# CURRENT AFFAIRS: 02.05.2026

# Revenue-deficit States may face fiscal stress, says Centre

**A new analysis by the Ministry of Finance said that such States would either cut productive spending or turn to the Centre for more funds**

**Source: The Hindu**

## Why in News?

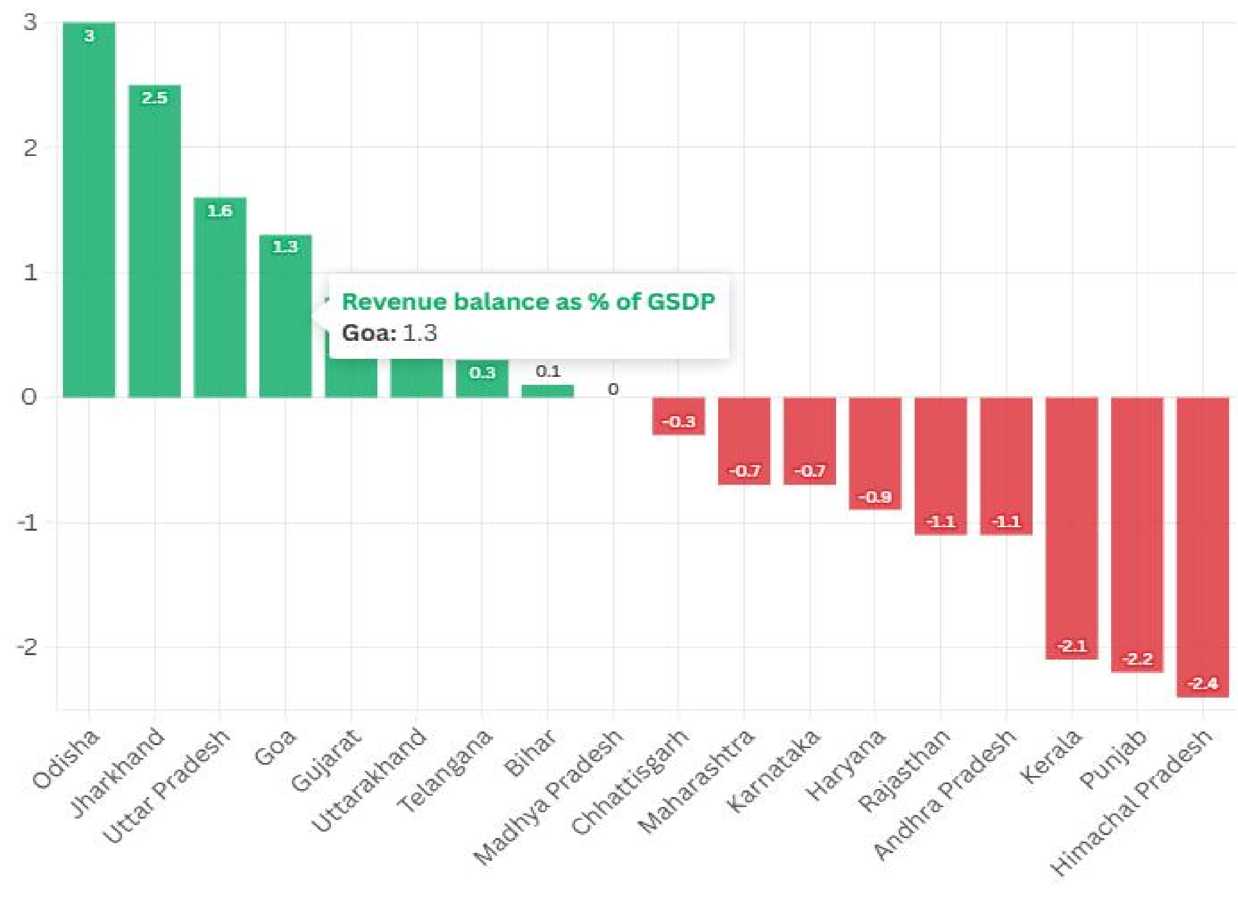
The Ministry of Finance's Monthly Economic Review (April 2026) has highlighted that States with revenue deficits and high debt burdens may face fiscal stress, limited flexibility in responding to shocks, and risk violating the 'golden rule' of fiscal financing.

**What are the Key Highlights of India's Fiscal Outlook?**

## Divergent performance

While some States are in healthy revenue surpluses, several others are in deficit

Revenue balance as % of GSDP in 2026-27



### Union

**Central Resilience:** The Union government maintains a cautious fiscal path supported by conservative tax buoyancy assumptions (0.8) and the newly created Economic Stabilisation Fund, which provides a buffer against external shocks without derailing fiscal deficit targets.

### States

**State-Level Revenue Deficits:** Out of 18 large states, 9 are in revenue deficit, including Himachal Pradesh (-2.4%), Punjab (-2.2%), Kerala (-2.1%), Andhra Pradesh (-1.1%), Rajasthan (-1.1%), Haryana (-0.9%), Karnataka (-0.7%), Maharashtra (-0.7%), and Chhattisgarh (-0.3%).

**Interest Payment Burdens:** High debt servicing limits "degrees of freedom" for stressed states; Punjab faces the highest stress, spending 22.8% of its revenue receipts on interest payments**.**

**Fiscal Deficit Breach vs. Deliberate Investment:** While 13 states budget a fiscal deficit at or above 3% of GSDP, some cases like Odisha (3.5% fiscal deficit but 3% revenue surplus) represent deliberate capital outlay (6.5% of GSDP) rather than fiscal stress.

**Revenue Surplus Leaders:** 8 states projected revenue surpluses, notably Odisha (3%), Jharkhand (2.5%), Uttar Pradesh (1.6%), Goa (1.3%), Gujarat (0.8%), Uttarakhand (0.6%), Telangana (0.3%), and Bihar (0.1%).

**16th Finance Commission (FC) Impact:** FY 2026-27 is the first year of the 16th Finance Commission period, introducing risks related to changes in devolution shares and the absence of Revenue Deficit Grants.

**Debt Risks:** With aggregate state liabilities reaching 35–45% of Gross State Domestic Product (GSDP), stressed states may demand higher central transfers, complicating the Centre's own fiscal consolidation path

## What Concerns are Associated with India's Fiscal Outlook?

#### Union Government’s Fiscal Concerns

**Breach of Fiscal Deficit Target:** Although the 2026-27 Budget projected a fiscal deficit of 4.3%, some research firms like BMI suggest it may breach this to hit 4.5% due to increased emergency spending.
**Pressure on GDP Growth:** The Union’s initial 7–7.4% real GDP growth forecast for FY 2026-27 is under pressure.
A potential slowdown directly compresses the tax base, making it harder to maintain revenue collection targets. E.g., IMF projects a growth of 6.5% only for 2026-27 and CPI inflation of 4.7% for India.

**Energy and Subsidy Bill:** With the Indian crude basket hovering around USD 113– USD 115 per barrel, the Centre faces massive import bills. Elevated global crude prices compel the Union to absorb costs via higher fertilizer and petroleum subsidies to shield consumers, directly draining the Economic Stabilisation Fund.

**Cost-Push Inflation and Demand Compression:** Disruptions in critical shipping lanes like the Strait of Hormuz have driven up freight and insurance costs. This has caused wholesale inflation to surge to 3.88%, forcing businesses to pass input costs to consumers, which creates demand compression (reduced consumer spending).

#### State Governments’ Fiscal Concerns

**Revenue Volatility:** With rising oil prices (Brent crude exceeding USD 120/barrel), states face immense pressure to cut VAT rates to provide relief to consumers.
High "cost-push" inflation is threatening to compress discretionary spending. If consumers pull back on non-essential goods, the growth in State GST (SGST) will likely decelerate.

**Breaching the "Golden Rule" of Fiscal Financing:** The most significant threat is to states failing the golden rule—maintaining a zero revenue deficit. Nine of the 18 major states analyzed (including Himachal Pradesh, Punjab, and Kerala) are running revenue deficits, meaning they are borrowing to fund recurring consumption (salaries, subsidies) instead of asset creation.

**Bailout Pressures on the Centre:** Stressed states with compressed fiscal space are increasingly likely to demand higher central transfers or relaxation of borrowing limits at precisely the moment the Centre is attempting its own fiscal consolidation.

## Golden Rule of Fiscal Financing

**About:** The 'golden rule' of fiscal financing is a principle of public finance which states that a government should borrow only to invest in capital projects, not to fund its day-to-day (current) spending.
Essentially, it mandates that over an economic cycle, the government should balance its current budget, ensuring that taxpayers of today pay for the services they consume today, while the costs of long-term assets are shared with the future generations who will benefit from them.

## Need for Golden Rule:

**Intergenerational Equity:** Borrowing for current consumption (like salaries) unfairly burdens future generations, whereas debt for long-term infrastructure like bridges is equitable, as those future citizens benefit from the assets they help repay.

**Economic Growth:** Infrastructure investment typically has a high fiscal multiplier, meaning it creates jobs and boosts GDP, making it easier for the government to repay the debt in the future.

**Fiscal Discipline:** It prevents governments from taking the "easy way out" by borrowing money to fund popular but temporary social schemes or subsidies, which can lead to unsustainable debt levels and inflation.

# Cauvery Water Management Authority

**Why in News?**

The **Cauvery Water Management Authority (CWMA)** has reaffirmed the **2018 Supreme Court verdict** by directing **Karnataka** to ensure the timely release of water to **Tamil Nadu** for the month of May 2026.

**What is Cauvery Water Management Authority?**

- **About:** The Central Government, in June 2018, established two key bodies under the **Cauvery Water Management Scheme 2018,** i.e., the **Cauvery Water Management Authority (CWMA)** and the **Cauvery Water Regulation Committee (CWRC)**.
  - Notified under **Section 6A** of the **Inter-State River Water Disputes Act, 1956**, the CWMA is a **statutory, quasi-judicial body**. It ensures the implementation of the modified **Cauvery Water Disputes Tribunal (CWDT) award** as directed by the 2018 Supreme Court ruling.
- **Composition & Structure:** The authority is headquartered in **New Delhi** and operates under the **Union Ministry of Jal Shakti**.
  - **Chairperson:** A senior eminent engineer or an IAS officer (Secretary/Additional Secretary rank) appointed by the Centre for a 5-year term.
  - **Members:**
    - **Two Full-Time Members** (Water Resources and Agriculture).
    - **Two Part-Time Members** from the Central Government.
    - **Four Part-Time Members** representing the basin states (Karnataka, Tamil Nadu, Kerala, and Puducherry).
  - **Secretary:** An engineer from the Central Water Engineering Services.
- **Key Functions:** The CWMA's primary goal is to "secure compliance and implementation" of the final water-sharing formula:
  - **Water Apportionment:** It regulates and controls the release of water from reservoirs in the Cauvery basin (like Krishnarajasagara and Kabini in Karnataka, and Mettur in Tamil Nadu).
  - **Distress Sharing:** In years of poor rainfall, the CWMA determines how the **"distress" (water shortage)** will be shared proportionately among the states.
  - **Monitoring:** It collects daily data on water levels, inflows, and storage positions with the help of its subordinate body, the **CWRC**.
  - **Efficiency:** It advises states on improving water-use efficiency through micro-irrigation and changing cropping patterns.
- **Significance:** The CWMA was created to replace the earlier **ad-hoc Cauvery River Authority** and provide a **permanent, independent mechanism** for water management. It aims to **reduce frequent litigation** and political conflicts between Karnataka and Tamil Nadu by providing a technical and administrative platform for monitoring and decision-making.

## Public Accounts Committee

K.C. Venugopal has been reappointed as the **chairman of the Public Accounts Committee (PAC) of Parliament for the 2026–27 term.**

- **About:** In India's parliamentary system, the **PAC** plays a crucial role in ensuring **executive accountability to the legislature** by scrutinizing government expenditure and financial management.
- **Genesis and Evolution:** The PAC was established in **1921** following the **Montague-Chelmsford Reforms** and later evolved into a full-fledged parliamentary committee after the Constitution came into force in 1950.
  - Since 1967, it has been a well-established convention in the Indian Parliament that the Chairman of the **PAC is appointed from the Opposition party, strengthening accountability.**
- **Composition:** The PAC consists of **22 members**, including **15 from Lok Sabha and 7 from Rajya Sabha**, elected annually through **proportional representation by single transferable vote**.
  - Ministers are not eligible to be members, ensuring independence, and the tenure of members is limited to **one year**.
  - The Chairman of the Committee is appointed by the **Speaker of Lok Sabha.**
- **Core Functions:** The Committee examines the **Appropriation Accounts, Finance Accounts**, and reports of the **Comptroller and Auditor General (CAG)**.
  - It ensures that public funds are used **legally, efficiently, and for the purposes approved by Parliament**, thereby maintaining financial discipline.
- **Scope of Examination:** The PAC goes beyond checking legality and evaluates the **efficiency, economy, and propriety** of government expenditure.
  - It identifies cases of **financial irregularities, wasteful expenditure, and losses**, and recommends corrective and disciplinary measures to prevent recurrence.
- **Role in Excess Expenditure:** When government spending exceeds the amount sanctioned by Parliament, the PAC examines the reasons and submits its recommendations.
  - Such excesses are later regularized under **Article 115 of the Constitution**, ensuring parliamentary control over finances.

- **Significance:** The PAC acts as a **financial watchdog of Parliament**, promoting **transparency, accountability, and prudent use of public money**. It helps Parliament manage the complexity of financial oversight in a modern administrative state.
- **Link with CAG:** The functioning of the PAC is closely linked to the **CAG**, whose audit reports form the basis of its work.
  - The CAG conducts various audits of accountancy, regularity, propriety, and performance and is regarded as the **"friend, philosopher, and guide"** of the Committee.
  - PAC requires the government to submit Action Taken Notes/Reports on its recommendations (generally within about six months), and systems like the **Audit Para Monitoring System (APMS)** have been introduced to monitor Action Taken Notes/Reports (ATNs/ATRs) and reduce pendency.

1. Which of the following statements is/are correct regarding India's fiscal outlook?

1. The Union government has created an Economic Stabilisation Fund to manage external shocks.
2. All Indian states are running revenue deficits.
3. High interest payments reduce fiscal flexibility of states.

Options:
(a) 1 and 3 only
(b) 2 and 3 only
(c) 1 only
(d) 1, 2 and 3

2. Consider the following statements about the 'Golden Rule' of fiscal financing:

1. Governments should borrow only for capital expenditure.
2. Borrowing for salaries and subsidies is encouraged under this rule.
3. It promotes intergenerational equity.

Options:
(a) 1 and 3 only
(b) 2 only
(c) 1, 2 and 3
(d) 3 only

3. Which of the following statements is/are correct about CWMA?

1. It is a statutory body established under the Inter-State River Water Disputes Act, 1956.
2. It functions under the Ministry of Jal Shakti.
3. It adjudicates fresh disputes between states.

Options:
(a) 1 and 2 only
(b) 2 and 3 only
(c) 1 only
(d) 1, 2 and 3

4. Consider the following statements regarding PAC:

1. It examines reports of the Comptroller and Auditor General (CAG).
2. Ministers can be members of the PAC.
3. The Chairman is usually from the Opposition party.

Options:
(a) 1 and 3 only
(b) 1 only
(c) 2 and 3 only
(d) 1, 2 and 3