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RESERVE BANK OF INDIA

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**RBI Working Paper No. 08/2020:  
Subnational Government Debt Sustainability in India: An Empirical Analysis**

The Reserve bank of India today placed on its website a Working Paper titled "[Subnational Government Debt Sustainability in India: An Empirical Analysis](#)" under the Reserve Bank of India Working Paper Series\*. The paper is authored by Sangita Misra, Kirti Gupta and Pushpa Trivedi.

The paper assesses the sustainability of debt for Indian states. Fiscal shocks through schemes like Ujwal DISCOM Assurance Yojana (UDAY) have led to increased fiscal pressures exacerbating the debt dynamics of states at periodic intervals. Recognising the increasing precedence of such fiscal shocks and invoking of contingent liabilities, the paper uses both conventional liabilities/debt and the augmented debt arrived at by incorporating information on states' guarantees and their likely fall out on states' budgets. The sustainability is assessed using a standard indicator based approach and panel data framework for the post Fiscal Responsibility Legislations (FRLs) period. Results indicate that states debt is just about sustainable with some signs of unsustainability likely to emerge. Guarantees given by states, if invoked, could certainly pose a potential risk to debt sustainability for Indian States. This has clear policy implications in terms of revisit of States' FRLs with inclusion of debt as a medium term anchor coupled with greater transparency with regard to contingent liabilities/off-budget borrowings. The paper does not cover the COVID-19 pandemic period and its impact on state finances.

**Press Release: 2020-2021/11**

**Ajit Prasad**  
Director

\* 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.