

Chapter - 5

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CONCLUSIONS AND SUGGESTIONS

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5.1. Conclusions

The major conclusions of the analysis of "Maharashtra's Indebtedness to the Centre during the period 1990-2004" are as follows.

1. The aggregate receipts of Maharashtra increased from Rs. 10999.10 crores in 1990-91 to Rs. 63265.18 crores in 2005-06. The aggregate expenditure increased from Rs. 10772.20 crores in 1990-91 to Rs. 72772.82 crores in 2005-06.
2. The aggregate receipt of state government of Maharashtra has increased 5.78 fold in 2005-06 over 1990-91. Growth rate of aggregate expenditure of state government of Maharashtra was 6.75 fold. It means growth rate of aggregate expenditure is larger than growth rate of aggregate receipts of government of Maharashtra during the period under study.
3. The overall budgetary trends of government of Maharashtra show fluctuations. In the year 1990-91 to 1991-92, 1994-95 to 1995-96, 1997-98 to 1998-99 and 2000-01 it was surplus and in the remaining years budgetary situation was in deficit. It indicates fluctuating trends of overall budgetary situation of government of Maharashtra during the period under study.

4. Revenue receipts of state government of Maharashtra increased 5.80 fold and its compound growth rate was 11.62 percent during the study period. The substantial increase in revenue receipts is the result of deepening and widening of tax structure, increase in tax rates, growth in state domestic product (SDP) and increase in magnitude of revenue transfers from the centre.
5. The revenue expenditure also increased tremendously. It was increased 5.73 fold in 2005-06 over 1990-91.
6. Consequently, the magnitude of the revenue deficit has increasing during the period under study. In 1990-91, it was Rs. 54.60 crores, which increased to Rs. 9199.97 crores in 2004-05. It increased more than 168.50 fold over the period 2004-05 over 1990-91 except 1994-95. The main reason of these changes was the continuous expansion of current expenditure particular due to implementation of Fifth Pay Commission scales for employees of government and administration services and rising interest payment.
7. Gross fiscal deficit of state government of Maharashtra was Rs. 1610.90 crores in 1990-91, which has increased to Rs. 13775.97 crores in 2004-05. It has increased 8.55 fold in 2004-05 over 1990-91. The gross fiscal deficit of state government of Maharashtra has shows continuous increase during the study period.

8. Primary deficit of the state government of Maharashtra increased from 730.1 crores in 1990-91 to Rs. 4883.60 crores in 2004-05. It was raised 9.77 fold. The increasing primary deficit indicates seriousness of cash scarcity of the state government.
9. A total fiscal transfer from the centre to Maharashtra has consistently increased in absolute terms during the period under study. In 1990-91, total fiscal transfers to Maharashtra were Rs. 3081.10 crores, which rose to Rs. 12548.58 crores in 2005-06. Compound growth rate of total central fiscal transfers to Maharashtra during the period under study was 6.55 percent. Increased in quantum of central fiscal transfers was mainly due to increased devolution to the state by all the three institutions that channelled the transfers.
10. growth and composition of central fiscal transfers to Maharashtra reveals that –
 - a) In 1990-91 shared taxes transfers to Maharashtra were Rs. 989.8 crores, which increased to Rs. 4749.32 crores in 2005-06 and these shared taxes transferred to Maharashtra increased at a compound growth rate of 4.80 percent during the period under study.
 - b) Grants from the centre to Maharashtra were Rs. 795.3 crores in 1990-91, which increased to Rs. 4697.19 crores in 2005-06 and compound growth rate of these grants was 5.91 percent during the period under study.

- c) Central loans to Maharashtra also shows fluctuations rising trends during the period under study, which increased from Rs. 1296.00 crores in 1990-91 to Rs. 4616.60 crores in 1998-99 and further decreased to Rs. 3202.07 crores in 2005-06 with a compound growth rate of 0.50 percent during the period under study.
11. Central loans to Maharashtra as proportion of total capital receipts shows a fluctuating trend during 1990-91 to 2005-06. Central loans to Maharashtra as proportion of total capital receipts fluctuated between 5.75 to 56.35 percent during the period 1990-91 to 2005-06.
 12. Our study also reveals that central loans to Maharashtra have as a proportion of total capital receipts, dipped to a very low level in the beginning of 21st century.
 13. Central loans as percentage share in financing to total capital expenditure shows fluctuation during the period of study. In 1990-91, central loans financed nearly 64 percent of total capital expenditure of Maharashtra. This percentage come down to 45.18 percent in 1995-96 and increased to 99.19 percent in 1998-99. In 2005-06, it financed 32.47 percent of total capital expenditure of government of Maharashtra.
 14. Rise in amount of central loans to Maharashtra has not only increased the fiscal dependency in the capital account transaction, but has increased the state's indebtedness to the centre resulting in growing central loans debt servicing burden on the state finance.

Outstanding loans from the centre to Maharashtra increased from Rs. 6809.71 crores on 31st March 1990 to Rs. 19002.00 crores in 31st March 2005. As a percentage of total state debt outstanding of Maharashtra was the single largest contributor forming 78.69 percent of total debt outstanding in March 1990. It came down to 22.59 percent at the end of March 2005. It indicates that the Maharashtra's indebtedness to the centre has increased rapidly during the study period.

15. Growth of central loans outstanding has led to increasing interest payment and repayment by government of Maharashtra to the centre during the period under study. Total debt servicing burden of increasing from Rs. 887.15 crores in 1990-91 to Rs. 1406.48 crores in 2005-06. Thus, we find that central loans debt servicing burden of Maharashtra has increased during the period under study, which means recent Finance Commission has not provided adequate debt relief to the state government of Maharashtra.
16. Rising dependency of Maharashtra on central loans to meet its growing capital expenditure increased the burden of interest payment and put the strain on the revenue receipts of Maharashtra. In 1990-91 interest payment on central loans by government of Maharashtra was Rs. 606.31 crores, which rose to 3609.08 crores in 2000-01. In 2005-06, interest burden of central loans was Rs. 940.33 crores. Our data analysis shows that growth in interest payment on central loans is the main cause for rising total interest payment liability of the state government of Maharashtra.

17. Interest payment on central loans as percentage of total interest payment liability of the state government of Maharashtra was 68.84 percent in 1990-91, which increased to 70.64 percent in 1994-95. It came down to 47.53 percent in 2001-02 and it was only 9.86 percent in 2005-06.
18. Increasing central loans to government of Maharashtra led to the use of revenue receipts to meet interest payment liability. In 1990-91, 6.97 percent of total revenue receipts of Maharashtra were utilised to make interest payment on central loans and this percentage in 1994-95 was 8.24 percent, then it was 12.21 percent in 2000-01. In 2005-06, interest payment on central loans was only 1.86 percent of total revenue receipts of Maharashtra.
19. It is noticeable that during the study period, Maharashtra's interest payment liability on central loans has increased and this expenditure is consuming nearly 7 percent of revenue receipts of the state government of Maharashtra during the study period.
20. Growth of central loans has increased the repayment of central loans burden on state finances. Repayment of central loans forms the major chunk of total repayment burden liability on capital account of state budget. Repayment of central loans increased from Rs. 280.84 crores in 1990-91 to Rs. 860.67 crores in 2000-01 and it decreased to Rs. 466.15 crores in 2005-06 forming 82.52 percent, 80.42 percent and 16.90 percent of total repayment of loans liability of the state in the respective years.

21. Growth in the central loans repayment put a financial burden on the state in the sense that rising amount of capital receipts has to be used to meet this repayment burden. In 1990-91, central loans repayment formed 12.21 percent of total capital receipts in 1994-95 it formed 13.29 percent and came down to 6.67 percent in 2000-01 and at the end of the period under study that is 2005-06 nearly 4 percent of capital receipts of Maharashtra were utilised for making repayment of central loans.
22. Such growth in repayment of central loans increased the capital expenditure of government of Maharashtra by more than 13 percent during of the period under study.
23. In 1990-91, repayment of central loans formed 13.91 percent of the total capital expenditure of Maharashtra, this percentage came down to 7.98 percent in 1994-95 it further rose to 22.88 percent in 2001-02, and it was 4.73 percent in 2005-06.
24. Central loans repayment and capital expenditure ratio analysis reveals that the growing fiscal dependency of Maharashtra on central loans is increasing the debt servicing burden of state government of Maharashtra during the study period, leading to reduction in capital receipts which was available for developmental use purpose.
25. Growth of central loans debt servicing burden thus leads to the reduction of the net availability of central fiscal transfers on revenue account as well as capital account of state budget. In 1990-91, gross transfers to Maharashtra and its revenue budget account were

Rs. 1785.00 crores but net transfers available with Maharashtra were Rs. 1178.79 crores due to reverse flow of resources from the state to the centre in the form of interest payment on central loans to the extent of Rs. 606.31 crores. In 200-05 out of Rs. 94946.51 crores only Rs. 8506.18 crores were left with Maharashtra after making an interest payment on central loans of Rs. 940.33 crores.

26. Burden of central loans in the form of repayment also led to the reduction in net loans availability with Maharashtra. In 1990-91 out of gross central loans of Rs. 1296.00 crores, Rs. 280.84 crores repaid to the centre, so net loan available with Maharashtra were Rs. 1015.16 crores. During 1999-2000 to 2002-03, net loan available to Maharashtra was negative. Repayment of central loans more than gross loans transfers from the centre to Maharashtra this led to negative net available of centre loans. In 2005-06, repayment of central loans were Rs. 466.15 crores, hence net central loans to Maharashtra were Rs. 2735.92 crores out of the gross central loans of Rs. 3203.07 crores.

Thus, preponderance of central loans in the total debt receipts of Maharashtra has led to the growth of Maharashtra' indebtedness to the centre and has put the burden of debt servicing on state finances.

5.2 Suggestions

Following suggestions can be made from the study "Maharashtra's indebtedness to the centre during the period 1990-91 to 2004".

1. At the state government level, proper utilisation of debt receipts is crucial for sound debt management policy.
2. The existing policy of treating all expenditure as capital expenditure, which creates fixed or durable assets irrespective of whether it is productive of self liquidating needs to be reviewed.
3. Debt relief given to Maharashtra as percentage of outstanding central loans is very meagre, we feel that the quantum of debt relief be not based on the non-plan surplus or deficit. We make a plea that the Finance Commission should recommend debt relief to all state irrespective of their position on non-plan account and amount of central loans outstanding should be taken into consideration while recommending the debt relief to states.
4. Loan assistance should be given only for industrial products, self-financing housing schemes etc.
5. We recommend that in future, plan loans should be given by the centre to the state for productive purpose only. For unproductive schemes of capital nature, we recommend giving of capital grants to states by the centre.

6. Review of large component of loan assistance in the state plan assistance to states as recommended by the Planning Commission is also suggested. Instead of a uniform pattern of assistance 'Project wise' pattern of plan assistance can be evolved wherein the loan grants component is keep flexible according to the revenue yielding capacity of the plan project.
7. To meet the rising interest payment burden of central loans, the state governments should take appropriate steps to increase the interest accrual to it due to advance of loans to third parties. This would increase the non-tax revenue of state and in turn reduce the net interest payment liability to the centre.
8. Similarly proper recovery of loans and advances would increase the own capital receipts and reduce the net repayment liability of central loans.