Financial Indicators of selected states in India-An Analysis

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Abstract

India is one of the fastest growing economies in the world ranking 128 in terms of Gross Domestic Product (Purchasing Power Parity) and 142 in terms of Gross Domestic Product (Nominal). India used to be one of the top contributors of GDP centuries ago. Invasions of different country people made India a poor country. After independence of India, the country started progressing slowly and after New Economic Policy reforms in 1991, the country gained momentum in strengthening its economy. There are many indicators which advises the position of economy of the country as well as states. In recent times, there are certain states which are not so healthy in terms of economy due to various aspects, Reserve Bank of India (RBI) has identified certain states which are heading towards the danger. Present study focuses on certain indicators such as Outstanding Liabilities position of the states, Gross State Domestic Product (GSDP), Interest Payment by states, Capital Expenses and Capital Outlay of the states for time period 2014-15 to 2019-20. If the state governments fail to take correcting measures to control these factors, they will have a huge problem in the future. Hence the state governments should take necessary steps to come out of this debt burden and flourish in the long run. It is suggested to invest more on the Capital Outlay than on Capital Expenses and Interest Payments.

Keywords: Capital Expenses, Capital Outlay, Interest Payments, Gross Domestic Product, Gross State Domestic Policy, New Economic Policy and Purchasing Power Parity.

Introduction

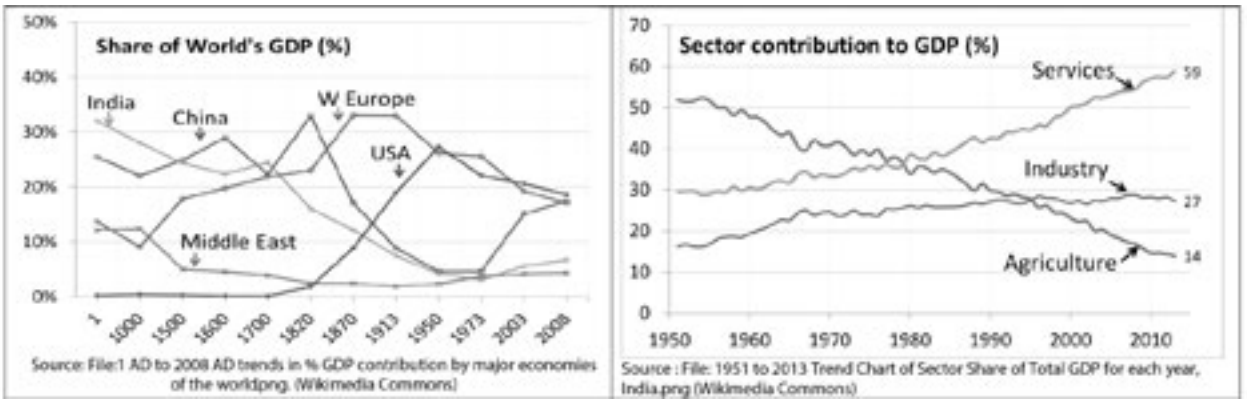
India is a county with one of the finest and richest civilizations. India is one of the fastest growing economies and ranked 142 in terms of Gross Domestic Product (Nominal) and 128 in terms of Gross Domestic Product (Purchasing Power Parity) [1]. The ***Bronze Age*** of India started from 3300 BCE and believed to be existent till 1800 BCE along with Ancient Egypt and Mesopotamia. ***Indus valley civilization*** was considered as one of the three early cradle of civilizations of the world [2]. The mature Indus valley civilization has been witnessed from 2600 BCE to 1900 BCE. ***Iron Age*** in India has been seen from 1800 BCE to 200 BCE, where the Vedic period is witnessed and the period is considered to be 1500 BCE to 600 BCE [3]. Later early ***Classical period*** flourished from 200 BCE to 320 CE [4]. Then comes one of the Golden periods of India, ***Gupta's regime*** from 320 CE to 650 CE. That period was noted for the most arts, cultural creativity in literature, sculpture, architecture and painting along with renowned scholars [5]. After the Gupta's period India has experienced ***"Late Classical Age"*** of Hinduism, from the period Mid-6th Century to 1200 CE [6]. ***Buddhism*** started and it has seen some downfall due to invasion of Delhi Sultans, whose period was from 1200 CE to 1526 CE [7]. Delhi sultanate has come to an end with the invasion of Mughals and Mughals ruled India for a long period, which was considered as early modern period from 1526 CE till 1757 CE [8]. Later ***East India Company*** started dominating India and in 1857 CE some of the Indian kings started revolting and rebellion against British East India Company. British Raj rule was there from 1858 CE to 1947 CE. In which along with the economic activities, Indian Penal Code also came in to practice [9]. India got independence in 1947, since then India started again its economic development which was lost due to various invasions in the past. But India has suffered a lot with the invasions of other countries.

The figures which are given in Table 1 gives an idea how the Indian economy contributed to worlds GDP from year 1AD till 2008 AD which is the work of ***Angus Maddison***, a British Economist. In the first quadrant we can see Indian used to contribute about 32% of Worlds' GDP in 1 AD which stated huge decline from 1700 AD and started revival after 1991. Second Quadrant shows the contribution of different sectors to Indian GDP. Service sector's contribution is about 60% and the agriculture contribution is about 14% as per 2010[10]. In the third quadrant, we can observe growth of GDP per capita from 1970 and a brisk changed from late 1990 and early 2000s. The fourth quadrant showcases the GDP in millions of INR.

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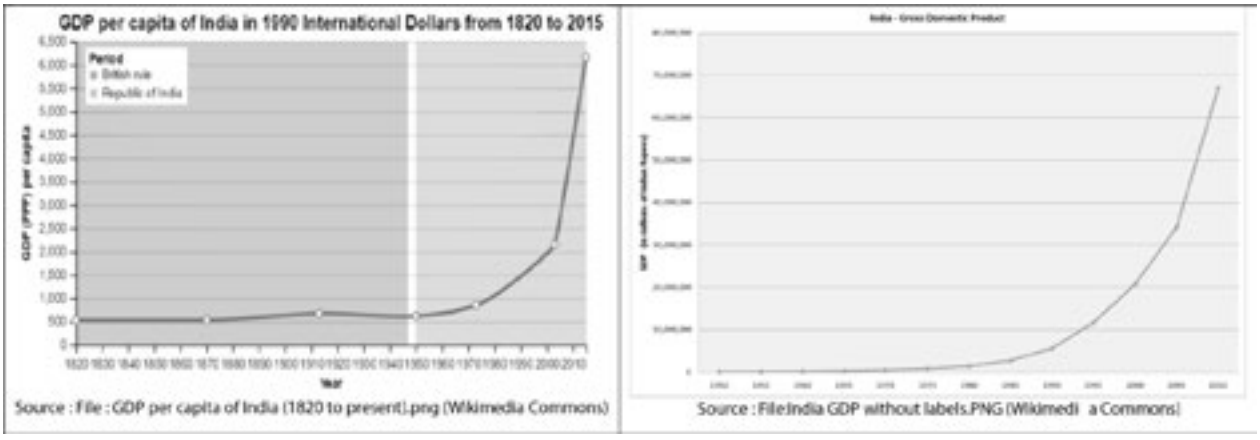
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Table 1 : GDP of India and Setorwise GDP



Source: File:1 AD to 2008 AD trends in % GDP contribution by major economies of the world.png. (Wikimedia Commons)

Source : File: 1951 to 2013 Trend Chart of Sector Share of Total GDP for each year, India.png (Wikimedia Commons)



Source : File : GDP per capita of India (1820 to present).png (Wikimedia Commons)

Source : File:India GDP without labels.PNG (Wikimedi a Commons)

Economic position of the country depends upon some factors which are usually called as ***"Economic Indicators"***. These Economic indicators are measured with the help of Gross Domestic Product(GDP), Trade & Commerce, Purchasing Power Parity, Employment Rate, Inflation Rate, Minimum Wage Rate, Consumer Price Index, Retail Price Index, Wholesale Price Index, Export-Import Ratio, Food Inflation, Forex Reserves, Budget of Governments, Debt position and Taxation Policy. These Macro Economic Indicators are not only applicable for country but also for the states. Country's financial health will be influenced by the Debt position of the country. Using the above indicators we can compute certain ratios which highlight the financial health the country, if we perform the same activity with the states, we will be able to compute the state's financial health.

To ascertain state governments' financial health, most of the economists feel Debt to Gross State Domestic Product(GSDP) ratio as one of the most important indicators. According to the Fiscal Responsibility and Budget Management **(FRBM)** Act, 2005, the State Governments are allowed to take only 25% of Debt to GSDP ratio, but many states have exceeded that figure in FY 2022 due to various reasons and most important being the fulfilment of subsidies of their election manifestoes. The states like Punjab, Rajasthan, Bihar and Kerala have already crossed the ceiling of debt for which the major reason being pandemic hit on revenues of the state. The other important reason is subsidies promised by the ruling parties of State Governments[11][15].

TamilNadu's market borrowings have become Rs 87977 Crore and Rs 87000 Crore in FY 2021 and FY 2022 respectively, which is 39.4% more than what its market borrowing in the pre-pandemic FY 2020. In terms of percentage increase in market borrowings in FY 2021, Kerala registered 49.4 %, Maharashtra registered 41.8%, and Rajasthan registered 30.8%. These absolute figures shows that the State Governments are increasing the market borrowings continuously. Odisha is the state where the market borrowing has seen a decrease from FY 2020 to FY 2021 and its Debt to GDSP ratio is 15.79 % for FY 2022, and the states Uttar Pradesh, Gujarat and Madhya Pradesh also has seen a decrease in terms of Marketing borrowings from FY 2020 to FY 2022, wherein Gujarat and

Madhya Pradesh have less than 20% Debt to GSDP ratio, because of strong and stable industrial revenues. Punjab's Debt to GDSP ratio has almost become 53.30% in the revised estimates. [11]

Srilankan economic crisis has made RBI to check the financial position of Indian states and RBI found that there are 5 states which are inching danger zone. The states are Bihar, Kerala, Punjab, Rajasthan and West Bengal. RBI has probed into the reasons and found out that subsidies by the state government, amount spent on provision of free utility services, pension schemes (new and old) and also extension of explicit and implicit guarantees are the major reasons for financial disturbances in the above states. It has also identified that there are 10 states which are spending around half of the total expenditure on freebies. The states are Punjab, Rajasthan, Kerala, West Bengal, Bihar, Andhra Pradesh, Jharkhand, Madhya Pradesh, Uttar Pradesh and Haryana. These 10 states have the highest debt burden in our country. According to RBI, the freebies such as free electricity, free water, free public transportation, and loan waiving of farmlands will adversely affect the private participation in economic activities, which is going to be a big threat for economy. Providing water and electricity freely will affect not only the private participants but also leads to environmental degradation and exhaustion of water tables [12].

According to RBI, Punjab is expected to be in the worst position with exceeding 45 percent debt-GDSP ratio by 2026-27. The states Kerala, Rajasthan and West Bengal will have a debt-GSDP ratio of 35 percent by the end of 2026-27. There are some more states whose financial position would be very stressful such as Bihar, Andhra Pradesh, Jharkhand, Madhya Pradesh, Uttar Pradesh and Haryana as these states will face high debt burden. As per RBI, Andhra Pradesh, Bihar, Rajasthan and Punjab has already exceeded fiscal deficit and debt targets for 2020-21 which is set by 15th Finance Commission. Kerala, Jharkhand and West Bengal exceeded the debt target of 2020-22 and Madhya Pradesh crossed the Fiscal deficit target set by the commission. Uttar Pradesh and Haryana were able to meet the expectations of debt and Fiscal Deficit criteria with some difficulty [13].

The average debt of all states together reached 31.3% of GDP in the FY 21, which will be similar even in FY 22, and this is a 15 year high in India. Estimates of Budget suggested that there are certain states which have high debt-GSDP ratio like Punjab (53.3%), Rajasthan (39.8%), West Bengal (38.8%), Kerala (38.3%) and Andhra Pradesh (37.6%). It has been observed that 7 out of 31 states and UTs have registered an increase of 0.5 % to 7.2% of Debt ratio in FY 21, which is considered as alarming for Central Government as these states would be expecting Revenue Deficit Grants from Center[14].

Analysis and Discussion

From the above information, as we found that there are 6 states whose financial position is facing some issues, we have collected the data of states financial position from National Statistical Office, Ministry of Statistics and Programme Implementation, Government of India. Details such as Gross State Domestic Product (GSDP), State-wise outstanding liabilities, state-wise capital expenses, state wise capital outlay and state wise interest payments have been collected and analyzed. Now we will see the financial position of 6 states as in many of reports and RBI are mentioning towards those states which are Punjab, Rajasthan, West Bengal, Kerala, Bihar and Andhra Pradesh.

From Table 2 we can interpret that the six states which have got referred by RBI is showing continuous increase in outstanding loans to GSDP ratio except West Bengal, but it is already having a higher OSL to GSDP ratio which is way ahead of the rates specified by FRBM Bill. Hence the state governments should take necessary steps to come out of that financial crisis. The outstanding loans not only creating a loan burden, apart from that the burden of interest payments is also increasing to the states. If this increases, the people in the state will suffer with the heavy tax burdens. For Andhra Pradesh the OSL/GSDP ratio has become 31.83% from 23.35%, for Bihar it has become 32.48% from 28.98%, in Kerala the ratio rose from 28.01% to 31.14%, in Punjab it went to 42.59% from 31.65%, in Rajasthan it became 34.40% from 24.05% and in West Bengal it become 37.06% from 38.62%.

In Table 3, we can see how much amount is spent on interest payment from 2014-15. It also contains how much the Capital Expenses and Capital Outlay information of the 6 states. Capital Expenses is again an expense, which will not yield any return to the government. For Andhra Pradesh, Interest Payment is increasing consistently, i.e. from Rs 10007 Crore to Rs Rs 16393 Crore, whereas Capital Expenses also increased from Rs 18554 Crore to Rs 37237 Crore and there is a slight increase in Capital Outlay from Rs 11405 Crore to Rs 12485 Crore, with fluctuations, which is not a good sign as the Interest payment and Capital Expenses are increasing but not Capital Outlay. In the case of Bihar, Interest Payments has a consistent growth from Rs 6129 Crore to Rs 11050, Capital Expenses is in increasing trend from Rs 22128 Crore to Rs 47913 Crore, and Capital Outlay also in increasing trend from Rs 18150 Crore to Rs 38676 Crore. This is somewhat better but more amount should be spent on Capital Outlay. Coming to Kerala, Interest Payments increased from Rs 9770

Table 2: Outstanding Loans to Gross State Domestic Products

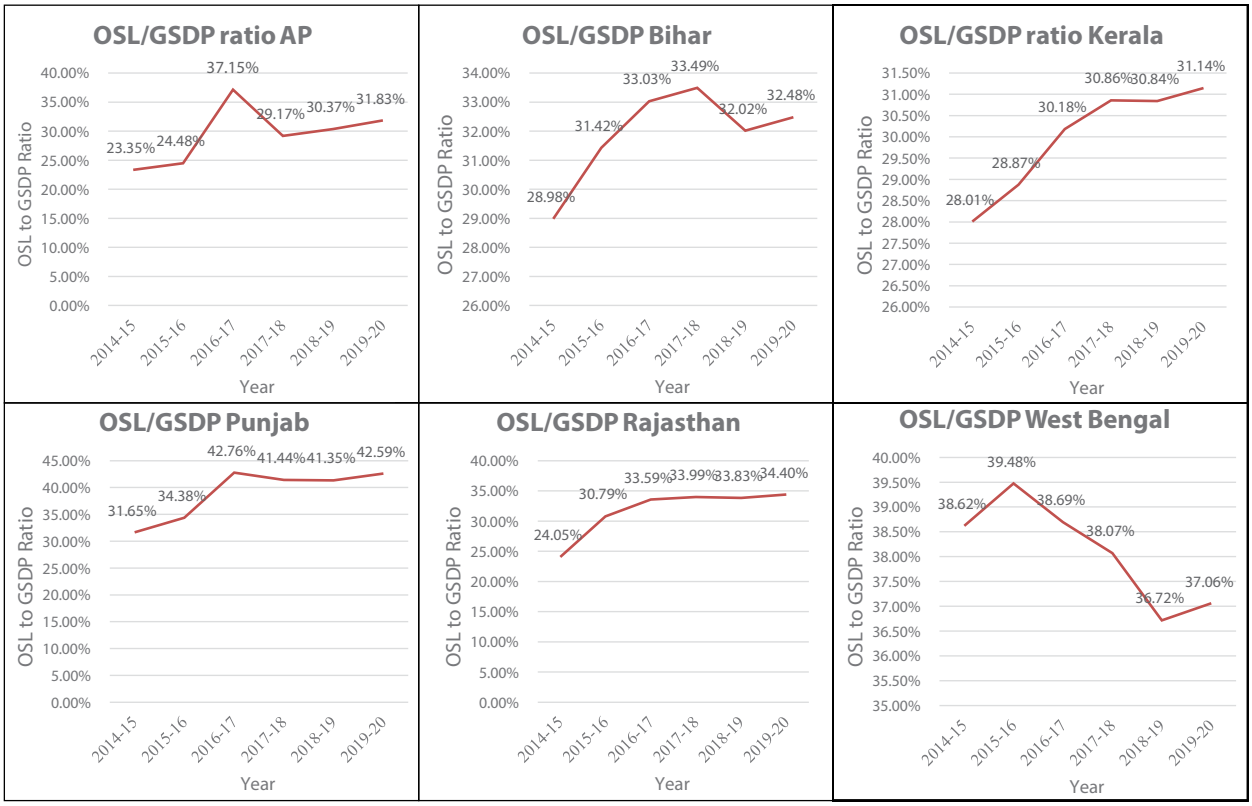
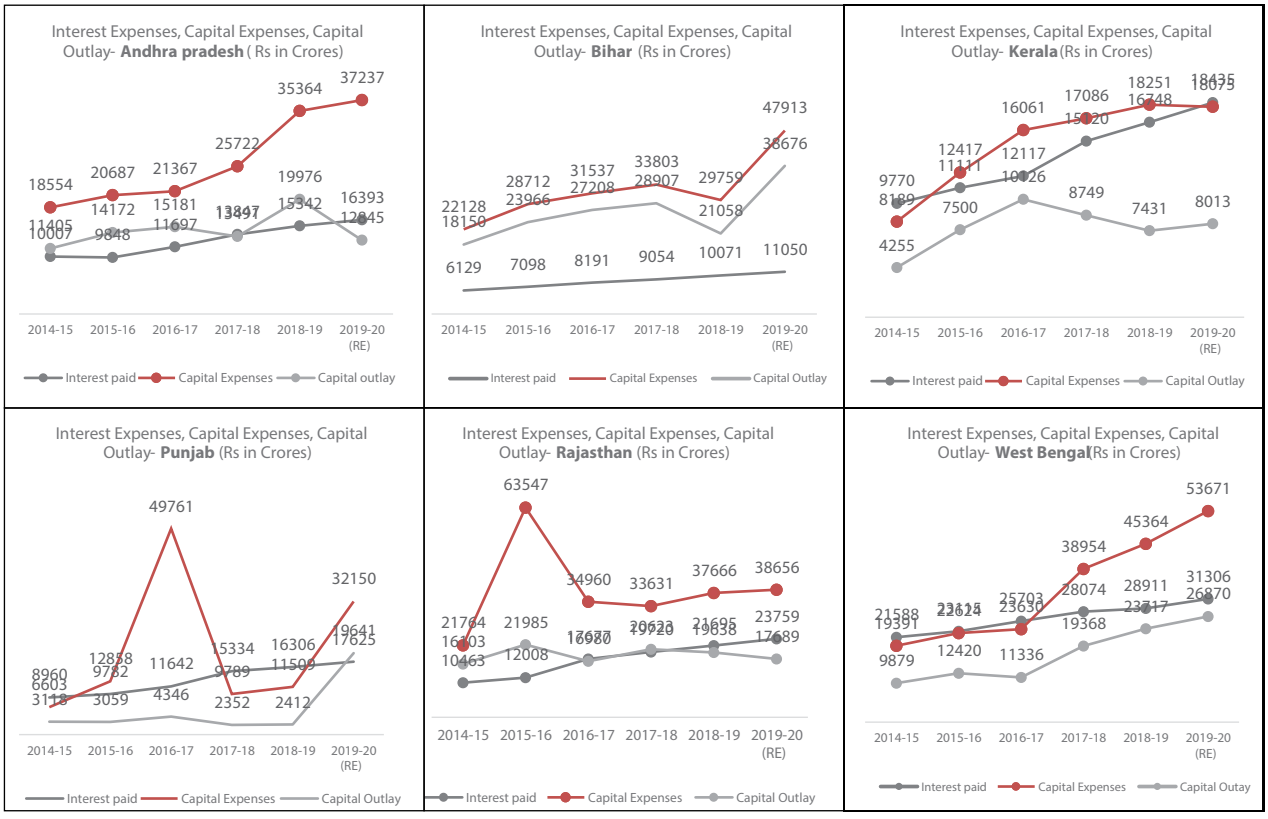


Table 3 : Graph showing Interest Expenses, Capital Expenses, and Capital Outlay



Crore to Rs 18075 Crore, Capital Expenses increased from Rs 8189 Crore to Rs 18435 and Capital Outlay moved in between Rs 4255 Crore and Rs 8013, which is worst, as the expenses related to Interest Payment and Capital are very high than Capital Outlay in all the years. In the case of Punjab, in the period, 2014-15 to 2019-20, the Interest Payments increased from Rs 8960 Crore to Rs 17625 Crore, whereas Capital Expenses ranged between Rs 6603 Crore to Rs 32150 Crore and Capital Outlay moved somewhat consistently between Rs 3118 Crore to Rs 19641 Crore, it shows only in the year 2019-20, the Capital Outlay is better than Interest paid and this is not at all a good sign for healthy financial status of the state.

In the case of Rajasthan, Interest Payments increased from Rs 10463 Crore to Rs 23759 Crore, whereas Capital Expenses increased from Rs 21764 Crore to Rs 38656 and also has a very high value of Rs 63547 in year 2015-16, and Capital Outlay suffered a lot from Rs 16103 Crore to Rs 17689, which is not at all satisfactory. Coming to West Bengal, the Interest Payments is on a high note from Rs 21588 Crore to Rs 31306 Crore, Capital Expenses increased from Rs 19391 Crore to Rs 53671 and Capital Outlay is way below these two measures from Rs 9879 Crore to Rs 26870 Crore.

Conclusion

The state governments should focus more on increasing the Capital Outlay as it can generate revenue to the states over a period of time. In many of the states, Capital outlay is less than Capital Expenses and Interest payments, this is the reason why the state's economic position is not at all good. In this context, except Bihar all the remaining states are suffering a lot as the Capital Outlay is far less than both the Capital Expenses and interest payments. This shows that these states are not in a position to invest some amount as capital outlay which is impacting the states balance sheet adversely.

From the analytical part we can conclude that though Indian economy is progressing, there are certain states which are not performing as expected, one of the main reasons for that is Outstanding Loans of states, due to which the states are paying lots of money in terms of interest payment expenses. These outstanding liabilities are taking a maximum share in the GSDP. The suffered states were not able to invest funds as Capital Outlay, due to which the states were not able to generate revenues. Most of the states are suffering because of freebees promises which the political parties are promising in their manifestos. If the state government incurs Capital outlay and reduce the debts, outstanding liabilities, capital expenses and interest expenses, then they will be able to invest in Capital Outlay and India can regain the top position in world's economy as it used to be centuries ago.

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