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The State of Fiscal Health of NCT of Delhi

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Abstract
India's recent claim to the top spot as the world's most populous nation highlights a growing trend - the rise of megacities. Delhi, the vibrant capital, is projected to become the world's most populous urban area by 2028, surpassing Tokyo. This rapid growth, fueled by economic powerhouses like Delhi, brings both opportunities and challenges. Delhi serves as a major job magnet, attracting talent and generating a significant GDP of Rs. 923,966 crore in 2021-22. However, this success story is not without its complexities. There are a lot of challenges that Delhi has to face, some of which includes tackling the problem of increasing income inequality, poor quality of air, land and water pollution, ever growing cost of land and infrastructure, lack of natural resources and institutional coordination barriers. Despite these challenges, Delhi demonstrates responsible financial management. The Delhi Finance Commission has maintained a revenue account surplus since 2010-2022, reflecting sound fiscal planning. The capital account, while mostly in deficit, showed a surplus in 2020-21 due to increased central government loans. However, Delhi's debt is well-managed, with declining debt-to-GSDP and interest payment ratios since 2011. The government has prioritized critical areas through increased spending on healthcare, education, skill development, and infrastructure. This investment in human capital and infrastructure development is crucial for Delhi's long-term prosperity.

Keywords: Deficit, surplus, finance, outstanding debt, interest payments, domestic products, economic reforms.

1. Introduction

With India recently surpassing China as the world's most populous nation, its economic trajectory becomes even more critical. This urgency is further amplified by Delhi's projected rise to become the world's most populous city by 2028, eclipsing Tokyo. India's rapidly urbanizing population, with a youthful median age of 28.2 (a decade younger than China's 39), necessitates a sustainable and equitable economic development plan.

2. The Layout of Delhi NCR

India's economic powerhouses are its megacity regions, but national and state policies alone struggle to keep pace with their needs. The Delhi National Capital Region (NCR) exemplifies this issue. This sprawling urban area cuts across various state and city boundaries, encompassing Faridabad, Ghaziabad, Gurugram, and Noida. Its status as the national capital fuels significant investment in infrastructure, like the metro rail. However, this advantage isn't shared equally. Other urbanizing suburbs within the NCR fall short in infrastructure development compared to Delhi.

While Delhi boasts a high concentration of jobs and a robust GDP (Rs. 923,966 Cr in 2021-22), the city grapples with significant issues. These challenges include:

- **Widening income gap:** The prosperity isn't equally distributed, leading to economic disparity.
- **Environmental degradation:** Air, land, and water pollution pose serious health risks.
- **Unsustainable growth:** Rising land and infrastructure costs strain resources, while a lack of natural resources adds pressure.
- **Infrastructure limitations:** Expansion of urban areas hasn't been accompanied by a shift towards a high-wage, knowledge-based economy.
- **Informal sector dominance:** Informal work persists, unemployment remains a concern, and women's workforce participation is low.

Despite these challenges, there are positive signs. Per capita income has tripled, leading to increased consumption. Additionally, peripheral areas like Gurugram (Haryana) and Gautam Buddha Nagar (Uttar Pradesh) are attracting investment due to their state governments' initiatives.

Delhi NCR exhibits interesting complementarity between its sub-regions. Jobs leaving the central area ("core") haven't vanished; they've relocated within the NCR periphery, benefitting other parts of the region. However, there are some trade-offs:

- **Growth in employment:** New sectors have created more jobs than those lost due to technical advancements and energy efficiency measures.
- **Shifting economic landscape:** While traditional sectors like trade, textiles, and leather are seeing rising employment, their overall contribution to the region's GDP (Gross Domestic Product) is declining.
- **Limited overall growth:** Despite job creation, the overall economic growth driven by secondary (manufacturing) and tertiary (services) sectors remains sluggish.

3. Finances of Delhi Government

The Delhi Finance Commission acts as the financial watchdog for the National Capital Territory (NCT) of Delhi. Established under Article 243(1) of the Indian Constitution, it's mandated to be formed every five years by the Lieutenant Governor (LG) following the 73rd Amendment.

The Commission plays a crucial role in Delhi's financial health by:

- **Recommending the distribution of tax revenue:** This includes taxes, tolls, duties, and fees collected within Delhi.
- **Advising on tax policy:** The Commission provides guidance on the types of taxes Delhi can levy.
- **Allocating tax resources:** It determines how tax revenue is distributed within the NCT.
- **Recommending financial aid:** The Commission assesses Delhi's financial needs and suggests grants from the central government's Consolidated Fund.
- **Shaping Delhi's development:** It helps define the financial responsibilities of the NCT government for regional development projects.

Delhi receives financial support from the central government through various grants. These grants can be categorized into four main types:

- **Compensation Grant:** This replaces the revenue Delhi would have earned if it had a share in central taxes, which it doesn't due to its unique status as a Union Territory.
- **Specific Purpose Grants:** These grants are provided for specific reasons, such as offsetting revenue losses due to changes in tax policies (like the shift from CST to VAT or GST).
- **Central Assistance Grant:** This grant directly supports Delhi's annual budget, providing financial resources for various government programs and initiatives.

- **Centrally Sponsored Schemes (CSS) Grants:** These grants are allocated for specific centrally-driven programs that Delhi implements within its jurisdiction

Delhi's Funding Woes

Delhi faces a significant funding disparity. The capital city has received a mere Rs.350 crore annually since 2001-02 as discretionary grants in lieu of a share in central taxes. This amount remains stagnant despite Delhi's budget ballooning to over Rs.73,000 crore in 2023-24. A fairer share, based on its budget size, would be Rs.7,378 crore.

Chief Minister Arvind Kejriwal highlights the stark imbalance. Delhi contributes the second-highest income tax in India (Rs.1.78 lakh crore in 2021-22), behind only Maharashtra. Additionally, Delhi allocates funds to local bodies from its own resources. Yet, it receives neither a legitimate share of central taxes nor grants to support local bodies, unlike other states. The central government counters by pointing to its investments in Delhi's infrastructure (Rs.1.5 lakh crore on various projects), funding the Delhi Police, contributing to Metro and Rapid Rail initiatives, and managing major hospitals and schools in the city.

4. Delhi's Economic Overview

The following table shows the expenditure, receipts and deficit (surplus) of the Delhi Government for the last five years.

Table 1: Expenditure, receipts and deficit/ surplus (Rs Cr)

	2017-18	**2018-19**	**2019-20**	**2020-21**	**2021-22**
Revenue Receipts	**38667.27**	**43112.61**	**47135.81**	**41863.6**	**49312.99**
1.Own tax Revenue	35717.02	36624.67	36565.87	29425.33	40018.68
2.Non tax revenue	2950.25	6487.94	10569.94	12438.27	9294.31
Capital Receipts	**2596.76**	**4523.9**	**5588.25**	**15996.48**	**11815.45**
Recoveries of loans	689.85	1643.49	822.2	631.03	622.33
Loans Repayment by Government Servants	0.57	0.41	0.45	0.45	0.45
Loans from the Centre	1906.34	2880	4765.6	15365	11192.67
Total Receipts	**41264.03**	**47636.51**	**52724.06**	**57860.08**	**61128.44**
Non Plan Expenditure	**26735.36**	**30627.19**	**30906.44**	**33244.75**	**29926.01**
on Revenue a/c of which	24446.36	26799.82	27394.79	28878.92	25385.69
Interest Payments	**2870.67**	**2867.11**	**2751.87**	**2873.83**	**3274.24**
on Capital a/c of which	2288.9	3827.37	3511.65	4365.83	4540.32
loan repayment	**1682.43**	**3636.35**	**2811.1**	**3265.17**	**4215.16**
Plan Expenditure	**14191.49**	**15618.7**	**20279.81**	**19223.29**	**31246.33**
Total Expenditure	**40926.85**	**46245.89**	**51186.25**	**52468.04**	**61172.34**
Revenue Expenditure	33754.02	36851.58	39637.01	40413.62	46043.06
Capital Expenditure	7172.83	9394.31	11549.24	12054.42	15129.28

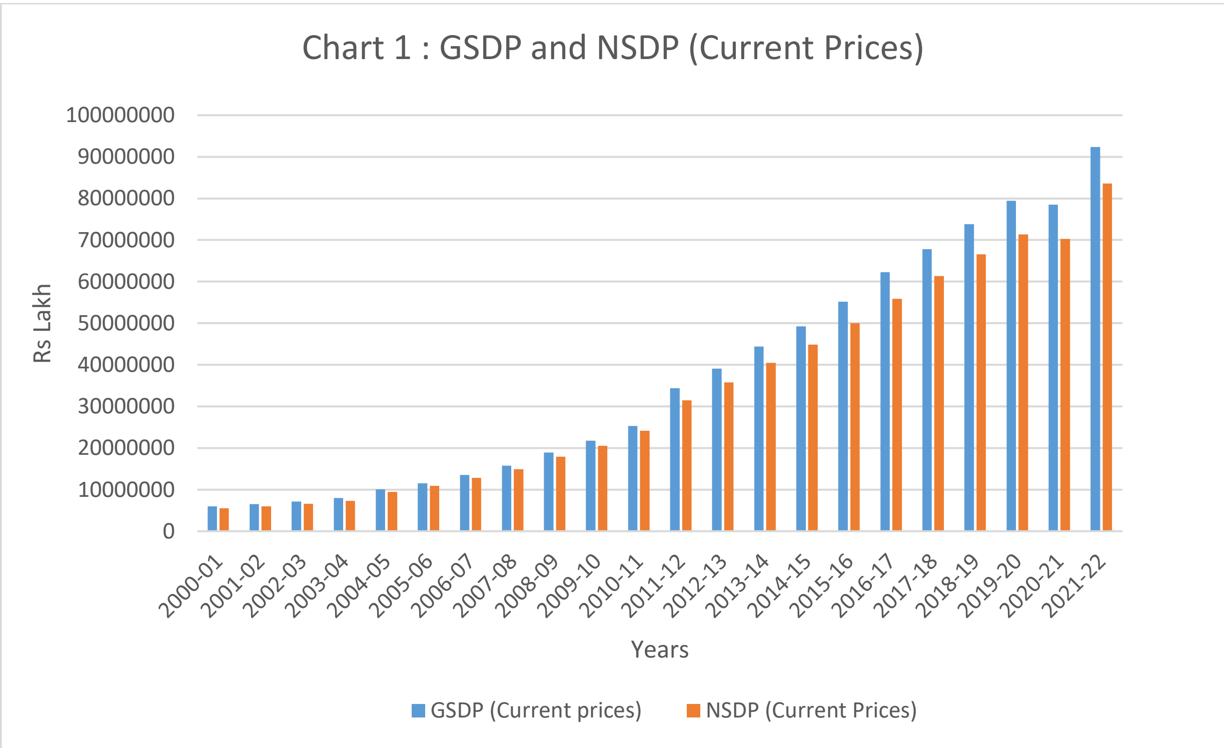
Revenue Surplus (+)/ Deficit (-)	**4913.25**	**6261.03**	**7498.8**	**1449.98**	**3269.93**
Capital Surplus (+) / Deficit (-)	**-4576.07**	**-4870.41**	**-5960.99**	**3942.06**	**-3313.83**
Fiscal Deficit (-) / Surplus (+)	**113.27**	**2146.97**	**-3227.79**	**-9972.96**	**-7021.41**

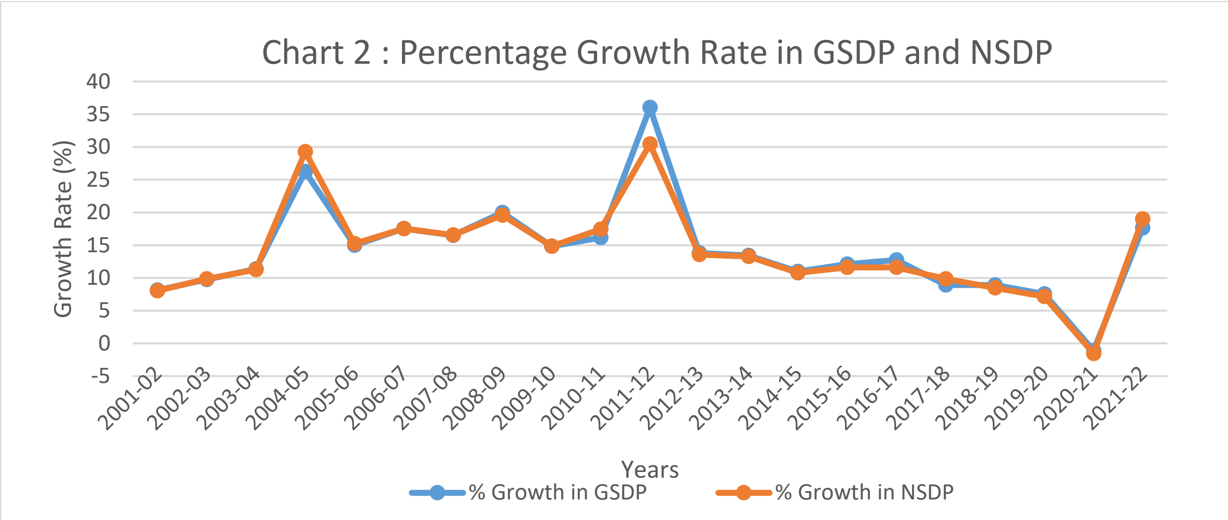
Source – Budget Document of Government of NCT of Delhi

Delhi's economy rebounded strongly in 2021-22, bouncing back from the COVID-19 slump. The Gross State Domestic Product (GSDP) surged by an impressive 17.6% to Rs. 9,23,967 crore, compared to Rs. 7,85,342 crore in the previous year. This upswing follows a decline of around 1.1% in GSDP during 2020-21 due to the pandemic's economic impact. The Net State Domestic Product (NSDP) mirrored this trend, dipping by 1.5% in 2020-21 but experiencing significant improvement the following year.

Charts 1 and 2 depict Delhi's Gross State Domestic Product (GSDP) and Net State Domestic Product (NSDP) since 2001. While both indicators generally reflect an upward trend, there have been three notable periods of significant change:

- **2004-05 Surge:** This period coincided with a nationwide economic boom in India, leading to a sharp increase in Delhi's domestic product.
- **2011-12 Recovery:** Following the global financial crisis of 2008-09, Delhi's economy rebounded, reflected in a rise in GSDP and NSDP.
- **2020-21 Pandemic Impact:** The COVID-19 pandemic caused a global economic crisis, resulting in a decline in both GSDP and NSDP for Delhi in 2020-21.



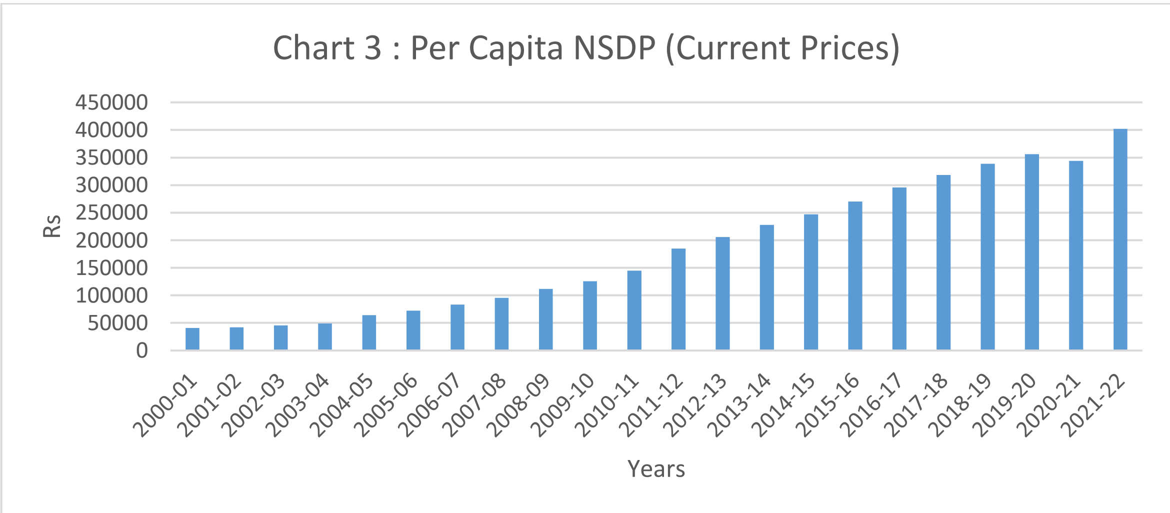


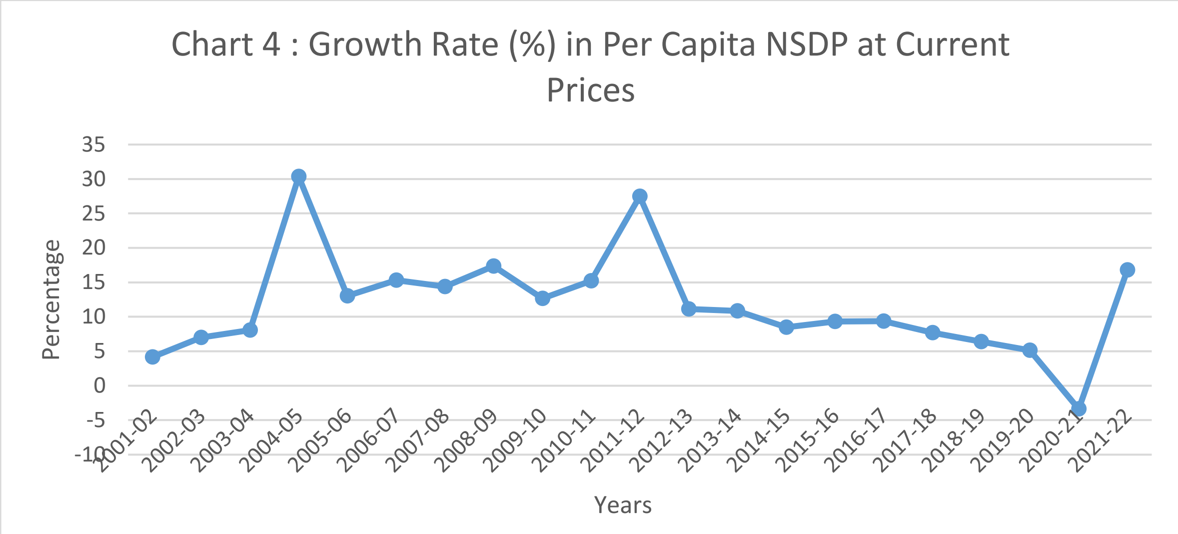
Charts 3 and 4 illustrate Delhi's per capita NSDP (at current prices) on a steady upward climb from 2001 to 2022, with one exception. The year 2020-21 saw a dip in per capita NSDP, likely a consequence of the COVID-19 pandemic's negative effects on the global economy. Incomes fell during this period due to the overall decline in economic activity. However, by 2021-22, a significant rebound of 17% was observed, indicating some recovery from the pandemic's grip. This upswing can be attributed to factors like increased vaccination rates and growing public awareness, which helped mitigate the pandemic's influence.

While Delhi's Net State Domestic Product (NSDP) has shown impressive growth, the per capita NSDP growth hasn't always kept pace. This can be explained by Delhi's rapidly increasing population. Two factors contribute to this population surge:

- **Natural Growth:** A combination of rising birth rates and declining death rates leads to a natural increase in Delhi's population.
- **Migration:** Delhi's reputation as the national capital with abundant job opportunities, educational institutions, and medical facilities attracts people from less developed regions. This migration further fuels population growth.

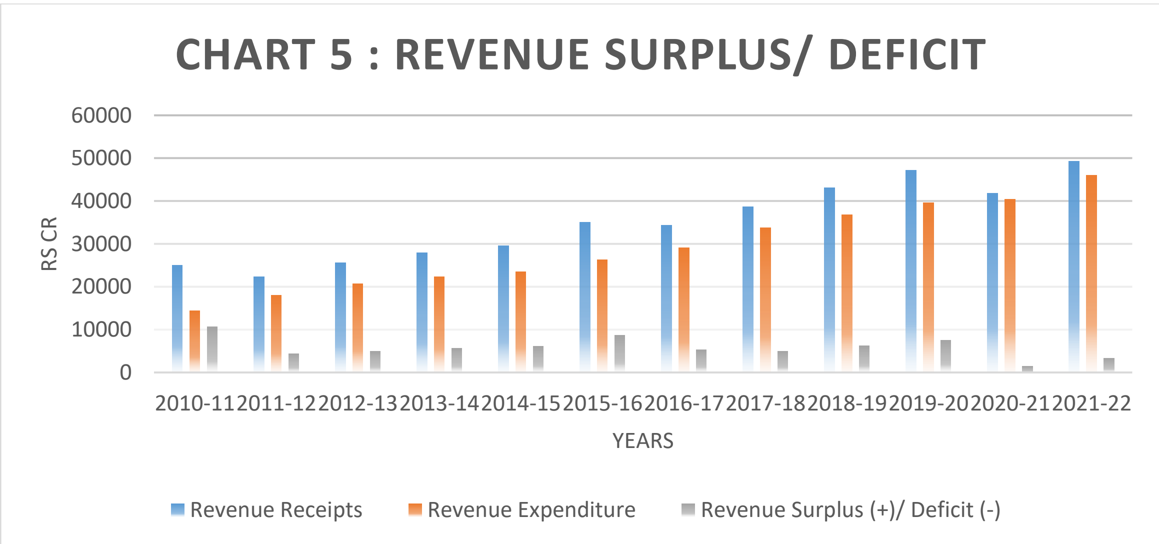
The ever-expanding population means that Delhi's economic gains, reflected in NSDP, are shared among a larger number of people. This can result in a slower rise in per capita NSDP compared to overall NSDP growth.





Delhi consistently outperforms the national average in terms of economic prosperity. Both its Gross State Domestic Product (GSDP) and Net State Domestic Product (NSDP) have remained significantly higher than national levels. Even more impressive, Delhi's per capita income boasts a consistent advantage, typically hovering around 2.5 times the national average, regardless of whether measured at constant or current prices. This translates to a much higher standard of living for the average Delhi resident compared to the rest of India.

Beyond its impressive domestic product figures, Delhi demonstrates strong financial management through a consistent revenue surplus. This surplus, representing the amount by which revenue exceeds expenditure, has steadily increased. In 2021-22, it reached Rs.3270 crore, a significant jump from Rs.1450 crore in the previous year. As a percentage of GSDP, the surplus also shows an upward trend, rising from 0.36% in 2021-22 to a projected 0.73% in the 2022-23 budget estimate. The chart provided offers a detailed view of Delhi's revenue account performance over the past twelve years (2010-11 to 2021-22).



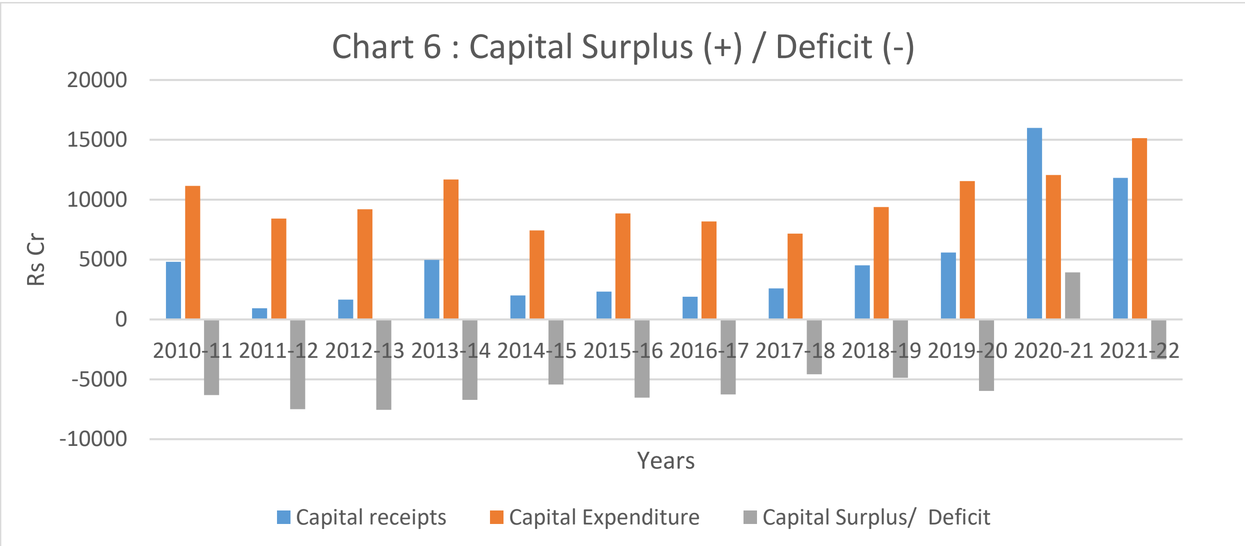
Delhi's capital receipts encompass various sources, including loans from the National Small Savings Fund (NSSF), block loans, and loan recoveries from local bodies, government servants, and public utilities.

Interestingly, these receipts decreased from Rs. 15,996.48 crore in 2020-21 to Rs.11,815.45 crore in 2021-22. This decline is primarily attributed to a reduction in central government loans contracted by Delhi. The COVID-19 pandemic significantly impacted Delhi's finances. In response to the immediate financial needs arising from the pandemic's disruptions, loans from the center saw a sharp rise in 2020-21, nearly tripling compared to the previous year.

Delhi consistently spends more on capital projects than it receives through capital receipts. This capital expenditure is categorized into two main sections:

- **Plan:** This includes capital investments by government departments, loans, and advances extended to local bodies and public undertakings.
- **Non-Plan:** This primarily covers repayments of loans to the central government and non-plan loans provided to public utilities like the Delhi Transport Corporation (DTC) and Delhi Jal Board (DJB).

Delhi's capital account has historically exhibited a deficit, with the exception of 2020-21. This surplus in the pandemic year can be attributed to the surge in capital receipts due to increased central government loans. The additional funds were likely used to manage the pandemic's impact and casualties.



Delhi NCR Manages Debt Burden Effectively

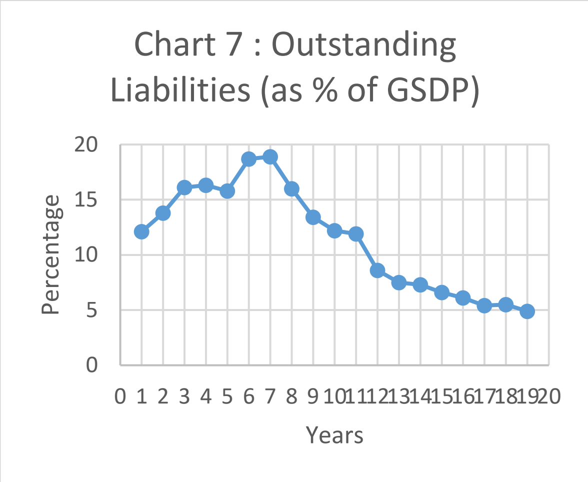
Delhi NCR has demonstrably improved its debt management over the past decade. In 2011-12, the outstanding debt stood at Rs. 29,608.27 crore, translating to a significant 8.61% of its GSDP. However, by March 2022, this debt had decreased to Rs. 41,481.50 crore, representing a much healthier debt-to-GSDP ratio of 4.59%.

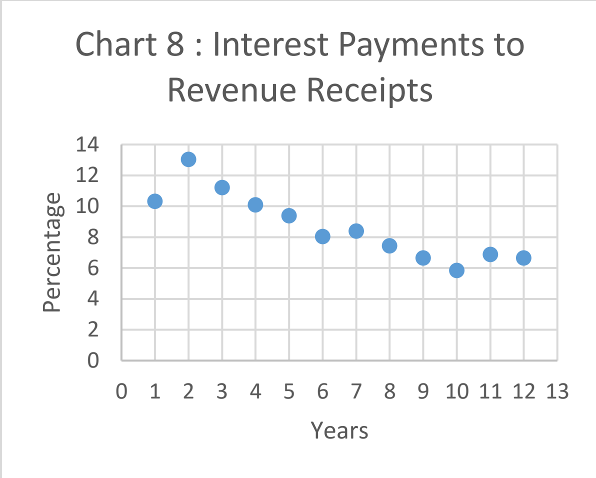
This downward trend, with the peak debt occurring in 2006-07, signifies positive progress in managing Delhi NCR's debt burden. The decreasing debt-to-GSDP ratio indicates a more sustainable financial position for the state.

Delhi has shown commendable control over its debt-related interest payments from 2010-11 to 2021-22. The provided data highlights the ratio of interest payments to revenue receipts during this period. This ratio indicates how much of the state's revenue is used for interest payments, with a higher ratio suggesting less available funds for other priorities.

The data reveals a positive trend: after reaching a peak of 13% in 2011-12, the interest payment ratio has steadily declined. By 2021-22, it had fallen to a much lower 6.65%. This significant decrease signifies that

Delhi's debt burden is being effectively managed. A lower ratio means less revenue is used for interest payments, freeing up more resources for essential government services and development projects.





5. Conclusion

As India's vibrant capital city, Delhi pulsates with cultural richness and attracts tourists worldwide. Its influence extends beyond its borders, encompassing a network of urban centers like Gurugram, Noida, Faridabad, and Ghaziabad. This impressive sprawl is partly fueled by significant investments in infrastructure, particularly the Delhi Metro, which seamlessly connects these neighboring cities.

Delhi has demonstrably prioritized its fiscal health. The state boasts consistent growth in both Gross State Domestic Product (GSDP) and Net State Domestic Product (NSDP). Additionally, the revenue account has remained in surplus for an impressive eight to nine consecutive years. Furthermore, the fiscal deficit shows promising signs of improvement, and the debt situation reflects positive strides towards responsible management. These achievements can be attributed to a collaborative effort between the central and state governments, who have implemented a series of effective economic reforms and policies. The capital city has witnessed a surge in expenditures on crucial areas like education, healthcare, infrastructure, and skill development, paving the way for a prosperous future.

Delhi's journey is one of remarkable growth alongside significant challenges. Addressing income inequality, environmental concerns, and infrastructure limitations will be vital to ensuring a truly sustainable future for this dynamic metropolis. The collaborative efforts of the central and state governments, coupled with strategic investment and innovation, will be key in navigating these complexities and securing Delhi's place as a thriving and inclusive global city.

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