DAILY EDITORIAL ANALYSIS

TOPIC

DATA EXCHANGES CAN BOOST DIGITAL PUBLIC INFRASTRUCTURE

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STATES MUST FIX THEIR OWN ECONOMIES AND ADDRESS STRUCTURAL ISSUES

In Context

- A recent report by Crisil projects revenue growth of 7–9% in FY26 for India's 18 largest states (covering 90% of GSDP), slightly up from 6.6% in FY25. This signals a degree of stability, with revenues expected to touch ₹40 trillion, aided by robust GST collections and excise on liquor.
- However, beneath the surface **lies a concerning reality** like rising debt burdens, increased dependence on the Union, and narrowing state autonomy.

Revenue Composition of States

- **State revenues comprise:**
  - Own tax revenue (OTR): GST, state excise, stamps & registration.
  - Own non-tax revenue (ONTR): User charges, interest receipts, dividends.
  - Transfers from the Centre: Share in Union taxes + grants-in-aid.
- **Key Trends (as per PRS Legislative Research and Crisil):**
  - In 2024–25, 42% of states' revenues were estimated to come from the Centre.
  - Central transfers accounted for 23–30% of state revenues (2015–25), up from 20–24% (2000s).
  - 65–70% of states' non-tax revenue was from Union grants, indicating dependency.
  - OTR and ONTR together formed only 58% of total revenue receipts.

This reflects a **decline in fiscal autonomy, making state budgets vulnerable to Central policy and political shifts.**

Debt and Fiscal Deficit Trends

- The **aggregate debt-to-GSDP ratio of states** stood at 28.5% in 2023-24, breaching the FRBM target of 20%, with 12 states exceeding 35% debt-GSDP, raising concerns about sustainability.
- Despite higher debt burdens, states have improved fiscal discipline by keeping gross fiscal deficits around 2.7% of GDP (2004–24 average) and largely adhering to the FRBM-mandated 3% of GSDP deficit ceiling.
- This indicates tight expenditure control but **risks underinvestment in critical areas like health, education, and infrastructure.**

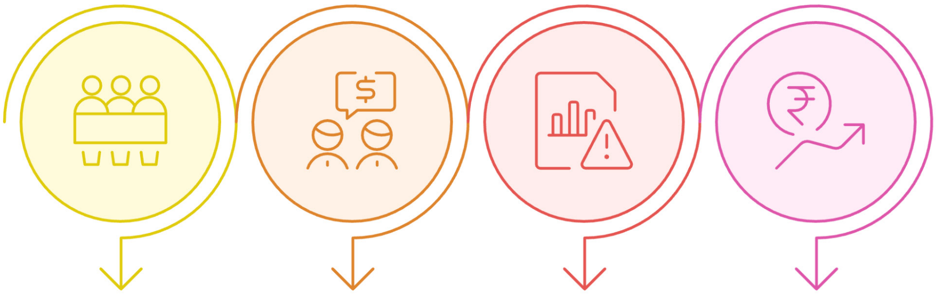
Structural and Institutional Challenges

- Revenue growth **below decade average (7-9% vs 10%)** due to **stagnation in petroleum taxes and GST compliance issues,** plus inefficiency in property tax and user charges.
- GST reduced **states' indirect tax autonomy; compensation cess ended in 2022**, leaving some states struggling to meet revenues.
- **Reliance on cesses and surcharges by Centre** has grown from 10% (2011-12) to over 25% (2024), not shared with states, increasing vertical fiscal imbalance and uncertainty in transfers.
- **Delays and arbitrary reductions in Finance Commission grants** hurt equitable distribution and fiscal planning, especially in poorer states.

Reform Measures and Policy Suggestions

- **States:** Enhance GST compliance through digital invoicing and fraud detection; modernize property tax and user charge collections; use AI and analytics for tax intelligence; adopt dynamic debt management focusing on capital-link loans.
- **Centre:** Commit to timely, predictable transfers per Finance Commission recommendations; rationalize cesses and surcharges possibly by capping or sharing; foster cooperative federalism by supporting tailored state-specific fiscal policies rather than imposing uniform mandates.

Fiscal Responsibility Recommendations



FRBM Review Committee

Recommended debt-GDP targets of 20% for states and 40% for the Centre.

Finance Commissions

Emphasized tax devolution, predictable grants, and fiscal discipline incentives.

CAG Reports

Warned about off-budget borrowing and non-shared cesses disrupting fiscal balance.

RBI Working Group

Advocated fiscal frameworks, deficit tracking, and prudent borrowing practices.

Conclusion

- The fiscal outlook for states is cautiously optimistic with stabilized revenue growth and improved discipline. However, rising debts, high Central dependence, GST-related revenue limitations, and increasing cesses/ surcharges challenge fiscal autonomy and sustainability.
- Addressing structural revenue concerns and refining Centre–State transfer mechanisms are crucial for the long-term robustness of India's federal fiscal architecture.

Source: BS

Mains Practice Question

Q. India's states are witnessing rising debt burdens despite maintaining fiscal discipline. Analyze the reasons behind this trend and evaluate the implications for long-term economic growth and development..

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