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RBI releases 'State Finances: A Study of Budgets of 2007-08'

The Reserve Bank of India (RBI) today released 'State Finances: A Study of Budgets of 2007-08', a publication that provides data, analysis and assessment of finances of State Governments. The publication presents data at both, consolidated and disaggregated levels based on the State budgets for 2007-08. Statistical tables appended to the publication provide information on several fiscal parameters as well as State-wise budgetary data covering both revenue and capital accounts.

The highlight of the data analysed in the publication is that there has been a marked improvement in the fiscal position of the State Governments in recent years in terms of key deficit indicators. In 2006-07, there was a decline in revenue deficit (RD) from 0.2 per cent of GDP in budget estimates to 0.1 per cent of GDP in the revised estimates. The increase in revenue receipts mainly on account of increase in States' own tax revenue and share in Central taxes was higher than the increase in revenue expenditure. The GFD increased by Rs.7,160 crore (6.7 per cent), notwithstanding the decline in RD, due to higher provision for capital outlay by Rs.10,399 crore (11.0 per cent). Reflecting this, GFD as a ratio to GDP increased to 2.8 per cent in the revised estimates from 2.6 per cent in the budget estimates.

The Study states that State Governments have committed to carry forward the process of fiscal correction and consolidation in their budgets for 2007-08. The consolidated fiscal position of State Governments in 2007-08 indicates that the States have budgeted to achieve revenue surplus (0.3 per cent of GDP) during 2007-08 after a gap of two decades. As a consequence of the budgeted revenue surplus, the GFD is budgeted to decline to 2.3 per cent of GDP in 2007-08. The correction in the revenue account during 2007-08 has been envisaged to be achieved primarily through enhancement in revenue receipts by 14.2 per cent on top of the 23.3 per cent growth recorded in the previous year. According to the Study, higher devolution and transfers from the Centre coupled with the incentives provided by the Twelfth Finance Commission (TFC) towards restructuring of State finances have aided the States in their endeavour for fiscal correction and consolidation. Notwithstanding the marked improvement in consolidated fiscal position of the State Governments during 2007-08, there are wide variations across the States, the Study notes.

The Study states that durable fiscal correction needs to be attempted through fiscal empowerment, *i.e.*, by expanding the scope and size of revenue flows. Highlighting the improvements in tax front, the Study suggests enhancing resource mobilisation from non-tax revenues through appropriate user charges, cost recovery from social and economic services and restructuring of State PSUs. With bulk of the responsibilities pertaining to public expenditure on social services placed in the domain of State Governments and with most millennium development goals prescribed by the United Nation related to social sectors, the Study indicates that the States need to make adequate investment in the social sector. In view of the budget

constraints under the rule based fiscal regime, the Study indicates that the State Governments also need to promote Public-Private-Partnership (PPP) projects in the areas of economic infrastructure. Highlighting the role of monitoring and evaluation of Governments programmes in expenditure management, the Study suggests that the State Governments may aim at a system which is responsible and responsive for improving effectiveness and efficiency of spending with emphasis on outcome.

The emerging issues on State finances, such as, the path of fiscal adjustment, expenditure management, fiscal transparency and budget integrity, debt sustainability, infrastructure financing have been discussed in the publication.

The publication has been prepared in the Division of State and Local Finances (DSLFF) of the Department of Economic Analysis and Policy. Starting with 2001-02, this publication is available at RBI website (www.rbi.org.in). Comments on this publication may be sent to Director, Division of State and Local Finances, Department of Economic Analysis and Policy, Reserve Bank of India, Shahid Bhagat Singh Road, Mumbai 400 001. Comments can also be sent *via* e-mail.

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