

State Finances Report 2023-24 released by Reserve Bank of India 'Recent Dynamics and Fiscal Capacity of Indian States'

In this report, the Reserve Bank of India sheds light on the fiscal condition of State governments for the period spanning from 2021-22 to 2023-24. The report focuses on the favorable developments, such as the decline in consolidated fiscal deficit, elimination of revenue deficit, and substantial progress in capital expenditure during FY23 and FY24.

Fiscal Position of the State Governments

States' consolidated gross fiscal deficit to gross domestic product (GFD-GDP) ratio declined from 4.1 per cent in 2020-21 to 2.8 per cent in 2021-22, led by a moderation in revenue expenditure, coupled with an increase in revenue collection.

The improvement in State finances achieved in 2021-22 was sustained in 2022-23 by containing gross fiscal deficits (GFDs) within the budget estimates (BE) for the second consecutive year. As per the provisional estimates, the State's GFD-GDP ratio at 2.8 percent in 2022-23 was below the budget estimate of 3.2 percent and the Centre's limit of 4 per cent .

States have budgeted a GFD-GDP ratio of 3.1 per cent in 2023-24, below the Centre's limit of 3.5 per cent for the year.

The debt-GDP ratio of States declined to 27.5 per cent at end-March 2023 from the peak of 31 per cent at end-March 2021. At the individual level, however, the debt-GDP ratio for some States remains high. The overall fiscal outlook for States remains favourable in 2023-24, with adequate fiscal space for undertaking higher capex.

Revenue Dynamics and Fiscal Capacity of Indian States

States' own tax revenue (SOTR) has increased from 5.7 percent of GDP in 2003-04 to 6.9 percent of GDP in 2022-23. States' tax buoyancy has improved from 2013-14 to 2022-23. The implementation of GST has been beneficial in view of increased tax buoyancy.

Till 2016-17, sales tax/VAT was the largest component of own tax revenue. From 2017-18, however, State Goods and Services Tax (SGST) has emerged as the most important source, followed by sales tax/VAT, excise duty, stamp duty and registration fees and taxes on vehicles

The overall tax efforts of States in India are found to be fairly high. Nonetheless, they need to invest in augmenting fiscal/tax capacity by undertaking tax reforms and building a strong and innovative tax administration

The Way Forward

Going forward, there is a need for scaling up fiscal capacity for uninterrupted and efficient delivery of social, economic and general services to the people and for upgrading the quality of physical and human capital.

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Warm Regards,

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