

FOREWORD

The Reserve Bank of India (RBI) brings out an annual publication entitled “State Finances: A Study of Budgets” which analyses the fiscal position of state governments on the basis of primary state level data. With about a dozen states facing state elections this summer, presentation of their final budgets was delayed till July-September 2019. In spite of this unavoidable speed breaker, this year’s Report is based on the final budgets of all states. It analyses the underlying dynamics of budget estimates (BE) for 2019-20 against the backdrop of actual and revised (and provisional accounts) outcomes for 2017-18 and 2018-19. This year’s Report also releases time series data published in State Finances Reports since 1990-91.

The salient features that emerge from the analysis of state finances in the Report are:

- States’ gross fiscal deficit (GFD) has remained within the FRBM threshold of 3 per cent of gross domestic product (GDP) during 2017-18 and 2018-19. This has, however, been achieved by sharp retrenchment in expenditures, in particular, capital expenditure.
- For 2019-20, states have budgeted for a consolidated GFD of 2.6 per cent of GDP with a marginal revenue surplus (as against revenue deficits in the previous three years).
- Outstanding debt of states have risen over the last five years to 25 per cent of GDP, posing medium-term challenges to its sustainability.
- Revenue generation holds the key to prudent debt management and can act as a circuit breaker in perverse debt spirals, highlighting the need to raise tax buoyancy and capitalise on technology enabled efficiency gains, while exploiting the scope for raising user charges wherever possible, with reduced reliance on borrowings.
- Incipient risks to debt sustainability emanate from losses of DISCOMs as well as potential invocation of guarantees.
- A combination of consolidation, reissuances and maturity elongation can help in improving liquidity, and in developing a secondary market with a diversified investor base with differential pricing operating as market discipline among states.

In the spirit of cooperative and competitive federalism, this Report has tried to assimilate state-wise facts on fiscal parameters that can perform the role of metrics of competition and mutual learning. Above all else states must not compromise on their social and capital expenditures: they have profound macroeconomic and social implications as evident in the

slowdown in economic activity in India which is leading and coincident with the cutback in spending by states.

The Report has been prepared in the Division of State Finances (DSF) of the Department of Economic and Policy Research (DEPR) by a team led by Smt. Sangita Misra, Director, under the overall guidance and supervision of Dr. Rajiv Ranjan, Adviser and Officer-in-Charge. Members of the team are Shri Bichitrananda Seth (Assistant Adviser), Shri Khaijamang Mate, Shri Rahul Agarwal and Dr. Kirti Gupta (Research Officers). Officers from the Division of Central Finances (DCF) *i.e.* Dr. Samir Ranjan Behera (Director), Shri Neeraj Kumar (Assistant Adviser), Smt. Kaushiki Singh and Shri Saksham Sood (Research Officers) also contributed to the Report. Data compilation support provided by Shri Nirmal Kumar, Ms. Archana Verma and Shri G. Hamand is gratefully acknowledged.

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This Report is available on the RBI's website (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, Shahid Bhagat Singh Road, Mumbai- 400 001 or through email (deprfad@rbi.org.in).

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