STATE OF STATE FINANCES

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Tushar Chakrabarty, Tanvi Vipra

Several states continue to budget revenue deficit, thus constraining capital outlay

GST rates may need to be rationalised to restore pre-GST revenue levels

Electricity subsidy forms about half of total subsidy expenditure by states

As the effect of COVID-19 has waned, states' revenue receipts have returned to pre-pandemic level. However, GST collection as a percentage of GSDP remains below pre-GST levels. Increasing the level of GST revenue may require rationalisation in tax slabs. The discontinuation of GST compensation grants in June 2022 has adversely impacted some states. States continue to have a high level of committed expenditure, and persistent revenue deficit. Increase in non-merit subsidies, reversal of pension reforms, and poor financial conditions of state-owned discoms continue to present challenges to state finances.

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	Madhya Pradesh	MP	Telangana	TS
Goa	GA	Manipur	MN	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 continue to budget revenue deficit amidst tapering grants

The 15th Finance Commission recommended revenue deficit grants for certain states between 2021-22 and 2025-26. These grants were provided in a manner so that they taper off in successive years. However, several states have continued to budget revenue deficit. In the backdrop of reducing grants, states may have to augment their revenue or reduce expenditure to maintain revenue balance.

GST slabs may need to be rationalised for post-compensation period

The GST compensation for states ended in June 2022, but SGST revenue continues to be lower than both the pre-GST period and the level of guaranteed revenue. In order to restore the revenue neutral rate under GST, the 15th Finance Commission had recommended merging tax slabs and minimising exemptions. In the post-compensation period, rationalising GST slabs may bring additional revenue.

Significant share of state subsidies spent on electricity sector

Over the last several years, states have spent around 8%-9% of their revenue receipts on providing subsidies. A significant portion of such subsidies are spent to provide subsidised or free electricity. Concerns have been raised over rising subsidies for non-merit goods in several states. Providing such non-merit subsidies may constrain the fiscal space available for capital expenditure.

Discom losses reduce in 2021-22 but high debt may pose risks to state finances

Poor financial health of state-owned discoms has been a persistent problem for several years. In 2021-22, financial losses of these discoms reduced. This may have been driven by higher subsidy released by states to discoms. Despite these improvements, several discoms have significant debt which are contingent liabilities for states and pose a risk to their finances.

States get higher central aid for capital outlay; however, spending at similar levels

Since 2020-21, the Centre has provided loans to states for undertaking capital outlay. This was to help states enhance their capital investment. In 2022-23, the quantum of these loans increased substantially. However, states' spending on capital outlay is seen to be at similar levels despite accounting for such loans. In 2022-23, capital outlay to GSDP ratio for several states is estimated to decrease as compared to 2021-22.

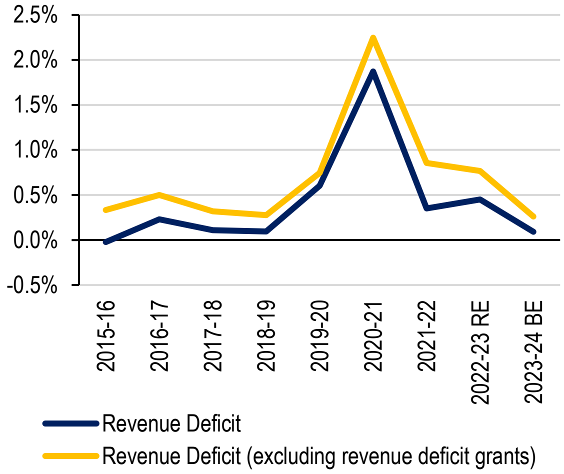
States' off-budget borrowings estimated to reduce on inclusion in borrowing limit

Off-budget borrowings are raised by government-owned entities, but the interest and principal of such loans is serviced from the government budget. This leads to understatement of debt and deficits. In 2022, the central government decided to include off-budget borrowings by states while deciding their net borrowing ceiling. Following this, off-budget borrowings by states are estimated to reduce by over 70% in 2022-23 as compared to 2021-22.

States continue to budget revenue deficit amidst tapering grants

Revenue deficit implies that the revenue receipts of a state are not sufficient to meet its revenue expenditure. Borrowings are needed to bridge this gap. Revenue expenditure involves money spent on items such as salaries, pensions, subsidies, and interest payments, which do not lead to the creation of assets. Recurring revenue deficit by states reduces the space to undertake capital outlay (spending towards creation of assets), as FRBM Acts have placed limits on borrowings in a year (see page 6). Successive Finance Commissions have recommended that states should eliminate revenue deficit.[1,2] The FRBM laws also require elimination of revenue deficit in several states. Since 2016-17, states on aggregate have observed a revenue deficit.

Figure 1: States' aggregate revenue deficit (as % of GDP)



Note: Negative revenue deficit indicates a surplus.
Sources: RBI; State Budget Documents; MoSPI; PRS.

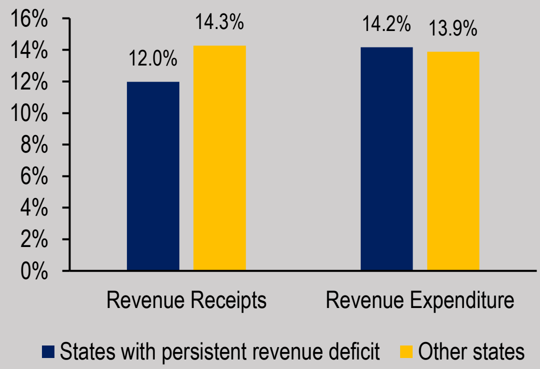
All recent Finance Commissions have recommended grants to states to eliminate revenue deficit.[3] These grants are awarded to address any revenue needs of the states which may remain after accounting for devolution of central taxes.[3] Post-devolution revenue deficit for a state signifies the presence of an imbalance (difference between revenue sources and expenditure needs) that remains to be corrected.[4] These grants also allow states to adjust to any changes in the pattern of tax devolution.[3] The 15th Finance Commission recommended revenue deficit grants worth Rs 2.95 lakh crore to 17 states for the period between 2021-22 and 2025-26.[3] Around 87% of the total grants were awarded for the first three years. As the grants will be substantially lower in the next two years, states would have to augment their own sources of revenue or cut expenditure to maintain revenue balance. For instance, Kerala which received Rs 4,749 crore as revenue deficit grants in 2023-24 will not receive any grants in 2024-25.

In 2023-24, 11 states have budgeted a revenue deficit. Out of these 11 states, Andhra Pradesh, Himachal Pradesh, Kerala, Punjab, and West Bengal have budgeted revenue deficit after accounting for revenue deficit grants in 2023-24. If grants were not provided, six more states would have been in revenue deficit in 2023-24. These include Assam, Nagaland, and Uttarakhand.

Case Study: Some states have persistent revenue deficit due to lower receipts relative to GSDP

Since 2015-16, seven states have persistently reported revenue deficit. These states are Andhra Pradesh, Haryana, Kerala, Punjab, Rajasthan, Tamil Nadu, and West Bengal. A comparison with other states reveals that these seven states on average had lower revenue as percentage of GSDP (Figure 2). States' revenue is a combination of their own revenue and central transfers. Barring West Bengal, the ratio of own revenue (tax and non-tax) to GSDP for these states was close to the national average of 7.3% of GSDP. However, central transfers as a percentage of GSDP were lower than the national average for Haryana, Kerala, Punjab, and Tamil Nadu. Central transfers to states are mostly inversely related to their level of per capita income. Per capita GSDP of Haryana, Kerala, and Tamil Nadu is significantly higher than India's per capita GDP. Rajasthan's revenue receipts during this period were 14.5% of GSDP, higher than the average of the other states. However, its revenue expenditure was also significantly higher at 17.3% of GSDP.

Figure 2: Revenue receipts and expenditure of states between 2015-16 and 2021-22 (% of GSDP)

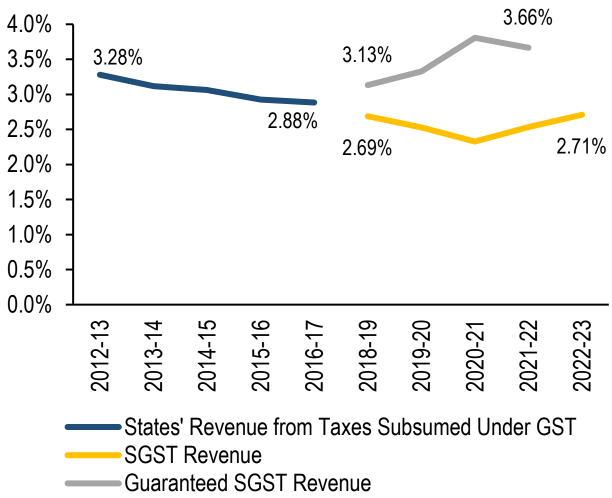


Sources: State Budget Documents; RBI; MoSPI; PRS.

GST slabs may need to be rationalised for post compensation period

In 2021-22 and 2022-23, states witnessed a recovery in their revenue receipts. This was driven by higher growth in nominal GDP in these two financial years which had contracted by 1.4% in 2020-21. The recovery was also reflected in the revenue collected by states through the Goods and Services Tax (GST). GST was implemented in July 2017 and subsumed several taxes both at the level of the Centre and states.[5] State GST (SGST) accounts for over 40% of states' own tax revenue but SGST to GSDP ratio continues to be lower than pre-GST levels. SGST revenue is also lower than the level guaranteed by the Centre for five years.

Figure 3: States' tax to GSDP ratio in pre and post GST periods (in %)



Note: The chart excludes Arunachal Pradesh, Gujarat, and Haryana as pre-GST revenue is not available and Jammu and Kashmir as the state was bifurcated into two UTs in 2019. It excludes 2017-18 as GST was introduced for part of the year.
Sources: CAG, State Budget Documents; MoSPI; PRS.

Figure 3 compares the revenue collected by 27 states and UTs before and after the implementation of GST. In the pre-GST period, states' revenue from taxes that were subsumed under GST was around 3% of GSDP. In 2018-19, which was the first full year of GST's implementation, this ratio was lower at 2.7%. In subsequent years, states' GST revenue has stayed below the 3% level. Between July 2017 and June 2022, states were guaranteed an annual GST revenue growth of 14%. States that fell short of this guaranteed rate of growth were compensated until the end of June 2022. States' GST revenue has been consistently lower than the level of guaranteed revenue. This is because states' aggregate GSDP has grown at a compounded rate of 9.6% between 2018-19 and 2022-23, lower than the 14% guaranteed growth rate.

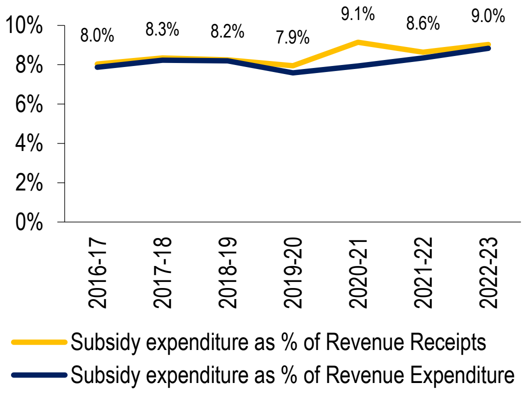
The compensation needs of most states were higher in 2021-22 than in 2018-19 (see Table 3 in Annexure for details). However, post June 2022, states that were more reliant on GST compensation, such as Puducherry, Punjab, Delhi, Himachal Pradesh, Goa, and Uttarakhand, are likely to be the most adversely impacted.[6] Note that Puducherry, Punjab, and Himachal Pradesh have budgeted a revenue deficit in 2023-24. The GST Council (2021) noted that states will see a decrease in their resources from July 2022 onwards.[7] It observed that there was an immediate need to augment revenue collection under GST.[7] According to RBI, in the absence of GST compensation, states need to augment their revenue by increasing compliance, plugging leakages, and widening the tax base.[6]

The 15th Finance Commission had observed that GST's revenue neutrality was compromised due to multiple tax rate reductions.[8] Against an estimated revenue neutral rate of 15%-15.5%, the weighted average GST rate was 11.6% in 2019.[9,10] To restore the revenue neutral rate, the 15th Finance Commission had recommended: (i) merging the 12% and 18% tax slabs, (ii) operating with a three-rate structure of a merit rate, standard rate, and demerit rate, and (iii) minimising exemptions.[8] In its deliberations, the GST Council (2021) had observed that the 5% tax slab has a significant base of goods and services. It estimated that an increase of one percentage point in the 5% tax slab can bring additional GST revenue of more than Rs 50,000 crore (0.2% of 2021-22 GDP).[7] It also favoured rationalising exemptions and correcting the inverted duty structure (tax rate on inputs higher than finished products) under GST. In its 47th meeting, the GST Council (2022), recommended several tax rate changes to correct the inverted duty structure and reduce exemptions.[11] However, the changes in the GST rate structure, as recommended by the 15th Finance Commission or the one deliberated upon by the GST Council, have not been adopted so far.

Significant share of state subsidies spent on electricity sector

States provide subsidies on various items such as supply of electricity, public distribution system, education, health, and transportation. In 2022-23, states are estimated to spend 9% of their revenue receipts on subsidies. Since 2016-17, states have spent at least 8% of their revenue receipts on subsidies (see Figure 4). Subsidised items can be broadly classified into merit and non-merit goods.[12] The consumption of certain goods and services (such as education and health) by an individual may have wider benefits for society.[12] The subsidisation of such merit goods can be considered socially desirable.[12] Providing subsidies for non-merit goods may not involve such wider social benefits. RBI (2022) had observed that increasing expenditure on non-merit subsidies can constrain the space for capital expenditure.[13]

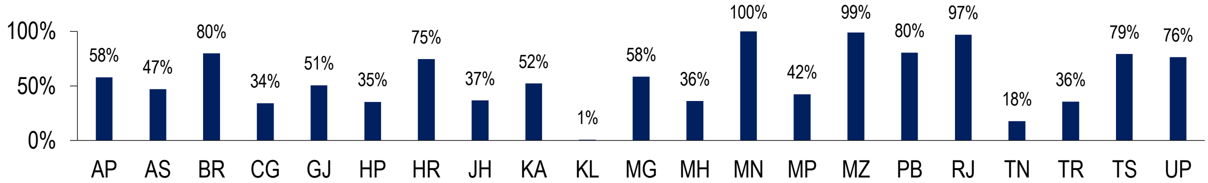
Figure 4: Subsidy by states on aggregate



Note: Data until 2020-21 pertains to 28 states (Arunachal, J&K, and Nagaland is unavailable). Data for Puducherry was unavailable for 2021-22 and 2022-23 while data for Goa and Sikkim was not available for 2022-23.
Sources: CAG; State Budget Documents; PRS.

A major portion of states' subsidy expenditure goes towards providing free or subsidised electricity for various purposes such as agriculture, domestic, and industrial use. For instance, 97% of Rajasthan and 80% of Punjab and Bihar's total subsidy expenditure went towards subsiding electricity in 2021-22. While providing subsidised electricity may make it more affordable, the International Monetary Fund (IMF) had observed that most of the benefits from such subsidies may accrue to higher-income households.[14] Subsidised power is also an important input in agriculture. In the past, recommendations have been made to replace agricultural input subsidies by providing direct transfer of funds to the farmers.[15,16] States such as Rajasthan, Andhra Pradesh, and Karnataka have reduced leakages in electricity subsidy by separating feeders for agricultural and non-agricultural use.[17]

Figure 5: Power subsidy as a percentage of total subsidies (2021-22)

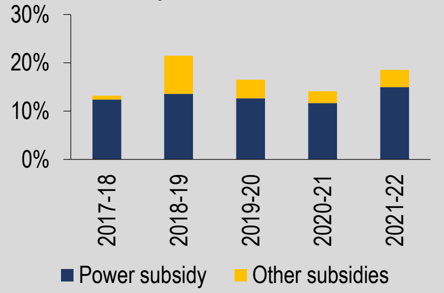


Note: Includes schemes such as subsidised/free power for farmers and industries that were not reported as power subsidies.
Sources: Finance Accounts 2021-22 of respective states, CAG; PRS.

Case study: Punjab's Subsidy Expenditure

Subsidy expenditure as a share of revenue receipts has been significantly high in Punjab. Between 2017-18 and 2021-22, Punjab spent 17% of its revenue receipts on subsidies. Other states, on average, spent 8%. Power subsidies accounted for 80% of Punjab's total subsidies in 2021-22. The state government has repeatedly highlighted concerns over the inflating subsidy expenditure.[18,19] Note that the state has a high fiscal deficit, and revenue deficit, along with high outstanding debt. Punjab estimates a fiscal deficit of 5% of GSDP in 2023-24, higher than the 3% limit permitted by the central government. Additional fiscal space of 0.5% of GSDP is available upon undertaking power sector reforms. The 15th Finance Commission had noted that due to free power supply to farmers, Punjab had the second highest discharge of ground water through irrigation in 2017. The estimated ground water availability for future irrigation use in the state was seen to be negative.[20] It recommended that Punjab should rationalise the provision of free power to farmers.[20] This would also help to restore the water table and soil fertility.

Figure 6: Subsidy expenditure as a percentage of revenue receipts

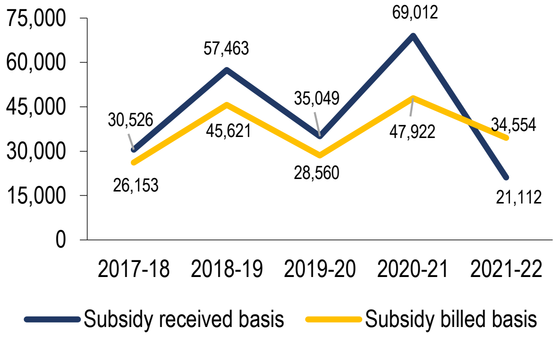


Note: Debt relief to farmers accounts for the largest share of other subsidies in 2018-19.
Sources: Finance Accounts for respective years, CAG; PRS.

Discom losses reduce in 2021-22, but high debt may pose risks to state finances

Most power distribution companies are state owned. The poor financial health of discoms has been a persistent problem for several years, and strengthening them is key to minimise risks to state finances.[21,22] Cumulative financial losses of discoms reduced by 22% between 2019-20 and 2021-22, from Rs 35,049 crore in 2019-20 to Rs 21,112 crore in 2021-22. These refer to losses as per the actual receipt of the subsidy from the state government. Financial losses partly reduced due to an improvement in revenue from the sale of power, the amount of subsidy received, and an increase in revenue grants and other income (such as delayed payment charges and non-operating income).

Figure 7: Financial losses of discoms (in Rs crore)

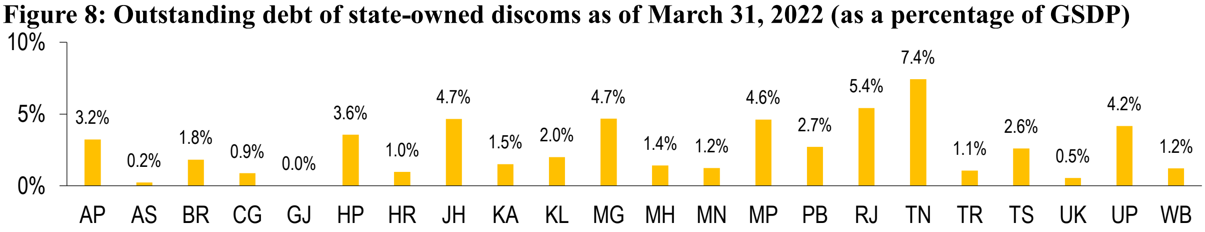


Note: The figures exclude Jammu and Kashmir (data unavailable for 2021-22) and Odisha (whose discom was privatised in 2020-21). Losses/profits include regulatory income and UDAY grants.
Sources: Power Finance Corporation; PRS.

State discoms also reported an improvement in their other financial parameters in 2021-22. Efficiency in collection of payments by state-owned discoms improved from 92% in 2019-20 to 97% in 2021-22, while Aggregate Technical and Commercial (AT&C) losses reduced from 21% to 17% in the same period.[23] AT&C losses include loss of electricity during transmission and commercial losses due to inaccurate metering and power theft. The gap between per unit cost of supply and the per unit revenue realised (ACS-ARR gap) reduced for 15 states in 2021-22 as compared to 2019-20. Multiple policies seek to improve the performance of state-owned discoms. The Revamped Distribution Sector Scheme (RDSS), aims to reduce pan-India AT&C losses to 12%-15% and eliminate ACS-ARR gap by 2024-25.[24] The central government has also been providing additional borrowing space to states that undertake power sector reforms, including reducing AT&C losses and ACS-ARR gap.[25]

Some of the improvement in the financial performance of state discoms may be driven by higher than billed subsidy payment by states in 2021-22. The amount of subsidy received by discoms is factored into the calculation of parameters such as AT&C losses and ACS-ARR gap. Between 2017-18 and 2020-21, state discoms on aggregate received only 90% of the subsidy billed. In 2021-22, discoms received Rs 1.54 lakh crore in subsidy from state governments which was 10% higher than the subsidy billed for that year. Higher than billed subsidy payment by states in 2021-22 may have been due to conditions attached for availing financial assistance under RDSS for installing prepaid smart metering and upgrading distribution infrastructure.[26] Timely payment of subsidy is one of the mandatory conditions to be met by discoms to be eligible for release of funds under the scheme.[26]

Figure 8: Outstanding debt of state-owned discoms as of March 31, 2022 (as a percentage of GSDP)



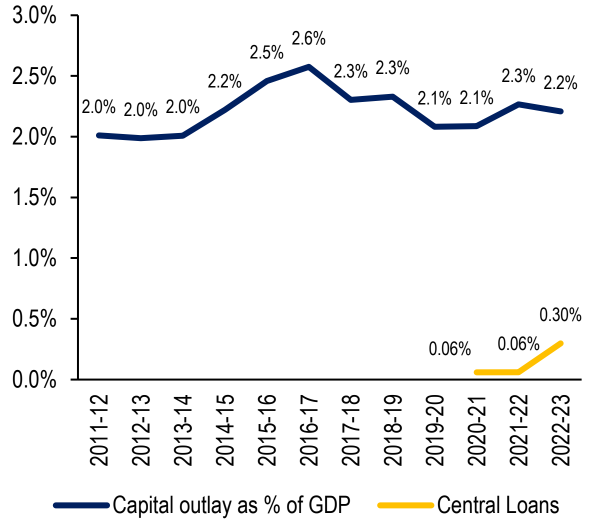
Note: Data for Jammu and Kashmir is not available for 2021-22. Odisha's discom was privatised in 2020-21, and is hence not shown here.
Sources: Power Finance Corporation; PRS.

While financial parameters have improved, the high debt of discoms and guarantees extended by states continue to pose a risk to their finances, as it is a contingent liability for the state. Discoms have an outstanding debt of around six lakh crore rupees as of March 2022, i.e., 2.5% of GDP. Debt of discoms is significantly higher in states such as Tamil Nadu (7.4% of GSDP), Rajasthan (5.4%), Jharkhand (4.7%), and Meghalaya (4.7%). States also provide guarantees for the loans taken by discoms. As of 2021-22, 22 states have guaranteed debt in the power sector worth four lakh crore rupees, about 1.7% of national GDP.

States get higher central aid for capital outlay; however, spending at similar levels

State governments undertake capital outlay in various sectors such as transport, power, irrigation, and agriculture. Between 2011-12 and 2022-23, capital outlay by states has ranged between 2% to 2.6% of GDP (see Figure 9). Capital outlay by states decreased in 2019-20 and 2020-21 on account of economic slowdown and the COVID-19 pandemic. Since then, it has recovered to reach 2.2% of GDP in 2022-23. The central government has been providing 50-year interest free loans to states for capital expenditure since 2020-21 (see Table 6 in Annexure for details).[27] In 2022-23, the Centre released Rs 81,195 crore to states as loans for capital expenditure.[27] The intent of these loans was to help states in enhancing their capital investment.[28] However, even after accounting for these loans, total capital outlay by states is estimated to be within the range which has been seen since 2011-12.

Figure 9: States' capital outlay (as % of GDP)



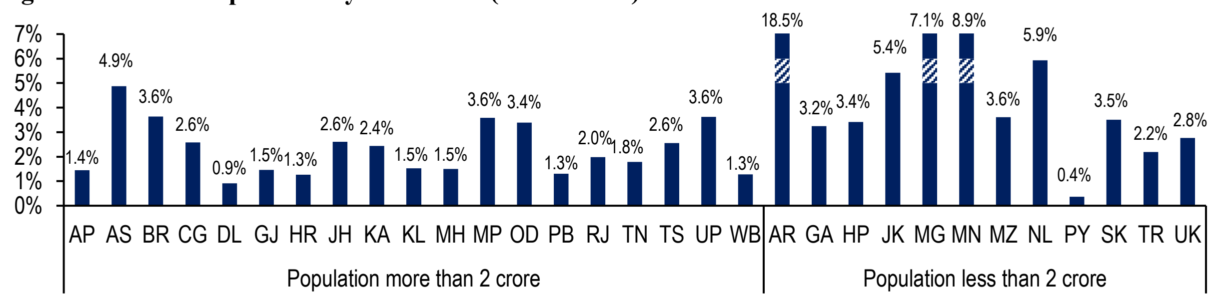
Note: Capital outlay in 2015-16 and 2016-17 was higher due to UDAY scheme. For 2022-23, data for Delhi, Goa, and Puducherry are as per revised estimates; data for other states are as per CAG.
Sources: State Budget Documents; RBI; CAG; MoSPI; PRS.

Capital outlay involves expenditure towards the creation of assets such as roads, bridges, and irrigation canals. Such investments increase the economy's productive capacity, and promote efficiency.[6] RBI noted that capital spending has a stronger impact on medium to long-term growth.[6] RBI also cited empirical evidence which indicates that capital outlay by states has a higher multiplier effect compared to capital outlay by the Centre.[6]

As states have negligible capital receipts, capital outlay has to be funded from borrowings. Given that FRBM Acts limit borrowings, the space for capital outlay depends on the revenue balance. In 2021-22, states such as Andhra Pradesh and Kerala, which have had persistent revenue deficit, spent about 1.5% of their GSDP on capital outlay. Assam, Bihar, Madhya Pradesh, and Uttar Pradesh spent more than 3.5% of their GSDP on capital outlay in 2021-22. North-eastern and hill states spent a larger share of their GSDP on capital outlay. This could be due to a relatively higher share of central transfers in their revenue.

In 2022-23, capital outlay to GSDP ratio is estimated to decrease for at least 13 states as compared to 2021-22. This is despite states getting interest free loans for capital outlay in 2022-23 which do not count towards their fiscal deficit limit. Part of the reason is that the extra borrowing space given to states during the pandemic is being phased out, and some states have not been able to reduce revenue deficit. Consequently, capital outlay funded through fiscal deficit has been squeezed.

Figure 10: States' capital outlay in 2021-22 (% of GSDP)



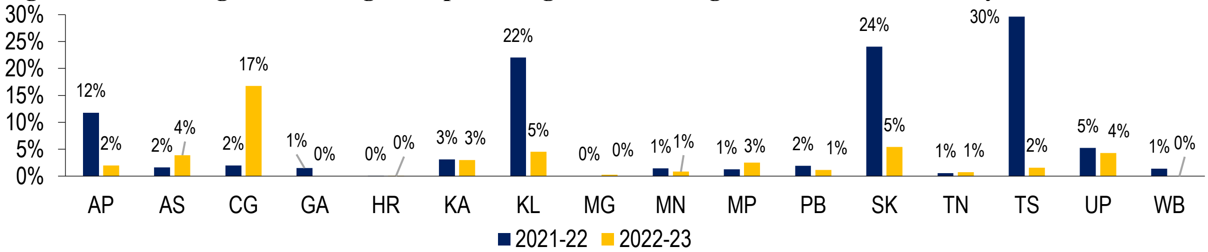
Note: Bars for Arunachal Pradesh, Meghalaya, and Manipur are not to scale.
Sources: State Budget Documents; MoSPI; National Commission on Population; PRS.

States' off-budget borrowings estimated to reduce on inclusion in borrowing limit

Off-budget borrowings refer to borrowings that are not directly made by the government, but where principal and interest are serviced from the government budget. Such borrowings are typically raised by government owned entities such as public sector enterprises. As the borrowings themselves are not a part of the government budget documents, they remain outside legislative oversight. The 15th Finance Commission had observed that there is a significant amount of off-budget expenditure that is not included in the calculation of debts and deficits.[29] When states resort to such borrowings, they bypass the net borrowing ceiling as these loans are outside the state budget.[30]

In March 2022, the central government decided to include off-budget borrowings by state governments while deciding the net borrowing ceiling.[30] Under Article 293(3) of the Constitution, states need permission of the central government to borrow if they have any outstanding loans from the Centre.[31] Off-budget borrowings by states in 2021-22, will be adjusted against their net borrowing ceiling between 2022-23 to 2025-26.[32] In this backdrop, states' off-budget borrowings are estimated to sharply decrease in 2022-23. Fifteen states raised Rs 66,640 crore through off-budget borrowings in 2021-22.[33] This is estimated to decrease to Rs 18,499 crore raised by 14 states in 2022-23.

Figure 11: Off-budget borrowings as a percentage of borrowings made in the financial year



Note: Data for 2022-23 are estimates.
Sources: Unstarred Question No. 528, Ministry of Finance, Rajya Sabha; State Budget Documents; PRS.

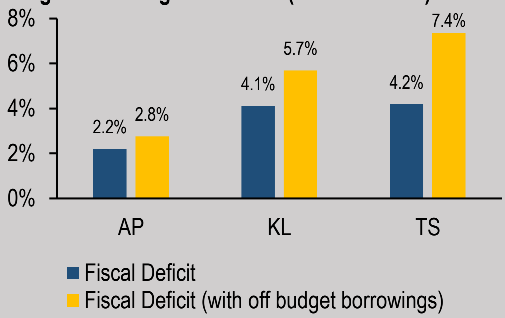
The 15th Finance Commission had recommended against resorting to off-budget borrowings. It noted that such practices are against the norms of fiscal transparency and adversely impact fiscal sustainability. It also noted that such obligations should not be repaid from the regular inflow of tax and non-tax revenues.[29] Instead, additional resources must be mobilised, which includes monetisation of assets.

Case Study: Impact of off-budget borrowings on debt and deficits

Off-budget borrowings lead to an understated level of fiscal deficit. Most off-budget borrowings are concentrated in a few states (see Figure 11). In 2021-22, Telangana accounted for over half of the off-budget borrowings made by states, followed by Kerala (21%) and Andhra Pradesh (9%).[33] If these borrowings had been included in the borrowings of the state, their fiscal deficit in 2021-22 would have been higher than the reported figures (Figure 12). In 2021-22, the central government had fixed a fiscal deficit limit of 4.5% of GSDP (of which 0.5% was available on undertaking certain power sector reforms).

Similarly, states' outstanding debt would also be higher after accounting for off-budget borrowings. For instance, Telangana's outstanding liabilities were 28% of its GSDP in 2020-21. They would have been 38% of GSDP if off-budget borrowings worth Rs 97,940 crore were included.[34] The FRBM Review Committee (2017) had suggested that states cap their outstanding debt at 20% of GDP.[35]

Figure 12: Fiscal deficit of states with significant off-budget borrowings in 2021-22 (as % of GSDP)



Sources: Unstarred Question No. 528, Ministry of Finance, Rajya Sabha; State Budget Documents; MoSPI; PRS.

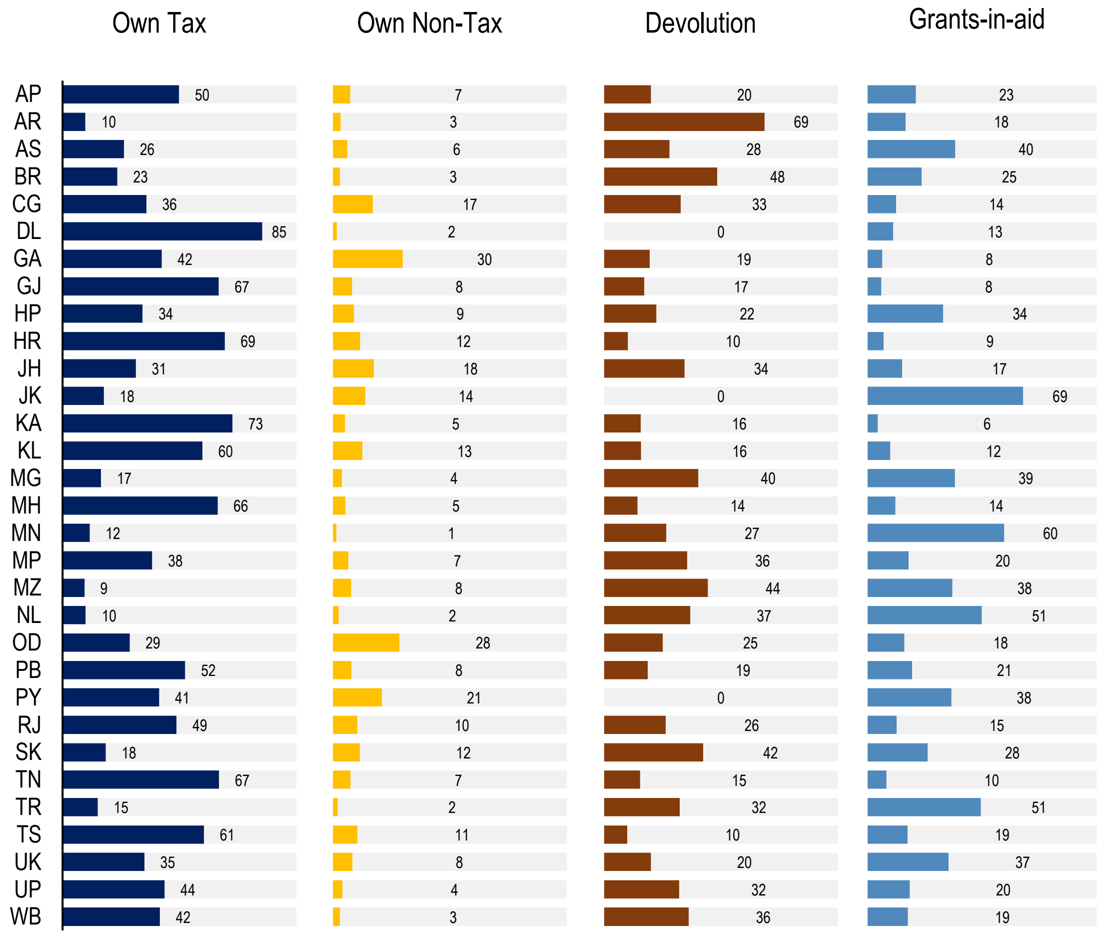
TRENDS IN STATE FINANCES

This section discusses trends in state finances based on the budget estimates for 2023-24.

Own tax revenue is the largest source of revenue for most states; central grants estimated to fall

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 central taxes as recommended by the Finance Commission and grants-in-aid. The grants-in-aid given by the Centre include grants recommended by the Finance Commission, grants for centrally sponsored schemes and other grants such as GST compensation grants. In 2023-24, states on aggregate are estimated to raise 57% of their revenue receipts from own tax and non-tax sources while 43% is estimated to come from devolution of central taxes and grants from the Centre.

Figure 13: Composition of revenue receipts (2023-24, figures in %)



Note: Delhi, Jammu and Kashmir, and Puducherry are not eligible to 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. 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 non-tax sources is estimated to account for only 8% of states' revenue receipts in 2023-24. However, non-tax revenue is budgeted to be significantly higher for certain mineral-rich states such as Chhattisgarh, Jharkhand, and Odisha on account of mining royalty receipts. In Goa and Puducherry, non-tax revenue includes revenue from electricity distribution as it is a departmental function, unlike other states which have separate discoms.

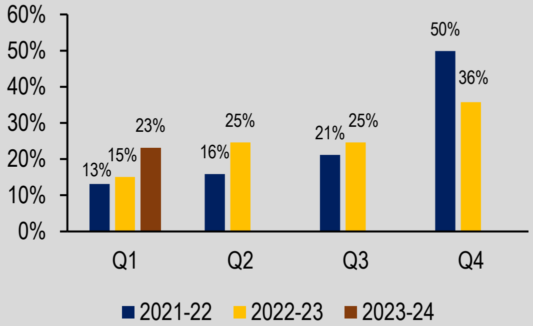
Certain states have significant dependence on central transfers for their revenue receipts. Bihar, Jammu and Kashmir, and north-eastern states are estimated to raise more than 60% of their revenue from devolution and grants from the Centre. The share of devolution in central transfers is higher for Arunachal Pradesh, Bihar, Mizoram, and Sikkim while the share of grants is budgeted to be higher for Assam, Jammu and Kashmir, Manipur, Nagaland, and Tripura.

The devolution given from central taxes is untied and states can spend it 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 2023-24, grants from the Centre are estimated to be 8% lower on aggregate as compared to revised estimate of 2022-23. This is driven by the discontinuation of GST compensation grants after June 2022, and the reduction in revenue deficit grants for certain states (in line with the recommendations of the 15th FC).

Pace of Devolution of Central Taxes

The central government devolves taxes to states based on the recommendations of the Finance Commission. Such devolution is done through monthly instalments. In the previous two years, a significant share of the total funds was devolved in the latter part of the financial year. In 2021-22, the Centre devolved 50% of the funds during the fourth quarter (January-March). In 2022-23, this figure was 36%. In the first quarter (April-June) of 2023-24, the Centre has devolved 23% of the total funds to be assigned to states. This is significantly higher than in 2021-22 and 2022-23. Up front devolution of central taxes may allow states to avoid rush of expenditure in the closing months of the financial year. According to the General Financial Rules, 2017 issued by the Ministry of Finance, rush of expenditure in the closing months of a financial year is regarded as a breach of propriety.[36] Uneven pace of expenditure by states in a financial year may be impacted by the pattern of receipts. Frontloading devolution of central taxes may allow states to plan their expenditure better through the year.

Figure 14: Quarterly devolution of central taxes (in percentage)

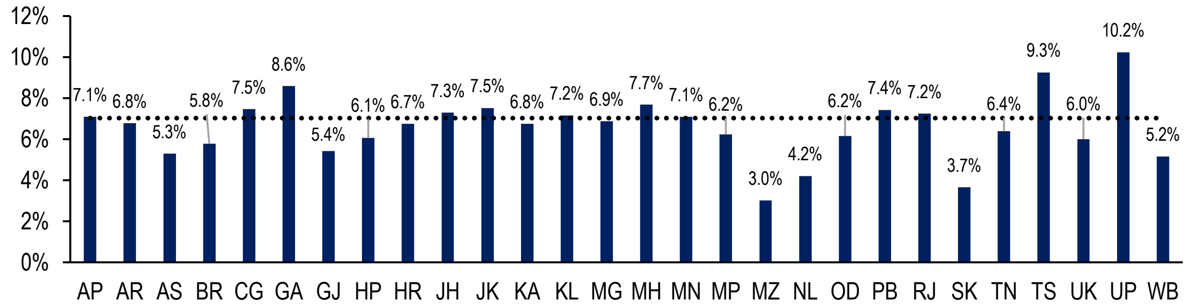


Sources: Controller General of Accounts; Union Budget Documents; PRS.

State's own tax revenue estimated to be about 7% of GSDP in 2023-24

In 2023-24, states on aggregate have estimated their own tax to GSDP ratio at 7%. This ratio indicates a state's potential to mobilise revenue from economic activity. 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%-8%. For certain north-eastern states such as Mizoram, Nagaland, and Sikkim, own tax to GSDP ratio is between 3%-4.2%. Note that Uttar Pradesh has budgeted its own tax to GSDP ratio at 10.2%, significantly higher than actual figures for 2021-22 (7.9%).

Figure 15: Own tax as a percentage of GSDP (2023-24 BE)

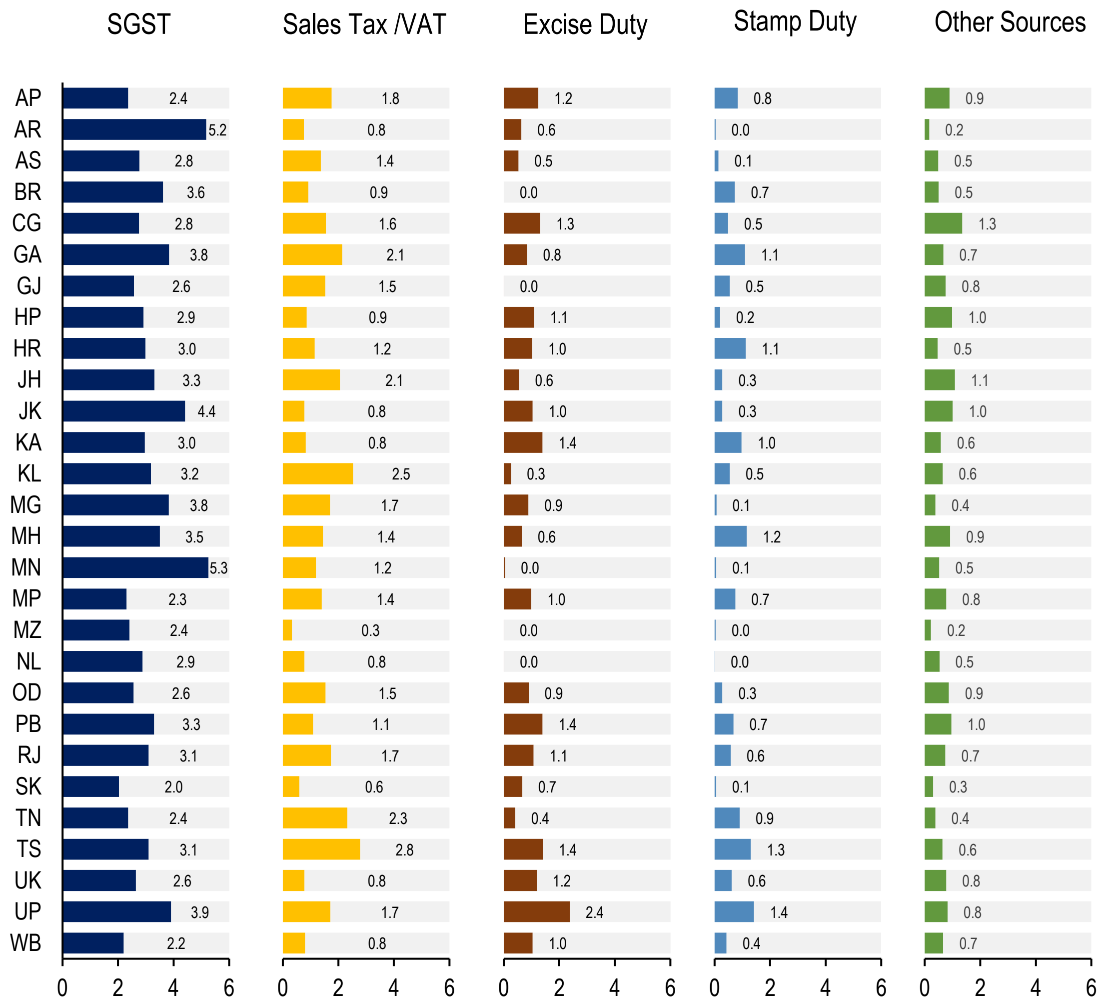


Note: Delhi, Puducherry, and Tripura not shown in chart as 2023-24 GSDP estimates are not available for these states.
Sources: State Budget Documents; PRS.

SGST is the largest source of own tax revenue

In 2023-24, important sources of states' own tax revenue include: (i) SGST (43% of own tax revenue), (ii) sales tax/VAT (22%), (iii) excise duty (13%), (iv) stamp duty (12%), (v) taxes on vehicles (5%), and (vi) taxes and duties on electricity (3%). Since the introduction of GST, states have limited control over their most significant source of revenue. Under GST, decisions on tax rates are taken as per the recommendations of 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. Sales tax/VAT is primarily levied on petroleum products while excise duty is primarily levied on alcohol. These two items have not been brought under GST so far. States such as Bihar and Gujarat have close to zero revenue from excise duty as these states have enforced alcohol prohibition.

Figure 16: Composition of own tax revenue in 2023-24 (as % of GSDP)



Note: Delhi, Puducherry, and Tripura not shown in chart as 2023-24 GSDP estimates are not available for these states.
Sources: State Budget Documents; PRS.

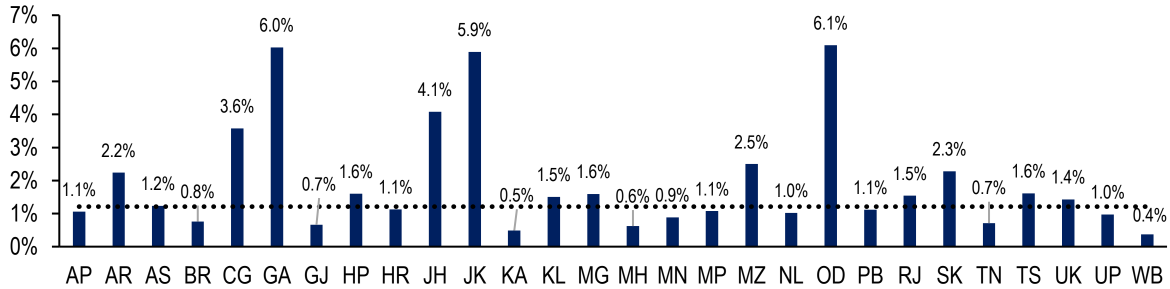
Measures to Augment Revenue

In 2023-24, several states announced measures to mobilise revenue. Several of these relate to increasing the tax and duty on the sale of alcohol. For instance, Karnataka announced a 20% increase in the additional excise duty on Indian made liquor.[37] It also proposed to increase the excise duty on beer from 175% to 185%. Similarly, Goa proposed to increase the duty on other categories of Indian made foreign liquor, while reducing the excise duty on high-end foreign liquor.[38] Himachal Pradesh announced that it will levy a water cess on the water used for power generation.[39] In 2023-24, Kerala proposed to increase stamp duty for transfer of flats and apartments from 5% to 7%.[40] The 15th Finance Commission had observed that stamp duty and registration fees and property tax can be leveraged to mobilise additional revenue for states and local bodies.[8] Mizoram had constituted a Resource Mobilisation Committee in 2022 to suggest measures for augmenting revenue resources.[41] Himachal Pradesh has announced starting a GST Revenue Enhancement Project to address the impact of discontinuation of GST compensation grants.[39]

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

In 2023-24, states on aggregate have estimated their own non-tax revenue to be around 1.2% of their GSDP. Certain states have budgeted to raise significant levels of revenue from their own non-tax sources. Chhattisgarh, Jharkhand, and Odisha have estimated to raise non-tax revenue between 3%-6% of their GSDP. Being rich in minerals, more than 75% of their non-tax revenue is budgeted to accrue from royalties on non-ferrous mining. Odisha's non-tax revenue is estimated to be almost equal to its own tax revenue. In states such as Goa, as electricity distribution is a departmental activity, electricity charges collected from consumers form part of the overall government revenue. In other states, electricity distribution is undertaken by separate discoms.

Figure 17: Own non-tax revenue as % of GSDP (2023-24, as per budget estimates)



Note: Delhi, Puducherry, and Tripura not shown in chart as 2023-24 GSDP estimates are not available for these states.
Sources: State Budget Documents; PRS.

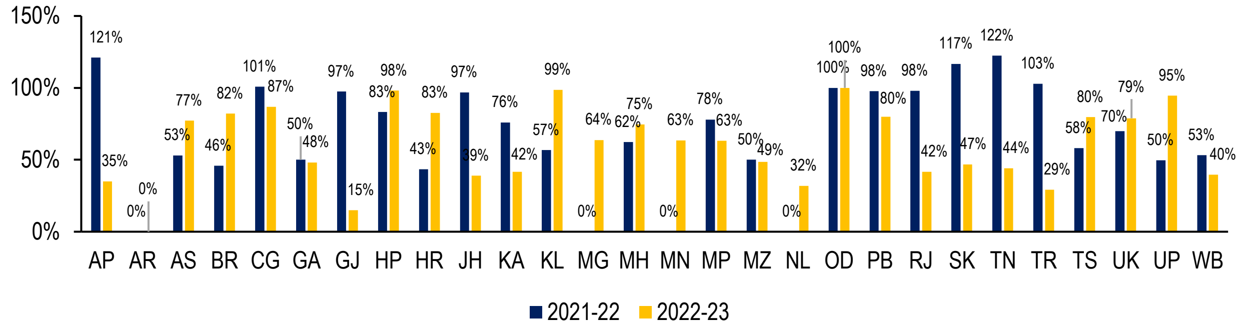
Several states lag in availing urban local body grants

The 15th Finance Commission recommended grants worth Rs 3.58 lakh crore to be given to states for rural and urban local bodies (ULBs).[42] It recommended grants worth Rs 1.21 lakh crore for ULBs between 2021-22 and 2025-26. However, several states have not been able to avail the entire amount of recommended ULB grants in 2021-22 and 2022-23. On aggregate, states could avail only 73% and 66% of the ULB grants in 2021-22 and 2022-23 respectively. Certain north-eastern states such as Arunachal Pradesh, Meghalaya, Manipur, and Nagaland did not receive any ULB grants in 2021-22. In comparison, states were able to avail 90% of the recommended rural local body (RLB) grants in 2021-22 and 98% of the RLB grants in 2022-23. One of the reasons for lower ULB grants released to states could be their inability to meet the conditionalities attached to such grants.

Since the 10th Finance Commission, the amounts disbursed to states under local body grants have been less than the recommended amount.[42] The 15th Finance Commission noted that this was due to the failure of local governments in meeting the conditionalities attached to such grants.[42] At times, certain additional conditions were also prescribed by the central government.[42] As per the recommendations of the 15th Finance Commission, while 60% of the RLB grants were to be released to states on meeting certain conditions, the share of such tied grants for ULBs was higher at 73%. Some of the conditions which are to be met for availing ULB grants include: (i) online availability of annual accounts of ULBs, (ii) notifying floor rate of property tax, (iii) growth in property tax collection being at least as much as the simple average growth rate of GSDP in most recent five years, (iv) improving air quality, and (v) meeting certain performance benchmarks for drinking water supply, sanitation, and solid waste management.[42]

The 15th Finance Commission noted that several states had not set up state finance commissions (SFCs) in a timely manner.[42] SFCs recommend the distribution of resources between states and their local bodies. To be eligible to receive local body grants in 2024-25 and 2025-26 states must set up SFCs, act upon their recommendations, and lay the explanatory memorandum on action taken on the recommendations before the state legislature by March 2024.[42]

Figure 18: Share of recommended ULB grants released to states in 2021-22 and 2022-23

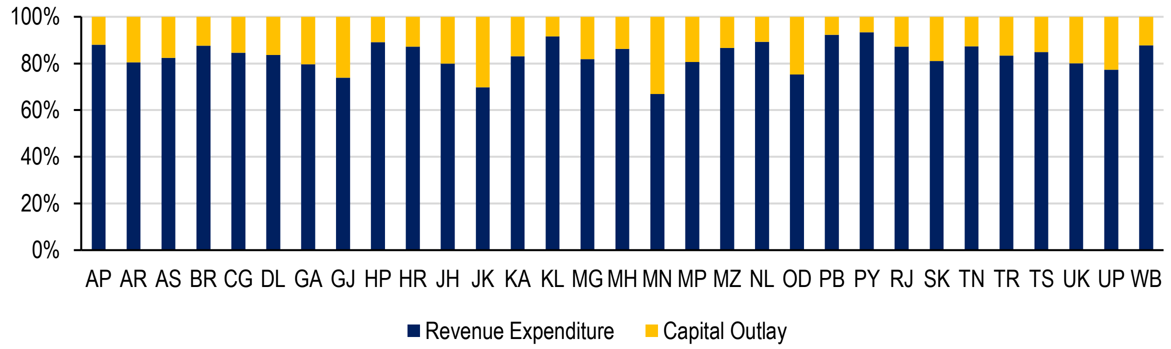


Note: For 2022-23, funds released are up to 2 pm IST on March 31, 2023.
Sources: Unstarred Question No. 5155, Ministry of Finance, Lok Sabha; PRS.

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, pension, interest payments, and subsidies. Capital expenditure goes towards creating assets or reducing liabilities. Capital expenditure includes capital outlay which leads to the creation of assets such as schools, hospitals, and roads and bridges. It also includes repayment of loans (which lowers the state's liabilities), and loans and advances given by a government. In 2023-24, states' revenue expenditure is budgeted to be 83% of their total expenditure while capital outlay is budgeted to be 17% (debt components excluded from the expenditure for analysis). Since 2020-21, the central government has been providing interest-free loans to states for undertaking capital outlay. In 2023-24, the Centre has budgeted to provide Rs 1.3 lakh crore to states for capital outlay, higher than Rs 81,195 crore in 2022-23.

Figure 19: Composition of expenditure in 2023-24 (as per budget estimates)

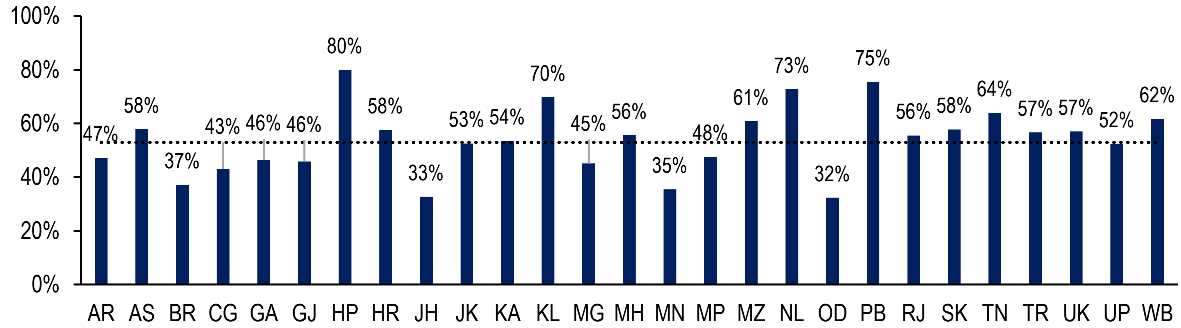


Sources: State Budget Documents; PRS.

53% of revenue receipts to be spent on three items—interest, pension, and salaries

Committed expenditure of a state typically includes expenditure on payment of salaries, pensions, and interest payments. Expenditure on these items usually cannot be rationalised in the short to medium term. A larger proportion of the state budget being allocated for committed expenditure crowds out expenditure on other development activities. In 2023-24, states on aggregate have budgeted to spend 53% of their revenue receipts on committed expenditure items. This includes 28% of revenue receipts to be spent on salaries and wages, 13% on pension, and 12% on interest payments. Himachal Pradesh, Kerala, Nagaland, and Punjab are estimated to spend at least 70% of their revenue receipts on committed expenditure. On the other hand, expenditure by Bihar, Jharkhand, and Odisha is estimated to be lower than the average of all states, mainly on account of lower expenditure on salaries and wages.

Figure 20: Committed expenditure as percentage of revenue receipts in 2023-24



Note: States not included in the chart have not provided salary estimates for 2023-24.
Sources: State Budget Documents; PRS.

Reversal of Pension Reforms

Central and state governments engage a significant number of employees for rendering services. The governments provide pension benefits to retired employees. The architecture of government pensions in India changed with the implementation of the National Pension System (NPS). This scheme was made mandatory for all central government employees (except the armed forces) joining from January 1, 2004. All state governments (except West Bengal) joined the new framework at different points of time. NPS changed the principle of pensions from a defined benefit scheme to a defined contribution scheme. Under a defined benefit scheme, an employee is entitled to a pension based on a defined benefit formula which may be calculated as a percentage of salary. This is paid out of the budget for the year. In a defined contribution scheme, the employee and the employer make contributions over the length of his service and the benefits post-retirement depend on the balance in his account at the time of retirement. Thus, pensions are funded from a corpus which has been built over the duration of the employment.

Chhattisgarh, Himachal Pradesh, Jharkhand, Punjab, and Rajasthan have decided to withdraw from the NPS and re-implement the defined-benefit based old pension scheme.[43,44,45,46,47] In September 2023, Andhra Pradesh passed a bill to implement a guaranteed pension system in the state.[48] It guarantees a monthly pension of 50% of the last drawn basic pay by the employee. In case the pension received under NPS is less than the guaranteed amount, the state government will meet the shortfall.[48] Given that the current retirees from state governments are primarily the beneficiaries of the old pension scheme, immediate financial strain will not be felt if states choose to implement the old pension scheme.[49] However, when the employees who joined after the implementation of NPS begin to retire from 2034 onwards, the costs of reverting to the old pension scheme will become more visible.[49] In order to incentivise states under NPS, the Centre has decided to augment their net borrowing ceiling by the amount of pension contributions paid to NPS by the state government and its employees.[50] In April 2023, the central government constituted a committee to look into the issues of pensions for government employees under NPS.[51] The terms of reference of the committee are: (i) whether the existing framework of NPS for government employees require any changes and (ii) to suggest measures to improve pensionary benefits of government employees keeping in view fiscal implications and the impact on overall budgetary space.[51]

Certain states have announced cash transfer schemes for women

In 2023-24, Madhya Pradesh, Karnataka, and Tamil Nadu, announced the implementation of cash transfer schemes for women (see Table 1 for details), subject to certain eligibility criteria.[52,53,54] For instance in Madhya Pradesh, women from such families will be excluded where: (i) annual income is more than Rs 2.5 lakh, (ii) any family member is an income tax payer, or (iii) any family member is a government employee. Himachal Pradesh has also formed a cabinet sub-committee to finalise the roadmap to implement a cash transfer scheme for women.[55] West Bengal has been implementing such a scheme since 2021.[56] Cash transfer schemes provide the beneficiaries with more freedom to spend the funds according to their choice. In comparison, subsidies either limit the scope of beneficiaries covered or the purposes for which such transfers can be used.

Cash transfers to women can improve their bargaining power within households.[57] However, implementing such large-scale cash transfer schemes without rationalising existing subsidies and benefits may increase the revenue expenditure of the state governments. States are estimated to spend 9% of their revenue receipts on subsidies in 2022-23 (see page 4). Note that of the five states that are implementing or have announced cash transfer schemes for women, except Madhya Pradesh, all other states have budgeted revenue deficit in 2023-24.

Table 1: Cash transfer schemes for women

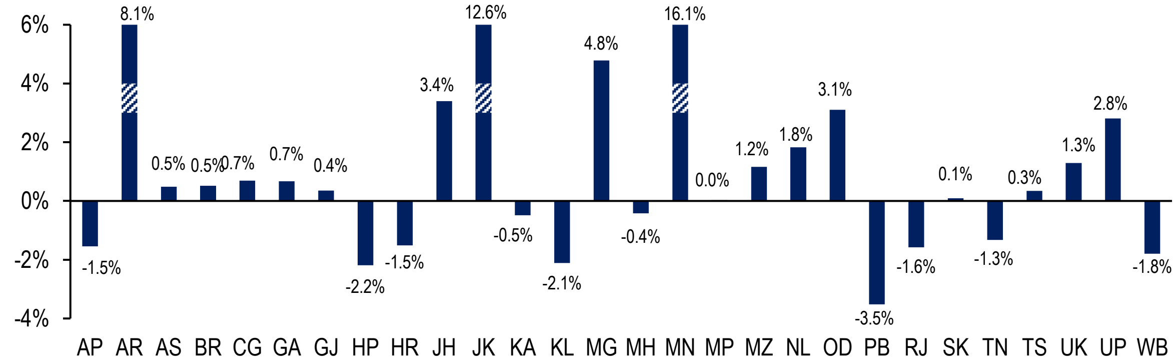
State	Scheme	Benefit	BE 2023-24 (Rs crore)	% 2023-24 Budget
Karnataka	Gruha Lakshmi	Rs 2,000 per month to be given to woman head of family	17,500	6%
Madhya Pradesh	Mukhyamantri Ladli Behna Yojana	Rs 1,000 per month to be given to women between 23-60 years of age from eligible households (excluding unmarried women)	7,850	3%
Tamil Nadu	Magalir Urimai Thogai	Rs 1,000 per month to be given to women heads of eligible households	7,000	2%
West Bengal	Lakshmir Bhandar	Rs 1,000 per month for women between 25-60 years of age from eligible SC/ST households Rs 500 per month for women between 25-60 years of age from other eligible households	12,000	4%

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

Eleven states have estimated a revenue deficit in 2023-24

Revenue deficit implies that a state needs to borrow to fund revenue expenditure which does not lead to creation of assets or reduction of liabilities. A revenue surplus can be used to incur capital outlay or to repay outstanding debt. In 2023-24, 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] As discussed on page 2, the FRBM Acts of various states also requires them to eliminate revenue deficit. States which have budgeted relatively higher revenue deficit in 2023-24 include Punjab (3.5% of GSDP), Himachal Pradesh (2.2%), Kerala (2.1%), West Bengal (1.8%), Andhra Pradesh (1.5%), and Haryana (1.5%). High revenue surplus in certain north eastern states is due to a larger share of central transfers in their revenue receipts. Mineral rich states such as Jharkhand and Odisha also have a significant revenue surplus.

Figure 21: Revenue balance of states as percentage of GSDP in 2023-24 (as per budget estimates)



Note: Delhi, Puducherry, and Tripura not shown in chart as 2023-24 GSDP estimates are not available for these states. Puducherry has budgeted a revenue deficit in 2023-24. Bars for Arunachal Pradesh, Jammu and Kashmir, and Manipur are not to scale.
Sources: State Budget Documents; PRS.

Fiscal Council

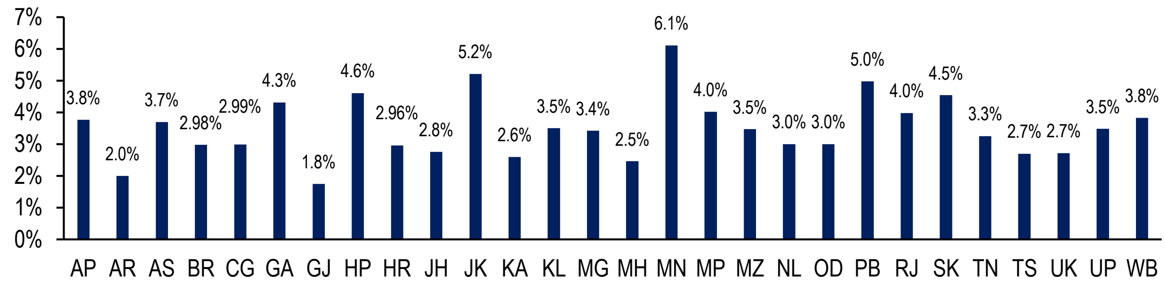
Successive Finance Commissions have recommended setting up an independent fiscal council.[59] As per the IMF, fiscal councils are statutory or executive public entities which are constituted to promote sustainability in public finances.[60] Such entities undertake assessment of fiscal plans and performance, evaluate macroeconomic and budgetary forecasts, and monitor implementation of fiscal rules.[60] As of 2021, there were 51 fiscal councils in 49 countries. The 15th Finance Commission recommended constituting an independent fiscal council having an advisory role.[61] It noted that in several countries, fiscal councils are also facilitating the need for better coordination between the Centre and states. Some indicative functions of the proposed fiscal council include: (i) providing multi-year macro-economic and fiscal forecasts, (ii) assessing appropriateness and consistency of fiscal targets in states, and (iii) conducting assessment of long-term fiscal sustainability.[61] So far, India has not acted upon the recommendation to create such a council. According to the central government, institutions such as the CAG, the National Statistical Commission, and the Finance Commission perform some or all the roles proposed for the fiscal council.[59]

Fiscal deficit estimated at 3.1% of GSDP in 2023-24

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

2023-24, the aggregate fiscal deficit of states is budgeted to be 3.1% of GSDP. In 2023-24, the fiscal deficit limit of states 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. Ten states have estimated their fiscal deficit in 2023-24 to be lower than 3% of their GSDP. States with relatively high fiscal deficit include Manipur, Jammu and Kashmir, Punjab, Himachal Pradesh, Sikkim, Goa, Madhya Pradesh, and Rajasthan. Between 2021-22 and 2025-26, 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. GST compensation loans and loans given by the Centre for capital outlay are also not included in states' fiscal deficit.

Figure 22: Fiscal deficit as percentage of GSDP in 2023-24 as per budget estimates

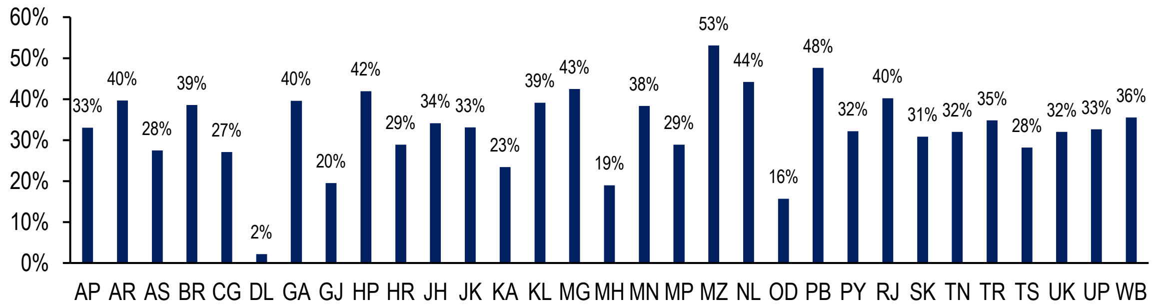


Note: Delhi, Puducherry, and Tripura not shown in chart as 2023-24 GSDP estimates are not available for these states. Figures are as reported by states.
Sources: State Budget Documents; PRS.

Outstanding liabilities of states estimated at 29.5% of GSDP as of March 2023

Outstanding liabilities refer to the debt accumulated by states from borrowings in the past. It also includes certain other liabilities such as liabilities on public accounts. 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 obligation for states. The FRBM Acts of states usually specify limits on the outstanding liabilities as a percentage of GSDP. States' outstanding liabilities had reduced from 31.8% of GSDP at the end of 2003-04 to 22% of GSDP at the end of 2013-14. In recent years, states' outstanding liabilities have increased, partly due to expenditure, such as farm loan waivers and debt takeover under the UDAY scheme. In 2017, the FRBM Review Committee recommended a limit of 20% of GDP on aggregate for outstanding liabilities of states.[35] In 2020-21, states' fiscal deficit limit was increased to 5% of GSDP in the backdrop of the adverse impact on revenue receipts due to the COVID-19 pandemic. As a result, outstanding liabilities of states increased from 26.7% of GSDP at the end of 2019-20 to 31.1% at the end of 2020-21. At the end of 2022-23, outstanding liabilities of state governments is estimated to be 29.5% of GSDP. For 21 states, outstanding liabilities are higher than 30% of GSDP.

Figure 23: Outstanding liabilities as of March 2023 (% of GSDP)



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

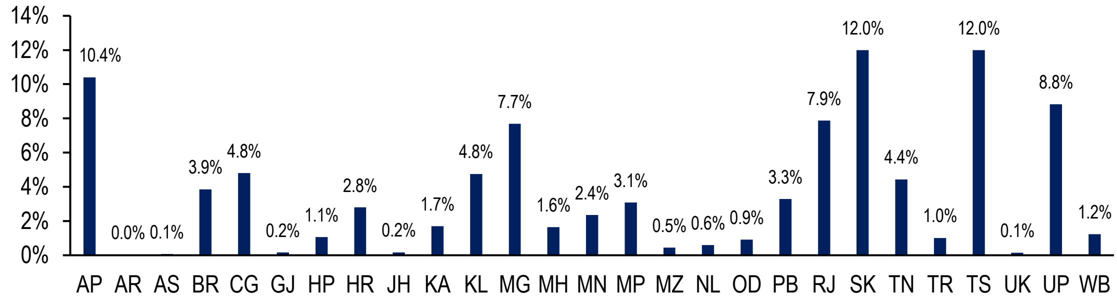
Case Study: Financing Odisha's Fiscal Deficit

State governments can borrow from various sources to finance their fiscal deficit. These sources include open market borrowings, loans from central government, loans from financial institutions, and public accounts. Market borrowings form the most significant source for most states to finance their fiscal deficit. In 2021-22, states on aggregate financed 68% of their gross fiscal deficit from open market borrowings (as per revised estimates). However, Odisha did not resort to open market borrowings in 2021-22 and 2022-23.[62] Instead, the state availed loans from the Odisha Mineral Bearing Area Development Corporation and the State Compensatory Afforestation Fund.[63] The state government can borrow up to 60% of the surplus amount available in these dedicated funds, and the borrowed amount is available at a lower interest rate than open market borrowings.[63] In the past, Odisha has also swapped and pre-paid loans raised at higher interest rates.[64] This, along with financing its deficit from alternate sources, has allowed the state to lower its interest payments. As per the budget estimates of 2023-24, the state government will raise Rs 11,303 crore through market loans.[62]

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 (SPSEs) 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. The guarantee given by 27 states was 4% of their aggregate GSDP at the end of 2021-22. States with a relatively higher guarantee level include Andhra Pradesh, Meghalaya, Sikkim, Telangana, and Uttar Pradesh.

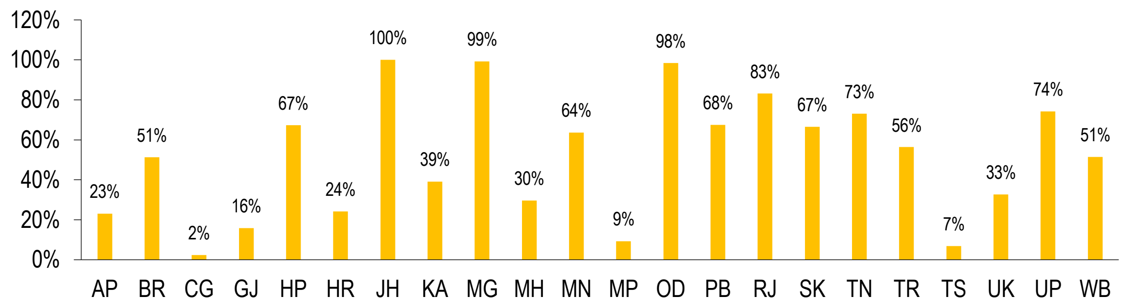
Figure 24: Guarantees outstanding as of March 31, 2022 (as % of GSDP)



Sources: Finance Accounts of 2021-22 of respective states, CAG; State Budget Documents; 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 guarantees in 27 states. For states such as Gujarat, Karnataka, and Telangana, the highest guarantee was given to the irrigation sector. Andhra Pradesh has provided significant guarantees to sectors of agriculture and water supply, sanitation, housing and urban development. 75% of Chhattisgarh's guarantees were extended to the cooperative sector, while 77% of Madhya Pradesh's outstanding guarantees were extended to the state's Food, Civil Supplies and Consumer Protection Department.

Figure 25: Power sector guarantees as a share of total guarantees, as of March 31, 2022



Sources: Finance Accounts of 2021-22 of respective states, CAG; State Budget Documents; PRS.

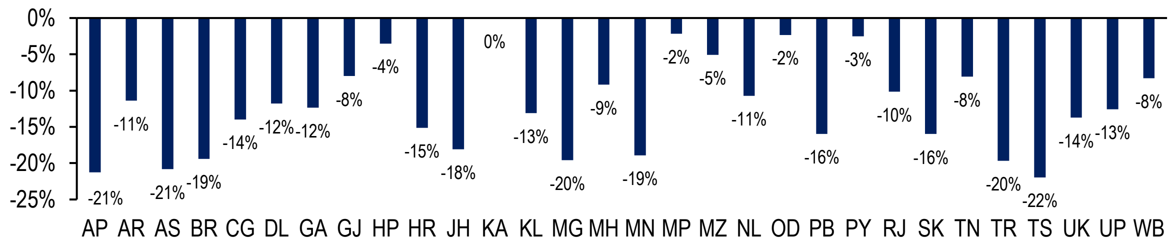
Credibility of budget estimates

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 estimates for the ongoing financial year, and (iii) actuals: the final audited amount for the previous year. The state legislature approves the budget for the coming 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 budget estimates, and this comparison helps understand the credibility of a proposed budget. This section includes data from 2020-21 when state revenue and expenditure was impacted by the COVID-19 induced national lockdown. Note that the shortfall in actual revenue expenditure and capital outlay as compared to budget estimates in 2020-21 was similar to the levels seen in 2019-20 (impacted by economic slowdown). However, states' actual revenue receipts were 22% lower than budgeted in 2020-21, which was significantly lower when compared to other years.

States raised 11% less revenue than budgeted between 2015-16 and 2021-22

Between 2015-16 and 2021-22, states on aggregate raised 11% less revenue than their budget estimates. States which saw a relatively higher shortfall in their revenue include Telangana (22%), Andhra Pradesh (21%), Assam (21%), Meghalaya (20%), and Tripura (20%). States can make up for shortfall in revenue receipts by borrowing more. However, the quantum of borrowings that a state can undertake is limited by their FRBM laws, and the annual borrowing limit fixed by the Centre. In case borrowings are not sufficient to make up for the shortfall in revenue receipts, states may have to reduce expenditure.

Figure 26: Shortfall in revenue receipts of states between 2015-16 and 2021-22

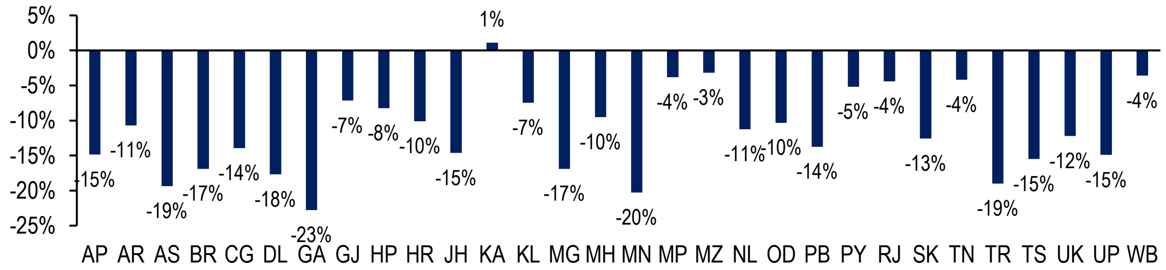


Sources: State Budget Documents; RBI; PRS.

States spent 10% less than budgeted between 2015-16 and 2021-22

States on average underspent their budget estimates by 10% between 2015-16 and 2021-22. As discussed above, one of the reasons for such underspending could be raising less than budgeted revenue. States such as Goa (23%), Manipur (20%), Assam (19%), and Tripura (19%) witnessed relatively higher underspending as compared to other states. On the other hand, states such as Karnataka, Mizoram, and Tamil Nadu saw the least variance between budget and actual figures.

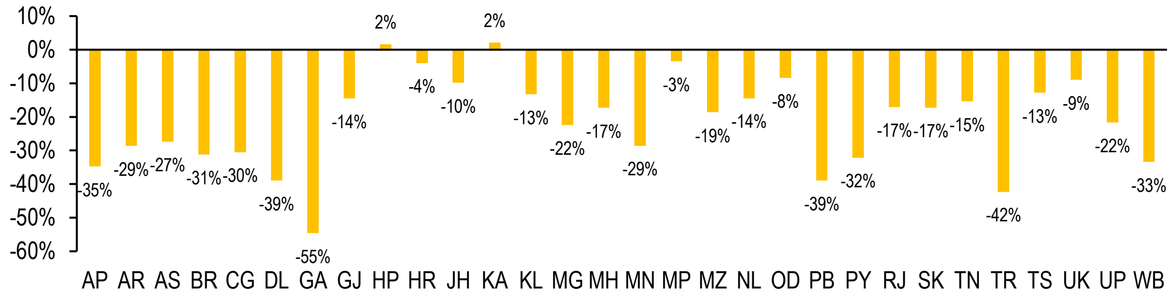
Figure 27: Underspending by states between 2015-16 and 2021-22



Sources: State Budget Documents; RBI; PRS.

During this period, average underspending in case of revenue expenditure was 8%, whereas that for capital outlay was 19%. This is because a substantial part of revenue expenditure is committed in nature. Thus, it cannot be rationalised in the short term. In order to compensate for lower revenue receipts, states may cut their capital outlay by a larger proportion. Goa (55%), Tripura (42%), and Punjab (39%) saw relatively higher underspending in capital outlay.

Figure 28: Underspending in capital outlay between 2015-16 and 2021-22



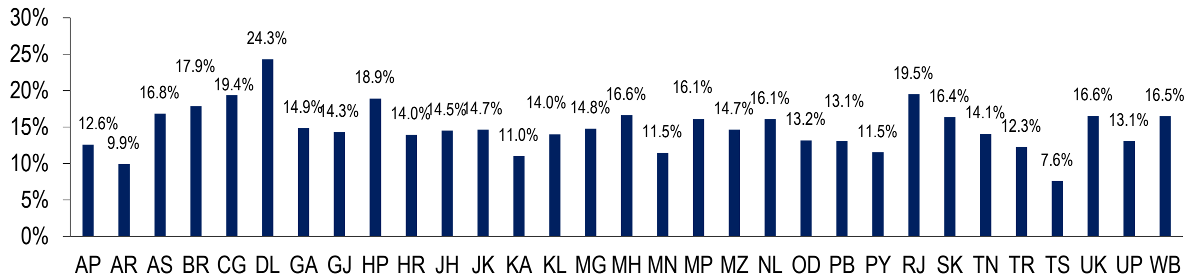
Sources: State Budget Documents; RBI; PRS.

Sector-wise outlay in 2023-24

We show below the allocation by states on key sectors as per the budget estimates of 2023-24. The share of expenditure on a particular 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 expenditure by states in 2023-24.

Education

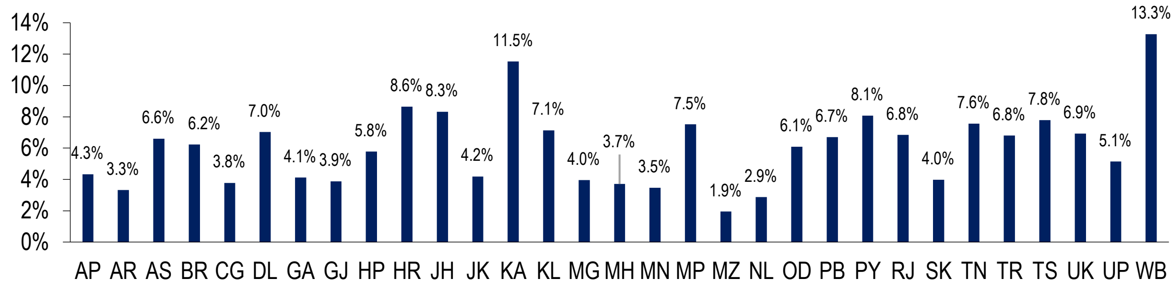
Figure 29: States are estimated to spend 14.7% of their budget towards education



Sources: State Budget Documents; PRS.

Social welfare and nutrition

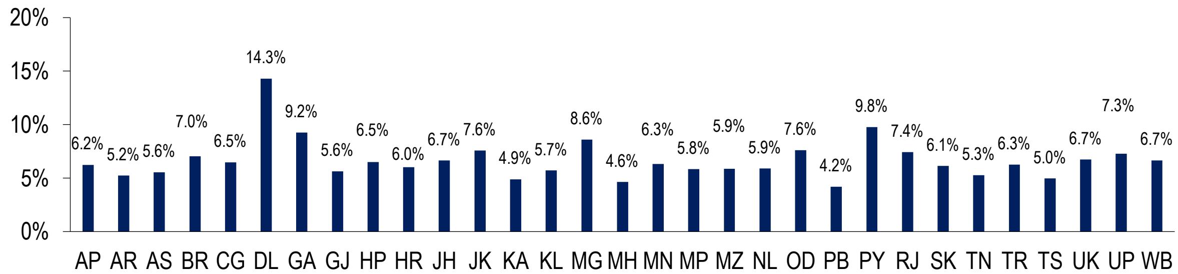
Figure 30: States are estimated to spend 6.6% of their budget towards social welfare and nutrition



Sources: State Budget Documents; PRS.

Health and family welfare

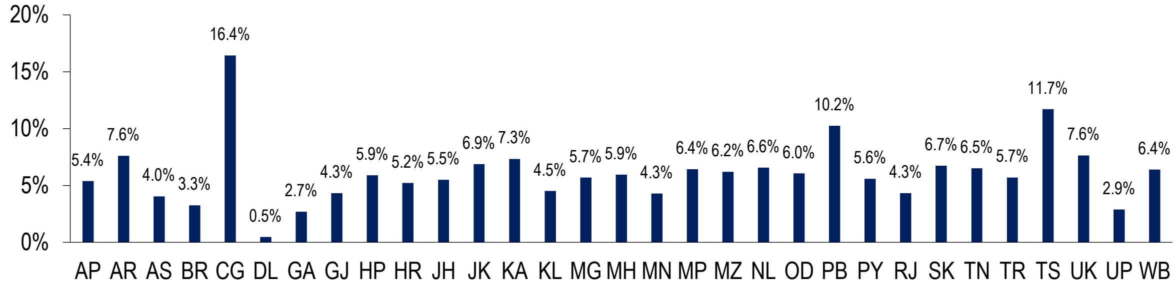
Figure 31: States are estimated to spend 6.2% of their budget towards health



Sources: State Budget Documents; PRS.

Agriculture and allied activities

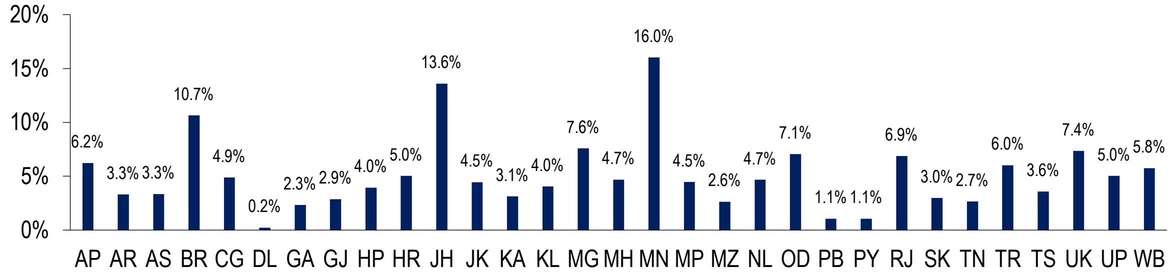
Figure 32: States are estimated to spend 5.9% of their budget on agriculture



Sources: State Budget Documents; PRS.

Rural development

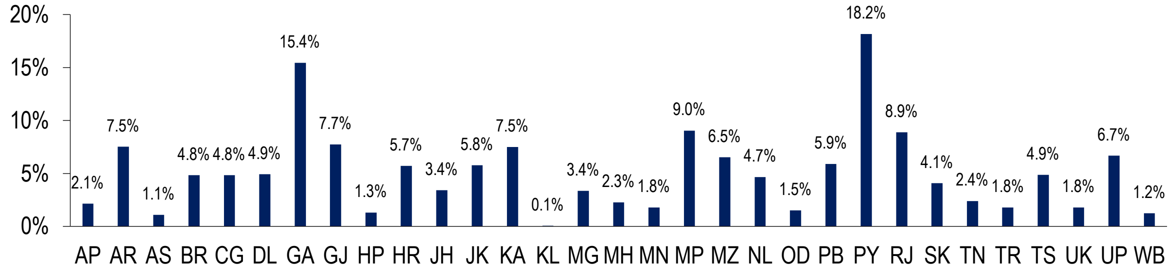
Figure 33: States are estimated to spend 5% of their budget on rural development



Sources: State Budget Documents; PRS.

Energy

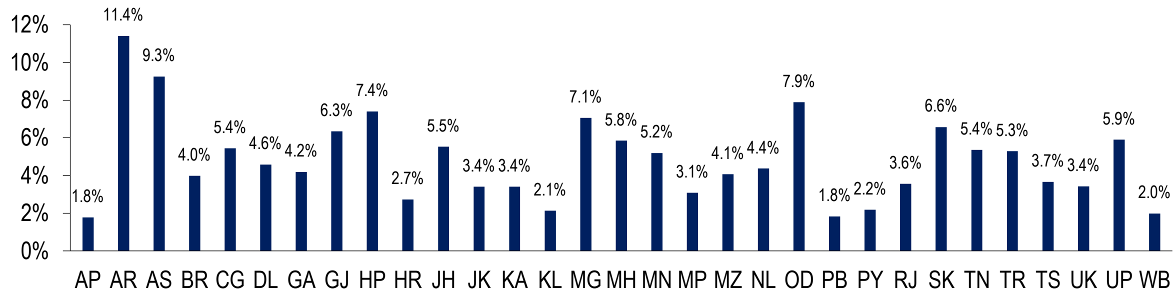
Figure 34: States are estimated to spend 4.7% of their budget on energy



Note: States/UTs such as Puducherry and Goa 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

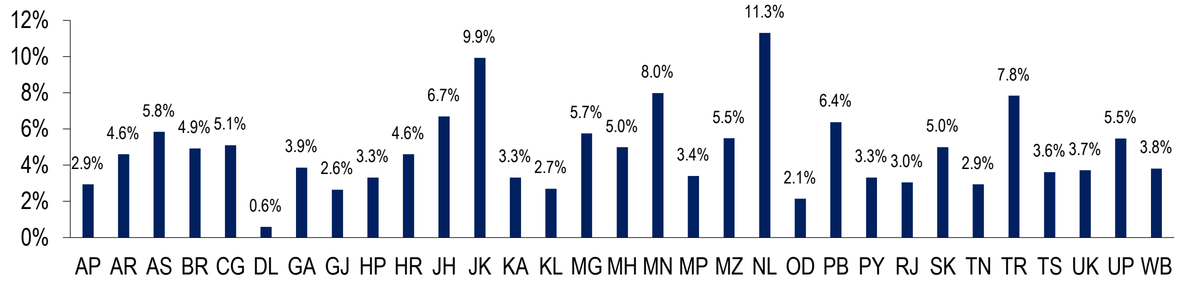
Figure 35: States are estimated to spend 4.6% of their budget on roads and bridges



Sources: State Budget Documents; PRS.

Police

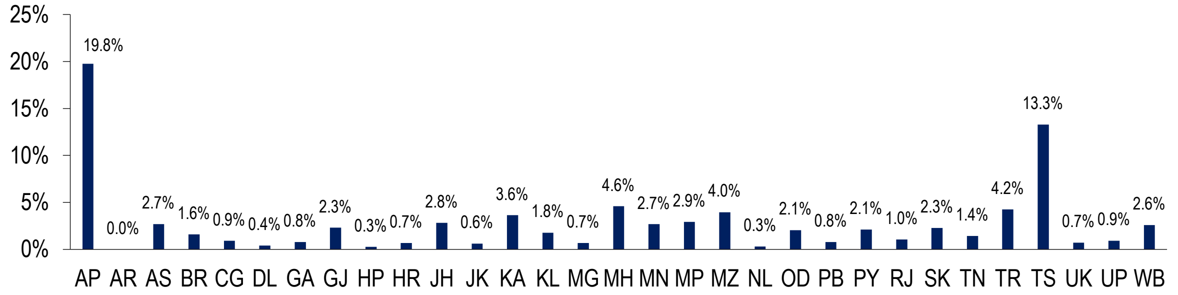
Figure 36: States are estimated to spend 4.2% of their budget on police



Sources: State Budget Documents; PRS.

Welfare of SC, ST, OBC, and minorities

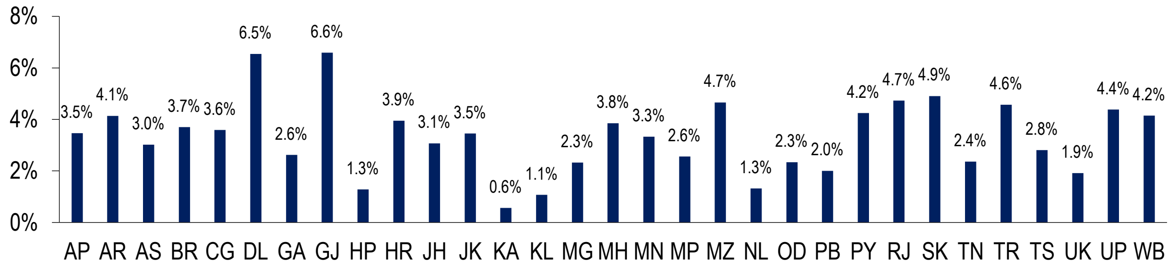
Figure 37: States are estimated to spend 3.5% of their budget on welfare of SC, ST, OBC, and minorities



Sources: State Budget Documents; PRS.

Urban development

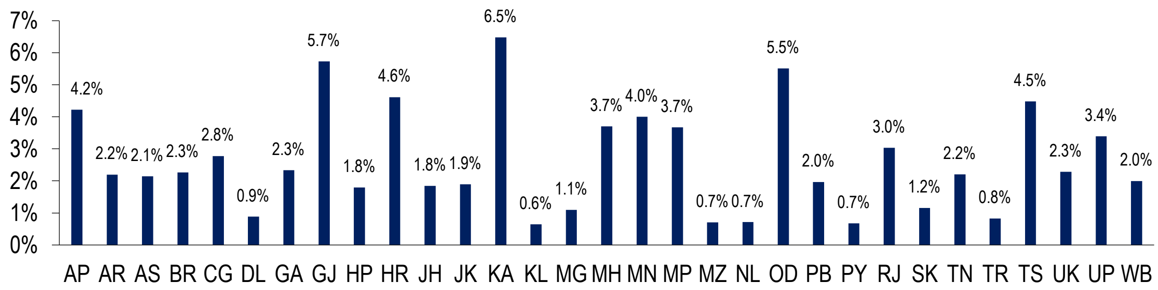
Figure 38: States are estimated to spend 3.4% of their budget on urban development



Sources: State Budget Documents; PRS.

Irrigation and flood control

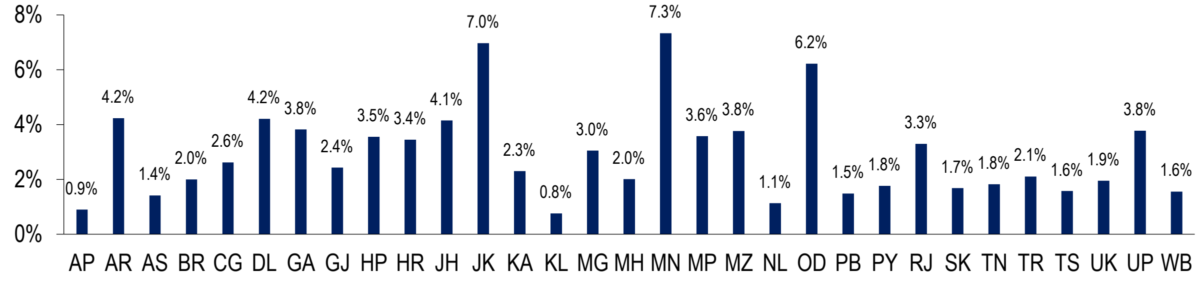
Figure 39: States are estimated to spend 3.4% of their budget on irrigation and flood control



Sources: State Budget Documents; PRS.

Water supply and sanitation

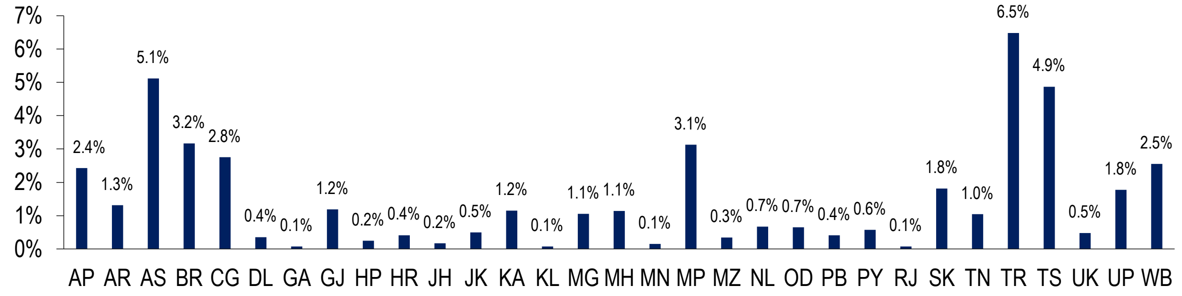
Figure 40: States are estimated to spend 2.7% of their budget on water supply and sanitation



Sources: State Budget Documents; PRS.

Housing

Figure 41: States are estimated to spend 1.7% of their budget on housing



Sources: State Budget Documents; PRS.

Annexure

Table 2: Post-Devolution Revenue Deficit Grants recommended by the 15th Finance Commission (in Rs crore)

State	2021-22	2022-23	2023-24	2024-25	2025-26	Total
Andhra Pradesh	17,257	10,549	2,691	0	0	30,497
Assam	6,376	4,890	2,918	0	0	14,184
Haryana	132	0	0	0	0	132
Himachal Pradesh	10,249	9,377	8,058	6,258	3,257	37,199
Karnataka	1,631	0	0	0	0	1,631
Kerala	19,891	13,174	4,749	0	0	37,814
Manipur	2,524	2,310	2,104	1,701	1,157	9,796
Meghalaya	1,279	1,033	715	110	0	3,137
Mizoram	1,790	1,615	1,474	1,079	586	6,544
Nagaland	4,557	4,530	4,447	4,068	3,647	21,249
Punjab	10,081	8,274	5,618	1,995	0	25,968
Rajasthan	9,878	4,862	0	0	0	14,740
Sikkim	678	440	149	0	0	1,267
Tamil Nadu	2,204	0	0	0	0	2,204
Tripura	4,546	4,423	4,174	3,788	2,959	19,890
Uttarakhand	7,772	7,137	6,223	4,916	2,099	28,147
West Bengal	17,607	13,587	8,353	568	0	40,115
Total	**1,18,452**	**86,201**	**51,673**	**24,483**	**13,705**	**2,94,514**

Sources: Report of the 15th Finance Commission for 2021-26; PRS.

Table 3: Gap between guaranteed revenue and actual SGST revenue of states

States	2018-19	2019-20	2020-21	2021-22
Andhra Pradesh	-4.1%	13.2%	28.8%	20.1%
Arunachal Pradesh	-58.2%	-85.6%	-72.9%	-101.9%
Assam	5.3%	13.3%	26.7%	19.0%
Bihar	18.2%	25.8%	34.7%	30.1%
Chhattisgarh	24.6%	36.2%	44.9%	40.7%
Delhi	21.8%	29.9%	51.2%	36.7%
Goa	20.9%	32.6%	54.5%	40.4%
Gujarat	14.1%	26.3%	41.8%	23.7%
Haryana	15.6%	24.3%	34.3%	25.0%
Himachal Pradesh	36.2%	40.8%	48.5%	41.7%
Jammu and Kashmir	27.2%	40.8%	48.0%	35.4%
Jharkhand	13.7%	22.2%	37.2%	31.0%
Karnataka	19.9%	28.5%	41.8%	31.7%
Kerala	15.3%	29.3%	41.9%	35.0%
Madhya Pradesh	14.3%	25.1%	38.3%	32.3%
Maharashtra	4.2%	16.4%	36.0%	20.3%
Manipur	-35.1%	-45.5%	-28.5%	-48.2%
Meghalaya	14.6%	15.3%	33.0%	18.6%
Mizoram	-62.3%	-66.8%	-47.6%	-75.6%
Nagaland	-23.7%	-41.6%	-33.7%	-48.1%
Odisha	24.3%	27.9%	37.0%	28.7%
Puducherry	43.3%	57.4%	64.7%	60.2%
Punjab	36.7%	47.4%	57.7%	48.8%
Rajasthan	8.2%	23.0%	36.0%	24.2%
Sikkim	-12.0%	-16.2%	9.2%	-20.5%
Tamil Nadu	5.4%	17.8%	34.8%	25.2%
Telangana	-0.7%	11.5%	24.7%	13.8%
Tripura	16.3%	22.9%	32.2%	25.8%
Uttar Pradesh	5.6%	15.3%	32.3%	23.1%
Uttarakhand	33.6%	40.3%	52.4%	43.4%
West Bengal	8.0%	18.4%	33.9%	27.0%
All India Average	**12.3%**	**23.0%**	**37.9%**	**27.2%**

Note: Negative figures indicate SGST revenue being higher than guaranteed revenue. Guaranteed revenue implies the guaranteed 14% revenue growth states were assured of under GST.
Sources: GST Council; PRS.

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

State/UT	2017-18	2018-19	2019-20	2020-21	2021-22
Andhra Pradesh	-546	-16,831	1,103	-6,894	-2,595
Arunachal Pradesh	-429	-420	0	0	-503
Assam	302	311	1,141	-107	357
Bihar	-1,872	-1,845	-2,913	-3,051	-2,635
Chhattisgarh	-726	-814	-571	-713	-807
Goa	26	-121	-276	-104	-264
Gujarat	426	184	314	429	373
Haryana	412	281	331	637	849
Himachal Pradesh	-44	132	43	-154	-141
Jharkhand	-212	-730	-1,111	-2,556	-1,772
Karnataka	-2,003	-1,825	-2,594	-5,135	2,076
Kerala	-784	-135	-270	-475	736
Madhya Pradesh	-5,191	-9,390	-5,034	-9,884	-2,159
Maharashtra	1,620	3,046	2,992	-2,906	1,885
Manipur	-8	-42	-15	-15	-11
Meghalaya	-287	-202	-443	-101	-153
Mizoram	87	-260	-291	-357	-343
Nagaland	-62	-94	-477	-528	-519
Puducherry	5	-39	-306	-11	73
Punjab	-2,618	363	-975	49	1,680
Rajasthan	686	-524	-2,551	-5,994	2,374
Sikkim	-29	-3	-179	-34	0
Tamil Nadu	-7,761	-12,623	-11,965	-13,407	-11,955
Telangana	-6,387	-9,525	-6,966	-6,686	-831
Tripura	28	38	-104	-4	-109
Uttar Pradesh	-5,002	-5,902	-3,866	-10,660	-6,492
Uttarakhand	-229	-553	-577	-152	-21
West Bengal	72	60	511	-199	-205
Total	**-30,526**	**-57,463**	**-35,049**	**-69,012**	**-21,112**

Note: Odisha's discom was privatised in 2020-21, hence it is excluded. Delhi has also privatised its discom. Private discoms also operate in parts of Gujarat, Maharashtra, and West Bengal. Data for Jammu and Kashmir is not available for 2021-22. Table shows profits and losses as per subsidy received basis.
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	2019-20	2020-21	2021-22
Andhra Pradesh	11%	28%	11%	0.0	0.0	0.4
Arunachal Pradesh	40%	52%	49%	0.0	-	6.0
Assam	23%	19%	17%	-1.1	0.3	-0.4
Bihar	40%	33%	32%	1.3	1.1	0.7
Chhattisgarh	19%	20%	18%	0.4	0.1	0.4
Goa	15%	13%	13%	0.7	0.3	0.7
Gujarat	12%	12%	10%	-0.1	-0.1	-0.1
Haryana	18%	17%	14%	-0.1	-0.2	-0.2
Himachal Pradesh	14%	14%	13%	-0.0	0.2	0.1
Jammu & Kashmir	60%	59%	NA	4.1	4.2	NA
Jharkhand	37%	43%	34%	1.2	2.7	2.2
Karnataka	17%	16%	11%	0.3	0.8	0.4
Kerala	13%	8%	8%	0.1	0.2	-0.3
Madhya Pradesh	30%	41%	23%	0.3	0.7	0.5
Maharashtra	19%	27%	15%	0.6	0.5	0.1
Manipur	23%	20%	24%	0.1	0.1	0.3
Meghalaya	32%	29%	27%	2.4	0.5	0.8
Mizoram	37%	29%	36%	4.0	6.9	6.2
Nagaland	52%	45%	41%	13.5	13.1	11.7
Puducherry	18%	20%	11%	1.1	0.0	-0.3
Punjab	15%	19%	12%	0.2	-0.3	-0.2
Rajasthan	30%	26%	17%	1.0	0.3	0.1
Sikkim	29%	26%	31%	2.1	0.3	0.0
Tamil Nadu	14%	12%	13%	2.1	2.4	2.1
Telangana	22%	13%	11%	1.1	1.2	0.1
Tripura	36%	37%	33%	0.2	-0.1	0.4
Uttar Pradesh	30%	27%	31%	0.4	1.2	0.7
Uttarakhand	20%	15%	14%	0.2	0.1	0.0
West Bengal	20%	21%	17%	0.5	1.2	-0.2
National Average	**21%**	**23%**	**17%**	**0.6**	**0.7**	**0.4**

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. The gap is measured on an energy sold-basis.
Odisha's discom was privatised in 2020-21, hence it is excluded. Data for Jammu and Kashmir is not available for 2021-22.
Sources: Power Finance Corporation reports for various years; PRS.

Table 6: Loans released under Scheme for Special Assistance to States for capital expenditure/investment (in Rs crore)

State	2020-21	2021-22	2022-23
Andhra Pradesh	688	502	6,106
Arunachal Pradesh	233	371	1,564
Assam	450	600	4,300
Bihar	843	1,247	8,456
Chhattisgarh	286	423	2,942
Goa	98	111	573
Gujarat	285	432	4,046
Haryana	91	135	1,267
Himachal Pradesh	533	800	651
Jharkhand	277	246	2,964
Karnataka	305	452	3,399
Kerala	82	239	1,903
Madhya Pradesh	1,320	1,512	7,360
Maharashtra	514	772	6,744
Manipur	317	213	467
Meghalaya	200	281	1,049
Mizoram	200	300	298
Nagaland	200	300	504
Odisha	472	517	75
Punjab	297	224	798
Rajasthan	1,002	692	5,596
Sikkim	200	300	551
Tamil Nadu	0	506	4,011
Telangana	358	214	2,501
Tripura	300	119	350
Uttar Pradesh	976	1,483	7,941
Uttarakhand	675	264	1,124
West Bengal	630	933	3,656
Total	**11,830**	**14,186**	**81,195**

Sources: Unstarred Question No. 1737, Ministry of Finance, Lok Sabha; PRS.

Table 7: Off budget borrowings raised by states in 2021-22 and 2022-23 (in Rs crore)

State	2021-22	2022-23 (estimated)
Andhra Pradesh	6,288	1,301
Assam	239	1,000
Chhattisgarh	297	2,763
Goa	77	0
Haryana	21	22
Karnataka	2,500	1,997
Kerala	14,313	2,770
Madhya Pradesh	576	1,784
Manipur	185	82
Meghalaya	0	13
Punjab	798	1,052
Sikkim	454	121
Tamil Nadu	595	746
Telangana	35,258	800
Uttar Pradesh	3,951	4,049
West Bengal	1,089	0
Total	**66,640**	**18,499**

Sources: Unstarred Question No. 528, Ministry of Finance, Rajya Sabha; 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 may be tied in nature, i.e., they may be 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 institutionalising financial discipline. The framework provides targets for revenue deficit, fiscal deficit, and outstanding debt to be met within a specified timeframe by states. It also requires states to bring out statements on fiscal policy for greater transparency.

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Institute for Policy Research Studies
3rd Floor, Gandharva Mahavidyalaya
212, Deen Dayal Upadhyaya Marg
New Delhi - 110002
Tel: (011) 2323 4801, 4343 4035

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