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# The Role Of State Governments In Fiscal Deficit Management In India: Challenges And Opportunities

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## I. Introduction

**Background and Context**

Deficit budget is another factor that has been one of the major concerns of governments all over the world because of its threat to upset the economic equilibrium and Stability; especially in the third world countries like India. Fiscal deficit is the situation where total expenditure is more than total receipts excluding borrowings which paints the picture of any government. In India it is significant and unique that; both central and state levels are financially independent. Although much importance has in the past been laid on the management of fiscal affairs of the central government, state governments also play an important role in the management of the fiscal systems of the country. Ranked in order of size, the largest expenses are health services, education, constructions etc.; Public expenditure entails the state, local and social services principally. Therefore, based on the discussion above, it may be argued that the management of fiscal deficits especially at the state level portends some significant implications to the general stability and development of the country economy.

India has a federal structure of the political system which gives plenty of power in a fiscal regime but it has its own troubles. The economic background of each state, its capability of generating revenues and spending that is needed for putting into effect different activities are not the same and therefore the status of economic performance disperse all through the country. The existence of such diversity underlines the importance of accounting for peculiarities and possible developments of States in the handling of the fiscal deficits. There has been much debate recently on the financial stability of state governments because an overwhelming number of state governments are in unenviable situation in terms of growth development and fiscal deficits.

**Significance of Fiscal Deficit Management at the State Level**

It can therefore be observed that concern for the management of fiscal deficits at state level is not insignificance for the following reasons. First of all, states are the key performers of most of the public policies and programmes in the delivery of services. A large amount of spending especially in sensitive areas like health and education and construction is within the state governments. Problems relating to fiscal governance particularly at state level mean that such services are under-provided and overall social and economic progress is negatively impacted in the long-run.

Second, it also proves the argument that incremental fiscal state performance of the state governments is a factor that substantially affects the overall fiscal health of the country. Among such problems are the fears that large fiscal deficits at state levels may lead to high public debt, higher borrowing costs as well as inflation which is likely to compromise the stability of the nation's economy. Besides, scenarios of fiscal recklessness may lead to loss of investors' confidence making the state to lack the necessary private capital required in financing development projects.

Last but not the least; the management of central state fiscal deficit is central to sustain inter – government fiscal relationship in India. The central government fiscal policies are sometimes affected by the state government in cases where they work hand in hand for instance during the implementation of the Goods and services Tax GST, provision of grants and loans among others. Stability and cooperation at the state level is crucial for the state as well as federal fiscal system and is beneficial to the wellbeing of the country economy.

**Research Objectives**

Consequently, this research seeks to establish the manner in which the state governments in Indian balance fiscal deficits. The purpose of the study is to identify main concerns that emerge in the process of state level fiscal deficit functioning and to consider the issue of the fiscal discipline at this level. Specifically, the research seeks to: More precisely they include:

Apart from that, assess how effective have been the measures adopted in controlling / containing the fiscal deficit particularly, the FRBM (Fiscal Responsibility and Budget Management) Acts for states.

Consider some of the features of the respective states for example, economic diversification, self-source revenue or revenue collection and successful expenditure restraint for appropriate fiscal policy.
Evaluate the likely opportunities on intergovernmental fiscal transfers and fiscal status of the states.

Gather recommendations that might enhance the government fiscal responsibility/ sustainability policy of the state.

**Research Questions**

To achieve these objectives, the research will address the following key questions: In order to make concrete these objectives, the following research questions will be pursued throughout the work:

The following are some of the major questions that this study tries to answer: The following are some of the major questions that this study tries to answer:

That is why it is the intent of this question to attempt to look at those issues in more detail and ask what the problems are that states encounter in their efforts at fiscal discipline.

Various questions that arise in this regard include the following: How do fiscal policies and frameworks which are implemented at the state level influence the attainment of the objectives of managing fiscal deficits?

Regarding the answer to this question, this should seek to explain whether fiscal rules in combination with fiscal frameworks fortify the fiscal discipline of the states.

That is the question which has been answered with respect to fiscal deficits to a certain extent but has been managed in certain states of India.

Answer to this question is likely to entail review of specific policies that various states have employed in order to adopt better mechanisms of running a deficit.

What role has the issue of in governmental fiscal transfers played in the management of the states' fiscal and how might it be helpful to be made more efficient?

This question has also asked the impacts of sub-central government revenues and at the same time it has mentioned the possible reforms of the fiscal transfers of states.

The findings of the present research will be helpful to impart valuable information about the economic issues especially focusing on the fiscal deficit management at the state level in any Indian state to enhance and develop the policies to be adopted by the state governments in using fiscally sustainable practices and finally create addition to the theoretical base in fiscal responsibility across federal structure of the country.

## II. Literature Review

**Review of Fiscal Balances in India**

Indian fiscal policy particularly in relation to fiscal deficit has been from the beginning of the nation's liberation. Fiscal deficit is the measure of expenditure less revenue of the government excluding borrowings and it is the indicator of soundness of the balance of public revenues and expenditures and overall economy. Fiscal deficit has always played an important role with regard to fiscal discipline in India, and its impact extends to monetary policies, inflation rate and interest rates in the country and more stability. Of these, the management of fiscal deficits gained more importance particularly after the economic liberalization in 1991 when India shifted from the controlled economy to the more market economy.

The beginning of change in the fiscal deficit management came in in the later years when India adopted the FRBM act in 2003. The FRBM Act was established to achieve the goals of fiscal responsibility and budget discipline, measures the fiscal deficit and the debt level, and guarantee macroeconomic equilibrium characteristic of the long run. The fiscal policy contained measurable goals for the decrease of the fiscal deficit, the revenue deficit, and the public debt, as well as the creation of a plan for the fiscal responsibility. The FRBM act has also been modified over time to meet the new upcoming scenario; with the addition of escape clauses which make room for deviation to fiscal goals and are specifically due to unfavorable circumstances including the global financial crisis of 2008 and the recent COVID-19 pandemic.

Although, the central government has been serious to control its fiscal deficit, the state governments are equally important when it comes to India's fiscal situation. The fiscal performance of state governments is very relevant to the macroeconomic balance of the country; and therefore the management of fiscal deficit at the state level is of particular interest.

**Role of State Governments in Fiscal Policy**

Since financial decentralisation is extensive in India, the state governments hold a great opportunity of exercise decision-making power over the fiscal policy that relates to revenue, expenditure and credit. The fiscal federalism in India restricts state's rights to prepare and execute their budgets as per certain constitutional provisions. It empowers the states to set their fiscal policies in regard to economic characteristics, development goals and political environments prevailing in a particular state. However, it also lays a great challenge to states, especially regarding issues to do with prudent fiscal management, and more so the management of deficits.

STATE GOVERNMENTS are traditionally involved in financially supporting significant parts of the overall public expenditure for such final consumers' need satisfaction, especially in the healthcare, education, infrastructure, and social protection industries. Fiscal policy, as applied at the state level therefore, determines the ability to deliver public services and determines the economic development of the given state. Another significant responsibility of states is the collection of revenue mainly from the Taxes as mentioned earlier GST and other taxes: state specific taxes include excise duties, and taxes on properties and transport vehicles among others.

Fiscal relations between center and states: is one of the significant features of fiscal federalism in Indian context. After providing an explanation on how budgetary Federal transfers affect state finances, it gets to fiscal transfers whereby central taxes and grants affect state fiscal balances. In addition, the central government directly influences state finances through the adoption of central sponsored schemes and state's compliance to centrally prescribed fiscal policies including the FRBM Act. The effectiveness of Fiscal policies in India as thus by a way of policy coordination with both the central and State governments.

**Current Problems State Governments Allocated to Controlling Fiscal Deficits**

There are numerous constraints that plague state governments in managing their fiscal deficits and many of these are structural, governance related and stem from the rein of managing fiscal federalism in India.

This is due to a number of factors of which one of the most pressing issues is the fact that most states lack sufficient revenue mobilization capacity. Although taxation is the exclusive preserve of states, collection of these revenues is similarly limited by these states' economic realities, capacity, and levels of tax compliance. Thus, a positive effect has been the simplification of the tax structure through the implementation of the GST; however, there are issues about the sufficiency of state revenues especially those that earlier relied on the indirect taxes. These problems have been compounded by the delay in compensation by the central government to states for the GST revenue shortfall adding to the state's financial woes.

Another fairly large problem is expenditure management. Since states are central to our scheme, their costs are significant especially in provision of health, education and social services. Although a very significant proportion of state, especially in less developed nations is captured by obligatory expenditure like wages, pensions, and debt-servicing costs, there is relatively little room for development expenditures. The expectation on government to deliver public services particularly in politically sensitive areas trigger populist expenditures which in turns put additional pressure on state finances and expand the fiscal deficits.

Same applies to debt management which is also a challenge that is faced in the country. Most of the states have for instance incurred high public debt levels over the years mainly due to recurrent fiscal deficits. Market borrowings and loans from the central government to finance deficits have put high levels of debt burden to the states and thus socio-economic issues to debt sustainability. Larger proportions of general state revenues dedicated to repayments of debts demeans the ability of states to finance growth enhancing activities substantially.

Also, the cohesive fiscal structure results in a vast difference in a state's fiscal performance given the diverse levels of economic development across states. As we found Maharashtra and Gujarat being relatively more developed state with diversified source of income than Bihar and Uttar Pradesh are better placed in managing their fiscal deficits. Such differences require distinct fiscal policies with regard to the situation peculiarities in every state.

**The Problems of Fiscal Responsibility in States: the Areas of Improvement**

There is huge scope for enhancement of sound fiscal management system at the state level in India and despite these constraints the above proposal is beneficial. These are; one, improving the revenues mobilization. Some of the areas like property taxes and excise duties have shown potential to grow and states can enhance their tax authority to implement better mechanisms in the administration of taxes and compliance thus enhancing their tax revenues. It is possible for states to achieve the right balance by working on the enhancement of the tax administration system with the use of technology and data analytics so as to reduce the over-dependence on the central transfer.

Another aspect where the states can optimize their performance is to develop an effective expenditure management. Overall, by directing effort at achieving higher levels of developmental spending and improving the general PFM environment, resources will be better utilised. One of the measures that can be suggested to the states in order to streamline its expenditures and related planning is the use of medium-term expenditure frameworks (MTEFs) that are connected to development strategies. On the same note, refinancing of subsidies and proper targeting of welfare programs can help to ease the fiscal burden and make states' finances more sustainable.

There is much significance of debt management reforms in improving the fiscal accountability in a state. Governments has called on the states to come up with sound borrowing policies, practices, and strategies that enhance the efficacy of borrowing, some of which include; the establishment of measurable and achievable borrowing goals; enhancement of; the debt reporting systems; and the fixation of borrowing for development activities rather than for expenditure. Instituting the structures of consolidation and coordination of central and state level debt similar to the institutions of central level debt can assist the states in addressing the issue of debt accumulation and the consequent threat of the fiscal endangerment.

Moreover, enhancing the observance of the FRBM Act for the state level is another chance of enhancing the fiscal responsibility. The majority of states have passed its own FRBM Act; however, the compliance and supervision of these fiscal rules have not been quite impressive. The accountability in fiscal matters can be improved, for example, by continuing with enhancements of the existing institutional structures for fiscal governance, as well as the Introduction of independent fiscal councils at the state level in order to check that states stick to the established fiscal goals.

**This study aims at comparing the efficiency of fiscals across the states.**

There is considerable interstate heterogeneity in the tape of fiscal performance because of unequal economic endowment, administrative capability and policy responses in India. There are some leading states like Maharashtra, Gujarat, and Tamil Nadu which are too much focused on sound fiscal policies and have been maintaining low fiscal deficit and high public investment nearly year by year. These states enjoy diversified economy, sound revenue head and good public financial management reforms.

On the other hand, the states such as Bihar, Uttar Pradesh, and West Bengal have been suffering from the problems of persistent fiscal deficits and large stock of public debt. Such states have disadvantaged in that they are either considered to have low economic development, low revenue collection abilities, or high committed expenditure ratios. They have also limited their fiscal flexibility through reliance on central transfers as well as putting into practice populist spending measures.

The study of fiscal responsibility among the states has established several successful policies that can be adopted from other states. For instance, Gujarat have focused on effective tax revenue, mainly in the area of Efficient tax administration and compliance; it's been able to provide disciplined fiscal management and at the same time improved the flow of infrastructure growth and social welfare. Like in the case of the Indian state of Gujarat, medium-term fiscal planning and proper debt management have been key reasons why Maharashtra's fiscal performance has been outstanding.

As the analysis also stressed, fiscal policies should be made relevant for a particular context. This makes it necessary to agree that states with different economic statuses, revenue mobilization capacities and expenditure requirements should be managed differently. For instance, the development strategies of the agricultural states with obviously large proportions of the agricultural workforce should underline agro-industrial complex and rural infrastructure development while industrialized states should address urban infrastructure and personnel development.

Overall, it can be concluded that the tasks of fiscal deficit management at the state level in India are rather acute, but there are great opportunities here. Thus, by emulating New Economy States' fiscal practices such as fiscal reforms, increasing collection of revenues, improving the efficiency of spending and practicing better debt management, greater fiscal responsibility can be attained and consequently the macroeconomic stability and development of the country as a whole can be boosted.

## III. Methodology

**Research Design and Approach**

The general research method utilized in proposed study is assigned as the mixed research method that involves systematic quantitative and qualitative research investigations in order to systematically determine the fiscal deficit management at state level in India. This approach is chosen to capture the cross sectional nature of fiscal management since includes numerical measures of fiscal indicators as well as qualitative assessment of fiscal discipline within the political, economic and institutional settings.

The qualitative aspect of the study lies on the fiscal indicators and fiscal statistics of different states of India in relation to fiscal deficits, revenue & expenditure trends, debt management, and FRBM compliances. Since cross-sectional analysis will not be used, time series analysis will be used to capture trends within a period to capture the dynamic ness of state level fiscal policies when responding to changes in the economic environment and policy settings.

The qualitative part includes the analysis of selected states, which either controlled the fiscal deficits or met numerous problems. Sources of data for these case studies will involve structured interview with key players such as policymakers and financial gurus and reviewing various polices, budget speeches as well as pertinent literature. This is justified by the fact that the combination of the two methods yields more comprehensive results, as it explains quantitative results by presenting qualitative data about fiscals performance at the state level.

It is descriptive and analytical in nature because its main purpose is to identify reasons for management of fiscal deficit differently in different states and find out the factors of success and constraints in attaining fiscal discipline. The outcomes of this study will be beneficial for the further debate in fiscal federalism and fiscal accountability in general in India.

**Data Collection Methods**

Data collection in this study is divided into two main categories: for the quantitative study, secondary data collection only would be used while for the qualitative part, secondary data would be used alongside the primary data for case studies.

**Secondary Data Collection:** Primary data will not be collected since secondary data is easily available from the sources like RBI, Ministry of Finance, Government of India, state government budget documents and reports of IMF and World Bank. The data collected will be of a 10-15 year period, the fiscal indicators will include fiscal deficits, the revenue receipts and expenditures, the public debt, and the FRBM compliance. This longitudinal dataprep will make possible analysis of trends as well as effects of change of policy in the different time points.

**Primary Data Collection:** The qualitative part will comprise of primary data collection techniques in the form of semi-structured interviews as well as case studies. In-depth interviews will be undertake with state finance ministers, senior officials of the state finance departments, economists and financial analysts. These interviews will aim at identifying the difficulties and measures arising from fiscal deficits and their management to assess the effects of central government policies by states, strengths and weaknesses of political and institutional settings in fiscal discipline by states.

Interviews are combined with the analysis of the state government budget speeches, policy and other relevant literature as the case studies. This will help in gaining a further appreciation of the environment within which fiscal polices are developed and adopted across the various states.

**Sample Selection:**

The state governments under study include Victoria, Queensland, New South Wales and South Australia.

The sample for this study comprises of six Indian states that include Kerala, Tamil Nadu, Gujarat, Maharashtra, West Bengal, and Uttar Pradesh, Selected using fiscal performance, economic diversification and geographical location criteria. The states selected for the study are Maharashtra, Gujarat, Tamil Nadu and West Bengal, Uttar Pradesh, Bihar. These states are a sample of the India's economic fabric with differences in their economic status, revenue potentials and problems.

Maharashtra and Gujarat have been chosen because both these states have comparatively better fiscal health and have industrialized economy. These states are usually tagged as fiscally well managed and the lessons showing how fiscal discipline is achieved will be learnt from these states.

Tamil Nadu is added due to its reasonable economic distribution of the state instead of concentrating on a particular area and the good fiscally responsible policies. The state has had a history of showing a relative balance in its fiscal prudential even if the increased its social expenditures, thereby making it rather useful ground with which to compare the trade-offs involved with fiscal policy.

West Bengal, Uttar Pradesh, and Bihar are chosen as the selected States because of difference in their fiscal problems. These states have long facing high fiscal deficits and public debts, low economic development and low ability of tax revenue mobilization. The incorporation of these states will make it possible to consider the problems, faced by the states with lower levels of economic development, in attaining fiscal restraint.

This purposive sampling helps the study to capture every type of fiscal management experience across all types of states in India offer a rich understanding of the factors impacting on fiscal performance in the country.

**Data Analysis Techniques**

The analysis of data will be done in two ways: quantitative analysis and qualitative analysis appropriate for the study which is a mixture of both quantitative and qualitative.

**Quantitative Analysis:** The quantitative data will be analyzed by the use of statistic tool in order to perform time series analysis, regression analysis and comparative analysis. Regression analysis will be applied on the data to analyse the trend of fiscal deficits, revenues, expenditures and levels of debts of the selected period. By using regression analysis different fiscal indicators and their effect on the growth of economy, debt levels and FRBM targets will be determined. At the same time, the method of comparative analysis will allow comparing selected states' fiscal results and indicating similarities and differences.

**Qualitative Analysis:** Interview and case study data will be analysed by thematic analysis. This entails transcribing the policy-critical incidents as emerged from the interviews and the policy documents, before analysing the two sets of texts, manually coding and statically analysing them for emerging patterns and trends in terms of fiscal management challenges, strategies, and results. In this case, thematic analysis will provide a good platform to derive meaning on the contextual and institutional factors that may lead to fiscal discipline in different States. The results as analyzed from the qualitative data set shall be combined with the results from the quantitative study in order to gain comprehensive insight on the topic under study; that is the management of fiscal deficit at state level.

**Limitations of the Study**

However, this study is an attempt to present an understanding of management of fiscal deficit in the states in India, it is not without its share of limitations that include the following–

**Generalizability:** The work is restricted to six chosen states for comparative analysis although including all the states of India was not possible due to certain constraints yet the selected sample was quite diverse. The study might therefore not apply in other states with different economic base or fiscal problems.

**Time Constraints:** An evaluation of trends may not be very comprehensive because the study is done over a particular time period; recent changes in fiscal policy may not have been fully captured by the study. Another threat to the validity of the study is the emergence of dynamic changes in the economic environment that may include the COVID- 19 shock affecting the generalizability of the findings.

**Potential Bias in Qualitative Data:** The qualitative portion of the study employs interviews that involve the respondents and there could be a likelihood of a biased responses due to the respondent's bias of the organization or self-bias. Some of the biases may be minimized through rigorous screening of participants and cross checking on the information given, despite this fact, the study may be limited with bias results.

Therefore, the study has some limitations but employing a mixed-methods, this study makes efforts in a systematic data collection and analysis techniques to overcome limitations and to provide comprehensiveness to the state's fiscal deficit management in India comprehensively. The results will be beneficial to policymakers, researchers, and practitioners dealing with fiscal policy analysis, fiscal federalism in particular.

## IV. Findings And Analysis

**Assessment of Fiscal Deficit Trends Across States**

This paper examines the trends of fiscal deficit of the six selected states; Maharashtra, Gujarat, Tamil Nadu, West Bengal, Uttar Pradesh and Bihar to understand the variation in fiscal performance. It can be seen that the fiscals deficits compared to their respective GSDP are low in the case of the economically prosperous states like Maharashtra and Gujarat unlike UP and Bihar which have attempted to achieve significantly higher deficits. The numbers reveal that now for more than a decade Maharashtra and Gujarat has maintained their fiscal deficit target under the FRA regulation 3% of GSDP during the period, while other states such as West Bengal, Uttar Pradesh and others often breached this mark indicating structural problems and fiscal stress.

**Analysis of the Effects of Fiscal Responsibility and Budget Management (FRBM) Acts for the States**

The effects of the FRBM Act has been felt at state level in the following ways, Although the implementation of the FRBM Act has been done, it has had a mixed results. On the credit side, it has ensured the reinforcement of fiscal discipline whereby states have had to put in line better fiscal measure. For instance, the Tamil Nadu and Maharashtra states have referred to the FRBM framework for designing their fiscal policies and this see a positive improvement in the ratio of fiscal deficits and public debt levels. Nevertheless, given this perfectly reasonable basis for the observed spatial patterning of the overall deficit, the role that the FRBM Act has played in constraining the deficit has been weaker in states with comparatively poorer fiscal stands. West Bengal and Uttar Pradesh were among the States that have not been able to adhere to the FRBM targets often claiming that the process has been economically unfeasible due to social concerns. With provisions of escape clauses which enable states to exceed the deficit targets in certain circumstances as provided in the FRBM Act, the Frank shiner has been viewed to have provided some flexibility but at the same time has been widely condemned for being capable of compromising the Act all together.

**Challenges in Achieving Fiscal Deficit Targets**

Given below are some of the factors that prevent the various from attaining their fiscal deficit objectives. On this account, the ander-entity structure of the US is another problem because states' revenue generation capability is hampered by the economic structure of the state, administrative and accountability problems, as well as tax evasion. The states like Bihar and Uttar Pradesh having a larger base of agricultural income have problems in mobilizing adequate tax revenues this is because income from agriculture is relatively low and many of it may go unreported. Also, high level of require exponents like salaries, pensions, interest payment etc constrains the fiscal elasticity for development expenses. This is further compounded by the political interference in form of implementing populism measures which lead to unanticipated spending which contributes to more of deficits.

**Case Studies of States with Effective Fiscal Management**

Maharashtra and Gujarat being two vibrant examples have been to the point in their fiscal management. The two states have managed to embrace development while at the same time observing the aspects of fiscally sustainability. The state of Maharashtra which since the beginning has a diversified economy has been able to earn a good amount of revenues from various industries such as the industrial and service industries which have supported the fiscals. In managing the state's debt, performance of regular audit and proper borrowing has placed the fiscal deficit of the state at a reasonable limit. On the same note, Gujarat has achieved improvement in the province's revenue for collection and compliance through efficiency in tax administration and enhanced public spending control. This has been due to the ability of the state to maintain prudent fiscal policies that enabled the state undertake important infrastructure investments satisfactorily.

**Comparative Study of States' Fiscal Management Policies**

A comparison of the fiscal management strategies pursued by the selected states shows that the economic and revenue collection and generation capacity is an important condition for fiscal stability. The more developed states such as Maharashtra and Gujarat have higher capacity to mobilise resources and hence they have better control over their deficits. On the contrary, the states like West Bengal and Bihar with considerably more agrarian economy and larger degrees of dependence on central aids are otherwise reported to have bigger problems in terms of fiscal prudence. The study also captures policy reinforcement of structures of governance, and commitment to fiscal discipline. Tamil Nadu which has institutionalized better financial management practices and accountability framework has been did well in containing fiscal deficits. On the other hand, the fiscally induced discipline has a problem of asymmetry where states fail to maintain sound fiscal discipline where their fiscal management is done with a view of short term political benefits.

Thus, the study underlines the turmoil of structure of economy, the ability to mobilise revenues and resources, efficiency of expenditure controls and political influences that surround the effort to assess the efficacy or otherwise of fiscal deficit management at the state level in India. Even though the FRBM Act has helped establish a framework for fiscal discipline many of its effects are not uniform across states as each state government is subject to the conditions of its economic and institutional environment.

## V. Discussion

**Interpretation of Key Findings**

This paper also revealed that there is appreciable variation in fiscal deficit management and performance across the selected states and the efficiency of FRBM Acts. The Bridge The policy has been implemented successfully in states with diversified economy for example Maharashtra and Gujarat since they have been able to maintain fiscal discipline owing to sound revenues and proper expenditure controls. On the other hand, the states like Bihar and Uttar Pradesh which mainly depends on agriculture income as well as the Central transfers they have not been able to follow fiscal deficit. Like it has been noted earlier, while the FRBM Act's guidelines appear to have been beneficial to more developed economies states, it appears to have been difficult for other states to follow especially due to structural economics and political situations.

**Advancements and Setbacks Of State Governments In Managing Fiscal Deficit**

The problems of sustainability of fiscal deficits among the State governments are described in the following terms. One main constraint is the low revenue mobilisation capacity, high costs which are committed and the challenge of adopting populist measures. Some of these challenges are; These are considered an inconvenience especially in the states that have not diversified their economy in terms of production, for instance, reliance on agriculture and less industrialization limits the production of revenues. At the same time, there are a number of measures to positively affect the management of fiscal deficit. Optimization of its tax system, better expenditure management, and the implementation of medium-term expenditure framework are the approaches which could assist states to adopt more responsible fiscal policies. Further, using the technology and data analysis for increasing the efficiency of tax collection is another potential for states to enhance revenues beyond the tax rates.

**Policies and recommendations for the State governments:**

The study has implications that may be policy pertinent to state governments. First, there is the issue of enhancing the utilization of the FRBM Act at the state level where states are not only passing it through their houses but also observing its mere passage as just an act of law making without embodying the fiscal policy at their state level. This may entail and recommending for its enhancement by providing stronger enforcement tools and better independent monitoring. Second, states must aim at the decentralization of the economy to minimize their dependence on the centre for transfers and enhance the generate revenue states' capabilities. It could include supporting the development of industry, enhancing infrastructure and supportive of investment into sectors that are likely to grow most. Third, there must be a decentralised approach to expenditure control, having measures put in place that minimises unnecessary spending and instead directs spending towards projects and processes that are long term contributors to a country's economy. OECD also encourages states should embrace MTEFs to make their spending compatible with their fiscal vision in the long-run.

**Continuing Expectations for Annual Affordability for Fiscal Solvency at the State Level**

Overall, in the long term, to obtain the aims of fiscal responsibility in states of India, effort, time, and concentration should be devoted to develop solutions to resolve the challenges which are discovered in this study. The following states will result in better fiscal outcomes: those that diversify their economy, more efficient in revenue and expenditure collection. But as the states trying to cope with the structural economic problems and political factors may face some problems in increasing the level of fiscal discipline. The future of fiscal responsibility in the state level also depends on the efficiency of the intergovernmental fiscal transfers and also to what extent does the center is assisting the state in planning for the fiscal responsibility. If these challenges are addressed, therefore there will be enhancement on the fiscal position of the India states, implying a generally enhanced stability and growth of the economy.

## VI. Conclusion

**Summary of Findings**

Having discussed in detail the research findings of selected Indian states on fiscal deficit management, this study has highlighted how much worse it has gotten in the country in terms of states' ability to maintain fiscal discipline. The study demonstrated that, the states that enjoyed the diversified economy like Maharashtra and Gujarat performed more efficiently in containing the fiscal deficits principally because of anticipated revenues and controlled expenditures. Whereas, there are other states such as Bihar and Uttar Pradesh which have been experiencing more problems as they are unable to generate adequate revenues and grappling with accentuated committed expenditures. It can be seen that the FRBM Act has brought about mixed results; some states have benefited and used the act in formulating the fiscal policy while others states have found it difficult to meet the targets set by the act.

**Implications for Future Research**

The suggested research avenues of the present study are as follows: One of such areas includes an analysis of the economic diversification as a factor that enhances the fiscal status at the state level. Future studies could investigate in greater detail the various industries which are the most revenue-generating, and the best ways that states can encourage their growth. Further, research could explore the effects of political variables on deficits & debts especially as related with electoral politics and measures to keep the fiscal deficit within an acceptable range. Another area for future research is the inefficiency with which intergovernmental fiscal transfers work for assisting states with an economy that is least developed and can therefore be further refined for encouraging states to be more fiscally responsible.

**Last Word: State-Wise Fiscal Consolidation in India**

It is indispensable for India to understand how the fiscal deficits at state-level are managed as a component of the country's economy. While some of the states have displayed brilliancy in the management of their fiscal system, others are still faced with some challenges that has really affected their chances of emulating a good fiscal discipline. The implication of result of this study is that economic diversification, enhancement of other source of revenue and probation on expenditure is vital for fiscal stability. Thus, while the FRBM Act is a useful instrument to enhance the processes of fiscal restraint, it has to be further and more vigorously applied to all the states. Thus, as the fundamental issues that have been outlined above will be a matter of long term concern to achieve the proper control of fiscal deficits at the state level that would give the impetus to sustainable economic growth and stability in India. Since state governments will remain relevant in managing public finance, it will be necessary for them to be more efficient in the management of fiscal deficits in the overall interest of the country's economy.

As for the future prospects, the further efficiency of the fiscal deficits' management by state governments will become crucial as India faces numerous challenges on the global level together with the demographic changes and the sustainable development issues. The key adjustments that will help are enhancing fiscal institutions at the state level, enhancing the transparency and accountability, and the need to promote economic liberalisation measures that supports private enterprise and employment generation. In particular, there could and should have been more sync between the Centre and the states, especially in planning and execution of fiscal policies in such a way that all the states can have similar capacities of contributing and participating in the totality of India's economic advancement. Such collective effort will be important in the quest to put in place a sound, Harmonized as well as sustainable fiscal structure for the nation's development.

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