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January 16, 2023

State Finances: A Study of Budgets of 2022-23

Today, the Reserve Bank of India (RBI) released the Report titled "[State Finances: A Study of Budgets of 2022-23](#)", an annual publication that provides information, analysis and an assessment of the finances of State governments for 2022-23 against the backdrop of actual and revised/provisional accounts for 2020-21 and 2021-22, respectively. The theme of this year's Report is "Capital Formation in India - The Role of States".

Highlights:

- i) The fiscal health of the States has improved from a sharp pandemic-induced deterioration in 2020-21 on the back of a broad-based economic recovery and resulting high revenue collections - States' gross fiscal deficit (GFD) is budgeted to decline from 4.1 per cent of gross domestic product (GDP) in 2020-21 to 3.4 per cent in 2022-23.
- ii) While States' debt is budgeted to ease to 29.5 per cent of GDP in 2022-23 as against 31.1 per cent in 2020-21, it is still higher than 20 per cent recommended by FRBM Review Committee, 2018 (Chairman: Shri N. K. Singh), warranting prioritisation of debt consolidation.
- iii) In 2022-23, States have budgeted higher capital outlay than in 2019-20, 2020-21 and 2021-22. Going forward, increased allocations for sectors like health, education, infrastructure and green energy transition can help expand productive capacities if States mainstream capital planning rather than treating them as residuals and first stops for cutbacks in order to meet budgetary targets.
- iv) It is worthwhile to consider creating a capex buffer fund during good times when revenue flows are strong so as to smoothen and maintain expenditure quality and flows through the economic cycle.
- v) To crowd in private investment, the State governments may continue to focus on creating a congenial ecosystem for the private sector to thrive. States also need to encourage and facilitate higher inter-state trade and businesses to realise the full benefit of spillover effects of State capex across the country.

This publication has been prepared in the Division of State Finances of the Department of Economic and Policy Research. The current issue, along with past issues of the Report, is 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](#).

Press Release: 2022-2023/1559

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