

FOREWORD

“State Finances: A Study of Budgets” is a unique Report which provides a comprehensive picture on State government finances. This Report has been published since 1950-51. Till 1998-99, this study used to be published as a part of the RBI Monthly Bulletin. From 1999-00 onwards, this Study is being published as a stand-alone publication. This publication analyses major budgetary variables not only at the individual State level but also provides a holistic view at the consolidated level. The analysis, orientation, coverage and format of the Report have been restructured from time to time to make it more contemporary. In this context, the Report goes beyond the budgets by sourcing additional information/data from State governments on parameters such as fiscal stimulus packages and expenditure on salaries on account of implementation of recommendations of Sixth/State Pay Commissions. To enable researchers to have easy access to time series data, the RBI brought out a ‘Handbook of Statistics on State Government Finances’ in 2004, which contained State-wise time series data on major fiscal indicators since 1980-81 and detailed data under revenue and capital accounts since 1990-91.

To impart detailed and comprehensive coverage on various issues having important bearing on State government’s finances and to enhance the analytical content, a special theme based analysis has been initiated since 2005-06. So far, special themes on ‘Outstanding Liabilities of State Governments’, ‘Social Sector Expenditure’, ‘Fiscal Transfers to the State governments’ and ‘Revenue Receipts of the State Governments – Trend and Composition’ have been presented during past four years. In continuation to this trend, the special theme of this year’s Report, “State Finances: A Study of Budgets of 2009-10” focuses on expenditure management *i.e.*, “Expenditure of State Governments – Trend and Composition”.

The salient features of the Study are as follows:

- The consolidated revenue balance of the States, after remaining surplus for three consecutive years, is budgeted to turn into a deficit of 0.5 per cent of GDP in 2009-10 (BE).
- Reflecting the deterioration in revenue account of the State governments, GFD as percentage to GDP is budgeted to be higher at 3.2 per cent in 2009-10 as compared with 2.6 per cent in 2008-09 (RE) and 1.5 per cent in 2007-08 (Accounts).
- The debt-GDP ratio of State governments declined to 26.2 per cent in 2008-09 (RE) from the peak level of 32.8 per cent as on March 2004.
- States have started implementing the recommendations of the Sixth Central/States’ Own Pay Commissions. Although, the States’ consolidated revenue surplus declined during 2008-09 (RE), it is widely perceived that States are in a better position to absorb the impact of implementation of Pay Commission awards.

- Compression in consolidated expenditure of State governments can be observed during 2005-10 period mainly on account of some rationalisation of revenue expenditure during the fiscal responsibility legislation (FRL) period. This is evident from decline in RE-GDP ratio from an average level of 13.3 per cent during 2000-05 to 12.4 per cent during 2005-10.
- The Study discusses various contemporary issues relating to finances of State governments, viz., revenue augmentation, quality of expenditure, strengthening of rule based framework, fiscal transparency, surplus cash balances, impact of stimulus programmes and implementation of awards of the Pay Commissions.

The Study has been prepared in the Division of State and Local Finances (DSLRF) of the Department of Economic Analysis and Policy (DEAP) under the overall direction of Shri. Deepak Mohanty, Executive Director and under the guidance and supervision of Shri B.M. Misra, Adviser, by a team comprising Smt. R. Kausaliya, Director, Shri. A. Karunakaran and Shri Rajeev Jain, Assistant Advisers, Shri Dharendra Gajbhiye and Shri Dirghau Keshao Raut, Research Officers. Shri A.K. Dharampal, Shri T.R. Muralidharan, Shri P.P. Joshi, Shri B.A. Rankhambe and Smt. E. Fernandes provided support in compilation of data.

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Starting with 2001-02, the Study is also available on RBI's website (www.rbi.org.in). The earlier issues of the above Study (since 1950-51 onwards) are available in the Central Library of Reserve Bank at Mumbai. In order to improve the quality of the Study, feedback/comments on this Study are solicited. These 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 or through email at deapdslf@rbi.org.in.

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