RBI flags States’ fiscal stress

The Reserve Bank of India (RBI) has pointed to the fiscal stress that States are facing due to several factors including farm loan waivers, and said higher borrowing by them could crowd out private investment.

In a report ‘State Finances: A Study of Budgets of 2017-18 and 2018-19,’ the central bank noted that States’ consolidated gross fiscal deficit (GFD) overshot the budget estimates in 2017-18 due to shortfalls in own tax revenues and higher revenue expenditure.

“In recent years, signs of pressures on the fiscal position of States have re-emerged,” the RBI said.

While States budgeted a gross fiscal deficit to gross domestic product (GFD-GDP) ratio of 2.7% in 2017-18, revised estimates reveal GFD-GDP ratio of 3.1%, the RBI said. “The deterioration was located in the revenue balance. In contrast, the capital account has helped to contain the GFD.”

Private investment

Since the combined GFP to GDP was at 6.4% as compared with the Fiscal Responsibility and Budget Management Committee’s (FRBM) medium-term target of 5%, there is a risk that private investment gets crowded out of the finite pool of financial resources, the report noted. “Risks are also likely to emanate from possible higher pre-election expenditure in more than 10 States and implementation of the balance pay commission awards, particularly to the extent that they are not fully provided for under the budgeted expenditure,” the RBI said. Capital expenditure may have to bear the brunt of the fiscal correction like the past two years.

While States together have projected a revenue surplus and a lower consolidated GFD of 2.6% of GDP in 2018-19, 11 States have budgeted for fiscal deficits above the threshold of 3% of GDP.

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