Source : www.thehindu.com Date : 2019-01-23

CENTRE’S DEBT-TO-GDP FALLS, STATES’ RISES

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Public Finance, Taxation & Black Money incl. Government Budgeting

While the Centre is moving in the right direction in terms of meeting the N.K. Singh Committee recommendations on public debt, the States are moving in the opposite direction, data released by the government show.

According to the Status Paper on Government Debt for 2017-18, the Centre’s total debt as a percentage of GDP reduced to 46.5% in 2017-18 from 47.5% as of March 31, 2014. The total debt of the States, however, has been rising over this period, to 24% in 2017-18, and is estimated to be 24.3% in 2018-19.

In absolute terms, the Centre’s total debt increased from Rs. 56,69,429 crore at the end of March 2014 to Rs. 82,35,178 crore in 2017-18, representing a 45% increase. The total debt of the States increased from Rs. 24,71,270 crore to Rs. 40,22,090 crore over the same period, an increase of almost 63%.

The N.K. Singh-headed FRBM (Fiscal Responsibility and Budget Management) Review Committee report had recommended the ratio to be 40% for the Centre and 20% for the States, respectively, by 2023. It said that the 60% consolidated Central and State debt limit was consistent with international best practices, and was an essential parameter to attract a better rating from the credit ratings agencies.

“The Central debt has been within control because the government has been trying to stick by-and-large to the fiscal deficit parameters,” Ranen Banerjee, leader, PwC India, said. “The increase in the debt stock at the State level is worrying because they don’t have the wherewithal to service the debt if it goes beyond a certain point. They could then start getting into a debt trap situation.”

UDAY bonds

“Outstanding liabilities of States have increased sharply during 2015-16 and 2016-17, following the issuance of UDAY bonds in these two years, which was reflected in an increase in liability-GDP ratio from 21.7% at end-March 2015 to 23.4% at end-March 2016 and further to 23.8% at end-March 2017,” the status report said.

“The total outstanding liabilities as a percentage of GDP stood at 24% as at end-March 2018 and is expected to move upward to 24.3% at end-March 2019.” This, combined with the fact that ratings agencies have predicted that the combined fiscal deficit of the States to be 3.2% of GDP in financial year 2020 (higher than the prescribed 3%), and it begins to look increasingly unlikely that the States will meet their 20% debt-GDP ratio target by 2023. The report, however, says that the States do have some fiscal space to reduce their borrowing in the coming years due to the large cash surpluses they hold.

“State governments as a group have exhibited a tendency to hold large cash surpluses/investments in Cash Balance Investment Account on a consistent basis while at the same time resorting to market borrowings to finance their GFD (Gross Fiscal Deficit),” the report said.

“This indicates scope for reducing the quantum of market borrowings by State governments in case they bring down their cash surpluses (parked as investment in treasury bills of the Central government),” the report added.

END