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Analysis of Public Sector Borrowing Requirements of Select Indian States

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Abstract

This study proposes a comprehensive mechanism to assess public sector borrowing requirements for select Indian states, aimed at deriving a realistic picture of their overall fiscal health. In doing so it quantifies the off-budget liabilities of these states and examines the guarantees given by them in light of the provisions of their respective FRBM Acts. The analysis covers seven Indian states - Telangana, Tamil Nadu, Uttar Pradesh, Punjab, West Bengal, Rajasthan, and Maharashtra during 2015-16 to 2021-22. These states were selected based on a careful analysis of factors which include among others their fiscal performance (good, bad and medium performing states), power sector (UDAY) debt takeover among others. The study highlights the various mechanisms of off-budget operations adopted by states. In the absence of data on off-budget operations of the states, the study relies on secondary data sources to quantify the off-budget borrowings of these states. However, such data also had limitations inhibiting inter-state and intra-state comparisons. While the study recommends a uniform methodology and reporting of off-budget borrowings which would contribute towards tracking such off-budget operations by the states, it is of the view that for fiscal transparency and prudent fiscal management, governments should avoid off-budget operations and report all such operations.

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Analysis of Public Sector Borrowing Requirements of Select Indian States

1. Introduction

Governments present figures on fiscal deficit in their budgets and most discussion on the performance of government hinges on the levels of deficit reported and/or achieved. However, this fiscal deficit number might present an understated picture of government's finances as it pertains only to flows that are recorded in the consolidated fund of the government (state/union government) and therefore has a narrow definition. In contrast the debt stock of the (union) government has a broader definition. In addition to capturing the accumulation of fiscal deficits over the years (i.e., liabilities on the consolidated fund), it also includes liabilities recorded in the public account and liabilities of entities owned and/or controlled by the government for which principal and/ or interest is serviced out of the budget.[5]

Further, in the face of economic uncertainties, burgeoning expenditure needs, and shrinking fiscal space governments – both national and sub-national government device innovative means to circumvent the regulations by resorting to expenditures/borrowings that are outside the budget. One such means that has been adopted by both national and sub-national governments in India is resorting to off-budget borrowings. For example, governments in India, both at the centre and states, manage to repeatedly breach or relax their respective Fiscal Responsibility and Budget Management (FRBM) mandates and/or continually circumvent those by taking recourse to off-budget (or extra-budgetary) borrowings[6] to finance expansionary programmes.

Thus, a comprehensive evaluation of government's fiscal health/position should incorporate activities/borrowings of the public sector entities like public sector undertakings/enterprises (PSUs/PSEs), autonomous bodies (ABs), special purpose vehicles (SPVs) etc. as well as off-budget borrowings/activities of the government. One of the metric by which one can gauze the overall fiscal position or the fiscal stance of the government is Public Sector Borrowing Requirement (PSBR). PSBR expands the scope of government deficit to include off-budget borrowings by government and borrowings by public sector companies that are backed by government guarantees and may have implications on the finances of the government in future. Thus, PSBR includes borrowings by the general government (central, state, and local

[5] In 2018, the Fiscal Responsibility and Budget Management (FRBM) Act to the union government was amendment wherein the definition of the union government's debt was expanded to include financial liabilities of any body-corporate or other entity owned or controlled by the union government, which the government is to repay or service from the Annual Financial Statement.

[6] Off-budget borrowings are also called extra-budgetary borrowings. We have used the two terms interchangeably in the report.

governments) and public sector enterprises owned or controlled by Union and state governments. Along with fiscal deficits of the centre and states, it also includes off-budget borrowings of both the union and state governments. In other words, PSBR refers to the total net borrowings of the general government and public sector enterprises owned or controlled by Union and state governments. Since it includes borrowings of the public sector it is a useful tool to arrive at the borrowing space that is available for the private sector.

Off-budget borrowings refer to government borrowing that is not explicitly included in the official budget presented to the public or approved by the legislature. These borrowings are often kept outside the regular budgetary process and may not be subject to the same level of scrutiny. Off-budget borrowings can take various forms, and are generally used governments to meet specific financial objectives without directly affecting the fiscal deficit as reported in the official budget. Governments may resort to off-budget borrowings (or extra-budgetary borrowings) for several reasons, including financing specific projects, managing short-term cash flow issues, or pursuing policy initiatives without impacting the overall fiscal targets. One common method of off-budget borrowing is through entities such as public sector enterprises/companies, special purpose vehicles (SPVs), or other instruments where principal and/or interest are to be serviced out of the State Budgets and/or by assignment of taxes/cess or any other State's revenue. Among various PSUs, it has been observed that electricity distribution companies are the one of the largest borrowers. Additionally, there may be some big-ticket projects that entail a large amount of borrowing, like the Kaleshwaram Lift Irrigation Project in Telangana.

While these off-budget borrowings can offer flexibility in addressing immediate financial needs, they also raise concerns about fiscal transparency, accountability, and the true state of a government's fiscal health. The official budget of the government provides snapshot of revenues, expenditures, and the fiscal deficit, but it may not capture the full extent of the government's financial commitments. Off-budget borrowings can be a tool for circumventing fiscal discipline, as they allow governments to undertake spending without the same level of accountability as traditional budgetary allocations. Thus, off-budget borrowings can lead to a situation where the true level of indebtedness is higher than what is publicly disclosed, potentially affecting the state's creditworthiness and economic stability. To address these concerns, it is essential for governments to enhance transparency in their financial reporting, ensuring that off-budget borrowings are disclosed, and their implications are clearly communicated to the public and relevant stakeholders.

The 14th Finance Commission had emphasized full disclosure of off-budgetary borrowings in the interest of transparency. It recommended that off-budget borrowings be phased-out in a time-bound manner. The 15th Finance Commission has gone a step further and advised that the centre as well as states should not resort to off budget borrowings to tide over expenditure. In its final report, the 15th Finance Commission pointed out that the Union and State accounts should include debts of all government entities and agencies/corporations that deliver public services on behalf of the Union or State Governments, including all autonomous bodies, parastatals, and extra-budgetary funds at the Union and State levels. This is critical, given the recognised need to ensure that all such bodies without independent revenue streams are part of government fiscal operations and of fiscal reporting of deficit and debt. The Comptroller and Auditor General of India (CAG) has also flagged such borrowings for undermining the fiscal transparency and sustainability.

Considering the effect of bypassing the Net Borrowing Ceiling (NBC) through such borrowings by some States, as pointed out by the Comptroller and Auditor General and to bring in transparency in state finances, the Union government communicated to the States in March 2022 that borrowings by State Public Sector companies/corporations, Special purpose vehicles (SPVs) and other equivalent instruments, where principal and/or interest are to be serviced out of the State Budgets and/or by assignment of taxes/cess or any other State's revenue, shall be considered as borrowings made by the State itself for the purpose of issuing the consent under Article 293(3) of the Constitution of India. In other words, all off-budget borrowings were to be equated with states' own debt and any such fund raised by the state governments in 2021-22 has to be adjusted till March 2026. Thus, equating off-budget borrowings of states with their debt will bring clarity into the extent of their indebtedness thereby bringing in fiscal transparency in an area that has been cloaked in opacity.

In addition to resorting to off-budget liabilities the state governments also provide guarantees to State Public Sector companies/corporations, Special purpose vehicles (SPVs) etc., for borrowing funds. Although, these guarantees do not have direct fiscal implications for the state governments, in case of a default by the borrowing entity the state government has to service the debt and interest. These guarantees form part of the state's contingent liabilities. RBI's Report of the Working Group on State Government Guarantees (2023) emphasizes that guarantees provided by the state should be vetted thoroughly because once invoked, they lead to increased expenditure and deficits for the state and recommends stringent guidelines regarding guarantees.

The current study develops a mechanism of data gathering for a more comprehensive and realistic assessment of the total public sector borrowing by select states in India. It also provides estimates of total public sector borrowings by the selected states. In doing so it quantifies off-budget liabilities of these states and examines the guarantees given by them in light of the provisions of their respective FRBM Acts.

2. Review of policy documents and reports

Public sector borrowing requirement has been at the centre of discussion for several years. There are a number of government documents and reports that provide valuable insights into the government's borrowing activities, debt management strategies, and efforts to ensure fiscal sustainability. They serve as important resources for policymakers, researchers, and stakeholders interested in understanding and analysing India's fiscal policy framework. These documents include but are not limited to the union and state government budgets, the Fiscal

Responsibility and Budget Management (FRBM) Review Committee Reports, reports of the Reserve Bank of India (RBI), reports of the Comptroller and Auditor General (CAG) of India, and the Finance Commission (FC) Reports, among others. We review some of these policy documents.

Fiscal Responsibility and Budget Management (FRBM) Act: The Fiscal Responsibility and Budget Management (FRBM) Act is a significant piece of legislation in India which aims at promoting fiscal discipline, prudent financial management, and transparency in the country's fiscal operations. The FRBM Act was enacted by Government of India in 2003 and by most State governments by 2005-06.[7] The FRBM Act was introduced to address concerns related to the burgeoning fiscal deficit and worsening fiscal position of both the union and state governments in India and its adverse impact on economic stability and growth. The Act mandates targets for reducing fiscal deficits and eliminating revenue deficits over time, aiming to achieve fiscal stability and enhance macroeconomic performance. It requires the government to adhere to predefined fiscal rules and norms, promoting transparency and accountability in fiscal management. Some of the key features of the FRBM Act include:

a. Deficit Targets: One of the primary objectives of the FRBM Act is to set targets for fiscal indicators, with a focus on reducing the fiscal deficit and revenue deficit. The states were required to reduce their fiscal deficits to 3 percent GSDP by 31 March 2009 and Revenue deficit was to be eliminated by 2008-09.

   Over the years states amended their acts from time-to-time in sync with the overall economic situation and also based on the recommendations of successive Finance Commissions. The 15th Finance Commission recommended that all-state FD-GSDP ratio be brought down to 3 percent by 2025-26.

b. Medium-Term Fiscal Policy: The FRBM Act outlines the government's commitment to a medium-term fiscal policy, specifying the trajectory for fiscal indicators over a period of 3 years. This approach allows for a more comprehensive and forward-looking strategy rather than focusing solely on short-term considerations.

c. Transparency and Accountability: The FRBM Act underscores the importance of transparency and accountability in fiscal operations. Governments are required to provide regular reports on their fiscal performance and adherence to the prescribed targets, enhancing public awareness and scrutiny. The Act mandates periodic reviews of fiscal targets and strategy, ensuring that the framework remains relevant and responsive to changing economic conditions.

d. Escape Clauses: While the FRBM Act has contributed to a more disciplined fiscal approach in India, its implementation has faced challenges. Adhering to the deficit targets in the face of economic uncertainties or the need for countercyclical measures can be a complex

[7] The state governments enacted the FRBM Act between September 2002 and September 2010. Karnataka was the first state to enact it in September 2002 while West Bengal and Sikkim were the last two states to enact the FRBM Act in July 2010 and September 2010 respectively.

task. Recognizing the need for flexibility during exceptional circumstances, the FRBM Act includes provisions for "escape clauses" that allow deviations from the specified fiscal targets by 0.5 percentage, in the event of conditions such as national security concerns, natural calamities, or a severe economic downturn. The 13th FC (2009) recognised the need to allow the fiscal system to adapt to exogenous shocks and/or changes in exogenous parameter values. The report stressed on the importance of specifying a band within which parameters can vary while remaining consistent with FRBMA targets. Following this, the 14th FC also recommended that the State Governments amend their FRBM Acts to provide for the statutory flexible limits on fiscal deficit. The 14th FC report (2014) was followed by the NK Singh Committee report (2017), which recommended using debt as the primary target for fiscal policy. The committee suggested that grounds on which the government can deviate from the target should be clearly specified in the FRBM act. The 15th FC (2020) recommended setting up a group to review the FRBM act and suggest a new FRBM framework for both the centre and the states, and oversee its implementation.

State-level FRBM Acts include mechanisms for monitoring and reporting on fiscal performance regularly, allowing for timely adjustments to budgetary policies as needed. Furthermore, they may incorporate provisions for debt management, revenue mobilization, expenditure prioritization, and fiscal transparency. These measures are crucial for ensuring that state governments can meet their financial obligations, deliver essential public services efficiently, and foster economic growth and development. Overall, state-level FRBM Acts serve as essential tools for promoting responsible fiscal management at the sub-national level, aligning state budgets with broader economic objectives, and fostering sustainable fiscal practices conducive to long-term economic stability and growth.

N.K. Singh Committee Report (2017): The NK Singh Committee set up in 2016 was tasked with reviewing the fiscal consolidation roadmap, among other mandates, including the examination of the fiscal discipline framework. The committee made several recommendations regarding the Public Sector Borrowing Requirements (PSBR). The committee emphasized the importance of adhering to a credible fiscal consolidation roadmap to ensure fiscal discipline. It recommended a glide path for reducing the fiscal deficit and public debt to sustainable levels over time. The committee suggested rationalizing public sector borrowing to enhance efficiency and minimize the crowding-out effect on private investment. It stressed on the need for greater transparency in public sector borrowing, including improved reporting mechanisms and disclosure of contingent liabilities. The committee recommended strengthening debt management practices to mitigate risks associated with borrowing, including diversifying of borrowing sources, optimizing debt maturity profiles, and implementing prudent risk management strategies to ensure debt sustainability. The Committee recommended using debt as the primary target for fiscal policy. It recommended a Debt to GDP target of 60 percent - 40 percent for the union government and 20 percent aggregated across all states. Yearly targets were suggested to progressively reduce the fiscal and revenue deficits till 2023. The committee proposed revisiting and potentially refining existing fiscal rules, such as the FRBM Act, to make them more effective in promoting fiscal discipline.

While dealing with off-budget borrowings, the Committee observed that researchers and official evaluators responsible for monitoring State compliance with Fiscal Responsibility Legislations (FRLs) have noted a lack of transparency in how States report certain aspects of public finance and budgetary data. These borrowings through PSUs and Special Purpose Vehicles (SPVs) are not included in state government liabilities. Disclosures regarding off-budget borrowings remains inadequate in many states and states do not collect and/or report comprehensively information on public-private partnerships and other off-budget mechanisms. The Committee sought inputs from the state governments regarding the increasing prevalence of off-budget public spending. Some states justified these practices on the grounds that FRLs restrict their fiscal flexibility, necessitating the mobilization of off-budget resources to safeguard capital expenditure and infrastructure investment. However, in principle, most states were of the view that such practices lack a sound accounting foundation and should be discouraged.

The Comptroller and Auditor General of India (CAG) has also criticized these practices while evaluating state compliance with FRLs. The CAG has repeatedly highlighted the lack of transparency in reporting off-budget borrowings, which are explicitly prohibited by Article 293(3) of the Indian Constitution. The CAG, in its audit of state budgets have noted that while state governments mention that funds borrowed by state PSUs for state Plan schemes/programmes are serviced by them from their own resources, but in reality, borrowings of several PSUs turn out to be liabilities that are borne by the states. Power sector companies (especially the DISCOMS), Urban Housing and Development and Agriculture sector PSUs, are some of the PSUs that are found to commonly engage in borrowings on behalf of the state governments.

The 14th FC has also expressed concerns about the off-budget nature of National Small Savings Fund (NSSF) operations, raising transparency issues. Keeping in mind the importance of risks arising from guarantees, off-budget borrowings and accumulated losses of financially weak public sector enterprises when assessing the debt position of States, the 14th Finance Commission recommended that both the Union and State Governments should adopt a template for collating, analysing and annually reporting the total extended public debt in their respective budgets as a supplement to the budget document.

Amendment to the FRBM Act (2018): The 2018 amendment to the FRBM Act of the Union Government expanded the definition of central government's debt to include financial liabilities of any body-corporate or other entity owned or controlled by the central government, which the government is to repay or service from the Annual Financial Statement, in addition to total outstanding liabilities on the security of the CFI, including external debt valued at current exchange rates; and the total outstanding liabilities in the

Public Account of India. The latter two dimensions formed the total liabilities of the Government prior to the 2018 amendment of the FRBM Act. The amended Act also incorporated the concept of "General Government Debt" which is the sum total of debts of the Central Government and the State Governments, excluding inter-governmental liabilities.

Reports of the Comptroller and Auditor General of India on Compliance of the Fiscal Responsibility and Budget Management Act, 2003: The Report for 2016-17 discusses the issue of off-budget borrowings of government of India in depth.[8] The report points out that off-budget borrowings are increasingly being used to finance revenue as well as capital spending. Such spending is however, not part of the calculation of the fiscal indicators despite fiscal implications.

Through the amended FRBM Act 2018 and the Rules made thereunder, the Union Government has removed the revenue deficit targets from 2018-19 onwards. It has been reasoned that in a country like India, there is little or no evidence to give preference to capital over revenue expenditure. However, the government has stressed that this course will not let capital expenditure suffer as those needs will be met through off-budget borrowings. These off-budget borrowings would be repaid by the revenue generated from projects where the investment is done. Thus, both revenue and capital expenditure needs of the economy would be met. Though the Government's strategy to finance capital expenditure through off-budget borrowing provides flexibility in meeting the requirements of capital intensive projects, such financing is outside budgetary and parliamentary control. Further, as this debt will be guaranteed by the government, there exists a risk in the long-term if the entity fails to generate the required revenue. The CAG notes that the quantum of such borrowings is large and the current policy framework lacks a comprehensive management strategy for such borrowings. The calculation of such borrowings remains beyond the calculation of fiscal indicators. Nevertheless, the Ministry of Finance (2018) has stated that: *"Off-budget borrowings remain within the scope of Union Budget as provisioning of repayment of principal and of interest of off-budget borrowings is being made through the Budget. Expenditure Budget contains the details of Extra Budgetary Resources (EBRs). Statement for 'Resources of Public Enterprises' contains details of Ministry-wise Internal and Extra Budgetary Resources of the public enterprises."* The Ministry also stated that *amendments to the FRBM Act in 2018 include a debt target and widens the scope of the Central Government debt which inter-alia includes such financial liabilities of any body, corporate or other entity owned or controlled by the Central Government, which the Government is to repay or service from the annual financial statement. According to the Ministry "it is incorrect to say that there is no direct legislative control over off-budget borrowings."*

The CAG has recommended that the Government may consider putting in place a policy framework for off-budget financing, which, amongst others, should include disclosure to Parliament.

[8] Compliance audits from other years do not mention off-budget borrowings

Report of the Working Group on State Government Guarantees (2023): RBI's Report of the Working Group on State Government Guarantees (2023) emphasizes that guarantees provided by the state should be vetted thoroughly because once invoked, they lead to increased expenditure and deficits for the state and recommends stringent guidelines regarding guarantees. Some of the major recommendations made by the Working Group are:

- In order to ensure uniformity and consistency in data being reported, the State Governments may publish/disclose data relating to guarantees, as per the Indian Government Accounting Standard (IGAS) recommended by Government of India, which can also be used by CAG for their audit and by the RBI;
- States should have a reasonable ceiling on issuance of guarantees;
- State Governments should classify the projects/activities as high risk, medium risk, and low risk and assign appropriate risk weights before extending guarantees for them,
- States should continue with their contributions towards building up the GRF to a desirable level of five percent of their total outstanding guarantees over a period of five years from the date of constitution of the fund.

3. Methodology, data sources, selection of states and period of coverage

To obtain comprehensive estimates of Public Sector Borrowing Requirements (PSBR) for states in India, it is essential to consider all its components. These include their fiscal deficit, borrowings by state-owned Public Sector Undertakings (PSUs), Autonomous Bodies (ABs) and other such institutions during a fiscal year, as well as off-budget borrowings, if any, during the fiscal year.

While fiscal deficit numbers were calculated using the audited financial statement of each of the states (i.e., the Finance Accounts), getting information on borrowings by state PSUs/ABs and off-budget borrowings can be challenging as such data is not available in public domain. As data on borrowings by state PSUs/ABs and other such bodies/institutions – both during the year and outstanding at the end of a fiscal year, is not available we have considered guarantees given by the state government during the year to these institutions as their borrowings during that year. This is based on the assumption that all borrowings by PSUs/ABs and other such institutions are guaranteed by state government. Information on guarantees during the year (both addition and deletion during the year) and also outstanding guarantees at the end of a fiscal year is taken from the Finance Accounts and/or budget documents of individual states.

Since data on off-budget borrowings is not available in the public domain, we have for each of the selected states used Comptroller and Auditor General (CAG) of India's reports on state finances to derive/get estimates of these borrowings. The study has also reviewed other reports of the CAG, RBI's reports on state finances, white paper on state finances brought out by some of the state governments, Parliament questions and various other publicly available documents to quantify the off-budget borrowings. Audit reports of the State PSUs were also reviewed. Additionally, the Fiscal Responsibility and Budget Management (FRBM) Acts of the selected states were examined to comprehend how debt/borrowings, guarantees, contingent liabilities etc., are addressed within these Acts. The study also carried out a desk review of reports of Central Finance Commissions and various notifications issued by the Ministry of Finance and Finance departments of the selected states.

Table 1: Off-budget Borrowings – State Governments

(Rs. Crore)

Sl. No	State	2021-22	2022-23 (Estimated)
1	Andhra Pradesh	6287.74	1300.80
2	Arunachal Pradesh	0.00	0.00
3	Assam	238.63	1000.00
4	Bihar	0.00	0.00
5	Chhattisgarh	296.64	2762.81
6	Goa	76.98	0.00
7	Gujarat	0.00	0.00
8	Haryana	21.30	22.05
9	Himachal Pradesh	0.00	0.00
10	Jharkhand	0.00	0.00
11	Karnataka	2500.00	1997.00
12	Kerala	14312.80	2769.71
13	Madhya Pradesh	576.24	1783.51
14	Maharashtra	0.00	0.00
15	Manipur	184.89	82.09
16	Meghalaya	0.00	12.86
17	Mizoram	0.00	0.00
18	Nagaland	0.00	0.00
19	Odisha	0.00	0.00
20	Punjab	797.98	1051.73
21	Rajasthan	0.00	0.00
22	Sikkim	453.55	121.34
23	Tamil Nadu	594.88	746.12
24	Telangana	35257.97	800.00
25	Tripura	0.00	0.00
26	Uttar Pradesh	3951.20	4048.80
27	Uttarakhand	0.00	0.00
28	West Bengal	1089.43	0.00
	Total	**66,640.23**	**18,498.82**

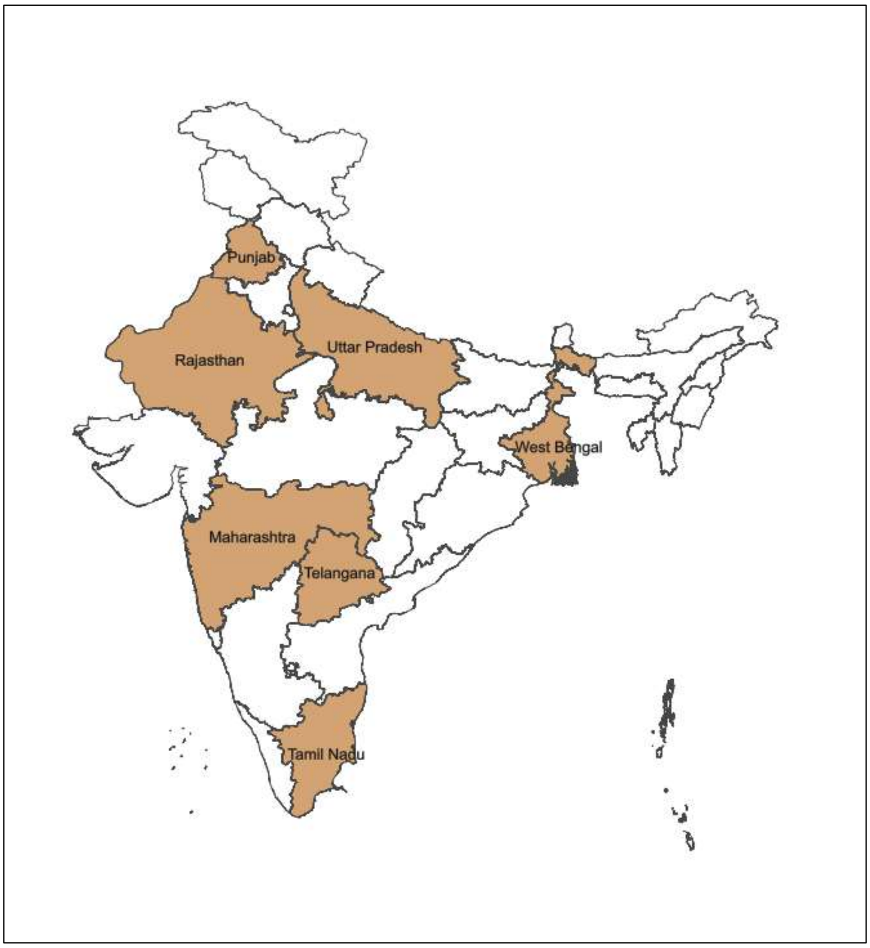
Source: Rajya Sabha un-starred question No. 528, 7 February, 2023

Anecdotal evidence suggests that in recent years due to economic uncertainties, burgeoning expenditure needs and shrinking fiscal space, off-budget borrowings have proliferated in some of the states.[9] Table 1 presents state-wise details of off-budget borrowings as declared by the states for the fiscal years 2021-22 and 2022-23 (estimated). These borrowings are undertaken by the State Public Sector companies/corporations, Special purpose vehicles (SPVs) and other equivalent instruments and the principal and/ or interest is serviced out of the State Budgets and/or by assignment of taxes/cess or any other State's revenue. One can see wide variation across states in terms of the quantum of off-budget borrowings.

The present study aims to quantify and analyse off-budget borrowings for seven Indian states. Using the estimates of off-budget borrowings and annual borrowings by the PSUs/ABs the study derives estimates of PSBR for these states.

Geographical Coverage: The seven states considered for the study are Telangana, Tamil Nadu, Uttar Pradesh, Punjab, West Bengal, Rajasthan and Maharashtra (Fig-1). These states were selected based on a careful analysis of factors which include among others their fiscal performance (good, bad and medium performing states), power sector (UDAY) debt takeover etc.

Fig 1: Selected states - Geographical coverage of the study



[9] Even the Union government has also resorted to the practice of off-budget borrowings.

Telangana and Tamil Nadu account for very high outstanding guarantees (in 2022-23 RE) as compared to other states (RBI report on State Finances, 2023). Punjab, with high outstanding liabilities can be categorised as high-risk state. Punjab's debt-GSDP ratio has been greater than 46 percent since 2020-21. Similarly, West Bengal can be considered as a high-risk state as its fiscal deficit and outstanding liabilities are high. The state had a FD-GSDP ratio of 4 percent in 2022-23RE and its outstanding liabilities stood at 38.4 percent of GSDP.

While Rajasthan has improved its financial position over the years reducing its fiscal deficit from 6.09 percent in 2016-17 to about 4.3 percent in 2022-23RE which is still very high, it continues to have a debt-GSDP of around 37 percent. The power sector debt is also quite high in the state. The cumulative debt of the three DISCOMs amounted to Rs.79,000 crores by the end of March 2023. Maharashtra has been a good performing state, with top rank in the fiscal health report of FY2023 but continues to face risks from having many infrastructural projects, especially in irrigation.

Period of Coverage: The coverage of the study spans from 2015-16 to 2021-22.

4. Analysis of Selected States

PSBR refers to total net borrowings of the general government (i.e., central, state and local governments taken together) and public sector enterprises owned or controlled by the Union and state governments. The concept of PSBR is useful as it helps us to comprehend the borrowing space available for the private sector. In the context of state governments, PSBR comprises borrowings needs of the state government and public sector enterprises/ companies/ corporations/ undertakings (collectively, the PSUs) owned or controlled by the state government.

Fiscal deficit represents the annual borrowing requirement of the government. State governments provide guarantees to State Public Sector companies/corporations, Special purpose vehicles (SPVs) etc. for borrowing funds. In the absence of data on the total annual borrowings by state owned/controlled public sector enterprises/undertakings we have considered guarantees given to them by the state government during the year as the borrowings of the PSUs for that year. This is premised on the assumption that all borrowings by state PSUs are guaranteed by the state government.

It has also been observed that in the face of economic uncertainties, burgeoning expenditure needs and shrinking fiscal space, state governments (as well as the Union government) device innovative means to circumvent their Fiscal Responsibility Regulations (FRLs) by resorting to fiscal activities (i.e., expenditures/borrowings) that are outside the budget. One such means that has been adopted by both national and sub-national governments in India is off-budget borrowings. Off-budget borrowings refer to government borrowings that are not explicitly included in the official budget presented to the public or approved by the legislature. These borrowings are often kept outside the regular budgetary process and may not be subject to the same level of scrutiny. PSBR also includes such off-budget borrowings.

Off-budget borrowings are borrowings of PSUs which is serviced by the state government and for which presumably the state government has provided guarantee. Thus, for a state the total off-budget borrowing during the year should be either equal to or lower than the total guarantee given by the government during that year. We use either off-budget borrowing or borrowings by state government owned and controlled public sector companies and autonomous bodies etc. during a year whichever is higher for calculating estimates of PSBR. Thus, PSBR of states comprises of (i) fiscal deficit and (ii) off-budget borrowings during the year or borrowings by state government owned and controlled public sector companies during the year whichever is higher.

For arriving at the estimates of PSBR, in the following sub-sections we derive estimates of different components PSBR for each of the seven selected states.

4.1 Off-budget (or extra-budgetary) borrowings

Off-budget or extra-budget borrowings or extra-budget financing generally refer to the use of financial resources by the government for meeting expenditure requirements in a particular year or years, which are not reflected in the budget for that year/those years for seeking grant/appropriation, and hence remaining outside the legislative control. These are financed through government owned or controlled public sector enterprises/companies/ corporations, autonomous bodies etc., which raise resources through market borrowings on behalf of the government. However, the government repays or services the debt from its budget. Off-budget borrowings, therefore, involve payment of interest and repayment of the principal from the budget as and when it is due.

By resorting to off-budget borrowings state governments bypass the stipulated Net Borrowing Ceiling (NBC) by routing loans outside the budget through various state owned/controlled PSUs/Corporations/other Bodies despite being responsible for repayment of such loans. Off-budget borrowings have an impact on the revenue deficit and fiscal deficit. Such extra-budget borrowings are not taken in the disclosure statements in the budget documents or in the accounts, nor do these have legislative approval. Creating such liabilities, without disclosing them in the budget, raises questions both of transparency and of inter-generational equity.

From the examination of CAG's audit reports on the finances of the seven selected states it is observed that the definition of off-budget borrowing in not confined to "borrowings made by PSUs and Corporations/Agencies of the state government for implementing various state schemes/ programmes, for which the state government has undertaken to repay the principal and interest and are not captured in the budget". State governments have resorted to a number of innovative means/mechanisms of off-budget financing of its schemes/ expenditures thereby broadening the definition of off-budget borrowings. We discuss some of the mechanisms adopted by the selected state governments

Different Mechanisms of Off-budget borrowings adopted by state governments

1) While in Uttar Pradesh it was observed that the state government provided financial assistance to PSUs for servicing the debt (i.e., repayment of both principal and interest) from the budget, government of Tamil Nadu had either provided funds to PSUs specifically for repayment of the borrowed funds or have undertaken to repay the principal and interest directly to the lending entity/institution. In one of the years, the CAG reported that repayment of off-budget borrowings by Tamil Nadu government was made through the Guarantee Redemption Fund. In Rajasthan it was observed that the state government provided grants-in-aid to the PSUs/corporations for payment of borrowed funds.[10]

2) Another mechanism of off-budget borrowing that is observed in some of the states is that the PSUs borrow to finance government backed schemes/programmes. Either the entire borrowed money or a part of it is transferred to the consolidated fund of the state by the borrowing entity (i.e., the PSU). The state government reports this as its own revenue receipt in the budget. The loan taken by the said PSU is serviced by the government through its budget. The government repays the loan using one of the many routes viz., providing grans-in-aid, assistance or loans to the PSU or repay directly to the lending agency. Thus by asking the PSU(s) to borrow on its behalf, the government has been able to circumvent its net annual borrowing ceiling. This action of the government is tantamount to off-budget borrowing.

   Example: In its report for the year 2015-16, the CAG observed that Punjab Urban Development Agency (PUDA) had raised loans of Rs. 2,000 crore and the responsibility to repay the same was taken by the State Government. The entire loan was passed on to the State Government which booked it as revenue receipts under the Major Head "0075-Miscellaneous General Services". The government reported this as its own revenues. Had the government borrowed this amount instead, it would be reported under the Major Head "6003-Internal Debt" of the State Government and would form part of the annual borrowings of the government.

   Similarly in Telangana it was observed by CAG that funds borrowed by the Telangana State Housing Corporation Limited (TSHCL) from HUDCO (for implementing the 2 Bed Room Housing Programme of the state government) for which the state government had provided guarantee were transferred to the consolidated fund of the state and was shown as revenue receipt under major head "0216-Housing".[11]

[10] The state government had given guarantee for the loans taken by the PSUs.
[11] The loan was to be serviced by TSHCL and not by the government. The government only provided guarantee.

3) In a related mechanism of off-budget borrowing, unutilised balances of schemes/projects with the PSUs are transferred to government's account and shown as government's revenue receipts.

   Example: Telangana government granted Telangana Drinking Water Supply Corporation Limited (TDWSCL) permission to borrow money from HUDCO with a government guarantee in order to fund the Telangana Drinking Water Supply Project. HUDCO transferred Rs. 998.80 crore in March 2015 as initial instalment to TDWSCL. As of March 31, 2016, Rs. 970.30 crore remained unutilized and was remitted to government's account under major head "0075-Miscellaneous General Services" and shown as revenue receipts of the government.

4) Another mechanism of off-budget borrowings observed by the CAG is that funds booked under the Public Account were transferred to the consolidated fund of the state and reported as revenue receipts. Instead of showing as liabilities on the Public Account and reporting as part of state's debt the said funds were shown as own state's own revenue receipts. Thus, the state government overstated its revenue receipts and understated its revenue deficit to that extent. It also understates it borrowings during the year thereby circumventing its annual net borrowing ceiling.

   Example: In March 2008, the government of Punjab issued a notification that 5 percent of the amount realized from the bidders by way of auction or sale of all immovable properties in the state was to be deposited in a fund under the Major Head "8342-Other Deposits" in its Public Account. In 2016-17, the state government received net deposits of Rs.1,425 crore rupees from three agencies under "8342-Other Deposits, 120-Miscellaneous Deposits, 09-Punjab State Development and Welfare Fund". These deposits were then transferred to the consolidated fund of the state and booked/shown under Major Head "0075–Miscellaneous General Services, 800-Other Receipts, 85-Miscellaneous Receipts" and were treated as state's own revenue receipts instead of liabilities on Public Account.

5) It was also observed that Zila Parishads and state-owned companies/corporations obtain loans from the market with a guarantee from the state government to carry out/implement different state government programmes/schemes. As many of these entities and Zila Parishads are not able to repay the loans as they do not generate any revenues, these loans are later repaid (both principal and interest) by the state government.

   Example: Rajasthan government provided guarantees to Zila Parishads (ZPs) to obtain loans from Housing Urban Development Corporation (HUDCO) in order to construct housing units for Economic Weaker Section (EWS) families in rural areas under the Chief Minister Below Poverty Line (CMBPL) Awas Yojana. Examination of sanctions issued by the Rural Development and Panchayati Raj Department (RDPRD) revealed that during 2016–

17, government of Rajasthan transferred Rs. 480.82 crore (Rs. 243.07 crore for principal and Rs. 237.75 crore for interest) to 31 ZPs' PD accounts in order to settle the loans taken from HUDCO. A similar mechanism was also observed in the later years.

6) Government provides guarantees to Institutions/projects to borrow money to implement its schemes/projects. However, the institutions/projects do not have revenue sources of their own to repay such loans. The government has to shoulder the liability of repayment of loans taken by such institutions. These loans fall under the category of off-budget borrowings.

   Example: Majority of the guarantees provided by the government of Telangana to institutions were for implementing government schemes and in 2020-21, the Government has facilitated repayment of principal or payment of interest, albeit, in the form of providing further loans to those institutions indicating that the servicing of debt by these entities was exclusively through Government support. A case in point is Telangana State Sheep and Goat Development Cooperative Federation Limited (TSSGDCFL) which is implementing a government subsidy scheme with financial assistance from National Cooperative Development Corporation. The institution has no revenue source and the repayments are being made with budgetary support. The government provided loans to it for loan repayment.

From the above discussion it is evident that state governments have adopted a variety of mechanisms for off-budget borrowings. Details of total outstanding off-budget borrowings by the selected states during the period 2015-16 to 2022-23 is presented in table 2.

Information pertaining off-budget borrowings is not uniform across states. For some of the selected states (Rajasthan, Tamil Nadu, Uttar Pradesh and Telangana) CAG provided information on off-budget borrowings for a number of years between 2015-16 and 2021-22. However, in case of Punjab the information is available for only three years - 2015-16, 2016-17 and 2020-21. There is no information on off-budget borrowings in the intervening years i.e., between 2016-17 and 2020-21. And in case of West Bengal, the CAG captures off-budget borrowing for only one year, 2020-21.

In Punjab the entities that account for a large share of off-budget borrowings are (i) Punjab State Power Corporation Limited (PSPCL), (ii) Punjab Urban Development Agency and (iii) Punjab State Civil Supplies Corporation Ltd. In Tamil Nadu, two entities (i) TN Civil Supplies Corporation and (ii) Tamil Nadu Generation and Distribution Corporation are responsible for a sizeable share of off-budget borrowings. In Uttar Pradesh, UP Power Corporation Limited (UPPCL) account for a large share of off-budget borrowings followed by UP State Highway Authority (UPSHA) and UP Rajkiya Nirman Nigam Limited (UPRNN). While Zila Parishads are the main source of off-budget borrowings in Rajasthan. In Telangana most of it can be attributed to three entities (i) Kaleshwaram Irrigation Project Corporation Limited, (ii)

Telangana State Cooperative Marketing Federation Limited and (iii) Telangana State Power Finance Corporation.

The quantum of off-budget borrowings varies across states. Off-budget borrowings are quite high in Telangana especially during the period 2019-20 to 2021-22 varying between 7.4 to 10.1 percent of GSDP of the state. In Uttar Pradesh and Tamil Nadu the off-budget borrowings are high in 2020-21 and 2021-22 accounting for about 1.0 to 1.55 percent of GSDP and in Punjab it was around 2 percent of GSDP in 2020-21 as evident from table 2. If these off-budget liabilities were to be included in the outstanding liabilities of the states, then the actual total outstanding liabilities would have been much higher.

Actual fiscal deficit and the borrowings during the year for these states (after accounting for off-budget borrowings during the year) would be higher than their net borrowing limits which is fixed by Government of India every fiscal. Thus, the state governments by resorting to off-budget borrowings are not only circumventing their FRBM targets, they are also non-transparent in their fiscal disclosures by not disclosing such borrowings.

Table 2: Off-budget borrowings as on 31 March in seven states (Rs. crore)

	State PSU/ABs/Society etc. - (Scheme name)	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
A	**Punjab**							
1	Punjab State Civil Supplies Corporation Ltd - Atta dal scheme	1286.40					1677.38	
2	Punjab State Warehousing Corporation	219.09					3.56	
3	Punjab Agro Food Corporation Limited – PAFCL	251.25					99.65	
4	Punjab State Co-operative Supply and Marketing Federation Limited – MARKFED	363.95					531.57	
5	Punjab State Power Corporation Limited (PSPCL)						8238.46	
6	Department of Food and Civil Supply		250.00					
7	Housing and Urban Development Authority		250.00					
8	Punjab Infrastructure Development Board		925.00					
9	Punjab Urban Development Agency – PUDA	2000						
	Total OBB – Punjab (sum of items 1 to 9)	**4120.69**	**1425.00**	**0.00**	**0.00**	**0.00**	**10550.62**	**0.00**
	OBB as % GSDP – Punjab	**1.06**	**0.33**				**1.95**	
	Outstanding Liabilities	129440.7	182525.8	195152.5	211917.2	229353.7	258032.1	281772.7
	(% of GSDP)	**33.18**	**42.75**	**41.43**	**41.35**	**42.71**	**47.71**	**45.87**
	Actual Outstanding Liabilities (including OBB)	133561.3	183950.8	195152.5	211917.2	229353.7	268582.7	281772.7
	(% of GSDP)	**34.24**	**43.08**	**41.43**	**41.35**	**42.71**	**49.66**	**45.87**
	GSDP – Punjab (Rs. crore)	390087.4	426988.1	471013.6	512509.7	537031	540852.6	614226.8
B	**West Bengal**							
1	Swasthya Sathi Samiti - (Swasthya Sathi Scheme)						169.41	
2	WB State Seed Corporation Ltd - (Crop Insurance Coverage to farmers under Bangla Shasthya Bima Yojana (BSBY))							
3	WB State Seed Corporation Ltd - (Farmers' Old age pension (FOAP) under Jai Bangla Scheme 2020)							
4	WB Folk & Tribal Cultural Centre – (Jai Bangla Scheme 2020 & Lok Prasar Prakalpa)							
5	WB Comprehensive Area Development Corporation - (Jai Bangla Scheme 2020)						396.61	
6	WB Women Development Undertaking – (Kanyashree)						375.27	

	State PSU/ABs/Society etc. - (Scheme name)	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
7	WB Women Development Undertaking – (Rupashree)						132.37	
8	WB Women Development Undertaking – (Jai Bangla Scheme 2020)						11.70	
9	WB SC, ST & OBC Development and Finance Corporation – (Taposili Bandhu & Jai Johor Pension Scheme under Jai Bangla Scheme 2020)							
	Total OBB – West Bengal (sum of items 1 to 9)	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**1085.36**	**0.00**
	OBB as % GSDP – West Bengal						**0.09**	
	Outstanding Liabilities	306013.2	337653.1	360931.7	393299.7	433475.0	486429.8	536478.1
	(% of GSDP)	**38.38**	**38.70**	**37.03**	**35.69**	**36.76**	**42.09**	**39.33**
	Actual Outstanding Liabilities (including OBB)	306013.2	337653.1	360931.7	393299.7	433475.0	487515.2	536478.1
	(% of GSDP)	**38.38**	**38.70**	**37.03**	**35.69**	**36.76**	**42.18**	**39.33**
	GSDP – West Bengal (Rs. crore)	797299.9	872527.2	974700.0	1102053.7	1179097.1	1155820.6	1363925.9
C	**Tamil Nadu**							
1	TN Water Supply and Drainage Board	15.71	15.71	182.00	5.79	3.24	1.59	0.45
2	TN Rural Housing and Infrastructure Development Corporation	668.92	617.92	566.00	514.55	463.09	411.63	373.03
3	Water and Sanitation Pooled Fund - TN Urban Infrastructure Financial Services Limited	363.00	310.00	283.00	254.13	237.45	220.77	239.17
4	TN Co-operative Housing Federation Limited	6.00	2.00	0.00				
5	TN Civil Supplies Corporation			2723.00	4500.00	4500.00	4500.00	4500.00
6	TN Slum Clearance Board				0.05	0.00		
7	TN Water Resource Conservation and River Restoration						34.43	629.31
8	TN Generation & Distribution Corporation (TANGEDCO)						14700.49	26427.92
	Total OBB – Tamil Nadu (sum of items 1 to 8)	**1053.63**	**945.63**	**3754.00**	**5274.52**	**5203.78**	**19868.91**	**32169.88**
	OBB as % GSDP – Tamil Nadu	**0.09**	**0.07**	**0.26**	**0.32**	**0.30**	**1.11**	**1.55**
	Outstanding Liabilities	223029.9	283393.8	326517.9	368736.2	423742.8	518795.9	610666.9
	(% of GSDP)	**18.96**	**21.76**	**22.29**	**22.62**	**24.31**	**29.01**	**29.48**
	Actual Outstanding Liabilities (including OBB)	224083.5	284339.5	330271.9	374010.7	428946.5	538664.8	642836.8
	(% of GSDP)	**19.05**	**21.83**	**22.54**	**22.94**	**24.61**	**30.13**	**31.04**

	State PSU/ABs/Society etc. - (Scheme name)	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
	GSDP – Tamil Nadu (Rs. crore)	1176500.0	1302638.6	1465050.9	1630209.2	1743144.0	1788074.4	2071286.2
D	**Uttar Pradesh**							
1	UP State Bridge Corporation Limited (UPSBCL)			600.00	600.00	522.87	21.45	0.00
2	UP Expressways Industrial Development Authority (UPEIDA)			945.00	916.00	0.00	0.00	0.00
3	UP Rajkiya Nirman Nigam Limited (UPRNN)			2380.00	2380.00	2179.49	182.79	0.25
4	UP State Highway Authority (UPSHA)			2335.00	2335.00	2142.22	135.84	0.13
5	UP Power Corporation Limited (UPPCL)			1250.00	1250.00	1250.00	21773.33	19356.66
6	UP Power Transmission Corporation Ltd (UPPTCL)			972.40	787.61	787.61	463.48	139.35
	Total OBB – Uttar Pradesh (sum of items 1 to 6)	**0.00**	**0.00**	**8482.40**	**8268.61**	**6882.19**	**22576.89**	**19496.39**
	OBB as % GSDP – Uttar Pradesh			**0.59**	**0.52**	**0.40**	**1.37**	**0.99**
	Outstanding Liabilities	349766.0	414454.9	459073.3	509326.6	493643.2	556202.8	604187.5
	(% of GSDP)	**30.74**	**32.16**	**31.88**	**32.19**	**29.04**	**33.81**	**30.60**
	Actual Outstanding Liabilities (including OBB)	349766.0	414454.9	467555.7	517595.3	500525.4	578779.7	623683.9
	(% of GSDP)	**30.74**	**32.16**	**32.47**	**32.71**	**29.44**	**35.18**	**31.59**
	GSDP – Uttar Pradesh (Rs. crore)	1137807.9	1288700.2	1439925.5	1582180	1700061.8	1645316.8	1974531.6
E	**Rajasthan**							
1	Zila Parishads – (Chief Minister Below Poverty Line Awas Yojana)	2787.25	2605.52	2372.91	2137.42	1901.54	1804.41	1512.44
2	Rajasthan Agriculture Marketing Board – (Krashak Kalyan Kosh Scheme)					1000.00		
3	Rajasthan Minority Finance and Development Co-operative Corporation Ltd.							68.47
	Total OBB – Rajasthan (sum of items 1 to 3)	**2787.25**	**2605.52**	**2372.91**	**2137.42**	**2901.54**	**1804.41**	**1580.91**
	OBB as % GSDP – Rajasthan	**0.41**	**0.34**	**0.29**	**0.23**	**0.29**	**0.18**	**0.13**
	Outstanding Liabilities	209385.7	255001.6	281182.1	311373.6	352701.8	410499.5	462845.1
	(% of GSDP)	**30.73**	**33.53**	**33.77**	**34.16**	**35.27**	**40.35**	**38.78**
	Actual Outstanding Liabilities (including OBB)	212173.0	257607.1	283555.0	313511.0	355603.3	412303.9	464426.0
	(% of GSDP)	**31.13**	**33.87**	**34.06**	**34.39**	**35.56**	**40.53**	**38.91**

	State PSU/ABs/Society etc. - (Scheme name)	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
	GSDP – Rajasthan (Rs. crore)	681482.3	760587.3	832529.2	911519.5	1000032.1	1017329.0	1193489.0
F	**Telangana @**							
1	Telangana State Housing Corporation Limited	1598.8	1000				7801.74	0.00
2	Hyderabad Metropolitan Water Supply and Sewerage Board (HMWS&SB)	700	1500			3481.51	3472.57	0.00
3	Hyderabad Metro Rail Limited							220.00
4	Hyderabad Agriculture Cooperative Association limited						0.00	0.00
5	Telangana Drinking Water Supply Corporation Limited	1420.3				24021.00	25006.22	0.00
6	Telangana State Sheep and Goat Development Cooperative Federation Limited					2,826.43	2,292.91	1920.00
7	Telangana State Seeds Development Corporation						0.00	0.00
8	Telangana State Industrial Infrastructure Corporation Limited					596.25	735.07	0.00
9	Kaleshwaram Irrigation Project Corporation Limited					35086.37	36056.77	66854.00
10	Transmission Corporation of Telangana						221.73	0.00
11	Telangana State Horticulture Development Corporation Ltd					702.25	526.67	0.00
12	Telangana State Leather Industries Promotion Corporation Ltd						0.00	0.00
13	Musi Riverfront Development Corporation Limited						0.00	0.00
14	Telangana Urban Finance and infrastructure development corporation						0.00	906.00
15	Telangana State Police Hosing corporation						0.00	315.00
16	Telangana State Power Finance Corporation					3151.00	2922.00	2764.00
17	Telangana Fishermen Cooperative Societies Federation					479.5	463.95	413.00
18	Telangana State Dairy Development Cooperative Federation Limited					343.58	290.71	0.00
19	Telangana State Water Resources Infrastructure Development Corporation						11095.85	13412.00
20	Telangana State Cooperative Marketing Federation Limited						4295.54	0.00
	Total OBB – Telangana (sum of items 1 to 20)	**3719.10**	**2500.00**	**0.00**	**3160.00***	**70,687.89**	**95181.73**	**86804.00**
	OBB as % GSDP – Telangana	**0.64**	**0.38**		**0.37**	**7.44**	**10.10**	**7.69**

	State PSU/ABs/Society etc. - (Scheme name)	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
	Outstanding Liabilities	209385.7	255001.6	281182.1	311373.6	352701.8	410499.5	462845.1
	(% of GSDP)	**36.23**	**38.73**	**37.49**	**36.31**	**37.12**	**43.54**	**41.00**
	Actual Outstanding Liabilities (including OBB)	213104.8	257501.6	281182.1	314533.6	423389.7	505681.2	549649.1
	(% of GSDP)	**36.88**	**39.11**	**37.49**	**36.68**	**44.56**	**53.64**	**48.69**
	GSDP – Telangana (Rs. crore)	577902.1	658325.3	750050.3	857427.2	950090.5	942814.3	1128907.2
G	**Maharashtra #**							
	Total OBB – Maharashtra	**0.00**	**51.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
	OBB as % GSDP – Maharashtra		**0.00**					
	Outstanding Liabilities	351341.3	395857.6	432433.1	436800.9	479914.0	548191.3	606310.1
	(% of GSDP)	**17.87**	**18.01**	**18.38**	**17.27**	**18.06**	**20.86**	**19.51**
	Actual Outstanding Liabilities (including OBB)	351341.3	395908.6	432433.1	436800.9	479914.0	548191.3	606310.1
	(% of GSDP)	**17.87**	**18.01**	**18.38**	**17.27**	**18.06**	**20.86**	**19.51**
	GSDP – Maharashtra (Rs. crore)	1966224.6	2198185.2	2352781.5	2528854.3	2657371.0	2627541.9	3108021.9

Note: 1) * For Telangana, PSU wise details of off-budget borrowings not available for the year 2018-19, only aggregate amount is provided by the CAG.
2) @ For the years 2020-21 and 2021-22 the amount considered as off-budget borrowings by CAG is the minimum of (a) outstanding-borrowings and (b) outstanding guarantees. However for 2018-19, total outstanding guarantees were considered as off-budget borrowings.
It was mentioned by CAG that majority of the guarantees provided by Telangana government to institutions were for implementing government schemes. In 2020-21, the Government facilitated repayment of principal or payment of interest, albeit, in the form of providing further loans to these institutions indicating that the servicing of debt by these entities was exclusively through Government support.
3) # As per MTFP Statement 2008-09, Maharashtra had stopped off-budget borrowings since 2005-06. There were no off-budget borrowings between 2006-07 and 2017-18. However, at the end of 2016-17, Rs.51 crore was outstanding on account of off-budget borrowings made prior to 2005-06.
Source: State Finances Audit Reports of respective states, CAG; GSDP data from MoSPI.

4.2 Guarantees and Contingent Liabilities

State Governments issue guarantees in respect of bonds issued and other borrowings by the State Public Sector Undertakings or other Bodies. Guarantees are liabilities contingent on the Consolidated Fund of the State and in case of a default the state government has to settle it resulting in an increase in its debt and deficit. Thus, fiscal risks arising on account of guarantees issued by State governments need to be carefully analysed.

As per Article 293 of the Constitution of India, limits for giving guarantees by the state government have to be fixed by the State Legislature. State governments are required to come out with legislations or instructions with regard to the cap on guarantees. The Twelfth Finance Commission recommended that states should constitute a Guarantee Redemption Fund[12] (GRF) through earmarked guarantee fees in order to provide for sudden discharge of states' obligations on guarantees. The accumulations in the GRF are to be utilised only towards payment of the guarantees issued by the government and not paid by the institutions on whose behalf guarantee was issued. The Commission further recommended for a ceiling on guarantees through the mechanism of fiscal responsibility legislation.

Among the selected states it was observed that with the exception of governments of Maharashtra and Uttar Pradesh all the other state governments considered in this study have prescribed limits/caps on guarantees. However, there are variations across states.

- The Tamil Nadu Fiscal Responsibility (TNFR) Act 2003, prescribes a cap on total outstanding guarantees to 100 percent of total Revenue Receipts of the preceding year or 10 percent of GSDP, whichever is lower. It also provides for a cap on the risk-weighted guarantees at 75 percent of total Revenue Receipts of the preceding year or 7.5 percent of GSDP, whichever is lower.
- The FRBM Act of Punjab caps outstanding guarantees on long term debt to 80 percent of state's revenue receipts of the previous year.
- As per Rajasthan's FRBM Act, 2005 (amended in April 2016) total outstanding Government guarantee on 31st March 2017 shall not exceed 70 percent of estimated receipts in the Consolidated Fund of the State in financial year 2016-17 and thereafter total outstanding government guarantee at the end of each financial year shall not exceed 60 percent of estimated receipts in the Consolidated Fund of the State in that financial year.
- The Telangana FRBM Act, 2005 stipulated limiting the amount of annual incremental risk weighted guarantees to 90 percent of the total Revenue Receipts of the preceding year. This limit was later increased to 200 percent in September 2020 through TSFRBM (Amendment) Act, 2020.

In all these the states, the cap on guarantees is stipulated in their respective FRLs. However, in case of West Bengal limit on guarantees is stipulated by the West Bengal Ceiling on

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[12] The GRF fund is administered by the Reserve Bank of India and is kept outside the general revenues of the state government. The funds are invested by the RBI.

Government Guarantees Act which was enacted in 2001. According to the Act, the total outstanding government guarantees as on first day of April of any year shall not exceed 90 percent per month of the state revenue receipts of the second preceding year.

Rajasthan constituted the GRF in 1999-00, and Tamil Nadu followed in March 2003. Based on the recommendations of the Twelfth Finance Commission, other states have constituted the GRF in different years: Maharashtra notified it in December 2018, Telangana in 2014, West Bengal in January 2015, and Punjab in 2007 (subsequently revised in January 2014). Uttar Pradesh is the only state among the seven selected states that has not constituted the GRF for meeting the debt servicing obligation arising in the event of a default by the borrowing agency out of guarantees issued by the government.

The total outstanding guarantees across different sectors in the selected states and the departmental/sectoral shares between 2015-16 and 2021-22 is presented in table 3. Power sector accounts of a sizeable share of outstanding guarantees in most of the states. The other important sectors are Co-operatives in West Bengal and Maharashtra, Irrigation and Urban Development and Housing in Telangana and Road and Transport in Maharashtra.

Table 3: Outstanding Guarantees (Principal & Interest) - Departmental/Sector Shares (%)

Sectors/Departments	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
A. Punjab								
Power	16.58	41.34	45.33	44.07	53.27	55.02	67.52	73.03
Co-operatives	20.46	12.21	11.06	8.17	5.96	7.10	7.87	4.75
State Finance Companies	1.54	4.35	4.39	3.42	3.06	3.17	3.51	1.73
Food and Supplies	49.44	2.51	3.33	3.99	3.85	4.37	4.87	4.76
Others	11.98	39.59	35.89	40.35	33.85	30.34	16.22	15.73
Outstanding Guarantees (Rs. Crore)	56751.6	20608.2	20617.2	23816.3	25352.2	23551.6	20164.5	20207.9
GSDP (Rs. Crore)	390087.4	426988.1	471013.6	512509.7	537031.0	540852.6	614226.8	673107.0
% of GSDP	***14.55***	***4.83***	***4.38***	***4.65***	***4.72***	***4.35***	***3.28***	***3.00***
B. West Bengal								
Agriculture	0.0008							
Backward Classes Welfare	0.11	2.00	1.74	2.78	2.24	2.37	0.56	1.64
Co-operation Department	9.28	11.06	10.09	15.74	11.48	13.70	6.78	7.50
Food & Supplies	3.69	5.17	3.57		4.19	7.51	11.85	25.94
Power	37.57	38.78	44.34	51.78	58.50	61.00	51.41	26.65
Tribal Development	0.12	0.13	0.13	0.24	0.21	0.28	0.08	0.15
Health & Family Welfare						2.57		
Information & Cultural Affairs						0.97		
Minority Affairs & Madrasah Education	8.41	9.43	10.18	7.36	4.90	3.50		
Women & Child Development & Social welfare						8.11		
Finance	40.69	33.33	29.83	22.05	18.46		29.32	37.63
Industry Commerce and Enterprises			0.002	0.052	0.004			
Micro & Small Scale Ent. and Textiles	0.078	0.019	0.047	0.000	0.023			
Animal resource Development		0.0003	0.0003					
Fisheries		0.0002	0.0001					
Municipal Affairs	0.061	0.075	0.069					
Refugee Relief & Rehabilitation	0.0001	0.0001	0.0001					
Higher Education Department								0.494
Urban Development	0.001	0.001	0.001					
Total Outstanding Guarantees (Rs. Crore)	8857.2	7812.8	8566.2	6622.7	8212.2	7770.6	16884.6	13155.9
GSDP (Rs. Crore)	797300	872527	974700	1102054	1179097	1155821	1363926	1531758
Outstanding Guarantees (% of GSDP)	***1.11***	***0.90***	***0.88***	***0.60***	***0.70***	***0.67***	***1.24***	***0.86***

Sectors/Departments	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
C. Tamil Nadu								
Cooperation	0.70	1.31	0.81	1.44	1.45	0.91	0.61	0.46
Housing/Urban Dev	1.48	2.58	1.83	1.31	0.99	0.63	0.41	0.37
Industries	0.42	0.72	2.24	1.91	1.80	1.08	0.75	0.64
Infrastructure							0.24	0.38
Irrigation						0.05	0.68	1.77
Power, of which	95.97	92.63	90.63	93.38	92.10	88.99	73.10	68.00
- Tamil Nadu Generation & Distribution Corporation Ltd	87.73	78.36	79.59	84.67	86.23	86.75	72.45	67.45
Social Welfare	0.46	1.02	0.86	0.75	0.72	0.57	0.43	0.45
Trading	0.14	0.24	0.19	0.16	0.15	0.11	19.19	22.17
Transport	0.01	0.01	2.09	0.01	1.91	7.07	4.19	5.21
Water Supply	0.82	1.49	1.34	1.05	0.89	0.58	0.39	0.54
Total Outstanding Guarantees (Rs. Crore)	51585.73	29145.27	36131.04	43661.08	47318.87	65659.45	91975.38	90709.22
GSDP (Rs. Crore)	1176500.0	1302638.6	1465050.9	1630209.2	1743144.0	1788074.4	2071286.2	2364514.1
Outstanding Guarantees (% of GSDP)	***4.38***	***2.24***	***2.47***	***2.68***	***2.71***	***3.67***	***4.44***	***3.84***
D. Uttar Pradesh								
Backward Class Welfare	0.091	0.094	0.070	0.048	0.044	0.035	0.030	0.000
Cane Development	0.004	0.004	0.003	0.002	0.002	0.002	0.001	0.001
Cooperative	3.289	2.418	4.692	2.525	2.702	0.412	5.346	3.616
Food and Supply						1.993		
Food Processing	0.001	0.001	0.001	0.001				
Industry & Industrial Development	0.095	0.091	0.064	9.578	10.143	16.206	16.053	16.669
Khadi & Gramodyog	0.183	0.189	0.141	0.096	0.089	0.070	0.060	
Other Institution	0.049	0.009	0.007					
Power, of which	94.464	94.565	92.388	78.158	79.405	77.256	74.260	76.500
- UP Power Corporation Limited	73.724	58.296	54.459	48.830	47.561	52.509	53.402	56.337
Public Works				4.830	4.081	0.226		
Rural Development				3.195	2.189	1.571	1.356	1.047
Sugar Industries	1.823	2.628	2.634	1.568	1.344	2.229	2.893	1.568
Total Outstanding Guarantees (Rs. Crore)	57618.35	55825.46	74841.22	110032.12	118696.49	150554.00	174218.42	170780.52
GSDP (Rs. Crore)	1137807.9	1288700.2	1439925.5	1582180.0	1700061.8	1644946.5	1975594.5	2258039.9
Outstanding Guarantees (% of GSDP)	***5.06***	***4.33***	***5.20***	***6.95***	***6.98***	***9.15***	***8.82***	***7.56***
E. Rajasthan								

Sectors/Departments	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Power	85.23	84.48	86.21	81.21	79.13	84.19	83.12	80.63
Co-operatives	3.10	3.33	2.67	6.77	8.64	3.38	1.19	1.66
Roads and Transport	3.72	4.28	3.66	3.92	3.83	3.56	3.36	2.85
State Financial Corporation	0.56	0.59	0.49	0.43	0.50	0.27	0.66	0.72
Urban Development & Housing	5.81	5.87	5.78	6.67	5.81	5.34	4.44	6.01
Other Infrastructure	0.25							
Others	1.32	1.45	1.19	1.02	2.09	3.25	7.24	8.13
Total Outstanding Guarantees (Rs. Crore)	53620.1	51158.9	61760.9	70430.1	80631.2	82612.5	95868.1	104832.4
GSDP (Rs. Crore)	681482.3	760587.3	832529.2	911519.5	1000032	1017329	1193489	1365849
Outstanding Guarantees (% of GSDP)	***7.87***	***6.73***	***7.42***	***7.73***	***8.06***	***8.12***	***8.03***	***7.68***
F. Telangana								
Power	51.09	15.60	15.23	6.06	3.52	8.78	6.81	14.39
Co-operatives	11.00	7.31	5.16	4.96	4.07	2.90	1.90	0.90
Agriculture	0.05	0.01	0.77	1.13				
Irrigation		1.31	16.76	41.31	49.96	44.90	59.33	39.15
Roads and Transport	4.15	2.20	3.19	3.56	2.53	4.80	4.10	2.56
State Financial Corporation	1.77	1.39	0.95	0.51				
Urban Development & Housing	20.28	22.95	15.87	11.34	11.67	12.70	9.09	6.09
Other Infrastructure	0.00	0.00	0.00	0.93	0.67			
Others	11.65	49.23	42.06	30.20	27.59	25.91	18.76	36.91
Total Outstanding Guarantees (Rs. Crore)	26984.09	30035.19	41962.82	77783.21	89600.79	105006.71	135282.51	198243.61
GSDP (Rs. Crore)	577902.1	658325.3	750050.3	857427.2	950090.5	943078.0	1124204.2	1308034.0
Outstanding Guarantees (% of GSDP)	***4.67***	***4.56***	***5.59***	***9.07***	***9.43***	***11.13***	***12.03***	***15.16***
G. Maharashtra								
State Financial Corporations	20.79	14.01	3.56	4.62	2.55	2.25	0.98	0.81
Urban Development And Housing	0.26	0.00	0.08	0.08	0.05	0.00	0.00	0.00
Roads And Transport	15.43	0.28	75.67	78.86	78.48	77.55	63.27	57.56
Power	4.77	16.50	0.00	0.00	6.78	6.70	29.69	36.43
Municipalities/ Universities/ Local Bodies	4.06	5.61	0.91	0.76	0.15	0.13	0.06	0.06
Co-Operatives	54.70	63.59	19.78	15.68	11.99	13.38	6.00	5.14
Total Outstanding Guarantees (Rs. Crore)	7807.05	7305.77	26657.72	25134.86	41279.47	41775.48	51263.35	49632.84
GSDP (Rs. Crore)	1966224.6	2198185.2	2352781.5	2528854.3	2657371.0	2627541.9	3108021.9	3527084.0
Outstanding Guarantees (% of GSDP)	***0.40***	***0.33***	***1.13***	***0.99***	***1.55***	***1.59***	***1.65***	***1.41***

Source: Finance Accounts; GSDP from MoSPI.

Further, it was observed that the outstanding guarantees at the end of the financial year in the seven selected states was within the limits prescribed in their FRBM Acts (Ceiling on Government Guarantees Act in the case of West Bengal) between 2015-16 and 2021-22, with the exception of Punjab for the year 2015-16 (table 4).

Table 4: Status of compliance with limits on Guarantees

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Telangana	Y	Y	Y	Y	Y	Y	Y
Rajasthan	Y	Y	Y	Y	Y	Y	Y
Tamil Nadu	Y	Y	Y	Y	Y	Y	Y
Punjab	N	Y	Y	Y	Y	Y	Y
West Bengal	Y	Y	Y	Y	Y	Y	Y

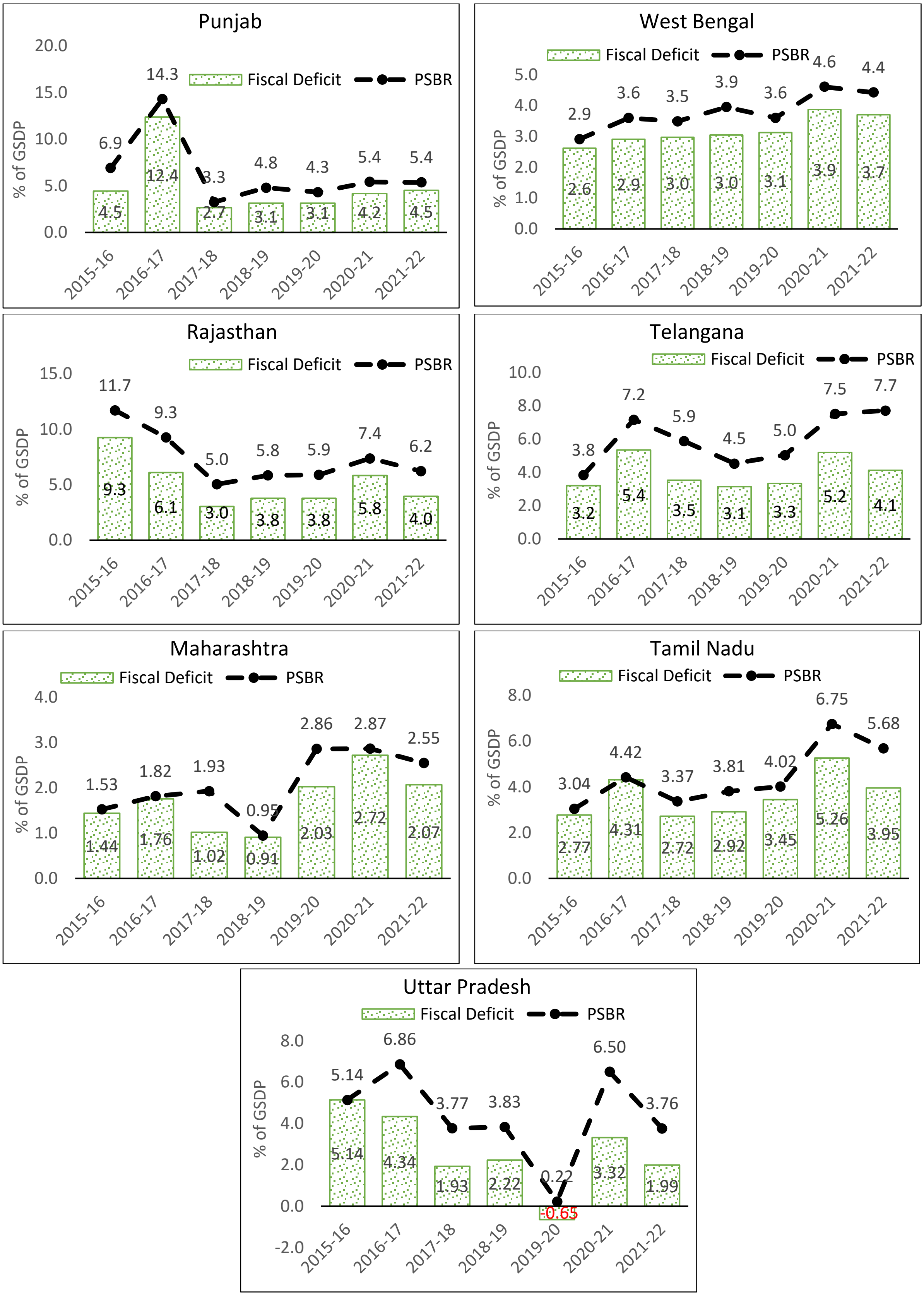
Note: 1) Y = compliant and N = non-compliant with limits on guarantees; 2) Maharashtra and Uttar Pradesh have not fixed any limits for giving guarantees.
Source: Authors' derivation based on data from Finance Accounts, FRBM Acts of respective states, and CAG audit reports.

4.3 Public Sector Borrowing Requirement

As mention earlier the public sector borrowing requirement (PSBR) refers to net borrowings of the general government (i.e., central, state and local governments taken together) and public sector enterprises owned or controlled by the Union and state governments. Thus, it includes the borrowings of the entire public sector. The concept of PSBR is useful as it helps us to arrive at the borrowing space available/left for the private sector after adjusting for borrowings by the public sector.

In the context of state governments, PSBR comprises borrowings needs of the state government and public sector enterprises/ companies/ corporations/ undertakings /autonomous bodies and SPVs (collectively we refer here as the PSUs) owned or controlled by the state government. Fiscal deficit represents the annual borrowing need/requirement of a government. State governments provide guarantees to State Public Sector companies/corporations, Special purpose vehicles (SPVs) etc. for borrowing funds. In the absence of data on the total annual borrowings by state owned/controlled public sector enterprises/undertakings we have considered guarantees given to them by the state government during the year as the borrowings of the PSUs for that year. This is premised on the assumption that all borrowings by the state PSUs are backed by guarantees from the state government. The off-budget borrowings by state governments are liabilities of the state government. The PSBR also includes all such off-budget borrowings by state governments during the year. Based on this definition we derive estimates of PSBR for the seven selected states which is presented in Table 5 while Fig-2 presents the fiscal deficit (i.e., annual borrowings of the selected states) and their PSBR expressed as percent of GSDP.

Fig-2: Public Sector Borrowing Requirement and Fiscal Deficit (% of GSDP)



Note: Deficit (+)/Surplus(-)

Source: Authors' calculation using CAG reports and Finance Accounts; GSDP data from MoSPI

Table 5: Public Sector Borrowing Requirement (Rs. crore)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Uttar Pradesh							
GSDP	1137807.94	1288700.23	1439925.50	1582180.05	1700061.80	1645316.75	1974531.55
Fiscal Deficit	58475.01	55988.54	27809.55	35183.24	-11080.95	54622.11	39275.15
FD as % of GSDP	***5.14***	***4.34***	***1.93***	***2.22***	***-0.65***	***3.32***	***1.99***
Off-budget borrowings during the year	0.00	0.00	8482.40	234.00	0.00	20940.00	0.00
Guarantees during the year *	-13121.28	32453.57	26486.90	25367.04	14884.41	52363.84	35017.33
PSBR	58475.01	88442.11	54296.45	60550.28	14884.41	106985.95	74292.48
PSBR as % of GSDP	***5.14***	***6.86***	***3.77***	***3.83***	***0.88***	***6.50***	***3.76***
Tamil Nadu							
GSDP	1176500.03	1302638.58	1465050.91	1630209.15	1743143.96	1788074.37	2071286.16
Fiscal Deficit	32627.56	56171.35	39839.51	47558.36	60178.64	93983.11	81834.53
FD as % of GSDP	***2.77***	***4.31***	***2.72***	***2.92***	***3.45***	***5.26***	***3.95***
Off-budget borrowings during the year	0.00	0.00	5874.37	1845.63	0.00	14734.92	12357.39
Guarantees during the year	3161.94	1463.75	9526.68	14590.74	9843.75	26697.07	35917.04
PSBR	35789.50	57635.11	49366.19	62149.10	70022.39	120680.18	117751.56
PSBR as % of GSDP	***3.04***	***4.42***	***3.37***	***3.81***	***4.02***	***6.75***	***5.68***
Punjab							
GSDP	390087.44	426988.10	471013.61	512509.69	537031.05	540852.61	614226.76
Fiscal Deficit	17359.41	52839.71	12494.20	16059.22	16826.07	22584.14	27847.25
FD as % of GSDP	***4.45***	***12.37***	***2.65***	***3.13***	***3.13***	***4.18***	***4.53***
Off-budget borrowings during the year @	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Guarantees during the year	9585.48	8193.69	2827.13	8476.23	6348.73	6712.79	5098.29
PSBR	26944.89	61033.41	15321.33	24535.46	23174.80	29296.94	32945.54
PSBR as % of GSDP	***6.91***	***14.29***	***3.25***	***4.79***	***4.32***	***5.42***	***5.36***

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
West Bengal							
GSDP	797299.95	872527.23	974700.05	1102053.66	1179097.14	1155820.61	1363925.86
Fiscal Deficit	20890.69	25385.40	28930.90	33485.55	36831.06	44687.65	50528.42
FD as % of GSDP	***2.62***	***2.91***	***2.97***	***3.04***	***3.12***	***3.87***	***3.70***
Off-budget borrowings during the year	0.00	0.00	0.00	0.00	0.00	4311.79	0.00
Guarantees during the year	2290.13	5994.17	5041.35	10009.56	5614.98	8578.51	9775.14
PSBR	23180.82	31379.57	33972.25	43495.11	42446.03	53266.15	60303.56
PSBR as % of GSDP	***2.91***	***3.60***	***3.49***	***3.95***	***3.60***	***4.61***	***4.42***
Rajasthan							
GSDP	681482.26	760587.27	832529.23	911519.46	998678.79	1019442.03	1218193.45
Fiscal Deficit	63069.96	46317.95	25341.61	34472.92	37654.36	59375.42	48237.78
FD as % of GSDP	***9.25***	***6.09***	***3.04***	***3.78***	***3.77***	***5.82***	***3.96***
Off-budget borrowings during the year	160.52	61.34	6.34	1.15	1000.00	50.41	99.60
Guarantees during the year	16698.82	24158.3	16612.31	18812.08	21129.34	15841.84	27612.51
PSBR	79768.78	70476.25	41953.92	53285.00	58783.70	75217.26	75850.29
PSBR as % of GSDP	***11.71***	***9.27***	***5.04***	***5.85***	***5.89***	***7.38***	***6.23***
Telangana							
GSDP	577902.06	658325.34	750050.28	857427.15	950090.49	942814.31	1128907.24
Fiscal Deficit	18497.80	35231.00	26513.92	26943.88	31750.69	49030.05	46630.90
FD as % of GSDP	***3.20***	***5.35***	***3.53***	***3.14***	***3.34***	***5.20***	***4.13***
Off-budget borrowings during the year	3719.00	2500.00	0.00	0.00	16077.04	21802.87	20858.00
Guarantees during the year #	3346.10	11926.95	17546.88	11887.93	16002.25	16489.48	40449.43
PSBR	22216.80	47157.95	44060.81	38831.81	47827.73	70832.92	87080.33
PSBR as % of GSDP	***3.84***	***7.16***	***5.87***	***4.53***	***5.03***	***7.51***	***7.71***

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Maharashtra							
GSDP	1966224.58	2198185.15	2352781.50	2528854.30	2657370.96	2627541.90	3108021.87
Fiscal Deficit	28381.05	38616.49	23960.97	23015.33	53886.19	71558.05	64301.86
FD as % of GSDP	***1.44***	***1.76***	***1.02***	***0.91***	***2.03***	***2.72***	***2.07***
Off-budget borrowings during the year	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Guarantees during the year $	1649.23	1356.27	21410.13	1023.75	22185.62	3828.88	15008.21
PSBR	30030.28	39972.76	45371.10	24039.08	76071.81	75386.93	79310.07
PSBR as % of GSDP	***1.53***	***1.82***	***1.93***	***0.95***	***2.86***	***2.87***	***2.55***

Note: 1) Surplus (-)/ Deficit (+); Fiscal Surplus is not included in the calculation of PSBR

2) *: For 2015-16 to 2017-18 the guarantees figure is net guarantees during the year (i.e., additions - deletions during the year)

3) In cases where the net additions to guarantees is negative we have not included them in the calculation of PSBR

4) It is assumed that all PSU/ABs etc. borrowing in any year is guaranteed by the state government

5) @: In Punjab information on off-budget borrowing during the year is not available.

6) #: In Telangana the difference between outstanding guarantees between 2014-15 & 2015-16, 2015-16 & 2016-17 and 2018-19 and 2017-18 was taken as (net) additions to guarantees during 2015-16, 2016-17 and 2018-19 respectively as data on additions to guarantees during the year was not available.

7) $: In case of Maharashtra as data on additions to guarantees during the year was not available we have taken different between outstanding guarantees in period t and (t-1) as (net) addition to guarantees during period t.

Source: Authors' calculation using CAG reports and Finance Accounts; GSDP data from MoSPI.

The estimates of PSBR in Table 5 is based on a number of assumptions. Firstly, as mentioned earlier, we have assumed that all PSU borrowings are backed by guarantees from the state government. Secondly, wherever additions to guarantees during the year were not available we have considered net additions (i.e., additions during the year net of deletions).[13]

5. Issues, challenges and way forward

It has also been observed that in the face of economic uncertainties, burgeoning expenditure needs and shrinking fiscal space state governments (also the Union government) have often used innovative means to circumvent the fiscal responsibility regulations by resorting to expenditures/borrowings that are outside the budget. One such means that has been adopted by governments in India is off-budget borrowings. While these borrowings can offer flexibility in addressing immediate financial needs, they also raise concerns about fiscal transparency, accountability, and the true state of a government's fiscal health.

The study faced challenges in tracking off-budget borrowings/activities by state governments due to unavailability of such information in public domain. Although, the CAG do provide information pertaining to off-budget borrowings by state governments in its publications but they are not uniform across states. The information and the quality of reporting relating to off-budget borrowings in the CAG's reports not only varies across states, even for a state there are variations across different years. This hinders state-wise comparison of off-budget activities. A uniform methodology and reporting of off-budget borrowings would contribute to tracking such off-budget operations by the states.

The 2018 amendment to the FRBM Act of the Union Government expanded the definition of central government's debt to include financial liabilities of any body-corporate or other entity owned or controlled by the central government, which the government is to repay or service from the Annual Financial Statement (i.e., off-budget liabilities). Building on the definition of 'Central Government Debt' in the amended FRBM Act, states' accounts should also include details of borrowings/liabilities of all the government entities and agencies/corporations that deliver public services on behalf of them, including all autonomous bodies, parastatals, and extra-budgetary funds at the state level. This is critical, given the recognised need to ensure that all such bodies without independent revenue streams are part of government fiscal operations and of fiscal reporting of debt and deficits.

For prudent financial management and transparency state governments (also the union government) should avoid off-budget borrowings and report all loans taken by PSUs/ Authorities on behalf of State Government but serviced by the State Government, to the Consolidated Fund. Fiscal transparency which refers to the clarity and reliability of the information available in the public domain is critical to good governance and effective economic and fiscal policy making. Instead of focussing on the narrow definition of some of

[13] For some of the other assumptions and adjustments made in estimating the PSBR refer to Notes to Table 5.

the important fiscal indicators like debt and deficit, a broader definition encompassing activities of the public sector would be useful in making fiscal policy realist and more effective.

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