

A macro view of the fiscal health of States

In India, the States mobilise altogether more than a third of total revenue, spend 60% of combined government expenditure, and have a share in government borrowing that is around 40%. Given the size of the fiscal operation of States, an up-to-date understanding of their finances is critical in order to draw evidence-based inferences on the fiscal situation of the country – in short, an analysis of the emerging fiscal situation of States by examining key data on State finances from individual State budgets for 2023-24.

Fiscal imbalance and consolidation

As we complete the first quarter of the fiscal year 2023-24, it is becoming evident that the increase in general government deficit and debt that occurred during the COVID-19 pandemic has begun to recede. There have been significant post-pandemic fiscal corrections at the Union and State levels. At the Union level, the fiscal deficit declined from 9.1% of GDP in 2020-21 to 5.9% in 2023-24 (BE). All State fiscal deficit was 4.1% of GDP in 2020-21. It declined to 3.24% of GDP in 2022-23 (RE). For the major States, for the year 2023-24 (BE), it is expected to be 2.9% of GDP.

This sharp reduction in fiscal deficit suggests that we cannot have an impressionistic view of the fiscal situation of the country, especially on the finances of States. Due to the absence of aggregation of individual State Budget data, a consolidated view of general government finances is not readily available. Every year, this data become available only after the publication of the Reserve Bank of India's (RBI) Annual Study on State Finances. Aggregating fiscal data from individual State Budgets is rigorous and time consuming. Hence, the timeline of this publication by the RBI is during the second half of the fiscal year.

The analysis here is based on the data collated from the individual Budgets of 17 major States. These States are responsible for more than 90% of the combined spending of all States. Thus, fiscal issues emerging out of their Budgets are representative of the State finances in India. The analysis shows that these States together have managed to contain their fiscal deficits. This fiscal consolidation is significant in many ways. First, States in aggregate managed to be fiscally



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prudent despite a significant contraction in revenues even during the peak of COVID-19. Second, emergency provision for health spending and livelihood during the COVID-19 pandemic was not easy and required Union-State fiscal coordination. Third, States were able to reprioritise expenditure and quickly contain the fiscal deficit. Fourth, the reduction in fiscal deficit is a combination of expenditure-side adjustments, Improved Goods and Services Tax (GST) collection and higher tax devolution due to buoyant central revenues. Fifth, non-GST revenues are also showing signs of recovery after the pandemic in most States.

Fiscal challenges

However, there are significant fiscal challenges that need correction in the short to medium time frame – the most critical being containing the revenue deficit of States. The reduction in fiscal deficit has not been accompanied by a corresponding reduction in revenue deficit. As in 2023-24 (BE), out of 17 major States, 13 States have deficit in the revenue account. Out of 13 States, fiscal deficits in seven States are primarily driven by revenue deficits; the States being Andhra Pradesh, Haryana, Kerala, Punjab, Rajasthan, Tamil Nadu, and West Bengal. They also have large debt to GSDP ratios.

It is true that the mere presence of a revenue deficit cannot be considered as a sign of fiscal profligacy. It is also true that pressure on revenue expenditure was high during the COVID-19 pandemic. A more detailed and careful analysis of the rise in revenue deficit of States is also necessary. However, increasing revenue deficit driving the fiscal imbalance has long-run fiscal implications and there is a need to correct this imbalance in the revenue account.

For these seven States, their specific shares of revenue deficit in fiscal deficit for 2023-24 are: Andhra Pradesh (40.9%), Haryana (50.9%), Kerala (60.4%), Punjab (70.7%), Rajasthan (39.7%), Tamil Nadu (40.8%), and West Bengal (47%). The all-State share of revenue deficit in fiscal deficit for the same year is expected to be 27%.

An assessment of successive Finance Commissions since the Twelfth Finance Commission identified three States, i.e., Kerala, Punjab and West Bengal, as fiscally stressed States. The number of States that are now fiscally

stressed has increased to seven (measured in terms of the level of revenue deficit).

What does it mean for general government macroeconomic stability? A sense of this can be made when the following fiscal numbers are considered: the combined fiscal deficit of these States is 3.71% of GSDP when the all-State average for the same is 2.9%; their combined revenue deficit is 2.15 % of GSDP, when the all-State revenue deficit is 0.78%; their combined debt ratio is higher than the Finance Commission recommended debt ratio for all States for the year 2023-24. These States together contribute around 40% to India's GDP. In this context, to ensure higher State-specific growth, the fiscal stability of State finances is critical. Some of these States have also been big drivers of public capital expenditures and favoured investment destinations of private investors.

Framework of revenue deficit consolidation

On the question of revenue deficit, a long-run view is also necessary. If we examine data from the last 20 years, revenue deficit had almost disappeared from State Budgets before COVID-19. States, in aggregate, were generating revenue surpluses almost all the years during this period. However, the re-emergence of revenue deficit in recent years should take the focus back on the management of revenue deficit by creating an incentive compatible framework. The following measures can be considered.

Going forward, interest-free loans to the States by the Union Government, if continued, may be linked to a reduction in revenue deficit. This will help eliminate the possibility of a substitution of States' own capital spending and also prevent the diversion of borrowed resources to finance revenue expenditure. A defined time path for revenue deficit reduction with a credible fiscal adjustment plan would help restore fiscal balance and improve quality of expenditure.

A forward-looking performance incentive grants could also be considered for a reduction of revenue deficit. In this context, different approaches provided by earlier Finance Commissions can be considered to decide the framework of the incentive structure.

In conclusion, we need to get the focus back on the management of revenue deficit. For this, a macro view is essential.

A comprehensive revenue deficit reduction framework is essential to improve the fiscal health of States

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Antibiotics with promise — a lifeline India awaits

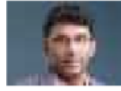
In the relentless battle against highly drug-resistant infections, a team of doctors recently witnessed a glimmer of hope amid the challenges they faced. Their extraordinary efforts and the life they saved highlight the critical need for action. This is not just a story; it is an earnest plea for Emergency Use Authorisation (EUA) for essential antibiotics that can make a profound difference between life and death.

In an intensive care room of a leading hospital in Hyderabad, an 18-year-old patient bravely fought not only his aggressive T-cell leukemia but also a formidable and resistant adversary — Extensively Drug Resistant *Pseudomonas aeruginosa*. This strain, known for its high resistance to multiple antibiotics, left the medical team with limited and often ineffective treatment options. Despite the administration of last-resort antibiotics, the patient's condition deteriorated rapidly. Persisting fever spikes, and the infection's assault on his lungs signalled a grave situation. The bacteria were literally eating up the patient's face. Time was running out, and his life hung in the balance.

An Indian innovation

In their quest for a lifeline, the doctors turned to a promising antibiotic, cefepime/zidebactam. Developed by Indian researchers, this antibiotic combines two active components to combat drug-resistant gram-negative pathogens, including *Pseudomonas aeruginosa*. While still undergoing phase 3 trials internationally, this Indian innovation has shown remarkable potential. Under a compassionate use protocol, the necessary approvals were obtained, and the patient received cefepime/zidebactam. Miraculously, signs of clinical improvement began to surface. The patient's fever subsided, blood cultures turned negative, and the need for oxygen diminished. Slowly but steadily, his strength returned, reigniting hope.

This extraordinary case underscores the urgent importance of granting EUA for antibiotics currently in phase 3 trials or licensed from other countries. The survival of this young patient



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Emergency Use Authorisation for essential antibiotics, as two examples show, can make a profound difference between life and death

serves as a poignant reminder of the need for timely access to effective antibiotics for those most in need.

A dire situation

Infection specialists, intensivists, oncologists, and doctors treating severe infections in critically ill and immunocompromised patients are confronted with a grave reality. The scarcity of potent antibiotics to combat drug-resistant infections poses a direct threat to countless lives. It is distressing to witness patients succumb to infections just because the available antibiotics have lost their effectiveness due to rising resistance. The dire situation faced by doctors as they grapple with drug-resistant infections is a devastating reality that cannot be ignored. Each year, millions of lives are lost due to the inadequacy of available antibiotics in the face of these formidable pathogens. The relentless march of drug resistance has rendered once-effective treatments ineffective.

The challenges faced by doctors in combating drug-resistant infections are multifaceted. They must navigate through a shrinking arsenal of effective antibiotics, leaving them with limited choices and often resorting to suboptimal treatments that may have significant side-effects or offer little hope of a cure. The constant race against time, trying to stay one step ahead of the mutating bacteria, adds to the immense pressure and helplessness experienced by doctors on the front lines.

India, a nation that has demonstrated remarkable progress in granting EUA for COVID-19 vaccines, now stands at a critical juncture. We must extend the same level of urgency and commitment to saving the lives of patients who may otherwise succumb to infections resistant to all currently available antibiotics.

While it is true that several antibiotics are licensed within our country based on small clinical studies and of questionable benefit, we must recognise that what we truly need are powerful weapons to fight against drug-resistant

infections. Antibiotics that have been thoroughly evaluated or proven to be effective are essential in the battle against superbugs.

Cefepime/zidebactam is a shining example of India's scientific prowess. Currently undergoing international phase 3 trials, this antibiotic has demonstrated its potential to save lives. By recognising the importance of cefepime/zidebactam and expediting its EUA, we not only save lives within our borders but also extend a helping hand around the globe to countless individuals in desperate need of effective treatment options.

Made by Japan

Cefiderocol, a licensed antibiotic in several countries, developed by a Japanese company, has demonstrated excellent efficacy against drug-resistant infections. It is disheartening that it remains unavailable within our country. The gravity of the cases faced by patients in India demands access to this life-saving antibiotic, and we firmly believe it should be made accessible without delay. However, we must emphasise the importance of responsible and appropriate utilisation of these medications. A collective decision by a team of experienced doctors, including infectious diseases experts should be made mandatory before initiating their use. This will ensure that these powerful antibiotics are administered to patients who will benefit the most while minimising the risk of misuse or overuse.

We implore the authorities to recognise the urgent need for action and acknowledge the immense potential of these life-saving antibiotics. By granting EUA for cefepime/zidebactam, an Indian innovation, and cefiderocol, a globally recognised antibiotic, we can strengthen our arsenal against drug-resistant infections. Their inclusion in the EUA list would not only empower doctors but also instill a renewed sense of hope and confidence among patients and their families. As a nation known for its scientific achievements, we have the opportunity to make a substantial impact on the world stage.

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