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STATES SET TO MISS 20% DEBT-TO-GDP RATIO TARGET BY FY23: REPORT

Relevant for: Indian Economy | Topic: Issues relating to Mobilization of resources incl. Savings, Borrowings & External Resources

Though the Centre may manage to achieve the debt-to-GDP ratio target of 40 per cent by FY23, the states achieving the 20 per cent target looks difficult as most of them have not budgeted so far, warned a report.

The states' aggregate debt-to-GDP ratio for FY19 has been budgeted at 24.3 per cent and according to their FY19 budgets, only 10 of the 20 states will have debt-to-GSDP ratio of under 25 per cent in FY19, noted the report by India Ratings' chief economist, DK Pant.

The NK Singh committee, which is reviewing the Fiscal Responsibility and Budget Management Act of 2003, has suggested that the fiscal policy try to reduce the debt-to-GDP ratio to 60 per cent by FY23, with the Centre's at 40 per cent and the states' combined at 20 per cent, instead of improving the revenue to fiscal deficit ratio.

Eight states namely Himachal, Jammu & Kashmir, Kerala, Manipur, Meghalaya, Nagaland, Punjab and Rajasthan had debt-to-GSDP ratios in excess of 30 per cent in FY18, suggesting that the aggregate debt-to-GDP ratio needs to be corrected by 8.92 percentage points between FY18 and FY23, Pant noted.

Although there have been instances of debt-to-GDP ratio declining by over three percentage points in a single year and by over 11 per cent for six years at a go, all these periods were characterised by an average minimum nominal GDP growth of about 14 per cent per annum and average aggregate revenue receipt-to-GDP ratio of around 20 per cent, according to him.

Though the aggregate revenue receipt-to-GDP ratio has been budgeted at 22 per cent for FY19, Pant said achieving a nominal GDP growth of about 14 per cent looks difficult.

Sustainability of debt-to-GDP ratio relies on the primary balance-to-GDP and the rate spread (excess of nominal growth over average interest rate on debt).

India Ratings said during FY90-FY18, the country's debt-to-GDP ratio witnessed five phases: During FY90-FY92, it rose to 72.89 per cent from 70.06; while during FY93-FY97, it declined to 64.37 per cent from 72.01; to rise again to 83.23 per cent from 66.29 during FY98-FY04. During FY05-FY11, it again declined to 65.60 per cent from 82.13, while it remained range bound at 66.58-68.92 per cent during FY12-FY18.

During the past five years, while revenue-to-GDP, interest-to-revenue, debt-to-revenue and positive rate spread trends were favourable for debt sustainability, rising interest payment/GDP, continuous primary deficit/GDP proved to be a negative, the note said.

From a global perspective, the country remains an outlier in terms of both consolidated debt-to-GDP and debt-to-revenue ratios.

While the median value of the consolidated debt-to-GDP 'BBB' countries was 37.8 per cent in 2017, for India it was a high 69 per cent. But European countries like Italy had a higher ratio at 131.8 per cent and Portugal's stood at 125.7 per cent, according to the rating agency.

India Ratings attributed the low revenue base as the major factor for India having the highest debt-to-revenue ratio of 327.1 per cent amongst the median of the 'BBB' countries in 2017 at 165.4 per cent.

"Higher debt and low revenue levels make India an outlier even in terms of interest-to-revenue ratio, which was 23.7 per cent as against 'BBB' median of 6.3 per cent in 2017. Clearly, the way forward is to expand our revenue base, and GST is a big step in this direction," said Pant.

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