

GOVERNMENT OF INDIA
MINISTRY OF FINANCE
DEPARTMENT OF EXPENDITURE
RAJYA SABHA
UNSTARRED QUESTION NO. 2786
TO BE ANSWERED ON TUESDAY, 25th MARCH, 2025
04 CHAITRA, 1947 (SAKA)
FISCAL VULNERABILITY OF STATES

2786. Shri Akhilesh Prasad Singh

Will the Minister of **Finance** be pleased to state:

- (a) whether RBI has identified several high-stressed states in terms of fiscal vulnerability;
- (b) if so, the details thereof;
- (c) The reasons for the high debt burden of states;
- (d) whether the government has taken any steps to reduce the debt burden of states during the last five years;
- (e) if so, the details thereof; and
- (f) if not, the reasons therefor?

ANSWER

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

(a) & (b) An article titled 'State Finances: A Risk Analysis' published in RBI Bulletin, June 2022 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.

Further, as observed in the Reserve Bank of India's report titled 'State Finances: A Study of Budgets of 2024-25', total outstanding liabilities of states have declined to 28.2 per cent of GDP by end-March 2023 from the pandemic peak of 31 per cent at the end-March 2021, driven by sustained fiscal consolidation. The ratio is, however, budgeted to increase marginally to 28.8 per cent by end-March 2025.

(c) to (f) 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 follows uniform yardstick for the fiscal deficit of states 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, accordingly. 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.
