Indian Economy · GS - III

State governments face increasing pressure to balance welfare expenditure, development needs and fiscal sustainability. Examine the major challenges in state-level fiscal management and suggest measures to strengthen fiscal discipline.

EXAM YEAR	PAPER	SUBJECT
DAILY PRACTICE 22/10/2026	GS - III	Indian Economy

MARKS	WORD LIMIT
10	~150 words

Answer Hint

Fiscal federalism; state revenues; welfare expenditure; debt servicing; fiscal deficit; revenue deficit; Finance Commission; capital expenditure; public financial management; outcome-based budgeting

Model Answer

Introduction

State governments play a crucial role in delivering public services and implementing development programmes. However, rising expenditure commitments and limited fiscal flexibility can complicate sustainable budget management.

Major Challenges

- **Rigid expenditure:** Salaries, pensions, interest payments and committed welfare spending leave limited room for discretionary expenditure.
- **Revenue constraints:** Uneven economic activity and limited buoyancy in some tax sources can constrain revenue growth.

- **Debt burden:** High interest payments reduce resources available for infrastructure and social development.
- **Fiscal pressures:** Subsidies and poorly targeted expenditure may weaken fiscal flexibility if not matched by sustainable revenues.
- **Federal dependence:** Variations in tax devolution and grants can complicate medium-term expenditure planning.

Measures for Improvement

States should widen their tax base, improve compliance, rationalise poorly targeted subsidies and strengthen expenditure audits. Medium-term fiscal frameworks, transparent contingent-liability reporting and outcome-based budgeting can improve accountability. Borrowing should prioritise productive investments that support long-term growth.

Conclusion

Fiscal discipline should not mean indiscriminate expenditure cuts. States need efficient revenue mobilisation and better spending outcomes to protect essential welfare while maintaining sustainable public finances.

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