Working Paper Series

512

Outstanding Liabilities of Indian States: Post-Fiscal Responsibility Legislation Period

R. Mohan

Centre for Development Studies
Thiruvananthapuram 695 011
Kerala, India

Working Paper

512

OUTSTANDING LIABILITIES OF INDIAN STATES: POST-FISCAL RESPONSIBILITY LEGISLATION PERIOD

R. MOHAN

March 2023

CENTRE FOR DEVELOPMENT STUDIES
(Under the aegis of Govt. of Kerala & Indian Council of Social Science Research)
Thiruvananthapuram, Kerala, India

ACKNOWLEDGEMENT

I express my gratitude to Prof. Sunil Mani, Director, CDS, for the support and facilities given for undertaking this study. I also thank the discussant Prof. R. Nagaraj and the participants of the International Seminar on Indian Economy held on November 29, 2022, in CDS, for their valuable comments and suggestions. My gratitude is also due to the anonymous referee for the useful points which helped the revision of the draft. The usual disclaimer applies.

ABSTRACT

The paper aims to look at the outstanding liabilities of 19 Indian States from 2004-05 to 2019-20. The time period chosen is the period after most of the States adopted rule-based deficit targeting through Fiscal Responsibility legislations. When components of debt are analysed, Market Borrowings have become the major part of the outstanding liabilities. This is relatively low-cost debt compared to that from National Small Savings Fund (NSSF) and from Public Account. The utilisation of debt for current expenditure is also looked at from the sustainability point of view. It is seen that at the all-States level, the burden of outstanding liabilities has come down from the initial period, but there are wide State wise variations.

Keywords: Debt Management, Federalism, Fiscal Deficit, Revenue Deficit, State Borrowing

JEL Codes: H63, H74, H77

General Backdrop

In India, States have limited powers of borrowing compared to that of the Union. The constitutional provisions regulating borrowings of the Union and the States are Articles 292 and 293 respectively. When the draft articles 268 and 269 (later renumbered as 292 and 293), were debated in the Constituent Assembly, members voiced the need for more parliamentary control over borrowing. As the constitutional provisions now stand, expenditure and revenues are subject to legislative approval, but details of borrowing are in the control of the Executive. The important aspect of parliamentary control is that limits of borrowing can be fixed by the Parliament and the State Legislatures from time to time. It is on this basis that Fiscal Responsibility and Budget Management (FRBM) Act has been legislated at the Union level and the Fiscal Responsibility Acts (FRAs) at the States' level. These legislations have fixed ceilings for annual borrowings by the Union and the States, as a proportion of the Gross Domestic Product (GDP) and Gross State Domestic Products (GSDPs).

The control with regard to the borrowings by the States is more rigorous, as they require approval of the Union for borrowing from the market, if they have already borrowed from the Union or if the Union has issued guarantees for their borrowing. This requirement is under the provisions of Article 293(3) of the Constitution. While granting permission for borrowing, Union can impose conditions on the States under Article 293(4). Under the constitutional provisions, the States cannot borrow outside the territory of India. In the pre-independence period, under section 163 of the Government of India Act, 1935, the Provinces could borrow outside the territory of India with permission of the Federal Government. States also have to meet the targets for deficits and outstanding debt recommended by the Finance Commissions, which are appointed by the President quinquennially under Article 280 of the Constitution. In short, the sub- national borrowing constraints are harder than that of the Union.

The study analyses the trends in outstanding liabilities of 19 major States in India during the period 2004-05 to 2019-20. The time period chosen is the one after most of the States enacted Fiscal Responsibility legislations. The period of study ends with the pre- Covid time. 2020-21, is an outlier year as outstanding liabilities considerably rose both for the Union and the States. The trends in 2020-21 are separately looked at. The major components of debt are looked at State-wise and their trends are analysed.

Most of the studies on public debt have drawn conclusions on the sustainability of debt based on statistical tests on the time series data. The conclusions have widely differed according to the time period chosen and the methodology employed. Hamilton and Flavin (1986) used unit root tests for stationarity to analyse debt sustainability in the U.S. context. Later tests for debt sustainability used the association between primary balances (the gap between receipts and expenditure less interest payments) and the outstanding debt. If primary balances (surplus) have a positive and statistically significant association with the outstanding liabilities, debt was analysed as sustainable. Yet another test, based on Domar stability conditions (Domar 1944) is that even with primary deficit, debt can be sustainable, if the nominal interest rate is less than the nominal growth rate of the economy. Misra, Gupta and Trivedi (2020), reviewing studies on debt sustainability in India, state as follows:

The unit root test was used extensively to check debt sustainability in the United States (US), first by Hamilton and Flavin (1986) and later by Trehan and Walsh (1988), who used it along with the cointegration approach. In the Indian case, studies by Buiter and Patel (1992) and Pradhan (2014) used the unit root approach, while Jha and Sharma (2004) and Tronzano (2013) relied on the cointegration approach.[1]

Given the limitations of the aforementioned model-based approaches, the Bohn approach, which estimates the fiscal policy response function, emerged as an alternative and has been extensively used to assess the sustainability of public debt policies amongst different countries. The economic intuition behind the Bohn approach is: If governments run debt today, how will primary balances be impacted to assess whether public debt is sustainable or not.

Kaur, Mukherjee and Ekka (2018) have found based on an analysis of debt of Indian States for 1980-81 to 2015-16, that the debt position at the State level is sustainable in the long run. But they viewed that contingent liabilities of States and takeover of large chunk of these liabilities through debt restructuring of State Power Distribution Companies, however, would adversely affect the States..

[1] Stationarity of debt GSDP ratio indicates that it is not following an explosive growth path. Co integration of expenditure and revenues indicate that they move in the same direction in the long run and debt to cover the gap will be sustainable.

Analysing policy responses to debt levels, Bequiraj, Fedel and Forte (2018) have found that in Organisation for Economic Cooperation and Development (OECD) member countries, in the long run, governments' discretionary responses to increase in debt-GDP ratio is negative, that is, governments are currently not taking long-term actions that counteract the increases in debt and do not satisfy the inter-temporal budget constraint. In the Indian case, studies have found that debt is sustainable, but with qualifications for some States

In the Indian context, empirical studies on debt sustainability have yielded mixed results. Kaur and Mukherjee (2012) have found after an analysis of the debt level of general government in India for the time period 1980-81 to 2012-13, that debt position in India is sustainable in the long run. The study found a non-linear relationship between public debt and growth in India, implying a negative impact of public debt on economic growth at higher levels. In RBI (2022), a study on State wise risk analysis of debt, empirical examination was done taking primary balance to GSDP ratio as the dependent variable and debt-GSDP including contingent liabilities, with explicit guarantees, ~~and~~ the GSDP gap (deviation of actual GSDP from potential) and expenditure gap (deviation of actual primary expenditure from its trend) as explanatory variables. The results indicated that for all States and for the 10 most indebted States, the coefficients of the explanatory variables had correct signs and were statistically significant, The debt-GSDP ratio had a positive coefficient except for 5 most indebted States (Bihar, Kerala, Punjab, Rajasthan and West Bengal). Even in their case, the negative coefficient was not statistically significant.

Given the mixed results of statistical techniques, this, paper looks at the components of debt, quality of debt implying its utilisation for current expenditure, contingent liabilities and rank the States based on these indicators and attempts to draw conclusions.

II. **Trends in Outstanding Liabilities**

Outstanding liabilities of the State governments include Market Borrowings, loans from National Small Savings Fund (NSSF), loans from Centre and utilisation of balances in Public Account[2]. Out of this, Market Borrowings have lower interest cost compared to that from NSSF and Public Account. Loans from Centre have been falling as a proportion of outstanding liabilities of the States.

When we look at the average Outstanding Liabilities to GSDP ratio for the time period 2004-05 to 2019-20, it is seen that the top five States are Jammu and Kashmir - Punjab, Rajasthan, West Bengal and Uttar Pradesh. The average Outstanding Liabilities to GSDP ratio for the 19 major States is given in Table 1 below:

Table 1: Average Outstanding Liabilities to GSDP ratio-2004-05 to 2019-20

State	**Average**	**Rank**
Jammu and Kashmir	54.95	1
Punjab	48.01	2
Rajasthan	42.44	3
West Bengal	41.93	4
Uttar Pradesh	41.18	5
Bihar	33.58	6

[2] Amounts held in Public Account include Provident Fund balances, treasury deposits and other moneys held in fiduciary capacity as per Article 266(2) of the Constitution.

Kerala	32.87	7
Andhra Pradesh	30.80	8
Madhya Pradesh	28.38	9
Gujarat	25.28	10
Haryana	25.21	11
Jharkhand	24.88	12
Tamil Nadu	23.26	13
Odisha	23.20	14
Maharashtra	22.04	15
Karnataka	21.02	16
Assam	21.01	17
Chhattisgarh	18.23	18
Telangana	18.11	19

Source :Computed from Hand Book of Statistics on Indian States and State Finances : A Study of the Budgets, Reserve Bank of India, various issues.

It can be seen from Table 2 that the top five States in Outstanding Liabilities to GSDP ratio do not figure in the top 5 States with Primary Deficit to GSDP ratio, except Jammu and Kashmir, which is first in the former and fourth in the latter. The one- to- one correspondence between the two rankings seems weak. Punjab, Rajasthan, West Bengal and Uttar Pradesh which rank 2 to 5 in Outstanding Liabilities to GSDP ratio rank 9, 7, 14 and 12 respectively in Primary Deficit to GSDP ratio.

But when we take Revenue Deficit to GSDP ratio, West Bengal and Punjab rank 1 and 2. Kerala, Haryana and Rajasthan which rank from 3 to 5, in Revenue Deficit to GSDP ratio, rank 7,11 and 3 respectively in Outstanding Liabilities to GSDP ratio. The top State in Outstanding

Liabilities to GSDP ratio Jammu and Kashmir ranks 19 in Revenue Deficit to GSDP ratio.

Let us compare the States' ranking in Outstanding Liabilities, Revenue Deficit to GSDP ratio, Primary Deficit to GSDP ratio and Primary Revenue Deficit to GSDP Ratio.[3] Table 2 below gives a comparison of States' position including all these four indicators.

Table 2: Outstanding Liabilities, Revenue Deficit, Primary Revenue Deficit and Primary Deficit as Ratios of GSDP- 2004-05 to 2019-20- Rank

State	Outstanding Liabilities -GSDP	Revenue Deficit – GSDP	Primary Revenue Deficit - GSDP	Primary Deficit-GSDP	Remarks
Jammu and Kashmir	1	19	18	4	Very High Debt- Low RD
Punjab	2	2	4	9	Very High Debt- Very High RD
Rajasthan	3	5	8	7	Very High Debt- Medium RD
West Bengal	4	1	3	14	Very High Debt- Very High RD
Uttar Pradesh	5	13	14	12	Very High Debt- Medium RD
Bihar	6	18	17	17	High Debt- Low RD
Kerala	7	3	1	5	High Debt- Very High RD
Andhra Pradesh	8	6	12	3	High Debt- Medium RD
Madhya Pradesh	9	16	15	10	High Debt- medium Rd

[3] Primary Deficit is Fiscal Deficit minus interest payments. Primary deficit includes capital expenditure also. Revenue Deficit is the difference between revenue receipts and revenue expenditure. This indicates how much of the borrowings are utilised for current expenditure. Primary Revenue Deficit is the gap between revenue receipts and revenue expenditure less interest payments.

Gujarat	10	9	9	15	High Debt- High RD
Haryana	11	4	5	6	Medium Debt-High RD
Jharkhand	12	11	11	1	Medium Debt-Medium RD
Tamil Nadu	13	7	6	11	Medium Debt-High RD
Odisha	14	17	16	19	Medium Debt-Low RD
Maharashtra	15	8	7	16	Medium Debt-High RD
Karnataka	16	12	10	8	Low Debt-Medium RD
Assam	17	14	19	18	Low Debt- Low RD
Chhattisgarh	18	15	13	13	Low debt-Medium RD
Telangana	19	10	2	2	Low Debt- High RD

Source: Computed from Hand Book of Statistics on Indian States and State Finances : A Study of the Budgets, Reserve Bank of India, various issues. Rank 1-5 Very High, 6-10 High 11-15 Medium,16-19 Low

It can be seen that Punjab, Rajasthan and West Bengal have very high debt and very high revenue deficit. Uttar Pradesh has very high debt and Medium Revenue deficit. Kerala has high debt and very high revenue deficit. Tamil Nadu, Haryana and Maharashtra have medium debt and high revenue deficit. These States are utilising a substantial part of their borrowings for revenue expenditure. Jammu Kashmir has a very high debt but low revenue deficit. It has a very high primary deficit, indicating relatively higher proportion of capital spending from borrowings. Telangana has a very high primary revenue deficit but a relatively lower revenue deficit, indicting a lower share of interest expenditure. Assam has a low debt and medium revenue deficit. It also has a low primary deficit that includes capital spending. States with very high and high outstanding liabilities and very high and high revenue deficits need to rationalise their expenditure patterns and augment more revenues.

3. Outstanding Liabilities in 2020-21- Rising Trend

The impact of Covid-19 on the revenues and expenditures of States was reflected in the rise in their ratio of Outstanding Liabilities to GSDP. The lock down related events resulted in decline in revenues and expenditure obligations of the governments rose, as vulnerable sections of the society had to be protected from impact of lockdown and loss of work. The borrowing limits of States were raised from 3 to 5 per cent of GSDP for 2020-21. Table 3 ranks States in descending order of rise in Outstanding Liabilities to GSDP ratio in 2020-21 when compared to the average of 2004-05 to 2019-20.

Table 3: Increase in Outstanding Liabilities to GSDP ratio in 2020-21 when compared to Average of 2004-05 to 2019-20.

State	**Increase from Average**	**Rank**
Punjab	11.54	1
Chhattisgarh	10.95	2
Telangana	9.29	3
Andhra Pradesh	9.17	4
Rajasthan	9.04	5
Haryana	8.31	6
Jharkhand	8.26	7
Tamil Nadu	8.18	8
Kerala	6.11	9
Assam	4.26	10
Jammu and Kashmir	3.99	11

Karnataka	3.55	12
Odisha	1.99	13
Madhya Pradesh	0.84	14
Bihar	-0.65	15
Maharashtra	-1.68	16
West Bengal	-3.07	17
Gujarat	-3.09	18
Uttar Pradesh	-3.82	19

Source: Computed from Hand Book of Statistics on Indian States and State Finances : A Study of the Budgets, Reserve Bank of India, various issues

It can be seen that 14 out of 19 States witnessed an increase in Outstanding Liabilities to GSDP ratio in 2020-21, while 5 States, namely, Bihar, Maharashtra, West Bengal, Gujarat and Uttar Pradesh witnessed a fall in 2020-21.

Punjab which ranks Very High in debt ratio (Rank 2) ranks 1 in increase in Outstanding Liabilities to GSDP ratio in 2020-21. Other Very High debt States, Jammu and Kashmir, Rajasthan, West Bengal and Uttar Pradesh rank 11,5,17 and 19 respectively. Other than Punjab and Rajasthan, no Very High debt State figures in top 5 ranks of increase in 2020-21. Kerala, a High Debt and Very High revenue Deficit State ranks 9 in the increase in 2020-21.

4. Components of Outstanding Liabilities

Two main components of Outstanding Liabilities reflecting high-cost debt are National Small Savings Fund (NSSF) and borrowings from Public Account. Table 4 ranks States with highest to lowest share of high-cost debt.

Table 4 Share of NSSF and Public account in Outstanding Liabilities of States-2004-05 to 2019-20

State	Share of NSSF (%)	Rank	State	Share of Public Account (%)	Rank	State	NSSF+ Public Account (%)	Rank
West Bengal	32.31	1	Odisha	42.19	1	Odisha	56.5	1
Gujarat	29.05	2	Jammu and Kashmir	36.93	2	Maharashtra	53.86	2
Maharashtra	28.16	3	Kerala	32.73	3	Chhattisgarh	51.36	3
Jharkhand	25.20	4	Chhattisgarh	31.31	4	Uttar Pradesh	48.86	4
Punjab	23.50	5	Karnataka	30.20	5	Gujarat	48.79	5
Bihar	21.94	6	Uttar Pradesh	29.92	6	Karnataka	48.45	6
Chhattisgarh	20.05	7	Rajasthan	27.61	7	Assam	47.56	7
Assam	19.97	8	Assam	27.59	8	Bihar	46.85	8
Haryana	19.04	9	Maharashtra	25.70	9	West Bengal	46.85	9
Uttar Pradesh	18.94	10	Bihar	24.91	10	Jammu and Kashmir	46.36	10
Madhya Pradesh	18.88	11	Haryana	22.77	11	Rajasthan	45.79	11
Karnataka	18.25	12	Madhya Pradesh	22.55	12	Jharkhand	45.21	12
Rajasthan	18.18	13	Jharkhand	20.01	13	Kerala	44.89	13
Tamil Nadu	18.14	14	Gujarat	19.74	14	Punjab	42.91	14
Andhra Pradesh	14.59	15	Andhra Pradesh	19.54	15	Haryana	41.81	15
Odisha	14.31	16	Punjab	19.41	16	Madhya Pradesh	41.43	16
Kerala	12.16	17	Tamil Nadu	18.61	17	Tamil Nadu	36.75	17
Jammu and Kashmir	9.43	18	West Bengal	14.54	18	Andhra Pradesh	34.13	18
Telangana	8.25	19	Telangana	5.11	19	Telangana	13.36	19

Source :Computed from Hand Book of Statistics on Indian States and State Finances : A Study of the Budgets, Reserve Bank of India, various issues

It can be seen that the top 5 States in the Outstanding Liabilities to GSDP ratio, namely Jammu and Kashmir, Punjab, Rajasthan, West Bengal. rank 10, 14, 11 and 9 respectively in share of NSSF+ Public Account utilisation in total Outstanding Liabilities. But Uttar Pradesh ranks 4. However, share of revenue deficit for Uttar Pradesh is medium. The top 2 States having high-cost debt share, namely Maharashtra and Odisha have medium rank, 15 and 14 respectively, in Outstanding Liabilities to GSDP ratio. While Chhattisgarh, which ranks 3 in share of high cost debt, has a low rank, 18 in Outstanding Liabilities to GSDP ratio.. Gujarat, the 5th State having high-cost debt has a high rank, 10, in the Outstanding Liabilities to GSDP ratio. Jammu and Kashmir and Kerala which have Very High and High ranks in Outstanding Liabilities to GSDP ratio, 1 and 7 respectively, rank very high in share of Public Account utilisation , 2 and 3 respectively, but rank 18 and 17 in the share of NSSF. Odisha which ranks 1 in share of Public Account ranks 14 with medium Outstanding Liabilities to GSDP ratio. Chhattisgarh and Karnataka with ranks 4 and 5 in share of Public Account rank 18 and 16 with low Outstanding Liabilities to GSDP ratio. Uttar Pradesh and Rajasthan, two States, which rank very high in Outstanding Liabilities to GSDP ratio with 5 and 3 respectively rank 6 and 7 in the share of Public Account. Punjab which ranks 2 and West Bengal which ranks 4 in Outstanding Liabilities to GSDP ratio, rank 16 and 18 in share of Public Account. High dependence on Public Account utilisations and NSSF and a Very High and High rank in Out Standing Liabilities to GSDP ratio call for correction.

5. Open Market Borrowings

Open Market Borrowings (OMB) is a relatively low - cost component of borrowings by the States. It is seen that the share of OMB has been rising as a proportion of the Outstanding Liabilities of the States. Share of the loans from Centre has been coming down. At the national level, five-year pans have been scrapped and the Normal Central Assistance (NCA) to the States as support to the Plans is not there. 70 per cent of this was loans to General category States and balance 30 per cent was given as grants.[4]

If States with higher rank in ratio of Outstanding Liabilities to GSDP ratio have a higher rank in share of OMB in Outstanding Liabilities, it is a good indicator for sustainability. As can be seen from Table 5, no State which figures in top 5 in Outstanding Liabilities is in the top 5 of share of OMB, except Punjab, which ranks 5 in the share of OMB in Outstanding Liabilities. The top 5 States in OMB share in Outstanding Liabilities are Telangana, Tamil Nadu, Andhra Pradesh, Haryana and Punjab. Except Punjab, which has a very high debt, Tamil Nadu, Andhra Pradesh and Haryana have Medium Debt and Telangana has Low Debt. Kerala, State with High Debt and Very High Revenue Deficit ranks 9 in the Share of OMB in Outstanding Liabilities. Other Very High and High debt States, Bihar, Madhya Pradesh and Gujarat rank 16, 13 and 11 in share of OMB in Outstanding Liabilities.

[4] For Special Category States, it was 90 percent grants and 10 percent loans.

Table 5 Ranks of State – Comparison of Outstanding Liabilities and Share of Market Borrowings.

State	Outstanding Liabilities	Market Borrowings
Jammu and Kashmir	1	6
Punjab	2	5
Rajasthan	3	10
West Bengal	4	7
Uttar Pradesh	5	14
Bihar	6	16
Kerala	7	9
Andhra Pradesh	8	3
Madhya Pradesh	9	13
Gujarat	10	11
Haryana	11	4
Jharkhand	12	8
Tamil Nadu	13	2
Odisha	14	19
Maharashtra	15	15
Karnataka	16	17
Assam	17	12
Chhattisgarh	18	18
Telangana	19	1

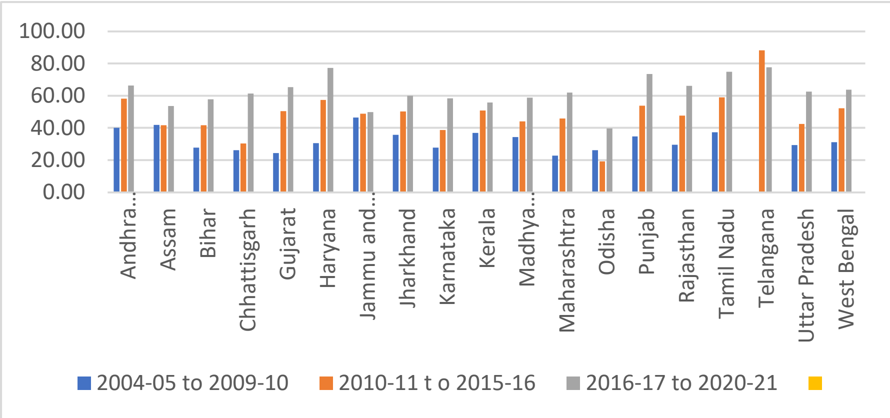
Source :Computed from Hand Book of Statistics on Indian States and State Finances : A Study of the Budgets, Reserve Bank of India, various issues

-When the period of analysis is divided into three sub-periods, namely, 2004-05 to 2009-10, 2010-11 to 2015-16 and 2016-17 to 2019-20,[5] it is seen that the share of OMB in Outstanding Liabilities of States has been rising. In the case of Telangana, the share is quite high, but has shown a fall from 88.13 per cent to 77.76 per cent from 2010-11 to 2015-16 to

[5] The sub- periods are 1) the high growth phase with fiscal consolidation, 2) onset of Global Financial Crisis and pressing the pause button on deficit targets at the national level and 3) the post-five-year plan phase along with tax reforms like introduction of Goods and Services tax (GST) and implementation of pay Commission Awards.

2016-17 to 2019-20. This shows that the low-cost component in the Outstanding Liabilities has been rising.

Figure 1: Trend in OMB Share in Outstanding Liabilities (%)- 2004-05 to 2019-20



Source :Computed from Hand Book of Statistics on Indian States and State Finances : A Study of the Budgets, Reserve Bank of India, various issues

6. Loans from Centre

As a component of Outstanding Liabilities, share of loans from Centre has been declining. In the period 2004-05 to 2009-10, it was at 12.58 per cent. It declined to 6.81 and 3.17 per cent in 2010-11 to 2015-16 and 2016-17 to 2019-20 respectively. The State-wise rankings in the share of central loans in Outstanding Liabilities in descending order is given in Table 6.

Table 6 State-Wise share of Loans form Centre in Outstanding Libailites-2004-05 to 2019-20

State	**Share of Loans form Centre in Outstanding Liabilities (%)**	**Rank**
Odisha	14.57	1
Madhya Pradesh	13.22	2
Bihar	11.57	3
Andhra Pradesh	11.44	4
Karnataka	10.52	5
Chhattisgarh	10.04	6
Jharkhand	7.78	7
Uttar Pradesh	7.45	8
Assam	7.34	9
Tamil Nadu	7.24	10
Rajasthan	7.04	11
West Bengal	7.04	12
Kerala	6.63	13
Gujarat	6.51	14
Jammu and Kashmir	5.18	15
Punjab	4.94	16
Haryana	3.96	17
Maharashtra	3.42	18
Telangana	0.71	**19**

Source :Computed from Hand Book of Statistics on Indian States and State Finances : A Study of the Budgets, Reserve Bank of India, various issues

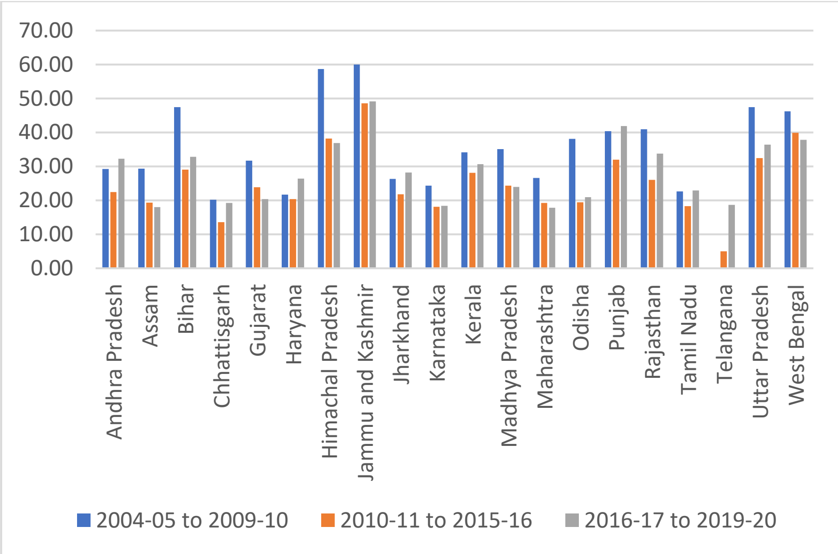
7. **Trends in Outstanding Liabilities to GSDP Ratio-2004-05 to 2019-20**

Table 7: Trends in Outstanding Liabilities to GSDP ratio

State	**2004-05 to 2009-10**	**2010-11 to 2014-15**	**2015-16 to 2019-20**
Andhra Pradesh	29.21	22.49	32.23
Assam	29.37	19.31	18.02
Bihar	47.42	29.10	32.85
Chhattisgarh	20.19	13.64	19.23
Gujarat	31.67	23.86	20.35
Haryana	21.66	20.40	26.39
Jammu and Kashmir	60.01	48.61	49.11
Jharkhand	26.29	21.79	28.23
Karnataka	24.32	18.10	18.36
Kerala	34.10	28.08	30.63
Madhya Pradesh	35.05	24.34	23.95
Maharashtra	26.62	19.20	17.80
Odisha	38.08	19.40	20.97
Punjab	40.35	31.99	41.85
Rajasthan	40.95	26.01	33.80
Tamil Nadu	22.69	18.35	22.90

Source :Computed from Hand Book of Statistics on Indian States and State Finances : A Study of the Budgets, Reserve Bank of India, various issues

Figure 2: Trend in Outstanding Liabilities to GSDP -2004-05 to 2019-20



Source :Computed from Hand Book of Statistics on Indian States and State Finances : A Study of the Budgets, Reserve Bank of India, various issues

In the second sub- period, 2010-11 to 2015-16, Outstanding Liabilities to GSDP ratio fell vis-à-vis the first sub-period 2004-05 to 2009-10 for all the States. The revision of GSDP series with 2011-12 as the base instead of 2004-05 was a reason for this fall. The comparison for 2011-12 with the old and new series of GSDP reveals this.

Table8: Fall in Outstanding Liabilities to GSDP in 2011-12

State	Fall due to change in Series	Rank
Jammu and Kashmir	6.93	1
Karnataka	5.80	2
Kerala	4.28	3
Assam	2.68	4
Jharkhand	2.34	5
Tamil Nadu	2.20	6
Andhra Pradesh	2.17	7
Uttar Pradesh	1.90	8
Maharashtra	1.81	9
Punjab	1.24	10
Rajasthan	1.22	11
Chhattisgarh	1.08	12
Odisha	0.98	13
Madhya Pradesh	0.87	14
Gujarat	0.69	15
Bihar	0.44	16
Telangana	0.00	17
Haryana	-0.07	18
West Bengal	-0.61	19

Source :Computed from Hand Book of Statistics on Indian States and State Finances : A Study of the Budgets, Reserve Bank of India, various issues

All States except Haryana and West Bengal, had witnessed fall in Outstanding Liabilities to GSDP ratio when nominal GSDP in ~~2004-05~~

prices and 2011-12 prices is used as denominator. Jammu and Kashmir which ranks 1 in the average Outstanding Liabilities to GSDP in 2004-05 to 2019-20 benefitted with a fall of 6.92 per cent in 2011-12, followed by Karnataka, Kerala, Assam and Jharkhand. Other 3 Very High Debt States Punjab, Rajasthan, and Uttar Pradesh witnessed a fall due to change in GSDP series and rank 10, 11 and 8 respectively.

In the third sub-period, ~~Outstanding Liabilities to GSDP ratio~~, all States except Assam, Gujarat, Madhya Pradesh witnessed a rise in Outstanding Liabilities to GSDP ratio, when compared to the second sub-period.

8. Guarantees by States

In the Outstanding Liabilities of the States, borrowings by entities, which b are given guarantees by the State governments is not included. These are contingent liabilities for the respective governments which give guarantees. In case of default by the borrower, the government which has guaranteed the loan will have to repay the loan. Like Fiscal Responsibility Acts, Union and State governments have Guarantee Ceiling Acts also. Some States have included this in the Fiscal Responsibility legislations. Recently, in March 2022, Union Finance Ministry has put a condition that the borrowings of the entities which borrow with guarantees and the repayment is through the budget and also entities to which State governments assign a portion of taxes and cesses, will be treated as borrowings of the States and will be reduced from the OMB limits when approval is given under Article 293(3) and (4) of the Constitution. There are views from the States that the expansive definition of State is not possible under Article 293 to include other entities and only States in First Schedule of the Constitution can be included for the purposes of Article 293. Since Union is considering including certain guarantees for giving approval for annual OMB limits to States, which have borrowed from it (which at present every State has), it is relevant to look at guarantees issued by the States. Continuous data are available from 2007-08 and it is analysed.

Table 9 : Guarantees by State Governments- 2007-08 to 2019-20

State	**Outstanding Guarantees**	**Rank**
Punjab	12.23	1
Rajasthan	11.53	2
Telangana	6.07	3
Uttar Pradesh	5.05	4
Andhra Pradesh	4.56	5
Jammu and Kashmir	3.76	6
Haryana	3.32	7
Kerala	2.86	8
Tamil Nadu	2.71	9
Madhya Pradesh	2.51	10
Maharashtra	2.21	11
Chhattisgarh	1.98	12
West Bengal	1.85	13
Karnataka	1.69	14
Gujarat	1.19	15
Odisha	0.78	16
Bihar	0.71	17
Assam	0.27	18
Jharkhand	0.14	19

Source: Computed from Hand Book of Statistics on Indian States and State Finances : A Study of the Budgets, Reserve Bank of India, various issues

It can be seen from Table 9 that three of the States with Very High debt, Punjab, Rajasthan and Uttar Pradesh rank 1, 2 and 4 in Outstanding Guarantees. West Bengal which ranks 4 in and is a Very High debt State ranks 13 in Outstanding Guarantees. The State which ranks 1 in Outstanding Liabilities, Jammu and Kashmir ranks 6 in Outstanding Guarantees.

When Outstanding Liabilities and Outstanding Guarantees are taken together, the classification of the States is as in Table 10.

Table 10: Classification of States- Outstanding Liabilities + Outstanding Guarantees as percentage of GSDP- 2007-08 to 2019-20

Above 50 per cent	**Above 40 per cent**	**35 to 40 per cent**	**30 to 35 per cent**	**25 to 30 per cent**	**20 to 25 per cent**	**15 to 20 per cent**
Jammu and Kashmir	Punjab		Bihar	Madhya Pradesh	Jharkhand	Chhattisgarh
	Rajasthan		Kerala	Gujarat	Tamil Nadu	
	West Bengal		Andhra Pradesh	Haryana	Odisha	
	Uttar Pradesh				Maharashtra	
					Karnataka	
					Assam	
					Telangana	

Source: Computed from Hand Book of Statistics on Indian States and State Finances : A Study of the Budgets, Reserve Bank of India, various issues

9. Debt- Servicing Burden of States- Interest Payments – Revenue Receipts ratio

The ranking of States in the descending order of their debt servicing burden is given in Table 11. It can be seen that for the period 2004-05 to 2019-20, States with Very High rank in Outstanding Liabilities-GSDP ratio, namely West Bengal, Punjab and Rajasthan figure in the top five ranks of debt servicing burden. State of Kerala, which has high rank in Outstanding Liabilities to GSDP ratio figures as Rank Number 3 in debt servicing burden. Jammu and Kashmir, which has highest ratio of Outstanding Liabilities to GSDP ratio, ranks 17 in debt servicing burden. During 2020-21, when borrowing limit of States were enhanced in the Pandemic induced stress, Haryana and Tamil Nadu have been ranked 2 and 4 in debt servicing burden. Punjab, West Bengal and Kerala have rank numbers 1,3 and 5 respectively for 2020-21, while Gujarat and Rajasthan have moved down to rank numbers 6 and 7 respectively. Very high- and high-ranking States in Outstanding Liabilities to GSDP ratio need to increase their own revenue receipts to reduce debt servicing burden. The Fourteenth Finance Commission had recommended that States with Interest Payments- Revenue Receipts ratio of less than 10 per cent would be allowed additional borrowing limit of 0.5 per cent of their GSDP. As seen from the average for 2004-05 to 2019-20 and for 2020-21 only two and one State respectively have this ratio of less than 10 per cent.

Table 11: State- Wise ranking of Debt-Servicing Burden- 2004-05 to 2019-20 and 2020-21

2004-05 to 2019-20			**2020-21**		
State	**IP- RR Ratio**	**Rank**	**State**	**IP-RR ratio**	**Rank**
West Bengal	30.53	1	**Punjab**	26.92	1
Punjab	24.20	2	**Haryana**	26.11	2
Kerala	19.53	3	**West Bengal**	22.64	3
Gujarat	19.09	4	**Tamil Nadu**	21.00	4
Rajasthan	17.30	5	**Kerala**	20.78	5
Haryana	15.87	6	Gujarat	19.06	6
Maharashtra	15.29	7	Rajasthan	18.93	7
Andhra Pradesh	14.17	8	Andhra Pradesh	18.80	8
Uttarakhand	13.99	9	Goa	15.40	9
Goa	13.98	10	Telangana	14.48	10
Uttar Pradesh	13.81	11	Karnataka	14.43	11
Tamil Nadu	13.38	12	Uttarakhand	14.33	12
Telangana	12.14	13	Maharashtra	13.81	13
Bihar	11.01	14	Uttar Pradesh	12.96	14
Odisha	11.00	15	Jammu & Kashmir	12.93	15
Madhya Pradesh	10.89	16	Madhya Pradesh	11.24	16
Jammu & Kashmir	10.88	17	Bihar	10.10	17
Karnataka	10.21	18	Jharkhand	10.05	18
Jharkhand	10.16	19	Chhattisgarh	9.88	19
Assam	8.43	20	Assam	8.80	20

Source: Computed from data available in State Finances, A Study of the Budgets and Hand Book of Statistics on Indian States, Reserve bank of India, various issues.

10. Union and All States A Brief Look

The ratio of Outstanding Liabilities of the Union has been falling from 65.53 per cent in 2004-05 to 52.68 per cent in 2019-20. In 2020-21, the year in which there was impact of Covid-19, it rose to 62.85 per cent of GSDP.

Out of the Total Liabilities of the Union, external liabilities have been around 5 per cent for most of the years as can be seen from Table 12. Utilisation from Public Account has been showing a declining trend.

When we look at the Fiscal, Revenue and Primary Deficits of the Union, they have remained above the FRBM Act targets.

Table 12: Total Liabilities of the Union as a proportion of GDP (%)- 2004-05 to 2019-20

Year	**Total Liabilities of the Union as a proportion of GDP**
2004-05	65.53
2005-06	63.90
2006-07	61.40
2007-08	58.86
2008-09	58.62
2009-10	56.27
2010-11	52.15
2011-12	53.46
2012-13	52.55
2013-14	52.16
2014-15	51.42
2015-16	51.54
2016-17	49.54
2017-18	49.47
2018-19	49.62
2019-20	52.68
2020-21	62.85

Source: Handbook of Statistics on Indian Economy, Reserve Bank of India, various issues.

Table 13- Proportion of External Debt in Total Liabilities (%)-2004-05 to 2020-21

Year	Share of External Debt (%)	Share of Public Account
2004-05	9.00	18.38
2005-06	8.22	20.33
2006-07	7.63	20.46
2007-08	7.16	18.86
2008-09	8.00	16.77
2009-10	6.84	17.03
2010-11	6.86	16.76
2011-12	6.91	15.09
2012-13	6.35	14.00
2013-14	6.39	13.19
2014-15	5.71	12.51
2015-16	5.73	12.24
2016-17	5.35	12.28
2017-18	5.71	11.90
2018-19	5.47	11.83
2019-20	5.53	11.01
2020-21	4.74	9.95

Source: Handbook of Statistics on Indian Economy, Reserve Bank of India, various issues.

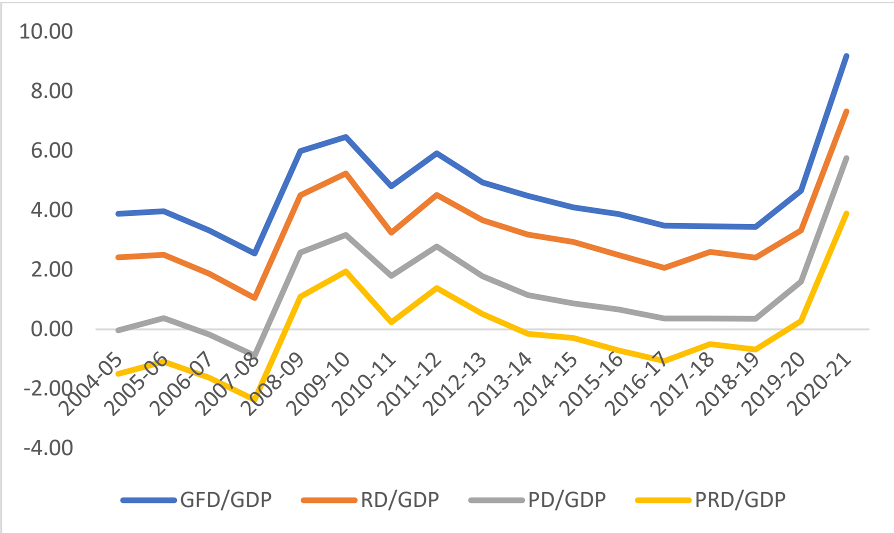
Table 14 Fiscal, Revenue and Primary Deficits of the Union-2004-05 to 2019-20

Year	GFD/GDP	RD/GDP	PD/GDP	PRD/GDP
2004-05	3.88	2.42	-0.04	-1.50
2005-06	3.96	2.50	0.37	-1.09
2006-07	3.32	1.87	-0.18	-1.63
2007-08	2.54	1.05	-0.88	-2.38
2008-09	5.99	4.50	2.57	1.09
2009-10	6.46	5.23	3.17	1.94
2010-11	4.80	3.24	1.79	0.23
2011-12	5.91	4.51	2.78	1.39
2012-13	4.93	3.66	1.78	0.51
2013-14	4.48	3.18	1.14	-0.15
2014-15	4.10	2.93	0.87	-0.30
2015-16	3.87	2.49	0.66	-0.72
2016-17	3.48	2.06	0.36	-1.07
2017-18	3.46	2.60	0.36	-0.50
2018-19	3.44	2.40	0.35	-0.68
2019-20	4.65	3.32	1.60	0.27
2020-21	9.18	7.32	5.75	3.89

Source: Handbook of Statistics on Indian Economy, Reserve Bank of India, various issues.

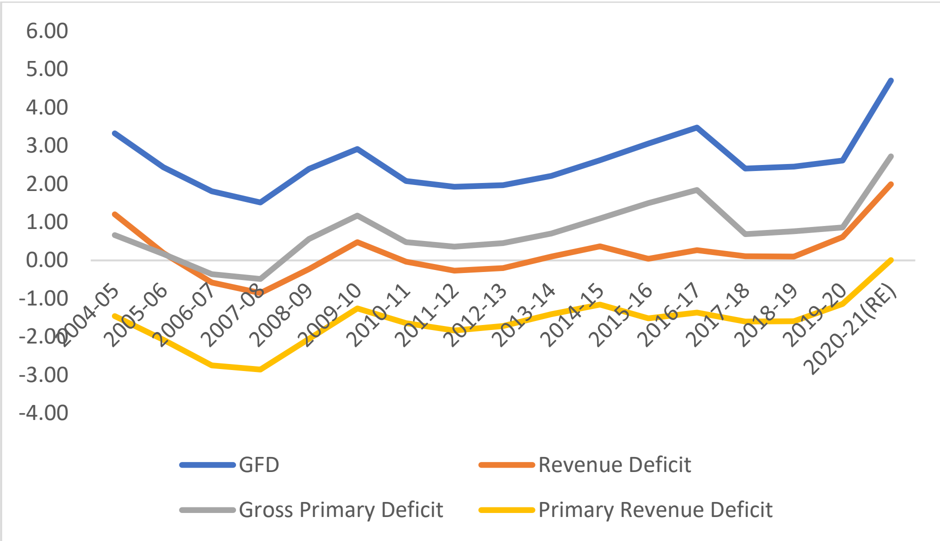
Gross Fiscal Deficit to GDP ratio has always remained above the 3 per cent limit and Revenue Deficit as a proportion of Gross Fiscal Deficit has been on an average 67 per cent. In 2020-21, in the year of Covid impact, it has been 81 per cent. There has been Primary Deficit except in 2004-05, 2006-07 and 2007-08. From 2013-14 to 2018-19, there has been Primary revenue Surplus.

Figure Fiscal, Revenue, Primary and Primary Revenue Deficits of Union as a ratio of GDP-004-05 to 2020-21



Source :Computed from data in Handbook of Statistics on Indian Economy, Reserve Bank of India, various issues.

Figure 3 Fiscal, Revenue, Primary and Primary Revenue Deficits of all States as a ratio of GDP-004-05 to 2020-21



Source :Computed from data in Handbook of Statistics on Indian Economy, Reserve Bank of India, various issues.

Table 15: Fiscal, Revenue, Primary and Primary Revenue Deficit ratios to GDP of all States- (%) 2004-05 to 2020-21

Year	GFD	Revenue Deficit	Gross Primary Deficit	Primary Revenue Deficit	RD/FD
2004-05	3.32	1.21	0.66	-1.46	0.36
2005-06	2.44	0.19	0.16	-2.09	0.08
2006-07	1.80	-0.58	-0.36	-2.75	-0.32
2007-08	1.51	-0.86	-0.49	-2.86	-0.57
2008-09	2.39	-0.23	0.56	-2.05	-0.09
2009-10	2.91	0.48	1.17	-1.26	0.16
2010-11	2.07	-0.04	0.47	-1.64	-0.02
2011-12	1.93	-0.27	0.36	-1.84	-0.14
2012-13	1.97	-0.20	0.45	-1.72	-0.10
2013-14	2.21	0.09	0.70	-1.41	0.04
2014-15	2.62	0.37	1.10	-1.16	0.14
2015-16	3.05	0.04	1.50	-1.52	0.01
2016-17	3.47	0.26	1.84	-1.37	0.08
2017-18	2.40	0.11	0.69	-1.60	0.05
2018-19	2.45	0.09	0.76	-1.60	0.04
2019-20	2.61	0.61	0.86	-1.15	0.23
2020-21(RE)	4.71	2.00	2.72	0.01	0.42

Source: Handbook of Statistics on Indian Economy, Reserve Bank of India, various issues.

When we look at the all-States position, all deficit ratios have shown a downward trend till 2018-19. In 2019-20, the deficits had gone up and they further went up in 2020-21 due to Covid impact. Overall, Revenue Deficit as a proportion of Gross Fiscal Deficit had become -0.36 percent, as an average during 2004-05 to 2019-20. It rose to 42 per cent in 2020-21, in the year of Covid impact. States had Primary Deficit, but Primary Revenue Surplus indicating that Primary Deficit was not due to revenue spending. Overall, he fiscal consolidation process at the all-States level has been quite substantial during the period 2004-05 to 2019-20, but there are State-wise variations as we have already seen.

11. Concluding Remarks

The paper attempted to look at the Outstanding Liabilities of 19 major States in India by ranking them on various indicators related to borrowings. States with Rankings 1-5 are classified as Very High Debt States, 6-10 as High Debt States, 11-15 as Medium Debt States and 16-19 as Low Debt States. This is seen in association with their ranking in Revenue Deficit, Primary Deficit and Primary Revenue Deficit. If a State ranks very high in all these categories, the trend shown by Outstanding Liabilities indicate unsustainability calling for correction.

In India, States will not default on debt repayment since there is control on their borrowing as long as they have loans outstanding from Centre or there is a guarantee on their loans by the Centre. But conditions imposed by the Centre can result in States not being able to discharge their expenditure obligations, if they continue to be debt stressed. Very High and High Revenue Deficit States need to look at their expenditure patterns and revenue mobilisation efforts. Else, their debt dependence will not come down and there can be liquidity problems. States with high dependence on Public Account balances also will face restrictions in OMB limits. This is pursuant to the recommendations of the Fourteenth Finance Commission. Many times, balances in Public Account like Provident Funds may be notional and actual cash balance may not be there. Centre will have to consider this aspect favourably while giving approval for OMB limits.

The study finds that the Outstanding Liabilities to GSDP ratio has come down during 2011-12 to 2015-16 when compared to 2004-05 to 2009-10. This is partly due to the denominator effect consequent to the revision of GSDP series in 2011-12. In the third sub-period, 2016-17 to 2019-20, there has been rise in Outstanding Liabilities to GSDP ratio, In 2020-21, there has been rise in the ratio due to impact of Covid-19.

Overall, the Outstanding Liabilities and deficit ratios indicate a fiscal consolidation at all States level than at the central level. But there are wide State-wise variations. The particular factors at each State level calls for separate detailed study by analysing the expenditure patterns, own revenue mobilisation efforts and trends in central transfers.

R. Mohan, is a former officer of the Indian Revenue Service and is presently a Visiting Research Fellow at Centre for Development Studies, Thiruvananthapuram. His areas of research interest are fiscal federalism and taxation.

Email: prakri@gmail.com

REFERENCES

Balbir Kaur, Atri Mukherjee and Anand Prakash Ekka (2018): Debt Sustainability of States in India: An Assessment, Indian Economic Review, ,https://doi.org/10.1007/s41775-018-0018-y July 2018.

Bequiraj Elton,Slva Fedeli and Francesco Forte (2018) 'Public Debt Sustainability: An empirical study on OECD Countries, *Journal of Macroeconomics*, Volume 58, December 2018, Pp. 238-248

Domar Evsey (1944): 'The "Burden of the Debt" and the National Income' *The American Economic Review*. Volume 34, Number 4, December 1944, Pp. 798-927.

Government of India: Report of the Fourteenth Finance Commission, Chairman, Y.V. Reddy

Hamilton J D and Flavin M A (1986): ' On the Limitations of Government Borrowing; A Framework for Empirical Testing, *American economic Review*, 76, Pp 808-819.

Misra Sangita, Kirti Gupta and Pushpa Trivedi (2020); 'Subnational Government Debt sustainability in India: An Empirical Analysis' RBI Working Paper Series No 08, www.rbi.org.in

Reserve Bank of India (2022); 'State Finances: A Risk Analysis', RBI Bulletin, June 16,2022.

PUBLICATIONS

For information on all publications, please visit the CDS Website: www.cds.edu. The Working Paper Series was initiated in 1971 and can be downloaded from the website.

The Working Papers published after January 2020 are listed below:

W.P. 511 **BASIT ABDULLAH, VINOJ ABRAHAM, RITIKA JAIN,** *Relative Occupational Aspirations and Youth Unemployment in India*. January 2023.

W.P. 510 **K. P. KANNAN,** *Kerala 'Model' of Development Revisited A Sixty-Year Assessment of Successes and Failures,* October 2022.

W.P. 509 **THIAGU RANGANATHAN, TIRTHA CHATTERJEE , RUCHA TAKLE,** *Value Chain Configuration in the Indian Tea Economy: A Historical Perspective, September 2022.*

W.P. 508 **ROBERT C. M. BEYER, ABHINAV NARAYANAN, GOGOL MITRA THAKUR,** *Natural Disasters and Economic Dynamics: Evidence from the Kerala Floods,* June 2022.

W.P. 507 **B. A. PRAKASH,** *COVID-19 Pandemic and Exodus of Keralite Emigrant Workers from GCC Countries: Causes of Return, Activity Status of Returnees and Economic Impact,* April 2022.

W.P. 506 **AJIL MANKUNNUMMAL,** *Containing the fertilizer subsidy in India: An analysis of subsidy containing Strategies and its outcome,* April 2022.

W.P. 505 **SUNIL MANI, CHIDAMBARAN G IYER,** *Diffusion of Digital Payments in India, 2011-12 through 2020-21: Role of Its Sectoral System of Innovation,* February 2022

W.P. 504 **S. IRUDAYA RAJAN, BALASUBRAMANYAM PATTATH,** *Kerala Return Emigrant Survey 2021: What Next for Return Migrants of Kerala?*. September 2021

W.P. 503 **SRIKANTA KUNDU, AMARTYA PAUL,** *Effect of Economic Policy Uncertainty on Stock Market Return and Volatility under Heterogeneous Market Characteristics.* August 2021

W.P. 502 **CHIDAMBARAN G. IYER**, *Mobile Phone Manufacturing in India: A Study of few Characteristics.* February 2021

W.P. 501 **SUSAMA HANSDAH, ABHILASH T,** *Scheduled Tribes and School Education: Analysis of a Household Survey in Mayurbhanj District of Odisha.* December 2020.

W.P. 500 **TIRTHA CHATTERJEE, THIAGU RANGANATHAN**, *Did Reservation in Higher Education Change The Prospects For OBCs in Getting Better Jobs? A Study Using Periodic Labour Force Survey (PLFS) in India.* October 2020.

W.P. 499 **ARITRI CHAKRAVARTY**, *Information Seeking by Agricultural Households in India: Determinants of Access and Choice of Sources*. September 2020.

W.P. 498 **RIMON SAHA,** *Patterns and Determinants of State Expenditure on Human Priority Sectors in India*. September 2020.

W.P. 497 **UPASAK DAS, AMARTYA PAUL, MOHIT SHARMA,** *Using Information and Technology to Improve Efficacy of Welfare Programs: Evidence from a Field Experiment in India.* August 2020.

W.P. 496 **SUNIL MANI**, *India's Quest for Technological Self Reliance Analysis of her Record with Respect to Patents in the Post Trips Phase*. August 2020.

W.P. 495 **SUDIP CHAUDHURI**, *Evolution of the Pharmaceutical Industry in Bangladesh, 1982 to 2020.* July 2020.

W.P. 494 **THIAGU RANGANATHAN, AVINA MENDONCA,** *Relative Educational Status and Women's Autonomy: Evidence from India.* May 2020.

W.P. 493 **ANURAG ANAND,** *Economic Policy Reforms, Foreign Direct Investment and the Patterns of MNC Presence in India: Overall and Sectoral Shares*. January 2020.

W.P. 492 **S. IRUDAYA RAJAN, UDAYA S. MISHRA,** *Resource Allocation in lieu of State's Demographic Achievements in India: An Evidence Based Approach.* January 2020.

W.P. 491 **HRUSHIKESH MALLICK**, *Role of Governance and ICT Infrastructure in Tax Revenue Mobilization in India.* January 2020.

Centre for Development Studies
Prasanth Nagar, Ulloor,
Thiruvananthapuram 695 011
Kerala, India
Phone: +91 471 2774200
Website: www.cds.edu

For Publication Contact
E-mail: publication@cds.edu