Fiscal positions of selected Indian States

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Abstract:

Present research paper is an attempt to analyze the fiscal status of the selected Indian states and also compare the individual state positions in terms of their fiscal deficit, revenue deficit and total revenue to GSD. For this purpose, the data are taken from RBI and budget documents of India. A period of five years from 2009-10 to 2013-14 is selected to check the fiscal positions during the propensity period of Indian Economy.

Introduction:

Indian economy have shown a strong growth rate in gross domestic product during 2004 to 2008 and same level of high growth rate have also recorded in key macroeconomic indicators of Indian economy. But this continuous increasing trend in growth rate got hindered by the North Atlantic financial crisis (NAFC) in the year 2008. However, the growth of Indian economy return to normal level initially in response to large monetary and fiscal stimuli but the growth rate of Indian economy had slowed down significantly afterwards which result into a substantial widening of the current account and fiscal deficits during the period 2008-09. There is also a view that the high growth phase of 2004-09 was a debt-led cyclical boom which was supported by extraordinary capital inflows in the world economy, corresponding with an outstanding growth phase in the world economy (Nagaraj, 2013). Thus the increasing trend of growth rate of economy during this period can be due to this reason also.

Review of literature:

Various researchers have measured the relation between public debt and growth of GDP. Reinhart and Rogoff (2010) in their study found that countries having more than 90 percent public debt have shown lower growth performance than other countries whose public debt percentage are less. Kumar and Woo (2010), have found in their study that higher level of public debt leads to negative growth of an economy. Bernheim, (1989) have shown in their research that due to revenue deficit the savings of government will get reduce and that reduction cannot be fully offset even with the increase in private savings, thus the overall rate of savings gets reduces. Thus both the fiscal and revenue deficit will lead to decrease in rate of saving and investment which will result into low growth rate of economy.

From the literature review it is clear that majority of the study have measured the fiscal position at national level, or have made a comparison of various economies but very few studies are available where the fiscal position at state level has been measured or analyzed by the researchers. So, the present paper will be an attempt in the direction of filling this gap.

Objective:

Following are the main objective of the research:

- To make a relative analysis of Indian States on the basis of fiscal indicators.

Research Methodology

The secondary data has been collected for a period of five years from 2009-10 to 2013-14 after recession period of the Indian economy. In this study whole India has been divided into six different regions such as, northern, northeastern, western, eastern, southern, and central region. From each region two states have selected for the purpose of study on the basis of their Gross state domestic product (GSDP). Two states from each region with highest amount of GSDP have been selected. The purpose behind dividing the whole India into different regions is to do an evenly study which can cover almost all the areas instead of focusing on only on major states.

Measuring the Level of Development of Fiscal Indicator:

Following section explains the fiscal indicators used in the study along with formula to caluculate each of the indicator:

Fiscal deficit to GSDP ratio: Fiscal deficit can be defined as the difference between the state government's expenditures and its revenues (excluding the money state government has borrowed). Fiscal deficit to GSDP = (Fiscal deficit / GSDP) * 100

Revenue deficit to GSDP ratio: Revenue deficit occurs when the net amount received (revenues less expenditures) falls short of the projected net amount to be received.

Revenue deficit to GSDP = (Revenue deficit / GSDP) * 100

Public debt to GSDP ratio: Government debt (also known as public debt, national debt and sovereign debt) is the debt owed by a central government. Here, we are using the public debt as the state government's debt.

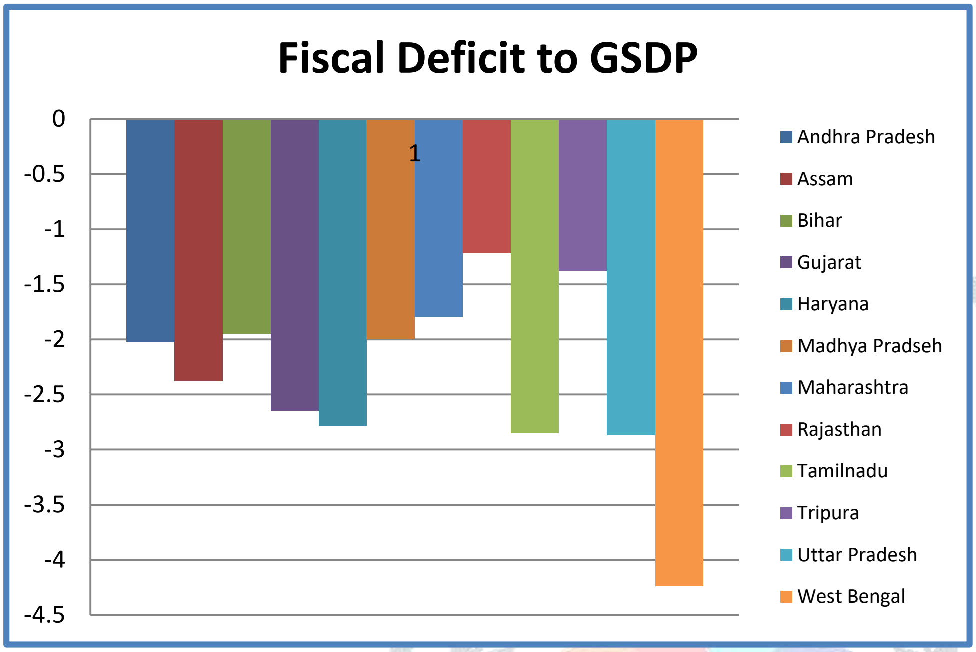
Public Debt to GSDP ratio = (Public Debt / GSDP) *100

Total Revenue to GSDP ratio: Total revenue as per fiscal policy refers to the both tax revenue and non-tax revenue of a state government in a fiscal year.

Total revenue to GSDP ratio = (Total Revenue / GSDP) *100

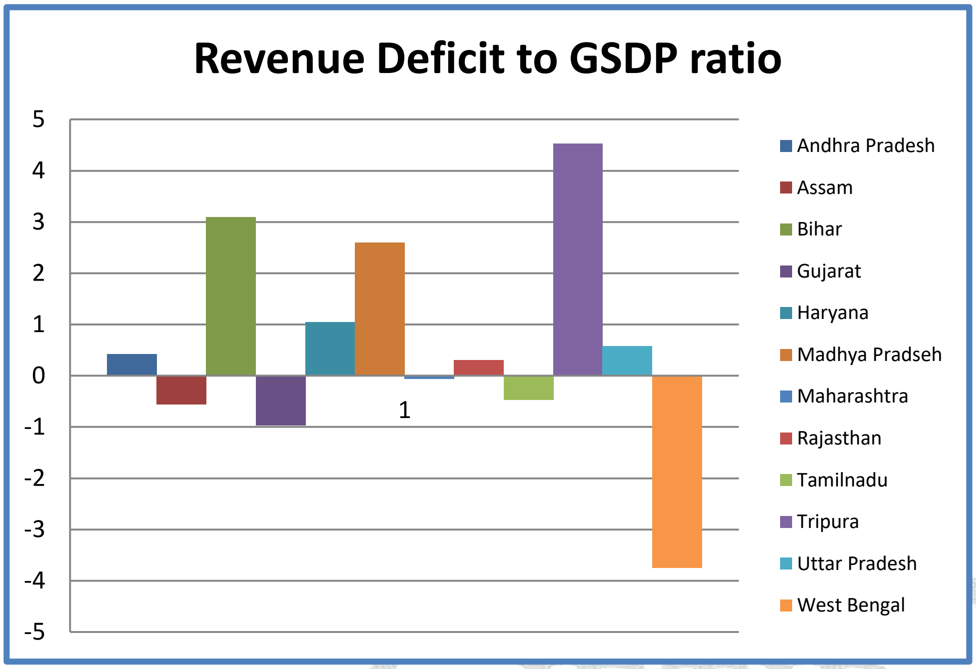
Data Analysis

This section deals with the analysis of data related to comparative analysis of selected Indian states on the basis of fiscal performance indicators.



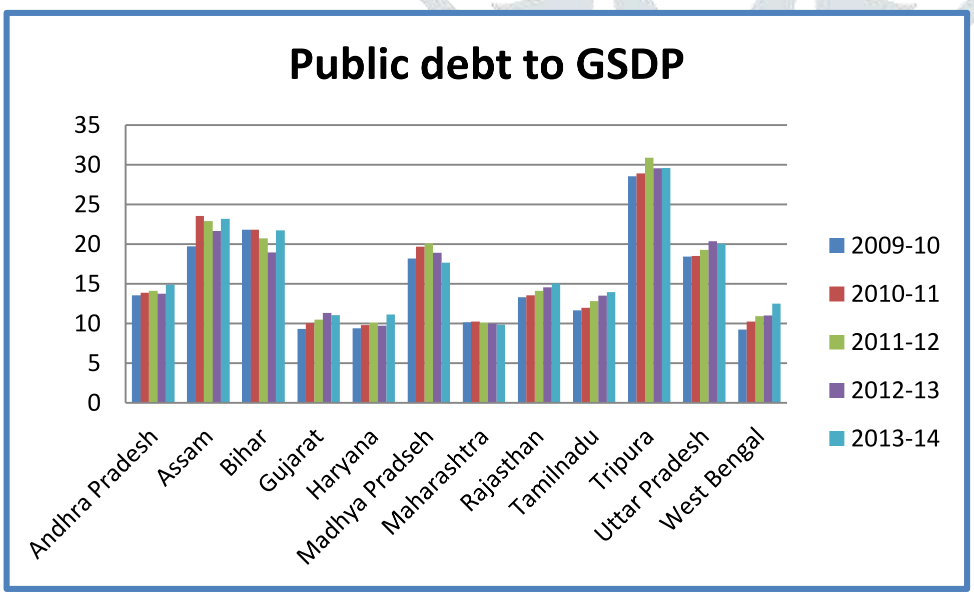
Graph 1: Fiscal deficit to GSDP

Interpretation: It can be interpreted from the graph 1 that as per the Fiscal deficit to GSDP ratio, West Bengal is leading state in comparison to other states, followed by Maharashtra, Tamil Nadu and Haryana respectively. Rajasthan and Tripura states are having lowest Fiscal deficit to GSDP ratio in comparison to other states. Fiscal deficit to GSDP ratio shows the access of government expenditure over its income for a particular fiscal year. The states which are having lowest Fiscal deficit to GSDP ratio are tend to generate more revenue and therefore lead to high amount of GSDP also.



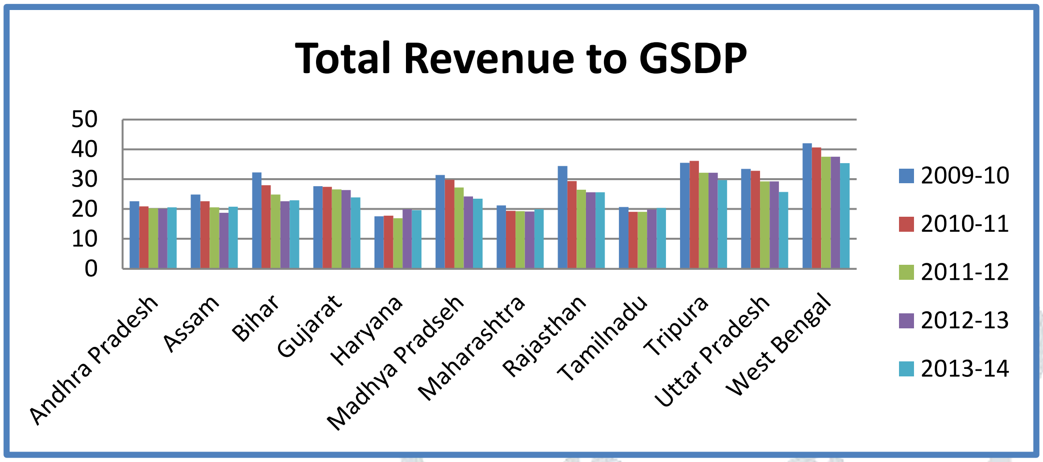
Graph 2: Revenue Deficit to GSDP

Interpretation: It can be interpreted from the graph 2 that as per the Revenue deficit to GSDP ratio, West Bengal is leading state in comparison to other states, followed by Gujarat, Assam and Tamil Nadu respectively. Bihar and Tripura states are having Revenue Surplus to GSDP ratio in comparison to other states. Revenue deficit to GSDP ratio shows the access of government revenue expenditure over its revenue income for a particular fiscal year. The states which are having positive Revenue deficit (revenue surplus) to GSDP ratio are tend to generate more revenue income and therefore lead to high amount of GSDP also.



Graph 3: Public Debt to GSDP

Interpretation: It can be interpreted from the graph 3 that as per the ratio of Public debt to GSDP, Tripura is leading state in comparison to other states, followed by Assam, Bihar and Uttar Pradesh respectively. Maharashtra and Haryana state is having lowest Public debt to GSDP ratio in comparison to other states. While overall the trend in ratio of Public debt to GSDP for all the states have shown an increasing trend from last five years. Maharashtra state is showing decreasing trend in the ratio of Public debt to GSDP from last three years while all other states have shown increasing trend in the ratio of Public debt to GSDP.



Graph 4: Total Revenue to GSDP

Interpretation: It can be interpreted from the graph 4 that as per the ratio of Total Revenue to GSDP, West Bengal is leading state in comparison to other states, followed by Tripura, Uttar Pradesh and Rajasthan respectively. Haryana and Maharashtra states are having lowest Total Revenue to GSDP ratio in comparison to other states. While overall the trend in ratio of Total Revenue to GSDP for most of the states has shown a decreasing trend from last five years. West Bengal and Madhya Pradesh states are showing continuous decreasing trend in the ratio of Total Revenue to GSDP from last five years while Haryana state have shown increasing trend in the ratio of Total Revenue to GSDP from last two years.

Reference

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