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SENSEX

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▼ -585.81

NIFTY

8,205.25

▼ -173.15

GOLD (MCX) (Rs/10g.)

27,073.0

▲ 343.0

USD/INR

63.41

▼ -0.02

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Is Maharashtra really staring at a financial crisis as CM Devendra Fadnavis believes?

G Seetharaman, ET Bureau Jan 4, 2015, 11:25AM IST

Tags: Sunday ET | Mumbai | GSDP | gross state domestic product | financial crisis | Devendra Fadnavis

It is not unusual for a new government to criticise the previous one. But when Maharashtra chief minister Devendra Fadnavis was recently reported as saying that the state was facing a financial crisis, it turned heads since Maharashtra is considered a fiscally sound state.

"The financial crisis was handed over to the present government by its predecessor. We are trying to find ways to come out of it. It is a difficult situation. We are trying our best, but we fear the government may have to take a loan to clear the salaries of its employees," The Times of India quoted him as saying at a meeting of the employee unions of state electricity companies in Nashik. Neither Fadnavis nor additional chief secretary of finance SK Shrivastava could be reached for comment. According to the Economic Survey of Maharashtra for 2013-14, the state's debt stood at Rs 2.72 lakh crore.



(While the figure may seem...)

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Figuring Out

While the figure may seem high, it has to be seen in relation to Maharashtra's gross state domestic product (GSDP). The state's debt was a healthy 18.4% of its GSDP in 2013-14. The average for the period from 2010-11 to 2013-14 was 20.4%, which was the second-lowest, after Tamil Nadu's, among the five largest states. Maharashtra is the largest contributor to India's GDP, accounting for 15.6% and witnessed an impressive growth rate of 8.71% in 2013-14.

Economist Abhay Pethe, who teaches at the University of Mumbai, says if there is one problem in the state it is that it does not borrow enough. "We should be borrowing more for specific purposes like infrastructure and not general purposes," he added. Maharashtra has the second highest capital outlay among states, after

Uttar Pradesh. The Bharatiya Janata Party emerged as the largest party in the recent Assembly elections in Maharashtra, after 15 years of Congress-Nationalist Congress Party rule. It runs a coalition government with the

Shiv Sena.

SPOTLIGHT

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- Public Sector Banks may be asked to form holding companies



Madan Sabnavis, chief economist at CARE Ratings, says fiscal prudence is most important for bureaucrats and they do not want to overextend themselves by borrowing more. "When they are not sure about the revenues, they do not want to spend," he adds. Industries and services account for 89% of the state's output and Maharashtra accounts for around 16% of the country's industrial and service sector output.

Bureaucrats Cautious on Borrowing

Some say the bureaucrats' cautiousness is also borne out of the fear that borrowings for capital expenditure will be used for revenue expenditure by various ministries. Maharashtra's fiscal deficit last financial year was 1.6%, again the lowest among the large states. Maharashtra's interest payments as a percentage of revenue receipts in from 2010-11 to 2013-14 was 14%, lower than Gujarat's 17%.

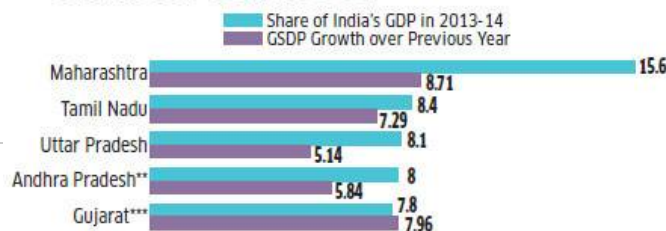
"The debt to GSDP and interest payments to revenue receipts figures show that Maharashtra is not under stress. There might be some immediate cash flow issues, but that's a case of financial management," says Pethe. He adds that Fadnavis might be sounding alarmist just so he can instill some discipline in his ministers when it comes to spending.

Sabnavis says the state has improved over the last few years in certain respects. "We noticed the first signs of improvement three years ago and they have been sustained. For instance, the payment process for irrigation companies is now streamlined and there are no delays," he adds. While businesses have moved from Maharashtra to neighbouring states in recent years and dropped investments in the state have risen

since the slowdown of 2008 and 2009, other large states have also been impacted. Between 2008-09 and 2012-13, Andhra Pradesh (which was in June last year divided into Seemandhra and Telangana), Gujarat and Karnataka saw more dropped investments than Maharashtra.

CRISIS, WHAT CRISIS?

Maharashtra is By Far the Largest Contributor to India's GDP*



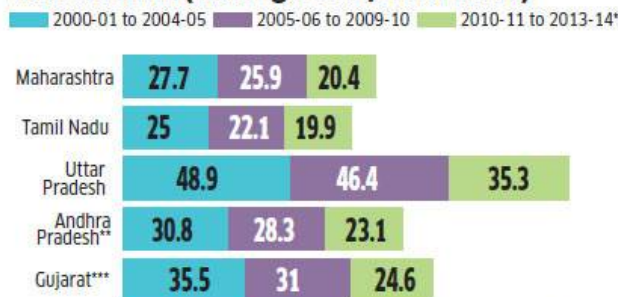
Source: Planning Commission

*At factor cost at constant (2004-05) prices

** Andhra Pradesh was on June 2, 2014, divided into Seemandhra and Telangana

*** Figure for Gujarat's share of India's GDP is for 2012-13 all figures in %

Only Tamil Nadu is Less Debt-stressed than Maharashtra (Average Debt/GSDP ratio)



Source: RBI

*Figures for 2013-14 relate to Budget estimates all figures in %

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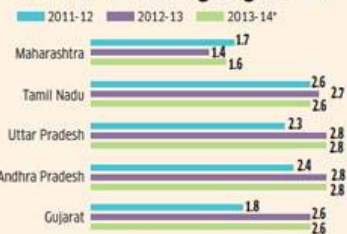
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Maharashtra's Interest Payments as % of Its Revenue Receipts are Lower than Gujarat's



Maharashtra's Gross Fiscal Deficit Is the Lowest Among Large States



Source: RBI
*Figures for 2013-14 relate to Budget estimates; all figures in %

Sabnavis says Maharashtra may not be doing anything different now than it was earlier, it is just that the other states are offering more incentives to companies and Maharashtra should follow suit. Pethe says one way the new government can keep its finances in check is to watch out for red flags on revenue expenses: "You should defer what you can."

Understandably people's expectations from the Fadnavis government are high, which is why he needs to emphasize his predecessor's shortcomings. Yet, as analysts point out, the time for headline-grabbing political rhetoric is over, along with the Assembly elections. It's time to work on delivering on his party's promises.

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05 Jan, 2015 08:51 PM

Pls instead of playing the blame game....lets give enough time to the current Govt to improve the dire strait the state is in now.

Adarsh Kumar Srivastav (Ambikapur)

05 Jan, 2015 08:01 PM

Contact Modiji for all solutions.

motakhiladi babloo (KANPUR)

05 Jan, 2015 04:47 PM

whatever situation,,,,,he has to handle.....

Ravindra Shetye (Mumbai)

05 Jan, 2015 01:11 PM

Why Fadnavis did not look into these comparative figures with the other Indian states before OPENING HIS MOUTH??? Only lowers Fadnavis rating in the minds of the Inteligencia.

(chennai)

05 Jan, 2015 12:11 PM

nice info.

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