KAMARAJ IAS ACADEMY
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State-led Capital Expenditure and Fiscal Discipline

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- **Context of Borrowing Space:** Between FY2021 and FY2025, the Central Government allowed States an enhanced borrowing limit (up to **4% of GSDP**, with an additional **0.5%** conditional on power sector reforms) to combat the pandemic's economic impact.
- **The 3% Deficit Norm:** Under the **Fiscal Responsibility and Budget Management (FRBM) Act**, States are generally required to keep their fiscal deficit within **3% of GSDP**. Recent data indicates that several states have breached this limit to maintain infrastructure spending.
- **Central Assistance:** To prevent a sharp decline in capital spending, the Centre launched the **"Scheme for Special Assistance to States for Capital Investment,"** providing 50-year interest-free loans. In the **2025–26 Budget**, this outlay has been set at **?1.5 lakh crore**.
- **The Constraint:** States face "committed liabilities"—salaries, pensions, and interest payments—which consume over **50% of their revenue receipts**. When revenue falls, "discretionary" capital expenditure (roads, schools, hospitals) is often the first to be cut to meet deficit targets.

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