

Chapter - 4

Chapter – 4

PROBLEM AND MAGNITUDE OF MAHARASHTRA'S INDEBTEDNESS TO THE CENTRE

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Chapter – 4

PROBLEM AND MAGNITUDE OF MAHARASHTRA'S INDEBTEDNESS TO THE CENTRE

4.1 Introduction

Central transfers in the form of loans to the states have become crucial in Centre – State financial, which needs scrutiny. Larger central transfers in the form of central loans to states, more so, as we have seen in case of Maharashtra has led to increased outstanding central loans of the states, which in turn increases the debt servicing burden of these loans which affects on the state expenditure and receipts on revenue account as well as capital account. Central loans form a major component of state debt receipts, all state debt outstanding also increase as consequence to this and this increases revenue expenditure due to rising interest payment of the states. Repayment of central loans reduces the net loan availability for use purpose for the state government. All these issues are studied with reference to government of Maharashtra in this chapter.

4.2 Growth of Outstanding Central Loans to Government of Maharashtra

A developed state like Maharashtra loans from the centre play a predominant role in total central fiscal transfers. Central loans the major sources of capital receipts of the states in India. Since the inception of planning in India, states are indebted to the centre with the continuous rise in the plan assistance to states. A developed state like Maharashtra received more amount of central loans due to high loan component of plan

assistance. We have seen in earlier chapter, there is growth in central loans to government of Maharashtra, which formed nearly 40 percent of the total capital receipts of government of Maharashtra during the most of the years of the period under study. Such growth of central loans transferred to government of Maharashtra has led to the growth in outstanding central loans.

Table No. 4.1
Outstanding Debt of Government of Maharashtra and Share of Central Loans Outstanding : 1990 to 2005

(Rs. in crores)

Amount of Debt Outstanding	Total Debt Outstanding	Outstanding Loans from the Centre	Outstanding Loans from the Centre % of Total Debt Outstanding
1990	8653.95	6809.71	78.69
1991	10039.56	7824.90	77.94
1992	11523.12	8901.75	77.25
1993	12768.03	9899.05	77.53
1994	14234.87	10978.61	77.12
1995	16020.01	12038.93	75.12
1996	18279.96	13478.97	73.74
1997	21751.43	15940.92	73.29
1998	25869.87	19077.62	73.74
1999	31175.87	23062.23	73.97
2000	38300.00	23028.00	60.13
2001	44680.00	22910.00	51.28
2002	52795.00	22814.00	43.21
2003	61256.00	22654.00	36.98
2004 RE	74692.00	19170.00	25.67
2005 BE	84114.00	19002.00	22.59

Source : As of Table No. 2.1

Table No. 4.1 shows the growth of outstanding debt of government of Maharashtra and the growth and relative share of central loans outstanding in total outstanding loans liability of government of Maharashtra. Maharashtra's total outstanding debts increased from Rs. 8653.95 crores

in March 1990 to Rs. 21751.43 crores in March 1997 and Rs. 44680.00 crores by end of March 2001 and in March 2003 it was reached to Rs. 61256.00 crores and were estimated at Rs. 84114.00 crores by end of March 2005.

During the period under study the outstanding debt of state government of Maharashtra has been increasing continuously yearly, rising outstanding debt, the problem of indebtedness of the state government of Maharashtra also increasing. Thus, during the period under study outstanding total debt of government of Maharashtra increased by nearly 10 times in 2005 over 1990. Of this outstanding total debt liability we find that Maharashtra's indebtedness to the centre was also increasing from Rs. 6809.71 crores by end of March 1990 to Rs. 12038.93 crores in March 1995, Rs. 23062.23 crores by March 1999 to Rs. 22814.00 crores by end of March 2002 and were estimated at Rs. 19002.00 crores by end of March 2005. the outstanding central loans liability increased by nearly 2.79 times in 2005 over 1990, which proves that central loans outstanding increased slowly than total debt outstanding liabilities of government of Maharashtra. In addition, we find out the share of central loans outstanding of government of Maharashtra. During 1990 to 1999 they formed more than 71 percent of total debt outstanding of Maharashtra. Later on period the share of central loans outstanding in the total debt outstanding of Maharashtra has been declining. The share of central loans outstanding in 2001 was 60.13 percent to the total debt outstanding of government of Maharashtra. This share again declined to 22.59 percent at the end of March 2005. since 2000 onwards

share of central loans outstanding of total outstanding debt has declined because the share of internal debt outstanding increased.

Thus, growth of central loans to Maharashtra has increased outstanding central loans, which had contributed greatly to the total outstanding debt liability of the government of Maharashtra.

Thus, we have seen that continuous growth in central loans outstanding of the government of Maharashtra to solve this problem of growing indebtedness, recent Finance Commission have provided the debt relief to the government of Maharashtra but still growth of outstanding central loans are rising faster than the debt relief provision, which has increased the burden of debt servicing on the state finance. Data also indicate that the Maharashtra indebtedness to the centre has increased rapidly during the study period.

4.3 Growth of Debt Servicing Burden of Central Loans to Maharashtra

Growth in the central loans outstanding has increased the problem of debt servicing of the central loans. This situation has risen in India, because of the high loan component in the central assistance to states in India.

Mounting debt servicing burden of central loans has reduced the net loans available to the state in India and a situation has risen where in most of the state in India have fallen into 'debt traps' a situation where in fresh central loans are necessary to service old loans.

As seen in the earlier table, the major contributory factor to this growth of total debt outstanding has been the growth in magnitude of outstanding central loans of government of Maharashtra, which are increased inspite of debt relief provided for by successive Finance Commission. Growth of total debt outstanding increasing the debt servicing burden of the state which can be measured in terms of rise in interest payment made and repayment burden of the debt incurred by the states in a financial year. Growth of total debt servicing burden is mainly accounted for by rise in outstanding central loans liability of the state and Maharashtra is no exception of this.

Table No. 4.2
Debt Servicing Burden of Central Loans to Maharashtra :
1990-91 to 2005-06

(Rs. in crores)

Year	Repayment of Central Loans	Interest Payment of Central Loans	Total Debt Servicing
1990-91	280.84	606.31	887.15
1991-92	318.70	836.45	1155.15
1992-93	355.84	960.18	1316.02
1993-94	390.42	1085.06	1475.48
1994-95	416.19	1243.35	1659.54
1995-96	461.25	1401.50	1862.75
1996-97	542.40	1620.80	2163.20
1997-98	647.90	1976.40	2624.30
1998-99	732.00	2445.70	3177.70
1999-00	817.60	3035.50	3853.10
2000-01	860.67	3609.08	4469.75
2001-02	960.61	3055.93	4016.54
2002-03	1122.09	3056.94	4179.03
2003-04	686.41	3049.72	3736.13
2004-05 RE	735.17	2058.29	2793.46
2005-06 BE	466.15	940.33	1406.48

Source : As of Table No. 2.1

Table No. 4.2 shows that total debt servicing burden of central loans of the government of Maharashtra from 1990-91 to 2005-06. In 1990-91 total debt servicing burden of central loans was Rs. 887.15 crores out of which Rs. 280.84 crores were paid repayment of central loans to the central and Rs. 606.31 crores were paid in the form of interest payment to the centre. In 1994-95 interest payments burden of central loans which was Rs. 1243.35 crores was more than the repayment burden of central loans which was Rs. 416.19 crores and led to the total debt servicing burden of Rs. 1659.54 crores. Total debt servicing burden of central loans continuous rising trend during 1990s. In 2000-01 total debt servicing of central loans was Rs. 4469.75 crores which includes Rs. 860.67 crores repayment of central loans and Rs. 3609.08 crores of interest payment of central loans. Later on period there were fluctuations in the debt servicing burden of central loans of government of Maharashtra. In 2001-02 the total debt servicing burden of central loans of government of Maharashtra was Rs. 4016.54 crores consisting of Rs. 3055.93 crores of interest payment burden which was more the repayment of central loans. In 2002-03 Maharashtra government Rs. 1122.09 crores of repayment of loans to the centre and interest payment made were Rs. 3056.94 crores so total debt servicing burden during that year was Rs. 4179.75 crores.

In 2005-06 estimated total debt servicing burden of central loans was Rs. 1406.48 crores consisting of Rs. 466.15 crores of repayment of central loans and Rs. 940.33 crores of interest payment on central loans. Thus, we find that interest payment on central loans was more than repayment

of central loans in total debt servicing burden of Maharashtra during the period under study.

Thus, the data reveals that there is rapid growth in the debt servicing burden of central loans to government of Maharashtra. Such increasing debt servicing cost of central loans has its impact on total revenue mobilisation and expenditure pattern of government of Maharashtra revenue account as well as capital account of its budget.

4.3. a) Revenue Receipts and Burden of Interest Payment on Central Loans

growth of debt servicing burden of central loans given to states increased the interest payment, that the state has made to the centre as a result of dependency on this from of central assistance. Rising interest payment to the centre form a major component of the revenue expenditure of states. In addition, revenue receipts have to be used to meet this financial liability of interest payment. If central loan outstanding increase over the period, then interest payment to the centre are also bound to increase and this puts a strain on the revenues of the state government. With the growth in the central loans, interest payment on central loans also increased and part of the revenue receipts of the state government were spent on interest payment to the centre.

Table No. 4.3
Revenue Receipts – Central Loan Interest Payment Ratio :
1990-91 to 2005-06

(Rs. in crores)

Year	Revenue Receipts	Total Interest Payment	Interest Payment on Central Loan	Interest Payment on Central Loan % of Revenue Receipts	Interest Payment on Central Loans as % Total Interest Payment
1990-91	8699.00	8880.76	606.31	6.97	68.84
1991-92	9772.60	1159.55	836.45	8.56	72.14
1992-93	10818.20	1336.83	960.18	8.88	71.83
1993-94	12986.80	1510.08	1085.06	8.36	71.85
1994-95	15089.50	1760.00	1243.35	8.24	70.64
1995-96	16559.30	2055.40	1401.50	8.46	68.19
1996-97	19225.20	2447.20	1620.80	8.43	66.23
1997-98	20316.60	2903.60	1976.40	9.73	68.07
1998-99	21737.10	3673.10	2445.70	11.25	66.58
1999-00	25269.50	4883.60	3035.50	12.01	62.16
2000-01	29566.90	5224.54	3609.08	12.21	69.08
2001-02	30092.90	6429.08	3055.93	10.15	47.53
2002-03	31103.00	7129.75	3056.94	9.83	42.88
2003-04	34370.52	83354.70	3049.72	8.87	36.59
2004-05 RE	42882.95	8892.47	2058.29	4.80	23.15
2005-06 BE	50429.82	9537.79	940.33	1.86	9.86

Source : As of Table No. 2.1

Table No. 4.3 shows the growth of total interest payment of Government of Maharashtra and the growth of interest payment to the centre, its share in total interest payment burden of Maharashtra and percentage share of revenue receipts spent on interest payment to the centre.

Total revenue receipts of Government of Maharashtra increased from Rs. 8599.00 crores in 1990-91 to Rs. 50429.82 crores in 2005-06. total revenue receipts of Government of Maharashtra continuous increasing trend during study period. Substantial part of this revenue receipts was spent

on the non-developmental expenditure such as interest payment. Total interest payment of government of Maharashtra rose from Rs. 880.76 crores in 1990-91 to Rs. 2447.20 crores in 1996-97 and to Rs. 8335.47 crores in 2003-04. In 2005-06 estimate total interest payment of government of Maharashtra were Rs. 537.79 crores. Total interest payment of the government of Maharashtra risen steadily and continuously during the study period. In 1990-91 interest payment on central loans was Rs. 606.31 crores, which rose to Rs. 1620.80 crores in 1996-97 and further rose to Rs. 3056.94 crores in 2002-03. In 2005-06 budget estimate interest payment on central loans decreased to Rs. 940.33 crores. Interest payments on central loans are the major component of total interest payment liability of the government of Maharashtra. Interest payment of central loans increased as the result of state indebtedness to the centre increase and interest payment liabilities increase.

Such growing interest payment on central loans, which was more than 60 percent of the total interest payment of government of Maharashtra, utilised the revenue receipts of the state and in the process contribute to growth in revenue expenditure. In 1991-92 interest payment on central loans were 68.84 percent of the total interest payment of government of Maharashtra formed 6.97 percent of total revenue receipts. During 1996-97, interest payment on central loans was 66.23 percent of the total interest payment of the government of Maharashtra, which was 8.43 percent of the total revenue receipts of Maharashtra. In 2003-04 interest, payment of central loans came down to 36.59 percent of total interest payment, which was 8.87 percent of total revenue receipts. In 2005-06 share of interest

payment on central loans again came down to 9.86 percent of total interest payment, which formed only 9.86 percent of total revenue receipts of government of Maharashtra. Interest payment on central loans as proportion of total interest payment fluctuated between 9.86 percent and 72.14 percent during 1990-91 to 2005-06 and interest payment of central loans as a proportion of total revenue receipts fluctuated between 1.86 percent and 12.21 percent during the period 1990-91 to 2005-06.

Thus, the growth in central loans to government of Maharashtra not only led to fiscal dependency of Maharashtra on the centre but it also compelled Maharashtra to spend part of its revenue receipts on interest payment on central loans. Earlier it was nearly 9 percent of the revenue receipts but at the end in 2005-06, it was nearly 2 percent of the total revenue receipts.

4.3.b) Total Revenue Expenditure of Government of Maharashtra and Interest Payment Burden of Central Loans

Growth of interest payment due to growth in the debt of the state government, increases growth of non-development expenditure. In the process reduces the amount of revenue available to a state government to be utilised for spending on welfare and developmental purpose. We have seen in the last table there is continuous growth in the total interest payment of Maharashtra, which is one of the major items of revenue expenditure and in this total interest payment share of interest payment on central loans is nearly 65 percent. since 1991 the total revenue expenditure of states is increasing continuously due to increase in the

development and non-development expenditure of the state and the growth of central loans increases the revenue expenditure of states due to increase in its interest payment burden.

Table No. 4.4
Revenue Expenditure – Interest Payment on Central Loan Ratio :
1990-91 to 2005-06

(Rs. in crores)

Year	Revenue Expenditure	Interest Payment on Central Loan	Interest Payment on Central Loan as % of Revenue Expenditure
1990-91	8753.60	606.31	6.93
1991-92	10048.70	836.45	8.32
1992-93	11546.70	960.18	8.32
1993-94	13108.70	1085.06	8.28
1994-95	14812.20	1243.35	8.39
1995-96	17168.40	1401.50	8.16
1996-97	20845.80	1620.80	7.78
1997-98	22896.50	1976.40	8.63
1998-99	25663.00	2445.70	9.53
1999-00	25538.20	3035.50	10.28
2000-01	37401.00	3609.08	9.65
2001-02	38281.50	3055.93	7.98
2002-03	40474.00	3056.94	7.55
2003-04	42680.06	3049.72	7.15
2004-05 RE	52082.92	2058.29	3.95
2005-06 BE	50163.96	940.33	1.87

Source : As of Table No. 2.1

Table No. 4.4 shows total revenue expenditure of Maharashtra and the share of interest payment on central loans in total revenue expenditure.

Total revenue expenditure has increased from Rs. 8753.60 crores in 1990-91 to Rs. 20845.80 crores in 1996-97 and to Rs. 42680.06 crores in 2003-04. In 2005-06 budget estimate total revenue expenditure of Maharashtra was Rs. 50163.93 crores. Total revenue expenditure

of government of Maharashtra continuous rising trend during 1990-91 to 2005-06.

Part of such growing revenue expenditure consists of interest payment on central loans. In 1990-91 interest payment on central loans was Rs. 606.31 crores, which formed 6.93 percent of the total revenue expenditure of government of Maharashtra. In 1995-96 interest payment on central loans rose to Rs. 14812.20 crores forming 8.16 percent of total revenue expenditure. In 1999-2000 interest payment on central loans was Rs. 3035.50 crores, which formed 10.28 percent of total revenue expenditure. Later on period interest payment as percentage share of revenue expenditure came down to less than 10 percent. In 2002-03 interest payment on central loans was Rs. 3056.94 crores, which formed 7.98 percent of total revenue expenditure. In 2004-05 interest payment on central loans decrease to Rs. 2058.29 crores and formed nearly 4 percent of total revenue expenditure. In 2005-06 budget estimates interest payment of central loans also decreased to Rs. 940.33 crores, which was formed only 1.87 percent of the total revenue expenditure of Maharashtra. Interest payment of central loans as proportion of Maharashtra's total revenue expenditure fluctuated between 1.87 percent and 10.28 percent over the period 1990-91 to 2005-06.

Thus, central loans to government of Maharashtra put the interest payment cost burden on the state finance and increased the revenue expenditure of Maharashtra by more than 7 percent of total revenue expenditure. Hence, the growing problem of indebtedness of Maharashtra to the centre reduced the net availability of revenue receipts to the extent

of 7 percent of the total revenue and raised the revenue expenditure of Maharashtra nearly 7 percent which was non-developmental nature.

4.4 Burden of Repayment of Central Loans

Rising debt of the state government brings along with it the problem of repayment of past debt, which made out of the total capital receipts of the state government. They form the volume of repayment has a financial impact on the capital expenditure pattern of the state government. The dependency on central loans in the mobilisation of state public debt receipts in turn also leads to the problem of repayment of central loans, which in turn affects the net availability of central loans for use purpose.

4.4.a) Central Loans Repayment and Capital Receipts of Maharashtra

Growing amount of central loans has led to problem of repayment and put a strain on the capital receipts of government of Maharashtra.

Table No. 4.5 shows the growth of capital receipts, the growth of total repayment of loans and central loans repayment by government of Maharashtra and the ratio of central loans repayment to the total capital receipts and total repayment of loans by government of Maharashtra. Above table reveals the following important aspects.

The total capital receipts of Maharashtra has increased from Rs. 2300.10 crores in 1990-91 to Rs. 7602.40 crores in 1997-98 and Rs. 12912.80 crores in 2000-01. In 2005-06 budget estimate total capital receipts of government of Maharashtra were Rs. 12835.36 crores.

Table No. 4.5
Ratio of Repayment Burden of Central Loans to Capital Receipts :
1990-91 to 2005-06

(Rs. in crores)

Year	Capital Receipts	Total Repayment of Loans	Repayment of Central Loans	Repayment of Central Loans as % of Capital Receipts	Repayment of Central Loans as % of Total Repayment
1990-91	2300.10	340.34	280.84	12.21	82.52
1991-92	3201.00	389.80	318.70	9.96	81.76
1992-93	2481.00	475.29	355.84	14.34	74.84
1993-94	2937.00	520.48	3901.42	13.29	75.01
1994-95	5543.10	455.71	416.19	7.51	91.33
1995-96	5012.00	504.90	461.25	9.20	91.35
1996-97	5596.00	586.80	542.40	9.69	92.43
1997-98	7602.40	722.90	647.90	8.52	89.63
1998-99	9334.70	848.00	732.00	7.84	86.32
1999-00	11187.00	1017.10	817.60	7.31	80.39
2000-01	12912.80	1070.27	860.67	6.67	80.42
2001-02	11499.30	1190.61	960.61	8.35	80.68
2002-03	16109.60	1355.09	1122.09	6.97	82.81
2003-04	18221.58	2374.00	686.41	3.77	28.92
2004-05 RE	19679.10	2205.04	735.17	3.74	33.34
2005-06 BE	12835.36	2758.44	466.15	3.63	16.90

Source : As of Table No. 2.1

Total repayment of loans by government of Maharashtra has grown from Rs. 340.34 crores in 1990-91 to Rs. 2758.44 crores with some amount of fluctuations during the study period. In 1991-92 total repayment of loans was Rs. 389.8 crores rose to Rs. 520.48 crores in 1993-94 and came down to Rs. 455.71 crores in 1994-95. During 1995-96 and onward total repayment of loans showed a rising trend, it was Rs. 1070.1 crores in 2000-01 and Rs. 2374.00 crores in 2005-06.

- A) Major Part of this total repayment of loans by Maharashtra consists of central loans repayment. In 1990-91 central loans repayment by Maharashtra was Rs. 280.84 crores, which increased to Rs. 416.19 crores in 1994-95 and then rose to Rs. 817.60 crores in 1999-2000. In 2002-03 central loans repaid by government of Maharashtra was Rs. 1122.09 crores but it came down to Rs. 686.41 crores in 2003-04 and next year rose to Rs. 735.17 crores and again came down to Rs. 466.15 crores in 2005-06 (BE). Thus we can conclude and say that repayment to centre by the government of Maharashtra have shown continuous increase especially since 1990-91. Repayment to central by government of Maharashtra have increased mainly because of the debt composition of the state government the dependency on central loans has increased as a result of repayment of central loans has increased in magnitude.
- B) Due to growing debt servicing cost of central loans on capital account, Maharashtra had to use part of its receipts for repayment of central loans, which formed the major part of the gross loans receipts by government of Maharashtra. In 1990-91, repayment of central loans formed 12.21 percent of capital receipts and was more than 82 percent of total loans repaid by government of Maharashtra. In 1994-95 central loans repaid formed 7.51 percent of capital receipts and their share of total repayment rose to 91.33 percent. In 1996-97

ratio of repayment of central loans to total capital receipts and total loans repayment of government of Maharashtra was 9.69 percent and 92.43 percent respectively. However, this percentage came down to 6.97 percent and 82.81 percent during 2002-03. In 2003-04, the percentage share of central loans repaid was 3.77 percent of total capital receipts and only 28.92 percent of total repayment by government of Maharashtra and then again came down to 3.63 percent and 16.90 percent respectively in 2005-06 (BE). The ratio of central loan repaid to capital receipts and total loans repaid showed fluctuating trends during the study period.

As it is seen from the table No. 4.5 total loans repayment by government of Maharashtra has been increasing since 1990-91, out of which more than 80 percent of the loans repaid were in the form of central loans repayment during most of the year of period under study. Such an increasing cost of repayment of central loans puts a strain on the capital receipts of the state government of Maharashtra. During 1990s Maharashtra to spend nearly 8 percent of its capital receipts on repayment of central loans but at the end of the period under study came down to 4 percent of the capital receipts of government of Maharashtra. Hence growing dependency on central loans has put a financial burden on the state finance and the capital receipts, which could have been used for productive purpose, have been used to repay central loans. Hence, there is reduction in the capital receipts available for developmental purpose.

Thus, continuous increase in states indebtedness to the centre brings the problem of servicing the debt in capital account and in turn there is reduction in the capital receipts of the states meant for development purpose.

4.4.b) Central Loans Repayment and Capital Expenditure Ratio

States in India are indebted to the centre, due to the growth of central loans outstanding of a state, increase the repayment burden of these loans, which forms a part of the capital disbursement made by states in their budgets. Increased dependency of Maharashtra on central loans has led to the increase in non-development capital expenditure in the form of repayment of central loans.

Table No. 4.6
Capital Expenditure and Repayment of Central Loans Ratio :
1990-91 to 2005-06

(Rs. in crores)

Year	Capital Expenditure	Repayment of Central Loan	Repayment of Central Loans as % of Capital Expenditure
1990-91	2018.60	280.84	13.91
1991-92	2002.80	318.70	15.91
1992-93	2466.90	355.84	14.42
1993-94	2874.40	390.42	13.58
1994-95	5214.10	416.19	7.98
1995-96	4208.10	461.25	10.96
1996-97	4159.20	542.40	13.04
1997-98	4778.60	647.90	13.56
1998-99	4654.20	732.00	15.73
1999-00	8705.40	817.60	9.39
2000-01	4807.20	860.67	17.90
2001-02	4198.00	960.61	22.88
2002-03	6743.00	1122.09	16.64
2003-04	10101.13	686.41	6.80
2004-05 RE	10777.97	735.17	6.82
2005-06 BE	9861.93	466.15	4.73

Source : As of Table No. 2.1

Table No. 4.6 shows the growth of capital expenditure of government of Maharashtra, repayment of central loans and the ratio of repayment of central loans to the total capital expenditure of government of Maharashtra.

In 1990-91 total capital expenditure of government of Maharashtra was Rs. 2018.60 crores which rose to Rs. 4208.10 crores in 1995-96. In 2000-01 total capital expenditure of Maharashtra was Rs. 4807.20 crores and then rose to Rs. 9861.93 crores in 2005-06 (BE). Out of this total capital expenditure of Maharashtra it has to spend some expenditure on repayment of central loans. In 1990-91, loans repaid to the centre were Rs. 280.84 crores, which was 13.91 percent of the total capital expenditure of government of Maharashtra. In 1995-96 repayment of central loans given by government of Maharashtra was Rs. 461.25 crores, which formed nearly 11 percent of the total capital expenditure of Maharashtra. In 2001-02. repayment of central loans was Rs. 960.61 crores, which was more than 22 percent of the total capital expenditure. In 2002-03 repaid central loans was increased to Rs. 1122.09 crores, which was 16.64 percent of the total capital expenditure. However, in 2003-04 repayment of central loans came down to Rs. 686.41 crores, which formed only 6.80 percent of the total capital expenditure. In 2004-05 further rose to Rs. 735.17 crores, which was 6.82 percent of total capital expenditure of Maharashtra. In 2005-06 (BE) again came down to Rs. 466.15 crores, which was only 4.74 percent of the total capital expenditure of government of Maharashtra.

Thus, the growing magnitude of central loans put the burden on state's finance in the form of repayment of central loans and raised capital expenditure of Maharashtra to the extent of 5 percent to 23 percent of total capital expenditure during the study period.

4.5 Gross and Net Central Transfers to Maharashtra

We have seen in the earlier section of this chapter growth of central loans outstanding led to the burden of debt servicing in the form of interest payment and repayment of central loans. This resulted in increased expenditure on revenue account as well as capital account and reduced the net availability of central transfers for productive use. This section deals with the net availability of resources with government of Maharashtra after deducting the amount of flow of resources in the form of interest payment and repayment of central loans from Maharashtra to the centre.

4.5.a) Gross and Net Central Fiscal Transfers on Revenue Account of Government of Maharashtra

Growth of interest payment on central loans increased the non-development revenue expenditure of government of Maharashtra and reduced the net availability of central transfers to government of Maharashtra.

Table No. 4.7
Gross and Net Fiscal Transfers from Centre on Revenue Account
of Government of Maharashtra : 1990-91 to 2005-06

(Rs. in crores)

Year	Gross Central Fiscal Transfers	Interest Payment on Central Loan	Net Central Fiscal Transfers
1	2	3	4 (2 – 3)
1990-91	1785.10	606.31	1178.79
1991-92	2030.60	836.45	1194.15
1992-93	2324.30	960.18	1364.12
1993-94	2907.60	1085.06	1822.54
1994-95	2732.00	1243.35	1488.65
1995-96	2849.50	1401.50	1448.00
1996-97	3785.40	1620.80	2146.60
1997-98	2956.50	1976.40	980.10
1998-99	3962.00	2445.70	1516.30
1999-00	4067.70	3035.50	1032.20
2000-01	4246.40	3609.08	637.32
2001-02	4150.30	3055.93	1094.37
2002-03	3771.14	3056.94	714.20
2003-04	5640.35	3049.72	2590.63
2004-05 RE	7666.80	2058.29	5608.51
2005-06 BE	9446.51	940.33	8506.18

Source: As of Table No. 2.1

Table No. 4.7 shows the growth of gross transfers to Maharashtra on its revenue account and reverse flow of resources to the centre in the form of interest payment on the central loans and net availability of centre transfers to Maharashtra. Gross transfers consists of total shared taxes and grants transfers to Maharashtra and the net transfers are equal to total shared taxes and grants to Maharashtra minus interest payment on the central loans.

In 1990-91 gross transfers to Maharashtra were Rs. 1785.10 crores due to interest payment on central loans it was Rs. 606.31 crores during this year net transfers to government of Maharashtra were Rs. 1178.79 crores. In 1995-96 gross fiscal transfers to Maharashtra was Rs. 2829.5 crores and interest payment on central loans was Rs. 1401.50 crores therefore only Rs. 1448.00 crores on net transfers left with government of Maharashtra. In 2002-03 this interest payment on central loans increased to Rs. 3056.00 crores and therefore out of gross transfers on only Rs. 714.2 crores were remained with Maharashtra for use purpose. In 2005-06 gross transfers to government of Maharashtra were Rs. 9446.51 crores and interest payment on central loans was Rs. 940.33 crores so net transfers to Maharashtra were more than Rs. 8506.18 crores. Though there is a continuous growth in the shared taxes and grants transfers to government of Maharashtra, it could not make use of all these resources for its own purpose due to reverse flow of resource from Maharashtra to the centre in the form of interest payment on central loans.

4.5.b) Gross and Net Central Fiscal Transfers on Capital Account of Government of Maharashtra

Burden of debt servicing cost of central loans has its impact on central transfers on capital account of the state budget, growing central loans inspite of the provision of debt relief by successive Finance Commission and put the strain on capital receipts of Maharashtra the reduction in net loans availability with Maharashtra.

Table No. 4.8
Gross and Net Fiscal Transfers from Centre on Capital Account
of Government of Maharashtra : 1990-91 to 2005-06

(Rs. in crores)

Year	Gross Central Transfers	Repayment of Central Loans	Net Central Transfers
1990-91	1296.00	280.84	1015.16
1991-92	1534.20	318.70	1215.60
1992-93	1214.50	355.84	858.66
1993-94	1470.00	390.42	1079.50
1994-95	1476.60	416.19	1060.41
1995-96	1901.30	461.25	1440.05
1996-97	3004.30	542.40	2461.90
1997-98	3784.60	647.90	3136.70
1998-99	4616.60	732.00	3884.60
1999-00	783.70	817.60	-33.90
2000-01	741.90	860.67	-118.77
2001-02	865.00	960.61	-95.61
2002-03	961.76	1122.09	-160.33
2003-04	1252.41	686.41	566.00
2004-05 RE	2359.17	735.17	2190.00
2005-06 BE	3202.07	466.15	2735.92

Source : As of Table No. 2.1

Table No. 4.8 shows the growth of gross central transfers to Maharashtra in the form of central loans, repayment of central loans and net transfers or net loans availability with Maharashtra. Gross central transfers on capital account consist of total central loans transfer to Maharashtra and the net central transfers on capital account are equal to total central loans transfers to Maharashtra minus repayment of central loans.

In 1990-91 total central loans to Maharashtra were Rs. 1296.00 crores, out of which Rs. 280.84 crores were repaid to the centre. Hence, net loan availability with Maharashtra was Rs. 1015.16 crores. In 1995-96 gross loans transfers to Maharashtra rose to Rs. 1901.30 crores, but due

to repayment of central loans of Rs. 461.25 crores and Rs. 1060.41 crores of loans were left with Maharashtra for its own use purpose. In 1998-99, total central loans to Maharashtra were Rs. 4616.60 crores and net loan availability of central loans of Rs. 3884.60 crores because of repayment of central loans of Rs. 732.00 crores. Later on four years negative net availability of loans to Maharashtra repayment of central loans are more than gross loans transfers to Maharashtra. This leads to excess flow of resources from Maharashtra to the centre from 2001-02, gross central loans transfers to Maharashtra increased to Rs. 1252.41 crores, but net loan availability with Maharashtra was only Rs. 566.00 crores because of repaid central loans of Rs. 686.41 crores. At the end in 2005-06 central loans repaid was Rs. 466.15 crores and central loans transfers to Maharashtra of Rs. 3202.07 crores and net loan availability of central loans was Rs. 2735.92 crores.

Thus, from the above table it is clear that too much dependency on central loans in the total capital receipts mobilisation, increased the non-development expenditure in the form of repayment of central loans, caused the flow of resources from Maharashtra to the centre, and so reduced net transfers to Maharashtra, which could have been used for development purpose.