India: Redesigning Fiscal Federalism after the Global Financial Crisis

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ABSTRACT

Partly as a result of the Fiscal Responsibility Act (passed in 2003) the gross fiscal deficits of both central and state governments were in good order. Indeed, both central and state governments were running primary surpluses in 2006-07 and 2007-08. Partly as result of the stimulus enacted to counter the effects of the Global Financial Crisis (GFC) both central and state government have been running primary deficits since 2008-09 as a result of which gross fiscal deficits and debt have risen significantly. At the same time individual states (particularly those that were previously lagging) have provided substantial impetus to the growth of the national economy. Against this background this paper addresses three themes: (i) How should fiscal relations between centre and states be re-organized to further enhance aggregate economic growth? (ii) How should the structure of transfers between centre and states be reorganized to get back to the pre-GFC path of fiscal deficits. (iii) How should indirect tax reform, in particular the introduction of the GST, be handled?

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"India can develop only if its states develop."

Indian Prime Minister Narendra Modi (2nd June 2014)

I. Introduction

In August 2003 the Indian Parliament passed the Fiscal Responsibility and Management Act (FRBMA) in order to put the nation's finances on an even keel. The main targets set by FRBMA were: (i) elimination of the revenue (or current) deficit by 31 March 2009, (ii) reduction of the fiscal deficit to an amount equivalent to 3 % of GDP by March 2008, (iii) reduction of revenue deficit by an amount equivalent to 0.5 % or more of the GDP at the end of each financial year, beginning with 2004-05, (iv) reduction of the fiscal deficit by an amount equal to 0.3 % or more of the GDP at the end of each financial year, beginning with 2004-05.

Excessive deficits are considered to be major factors affecting economic growth by exacerbating inflationary pressures and increasing the public debt, repayment of which is a drag on the exchequer. Deficits can be controlled through one or both of two measures: increasing revenue (front loading) and reducing expenditure (back loading). In a federal country such as India both measures will have implications for fiscal relations across central and state governments (Mohanty and Singh, 2007).[1]

The Government of India (henceforth GOI) reacted to the Global Financial Crisis (henceforth GFC) by instituting three fiscal stimulus packages, between December 2008 and July 2009 amounting to nearly 3 % of GDP. This included enhanced public spending, particularly on capital goods and infrastructure. There were deep cuts in indirect taxes (the Central VAT was reduced by 4 %, the central excise and service taxes were cut by 2 % each and expanded guarantee cover was provided for credit to micro and small enterprises. This expansionary

[1] For a review of the performance of fiscal rules see Buiter and Patel (2012).

was matched by a substantial loosening of monetary policy by the Reserve Bank of India (RBI).[2]

As a consequence public debt consolidation in India, which was proceeding apace, was halted, even reversed. This paper addresses the response of the GOI and state government to the onset of the GFC and the policy issues that need to be addressed to (i) place federal relations in India on an even keel, (ii) make Indian fiscal federalism more resilient to shocks, and (iii) improve prospects for economic growth across Indian states. The plan of this paper is as follows. Section II overviews the evolution of key fiscal deficit and debt figures and analyzes underpinning trends in inter-state inequality and prospects for economic growth. Section III discusses on-going reforms in fiscal federalism relations in India whereas Section IV points out some essential indirect tax reforms. Section V concludes.

II. The Evolution of key Fiscal deficit and debt

Figure 1 lays out the structure of fiscal federalism in India. The GOI delegates some responsibilities to union territories directly controlled and administered by it and to state governments which, in turn, delegate some responsibilities, in the case of urban areas, to urban local bodies. In the case of rural areas some responsibilities are delegated to rural local government following from which there is subsequent delegation to District Panchayat and block Panchayat. Following the *Panchayati Raj* amendments to the Constitution of India there is a further delegation of responsibilities to village panchayats. Both administrative and financial powers are so delegated. The Constitution of India clearly earmarks areas the areas

[2] The RBI made a strong effort to (i) contain the contagion for outside, (ii) keep domestic money and credit markets functioning normally, and (iii) ensuring that liquidity stress did not trigger solvency crises. Both rupee and foreign exchange liquidity was maintained at comfortable levels. Between October 2008 and April 2009 the RBI reduced the repo rate by 4.25 % to 4.75 %, reduced the reverse repo rate by 2.75 % to 3.25 %, the Cash Reserve Ratio (CRR) by 4 % to 5 %, and the Statutory Liquidity Ratio (SLR) by 1 % to 24 %. The interest rate ceiling for Non-resident Indians was enhanced, the export credit refinance limit to commercial banks was raised from 15 % to 50% and there was substantial relaxation on end use of External Commercial Borrowing (ECB) funds.

which fall exclusively within the purview of (i) the Central government (the Union List), (ii) state governments (the State List), (iii) central and state governments (the Concurrent List).

Figure 1 about here.

Key fiscal indicators of GOI for the period since 1980-81 are presented in Figure 2 with Appendix Table 1 providing the actual figures.

Figure 2 about here.

Gross fiscal deficit which had fallen to 2.54 % of GDP rose in the aftermath of GFC to almost 5.99 % in 2008-09 and further to 6.46 % in 2009-10. Although the deficit fell subsequently it remained high at 5.20 % in 2012-13 and fell to 4.5 % in 2013-14, well above the norm set by FRBMA. The central government ran primary surpluses from 2003-04 to 2007-08 but this turned into a primary deficit in the range of 2 to 3 % of GDP. Contributing to this ballooning of deficit was a mild drop in the tax/GDP ratio and near doubling of the subsidy bill from 1.29 % of GDP in 2005-06 to 2.57 % in 2012-13.

Figure 3 and Appendix Table 2 portray movements in state government deficit indicators. The gross fiscal deficit rose from a low level of 1.51 % of GDP to 2.91 % in 2009-10 and fell only marginally in subsequent years. Since 2008-09 states have been running primary deficits. Most of this rise in deficit was because of accelerating public expenditure as receipts remained largely unchanged.

Figure 3 about here.

Figure 4 and Appendix Table 3 show combined deficits of central and state governments. Between 2007-08 and 2009-10 the combined gross fiscal deficit more than doubled dropping marginally thereafter whereas except for 2006-07 and 2007-08 there has always been a primary deficit.

Figure 4 about here.

As indicated in Figure 5 and Appendix Table 4 despite the buildup of fiscal deficit total liabilities of central and state governments have been falling even after the GFC, largely due to relatively high rates of economic growth. Thus deficit reduction has followed the “front loading” path.

Figure 5 about here.

However, the build-up of the deficit and consequent government borrowing gets reflected in the rates of interest charged for central and state government bonds has increased steadily since 2003-04 falling only marginally (only for the central government) in 2012-13 (Figure 6 and Appendix Table 5).[3]

Figure 6 about here.

Under pressure from Credit Rating Agencies GOI started reining in the fiscal deficit in 2013-14 as a consequence of which the central government’s fiscal deficit dropped to 4.5 % in 2013-14 and is expected to drop further to 4.1 % as envisaged by the 2014-15 budget of the GOI.[4] However, government forecasts of fiscal deficit have often been underestimates (Table 1), unless the economy grows unexpectedly fast.

Table 1 about here.

[3] There is ample evidence that the deficit and debt figures are somewhat understated (Asher, 2012).
[4] The Finance Minister has since referred to meeting this target as a challenging task.

As indicated earlier India's response to the GFC involved enhanced fiscal and monetary stimuli and pressure on banks to lend in the aftermath of credit slowdown (Subbarao, 2011). Under particular pressure to lend are public sector undertaking (PSU) banks. This combined with the continued slowdown in the economy has led to an expansion of non-performing assets (NPAs) particularly for PSU banks (Table 2).

Table 2 about here.

Gross NPAs which were falling steadily until 2008 crept up and, in 2014, are estimated to be more than twice the level in 2008. The effect on NPAs has been particularly sharp since the growth slowdown starting in 2011. Credit growth has been particularly poor since 2010. There have been sharp increases in the growth rates of the sum of gross NPAs and restructured assets. Banks' stressed assets as a percentage of equity are high. For PSU banks this ratio more than doubled between 2009 and 2013. Hence, it is clear that the fiscal deficit and debt issues are spilling over into the banking sector indicating that there are risks on both the fiscal side and in banking.[5]

To address these twin issues the recently unveiled budget for the financial year 2014-15 recognized the fiscal pressures as well as the worrisome global growth situation and projected a growth rate of 5.5 to 6 % for 2014-15. Raising savings and investment and augmenting infrastructure are likely to take time so a modest growth target and concomitantly a budget that builds in transparency in fiscal transactions were only appropriate. The budget also sets out a medium-term objective of attaining a fiscal deficit of 3.0 % of GDP by 2016-17. More important than the numbers is the quality of the fiscal adjustment, that is, eschewing fiscal gimmicks to show a lower deficit.

[5] The spillover from fiscal pressures to banking sector pressures is common in the aftermath of the GFC (Fischer, 2014).

Clearly the budget understands the importance of warding off any Ponzi schemes. In this context Finance Commissions in the 1980s and early 1990s advocated the development of a consolidated sinking fund (CSF). Such a fund was to be set up by allocating about 3 % of the amount of fresh borrowing to the CSF. Further additions to the CSF would come from the proceedings of disinvestment and the transfer of profits to the Government from the Reserve Bank of India (RBI). In 1996 such a CSF was set up as a joint initiative of the RBI and the Ministry of Finance, although some commentators said that this initiative was irrelevant so long as there was a fiscal deficit. Nevertheless, the CSF did represent a further line of defence against the pressures of paying off government borrowing.

A further idea that has recently been floated is to set up an Expenditure Management Commission (EMC) which will give an interim report in the current financial year and a final report later. This is particularly important in view of the fact that questions have been raised about whether public expenditure in India is uniformly productive.

An area of priority is the curtailment of subsidies (back loaded adjustment). This should be done gradually and be well calibrated so that opposition to the cuts does not have a chance to consolidate. There is also the important issue of "quasi-government" expenditure wherein public sector units are muscled into bearing government expenditure.

At this stage it is relevant to examine the key state level economic indicators against which the aforementioned fiscal adjustment has taken place.

Inequality across Indian States and the Potential for Economic Growth

Figure 7 shows the extent of the gap in respect of real per capita nest state domestic product (PCNSDP) across states. Three measures of such gaps are reported: (i) the gap between real PCNSDP of richest and poorest state as percentage of mean real PCNSDP across all states

(G1); (ii) the gap between real PCNSDP of richest and poorest state as percentage of real PCNSDP of poorest state (G2); and the gap between real PCNSDP of richest and poorest state as percentage of real PC NSDP of richest state (G3). These magnitudes are quite large with G2 rising to more than 900 per cent in 2005-06 before tapering off. As expected, G3 is uniformly lower with G1 in between G2 and G3. It is also worth noting that G2 has accelerated after the onset of the reforms in the early 1990s. Thus, not only are the gaps between states' real PCNSDP entrenched, these gaps, if anything, have grown over time, with only a mild downturn in very recent times.

Figure 7 here.

Details of the three series are not included here to save space but, suffice it to say that there is considerable persistence in the ranking of states according to real PCNSDP. Hence, Bihar has the lowest real PCNSDP for every year. Uttar Pradesh (UP), Rajasthan and Odisha are also nearly always close to the bottom of this ranking along with some North-eastern states such as Assam and Tripura. Delhi, Goa, Chandigarh, Punjab and Haryana are almost always at the top of the rankings. Economic disparity across Indian states seems well entrenched.

Concurrently there is ample evidence that states, particularly the economically lagging states[6] are leading the recent spurt in economic growth and states could become the engine of India's economic growth in the future. The emerging challenge for fiscal policy is to support the nascent spurt in economic growth and address fiscal pressures at both state and central levels (Jha, 2013).

III. On-going reforms in Fiscal Federalism relations in India

[6] The Economist Intelligence Unit in a report dated 25th June 2013 has underscored the recent centrality of state level growth to national growth in India with many traditionally backward states posting strong growth performances.

From the discussion above it is evident that the restructuring of fiscal federalism in India must take place against the background of considerable fiscal stress at both the central and state levels, which is now spilling over onto the banking sector. Further, the structure of indirect taxation needs to be reformed. In 2005 India embarked on its most significant indirect tax reform whereby its various state level sales taxes were subsumed within a Value Added Tax (VAT).[7] The transition to a full scale Goods and Services Tax (GST) has not taken place yet.

Hence, reform of India's fiscal federal structure would need to have at the minimum the following objectives. (i) fiscal stabilization; (ii) rationalization of the indirect tax structure and (iii) making the structure of federal transfers more transparent and efficient. These three objectives have organic links with each other, e.g., the efficiency yields from a rationalization of tax and transfer structures could yield higher revenues for GOI and state governments and thus ease fiscal pressures.

In the recent past fiscal stabilization has largely been front loaded. High economic growth has led to improved tax collections which have reduced the fiscal deficit. Notwithstanding this there are a number of issues with respect to tax collection that are of concern. Asher (2012) reports that revenue foregone because of tax expenditures amounted to 9. 4 % of GDP in FY 2010 and 8.7 % of GDP in FY 2011. The most significant revenue slippage has been in the areas of excise and customs duties which amounted to 69 % of tax collection in FY 2010 and 65 % in FY 2011. Over the period 2005-06 to 2009-10 tax arrears averaged 2.1 % of GDP. Hence, inefficiency in tax administration has contributed significantly to the persistence of fiscal pressures. Even as the government turns its attention to curtailing deficits through back loading, i.e., cutting subsidies, it needs to strengthen tax administration.

[7] In a deservedly celebrated report Bagchi (2002) described India's indirect tax structure prior to 2005 as "archaic, irrational, and complex – according to knowledgeable experts, the most complex in the world". In essence the commodity tax structure involved states imposing sales taxes (at different rates) at the first point of sale within their jurisdiction.

Indirect tax reform has always been constrained by provisions of India's Constitution which do not allow either the central government or state governments the authority to levy taxes on a comprehensive base of all goods and services and at all stages of production and supply. The GOI is not permitted to tax goods beyond the point of manufacturing whereas the states are not permitted to tax services. All indirect tax reform in India must operate within these constitutional constraints. The implementation of a GST would, therefore, require a Constitutional Amendment which would enable the same level of government to tax both goods and services.

Some Recent Reforms in Indirect Taxation and their beneficial effects

India's current VAT is an intra-state multi-point tax system and is levied on the value added at each stage. The VAT paid by registered persons on goods (including capital goods) purchased from within the state is available for input tax credit. The input tax credit can be used to offset periodic liability either under VAT or the Central Sales Tax (CST). Exports are exempt from VAT and VAT charged on inputs purchased and used in the manufacture of exports or goods purchased for export, is refunded to the purchaser.[8]

The proposed GST will be a value added tax (VAT) on both goods and services, as against the prevailing VAT on only goods. Transiting to the GST would broaden the tax base, reduce distortions in the economy through a more comprehensive input tax credit, enhance export competitiveness by comprehensively relieving domestic consumption taxes on exports, ensure greater regional equity by getting rid of inter-state sales tax and having a destination-based tax, and help create a seamless national market by removing inter-state trade barriers. Advocates of the GST have hoped that its introduction will significantly reduce the compliance cost for taxpayers by simplifying and harmonising the tax structure and by

[8] Emran and Stiglitz (2005) show that in an economy with a large informal sector (such as India's) a VAT may actually increase the size of the unorganized sector and, therefore, reduce revenues.

making the administration uniform across states. The resulting enhanced elasticity of tax revenue with respect to GDP should help reduce the deficit.

However, much work needs to be done to fully rationalize indirect taxes. Most importantly although the base of the service tax has been expanded services have themselves been classified into a large number of categories with disagreement about the scope of each such category..

A further complicating issue is the fact that the traditional distinction between goods and services and the separation of the powers of states and the centre to tax these has now been rendered archaic, e.g., in telecommunications. . Further, the fact that states cannot tax services (and services remain the most rapidly growing sector of the economy) means that their tax revenues are less buoyant even when economic growth accelerates. This is concerning in light of the debt and deficit burdens of states that I have commented on earlier.

A further drawback of the current tax structure is that the partial coverage of both state and central taxes leads to cascading of both central and state taxes; e.g., several sectors such as oil and gas production, mining, agriculture, wholesale and retail trade and several services are not subject to CENVAT or the Central service tax. A similar logic is extended to state VAT where sectors exempt from state taxes are not allowed any deductions for taxes paid on inputs. Such sectors include the entire service sector, real estate, agriculture, oil, gas production and mining.

Further, no deductions are allowed for CST on interstate sales by any level of government.[9] The multiplicity of rates and the irrational structure of exemptions and levies in the case of

[9] Estimates of the extent of cascading in the case of India do not exist. However, estimates for Canada's retail sales tax (similar to India's State VAT) indicate that cascading could be as high as 35 to 40 per cent of tax revenue. This is partly due to the fact that most of such taxes are applied to business to business transactions.

both CENVAT and CST contribute to cascading and exacerbation of cost disadvantage for Indian producers (Thirteenth Finance Commission, 2013).

Problems with the existing structure of VAT include the classification of goods and assignment of goods to different tax schedules. Partly as a consequence of this both central and state tax administrations are severely inadequate which increases the cost of compliance and reduces revenue collection with serious impacts of the fiscal deficits at both central and state levels.

Although the tax structure under the proposed GST is slated to be comprehensive there are a few caveats. Some essential consumption goods are kept out of the tax regime. Others like natural gas and crude petroleum, petrol, diesel, aviation turbine fuel, and alcohol are subject to tax but are kept out of the tax credit mechanism. Hence, there is no input tax credit for taxes paid on inputs used in the production of these goods. Moreover, activities which use these goods as inputs will not be able to net out taxes paid on these goods. Since petroleum products in particular are essential inputs into many production processes major avenues for cascading remain in the proposed GST structure Mukherjee and Rao (2014) discuss various options for including these goods within the proposed GST. Any consequent revision to the rate of the GST to facilitate such inclusion and yet remain revenue neutral would still be within acceptable levels.

Agenda for indirect tax reform

Any proposed reform of the indirect tax structure should address these issues. Apart from being efficient and simple to administer, indirect taxes should be neutral in their application, progressive in distribution, and prevent leakages from the system. The tax structure should raise enough revenue for both central and state governments and there should be clear, predictable rules for both central and state taxation as well as vertical transfer of funds from the central to the state governments. Sustained practice of tax reform and fiscal federalism along these lines would engender trust between different levels of government and make India’s economy and society more resilient to shocks and better able to capitalize on incipient opportunities.

The need for large and buoyant indirect tax revenues would indicate that the base of this tax should be large and should comprise all or almost all items in the consumer basket including goods, services, real estate and the like. Four conclusions arise from the fact that this tax base is to be shared between the central and state governments. First, goods and services that are close substitutes should not be taxed at very different rates in any part of the country. Second, efficiency and neutrality would require that irrespective of the supply chain management and distribution the tax on a good/service should be a uniform percentage of the of its final retail price. Cascading of taxes should be avoided by ensuring that all taxes paid on inputs are creditable. Further, all tax revenues should accrue to the jurisdiction where final consumption occurs, i.e., taxation should follow the destination principle.

These principles necessitate the implementation of a destination-based GST. Clearly multiple tax rates (particularly if these vary across jurisdictions) will go against the canons of simplicity and neutrality of the tax structure.

An important point to underscore here is that a large part of states’ revenues come from own sources (Table 3). Thus, during 2004-08 states’ aggregate receipts amounted were 14.3 per cent of GDP of which more than half was states’ own revenue. This trend has been maintained to date. Thus, states’ apprehension about losing revenue is a genuine concern.

Table 3 here.

IV. Structure of Transfers from the Central Government to State Governments

Central assistance to state governments occurs through three major channels: (i) Finance Commission Transfers, (ii) Planning Commission Transfers, and (iii) Centrally Sponsored

Schemes. I will discuss only the first two here. The FC is a Constitutional Body, set up every five years to advise the Government of India on the sharing of central taxes, is the principal means of federal transfers. The FC is answerable to the Parliament.

PC has now been disbanded. Its transfers hitherto were meant to augment productive capacity and reduce inter-state disparities in economic outcome. The PC was set up through an executive order in March 1950 and its discretionary mandate was expanded in 1970s. The PC is accountable to the Prime Minister, but not the Parliament. This involved some dilution of the Finance Commission's constitutional mandate. Among the 28 states of India PC transfers distinguish between special and general category states. The special category states are i) Arunachal Pradesh, ii) Assam, iii) Himachal Pradesh, iv) Jammu and Kashmir, v) Manipur, vi) Meghalaya, vii) Mizoram, viii) Nagaland, ix) Sikkim, x) Tripura, and xi) Uttarakhand. These states have the common characteristics that they are remote (typically these are border states) and would have low potential GDP growth without the help of the GOI. Finally, there are a number of Centrally Sponsored Schemes (CSS) which are carried out under the auspices of the GOI.

Finance Commission Transfers

One of the principal reasons for FC transfers in a federal country is that in the absence of such transfers horizontal equity across states will be compromised (Buchanan, 1950 and Boadway and Flatters, 1982). In a country with the kind of regional inequality that India has there is a clear cut case for FC transfers to ensure horizontal equity in the provision of basic public goods. Further, income taxes levied by the central government cannot ensure horizontal equity across states since they ignore the redistributive effects of States' fiscal operations.

Of particular concern is the share of central government tax collections and grants in state governments' revenue. Table 4 shows that the share of total FC transfers in total central transfers to states hovers around the 2/3 mark. This share rose from 1984-89 (value 60.13) per cent to 2005-06 (value 71.94 per cent) and then fell. Its value in 2009-10 was higher than that in 1984-89 but below the mean value for the entire period. The CV over this period was low at 0.06.

Table 4 here.

States have been asking for augmentation of their share in central taxes. Over the period 1984-89 to 2009-10 total FC transfers represent about 25 % of central government revenue with a low CV (0.05) over the entire period. The share peaked in 2005-06 and then fell to a value, in 2009-10, higher than that in 1984-89 and the mean for the entire period.

Table 5 here.

Tables 4 and 5 further indicate that grants, although marginal in comparison to share in central taxes, are playing a larger role in fiscal transfers.

Table 6 gives the evolution of the formula (known as the Gadgil-Mukherjee formula) for disbursements of PC assistance to states. These transfers are heavily geared towards redistribution to less well-off states

Tables 5 and 6 provide information on transfers through Plan and non-plan grants in comparison to those from the FC for the period 1984-89 to 2009-10. Plan grants constituted typically more than 50 % of transfers through FC grants. Non-plan grants are slightly above 10 % of plan grants.

Table 6 here>

Table 7 indicates some basic characteristics of PC grants to State governments. It distinguishes between the 11 special category states and the 17 general category states. RSD11 (the standard deviation of real transfers to special category states) has more than doubled during the period 2002-03 to 2012-13 and Rtotal11 (the total of real transfers to 11 special category states) has gone up by about 2.5 times over the same period. RSD17 (the standard deviation of real transfers to general category states) has, however, shown no real trend. It fell between 2002-03 and 2007-08 and rose thereafter. Rtotal17 (the total of real transfers to 17 general category states) has actually fallen over this period although there is a rise in Rtotal28 (the total of real transfers to all 28 states).[10]

Table 7 here.

The Gadgil-Mukherjee formula has been widely criticized for the following reasons. (i) The designation of 30 % of the funds to the Special Category states has no explicit rationale. (ii) Further, shares of transfers based on tax effort are unscaled for size of state. Thus if a large state and a small state have the same tax effort they will receive the same absolute transfer so that the per capita transfer to the small state will be very large in comparison to that for the large state. (iii) There is considerable arbitrariness in the allocation of funds to individual special category states from the 30 % share allocated to them. (iv) The formula does not monitor costs and benefits of programs already executed in states so that performance in plan expenditure has no impact on the transfer formula used by the PC (Rajaraman, 2007).

Further, transfers through FC and PC follow different rules and are uncoordinated. Not only is the coordination of current transfers through FC and PC important but there are intertemporal issues to be considered as well since any plan transfer generates three major liabilities for periods beyond the Plan: interest payments on funds borrowed for financing the

[10] It is hardly surprising, therefore, that there is a clamor among some relatively less well-off states, such as Bihar, to have the criteria for special category state tweaked in order to gain entry.

Plan, maintenance of assets created during the Plan, and salaries of people employed in Plan schemes who remain in government employment after the plan has ended. To service these liabilities after the Plan is over states often look to the FC. This then generates dependence over time between PC and FC which the current structure of transfers does not recognize. The FC is interested only in the non-Plan revenue expenditures whereas the PC only looks at new schemes. The current financial implications of previous Plan expenditures are ignored by both agencies. This lack of coordination, therefore, sets up a system of perverse incentives for both FC and PC.

Another complication with PC transfers is that they mix grants and loans. When resources are deficient but the social benefits from a project are large, e.g., primary health, education etc., resources should ideally be transferred through grants. With a loan the ability of the state to service the repayments of the loan should also be a key concern. But, the structure of PC grants has not laid down explicit criteria for making such distinctions.

V. Conclusions

This paper has provided a broad overview of fiscal issues facing various levels of government in India. In a society as complex and varied as India's fiscal federalism is an essential element of the economic landscape. Already it is becoming clear that states are the new engines of India's economic growth. Thus, the *Economist Intelligence Unit* in a report dated 25th June 2013 argued that during 2011-12 over 80 per cent of states had GSDP growth rates of above 6 per cent when the national growth rate was 6. 2 per cent and that this trend is likely to continue. Some traditionally laggard states have been growing well above the national average indicating that nurturing state level economic growth can have considerable payoffs for national economic growth and, hence, poverty reduction.

Reform of fiscal federalism in India is an on-going process and is currently facing the twin additional challenges of moving to a harmonized central and state GST and addressing a persistent fiscal deficit level problem at both central and state levels (Rao and Sen, 2011), which has the potential of spilling over onto the financial sector.

These factors underscore the benefits of putting centre-state fiscal relations on an even keel to encourage buoyant economic growth. Concurrently, the risks of having adverse incentives in fiscal relations can risk economic crises as the example of Argentina suggests. Both front loading and back loading approaches to deficit reduction need to be pursued vigorously.

A difficulty with the enactment and promulgation of the GST is that states perceive that much of the power rests with the GOI. A way out would be to constitute a body for arbitration and dispute resolution along the lines of the current Empowered Committee (EC) which has a strong record in reforming the tax system. Like the EC the GST Council should have members who are proficient and have high credibility among the GOI and all state governments. It would be preferable to make the GST Council a regulatory constitutional body with punitive powers, unlike the EC which is a “society” registered under the Societies Registration Act. By implementing these measures, the new government will find it possible to bring all states on board to introduce GST in the near future by ensuring the removal of all the bumps and road blocks in the path of its introduction.

There is an urgent need to review the totality of transfers from the central to state governments and local bodies. There is a compelling necessity to review and recalibrate the entire gamut (and not piecemeal) of federal relations – tax, expenditure and transfers. This is critical to ensure the stability and predictability needed to ensure that India’s state driven growth blossoms and attains full fruition.

Figure 1: Structure of Fiscal Federalism in India

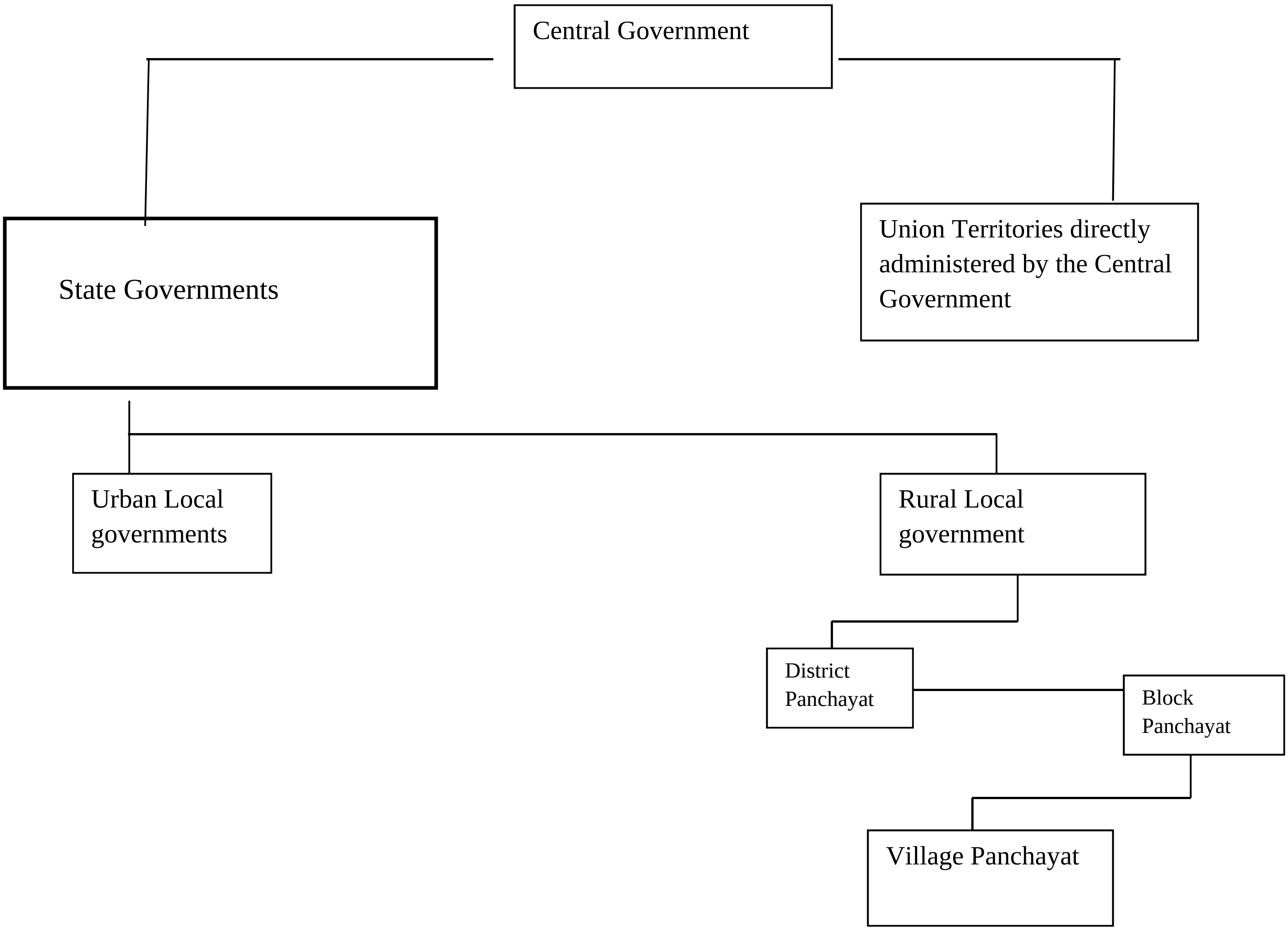


Figure 2: Central Government Deficit, Tax and Expenditure Indicators (percent of GDP)

Source: Reserve Bank of India Handbook of Statistics on the Indian Economy

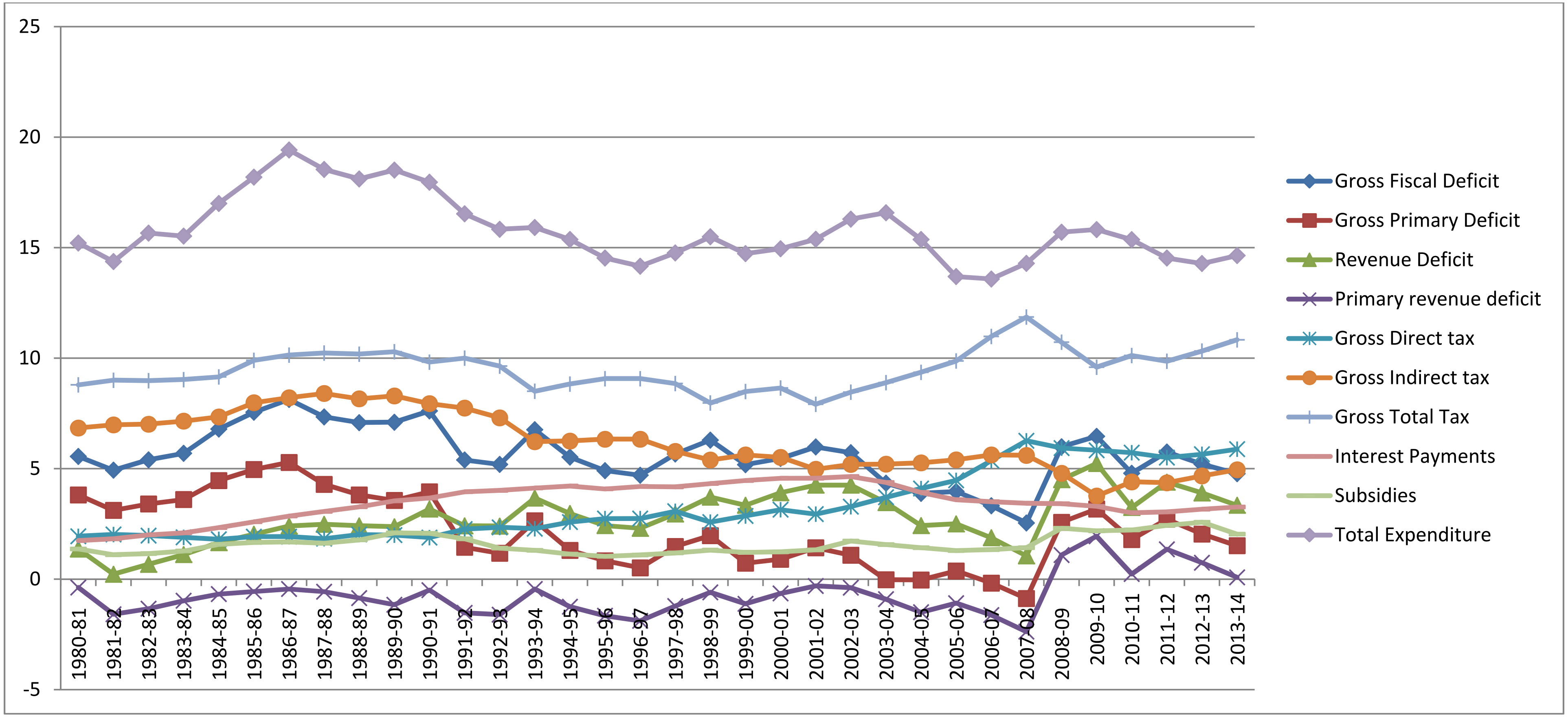


Figure 3: State Government Deficit Indicators as percentages of GDP

Source: Reserve Bank of India, Handbook of Statistics on the Indian Economy

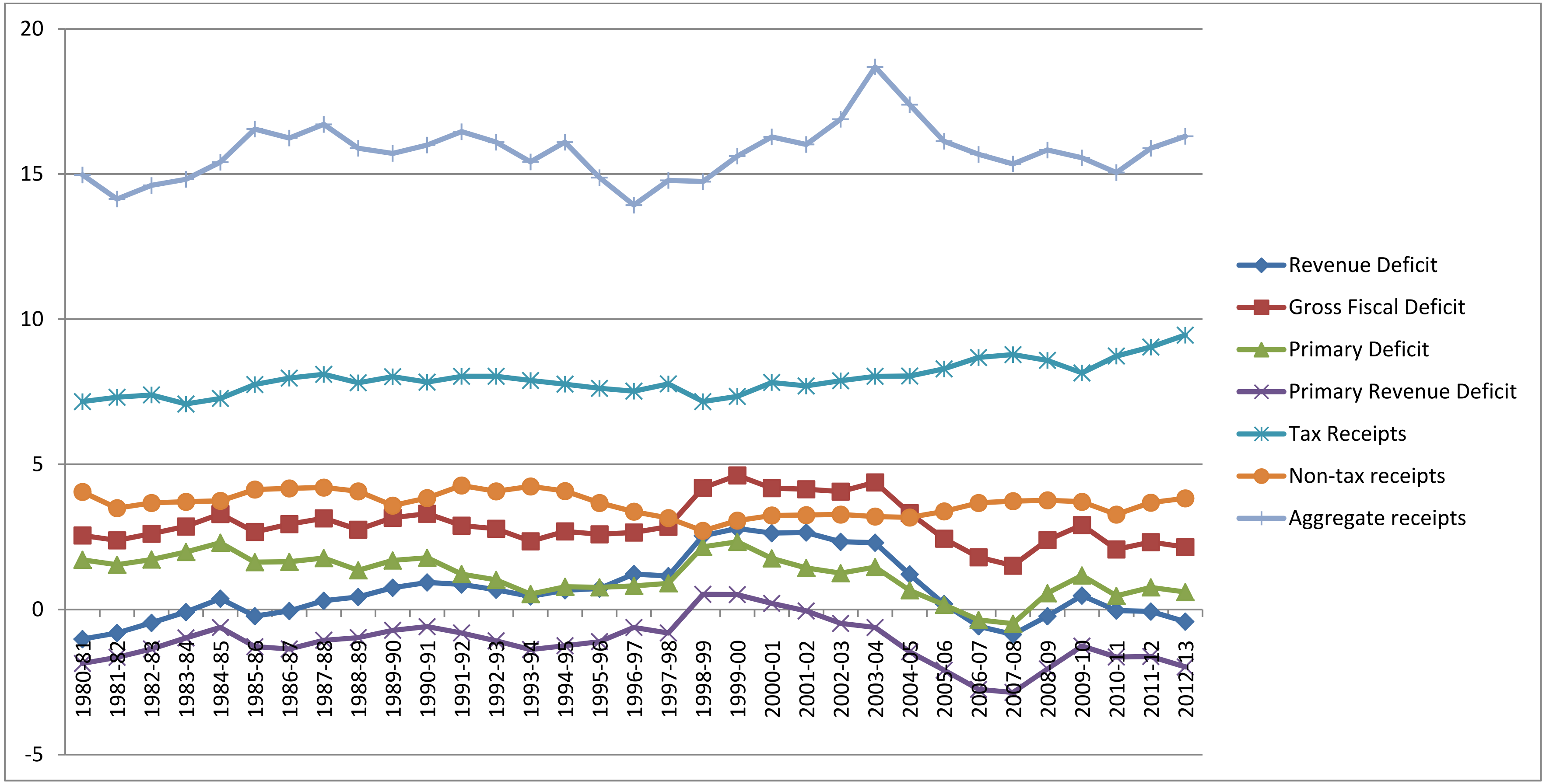


Figure 4: Combined deficits of central and state governments (percent of GDP)

Source: Reserve Bank of India, Handbook of Statistics on the Indian Economy

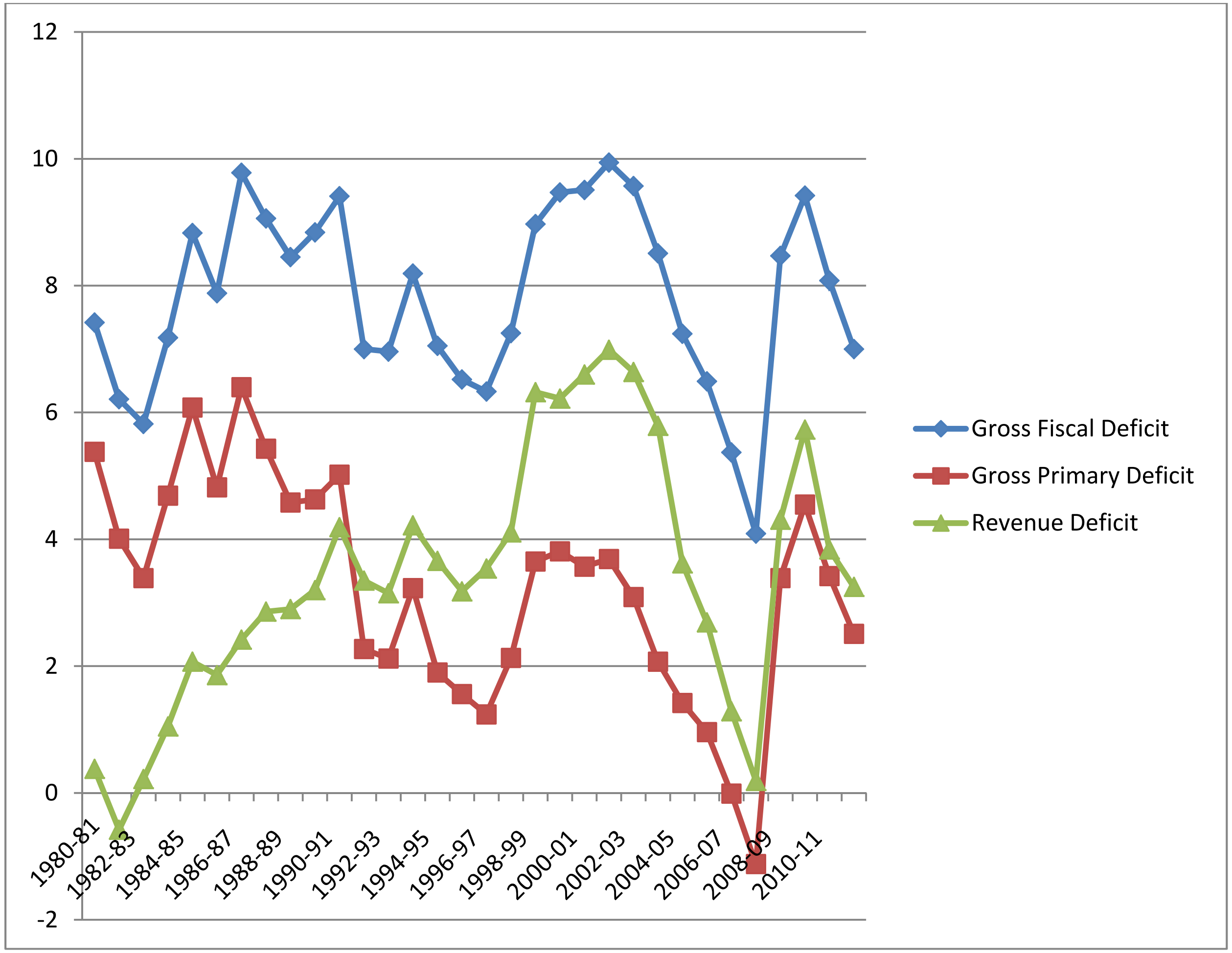


Figure 5: Combined total liabilities of Centre and States (percent of GDP) as of end March

Source: Reserve Bank of India Handbook of Statistics on the Indian Economy

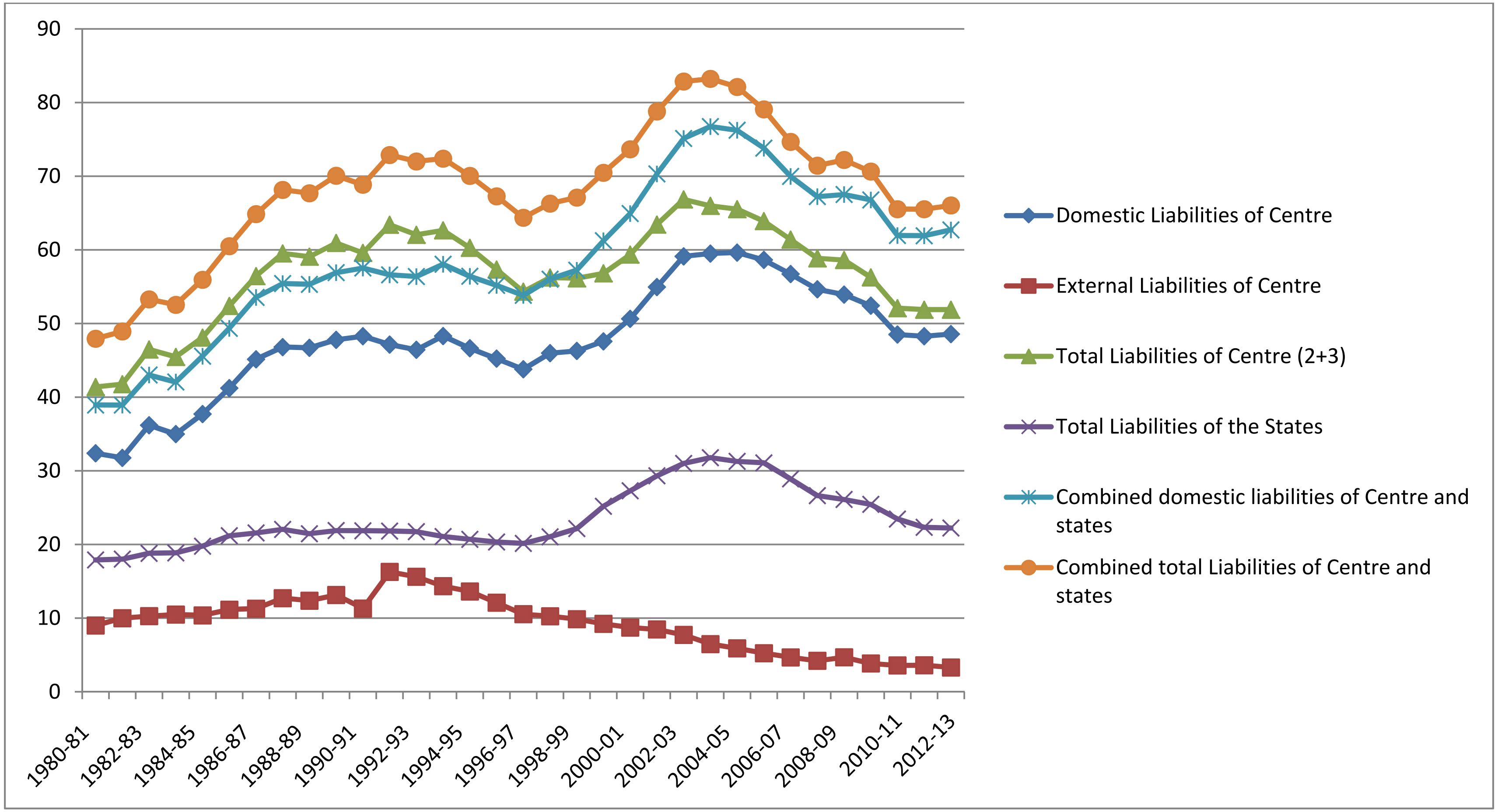


Figure 6: Interest rates on central and state government securities

Source: Reserve Bank of India, Handbook of Statistics on the Indian Economy

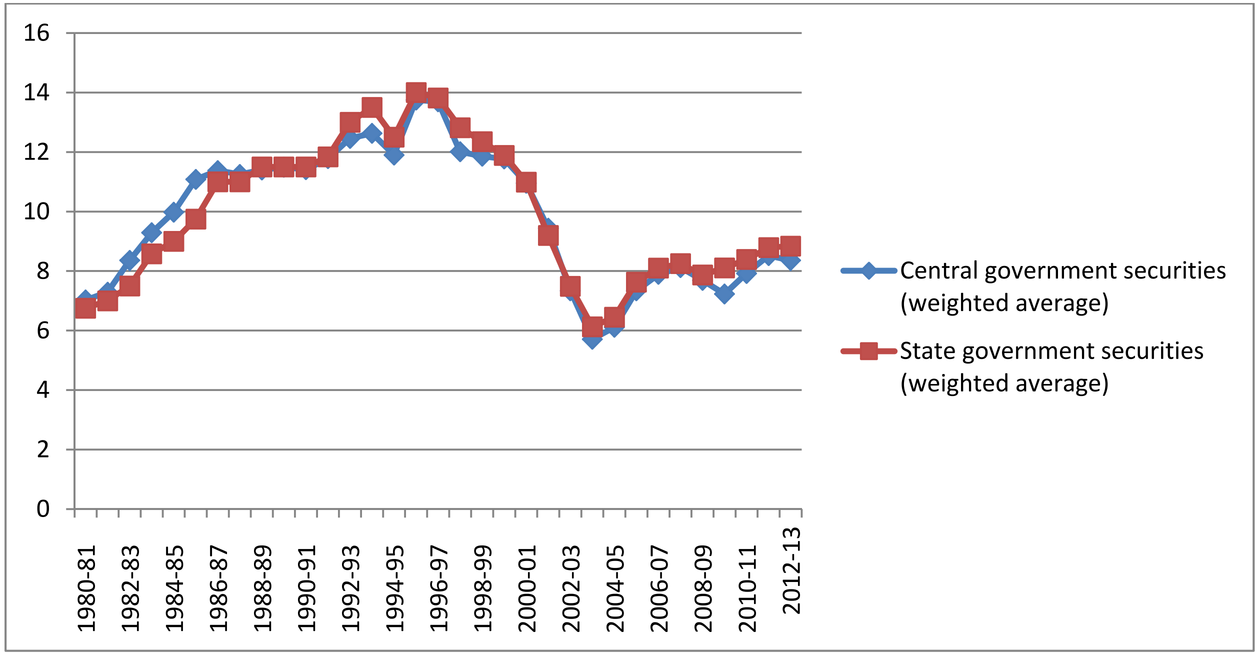
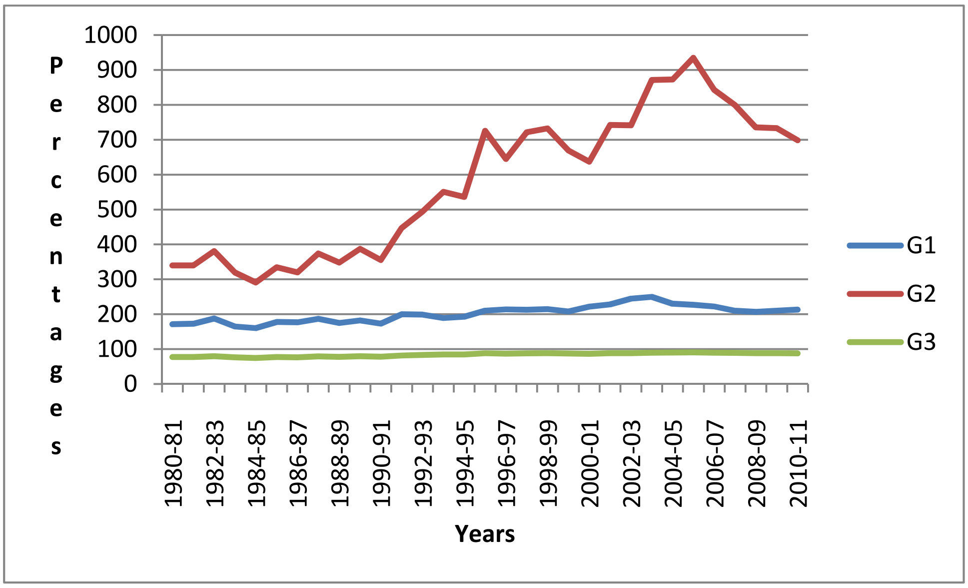


Figure 7: Percentage Gap between mean per capita real PCNSDP between richest and poorest states – alternative measures



Notes: Source Table 1, G1 = the gap between real PCNSDP of richest and poorest state as percentage of mean real PCNSDP across all states, G2 = the gap between real PCNSDP of richest and poorest state as percentage of real PCNSDP of poorest state; G3 = the gap between real PCNSDP of richest and poorest state as percentage of real PC NSDP of richest state.

Table 1: Fiscal Deficit Targets and Actuals

	2011-12	2012-13	2013-14	2014-15
Fiscal Deficit/GDP	5.9	4.9	4.5	4.1
Fiscal Deficit/GDP TFC Target	4.8	4.2	3	3
Revenue Deficit/GDP	4.4	3.6	3.3	2
Revenue Deficit/GDP TFC Target	2.3	1.2	0	-0.5
Source: Thirteenth Finance Commission Report (2013)				

Table 2: Gross NPA, GDP growth and Credit growth (Percentage) in India

					Stressed Assets as a percentage of equity	
Fiscal Year	Gross NPA	GDP growth	Credit growth	Growth in GNPA + restructured assets	All banks	PSU Banks
2005	5.2	7.0	27.9	-8.4	56.2	65.8
2006	3.3	9.5	43.2	-13.9	37.7	46.3
2007	2.5	9.6	27.9	1.2	32.2	39.5
2008	2.2	9.3	23.2	11.5	26.4	34.4
2009	2.3	6.7	18.0	155.1	39.3	51.5
2010	2.4	8.4	16.8	54.0	52.1	77.2
2011	2.5	8.4	6.0	21.3	46.3	70.4
2012	3.1	6.5	16.6	54.1	59.2	90.2
2013	3.6	4.5	15.1	40.2	71.4	111.8
2014 (Estimate)	4.5	4.9				

Source: Trends in Indian Banking Sector, Reserve Bank of India

Table 3: Aggregate receipts of State Governments (amount in Rs. Billion)

Item	2004-08	2008-10	2010-11	2011-12	2012-13 (RE)	2013-14 (BE)
	Average					
Aggregate Receipts (1+2)						
1. Revenue Receipts (a+b)	5,814.6 (14.3)	8,951.3 (14.8)	11,026.9 (14.1)	12,943.4 (14.4)	15,652.8 (15.6)	17,779.5 (15.6)
a. States' Own Revenue (i+ii)	4,872.1 (12.0)	7,314.0 (12.1)	9,353.5 (12.0)	10,985.3 (12.2)	13,421.4 (13.4)	15,260.1 (13.4)
i. States' own tax	2,333.6 (5.8)	3,425.0 (5.7)	4,607.1 (5.9)	5,574.0 (6.2)	6,613.9 (6.6)	7,638.5 (6.7)
ii. State's own non-tax	587.5 (1.4)	854.2 (1.4)	916.5 (1.2)	991.3 (1.1)	1,196.8 (1.2)	1,280.9 (1.1)
b. Current Transfers (i+ii)	1,951.0 (4.8)	3,034.8 (5.0)	3,829.9 (4.9)	4,420.1 (4.9)	5,610.7 (5.6)	6,340.7 (3.0)
i. Shareable Taxes	1,110.7 (2.7)	1,630.3 (2.7)	2,194.9 (2.8)	2,555.9 (2.8)	2,962.3 (3.0)	3,440.7 (3.0)
ii. Grants-in-aid	840.4 (2.1)	1,404.5 (2.3)	1,635.0 (2.1)	1,864.2 (2.1)	2,648.4 (2.6)	2,900.1 (2.6)
2.Capital Receipts (a+b)	942.5 (2.3)	1,637.3 (2.7)	1,673.4 (2.1)	1,958.1 (2.2)	2,231.4 (2.2)	2,519.4 (2.2)
a. Non-debt capital receipts (i+ii)	102.9 (0.3)	101.2 (0.2)	62.4 (0.1)	178.2 (0.2)	116.7 (0.1)	69.3 (0.1)
i. Recovery of loans and advances	81 (0.2)	96 (0.2)	49.9 (0.1)	171.6 (0.2)	115.3 (0.1)	66.9 (0.1)
ii. Miscellaneous capital receipts	22 (0.1)	5 (0.0)	12.4 (0.0)	6.7 (0.0)	1.4 (0.0)	2.4 (0.0)
b. Debt receipts (i+ii)	839.6 (2.1)	1,536.1 (2.5)	1,611.1 (2.1)	1,779.8 (2.0)	2,114.7 (2.1)	2,450.1 (2.2)
i. Market borrowings	292 (0.7)	1,083 (1.8)	887.8 (1.1)	1,354.0 (1.5)	1,683.9 (1.7)	2,161.8 (1.9)
ii. Other debt receipts	547 (1.4)	453 (0.7)	723.3 (0.9)	425.9 (0.5)	430.8 (0.4)	288.3 (0.3)

NB: RE = Revised Estimates, BE = Budget Estimates. 1. The period averages provided reflect the different fiscal phases of the States, 2. Figures in parentheses are percentages to GDP, 3. Debt Receipts are on net basis.

Source: Reserve Bank of India, State Finances: A Study of Budgets of 2013-14.

Table 4: Percentage Composition of Revenue Transfers from the Centre to States

Years	Finance Commission Transfers			Other Transfers			Total Transfers	Total Transfers as Percentage of GDP
	Share in Central Taxes	Grants	Total FC Transfers (2+3)	Plan Grants	Non-plan grants	Total other transfers (5+6)	(4+7)	
1	2	3	4	5	6	7	8	9
FC-VIII (1984-89)	53.48	6.65	60.13	35.80	4.07	39.87	100.00	4.83
FC-IX (1989-95)	52.98	8.48	61.46	35.91	2.63	38.54	100.00	4.89
FC-X (1995-2000)	62.06	6.55	68.61	29.52	1.87	31.39	100.00	4.09
FC-XI (2000-2005)	58.38	11.0	69.38	28.65	1.97	30.62	100.00	4.16
FC-XII (2005-10)	56.48	11.55	68.03	28.55	3.43	31.97	100.00	5.21
2005-06	57.00	14.95	71.94	25.36	2.70	28.06	100.00	4.69
2006-07	57.93	13.47	71.40	25.54	3.05	28.60	100.00	5.11
2007-08	58.82	10.21	69.02	27.69	3.29	30.98	100.00	5.46
2008-09 (RE)	56.04	9.69	65.74	30.92	3.34	34.26	100.00	5.37
2009-10 (BE)	53.62	11.22	64.84	30.88	4.28	35.16	100.00	5.23
Mean	56.68	10.38	67.06	29.88	3.06	32.95		4.90
Standard deviation	2.82	2.70	3.96	3.67	0.80	3.96		0.48
Coefficient of variation	0.05	0.26	0.06	0.12	0.26	0.12		0.10

Notes: Source Report of the Thirteenth Finance Commission, Last three rows author's calculations. FC=Finance Commission, Prior to FC-XII Plan assistance also carried a loan component, which varied as a share of total assistance from 70 per cent for general category states to 10 per cent for special category states. Prior to 1999-2000 there was also on-lending by the Centre to states of net collections in small savings schemes.

Table 5: Revenue Transfers from Centre to States as Percentage of Gross Revenue Receipts of the Centre

Years	Finance Commission Transfers			Other Transfers			Total Transfers
	Share in Central Taxes	Grants	Total FC Transfers (2+3)	Plan Grants	Non-plan grants	Total other transfers (5+6)	(4+7)
1	2	3	4	5	6	7	8
FC-VIII (1984-89)	20.25	2.52	22.77	13.56	1.54	15.10	37.86
FC-IX (1989-95)	21.37	3.42	24.79	14.49	1.06	15.55	40.33
FC-X (1995-2000)	22.22	2.34	24.56	10.57	0.67	11.24	35.79
FC-XI (2000-2005)	20.59	3.88	24.47	10.10	0.70	10.80	35.27
FC-XII (2005-10)	21.75	4.45	26.20	10.99	1.32	12.31	38.51
2005-06	21.71	5.69	27.41	9.66	1.03	10.69	38.09
2006-07	21.97	5.11	27.08	9.69	1.16	10.85	37.93
2007-08	21.88	3.80	25.68	10.30	1.22	11.53	37.21
2008-09 (RE)	22.17	3.83	26.01	12.23	1.32	13.56	39.57
2009-10 (BE)	21.10	4.42	25.52	12.15	1.69	13.84	39.35
Mean	21.50	3.95	25.45	11.37	1.17	12.55	37.99
Standard deviation	0.67	1.04	1.37	1.67	0.33	1.84	1.60
Coefficient of variation	0.03	0.26	0.05	0.15	0.28	0.15	0.04

NOTES: SOURCE REPORT OF THE THIRTEENTH FINANCE COMMISSION, LAST THREE ROWS AUTHOR'S CALCULATIONS.

TABLE 6: Criteria and weights for tax devolution by Recent Finance Commissions

Criteria	Weight (per cent)		
	11th Finance Commission (2000-2005)	12th Finance Commission (2005-2010)	13th Finance Commission (2010-2015)
Population	10	25	25
Income Distance	62.5	50	-
Fiscal Capacity Distance	-	-	47.5
Area	7.5	10	10
Tax Effort	5.0	7.5	-
Infrastructure Index	7.5	-	-
Fiscal Discipline	7.5	7.5	17.5
Total	100	100	100

Source: 11th, 12th and 13th Finance Commission Reports

Table 7: Characteristics of Planning Commission Transfers to States

Special category States are i) Arunachal Pradesh, ii) Assam, iii) Himachal Pradesh, iv) Jammu and Kashmir, v) Manipur, vi) Meghalaya, vii) Mizoram, viii) Nagaland, ix) Sikkim, x) Tripura, and xi) Uttaranchal.

Year	SD11	CV11	Total11	SD17	CV17	Total 17	Total 28	RSD11	Rtotal11	RSD17	Rtotal17	Rtotal28	Share (%)
2002-03	630.99	0.71	10349.82	1841.61	0.71	43829.92	54179.74	708.54	11621.83	2067.95	49216.69	60838.52	80.90
2003-04	929.19	0.92	12294.28	1790.28	0.65	46568.41	58862.69	989.41	13091.06	1906.31	49586.49	62677.55	79.11
2004-05	837.33	0.66	13880.23	1773.41	0.60	50343.89	64224.13	837.33	13880.23	1773.41	50343.89	64224.13	78.39
2005-06	1027.03	0.78	14559.73	1845.89	0.61	51499.59	66059.32	982.80	13932.75	1766.40	49281.90	63214.66	77.96
2006-07	1004.68	0.72	15310.34	1841.09	0.57	54820.41	70130.75	901.86	13743.57	1652.68	49210.42	62953.99	78.17
2007-08	1113.95	0.72	17016.96	1055.28	0.61	32375.23	49392.19	955.36	14594.30	905.05	27766.06	42360.37	65.55
2008-09	1240.04	0.66	20551.40	1698.78	0.66	44081.30	64632.70	984.15	16310.63	1348.23	34985.16	51295.79	68.20
2009-10	1945.60	0.76	28336.72	1852.24	0.60	52086.29	80423.01	1487.46	21664.15	1416.08	39821.32	61485.48	64.77
2010-11	1942.89	0.71	30176.59	2128.37	0.62	58826.90	89003.49	1355.81	21058.33	1485.25	41051.57	62109.90	66.10
2011-12	2394.95	0.76	35971.98	2359.10	0.71	66078.75	102050.73	1534.56	23049.11	1511.60	42340.08	65389.19	64.75
2012-13	2685.13	0.64	46255.36	2966.32	0.65	77787.13	124042.49	1564.76	26955.33	1728.62	45330.50	72285.83	62.71

Notes: i) Source: Calculations based on Planning Commission data, ii) SD11= standard deviation across 11 special category states, CV=coefficient of variation across 11 special category states, Total11=total grants to 11 special category states, SD17=standard deviation across 17 regular states, CV 17= coefficient of variation across 17 regular states, Total17=total across 17 regular states, Total28=total across all states, RSD11=standard deviation of real transfers across 11 special category states, RTotal11= total real grants to 11 special category states, RSD17= standard deviation of real transfers across 17 regular states, Rtotal 17=total real transfers across 17 regular states, Rtoal28=total real transfers to all 28 states, share=share of general category states in total transfers.

Deflator used WPI (all commodities), 2004-05 =100. Rupee magnitudes in crores of rupees.

Appendix Table 1: Central Government Deficit Indicators (percent of GDP)

							Gross Tax					
Year	Gross Fiscal Deficit	Gross Primary Deficit	Revenue Deficit	Primary revenue deficit	Drawdown of cash balances	Net RBI credit to Centre	Direct	Indirect	Total	Interest Payments	Subsidies	Total Expenditure
1980-81	5.55	3.81	1.36	-0.38	1.66	2.37	1.94	6.84	8.79	1.74	1.36	15.21
1981-82	4.93	3.11	0.22	-1.59	0.80	1.82	2.02	6.98	9.00	1.82	1.10	14.37
1982-83	5.40	3.40	0.67	-1.34	0.84	1.71	1.97	7.01	8.98	2.00	1.15	15.66
1983-84	5.69	3.60	1.11	-0.98	0.62	1.72	1.89	7.15	9.03	2.09	1.27	15.52
1984-85	6.79	4.46	1.65	-0.68	1.46	2.36	1.80	7.34	9.15	2.33	1.57	17.00
1985-86	7.55	4.96	2.03	-0.56	1.84	2.14	1.92	7.98	9.90	2.59	1.66	18.19
1986-87	8.13	5.28	2.40	-0.45	2.55	2.19	1.92	8.21	10.14	2.85	1.68	19.42
1987-88	7.34	4.29	2.48	-0.57	1.58	1.78	1.83	8.40	10.23	3.06	1.62	18.54
1988-89	7.08	3.81	2.41	-0.86	1.29	1.49	2.02	8.16	10.18	3.27	1.77	18.11
1989-90	7.10	3.56	2.37	-1.16	2.11	2.75	1.99	8.29	10.29	3.54	2.09	18.51
1990-91	7.61	3.95	3.17	-0.50	1.94	2.52	1.88	7.94	9.82	3.67	2.07	17.96
1991-92	5.39	1.44	2.41	-1.53	1.02	0.82	2.26	7.74	10.00	3.95	1.82	16.53
1992-93	5.19	1.17	2.40	-1.61	1.59	0.55	2.34	7.30	9.64	4.01	1.40	15.83
1993-94	6.76	2.64	3.67	-0.45	1.23	0.03	2.28	6.22	8.50	4.12	1.30	15.91
1994-95	5.52	1.30	2.97	-1.25	0.09	0.20	2.58	6.25	8.83	4.21	1.13	15.37
1995-96	4.91	0.83	2.42	-1.66	0.80	1.62	2.74	6.33	9.07	4.08	1.03	14.53
1996-97	4.70	0.51	2.30	-1.89	0.93	0.14	2.74	6.33	9.07	4.19	1.09	14.16
1997-98	5.66	1.48	2.95	-1.22	-0.06	0.82	3.07	5.78	8.85	4.17	1.18	14.76
1998-99	6.29	1.97	3.71	-0.60	-0.01	0.65	2.58	5.39	7.97	4.32	1.31	15.49
1999-00	5.18	0.72	3.34	-1.12	0.04	-0.28	2.86	5.62	8.49	4.46	1.21	14.73
2000-01	5.46	0.90	3.91	-0.65	-0.05	0.31	3.14	5.51	8.65	4.56	1.23	14.95
2001-02	5.98	1.42	4.25	-0.31	-0.06	-0.22	2.94	4.97	7.91	4.56	1.32	15.38
2002-03	5.72	1.08	4.25	-0.39	0.07	-1.12	3.28	5.19	8.46	4.64	1.72	16.29
2003-04	4.34	-0.03	3.46	-0.91	-0.14	-2.68	3.70	5.20	8.89	4.37	1.56	16.58
2004-05	3.88	-0.04	2.42	-1.50	-0.05	-1.86	4.10	5.26	9.36	3.92	1.42	15.37
2005-06	3.96	0.37	2.50	-1.09	-0.57	0.77	4.47	5.40	9.87	3.59	1.29	13.69
2006-07	3.32	-0.18	1.87	-1.63	0.11	-0.07	5.36	5.62	10.98	3.50	1.33	13.58
2007-08	2.54	-0.88	1.05	-2.38	-0.54	-2.34	6.26	5.60	11.86	3.43	1.42	14.29
2008-09	5.99	2.57	4.50	1.09	0.78	3.13	5.93	4.79	10.72	3.41	2.30	15.70
2009-	6.46	3.17	5.23	1.94	-0.02	2.31	5.83	3.76	9.59	3.29	2.18	15.82

10												
2010-11	4.79	1.79	3.24	0.23	0.08	2.34	5.72	4.40	10.12	3.00	2.22	15.36
2011-12	5.75	2.71	4.39	1.35	-0.18	1.56	5.50	4.36	9.86	3.04	2.43	14.53
2012-13	5.20	2.04	3.90	0.74	-0.05	0.56	5.65	4.67	10.32	3.16	2.57	14.28
2013-14	4.77	1.51	3.34	0.08			5.88	4.95	10.83	3.26	2.03	14.64

Source: Reserve Bank of India, *Handbook of Statistics on the Indian Economy*

Appendix Table2: State Government Deficit indicators (percent of GDP)

Year	Revenue Deficit	Gross Fiscal Deficit	Primary Deficit	Primary Revenue Deficit	Tax Receipts	Non-tax receipts	Aggregate receipts
1980-81	-1.02	2.55	1.71	-1.86	7.16	4.05	14.97
1981-82	-0.81	2.38	1.54	-1.65	7.31	3.49	14.14
1982-83	-0.46	2.61	1.72	-1.36	7.39	3.67	14.61
1983-84	-0.09	2.86	1.98	-0.98	7.08	3.71	14.82
1984-85	0.37	3.29	2.30	-0.62	7.27	3.74	15.41
1985-86	-0.23	2.67	1.63	-1.28	7.75	4.13	16.55
1986-87	-0.05	2.94	1.64	-1.36	7.97	4.17	16.24
1987-88	0.30	3.14	1.77	-1.06	8.10	4.20	16.71
1988-89	0.43	2.75	1.35	-0.97	7.81	4.07	15.89
1989-90	0.75	3.16	1.69	-0.72	8.02	3.58	15.71
1990-91	0.93	3.30	1.78	-0.59	7.83	3.84	16.00
1991-92	0.86	2.89	1.22	-0.81	8.03	4.27	16.46
1992-93	0.68	2.78	1.02	-1.08	8.03	4.07	16.10
1993-94	0.45	2.35	0.53	-1.38	7.89	4.24	15.42
1994-95	0.66	2.69	0.78	-1.25	7.76	4.08	16.10
1995-96	0.72	2.59	0.76	-1.11	7.62	3.67	14.88
1996-97	1.22	2.65	0.81	-0.62	7.52	3.37	13.93
1997-98	1.15	2.85	0.90	-0.81	7.77	3.15	14.78
1998-99	2.54	4.19	2.16	0.52	7.16	2.71	14.74
1999-00	2.79	4.62	2.33	0.51	7.34	3.06	15.62
2000-01	2.63	4.18	1.76	0.21	7.82	3.24	16.28
2001-02	2.65	4.14	1.43	-0.05	7.70	3.25	16.02
2002-03	2.33	4.06	1.25	-0.48	7.88	3.27	16.89
2003-04	2.30	4.38	1.46	-0.62	8.03	3.20	18.69
2004-05	1.21	3.32	0.66	-1.46	8.04	3.17	17.39
2005-06	0.19	2.44	0.16	-2.09	8.29	3.38	16.13
2006-07	-0.58	1.80	-0.36	-2.75	8.68	3.67	15.68
2007-08	-0.86	1.51	-0.49	-2.86	8.78	3.73	15.35
2008-09	-0.23	2.39	0.56	-2.05	8.58	3.76	15.83
2009-10	0.48	2.91	1.17	-1.26	8.15	3.71	15.56
2010-11	-0.04	2.07	0.47	-1.64	8.73	3.27	15.05
2011-12	-0.07	2.32	0.76	-1.62	9.04	3.68	15.89
2012-13	-0.42	2.15	0.60	-1.98	9.45	3.83	16.30

Source: Reserve Bank of India, *Handbook of Statistics on the Indian Economy*

Appendix Table 3: Combined Deficits of Central and State governments (percent of GDP)

Year	Gross Fiscal Deficit	Gross Primary Deficit	Revenue Deficit
1980-81	7.42	5.38	0.38
1981-82	6.21	4.01	-0.58
1982-83	5.82	3.39	0.22
1983-84	7.18	4.69	1.05
1984-85	8.83	6.08	2.07
1985-86	7.88	4.82	1.86
1986-87	9.78	6.40	2.42
1987-88	9.06	5.43	2.86
1988-89	8.45	4.58	2.90
1989-90	8.84	4.63	3.20
1990-91	9.41	5.02	4.19
1991-92	7.00	2.27	3.35
1992-93	6.96	2.12	3.15
1993-94	8.19	3.23	4.22
1994-95	7.05	1.90	3.66
1995-96	6.52	1.56	3.18
1996-97	6.33	1.24	3.54
1997-98	7.25	2.13	4.11
1998-99	8.97	3.65	6.32
1999-00	9.47	3.81	6.22
2000-01	9.51	3.57	6.60
2001-02	9.94	3.69	6.99
2002-03	9.57	3.09	6.64
2003-04	8.51	2.07	5.79
2004-05	7.24	1.42	3.62
2005-06	6.49	0.96	2.69
2006-07	5.37	-0.01	1.29
2007-08	4.09	-1.12	0.19
2008-09	8.47	3.39	4.31
2009-10	9.42	4.55	5.73
2010-11	8.08	3.42	3.84
2011-12	7.00	2.51	3.25

Source: Reserve Bank of India, *Handbook of Statistics on the Indian Economy*

Appendix Table 4: Combined Debt of Central and State Governments (percentage of GDP)

Year (end March)	Domestic Liabilities of Centre	External Liabilities of Centre	Total Liabilities of Centre (2+3)	Total Liabilities of the States	Combined domestic liabilities of Centre and states	Combined total Liabilities of Centre and states
1980-81	32.38	9.01	41.39	17.90	38.93	47.94
1981-82	31.77	10.00	41.77	18.01	38.92	48.92
1982-83	36.20	10.28	46.48	18.80	43.01	53.29
1983-84	34.99	10.48	45.47	18.86	42.06	52.55
1984-85	37.72	10.38	48.10	19.77	45.57	55.95
1985-86	41.22	11.16	52.38	21.19	49.35	60.51
1986-87	45.15	11.29	56.44	21.57	53.55	64.85
1987-88	46.80	12.72	59.52	22.05	55.43	68.15
1988-89	46.70	12.38	59.08	21.46	55.32	67.70
1989-90	47.79	13.15	60.94	21.89	56.91	70.06
1990-91	48.28	11.31	59.59	21.86	57.54	68.85
1991-92	47.15	16.28	63.42	21.82	56.61	72.89
1992-93	46.43	15.62	62.05	21.74	56.39	72.01
1993-94	48.31	14.34	62.65	21.08	58.05	72.39
1994-95	46.64	13.63	60.27	20.70	56.41	70.04
1995-96	45.24	12.10	57.34	20.34	55.18	67.28
1996-97	43.79	10.54	54.32	20.14	53.83	64.37
1997-98	45.98	10.27	56.24	21.04	56.02	66.29
1998-99	46.28	9.87	56.14	22.16	57.24	67.11
1999-00	47.58	9.23	56.81	25.19	61.24	70.47
2000-01	50.64	8.73	59.36	27.29	64.94	73.67
2001-02	54.96	8.47	63.44	29.32	70.32	78.79
2002-03	59.12	7.73	66.85	31.01	75.13	82.86
2003-04	59.50	6.48	65.98	31.79	76.75	83.23
2004-05	59.64	5.90	65.53	31.28	76.24	82.13
2005-06	58.64	5.25	63.90	31.08	73.82	79.07
2006-07	56.72	4.68	61.40	28.91	69.98	74.66
2007-08	54.65	4.21	58.86	26.63	67.23	71.44
2008-09	53.93	4.69	58.62	26.11	67.52	72.21
2009-10	52.42	3.85	56.27	25.45	66.78	70.63
2010-11	48.51	3.58	52.08	23.46	61.95	65.53
2011-12	48.28	3.60	51.88	22.33	61.92	65.52
2012-13	48.57	3.31	51.88	22.23	62.72	66.03
2013-14	48.09	3.01	51.10	-	-	-

Source: Reserve Bank of India, *Handbook of Statistics on the Indian Economy*

Appendix Table 5: Interest Rates on Central and State government securities

Year	Central government securities (weighted average)	State government securities (weighted average)
1980-81	7.03	6.75
1981-82	7.29	7.00
1982-83	8.36	7.50
1983-84	9.29	8.58
1984-85	9.98	9.00
1985-86	11.08	9.75
1986-87	11.38	11.00
1987-88	11.25	11.00
1988-89	11.4	11.50
1989-90	11.49	11.50
1990-91	11.41	11.50
1991-92	11.78	11.84
1992-93	12.46	13.00
1993-94	12.63	13.50
1994-95	11.90	12.50
1995-96	13.75	14.00
1996-97	13.69	13.82
1997-98	12.01	12.82
1998-99	11.86	12.35
1999-00	11.77	11.89
2000-01	10.95	10.99
2001-02	9.44	9.20
2002-03	7.34	7.49
2003-04	5.71	6.13
2004-05	6.11	6.45
2005-06	7.34	7.63
2006-07	7.89	8.10
2007-08	8.12	8.25
2008-09	7.69	7.87
2009-10	7.23	8.11
2010-11	7.92	8.39
2011-12	8.52	8.79
2012-13	8.36	8.84

Source: Reserve Bank of India, *Handbook of Statistics on the Indian Economy*

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