

Financial Burden of Public Debt of the State Governments in India

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Abstract-The paper analyses the interest payments of the state governments in India during the reform period. The Centre and State Governments in interest payments trends during the period of study are examined of the state governments in India from 1990-2010. Gross and Net interest payments of the State Governments in India

1)Introduction-Debt are growth of the State Governments, brings along with it the interest payments and repayments of accumulated debt servicing of the State Governments. Debt has an impact on the revenue accounts of the State Governments, as interest payment obligations rise with rise in State debt and form a part of revenue expenditure of the State Governments. Growth in the volume of State Government debt, mainly due to rapid increase in the flow of central loans to the States, increased market borrowings of the State Governments and unfunded debt to finance the capital expenditure, has in recent years increased the interest payments liabilities of the State Governments.

2) Objectives- 1) To Study the Growth and Composition of Burden interest payments of the state governments in India

2)To Study the Gross and Net Interest Payments of the State Governments in India.

3)To Study the Interest Payments Revenue Expenditure Ratio

3) Research Methodology-Data collected from the above sources is tabulated and interpreted with the help of appropriate statistical tools. Compound Growth Rate (CGR), and ratio analysis is used for data analysis and Pie-Charts and Graphs .

II-2) Growths and Composition of Interest Payments of the State Governments of India 1990-91 to 2009-10

Table no.1 a gives us the data of the growth and composition of interest payments of the State Governments of India for the period 1990-91 to 2009-10. Table no.1 depicts the percentage increase or decrease year-wise in the gross or total interest payment liability of the State Governments of India as well as the year-wise percentage change in the composition of gross interest payments. To analyze the composition of rising interest payment liabilities of the State Governments of India we have classified interest payments obligations into-

Table No.1Growth & Composition of Interest of Payments of the State Governments in India: 1990-91 to 2009-10. (Rs in.cro)

Year	Interest Payments on Own Debt	Interest of Payments on Central Loans	Interest Payments on Unfunded Debt	Gross Interest Payments (2+3+4)
1	2	3	4	5
1990-1991	1,568 (18.55)	5,177 (61.27)	1,703 (20.15)	8,449 (100)
2000-2001	15,758 (30.26)	27,622 (53.05)	8,681 (16.67)	52,062 (100)
2005-2006	56,534 (66.51)	16,549 (19.47)	11,903 (14.00)	84,988 (100)
2009-2010	84,635 (74.40)	12,598 (11.07)	16,518 (14.52)	1,13,751 (100)

% increase in 2009-10 over 1990-91	1.85	41.09	10.30	74.25
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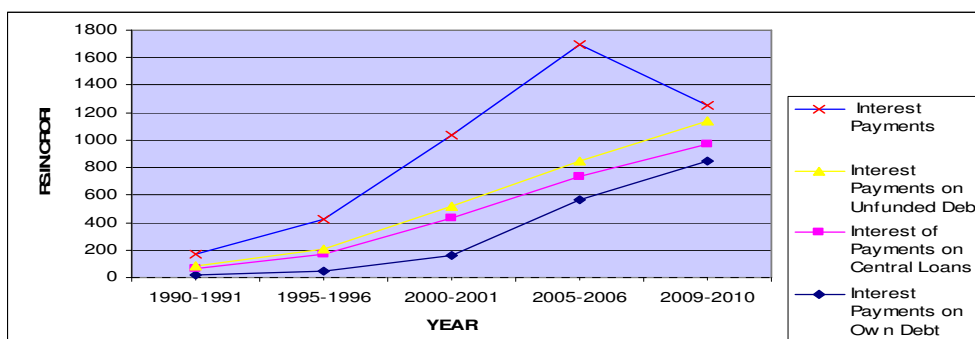
Note- Figure in Brackets is Percentage table no. VI .1 Source- I) Various Issues of R.B.I, Bulletins 1990-1998

II) State Finance-A Study of Budget of Reserve Bank of India: 1999- 2010

III)

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Graph. No.1 Growth & Composition of Interest of Payments of the State Governments in India: 1990-91 to 2009-10 (Rs.in.cro)



First,

we shall analyse the growth to total interest payments of the state governments in India and then study its composition. Table no.1. Col no.5, & Graph No.1 depicts the growth in gross interest payments of the State Governments of India during the period 1990-91 to 2009-10.. Gross interest payment liabilities has been rise steady and continuous. Gross interest payments were Rs.8,449 cr.1990-91 and further to Rs.52, 062 cr.in 2000-01. Gross interest payments increased from Rs.84, 988 cr. in 2005-06, & then again increased to Rs.1, 13,751 cr. in 2009-10. Thus during the period under study, the gross interest payments have increased by nearly 74.25 times in 2009-10 over 1990-91.

B) GROSS AND NET INTEREST PAYMENT BURDEN OF THE STATE GOVERNMENTS OF INDIA 1990-91 TO 2009-10: Gross interest payment liability or burden of the State Governments in India is the interest payment liability of the respective state which increases as the state debt increases. Interest payment liabilities are met through the revenue receipts mobilized by the State Governments. These interest payments received by the State Governments in India as shown in table no. (col.no.3) , comprises of interest received on loans and advances made to the third parties by the State Government)

Table No.2

Gross & Net Interest Payments of the State Governments in India 1990-91 to 2009-2010 (Rs.in.cro)

Year	Gross Interest Payments	Interest Payments Received	Net Interest Payments	Total Revenue Receipts	Gross Interest Payments as % of Total Revenue Receipts	Net Interest Payments as % of Total Revenue Receipts
1	2	3	4	5	6	7
1990-1991	8,449 -	2,595	5,854 -	66,467	12.71	8.80
2000-2001	52,062 (42.06)	10,119	41,943 (43.33)	2,32,509	22.39	18.03
2005-2006	84,988 (74.98)	9,673	75,315 (75.80)	4,31,021	19.71	17.47
2009-2010	1,13,751 (13.75)	13,010	1,00,741 (10.00)	8,04,943	14.13	12.51

% increase in 2009-10 over 1990-91	74.27	19.94	35.80	8.25		
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Note- Figure in Brackets are Percentage of total Source-

I) Various Issues of R.B.I, Bulletins 1990-1998

II) State Finance-A Study of Budget of 1999-2010

III) Handbook of Statistics on the Indian Economy (R.B.I) 2008-09

1) Gross interest payment burden the State Governments in India has increased from Rs.8,449 cr. in 1990-91, the gross interest payments was increased from Rs. 1, 13,751 cr. (13.75 percent to total revenue receipts) in 2009-10. Gross interest payment has increased by nearly 74.27 times in 2009-10 over 1990-91. 2) Net interest payments of the State Governments in India which was Rs.5, 854 cr. in 1990-91, which further increased to Rs.1,00,741 cr.(10.00)in 2009-10. Net interest payment has increased by nearly 35.80 times in 2009-10 over 1990-91 3) Interest payments received by the State Governments in India increased from Rs. 2,595 cr. in 1990-91, and then increased to Rs. 13,010 cr. in 2009-10.

C) INTEREST PAYMENTS AND REVENUE EXPENDITURE RATIO'S (PERCENTAGE) OF THE STATE GOVERNMENTS OF INDIA : 1990-91 to 2009-10 : (GROSS AND NET INTERESPAYMENTS

Interest payments, due to growth in State Public Debt, form a part of Revenue expenditure which becomes committed expenditure. Rise in this reduces the State Governments ability to finance other head of expenditure on revenue account. Our data reveals that

Table No. 3 Interest Payments Revenue Expenditure Ratio 1990-91 to 2009-10(Rs. in.crores)

Year	Gross Interest Payments	Net Interest Payments	Total Revenue Expenditure	2 as % of 4	3 as % of 4
1	2	3	4	5	6
1990-1991	8,449	5,854	71,775.	11.77	8.15
1995-1996	21,204	15,412	1,43,127	14.81	10.76
2000-2001	52,062	41,943	2,87,825	18.08	14.57
2005-2006	84,988	75,315	4,38,034	19.40	17.19
2009-2010	1,13,751	1,00,741	8,37,238	13.58	12.03
% Increase change in 2009-10 over 1990-91	7.42	5.81	8.57	-	-

1 Gross interest payments formed 11.77 percent of revenue expenditure which was 15.86 percent in 1998-99, 20.81 percent in 2004-05 and was 13.58 percent in 2009-10.

2 Net Interest payment as percentage of Total Revenue Expenditure is of lesser magnitude. Thus growth of public debt of State Government has a impact on the committed expenditure on Revenue Account to a great extent.

Conclusions:- From the above analysis we can conclude and say that with rising debt of the State Governments of India, the outstanding debt of the State is increasing as a consequence to which interest payment liabilities and the State Government. To meet this increase in the interest payment burden, the State Governments of India will have to mobilize more non-tax revenue receipts for which the working of the state enterprise cost and pricing policy will have to be followed..

References-

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3. Thimmaiah G., "Burden of Union loans on the States", p. 206.
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6. Ibid., para 14.7, p. 99