GOVERNMENT OF INDIA
MINISTRY OF FINANCE
DEPARTMENT OF EXPENDITURE

RAJYA SABHA
UNSTARRED QUESTION NO. 390
TO BE ANSWERED ON TUESDAY, 6th FEBRUARY, 2024
17 MAGHA, 1945 (SAKA)

Fiscal vulnerability of States

390. SHRI AKHILESH PRASAD SINGH:

Will the Minister of FINANCE be pleased to state:

(a) whether it is a fact that the RBI has identified several high-stressed States in terms of fiscal vulnerability, if so, the details thereof;
(b) the reasons for the high debt burden of States; and
(c) whether Government has taken any steps to reduce the debt burden of States during the last five years, if so, the details thereof and if not, the reasons therefor?

ANSWER

MINISTER OF STATE IN THE MINISTRY OF FINANCE
(SHRI PANKAJ CHAUDHARY)

(a) An article titled 'State Finances: A Risk Analysis' published in RBI Bulletin, June 2022, which reflects the views of the staff of the Reserve Bank of India (RBI) and not of the RBI, identified 10 most fiscally vulnerable states based on various indicators, such as debt to Gross State Domestic Product (GSDP) ratio, gross fiscal deficit to GSDP ratio and interest payment to revenue receipts ratio.

As observed in the Reserve Bank of India's report titled 'State finances: A Study of Budgets of 2023-24', the debt-GDP ratio of States peaked at 31 per cent at the end of March 2021 and declined to 27.5 per cent by the end of March 2023, supported by fiscal consolidation. At a disaggregated level, the debt to GDP ratio could exceed 25 per cent at the end of March 2024 (BE) for 25 States/ UTs. Any further provision of non-merit goods and services, subsidies, transfers and guarantees will render their fiscal situation precarious and disrupt the overall fiscal consolidation achieved in the last two years.

(b) and (c) All States have enacted their Fiscal Responsibility and Budget Management (FRBM) Act. Compliance to the State FRBM Act is monitored by the respective State Legislatures. Department of Expenditure, Ministry of Finance generally follows the fiscal limits mandated by the accepted recommendations of the Finance Commission while exercising the powers to approve borrowings by States under Article 293 (3) of the Constitution of India. The normal Net Borrowing Ceiling (NBC) of each State is fixed by the Union Government in the beginning of each financial year. Adjustments for the over-borrowing by States during previous years, if any, are made in the borrowing limits of subsequent years.

Instances of borrowings by certain State Public Sector companies, Special Purpose vehicles (SPVs) and other equivalent instruments, where principal and/or interest are to be serviced out of the State Budgets, had come to the notice of the Ministry of Finance. Considering the effect of bypassing the NBC of the States by such borrowings, it was decided and 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.

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