Managing state govt debt to be tough in FY14, says RBI

The Reserve Bank of India (RBI) today said managing state government borrowings would be challenging this financial year, owing to the rise in market-based fund-raising, inflation risks and banks' excess investments in statutory liquidity ratio (SLR) securities.

An expected pick-up in demand from the private sector later this year would also weigh on the task. Notwithstanding the lower budgeted gross fiscal deficit, managing debt issuances would be a challenge, RBI Governor D Subbarao said in an address to state finance secretaries here. In 2012-13, gross market borrowing by states and Union Territories rose to Rs 1,77,300 crore from Rs 1,58,600 crore in 2011-12. The cost of borrowings (weighted average yield) firmed up on account of an increase in states' gross market borrowings.

Subbarao said the quality of fiscal consolidation was important, adding states should focus on expenditure compression. They had to explore ways for better cash management and adequate dissemination of information on state finances, he added. On the controversy regarding chit funds and Ponzi schemes, Subbarao said increasing ground-level surveillance of multilevel marketing schemes and financial inclusion were necessary.

This could be done through better coordination between state governments and stakeholders. He added global arguments on debt sustainability and fiscal austerity had to be examined in the Indian context. To understand the dynamics of debt sustainability in India, RBI would conduct a study on the issue.

States had a vital role to play in managing inflation by eliminating supply constraints, Subbarao said. For this, states should increase productivity in agriculture, improve infrastructure and streamline the public distribution system.

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