2. States' Fiscal Stress -Economy

According to the Comptroller and Auditor General of India (CAG), India's states began FY24 with robust revenue inflows but closed the year facing increasing fiscal strain

Overall Revenue Position of States (FY24)

Aggregate revenue receipts of states stood at ₹37.93 lakh crore in FY24, indicating a sustained post-pandemic recovery in subnational public finances. The growth in revenue receipts reflects

1. Improved tax buoyancy due to nominal GDP growth.
2. Stabilisation of the GST regime.
3. Higher tax devolution following Finance Commission recommendations.

Composition of States' Revenue Receipts

States' Own Tax Revenue (≈50%)

1. Largest and most autonomous source of revenue.
2. Indicates improving fiscal self-reliance for economically stronger states.
3. Includes SGST, excise (state), VAT on petroleum/alcohol, stamp duty, and motor vehicle tax.

Share in Union Taxes (≈30%)

1. Constitutionally mandated tax devolution.
2. Major channel for vertical fiscal balance.
3. Increasing share reflects Higher divisible pool. Greater reliance on formula-based transfers rather than discretionary grants.

Grants-in-Aid (≈12%)

1. Includes revenue deficit grants, sector-specific grants, and centrally sponsored scheme support.
2. Declining relative share suggests Gradual shift away from discretionary fiscal support. Greater emphasis on performance-linked and formula-driven transfers.

Non-Tax Revenue (≈8%)

1. Includes fees, fines, interest receipts, dividends from state PSUs.
2. Remains structurally weak due to Under-pricing of public services. Inefficient state asset monetisation. Poor dividend performance of state-owned enterprises.

Long-Term Trend (Past Decade)

Rising Share of Own Tax Revenue

1. Reflects improved tax administration and GST compliance.
2. Strengthens fiscal autonomy and accountability.

Increase in Tax Devolution

1. Enhances predictability of transfers.
2. Reduces ad-hocism associated with discretionary grants.

Decline in Grant Dependence

1. Positive sign for fiscal federalism.
2. However, poses challenges for fiscally weaker states with limited tax bases.

Inter-State Fiscal Disparities

High Own-Tax Dependency States (>60%)

1. Haryana, Maharashtra, Karnataka, Telangana, Tamil Nadu, Gujarat.
2. Characteristics Diversified economies. Strong industrial and services base. Higher per capita incomes.

3. Implication Greater fiscal flexibility. Better capacity to fund capital expenditure and social sector investments.

Transfer-Dependent States

1. Northeastern states, hill states, and Bihar.
2. Structural constraints
3. Narrow tax base.
4. Difficult terrain and low economic density.
5. Higher per-unit cost of service delivery.
6. Implication-
7. Persistent vertical and horizontal imbalances.
8. Continued need for equalisation transfers.

Rigidity in State Budgets

Committed Expenditure Dominance

1. Salaries, pensions, and interest payments absorb a large share of revenue expenditure.
2. Leaves limited fiscal space for

a. Capital expenditure.
b. Social sector innovation.
c. Counter-cyclical fiscal policy.

Inter-State Variation

1. Pension-heavy states face long-term fiscal stress.
2. High interest burdens indicate legacy debt issues.

Structural Concern

1. High revenue expenditure crowds out productive investment.
2. Weakens medium-term growth prospects.

Role of GST in State Finances

State GST (SGST) as the Single Largest Own-Tax Source

1. Accounts for about 43% of states' own tax revenue.
2. Indicates deep integration of GST into state fiscal architecture.

Implications

1. Enhances tax buoyancy and compliance through input tax credit mechanisms.
2. Reduces cascading but increases dependence on a single tax handle.
3. Exposes states to GST rate rationalisation risks. Centre–state coordination challenges.

Debt Position of States

Outstanding Public Debt

1. ₹67.87 lakh crore as of March 2024.
2. Equivalent to **23.42% of combined GSDP**.

Wide Inter-State Variation

1. ve 50% of GSDP in highly stressed states.
2. Below 20% of GSDP in fiscally prudent states.

Umbilications

1. Uneven fiscal resilience.
2. Differential borrowing capacity.
3. Risk of debt sustainability issues in high-debt states.

Deficit Indicators

Revenue Balance

1. Revenue surplus in 16 states indicates Ability to meet current expenditure from current revenues.
2. Revenue deficit in 12 states reflects structural fiscal weakness.

Sharp Rise in Deficits

1. Observed in Chhattisgarh, Karnataka, Maharashtra, Rajasthan, Telangana, Uttar Pradesh.
2. Causes include
    a. Expansionary welfare schemes.
    b. Pay revisions.
    c. Higher interest costs.

Liquidity Stress and WMA Usage

Ways and Means Advances (WMA) - Short-term liquidity support from the Reserve Bank of India.

FY24 Trends - 16 states availed WMA, indicating cash flow mismatches. Rajasthan, Andhra Pradesh, and Telangana accounted for ~62% of total WMA and overdrafts.

Contrasting Picture - 12 states did not avail WMA, reflecting Strong cash management. Better fiscal planning.

Implication - Highlights uneven treasury management capacities across states.

Overall Fiscal Assessment of States

Positive Developments

1. Improved own-tax mobilisation.
2. Greater reliance on formula-based tax devolution.
3. Stabilisation of GST revenues.

Persistent Vulnerabilities

1. High revenue expenditure rigidity.
2. Rising committed liabilities.
3. Growing debt burdens.
4. Frequent breaches of fiscal responsibility norms.
5. **Macro Implication -** Limits states' ability to

1. Scale up capital expenditure.
2. Act as growth engines.
3. Absorb economic shocks.

CAG's Recommendation on Budget Classification Reform

Advisory by the Comptroller and Auditor General of India

1. Harmonisation and rationalisation of object heads across Union and states.
2. Proposed adoption from FY28.

Significance

1. Object heads define the nature and purpose of expenditure.
2. Uniform classification will
    a. Improve expenditure comparability.
    b. Enhance data quality and transparency.
    c. Support evidence-based fiscal policymaking.

Components of Government Budget – Expanded Explanation

A. Expenditure

Revenue Expenditure

1. Does not create assets or reduce liabilities.

2. Examples- salaries, subsidies, pensions, interest payments.
3. Critical for welfare but fiscally rigid.

Capital Expenditure

1. Creates durable assets or reduces liabilities.
2. Examples- infrastructure, irrigation projects, loan repayments.
3. Strong multiplier effect on economic growth.

B. Receipts

Revenue Receipts

1. No liability creation.
2. Includes tax and non-tax revenue.
3. Indicator of fiscal sustainability.

Capital Receipts

Non-Debt Capital Receipts

1. Recovery of loans.
2. Disinvestment proceeds.

Debt-Creating Capital Receipts

1. Market borrowings.
2. Loans from institutions.
3. Increase future repayment obligations.

C. Deficit Indicators

Fiscal Deficit

1. Excess of total expenditure over revenue receipts and non-debt capital receipts.
2. Indicates net borrowing requirement.

Interpretation

1. Positive fiscal deficit implies
   a. Reliance on debt for expenditure.
   b. Future interest and repayment burden.
2. Central indicator of fiscal discipline.

Conclusion

State finances in India reflect improving revenue capacity but weakening expenditure quality. Without structural reforms in expenditure composition, debt management, and fiscal transparency, states' role as drivers of inclusive and sustainable growth will remain constrained

Source- http-//livemint.com/news/india/cag-states-debt-spending-revenue-fiscal-stress-11767197189054.html