

## 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.
- This marks a reversal of the trend till two years back, when states were more fiscally prudent than the central government.
- 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.

## 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).
- States' revenues from stamp duties have also seen a slowdown in the backdrop of the continuing impact of **demonetisation** on property sales.
- 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 —  $$\tt \n$$ 

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- 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.  $\n$
- 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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