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Chapter 3: Federalism, fiscal space, and public investment spending: do fiscal rules impose hard-budget constraints?

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The core emphasis of rules-based fiscal legislation at the subnational level in India is to achieve debt sustainability through a numerical ceiling on borrowing and the use of borrowed resources for public capital investment by phasing out revenue deficits. Using the Arellano Bond Panel estimation, this chapter examines whether the application of fiscal rules has resulted in an increase in the fiscal space for public capital investment spending in major Indian states. This analysis shows that by controlling other factors, there is a negative relationship between fiscal rules and public capital investment spending at the state level during the rules-based fiscal regime.

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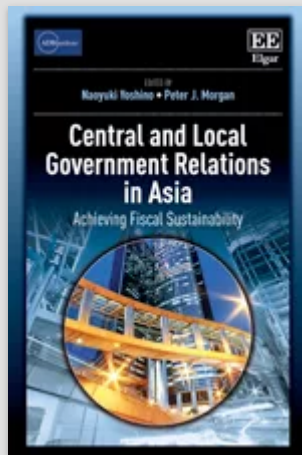
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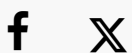
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