

A look at the balance sheet of India's state finances

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India's central government finances receive a great deal of attention but state finances are sizeable too, with state-level debt making about a third of the national debt stock. The latest Reserve Bank of India (RBI) data shows that on an aggregated basis, the fiscal deficit of India's states increased in 2012-13 to 2.3 per cent of state GDP from 1.9 per cent in 2011-12.

There has been a marked deterioration in the primary balance — deficit excluding interest payments — despite a 1 per cent of state-GDP worth improvement in own tax revenue collection.

Debt/GDP ratio, however, improved in 2012-13, both relative to the 2011-12 outturn as well as the precrisis average, thanks primarily to high inflation eroding the real interest payment burden.

The states' fiscal deficit combined with a central government fiscal deficit of about 5 per cent of GDP pushes India's consolidated gross fiscal deficit above the 7 per cent mark, which is one of the highest in the region. A deeper look at the data for the 17 non-special category states reveals the following:

1. All states reduced their debt/GSDP ratio in 2012-13 as compared to their 2004-08 average, with the biggest improvement recorded in Bihar, Odisha, Rajasthan, Uttar Pradesh and Madhya Pradesh.
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3. Seven states recorded an increase in fiscal deficit in 2012-13 as compared to the 2004-08 average, two states maintained status quo, while eight states reduced their GFD/GSDP ratio. The biggest improvement was recorded by Jharkhand, while Bihar, Chhattisgarh and Goa recorded the biggest increase in the fiscal deficit.
4. Except for Odisha, all other 16 states recorded a primary deficit in 2012-13 against a primary surplus in seven states during 2004-08. The deterioration was most striking in Bihar, Chhattisgarh and Goa, while Jharkhand and Maharashtra were the only two states to record an improvement.

The consolidated-level data fails to reveal the wide divergence that exists between India's states as regards their fiscal health. We, therefore, put together the fiscal data to construct a normalised index of fiscal health. We restrict our analysis to the 17 nonspecial-category states.

We use four fiscal parameters: fiscal deficit, primary deficit, own tax revenue and state debt — all as a percentage of GSDP to construct a composite fiscal ranking of the states in the following way.

We first calculate the sample mean and standard deviation for each of the parameters for different time brackets. Using those statistics, we construct state-specific z scores for each of the variables. For each state, a composite z score is then constructed by taking the simple average score of the four fiscal parameters. Odisha tops the fiscal scorecard, while Bihar fares the worst, as per our analysis.

Uttar Pradesh and West Bengal continue to be fiscally challenged, while states such as Goa and Kerala have seen a significant deterioration over the years. The most striking deterioration has been in case of Haryana, led by a sharp rise in fiscal deficit to 2.3 per cent of GSDP, from an average of 0.4 per cent of GSDP during the 2004-08 period.

Jharkhand, which used to be the most fiscally challenged state during the 2004-08 period, has recorded the maximum improvement, with fiscal deficit falling to 1.9 per cent of GSDP in 2012-13 versus an average of 7.4 per cent of GSDP in 2004-08.

The other two states that have shown good progress are Maharashtra and Odisha. States such as Tamil Nadu and Karnataka, which had a traditionally strong fiscal record, continue to fare well, but have slipped one spot each from their respective rankings during the 2004-08 period.

Given that Bihar, Uttar Pradesh and West Bengal together would account for more than one-third of the rise in India's population between 2010 and 2025, their poor fiscal ranking is particularly worrisome, especially since these states also rank poorly in human development indicators, and have a low degree of urbanisation and formal employment.

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