Growth in State Budget 2018-19

Why in news?

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According to RBI report the combined size of State budgets is bigger than that of Union budget.

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What is the status of State budgets?

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- In 2011-12 size of Union Budget was bigger than that of state Budgets, since then the combined size of the state Budgets has been growing rapidly.
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- Last year it was 36 per cent more than the Union Budget and in 2014-15, the state Budgets size was 16 per cent more than that of the Union Budget.
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- As of now the combined size of the Budgets presented by 29 states of India is now at least 37 per cent more than the Union Budget.
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- Compared to the Union Budget size of Rs 24.42 trillion for 2018-19, the states' budget size for the current year is estimated at about Rs 33.59 trillion.
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What are the insights from the recent estimates?

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- For the record, the combined fiscal deficit of states and the Centre rose to a level of 6.7 per cent of gross domestic product (GDP) in 2014-15 and widened further to 7 per cent each in the following two years.
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- This happened as the state budgets' deficit rose in this period even as the Union government's deficit declined.
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- Overall gross fiscal deficit of states declined to 3.1 per cent of GDP in 2017-18, even though it stayed above the prudent level of 3 percent for the third successive year.
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- 29 states have projected a combined fiscal deficit of 2.6 per cent of GDP, non-Special Category states on the other hand, were relatively safe at 2.9 per cent.
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- Due to the roll out of the goods and services tax (GST) and its long-term benefits for state revenues, the states' own tax revenue in 2017-18 was to have risen to 6.6 per cent of GDP.
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What are the concerns with such projections?

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- There is a disconcerting gap between the projections on deficits and the actual performance.
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- In particular, the period between 2014-15 and 2017-18 has seen an underestimation of fiscal deficits, leading to slippages.
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- The budgeted revenue deficit has overshot the estimates even in earlier periods and the slippages from 2016-17 also reveal a deterioration in the quality of expenditure, with the ratio of revenue spend to capital expenditure rising for all states.
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- There is an acute shortage of analysis of how the states are raising their resources and spending them.
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- This is largely due to a lack of a standardised format of Budget presentation by the states and unavailability of comparable numbers from all of them.
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- Not every state has provided all its GST data making it difficult to capture the full impact of the new tax regime on state revenues.
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- The true picture on the GST's impact on state finances will be available in 2018-19 and the verdict on the credibility of the reduced fiscal deficit numbers will have to wait till then.
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Source: Business Standard

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