



A Study on Deficit and Debt Scenario of North Eastern States of India

KEYWORDS

Deficit, Debt, North Eastern States

Dr. Ajit Kumar Dash

Asst. Prof. in Economics ICFAI University, Raipur,
Raipur-Bhilai Road, KM Stone-20, Durg-490042
Chhatisgarh, India

Dr. Sudhansu Sekhar Rath

Professor of Mathematical Economics
Sambalpur University, Jyotivihar-768019, Odisha, India

ABSTRACT *This paper is an attempt to observe deficit trend and debt to GSDP scenario of North Eastern States of India over a period twenty years i.e 1991-2010. It has been observed that the deficit burden of the NE states is because of different other types of non plan revenue expenditure other than the interest payment. Though the NE states are special category states and are getting more as grant than the loan from the central government still these states are unable to attain revenue sufficiency and going for debt the average of debt as a percentage of GSDP shows an increasing trend for the NE states which is negative from the view of point of revenue management and planning for developmental expenditure.*

INTRODUCTION:

The North East India consists of eight states such as Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim and Tripura (Here after NE states). These states are characterized by geographical problems and other social issues for which these states are declared as the special category states and awarded with special assistance from the central government. It is realized that the development of these states as important as the development of other part of the country. However, development of an economy depends on proper utilization of fund and revenue generation. In this context, fiscal imbalance of both central and states governments in terms of deficit and debt is a well known matter of discussion in the literature of public finance of India but the state finances of NE states have not yet received sufficient attention. It is essential to understand the state finance condition of these states from development of this area and micro economic efficiency point of view. This paper is in this line.

OBJECTIVE AND RESEARCH METHODOLOGY:

The sole objective of this paper to observe the trend of different types of deficits and the debt condition of NE states of India

This study is a part of the Phd. Work started in the year 2010 and awarded in the year 2014. So the study period was set over 1991 to 2010 so as to examine the scenario over last twenty years.

It is basically explorative by nature and based on secondary data. We have used the latest available data collected from Hand Book of Statistics on State Government Finances published in the year 2010 by the Reserve Bank of India, which is widely accepted as authentic. Though there has been changes and current data is available up to today, it has not yet been compiled which can be used for a study like this.

Data has been analyzed and interpreted with appropriate statistical methods like percentage, average and growth rates.

LITERATURE REVIEW:

Fiscal imbalance in terms of deficit and debt has received

wide attention. Notable studies based on public debt in India are (Buter and Patel, 1992), (Patnaik, 1996), (Lahiri and Kananan, 2000), (Acharya, 2001) and (Ahluwalia, 2002). Similarly, notable studies based on state government debt analysis are (Rajaraman et al., 2005), (Dholakia et al., 2004) and (Elena and Nagarajan, 2007). In the context of north-eastern states, it is argued that since these states are special category states and their developmental expenditure is basically financed with the help of special assistance from the centre and the private investment is negligible, the public expenditure plays a crucial role in the growth of Gross State Domestic Product (GSDP) (Sarma and Nayak, 2006). Thus, growth mainly comes from government spending. In a situation where the primary expenditure is compressed, automatically the victim is the developmental capital outlay, which ultimately results in reduction in growth (Nayak and Rath, 2010). Further, contingent liabilities, primarily in the form of issuance of guarantees by the state governments, remain another area of concern. The strong presence of contingent liabilities calls for a holistic assessment of debt position of states by reckoning their off-budget fiscal position including the impact of operations of state public sector enterprises (Kaur et al., 2014). To observe fiscal performance after fiscal reform programs (Dash, 2011) measured the fiscal performance of Tripura by evaluating its performance over the time period 1990-91 to 2009-10 and concluded that the state should maintain its fiscal discipline in terms of deficit management and own revenue augmentation to have sustainable long term financial stability. Similarly, (Dash and Tiwari, 2011) ranked NE states according to their fiscal performance and conducted the nonlinear stationary test using Ucar and Omay (2009). They observed that Arunachal Pradesh ranks and fiscal performance of northern states of India is liner non-stationary. (Dash, 2015) studied growth performance and debt position of NE states and concluded that growth performance is not satisfactory rather suffering from huge mounting public debt

DATA ANALYSIS AND INTERPRETATION:

Deficit Indicators:

The trend in fiscal imbalance can be observed by studying the trend of different deficit indicators such as i) Revenue Deficit as a percentage of GSDP, ii) Fiscal Deficit as a per-

centage of GSDP and iii) Primary Deficit as a percentage of GSDP.

Fiscal Deficit

The Gross Fiscal Deficit (GFD) is the difference between aggregate disbursements net of debt repayments and recovery of loans and revenue receipts and non-debt capital receipts. It is observed that the fiscal deficit as a percentage of GSDP has been incurred by all the NE states in all years from 1990 to 2008-09 except two states such as Assam and Tripura which have minimal percentage of 0.95 and 0.01 respectively during 2005-08 as surplus. A significant increase in fiscal deficit has been observed for Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Sikkim and Meghalaya during 1990-95 to 2000-05.

However in the case of Nagaland it was 13.06% during 1990-95 and has decreased continuously up to 3.82 by the time period 2005-08. The NE states as a whole registering an average fiscal deficit to GSDP of 5.28% during 1990-95 which have increased to 7.34% during 1995-00 and 7.59% during 2000-05.

Revenue Deficit

All the NE states had revenue surplus during 1990-95 except Nagaland which had revenue deficit as a percentage of GSDP of 65.4% .In the next five year i.e 1995-00 two states such as Assam (0.4%) and Nagaland (1%) had deficit. During 1995-00 Assam continued to have deficit of 1.4%, Manipur had deficit of 1.5% and Mizoram registered a deficit amount of 3.5% as a percentage of GSDP. However in the next three years of time period no NE states had deficit.

To Compare NE states with the 14 major states, average of revenue deficit as a percentage of GSDP for all NE states and 14 major states have been calculated. The calculation shows that when all NE states in average had no deficit since 1990 to 2008, the 14 major states had deficit since 1990 to 2005.Only during 2005-08 these states had surplus.

Primary Deficit

Primary Deficit is the gross fiscal deficit subtracting the interest Payment. Primary deficit basically shows the deficit burden after the interest payment. Since the states pay the interest amount as the servicing of debt .To know the deficit situation after the interest payment, we have presented the primary deficit as the percentage of GSDP so as to know the deficit burden as a share of the GSDP.

It has been observed from the study that the deficit burden is significantly less for most of NE states .However, it cannot be denied that even after paying the interest amount the state suffered from an average 1.21% of primary deficit during 1991-95 which have increased to 2.87% during 1995-00 and 2.67% during 2000-05. Further, the average primary deficits of NE states are observed to be more than the average of 14 major states and all states average.

Increasing Debt to GSDP

The average of debt as a percentage of GSDP in each five year during 1991-09. During 1991-95, the calculated debt as a percentage of GSDP of Sikkim is 60.9% which is highest among all NE states. The next to it is Mizoram which had 57.6 % of debt of its GSDP. Arunachal Pradesh (40.5%) , Nagaland (43.8%),Tripura(41.5%) had more than 40% of debt as a percentage of GSDP when states like As-

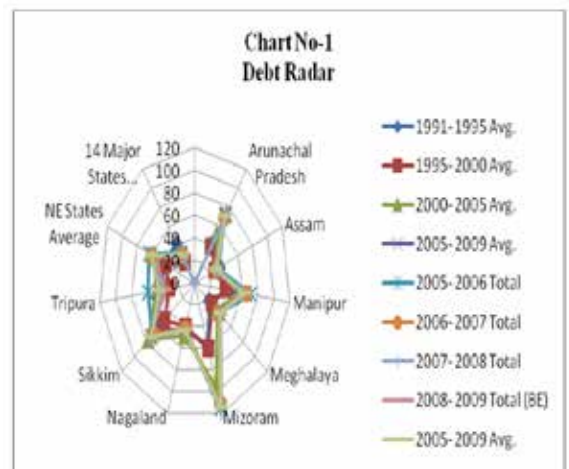
sam had 33.8% and Meghalaya had 23.4%. The average of all NE state's debt as a percentage of GSDP was 43.42% which was more than the average of all 14 major states. From 1991-1995 to 1995-2000, the debt as a percentage of GSDP has decreased for Arunachal Pradesh (from 40.5% to 38.2%), Assam (33.8% to 27.6%), Manipur (45.9% to 39.5%), Nagaland (43.8 % to 39.7%), Sikkim (60.9 % to 50.3%) and Tripura (41.5% to 32.1%). However, it has increased for Meghalaya (23.4% to 28.2%). In the phase of 1995-2000, the average debt as a percentage of GSDP of all NE states has decreased to 39.52% from 43.42% in its previous year 1991-95 but for the 14 major states it is calculated as 22.2%.

Table-1Debt as a percentage of GSDP

State	1991-1995	1995-2000	2000-2005	2005-2009	2005-2006	2006-2007	2007-2008	2008-2009	2005-2009
	Avg.	Avg.	Avg.	Avg.	Total	Total	Total (RE)	Total (BE)	Avg.
Arunachal Pradesh	40.5	38.2	52.7	71.1	72	68.9	73.6	69.8	71.1
Assam	33.8	27.6	29.4	29.5	32	30	27.8	28.2	29.5
Manipur	45.9	39.5	55.9	64.1	71.1	65	62.3	58.1	64.1
Meghalaya	23.4	28.2	36.7	41.1	40.3	40	42.2	42	41.1
Mizoram	57.6	60.6	95.8	115.3	115.3	111.5	119.3	115.2	115.3
Nagaland	43.8	39.7	48.6	42.8	43.5	41.9	42.6	43	42.8
Sikkim	60.9	50.3	77.1	72.8	71.5	69.1	74.2	76.5	72.8
Tripura	41.5	32.1	48.6	44.7	58.7	44.9	39.6	35.6	44.7
NE States Average	43.42	39.52	55.66	60.17	63.05	58.91	60.02	58.55	60.17
14 Major States Average	42.10	22.2	30.5	29.4	32	29.9	28.2	27.6	29.4

Note: (i) "+" indicated Deficit and "-" indicates Surplus (ii) 14 Major States includes Andhra Pradesh, Bihar,Gujrat,Haryana,Karnataka,Kerala, Madhyapadesh,Maharashtra,Orissa,Panjab,rajasthan,Tamilnadu,uttarprades h,and Westbengal

Source: Author's Own Calculation using Data Collected form Hand Book of Statistics on State Government Finances,RBI,2010



Source: Author's Own Calculation

The comparison between 1995-2000 and 2000-05 states that, the debt as a percentage of GSDP for each NE states has increased significantly. Mizoram registered a 95.8% of debt as a percentage of GSDP and similarly for Sikkim it is 77.1%. However, the average of NE states is 48.6%, when the average of 14 major states is 55.66%. So from 1995-2000 to 2000-2005, there is a significant increase in the debt of NE states and the average of all NE states has shown an increasing trend. Similarly the average of 14 major states has also increased to 30.5%.

The calculation for the time period of 2005-09 shows that the percentage of GSDP has increased for all NE states except for Nagaland, Sikkim and Tripura. It will be worthy to note here that Sikkim's average debt as a percentage of GSDP is more than 100%. All together the average of NE states is more than the average of 14 major states.

CONCLUSION:

It can conclude that the deficit burden of the NE states is because of different other types of non plan revenue expenditure other than the interest payment. Though the NE states are special category states and are getting more as grant than the loan from the central government still these states are unable to attain revenue sufficiency and going for debt. The average of debt as a percentage of GSDP shows an increasing trend for the NE states which is negative from the view of point of revenue management and planning for developmental expenditure.

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