STATE OF STATE FINANCES

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States' own revenue revives while deficit levels increase marginally post COVID

States have limited discretion in raising revenue and planning expenditure

Switching to unified pension scheme could involve additional expenditure for states

In 2023-24, states' own revenue (as percentage of GDP) was comparable to levels seen in 2018-19. However, total revenue receipts continue to be lower than in 2018-19 due to declining central transfers. There has been a marginal increase in states' capital outlay, helped by long-term loans given by the Centre. States' revenue from SGST in 2023-24 exceeded pre-pandemic levels. Mineral rich states can also raise additional revenue from mining post a Supreme Court judgement. On the expenditure side, several states are implementing cash transfer schemes for women. In addition, they may also have to incur additional expenditure if they switch to the unified pension scheme. Poor financial conditions of state-owned discoms continue to present challenges to state finances.

In this backdrop, this report analyses the finances of all states and Union Territories of Delhi, Jammu and Kashmir, and Puducherry, based on their budget documents and CAG accounts. The following abbreviations have been used for states in the charts throughout the report.

State	Abbreviation	State	Abbreviation	State	Abbreviation
Andhra Pradesh	AP	Jammu and Kashmir	JK	Puducherry	PY
Arunachal Pradesh	AR	Karnataka	KA	Rajasthan	RJ
Assam	AS	Kerala	KL	Sikkim	SK
Bihar	BR	Meghalaya	MG	Tamil Nadu	TN
Chhattisgarh	CG	Maharashtra	MH	Tripura	TR
Delhi	DL	Manipur	MN	Telangana	TS
Goa	GA	Madhya Pradesh	MP	Uttarakhand	UK
Gujarat	GJ	Mizoram	MZ	Uttar Pradesh	UP
Himachal Pradesh	HP	Nagaland	NL	West Bengal	WB
Haryana	HR	Odisha	OD		
Jharkhand	JH	Punjab	PB		

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DEVELOPING THEMES IN STATE FINANCES

States' own revenue revives while deficit levels increase marginally post-COVID

Revenue receipts of states declined between 2018-19 and 2020-21 due to economic slowdown in 2019-20, followed by the COVID-19 pandemic. This led to an increase in borrowings and states' total liabilities increased to 31% of GDP in 2020-21. Since then, own revenue receipts of states have revived back to pre-COVID level, and debt levels have decreased.

States have limited discretion in raising revenue and planning expenditure

Around 60% of the overall government expenditure in the country is through state budgets. However, states enjoy limited discretion in raising revenue and planning expenditure. In 2022-23, 53% of their receipts came from non-discretionary sources. On the expenditure side, around 55% of the expenditure was largely inflexible in nature.

Revenue from SGST in 2023-24 above pre-COVID levels

In 2023-24, the total SGST revenue of states overtook the levels seen in 2018-19. RBI noted that SGST revenue has benefitted from revival in economic activity and improved tax administration. The GST Council has formed a Group of Ministers to consider replacing the compensation cess. Currently, cess is being utilised to pay back loans taken to cover shortfall in compensation during COVID. Thus, both Centre and states stand to gain revenue if the compensation cess is subsumed within GST slabs.

Shifting to Unified Pension Scheme could involve additional expenditure for states

In August 2024, the Union Cabinet approved the Unified Pension Scheme for its employees. The scheme seeks to provide assured pension to central government employees with an increase in government contribution under the scheme. States that choose to implement UPS for their employees may have to incur additional expenditure.

Several states are implementing cash transfer schemes for women

In 2024-25, nine states are estimated to cumulatively spend over one lakh crore rupees on implementing cash transfer schemes for women. These states include Chhattisgarh, Karnataka, Maharashtra, and West Bengal. Impact on the budget varies across states. Implementing cash transfer schemes can improve consumption capacity of the beneficiaries.

Per capita grants under centrally sponsored schemes lower for some poorer states

Since 2015-16, central grants for CSS have formed over 20% of total central transfers. These schemes are designed by the Centre and implemented by states. They aim to ensure minimum standards of public services across states. Average per capita CSS grants have been lower for some poorer states such as Bihar and Uttar Pradesh. States with lower fiscal and implementation capacity face challenges in implementing these schemes.

States can raise additional revenue from minerals post Supreme Court judgement

In July 2024, the Supreme Court upheld the power of states to tax mineral rights. It also allowed states to recover retrospective demands from such levies. States can gain additional revenue from imposing levies on minerals.

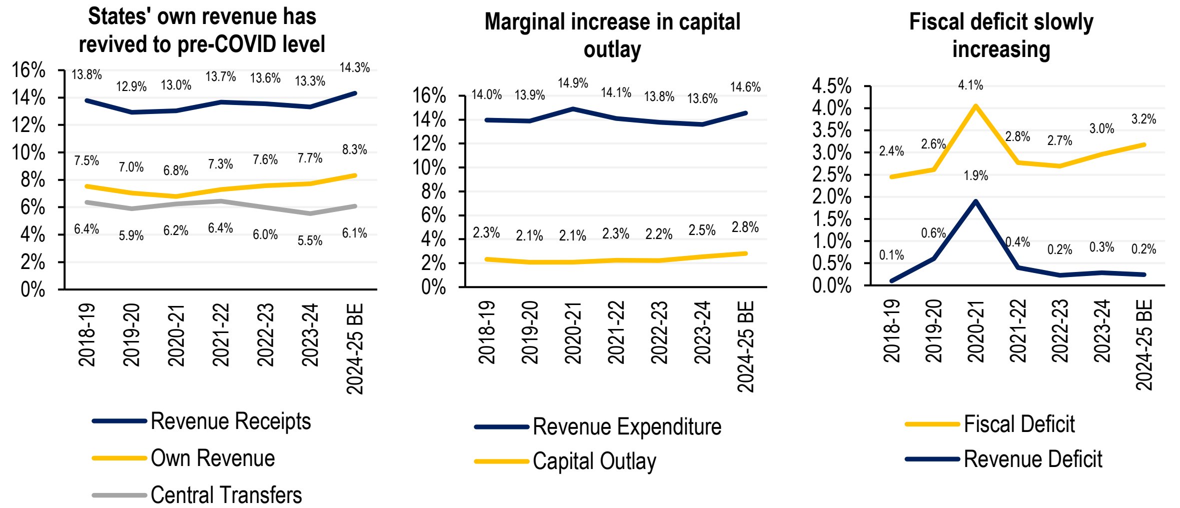
Discom losses increase driven by higher power purchase costs

Losses incurred by state-owned discoms doubled in 2022-23 over the previous year. This was driven by an increase in power purchase costs due to increased dependence on imported coal and an increase in price of imported coal. Persistent losses could hinder investments in upgrading electricity distribution infrastructure.

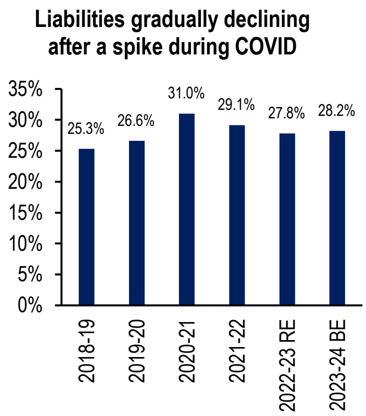
States' own revenue revives while deficit levels increase marginally post COVID

Revenue collection of states declined between 2018-19 and 2020-21. This was due to an economic slowdown in 2019-20, followed by the shock of the COVID-19 pandemic. States had to borrow more to sustain their expenditures. As a result, total liabilities of states increased from 25.3% of GDP in 2018-19 to 31% of GDP in 2020-21. Since then, revenue levels have improved but the 2023-24 figures were still below the level seen in 2018-19. While states' own revenue was at a level similar to that in 2018-19, central grants are lower due to the discontinuation of GST compensation grants and lower devolution. Total central transfers reduced from 6.4% of GDP in 2018-19 to 5.5% of GDP in 2023-24. The budgets of 2024-25 project further improvement in revenue receipts.

Figure 1: Trends in key budget indicators (as % of GDP)



Revenue expenditure has reduced after increasing to 14.9% of GDP in 2020-21. Capital outlay has seen a marginal increase, helped by the 50-year interest-free loans by the Centre for capital outlay (0.4% of GDP in 2023-24). Fiscal deficit spiked in the COVID-19 year of 2020-21, and has since declined to be below 3% of GDP. Fiscal deficit for 2024-25 is budgeted to be marginally above this limit. While states are required to keep the deficit below 3% of GSDP from 2023-24 onward, the interest-free loans by the Centre are not included within this limit. States can carry forward unutilised borrowing space from previous years and also raise additional borrowing if they carry out reforms in the power sector.



Note: RE: Revised Estimates. BE: Budget Estimates. Receipts exclude UP's non-tax revenue from sinking fund in 2018-19 and 2019-20.
Sources: State Budget Documents; RBI; CAG; MoSPI; PRS.

In 2023-24, 13 states observed revenue deficit and 19 states had fiscal deficit above the long-term target of 3% of GSDP. In some states such as Andhra Pradesh, Haryana, Punjab, and Tamil Nadu, revenue deficit has persisted since well before the pandemic. Most states (except Gujarat, Maharashtra, and Odisha) have outstanding liabilities above the long-term target of 20% of GDP, including five above 40% (see Figure 26 on page 18).

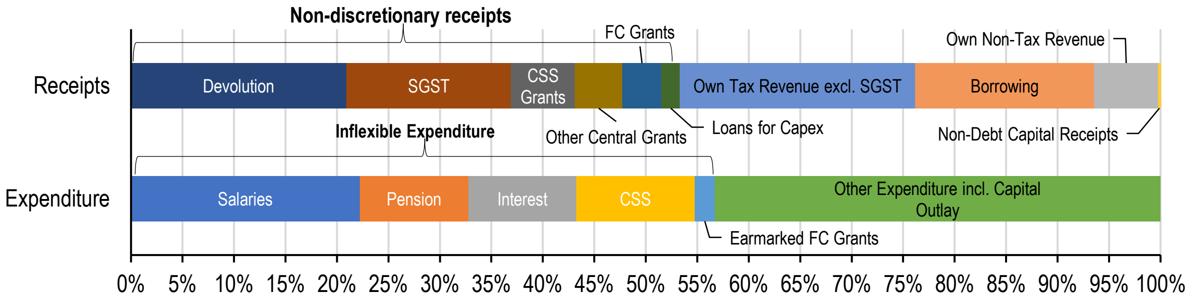
In 2024-25, states have budgeted revenue receipts at 14.3% of GDP, substantially higher than in 2023-24 (13.3% of GDP as per provisional accounts). Similarly, revenue expenditure and capital outlay is budgeted to increase significantly over the provisional actuals of 2023-24. However, some of these projections may be optimistic. Between 2015-16 and 2022-23, states on average overestimated their revenue by 11% and their expenditure by 10% (See Figures 29, 30 and 31 on page 20).

States have limited discretion in raising revenue and planning expenditure

States incur around 60% of total government expenditure in the country. However, they enjoy limited discretion in raising revenue and deciding their own expenditure. On the revenue side, the Constitution assigns higher taxation powers to the central government.[1] In expenditure, states are restrained by items which are inflexible in nature such as salaries and interest payments.

In 2022-23, 53% of the total receipts (comprising revenue receipts, non-debt capital receipts, borrowing, and loans for capital expenditure) of states were from sources outside the control of states. These are devolution of central taxes (21% of total receipts), SGST revenue (16%), central grants (15%), and loans for capital outlay (2%). Tax devolution and some central grants depend on the recommendations of the Finance Commission. In addition, the Centre also provides certain other grants (such as those for centrally sponsored schemes) as per their discretion. GST rates are jointly decided by the Union and states in the GST Council. Thus, SGST revenue largely depends on the tax rates recommended by the Council. Certain sources of own tax revenue where states exercise control include sales tax/VAT, excise duty, and stamp duty (see Figure 19 on page 14). This varies across states. States such as Andhra Pradesh, Madhya Pradesh, Tamil Nadu, and Telangana raised over 50% of their own tax revenue from sales tax/VAT, excise duty, and stamp duty in 2022-23.

Figure 2: States lack discretion over about half of their receipts and expenditure (figures for 2022-23)



Note: Borrowing space calculated as 3% of GSDP in 2022-23. There may be some overlap between salaries and spending on CSS which contains grants for salaries.
Sources: State Budget Documents; CAG; MoSPI; PRS.

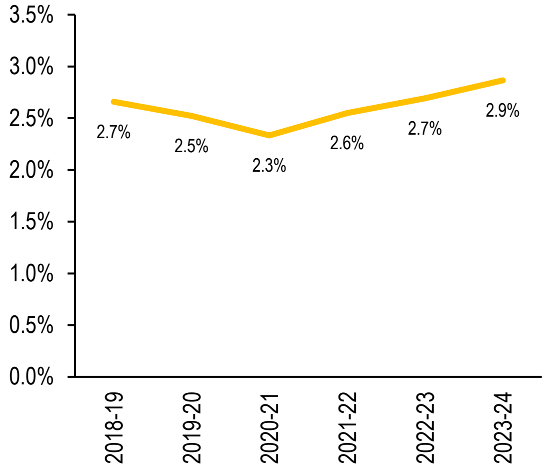
States have limited flexibility on the expenditure side too. In 2022-23, 43% of states' total expenditure (comprising revenue expenditure, capital outlay, and disbursement of loans and advances) was spent on three items – salaries, pension, and interest. These items are difficult to reduce in the short to medium term. States also have to provide matching grants for implementing various CSS. In 2022-23, states spent 11% of their overall expenditure on CSS. In addition, grants recommended by the Finance Commission (excluding revenue deficit grants) are reserved for specific purposes such as those for local bodies or disaster management. There are other items where states may have limited discretion such as transfers to local bodies (as per recommendations of the State Finance Commissions). Similar to revenue, there are wide inter-state variations to the trends shown in Figure 2. For instance, states such as Bihar, Jharkhand, and Odisha spent less than 35% of their total expenditure on salaries, pension, and interest in 2022-23.

The 14th Finance Commission noted that tax devolution should be the primary route for transferring funds to states.[2] This would increase the share of untied transfers to states.[2] Transferring more untied funds would allow individual states to plan expenditure according to their own priorities. The 14th Finance Commission had recommended that 42% of the divisible pool of taxes (gross tax revenue less cost of collection and cesses and surcharges) be devolved to states. The 15th Finance Commission retained this ratio at 41% (after reducing 1% as Jammu and Kashmir is now a Union Territory). Between 2020-21 and 2022-23, over 15% of gross tax revenue was raised as cesses and surcharges. Consequently, tax devolution to states was about 30% of gross tax revenue, lower than the 2015-20 period (around 35%).

Revenue from SGST in 2023-24 overtakes pre-COVID levels

Since its introduction in 2017, the Goods and Services Tax (GST) has become the most significant source of revenue for most states/UTs. Revenue from state GST (SGST) accounts for about 40% of states' own tax revenue.[3,4] Including devolution of Central GST (CGST), over 70% of the total GST revenue accrues to states. Soon after its introduction, GST revenue suffered due to the: (i) economic slowdown in 2019-20, (ii) downward revision of tax rates on several items, and (iii) adverse impact of COVID-19 pandemic. SGST revenue decreased to 2.3% of GDP in 2020-21. RBI (2023) noted that in the post-pandemic period, SGST revenue has benefitted from revival in economic growth and improved tax administration.[4] In 2023-24, SGST to GDP ratio was 2.9%, higher than 2018-19.

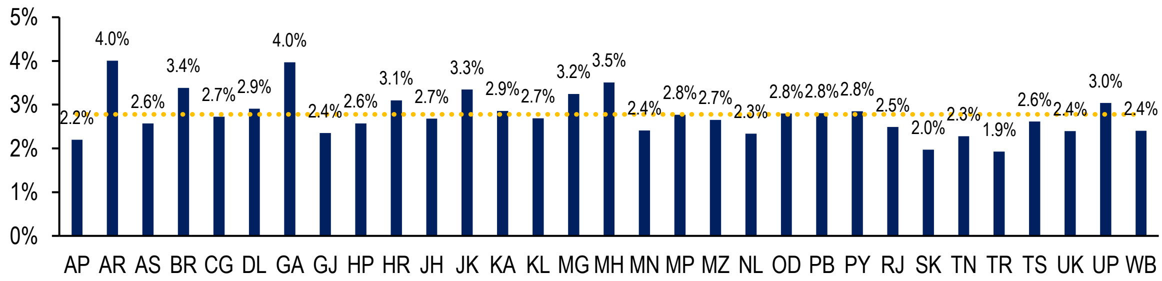
Figure 3: SGST revenue as percentage of GDP has recovered



Sources: Union and State Budget Documents; CAG; MoSPI; PRS.

There was significant inter-state variation in SGST revenue in 2023-24 (see Figure 4). In some states such as Bihar and Uttar Pradesh, higher SGST to GSDP ratio could be driven by GST being a destination-based tax (see page 5). As per RBI (2023), key reforms undertaken by states to improve SGST collection include: (i) making e-invoicing mandatory for certain taxpayers, (ii) setting up tax intelligence/research units, and (iii) use of AI and data analytics for plugging leakages.[4]

Figure 4: SGST revenue across states in 2023-24 (as % of GSDP)



Note: Data for 2023-24 is as per CAG provisional accounts.
Sources: CAG; Union Budget Documents; MoSPI; PRS.

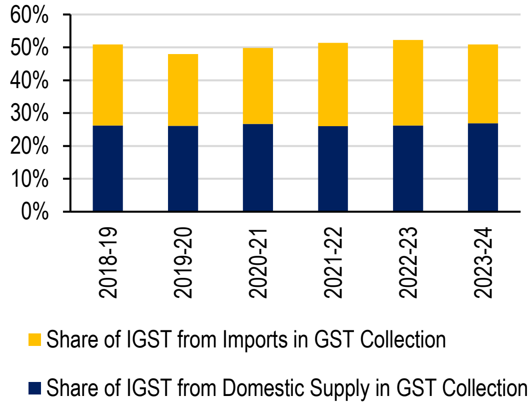
GST compensation cess: Under GST, states' revenue growth was guaranteed for the first five years till June 2022. The Centre compensated states that were unable to achieve this guaranteed growth rate. This compensation was funded by levying a compensation cess on goods such as tobacco products, coal, and automobiles.[5] While states were eligible for compensation only till June 2022, the levy of the cess was extended till March 31, 2026.[6] The receipts from the cess post June 2022 are being used to repay the loans taken by the Centre to compensate states in 2020-21 and 2021-22.[7]

In September 2024, the GST Council recommended forming a Group of Ministers to make a proposal to replace the GST compensation cess.[8] If the compensation cess is subsumed within the broader GST slabs, the Centre and states stand to gain additional revenue. This is because the revenue being used to repay loans will instead go to the Centre and states as regular GST revenue. Collection from GST compensation cess has been around 0.5% of GDP over the past few years. Over 70% of this revenue would go to states through SGST and devolution of central GST.

Share of revenue from IGST higher for states with lower manufacturing and mining

Revenue under GST is collected from four sources: (i) central GST (CGST), (ii) SGST, (iii) integrated GST (IGST), and (iv) compensation cess. Intra-state transactions are subject to CGST and SGST which flow to the Centre and states respectively. On inter-state transactions and imports, the central government levies and collects IGST.[9] It is subsequently settled between the Centre and the state where the final consumption takes place.[9] Between 2018-19 and 2023-24, IGST has contributed to almost half of the overall GST collection. Within IGST, about half of the total collection comes from imports, and the remaining from inter-state transactions.

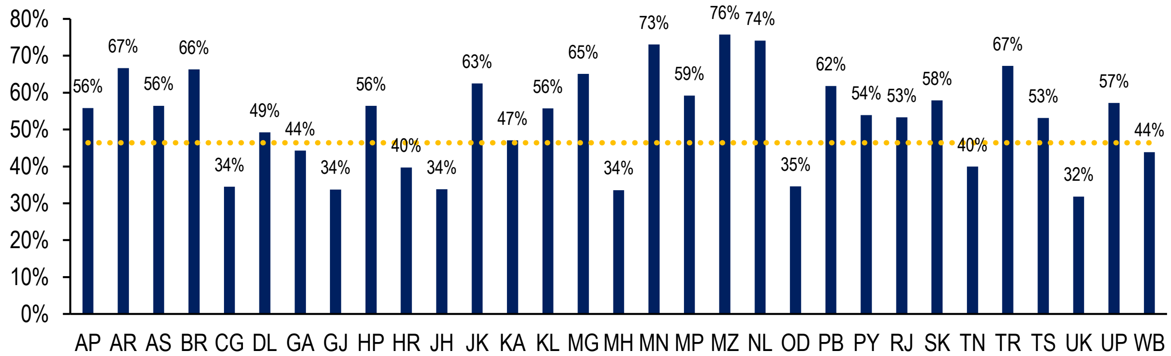
Figure 5: IGST forms half of total GST collection



Note: Figures are not adjusted for refunds.
Sources: GST Portal; PRS.

Between 2018-19 and 2023-24, revenue from IGST settlement formed around 46% of the total SGST revenue. However, for states with a lower share of manufacturing and mining, share of IGST was comparatively higher. For instance, IGST settlement accounted for 66% and 57% of SGST revenue for Bihar and Uttar Pradesh respectively. For north-eastern states of Manipur, Mizoram, and Nagaland, this share was over 70%. On the other hand, this share was lower for manufacturing states such as Gujarat, Haryana, Maharashtra, and Tamil Nadu, and mining centres such as Chhattisgarh, Jharkhand, and Odisha.

Figure 6: Share of revenue from IGST settlement in SGST between 2018-19 and 2023-24



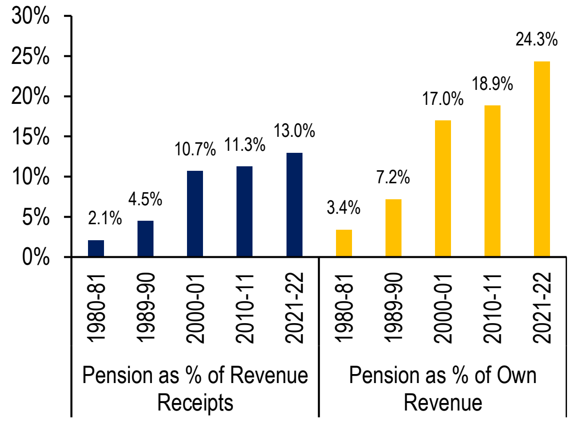
Sources: GST Portal, CAG, State Budget Documents; PRS.

The higher share of IGST in the total SGST revenue of some states may be due to the destination-based principle of taxation under GST. When goods or services are supplied across states/UTs, GST revenue accrues to the state where the final consumption takes place. Therefore, states which do not have manufacturing and mining centres, and thus consume goods made outside the state will receive a higher proportion of their GST in the form of IGST. In the pre-GST regime, inter-state sales of goods were subject to the central sales tax (CST). CST was collected and retained by the state from where the inter-state sale of goods originated.[10]

Switching to Unified Pension Scheme could involve additional expenditure for states

In 2024-25, states' pension expenditure is estimated at 1.6% of GDP. Between 1980 and 2002, pension expenditure of states grew at a higher rate than revenue.[11] In the backdrop of increasing expenditure, pension reforms were undertaken about two decades ago. This involved a shift from a defined benefit pension plan to a defined contribution pension plan (see Table 1). Under a defined benefit plan, pension is paid based on a formula which may be calculated as a percentage of salary. In a defined contribution plan, both the employee and the employer contribute during the tenure of employment and post-retirement benefits depend on the size of the accumulated corpus.

Figure 7: Pension expense as % of revenue receipts has increased nearly six-fold over last four decades



Sources: Report of the Group to Study Pension Liabilities of State Governments; RBI; PRS.

The National Pension System (NPS) was introduced as a defined contribution plan for central government employees recruited from January 1, 2004 onwards.[12] Most state governments also transitioned to a defined contribution plan over subsequent years. However, over the last two years, some state governments such as Rajasthan, Himachal Pradesh, and Punjab, have decided to re-implement the old pension scheme (OPS).[13] Currently, the governments pay pension under OPS for employees who joined before 2004, and make contributions to NPS for employees who joined since 2004. Reverting to OPS for all employees may help states in reducing pension expenditure in the short-term. This is because they would not have to contribute the employer's share under the NPS for current employees. However, after these employees retire, the governments will have to bear the cost (which could also rise with inflation) from annual budgets.

Table 1: Features of various pension schemes adopted by the central government

Features	OPS (Till 2003)	NPS (2004-2024)	UPS (2025 onwards)
Type	Defined benefit	Defined contribution	Features of both defined benefit and defined contribution
Funding	Funded from general government revenue	Funded from retirement corpus built over employment tenure	Funded from retirement corpus, government to meet any shortfall in assured pension
Employee contribution	No	Yes	Yes
Pension quantum	Assured	Linked to return on corpus	Assured

Sources: Report of the Group to Study Pension Liabilities of State Governments; Press Information Bureau; PRS.

In August 2024, the Union Cabinet approved the Unified Pension Scheme (UPS) to provide assured pension for central government employees.[14] UPS combines the features of both OPS and NPS (see Table 1). Under UPS, the contribution of the central government will increase from 14% of basic pay and dearness allowance of the employee to 18.5%.[15,16] There will be no increase in the employee's contribution (currently at 10% of basic pay and dearness allowance).

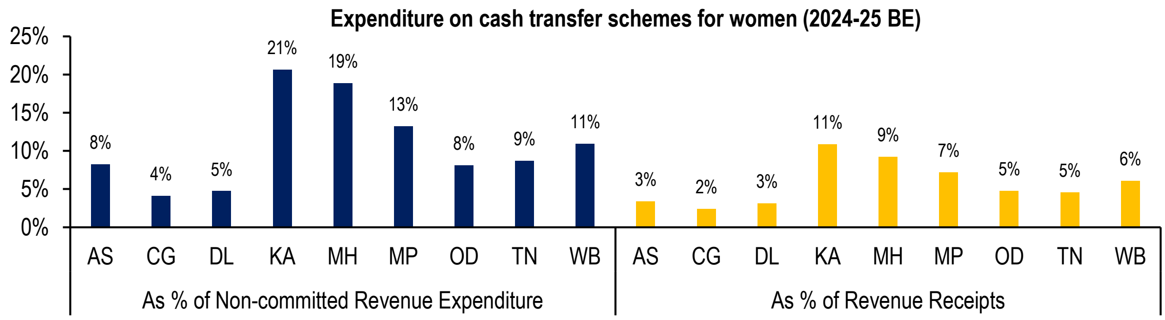
Maharashtra government has decided to implement UPS for its employees.[17,18] Certain other state governments are also analysing the impact of shifting to UPS.[19,20] Shifting from NPS to UPS may involve higher expenditure for states due to increased employer contribution. If the corpus built during employment is insufficient to meet the assured pension, state governments may also have to allocate funds from the annual budgets to cover the gap. In addition, employees under UPS as per the central government scheme are also entitled to a lump sum payment on retirement. This would be in addition to gratuity and will not reduce the amount of assured pension (see Table 3 in annexure for states' spending on pension and retirement benefits).[14]

Several states are implementing cash transfer schemes for women

In 2024-25, nine states have budgeted to cumulatively spend over one lakh crore rupees on implementing largely unconditional cash transfer schemes for women beneficiaries. Jharkhand has also introduced (months after presenting its budget) a similar scheme with Himachal Pradesh rolling out the scheme in a phased manner.[21,22] Additionally, such schemes are part of poll promises of current governments in Punjab, Haryana, and Telangana.[23,24,25]

These schemes primarily target women belonging to lower income households. Beneficiaries are identified mainly based on income and age thresholds. States generally exclude government employees, income tax payees, and professionals from coverage under the schemes. The number of states implementing such cash transfers has increased over the last two years. Of the states shown in Figure 8, only Assam and West Bengal had such schemes in 2022-23. As per 2024-25 budget estimates, Karnataka is estimated to spend about Rs 28,000 crore on such cash transfers. Maharashtra had allocated Rs 10,000 crore in the budget for the scheme. Annually it is estimated to cost around Rs 46,000 crore.[26]

Figure 8: Share of cash transfer schemes in the overall expenditure varies widely across states



Note: Non-committed revenue expenditure excludes spending on salaries, pension, and interest. For Delhi, data for salaries is as of 2023-24 budget estimates. Expenditure on schemes is as per budget estimates and do not include supplementary allocations. For Maharashtra, the estimated annual expenditure has been considered instead of the budget allocation.
Sources: States Budget Documents; RBI; PRS.

Implementing unconditional cash transfer schemes can help improve consumption capacity of the beneficiaries. A study sponsored by the West Bengal government found that the beneficiaries of Lakshmir Bhandar in the state spent their allowances on household expenses, education, medical expenses, and investing in small business ventures.[27] Cash transfers can help in reducing the severity of poverty among women, and also enable them to improve nutritional status for themselves and their families.[28,29]

Table 2: Benefits under cash transfer schemes for women across states

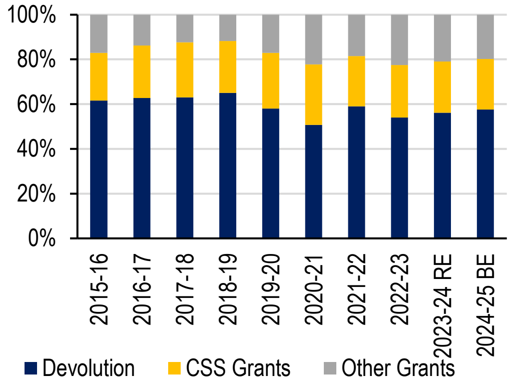
State	Scheme Name	Benefit per month (in rupees)	Allocation 2024-25 BE (Rs crore)
Assam	Orunodoi	1,250	3,800
Chhattisgarh	Mahtari Vandan Yojana	1,000	3,000
Delhi	Mukhyamantri Mahila Samman Yojana	1,000	2,000
Karnataka	Gruhalakshmi	2,000	28,608
Maharashtra	Mukhyamantri Majhi Ladki Bahin Yojana	1,500	10,000 (scheme to cost Rs 46,000 crore annually)
Madhya Pradesh	Mukhyamantri Ladli Behna Yojana	1,250	18,984
Odisha	Subhadra Yojana	833	10,000
Tamil Nadu	Magalir Urimai Thogai	1,000	13,720
West Bengal	Lakshmir Bhandar	1,000-1,200	14,400

Sources: Respective scheme websites; State Budget Documents; PRS.

Per capita grants under centrally sponsored schemes lower for some poorer states

In the last decade, grants for centrally sponsored schemes (CSS) have formed about 20% of the overall central transfers to states. CSS are designed by the central government and implemented by state governments. Often, these schemes deal with subjects falling in the state list or concurrent list with their funding shared between the Centre and states.[30] Some of the CSS implemented by the Centre deal with subjects such as education, health, and employment. CSS are designed to ensure minimum standards of public service across states.[31] They are intended to equalise the level of service provision in key areas, such as development of SCs/STs across different regions.

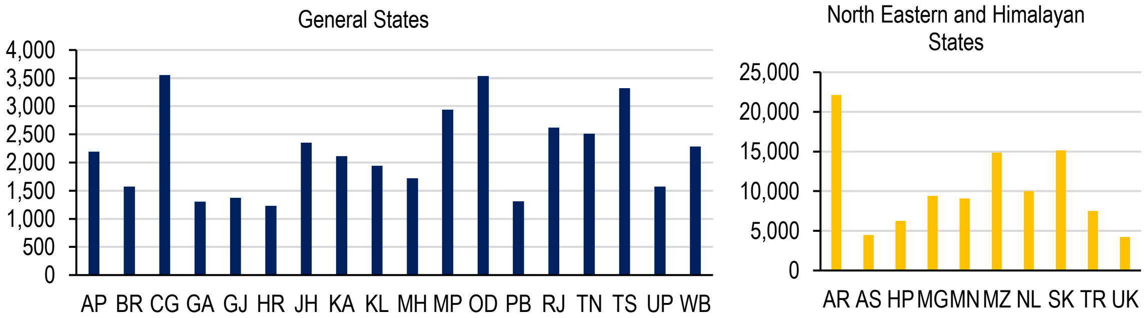
Figure 9: Grants for CSS form about 20% of the total central transfers to states



Note: Transfers exclude loans for externally aided projects, GST compensation, and capital expenditure. BE is budget estimate and RE is revised estimate.
Sources: Union Budget Documents; PRS.

Per capita transfer from the Centre for CSS varies widely across states. For example, some poorer states such as Bihar and Uttar Pradesh receive about Rs 1,600 per capita, some richer ones such as Telangana and Tamil Nadu receive over Rs 2,500. The pattern is not consistent – some richer states such as Gujarat and Haryana received between Rs 1,200 and Rs 1,400 per capita. The 15th Finance Commission had noted that states with lower fiscal and institutional capacity may find it difficult to contribute their share of the funds in financing these schemes.[32] The formula for inter-state distribution of these grants are not based solely on deficiency of service.[31] It also depends on state capacity in the form of various compliance requirements.[31] The Finance Commission noted that richer states get a higher share, and recommended that these schemes should move towards equal per capita transfers with output-based conditions.[32]

Figure 10: Per capita CSS grants vary widely across states (average for the 2017-22 period, in rupees)



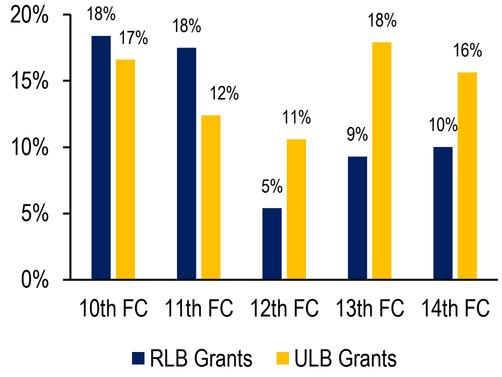
Note: The central share of funding for CSS is higher for North Eastern and Himalayan states.
Sources: Unstarred Question No 999, Rajya Sabha, July 26, 2022; Report of the Technical Group on Population Projections (2011-2036), Ministry of Health and Family Welfare; PRS.

In 2015, a Committee of Chief Ministers recommended that the number of CSS should be reduced to improve their visibility and impact.[30] It noted that core schemes should cover poverty elimination, social inclusion, drinking water, and rural connectivity.[30] The 15th Finance Commission had also recommended fixing a threshold for annual funding of these schemes.[33] Schemes with funding less than the threshold should be discontinued. As per the Union Budget for 2022-23, the number of CSS schemes were reduced from 130 to 65.[34] However, several new schemes have since been launched. The Union Budget for 2024-25 allocates central funds for 74 schemes.[35] Seven of these schemes account for almost 70% of its total expenditure on CSS.

Grants released for local bodies lower than recommended quantum

The Constitution requires the Finance Commission to recommend measures for supplementing resources of rural and urban local bodies in states.[36] Successive Finance Commissions have recommended grants for rural local bodies (RLB) and urban local bodies (ULB). However, the actual amount disbursed under these grants have been lower than the recommended amount. The 15th Finance Commission noted that this was because of local governments failing to meet the conditions attached for availing certain grants.[37] At times, the central government has also specified additional conditions.[37]

Figure 11: Shortfall in release of grants for local bodies from Centre to states

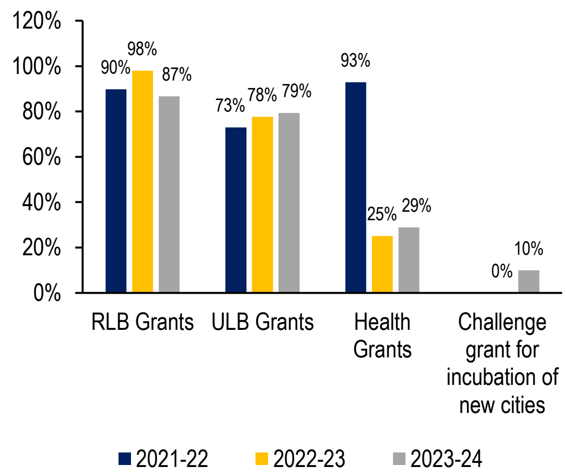


Sources: Report of the 15th Finance Commission; Union Budget Documents; PRS.

The 15th Finance Commission recommended grants worth Rs 4.4 lakh crore for local bodies for the period between 2021-22 and 2025-26. Of these grants, 54% were recommended for RLBs, followed by ULBs (28%) and the primary health sector (16%). The health grants are to be channelised through local bodies for supporting diagnostic infrastructure and health and wellness centres. Between 2021-22 and 2023-24, Rs 2.5 lakh crore was to be disbursed under these grants. However, in this period, only about 80% of the total recommended grants were released. While over 90% of the RLB grants were released between 2021-22 and 2023-24, the share of grants released for ULBs and the primary health sector were lower (see Figure 12).

The lower release of grants could be due to the inability to meet the conditions attached to some of these grants. Some of the conditions specified by the 15th Finance Commission for availing these grants include: (i) online availability of provisional and audited accounts of local bodies (for RLBs and ULBs), and (ii) states notifying floor rates of property tax, along with growth in property tax collections in line with average GSDP growth (for ULBs).[37] As per the Ministry of Panchayati Raj, audit was completed for 94% of gram panchayats in 2021-22 and 93% in 2022-23.[38] In addition, certain grants are also earmarked for specific purposes. For instance, 60% of the total RLB grants are earmarked for drinking water, rain water harvesting and water recycling, and sanitation. For ULBs, the amount of tied grants is higher at 73%.

Figure 12: Less than 30% of grants for health sector released in 2022-23 and 2023-24



Note: Data for 2023-24 is as per revised estimates.
Sources: Report of 15th Finance Commission; Union Budget Documents; PRS.

Additional conditions will apply in the latter part of the 15th Finance Commission's award period. For instance, it noted that several state governments had not constituted their respective State Finance Commissions on time. It recommended that states must constitute State Finance Commissions, act on their recommendations, and present a memorandum on the action taken by March 2024.[37] After March 2024, no grants are to be released to states that do not comply with this recommendation.[37] As of May 2023, 21 states had constituted their State Finance Commissions.[39]

States can raise additional revenue from minerals post Supreme Court judgement

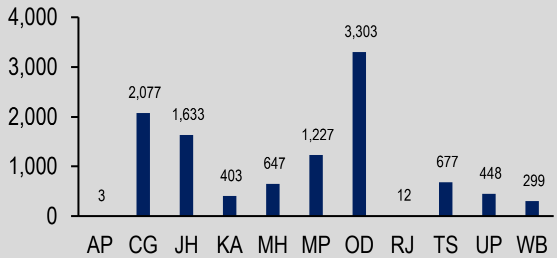
In July 2024, the Supreme Court overturned an earlier decision, and upheld the power of states to tax mineral rights.[40] It also held that state legislatures have the competence to tax lands which comprise mines and quarries.[40] In the past, states such as Rajasthan and Uttar Pradesh have sought to impose environment and health cess for transporting coal and coal-dust collected from mines.[40] In 2005, Odisha had notified a law to levy a rural infrastructure and socio-economic development tax on mineral-bearing land in the state.[41] Post the Supreme Court ruling, states can raise additional revenue by imposing levies on mining operations.

In addition to any prospective revenue from minerals, states also stand to gain revenue from retrospective demands. The Supreme Court held that states may levy or renew tax demands related to mining operations on transactions made from April 1, 2005 onwards.[42] However, such tax demands will be payable in instalments over 12 years starting from April 2026. Moreover, interest and penalty will be waived off for tax demands made for the period before July 25, 2024. According to estimates by the Federation of Indian Mineral Industries, as a result of the judgement, mining companies may have to pay arrears of up to two lakh crore rupees.[43,44] Note that some states also earn a significant portion of non-tax revenue from the mining sector (see Figure 14).

Case Study: Revenue potential of states from cess on minerals

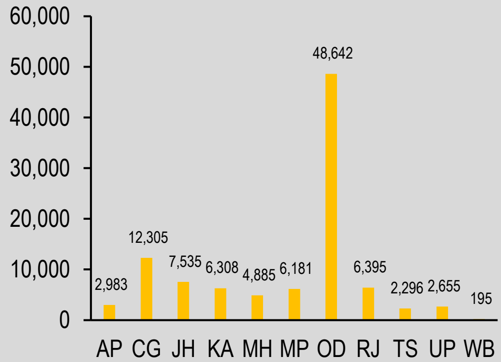
In August 2024, Jharkhand passed a law to levy cess on mineral bearing land in the state.[45] Cess is applicable on minerals despatched such as coal, iron ore, bauxite, and limestone. The figure below compares the revenue potential that states with coal and iron ore deposits have if they levy cess at similar rates as provided under the Jharkhand law. Note that coal and iron ore accounted for over 60% of the total volume of minerals produced in India in 2021-22. Cess rate in Jharkhand is Rs 100 per ton for the despatch of each ton of coal and iron ore.

Figure 13: Estimated revenue potential from cess on coal and iron ore at the same rate as Jharkhand (in 2021-22, Rs crore)



Note: Data for coal and iron-ore is as of 2021-22. For coal, total revenue has been calculated based on quantity despatched. Revenue from iron ore has been calculated based on production as despatch data in not available.
Sources: Indian Minerals Yearbook – 2022, Indian Bureau of Mines; Jharkhand Mineral Bearing Land Bill, 2024; PRS.

Figure 14: Non-tax revenue from mining in 2021-22 (Rs crore)



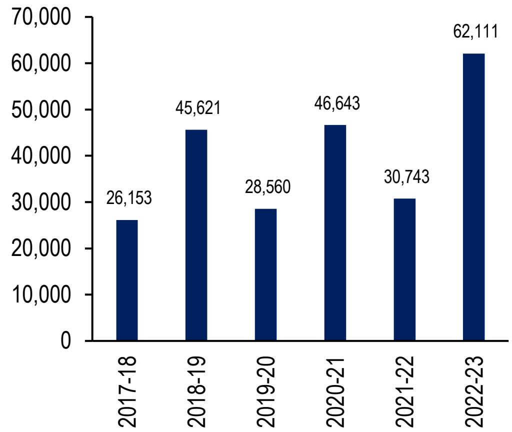
Sources: State Budget Documents; CAG; PRS.

While imposing levies on minerals can bring additional revenue to states, it may also increase the cost of raw materials in industries where such minerals are used as inputs. An Inter-Ministerial Committee report (2024) had observed that total taxes on coal ranged between 37% to 115% of its basic price.[46] It had estimated that an increase in price of coal by Rs 100 per ton makes electricity costlier by around Rs 0.06 per unit.[46] According to an estimate made by the Federation of Indian Mineral Industries (2017), the effective tax rate on iron ore mines in India ranged between 60% to 64%.[47] The rate was lower in other countries such as Indonesia (38% to 46%), South Africa (40%), Canada (34% to 40%), and Chile (38%).[47]

Discom losses increase driven by higher power purchase costs

In most states, electricity distribution companies (discoms) are owned by the state governments. Poor performance of state-owned discoms have remained a perennial strain on state finances and performance of the power sector.[48] In 2022-23, 28 state-owned discoms registered an aggregate loss of Rs 62,111 crore. This was twice the aggregate losses registered by these discoms in 2021-22. The gap between average cost of supply (ACS) and average revenue realised (ARR) increased to Rs 0.47 per unit, the highest in the last six financial years. Higher losses were driven by a 15% increase in per unit cost of power in 2022-23 over the previous year. Cost of power accounts for more than 75% of per unit ACS.

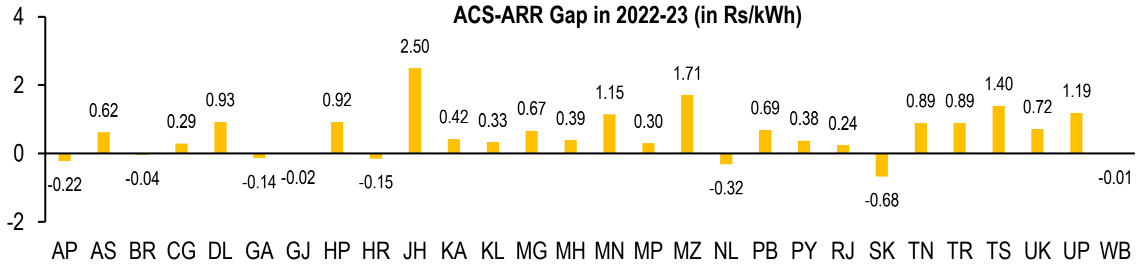
Figure 15: Persistent losses of state-owned discoms (Rs crore)



Sources: Power Finance Corporation; PRS.

A key reason for the increase in the cost of power was increased dependence on imported coal. The share of imported coal in the total coal consumed for electricity generation has ranged around 5%-10%. However, their prices are much higher than domestic coal. With depleting coal stocks, coal imports in 2022-23 increased to 56 million tonne, an increase of 107% over the previous year.[49] The average price of India's imported coal increased from Rs 8,300 per ton in 2021-22 to over Rs 12,500 per ton in 2022-23.[49] Some states do not allow automatic pass-through of increase in fuel costs in pricing.[49] Further, underpricing of power has been a persistent issue for state-owned discoms. For instance, a white paper by Tamil Nadu government (2021) had noted that power tariffs in the state had not been revised for seven years.[50]

Figure 16: 20 states were unable to recover cost of supply in 2022-23



Note: ACS-ARR gap is as per gross input energy on subsidy billed basis. Odisha has been excluded as it privatised discoms in 2020-21.
Sources: Power Finance Corporation; PRS.

Losses are also exacerbated by technical losses due to energy loss in distribution, and commercial losses due to inability to bill and collect charges. Under the UDAY scheme, state-owned discoms had to reduce aggregate technical and commercial losses (AT&C) to 15% and eliminate ACS-ARR gap by 2018-19.[51] In 2022-23, AT&C losses of state-owned discoms was 16% (see Table 5 in annexure for state-wise data). The Revamped Distribution Sector Scheme (RDSS), aims to eliminate ACS-ARR gap by 2024-25 and reduce AT&C losses to 12%-15%.[52] One of the key measures under RDSS is introduction of prepaid smart meters to improve billing and collection.

Persistent losses of state-owned discoms have adverse implications for investments. Discoms will need Rs 4.3 lakh crore for upgrading distribution infrastructure between 2022 and 2027.[53] Out of this amount, total investment available with discoms from various sources, including RDSS, is estimated at Rs 1.9 lakh crore.[53] One of the ways to mobilise resources for investments is borrowings. However, state-owned discoms already carry substantial debt. As of March 2023, outstanding debt of state discoms was Rs 6.6 lakh crore (2.5% of GDP).

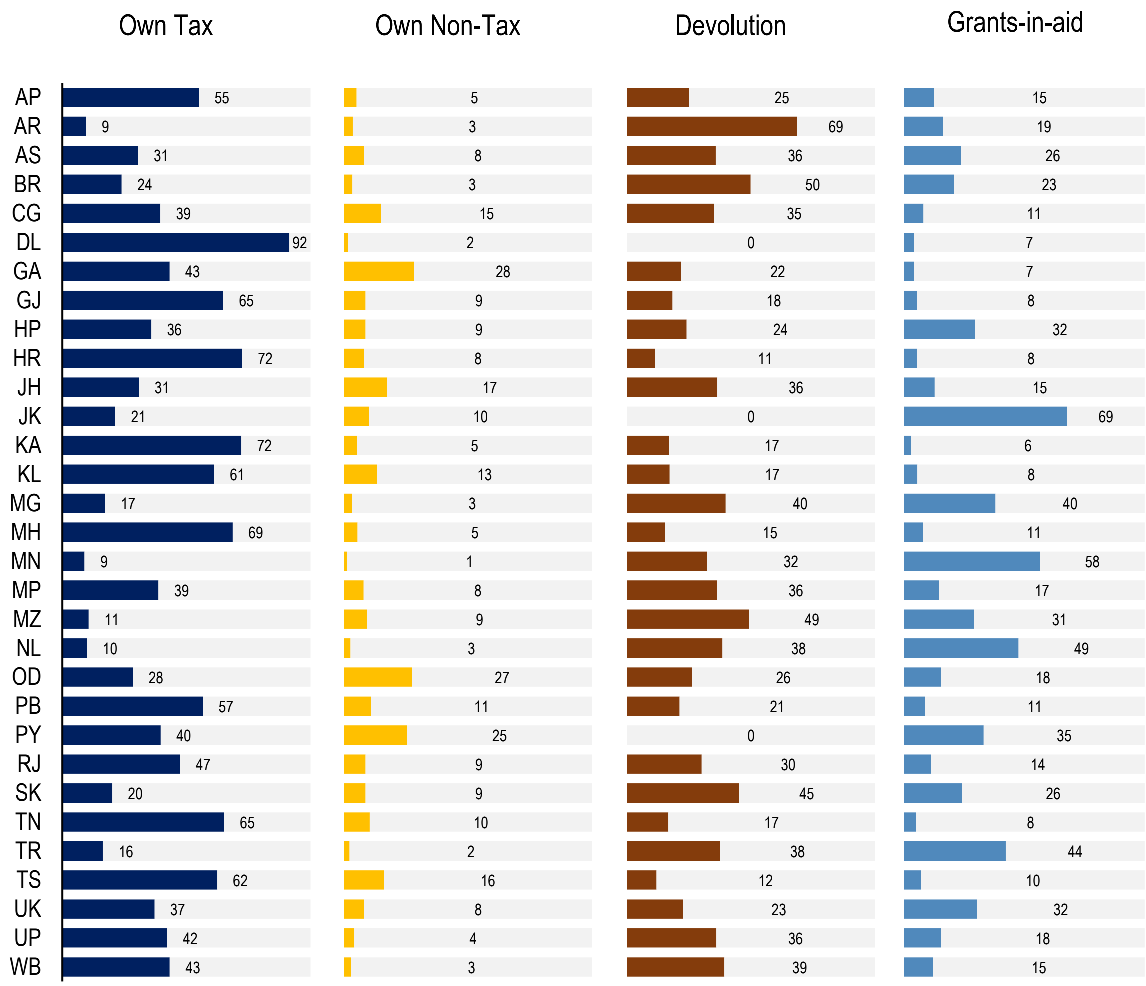
TRENDS IN STATE FINANCES

This section discusses trends in state finances based on the budget estimates for 2024-25.

Own tax revenue is the largest source of revenue for most states

Revenue receipts of states comprise: (i) own revenue and (ii) transfers from the central government. Own revenue includes revenue earned by state governments from tax and non-tax sources. Central transfers include devolution of share of central taxes as recommended by Finance Commission and grants-in-aid. The grants-in-aid by the Centre includes grants recommended by the Finance Commission and grants for centrally sponsored schemes. In 2024-25, states are estimated to raise 58% of their revenue receipts from own tax and non-tax sources while 42% is estimated to come from devolution of central taxes and grants from the Centre.

Figure 17: Capacity to generate revenue receipts varies across states (2024-25, figures in %)



Note: Delhi, Jammu and Kashmir, and Puducherry do not receive devolution of central taxes as they are UTs.
Sources: State Budget Documents; PRS.

Own tax revenue is estimated to be the largest source of revenue for most states. Andhra Pradesh, Delhi, Gujarat, Haryana, Karnataka, Kerala, Maharashtra, Punjab, Tamil Nadu, and Telangana are estimated to raise over 50% of their revenue receipts through own tax revenue. Revenue from own non-tax sources is estimated to account for only 8% of states' revenue receipts in 2024-25. However, non-tax revenue is budgeted to be significantly higher for some mineral-rich states such as Chhattisgarh, Jharkhand, and Odisha. In Goa and Puducherry, non-tax revenue could be higher than average due to electricity distribution being a departmental function. In most states, electricity distribution is undertaken by state-owned companies.

Some states have higher dependence on central transfers for their revenue receipts. Bihar, Jammu and Kashmir, and north-eastern states are estimated to raise more than 60% of their revenue from devolution and grants from the Centre. The share of devolution in central transfers is higher for Arunachal Pradesh, Assam, Bihar, Mizoram, and Sikkim while the share of grants is budgeted to be higher for Jammu and Kashmir, Manipur, Nagaland, and Tripura. The devolution of central taxes is untied and states can spend them as per their priorities. Grants can be tied such as those given for centrally sponsored schemes or untied such as revenue deficit grants. The Centre can impose conditions to determine which states are eligible to get tied grants and the manner in which such grants can be spent. In 2024-25, grants from the Centre are estimated to be 2% lower as compared to revised estimate of 2023-24. One of the reasons for this is the tapering of revenue deficit grants for certain states.

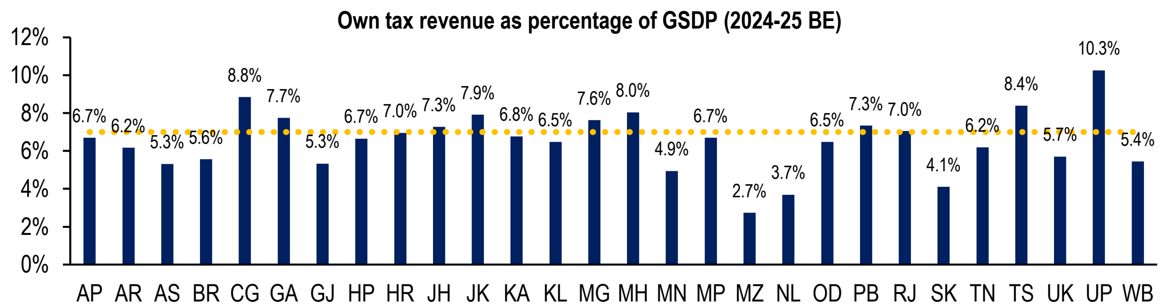
Constitution of the 16th Finance Commission

The Constitution empowers the President to form a Finance Commission every five years.[36] The Finance Commission recommends the distribution of tax revenue between the Union and states. It also provides recommendations for giving certain grants-in-aid from the Union to the states. In December 2023, the central government notified the formation of the 16th Finance Commission (Chair: Dr. Arvind Panagariya).[54] The Commission will submit its report by October 31, 2025 containing recommendations for a five-year period from April 1, 2026. Note that the recommendations of the 15th Finance Commission (Chair: Mr. N.K. Singh) are currently in effect till March 31, 2026. The 15th Finance Commission had recommended states' share in central taxes at 41% of the divisible pool of taxes. The divisible pool is arrived at after excluding the cost of collecting taxes and cesses and surcharges levied by the central government.

State's own tax revenue estimated at 7% of GSDP in 2024-25

In 2024-25, states on aggregate have estimated their own tax to GSDP ratio at 7%. A higher own tax to GSDP ratio indicates a better ability to harvest taxes from the economic activities in the state. Most states have budgeted own-tax to GSDP ratio between 6% to 8%. For north-eastern states of Mizoram, Nagaland, and Sikkim, own tax to GSDP ratio is estimated between 2.7% to 4.1%. Uttar Pradesh has budgeted the highest own tax to GSDP ratio at 10.3%. However, this may be an overestimate. In 2022-23, Uttar Pradesh's own tax to GSDP ratio was 7.7%, as against a budget estimate of 10.3%.

Figure 18: Own tax revenue level lower for north eastern states



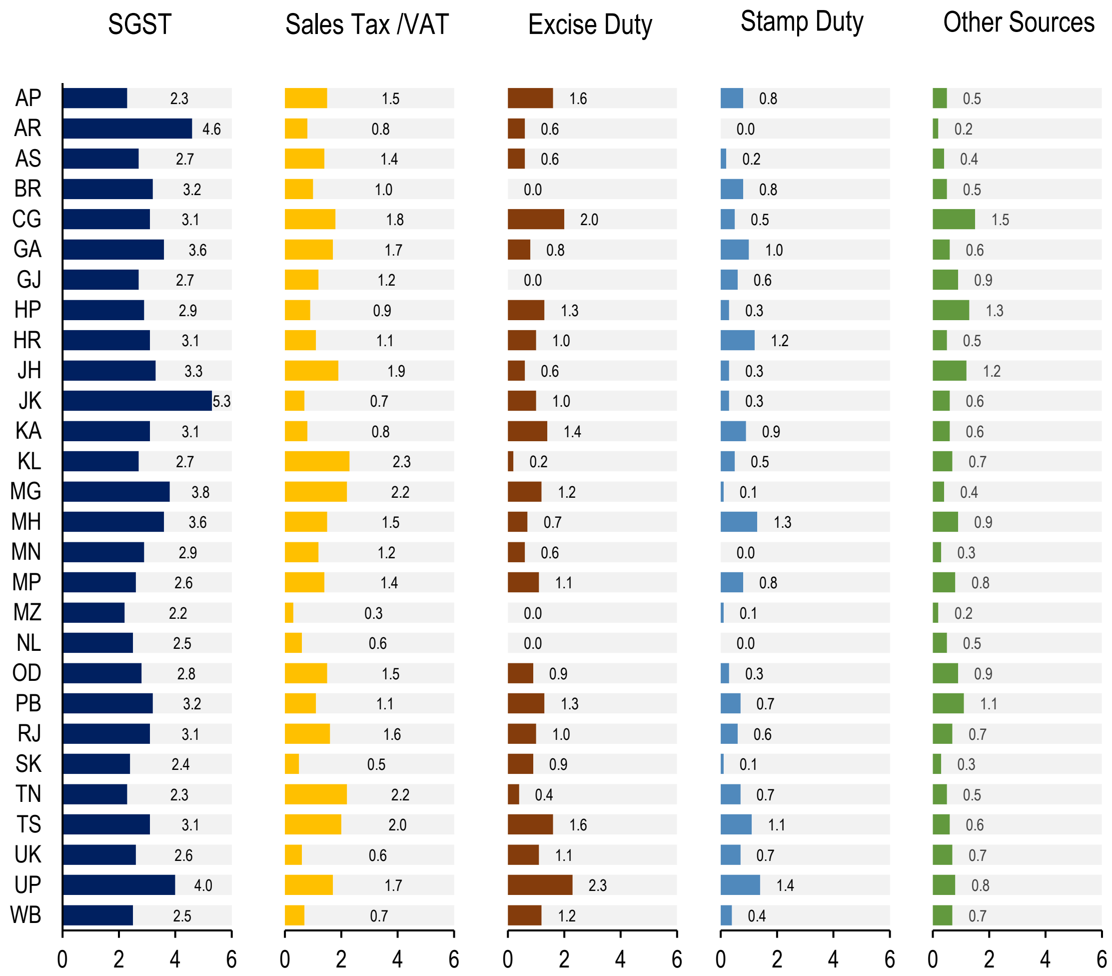
Note: Delhi, Puducherry, and Tripura not shown in above chart as 2024-25 GSDP estimate is not available for them.
Sources: State Budget Documents; PRS.

SGST is the largest source of own tax revenue

In 2024-25, important sources of states' own tax revenue include: (i) SGST (44% of revenue receipts) (see pages 4 and 5 for a discussion on GST), (ii) sales tax/VAT (21%), (iii) excise duty (14%), (iv) stamp duty (12%), and (v) revenue from other sources such taxes on vehicles and electricity (10%). States have limited control over SGST, as under GST decisions on tax rates are taken by the GST Council which comprises all states and the Centre. Sales tax/VAT and excise duty are the other two most significant sources of own tax revenue. States can levy sales tax/VAT on petroleum products and alcohol, and excise duty on alcohol. These two items have not been brought under GST so far.

States such as Bihar, Gujarat, Mizoram, and Nagaland have close to zero revenue from excise duty as these states have enforced alcohol prohibition.

Figure 19: Composition of own tax revenue in 2024-25 (as % of GSDP)



Note: Delhi, Puducherry, and Tripura not shown in above chart as 2024-25 GSDP estimate is not available for them.
Sources: State Budget Documents; PRS.

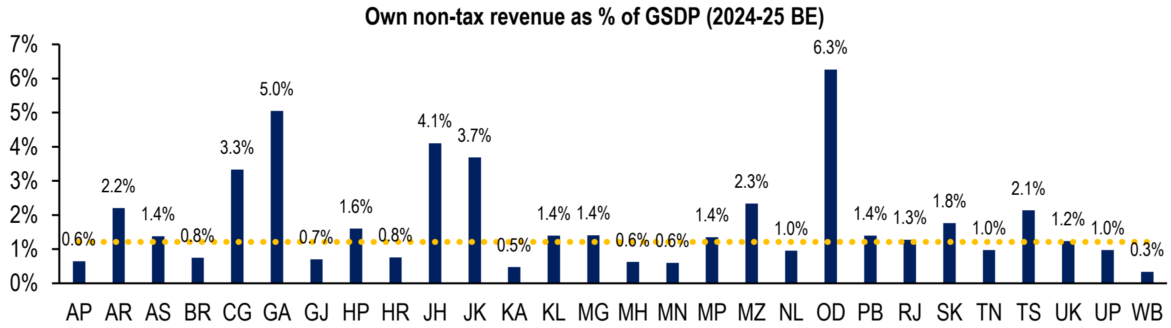
Rationalising Stamp Duty Rates

States collect stamp duty and registration charges from property transactions. These charges are paid by buyers of land or built property.[55] In India, stamp duty ranges between 5% to 8% across states as against the international average of less than 5%.[4] As per the budget estimates of 2024-25, revenue from stamp duty is expected to contribute over 10% of own tax revenue in several states. States that have budgeted higher revenue from stamp duty in 2024-25 include Haryana (18% of own tax revenue), Maharashtra (16%), Uttar Pradesh (14%), and Bihar (14%). High rate of stamp duty for real estate incentivises under-reporting and evasion.[55] A study in 2020, commissioned by the Ministry of Housing and Urban Affairs, recommended reducing or removing stamp duty for low value housing.[55] It observed that this would not reduce overall revenue for states, as they would get additional tax revenue from the increase in housing stock and subsequent transactions.[55] In order to avail central grants under the Pradhan Mantri Awas Yojana – Urban 2.0, states must undertake certain reforms.[56] These reforms include levying nominal stamp duty/registration charges (less than 1%) for houses up to 60 square meters registered under the scheme.[56] The revision in stamp duty/registration charges must be done by December 2024.[56]

Own non-tax revenue estimated to be around 1.2% of GSDP

In 2024-25, states have estimated their own non-tax revenue to be around 1.2% of their GSDP. There is significant inter-state variation in the extent of revenue raised from own non-tax sources. Chhattisgarh, Jharkhand, and Odisha have estimated to raise non-tax revenue between 3%-6.3% of their GSDP. More than 80% of their non-tax revenue is budgeted to come from the mining sector. Odisha's non-tax revenue (6.3% of GSDP) is estimated to be almost equal to its own tax revenue in 2024-25. RBI (2023) noted that a mechanism to detect and curb illegal mining activities would help mineral-rich states further increase their non-tax revenue.[4] See page 10 for a discussion on revenue from minerals. According to RBI (2023), states can also scale up their initiatives for asset monetisation for increasing non-tax revenue.[4] Asset monetisation involves generating revenue from public assets through means such as leasing them to the private sector. RBI suggested that, state governments can monetise their infrastructure assets in the roads, transport, and power sectors.[4] Additional revenue can also be generated by converting unutilised land into industrial estates.[4]

Figure 20: Mineral-rich states raise higher non-tax revenue

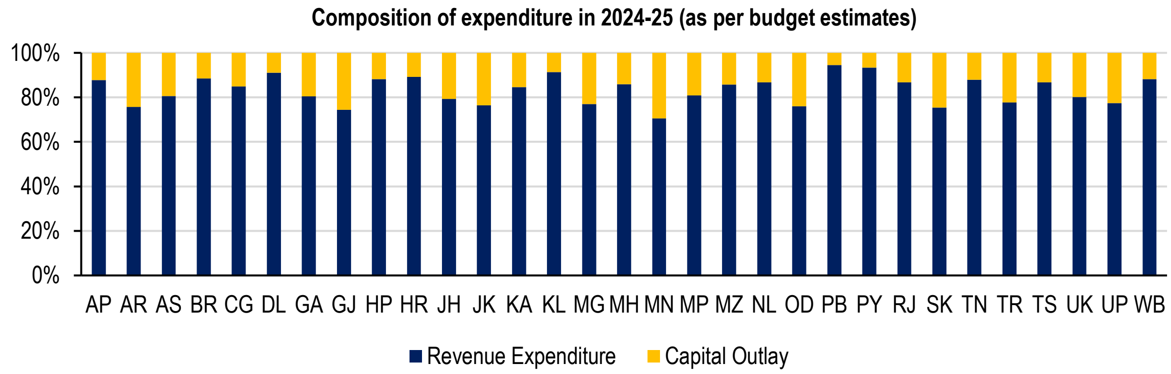


Note: Delhi, Puducherry, and Tripura not shown in above chart as 2024-25 GSDP estimate is not available for them. For certain states such as Goa, non-tax revenue includes electricity distribution revenues which is not part of the budget of other states.
Sources: State Budget Documents; PRS.

Revenue expenditure to form bulk of total expenditure

The expenditure of a government can be classified into: (i) revenue expenditure and (ii) capital expenditure. Revenue expenditure is recurring in nature, and includes expenditure on salaries, pensions, interest payments, and subsidies. Capital expenditure goes towards creating assets or reducing liabilities. It includes capital outlay which leads to the creation of assets such as schools, hospitals, and roads and bridges. It also includes repayment of loans and loans and advances given by a government. In 2024-25, states' revenue expenditure is budgeted to be 84% of their total expenditure while capital outlay is budgeted to be 16% (debt components excluded from the expenditure for analysis). Since 2020-21, the Centre has been providing long-term interest-free loans to states for capital outlay. In 2024-25, the Centre has budgeted to provide Rs 1.5 lakh crore on this account. As per revised estimate of 2023-24, Rs 1.06 lakh crore was provided to states as loans for capital outlay, lower than the budget estimate of Rs 1.3 lakh crore.

Figure 21: Revenue expenditure budgeted to be 84% of states' total expenditure

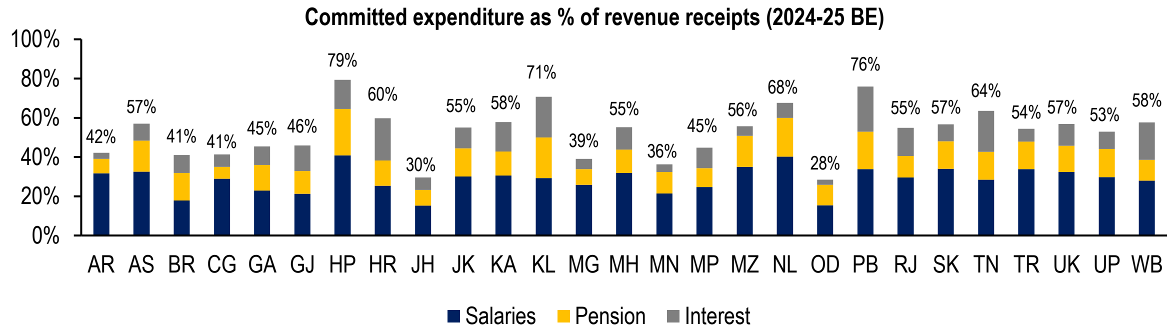


Sources: State Budget Documents; PRS.

52% of revenue receipts to be spent on three items—salaries, interest, and pension

Committed expenditure of a state typically includes expenditure on payment of salaries, pensions, and interest payments. Expenditure on these items usually cannot be reduced in the short to medium term. A larger proportion of the state budget allocated for committed expenditure crowds out expenditure on other development activities. In 2024-25, states have budgeted to spend 52% of their revenue receipts on committed expenditure items. This comprises 27% of revenue receipts to be spent on salaries and wages, 13% on pension, and 12% on interest. Note that moving to UPS may involve additional expenditure by states on pension (see page 6). Himachal Pradesh, Kerala, and Punjab are estimated to spend over 70% of their revenue receipts on committed expenditure in 2024-25. States with a relatively lower committed expenditure in 2024-25 include Odisha, Jharkhand, and Manipur.

Figure 22: Committed expenditure accounts for over half of states' revenue receipts

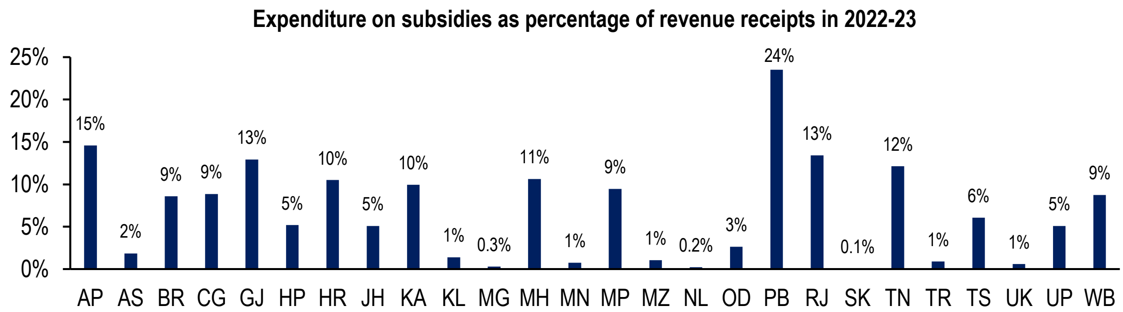


Note: Salary estimates for 2024-25 not provided in the budget documents by states not included in the chart.
Sources: State Budget Documents; PRS.

States spent 9% of their revenue receipts on subsidies in 2022-23

In 2022-23, 26 states spent around 9% of their revenue receipts on subsidies. States provide subsidies on various items such as supply of electricity, public distribution system, education, and health. States with relatively high expenditure on subsidies include Punjab (24% of revenue receipts), Andhra Pradesh (15%), Rajasthan (13%), and Gujarat (13%). In certain states, a major share of subsidies is provided for supplying free or low-cost electricity. For instance, over 95% of the total subsidies in Punjab and Rajasthan were provided for the electricity sector. In 2022, RBI had flagged concerns related to the increasing subsidies announced by several states.[57] It noted that this can reduce the funds available for developmental and capital expenditure.[57]

Figure 23: Over 90% of Punjab's subsidy expenditure allocated to power subsidies since 2019-20



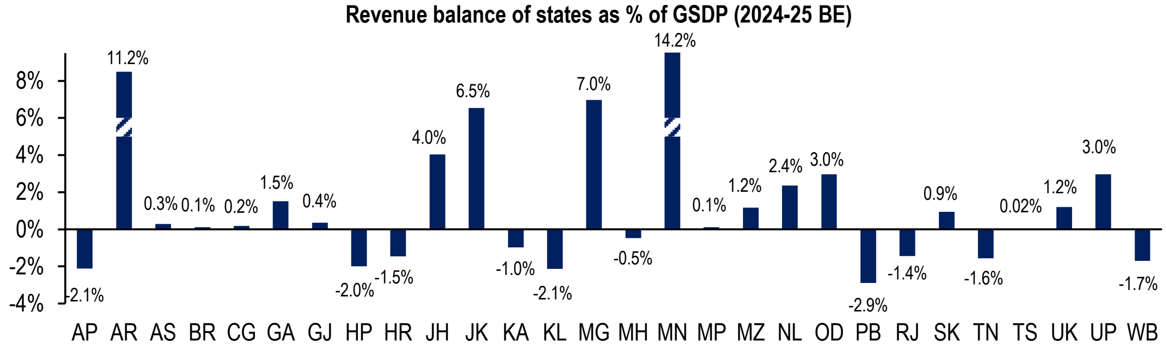
Sources: CAG Finance Accounts; State Budget Documents; PRS.

Eleven states have estimated a revenue deficit in 2024-25

Revenue deficit implies that a state needs to borrow to fund revenue expenditure, which does not lead to the creation of assets or reduction of liabilities. A revenue surplus can be used to incur capital outlay or to repay outstanding debt. In 2024-25, 11 states have estimated to incur a revenue deficit at the budget stage. The 13th Finance Commission noted that maintaining a revenue balance should be a long term and permanent target for states.[58] The FRBM Acts of various states also requires them to eliminate revenue deficit. States which have budgeted relatively higher revenue deficit in 2024-25 include Punjab (2.9% of GSDP), Andhra Pradesh (2.1%), Kerala (2.1%), and Himachal Pradesh (2%).

The 15th Finance Commission recommended revenue deficit grants of Rs 2.95 lakh crore to 17 states for the period between 2021-22 and 2025-26. RBI observed that there is a need to review the flow of such grants from the Centre to states.[4] Revenue deficit grants are given to states which are expected to have high revenue deficit post the tax devolution recommended by the Finance Commission. RBI noted that such protected revenues could disincentivise states from improving their finances.[4]

Figure 24: Several states have budgeted a revenue deficit in 2024-25



Note: Delhi, Puducherry, and Tripura not shown in above chart as 2024-25 GSDP estimates are not available for them. Puducherry has budgeted a revenue deficit in 2024-25. Bars for Arunachal Pradesh and Manipur are not to scale.
Sources: State Budget Documents; PRS.

Case Study: Odisha's Budget Stabilisation Fund

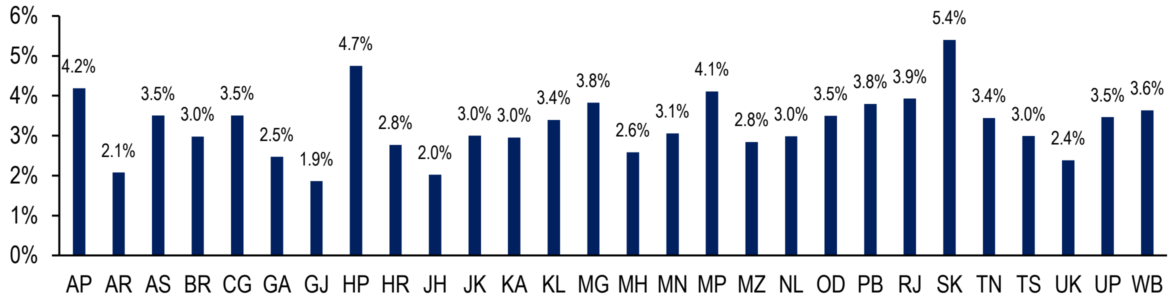
In recent years there has been a significant increase in Odisha's non-tax revenue driven by revenue from the mining sector. In 2024-25, the state's non-tax revenue is estimated to be 6.3% of GSDP, with 84% of total non-tax revenue estimated to come from the mining sector. Higher mining revenue has resulted from renewal of mining leases and online auctioning of mines.[59] However, revenue from the mining sector can be volatile and is sensitive to the demand for metals and their price in international market.[60] According to the state's estimates, 20% variation in commodity prices can impact the state's revenue by Rs 10,000 crore.[61] To balance the risks associated with possible fluctuations in mining revenue, Odisha has setup a Budget Stabilisation Fund.[62] The fund is administered by the RBI and is funded from the surplus in Odisha's revenue account.[62] It is designed to act as a strategic reserve to offset any decline in mining revenue.[60] This will help Odisha in maintaining financial stability and a certain level of expenditure.[61] As on March 31, 2023, the fund had a corpus of more than Rs 13,000 crore.[62]

Fiscal deficit estimated at 3.2% of GSDP in 2024-25

Fiscal deficit is the excess of government expenditure over its receipts. This gap is filled by borrowings. A higher fiscal deficit indicates a higher borrowing requirement in a financial year. In 2024-25, states on aggregate have budgeted a fiscal deficit of 3.2% of GSDP. For 2024-25, states' fiscal deficit limit has been set at 3% of GSDP, as per the recommendation of the 15th Finance Commission. An additional borrowing of 0.5% of GSDP is permitted if states undertake certain reforms in the power sector.

Between 2021-22 and 2024-25, if a state borrows less than the fiscal deficit allowed in one year, it can borrow above the limit to that extent in any of the following years. Loans given by the central government for capital expenditure (0.5% of GDP in 2024-25) are also not included while calculating states' fiscal deficit limit. These are 50-year interest-free loans and will have marginal impact on states' debt servicing obligations. In the past, borrowing ceiling has also been increased by the quantum of NPS contributions made by state governments and their employees.[63] In 2024-25, 15 states have estimated their fiscal deficit to be higher than 3% of GSDP. States with relatively high fiscal deficit include Himachal Pradesh (4.7% of GSDP), Sikkim (5.4%), Andhra Pradesh (4.2%), Madhya Pradesh (4.1%), and Rajasthan (3.9%).

Figure 25: 15 states have budgeted their fiscal deficit above 3% of GSDP (2024-25 BE)



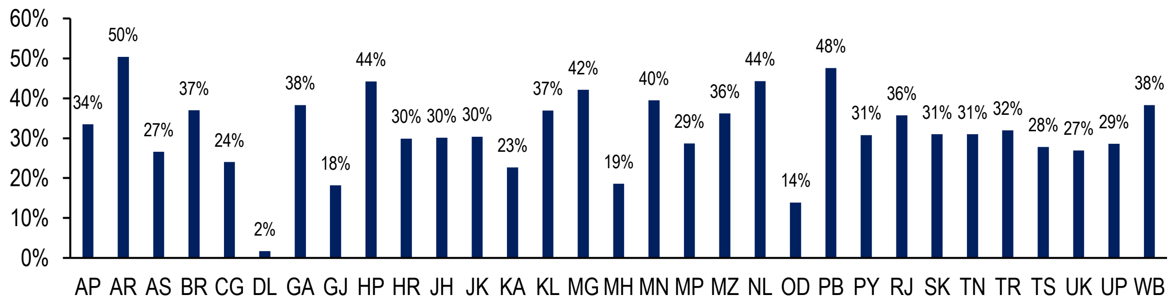
Note: Delhi, Puducherry, and Tripura not shown in chart as 2024-25 GSDP estimates are not available for these states. Figures are as reported by states in their respective budget documents.
Sources: State Budget Documents; PRS.

Outstanding liabilities of states estimated at 27.6% of GSDP as of March 2024

Outstanding liabilities refer to the debt accumulated by states from borrowings in the past. It also includes certain other liabilities such as liabilities on the public account. Higher outstanding liabilities indicate a higher obligation for the state to repay loans in the coming years. It can also lead to higher interest payments by states. The FRBM Acts of states usually specify limits on the outstanding liabilities as a percentage of GSDP. In 2017, the FRBM Review Committee (Chair: Mr. N. K. Singh) recommended a limit of 20% of GDP on states' outstanding liabilities.[64] Outstanding liabilities of states had reduced from 31.8% of GSDP in 2003-04 to 21.7% of GSDP in 2014-15.

In recent years, states' outstanding liabilities have increased partly due to expenditure, such as farm loan waivers and debt takeover under the UDAY scheme, and increased borrowings to fund expenditure during the COVID-19 period. In 2020-21, states' fiscal deficit limit was increased to 5% of GSDP as tax revenues dropped with reduced economic activity. As a result, outstanding liabilities of states increased from 26.6% of GSDP at the end of 2019-20 to reach 31% of GSDP at the end of 2020-21. At the end of 2023-24, states' outstanding liabilities is estimated at 27.6% of GSDP. As of March 2024, outstanding liabilities of 19 states is estimated to be higher than 30% of GSDP.

Figure 26: Outstanding liabilities higher than 30% of GSDP for 19 states (as of March 2024)

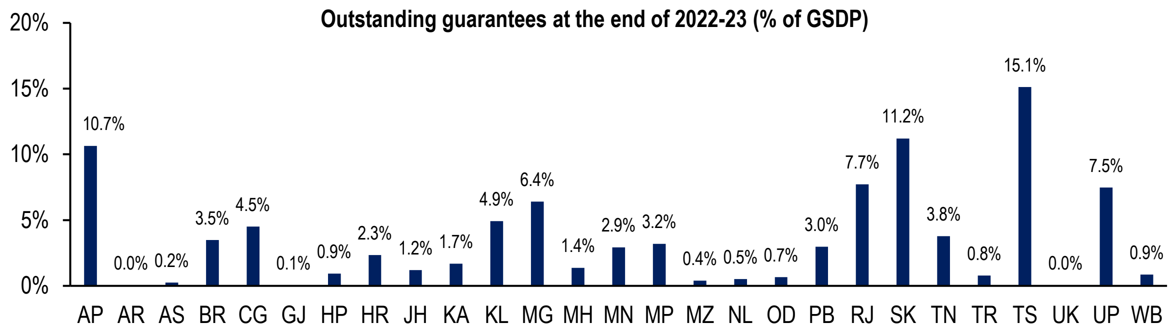


Note: Data is as per budget estimates.
Sources: RBI; PRS.

Outstanding guarantees of state governments

Outstanding liabilities of states do not include a few other liabilities that are contingent in nature, which states may have to honour in certain cases. State governments guarantee the borrowings of state public sector enterprises from financial institutions. This may be because these enterprises have a poor credit profile and a government guarantee will make it easier for them to obtain a loan. If the enterprise defaults on its interest or principal payment, the state government will be obligated to pay. For instance, in October 2024, Mahanagar Telephone Nigam Limited (MTNL) informed stock exchanges that it did not have sufficient funds to meet certain interest payment obligations.[65] As all bonds issued by MTNL are guaranteed by the central government, the Centre will have to bear the unpaid interest obligations.[65] At the end of 2022-23, total outstanding guarantees given by 27 states stood at 3.9% of their GSDP. States with a relatively higher guarantee level include Telangana (15.1% of GSDP), Sikkim (11.2%), Andhra Pradesh (10.7%), and Rajasthan (7.7%). In 2023, a working group on state government guarantees recommended that incremental guarantees given in a year should be capped at 5% of revenue receipts or 0.5% of GSDP, whichever is less.[66]

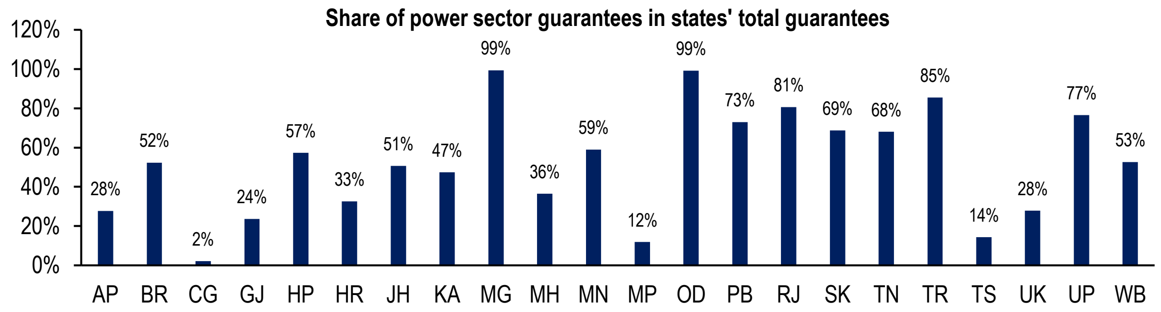
Figure 27: Outstanding guarantees are contingent liabilities for state governments



Sources: CAG finance accounts of respective states; PRS.

For several states, the power sector accounted for the largest share of guarantees. On average, the power sector accounted for 44% of the total outstanding guarantees in 27 states at the end of 2022-23. In Karnataka and Telangana, almost 40% of the guarantees outstanding at the end of 2022-23 were given to the irrigation sector. In Chhattisgarh, 68% of the outstanding guarantees were extended to cooperatives while in Madhya Pradesh, 72% of outstanding guarantees were given to the food, civil supplies and consumer protection sector.

Figure 28: Power sector accounted for 44% of total guarantees at the end of 2022-23



Sources: CAG finance accounts of respective states; PRS.

Credibility of budget estimates

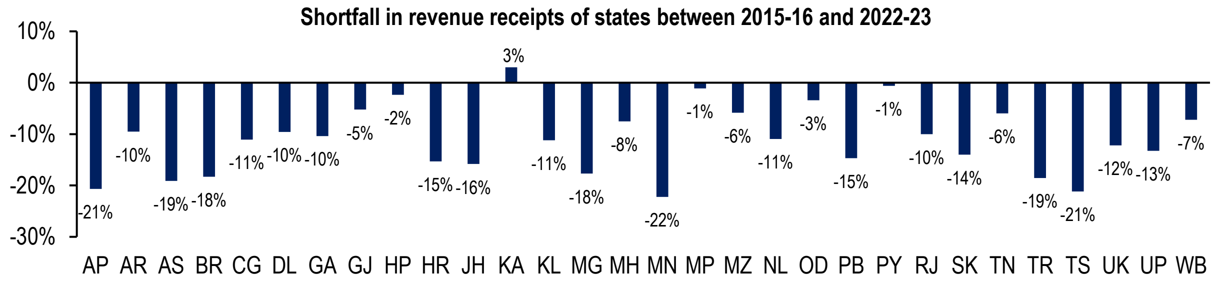
The state budget provides three sets of numbers: (i) budget estimates: an estimate for the upcoming financial year, (ii) revised estimates: revision in the budget estimate for the ongoing financial year, and (iii) actuals: the final audited amount for the previous year. The state legislature approves the budget for the upcoming year based on the budget estimates. The revised estimates may provide a more realistic picture of the government's finances in the ongoing year as they are made with reference to the actual transactions already recorded in that year. Actuals may fall short of or exceed the budget estimates, and this comparison helps understand the credibility of a proposed budget.

States raised 11% less revenue than budgeted between 2015-16 and 2022-23

States on an average raised 11% less revenue than their budget estimates between 2015-16 and 2022-23. States which saw a relatively higher shortfall in revenue receipts include Manipur (22%), Andhra Pradesh (21%), and Telangana (21%). Karnataka was the only state which met its budget target in this period. To make up for the shortfall in revenue collection, states may borrow more. However, the quantum of borrowing is limited by the state FRBM laws and the annual borrowing limit fixed by the

Centre. In case the borrowings are not sufficient to meet the shortfall, states might have to reduce their expenditure.

Figure 29: States undershot their budgeted revenue by 11%

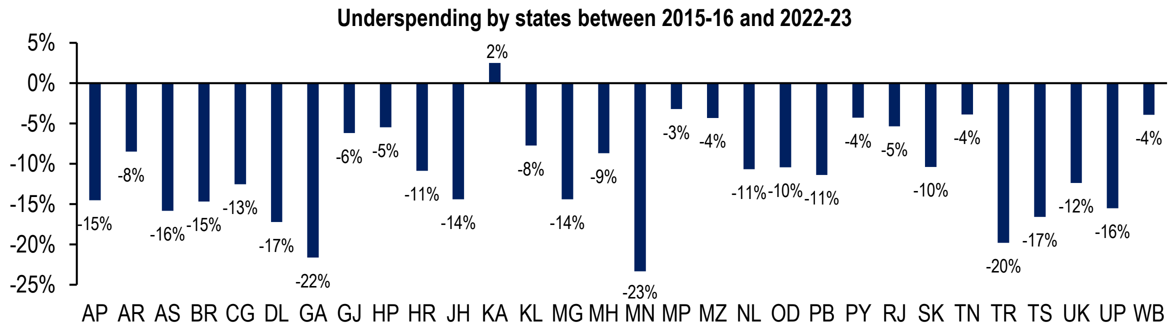


Sources: State Budget Documents; RBI; PRS.

States spent 10% less than budgeted between 2015-16 and 2022-23

States on average underspent their budget estimates by 10% between 2015-16 and 2022-23. One of the reasons for such underspending in states could be attributed to the shortfall in revenue collection. States which saw a relatively higher level of underspending include Manipur (23%), Goa (22%), and Tripura (20%). States such as Karnataka, Madhya Pradesh, Tamil Nadu, and West Bengal saw the least variance between budget figures and actual spending.

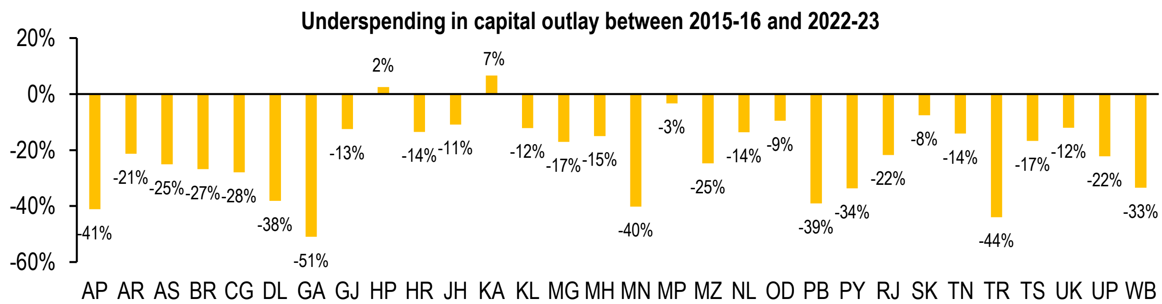
Figure 30: Two states underspent their budget estimates by more than 20%



Sources: State Budget Documents; RBI; PRS.

Average underspending in case of revenue expenditure during this period was 8%, whereas that for capital outlay was 21%. This is because a substantial part of revenue expenditure is committed in nature, which cannot be reduced (see page 3). Therefore, to compensate for the loss in revenue receipts, states might reduce their capital outlay by a large proportion. States such as Goa (51%), Tripura (44%), Andhra Pradesh (41%), and Manipur (40%) saw a relatively higher level of underspending in their capital outlay.

Figure 31: Underspending in capital outlay higher than in revenue expenditure



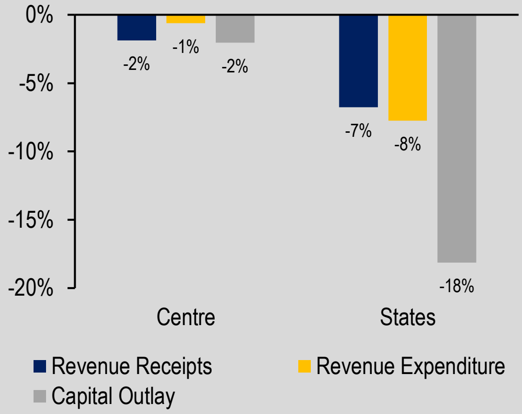
Sources: State Budget Documents; RBI; PRS.

Credibility of Revised Estimates

Revised estimates presented in the budget documents seek to provide a more realistic picture of the ongoing financial year. They are expected to provide the current assessment of the financial position as compared to the beginning of the year. As per the budget manual of the central government, revised estimates should be prepared with due care as these figures are important tools of fiscal management.[67] However, there have been significant divergences between revised estimates presented by states and the subsequent actual figures.

Between 2017-18 and 2022-23, actual revenue receipts of states were 7% lower than their revised estimates. For states, revenue expenditure and capital outlay underspending were 8% and 18% respectively. For states such as Assam and Bihar, this divergence was even larger. For instance, Assam's revenue receipts at revised estimate stage were overstated by 22% over actuals, while for Bihar it was overstated by 16%. Capital outlay for these states was overstated by 42% and 40% respectively. Compared to states, the Centre's actual figures for receipts and expenditure was close to its revised estimates (see Figure 32).

Figure 32: Shortfall in revised estimates vs actuals for Centre and states between 2017-18 and 2022-23



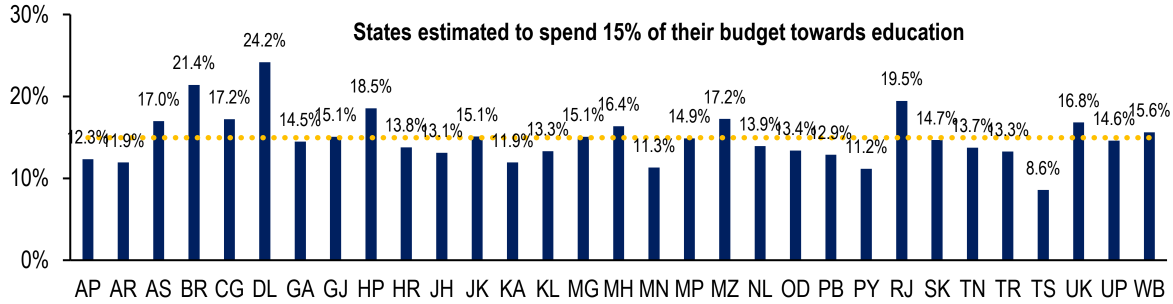
Sources: State Budget Documents; Union Budget Documents; RBI; PRS.

Sector-wise outlay in 2024-25

We show below the allocation by states on key sectors as per the budget estimates of 2024-25. The share of expenditure on a sector denotes the share of that sector in the state's budget. Expenditure on a sector is the sum of the revenue expenditure and the capital outlay in that sector. Note that spending on a sector may be affected by funding from the Centre in the form of grants for centrally sponsored schemes and other central grants. The sectoral spending in Delhi may be different from other states as police is with the Centre and the state has negligible rural or agricultural area. States may allocate similar items across different heads. For instance, Andhra Pradesh and Telangana classify spending on schools for SC/ST as welfare expenditure for these sections, and not under education; Punjab counts electricity subsidy to farmers under spending for agriculture, and not under energy. The sectors shown below account for 67% of the total budgeted expenditure by states in 2024-25.

Education

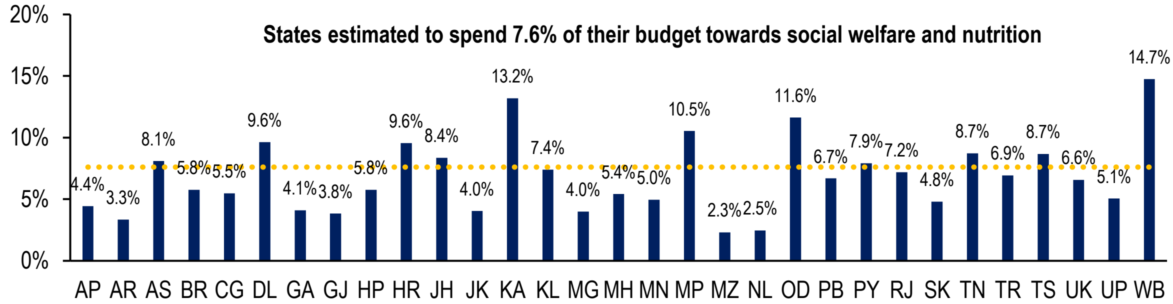
Figure 33: Bihar's allocation to education as a proportion of budget among the highest



Sources: State Budget Documents; PRS.

Social welfare and nutrition

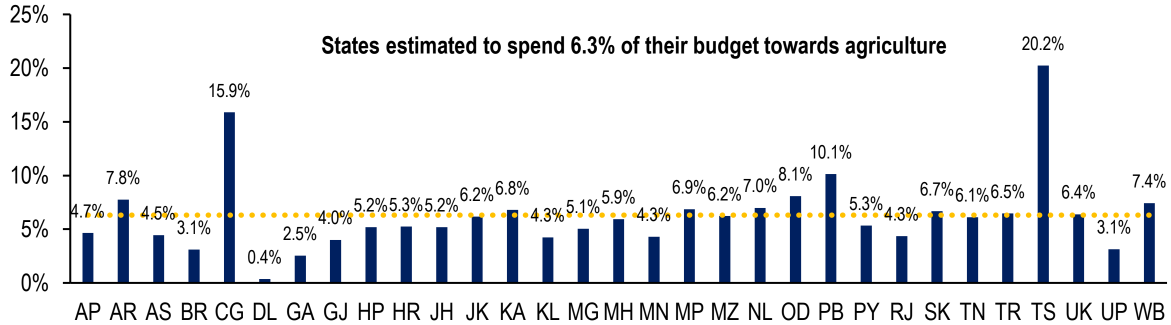
Figure 34: Karnataka's spending on social welfare estimated to more than double from 2022-23



Sources: State Budget Documents; PRS.

Agriculture and allied activities

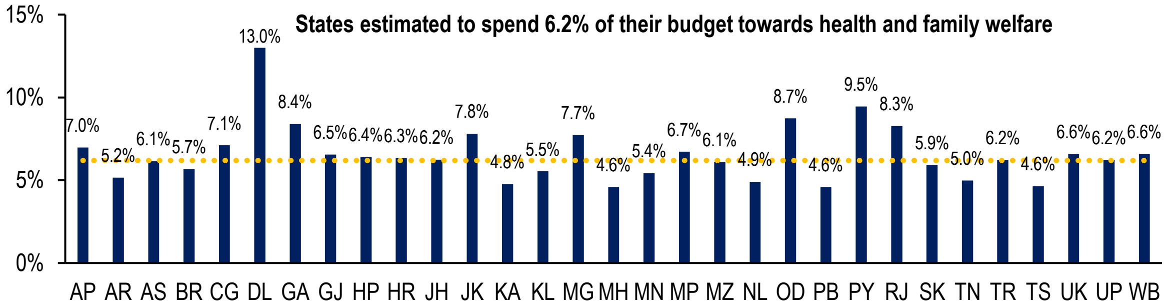
Figure 35: Telangana's spending on debt relief to farmers estimated to substantially increase in 2024-25



Sources: State Budget Documents; PRS.

Health and family welfare

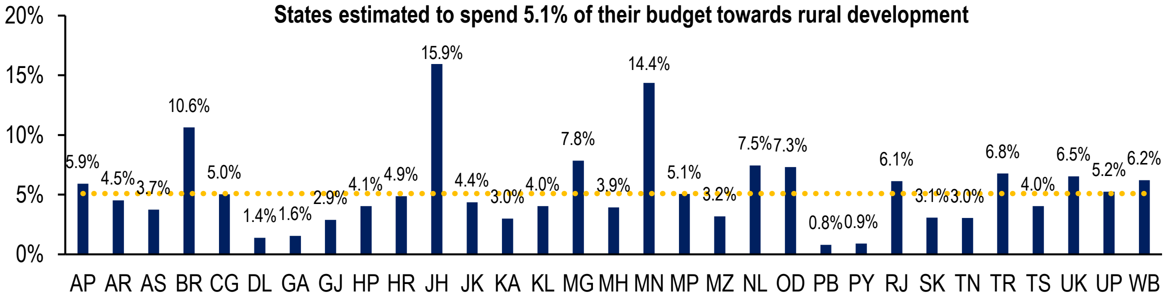
Figure 36: Most states miss National Health Policy (2017) target of 8% of budget allocation to health



Sources: State Budget Documents; PRS.

Rural development

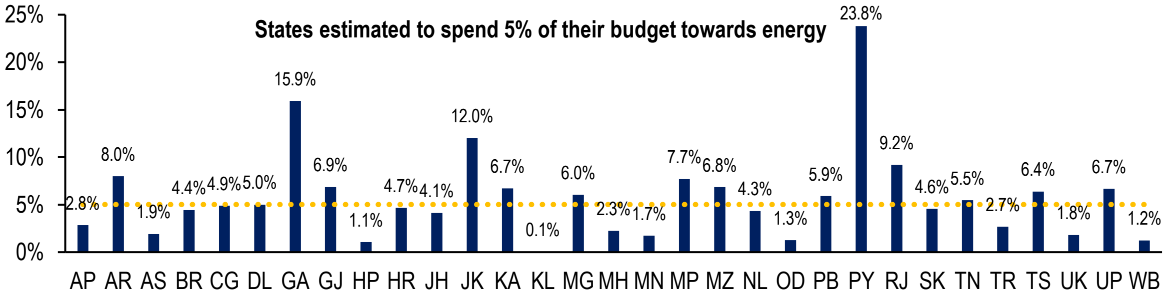
Figure 37: Jharkhand to spend the highest on rural development



Sources: State Budget Documents; PRS.

Energy

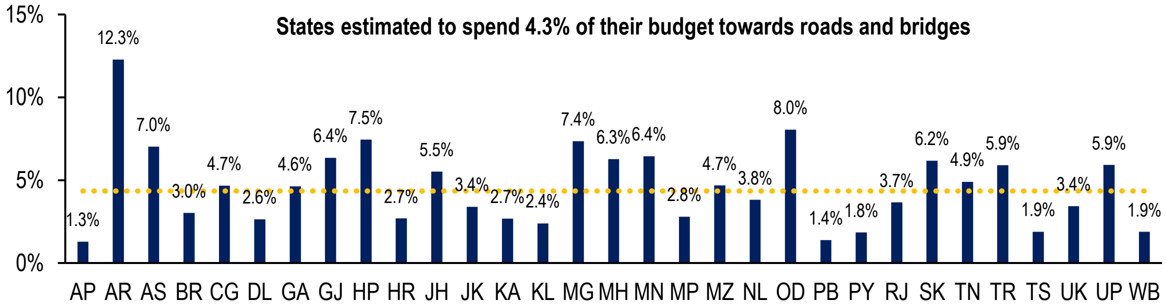
Figure 38: Around 90% of Rajasthan's energy budget allocated towards grants and subsidies to discoms



Note: States/UTs such as Goa and Puducherry have higher spending on energy as electricity distribution is undertaken by government departments and not state-owned discoms as in most other states.
Sources: State Budget Documents; PRS.

Roads and bridges

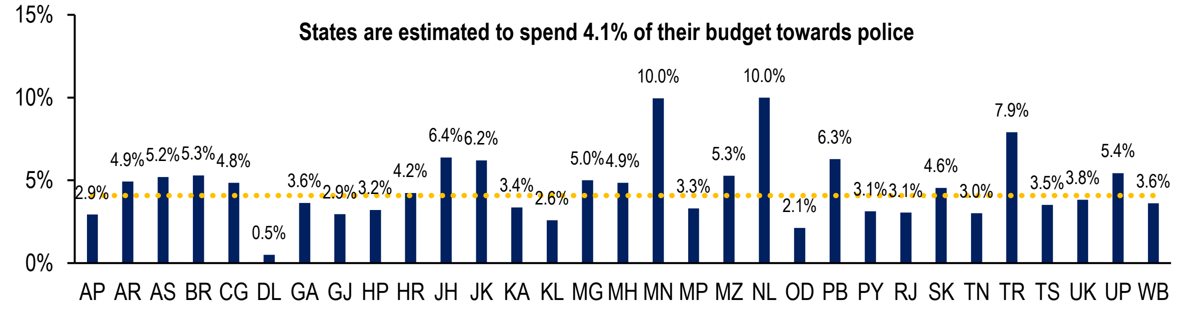
Figure 39: Odisha's spending on roads and bridges to increase by around 60% compared to 2022-23



Sources: State Budget Documents; PRS.

Police

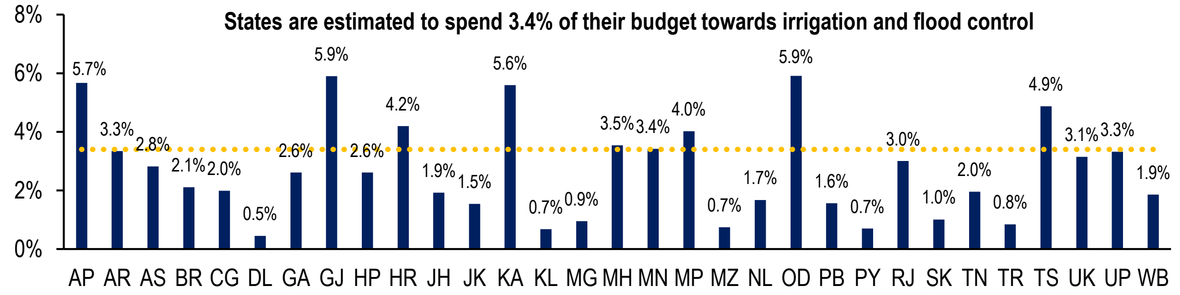
Figure 40: Manipur and Nagaland are estimated to spend 10% of their budget on police



Sources: State Budget Documents; PRS.

Irrigation and flood control

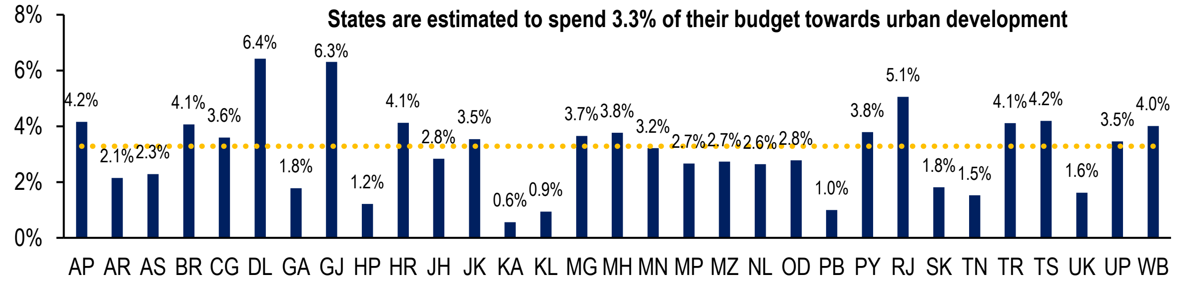
Figure 41: Gujarat and Odisha to spend the highest on irrigation and flood control



Sources: State Budget Documents; PRS.

Urban development

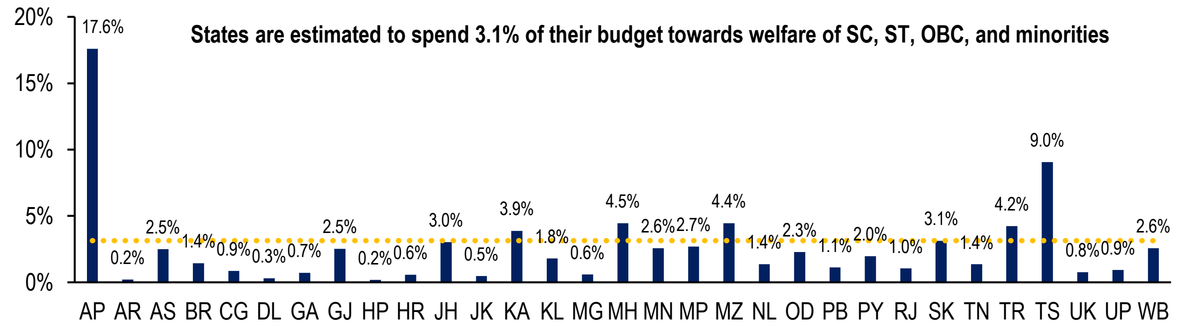
Figure 42: Gujarat's share of budget to be spent on urban development among the highest



Sources: State Budget Documents; PRS.

Welfare of SC, ST, OBC, and minorities

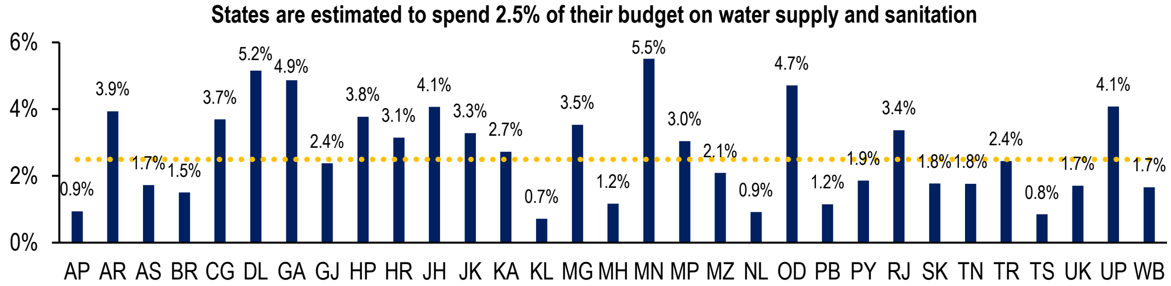
Figure 43: 40% of Andhra's spending on welfare of SC, ST, OBC, and minorities for pension scheme



Sources: State Budget Documents; PRS.

Water supply and sanitation

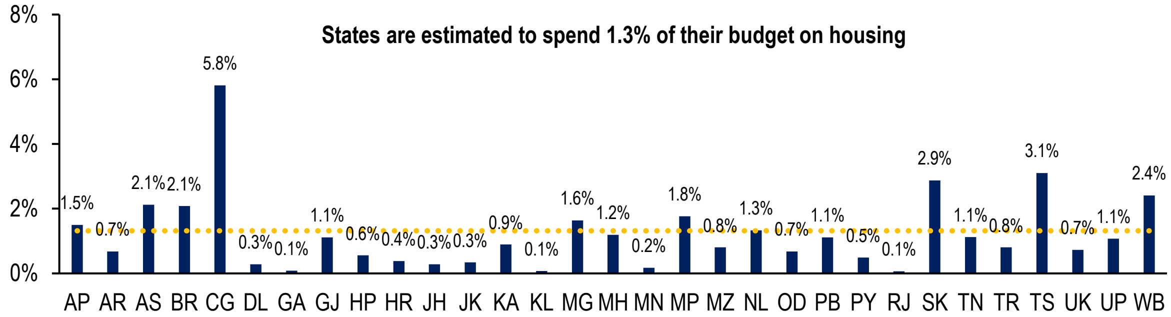
Figure 44: Three states to spend over 90% of their water supply and sanitation budget on capital outlay



Note: Karnataka, Madhya Pradesh, and Manipur have budgeted to spend over 90% of their total spending on water supply and sanitation towards capital outlay.
Sources: State Budget Documents; PRS.

Housing

Figure 45: Chhattisgarh to spend the highest on housing sector



Sources: State Budget Documents; PRS.

Annexure

Table 3: Expenditure on pension and retirement benefits across states (Rs crore)

State/UT	Amount (in Rs crore)				Annualised Change		
	1994-95	2004-05	2014-15	2024-25	1994-2005	2004-2015	2014-2025
Andhra Pradesh	746	3,017	9,972	21,808	-	-	8%
Arunachal Pradesh	8	70	481	2,305	24%	21%	17%
Assam	162	1,062	5,237	17,811	21%	17%	13%
Bihar	320	2,325	11,345	31,796	-	17%	11%
Chhattisgarh	-	534	3,250	7,737	-	20%	9%
Delhi	-	-	1	3	-	-	17%
Goa	15	140	660	2,814	25%	17%	16%
Gujarat	381	1,892	9,185	26,424	17%	17%	11%
Haryana	138	902	4,602	15,000	21%	18%	13%
Himachal Pradesh	83	591	2,914	9,961	22%	17%	13%
Jammu and Kashmir	55	660	3,686	14,058	28%	19%	14%
Jharkhand	-	928	3,463	8,741	-	14%	10%
Karnataka	470	2,157	10,118	32,355	16%	17%	12%
Kerala	565	2,601	11,253	28,609	16%	16%	10%
Madhya Pradesh	385	1,330	6,836	25,648	-	18%	14%
Maharashtra	489	2,872	14,258	59,817	19%	17%	15%
Manipur	26	183	934	3,008	22%	18%	12%
Meghalaya	14	87	515	1,865	20%	19%	14%
Mizoram	8	89	545	1,966	28%	20%	14%
Nagaland	29	134	905	3,557	16%	21%	15%
Odisha	165	1,260	6,417	21,940	23%	18%	13%
Puducherry	-	-	431	1,375	-	-	12%
Punjab	218	1,514	7,249	19,800	21%	17%	11%
Rajasthan	300	1,626	9,629	29,017	18%	19%	12%
Sikkim	3	31	333	1,513	26%	27%	16%
Tamil Nadu	636	3,902	17,349	42,509	20%	16%	9%
Telangana	-	-	4,210	11,641	-	-	11%
Tripura	31	221	837	3,212	22%	14%	14%
Uttar Pradesh	498	3,561	22,305	86,488	-	20%	15%
Uttarakhand	-	354	2,452	8,146	-	21%	13%
West Bengal	401	3,336	12,128	24,710	24%	14%	7%
Total	**6,146**	**37,378**	**1,83,499**	**5,65,633**	**20%**	**17%**	**12%**

Note: Annualised change is measured as compounded annual growth rate. Figures for Bihar, Madhya Pradesh, and Uttar Pradesh are not comparable to the years before 2004-05 as these states were bifurcated into Jharkhand, Chhattisgarh, and Uttarakhand respectively in 2000. Figures for Andhra Pradesh are not comparable before 2014, as the state was bifurcated for creation of Telangana. Data for Jammu and Kashmir post bifurcation is that of the UT of Jammu and Kashmir.
Sources: State Budget Documents; RBI; PRS.

Table 4: Profits and losses of state-owned power distribution companies (in Rs crore)

States	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Andhra Pradesh	-2	-11,934	-151	44	-2,458	1,736
Arunachal Pradesh	-429	-420	0	0	0	0
Assam	165	21	954	-292	336	-800
Bihar	-2,650	-3,090	-2,917	-2,523	-2,128	181
Chhattisgarh	-279	-42	-973	-420	-1,214	-1,133
Goa	26	-121	-276	78	117	69
Gujarat	426	184	314	429	371	147
Haryana	412	281	331	637	849	975
Himachal Pradesh	4	4	11	-185	-104	-1,437
Jharkhand	-212	-751	-1,132	-2,200	-2,038	-3,620
Karnataka	-522	970	-1,850	-4,175	-4,592	-3,146
Kerala	-784	-135	-270	-483	98	-1,022
Madhya Pradesh	-5,284	-7,159	-1,746	-4,152	-3,315	-2,683
Maharashtra	492	1,729	978	-1,607	-329	-6,289
Manipur	-8	-18	-15	-15	-11	-129
Meghalaya	-287	-202	-443	-101	-157	-193
Mizoram	87	-294	-291	-115	-59	-158
Nagaland	-62	-94	-477	6	24	33
Odisha	-792	-1,539	-842	-	-	-
Puducherry	6	-36	-301	-20	75	-129
Punjab	-907	-38	-1,158	1,446	1,069	-4,776
Rajasthan	2,173	2,607	2,986	-2,217	-472	-2,514
Sikkim	-29	-3	-179	-34	0	71
Tamil Nadu	-7,761	-12,623	-11,965	-13,066	-9,130	-9,192
Telangana	-5,485	-8,019	-6,057	-6,686	-831	-11,103
Tripura	28	62	-57	10	-120	-284
Uttar Pradesh	-5,002	-5,902	-3,866	-10,660	-6,498	-15,512
Uttarakhand	-229	-553	-577	-152	-21	-1,224
West Bengal	-40	-45	567	-190	-205	21
Total	**-26,945**	**-47,160**	**-29,402**	**-46,643**	**-30,743**	**-62,111**

Note: Odisha's discom was privatised in 2020-21, hence, data has been provided till 2019-20. Delhi has also privatised its discom. Private discoms also operate in parts of Gujarat, Maharashtra, Uttar Pradesh, and West Bengal.
Sources: Power Finance Corporation reports for various years; PRS.

Table 5: Financial indicators of state-owned power distribution companies

State	AT&C losses (in %)#				ACS-ARR gap* (in Rs)			
	2019-20	2020-21	2021-22	2022-23	2019-20	2020-21	2021-22	2022-23
Andhra Pradesh	11%	20%	11%	8%	0.0	0.0	0.3	-0.2
Arunachal Pradesh	40%	52%	48%	52%	0.0	0.0	0.0	0.0
Assam	23%	19%	17%	16%	-0.9	0.3	-0.3	0.6
Bihar	40%	34%	32%	25%	0.9	0.7	0.5	0.0
Chhattisgarh	19%	18%	18%	16%	0.3	0.1	0.3	0.3
Goa	15%	13%	6%	12%	0.6	-0.2	-0.3	-0.1
Gujarat	12%	12%	10%	11%	-0.1	-0.1	-0.1	0.0
Haryana	18%	17%	14%	12%	-0.1	-0.1	-0.2	-0.2
Himachal Pradesh	14%	14%	13%	11%	0.0	0.1	0.1	0.9
Jharkhand	37%	43%	31%	30%	0.9	1.7	1.4	2.5
Karnataka	17%	16%	12%	14%	0.3	0.7	0.7	0.4
Kerala	13%	8%	8%	7%	0.1	0.2	0.0	0.3
Madhya Pradesh	30%	42%	21%	21%	0.2	0.5	0.4	0.3
Maharashtra	19%	28%	16%	19%	-0.1	0.1	0.0	0.4
Manipur	23%	25%	31%	14%	0.1	0.1	0.3	1.2
Meghalaya	32%	23%	26%	24%	1.9	0.4	0.6	0.7
Mizoram	37%	29%	36%	26%	3.3	1.6	0.8	1.7
Nagaland	52%	47%	44%	46%	5.5	-0.1	-0.3	-0.3
Puducherry	18%	20%	11%	17%	1.0	0.1	-0.2	0.4
Punjab	15%	19%	12%	11%	0.2	-0.3	-0.2	0.7
Rajasthan	30%	26%	17%	16%	-0.4	0.3	0.1	0.2
Sikkim	29%	98%	31%	37%	1.7	0.3	0.0	-0.7
Tamil Nadu	14%	12%	11%	10%	1.3	1.5	0.9	0.9
Telangana	22%	13%	11%	19%	1.0	1.1	0.1	1.4
Tripura	36%	37%	31%	28%	0.2	-0.1	0.4	0.9
Uttar Pradesh	30%	27%	31%	22%	0.3	0.9	0.6	1.2
Uttarakhand	20%	15%	14%	15%	0.4	0.1	0.0	0.7
West Bengal	20%	21%	17%	17%	-0.1	0.0	0.0	0.0
National Average	**21%**	**23%**	**16%**	**16%**	**0.3**	**0.5**	**0.3**	**0.5**

Note: # Loss of electricity during transmission and commercial losses due to inaccurate metering and power theft.
* Refers to the per unit gap between the average cost of supplying power and the average revenue realised from its sale.
Odisha's discom was privatised in 2020-21, hence it is excluded. Jammu and Kashmir has been excluded as data in not available from 2021-22 onwards.
Sources: Power Finance Corporation reports for various years; PRS.

Glossary of key terms

Receipts indicate the money received by the government. This includes: (i) the money earned by the government, (ii) grants received (mainly from the Centre), and (iii) the money it receives in the form of borrowings or repayment of loans.

Capital receipts indicate the receipts which lead to a decrease in assets or an increase in liabilities of the government. It consists of: (i) the money earned by selling assets such as shares of public enterprises, and (ii) the money received in the form of borrowings or repayment of loans.

Revenue receipts are receipts that do not directly impact the assets and liabilities of the government. This consists of the money earned by the government through tax and non-tax sources (such as dividend income and grants from the central government).

Capital expenditure is used to create assets or reduce liabilities. It consists of: (i) the money spent by the government on creating assets such as roads and hospitals, and (ii) the money given by the government for repayment of its borrowings.

Revenue expenditure is the expenditure by the government which does not impact its assets or liabilities. For example, this includes salaries, interest payments, pension, administrative expenses, and subsidies.

Devolution of union taxes means the money received by states from the central government as the state's share in union taxes such as corporation tax, income tax, central GST, customs, and union excise. It is devolved to the state as per the criteria recommended by the Finance Commission.

Grants-in-aid are transferred by the central government to states and are tied in nature, i.e., they are linked to specific schemes and expenditure avenues, such as Swachh Bharat Mission, and National Health Mission.

Outstanding debt is the stock of money borrowed by subsequent governments over the years which the government currently owes. The figure for a financial year indicates the government's outstanding debt at the end of the year.

Fiscal deficit is the gap between the government's expenditure requirements and its receipts. This equals the money the government needs to borrow during the year. A surplus arises if receipts are more than expenditure.

Revenue deficit is the gap between the revenue components of receipts and expenditure, i.e., revenue disbursements and revenue receipts. This indicates the money the government needs to borrow to spend on non-capital components (which do not lead to the creation of assets).

Primary deficit equals fiscal deficit minus interest payments. This indicates the gap between the government's expenditure requirements and its receipts, not taking into account the expenditure incurred on interest payments on loans taken during the previous years.

Consolidated Fund of the State is the Fund or account into which all of the state government's receipts are credited, and which it uses for financing its expenditure.

Charged expenditure includes expenditure that is not required to be voted on by the Assembly and is charged directly from the Consolidated Fund of the State. Such expenditure can still be discussed in the Assembly. Examples include interest payments, and salaries and allowances of the Governor and judges of the High Court.

Voted expenditure consists of all expenditure other than charged expenditure. Such expenditure is required to be voted upon by the Assembly, in the form of Demands for Grants.

Fiscal Responsibility and Budget Management Framework relates to laws passed by states for institutionalizing financial discipline. The framework provides targets for revenue deficit, fiscal deficit, and outstanding debt to be met for a specified timeframe by states. It also requires states to bring out statements on fiscal policy for greater transparency.

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