

FOREWORD

The Reserve Bank of India brings out a report as an annual publication entitled *State Finances: A Study of Budgets*, which analyses the fiscal position of state governments on the basis of primary disaggregated state-wise data. From 2005-06 onwards, the report has been structured around a special theme of topical relevance. This report's theme is 'Quality of Sub-national Public Expenditure.' The highlights of the report are:

- The quality of expenditure is key to sub-national level fiscal consolidation to reap efficiency and welfare gains while smoothing the effects of fiscal adjustment.
- Empirical analysis indicates that expenditure on social and physical infrastructure can have growth augmenting effects.
- The quality of expenditure of most Indian states has been improving following the enactment of fiscal responsibility legislations.
- States need to prioritise expenditure on physical and social infrastructure and economise on non-essential heads.
- From a medium term perspective, enduring improvements in the quality of states' finances hinges around the revival of state level public enterprises (SLPEs), improving the viability of Discoms and rationalisation of centrally sponsored schemes.

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