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RBI Working Paper Series 7: Debt Position at State Level in India Sustainable but Concerns Remain

The Reserve Bank of India today placed on its website a Working Paper titled "[Debt Sustainability at the State level in India](#)" under the Reserve Bank of India Working Paper Series*. This paper is authored by Balbir Kaur, Atri Mukherjee, Neeraj Kumar and Anand Prakash Ekka.

The debt position of the state governments in India has witnessed significant improvement in the last decade reflecting the impact of both favourable macroeconomic conditions and policy efforts by the central and the state governments. The recent growth slowdown and volatility in the financial markets, however, have raised fresh concerns about the financial health of the state governments in India. In this backdrop, the present study revisits the issue of debt sustainability at the sub-national level in India.

The sustainability analysis is based on indicator analysis as well as empirical estimation of inter-temporal budget constraint and fiscal policy response function in a panel data framework and covers 20 Indian states for the period 1980-81 to 2012-13. It indicates that the debt position at the state level is sustainable in the long run. Disaggregated level analysis, however, reveals that despite an overall improvement in debt position of the Indian states, some of the states continue to show signs of fiscal stress and increasing debt burden. Contingent liabilities, primarily in the form of issuance of guarantees by the state governments, remain another area of concern. The strong presence of contingent liabilities highlights the need for a holistic assessment of debt position of states by reckoning their off-budget fiscal position including the impact of operations of state public sector enterprises.

** The Reserve Bank of India introduced the RBI Working Papers series in March 2011. These papers present research in progress of the staff members of the Reserve Bank and are disseminated to elicit comments and further debate. The views expressed in these papers are those of authors and not of the Reserve Bank of India. Comments and observations may kindly be forwarded to authors. Citation and use of such papers should take into account its provisional character.*