

# CAG to prepare annual fiscal sustainability reports for states

**Move amid reports of rising off-budget borrowings by states**

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WITH THE FINANCES of many state governments under stress, the Comptroller and Auditor General (CAG) of India has decided to prepare state-specific fiscal sustainability report cards from the current fiscal, where the off-budget liabilities and hidden subsidies will be captured with precision, sources told FE.

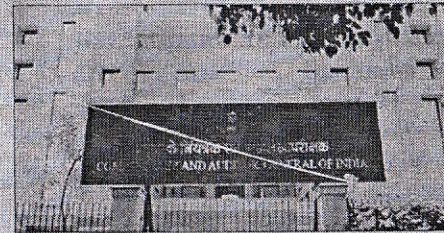
Normally, CAG finalises states' annual financial accounts and appropriation accounts and examines whether they have followed the approved accounting standards and public expenditure management parameters. "From this year, CAG will be analysing state finances in a more focused manner to check the veracity of their accounts," a senior official said.

The top public finance auditor's move comes in the wake of high indebtedness of some states and a rising tendency among some of them to resort to off-budget borrowings to fund government schemes and infrastructure.

According to an RBI report in July, the most indebted states were Punjab, Rajasthan and Bihar. According to the revised estimate for FY22, debt-GSDP of Punjab was the highest at 53.3%, followed by Rajasthan at 39.5%, Bihar (38.6%), Kerala (37%) and West Bengal

## FOCUS ON HIDDEN SUBSIDIES

CAG will now be analysing state finances in a more focused manner to check the veracity of their accounts



It will track revenue expenditure patterns and analyse states' own tax and non-tax revenue performance

The auditor will also try to analyse whether buoyancy in tax collections is improving or deteriorating

(34.4%). According to various scenarios built in the report, if contingent liabilities are fully invoked, Rajasthan will see an additional 8.6% debt-GSDP, followed by Punjab (5.3%), Kerala (3.9%), Bihar (3.4%) and West Bengal (0.9%).

"There are many hidden subsidies (kept by states) which need to be identified," the official said. The CAG will track revenue expenditure patterns, analyse their own tax and non-tax revenue performance and examine if buoyancy in tax collections improving or deteriorating.

Hidden subsidies are sometimes spread across schemes. For example, some states give discounts on electricity bills to households or farmers through their power distribution firms, but these are not captured in state budgets and escape scrutiny. From FY22, the CAG is not certifying states' accounts if those

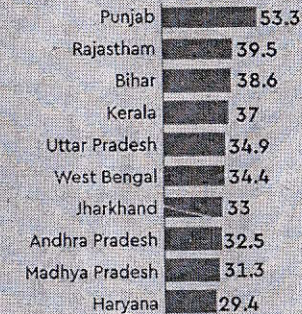
are not maintained properly. Instead, it is giving attestation to such states' accounts with certain observations and qualifications.

The Fifteenth Finance Commission has recommended that, in the interest of transparency, states need to make full disclosure of off-budget borrowings. For example, the off-budget borrowings of Karnataka from various banks as on March 31, 2021 stood at ₹86,260 crore for which principal and or interest would be serviced out of the state budget. This was, however, not disclosed in the state budget.

In June, the Centre decided to lift a virtual freeze on borrowings by some states with large off-budget liabilities. It has, however, decided to strike off at least 25 basis points (bps) from the NBC of 3.5% of GSDP of these states in FY23, in case off-balance-sheet borrowings in FY22

## STATES WITH HIGH DEBT-GSDP RATIO

(%, FY22RE)



(Debt-GSDP up to 20% seen prudential)

exceeded 25 bps of projected GSDP in the current fiscal. The balance debt, so estimated, will be brought above the line over three years to FY26 in equal tranches.

One way of gauging stress in state budgets is to look at the use of various facilities from the RBI such as the Special Drawing Facility, Ways and Means Advances and overdraft facilities. States which use these facilities more often do have stress in managing their cash balances and are spending more than they are earning in the normal course. According to a study by the Bank of Baroda economist Sohal Badhan Andhra Pradesh, Telangana, Rajasthan and Punjab have been seeking recourse quite often in fairly good quantities from the RBI in April-August of 2022, possibly giving an early warning indicator of their finances.