
CHAPTER - IV

CONSEQUENCES OF STATES' DEPENDENCY ON CENTRAL FISCAL TRANSFERS : PROBLEM OF STATES' INDEBTEDNESS TO THE CENTRE : STUDY OF MAHARASHTRA : 1961-62 TO 1990-91

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CONSEQUENCES OF STATES' DEPENDENCY ON CENTRAL FISCAL
TRANSFERS : PROBLEM OF STATES' INDEBTEDNESS TO THE
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INTRODUCTION

The extent of 'Resource Gap' on both accounts of the budgetary operations of the Government of Maharashtra is studied in the last chapter. The amount of fiscal dependency on Central transfers of the State to meet its resource needs and expenditure on both revenue and capital account of the budget is also quantified and analysed. Increased devolutions of Central transfers in the form of shared taxes and grants increase the revenue base of the State without any liability of servicing cost. Over the years, the Centre has been transferring increased percentage of its Gross Revenue Receipts as transfers in the form of shared taxes and grants to States. In the first five year plan, total revenue account transfers (taxes + grants) as percentage of Centre's Gross Revenue Receipts were 23.00 percent which rose to 27.4 percent in second five year plan and to 33.9 percent in fourth five year plan and they were 35.9 percent in sixth five year plan. Tax sharing with the States as percent of Centre's gross tax revenue was 17.0 percent in first five year plan, rose to 19.6 percent in second five year plan and it was

23.3 percent in fourth five year plan, which increased to 26.9 percent during sixth five year plan period.¹ However for a developed State like Maharashtra its share is not rising rapidly as successive Finance Commissions have given more scope for backward and middle category States.²

Central transfers in the form of loans to the States, have become crucial in Centre-State financial relations and have a bearing on State finances 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 has an impact on the State expenditure and receipts on both revenue and capital account. As Central loans form a major component of State debt receipts, all States debt outstandings also increase as a consequence to this and this increases revenue expenditure due to rising interest payments of the States. Repayment of Central loans reduces the 'net loan availability' for use purpose for the State Governments. All these issues are studied with special reference to Maharashtra in this chapter.

4.1 GROWTH OF OUTSTANDING CENTRAL LOANS TO MAHARASHTRA

In total Central fiscal transfers to a developed State like Maharashtra loans from the Centre play a predominant role. Central loans are the major source of capital

OUTSTANDING DEBT OF GOVERNMENT OF MAHARASHTRA AND
SHARE OF CENTRAL LOANS OUTSTANDINGS

(Rs. in Crores)

Amount of Debt Outstanding as on 31st March	Total Debt Outstanding	Outstanding Loans from the Centre	
1	2	3	
1961	261.79	155.21	(59.29)
1962	307.99	186.43	(60.53)
1963	321.82	193.64	(60.16)
1964	385.80	255.73	(66.29)
1965	439.40	295.34	(67.22)
1966	503.07	331.20	(65.84)
1967	554.11	357.08	(64.44)
1968	609.48	374.87	(61.51)
1969	684.31	409.36	(59.62)
1970	707.83	418.63	(59.20)
1971	782.69	448.42	(57.29)
1972	871.80	507.48	(58.21)
1973	968.42	629.04	(64.96)
1974	1,095.80	686.15	(62.62)
1975	1,135.88	718.78	(63.28)
1976	1,242.90	743.70	(59.84)
1977	1,290.90	787.51	(61.00)
1978	1,417.93	856.85	(60.43)
1979	1,618.74	1,007.48	(62.24)
1980	1,901.10	1,230.82	(64.74)
1981	2,182.88	1,496.55	(68.56)
1982	2,590.93	1,761.85	(68.00)
1983	3,048.85	2,184.30	(71.64)
1984	3,537.06	2,606.58	(73.69)
1985	5,045.68	3,172.05	(73.34)
1986	5,862.15	3,912.67	(77.54)
1987	6,614.22	4,633.78	(79.03)
1988	7,554.60	N.A.	
1989	8,551.86	N.A.	
1990	9,850.00	7,826.00	(79.45)
1991	11,332.00	8,902.00	(78.60)

SOURCE : 1) Finance Accounts, Govt. of Maharashtra,
Statement No. 4, Debt Position, 1961-1989.
2) Reserve Bank of India Report on Currency
Finance, 1991-92 Vol. II, Page 160.

receipts of the States in India. Ever 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. As is seen in the last chapter, there is continuous growth in the Central loans to Maharashtra which formed nearly 50 percent of the total capital receipts and more than 70 percent of the debt receipts of Maharashtra during most of the years of the period under study. Such growth of Central loans transferred to Maharashtra has led to the growth in outstanding Central loans to Maharashtra.

TABLE NO. 4.1

Table No. 4.1 depicts the growth of outstanding debt of Government of Maharashtra and the growth and relative share of Central loans outstanding in the total outstanding loan liability of the Government of Maharashtra.

Maharashtra's total outstanding debt increased from Rs. 261.79 crores in March, 1961 to Rs. 782.69 crores in March, 1971 and to Rs. 2,182.88 crores by March end of 1981, and in March, 1990, it reached to Rs. 9,850.00 crores and were estimated at Rs. 11,332.00 crores by March end 1991. Thus during the period under study, outstanding total debt of Government of Maharashtra increased by nearly 43 times in

1991 over 1961. Of this outstanding total debt liability we find that Maharashtra's indebtedness to the Centre was also increasing from Rs. 155.21 crores by March end 1961 to Rs. 448.42 crores in March, 1971, Rs. 1,496.55 crores by March, 1981 and to Rs. 7,826 crores by March end 1990 and were estimated at Rs. 8,902 crores by March end 1991. The outstanding Central loan liability increased by nearly 57 times in 1991 over 1961, which proves that Central loan outstanding increased faster than the total debt liabilities of Maharashtra.

In addition, we find that Central loan outstandings form the major share of total debt outstandings of Maharashtra and since 1983 onwards they formed more than 71 percent of total debt outstandings and in 1990 this percentage increased to 79.45 and came down marginally to 78.60 percent in 1991 (R.E.).

Thus growth of Central loans to Maharashtra has increased the outstanding Central loans which had contributed greatly to the total outstanding debt liability of the Government of Maharashtra.

As discussed earlier there was continuous growth in the Central loans outstanding of the Government of Maharashtra. To solve this problem of growing indebtedness, recent Finance Commissions have provided the debt relief to the Government

of Maharashtra but still growing outstanding Central loans are rising faster than the debt relief provision, which has increased the burden of debt servicing on the State finances. So, growth of Central loans as analysed in the last chapter has not only led to the fiscal dependency of Maharashtra on the Centre, but they have put the financial burden on Maharashtra State finances because, they have to be repaid with interest payment to the Centre.

4.2 GROWTH OF DEBT SERVICING BURDEN OF CENTRAL LOANS TO MAHARASHTRA

Growth of total outstanding debt of the Government of Maharashtra increases the overall debt servicing burden which has an impact on the revenues and expenditure pattern on both revenue account and capital account of the State Budget. As seen in the earlier table, the major contributory factor to this growth of total debt outstandings has been the growth in the magnitude of outstanding Central loans of Maharashtra which are increasing inspite of the debt relief provided for by successive Finance Commissions. Growth of total debt outstandings increases the debt servicing burden of the State which can be measured in terms of rise in interest payments made and repayment burden of the debt incurred by the State in a financial year. Growth of total debt servicing burden is mainly accounted for by rise in

TABLE NO. 4.2

DEBT SERVICING BURDEN OF CENTRAL LOANS TO MAHARASHTRA

(Rs. in Crores)

YEAR	Repayment of Central Loans	Interest Payment on Central Loans	Total Debt Servicing Burden
1	2	3	4
1961-62	7.80	6.27	14.07
1962-63	7.71	7.30	15.01
1963-64	14.73	8.81	23.54
1964-65	9.24	11.42	20.66
1965-66	17.56	12.78	30.34
1966-67	22.55	15.64	38.19
1967-68	25.97	16.81	42.78
1968-69	31.18	17.83	49.01
1969-70	39.05	19.80	58.85
1970-71	36.64	20.01	56.65
1971-72	46.46	21.71	68.17
1972-73	66.81	25.23	92.04
1973-74	98.15	30.95	129.10
1974-75	47.83	29.50	77.33
1975-76	69.94	35.31	105.25
1976-77	75.79	37.46	113.25
1977-78	54.89	40.07	94.96
1978-79	89.61	44.54	134.15
1979-80	34.42	53.68	88.10
1980-81	46.27	61.85	108.12
1981-82	93.59	81.02	174.61
1982-83	112.89	98.66	211.55
1983-84	146.89	124.88	271.77
1984-85	176.27	166.77	343.04
1985-86	188.66	199.75	388.41
1986-87	252.36	312.19	564.55
1987-88	214.54	373.00	587.54
1988-89	230.69	451.38	682.07
1989-90	247.60	537.60	785.20
1990-91	280.84	606.31	887.15

SOURCE : Reserve Bank of India Bulletins - Issues related
to "Finance of State Government", 1961-1993.

outstanding Central loans liability of the State and Maharashtra is no exception to this. This is adequately highlighted in Table No. 4.2 of our study.

TABLE NO. 4.2

Table No. 4.2 shows the total debt servicing burden of the Central loans of the Government of Maharashtra from 1961-62 to 1990-91. In 1961-62 total debt servicing burden of Central loans was Rs. 14.07 crores out of which Rs. 7.80 crores were repayments of loans to the Centre and Rs. 6.27 crores were paid in the form of interest payments to the Centre. In 1964-65 interest payments burden of Central loans which was Rs. 11.42 crores was more than the repayment of Central loans which was Rs. 9.24 crores and led to the total debt servicing burden of Rs. 20.66 crores. This total debt servicing burden went on rising continuously during 1960s. In 1970-71 total debt servicing of Central loans fell down by two crores compared to earlier year, but later on it picked up and in 1973-74, total debt servicing of Central loans was Rs. 129.10 crores which includes Rs. 98.15 crores of repayment and Rs. 30.95 crores of interest payment on Central loans. Later on there were fluctuations in the debt servicing burden of Central loans of Maharashtra. In 1980-81 the total debt servicing burden

of Central loans of Maharashtra Government was Rs. 108.12 crores, consisting of Rs. 46.27 crores of repayment and Rs. 61.85 crores of interest payment burden which was more than the repayment of central loans. In 1985-86 Maharashtra Government repaid Rs. 188.66 crores of loans to the Centre and interest payments made were Rs. 199.75 crores. So, debt servicing burden during that year was Rs. 388.41 crores. At the end of the period under study, we find that interest payments on Central loans was more than the repayment of Central loans. In 1990-91 total debt servicing burden of Central loans was Rs. 887.15 crores, consisting of Rs. 280.84 crores of repayment and Rs. 606.31 crores of interest payment on Central loans.

Thus the data reveals that there is continuous growth in the debt servicing burden of Central loans to Maharashtra. Such increasing debt servicing cost of Central loans has its impact on total revenue mobilisation and expenditure pattern of Government of Maharashtra on both revenue account and capital account of its budget. In following sections an attempt is made to examine the impact of Central loans on revenue account and capital account of Maharashtra State budget as far as interest payment burden and repayment burden is concerned.

4.3.a REVENUE RECEIPTS AND BURDEN OF INTEREST
PAYMENTS ON CENTRAL LOANS OF MAHARASHTRA

Rising debt servicing burden of Central loans given to States increased the interest payments, that the States have made to the Centre as a result of the dependency on this form of Central assistance. Rising interest payments to the Centre form a major component of the revenue expenditure of the States. In addition, revenue receipts have to be used to meet this financial liability of interest payments. In the revenue receipts of the State, if interest accruals due to the State Government because of its loans to other agency are growing adequately enough, then the rising gross interest payment burden of the State debt (of which interest on Central loans is a major component) can be met and the net interest payments burden can be reduced to a great extent. However if Central loan Outstandings increase over the period, then interest payments to the Centre are also bound to increase and this puts a strain on the revenues of the State Government. With the growth in Central loans, interest payment on Central loans also increased and part of the revenue receipts of Maharashtra were spent on interest payments to the Centre.

TABLE NO. 4.3

TABLE NO. 4.3

REVENUE RECEIPTS - CENTRAL LOAN INTEREST PAYMENT RATIO

1961-62 TO 1990-91

(Rs. in Crores)

YEAR	Revenue Receipts	Total Interest Payment	Interest Payment on Central Loans	4 as % of 2	4 as % of 3
1	2	3	4	5	6
1961-62	116.77	10.65	6.27	5.37	58.87
1962-63	145.93	12.34	7.30	5.00	59.16
1963-64	183.61	13.90	8.81	4.80	63.38
1964-65	198.43	16.84	11.42	5.75	67.81
1965-66	221.47	19.20	12.78	5.77	66.56
1966-67	265.70	22.56	15.65	5.88	69.32
1967-68	293.14	25.66	16.81	5.73	65.51
1968-69	345.49	27.06	17.83	5.16	65.89
1969-70	377.03	30.82	19.80	5.25	64.24
1970-71	431.14	33.16	20.01	4.64	60.34
1971-72	494.61	38.91	21.71	4.39	55.79
1972-73	592.54	42.78	25.23	4.26	58.97
1973-74	771.03	51.08	30.95	4.01	60.59
1974-75	850.67	53.21	29.50	3.46	55.44
1975-76	1,049.38	65.56	35.31	3.36	53.86
1976-77	1,204.83	66.15	37.46	3.11	56.63
1977-78	1,290.20	72.57	40.07	3.10	55.21
1978-79	1,533.45	82.54	44.54	2.90	53.96
1979-80	1,744.33	96.55	53.68	2.99	55.60
1980-81	2,038.06	110.33	61.85	3.03	56.06
1981-82	2,385.40	146.40	81.02	3.39	55.34
1982-83	2,838.20	168.47	98.66	3.47	58.56
1983-84	3,251.98	197.79	124.88	3.84	63.14
1984-85	3,667.84	252.00	166.77	4.54	66.18
1985-86	4,174.15	309.92	199.75	4.78	64.45
1986-87	4,978.23	441.27	312.19	6.27	70.75
1987-88	5,578.21	527.24	373.00	6.68	70.74
1988-89	6,299.85	633.45	451.38	7.16	71.26
1989-90	7,528.65	756.63	537.60	7.14	71.05
1990-91	8,699.02	880.76	606.31	6.97	68.84

SOURCE : As of Table No. 4.2

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

Total revenue receipts of Maharashtra increased from Rs. 116.77 crores in 1961-62 to Rs. 8,699.02 crores in 1990-91 and substantial part of this revenue was spent on the non-development expenditure such as interest payments. Total interest payments of Maharashtra rose from Rs. 10.65 crores in 1961-62 to Rs. 33.16 crores in 1970-71 and to Rs. 110.33 crores in 1980-81. In 1990-91 total interest payments of Maharashtra were Rs. 880.76 crores. Major share of this total interest payments was in the form of interest payment on Central loans. Interest payment on Central loans also showed a rising tendency during the period under study. In 1961-62 interest payment on Central loans was Rs. 6.27 crores which rose to Rs. 20.01 crores in 1970-71 and then Rs. 61.85 crores in 1980-81. In 1990-91 interest payment on Central loans increased to Rs. 606.31 crores.

Such growing interest payment on Central loans which was more than 50 percent of the total interest payments of Government of Maharashtra utilise the revenue receipts of the State and in the process contribute to growth in revenue expenditure. In 1961-62 interest payment on Central loans

were 58.87 percent of the total interest payments of Maharashtra formed 5.37 percent of total revenue receipts. During 1970-71 interest payments on Central loans was 60.84 percent of the total interest payment of the Government of Maharashtra, which was 4.64 percent of the revenue receipts of Maharashtra. In 1980-81 interest payment on Central loans came down to 56.06 percent of the total interest payments which was only 3.03 percent of total revenue receipts. In 1990-91 share of interest payments on Central loans rose to 68.84 percent of the total interest payments which formed 6.97 percent of total revenue receipts of Maharashtra.

Thus the growth in Central loans to 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 5 percent of the revenue receipts but at the end it was nearly 7 percent of the total revenue receipts of Maharashtra.

4.3.b TOTAL REVENUE EXPENDITURE OF MAHARASHTRA AND INTEREST PAYMENT BURDEN OF CENTRAL LOANS

As it is 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

TABLE NO. 4.4

REVENUE EXPENDITURE - INTEREST PAYMENT ON CENTRAL LOANS

RATIO : 1961-62 TO 1990-91

(Rs. in Crores)

YEAR	Revenue Expenditure	Interest Payment on Central Loans	3 as percen- tage of 2
1	2	3	4
1961-62	124.29	6.27	5.04
1962-63	142.72	7.30	5.11
1963-64	164.94	8.81	5.34
1964-65	199.33	11.42	5.73
1965-66	235.20	12.78	5.43
1966-67	277.51	15.64	5.63
1967-68	294.39	16.81	5.71
1968-69	346.44	17.83	5.14
1969-70	375.48	19.80	5.27
1970-71	433.15	20.01	4.62
1971-72	512.26	21.71	4.24
1972-73	560.65	25.23	3.88
1973-74	847.70	30.95	3.65
1974-75	794.32	29.50	3.71
1975-76	919.81	35.31	3.84
1976-77	1,028.86	37.46	3.64
1977-78	1,126.74	40.07	3.55
1978-79	1,407.20	44.54	3.16
1979-80	1,598.92	53.68	3.35
1980-81	1,917.04	61.85	3.22
1981-82	2,238.03	81.02	3.62
1982-83	2,628.08	98.66	3.75
1983-84	3,181.22	124.88	3.92
1984-85	3,879.84	166.77	4.30
1985-86	4,490.80	199.75	4.44
1986-87	4,978.78	312.19	6.27
1987-88	5,504.45	373.00	6.77
1988-89	6,540.65	451.38	6.90
1989-90	7,902.55	537.60	6.80
1990-91	8,753.67	606.31	6.92

SOURCE : As of Table No. 4.2

total interest payment share of interest payment on Central loans is nearly 60 percent. Recently, 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 further raises the revenue expenditure of a State due to increase in its interest payment burden.

TABLE NO. 4.4

Table No. 4.4 depicts total revenue expenditure of Maharashtra and the share of interest payment on Central loans in total expenditure of Maharashtra. Total revenue expenditure of Maharashtra has grown from Rs. 124.29 crores in 1961-62 to Rs. 433.15 crores in 1970-71 and to Rs. 1,917.04 crores in 1980-81. In 1990-91 total revenue expenditure of Maharashtra was Rs. 8,753.67 crores.

Part of such growing revenue expenditure consists of interest payment on Central loans. In 1961-62 interest payment on Central loans was Rs. 6.27 crores which formed 5.04 percent of the revenue expenditure. In 1965-66 interest payment on Central loans was Rs. 12.78 crores forming 5.43 percent of revenue expenditure. Later on interest payment as percentage share of revenue expenditure came down to less than 5 percent. In 1970-71, interest payment

on Central loans was Rs. 20.01 crores which formed 4.62 percent of total revenue expenditure. In 1985-86 interest payment on Central loans rose to Rs. 199.75 crores and formed 4.44 percent of revenue expenditure of Maharashtra, but in 1990-91 interest payment on Central loans increased by three times and rose to Rs. 606.31 crores which was nearly 7 percent of the revenue expenditure.

Thus Central loans to Maharashtra put the interest cost burden on the State finances and increased the revenue expenditure of Maharashtra by more than 5 percent of the total revenue expenditure. Hence the growing problem of indebtedness of Maharashtra to the Centre reduced the availability of revenue receipts to the extent of 5 percent of total revenue and raised the revenue expenditure of Maharashtra by nearly 5 percent which was non-developmental in nature.

Thus the above data analysis reveals that a major propellant to the growth of the debt servicing burden of the States has been the growing volume of outstanding debt of the State which is mainly composed of outstanding Central loans. With deficits arising in the revenue account, this debt burden is bound to increase and hence to stop reverse flow of funds from the States to the Centre, the following fiscal correctives have to be adopted.

1. States have to resort to 'own market borrowings' and other ways to increase capital receipts,
2. Reduction in size of revenue deficits has to be expedited.
3. In plan investment outlays, joint participation of the private sector, N.R.I's etc. can be encouraged, so that adequate capital funds are raised in the capital market by State Governments. Joint Sector capital outlays especially in the field of power generation and other service sector investment proposals, development of horticulture, agro-processings, road transportation, etc. This type of own borrowing policy will reduce the dependency on Central loans to finance increased plan outlays and thus reduce debt servicing cost of Central loans. In addition borrowings on 'own account' will make the States more careful in the use of the loans funds and remunerative projects will be given priority in the investment process.

4.4 PROBLEM OF REPAYMENT OF CENTRAL LOANS

Repayment of Central loans is a liability on capital disbursements account and if loan utilisation does not lead to sufficient revenue generating assets then the repayment of old maturing loans has to be done from fresh loan accruals

which reduces the amount of net loan available for use purpose. Secondly the Central loans due for repayment form a portion of capital disbursements and growth in repayments increases the capital expenditure. These aspects are studied in this section.

4.4.a CENTRAL LOAN REPAYMENTS AND CAPITAL RECEIPTS
OF MAHARASHTRA : 1961-62 TO 1990-91

Growing amount of Central loans has led to the problem of repayment and put a strain on the capital receipts of Maharashtra. The following Table No. 4.5 depicts the growth of capital receipts, the growth of gross repayment of loans and Central loan repayment by Government of Maharashtra and the ratio of Central loan repayment to the total capital receipts and gross repayment of loans by Government of Maharashtra.

TABLE NO. 4.5

The data in Table No. 4.5 reveals the following important aspects :

- a) The total capital receipts of Maharashtra have grown from Rs. 70.60 crores in 1961-62 to Rs. 188.68 crores in 1970-71 and to Rs. 344.27 crores in 1975-76. In 1980-81 total capital receipts of Maharashtra were Rs. 544.18 crores and they rose to Rs. 2,349.19 crores in 1990-91.

TABLE NO. 4.5

REPAYMENT BURDEN OF CENTRAL LOANS AND CAPITAL RECEIPTSRATIO : 1961-62 TO 1990-91

(Rs. in Crores)

YEAR	Capital Receipts of Maharashtra	Total Repayment of Loans	Repayment of Central Loans	4 as % of 2	4 as % of 3
1	2	3	4	5	6
1961-62	70.60	8.70	7.80	11.05	89.65
1962-63	80.79	16.52	7.71	9.54	46.67
1963-64	104.05	21.32	14.73	14.15	69.09
1964-65	81.06	15.95	9.24	11.40	57.93
1965-66	93.32	18.66	17.56	18.81	94.10
1966-67	129.32	25.15	22.55	17.44	89.66
1967-68	148.64	40.66	25.97	17.47	63.87
1968-69	178.93	37.21	31.18	17.42	83.79
1969-70	153.18	57.84	39.05	25.49	67.51
1970-71	188.68	52.30	36.64	19.42	70.05
1971-72	235.38	58.36	46.46	19.74	79.61
1972-73	284.57	80.34	66.81	23.47	83.16
1973-74	332.48	100.67	98.15	29.52	97.49
1974-75	256.54	63.46	47.83	18.64	75.37
1975-76	344.27	73.01	69.94	20.31	95.79
1976-77	294.78	93.07	75.79	25.71	81.43
1977-78	377.95	74.36	54.89	14.52	73.81
1978-79	538.81	109.15	89.61	16.63	82.10
1979-80	526.34	59.68	34.42	6.54	57.67
1980-81	544.18	72.64	46.27	8.50	63.70
1981-82	700.19	123.06	93.59	13.36	76.05
1982-83	805.09	140.75	112.89	14.02	80.20
1983-84	954.19	171.94	146.89	15.39	85.43
1984-85	1,335.32	246.94	176.27	13.20	71.38
1985-86	1,582.07	232.59	188.66	11.92	81.11
1986-87	1,513.75	288.34	252.36	16.67	87.52
1987-88	1,427.66	246.89	214.54	15.02	86.90
1988-89	1,932.95	268.66	230.69	11.93	85.86
1989-90	2,484.29	289.04	247.60	9.96	85.66
1990-91	2,349.19	340.34	280.84	11.95	82.52

SOURCE : As of Table No. 4.2

b) Gross repayment of loans by Government of Maharashtra has grown from Rs. 8.70 crores in 1961-62 to Rs. 340.34 crores in 1990-91, with some amount of fluctuations during 1970s. In 1965-66 gross repayment of loans was Rs. 18.66 crores rose to Rs. 73.01 crores in 1975-76 and came down to Rs. 59.68 crores in 1979-80. In 1980s repayment of gross loans showed a rising trend, it was Rs. 232.59 crores in 1985-86 and Rs. 289.04 crores in 1989-90.

c) Major part of this gross repayment of loans by Maharashtra consists of Central loan repayment. In 1961-62 Central loans repayment by Maharashtra was Rs. 7.80 crores which increased to Rs. 17.56 crores in 1965-66 and then to Rs. 36.64 crores in 1970-71. In 1973-74 Central loans repaid by Government of Maharashtra was Rs. 98.15 crores, but it was fluctuating during 1970s and came down to Rs. 34.42 crores in 1979-80 but later on again it rose to Rs. 188.66 crores in 1985-86 and to Rs. 280.84 crores in 1990-91.

d) Due to growing debt servicing cost of Central loans on capital account, Maharashtra had to use part of its capital receipts for repayment of Central loans which formed the major part of the gross loan repayment by Government of Maharashtra. In 1961-62 repayment of Central loans formed 11.05 percent of capital receipts and was

nearly 90 percent of gross loans repaid by Government of Maharashtra. In 1969-70 Central loans repaid formed 25.49 percent of capital receipts but their share in total loan repayment came down to 67.51 percent. This ratio of Central loans repaid to capital receipts and gross loans repaid showed fluctuating trends during the 1970s. In 1973-74 ratio of Central loans to total capital receipts and gross loan repayment of Maharashtra was 29.52 percent and 97.49 percent respectively, but this percentage came down to 6.54 percent and 57.67 percent during 1979-80. During 1980s this ratio remained at more or less than 15 percent of the capital receipts and 80 percent of the gross loan repayment by Government of Maharashtra. In 1986-87 the percentage share of Central loans repaid was 16.67 percent of the capital receipts and 87.52 percent of gross loan repayment by Government of Maharashtra and came down to 11.95 percent and 82.52 percent respectively in 1990-91.

As it is seen from the Table No. 4.5, gross loan repayment by Government of Maharashtra has been increasing since 1961, out of which more than 70 percent of the loans repaid were in the form of Central loan repayments during most of the years of period under study. Such a increasing cost of repayment of Central loans puts a strain on the total capital receipts of the State. During 1960s

Maharashtra has to spend nearly 17 percent of its capital receipts on repayment of Central loans, later on it went to the height of 29 percent of capital receipts but at the end of the period under study it came down to 15 percent of the capital receipts of Maharashtra. Hence growing dependency on Central loans has put a financial burden on the State finances 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.

If the Central loans would have been used only for productive purpose or the expenditure is remunerative in nature, then repayment of Central loans would not have put the financial burden on the State finances. Bulk of the capital receipts however are used to provide the infra-structural facilities for economic and social development like road construction, transport development, construction of bridges, drinking water facilities etc. Large sums of Central loans are used for investments in irrigation projects, electricity undertakings and transport corporations etc. but they are not revenue yielding. Thus alarming increase in States' indebtedness to the Centre poses the problem of servicing the debt on capital account and leads to reduction in the capital receipts of the State meant for development purposes.

The way out to avoid such financial burden is to augment own capital receipts by better recovery of loans and advances made to third parties and individuals by the State Government as a part of its capital disbursements. If this recovery rate picks up then own capital receipts can be augmented but such a policy needs more political will and courage on the part of the State Government. However, such fiscal reform has to take place in State finances, so that productive capital receipts are not used for repayment of Central loans which have not by and large generated Capital assets which are revenue yielding.

4.4.b CENTRAL LOANS REPAYMENT AND CAPITAL
EXPENDITURE RATIO

Increasing 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

The Table No. 4.6 depicts the growth of capital expenditure of Maharashtra, repayment of Central loans and the ratio of repayment of Central loans to the total capital expenditure of Maharashtra.

TABLE NO. 4.6

CAPITAL EXPENDITURE AND REPAYMENT OF CENTRAL LOANS RATIO1961-62 TO 1990-91

(Rs. in Crores)

YEAR	Capital Expenditure	Repayment of Central Loans	3 as percen- tage of 2
1	2	3	4
1961-62	51.38	7.80	15.18
1962-63	66.65	7.71	11.57
1963-64	97.20	14.73	15.15
1964-65	75.01	9.24	12.32
1965-66	136.05	17.56	12.91
1966-67	107.03	22.55	21.07
1967-68	153.00	25.97	16.97
1968-69	188.39	31.18	16.55
1969-70	187.85	39.05	20.79
1970-71	193.06	36.64	18.98
1971-72	199.11	46.46	23.33
1972-73	228.62	66.81	29.22
1973-74	278.70	98.15	35.22
1974-75	285.29	47.83	16.76
1975-76	438.70	69.94	15.94
1976-77	470.29	75.79	16.11
1977-78	531.83	54.89	10.32
1978-79	673.46	89.61	13.30
1979-80	690.48	34.42	4.98
1980-81	695.74	46.27	6.65
1981-82	849.83	93.59	11.01
1982-83	957.10	112.89	11.79
1983-84	1,062.75	146.89	13.82
1984-85	1,183.25	176.27	14.90
1985-86	1,240.68	188.66	15.20
1986-87	1,433.07	252.36	17.61
1987-88	1,424.47	214.54	15.06
1988-89	1,560.98	230.69	14.78
1989-90	1,834.52	247.60	13.49
1990-91	2,018.59	280.84	13.91

SOURCE : As of Table No. 4.2

In 1961-62 total capital expenditure of Maharashtra was Rs. 51.38 crores rose to Rs. 193.06 crores in 1970-71. In 1980-81 total capital expenditure of Maharashtra was Rs. 695.74 crores and in 1990-91 it was Rs. 2,018.59 crores. Out of this total capital expenditure, Maharashtra has to incur some expenditure on repayment of Central loans. In 1961-62 loans repaid to the Centre were Rs. 7.80 crores which was 15.18 percent of the capital expenditure of Maharashtra. In 1970-71 repayment of Central loans by Government of Maharashtra was Rs. 36.64 crores which formed nearly 19 percent of the capital expenditure of Maharashtra. In 1973-74 repayment of Central loans was Rs. 98.15 crores which was 35.22 percent of capital expenditure, but, in 1980-81 repayment of Central loans came down to Rs. 46.27 crores which formed 6.65 percent of capital expenditure. In 1985-86 again it increased to Rs. 188.66 crores which was 15.20 percent of the capital expenditure. In 1990-91 further repayment of Central loans rose to Rs. 280.84 crores which was nearly 14 percent of the capital expenditure of Maharashtra.

Thus, the growing magnitude of Central loans put the burden on State finances in the form of repayment of Central loans and raised the capital expenditure of Maharashtra to the extent of 5 percent to 35 percent of the total capital expenditure during the period under study.

4.5 GROSS AND NET CENTRAL FISCAL TRANSFERS TO MAHARASHTRA

As discussed in the earlier section of this chapter, increasing Central loans outstanding led to the burden of debt servicing in the form of interest payment and repayment of Central loans. This in turn increased the expenditure on both revenue account and capital account and reduced the net availability of Central transfers for productive use. This is mainly due to reverse flow of resources from the State to the Centre. The following section deals with the net availability of resources with 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. The net availability of resources on both Revenue Account and Capital Account is discussed separately.

4.5.a GROSS AND NET CENTRAL FISCAL TRANSFERS ON REVENUE ACCOUNT OF MAHARASHTRA STATE BUDGET

Rising interest payments on Central loans increased the non-development revenue expenditure of Maharashtra and reduced the net availability of Central transfers to Maharashtra. Gross transfers consist of total shared taxes and grants transferred to Maharashtra and the net transfers are equal to total shared taxes and grants to Maharashtra minus interest payments on the Central loans.

TABLE NO. 4.7

GROSS AND NET FISCAL TRANSFERS FROM THE CENTRE ON REVENUEACCOUNT OF MAHARASHTRA : 1961-62 TO 1990-91

(Rs. in Crores)

YEAR	Gross Central Transfers	Interest Payment on Central Loans	Net Central Transfers (2 - 3)
1	2	3	4
1961-62	26.92	6.27	20.65
1962-63	38.81	7.30	31.51
1963-64	43.07	8.81	34.26
1964-65	47.67	11.42	36.25
1965-66	55.54	12.78	42.76
1966-67	71.18	15.64	55.54
1967-68	77.95	16.81	61.14
1968-69	89.65	17.83	71.82
1969-70	91.70	19.80	71.90
1970-71	109.96	20.01	89.95
1971-72	146.46	21.71	124.75
1972-73	210.69	25.23	185.46
1973-74	241.63	30.95	210.68
1974-75	161.12	29.50	131.62
1975-76	210.47	35.31	175.16
1976-77	221.19	37.46	183.73
1977-78	255.83	40.07	215.76
1978-79	314.62	44.54	270.08
1979-80	420.49	53.68	336.81
1980-81	470.38	61.85	408.53
1981-82	499.01	81.02	417.99
1982-83	604.31	98.66	505.65
1983-84	720.50	124.88	595.62
1984-85	856.03	166.77	689.26
1985-86	821.57	199.75	621.82
1986-87	1,068.62	312.19	756.43
1987-88	1,174.57	373.00	801.57
1988-89	1,330.26	451.38	878.88
1989-90	1,557.68	537.60	1,020.08
1990-91	1,785.13	606.31	1,178.82

SOURCE : As of Table No. 4.2

Table No. 4.7 depicts the growth of gross transfers to Maharashtra on its Revenue Account and the reverse flow of resources to the Centre in the form of interest payment on the Central loans and net availability of Central transfers with Maharashtra.

In 1961-62 gross Central transfers to Maharashtra were Rs. 26.92 crores but due to interest payment on Central loans of Rs. 6.27 crores during this year net transfers to Maharashtra were only Rs. 20.65 crores. In 1970-71 gross fiscal transfers to Maharashtra were Rs. 109.96 crores, and interest payments on Central loans was Rs. 20.01 crores therefore only Rs. 89.95 crores of net transfers were left with Maharashtra. In 1980-81 only Rs. 408.53 crores of net transfers were remained with Maharashtra because out of gross transfers of Rs. 470.38 crores, Rs. 61.85 crores were paid to the Centre in the form of interest payment on Central loans. This interest payments on Central loans increased to Rs. 199.75 crores in 1985-86 and therefore out of gross transfers of Rs. 821.57 crores only Rs. 621.82 crores were remained with Maharashtra for use purpose. In 1990-91, gross transfers to Maharashtra were Rs. 1,785.13 crores and interest payment on Central loans was Rs. 606.31 crores hence net transfers to Maharashtra were only Rs. 1,178.82 crores.

Though there is continuous growth in the shared taxes and grants transferred to Maharashtra, it could not make use of all these resources for its own purpose due to reverse flow of resources from Maharashtra to the Centre in the form of interest payments on Central loans.

4.5.b GROSS AND NET CENTRAL FISCAL TRANSFERS ON
CAPITAL ACCOUNT OF MAHARASHTRA STATE BUDGET

The burden of debt servicing cost of Central loans has its impact on Central transfers on capital account of the State budget, growing Central loans outstanding caused the growth in repayment of Central loans inspite of the provision of debt relief by Finance Commissions and put the strain on capital receipts of Maharashtra through the reduction in net loan availability with Maharashtra.

Gross Central transfers on capital account consist of total Central loans transferred to Maharashtra and the net Central transfers on capital account are equal to total Central loans to Maharashtra minus repayment of Central loans.

TABLE NO. 4.8

TABLE NO. 4.8

GROSS AND NET FISCAL TRANSFERS FROM THE CENTRE ON CAPITALACCOUNT OF MAHARASHTRA : 1961-62 TO 1990-91

(Rs. in Crores)

YEAR	Gross Central Transfers	Repayment of Central Loans	Net Central Transfers (2-3)
1	2	3	4
1961-62	39.02	7.80	31.22
1962-63	34.96	7.71	27.25
1963-64	56.74	14.73	42.01
1964-65	48.87	9.24	39.63
1965-66	53.27	17.56	35.71
1966-67	47.57	22.55	25.02
1967-68	43.76	25.97	17.79
1968-69	65.67	31.18	34.49
1969-70	48.51	39.05	9.46
1970-71	66.23	36.64	29.59
1971-72	105.53	46.46	59.07
1972-73	188.36	66.81	121.55
1973-74	155.23	98.15	57.08
1974-75	80.47	47.83	32.64
1975-76	94.86	69.94	24.92
1976-77	119.61	75.79	43.82
1977-78	124.23	54.89	69.34
1978-79	240.24	89.61	150.63
1979-80	257.77	34.42	223.35
1980-81	312.00	46.27	265.73
1981-82	358.27	93.59	264.68
1982-83	453.95	112.89	341.06
1983-84	569.17	146.89	422.28
1984-85	741.74	176.27	565.47
1985-86	905.01	188.66	716.35
1986-87	973.47	252.36	721.11
1987-88	858.07	214.54	643.53
1988-89	915.82	230.69	685.13
1989-90	1,094.88	247.60	847.28
1990-91	1,296.03	280.84	1,015.19

SOURCE : As of Table No. 4.2

Table No. 4.8 depicts the growth of gross Central transfers to Maharashtra in the form of Central loans, repayment of Central loans and net transfers or net loan availability with Maharashtra.

In 1961-62 total Central loans to Maharashtra were Rs. 39.02 crores out of which Rs. 7.80 crores were repaid to the Centre. So, net loan availability with Maharashtra was only Rs. 31.22 crores. In 1970-71 gross Central transfers to Maharashtra rose to Rs. 66.23 crores but due to repayment of Central loans of Rs. 36.64 crores only Rs. 29.59 crores of loans were left with Maharashtra for its own purpose. In 1980-81 total Central loans to Maharashtra were Rs. 312.00 crores and Central loans repaid were Rs. 46.27 crores hence, net Central loan availability with Maharashtra was only Rs. 265.73 crores. In 1985-86, total Central loans to Maharashtra were Rs. 905.01 crores but net loan availability with Maharashtra was only Rs. 716.35 crores because of repayment of Central loans of Rs. 188.66 crores. At the end, in 1990-91 Central loans repaid rose to Rs. 280.84 crores and therefore out of gross Central loans of Rs. 1,296.03 crores only Rs. 1,015.19 crores of net Central transfers were remained with Maharashtra.

Thus, from the above table, it is clear that, too much dependency on Central loans in the total capital receipt mobilisation increased the non-development expenditure in

the form of repayment of Central loans and caused the flow of resources from Maharashtra to the Centre and hence reduced net transfers to Maharashtra which could have been used for developmental purpose.

CONCLUSION

The above chapter thus examines the problem of rising indebtedness of Maharashtra on the Centre during the period under study. Growing Central loans outstandings have increased the Central loans servicing burden of the State which has an impact on its revenues and expenditure on both accounts of its budgetary operations.

In the light of this analysis as well as the data analysis and its interpretation as made in the preceding chapters, the study throws up certain major conclusions as far as Maharashtra's fiscal dependency on the Central transfers is concerned. In the light of data analysis of the State, certain issues in Centre-State financial relations having an impact on State finances also come in for critical review. The conclusions of the study incorporate major findings on the above aspects, in the light of which certain suggestions are also incorporated in the concluding chapter of this study.

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