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State Finances: A Study of Budgets of 2023-24

Today, the Reserve Bank of India (RBI) released the Report titled "State Finances: A Study of Budgets of 2023-24", an annual publication that provides information, analysis and an assessment of the finances of State governments for 2023-24 against the backdrop of actual and revised/provisional accounts for 2021-22 and 2022-23, respectively. The theme of this year's Report is "Revenue Dynamics and Fiscal Capacity of Indian States".

Highlights:

i) The improvement achieved in State finances in 2021-22 was sustained in 2022-23, with the combined States' gross fiscal deficit (GFD) contained at 2.8 per cent of gross domestic product (GDP) - below the budget estimates for the second consecutive year - primarily through a reduction in the revenue deficit.

ii) States envisage a continuation of prudent fiscal management for 2023-24, with the consolidated GFD budgeted at 3.1 per cent of GDP.

iii) Alongside the near elimination of the revenue deficit, capital outlay is budgeted to increase by 42.6 per cent in 2023-24 to 2.9 per cent of GDP.

iv) States' total outstanding liabilities are budgeted to fall to 27.6 per cent of GDP for 2023-24 from the peak of 31.0 per cent in 2020-21; however, outstanding liabilities may remain higher than 30 per cent of gross state domestic product (GSDP) for many States.

v) The implementation of goods and services tax (GST) has led to increased tax buoyancy for the States.

vi) While the overall tax efforts of the States are strong, further improvement in tax revenues will require them to strengthen their tax capacity, including through tax reforms and effective and innovative tax administration.

vii) In case of non-tax revenues, there is considerable scope for States to increase them through revisions of user charges on electricity, water and other public services, royalties and premiums from mining, and better financial management of their PSUs.

This publication has been prepared in the Division of State Finances in the Department of Economic and Policy Research. The current issue, along with past issues of the Report, are available on the Reserve Bank's website (www.rbi.org.in). Comments on this publication may be sent to the Director, Division of State Finances, Department of Economic and Policy Research, Amar Building (6th Floor), Reserve Bank of India, Sir Pherozshah Mehta Road, Mumbai - 400 001. Comments can also be forwarded *via* e-mail.

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