

## FOREWORD

The Reserve Bank's annual publication titled State Finances: A Study of Budgets provides data and analysis of the fiscal position of State governments in India. Against the backdrop of the underlying dynamics of their budgetary operations during 2020-21 (actuals), 2021-22 (revised estimates/provisional accounts) and 2022-23 (budget estimates), the theme selected for this year's Report is 'Capital Formation in India - The Role of States'.

The salient findings are:

- The fiscal health of the States has improved from a sharp pandemic-induced deterioration in 2020-21 on the back of a broad-based economic recovery and resulting high revenue collections - States' gross fiscal deficit (GFD) is budgeted to decline from 4.1 per cent of gross domestic product (GDP) in 2020-21 to 3.4 per cent in 2022-23.
- While States' debt is budgeted to ease to 29.5 per cent of GDP in 2022-23 as against 31.1 per cent in 2020-21, it is still higher than 20 per cent recommended by FRBM Review Committee, 2018 (Chairman: Shri N. K. Singh), warranting prioritisation of debt consolidation.
- In 2022-23, States have budgeted higher capital outlay than in 2019-20, 2020-21 and 2021-22. Going forward, increased allocations for sectors like health, education, infrastructure and green energy transition can help expand productive capacities if States mainstream capital planning rather than treating them as residuals and first stops for cutbacks in order to meet budgetary targets.
- It is worthwhile to consider creating a capex buffer fund during good times when revenue flows are strong so as to smoothen and maintain expenditure quality and flows through the economic cycle.
- To crowd in private investment, the State governments may continue to focus on creating a congenial ecosystem for the private sector to thrive. States also need to encourage and facilitate higher inter-state trade and businesses to realise the full benefit of spillover effects of State capex across the country.

This Report has been prepared in the Division of State Finances (DSF) of the Department of Economic and Policy Research (DEPR) under the supervision of Dr. Sitikantha Pattanaik, Executive Director. The Report was prepared under the overall guidance of Dr. Deba Prasad Rath, Principal Adviser, DEPR. The DSF team led by Dr. Atri Mukherjee, Director, comprised Dr. Somnath Sharma and Shri Bichitrananda Seth, Assistant Advisers, and Shri Rachit Solanki, and Ms. Aayushi Khandelwal, Managers.

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This Report is available on the Reserve Bank's website ([www.rbi.org.in](http://www.rbi.org.in)). Feedback/comments are solicited to help improve the analytical and informational content of the Report. They may be sent to the Director, Division of State Finances, Department of Economic and Policy Research, Amar Building (6th Floor), Reserve Bank of India, Sir Pherozshah Mehta Road, Mumbai- 400 001 or through email ([deprfad@rbi.org.in](mailto:deprfad@rbi.org.in)).

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