

**Indian Institute of Management, Bangalore
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State Finances: Fiscal, Debt and Liquidity Management

Alok Sheel

Secretary Finance (Resources)
Government of Kerala

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Kerala: Growth Rates

	1993-94	1996-97	2001-02	2005-06
Agric/GSDP	31%	30%	19%	15%
Industry/GSDP	21%	21%	22%	24%
Services/GSDP	49%	49%	59%	61%
GSDP PC at 93-94 Prices	8761.32	9905.1	12109.5	16480.7
3YMA GSDP Gr at 93-94 Prices		4.2%	4.3%	8.2%

Kerala Model: Indicators

Amartya Sen and Jean Dr'eze: HDI comparable to developed countries despite relatively low per capita income. National HDI Rank # 3 (NHDR 2001)

	Kerala	India
Settlement Pattern	Rurban	Urban - Rural
Land reforms	Successful	Partial
Growth Rate	6%	6%
Income Poverty (99-00)	12%	26%
Per capita consumption (99-00)	Rs. 816	Rs. 591
Telephone density per 1000	68	32
Literacy (2001)	91	65
Sex Ratio (2001)	1058	933
Life Expectancy (92-96)	73	61
Infant Mortality (1991)	42	77
Per capita elect. Consumption (96-97)	241 KwH	334 KwH
Unemployment (99-00)	8.6%	2.3%
Services Sector	64%	58%

Kerala: Remittance Economy

1999-00: State per capita Net income 13% and consumption 38% above National Average

- Pros

- Safety valve for high chronic **unemployment**
- **Counter-cyclical** effect
- Increases **consumption**:
 - lower poverty
 - higher expenditure on health, education etc.
- Higher **growth** through more investment (construction boom)
- Improves **public finances**
 - Sales tax, VAT and excise revenues
 - Contains potential fiscal expenditures arising out of high unemployment, poverty, etc.

- Cons

- Depresses **domestic savings** by creating illusion of household financial stability
- Vulnerability to external **shocks**
- **Wage inflation** has negative impact on investment and growth
- **Moral hazard** – diminishing pressure for reform

Kerala: Economic Challenges

- **Fiscal** correction
- **Redirect public expenditure** to maintain/upgrade Infrastructure
- Target **high unemployment** by:
 - Leveraging \$ 8-10B of major **PPP/BOT** infrastructure investment taking place over next 5 years.
 - Address crisis in **traditional** and Plantation sectors
 - Creating **investor friendly climate** to crowd in more private investment, especially in the booming services sector
 - Tourism
 - IT and biotechnology
 - Healthcare
 - Addressing **skills mismatch**
 - High white collar unemployment rate
 - Export of labour: remittance economy
 - Import of blue collar labour

State Debt/GDP ratios

end March	Outstanding Liabilities		
	Amount (Rs.crore)	Annual Growth	Debt / GDP
1	2	3	4
1991	128,095.21	—	22.5
1992	146,966.01	14.7	22.5
1993	168,292.88	14.5	22.5
1994	187,912.46	11.7	21.9
1995	217,022.73	15.5	21.4
Average (1991-1995)	169,657.86	14.1	22.2
1996	250,813.06	15.6	21.1
1997	286,704.07	14.3	21.0
1998	336,346.65	17.3	22.1
1999	397,370.16	18.1	22.8
2000	505,009.26	27.1	26.1
Average (1996-2000)	355,248.64	18.5	22.6
2001	592,742.68	17.4	28.4
2002	685,473.90	15.6	30.2
2003	797,683.75	16.4	32.4
2004	922,262.92	15.6	33.4
2005 RE	1,040,834.36	12.9	33.5
Average (2001-2005)	807,799.52	15.6	31.6
2006 BE	1,152,530.07	10.7	33.1

Fin. Yr	Debt (Cr)	GR	Debt/GSDP
1991	4717		33.5%
1992	5467	15.9%	31.2%
1993	6297	15.2%	31.6%
1994	7199	14.3%	27.3%
1995	8821	22.5%	27.7%
Av. 1991-95	6500	17.0%	30.2%
1996	10114	14.7%	26.1%
1997	11421	12.9%	25.7%
1998	12868	12.7%	26.0%
1999	15700	22.0%	27.9%
2000	20176	28.5%	32.3%
Av. 1996-00	14056	18.2%	27.6%
2001	23919	18.6%	34.3%
2002	26951	12.7%	37.2%
2003	31060	15.2%	38.3%
2004	37452	20.6%	41.9%
2005	41878	11.8%	41.7%
Av. 2001-05	32252	15.8%	38.7%
2006	45638	9.0%	40.9%

Hard Budget Constraint?

- Constitutionally GOI exercises a hard budget constraint on State budgets, thereby controlling both State FDs and debt under Article 293 of the Indian Constitution.
- In practice Article 293 bypassed by
 - NSSF borrowings
 - Public Account Transactions
 - Off budget borrowings and guarantees.
 - Now less than 50 % of State debt covered under Article 293
- With implementation of XII FC recommendations States pushed to borrowing directly from the market in lieu of central loans to fund non-grant component (70%) of central assistance for the State Plan.
 - Fiscal discipline will improve credit rating, thereby lowering borrowing costs.

Changing State Debt Portfolio

Table XXII: Components of Outstanding Liabilities of State Governments

(per cent to total)

Components of Outstanding Liabilities	End-March 1991	End-March 2000	End-March 2004	End-March 2005
1	2	3	4	5
1. Internal Debt	15.0	22.9	46.4	50.4
<i>of which:</i>				
(i) Market Loans	12.2	14.9	19.5	20.5
(ii) Small Savings (NSSF)	—	5.2	18.2	21.3
(iii) Loans from Banks & Financial Institutions*	2.0	3.4	6.6	6.8
2. Loans and Advances from the Centre	57.4	46.6	29.1	26.3
3. Public Account Liabilities	26.9	30.1	24.5	23.3
<i>of which:</i>				
(i) State Small Savings & Provident Funds	13.2	15.9	13.3	12.9
(ii) Reserve Funds	3.7	3.9	4.2	4.3
(iii) Deposits and Advances	10.0	10.3	7.0	6.1
4. Contingency Fund	0.8	0.3	0.0	0.0

Change in Kerala's (total)Debt Portfolio

	1987-88	1992-93	1997-98	2002-03	2005-06
STATE DEBT	2965	6664	14472	33777	48481
5YMA Growth Rate		17.6%	16.8%	17.8%	11%
Internal debt(incl. NSSF)	20%	27%	28%	38%	56%
Small Savings and PF	25%	30%	33%	41%	33%
Dues to Central Govt.	55%	43%	39%	21%	12%
Others	0%	6%	12%	9%	6%
Debt as % of RR	187%	201%	203%	318%	324%
Debt as % GSDP	31%	33%	29%	42%	43%
CONTINGENT LIABILITIES	914	2296	3292	12623	12316

Kerala's Borrowing Costs

<i>Rs.in crore</i>						Cost of Borrowing					
<i>Sl.No.</i>	<i>Items</i>	<i>Amount outstanding as on 31.3.2003</i>	<i>Interest paid during 2003-04</i>	<i>Amount outstanding as on 31.3.2004</i>	<i>Interest paid during 2004-05</i>	<i>Amount outstanding as on 31.3.2005</i>	<i>Interest paid during 2005-06</i>	<i>Amount outstanding as on 31.3.2006</i>	COB 03-04	COB 04-05	COB 05-06
1	<i>Negotiated Loans</i>	2473.52	475.22	3213.61	374.44	3627.65	493.63	3752.73	16.7%	10.9%	13.4%
2	<i>Others (Ways & Means advance, etc)</i>	448.82	23.90	566.43	21.20	236.32	12.32	0.00	4.7%	5.3%	10.4%
3	<i>Market Borrowings (incl. Power Bond)</i>	6518.29	739.62	9387.55	972.42	10763.95	989.2	12227.88	9.3%	9.7%	8.6%
4	<i>NSSF</i>	2306.39	263.32	4253.35	455.39	7048.3	720.91	9431.85	8.0%	8.1%	8.7%
5	<i>Loans and Advance from GOI</i>	6534.88	809.92	5627.97	671.60	5410.83	448.80	5374.27	13.3%	12.2%	8.3%
6	<i>Public Account (Small savings, Provident Fund, etc.)</i>	12778.37	1016.32	14403.33	1117.48	14790.83	1179.62	14850.5	7.5%	7.7%	8.0%
	Total	31060.27	3328.30	37452.24	3612.53	41877.88	3844.48	45637.23	9.7%	9.1%	8.8%

Kerala's Marginal Borrowing Costs

1	LIC	8.5% with rebate of 0.5% for prompt payment
2	GIC	9%
3	NABARD	6.5%
4	NCDC	8.5%
5	Market Borrowings	7.5 to 8 %
6	NSSF	9.5%
7	Treasury Savings bank	4.5%
8	Term Deposits, Trust & Endowments and Other deposits.	6 to 7.5 %
9	Provident Fund	8%

Kerala's Debt Profile on 31.3.06

	% Share	Outstanding as on 31.3.05	7.5% & Below	Between 7.5% & 10.5%	Between 10.5% & 13%	13% & Above
1. Small Savings	20.9	9432		9432		
(a) Spl Securities issued to NSSF						
(b) Share of NSS Collection						
2. GOI Loans	11.9	5374	3968	1406		
3. Loans from LIC	5.8	2591		2591		
4. Loans from GIC/Subsidiaries	0.7	299		299		
5. Loans from NABARD	0.8	341	341			
6. Loans from NCDC	0.6	274		274		
7. Others	3.1	1406	248	1158		
8. Open Market Borrowings	24.6	11070	5775	1994	2965	335
9. Loans from PF	12.8	5779		5779		
10. Treasury Savings Bank, Trusts etc.	18.9	8521	8521			
Total	100	45087	18853	22934	2965	335
			41.8%	50.9%	6.6%	0.7%

Debt Sustainability: GOI Measures

- Two criteria for 'debt stress':
 - Debt/Revenue Receipts > 300%
 - Interest payments/Revenue Receipts >20%
- Kerala classified as debt-stressed using either criteria.
- Debt stressed States penalized through restricted access to EAPs

State Debt Stress Ratios: 2001-04 Averages

	Debt/GSDP	Debt/RR	Interest/RR
Andhra Pradesh	34.3	237	17.3
Karnataka	29.8	208	18
Tamil Nadu	27.9	206	16.9
Kerala	41.3	319	27.5
Gujarat	38.6	316	20.5
Maharashtra	30.7	287	18.6
Goa	42.1	204	16.3
Average Peninsular	35.0	254	19.3
NCT Delhi	16.5	185	4.8
Punjab	54.9	379	23.6
Haryana	29.3	227	17.4
Average High Income Northern	33.6	264	15.3
West Bengal	45	503	50
Orissa	64.2	362	33.9
Bihar	73.3	328	26
Jharkhand	32	170	12.2
Madhya Pradesh	35	241	19.6
Chhattisgarh	30.3	191	14.6
Rajasthan	51	348	27.3
Uttar Pradesh	54.1	378	27.8
Average Low Income Northern	48.1	315	26.4

Debt sustainability : Domar Gap

- Domar debt sustainability equation:
 - GDP growth rate should exceed average interest on debt
 - Where $GDP_{gr} < R$, Primary balance should be positive or only nominally negative.
 - Where $GDP_{gr} < R$ and primary balance is negative, seigniorage $>$ Primary deficit (not applicable to State governments)
- Since tax buoyancies could vary between States, and over time within States, might be better to use RR growth rate instead of GSDP growth rate in respect of State governments?
- 2001-04: State's domar gap positive in relation to GSDP, but negative relative to Revenues.

State Domar Gaps: 2001-04 Averages

State	Domar Gap		Pr.Deficit	PD/GSDP
(Non-Special Category)	GSDP	Rev.Receipts		
Andhra Pradesh	1.05	3.59	2085	1.9
Karnataka	-1.09	3.09	2085	1.8
Tamil Nadu	-2.54	0.4	2110	1.4
Kerala	-0.54	1.52	1712	2.1
Gujarat	8.71	-1.72	3656	2.6
Maharashtra	4.85	-1.69	8401	2.8
Goa	-2.51	-4.14	125	1.5
Average Peninsular	1.1	0.2	2882	2
NCT Delhi	7.39	7.81	1859	2.5
Punjab	-0.76	3.02	2282	3.1
Haryana	2.66	6.16	868	1.3
Average High Income Northern	3.10	5.66	1670	2
West Bengal	-0.1	-6.05	4109	2.5
Orissa	1.81	1.24	679	1.5
Bihar	-1.9	-1.76	1295	2.5
Jharkhand	5.59	-0.47	975	2.7
Madhya Pradesh	2.74	-6.07	2457	2.7
Rajasthan	1.84	-0.58	2718	2.9
Uttar Pradesh	0.13	0.79	4119	2
Average Low Income Northern	1.4	-1.8	2336.0	2.4
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Public Debt Management

- Long-term:
 - Calibrated reduction in PD
- Medium-term:
 - Strategic management of debt portfolio:
 - Refinance of costly debt
 - Reducing exposure to new high cost debt, such as NSSF.

Fiscal Indicators: Long-term I

	Av. 1990-95		Av. 1995-00		Av. 00-05
	States	Kerala	States	Kerala	Kerala
	% of GDP	% of GSDP	% of GDP	% of GSDP	% of GSDP
Revenue Receipts	12.1%	14.6%	10.9%	12.7%	13.4%
Revenue Expenditure	12.8%	17.8%	12.6%	16.4%	17.1%
<i>Revenue Deficit</i>	<i>-0.7%</i>	<i>-1.9%</i>	<i>-1.6%</i>	<i>-2.8%</i>	<i>-4.2%</i>
<i>Primary Deficit</i>	<i>-1.1%</i>	<i>-0.8%</i>	<i>-1.4%</i>	<i>-1.5%</i>	<i>-1.4%</i>
<i>GFD</i>	<i>-2.8%</i>	<i>-4.2%</i>	<i>-3.5%</i>	<i>-4.9%</i>	<i>-5.4%</i>

Fiscal Parameters: Long-term II

	1990-91	1995-96	2000-01	2005-06
Debt /Revenue Receipts	196%	186%	274%	305%
Debt/GSDP	33%	26%	34%	41%
RR/GSDP	17%	14%	12.5%	13.4%
Own revenue /Total Revenue	64.5%	72.2%	74.8%	70.9%
Own Tax/GSDP	9.5%	8.7%	8.4%	8.8%
Revenue Deficit /GSDP	-3.0%	-1.0%	-4.5%	-3.2%
GFD/GSDP	-5.7%	-3.4%	-5.6%	-4.0%
Total Expenditure/GSDP	21.9%	16.5%	17.9%	17.3%
Interest /Revenue Receipts	14%	17%	26%	26%
Salary & Pensions /Revenue Receipts	82%	54%	74%	57%
Salary & Pensions/Total Expenditure	64%	46%	52%	44%
Salary & Pensions/GSDP	14%	8%	9%	8%

Fiscal Parameters: Medium-term

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07(BE)	2007-08	2008-09
Rs. Crore								(MTFP)	(MTFP)
Revenue deficit	-3147	-2606	-4122	-3680	-3669	-3562	-5415	-3335	-1880
Fiscal deficit	-3878	-3270	-4994	-5539	-4452	-4513	-7534	-5829	-4856
Primary Deficit	-1467	-675	-1874	-992	-738	-688	-3107	-1189	279
State debt	23919	26951	31060	37452	41878	45638	53172	59001	63857
<i>% of GSDP (Mkt.Prices)</i>	69770	72402	81146	89461	100531	111633	126145	143175	162503
<i>Growth Rate</i>		3.8%	12.1%	10.2%	12.4%	11.0%	13.0%	13.5%	13.5%
Revenue deficit	-4.5%	-3.6%	-5.1%	-4.1%	-3.6%	-3.2%	-4.3%	-2.3%	-1.2%
Fiscal deficit	-5.6%	-4.5%	-6.2%	-6.2%	-4.4%	-4.0%	-6.0%	-4.1%	-3.0%
Primary Deficit	-2.1%	-0.9%	-2.3%	-1.1%	-0.7%	-0.6%	-2.5%	-0.8%	0.2%
State debt	34.3%	37.2%	38.3%	41.9%	41.7%	40.9%	42.2%	41.2%	39.3%

Regional Fiscal Pattern: 2001-04 average

States	GSDP GR	GFD/	RD/	PD/	PRB/	RD/	OTR/	ONTR/	CT/	SSE/	DEBT/
Non Special Category	K Prices	GSDP	GSDP	GSDP	GSDP	GFD	GSDP	GSDP	GSDP	GSDP	GSDP
Andhra Pradesh	4.9	4.4	1.8	0.9	-1.7	40.9	7.9	2	4.6	7.2	34.3
Karnataka	4.7	4.4	1.9	1.7	-0.8	39.2	9.1	1.4	3.9	6.5	29.8
Tamil Nadu	1.5	3.7	2	1	-0.6	52.6	9.3	1.2	3.1	6.5	27.9
Kerala	7.2	5.6	4.3	2	0.7	76.2	8.7	0.8	3.4	7.1	41.3
Gujarat	11.1	5.1	3.4	1.6	0	67.5	7	2.6	2.6	6.2	38.6
Maharashtra	6.7	4.8	2.9	2.3	0.5	62.4	7.7	1.4	1.5	5.6	30.7
Goa	5.5	4.7	2.1	1.4	-1.2	43.7	7.2	11.2	2.1	7.1	41.2
UW Average Peninsular	5.9	4.7	2.6	1.6	-0.4	54.6	8.1	2.9	3.0	6.6	34.8
NCT Delhi	6.7	2.9	-2.4	1.4	-3.9	-82.9	7.1	1.2	0.7	4.4	16.5
Punjab	2.8	6.5	5.1	1.8	0.4	78.2	7.6	5.3	1.7	4.5	54.9
Haryana	6.3	3.6	1	0.7	-1.8	31.5	8.3	2.8	1.7	4.7	29.3
UW Average HI North	5.3	4.3	1.2	1.3	-1.8	8.9	7.7	3.1	1.4	4.5	33.6
West Bengal	7.2	6.9	5.3	2.4	0.7	75.9	4.4	0.4	4.2	5.4	45
Orissa	6.8	7.5	4.3	1.3	-1.9	55.7	6.2	1.9	9.7	9.1	64.2
Bihar	0.9	8.3	3.8	2.4	-2.1	45.1	5.4	0.7	16.2	12.2	73.3
Jharkhand	8.4	5	0.1	2.5	-2.4	0.2	6	2.8	10.1	11.7	32
Madhya Pradesh	7.2	5.5	3.2	2.5	0.2	58.9	6.6	1.8	6.2	7.5	35
Chhattisgarh	10.8	4.1	1.3	1.6	-1.3	30.5	7	2.8	6.1	8.6	30.3
Rajasthan	8.4	6.9	4.1	2.2	-0.6	58.9	6.9	1.8	5.9	9	51
Uttar Pradesh	3	6	4.9	1.7	0.6	76	6.2	1	7.1	6.5	54.1
UW Average LI North	6.6	6.3	3.4	2.1	-0.9	50.2	6.1	1.7	8.2	8.8	48.1

Fiscal Adjustment under XII FC

- Fiscal responsibility legislation setting statutory limits on RD, FD and contingent liabilities, with interest relief and debt consolidation as incentive (fully availed by the State in 2005-06)
- 12th FC has targeted 0% RD by March 2009 and 3% FD for all States, with debt waiver as incentive. State would get debt waiver of Rs. 1442.31 Crore
- State's Own Fiscal Correction Path to achieve these targets sent to MoF on 28.10.2005. According to this GFD in 2006-07= Rs. 4380 Cr; 2007-08= Rs. 3470 Cr; 2008-09= 2439 Cr; 2009-10= 1322 Cr.
- MTFP 2006-07 to 2008-09 has fine tuned the correction path.
- Fiscal Adjustment:
 - Revenue side
 - Expenditure side

Fiscal Adjustment : Revenue side

- Tax Revenues
 - Own tax revenue relatively high as proportion of GSDP (which does not capture external remittances), and relatively low as proportion of consumption (which captures external remittances)
 - Declining tax buoyancy in recent years.
 - Decline aggravated by switch over to VAT
 - GOI compensation on reducing basis for three years
 - Over the medium to long-term VAT, esp. after introduction of single product and services VAT, should improve tax buoyancy.
- Non-Tax Revenues
 - Kerala lagging far behind other states in augmenting non-tax revenues.
 - Recovery of user charges to cover delivery costs.
 - Increasing yields from public assets (lease charges, dividends from PSUs.)

Burden of States' Own Taxes per capita

	2003-04 Accounts	1999-00
	OT/GSDP PC	OT/Cons. PC
Andhra Pradesh	7.6%	17.9%
Karnataka	9.5%	19.1%
Tamil Nadu	9.5%	21.4%
Kerala	9.0%	16.7%
Gujarat	6.7%	19.8%
Maharashtra	7.6%	21.3%
Goa		27.9%
Average Peninsular	8.3%	20.6%
NCT Delhi	7.0%	15.7%
Punjab	7.9%	17.1%
Haryana	8.5%	18.1%
Average High Income Northern	7.8%	17.0%
West Bengal	4.6%	9.3%
Orissa	6.1%	9.3%
Bihar	6.0%	8.7%
Jharkhand	5.6%	
Madhya Pradesh	6.7%	16.7%
Chhattisgarh	6.7%	
Rajasthan	6.9%	10.9%
Uttar Pradesh	6.3%	9.1%
Average Low Income Northern	6.1%	10.7%
National Average	6.3%	14.1%

Kerala's Revenue Mobilisation

	87-88	92-93	97-98	02-03	03-04	04-05	05-06
Own Tax revenue	925	1887	4501	7297	8022	8958	9778
3YMAgr		15.5%	17.2%	12.4%	11.3%	14.9%	10.3%
Non-Tax revenue	372	279	552	681	784	819	842
3YMAgr		-4%	13%	11%	8%	15%	7.5%
Central Transfers	472	1152	2065	2653	2920	3718	4361
3YMAgr		22.0%	12.2%	6.5%	10.0%	13.3%	18.2%
Own revenue/TR	73.3%	65.3%	71.0%	75.0%	75.1%	72.5%	70.9%
Own taxes/GSDP	9.7%	9.5%	9.1%	9.0%	9.0%	8.9%	8.8%
Own tax buoyancy			137%	192%	97%	94%	83%
3 Yr. MA			112%	109%	104%	128%	91%

Fiscal Adjustment: Expenditure Side

- Major adjustments ahead undoubtedly on the expenditure side.
- Implementation of the Pay Commission recommendations set to reverse recent fiscal gains over the medium term, making XII FC RD targets difficult to attain.
- Expenditure rigidities to be addressed: salary, pension, interest and non-merit subsidies account for about 120% of the State Government's own revenue and 85% of total revenue receipts (before pay commission implementation):
 - Freezing creation of new posts in Government and Government funded organizations.
 - Major pension reform
 - Elimination of non-merit subsidies and targeting of merit-subsidies.
 - Good fiscal health of State Power and Water Utilities.
 - Strategic management of debt portfolio to reduce average borrowing costs.
- Increased private investment to exercise countervailing influence on reduction in Government expenditure/employment.

Adjustments needed to attain XII FC Targets

Table XX: State-wise Distance Path for Revenue Deficit and Gross Fiscal Deficit

(Per cent)

States	RD-GSDP Ratio			GFD-GSDP Ratio		
	2004-05 (RE)	2008-09 TFC Target	Average Annual Adjustment	2004-05 (RE)	2009-10 TFC Target	Average Annual Adjustment
1	2	3	4	5	6	7
Non-Special Category						
Andhra Pradesh	0.73	0.0	-0.18	3.36	3.0	-0.07
Bihar	0.54	0.0	-0.14	5.64	3.0	-0.53
Chattisgarh	1.08	0.0	-0.27	5.59	3.0	-0.52
Goa	0.55	0.0	-0.14	3.94	3.0	-0.19
Gujarat	2.45	0.0	-0.16	6.31	3.0	-0.66
Haryana	0.28	0.0	-0.07	1.27	3.0	0.35
Jharkhand	2.47	0.0	-0.62	8.10	3.0	-1.02
Karnataka	-0.33	0.0	0.08	2.70	3.0	0.06
Kerala	4.54	0.0	-1.14	5.27	3.0	-0.45
Madhya Pradesh	-1.38	0.0	0.34	6.29	3.0	-0.66
Maharashtra	2.58	0.0	-0.65	5.19	3.0	-0.44
Orissa	3.82	0.0	-0.95	5.56	3.0	-0.51
Punjab	3.16	0.0	-0.79	5.24	3.0	-0.45
Rajasthan	2.44	0.0	-0.61	6.48	3.0	-0.70
Tamil Nadu	0.89	0.0	-0.22	2.89	3.0	0.02
Uttar Pradesh	2.94	0.0	-0.73	5.60	3.0	-0.52
West Bengal	4.05	0.0	-1.01	5.37	3.0	-0.47
Special Category						
Arunachal Pradesh	6.54	0.0	-1.64	22.87	3.0	-3.97
Assam	3.62	0.0	-0.90	10.63	3.0	-1.53
Himachal Pradesh	4.23	0.0	-1.06	6.95	3.0	-0.79
Jammu and Kashmir	-5.79	0.0	1.45	3.70	3.0	-0.14
Manipur	-0.55	0.0	0.14	9.61	3.0	-1.32
Meghalaya	-1.98	0.0	0.50	4.03	3.0	-0.21
Mizoram	0.17	0.0	-0.04	14.39	3.0	-2.28
Nagaland	-2.85	0.0	0.71	5.34	3.0	-0.47
Sikkim	-13.70	0.0	3.42	12.18	3.0	-1.84
Tripura	-1.93	0.0	0.48	4.02	3.0	-0.20
Uttaranchal	5.48	0.0	-1.37	13.76	3.0	-2.15

“-” sign indicates surplus in revenue account

Source : Figures on Revenue Deficit and Gross Fiscal Deficit for 2004-05 (RE) are obtained from the State Budgets while figures on GSDP for 2004-05 are obtained from the website of Ministry of Finance, Government of India.

Liquidity Management Structure

- Government transactions conducted through RBI and select transaction banks (through treasuries)
- RBI transactions
 - GOI credits (central transfers)
 - Market borrowings (SDB)
 - Debt repayments
- Transaction Banks (SBI & SBT for GOK)
 - Departmental debits and credits through treasuries
 - Public account transactions (state provident, insurance, pension funds; fixed deposits; suspense account)

Liquidity Management Structure (Contd.)

- When government account in surplus, RBI invests in (interest bearing) treasury bill holdings
- When government account in deficit, automatic (interest bearing) WMA up to the State limit
- When WMA limit is exhausted, State slips into overdraft
 - Overdraft must be liquidated within 14 days
 - If overdraft exceeds WMA, must be liquidated within 5 days
 - NO more than 36 days of overdraft in a quarter
 - Weekends and holidays excluded in overdraft accounting.
- If overdraft conditions violated, State treasury shuts down.

Liquidity Management

- Debt stress has only an indirect link through expenditure rigidities in the form of high interest payments.
- Possible to improve liquidity despite worsening debt stress and vice versa.
- Fine tuning of inflows and outflows from the exchequer on a continuing basis
- Central Bank's WMA and OD facilities act as a safety valve and buttress States' own liquidity management measures.

Liquidity Management (Contd.)

- Projecting and monitoring daily inflows and outflows.
- Big inflows and outflows easy to predict:
 - GOI divisible tax pool and NSSF transfers
 - Big institutional tax payers
 - Salary and pension payments
 - Loan repayments
- Proper phasing of market borrowings and institutional loans
- Minimizing exposure to volatile flows - Public Account.
- Public Account double-edged: plays a critical balancing role in getting out of overdraft (mobilizing short-term deposits)
- Buoyant NSSF flows have improved the liquidity of state governments.

Liquidity Management (Contd.)

- Computerised Treasury Information Management system through a web-enabled system that makes real time monitoring possible.
- Integrating TIM and RBI data base
- Standing orders on phasing of government expenditure through the month and through the year.
- Case by case clearance of large payments based on current liquidity position.
- Excessive liquidity also sign of management failure:
 - Difference of 200-250 BP between marginal borrowing cost (NSSF) and interest on treasury bill holdings.
 - Fiscal laxity much more sensitive to liquidity than to debt stress

Improved Liquidity – Fewer WMA & OD

Statement 38: Availment of WMA and Overdraft from the Reserve Bank

States	WMA			Overdraft					
	2005-06*	2004-05	2003-04	2005-06*		2004-05		2003-04	
	Number of Days	Number of Days	Number of Days	Number of Occasions	Number of Days	Number of Occasions	Number of Days	Number of Occasions	Number of Days
1	2	3	4	5	6	7	8	9	10
(A) Non-Special Category									
1 Andhra Pradesh	–	–	173	–	–	–	–	6	30
2 Bihar	–	5	92	–	–	–	–	–	–
3 Goa	–	212	270	–	–	3	13	9	66
4 Gujarat	–	116	203	–	–	–	–	13	47
5 Haryana	–	–	24	–	–	–	–	4	21
6 Karnataka	–	7	196	–	–	–	–	1	1
7 Kerala	240	348	328	10	64	19	161	28	196
8 Madhya Pradesh	–	110	261	–	–	–	–	22	176
9 Maharashtra	41	68	207	1	20	5	22	17	154
10 Orissa	–	91	315	–	–	–	–	21	189
11 Punjab	22	268	291	–	–	9	115	11	53
12 Rajasthan	–	21	303	–	–	–	–	21	151
13 Tamil Nadu	–	7	38	–	–	–	–	13	73
14 Uttar Pradesh	34	294	321	1	11	13	98	14	79
15 West Bengal	–	268	362	–	–	15	115	28	260
16 Chhattisgarh	–	–	–	–	–	–	–	–	–
17 Jharkhand	–	–	31	–	–	–	–	–	–
(B) Special Category									
1 Arunachal Pradesh	28	36	–	–	18	3	6	–	–
2 Assam	57	225	337	2	22	13	126	24	315
3 Himachal Pradesh	25	159	327	–	–	4	27	27	181
4 Manipur	55	149	268	1	44	2	118	19	350
5 Meghalaya	15	–	31	1	1	–	–	1	1
6 Mizoram	14	147	131	–	–	1	1	4	24
7 Nagaland	41	103	12	1	17	3	18	19	143
8 Tripura	–	31	25	–	–	–	–	–	–
9 Uttaranchal	27	95	78	1	13	2	16	9	41

* : Up to January 18, 2006

– : Nil

Improved Liquidity – Treasury Bills

Statement 40: 14-days Intermediate Treasury Bills Investment Outstanding
(As on end-March)

(Rs. crore)					
States	2001-02	2002-03	2003-04	2004-05	2005-06*
1	2	3	4	5	6
(A) Non-Special Category					
1 Andhra Pradesh	139	190	1,183	1,701	253
2 Bihar	91	943	299	2,845	3,931
3 Chhattisgarh	352	589	271	335	711
4 Goa	–	–	–	80	199
5 Gujarat	–	747	289	227	3,166
6 Haryana	–	149	632	1,571	3,894
7 Jharkhand	1,482	217	1,259	1,139	982
8 Karnataka	1,885	388	296	2,033	971
9 Kerala	–	–	–	–	343
10 Madhya Pradesh	–	27	–	200	777
11 Maharashtra	857	1,021	1,831	1,095	2,300
12 Orissa	–	–	102	653	1,080
13 Punjab	–	–	–	–	911
14 Rajasthan	–	–	179	930	1,051
15 Tamil Nadu	–	–	–	–	5,075
16 Uttar Pradesh	–	407	240	–	3,017
17 West Bengal	–	–	–	935	2,408
Total (A)	4,806	4,678	6,580	13,744	31,068
(B) Special Category					
1 Arunachal Pradesh	48	97	6	–	289
2 Assam	–	–	–	–	854
3 Himachal Pradesh	–	–	–	–	317
4 Manipur	–	–	–	–	88
5 Meghalaya	89	123	148	160	11
6 Mizoram	–	36	11	114	119
7 Nagaland	–	245	25	–	107
8 Tripura	–	103	8	297	421
9 Uttaranchal	–	311	77	–	307
Total (B)	137	916	275	571	2,514
Grand Total (A+B)	4,943	5,594	6,856	14,314	33,582

*As on January 18, 2006

Nil

Ways and Means & Overdraft

	WMA(Days)	Overdraft	
		Days	Occasions
1992-93	101	64	
1993-94	95	13	
1994-95	26	2	1
1995-96	0	0	0
1996-97	5	2	1
1997-98	41	0	0
1998-99	173	33	6
1999-00	201	85	15
2000-01	126	213	23
2001-02	136	222	15
2002-03	161	196	16
2003-04	328	178	27
2004-05	338	124	18
2005-06	195	47	8

2006-07

	WMA	OD	Occ.
April	18	2	1
May	3	0	0
Total	21	2	1

Resource Position 2006-07

	2005-06	% of Total	2006-07 Budget	% of Total	% Increase
Tax Revenue	12116	59%	14690	53%	21.2%
Sales Tax	7038	34%	8130	30%	15.5%
Excise	841	4%	945	3%	12.3%
MVT	629	3%	760	3%	20.9%
Reg&Stamps	1101	5%	1400	5%	27.1%
Elec.Duty	32	0.2%	266	1%	742.9%
Other State Taxes	138	1%	163	1%	18.2%
Share in Federal Taxes	2338	11%	3027	11%	29.5%
Non-Tax Revenue	2378	12%	4360	16%	83.4%
Non Plan Central Grants			690	3%	
Vat Compensation			1067	4%	
Plan Grants+CSS	2023	10%	1581	6%	-21.9%
Lotteries	165	1%	161	1%	-2.4%
Forests	190	1%	250	1%	32.0%
Education	85	0.4%	104	0%	22.4%
Others	403	2%	507	2%	26.0%
Borrowings (gross)	5957	29%	8481	31%	42.4%
OMB	1806	9%	1794	7%	-0.7%
Neg. Loans	630	3%	930	3%	47.6%
Central loans/EAPs	543	3%	979	4%	80.4%
Public Account	300	1%	1744	6%	481.3%
NSSF	2678	13%	3000	11%	12.0%
NCDC			34		
Total Resources	20451	100	27531	135	34.6%

Thank you for the patient hearing

