached almost 67% of GDP in the year 2002-03 (refer Figure 2.2).

The financial difficulties faced by the state governments due to pay hike were discussed in the National Development Council (NDC) meeting held in February 1999. In the meeting, it was

decided that the joint efforts of the Centre and states were required to solve the fiscal problems (GoI, 2000). In addition to it, it was decided that the Central government would support states in the form of advance financial assistance with a time-bound programme of medium-term fiscal reform to be undertaken by the concerned state. The main objective of the fiscal reforms programme for states was to wipe out the revenue deficits completely in the medium term. The programme was also aimed at promoting reduction in non-plan revenue expenditure, pricing/subsidy reforms to improve allocative efficiency, institutional reforms and minimising the government's role in non-essential areas. In 1999, nine governments entered into agreements with the Central government (GoI, 2000). It was noted that the states which were not in acute fiscal distress had come forward to discuss the fiscal reforms programme. During 1999-2000, the number of states that entered into agreements rose to 13.

Figure 2.1

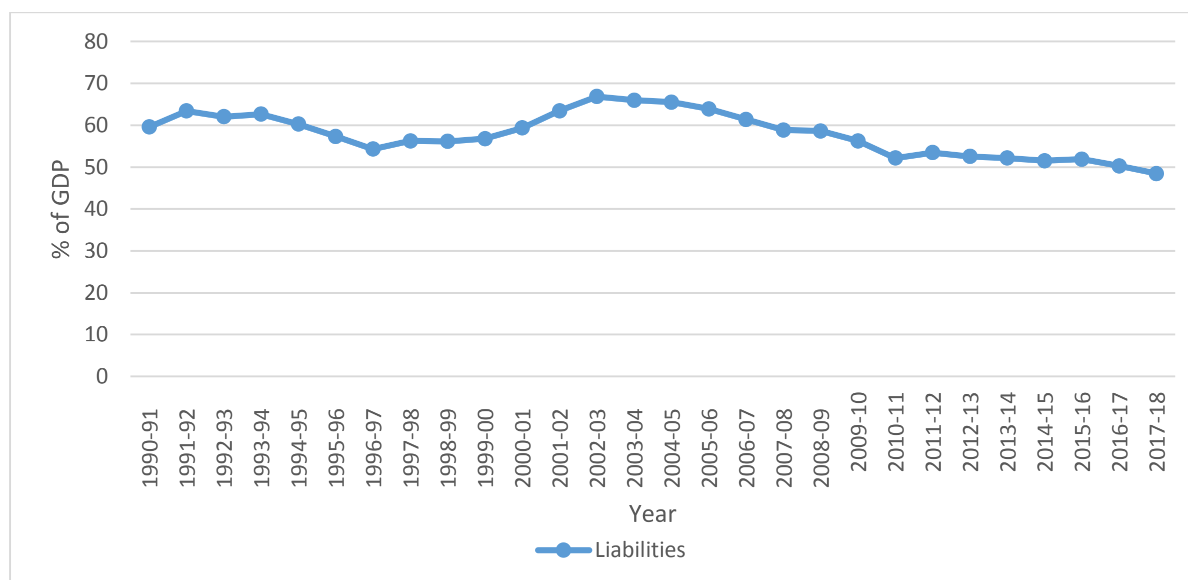
Deficit Indicators of Central Government (% of GDP)



Source: RBI Database on Indian Economy, 2018

Figure 2.2

Liabilities of Central Government (% of GDP)



Source: RBI Database on Indian Economy, 2018

Fiscal Responsibility and Budget Management (FRBM) Bill

The committee on Fiscal Responsibility Legislation was constituted on 17th January, 2000 to recommend a draft legislation on fiscal responsibility. The FRBM bill was introduced in the Lok Sabha in December, 2000. The law obliges the government to strengthen the institutional framework for conduct of a prudent and accountable fiscal policy and pave the way for promoting greater macroeconomic stability, bring down the fiscal deficit and debt over the medium term (GoI, 2001). It also binds the future generations on the fiscal consolidation path. The bill proposed elimination of revenue deficit and reducing fiscal deficit to 2% of GDP within five financial years. It also proposed that within ten years, total liabilities should be reduced to less than 50% of GDP.

The FRBM Bill was referred to the Parliamentary Standing Committee on Finance. The Standing Committee recommended that numerical ceilings proposed in the bill should be incorporated in the rules to be framed under the Act, rather than the Act itself (GoI, 2004). A revised bill considering the recommendations of the Standing Committee was presented in the Lok Sabha in May, 2003. After President of India's assent, it became an Act in August 2003. The government constituted a Task Force headed by Vijay Kelkar for drawing up the medium-term framework for fiscal policies to achieve the FRBM objectives and also to formulate annual targets indicating the roadmap to achieve it.

The FRBM Act envisaged the Central government taking up appropriate measures to reduce the fiscal deficit and revenue deficit by March 2008. The salient features of the Act were as follows:

1. Reduce fiscal deficit to less than 3% of GDP and eliminate revenue deficit by 31st March, 2008.
2. Deficits may exceed the target only under exceptional grounds like natural calamities or issues of national security.
3. The Central government shall not borrow from the RBI except by way of advances to meet temporary excess of cash disbursements over cash receipts.
4. RBI not to subscribe primary issues of Central government securities from the year 2006-07.
5. The Central government to take suitable measures to keep transparency in fiscal operations.
6. Every year, the government has to lay the following documents along with annual financial statement and demand for grants before both the houses of parliament
    - i. Medium Term Fiscal Policy Statement: Three year rolling targets for the fiscal indicators namely fiscal deficit, revenue deficit, effective revenue deficit, total outstanding liabilities at the end of the year and gross tax revenue.
    - ii. Fiscal Policy Strategy Statement: Government needs to specify the strategic priorities in the fiscal area for the ensuing year relating to taxation, administered pricing, expenditure, borrowings and guarantees.
    - iii. Macroeconomic Framework Statement: Assessment regarding expected GDP growth rate, external sector balance, fiscal balance has to be provided under Macroeconomic Framework. This statement provides an overview of the economy along with a description of developments that happened in the previous year across different sectors of the economy.
7. The finance minister has to do a quarterly review of the receipts and expenditure and place it before the Parliament.

The Act became effective from July 2004. As a result of the FRBM Act, the deficit and debt situation of the Central government improved. Fiscal deficit declined to 2.54% of GDP in 2007-08 and the revenue deficit was at 1.05% of GDP (refer Figure 2.1). The liabilities as a percentage of GDP declined to 58.8% (refer Figure 2.2). The decline in deficits were attributable to better GDP growth in the FRBM period and consequent buoyant collection of tax revenue. Tax revenue of the Central government, in nominal terms, on an average grew by 23% between 2003-04 and 2007-08 whereas the expenditure increased by 14.4%.

There was a breakdown in the fiscal consolidation roadmap in the year 2008-09 owing to the 2008 global financial crisis. Fiscal deficit soared to 6% of the GDP in 2008-09 from 2.54% in 2007-08. Implementation of the 6th Pay Commission recommendations, a stimulus package through increased subsidies and implementation of Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) together caused a drastic increase the deficit level at both the Centre and the states. The Central government put a pause on the FRBM Act for two years following the global financial crisis. However, several studies like Rao, 2009 point out that the increase in Central government expenditure on subsidies, rural development and pay revision etc were mainly because of the 2009 general election. Fiscal consolidation resumed in the 2010-11 budget. There was a fiscal slippage again in the year 2011-12. This was owing to a sharp decline in revenue collection, deceleration in GDP growth, high inflation, high expenditure on account of persistently high level of global crude oil and fertiliser prices (GoI, 2013). Meanwhile in 2012, the FRBM Act was amended to introduce the new fiscal indicator in place of the existing revenue deficit called Effective Revenue Deficit[1] and also to add the Medium Term Expenditure Framework Statement to the Act.

The Central government appointed a committee under the chairmanship of Dr. Vijay Kelkar to review and produce a revised fiscal consolidation roadmap. The committee submitted its report in September 2012. It suggested certain measures to improve upon the fiscal front which include raising the tax-GDP ratio, pruning expenditure on subsidies and other items of expenditure, rightsizing the plan budget and recommended certain steps to increase disinvestment proceeds. The committee provided a roadmap of fiscal consolidation and suggested steps to achieve zero effective revenue deficit, revenue deficit of 2% of GDP and a fiscal deficit of 3.9% of GDP by the end of financial year 2014-15. In actuality, the government has achieved a fiscal deficit of 4.1% of GDP and a revenue deficit of 2.94% of GDP. In recent years, the Central government is in the fiscal consolidation path, consistently reducing the fiscal deficit every year since 2012-13.

Fiscal Rule at Sub-national Level: Indian Scenario

In a federal set-up, fiscal rule would be successful when both level of governments adopt it. The Central government observed that fiscal consolidation at the subnational level is equally important and requested the RBI to form a working group to evolve a draft model of fiscal responsibility legislation at the state level. The RBI constituted a working group under the chairmanship of H.R. Khan. The members of the working group were finance secretaries of

[1] Effective Revenue Deficit is the difference between the revenue deficit and grants for creation of capital assets.

Karnataka, Kerala, Maharashtra, Punjab, Tamil Nadu and the secretary of the Ministry of Finance. The working group submitted its report on 19th January, 2005.

The working group opined that model legislation would follow the Central government's FRBM Act and to draw from the state level fiscal responsibility Acts drawn until then. States like Karnataka, Kerala, and Punjab etc were already following the fiscal rules. The working group also considered international best practices with regard to fiscal rules. The objective of the working group was to design a template for the fiscal responsibility legislation for the states on the basis of 'workability' and 'enforceability,' taking into account the diverse requirements of various states (RBI, 2005). The working group left the liberty of fixing the actual targets and time frame for implementation to the states themselves.

Choosing the path of fiscal consolidation - front loaded, back loaded or uniform[2] - has been left to the states to select, based on their conditions and capabilities.

Initially, there were problems regarding choosing the target fiscal variables. Fiscal deficit and primary deficit are the mostly used fiscal indicators along with debt as another prime variable. The working group found that increase in fiscal deficit and primary deficits are mostly attributable to increase in the revenue deficit. Therefore, revenue deficit was identified as the focal area of fiscal reforms. Elimination of revenue deficit can at best be used as a supplementary target to a fiscal deficit cap to prevent the crowding out of capital expenditure. Hence the group recommended setting a deficit rule in terms of revenue deficit and gross fiscal deficit.

There were different definitions for total liabilities across Indian states and the working group felt that the definition should be identical and it should be broadened to capture the entire range of liabilities that emerge out of the budget. Total liabilities hence include liabilities under the consolidated fund and public account of the state as well as off-budget borrowings. The group also decided to incorporate a provision of placing a limit on annual incremental risk weighted state guarantee in the bill. The limit fixation was left to the state governments to decide, based on their fiscal situation and capability.

The working group recommended adoption of total revenue receipts as the denominator for revenue deficit and Gross State Domestic Product (GSDP) as the denominator for gross fiscal

[2] Front loaded adjustments mean that the required adjustment in deficits are progressively reduced over the forecast period, with a large correction envisaged in initial years. Under the back loaded adjustments, higher burden of fiscal correction is placed towards the later years with a hope of gaining progress in fiscal reform over time. Under the uniform adjustment path, the intensity of the fiscal correction process remains uniform in each year of the set timeframe.

deficit. States in which GSDP is subject to more fluctuations could opt for trend GSDP. The working group also suggested improvements on the existing disclosure practices through state budgets.

Theoretically there are two approaches in enacting the fiscal legislation, namely coordinated (top-down) approach and autonomous (bottom-up) approach. Under the coordinated approach, all sub-national governments are subject to uniform rules under the surveillance of a central authority. Under the autonomous approach, the initiative for adopting fiscal rules arises from individual sub-national governments. The working group recommended adoption of an autonomous cum coordinated approach with states having powers to modify the model, so as to enhance its flexibility, subject to state-specific conditions (RBI, 2005).

Based on international standards and principles adopted under Central government's FRBM, the working group identified and recommended the following Principles of Fiscal Legislation.

1. Transparency: Transparency implies disclosure of sufficient information to allow the public to scrutinise the conduct of fiscal policy and the state of public finance. The states need to publish 'Budget at a Glance' every year. They would bring out an annual report in which outcomes are presented against the targets and quarterly reporting of the outcomes need to be practiced. All the state governments are required to develop an inter-year fiscal forecasting model and bring out medium term fiscal forecasts covering three to five years.
2. Stability: The governments have to operate fiscal policy in a manner that is predictable and consistent with the objective of a high and stable level of economic growth and employment.
3. Responsibility: The government should operate the fiscal policy in a prudent way and ensure the fiscal position is sustainable in the long run.
4. Fairness: The fiscal policy should be operated in a way that takes into account the financial effects on future generations, as well as the distributional impact on the current population.
5. Efficiency: The government should ensure that available resources are deployed optimally and public assets are put to the best possible use.

Finance commissions have played a very important role in intensifying the fiscal legislation process of the state governments. The 12th Finance Commission of India mandated enacting the Fiscal Responsibility Act as a necessary pre-condition for availing debt relief funds from the Central government. It recommended that each state should enact a Fiscal Responsibility Act by specifying annual targets with a view to eliminate the revenue deficit by 2008-09 and

reduce the fiscal deficit on a path for reduction of borrowings and guarantees. With this mandate, as many as 13 Indian states have enacted Fiscal Responsibility Legislation in the year 2005. Details on the date of enactment of Fiscal Responsibility Act by state governments are provided in Appendix 1. By the year 2010, all Indian states have enacted Fiscal Responsibility Legislation. Simone & Tapalova (2009) observed that financially well-developed states with higher Human Development Indicators and better infrastructure were more likely to be early adopters of fiscal responsibility legislation in India. The states which are high transfer dependent are slower in adopting the fiscal rule.

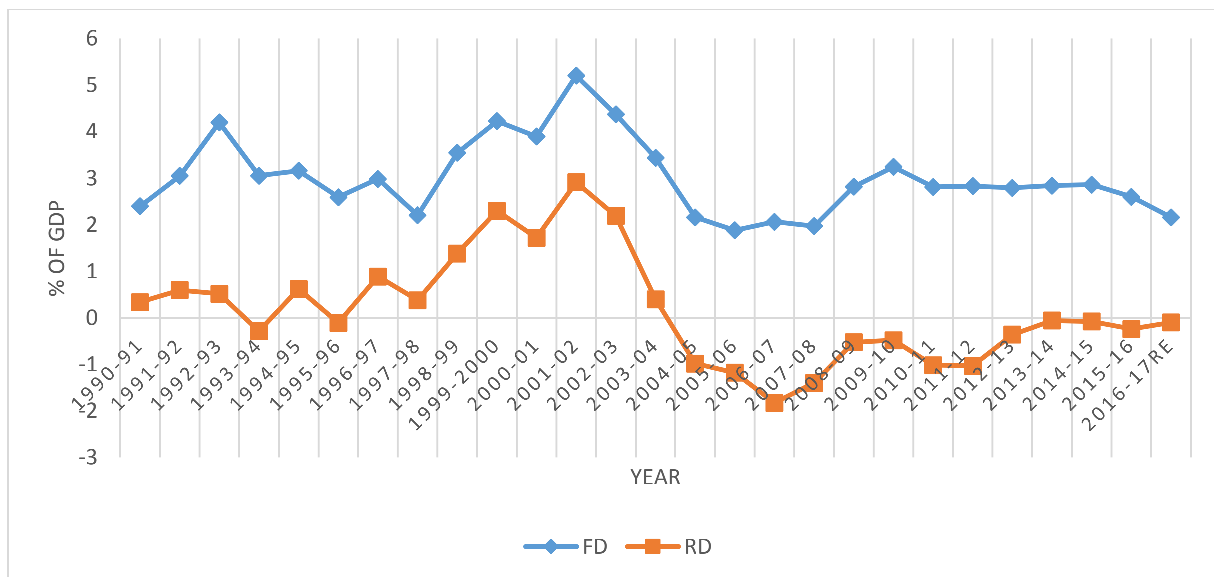
Chapter 3

Fiscal Rule in Karnataka

Karnataka is well known to be a pioneer state in the management of public finances. The fiscal situation of Karnataka worsened in the late 1990s and early 2000s. The fiscal deficit level soared from 2.2% of GSDP in 1997-98 to 5.20% in 2001-02 (refer Figure 3.1). The surplus on the revenue account in the year 1995-96 started deteriorating and reached deficit level of 2.90% of GSDP in 2001-02. The prime reason behind this was a decline in revenue-GSDP ratio. Low cost recoveries from non-merit public services, poor performance of public enterprises, implicit subsidies on account of uneconomic pricing of irrigation and drinking water supply, higher education etc resulted in higher expenditure by the government (GoK, 2002). Many of the government enterprises underwent losses and the government provided subsidies to the State Transport Corporation and State Electricity Board. Public expenditure increased significantly due to a rise in wages and pensions, interest payments, subsidies etc. High expenditure on the one hand and decline in revenue-GSDP on the other resulted in higher deficits.

Figure 3.1

Fiscal Deficit and Revenue Deficit of Karnataka (% of GDP)



Source: RBI Database on Indian States, 2017 and MTFP, GoK, 2017

Karnataka state government in its White Paper on state finances in the year 2001 mentioned that prudent fiscal management is vital to provide an impetus to economic growth and its spending on infrastructure and poverty eradication programmes. The state government opined that fiscal correction measures are important to take the state to the path of sustained high growth and to attract private investments. The gap between government revenue and expenditure was widening and borrowed funds were diverted to meet unproductive

expenditure. This had created a vicious cycle of deficit-induced borrowings, interest payments and increase in indebtedness. High off-budget borrowings and state government guaranteed liabilities added to the situation of fiscal slowdown. The 2001 White Paper on state finances has put forth the idea of a medium-term fiscal plan for restructuring of the state finances. The Medium Term Fiscal Plan 2001-02 to 2004-05 aimed at achieving fiscal stability and sustainability in the medium term with the clear objectives of eliminating the revenue deficit, capping fiscal deficit below 3% of GSDP, maintaining debt at a prudent level and maximising the development expenditure.

Karnataka was the first state in India to enact Fiscal Responsibility Legislation in the year 2002, even before the Central government. In the Karnataka State Budget 2002-03, the Finance Minister of the state proposed to make the Medium Term Fiscal Plan document a rolling annual document which would provide an outlook of the fiscal situation in the medium term and in order to provide a legislative backing to the objective of achieving fiscal balance, the Fiscal Responsibility Bill was introduced to the House in the same budget.

Karnataka Fiscal Responsibility Act (KFRA), 2002

The KFRA Act makes the state responsible for fiscal stability and sustainability, and to enhance the scope of social and physical infrastructure and human development by achieving sufficient revenue surplus, reducing fiscal deficits and fiscal impediments and prudent debt management and greater transparency in fiscal operations.

1. Medium Term Fiscal Plan (MTFP): As per the Act, MTFP has to be laid before both the Houses of Legislature. The document should set forth a four year rolling target for prescribed indictors. The document should include an evaluation of fiscal indicators and an assessment of the present economic trends and future prospects for growth and development affecting the fiscal position of state. The document, in detail, should provide information on strategic priorities of the state government in the fiscal area for the ensuing year, policies of the government towards taxation, expenditure, borrowings, administered pricing, guarantees given etc.
2. Fiscal Management Principles: KFRA has a unique feature when compared to other states' fiscal rules with regard to specification of detailed fiscal management principles. There are seventeen fiscal management principles which are listed below:
   a. Maintain government debt at a prudent level.
   b. Manage guarantees and liabilities prudently.
   c. Ensure policy decisions of the government have due regard for future generations.
   d. Ensure that borrowings are used for capital formation.

e. Ensure a reasonable degree of predictability in the level of tax burden.
f. Maintain the integrity of the tax system by minimising exemptions and concessions.
g. Pursue tax policies with due regard to economic efficiency and compliance cost.
h. Pursue non-tax revenue policies with due regard to cost recovery and equity.
i. Pursue expenditure policies that would provide an impetus to economic growth, poverty reduction and improvement in human welfare.
j. Build up the revenue surplus for productive expenditure.
k. Ensure proper maintenance of physical assets of the government.
l. Publicise the information on fiscal policy and the state of public finance.
m. Ensure best use of public resources.
n. Minimise the fiscal risk associated with running public sector undertakings and utilities providing public goods and services.
o. Manage expenditure consistent with revenue generation.
p. Formulate budget in a realistic and objective manner with due regard to general economic outlook and revenue prospects and minimise deviations.
q. Ensure discharge of current liabilities.

As per the KFRA, 2002, the government had to reduce the fiscal deficit below 3% of GSDP and revenue deficit to nil by end of March 2006. The government guarantee should not exceed the limit set as per the Karnataka Ceiling to Government Guarantee Act, 1999. And by end of March 2015, total liabilities of the state government should not exceed 25% of GSDP. The government may cross the limit under uncertain circumstances like natural calamities and national security.

3. Fiscal Transparency Measures: The government should ensure greater transparency in fiscal operations. It should disclose if there are any significant changes in accounting standards, policies and practices. It should also disclose in detail the contingent liabilities created, liabilities due to borrowings of public sector undertakings, claims and commitments, losses incurred, liability in respect of major works and contracts and subsidy payments and impact of the same on the fiscal position of the state.
   The government should disclose the statement on compliance cost of major tax proposals, revenue consequence of capital expenditure, physical and financial assets, vacant public land and buildings, future expenditure commitments of major policy changes, implicit and explicit liabilities in public private partnerships etc. This clause was added in the year 2011 with the amendment to the principal Act.
4. Measures to Enforce Compliancy: Whenever there is shortfall in revenue and rise in expenditure due to a new policy decision, the government should take appropriate

measures to fully offset its fiscal impact either by curtailing authorised sums to be paid or by taking measures to augment the revenue or both. However, it should not curtail high priority expenditure such as spending on elementary education, basic health and rural water supply.

In the 2011 Amendment to KFRA, it was added that the state government may constitute a Fiscal Management Review Committee headed by the Chief Secretary to the government and other secretaries as notified and that it shall meet at least twice a year and review the fiscal position of the state and progress in fiscal consolidation path and recommend measures if there are any deviations. The minister in charge shall place a report before the Houses of Legislature.

5. Power to make rules: The state government can make rules regarding fixing ceilings on fiscal indicators and the form of MTFP by notifying it in the official Gazette.
6. Rules to be laid before the Houses: Every rule made under the Act has to be placed before the legislature.

KFRA, 2002 was amended twice in the year 2009 and the fiscal deficit target increased to 4% of GSDP for the year 2009-10. This amendment was to provide a stimulus in the form of high government spending to revive the state economy from the clutches of the 2008 global financial crisis. Another amendment was made to the principal Act in 2011. The debt-GSDP target of 25% as fixed in the principal Act was changed to 25.2% of GSDP and the fiscal deficit level capped at 3.44% for the year 2010-11.

Chapter 4

State's Compliance to KFRA

Compliance of the state to KFRA can broadly be measured with regard to keeping the fiscal indicators under the prescribed limit. Table 4.1 provides the time series data on the fiscal deficit and revenue deficit as percentage of GSDP since the enactment of KFRA as well as the ceilings prescribed under it. KFRA, 2002 specified the target of 3% fiscal deficit to be achieved by the end of March 2006 and the revenue deficit to be nil. As Table 4.1 reveals, the deficit target was achieved well within the said timeline. The fiscal deficit was 2.19% of GSDP in 2005-06 and there was a revenue surplus to the tune of 1.38% of GSDP. Within a short span of time, the Karnataka government could turn around the revenue deficits into surplus. A Tax Reforms Commission was set up by the government of Karnataka in the year 2000 under the chairmanship of Veerappa Moily. The Tax Reforms Commission proposed a simple tax system with a few tax rates as well as exemptions. The commission also recommended the introduction of Value Added Tax in the state. With the reforms on the revenue side, tax collection for the government has increased. On the expenditure side, the government has targeted reducing the salary component in the total expenditure. More than 7,000 posts have been recommended for abolition. Interest payments of the state government have declined with low interest rate in the market and by using the debt swap scheme of the Central government. With these measures, the government could reduce deficits considerably.

Ceilings on fiscal deficit as percentage of GSDP were raised to 3.5% in 2008-09 and 4% in 2009-10. This was a one-time measure in order to help the economy recover from the 2008 recession through government spending. Thereafter, the ceiling remained at 3% of GSDP. Except those two years, the Karnataka government is well within the prescribed 3% limit on fiscal deficits. The government has had a revenue surplus since 2005-06 to 2016-17. However, the revenue surplus is on a declining mode in recent years.

KFRA, 2002 specified that the outstanding debt should be capped at 25% of GSDP, to be achieved by the year 2015. However, the Act was amended in 2011 and the ceiling was raised by 0.2% to 25.2%. The Amendment also specified the debt roadmap to be achieved. Outstanding liabilities of Karnataka are well within the prescribed limit. The Karnataka government has utilised the Debt Swap Scheme of the Central government. The total debt swapped under this scheme was INR 5.23 billion during 2002-03 and 2004-05. The Twelfth Finance Commission recommended a Debt Consolidation and Relief Facility to incentivise the states to follow the fiscal consolidation path. As per this, general debt relief with rescheduling and lower interest rate shall be available to states with effect from the year they enact the FRBM legislation which shall contain some core elements as recommended by the Twelfth Finance

Commission. The Twelfth Finance Commission has also framed a scheme of debt waiver based on fiscal performance linked to the reduction of revenue deficit and control of fiscal deficit of the states. The quantum of debt write-off of the repayment was linked to the absolute amount by which the revenue deficit has reduced in each successive year during the award period. If the revenue deficit is brought down to zero, the entire repayment during the award period of the Twelfth Finance Commission will be written off.

Table 4.1

Deficits & KFRA Ceilings

(% of GSDP)

Year	Fiscal Deficit		Revenue Deficit	
	Actuals	KFRA Ceiling	Actuals	KFRA Ceiling
2002-03	4.37	-	2.19	-
2003-04	3.44	-	0.35	-
2004-05	2.3	-	-1.14	-
2005-06	2.19	3	-1.38	Zero
2006-07	2.33	3	-2.07	Zero
2007-08	2.28	3	-0.12	Zero
2008-09	2.89	3.5	-0.54	Zero
2009-10	3.27	4	-0.48	Zero
2010-11	2.81	3	-1.1	Zero
2011-12	2.83	3	-1.08	Zero
2012-13	2.78	3	-0.36	Zero
2013-14	2.84	3	-0.06	Zero
2014-15	2.86	3	-0.08	Zero
2015-16	2.6	3	-0.24	Zero
2016-17RE	2.16	3	-0.1	Zero

Source: MTFP Various Issues, GoK. Note: '-' sign indicates surplus

Central loans to states contracted till the end of March 2004 and outstanding debt as on 31st March 2005 was consolidated and rescheduled for a fresh term of 20 years with an interest rate of 7.5%. This was conditional to the enactment of the Fiscal Responsibility Act. Karnataka was benefited from this scheme with a total debt consolidation of INR 71.7 billion. The government was also availed debt relief of INR 14.3 billion and interest relief of INR 13.1 billion. With many of these incentives and states' own efforts with regard to raising revenue and reducing the outlays, the total outstanding liabilities were brought down to less than 25% of GSDP (refer Table 4.2).

Table 4.2

Outstanding Liabilities & KFRA Ceilings

(% of GSDP)

Year	Outstanding Liabilities	KFRA Ceiling
2010-11	24.99	26.2
2011-12	24.47	26
2012-13	22.61	25.7
2013-14	22.98	25.4
2014-15	23.98	25.2
2015-16	24.91	25
2016-17RE	18.91	25

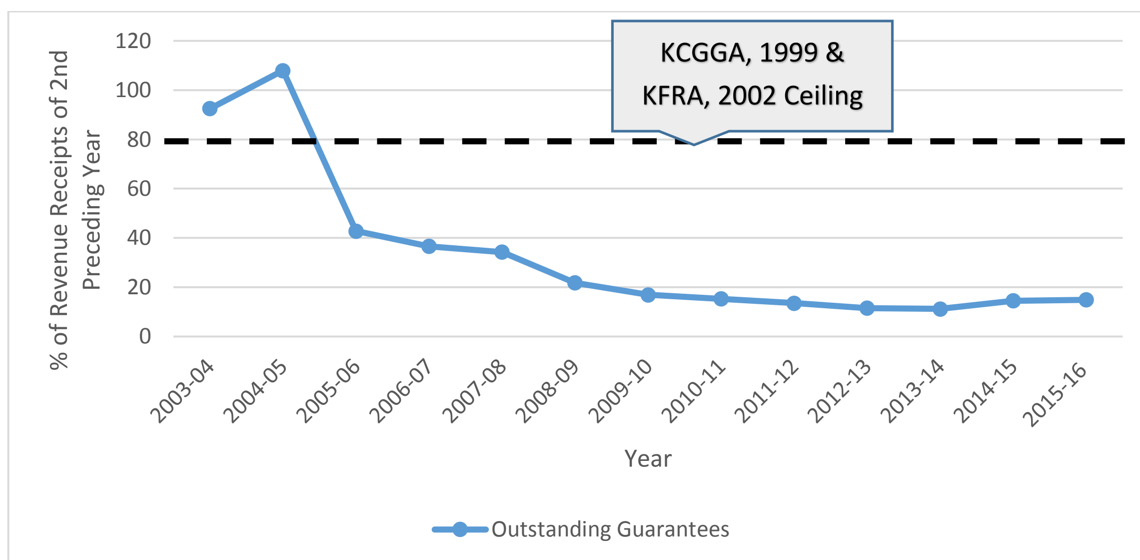
Source: MTFP Various Issues, GoK

KFRA, 2002 specifies that guarantees given by the state government should be within the limit specified under the Karnataka Ceiling on Government Guarantees Act (KCGGA), 1999. As per the KCGGA, total outstanding guarantees given by the government in a year should not exceed 80% of the revenue receipts in the second preceding year. Figure 3 shows the level of outstanding guarantees. Except in the initial years of the enactment of KFRA, outstanding guarantees are far below the prescribed ceiling.

Figure 4.1

Outstanding Guarantees

(% of Revenue Receipts of 2nd Preceding Year)



Source: RBI, 2017 & MTFP, 2017, GoK

Government of Karnataka is not only following the prescribed ceilings for fiscal variables but also other fiscal management principles provided under KFRA. The other important fiscal management principles and compliance of the state to these principles are listed below:

Principle	Compliance
Maintain debt at prudent level	Liabilities are well within the prescribed limit and hence may be called as prudent.
Maintain intergenerational equity	As the deficits and debt are under control, adverse fiscal implications for future generations is very minimal.
Ensure usage of borrowings for productive purpose	As the state is in surplus on the revenue account, borrowings of the state along with a portion of revenue receipts is going towards productive/capital investments.
Integrity of tax system - by minimizing incentives, exemptions	New Industrial Policy of Karnataka 2009-14 has announced a series of tax exemptions and concessions. It has negative fiscal implications in the short run. However, this is expected to raise the economic growth and employment opportunities in the long run. Nevertheless, the huge subsidy burden is a matter of concern. Around 12% of the total revenue expenditure is towards subsidies in 2015-16.
Pursue non-tax revenue policy with due regard to economic efficiency and compliance cost	This is the area of concern. Own non-tax revenue of the state in 2014-15 was just around 4.5% of the total revenue receipts. For neighboring states like Kerala and Andhra Pradesh, this ratio is around 12%. This was due to low recovery costs. Many departments have not revised their user charges, fees and fines for many years. More importantly, the tax base itself is low (GoK, 2014).
Build up revenue for use in capital formation	Since 2004-05, the state is having a revenue surplus. However, the surplus is declining in recent years. Karnataka is one of the states having the highest own tax revenue-GSDP ratio. In 2015-16, Karnataka stands in the second position followed by Madhya Pradesh. Karnataka MTFP 2018-22 states that Karnataka had a own tax revenue buoyancy of 1.1 in 2013-14 and 1.0 in 2015-16. Among the major taxes, stamps and registration duty was more buoyant followed by excise duty, motor vehicle tax and commercial taxes in 2015-16.

Disclosure of information	All the fiscal data, budget documents, medium term fiscal plan and time series data on public finance are available on the website of the Finance Department of the state and is easily accessible to the general public. Quarterly statement of receipts and expenditure is also being uploaded into the Finance Department's website.
Minimise financial risk associated with the running of PSUs	Budgetary support to PSUs in the form of equity, loans, grants and subsidies increased from Rs. 11853 crore in 2011-12 to Rs. 17526 crore in 2015-16. Nearly 73% of budgetary support is in the form of subsidies. In 2015-16, the state PSUs earned a profit of Rs.1425 crore and incurred loss of Rs.1570 crore, with net loss of Rs.145 crore. Net profit in the year 2011-12 was Rs.599 crore. Out of 81 working PSUs, 21 incurred losses (CAG, 2017). The state Government should take action and gradually close down the loss-making PSUs to reduce the fiscal cost.
Ensure discharge of liabilities in a timely manner	Discharge of internal debt increased from Rs.1916.17 crore in 2010-11 to Rs.4033.38 crore in 2014-15. Repayment of loans to Central government increased from Rs.778.8 crore to Rs.890.9 crore in the same years.
Measures to enforce compliance	As per the KFRA, Fiscal Management Review Committee is being formed every year under the chairmanship of the Chief Secretary of the state. The committee reviews the state's fiscal position and advises the finance minister on remedial measures to be taken to adhere to the laid-down fiscal consolidation roadmap. The finance minister, as per the Act, is presenting half-yearly review of the fiscal trends and steps taken to achieve the fiscal consolidation as recommended by the committee to the legislature.

The commitment of Karnataka government towards KFRA is reflected in its initiative to set up an institute named Fiscal Policy Institute in the year 2007 to institutionalise the process of implementing KFRA. This institute has to help the government in abiding with fiscal management principles. This was done through training the government officials, conducting research in key areas of public finance, database management and advocating the government in meeting the laid-down fiscal management principles.

Chapter 5

Conclusion and Policy Implications

Fiscal deficit and debt need to be kept under control as they would adversely affect the macro economy. Several studies have revealed that higher deficits result in low growth, high inflation, higher rates of interest and also affect the external sector of the economy adversely. In the 1990s, many countries resorted to a rule-based fiscal mechanism to keep a check on fiscal indicators. Maastricht treaty was signed among European Union members in 1992 as per which the countries were required to maintain the fiscal deficits below 3% of their GDP and debt below 60% of the GDP. Between 1985 and 2015, 93 countries have adopted the fiscal rule.

This report examined the fiscal rule followed at subnational level in India, restricting it to Karnataka state. Subnational fiscal rule is being followed in many of the countries like Canada, Brazil, Indonesia, Austria, New Zealand etc. The fiscal rule at Brazil is quite strict as it includes fiscal crime law along with the fiscal rule. The fiscal crime law pronounces fines and even imprisonment for misappropriation of public money. Many of the subnational governments follow debt and budget balance rule. Few give importance to expenditure rule, where a cap on expenditure is placed and expenditure growth has to be less than the revenue growth. Almost all the subnational governments in the world which have adopted fiscal rules are based on the 'golden rule' of public finance.

The Indian government faced a severe fiscal crisis in the early 90s and it got intensified in late 90s and early 2000s. Though the government started the fiscal consolidation process way back in 1991, however, it was institutionalised through an Act only in the year 2003. Fiscal Responsibility and Budget Management Act, 2003 has put a cap on fiscal deficit to be less than 3% of GDP and revenue deficit to be nil by 2007-08. In the initial years of enactment, until 2007-08, there was considerable decline in deficits whereas with the 2008 global financial crisis, the deficits level soared up. In the recent budget of 2018-19, the Central government has kept the target of March end year 2021 to achieve the 3% fiscal deficit target. The Eleventh and Twelfth Finance Commission of India initiated several measures by incentivising the state governments to enact fiscal responsibility Acts. Debt swap scheme and fiscal reforms facility are the major measures in this regard. With many of these measures by the Finance

Commissions as well as the Central government, almost all the states have enacted the Fiscal Responsibility Acts by the year 2010.

Karnataka was the first state among the Indian states, even before the Central government, to enact the Fiscal Responsibility Act in 2002. The numerical target for fiscal deficit was kept at 3% of GSDP and revenue surplus to be achieved by 2005-06. The Karnataka government has achieved the target within the scheduled time path. Since the enactment of KFRA, 2002, all the fiscal indicators are within the prescribed limit. The state is having a surplus in the revenue account. Total outstanding liabilities are less than 25% of GSDP as specified under KFRA. Guarantees given by the state government are far below the prescribed ceiling of 80% of revenue receipts of the second preceding year.

The government of Karnataka is following all the procedural rules as specified in the KFRA. The Medium Term Fiscal Plan document is placed before the legislature every year. The document is very elaborate, containing all the necessary information on the state of public finance. The Fiscal Management Review Committee under the chairmanship of the Chief Secretary of the state advises the finance minister on remedial measures to be taken to adhere to the laid-down fiscal consolidation roadmap. By and large, the state is adhering to all the fiscal management principles. However, the government has to take serious steps to revitalise the non-tax revenue collections by revising the rates as well as the base. Serious steps are also needed towards reducing the fiscal burden of financing loss-making PSUs.

The government is disclosing all the public finance related data for public scrutiny as required under KFRA. The MTFP document, time series data on fiscal indicators, all the budget documents and supplements, Economic Survey reports, Quarterly Review of Fiscal Trends are available on the Finance Department's website and are easily accessible to the general public. Overall, Karnataka state finances are on track as specified under the KFRA and stand out as the exemplar to other subnational governments in India.

Bibliography

CAG. (2017). *Report of the Comptroller and Auditor General of India on Public Sector Undertakings for the year ended March 2016.* Bangalore: CAG Karnataka.

GoI. (1994). *Economic Survey of India-1993-94.* New Delhi: Ministry of Finance, Government of India.

GoI. (1999). *Economic Survey of India- 1998-99.* New Delhi: Ministry of Finance, Government of India.

GoI. (2000). *Economic Survey of India- 1999-00.* New Delhi: Ministry of Finance, Government of India.

GoI. (2001). *Economic Survey of India- 2000-01.* New Delhi: Ministry of Finance, Government of India.

GoI. (2004). *Economic Survey of India- 2003-04.* New Delhi: Ministry of Finance, Government of India.

GoI. (2013). *Economic Survey of India- 2012-13.* New Delhi: Ministry of Finance, Government of India.

GoK. (2002). *Medium Term Fiscal Plan for Karnataka 2002-03 to 2005-06.* Bangalore: Finance Department, Government of Karnataka.

GoK. (2002). *The Karnatak Fiscal Responsibilty Act, 2002.* Bangalore: Department of Parliamentary Affairs & Legislation, Government of Karnataka. Retrieved November 15, 2016, from http://dpal.kar.nic.in/ao2002/Fiscal%20Responsibility%20Act.pdf

GoK. (2014). *Economic Survey of Karnataka 2013-14.* Bangalore: Planning, Programe Monitoring & Statistics Department, Government of Karnataka.

GoK. (2017). *Medium Term Fiscal Plan 2017-2021.* Bangalore: Finance Department, Government of Karnataka.

Khundrakpam, J. & Pattnaik, S. (2010). Fiscal Stimulus and Potential Inflationary Risks- An Empirical Assessment of Fiscal Deficit and Inflation Relationship in India. *Journal of Economic Integration, 25*(4), 703-721.

Kotia, A. & Lledo, V. D. (2016). Do Subnational Fiscal Rules Foster Fiscal Discipline? New Empirical Evidence from Europe. *IMF Working Paper-84*, 1-37.

Lledo, V., Yoon, S., Fang, X., Mbaye, S., & Kim, Y. (2017). *Fiscal Rules at a Glance.* Washington D C: International Monetary Fund.

Ramu, M. R. (2016). "Twin Deficits" Hypothesis: An Assessment of Relationship & Transmission Mechanism in India. *Foreign Trade Review, 20*(10), 1-15.

Ramu, M. R., & Gayithri, K. (2016). Relationship between Fiscal Deficit Composition and Economic Growth in India: A Time Series Econometric Analysis. *ISEC Working Paper- 367*, 1-18.

Ramu, M. R., & Gayithri, K. (2017). Fiscal Deficit and Inflation Linkages in India: tracking the transmission channels. *Journal of Social and Economic Development, 19*(1), 1-24.

Rao, M. G. (2000). Tax Reform in India: Achievements and Challenges. *Asia-Pacific Development Journal, 7*(2), 59-74.

Rao, M. G. (2009). The Fiscal Situation and a Reform Agenda for the New Government. *Economic and Political Weekly, 44*(25), 77-85.

Rao, M. G. (2009). The Fiscal Situation and a Reform Agenda for the New Government. *Economic & Political Weekly, 44*(25), 77-85.

RBI. (2005). *Report of the Group on Model Fiscal Responsibility Legislation at State Level.* Mumbai: Reserve Bank of India.

RBI. (2017). *State Finances: A Study of Budgets.* Mumbai: Reserve Bank of India.

Simone, A. S., & Tapalova, P. (2009). India's Experience With Fiscal Rules: An Evaluation and the Way Forward. *IMF Working Paper-175*, 1-41.

Southerland, D., Price, R., & Joumard, I. (2006). Fiscal Rules for Sub-Central governments: Design and Impact. *OECD Working Paper- 01*, 1-76.

Appendix-1

Fiscal Responsibility Act Enactment Years of Indian States

Sl. No	State	Year of Enactment
1	Karnataka	September 2002
2	Tamil Nadu	May 2003
3	Kerala	August 2003
4	Punjab	October 2003
5	Uttar Pradesh	February 2004
6	Gujarat	March 2005
7	Maharashtra	April 2005
8	Himachal Pradesh	April 2005
9	Rajasthan	May 2005
10	Madhya Pradesh	May 2005
11	Andhra Pradesh	June 2005
12	Odisha	June 2005
13	Tripura	June 2005
14	Haryana	July 2005
15	Manipur	August 2005
16	Chhattisgarh	September 2005
17	Assam	September 2005
18	Uttarakhand	October 2005
19	Arunachal Pradesh	March 2006
20	Meghalaya	March 2006
21	Bihar	April 2006
22	Goa	May 2006
23	Jammu and Kashmir	August 2006
24	Mizoram	October 2006
25	Jharkhand	May 2007
26	Nagaland	January 2010
27	West Bengal	July 2010
28	Sikkim	September 2010