

## STATES' GROSS FISCAL DEFICIT STAYED WITHIN 3%: RBI

Relevant for: Indian Economy | Topic: Issues relating to Mobilization of resources incl. Savings, Borrowings & External Resources

States' gross fiscal deficit (GFD) has remained within the Fiscal Responsibility and Budget Management Act (FRBM) threshold of 3% of gross domestic product (GDP) during 2017-18 and 2018-19, a Reserve Bank of India report on State Finances said. For 2019-20, States have budgeted a consolidated GFD of 2.6% of GDP, the report said. However, outstanding debt of States have risen over the last five years to 25% of GDP, posing medium-term challenges to its sustainability.

Observing that in the recent five-year period, the combined GFD of the States (excluding Ujwal DISCOM Assurance Yojna in 2015-16 and 2016-17) averaged 2.5% of GDP, which was in striking range of the recommendation of the FRBM Review Committee, the report said and added that this has, however, been achieved by a sharp reduction in capital expenditure.

"This has, however, been achieved by sharp retrenchment in expenditure, mainly capital expenditure, with potentially adverse implications for the pace and quality of economic development, given the large welfare effects of a much wider interface with the lives of people at the federal level," the report said.

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