



## Fiscal strain in the states

### What is the issue?

\n\n

- \n
- The combined fiscal position of states has deteriorated sharply over the last couple of years.
- \n
- The gross fiscal deficit-GDP ratio breached the 3% threshold in 2015-16.
- \n
- This marks a reversal of the trend till two years back, when states were more fiscally prudent than the central government.
- \n
- According to the 14th Finance Commission, all the states are required to keep fiscal deficit under 3% of the Gross State Domestic Product (GSDP) from 2015-16 to 2019-20.
- \n

\n\n

### What are the causes?

\n\n

- \n
- The series of **farm loan waivers** has significantly strained the states' financial conditions.
- \n
- Rise in the interest liabilities of states that have participated in financial restructuring of electricity distribution utilities (through the **UDAY scheme**).
- \n
- States' revenues from stamp duties have also seen a slowdown in the backdrop of the continuing impact of **demonetisation** on property sales.
- \n
- Many states are projected to see a sharp dip in state excise revenues from alcohol due to the closure of bars along highways and efforts at **prohibition**.
- \n

\n\n

## How does the future look?

\n\n

\n

- The RBI has strongly highlighted these risks and two additional stress points

—

\n

\n\n

\n

1. the guarantee commitments of state governments with respect of state public sector enterprises.
2. the potential increase in states' committed liabilities in case they decide to implement the recommendations of their own Pay Commissions in FY'18.
3. The deteriorating nature of states' fiscal would be counterproductive to the Centre's consolidation exercise in the longer run.

\n

\n\n

\n\n

**Source: The Indian Express**

\n



**IAS PARLIAMENT**  
*Information is Empowering*  
A Shankar IAS Academy Initiative