RBI's 'Report on State Finances'

Why in news?

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The Reserve Bank of India recently brought out the 'Report on State Finances'.

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What are the highlights?

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- RBI has warned that many States may face **fiscal risks** this year.
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- States budgeted a **gross fiscal deficit** (GFD) to gross domestic product (GDP) ratio of 2.7% in 2017-18.
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- The GFD-GDP ratio crossed the threshold for the third consecutive year.
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- For 2018-19, the states have budgeted for a **consolidated GFD** of 2.6% of GDP.
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- Outstanding **liabilities** of States grew at double digits for all years barring 2014-15.
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- Maharashtra, Uttar Pradesh, TN and WB had the largest shares of **market borrowings** in 2017-18.
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- Among the Special Category States (SCSs), Assam, Himachal Pradesh, J&K and Uttarakhand were the major borrowers.
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- The growth of gross market borrowings of SCSs during 2017-18 outstripped that of non-special category States by a wide margin of 7%.

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What are the causes?

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- Fiscal deficit of states is essentially due to shortfalls in own tax revenues and higher revenue expenditure.
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- State budgets have been under pressure due to:
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i. committed expenditures on account of pay commission awards
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ii. interest payments
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iii. expenditures from State-specific schemes like farm-loan waivers
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iv. issuance of UDAY (Ujwal Discom Assurance Yojana) bonds in 2015-16 and 2016-17
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- In the aftermath of the 2008 global financial crisis, States borrowed big from markets.
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- It was mainly due to the additional fiscal space given to states as part of stimulus measures.
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- The 10-year bonds had now reached maturity.
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- This has increased the redemption pressures on the States that issued them.
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- This would imply that the borrowings of States are expected to rise.
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- Also, a substantial portion of the outstanding State Development Loans (SDLs) will mature in the next 3 years.
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- This would keep the redemption pressure high in the near future.
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What are the suggestions?

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- The resultant slippage in fiscal deficit target could probably reflect in higher borrowing requirements for 2018-19.
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- This, in turn, could be an impact on borrowing costs.
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- RBI has thus suggested reducing leakages and enhancing efficiency of the public distribution system.
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- This would rationalise the expenditure of the states.
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- Also, improved public financial management practices may be necessary to rebuild the fiscal space.
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- It is essential to undertake fiscal reforms, so as to lower borrowings.
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- Otherwise, borrowings could add to the concerns on debt sustainability.
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- There is also a need for larger and faster corrections in primary deficits.
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- These are essential to adhere to the revised Fiscal Responsibility and Budget Management (FRBM) target.
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- It stipulates a target of 20% for the State-level debt to GDP ratios by 2024-25.
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Source: BusinessLine, Economic Times

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