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Research Article

CHANGES IN THE ECONOMIC STRUCTURE OF INDIAN STATE GOVERNMENTS, INCLUDING VERTICAL FISCAL IMBALANCE, SUSTAINABLE GOVERNANCE, FINANCING, AND CASH MANAGEMENT - AN ASSESSMENT

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A B S T R A C T

The COVID-19 pandemic has significantly reduced Indian states' fiscal capacity, necessitating increased revenue expenditures. Technology, economic formalization, institutional changes, and taxation can increase fiscal capacity, enhancing SGST collections, which account for 40% of Finance Commissions' revenue. The fiscal conditions of Indian states in the years 2021-22, 2022-23, and 2023-24, with an emphasis on debt dynamics, revenue growth, spending management, fiscal consolidation, tax modifications, and public-sector revitalization. The budget deficit of India increased by 39.3% in the first quarter of 2023, indicating a vertical fiscal imbalance. To address this issue, fiscal policy instruments such as public debt, taxation, and budgeting are required. The paper adopts a conceptual, diagnostic, and descriptive research approach, relying on empirical evidence and secondary research, and working with scholars and professionals to collect data from various sources.Due to eased lockup restrictions, India's economy changed from a mixed planned to a mixed middle-income social market with a substantial public sector and revenue growth in 2021-2022.The Indian government intends to increase state capital outlay by 42.6% to 2.9% of GDP in 2023-24, with a 30% credit increase from the Center's Special Assistance Scheme.Despite the foregoing, the main purposes of this research article are to use secondary sources of information and pertinent statistical data to analyze the changes in the economic structure of Indian state governments, including vertical fiscal imbalance, sustainable governance, financing, and cash management, among other related issues, in a macroeconomic theoretical analysis. This viewpoint holds that the current state of affairs is significant and pertinent to the economy and society.

INTRODUCTION

A government's ability to finance infrastructure improvements and deliver basic public utilities depends heavily on its fiscal capability. The COVID-19 epidemic severely decreased the budgetary capacity of Indian States, and a large increase is required to satisfy India's long-term developmental aspirations. 'Revenue Dynamics and Fiscal Capacity of Indian States' is the main topic of this year's Report on State Finances. The main sources of income for the states are grants from the Center for Budgetary Resources, tax devolution, and their own tax and non-tax revenues. These sources now provide 58% of the funding for revenue expenditures. Fiscal capability is influenced by variables including per capita income, education, low inflation, corruption, and smaller shadow economies. Higher fiscal capacity, however, does not ensure enough revenue mobilization because tax effort differs from state to state and is dependent on non-economic elements like the strength of the administration, the quality of the institutions, and the availability of infrastructure. Technology use, formalization of the economy, institutional modifications, and taxation can all boost fiscal capacity. By implementing new taxes, simplifying existing rates, and improving tax administration, it is feasible to raise the own tax revenue to GDP ratio. By reducing slabs and modifying rates, Finance Commissions can increase SGST collections, which account for about 40% of own tax income. They can also use tax sharing arrangements as a means of encouraging tax effort.

All states may increase their revenue by utilizing non-tax revenues, which accounted for around 1% of GDP in the previous ten years. Important sources are lotteries, government service charges, leases on natural resources, and loan interest income. Enhancing non-tax revenue performance can be achieved by changing these fees and reviving public sector initiatives. In order to improve taxpayer satisfaction and raise compliance, states should also support business-friendly tax administration and steer clear of territorial nexus.The fiscal positions of the Indian states for 2021–22, 2022–23, and 2023–24 are examined in this paper with an emphasis on debt

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dynamics, revenue augmentation, spending control, and fiscal consolidation.

Statement of the problem

India's budget deficit for the first half of the current fiscal year, ending in September, was 7.02 lakh crore rupees, up 39.3% from the previous year's reported result of 37.3%. A vertical fiscal imbalance occurs when total government revenues and expenses are not equal. The authority for revenue and expenditure might be redistributed in order to deal with this structural challenge. In developing economies, fiscal policy instruments such as public debt, public works, taxes, public expenditure, and budgeting can effectively preserve full employment in the absence of deflationary and inflationary pressures. Reaching and sustaining the nation's level of full employment is the most important purpose. Furthermore to preserve the economy's growth rate stability. Encourage a nation's economic development as well. Numerous factors can contribute to fiscal deficits, such as increased government spending, recessions, tax cuts, subsidies, and inefficient revenue collection (which is commonly used for social welfare, emergencies, and economic growth).India's economy, which now ranks sixth in the world for imports, exports, and consumers, changed from being a mixed planned economy to a mixed middle-income rising social market. India has a large wealth gap and a high concentration of billionaires despite the COVID-19 effect. The GDP is primarily composed of the service sector. Receipts demonstrate financial inflows over time and are essential for accounting and tax purposes. States' revenue receipts rose in 2021–2022 as a result of the relaxation of security restrictions. In March 2023, the states' debt-to-GDP ratio dropped from 31% to 27.5%, albeit some still had high levels. Interest charges were decreased by center-assisted 50-year interest-free capital expenditure loans. It should be noted that, the main objective of this article is to carry out a macroeconomic theoretical analysis of the modifications made to the economic structure of Indian state governments, with particular attention to finance, cash management, sustainable governance, and vertical fiscal imbalance. It accomplishes this by utilizing information and figures from secondary sources pertinent to the topic of the article. This viewpoint holds that the political, economic, and social environment of today is extremely important and relevant.

Objectives of the article

In this article, the overall objective is to examine changes in the economic structure of Indian state governments from a theoretical perspective, including fiscal imbalances, sustainable governance, financing, and cash management, using secondary sources of information and statistical data related to the article's theme.

Methodology of the article

There is a conceptual, diagnostic, and descriptive research design, as well as empirical evidence in the article. This article is based on secondary sources relevant to the topic of the article. In secondary research, previously collected data is used as a basis for desk research. In order to improve the effectiveness of the research, accessible data should be gathered and organized according to the research's purpose. The purpose of this study is to provide instructions for acquiring and organizing data relevant to the article's theme so that the research can be carried out more efficiently. In order to gather knowledge and statistical data about the topic of the paper, the researcher discussed with the scholars and subject experts. There is still work to be done on this topic by the researcher. There are a variety of platforms for accessing secondary sources of information and statistical data, including books, specialized media, journals, websites, public documents, research papers, and other published and unpublished materials. The use of these sources of information requires a similar level of effort and investigation. To arrive at results and conclusions for the article, the statistical data and information must be arranged and presented in a way that is easy for the reader to comprehend and is in line with the article's theme.

The Economic Conditions of State Governments in India

India's economy has moved from a mixed planned to a mixed middle-income rising social market economy, with a notable public sector in important areas. It is the world's fifth-largest economy by nominal GDP and third-largest by purchasing power parity. India began its economic liberalization following the 1991 end of the Cold War and the balance of payments problem. India will account for 7.2% of the global GDP in 2022.COVID-19 has had an effect on India's informal home economy, as a lack of credit availability has reduced private spending and increased inflation. In spite of this, India continues to rank sixth globally for both imports and exports as well as consumers. The nation is ranked 40th on the Global Competitiveness Index and 63rd on the Ease of Doing Business Index. India, which employs 476 million people, has a high concentration of billionaires worldwide and a significant degree of wealth disparity. Every year, there is an increase in the quantity of income tax returns filed.

During the 2008 global financial crisis, India's economy slowed down, but stimulus measures helped it to rebound. India has to prioritize public sector reform, infrastructural development, financial inclusion, rural and agricultural development, education, and public health in order to achieve sustainable development. The US, China, UAE, Saudi Arabia, Russia, Germany, Hong Kong, Indonesia, South Korea, and Malaysia are India's main trading partners. It has free trade agreements with a number of countries and organizations. While the industrial and agricultural sectors employ the majority of the labour force, India's service sector accounts for over 50% of GDP and is expanding at the highest rate. India has the fifth-largest foreign exchange reserves in the world, with 65% of its population living in rural areas. On the other hand, the nation is dealing with rising unemployment, income inequality, and declining aggregate demand. In 2021–2022, social spending is projected to be 8.6%.

The Centre increased its capital outlay allocation to states from Rs 81,195 crore in 2022–2023 to Rs 1.3 lakh crore in 2023–2024. This covers the cost of interest payments, pensions, and salaries. Union taxes, duties, grants from the Indian government, and non-tax revenue are examples of state resources. The Indian state budget for 2022-2023 predicts a debt drop to 29.5% of GDP, despite the 2018 recommendation of 20%. The research suggests prioritizing debt restructuring, focusing on green energy, infrastructure, healthcare, and education, and establishing a fund for capital expenditure.

In these perspectives, the state's finances saw improvement in 2021–2022, with revenue decrease being the main factor in reducing budget deficits for the second year in a row. For 2023–2024, prudent financial management is expected. States' GFD-GDP ratio fell from 4.1% in 2020–21 to 2.8% in 2021–22, mostly as a consequence of rising revenue collection and reduction in revenue spending. Despite a sizable revenue shortfall, the States' GFD-GDP ratio in 2022–2023 was 2.8%, below the Center's the roof and the budget forecast. The details of Crucial Deficit Measures for Every State and Territory in the Union with a Legislature in lakh crore are given in table -1.

In 2023–24, states and union territories (UTs) budgeted a GFD–GSDP ratio of 3.1%, which is less than the 3.5% limit set by the center. Of them, 19 have exceeded the FRL1 limit.

Receipts

A receipt is a recorded acknowledgement of a value transfer that is used in many different types of transactions, such as business-to-business exchanges, stock market transactions, and consumer purchases. The details of Total Revenues Received by State and Union Territories, 2018-19 to 2023-24 (BE) are presented in table -2.

In economics, receipts are financial inflows or money produced by people, companies, or governments. When it comes to business-to-business and stock market transactions, receipts are the official documentation of financial transactions. They show overall cash inflows over time and are crucial for accounting and tax purposes. They consist of the transaction time, value, kind of service, mode of payment, and any extra costs. They offer important information about financial transactions, economic activity, and the state of the economy. States' revenue receipts grew in 2021–2022 as a consequence of the lockdown measures being loosened and a rebound in economic activity, which was mostly caused by higher tax and non-tax revenue. Sales tax, registration fees, stamp duty, and the State Goods and Services Tax (SGST) all increased revenue and lessened the fiscal gap between the federal government and the states. States experienced a fall in power duties, taxes, and excise duties. Renewals of mining leases increased non-tax revenue.

India's vertical fiscal imbalance is going through a change in dynamics

A fiscal gap between the ability to generate money and the obligations to spend it, known as a Vertical Fiscal Imbalance (VFI), affects GDP, government debt, and deficits. It causes overspending on loans and poor spending decisions. In India, where the Centre imposes significant taxes and the States bear greater spending obligations, the imbalance in revenue-raising capacity between the several tiers of government gives birth to Vertical Fiscal Imbalance (VFI). To rectify this mismatch, the Finance Commissions recommended resource transfers. Further effects on VFI might have come from the Goods and Services Tax. Vertical Fiscal Imbalance (VFI) is equivalent to one minus the state's own revenue divided by the state's own expenditure.

The investigation reveals that the VFI increased just marginally between 0.48 and 0.51 following the introduction of the GST in 2017–18. The increasing disparity between state governments' revenue and expenditures was the cause of the 2020–21 surge in VFI. Elevated revenue collections through SGST since 2021–22 are the reason for the overall improvement in VFI. Union government grants, State Plan Schemes, Central Plan Schemes, and Centrally Sponsored Schemes are not included in the States' Own Expenditure calculation. With the exception of central taxes, grants, and borrowings, states' own revenue consists of both tax and non-tax revenues. Income, property, capital transactions, commodities, and services are all subject to taxes. States' revenue receipts decreased in 2022–2023 as a result of decreased tax revenues and Centre grants. They do, however, anticipate a significant increase in income receipts for 2023–2024 and a recovery in all major components. While SGST growth is predicted to moderate, sales tax and excise duty collections are anticipated to increase. Accurate forecasting is a prerequisite for improved state budgetary management.

The investigation compares forecasts of the states' own tax revenue buoyancy with actual outcomes

Forecasting tax buoyancy is important for resource allocation and budget execution since big discrepancies can result in inefficient macroeconomic outcomes like funding a deficit or underusing resources. The forecasting performance of the own tax revenue buoyancy of 13 main States from 2016–17 to 2022–23 is analyzed in this study. The realized buoyancy is smaller, at 0.55, than the average budgeted buoyancy of 0.74. The Russia-Ukraine conflict and COVID-19 are two significant exogeneous shocks included in the analysis. According to the findings, states should improve their ability to estimate their own income in order to employ budgetary resources more effectively. In order to increase revenue, state governments are putting policies into place that include lowering property guidance values, resolving outstanding tax cases, extending amnesty programs, instituting cesses, and creating special Tax Policy and Revenue Augmentation Units. While Delhi intends to deploy cutting-edge technologies for tax collection, Kerala is reviewing mineral royalties in an effort to raise non-tax revenues.

Expenditure

An entity that makes payments for goods or services such as new assets, asset improvements, or liability reductions is referred to as making an expenditure. Taxes and other public spending are tools of fiscal policy that allow the government to make both current and capital economic interventions. Revenue expenditures are annual accounting expenses that occur year-after-year, whereas capital expenditures are one-time, projected costs that are dispersed over several years.

Revenue Expenditure

Revenue expenditures are recurring, short-term expenses that are utilized to pay for ongoing business operating costs within a year. The costs of routine upkeep and repair for already-existing assets, such as routine repainting, renewals, and repairs, are included in revenue expenditures. Unlike most capital expenditures, which are one-time, these recurring costs are ongoing. Salaries, employee compensation, overhead costs, utilities, rent, property taxes, research and development, and business travel are examples of revenue expenditures. Revenue expenditures are continuing, short-term operational costs used to run day-to-day business operations, whereas capital expenditures are significant, long-term purchases of fixed assets. According to Table - 3, states' revenue expenditure fell between 2020 and 21 as a result of fiscal consolidation and a fall in COVID-19 spending requirements.

Development expenditures dropped allocations for education, sports, art, and culture, urban development, agriculture, and

Table 1 Crucial Deficit Measures for Every State and Territory in the Union with a Legislature
(in lakhcrore)

S.No	Particular	2017-18	2019-20	2021-22	2022-23 (BE)	2022-23 (RE)	2022-23 (PA)	2023-24 (BE)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1.	Gross Fiscal Deficit	4.10	5.25	6.55	8.83	9.24	7.53	9.48
	(Per cent of GDP)	(2.4)	(2.6)	(2.8)	(3.2)	(3.4)	(2.8)	(3.1)
2.	Revenue Deficit	0.19	1.21	1.02	0.84	1.25	0.80	0.35
	(Per cent of GDP)	(0.1)	(0.6)	(0.4)	(0.3)	(0.5)	(0.3)	(0.1)
3.	Primary Deficit	1.17	1.73	2.27	4.12	4.51	3.35	4.29
	(Per cent of GDP)	(0.7)	(0.9)	(1.0)	(1.5)	(1.7)	(1.2)	(1.4)

Sources: 1. Budget documents of State governments; and Comptroller and Auditor General of India(CAG).
2. Report of the Reserve bank of India, "State Finances - A Study of Budgets of 2023-2024, Revenue Dynamics and Fiscal Capacity of Indian States", December 2023.

Note: - BE:Budget Estimates. RE: Revised Estimates. PA: Provisional Accounts.

Table 2 Total Revenues Received by State and Union Territories, 2018-19 to 2023-24 (BE)

Particulars	2018-19	2019-20	2021-22	2022-23(RE)	2022-23(PA)	2023-24(BE)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1. **Revenue Receipts (a+b)**	26.20	26.70	32.25	39.12	36.04	43.09
	(13.9)	(13.3)	(13.7)	(14.4)	(13.2)	(14.3)
a. States' Own Revenue (i+ii)	14.34	14.85	17.19	20.86	-	24.79
	(7.6)	(7.4)	(7.3)	(7.7)	-	(8.2)
i. States' Own Tax	12.15	12.24	14.73	18.02	-	21.23
	(6.4)	(6.1)	(6.3)	(6.6)	-	(7.0)
ii. States' Own Non-Tax	2.19	2.61	2.47	2.84	2.78	3.56
	(1.2)	(1.3)	(1.1)	(1.0)	(1.0)	(1.2)
b. Central Transfers (i+ii)	11.87	11.85	15.06	18.26	-	18.30
	(6.3)	(5.9)	(6.4)	(6.7)	-	(6.1)
i. Shareable Taxes	7.47	6.51	8.83	9.48	-	10.24
	(4.0)	(3.2)	(3.8)	(3.5)	-	(3.4)
ii. Grants-in Aid	4.40	5.35	6.23	8.78	6.57	8.06
	(2.3)	(2.7)	(2.7)	(3.2)	(2.4)	(2.7)
2. **Non-Debt Capital Receipts (i+ii)**	0.42	0.57	0.22	0.14	0.09	0.43
	(0.2)	(0.3)	(0.1)	(0.1)	(0.0)	(0.1)
i. Recovery of Loans and Advances	0.41	0.57	0.20	0.11	0.09	0.20
	(0.2)	(0.3)	(0.1)	(0.1)	(0.0)	(0.1)
ii. Miscellaneous Capital Receipts	0.01	0.00	0.02	0.03	0.00	0.24
	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.1)

Source: **1.** Budget documents of State governments and CAG.
2. Report of the Reserve bank of India, "State Finances - A Study of Budgets of 2023-2024, Revenue Dynamics and Fiscal Capacity of Indian States", December 2023.

Note: **1.** RE: Revised Estimates. PA: Provisional Accounts. BE: Budget Estimates.
2. Figures inparetheses are percent of GDP.
3. Not available.

Table 3 State Governments' and Union Territories' Expenditure Patterns, 2018-19 to 2023-24 (BE) (in lakhcrore)

Particulars	2018-19	2019-20	2021-22	2022-23(RE)	2022-23(PA)	2023-24(BE)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Aggregate Expenditure(1+2 or3+4+5)	31.25	32.52	39.02	48.50	43.66	53.01
	(16.5)	(16.2)	(16.6)	(17.8)	(16.0)	(17.6)
1.***RevenueExpenditure***	26.38	27.92	33.27	40.38	36.84	43.44
Of which:	(14.0)	(13.9)	(14.2)	(14.8)	(13.5)	(14.4)
Interest Payments	3.19	3.51	4.27	4.72	4.19	5.19
	(1.7)	(1.8)	(1.8)	(1.7)	(1.5)	(1.7)
2.***CapitalExpenditure***	4.87	4.60	5.75	8.12	6.82	9.57
Of which:	(2.6)	(2.3)	(2.4)	(3.0)	(2.5)	(3.2)
Capital Outlay	4.40	4.18	5.32	7.32	6.08	8.68
	(2.3)	(2.1)	(2.3)	(2.7)	(2.2)	(2.9)
3.***Development Expenditure***	21.01	21.63	25.99	33.22	-	36.02
	(11.1)	(10.8)	(11.1)	(12.2)	-	(11.9)
4.***Non-Development Expenditure***	9.44	10.05	12.04	14.13	-	15.71
	(5.0)	(5.0)	(5.1)	(5.2)	-	(5.2)
5.***Others****	0.80	0.83	0.99	1.15	-	1.28
	(0.4)	(0.4)	(0.4)	(0.4)	-	(0.4)

Source: 1. Budget documents of State governments.
2. Report of the Reserve bank of India, "State Finances - A Study of Budgets of 2023-2024, Revenue Dynamics and Fiscal Capacity of Indian States", December 2023.

Notes: 1. Figures in parentheses are percent of GDP.
2. Capitalexpenditureincludescapitaloutlayandloansandadvancesbythe Stategovernments.
3. Not available.
4. RE: Revised Estimates. PA: Provisional Accounts. BE: Budget Estimates.
5. *:Includes grants-in-aid and contributions including compensation and assignments to local bodies.

Table 4 The market borrowings of state governments, 2019-20 to 2023-24 (As onOctober19, 2023) (crore)

S.No.	Particulars	2019-20	2020-21	2021-22	2022-23	2023-24*
	(1)	(2)	(3)	(4)	(5)	(6)
1.	Maturities during the year	1,47,067	1,47,039	2,09,143	2,39,562	2,89,918#
2.	Gross sanctionunderArticle293(3)	7,12,744	9,69,525	8,95,166	880779	7,04,101
3.	Gross amount raised during the year	6,34,521	7,98,816	7,01,626	758392	4,06,506
4.	Net amount raised during the year	4,87,454	6,51,777	4,92,483	518830	2,68,070
5.	Amount raised during the year to total Sanctions (per cent)	89	82	78	86	58
6.	Weighted average yield of SGSs (percent)	7.24	6.55	6.98	7.71	7.44
7.	Weighted average spread over corresponding G-Sec (bps)	55	53	41	31	24
8.	Weighted average spread over corresponding G-Sec (bps)	6	10	4	3	2

Source: 1. Various Reports of the Reserve Bank of India.
2. Report of the Reserve bank of India, "State Finances - A Study of Budgets of 2023-2024, Revenue Dynamics and Fiscal Capacity of Indian States", December 2023.

Note: 1. #: Data for maturity pertain to full year.
2. $: Based on the cut-off of 10year fresh issuance's.

Table 5 Outstanding State Government Securities Maturity Profile (Asatend-March2023)
(Percent)

S.No.	States / Union Territories	(Percentage of Total Outstanding Amount)				
		less than1Year	1 Year to 5Years	5 Years to 10Years	10 Years to 20Years	Above 20Years
	(1)	(2)	(3)	(4)	(5)	(6)
1.	Andhra Pradesh	4.1	29.3	28.5	38.1	-
2.	Arunachal Pradesh	3.8	41.7	54.4	-	-
3.	Assam	3.0	41.1	55.9	-	-
4.	Bihar	9.5	47.8	42.7	-	-
5.	Chhattisgarh	9.6	74.1	16.3	-	-
6.	Goa	5.5	43.2	49.1	2.2	-
7.	Gujarat	6.6	51.5	40.4	1.6	-
8.	Haryana	8.1	39.0	32.8	20.1	-
9.	Himachal Pradesh	4.6	34.8	39.5	21.2	-
10.	Jammu and Kashmir	4.2	36.0	34.3	25.5	-
11.	Jharkhand	5.8	44.4	35.0	14.8	-
12.	Karnataka	5.3	38.5	35.4	20.8	-
13.	Kerala	7.9	40.9	24.7	17.1	9.3
14.	Madhya Pradesh	6.0	38.3	27.7	26.4	1.5
15.	Maharashtra	7.2	41.1	49.1	2.6	-
16.	Manipur	3.7	33.6	55.7	7.1	-
17.	Meghalaya	4.0	54.5	35.4	6.1	-
18.	Mizoram	5.0	21.1	45.7	28.2	-
19.	Nagaland	4.7	40.1	55.2	-	-
20.	Odisha	22.1	38.0	25.6	14.2	-
21.	Puducherry	7.5	44.8	37.5	10.2	-
22.	Punjab	6.0	30.9	24.9	35.2	3.0
23.	Rajasthan	7.2	46.1	33.0	9.3	4.4
24.	Sikkim	2.4	41.6	56.0	-	0.0
25.	Tamil Nādu	6.9	38.5	28.6	9.7	16.4
26.	Telangana	3.6	26.5	11.5	37.5	21.0
27.	Tripura	5.5	43.6	36.0	15.0	-
28.	Uttar Pradesh	2.6	41.1	48.9	7.5	-
29.	Uttarakhand	5.6	55.0	39.4	-	-
30.	West Bengal	4.9	30.4	27.4	36.9	0.4
All States / Union Territories		**5.9**	**39.1**	**34.1**	**17.1**	**3.9**

Source: 1. Various Reports of the Reserve Bank of India.
2. Report of the Reserve bank of India, "State Finances - A Study of Budgets of 2023-2024, Revenue Dynamics and Fiscal Capacity of Indian States", December 2023.

Note-: Nil.

Table 6 Investment of State Government/Union Territories Surplus Cash Balances (As of March 31)
(crore)

S.No.	Particulars	2020	2021	2022	2023	2023*
	(1)	(2)	(3)	(4)	(5)	(6)
1.	14-Day Intermediate Treasury Bills (ITBs)	1,54,757	2,05,230	2,16,272	2,12,758	1,08,397
2.	Auction Treasury Bills (ATBs)	33,504	41,293	87,400	58,913	95,013
	Total	**1,88,261**	**2,46,523**	**3,03,672**	**2,71,671**	**2,03,410**

Source: 1.Various Reports of the Reserve Bank of India.
2. Report of the Reserve bank of India, "State Finances - A Study of Budgets of 2023-2024, Revenue Dynamics and Fiscal Capacity of Indian States", December 2023.
Note :*AsonOctober 18,2023.

Table 7 Investments in Consolidated Sinking Fund (CSF)/Guarantee Redemption Fund (GRF) by States (As on March 31, 2023)
(crore)

S.No.	States / Union Territories	Consolidated Sinking Fund(CSF)	Guarantee Redemption Fund (GRF)	CSF as per cent of Outstanding Liabilities
	(1)	(2)	(3)	(4)
1.	Andhra Pradesh	10,143	996	2.4
2.	Arunachal Pradesh	2,260	4	12.0
3.	Assam	5,150	78	4.1
4.	Bihar	8,164	-	2.8
5.	Chhattisgarh	6,447	-	5.9
6.	Goa	833	401	2.7
7.	Gujarat	9,790	585	2.3
8.	Haryana	1,787	1,486	0.6
9.	Himachal Pradesh	-	-	-
10.	Jammu & Kashmir UT	-	-	-
11.	Jharkhand	1,053	-	0.9
12.	Karnataka	14,217	313	2.7
13.	Kerala	2,613	-	0.7
14.	Madhya Pradesh	-	1,119	-
15.	Maharashtra	58,404	1,230	8.9
16.	Manipur	61	123	0.4
17.	Meghalaya	1,032	82	5.5
18.	Mizoram	372	66	2.9
19.	Nagaland	1,562	41	9.1
20.	Odisha	15,914	1,789	12.3
21.	Puducherry	473	-	3.8
22.	Punjab	6,437	0	2.0
23.	Rajasthan	-	-	-
24.	TamilNadu	8,173	-	1.1
25.	Telangana	6,915	1,512	2.0
26.	Tripura	982	21	4.2
27.	Uttar Pradesh	5,756	-	0.8
28.	Uttarakhand	4,305	177	5.4
29.	West Bengal	11,186	816	1.9
	Total	**1,84,029**	**10,839**	**2.5**

Source: 1. Various Reports of the Reserve Bank of India.
2. Report of the Reserve bank of India, "State Finances - A Study of Budgets of 2023-2024, Revenue Dynamics and Fiscal Capacity of Indian States", December 2023. **Note:** Indicates no fund is maintained.

Table 8 Union Territories and State Governments' Outstanding Liabilities

S.No.	Year (End-March)	Amount (lakh/crore)	Annual Growth	Debt/GDP
			(Percent)	
	(1)	(2)	(3)	(4)
1.	2014	25.10	11.8	22.3
2.	2015	27.43	9.3	22.0
3.	2016	32.59	18.8	23.7
4.	2017	38.59	18.4	25.1
5.	2018	42.92	11.2	25.1
6.	2019	47.87	11.5	25.3
7.	2020	53.51	11.8	26.6
8.	2021	61.55	15.0	31.0
9.	2022	68.76	11.7	29.3
10.	2023(RE)	74.96	9.0	27.5
11.	2024(BE)	83.32	11.2	27.6

Sources: 1. Budget documents of State governments.
2. Combined finance and revenue accounts of the Union and the State governments in India, Comptroller and Auditor General (CAG) of India.
3. Ministry of Finance, Government of India.
4. Reserve Bank of India.
5. Finance accounts of the Union government, Government of India.
6. Report of the Reserve bank of India, "State Finances - A Study of Budgets of 2023-2024, Revenue Dynamics and Fiscal Capacity of Indian States", December 2023. **Note:** RE: Revised Estimates.BE: Budget Estimates.

Table 9 Components of Union Territories and State Governments' Exceptional Liabilities
(Per cent)

Particulars	2018	2019	2020	2021	2022	2023RE	2024BE
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Total Liabilities (1to4)	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
1.Internal Debt	72.7	72.2	73.5	74.0	73.0	73.4	74.5
Of which:							
(i) Market Loans	51.4	53.5	57.2	60.5	61.6	63.7	66.0
(ii)Special Securities Issued to NSSF	11.1	9.2	7.7	6.1	5.1	4.2	3.4
(iii)Loans from Banks and Financial Institutions	4.9	4.8	4.8	4.2	3.8	3.8	3.9
2.Loans and Advances from the Centre	3.8	3.6	3.0	5.1	7.2	7.9	8.6
3.PublicAccount (itoiii)	23.5	24.1	23.4	20.8	19.7	18.5	16.8
(i)State PF, etc.	10.3	10.2	9.8	8.8	8.4	8.2	7.8
(ii)Reserve Funds	4.1	4.2	3.8	3.4	3.4	3.1	2.8
(iii)Deposits & Advances	9.1	9.7	9.7	8.6	7.9	7.3	6.2
4.ContingencyFund	0.1	0.1	0.1	0.1	0.1	0.1	0.1

Source: 1. SameasthatforTable-8.
2. Report of the Reserve bank of India, "State Finances - A Study of Budgets of 2023-2024, Revenue Dynamics and Fiscal Capacity of Indian States", December 2023.

Note: RE: Revised Estimate. BE: Budget Estimate.

Table – 10: State Government Issued Guarantees

S.No.	Year (End-March)	Offers Outstanding Guarantees lakh crore	As percent of GDP
	(1)	(2)	(3)
1.	2014	3.79	3.4
2.	2015	4.28	3.4
3.	2016	3.64	2.6
4.	2017	3.12	2.0
5.	2018	4.30	2.5
6.	2019	5.38	2.8
7.	2020	5.93	3.0
8.	2021	7.60	3.8
9.	2022	8.90	3.8

Source: 1. State governments and CAG
2. Report of the Reserve bank of India, "State Finances - A Study of Budgets of 2023- 2024, Revenue Dynamics and Fiscal Capacity of Indian States", December 2023.

rural development, while spending on power, medical, and public health grew due to COVID-19.Revised predictions for 2022-23 show states spending more as a percentage of GDP, although preliminary data show spending stabilization. Budgeted state revenue spending is 14.4%, social sector expenditure is 8.0%, and committed expenditure is 4.5%.

Capital Expenditure

Capital expenditures are payments that are shown on the balance sheet of a business and are used for asset maintenance, technological investments, and asset growth. Capital expenditures can include a wide range of purchases, including real estate, cars, computers, furnishings, and manufacturing equipment. Companies employ capital expenditures to fund new initiatives or projects with the goal of increasing profitability and revenue. Operational expenses are those that come from revenue. To pay for the expenses of purchasing large assets, such as borrowing money or issuing corporate bonds, businesses frequently employ debt or equity financing. States' capital outlays increased by 28.7% in 2021-22 as a result of robust tax and non-tax collections, tax devolution, and GST compensation. This enabled increased funding for agriculture, water supply, sanitation, urban development, energy, and transportation. However, preliminary figures show a 14.3% increase. In 2023-24, the Indian government intends to boost state capital outlay by 42.6% to 2.9% of GDP, with a 30% increase in credit allocation from the Centre's Special Assistance Scheme.

Development and research expenditure

The expenses for research and development are the costs incurred by a business for ideation, design, testing, and research and development of new or enhanced products. The product of research and development is regarded as an asset; nevertheless, research expenses are capitalized and amortized, whereas development expenses are recognized as a cost and subtracted from operational profit. According to the data, the consolidated R&D expenditure of 10 States and UTs8 grew from 0.07% in 2020-21 to 0.10% in 2022-23, with medical, health, family welfare, sanitation, and agricultural research receiving the most attention.

States' expenditure quality improved after the pandemic, with a budgeted 5.0 Revenue Expenditure to Capital Outlay (RECO) in 2023-24. Modernization of banking arrangements, cash management techniques, and funds transfer processes through the Single Nodal Agency system improves the disbursement of public monies in India.

Streamlining fund transfers for sustainable governance focusing on government cash management reforms

Efficient banking arrangements and cash management are critical for the efficient use of government resources and the timely execution of payments. Inefficient cash management can result from fragmented banking arrangements, resulting in short-term borrowings and increased interest costs for cash-strapped entities. The Expenditure Management Commission (2015) proposed a Treasury Single Account (TSA) system to cut borrowing costs and increase fund flow efficiency. The TSA combines unified financial arrangements, exclusive treasury oversight, and complete coverage for all government institutions. In India, the TSA system has been gradually adopted, beginning with autonomous entities and states receiving monies under Central Sector and Centrally Sponsored Schemes. The Treasury Single Account (TSA) system for autonomous bodies (ABs) entails opening an assigned bank account with the Reserve Bank to receive grants-in-aid from the Centre. This route provides funding to about 200 ABs. For Central Sector (CS) projects, a Central Nodal Agency (CNA) is designated for each scheme, with sub-agencies operating as sub-agencies. Each CNA and its sub-agencies open accounts directly with the Reserve Bank, with a spending restriction. Unused assignments revert to the Centre at the finish of the fiscal year.The Centre has implemented the Single Nodal Agency (SNA) Model for Centrally Sponsored Schemes (CSS) funding. Each state appoints a SNA to implement a CSS, opening a single nodal account with a commercial bank at the state level. The Ministry transfers the Centre's part of each CSS to each state's account with the RBI, which then transfers funds to the SNA's account. Interest is paid to the respective governments on a pro-rata basis. Over 3000 SNAs have been onboarded, and the system now includes over 8 lakh implementing agencies. The SNA Dashboard provides detailed insights into each account's release, expenditure, account balance, and interest earned, making the system more transparent and encouraging data-driven decision-making.

Present Situation and Outlook for 2023-24

States' consolidated GFD remained higher during the value of H1:2023-24 due to lower revenue revenues and sustained capital expenditure growth. Tax revenue and non-tax revenue both fell, while Centre grants shrank. The SGST increased by 19.7% as a result of greater GST compliance and resilient economic activity. The Centre's tax devolution remained healthy. Revenue expenditure growth in states fell to 8.9% in H1:2023-24, following a similar pattern in revenue expenditure minus interest payments. The Union Government's Scheme for Special Assistance to States for Capital Investment increased capital outlay by 52.6% during H1:2023-24, with 96,206 crore authorized by end-October 2023, of which 58,494 crore have already been disbursed. Because of sustained domestic economic activity and consolidation initiatives, the budgetary picture for states remains favourable. Although tax revenue growth was lower than predicted, it is likely to recover in the second half of 2023-24. Revenue expenditures increased by 8.9%, allowing for increased capital expenditure and budgetary consolidation.

State and union territory financing of the overall fiscal deficit and market borrowings

GFD Financing

The excess of total expenditure, including loans net of recovery, over revenue revenues (including foreign grants) and non-debt capital receipts is known as the gross fiscal deficit (GFD). The gross fiscal deficit less the central government's net loan is the net fiscal deficit. The Gross Fiscal Deficit (GFD) calculates the overall financial health of the state government by subtracting total spending from total receipts. A decrease in Gross Fiscal Deficit (GFD) is typically seen favourably since it indicates that the state government is improving at balancing its spending and revenue. Measures of government deficit include the fiscal, primary, and effective revenue deficits, which are the excess of revenue outlays over revenue received.

Until 2016-17, net market borrowings covered more than half of state fiscal shortfalls. After National Small Savings Fund (NSSF) exclusion, dependency rose, reaching more than 90% in 2019-20. Dependency has decreased, whereas Centre loans have increased. Net market borrowing now accounts for 76% of state GFD financing.

Market Borrowings

The net amount of borrowing used by the government to finance its fiscal deficit and the repayment of previous debt issuances are included in its annual gross market borrowing. Gross market borrowings by states/union territories climbed 8.1% to 7.58 lakh crore in 2022-23, the highest sum in the recent five years. States and UTs reduced gross market borrowings in 2022-23 and 2023-24, with consolidated actual borrowings 24% lower than indicative calendars and 26.4% higher, owing in part to the base impact and 7.6% contraction in previous years.Net market borrowings by states increased by 5.4% to 5.19 lakh crore in 2022-23, especially in Andhra Pradesh, Gujarat, Himachal Pradesh, Madhya Pradesh, Haryana, and Assam. In 2022-23, there were 605 issues, with 45 re-issuances (7.4%), compared to 608 in 2021-22, with 60 re-issuances (9.9%). Details of the market borrowings of state governments, 2019-20 to 2023-24 as on October 19, 2023 are given in table -4.

In 2022-23, 10-year maturity securities accounted for 27.9% of issuances, up from 35.1% the previous year. The remaining 72.1% was divided among maturities. The residual maturity bucket held 55.1% of all outstanding State government securities. The details of Outstanding State Government Securities Maturity Profile are given in table - 5.

State government securities (SGSs) yields rose in 2022-23 as a result of the Reserve Bank's policy Repo rate hike and the hardening of US bond yields. The weighted average cut-off yield increased to 7.71%, while the weighted average spread fell to 31 basis points.

Financial Support to States

A loan of up to Rs. 1.3 lakh crore, interest-free, with a 50-year term, is extended to state governments for the 2023–24 fiscal year, with the first portion being the largest. A total of Rs 56,415 crore in investments have been sanctioned by the Finance Ministry for 16 states as part of the 'Special Assistance to States for Capital Investment 2023-24' initiative. The Advisory Committee on Ways and Means Advances has established a WMA ceiling of 47,010 crore for state governments/union territories, allowing for 14 consecutive days of overdraft and 36 days in a quarter.

Cash Management in State Governments

Cash management helps the government implement its budget during times of crisis by modifying plans to account for higher emergency spending, lower revenue, and spending associated with the crisis. Notwithstanding difficulties, it guarantees sufficient money to fulfill payment commitments. Concentrate on consolidation, forecasting, balance management, and institutional frameworks to address cash management issues. Nations ought to make efficient use of all sources of liquidity at their disposal. The details of Investment of State Government/Union Territories Surplus Cash Balances as of 31st March , 2023 are given in table - 6.

Measures ought to be practical and pertinent, taking local circumstances and capacity into account. Developed nations have access to a greater variety of instruments and a stronger liquidity position. For medium-term gains, early-stage nations can enhance financial management and start structural reforms. States have been developing cash surpluses in Intermediate Treasury Bills (ITBs) and Auction Treasury Bills (ATBs), indicating that fiscal pressures are low but that cash management methods need to be addressed. Surplus cash balances fell in 2022-23, as would consolidated investment in Intermediate Treasury Bills and Auction Treasury Bills.

States' Reserve Funds

Reserve funds are extremely liquid assets that are set aside to meet unforeseen expenses or debts; they cannot be used for planned renovations or other uses that need less liquid assets. States deposit a Consolidated Sinking Fund and a Guarantee Redemption Fund with the Reserve Bank for the repayment of future liabilities, as well as a discounted SDF against incremental monies invested. A reserve fund serves as a financial instrument to finance capital expenditures in the future, like equipment improvements and property upkeep, hence averting the need for borrowing or additional funding. Consolidated SinkingFund(CSF) have been established in 24 states and Puducherry, and 19 are Guarantee Redemption Fund (GRF) members. Outstanding Consolidated Sinking Fundand Guarantee Redemption Fund investments increased from 1.5 lakh crore to 10,839 crore in 2023. The details of Investment in Consolidated Sinking Fund (CSF)/Guarantee Redemption Fund (GRF) by States are stated in table -7.

Major Financial liabilities

The details of State Government and Union Territories' Major Financial liabilities are mentioned in table -8.

Financial liabilities, which can be divided into current and non-current categories, are commitments that a business or individual must fulfill. Non-current obligations, like long-term debts, have a 12-month maturity date; current obligations must be paid within that time frame. Financial assets give organizations liquidity; these include cash, accounts receivable, and property; on the other hand, liabilities can adversely affect a business's overall value. Both obligations and assets provide cash flow and create chances for firms to operate. States' debt-to-GDP ratios ranged from 31% in 2021 to 27.5% in 2023, with the possibility of surpassing 25% by 2024. Because of substantial revenue receipts, the debt service ratio Interest Payment to Revenue Receipts(IP-RR) has recently decreased after rising sharply in 2020–21.

The combination of the outstanding debts

Businesses that use debt financing must have outstanding debt, principal and interest included, as this indicates the amount that must be paid before a liability is closed. A notification of outstanding debt may show when a liability is closed, which is important information for a business to know. Since outstanding debt does not represent past-due debt, it is not a factor in collection. The percentage of outstanding market loans throughout the post- COVID era has been rising; by March 2024, it is predicted to reach 66%. While special securities and loans have decreased, this is because of a rise in Centre loans, State-to-State loans, and Special Assistance programs. The details of Components of Union Territories and State Governments' Exceptional Liabilities are given in table-9.

States' Potential Liabilities

Potential Liability is the term used to describe unknown, un liquidated, or contingent debts or liabilities of the business resulting from contracts with third parties, the Projected Cash Disbursement Schedule, or court cases. With ₹6,62,891 crore and ₹5,36,891 crore, respectively, Uttar Pradesh and Maharashtra hold the most liabilities in India, while Punjab has the highest debt to GDP ratio at 53:3. State government guarantees gradually increased to 3.8% of GDP at the end of March 2021, after falling to 2% by March 2017. The details of State Government Issued Guarantees are stated in table - 10.

They continued to be high until the end of March 2022, which had a negative impact on the sustainability of debt. Available data for eighteen states and the District of Columbia shows that during 2022–2023, outstanding guarantees fell by almost sixteen percent.

Conditional transfers to states are recommended by the central bank

The Reserve Bank of India (RBI) has recommended that in order to promote competition and fiscal consolidation, the Finance Commission raise the proportion of conditional transfers to state governments, contingent on reforms, expenditure quality, and fiscal sustainability. The RBI's State Finances study shows that states maintained fiscal consolidation in 2023, resulting in a combined fiscal deficit of 2.8% of GDP. Despite the fact that several states have large debt-to-GDP ratios and fiscal deficits, the RBI forecasts a positive fiscal depict for states in 2023–2024, with sufficient budgetary flexibility for increased capital expenditure. For the second year in a row, the RBI notes that the aggregate fiscal deficit of the states is less than the budget forecast, mostly as a result of a smaller revenue shortfall. In order to maintain fiscal consolidation, the 16th Finance Commission (FC) might revisit revenue deficit grants and take the option of reintroducing fiscal efficiency guidelines.

The Reserve Bank of India (RBI) has issued a warning, stating that some states' return to the Old Pension Scheme (OPS) could put a strain on their budgets and reduce their ability to make capital investments that would spur economic growth. According to the research, this might lead to a cumulative financial burden that is as much as 4.5 times greater than the National Pension System (NPS).Some states have debt levels that are double or more than the prudential threshold of 20%, and their fiscal deficits surpass 4% of their Gross State Domestic Product (GSDP). Punjab is the most indebted state, with a debt-to-GDP ratio of 47% in the fiscal year 2023 and 47.6% in the fiscal year 2024. At 16.85%, Gujarat, Maharashtra, and Odisha have the highest debt-to-GSDP ratios.

State gross fiscal deficits fall below budget estimates for a second consecutive year

According to the Reserve Bank of India's assessment on state finances, states have improved financially, with a combined gross fiscal deficit of 2.8% of GDP in 2022–2023. This may be attributed mainly to lower revenue deficits and substantial capital outlays that were made possible by the introduction of the Goods and Services Tax (GST).Although states' outstanding liabilities are expected to drop to 27.6% of GDP in 2023–2024, many may still have more than 30%. Even though consolidated GFDs have increased year over year, revenue receipts and capital expenditures are still high. Growth in both tax and non-tax revenue decreased, while grants shrank as a consequence of the GST compensation cessation. The increase of the state goods and services tax (SGST) was strong. The revenue expenditure decreased to 8.9%, which made more capital available. The fiscal depict for the states is good, and better tax collection is anticipated in the second half. For 2023–24, they have budgeted for a GFD to GDP ratio of 3.1%.

The 3% fiscal responsibility legislation limit was exceeded by 19 states and Union Territories in terms of their GFD to GSDP ratio. In the budgeted GFD for 2023–24, the state's reliance on net market borrowings decreased to 76%. 87.58 trillion was borrowed on the gross market, however some states borrowed less. While committed expenditure, which includes interest payments, administrative services, and pensions, is predicted to remain at 4.5% of GDP, capital investment is predicted to rise by 42.6%.The Indian government is modernizing banking and cash management procedures, increasing loan allocation for capital investment, and raising the caliber of state expenditures. Adopting a single nodal agency structure will improve the distribution of public funding. The issuing of securities by state governments, with a greater percentage having a five-year residual term, is indicative of efforts to consolidate debt. States' debt-to-GDP ratio dropped from 31% in 2021 to 27.5% in 2023, mostly as a result of fiscal consolidation, which also saw a decline in the percentage of special securities and a moderating debt-service ratio.

Conclusion

The Indian economy has evolved from a mixed planned to a mixed middle-income rising social market with a significant public sector. Despite the impact of COVID-19, India is the world's sixth-largest economy and third-largest in terms of purchasing power parity. The service sector accounts for more than half of GDP. Receipts, which are essential for accounting and tax purposes, represent cash inflows over time. States' revenue receipts grew in 2021-2022 as a result of loosened lockdown measures. Revenue expenditures are short-term, recurring expenses used to fund continuous business operational costs such as salaries, employee compensation, overhead costs, utilities, rent, property taxes, research, and business travel.

In 2023-24, the Indian government intends to boost state capital outlay by 42.6% to 2.9% of GDP, with a 30% increase in credit allocation from the Center's Special Assistance Scheme. Development and research expenses have also risen, with a consolidated R&D expenditure of ten states and territories rising from 0.07% in 2020-21 to 0.10% in 2022-23. As the Treasury Single Account system has been steadily implemented, the consolidated GFD and SGST have increased. The Reserve Bank of India suggests raising conditional transfers to state governments for budget consolidation, while the 16th Finance Commission may reconsider revenue deficit grants and fiscal efficiency recommendations. The study takes a conceptual, diagnostic, and descriptive research method, relying on empirical evidence and secondary research and collaborating with scholars and professionals to obtain data from a variety of sources. The debt-to-GDP ratio of states fell from 31% to 27.5% in March 2023, with certain states still having high percentages. Interest loads were eased by Centre-assisted 50-year interest-free capital expenditure loans. Overall, the fiscal forecast for 2023-2024 is beneficial purposes.

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