ISSN (Online) : 2455 - 3662
SJIF Impact Factor :4.924

EPRA International Journal of

Multidisciplinary Research

Monthly Peer Reviewed & Indexed
International Online Journal

Volume: 4 Issue:10 October 2018

Published By :
EPRA Journals

Volume: 4 | Issue: 10 | October 2018 SJIF Impact Factor: 4.924 ISSN (Online): 2455-3662

EPRA International Journal of
Multidisciplinary Research (IJMR)

PUBLIC DEBT IN TAMIL NADU – AN OVERVIEW

K. Sowmya[1]
[1]M. Phil Scholar,
Department of Economics,
S. T. Hindu College
(Affiliated to Manonmaniam Sundaranar University),
Nagercoil, Tamil Nadu,
India

B. Kavitha[2]
[2]Assistant Professor,
Department of Economics,
Govindammal Aditanar College for Women
(Affiliated to Manonmaniam Sundaranar University),
Tiruchendur, Tamil Nadu,
India

ABSTRACT

Tamil Nadu, a State known widely for providing a number of freebies, tops the list of southern States in revenue deficit, according to the Reserve Bank of India (RBI). According to the 2017-18 budget tabled in the Tamil Nadu Assembly in March, the revised estimated revenue for 2016-17 was ₹154.59 billion. For the current year, the budget estimated of revenue deficit is ₹159.3 billion. Tamil Nadu has attributed the revenue deficit to a number of factors such as the "ripple effects of economic stagnation, continuing fall in the State's share of Central devolution, adverse effect of demonetization and the ban on the sale of properties in unapproved layouts". These reasons were cited in the last two budget speeches of the State's Finance Ministers. The paper highlights the background, outstanding liabilities of the State government, and the composition of public debt. Finally, the paper examines and draws out a conclusion.

KEYWORDS: *Freebies, Reserve Bank of India (RBI), revenue deficit, economic stagnation, demonetization,*

INTRODUCTION

Public debt receipts and public debt disbursals are borrowings and repayments during the year, respectively by the government. Public debt can be split into internal debt and external debt. Internal debt comprises treasury bills, market stabilization schemes, ways and means advance, and securities against small savings. External debt is the foreign debt. Tamil Nadu has fallen behind in financial prudence in the last three years with its fiscal deficit breaching targets and economic growth rate subdued. While Kerala is a laggard in this regard, Tamil Nadu and Andhra Pradesh are vulnerable in their fiscal position even as Karnataka and Telangana continue to have high growth and low deficits, according to a research by credit rating agency Crisil. During 2012-13 and 2013-14, Tamil Nadu reported growth around 6.9 percent while its fiscal deficit was below 3 percent. However, from 2014-15 to 2016-17, the state's fiscal deficit exceeded the 3 percent threshold. Tamil Nadu's debt to GDP ratio is below the average for all state put together. It has a fiscal deficit of 30 basis points above the Fiscal Responsibility and Budget Management (FRBM) target. The contribution of labor-intensive sectors to Tamil Nadu's gross state domestic product (GSDP) has grown slower than the national average. The average annual inflation based on the consumer price index (CPI) in the state during the period 2012-13 to 2016-17 was at 7.2 percent against the all India average 6.8 percent.

PUBLIC DEBT IN TAMIL NADU

In modern times, a state undertakes many development programmes, which are for the general well being of its people. No state can ordinarily finance big development projects from its general revenues. The state, therefore, incurs debt to meet the gap between revenue and expenditure. Since Independence borrowing has been reported by the central and state governments. In the Indian federal system, a state functions under a hard budget constraint. A State cannot borrow on its own as long as it is indebted to the central government. Nor can it resort to deficit financing. Even so, all the states in India have a rising fiscal deficit. This is financed by borrowings and surplus on public accounts.

Hence the sources of borrowing for the state Tamil Nadu are

i. Loans from the Government of India
ii. Loans raised through bond issues in open market operations,
iii. Loans negotiated with public financing institutions such as the national co-operative development corporation, the National Bank for Agriculture and Rural Development (NABARD) and the Life Insurance Corporation of India (LIC).
iv. Small savings, state provident funds and other savings deposits, and
v. Floating loans, such as ways and means advances and overdrafts from the Reserve Bank of India (RBI).

OUTSTANDING LIABILITIES OF THE STATE GOVERNMENT

Outstanding liabilities of the State comprise internal, marketable debt, non-marketable debt, loans, and advances from the Centre and Public Account liabilities. Government dated securities and Treasury Bills, issued through auctions, together comprise marketable debt. State governments issued Intermediate Treasury Bills and select Central Banks special securities issued to National Small Saving Fund, securities issued to international financial institutions, etc., are part of the non-marketable internal debt. The Central Government reported total liabilities in the budget document of have been adjusted so that the outstanding debt truly reflects the outcome of fiscal operations of the Central Government. There was a gradual increase in the total liabilities of the Government. During the ten year period ending 2018-19, the total liabilities as a percentage to GSDP varied between 21.2 percent in 2009-10 and 23.2 in 2018-19.

Total liabilities and GSDP percentage of Tamil Nadu

(₹ billion)

Year	Total Liabilities	% ratio to GSDP
2009-10	1017.1	21.2
2010-11	1144.7	19.6
2011-12	1306.3	17.4
2012-13	1528.1	17.9
2013-14	1795.7	18.5
2014-15	1856.1	17.3
2015-16	2285.2	19.7
2016-17	2832.2	21.8
2017-18 (RE)	3192.9	22.3
2018-19 (BE)	3660.1	23.2

Source: *RBI Bulletin*

THE COMPOSITION OF PUBLIC DEBT IN TAMIL NADU

The major source of state government debt is the loan from the central government. According to A. R. Prest "In order federations the main trouble has been the disproportionate growth of expenditure on social services". In so far as this has been a state responsibility this has led to a general strain on state finance, and in so far as there has been a trend to the nationwide uniformity of social security benefits, this has meant greater than average financial strain for the poorer states in a federation. It is, therefore, the duty of union government in a federation to assist the state governments by way of transferring huge revenue such that they would discharge their assigned liabilities. The state governments generally receive revenue from the union government by way of tax sharing grants and loans. There are three institutional processes through which states are receiving funds from the center, and they are

i. On the basis of recommendations of the finance commission
ii. On the basis of suggestions of the planning commission and
iii. At the discretion of the central ministers.

Composition of public debt in Tamil Nadu

(₹ billion)

Year	SDLs	NSSF	Loans from LIC	Loans From N A BRD	P. F	Loans from Centre	I. D	Deposit and Advances	Outstanding Liabilities
2010	118.8	96.09	9.44	13.38	69.32	94.2	314.7	30.98	517.59
2011	292.9	246.1	11.28	28.9	80.49	76.6	590.8	73.19	861.54
2012	410.2	248.8	10.5	36.0	90.3	83.6	714.3	80.3	1017.1
2013	497.2	264.2	9.8	38.5	103.0	93.9	815.9	94.6	1144.7
2014	628.3	254.6	9.0	43.3	114.1	99.8	940.1	111.8	1306.3
2015	785.0	248.0	8.3	48.2	127.5	108.1	1093.8	143.9	1528.1
2016	971.8	240.7	7.6	54.6	140.1	121.3	1279.0	195.7	1795.7
2017	120.3	242.6	0.3	2.3	153.3	128.9	1453.6	105.7	1856.1
2018	1479.5	249.3	6.2	69.5	169.7	133.9	1807.7	106.6	2285.2

***Source**: RBI Bulletin*

Note: SDL- State Development Loans, NSSF- National Small Saving Fund
PF- Provident Fund, I.D- Internal Debt,

The Government of India has been providing short-term loans in the forms of ways and means advances and long-term loans from the Consolidated Fund of India to the state government. The above table shows that the volume of borrowing from the union government has been increasing continuously during the study period. In 2010 the state Tamil Nadu borrowed 94.2 billion from the center. In 2018 (as per Jul 12, 2018) the amount increased to 133.9 billion. The Internal Debt of the state Tamil Nadu has increased from 314.7 billion in 2010 to 1807.7 billion in 2018. An outstanding liability of the state has increased from 517.59 billion in 2010 to 2285.2 billion in 2018.

Average Debt Per Capita, Maharashtra & Tamil Nadu

State	Outstanding Liabilities (Rs crore)	Population (in millions)	Average debt per person (Rs)
Maharashtra	338,730	114.2	29,661
Tamil Nadu	195,290	67.86	28,778

Source: RBI Bulletin

The debt for all major states has increased 66% over the past five years from Rs. 16,48,650 crore in 2010 to Rs 27,33,630 crore in 2015.

The highest outstanding liabilities is Maharashtra followed by Uttar Pradesh with Rs. 2, 93,620 crore and West Bengal with Rs. 2,80,440 crore.

Tamil Nadu has borrowed money at the quickest annual pace, 92%, followed by Karnataka with 85% and Andhra Pradesh with 78%.

CONCLUSIONS

The public debt of Tamil Nadu is continuously increasing. The total liabilities have increased from 1017.1 billion in 2010 to 2285.2 billion in 2015-16 at current price recording an annual GSDP rate varies from 21.2 percent to 23.2 percent. The Government of Tamil Nadu received more loans from the Government of India than from other sources. Loans from the center increased to 94.2 billion to 133.9 billion in 2018-19. Small savings and provident fund have also become important sources of finance for Government of Tamil Nadu though they do not form part of public debt. In November 25, 2015, Finance Minister Arun Jaitley announced that India's most industrialized state, Maharashtra, has the largest debt of Rs 338,730 crore among India's states, but the southern state of Tamil Nadu an industrial growth centre has seen the maximum increase in debt (92%) over the past five years, according to an India Spend analysis of state budget.

REFERENCES

1. *A.R. Prest, Public finance in developing counries (Weidenfield and Nicolson) London 1975, p24.*
2. *Guhan, et al., (edit), Tamil Nadu Economy Performance and Issues, Madras Institute for Development Studies (Oxford & IBH New Delhi) 1988, p.326.*
3. *K.N. Reddy, The Growth of Public Expenditure in India (Sterling Publishers, New Delhi) 1972, p.160.*