

State Finances: Debt, Deficit, and Interest Payments

2nd STATE FORUM ON INNOVATIONS IN STATE FINANCES

NIPFP

New Delhi

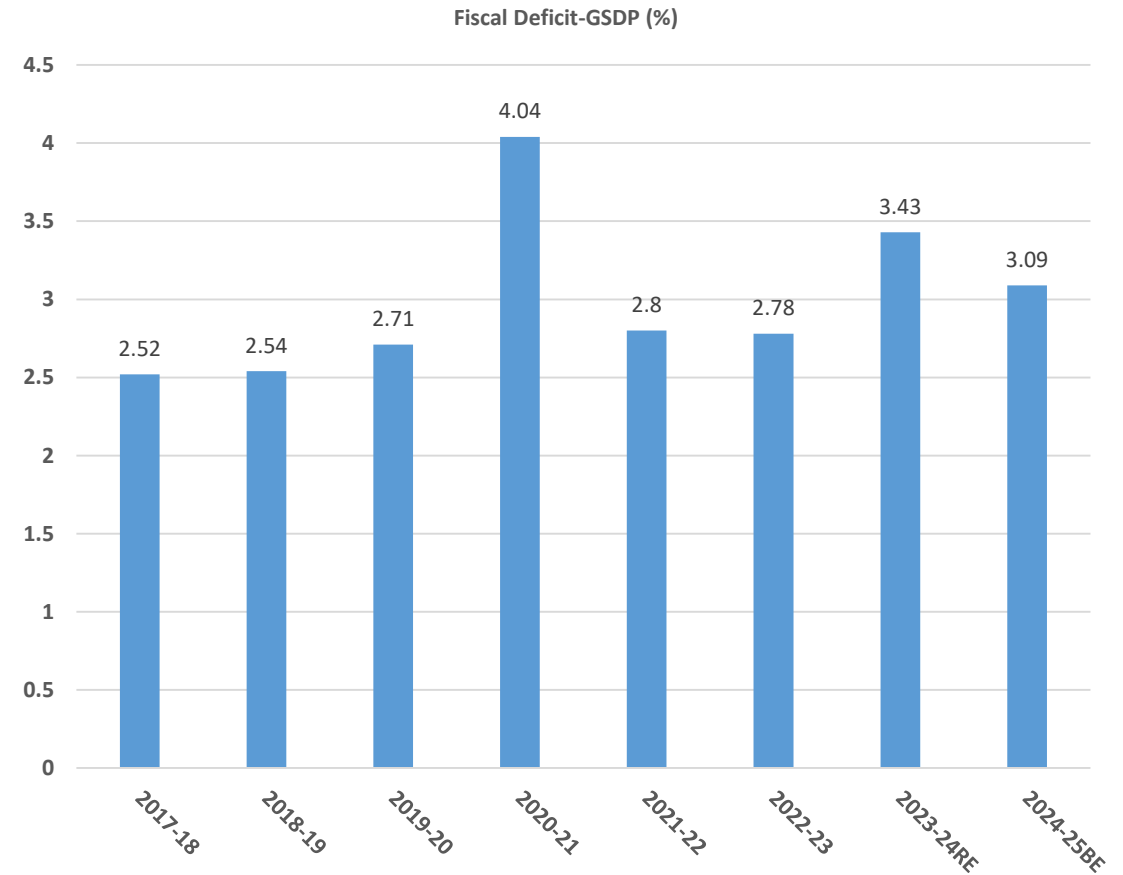
26th-27th September, 2024

Outline

- Time Period: 2017-18 until 2024-25
- Overview of State Finances: All States
- Overview of State Finances: Category 1 and Category 2 States
- Deficits & Liabilities (pre & post-COVID): Statewise

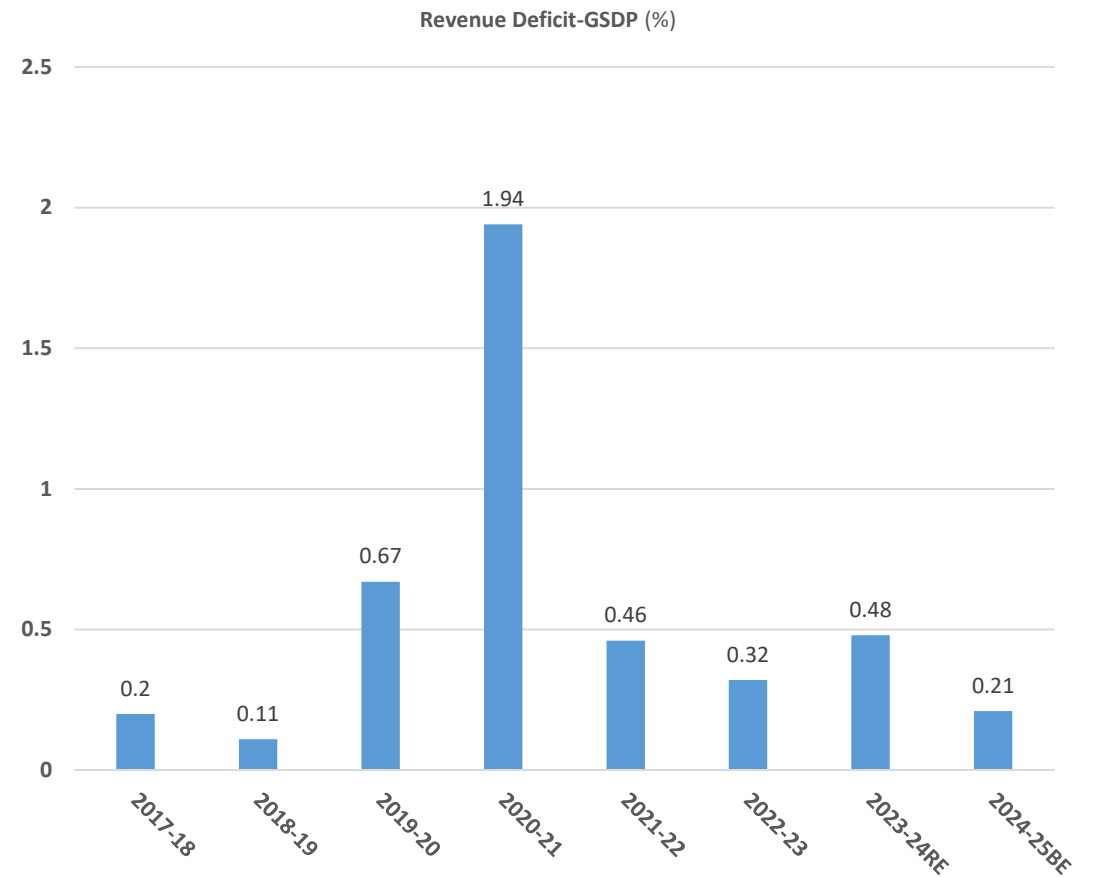
Fiscal Deficit-GSDP: All States

- Fiscal Deficit (FD) as a share of GSDP peaked twice: COVID year 2020-21 at 4.04%, 2023-24RE at 3.43%
- Currently at 3.09%, higher than the per-COVID level of 2.5%
- FD-GSDP came down sharply post-COVID, reduction is uneven
- The 15th FC recommendation for FD/GSDP: 4.5% (2020-21), 4% (2021-22), 3.5% (2022-23), 3% (2023-24 until 2025-26)



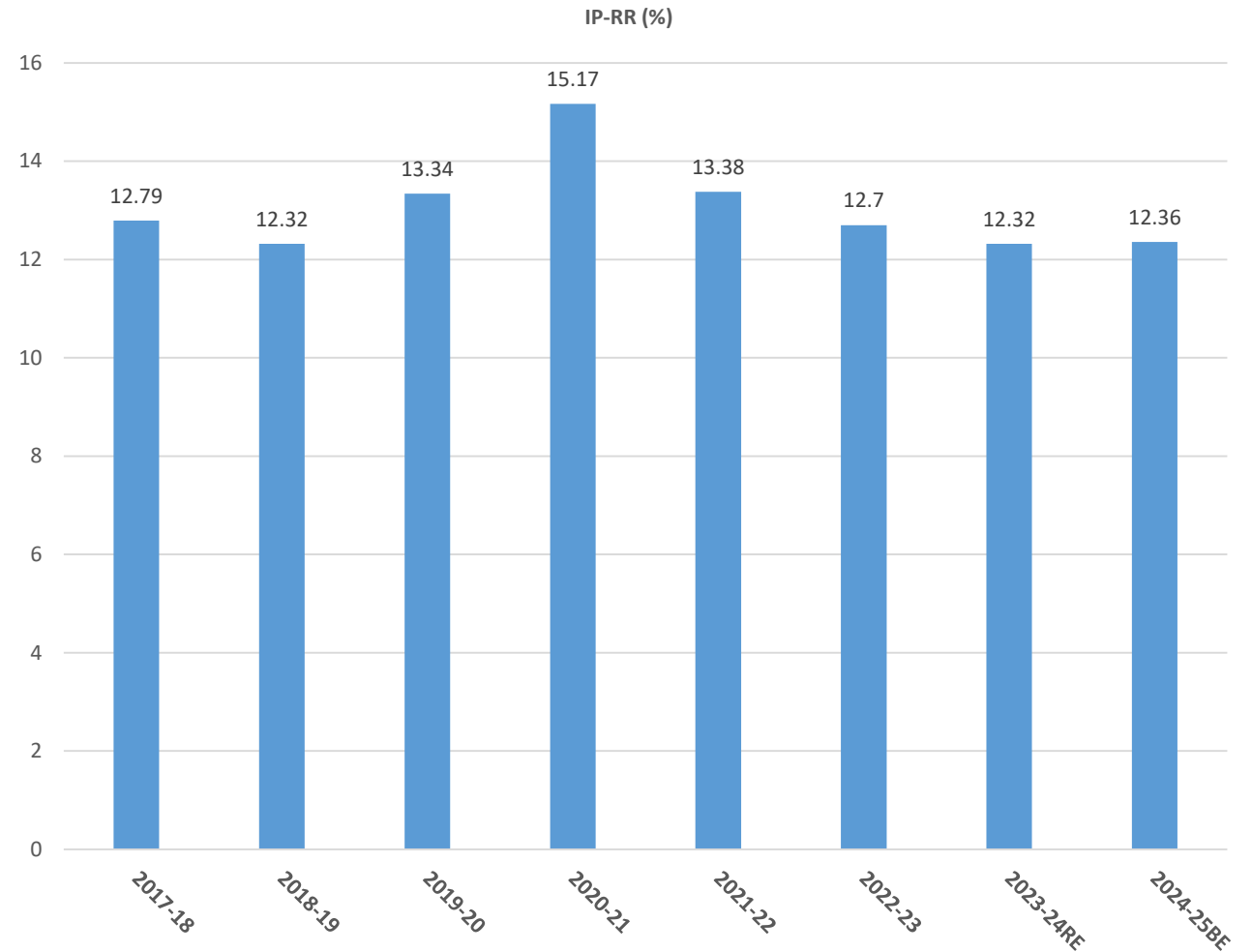
Revenue Deficit-GSDP: All States

- Post-COVID sharp decline of about 1.5 percentage points (from about 2% in 2020-21 to 0.5% in 2021-22)
- Decline in RD-GSDP has not been a smooth one with fluctuations along the way until the current period
- As per the estimates of 2024-25BE, the RD-GSDP ratio is slightly higher than its pre-COVID level
- The 15th FC recommendation for RD-GSDP:
 - -0.1%(2020-21), -0.5%(2021-22), -0.8% (2022-23), -1.2% (2023-24), -1.7% (2024-25), -2.5%(2025-26).
- Compared to 15th FC recommendation, states have struggled to achieve the recommended targets



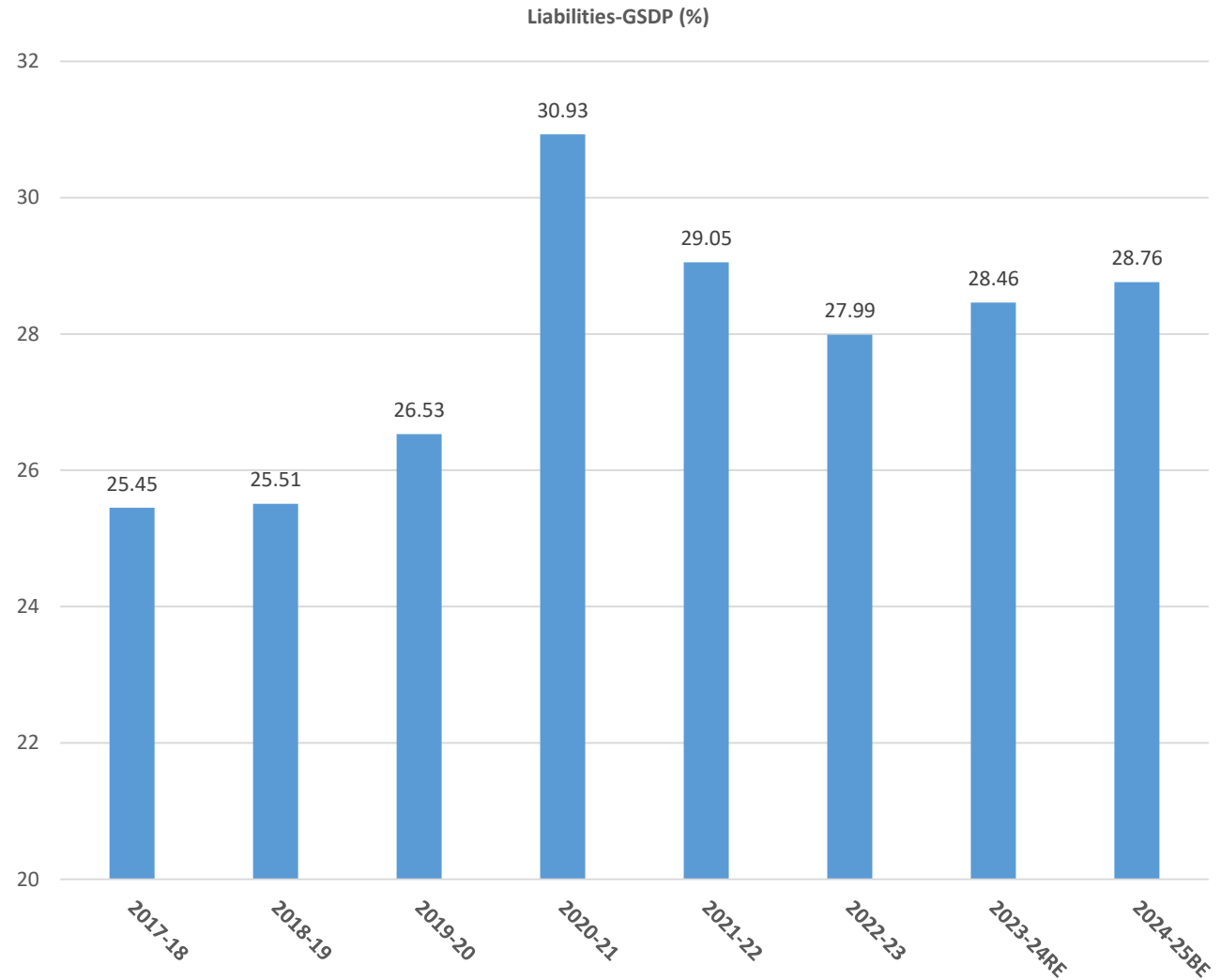
Interest Payments-Revenue Receipts: All States

- The interest payments as a share of Revenue Receipts (IP-RR) for states show a consistent decline following the COVID surge in 2020-21 when it reached 15.17% from about 12.8% in 2017-18
- As per 2024-25BE, IP-RR is about 12.4% marginally higher than the lowest of 12.3% in the pre-COVID period (IP-RR was 12.3% in 2018-19).



Liabilities-GSDP: All States

- The Liabilities-GSDP ratio **rose** from about 25.5% in 2017-18 to about 31% in 2020-21.
- During pre-COVID period one observes a gradual rise in the ratio and a sharp rise due to COVID.
- In the post-COVID recovery period the decline is gradual but is marked by fluctuations.
- From the RE and BE estimates in the post-COVID period we observe a slight upsurge in the Liabilities-GSDP ratio, so that the ratio of about 28.5% in 2023-24RE rose to 28.7% in 2024-25BE.
- The 15th FC recommendation for Liabilities-GSDP: 33.1% (2020-21), 32.6% (2021-22), 33.3% (2022-23), 33.1% (2023-24), 32.8% (2024-25), 32.5% (2025-26)

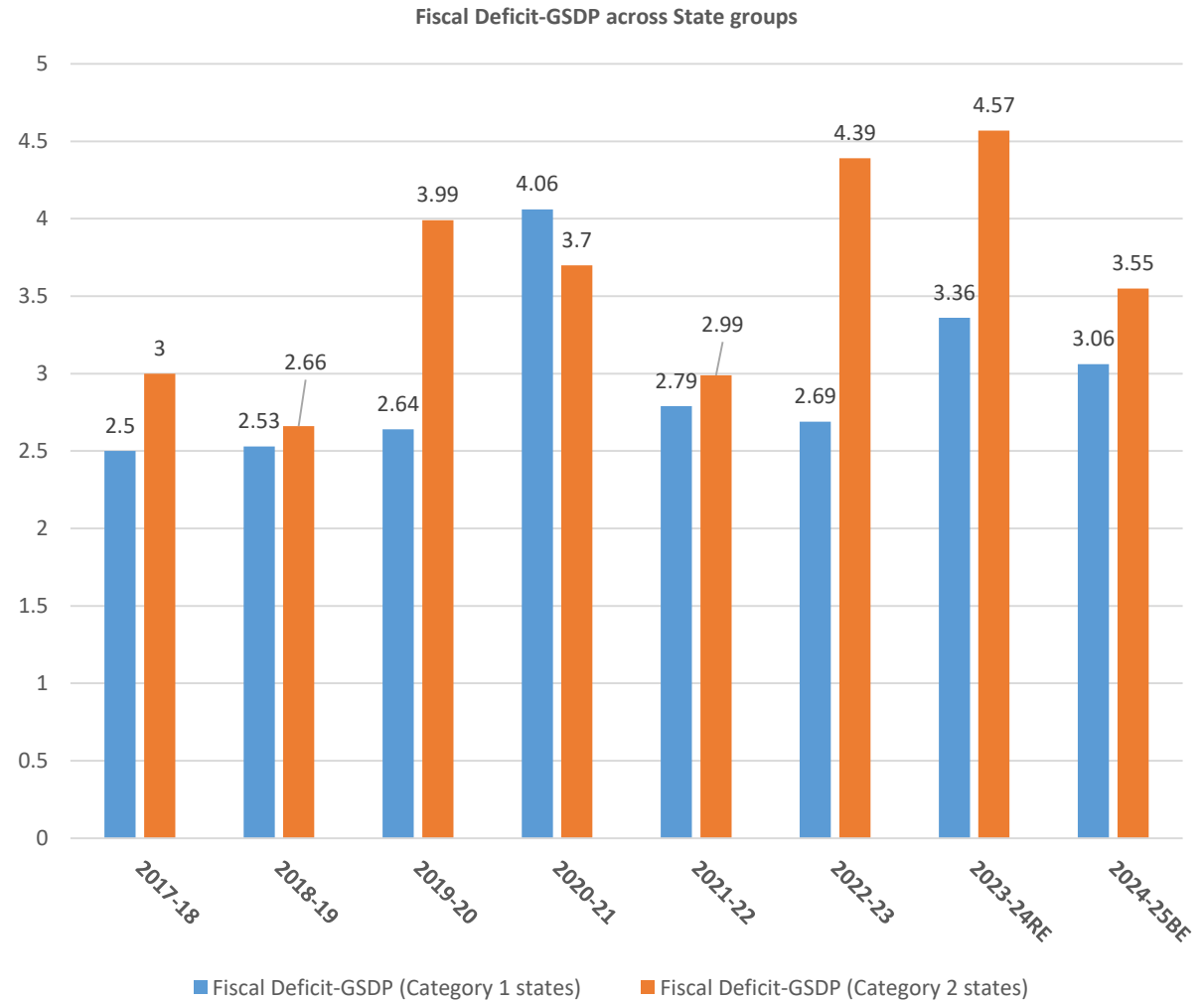


State Finances: Category 1 and Category 2 States

- There is variability across state groups in India when it comes to state finances.
- To understand the trends in deficit, interest payments and debt/liabilities we segregated the states into two categories: Category 1 and Category 2.
- Category 2 states comprise mostly the North-Eastern and Himalayan (NEH) states, Category 1 states consist of all other than the ones in Category 2.
- Category 1 states: Andhra Pradesh, Bihar, Chhattisgarh, Goa, Gujarat, Haryana, Jharkhand, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Odisha, Punjab, Rajasthan, Tamil Nadu, Telangana, Uttar Pradesh, West Bengal.
- Category 2 states: Arunachal Pradesh, Assam, Himachal Pradesh, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, Tripura, Uttarakhand.

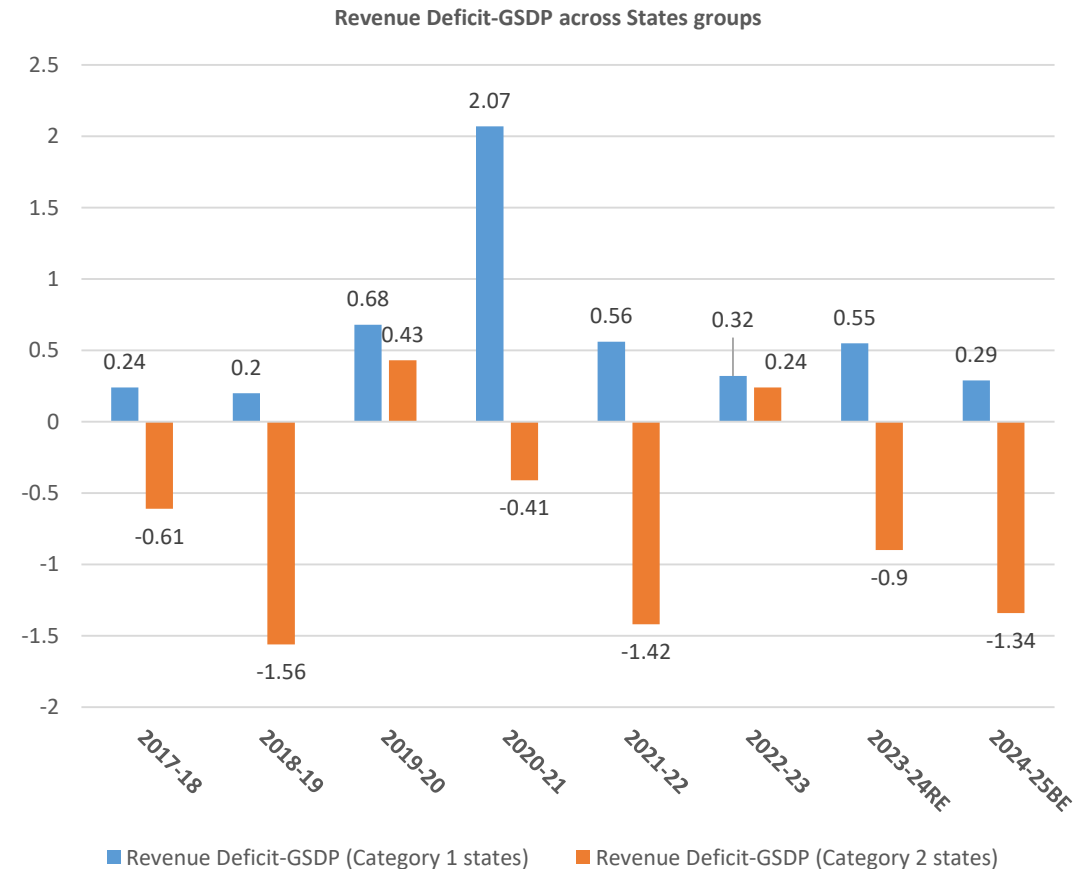
Fiscal Deficit-GSDP: Category 1 & Category 2

- With an exception of the COVID year, the FD-GSDP is typically higher in the Category 2 states compared to Category 1.
- For most years, Category 2 states clocked FD-GSDP >3% and as per the 2024-25BE the FD-GSDP is about 3.6%
- Category 2: peak FD-GSDP occurs much later in the period in 2023-24RE and not during COVID
- Category 1 : In 2024-25BE, average FD-GSDP ratio across states is a little over 3%
 - Higher than the pre-COVID average of about 2.6% between 2017-18 and 2019-20.
 - Ratio coming down from the peak of COVID but with an uneven recovery.
 - During the first two years immediately after COVID, ratio declines but then seen to have gone up in the last two years.



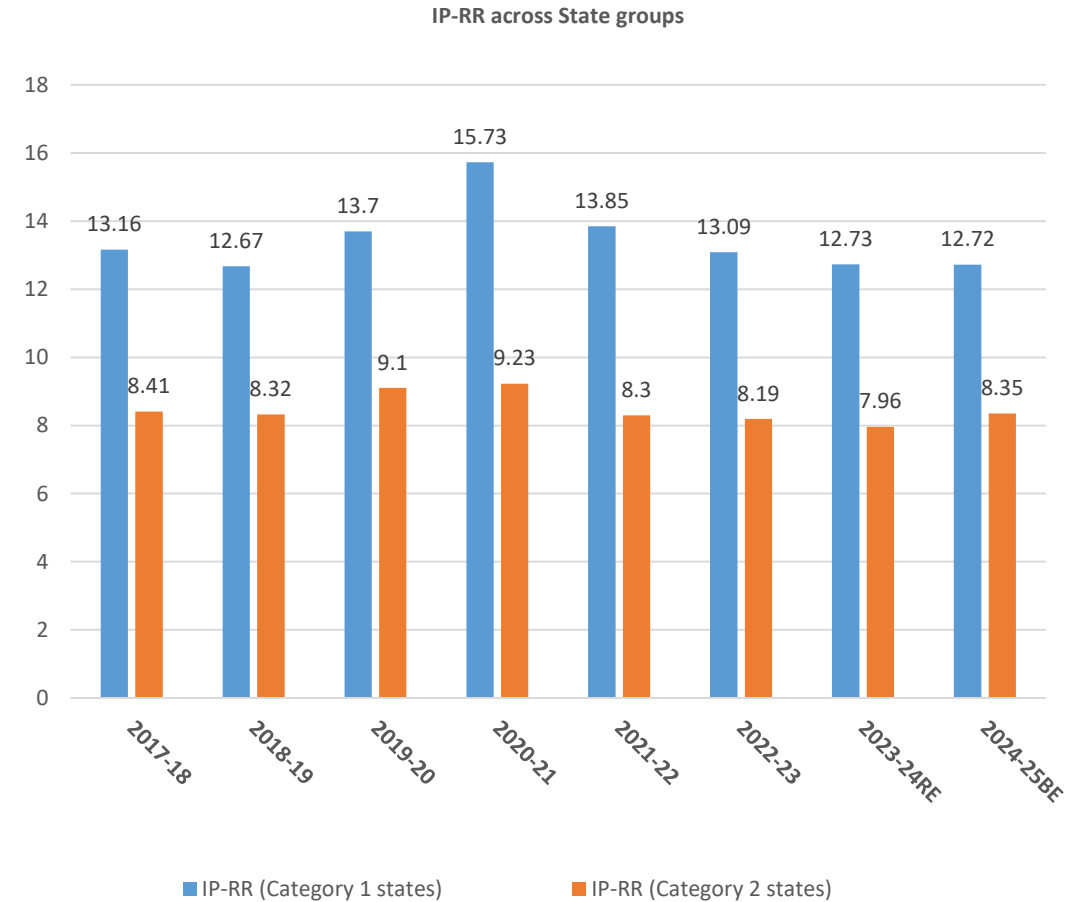
Revenue Deficit-GSDP: Category 1 & Category 2

- Category 2 states more frequently in surplus (six out of eight years) & Category 1 in revenue deficit
- Category 1:
 - RD-GSDP peaks during COVID
 - Post-COVID decline but uneven
 - In 2024-25BE, the RD-GSDP about 0.3% higher than the pre-COVID level of about 0.2% during 2017-18 and 2018-19.
- Recommended 15th FC target for RD-GSDP: -1.7% (revenue surplus) in 2024-25.
- Category 2 states close to meeting the 15th FC target as they are in surplus. Category 1 states behind target as they are in deficit as per 2024-25BE estimates.



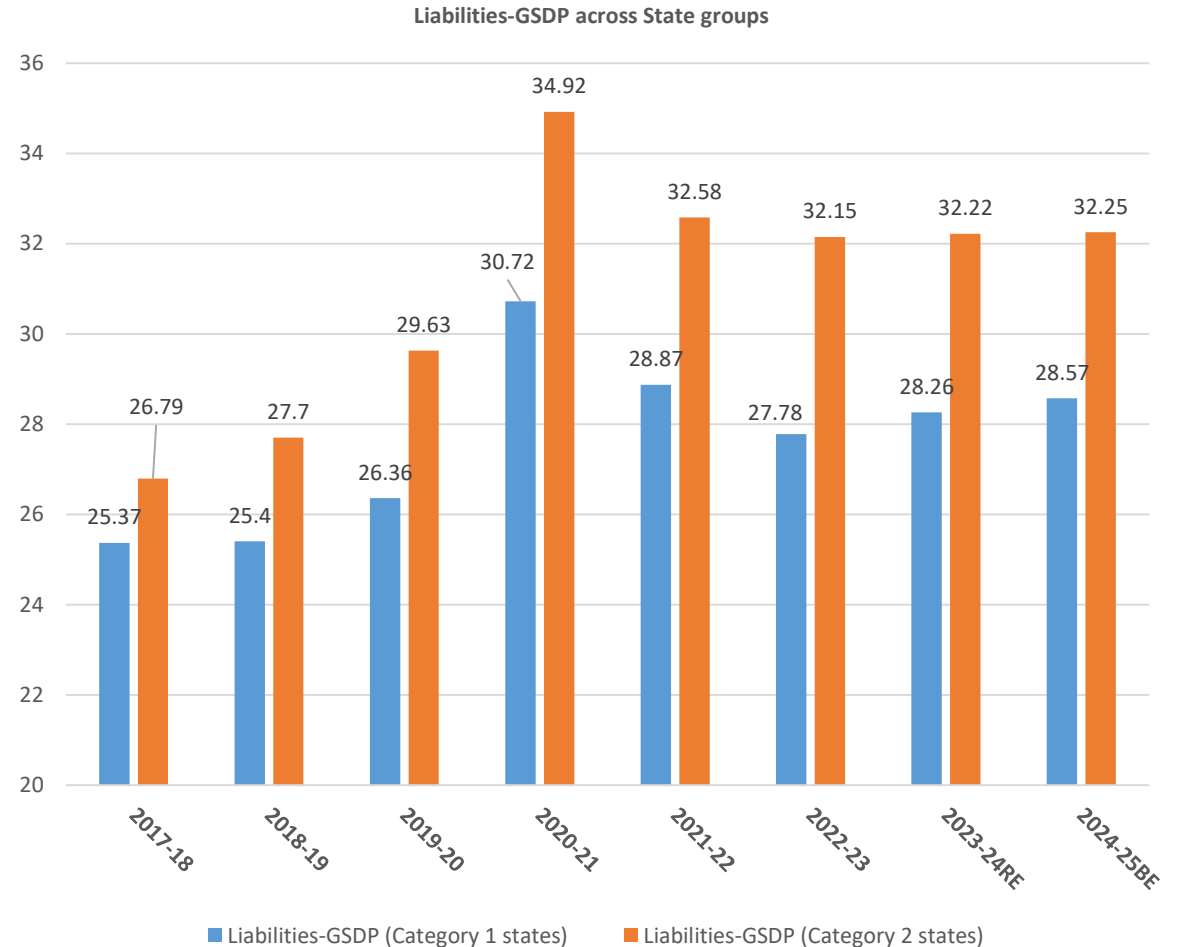
Interest Payment-Revenue Receipts: Category 1 & Category 2

- IP-RR of Category 1 states dominates that of the Category 2 states.
- The average difference in IP-RR during the period under review across these groups was about 5 percentage points, indicating a higher burden of interest payments for Category 1 states.
- For both groups there is a gradual rise in the IP-RR, peaking during CIOVID and then a gradual and almost consistent decline.
- As per 2024-25BE the IP-RR of both groups is lower than that in 2017-18.

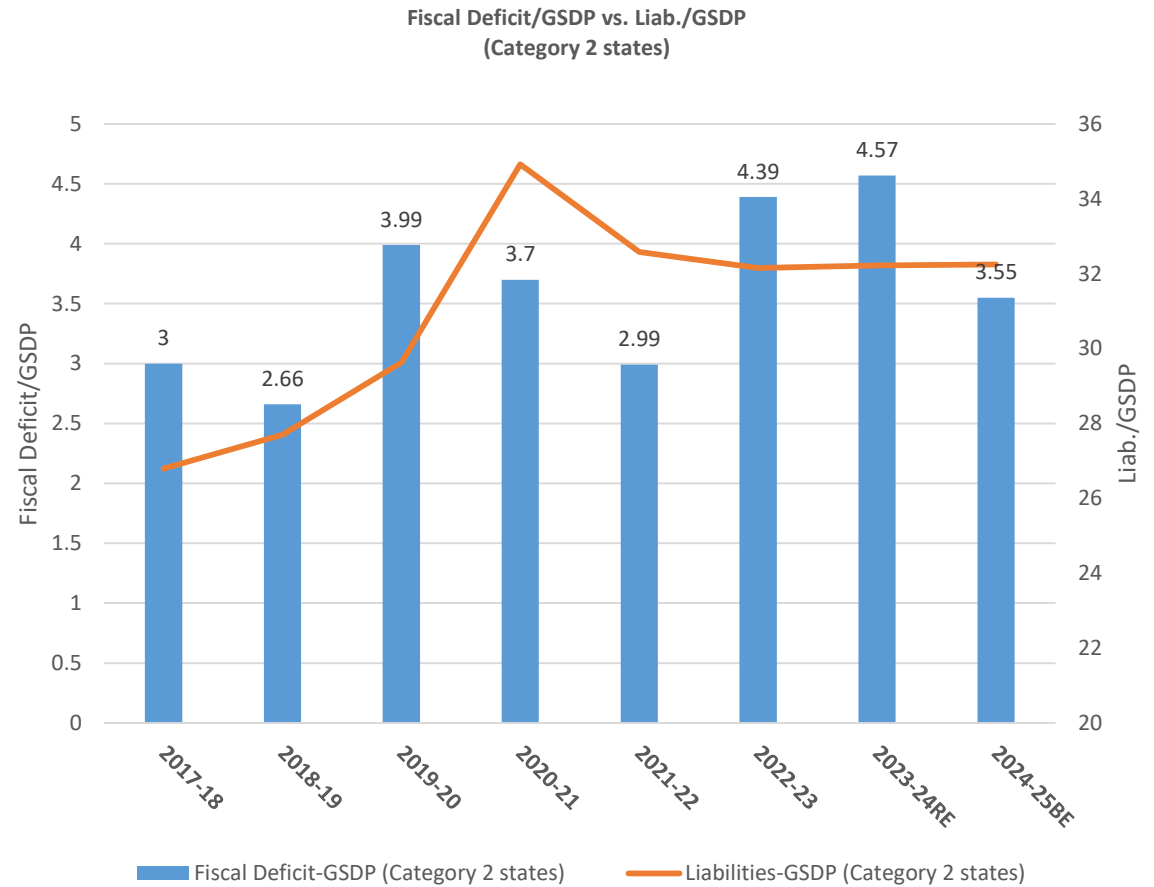
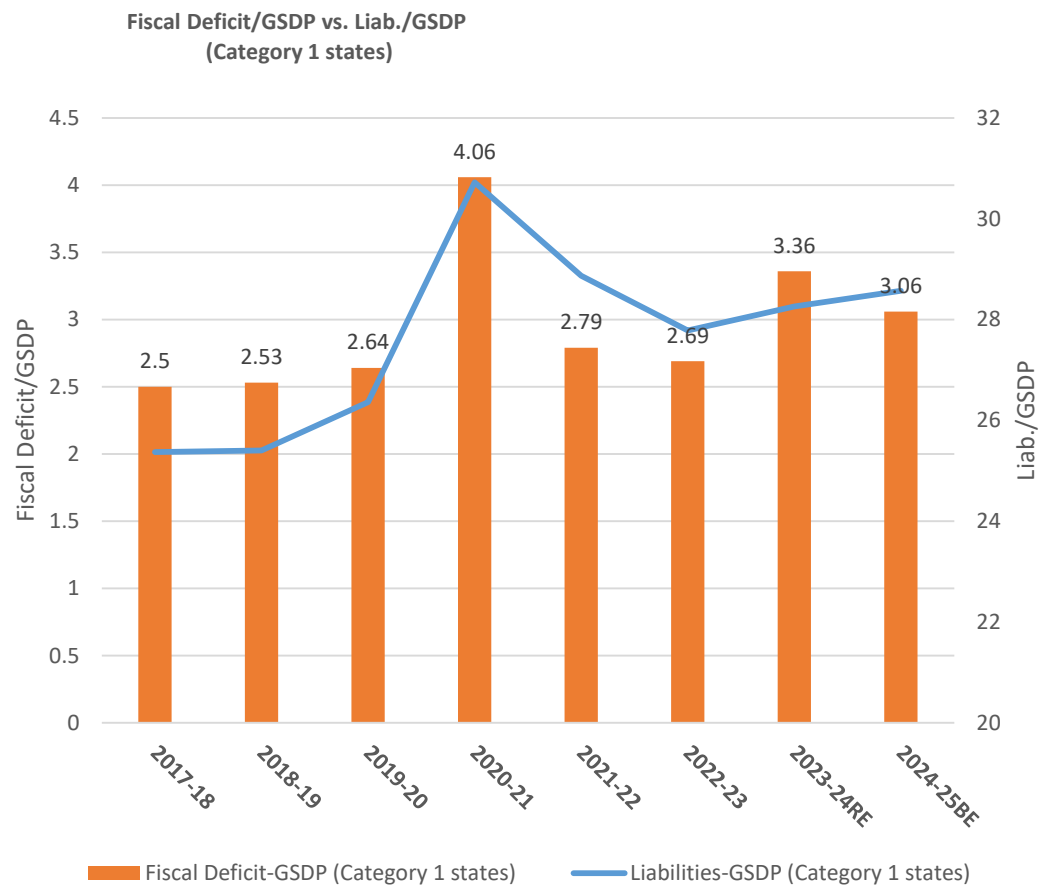


Liabilities-GSDP: Category 1 & Category 2

- Liabilities-GSDP ratio of Category 2 states is higher than that of Category 1.
- In the pre-COVID period there appears to be a gradual rise in the Liabilities-GSDP ratio across groups.
- However, post-COVID decline is not symmetric compared to rise.
- Post-COVID recovery from the high Liabilities-GSDP (about 35% and 31% for Category 1 and 2, respectively during COVID) seems to be taking longer than it took to reach the peak during COVID.
 - Indicating debt or liabilities as a share of GSDP to remain high in the coming years.



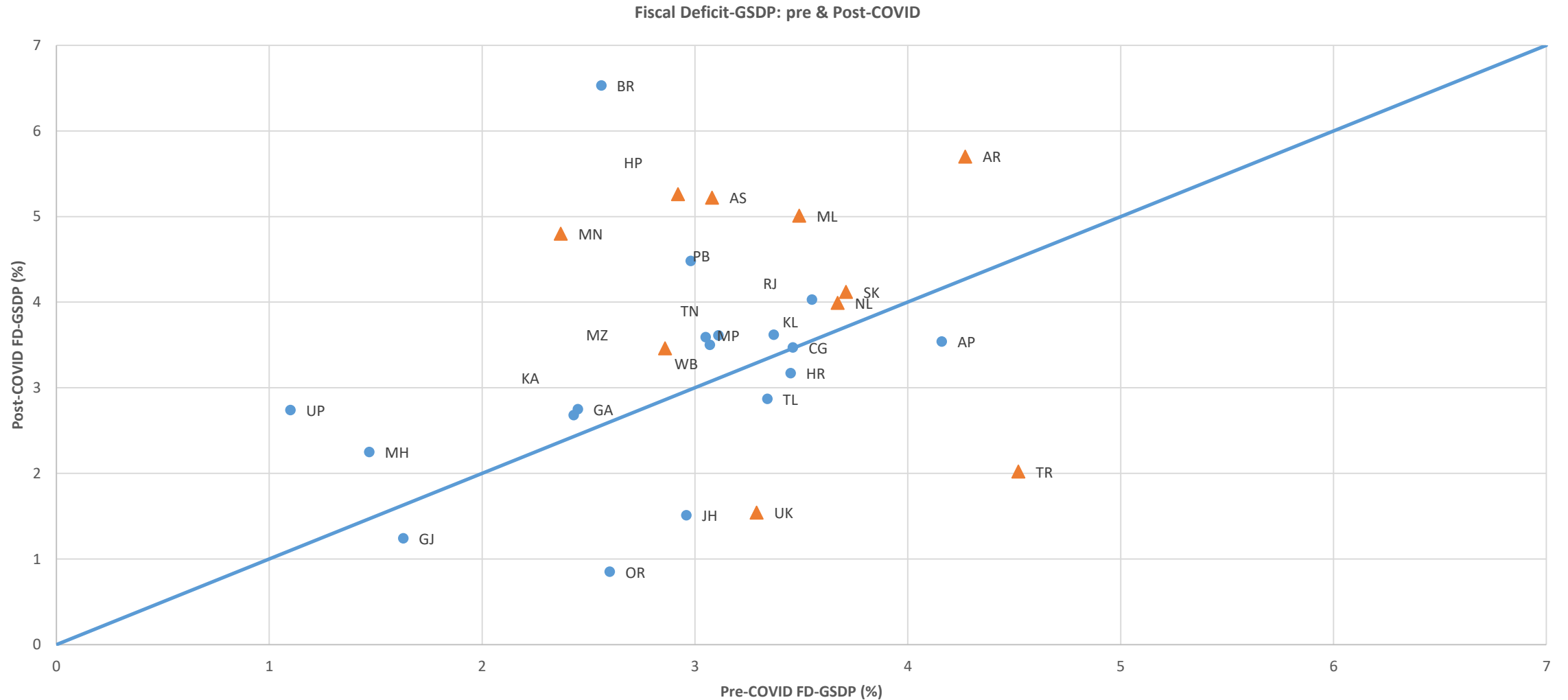
FD-GSDP vs Liabilities-GSDP



Fiscal and Revenue Deficits Pre- & Post-COVID: Statewise

- To understand how states are doing with regard to FD-GSDP position pre and post-COVID
- Depicting whether states have reduced their FD-GSDP in the post-COVID period.
- Category 1 states: ↓ FD-GSDP post-COVID (or below the 45 degree line) compared to their pre-COVID FD-GSDP are Gujarat, Odisha, Jharkhand, Telangana, Haryana, Andhra Pradesh
- Category 2 states: ↓ FD-GSDP post-COVID are Uttarakhand and Tripura.
- There are 11 Category 1 states and 8 Category 2 states that lie above the 45 degree line indicating that *more* states in all that have not been able to ↓ FD-GSDP level in the years following COVID.
- Also, there is huddling around the 45 degree line implying that states are closer to their pre-COVID FD-GSDP levels.

Fiscal Deficits Pre- & Post-COVID: Statewise

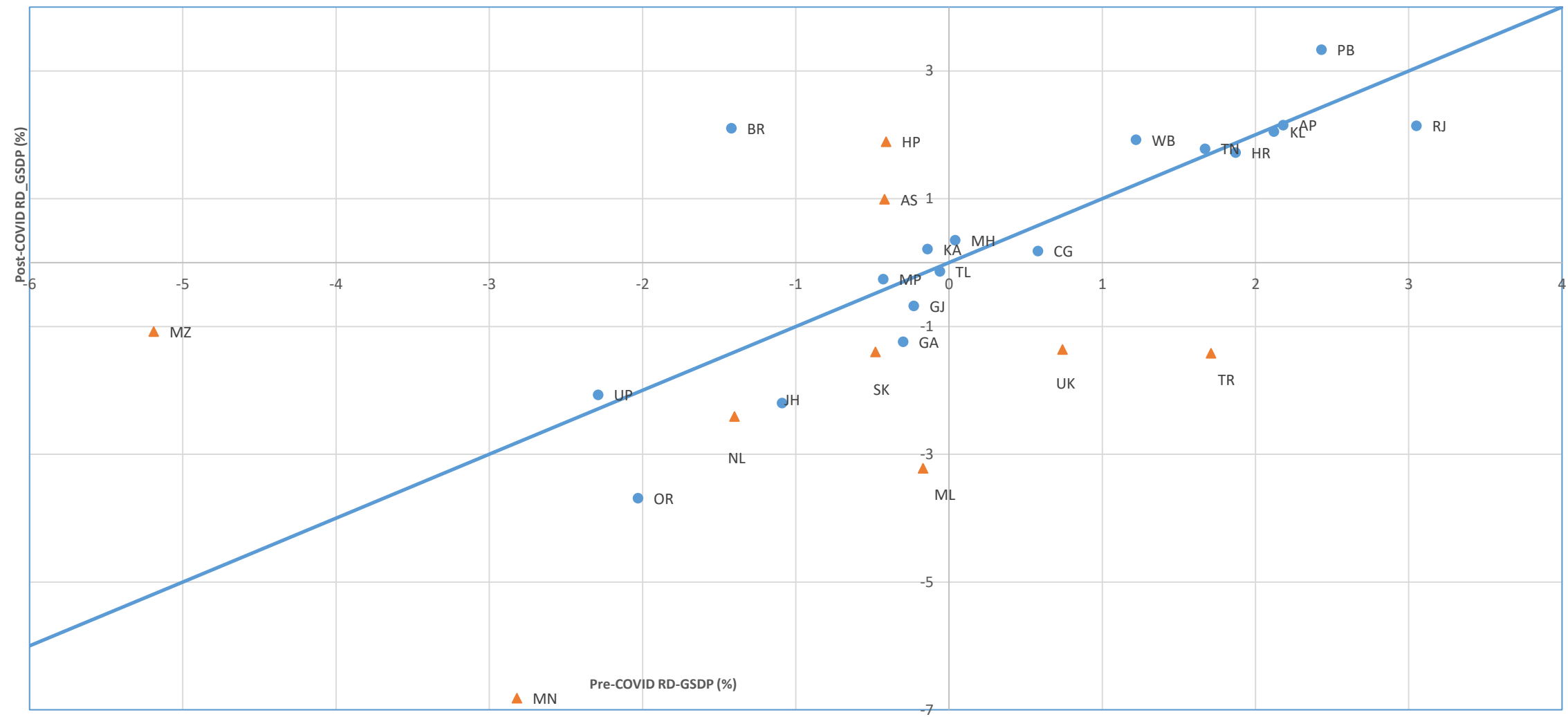


Revenue Deficits Pre- & Post-COVID: Statewise

- Most Category 2 states returned to their pre-COVID revenue surplus position.
- Among Category 1 states Bihar, Assam, Himachal Pradesh moves from a revenue surplus to revenue deficit.
- Goa, Jharkhand, and Odisha maintain their revenue surplus position post-COVID and UP's surplus went down post COVID.
- West Bengal and Punjab had higher level of post-COVID revenue deficit.

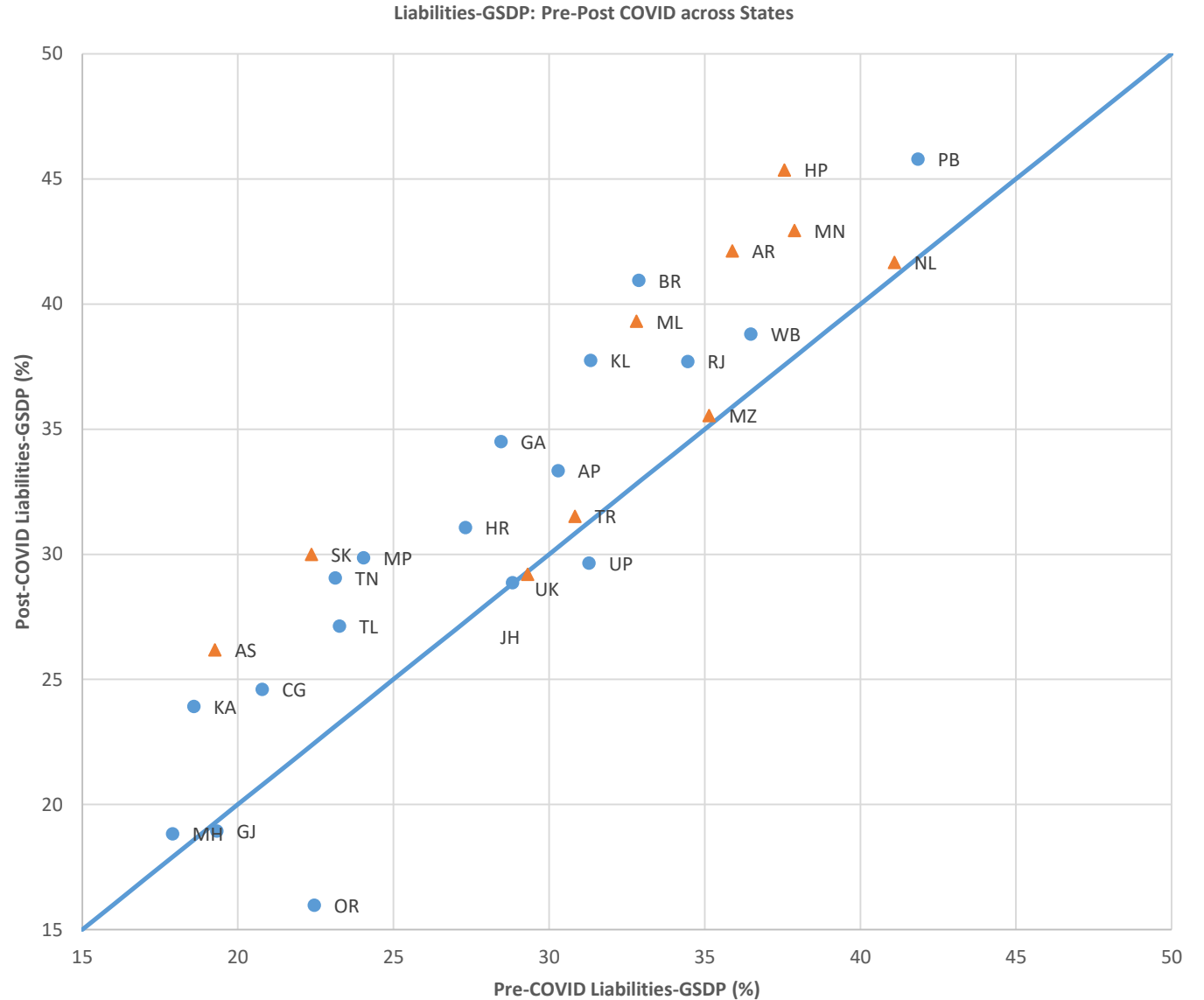
RD-GSDP Pre- & Post-COVID: Statewise

RD-GSDP: Pre & Post COVID



Liabilities-GSDP Pre- & Post-COVID: Statewise

- All states except Uttar Pradesh, Odisha and Gujarat, have recorded higher debt-GSDP ratio post-COVID
- Post-COVID Punjab and Bihar record the highest Liabilities-GSDP



Conclusion

- FD-GSDP higher post COVID, higher for Category 2 than Category 1.
 - Category 1 meeting the 15th FC recommendation on FD-GSDP marginally (as per 2024-25BE, subject to revision) but not Category 2.
 - Most states did not return to pre-COVID FD-GSDP
- RD-GSDP reaching pre-COVID level but off from FC recommendation. Category 2 states in surplus but Category 1 in deficit.
- IP-RR higher for Category 1 than Category 2 but overall coming down consistently from the COVID high.
- Liabilities-GSDP decline is slower than rise during COVID across state groups.
 - Category 2 states at higher Liabilities-GSDP than Category 1
 - Upswing in debt observed for all state groups
- States in focus: Bihar, Punjab.

Thank you!