VI Outstanding Liabilities, Market Borrowings and Contingent Liabilities of State Governments

A major challenge for the Reserve Bank during 2010-11 was management of the market borrowing programme of the State governments in a situation of increasing inflationary pressures and tight liquidity conditions. The inflationary pressures and successive hikes in policy rates along with large issuances exerted pressure on the yield. The cost of borrowing, however, was largely contained. The reduction in market borrowings contributed to the smooth conduct of market borrowings during 2010-11. With the benchmarking to market-driven rates of government paper, the small saving rates are expected to align to the market rates, thereby doing away with cost rigidity of this component of State debt. The reduction in the mandatory share of States to 50 per cent of small savings collections would further reinforce the compositional switch in States' debt portfolio towards market loans and away from NSSF loans. The declining trend in the consolidated debt-GDP ratio continued during 2010-11, and with further budgeted reduction during 2011-12, is expected to be much below the ThFC recommended benchmarks both for the individual years as also for the medium-term. This trend is poised to continue in the medium term with amended FRBMs of the States setting out a graduated path of reduction in debt-GSDP ratios for the respective States.

1. Introduction

6.1 A major challenge for the Reserve Bank during 2010-11 was management of the government market borrowing programme in a situation of increasing inflationary pressures and tight liquidity conditions. The Reserve Bank, as the Government's debt manager conducted the market borrowing programme smoothly, guided by the twin objectives of minimising cost over time and pursuing maturity profiles that are consistent with low rollover risk. The smooth conduct of the market borrowing programme of the State governments during 2010-11 was facilitated by lower gross market borrowings during the year than the levels during the crisis-driven years of 2008-09 and 2009-10. Nonetheless, inflationary pressures and successive hikes in policy rates exerted pressure on the yield. The consolidated debt-GDP ratio of the States continued to decline during 2010-11(RE) and 2011-12(BE). Going forward, a credible fiscal consolidation strategy will help sustain the declining trend in the debt-GDP ratio. Against this backdrop, this Chapter analyses the outstanding liabilities, market borrowings, contingent liabilities and ways and means advances (WMA) and overdraft (OD) of the State governments.

2. Outstanding Liabilities

Magnitude

6.2 The Thirteenth Finance Commission (ThFC) incentivised the States to amend their Fiscal Responsibility Budget Management (FRBM) Acts and also recommended a path for the States to reduce their debt-GSDP ratios. Accordingly, States have released amended FRBM Acts which, *inter alia*, set out their respective stipulated paths of graduated reductions in their individual debt-GSDP ratios. The State governments have placed limits on the levels of debt-GSDP ratio to be achieved within a stipulated time frame, *viz.,* by end-March 2015, recognising the adverse implications of high level of debt on future interest payments. Earlier, the debt relief mechanism prescribed by the Twelfth Finance Commission (TwFC) had helped States to contain the magnitude of outstanding liabilities by linking it to the adherence to rule-based fiscal consolidation. As a result, the outstanding debt-GDP ratio could be contained at 25.5 per cent, *i.e.*, much below the target of 30.8 per cent recommended by the TwFC for 2009-10. Notwithstanding an increase in the outstanding level of debt of the States during 2010-11, the debt-GDP ratio continued to decline, reflecting the higher growth in nominal GDP. The consolidated debt-GDP ratio is budgeted to decline further to 22.5 per cent by end-March 2012, much below the recommended target (26.1 per cent) stipulated by the ThFC (Table VI.1 and Chart V1.1).

Composition of Debt

6.3 The continued emphasis on market borrowings to finance the gross fiscal deficit of State governments is reflected in the shift in the composition of States' outstanding liabilities. While the share of market loans in the outstanding liabilities of State governments has increased gradually, the share of loans and advances from the Centre declined sharply from 1999-2000 onwards. Market loans have been occupying the largest share in outstanding liabilities since end-March 2010. The share of market loans in outstanding liabilities is expected to increase to 37.1 per cent by end-March 2012. On the other hand, the share of National Small Saving Fund (NSSF) in outstanding liabilities, which had remained the largest up to 2006-07, has been declining persistently since end-March 2008 and is expected to be around 26 per cent by end-March 2012. In this context, it may be noted that the Committee on Comprehensive Review of National Small Savings Fund (Chairperson: Shyamala Gopinath) recommended a reduction in the mandatory share of State governments in net collections of small savings under the NSSF from the existing level of 80 per cent to 50 per cent so as to equalise the burden shared by the Centre and the States as the interest rates on borrowings from the NSSF are higher than market rates (Box VI.1).

6.4 The share of public account items such as 'State provident fund', 'reserve funds' and 'deposits and advances' in total outstanding liabilities of the States has remained in the range of 25.3-26.9 per cent since 2005-06 (Table VI.2). Considering the burden arising from the high effective rate of interest on the NSSF loans taken by States, the TwFC had recommended the Debt Consolidation and Relief Facility (DCRF) for its award period 2005-2010 on these NSSF loans, with the pre-condition that States enact their FRBMs. Although the DCRF came to an end on March 31, 2010, the exercise to assess States' eligibility for debt waiver, based on their fiscal performance for the years 2008-09 and

Table VI .1: Outstanding Liabilities of State Governments

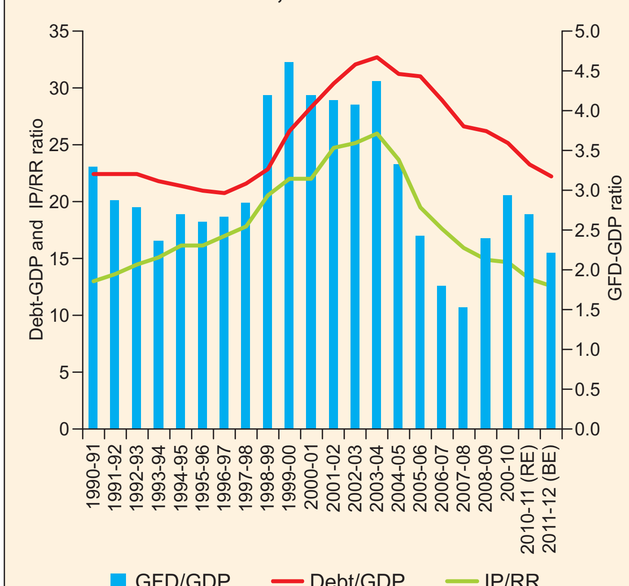
(₹ billion)

Year (end-March)	Amount	Annual Growth	Debt /GDP
		(Per cent)	
1	2	3	4
1991	1,281.5	-	22.5
1997	2,859.0	14.6	20.7
1998	3,308.2	15.7	21.7
1999	3,995.8	20.8	22.8
2000	5,095.3	27.5	26.1
2004	9,031.7	14.8	32.8
2008	13,283.0	7.0	26.6
2009	14,702.0	10.7	26.1
2009-10	16,486.5	12.1	25.5
2011 (RE)	18,050.8	9.5	23.5
2012 (BE)	20,086.8	11.3	22.5

RE : Revised Estimates. BE : Budget Estimates.

Source: 1. Budget Documents of the State Governments.
2. Combined Finance and Revenue Accounts of the Unionand State Governments in India, CAG, Government of India.
3. Ministry of Finance, Government of India.
4. Reserve Bank records.
5. Financial Accounts of the Union Government, GOI.

Chart VI.1: Deficit, Debt and Interest Burden



Box VI.1: Review of National Small Savings Fund (NSSF)

Consequent to the recommendation of the ThFC for comprehensive reforms in the overall administration of National Small Savings Fund (NSSF), a Committee headed by Smt Shyamala Gopinath was constituted by the Ministry of Finance in July 2010 to suggest required reforms in the NSSF. The Committee, which submitted its report in June 2011, made recommendations relating to small savings instruments and investments made by the NSSF.

The recommendations relating to the rationalisation of savings instruments included: (i) an increase in the rate of interest on postal savings deposits to align with commercial bank savings deposit rate; (ii) measures to improve liquidity which is needed more by small savers on recurring and time deposit schemes; (iii) abolition of the maturity bonus on Monthly Income Scheme (MIS) keeping in view the higher interest rate (inclusive of 5 per cent maturity bonus) on MIS *vis-à-vis* market rates; (iv) an increase in the annual investment limit on Public Provident Fund (PPF) to coincide with the ceiling on Section 80C of the I.T. Act; (v) withdrawal of Section 80C, which provides income tax benefit for accrued interest on National Savings Certificate (NSC); (vi) discontinuance of *Kisan Vikas Patra* (KVP) which is prone to misuse being a bearer like instrument; and (vii) introduction of a longer maturity instrument.

In addition to rationalisation of small saving schemes, the Report recommended that the secondary market yields on Central government securities of comparable maturities should be the benchmarks for the small savings instruments (other than savings bank deposits which do not have fixed maturity). It further advised that a one-year reference period – taking the average of the month-end secondary market yields in the preceding calendar year – could be adopted; with inter-year movement of interest rate limited to a maximum of 100 basis points (bps) on either direction. Taking into account the interests of small savers, and in view of the absence of social security among the unorganised sections of the society, the Committee recommended a positive spread of 25 bps, *vis-à-vis* government securities of similar maturities (as against 50 bps recommended by the earlier Committees), which would contribute to the viability of the NSSF. It further suggested that the administered rates may be reset on an annual basis which would help to achieve a balance between the objectives of the need for closer alignment of administered interest rate with market rates and the reduction of its volatility. The date of notification of the rate of interest on small savings by the Government would be April 1, every year, effective 2012-13.

The Committee recommended an equal share in borrowings from the NSSF between the sovereign and the sub-sovereign for equitable burden-sharing as the rate of interest on the NSSF is higher than market rates. The State governments could exercise the option of either 50 per cent or 100 per cent once at the beginning of each fiscal for administrative convenience. After the States exercise their options, the balance amount, if any, could either be taken by the Centre or could be on lent to other States if they so desire, or could be on-lent to finance infrastructure to companies, such as IIFCL, NHAI and IRFC that are wholly owned by Government.

With the rule-based fiscal consolidation initiatives, lower maturity may not involve refinancing risk. Accordingly, to broadly align investments with the maturity profile of the small savings instruments, the Committee recommended a shorter tenor for investments by NSSF in the special securities issued by the Central and State governments that would largely address the asset-liability maturity mismatch of NSSF. The 5-year moratorium on redemption was proposed to be done away with and one-tenth of the amount would be redeemed each year. Simultaneously, State governments could consider elongating the maturity profile of their market borrowings to 15-20 years, taking into account the risk-cost tradeoffs and reissue the SDLs to reduce the illiquidity premium. Since the share of the NSSF in financing of the fiscal deficits of State governments is expected to decline (with a simultaneous increase in the share of the Centre), State governments would be in a position to increase the weighted average maturity of their outstanding liabilities even with a lower maturity of the NSSF.

Adopting a *cost-plus* approach, the Committee recommended that the rate of interest on special securities issued by the Central/ State governments would be equal to the sum of the weighted average interest cost on the outstanding small savings and the average administrative cost. These interest rates would be announced annually every year on April 1. The reinvestments may be on the same terms as for fresh investments and should be shared between the Centre and the States on equal basis. This was felt appropriate as the present practice of the NSSF's reinvestments of its redemption proceeds in 20-year special Central government securities (SCGS) at the prevailing market rates is not viable as these rates are lower than the interest rate on fresh investments by the NSSF. The negative gap between the outstanding assets and liabilities of the NSSF may be funded by the Central government. To address the issue of excess liabilities over assets, the Centre may take up recapitalisation of the NSSF, especially when the NSSF is in need of cash to discharge its liabilities. It felt that these measures would contribute to the viability of the NSSF.

After detailed examination, the following decisions were taken by the Government in November 2011:

Rationalisation of Schemes

- Reduction in the maturity period for MIS and NSC from 6 years to 5 years.
- Introduction of a new NSC instrument with maturity period of 10 years
- Discontinuation of *Kisan Vikas Patras (KVPs).*
- Increase in the annual ceiling on investment under Public Provident Fund (PPF) Scheme from ₹70,000 to ₹100,000.
- Increase in the interest rate on loans obtained from PPF to 2 per cent per annum from the existing 1 per cent per annum.
- Improving the liquidity of Post Office Time Deposits by allowing pre-mature withdrawal.

Interest Rates on Small Savings Instruments

- Increase in the rate of interest paid under the Post Office Savings Account (POSA) from 3.5 per cent to 4 per cent per annum.
- Alignment of the rate of interest on small savings schemes with interest rates on government securities of similar maturity, with a spread of 25 basis points (bps) (except for the new NSC instrument of 10-year maturity where spread would be 50 basis points and the Senior Citizens Savings Scheme where spread would be 100 bps); notification of interest rates on small savings schemes every financial year before April 1 of that year.
- With effect from December 1, 2011, the rate of interest on various small savings schemes for current financial year, on the basis of the built-in interest compounding/payment schemes, has been raised by 0.2-1.45 per cent.

Investments from NSSF

- Reduction in the minimum share of States in net small savings collections in a year, for investment in State governments Securities, from 80 per cent to 50 per cent with the remaining amount being invested in Central government securities or lent to other willing States or in securities issued by infrastructure companies/agencies that are wholly owned by Central government.

- Reinvestment of the yearly repayment of NSSF loans made by Centre and States by the NSSF in Central and State government securities in the ratio of 50:50.
- Reduction in the period of repayment of NSSF loans by the Centre and the States to 10 years, with no moratorium.
- Continuation of the prevailing rate of 9.5 per cent on investments from NSSF for the current financial year but the revised interest rate to be notified from April 1, 2012.
- Introduction of half-yearly payment of interest by the Centre and the States.
- Resetting of interest rate on existing investments from the NSSF in Central government securities till 2006-07 at 9 per cent and on those from 2007-08 until 2010-11 at 9.5 per cent

References:

1. Government of India (2011a): *Report of the Committee on Comprehensive Review of National Small Savings Fund*, Ministry of Finance, June.

2. –do— (2011b): *Decisions on the Recommendations of the Committee on Comprehensive Review of National Small Savings Fund,* Ministry of Finance, Government of India, November.

2009-10, would be continued up to the end-March 2012.

6.5 The detailed composition of outstanding liabilities of State governments at a consolidated level from 1990-91 to 2011-12(BE) is presented in Appendix Tables 19 and 20, while the State-wise composition of outstanding liabilities is provided in Statements 26-28.

3. State-wise Debt Position

6.6 This section presents the State-wise variation in the level of debt in non-special and special category States. The overall debt-GDP ratio of States improved in 2009-10 and 2010-11(RE), notwithstanding the large market borrowing programme during 2009-10, which moderated further in 2010-11 in an environment of increasing inflationary pressures and tight liquidity conditions. The State-wise debt-GSDP position is presented in Table VI.3.[15]

Non-Special Category States

6.7 All the non-special category States except five (Goa, Haryana, Jharkhand and Karnataka) registered an improvement in the debt-GSDP ratio in 2009-10 as compared with 2008-09 (Table VI.3). During 2010-11(RE), all the non-special category States registered a decline in debt-GSDP ratios, with Bihar registering the highest improvement, followed by Rajasthan and Chattisgarh. West Bengal ranked the State with the highest debt-GSDP ratio in 2010-11(RE) followed by Uttar Pradesh and Punjab. The

Table VI.2: Composition of Outstanding Liabilities of State Governments (As at end-March)

(Per cent)

Item	2000	2005	2006	2007	2008	2009	2010	2011 (RE)	2012 (BE)
1	2	3	4	5	6	7	8	9	10
Total Liabilities (1 to 4)	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
1. Internal Debt	24.6	58.7	60.9	61.5	62.1	63.5	66.0	67.1	68.3
(i) Market Loans	14.8	21.1	19.9	19.6	22.5	27.3	31.3	33.5	37.1
(ii) Special Securities issued to NSSF	5.0	27.8	31.9	34.3	32.4	29.4	27.6	27.4	25.5
(iii) Loans from Banks and FIs	3.4	6.7	6.3	5.6	5.4	5.3	5.1	4.6	4.2
2. Loans and Advances from the Centre	45.2	15.8	13.7	11.8	10.9	9.8	8.7	8.2	7.8
3. Public Accounts (i to iii)	29.9	25.5	25.3	26.6	26.9	26.5	26.0	25.4	24.6
(i) State Provident Fund	15.8	12.9	12.3	12.1	12.2	12.1	12.2	12.4	12.4
(ii) Reserve Funds	3.9	5.2	5.5	6.3	5.9	5.7	5.7	5.4	5.1
(iii) Deposits & Advances	10.2	7.4	7.6	8.1	8.8	8.7	8.2	7.7	7.1
4. Contingency Fund	0.3	0.1	0.1	0.1	0.2	0.2	0.1	0.1	0.1

RE: Revised Estimates. BE: Budget Estimates.
'-': Nil/Negligible/Not applicable.
Source: Same as Table VI.1

[15] The detailed State-wise and component-wise break-up of outstanding liabilities is provided in Statements 26-28. The outstanding liabilities as at end-March 2000 of the three bifurcated States (Bihar, Madhya Pradesh and Uttar Pradesh) have been apportioned to the three newly formed States (Jharkhand, Chhattisgarh and Uttarakhand), respectively, on the basis of their respective proportion of the population.

Table VI. 3: State-wise Debt-GSDP Position

(Per cent)

State	2004-08* (Average)	2008-09	2009-10	2010-11 (RE)	2011-12 (BE)
1	2	3	4	5	6
I. Non-special Category States					
1. Andhra Pradesh	30.9	26.5	26.0	24.0	25.6
2. Bihar	51.2	37.0	34.0	30.2	28.9
3. Chhattisgarh	22.3	16.1	14.8	13.2	15.0
4. Goa	35.1	32.0	32.6	30.2	28.0
5. Gujarat	32.9	29.9	28.8	26.9	26.0
6. Haryana	23.2	18.3	19.5	18.9	19.0
7. Jharkhand	25.9	27.5	28.0	27.3	30.9
8. Karnataka	25.0	21.2	24.5	22.6	22.4
9. Kerala	34.8	33.3	32.8	31.1	30.4
10. Madhya Pradesh	37.5	32.3	31.3	30.8	31.1
11. Maharashtra	28.0	24.7	22.6	21.9	21.0
12. Odisha	43.4	30.8	28.2	25.9	24.9
13. Punjab	43.2	35.7	34.7	33.4	33.4
14. Rajasthan	43.7	37.4	35.9	32.7	32.1
15. Tamil Nadu	23.4	21.5	21.5	20.8	21.6
16. Uttar Pradesh	50.4	43.5	39.8	38.1	37.6
17. West Bengal	47.3	44.0	44.0	42.0	39.9
II. Special Category States					
1. Arunachal Pradesh	60.3	103.2	46.2	42.3	40.0
2. Assam	30.4	28.1	27.7	26.2	26.4
3. Himachal Pradesh	62.5	52.8	54.9	47.8	44.3
4. Jammu and Kashmir	61.2	63.9	69.7	70.5	69.3
5. Manipur	67.3	66.0	67.2	66.9	69.3
6. Meghalaya	34.6	31.7	30.8	29.4	29.1
7. Mizoram	105.1	90.6	67.0	68.4	63.8
8. Nagaland	44.9	45.1	53.2	46.6	46.4
9. Sikkim	66.0	62.5	52.4	45.4	43.3
10. Tripura	47.5	34.7	35.5	34.0	31.9
11. Uttarakhand	37.3	30.7	29.5	27.2	27.1
All States#	**29.5**	**26.1**	**25.5**	**23.5**	**22.5**
Memo Item:					
1. NCT Delhi	17.3	13.8	12.2	11.6	10.0
2. Puducherry	26.8	33.1	34.7	42.9	44.3

*: Data for Puducherry pertain to 2006-07.
#: Data for All States is as per cent to GDP.
Source: Same as Table VI.1.

debt-GSDP ratio was the lowest for Chhattisgarh. As per 2010-11(RE) data, all the non-special category States except West Bengal [debt-GSDP ratio of 42.0 per cent in 2010-11(RE) *versus* the ThFC's target of 40.6 per cent] were able to achieve their respective debt-GSDP targets stipulated by the ThFC. The debt-GSDP ratios of 10 non-special category States (Bihar, Gujarat, Haryana, Jharkhand, Karnataka, Kerala, Punjab, Rajasthan, Tamil Nadu and West Bengal) during 2010-11(RE) and 2011-12(BE) were within the stipulated targets mandated under their amended FRBM Acts.

6.8 Interest payments-revenue receipts (IP-RR) ratio is an important indicator of debt sustainability as it gauges the extent of revenue receipts being absorbed to meet committed expenditures in the form of interest payments.

Gujarat, Kerala, Maharashtra, Punjab, Rajasthan and West Bengal, however, could not achieve the TwFC target of 15 per cent for IP-RR ratio in 2009-10. It may be noted that ThFC did not stipulate any specific targets in respect of IP-RR ratio to be achieved by States over the period 2010-2015. During 2010-11(RE), all non-special category States, except one (Odisha), recorded lower IP-RR ratios than that in 2009-10. The IP-RR ratios of the majority of non-special category States (except Haryana, Karnataka, Punjab) are expected to be lower in 2011-12(BE) than their levels in 2010-11(RE). The declining trend in the IP-RR ratio of the majority of States reflects their debt consolidation efforts to bring down their debt-GSDP levels, supported by the lower cost of incurring incremental debt during these years. In 2011-12(BE), 11 out of 17 non-special category States are expected to record lower debt-GSDP ratios over those in 2010-11(RE).

Special Category States

6.9 As special category States play a major role in the delivery of various services to the public, they exhibit higher aggregate expenditure-GSDP ratios *vis-a-vis* non-special category States. Despite higher grants from the Centre muting the impact of higher expenditure *vis-à-vis* the resource base of special category States, their debt-GSDP ratios are generally observed to be higher. However, their share as a group in total outstanding debt of all States during 2005-06 to 2009-10 was, on an average only about 7.7 per cent. In 2010-11(RE), the debt-GSDP ratio declined in all special category States except two (Jammu and Kashmir, and Mizoram). Among the special category States, the highest debt-GSDP ratio was recorded by Jammu and Kashmir and Manipur. The reduction in the debt-GSDP ratio is expected to be continued in 2011-12(BE), as all special category States except Assam and Manipur expects to record lower debt-GSDP ratios (Table VI.3).

4. Market Borrowings

Consolidated Position

6.10 In view of the sharp increase in the size as also the frequency of market borrowings by the State governments, the Reserve Bank took pro-active steps to manage the borrowing programme to contain excessive pressure on interest rates. Since 2005-06, the entire market borrowings of State governments have been raised by way of issuances of 10-year securities that are mostly subscribed by banks and financial institutions. Hence, the securities issued in 2010-11 would mature in 2020-21. Reflecting the lower level of market borrowings, the growth in the outstanding stock of State Development Loans (SDLs) decelerated to 17.2 per cent during 2010-11 from the high growth rates witnessed during the crisis years of 2009-10 (28.6 per cent) and 2008-09 (34.6 per cent). It may be noted here that the higher amount of market borrowings raised during 2008-09 and 2009-10 was facilitated by the additional provisions allowed by the Centre. The interest rate profile of outstanding stock of SDLs shows that the share of high cost market loans (interest rate of 10.0 per cent and above) declined from 4.7 per cent as at end-March 2010 to 1.5 per cent as at end-March 2011 (Table VI.4). The share of loans with interest rates below 8 per cent which constituted over half of the total outstanding stock in end-March 2010 also declined to around 43 per cent in end-March 2011. The share of outstanding SDLs with interest rates ranging between 8-10 per cent, however, increased sharply from 44.8 per cent as at end-March 2010 to 55.5 per cent as at end-March 2011, which indicates that incremental debt was raised at a somewhat higher cost in 2010-11 (Table VI.4).

Allocation of Market Borrowings during 2010-11

6.11 The gross market borrowings raised by States in 2010-11 were lower by 20.7 per cent than those of the previous year (Table VI.5). The State governments were able to complete their market

Table VI.4: Interest Rate Profile of the Outstanding Stock of State Government Securities*

(As at end-March)

Range of Interest Rate	Outstanding Amount (₹ billion)		Percentage to total	
	2010	2011	2010	2011
1	2	3	4	5
5.00-5.99	350.7	348.2	6.8	5.7
6.00-6.99	746.1	746.1	14.4	12.3
7.00-7.99	1,510.7	1,510.7	29.2	24.9
8.00-8.99	2,199.0	3,244.3	42.5	53.5
9.00-9.99	118.7	121.2	2.3	2.0
10.00-10.99	144.0	54.9	2.8	0.9
11.00-11.99	54.2	12.0	1.0	0.2
12.00-12.99	46.4	21.3	0.9	0.4
Total	**5,169.7**	**6,058.7**	**100.0**	**100.0**

* Including Union Territory of Puducherry.
Source: Reserve Bank records.

borrowing programmes smoothly during the year. Four States (Arunachal Pradesh, Chhattisgarh, Odisha and Sikkim) did not participate in the market borrowing programme in 2010-11 as against only one State (*viz.*, Odisha) in 2009-10. Four States did not raise their full sanctions in 2010-11 as against five States in 2009-10 (Statement 29). The weighted average spread (*i.e.,* the difference between the weighted average primary market yield of SDL on the day of auction and the secondary market yield of corresponding maturity of the Central government dated security on the same day) declined to 45 bps during the year from 86 bps during 2009-10. The lower spread during 2010-11 reflected several factors including lower market borrowings on account of the comfortable cash position of the States, lower average issuance size, and lower volatility in the yield of the 10-year benchmark government securities in the secondary market.

6.12 The weighted average yield of State government securities issued during 2010-11 stood higher at 8.39 per cent as compared with 8.11 per cent during 2009-10. During 2011-12 (up to March 6, 2012), 30 tranches of auctions were conducted under the market borrowing programme of the State governments and 24 States and UT of Puducherry raised an aggregate amount of ₹1,484 billion on a gross basis (net ₹1,282 billion) as compared with ₹985 billion (net ₹844 billion) raised by 22 States during the corresponding period of the previous year. The weighted average yield of gross market borrowings of States during 2011-12 (up to March 6, 2012) works out to 8.76 per cent, i.e., higher than 8.39 per cent during the corresponding period of 2010-11 (Table VI.5).

Maturity Profile of State Government Securities

6.13 Since 2005-06, all issuances of SDLs have a maturity of 10 years. The increase in market borrowings of the State governments in 2008-09 and 2009-10 could lead to large repayment obligations from 2017-18 onwards. The maturity profile of the outstanding stock of SDLs as at end-March 2011 shows that the majority of SDLs (around 58.3 per cent) were in the maturity bucket of 7 years and above; around 16.4 per cent were in the 5-7 years maturity bucket, while the remaining 25.3 per cent were to mature in less than 5 years (Table VI.6).

5. Contingent Liabilities

6.14 The Reserve Bank, on behalf of the State governments, maintains the consolidated sinking fund

Table VI.5: Market Borrowings of State Governments

(₹ billion)

Item	2009-10	2010-11	2011-12*
1	2	3	4
1. Net Allocation	1,024.6	1,421.6	1,458.7
2. Additional Allocation	26.8	59.7	0.0
3. Repayments	162.4	156.4	219.9
4. Gross Allocation (1+2+3)	1,213.8	1,637.7	1,678.6
5. Total Amount Raised	1,311.2	1,040.4	1,484.4
6. Net Amount Raised (5-3)	1,148.8	884.0	1,292.4
Memo item:			
(i) Coupon/Cut-off Yield Range (%)	7.04-8.58	8.05-8.58	8.36-9.33
(ii) Weighted Average Interest Rate (%)	8.1	8.4	8.8
(iii) Issuance Maturity (in years)	10.0	10.0	10.0

* Amount raised upto March 6, 2012.
Note: (i) Data are inclusive of Puducherry.
(ii) Data on market borrowings as per RBI records may differ from that reported in the budget documents of the State Governments.
Source: Reserve Bank records.

(CSF) that provides a cushion for amortisation of market borrowing/liabilities arising from invocation of guarantees issued in respect of borrowings by State-level undertakings or other bodies. In addition to the budgetary support through loans, subsidies and equity, the State governments also facilitate the financing of State PSUs and other institutions by way of issuing guarantees and letters of comfort. In this manner, States incur contingent liabilities which do not form part of their debt obligations. As at end-March 31, 2011, 20 State governments including the Union Territory of Puducherry had notified CSF and outstanding investments under CSF amounted to ₹365 billion as against ₹302 billion as at end-March 2010. Based on information available for 18 State governments, the total outstanding guarantees of State governments as at end-March 2010, were marginally higher at 2.8 per cent of GDP than 2.7 per cent as at end-March 2009 (Statement 43). In the event of default by borrowing entities, the States are required to meet their debt service obligations. To contain the fiscal risks associated with guarantees, 18 States have put in place ceilings (statutory or administrative) on the guarantees (outstanding or incremental). The TwFC had recommended that all States should impose a limit on their contingent liabilities through their FRBM Acts and that States set up guarantee redemption funds (GRFs). Accordingly, GRFs have been set up in 14 States. As per information available with the Reserve Bank on 10 GRFs, the

Table VI.6: Maturity Profile of Outstanding State Government Securities

(As at end-March 2011)

State	Per cent of Total Amount Outstanding				
	0-1 years	1-3 years	3-5 years	5-7 years	Above 7 years
1	2	3	4	5	6
I. Non-Special Category					
1. Andhra Pradesh	3.86	9.89	8.74	15.70	61.82
2. Bihar	8.00	14.16	15.36	11.30	51.18
3. Chattisgarh	12.47	24.68	22.93	12.04	27.88
4. Goa	3.79	10.10	11.43	21.04	53.64
5. Gujarat	2.75	10.58	6.68	16.25	63.73
6. Haryana	2.40	10.48	11.66	0.93	74.54
7. Jharkhand	5.97	11.08	13.46	20.66	48.82
8. Karnataka	5.26	13.03	14.99	3.95	62.77
9. Kerala	4.50	7.93	11.51	22.48	53.58
10. Madhya Pradesh	3.35	10.31	15.43	13.76	57.15
11. Maharashtra	2.12	7.83	8.76	17.24	64.06
12. Odisha	16.98	35.60	36.78	10.64	-
13 .Punjab	1.72	10.78	10.71	20.84	55.95
14. Rajasthan	3.94	11.31	12.11	16.13	56.52
15. Tamil Nadu	2.80	8.84	9.17	14.48	64.72
16. Uttar Pradesh	4.61	9.51	13.36	13.18	59.34
17. West Bengal	2.07	9.20	9.44	22.04	57.24
II. Special Category					
1. Arunachal Pradesh	4.81	9.34	17.19	52.82	15.84
2. Assam	5.11	12.67	16.88	18.49	46.85
3. Himachal Pradesh	4.37	14.18	16.26	22.08	43.11
4. Jammu & Kashmir	2.80	8.69	6.28	27.59	54.65
5. Manipur	2.83	6.09	18.82	19.71	52.55
6. Meghalaya	5.75	7.95	18.26	27.09	40.95
7. Mizoram	3.05	11.31	14.79	26.79	44.06
8. Nagaland	5.62	9.62	15.85	23.11	45.80
9. Sikkim	1.35	2.96	11.45	33.97	50.27
10. Tripura	4.49	12.16	20.60	14.46	48.29
11. Uttarakhand	3.33	23.69	20.44	16.58	35.97
All States	**3.64**	**10.38**	**11.35**	**16.38**	**58.25**

Source: Reserve Bank records.

aggregate outstanding investments in GRF by these States stood at ₹37 billion as at end-March 2011 as compared with ₹34 billion as at end-March 2010.

6. Liquidity Position and Cash Management

6.15 Keeping in view the surplus cash position of the State governments, the WMA limits of State governments have been left unchanged since 2006-07. The aggregate Normal WMA limit for States, including Government of Union Territory of Puducherry, was placed at ₹99 billion for 2010-11, which was the same as in the previous year. Consequent upon the supplementary agreement with the Government of Jammu and Kashmir, the aggregate WMA limit for 2011-12 was increased to ₹102 billion in April 2011. The rates of interest on Normal and Special WMA and OD continued to be linked to the repo rate. Most State governments have accumulated sizeable cash balances in recent years reflecting the fiscal consolidation measures undertaken since 2005-06. The liquidity pressures during 2010-11 were confined to a few State governments. Nonetheless, the monthly average utilisation of WMA and OD by the States in 2010-11 was higher (Chart VI.2). During 2011-12 (up to February, 2012), eight States resorted to WMA and four States availed of overdraft during the year (Statement 38). The daily average utilisation of WMA/OD by the States stood higher (₹7 billion) during 2011-12 (so far) as compared with ₹5 billion during the corresponding period of the previous year.

7. Investment of Cash Balances

6.16 Most States continued to accumulate surplus cash balances although temporary dips were observed in some months (Chart VI.3). The surplus cash balances of State governments are automatically invested in 14-day Intermediate Treasury Bills (ITBs), the discount rate of which is currently fixed at one per cent less than the Bank Rate. The average investment in 14-day ITBs declined to ₹789 billion during 2010-11 from ₹845 billion during the previous year. The outstanding investments of States in ITBs stood at ₹1,013 billion as at end-March 2011 as against ₹938 billion as at end-March 2010. The average investment of the State governments in Auction Treasury Bills (ATBs) more than tripled to ₹96 billion in 2010-11 from ₹27 billion in the previous year. The outstanding investment of State governments in ATBs as at end-March 2011 was higher at ₹102 billion (₹2.5 billion as at end-March 2010). Importantly, since mid-June 2010, States' investments in ATBs have shown substantial increases, reflecting its positive return differential over ITBs. During 2011-12 (up to March 11,

Chart VI.2: Utilisation of WMA and Overdraft by States (Average of daily outstanding)

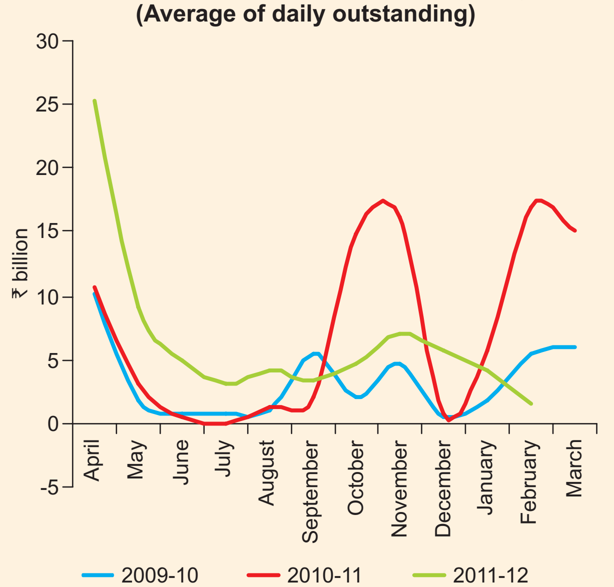
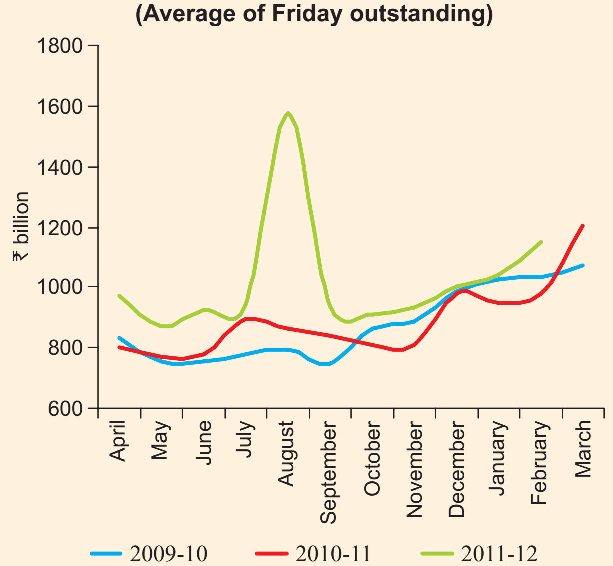


Chart VI.3: Investment in 14-day Intermediate and Auction Treasury Bills by the State Governments (Average of Friday outstanding)



2012), States' investment in ITBs declined from ₹1,013 billion at the end of March 2011 to ₹852 billion as on March 11, 2012. However, States' investment in ATBs increased from ₹102 billion to ₹327 billion during the period.

8. Debt Consolidation and Relief

6.17 Since 2005-06, the DCRF has resulted in considerable relief to the States in terms of debt write-off and interest relief on outstanding Central loans. Central loans amounting to ₹1,136 billion have been consolidated between 2005-06 and 2009-10 and an amount of ₹223 billion was written off by the end of 2009-10; interest relief obtained by the States amounted to ₹216 billion during the same period. The impact of DCRF and other reform measures was evident from the significant reduction in the average interest rate on outstanding debt since 2004-05 as compared to earlier years (Table VI.7). Under the DCRF, all States except West Bengal and Sikkim have benefited. Among the non-special category States, Uttar Pradesh, Gujarat and Andhra Pradesh have benefited the most in terms of debt consolidation while Assam and Himachal Pradesh were the major beneficiaries in the special category States. In terms of the ThFC's recommendation, DCRF should be extended to States that have not availed of the benefit of consolidation, subject to the enactment of the FRBM Act. It may be noted that non-beneficiary States, *viz.*, West Bengal and Sikkim, have also enacted FRBM Act in 2010-11 and have been allowed the benefit of DCRF.

9. Conclusion

6.18 The consolidated debt-GDP ratio of the States continued its declining trend during 2010-11(RE) and was budgeted to decline further by end-March 2012. The ratio is not only below the ThFC recommended benchmark for the year but also lower than the medium-term benchmark. Notwithstanding spurts during the crisis years, the annual growth of outstanding liabilities has decelerated considerably since the introduction of rule-based fiscal consolidation. With the amended FRBM Acts of the States setting out graduated reduction in debt-GSDP ratios for the individual States, the overall stance augurs well for further reduction in the consolidated debt-GSDP ratio of the States. The compositional shift of outstanding liabilities towards market loans continued during 2010-11(RE) and is budgeted to increase further during 2011-12. On the other hand, the share of NSSF's loans in outstanding liabilities of the States continued to decline. The declining trend in the share of NSSF (the high cost component of debt) could be further reinforced in light of the implementation of the Shyamala Gopinath Committee's recommendation to reduce the mandatory allocation of small savings collections for the States from 80 per cent to 50 per cent from the fiscal year 2012-13. A positive feature for 2010-11(RE) was a decline in debt-GSDP ratio across all the States (except for two in the special category). The smooth conduct of market borrowings during 2010-11 was facilitated by reduction in the quantum of SDLs as compared with the crisis-driven preceding two years.

Table VI.7: Average Interest Rate on Outstanding Liabilities of State Governments

(Per cent)

Year	Average Interest Rate*
1	2
1991-92	8.54
1992-93	8.98
1993-94	9.38
1994-95	10.33
1995-96	10.09
1996-97	10.17
1997-98	10.42
1998-99	10.71
1999-00	11.17
2000-01	10.01
2001-02	10.37
2002-03	9.99
2003-04	10.22
2004-05	9.57
2005-06	8.29
2006-07	8.12
2007-08	8.04
2008-09	7.75
2009-10	7.67
2010-11 (RE)	7.81
2011-12 (BE)	7.86

RE: Revised Estimates. BE: Budget Estimates.
*: Worked out by dividing interest payments of the current year by outstanding debt of the previous year
Source: Same as Table VI.1.