***Research Article MES MAMPAD International Journal of Humanities and Social Science (MESIJHSS)* TITLE: “THE DEBT SUSTAINABILITY OF KERALA: WHAT IS REALITY?”**

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#### Abstract

*The indicator-based analysis has been operated to understand fair-faced status of Kerala state finance. It was revealed from seven selected indicators that Kerala has not been in crisis for at least since 2004-05 although the state doesn’t enjoy perfected fiscal condition. Even though Kerala state finance fulfilled the debt sustainability requirements from 2004-05 to 2011-12 in a row on most indicators, fiscal indiscipline has outstripped the state in most of the debt sustainability indicators four years thereafter. The study evinces that Kerala, which stands ahead of many socio-economic indicators, lagged behind ‘All states’ in terms of debt-GSDP ratio.*

*Keywords: Kerala state finance, indicator-based analysis, debt sustainability, debt- GSDP ratio.*

### Introduction

A nation’s financial strength and deficit financing capacity can be seen from or examined on the basis of its fiscal sustainability. Fiscal sustainability, best judged by debt sustainability, helps measure the ability of a government for further access to debt from the market. Credit worthiness of the state will be ascended with the vigorous debt sustainability of the country. Since the government’s role is inevitable even in the current market oriented economy, role of public finance in a developing-less market oriented economy like India need no special mention. Public finance and good governance has been so vital in the world since it satisfies both welfare objective and growth objective altogether. Both revenue and expenditure of the national or sub-national authority would be for fulfilling both welfare maximisation objective and stable growth objective. Only a sound public finance can make it happen without any tickler.

### Debt Status of India and Growing Public Expenditure

India has been witnessing significant upsurge on its government level spending for the last few decades. Akrani (2011) noted that “before independence, there was no planning in India and hence no effort was made on the part of government to provide welfare services but the accelerating growth of government expenditure began in late seventies”. The combined revenue and capital expenditure of the Centre and states recorded Rs900 cr in 1950-51 unprecedentedly up surged to Rs. 1.5 lakh cr in 1990-91 and Rs31.5 lakh cr in 2013-14 (Ministry of Finance (MoF), 2015). It is cognizant that growth of population, ascended allocation for defence sector in the context of ceaseless- aggravated longstanding tension in borders, increase in committed expenditure, growth of urbanization and industrialization, and centre’s share to the states and union territories have really brought about quite flagrant growth in India’s public expenditure. This tremendous growth in expenditure was never backed by adequate revenue. This has created huge budgetary deficit in India. Subsequently India’s total public debt has become Rs56 lakh cr in 2013-14 proliferated from Rs. 10 lakh cr in 1999-00. There in, the outstanding external debt alone progressed from Rs 32 cr in 1950-51 to Rs 1 lakh cr in 1990-91 and Rs. 3.75 lakh cr in 2013-14. (MoF, 2015).

### Kerala’s public finance: Standing incredulity

The state finance of Kerala is being questioned on its credit worthiness and ability to cover surging revenue expenditure. Great majority of Kerala’s revenue spending is being allocated for committed expenditure (69.74% in 2014-15 and 68.61% in 2015-16). Lion share (60% in 2015-16) of it was being exhausted under the heads of salary, pension and interest payment. (Kerala State Planning Board (KSPB), 2017). The state government, in recent years, was running the treasury without over draft and closure scantly. Many a time the state has resorted ways and means advance to meet daily expenses to avoid overdraft. The state can avail up to Rs 350 cr per annum through market borrowing. If the treasury fell in over draft and stayed it for 14 consecutive working days, the RBI will declare treasury closure ceasing all treasury transactions

including salary and pension disbursements. Regularly raising concerns and misgiving on state finance elucidate that Kerala’s state finance has been running on the enfeebled overpass which requires scaffolding or restoration. As pointed out by Ayyappan (2014) that the revenue starved state of Kerala is recklessly pushing itself towards a treasury shutdown by December. Besides the non-renouncing overdraft and treasury closure browbeats or putting on these, Kerala now faces the menace of the loss of public revenue in the context of the recent ban on beverages outlet. Following the closure of 1956 liquor outlets in line with the Supreme Court order banning sale within 500 meter radius of the national and state highways, the Kerala government is likely to sustain a revenue loss of up to Rs 2,500 crore (Manorama Online, 2017).

### Objectives

1. To unearth Kerala's placing on debt status among Indian states.
2. To discover the debt sustainability of Kerala.
3. Methodology

The study entirely banked upon secondary data which were collected from the crowning provenances such as Reserve Bank of India (RBI) and Kerala State Planning Board (KSPB). Simple statistical tools such as percentage and ratio were employed throughout the study for the analysis of data. The study organized an indicator-wise analysis of the debt sustainability of Kerala. All such indicators are based onstate income, public revenue, public expenditure and public debt indicators of the Kerala state. Moreover Debt-GDP ratio was also employed in the study to understand the fiscal standings and enormity of public debt of Kerala and other states in the last few decades.

1. Debt/GSDP Ratio of Kerala: Reversing Trend

Kaur, Mukherjee, Kumar, and Prakash (2014) in their study for RBI found that the fiscal position of the state governments had remained comfortable in the first three decades since independence. Kaur et al. (2014) explored that the state finances exhibited signs of fiscal stress since the mid-1980s. Kerala had better debt position than national average. The table 1 shows that Kerala’s debt/GSDP (Gross State Domestic Product)

ratio was just 14.6 which was lower than the national average of 18.3 during the pre- reform era of 1980-81 to 1991-92. The situation has been repeated in second period of 1992-93 to 1996-97 with a small reduction in gap between state and national averages. The situation, accruing body blow to the state of Kerala, has been capsized thereafter since most other states were able to bring down their ratios. The third phase witnessed a larger increase in Debt-GDP ratio both in Kerala and in India. This phase of six years from 1997-98 befall an increase of 10 per cent of Debt-GSDP ratio of Kerala while All states had a lesser hike of 6 per cent in Debt-GSDP ratio. The hike in Debt-GSDP ratio of Kerala continued to rise and reached an average of 33.3 per cent which is greater than that of India during 2004-05 to 2012-13. The towered gap between debt-GSDP ratio of Kerala and All States continued in 2013-14 also with around 10 per cent. While All states’ ratio was mere 21.9 per cent, Kerala’s ratio stood high at 31.7 per cent. At once the revised estimates show that the gap will be subsided significantly in 2014-15 to around 6 per cent. While Kerala’s ratio decline to 28.5 per cent, All states’ ratio stood almost stagnant on 22.3 per cent. The recent trend shows that Indian states, due to their obligations, compelled to reduce Debt/GSDP ratio. The state of affairs in which Kerala, which has advantage on many live social development indicators, fell below other states on state finances is exceedingly portentous and imaginably.

Table 1: Debt-GDP/GSDP ratio

|  |  |  |
| --- | --- | --- |
| **Period** | **Kerala** | **India (All States)** |
| 1980-81 to 1991-92 | 14.6 | 18.3 |
| 1992-93 to 1996-97 | 18.6 | 20.8 |
| 1997-98 to 2003-04 | 28.2 | 26.9 |
| 2004-05 to 2012-13 | 33.3 | 26.4 |
| 2012-13 | 31.6 | 22.2 |
| 2013-14 | 31.7 | 21.9 |
| 2014-15 (Revised Estimates) | 28.5 | 22.3 |

Source: [www.rbi.org.in/scripts/publications](http://www.rbi.org.in/scripts/publications) and State Finances (RBI)

Figure 1: Trend in Debt/GDP ratio of Kerala and all states

35

30

25

20

15

10

Kerala

India (All States)

5

0

1980-81 to 1992-93 to 1997-98 to 2004-05 to 2012-13 2013-14 2014-15

1991-92 1996-97 2003-04 2012-13 (Revised

Estimates)

Source: [www.rbi.org.in/scripts/publications](http://www.rbi.org.in/scripts/publications) and State Finances (RBI)

### Debt Sustainability of Kerala: Indicator based analysis

Seven criteria, which are based on state income, revenue receipt, public debt and interest payment, were employed to measure Kerala’s strength on state finance and its standing on credit worthiness. Following criteria were suggested by RBI to measure debt sustainability of a state in India.

### Rate of growth of debt should be less than the rate of growth of nominal GSDP.

The growth of public in fact cannot be blindly antagonized without pondering where it spends. The debt accessed by the government to spend in development and capital expenditure which helps the state grow and strengthen the productive capacity. Philip (2014) indicates that the Kerala’s accumulated debt burden may not be a problem if the debt is utilized for asset generation and expanding the productive capacity of the economy. Dholakia, Mohan, and Kiran (2004), in their joint report submitted to Twelfth Finance Commission, New Delhi count nominal debt to nominal income ratio as the most important indicator of debt sustainability. Dholakia et al. (2004, p.30) describe “it is clear

that debt is always at market prices, and therefore income should be also at market prices to make sense”. Kerala’s nominal GSDP had mostly higher growth rate than that of total debt liability of the state since 2005-06 to 2011-12. Since 2005-06 all years up to 2011-12 marked that Kerala moved in a safer zone of having sufficient growth rate of GSDP to cover the danger of debt growth. Where in, the state had just a narrow edge advantage in a few years like 2005-06 and 2008-09 when the difference didn’t cross 1.5 per cent. But in the rest years, the state had considerable advantage with about 2.5 to 6 per cent. Although it evinces the credence of the state economy without wavering in the background of global meltdown, transverse occurrence of having higher debt growth rate since 2012-13 hardly renounces the fear of hideous existence of Kerala economy. The above national average growth rate has helped the state to attain a decent status in this period. Since rate of growth of Kerala’s public debt is lower than that of its GSDP in most years, it can be indubitably retorted that Kerala is not standing at the door step of fiscal collapse. At that, the fact is that apprehension is not desisting completely as the state economy has faced back-to-back backlash in 2012-13, 2013-14, 2014-15 and 2015- 16 when debt growth rate over took GSDP growth rate. So to say, the current decade of the 21st century is shown to be the period of set back to the Kerala economy. This warns the ascending debt instability of the state of Kerala since the last few years.

(See Figure 2).

18

16

14

12

10

8

6

4

2

0

Debt growth rate (%)

GSDP growth rate (%)

Figure 2: Trends in growth rates of Kerala’s GSDP and public debt

Source: Kerala Economic Review

### Revenue Receipts (RR) as Percentage of GSDP should increase overtime

Debt to income ratio cannot be considered as the lone important indicator of debt sustainability since a notable share of RR is being contributed by the Centre which would be principally disposed on the basis of Central Finance Commission’s recommendations. The data augured in figure 3 convinces that Kerala is not at all in success as per this indicator. RR as percentage of GSDP 12.61 per cent in 2004-05 slightly fell to 11.14 per cent in 2014-15 and slightly rose to 11.73 per cent in 2015-16. It is clear from the table that ever since 2004-05, the figure has not crossed 13 per cent. High level of instability or state of constancy can be seen from the figure 3 as the RR to GSDP ratio was a little above 12 per cent from 2004-05 to 2008-09, fell below 12 per cent in 2009-10 and 2010-

11. From 2011-12 to 2013-14, the ratio again surged marginally to above 12 per cent and diminished again to below 12 per cent in 2014-15 and 2015-16. This constancy or instability in RR to GSDP ratio shows the financial debility of Kerala. This would question the credibility of the state on debt financing. Helplessness and indifference of the state to raise the level of RR as percentage spreads concern over the debt sustainability of Kerala. Kurian (2014) in his study remembered that the clouds of a fiscal or liquidity crisis are looming large over Kerala, a visible trend of which is the slower growth of own tax revenue.

350

300

250

200

150

100

50

0

Source: Kerala Economic Review

Figure 3: Trend in revenue receipt to GSDP ratio of Kerala (%)

### Debt to RR ratio should decline overtime

It is only in 2009-10 and 2013-14 registered rise in the debt to RR ratio i.e. 271.80 per cent in 2009-10 rose from 258.12 per cent in 2008-09 and 242 per cent in 2013-14 rose from 234.63 per cent 2012-13. Slight falls in the ratio to 233 per cent in 2014-15 and

227.97 per cent in 2015-16 are at the strength of nominal fall in the growth rate of debt and rise in the growth rate of RR. All state finances in India entered in the phase of fiscal consolidation as part of courtesy and accountability to Central Financial Commission’s recommendations and directives. This is the prime factor for the diminishing ratio of debt to RR. Though the state has no absolute advantage as per this indicator of debt sustainability, it has managed to lower the ratio steadily year by year.The figure 4 shows vividly the steadily the subsiding trend in the ratio of debt to revenue receipt.The state has more or less advantage over this indicator since only a few years witnessed a rise in the ratio. (See Figure 4).

500

450

400

350

300

250

200

150

100

50

0

Debt-RR ratio

Debt-tax revenue ratio Debt-own tax revenue

Figure 4: Trend in debt to revenue receipt, tax revenue and own tax revenue of Kerala (%) Source: Kerala Economic Review

### Debt to tax revenue should decline overtime

This is an almost similar indicator of the debt to revenue receipt ratio. Even though this indicator of Kerala’s debt sustainability also evinces the declining trend as required, it has little more fluctuation in the ratio. Although steadily declined from 330.23 per cent in 2004-05 to 301.57 per cent in 2013-14, this abatement is explicitly faring below that of the debt to RR ratio that lowered from 310.20 per cent in 2004-05 to 242 per cent in 2013-14. Apart from it, the ratio increased to 313.82 per cent in 2014- 15ascending up by 12 per cent. Showing some signs of the effort to bring back the state finance, the ratio has declined significantly to 259.66 per cent in 2015-16 as desired. (See Figure 4).

### Debt to own tax revenue should decline overtime

There has been a remarkable abatement in debt to own tax revenue of the Government of Kerala over a period of 10 years. Debt to own tax revenue marked 467.20 per cent in 2004.05 fell sharply to 395.68 per cent in 2008-09. Kerala finance faced little bit of fluctuations thereafter. Increasing seven per cent, the ratio rose to 402.66 per cent in 2009-10. Though the ratio ameliorating its status subsided significantly to 362.18 per cent in 2010-11 and 347.70 per cent in 2011-12 and repulsing the efforts of fiscal consolidation, the ratio got behind at 371.96 per cent in 2013-14. Divulging the fiscal trouble of Kerala economy, debt to own tax revenue of the state accrued to 384.42 per cent in 2014-15 and 403.56 per cent in 2015-16.Unlike debt to RR and debt to tax revenue ratios, debt to own tax revenue shows an increasing trend in the recent years. From 2012-13 onwards, the ratio has been on an accruing trend giving body blow to the revival efforts of the government. (See Figure 4).

### Interest payment as Percentage of GSDP should decline overtime

The state meliorated its position by minimizing the interest payment as percentage of GSDP 3.37 in 2004-05 to 1.88 in 2015-16 over a period of time. This process of stabilization was in due course as the ratio fell to 3.05 per cent in 2005-06, 2.94 per cent

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in 2006-07, 2.47 per cent in 2007-08, 2.32 per cent in 2008-09 and 2.28 per cent in 2009-

10. 2010-11 is the isolated year in the decade registered a rise in the ratio (2.39%). Thereafter it fell continuously to 2.09 per cent in 2013-14 and 1.88 per cent in 2014-15 and 2015-16. This diminution should thank to the growing state economy of Kerala.The figure 5 clearly the depicts the declining trend in the interest payment to GSDP ratio of Kerala. But still interest payment of the state constitutes a major share of its revenue expenditure subsists next to salary and pension disbursements per annum. Raghavan (2015) shared his view in a study on Punjab state finance that arising financial bottlenecks or fiscal trouble in the states has been reckoned as after effects of huge share of committed expenditure of the state on payments like interest, salaries of the government employees and pensions and growing subsidy bills. The study warns that it makes government very sensitive to any changes in the economy, especially a slowdown in growth.

30

25

20

15

10

Interest payment as % of

GSDP

Interest payment as % of RR

5

0

Figure 5: Trend in interest payment as percentage of GSDP and RR of Kerala Source: Kerala Economic Review

### Interest payment as a Percentage of revenue receipt should decline overtime

It is explicated from the figure 5 that this ratio is also shown a meliorating- decreasing trend like some other indicators. Wherein, the interest-RR ratio since 2004-05

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to 2008-09 is improving without any snugging. 26.76 per cent in 2004-05 stage by stage diminished to 19.01 per cent in 2008-09. Though the ratio rose to 20.27 per cent and

20.31 per cent in 2009-10 and 2010-11 respectively, pre-existence of contiguous fall in the ratio has been recaptured by registering a lower 18.95 per cent in 2011-12, 17.39 per cent in 2012-13 and 16.81 per cent in 2013-14. Like other indicators of debt sustainability, the ratio increased nominally to 16.85 per cent in 2014-15 due to fiscal stress of the Kerala economy. The ratio, showing some signs of fiscal revival efforts of the state, afresh subsided to 16.09 per cent in 2015-16. Interest payment as percentage of RR of Kerala is one of the highest in the country (MoF, 2015).

It would be vivid that the state of Kerala has not at all an absolute advantage on any of the indicators which were brought under examination for a period of duo- decennium from 2004-05 to 2015-16 to unearth the debt sustainability of the state.While Kerala explicitly expresses domination over three of the seven indicators, two indicators accorded articulate set back to the state and not much improvement can be seen from two other indicators. While it shows the domination over debt to revenue receipt ratio, interest payment as percentage of GSDP and interest payment as percentage of revenue receipt, faced set back obviously on the growth rates of debt and GSDP, and revenue receipt as percentage of GSDP. Although a slight edge was obtained over debt to tax revenue and own tax revenue, high uncertainty after the roomy fluctuation has been witnessed intermittently eliciting the debility of the Kerala public finance. Nevertheless, the state since 2012-13 has been in a period of fiscal distress as many indicators were on bad run. Notwithstanding, Kerala moves not through the stage of stalemate as it ameliorated its fiscal position as part of the commitment to fiscal consolidation over a period of time.The years since 2012-13 appeared some signs of illness for the economy and down-ward trend in many indicators. Even though the year of 2015-16 shows some signs of revival after the fiscal discipline efforts of the government, the debt sustainability status and capability of Kerala remained grave. The decline in growth rate of central transfers in 2012-13 and 2013-14 have worsened the financial status of Kerala economy. Kerala attained only 78 per cent of estimated central transfer for the period. At once, significant

hike in central allocation thereafter to the states with the recommendations of the 14th Finance Commission has helped hold out in the fiscal thorn. That’s why the debt to tax revenue ratio declined to 259.56 per cent in 2015-16 from 313.82 per cent in 2014-15 and debt to own tax revenue ratio rose to 403.56 per cent in 2015-16 from 384.42 per cent in 2014-15.

Although Kerala had advantage in many indicators in most years, recent body blow especially since 2012-13 raises concern over its present fiscal status. Some of the debt sustainability indicators were highly in favour of Kerala. Some other indicators are more or less against the state. Although Kerala by holding about in many indicators proved its ability in further access to debt, recent backlash in many indicators ceases the state’s debt sustainability on prolong. However Kerala had no absolute advantage in any one of the indicators. However the reality is that the phenomenon of fiscal crisis has not yet come in at least since 2004-05 although the state has witnessed intense fiscal ticklers. As explained delicately by Abraham (2004, p.381), fiscal crisis manifests when the government departments and agencies are unable get their allocations on time and when the common man, who has to get money from the government treasury, has to wait weeks or days together to get the cash.

### Sinking State Finance of Kerala: Instrumental Factors

It was revealed from the earlier exposition that Kerala state finance, even though not in crisis, has been passing through knotty juncture of ascended fiscal ticklers. This fiscal disturbance was emerged after the steep rise in revenue expenditure especially committed expenditure, insufficient growth of revenue receipt, diminishing share of own tax revenue and upsurge of public debt.

### Long-lasting enormity of revenue expenditure

Due to the ascended and constantly growing committed expenditure, Kerala’s revenue expenditure has been on the rise. It was in fact galloping fromRs 17,000 cr in 2004-05 to Rs 78,000 cr in 2015-16. Although it’s natural and necessary, it was not being sufficiently backed by revenue receipt of the State. Revenue receipt was increased from Rs 13,500 cr in 2004-05to Rs 69000 cr in 2015-16. Thus revenue deficit of Rs 3500 in 2004-05 and Rs 9000 cr was registered. But the important fact to be noted here is that

Kerala, discharging its commitment to the fiscal consolidation efforts of the Centre, was able to subside the revenue deficit as percentage of the state income from 3.66 per cent in 2004-05 to 1.65 per cent in 2015-16.

35

30

25

20

15

Growth rate of RR (%)

Growth rate of RE (%)

10

5

0

Figure 6: Growth rates of Revenue Receipts (RR) and Revenue Expenditure (RE) of Kerala

### Effectiveness of Centre’s share to Kerala’s RR

80

70

60

50

40

30

20

10

0

OTR

Centre's share

Figure 7: Trend in share of Kerala’s own tax revenue and Centre’s tax and grants out of RR

### Surging immensity of Kerala’s debt

The figure 8 vividly shows that the growth rate of Kerala’s public debt level is steadily surging in the last decade although some years witnessed a decline.According to Naidu (2016), low growth of revenue receipts, economic stagnation, underdeveloped and insufficient private sector as an alternative development agency, periodical political cycles and traditional ‘state dependent’ psyche of people have altogether caused for the huge consolidated debt status of the state.

18

16

14

12

10

8

6

4

2

0

Figure 8: Trend in growth rates of Kerala’s debt (In percentage)

### Concluding Remarks

The paper raises intense distress over the debt sustainability and creditworthiness of the Indian state of Kerala although the state finance doesn’t fell in crisis in the unabridged substance at least since 2004-05. The study followed two ingresses to measure the debt sustainability of Kerala viz. debt-GSDP of Kerala and All states, and indicator based analysis. Kerala’s status on the basis of debt-GSDP ratio was much better than ‘All states’ in early eighties but worsened miserably in the subsequent years. The present situation was in fact led by aggravated transfer payments accompanied by mismanagement of finance shown by counterblast on some debt sustainability indicators in last some years.

What is shown from the indicator-wise analysis of Kerala’s debt sustainability is not soundly undesirable to the state unlike debt-GSDP ratio. Even though Kerala had decent standings in most indicators, last four years 2012-13, 2013-14, 2014-15 and 2015- 16 had heavy repulsion to the state finance when many indicators turned slightingly undesirable. Even though it cannot be concluded that the state finance trapped in fiscal crisis, it will take time to overtake the recent dilemma.

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