Fiscal strain in the states

What is the issue?

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- The combined fiscal position of states has deteriorated sharply over the last couple of years.
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- The gross fiscal deficit-GDP ratio breached the 3% threshold in 2015-16.
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- This marks a reversal of the trend till two years back, when states were more fiscally prudent than the central government.
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- 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.
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What are the causes?

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- The series of **farm loan waivers** has significantly strained the states' financial conditions.
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- Rise in the interest liabilities of states that have participated in financial restructuring of electricity distribution utilities (through the **UDAY scheme**).
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- States' revenues from stamp duties have also seen a slowdown in the backdrop of the continuing impact of **demonetisation** on property sales.
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- 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**.
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How does the future look?

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

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

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