FOREWORD

The Reserve Bank of India brings out an annual publication, *State Finances: A Study of Budgets,* which provides an analytical discussion on the fiscal position of state governments; it is also a primary source for disaggregated state-wise fiscal data. The analysis, orientation, coverage and format of the report have been restructured periodically to make it more informative and analytical. From 2005-06 onwards, the report also incorporates a special theme based on a specific issue of relevance. Continuing this practice, the special theme covered in the present report relates to 'Cyclicality in the Fiscal Expenditures of Major States in India', covering the period 1980-81 to 2012-13.

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

- State budgets for 2013-14 indicate a further move towards fiscal consolidation, which is in line with the fiscal roadmap laid down by the Thirteenth Finance Commission (FC-XIII). During 2013-14, the revenue surplus-GDP ratio is budgeted to increase to 0.4 per cent (0.2 per cent in 2012-13), contributing to a reduction in the GFD-GDP ratio to 2.1 per cent (2.3 per cent in 2012-13). Revenue surplus is budgeted in 22 out of the 28 states in 2013-14.

- The capital outlay-GDP ratio, which had increased significantly to 2.3 per cent in 2012-13(RE) from 1.9 per cent in the preceding two years, is budgeted to increase further to 2.4 per cent in 2013-14. Capital outlay would constitute 15.2 per cent of aggregate expenditure in 2013-14.

- The secular decline in the outstanding state government liabilities-GDP ratio since 2004-05 continued in 2012-13(RE) and the ratio is budgeted to decline further in 2013-14.

- A panel data analysis covering non-special category states in India during the period 1980-81 to 2012-13 reveals that cyclical behaviour varied across different components of government expenditure. Primary revenue expenditure was found to be acyclical, while capital outlay displayed pro-cyclicality.

- Fiscal consolidation during 2010-13 was largely revenue-led, with significant increases in both own tax revenue as well as current transfers from the centre, the latter reflecting the enhancements recommended by FC-XIII. Although the aggregate expenditure-GDP ratio was higher than in the earlier high growth period of 2004-08, the expenditure pattern revealed an improvement in quality, as reflected in sharp increases in development expenditure, particularly social sector expenditure.

- The compositional shift towards market borrowings, which were raised at interest rates lower than those on other sources of financing, together with interest relief for high cost borrowings from the National Small Savings Fund (NSSF) and a declining debt-GDP ratio, contributed to the decrease in the interest payment-GDP ratio during 2010-13. This enabled a reduction in non-development expenditure relative to GDP.

This report has been prepared by the Fiscal Analysis Division (FAD) of the Department of Economic and Policy Research (DEPR), under the overall direction of Shri Deepak Mohanty, Executive Director and under the guidance and supervision of Smt. Balbir Kaur, Adviser. Smt. Deepa S. Raj (Director);

Smt. Atri Mukherjee, Smt. Sangita Misra and Shri Neeraj Kumar (Assistant Advisers); and Shri Dirghau K. Raut, Shri Prabhat Kumar and Shri Anand Prakash Ekka (Research Officers) formed the team of officers involved in the preparation of this report. The Regional Offices of DEPR in Ahmedabad, Bangalore, Bhopal, Bhubaneswar, Chandigarh, Chennai, Delhi, Hyderabad, Jaipur, Jammu, Kochi, Kolkata, Lucknow, Guwahati and Patna also provided support in compiling the data.

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This report is also available on the RBI website (www.rbi.org.in). Feedback/comments are solicited to help improve the analytical or informational content of the report. These may be sent to Director, Fiscal Analysis Division, Department of Economic and Policy Research, Reserve Bank of India, Shahid Bhagat Singh Road, Mumbai 400 001 or through email at deprfad@rbi.org.in

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