

Analysis of State Budgets 2022-23 of Major States in India

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Sacchidananda Mukherjee



**National Institute of Public Finance and Policy
New Delhi**

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*-Associate Professor, National Institute of Public Finance and Policy (NIPFP), 18/2, Satsang Vihar Marg, Special Institutional Area, New Delhi 110 067, India. E-mail: sach.s.mse@gmail.com

Abstract

After two consecutive years (2019-20 and 2020-21) of fiscal stress, state finances in India show sign of improvement in 2021-22RE. With rising economic growth, revenue mobilization has improved which helped states to increase expenditures during 2021-22. To cope up with the revenue stress and rein in deficits and debts, states have contained growth in expenditures during 2019-21. Despite all efforts consolidated fiscal deficit of 18 major states went up from 2.49% of aggregate GSDP in 2018-19 to 2.56% in 2019-20 and 3.89% in 2020-21. Consolidated public debt of 18 states increased from 19.66% of GSDP in 2018-19 to 20.53% in 2019-20 and 23.04% in 2020-21. States received GST compensation from the GST compensation fund which helped them to contain revenue and fiscal deficits. States also received back-to-back loans in lieu of shortfall in GST compensation fund from the Centre during 2020-21 and 2021-22 which helped them to contain public debt. Given the growth prospects of GSDP in 2022-23, overall revenue side of State Budgets 2022-23 seems realistic as states have set cautious targets in revenue mobilization. It is also to be highlighted that states have taken into account fiscal implications of the end of GST compensation regime in the budget estimates of 2022-23. States have resumed following the path of fiscal consolidation post COVID-19 pandemic. Successes in achieving revenue as well as expenditures targets set in the budget of 2022-23 could help states to control deficits and debts.

Key Words: State Finances, budget analysis, fiscal management, revenue mobilization, public finance management, public debt, fiscal deficit, revenue deficit, India.

JEL Codes: H20, H61, H62, H63

1. Introduction

Analysis of State Budgets to assess state of public finance at subnational level and the path that states follow in public finance management (PFM) is important. However, consolidation of database of state finances and analyzing aggregate trends require compilation of data from state budget documents and/or State Finance Accounts. Unlike state budget documents, State Finance Accounts are published with a time lag that varies between 2 to 3 years across states. Analysis of state budgets often remains state-specific where consolidated assessment of state finances is carried out on regular basis by the Reserve Bank of India (RBI) in annual publication of *State Finances: A Study of Budgets*. The RBI's analysis of state finances is available upto 2021-22BE in *State Finances: A Study of Budgets of 2021-22*.¹

The objective of the present paper is to present a consolidated assessment of Indian state finances of 18 major Indian states with a focus on state budgets of 2022-23. State-specific assessment of deficits and debt is also presented in the paper. We have also assessed the fiscal implications of GST compensations that states received from the GST compensation fund as well as back-to-back loans from the Centre in lieu of shortfall in GST compensation fund. 18 states received Rs. 1.41 trillion in 2021-22 as back-to-back loans from the Union government,² as compared to Rs. 0.89 trillion in 2020-21 (GST Council 2021).

After two consecutive years of fiscal stress during 2019-20 and 2020-21, state finances in India show sign of improvement in 2021-22. The revised estimates of 2021-22 show improvement in revenue mobilization as compared to 2020-21. With rising revenue mobilization, states have also increased expenditures and at the same time reduced revenue as well as fiscal deficits in 2021-22RE. States have resumed following the path of fiscal consolidation post COVID-19 pandemic. Success in achieving targets set in the budget 2022-23 (both in revenue mobilization as well as in expenditures) will be important for states to control deficits and debts.

In our knowledge this is the first study in Indian state finances based on budget estimates of 2022-23 of 18 major states. It is to be highlighted that the RBI has presented fiscal risk analysis of state governments in the RBI Bulletin of June 2022 (RBI 2022). However, the study analyses public finance data upto 2022-23BE for only 13 major Indian states. Some studies assess the state of public finances during the COVID-19 pandemic based on Monthly Key Indicators database of the Comptroller Auditor General of India as well as revised estimate of 2020-21 as available from State Budget documents of 2021-22 (Mukherjee and Badola 2021, Choudhury and Datta 2022).

In the next section we briefly discuss growth momentum of states in Gross State Domestic Product (GSDP at market prices, current prices, 2011-12 series). This is followed by

¹ <https://rbi.org.in/Scripts/AnnualPublications.aspx?head=State%20Finances%20:%20A%20Study%20of%20Budgets> (last accessed on 5 June 2022).

² As available from Rajya Sabha Starred Question No-137, Answered on 15 March 2022.

discussion on consolidated position of state finances of 18 major Indian states in section 3. In section 4, we discuss on revenue and fiscal deficits of states and it is followed by discussion on public debt positions of states in section 5. We draw our conclusions in section 6.

2. Growth Momentum of India States

In 2019-20, except Bihar annual growth rate in nominal GSDP was lower than average annual growth rate of GSDP during 2016-17 to 2018-19 for other states (Table 1). This shows that slowdown in economic growth across Indian states kicks in 2019-20 and it continues in 2020-21. Annual growth rate of aggregate GSDP of 18 states falls by 3 percentage point in 2019-20 as compared to average annual growth rate observed during 2016-19. The COVID-19 pandemic aggravated the slowdown in economic growth during 2020-21 and the highest fall in growth rate is reported in Odisha (15.6 percentage points), as compared to average annual growth rate observed during 2016-19. Except four states (viz., Bihar, Goa, Odisha, Uttar Pradesh) all states have recovered growth momentum in 2021-22 and the average annual growth rate of aggregate GSDP of 18 states was 14% in 2021-22RE, which is 2.2 percentage points higher than average annual growth rate observed during 2016-19. Aggregate GSDP of major states went up from Rs. 170.52 trillion in 2018-19 to Rs. 185.65 trillion in 2019-20 and Rs. 192.25 trillion in 2020-21 (Table 2). Therefore in two years (i.e., 2019-21), aggregate GSDP went up by only Rs. 36.86 trillion (Rs. 15.13 trillion in 2019-20 and Rs. 21.73 trillion in 2020-21) with respect to aggregate GSDP of 2018-19. However, during 2017-18 to 2018-19 aggregate GSDP went up by Rs. 17.19 trillion and during 2020-21 to 2021-22 it went up by Rs. 26.96 trillion. Slowdown in economic growth rates during 2019-21 has affected revenue mobilization. As compared to average annual growth rate achieved during 2016-19, post-pandemic recovery in economic growth rate has not observed for four states (viz., Bihar, Goa, Punjab, Uttar Pradesh) in 2021-22. In budget estimates of 2022-23, except Goa, Punjab and Uttar Pradesh all states project fall in growth rate of GSDP as compared to 2021-22. Growth rate in aggregate GSDP of major states is projected to fall by 1.9 percentage points in 2022-23 with respect to growth rate observed in 2021-22. In the face of slow economic growth, it is likely that there will be lower revenue mobilization and higher demands for public expenditures during 2022-23. Therefore, to continue with the fiscal consolidation path, success of Indian states will be measured by achieving the budget estimates of 2022-23. Sustaining buoyancy in revenue mobilization and containing expenditures will be important to rein in deficits and debts. However, apart from expectations of slowing down of economic growth in 2022-23, as presented by states in State Budget of 2022-23, states have to also manage public finances without GST compensation after 30 June 2022. The impact of end of GST compensation regime on state finances will vary across states and it will be depending on state-specific dependence on GST compensation to finance budgeted expenditures (Mukherjee 2022 & 2021, Rao 2022).

Table 1: Annual Growth Rate of GSDP at Market Prices (Current Prices, 2011-12 Series) (%)

State	Average of 2016-17 to 2018-19 (A)	2019-20 (B)	2020-21 (C)	2021-22RE (D)	2022-23BE (E)	B-A	C-A	D-A	E-D	E-A
Andhra Pradesh	13.1	10.6	5.0	18.5	11.4	-2.5	-8.1	5.4	-7.1	-1.7
Bihar	12.4	12.5	4.1	9.8	9.7	0.1	-8.3	-2.6	-0.2	-2.7
Chhattisgarh	12.3	8.4	1.5	14.2	9.6	-3.8	-10.7	1.9	-4.6	-2.7
Goa	12.5	10.0	8.7	-3.1	2.2	-2.5	-3.9	-15.6	5.3	-10.3
Gujarat	13.2	9.2	1.6	17.4	13.3	-4.0	-11.6	4.2	-4.1	0.1
Haryana	12.1	9.2	-0.5	18.1	11.0	-3.0	-12.6	6.0	-7.1	-1.1
Jharkhand	14.0	5.1	-1.3	14.7	10.4	-8.9	-15.2	0.7	-4.3	-3.5
Karnataka	12.2	9.4	7.2	18.4	9.6	-2.8	-5.1	6.2	-8.8	-2.7
Kerala	11.9	4.6	-3.0	12.8	10.8	-7.4	-15.0	0.9	-2.0	-1.1
Madhya Pradesh	15.4	13.0	4.0	19.7	11.1	-2.5	-11.4	4.3	-8.6	-4.3
Maharashtra	9.3	6.5	-0.8	17.9	12.0	-2.8	-10.2	8.6	-5.9	2.7
Odisha	15.0	9.6	-0.6	17.6	12.7	-5.4	-15.6	2.6	-4.9	-2.3
Punjab	9.5	5.4	-1.9	8.3	9.8	-4.1	-11.5	-1.2	1.5	0.2
Rajasthan	10.2	9.6	1.4	18.0	11.6	-0.6	-8.8	7.8	-6.4	1.4
Tamil Nadu	11.5	10.3	5.9	14.6	14.0	-1.2	-5.6	3.1	-0.6	2.5
Telangana	14.1	10.6	2.3	19.1	13.0	-3.5	-11.8	5.0	-6.1	-1.1
Uttar Pradesh	11.6	8.1	13.4	-9.8	17.1	-3.6	1.8	-21.5	26.9	5.4
West Bengal	11.4	9.6	7.7	18.1	11.5	-1.8	-3.7	6.7	-6.6	0.1
Major States	11.8	8.9	3.6	14.0	12.1	-3.0	-8.3	2.2	-1.9	0.3

Source: GSDP data is compiled from EPWRF's India Time Series Database, State Budget Documents of 2022-23, and Analysis of State Budgets 2022-23 of PRS India.

3. Analysis of State Budgets 2022-23

States have adopted cautious approach in projecting budget estimates of 2022-23. In setting budget estimates of 2022-23, states have taken into account the fiscal benefit that has accrued during 2021-22 due to lower base effect following two consecutive years of fiscal shocks (2019-20 and 2020-21). As compared to 2019-20, revenue mobilization on account of Total Revenue Receipts (TRR) falls by Rs. 0.97 trillion in 2020-21 (Table 2). This shortfall in TRR is partly attributed to fall in growth rate in nominal GSDP by 5.3 percentage points in 2020-21 as compared to 2019-20 (Table 1). According to the revised estimate of 2021-22, states have mobilized additional revenue of Rs. 6.54 trillion (on account of TRR) as compared to 2020-21. This benefit in revenue mobilization is driven by improvement in own tax revenue (OTR) collection by Rs. 3.21 trillion as well as increase in states' share in Central taxes by Rs. 1.25 trillion. In addition to tax revenue, states' own non-tax revenue

increases by Rs. 0.76 trillion and Grants-in-Aids from the Centre (including GST compensation payments from the GST compensation fund) increases by Rs. 1.3 trillion during 2021-22(RE). The rise in revenue mobilization in 2021-22RE has facilitated states to increase total expenditures by Rs. 6.78 trillion with respect to 2020-21. After two consecutive years of containing growth rate of total expenditure, states increased TE in 2021-22. At the same time states have also contained growth rates in revenue as well as fiscal deficits in 2021-22. Together states have set a growth rate of 15.8% in TRR in 2022-23BE which is 13 percentage points lower than the growth rate experienced by states in 2021-22RE (i.e., 28.79%) (Table 2). In 2022-23BE, states set lower growth rates (as compared to 2021-22RE) in all components of revenue and the largest fall in growth rate is projected in own non-tax revenue (22.61 percentage point). States projects growth rate in Grants-in-Aids from the Centre of 10.47% in 2022-23BE which is 15.92 percentage points lower than growth experienced in 2021-22RE. Since the GST compensation regime ends on 30 June 2022, perhaps states have taken into account this aspect in presenting the budget estimates for 2022-23. As per revised estimate, states have experienced a phenomenal growth in 'Recovery of Loans and Advances' in 2021-22 with respect to 2020-21. States have set lower growth in this component of non-debt capital receipts in 2022-23BE. Given the growth prospect of GSDP in 2022-23, overall revenue side of the state budget of 2022-23 seems realistic and states have set cautious targets in revenue mobilization in the budget estimates of 2022-23.

In budget estimate of 2022-23, states have projected a growth rate of 12.8% in Total Expenditure (TE) with reference to 2021-22RE. This growth rate is 9.77 percentage points lower than the growth rate experienced in 2021-22RE with reference to 2020-21 (i.e., 22.57%). States set aggressive target in containing Revenue Expenditure (REVEX) by setting a growth target of 11.7% for 2022-23BE vis-à-vis a growth rate of 19.61% experienced in 2021-22RE. It is to be highlighted that states have contained annual growth rates in TE during 2019-21 which helped states to rein in deficits and debt. By containing capital expenditure (CAPEX) and disbursement of fresh loans and advances, states have also created fiscal space to accommodate expenditures on revenue account during COVID-19 pandemic in 2020-21. It is to be also highlighted that consolidated revenue deficit of 18 states went up by Rs. 2.52 trillion in 2020-21 with reference to 2019-20 and it is largely attributed to rise in REVEX by Rs. 1.55 trillion and fall in TRR by Rs. 0.97 trillion. States increased their REVEX by Rs. 5.19 trillion and CAPEX by Rs. 1.60 trillion in 2021-22(RE) with reference to 2020-21. This is backed by rise in TRR of Rs. 6.53 trillion and non-debt capital receipts of Rs. 0.51 trillion during 2021-22(RE) (as compared to 2020-21). This shows that backed by higher revenue mobilization, states have increased expenditures in 2021-22 after two consecutive years of containing public expenditures during 2019-21. According to revised estimate of 2021-22, states have also reduced revenue deficit by Rs. 1.35 trillion in 2021-22 as compared to 2020-21. States have also reduced fiscal deficit marginally during 2021-22 vis-à-vis 2020-21. In the budget estimates of 2022-23, states aim to increase REVEX by Rs. 3.5 trillion and CAPEX by Rs. 1.21 trillion with respect to 2021-22RE. States also hope that this additional Rs. 4.71 trillion expenditure will be largely

financed by mobilizing additional TRR of Rs. 4.62 trillion in 2022-23. States expect that non-debt capital receipts will be lower during 2022-23 by Rs. 0.54 trillion whereas disbursement of fresh loans and advances will be retained to the level as it was prevalent in 2021-22. In budget 2022-23, states have set aggressive targets in cutting expenditures by lowering growth rates vis-à-vis 2021-22RE. However, experience of individual states may differ from the overall analysis presented in this paper.

Aggregate TRR (as % of GSDP) of major states has fallen from 13.6% in 2018-19 to 11.8% in 2020-21 (Table 3). After two consecutive years of revenue shocks during 2019-21, a moderate improvement in TRR is observed in 2021-22RE, as TRR increases by 1.53% of GSDP as compared to 2020-21. In the budget estimate of 2022-23, states have projected TRR to reach 13.77% of GSDP. If states achieve the revenue target in 2022-23, TRR will again return to the level prevalent prior to 2019-20. Gain in TRR in 2021-22(RE) with respect to 2020-21 is backed by improvement in Tax Revenue (TR) by 1% of GSDP and Non-Tax Revenue (NTR) by 0.53% of GSDP. In TR, improvement in Own Tax Revenue (OTR) by 0.77% of GSDP is observed during 2021-22RE and it is largely due to lower base effect followed by two consecutive years of revenue shocks experienced by states during 2019-21. States' share in Central taxes increases by 0.23% of GSDP in 2021-22RE as compared to 2020-21. In non-tax revenue (NTR), Own NTR of states as well as Grants-in-Aid from the Centre have gone up by 0.25% and 0.28% of GSDP respectively in 2021-22RE. It is to be noted that Grants-in-Aid from the Centre also includes GST compensation payment from the GST compensation fund. Non-Debt Capital receipts also improve by 0.22% of GSDP in 2021-22RE and it is driven by rise in 'Recovery of Loans and Advances'. In the revised estimate of 2021-22, overall revenue side of state budgets of major states shows improvement as compared to 2020-21. A part of this improvement could be attributed to lower base effect due to two consecutive years of revenue shocks experienced by states during 2019-21.

In presenting budget estimates of 2022-23, states adopt cautious approach in projecting TRR. States project an increase in TRR by 0.44% of GSDP in 2022-23BE with respect to 2021-22RE. It is to be highlighted that due to lower base effect, states experience an increase in TRR by 1.53% of GSDP in 2021-22RE with respect to 2020-21. In tax revenue (TR), states are expecting a marginal rise in states' share in Central taxes by 0.02% of GSDP in 2022-23BE vis-a-vis a rise by 0.23% of GSDP observed in 2021-22RE. Similarly, states are also expecting a fall in Grants-in-Aid from the Centre by 0.04% of GSDP in 2022-23BE vis-a-vis a rise by 0.28% of GSDP in 2021-22RE. Since states book GST compensation receipts from the GST compensation fund under Grants-in-Aid from the Centre, states have taken into account the end of GST compensation regime after 30 June 2022 in presenting budget estimates for 2022-23 by projecting a fall in Grants-in-Aid from the Centre. States are also expecting a fall in Non-Debt Capital Receipts by 0.25% of GSDP in 2022-23BE. Our analysis shows that states have taken into account fiscal implications of the end of GST compensation regime in projecting budget estimates of 2022-23 as well as the benefits accrued to states due to lower base effect followed by two consecutive years of revenue shocks during 2019-21. Overall, the revenue side of state budgets of 18 states reflects a

conservative picture of revenue mobilization, as states adopt cautious approach in projecting budget estimates for 2022-23.

In expenditure side of the budget, after two consecutive years of containing total expenditures (TE, as % of GSDP) during 2019-21 by states, a rise in TE is observed in 2021-22RE. States have increased total expenditure (TE) in 2021-22RE vis-a-vis 2018-19 by 0.71% of aggregate GSDP. Revenue shock experienced in 2019-20 compelled states to reduce expenditures to contain deficits. Though states experienced much severe revenue shock in 2020-21 vis-à-vis 2019-20, states increased revenue expenditures (as % of GSDP) in 2020-21 to cope up with the COVID-19 pandemic. Though the level of TE in 2020-21 (i.e., 15.63% of GSDP) was below the TE incurred in 2018-19 (i.e., 16.09% of GSDP), it helped states to provide emergency healthcare services and livelihood supports to people during COVID-19 pandemic. With rising revenue mobilization in 2021-22, states have increased TE by 0.71% of GSDP as compared to 2018-19. With gradual resummptions of normal economic activities, states aim to contain total expenditures at 16.91% of GSDP in 2022-23BE. States also aim to reduce REVEX by 0.13% of GSDP and increase CAPEX by 0.24% of GSDP in 2022-23BE vis-à-vis 2021-22RE. If successful, this will help states to increase the share of CAPEX marginally. The share of CAPEX in GSDP is hovering around 2 to 2.5% of GSDP for a long time. Lack of fiscal space of states is one of the reasons for lower spending on CAPEX. Keeping in mind the scarcity of fiscal space of states, in the Union Budget of 2022-23 interest free loan of Rs. 1 trillion has been announced and it likely to help states to overcome fiscal constraints to some extent and invest in infrastructures.

In the budget 2022-23, states envisage to reduce revenue deficit (RD) by half of the level prevalent in 2021-22RE, i.e., from 1.10% of GSDP in 2020-21RE to 0.53% of GSDP in 2022-23BE. States also aim that three-fourth of this fall in revenue deficit will be backed by augmentation of TRR (by 0.44% of GSDP) and one-fourth by consolidation of revenue expenditure (0.13% of GSDP). Elimination of RD in 2022-23 in aggregate may not be a challenging task before states if revenue buoyancy improves beyond budget estimates. Improvement in GSDP growth rate during 2022-23 is important to increase revenue mobilization as well as containing public expenditures. In the budget 2022-23, consolidated fiscal deficit of 18 major states is projected to be 3.29% of GSDP. This will be in line with the prescribed glide path of fiscal deficit of states for 2022-23 (i.e., 3.3% of nominal GDP) recommended by the Fifteenth Finance Commission (XV Finance Commission 2020, Figure 1.1, Page No. 10). However, it is to be highlighted that our analysis does not include minor states. Interest payment as percentage of TRR was 15.91% in 2020-21 and it has been contained to 14.07% in 2021-22RE. Interest payment (as % of TRR) is projected to be contained further to 13.29% of TRR in 2022-23BE. However, interest payment (as % of TRR) is still higher than the 10% limit recommended by the Fourteenth Finance Commission (XIV Finance Commission 2014, Chapter 14, page No. 201). The share of revenue deficit in fiscal deficit reached 50.26% in 2020-21 and it is contained to 32.41% in 2021-22RE. In 2022-23BE, it RD is projected to be 16.03% of FD. Running fiscal deficit to finance revenue deficit must be avoided as it erodes fiscal space for capital expenditure.

Table 2: Consolidated Financial Statement of 18 Major Indian States (Rs. Trillion)

Revenue & Expenditure Heads	2017-18	2018-19	2019-20	2020-21	2021-22 RE	2022-23 BE	Growth Rate (%)					
							2017-18 to 2018-19	2018-19 to 2019-20	2019-20 to 2020-21	2018-19 to 2020-21	2020-21 to 2021-22RE	2021-22RE to 2022-23BE
1. Total Revenue Receipts (TRR) (2+3)	20.51	23.19	23.66	22.69	29.23	33.84	13.06	2.01	-4.08	-2.15	28.79	15.80
2. Tax Revenue (2a+2b)	15.74	17.81	17.11	16.18	20.65	24.01	13.18	-3.93	-5.47	-9.18	27.62	16.28
2a. Own Tax Revenue	9.78	11.08	11.31	10.85	14.06	16.57	13.22	2.10	-4.05	-2.03	29.60	17.86
2b. States' Share in Central Taxes	5.96	6.74	5.80	5.33	6.58	7.43	13.10	-13.84	-8.22	-20.92	23.60	12.91
3. Non-Tax Revenue (3a+3b)	4.77	5.38	6.54	6.51	8.58	9.84	12.68	21.68	-0.45	21.13	31.70	14.65
3a. Own Non-Tax Revenue	1.62	1.95	2.39	1.57	2.33	2.93	20.22	22.50	-34.38	-19.62	48.48	25.87
3b. Grants-in-Aid from the Centre	3.15	3.43	4.16	4.95	6.25	6.91	8.81	21.22	19.03	44.28	26.39	10.47
4. Non-Debt Capital Receipts (4a+4b)	0.39	0.39	0.56	0.23	0.73	0.20	0.77	42.76	-59.54	-42.23	222.93	-73.16
4a. Recovery of Loans and Advances	0.39	0.38	0.56	0.13	0.66	0.14	-1.15	45.34	-77.53	-67.34	430.54	-79.45
4b. Misc. Capital Receipts	0.001	0.009	0.003	0.101	0.067	0.060	534.02	-69.26	3629.26	1046.23	-33.47	-11.25
5. Total Expenditure (6+7)	24.38	27.44	28.59	30.05	36.83	41.54	12.54	4.20	5.09	9.51	22.57	12.80
6. Revenue Expenditure	20.88	23.52	24.90	26.45	31.64	35.14	12.67	5.86	6.22	12.45	19.61	11.07
6a. Interest Payments	2.88	3.27	3.31	3.61	4.11	4.50	13.83	0.99	9.20	10.28	13.95	9.36
7. Capital Expenditure	3.50	3.91	3.69	3.60	5.19	6.40	11.79	-5.75	-2.52	-8.13	44.36	23.34
8. Disbursement of Loans and Advances	0.35	0.43	0.38	0.35	0.57	0.58	24.05	-12.68	-6.62	-18.46	62.02	1.72
9. Revenue Deficit (6-1)	0.37	0.33	1.24	3.76	2.41	1.30	-9.28	274.20	202.20	1030.83	-35.86	-46.27
10. Fiscal Deficit [(5+8)-(1+4)]	3.82	4.28	4.75	7.48	7.44	8.08	12.01	10.83	57.51	74.57	-0.54	8.63
11. Primary Deficit (10-6a)	0.95	1.01	1.44	3.87	3.32	3.58	6.48	42.70	168.29	282.85	-14.06	7.72
12. GSDP (Rs. Trillion)	153.33	170.52	185.65	192.25	219.21	245.73	11.21	8.87	3.55	12.74	14.02	12.10

Source: Background Data accessed from the NIPFP's Database Unit

Table 3: Consolidated Financial Statement of 18 Major Indian States (as % of Consolidated GSDP*, if not specially mentioned)

Revenue & Expenditure Heads	2017-18 (A)	2018-19 (B)	2019-20 (C)	2020-21 (D)	2021-22 RE (E)	2022-23 BE (F)	C-B	D-B	E-D	E-B	F-E	F-B
1. Total Revenue Receipts (TRR) (2+3)	13.38	13.60	12.74	11.80	13.33	13.77	-0.86	-1.80	1.53	-0.27	0.44	0.17
2. Tax Revenue (2a+2b)	10.26	10.45	9.22	8.41	9.42	9.77	-1.23	-2.03	1.00	-1.03	0.35	-0.68
2a. Own Tax Revenue	6.38	6.50	6.09	5.64	6.41	6.74	-0.40	-0.85	0.77	-0.08	0.33	0.25
2b. States' Share in Central Taxes	3.88	3.95	3.13	2.77	3.00	3.03	-0.82	-1.18	0.23	-0.95	0.02	-0.93
3. Non-Tax Revenue (3a+3b)	3.11	3.15	3.53	3.39	3.91	4.00	0.37	0.23	0.53	0.76	0.09	0.85
3a. Own Non-Tax Revenue	1.06	1.14	1.29	0.81	1.06	1.19	0.14	-0.33	0.25	-0.08	0.13	0.05
3b. Grants-in-Aid from the Centre	2.06	2.01	2.24	2.57	2.85	2.81	0.23	0.56	0.28	0.84	-0.04	0.80
4. Non-Debt Capital Receipts (4a+4b)	0.25	0.23	0.30	0.12	0.33	0.08	0.07	-0.11	0.22	0.10	-0.25	-0.15
4a. Recovery of Loans and Advances	0.25	0.22	0.30	0.07	0.30	0.06	0.08	-0.16	0.24	0.08	-0.25	-0.17
4b. Misc. Capital Receipts	0.001	0.005	0.001	0.053	0.031	0.024	0.00	0.05	-0.02	0.03	-0.01	0.02
5. Total Expenditure (6+7)	15.90	16.09	15.40	15.63	16.80	16.91	-0.69	-0.46	1.17	0.71	0.11	0.82
6. Revenue Expenditure	13.62	13.79	13.41	13.76	14.43	14.30	-0.38	-0.04	0.67	0.64	-0.13	0.51
6a. Interest Payments	1.88	1.92	1.78	1.88	1.88	1.83	-0.14	-0.04	0.00	-0.04	-0.05	-0.09
7. Capital Expenditure	2.28	2.30	1.99	1.87	2.37	2.61	-0.31	-0.42	0.50	0.07	0.24	0.31
8. Disbursement of Loans and Advances	0.23	0.25	0.20	0.18	0.26	0.23	-0.05	-0.07	0.08	0.01	-0.02	-0.02
9. Revenue Deficit (RD) (6-1)	0.24	0.19	0.67	1.95	1.10	0.53	0.47	1.76	-0.86	0.90	-0.57	0.33
10. Fiscal Deficit (FD) [(5+8)-(1+4)]	2.49	2.51	2.56	3.89	3.39	3.29	0.05	1.38	-0.50	0.88	-0.11	0.78
11. Primary Deficit (PD) (10-6a)	0.62	0.59	0.78	2.01	1.52	1.46	0.18	1.42	-0.50	0.92	-0.06	0.86
12. GSDP (Rs. Trillion)	153.33	170.52	185.65	192.25	219.21	245.73	15.13	21.73	26.96	48.69	26.52	75.21
13. RD as % of FD (9/10*100)	9.58	7.76	26.20	50.26	32.41	16.03	18.44	42.50	-17.85	24.65	-16.38	8.27
14. Interest Payment as % of TRR (6a/1*100)	14.02	14.11	13.97	15.91	14.07	13.29	-0.14	1.79	-1.83	-0.04	-0.78	-0.82

Notes: *-GSDP at Market Prices (Current Prices, 2011-12 Series)

Source: Background Data accessed from the NIPFP's Database Unit

On average two-third of total expenditure (combined revenue and capital expenditure) is spent on developmental purposes (Table 4). In developmental expenditure, social services account higher share than economic services. Since 2019-20, average share of expenditure on economic services is marginally lower than general services (accounted as non-developmental expenditure). On average 86.2% of total expenditure is spent on revenue account. It is to be also noted that on average 11.5% of total expenditure is spent on interest payment. In structural composition of total expenditure (TE), there are marginal changes in the shares over the years. However, the range of change in the share is restricted 2 to 3% of TE. For example, the share of social services (combined REVEX and CAPEX) in TE has gone up to 39.6% in 2021-22RE from 36.6% in 2018-19 whereas the share of economic services has gone down from 30.3% in 2018-19 to 28.4% in 2021-22RE. This shows that perhaps states have limited scope in expenditure switching.

Table 4: Structural Composition of Total Expenditures of States (% of Total Expenditure)

Expenditure Head	2017-18	2018-19	2019-20	2020-21	2021-22 RE	2022-23 BE
1. Total Expenditure (2+4)	100.0	100.0	100.0	100.0	100.0	100.0
1a. Non-developmental Expenditure (2a+4a)	29.8	30.4	31.1	31.4	29.5	30.1
1b. Developmental Expenditure (2b+4b)	67.5	66.8	66.2	66.0	68.0	67.6
1b(i). Social Services [2b(i)+4b(i)]	36.7	36.6	37.1	37.8	39.6	39.3
1b(ii). Economic Services [2b(ii)+4b(ii)]	30.8	30.3	29.1	28.2	28.4	28.2
2. Revenue Expenditure (2a+2b+3)	85.6	85.7	87.1	88.0	85.9	84.6
2a. Non-developmental Expenditure	29.2	29.8	30.5	30.7	28.7	29.2
<i>2a. Interest Payment</i>	<i>11.8</i>	<i>11.9</i>	<i>11.6</i>	<i>12.0</i>	<i>11.2</i>	<i>10.8</i>
2b. Developmental Expenditure [2b(i)+2b(ii)]	53.8	53.2	53.9	54.6	54.7	53.1
2b(i). Social Services	33.4	33.4	34.4	34.6	35.3	34.5
2b(ii). Economic Services	20.3	19.8	19.5	20.0	19.4	18.6
3. Assignment to Local Bodies & Panchayati Raj Institutions	2.7	2.7	2.7	2.7	2.5	2.4
4. Capital Expenditure (4a+4b)	14.4	14.3	12.9	12.0	14.1	15.4
4a. Non-developmental Expenditure	0.6	0.6	0.7	0.7	0.8	0.9
4b. Developmental Expenditure [4b(i)+4b(ii)]	13.7	13.6	12.2	11.3	13.3	14.5
4b(i). Social Services	3.2	3.2	2.6	3.2	4.3	4.8
4b(ii). Economic Services	10.5	10.5	9.6	8.1	9.0	9.7
Total Expenditure (in Rs. trillion)	24.38	27.44	28.59	30.05	36.83	41.54

Source: Background Data accessed from the NIPFP's Database Unit

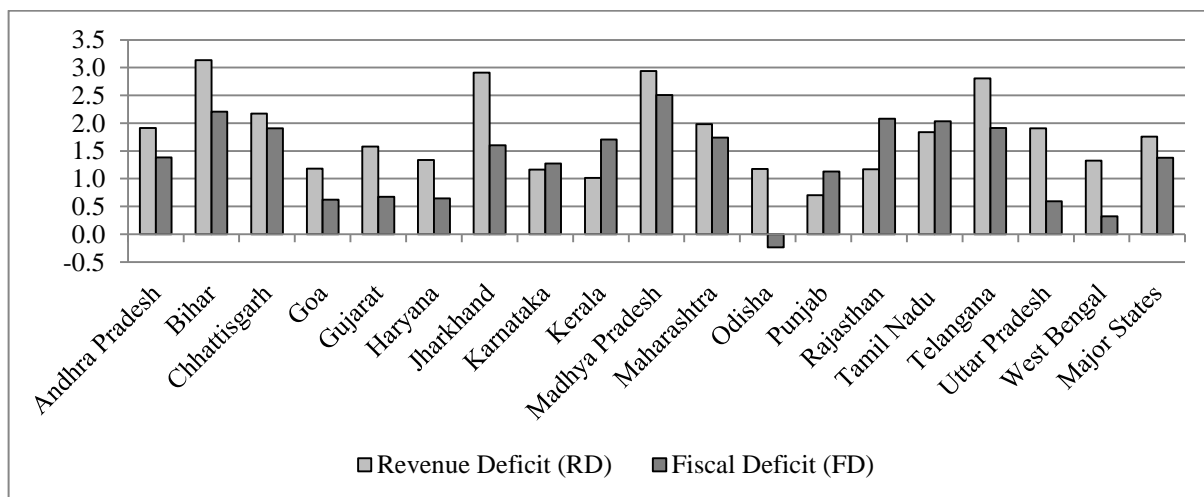
4. Analysis of Budgetary Deficits of States

Our analysis shows that out of 18 states 11 states have experienced revenue surplus during 2017-19 (Table 5). This number goes down to six in 2019-20 and further to one in 2020-21. In 2019-20, five states (Chhattisgarh, Goa, Madhya Pradesh, Maharashtra and Telangana)

turn into revenue deficit state from revenue surplus state in 2018-19. The experience of Chhattisgarh demands highlighting, as it turns into revenue deficit state in 2019-20 with revenue deficit of 2.79% of GSDP from a revenue surplus (0.21% of GSDP) state in 2018-19. In 2020-21, except Odisha, all states experienced revenue deficit. Rajasthan registered the highest revenue deficit of 4.34% of GSDP in 2020-21. With gradual improvement in revenue mobilization, states contained revenue deficit and in 2021-22RE and there are five states with revenue surplus. According to the budget estimate, eight states may have revenue surplus in 2022-23.

During 2017-19, 11 states met FRBM limit in fiscal deficit by restricting it to maximum 3% of GSDP. This number falls to eight in 2019-20 and five in 2020-21. Again Rajasthan was running the highest FD (5.86% of GSDP) in 2020-21. The experience of Chhattisgarh is again demand highlighting, as fiscal deficit went up from 2.61% of GSDP in 2018-19 to 5.21% of GSDP in 2019-20. As compared to 2018-19, fiscal situation deteriorates in 2020-21 for all states, except Odisha and that also in FD only (Figure 1). Maximum rise in revenue deficit observed in Bihar and the highest rise fiscal deficit observed for Madhya Pradesh. However, improvements in fiscal situation observed in 2021-22RE for some states, as seven states met the FRBM limit in FD. This implies that after two consecutive years of fiscal stress, states have again resumed following the path of fiscal consolidation by augmenting revenue mobilization and containing expenditures. As compared to 2020-21, in 2021-22RE except Bihar, Kerala and Punjab all states reduced revenue deficit. Except Bihar, Goa, Maharashtra, Punjab, Uttar Pradesh and West Bengal, all states reduced fiscal deficit in 2021-21RE vis-a-vis 2020-21 (Figure 3). In the budget estimates 2022-23, it is expected that six states will meet FRBM target. Budget 2022-23 may play an important role in Indian state finances by helping states to achieve fiscal consolidation post COVID-19 pandemic.

Figure 1: State-wise Change in Revenue and Fiscal Deficits from 2018-19 to 2020-21 (% of GSDP)



Source: Background Data accessed from the NIPFP's Database Unit

Table 5: Revenue Deficit (RD) and Fiscal Deficit (FD) of 18 Major Indian States (% of GSDP)

State	2017-18		2018-19		2019-20		2020-21		2021-22 BE		2021-22 RE		2022-23 BE	
	RD	FD	RD	FD	RD	FD	RD	FD	RD	FD	RD	FD	RD	FD
Andhra Pradesh	2.05	4.12	1.59	4.06	2.74	4.11	3.50	5.44	0.42	3.08	1.63	3.18	1.27	3.64
Bihar	-3.16	3.05	-1.31	2.62	-0.12	2.06	1.83	4.82	-1.35	3.31	5.48	11.31	-0.64	3.47
Chhattisgarh	-1.21	2.41	-0.21	2.61	2.79	5.21	1.96	4.52	0.93	4.36	0.26	3.81	-0.16	3.33
Goa	-0.73	2.29	-0.46	2.34	0.26	2.22	0.72	2.96	-0.07	6.57	0.02	7.53	-0.48	4.71
Gujarat	-0.39	1.61	-0.22	1.77	-0.12	1.51	1.36	2.44	-0.06	1.58	-0.04	1.51	-0.05	1.64
Haryana	1.65	2.99	1.61	3.14	2.23	4.00	2.95	3.78	3.26	3.80	1.40	2.99	0.98	2.98
Jharkhand	-0.67	4.42	-1.93	2.05	-0.61	2.50	0.98	3.65	-0.26	2.40	-0.14	2.59	-1.68	2.46
Karnataka	-0.34	2.33	-0.05	2.60	-0.07	2.36	1.12	3.88	0.74	2.89	0.30	2.39	0.65	2.74
Kerala	2.41	3.83	2.22	3.42	1.76	2.89	3.23	5.12	1.87	3.40	3.54	-0.06	2.30	3.91
Madhya Pradesh	-0.64	3.13	-1.06	2.60	0.30	3.51	1.88	5.11	0.71	4.36	0.49	3.70	0.29	4.04
Maharashtra	-0.09	1.02	-0.47	0.90	0.63	1.97	1.52	2.64	0.32	2.08	0.96	2.79	0.68	2.50
Odisha	-3.03	2.12	-2.85	2.04	-0.44	3.44	-1.67	1.80	-0.95	3.21	-3.29	0.38	-2.73	3.00
Punjab	2.01	2.65	2.56	3.13	2.64	3.11	3.27	4.26	1.42	3.99	3.66	5.65	1.99	3.78
Rajasthan	2.23	3.04	3.17	3.78	3.64	3.77	4.34	5.86	1.99	3.98	2.98	5.18	1.76	4.36
Tamil Nadu	1.47	2.72	1.44	2.90	2.00	3.35	3.28	4.94	2.69	4.62	2.54	4.17	2.12	3.89
Telangana	-0.46	3.53	-0.51	3.14	0.66	3.35	2.30	5.06	-0.58	3.94	-0.38	3.88	-0.29	4.00
Uttar Pradesh	-0.87	1.93	-1.78	2.22	-3.95	-0.65	0.12	2.81	-1.07	4.17	-1.26	4.27	-2.11	3.96
West Bengal	1.01	2.97	0.94	3.11	1.63	3.05	2.27	3.43	1.74	3.96	2.15	3.47	1.65	3.64
Major States	0.24	2.49	0.19	2.51	0.67	2.56	1.95	3.89	0.71	3.37	1.10	3.39	0.53	3.29
Revenue Surplus States (Nos.)	11		11		6		1		7		5		8	
States having Fiscal Deficit ≤ 3% of GSDP (Nos.)		11		11		8		5		4		7		5

Source: Background Data accessed from the NIPFP's Database Unit

4.1 Analysis of Adjusted Deficits of States

States received GST compensation from the GST compensation fund as well as back-to-back loans from the Centre in lieu of shortfall in GST compensation fund. States book GST compensation receipts from the GST compensation fund under 'Grants-in-Aids from the Centre' (under the head 1601-08-114).³ It is to be highlighted that states book back-to-back

³ 1601 (Grants-in-aid from Central Government) – 08 (Other Transfer/Grants to States/Union Territories with Legislatures)- 114 (Compensation for loss of revenue arising out of implementation of GST)

loans from the Centre under 'Loans and Advances from the Central Government' [under the head 6004-09-101]⁴. We have adjusted state-wise revenue and fiscal deficits after subtracting the amount received by states as GST compensation from the GST compensation fund (Table 6). Since, back-to-back loans are not accounted within the revenue stream of state budget; we have not adjusted the amount received by states as back-to-back loans to derive adjusted revenue and fiscal deficits. The objective of this exercise to assess what would have been revenue and fiscal deficits of states without GST compensation during 2017-18 to 2020-21. Since audited statement of state finances is available upto 2020-21 (either from State Finance Account or State Budget Documents), we have restricted this analysis for the period 2017-18 to 2020-21. Our analysis shows that GST compensation payment helped states to moderate the fiscal shock experienced during 2019-21.

Table 6: Adjusted Revenue and Fiscal Deficit of 17 Major Indian States without GST Compensation from the GST Compensation Fund (% of GSDP)

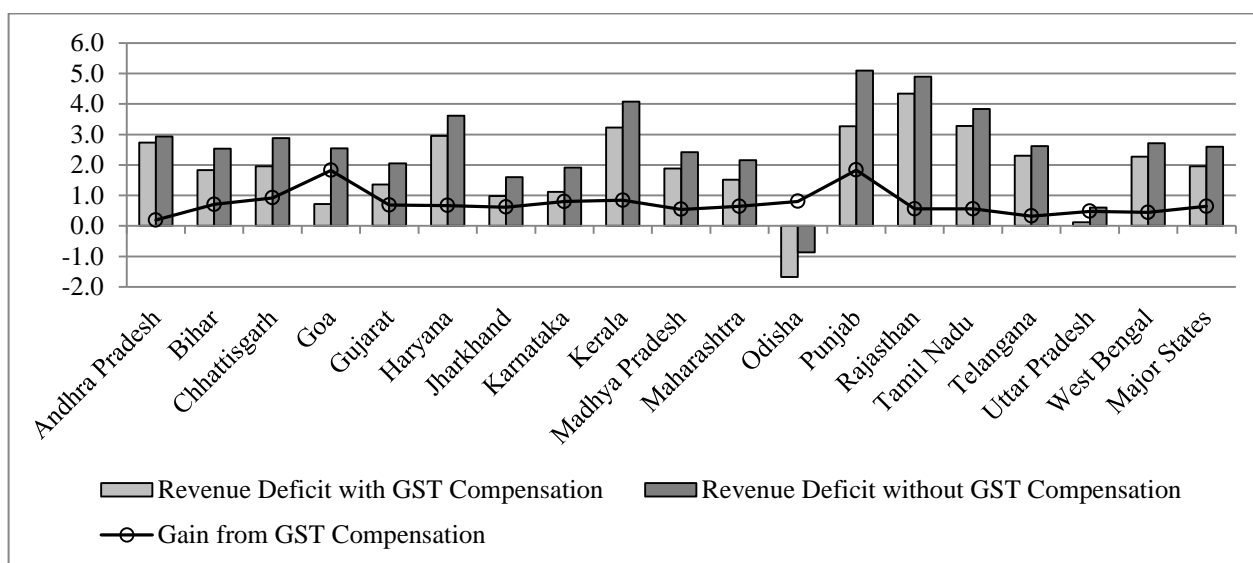
State	2017-18		2018-19		2019-20		2020-21		2021-22 RE		2022-23 BE	
	RD	FD	RD	FD	RD	FD	RD	FD	RD	FD	RD	FD
Andhra Pradesh	2.10	4.17	1.59	4.06	2.93	4.30	3.85	5.79	1.63	3.18	1.27	3.64
Bihar	-2.51	3.70	-0.82	3.10	0.48	2.65	2.54	5.53	5.48	11.31	-0.64	3.47
Chhattisgarh	-0.69	2.94	0.50	3.32	3.68	6.10	2.87	5.43	0.26	3.81	-0.16	3.33
Goa	-0.22	2.80	0.16	2.95	1.22	3.19	2.55	4.78	0.02	7.53	-0.48	4.71
Gujarat	-0.12	1.89	0.20	2.18	0.53	2.16	2.05	3.13	-0.04	1.51	-0.05	1.64
Haryana	1.84	3.18	2.02	3.54	2.95	4.72	3.62	4.45	1.40	2.99	0.98	2.98
Jharkhand	-0.20	4.89	-1.59	2.38	-0.13	2.98	1.60	4.26	-0.14	2.59	-1.68	2.46
Karnataka	0.13	2.80	0.68	3.33	0.82	3.26	1.91	4.67	0.30	2.39	0.65	2.74
Kerala	2.67	4.08	2.58	3.79	2.43	3.57	4.07	5.96	3.54	-0.06	2.30	3.91
Madhya Pradesh	-0.29	3.48	-0.72	2.95	0.78	4.00	2.42	5.65	0.49	3.70	0.29	4.04
Maharashtra	-0.03	1.08	-0.14	1.22	1.18	2.52	2.16	3.28	0.96	2.79	0.68	2.50
Odisha	-2.57	2.58	-2.17	2.72	0.27	4.16	-0.87	2.61	-3.29	0.38	-2.73	3.00
Punjab	2.86	3.51	3.95	4.52	4.27	4.74	5.10	6.09	3.66	5.65	1.99	3.78
Rajasthan	2.54	3.36	3.41	4.02	4.08	4.21	4.90	6.42	2.98	5.18	1.76	4.36
Tamil Nadu	1.52	2.76	1.63	3.10	2.49	3.84	3.83	5.50	2.54	4.17	2.12	3.89
Telangana	-0.44	3.56	-0.51	3.14	0.90	3.59	2.62	5.38	-0.38	3.88	-0.29	4.00
Uttar Pradesh	-0.72	2.08	-1.77	2.24	-3.65	-0.35	0.60	3.30	-1.26	4.27	-2.11	3.96
West Bengal	1.17	3.13	1.12	3.29	1.99	3.41	2.71	3.88	2.15	3.47	1.65	3.64
Major States	0.48	2.73	0.54	2.85	1.23	3.12	2.59	4.53	1.10	3.39	0.53	3.29
Revenue Surplus States (Nos.)	10		7		2		1		5		8	
States having FD ≤ 3% of GSDP (Nos.)		8		7		5		1		7		5

Source: Background Data accessed from the NIPFP's Database Unit

⁴ 6004 (Loans and Advances from the Central Government) -09 (Other Loans for States/Union Territory with Legislature Scheme)-101 (Block Loans)]

The gain from the GST compensation (as measured by the difference between RD without and with GST compensation from the GST compensation fund) differs across states. For example, in 2019-20 GST compensation payment helped Punjab to reduce RD substantially (by 1.83% of GSDP) (Figure 4). RD of sum of 18 states would have increased by 0.64% of aggregate GSDP in 2019-20 without GST compensation from the GST compensation fund. During GST transition period (1 July 2017 to 30 June 2022) states receive GST compensation based on the difference between projected state GST revenue and actual state GST collection (including IGST settlement). The projection of state GST revenue is based on the revenue that states collected in 2015-16 (base year) from taxes subsumed into GST (also known as revenue under protection) and 14% annual growth in revenue under protection from the base year 2015-16. Annual GST compensation receipt of states varies depending on actual State GST collection and revenue under protection in GST. Like Revenue deficit, fiscal deficit would have gone up by the same amount in absence of GST compensation payments (Figure 5).

Figure 4: State-wise Revenue Deficit and Adjusted Revenue Deficit of States in 2019-20 (% of GSDP)*

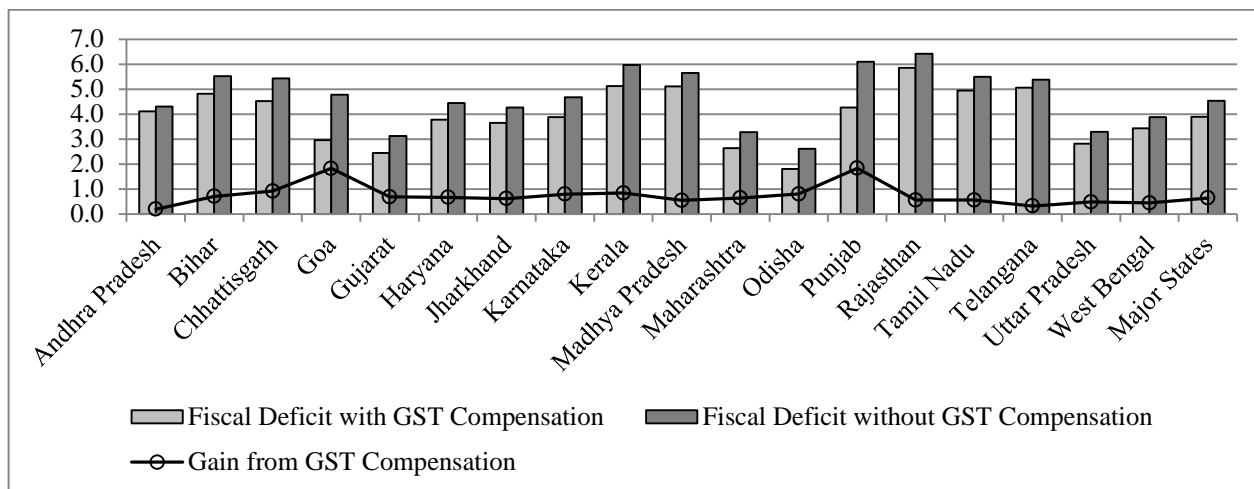


Note: *-Revenue deficit adjusted by subtracting GST compensation received from the GST compensation fund which is booked under "Grants-in-Aids from the Centre"

**-Gain from GST Compensation (% of GSDP) = RD without GST Compensation (% of GSDP) – RD with GST Compensation (% of GSDP)

Source: Background Data accessed from the NIPFP's Database Unit

Figure 5: State-wise Fiscal Deficit and Adjusted Fiscal Deficit of States in 2019-20 (% of GSDP)*



Note: *-Fiscal deficit adjusted by subtracting GST compensation received from the GST compensation fund and booked under “Grants-in-Aids from the Centre”

**-Gain from GST Compensation (% of GSDP)= FD without GST Compensation (% of GSDP) – FD with GST Compensation (% of GSDP)

Source: Background Data accessed from the NIPFP’s Database Unit

5. Analysis of Public Debt of States

During 2015-16 to 2018-19 six states reduced their public debt (as % of GSDP) and the most successful among them was West Bengal (Table 7). However, aggregate public debt of 18 states went up by 0.97% of aggregate GSDP during 2015-16 to 2018-19. The highest increase in public debt observed in Punjab (8.5% of GSDP). As compared to 2018-19, in 2019-20 public debt of all states increased and the highest increase in public debt is observed for Chhattisgarh and Haryana. Aggregate public debt of 18 states went up by 0.86% of GSDP in 2019-20. In 2020-21, public debt position of all major states further deteriorated with rise in aggregate public debt of 18 states by 2.97% of GSDP as compared to 2019-20. Therefore, during 2018-19 to 2020-21, aggregate public debt of 18 states went up by 3.84% of GSDP. In 2021-22RE, many states have reduced public debt and the aggregate public debt of 18 states has increased marginally by 0.16% of aggregate GSDP in 2021-22RE as compared to 2020-21. However, public debt positions of states (except West Bengal) in 2021-22 are still higher than the level observed during 2018-19. Aggregate public debt of major states in 2021-22RE is 4% higher than the level observed in 2018-19. In the budget 2022-23, except four states (Gujarat, Haryana, Punjab and Uttar Pradesh), all states have projected to increase public debt and aggregate public debt is expected to increase by 0.27% of GSDP as compared to 2021-22RE. Except three states (West Bengal in 2020-21, Bihar in 2021-22 and 2022-23 and Punjab in 2020-21 to 2022-23), all states are adhering to public debt limits recommended by the Fifteenth Finance Commission (i.e.,

31.1% in 2020-21, 30.7% in 2021-22 and 31.3% in 2022-23) (Figure 1.2, Page No. 11 of XV Finance Commission 2020).

Table 7: State-wise Unadjusted Public Debt (as % of GSDP)

State	2015-16 (A)	2018-19 (B)	2019-20 (C)	2020-21 (D)	2021-22 RE (E)	2022-23 BE (F)	B-A	C-B	D-C	E-D	F-E
Andhra Pradesh	20.65	22.16	23.46	26.65	25.81	26.80	1.51	1.30	3.19	-0.84	0.99
Bihar	23.90	23.89	24.95	28.65	31.21	31.95	-0.01	1.05	3.70	2.56	0.74
Chhattisgarh	11.57	16.43	18.31	21.90	21.97	22.44	4.86	1.88	3.59	0.07	0.47
Goa	20.90	19.72	19.90	21.52	24.59	27.32	-1.18	0.18	1.62	3.06	2.73
Gujarat	17.56	16.10	16.39	18.60	17.65	16.89	-1.46	0.29	2.21	-0.96	-0.76
Haryana	20.53	22.46	24.34	27.66	25.47	24.96	1.94	1.88	3.32	-2.19	-0.51
Jharkhand	22.19	19.88	20.59	24.26	24.18	24.70	-2.31	0.71	3.67	-0.09	0.52
Karnataka	11.73	13.14	14.50	17.78	17.59	18.63	1.41	1.36	3.28	-0.19	1.04
Kerala	19.53	20.07	21.18	25.69	26.70	26.88	0.55	1.11	4.51	1.00	0.18
Madhya Pradesh	18.00	18.94	19.27	23.89	23.38	25.04	0.94	0.33	4.63	-0.51	1.65
Maharashtra	13.50	13.05	13.44	15.80	15.31	15.77	-0.45	0.39	2.36	-0.49	0.45
Odisha	10.27	11.68	12.52	14.64	11.73	11.88	1.41	0.84	2.12	-2.92	0.15
Punjab	26.45	34.95	35.97	42.17	46.35	45.26	8.50	1.02	6.20	4.18	-1.09
Rajasthan	22.97	25.58	25.96	30.43	30.30	30.89	2.61	0.38	4.46	-0.13	0.60
Tamil Nadu	16.50	19.73	20.62	24.03	25.03	25.74	3.23	0.89	3.41	1.00	0.70
Telangana	15.92	19.26	20.56	24.19	23.79	24.73	3.35	1.29	3.63	-0.40	0.94
Uttar Pradesh	22.37	23.07	24.35	24.56	30.69	28.98	0.70	1.28	0.21	6.12	-1.71
West Bengal	33.87	30.88	31.11	32.61	30.64	30.66	-2.99	0.22	1.50	-1.97	0.03
Major States	18.69	19.66	20.53	23.50	23.66	23.93	0.97	0.86	2.97	0.16	0.27

Source: Background Data accessed from the NIPFP's Database Unit

5.1 Analysis of Adjusted Public Debt of States

States received back-to-back loans from the Centre in lieu of shortfall in GST compensation fund in 2020-21 and 2021-22. Liabilities of interest payment and repayment of loans do not fall on states, as it will be paid by the Union government from the proceeds of GST compensation cess collection beyond 30 June 2022. In aggregate 18 major states received Rs. 0.89 trillion (i.e., 80.5% of total disbarment of 1.10 trillion) in 2020-21 and Rs. 1.41 trillion (i.e., 88.7% of total disbursement of Rs. 1.59 trillion) in 2021-22. We have adjusted the public debt figures for 2020-21 and 2021-22 after deducting the amount that each state received from the Centre as back-to-back loans (Table 8). It is to be highlighted that though GST compensation regime will end on 30 June 2022, the GST council has extended GST compensation cess (GSTCC) collection till 31 March 26. After the end of GST compensation

regime, proceeds from the GSTCC collection will be used to make interest payments and servicing the back-to-back market loans taken by the Union government (Mukherjee 2021). States will also receive pending arrears of GST compensation (if any) from the GST compensation fund after the end of GST compensation regime. Back-to-back loans helped states to contain public debt liability. In aggregate (18 major states), it reduced public debt by 0.46% of GSDP in 2020-21 and 0.64% of GSDP in 2021-22. Therefore on average back-to-back loans helped states to reduce public debt liability by 0.55% of GSDP annually during 2020-22. The benefits of back-to-back loans in reducing public debt liability vary across states. For example, in 2020-21 it helped Goa to reduce public debt by 0.91% of GSDP whereas in 2021-22 it helped Punjab to reduce public debt by 2.11% of GSDP. After adjustments of public debt, except two states (West Bengal in 2020-21 and Punjab in 2020-21 and 2021-22), all states are adhering to public debt limits recommended by the Fifteenth Finance Commission for 2020-21 and 2021-22.

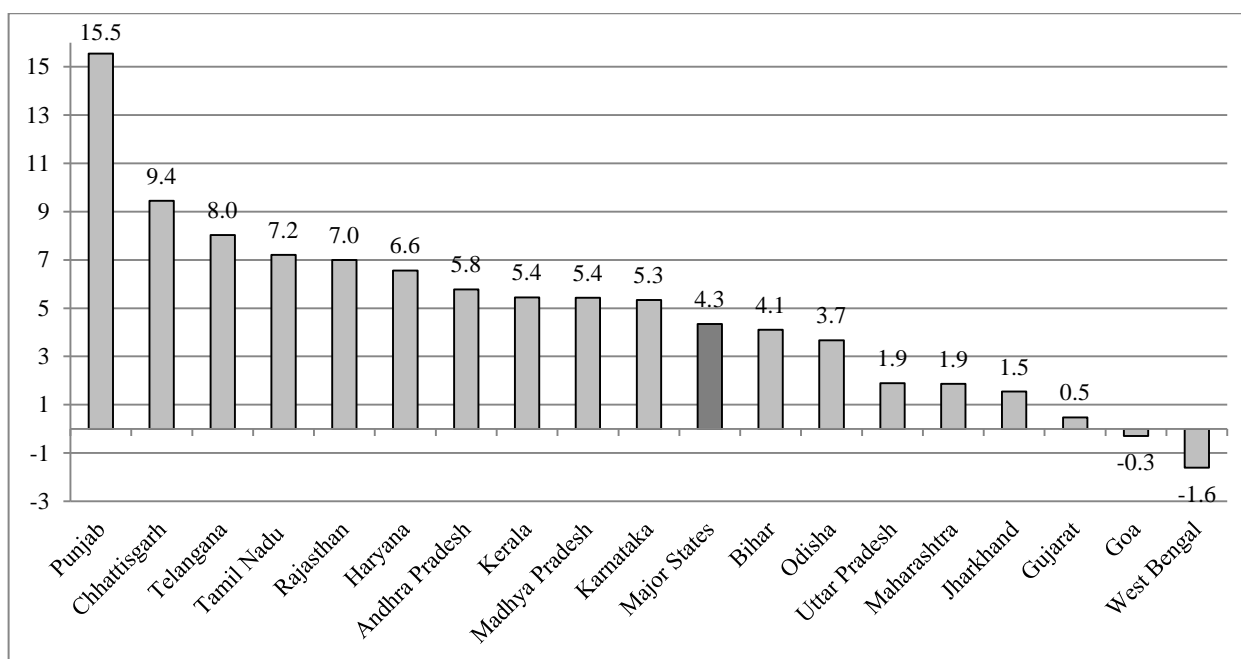
Table 8: State-wise Adjusted Public Debt (% of GSDP)

State	2020-21			2021-22		
	Unadjusted Public Debt (A)	Adjusted Public Debt (B)	A-B	Unadjusted Public Debt (C)	Adjusted Public Debt (D)	C-D
Andhra Pradesh	26.65	26.42	0.23	25.81	25.54	0.27
Bihar	28.65	28.02	0.63	31.21	30.20	1.00
Chhattisgarh	21.90	21.01	0.89	21.97	20.73	1.24
Goa	21.52	20.61	0.91	24.59	23.64	0.95
Gujarat	18.60	18.04	0.56	17.65	16.98	0.67
Haryana	27.66	27.09	0.57	25.47	24.65	0.83
Jharkhand	24.26	23.73	0.53	24.18	23.49	0.68
Karnataka	17.78	17.06	0.72	17.59	16.71	0.88
Kerala	25.69	24.97	0.72	26.70	25.73	0.97
Madhya Pradesh	23.89	23.43	0.47	23.38	22.78	0.60
Maharashtra	15.80	15.36	0.44	15.31	14.88	0.43
Odisha	14.64	13.94	0.70	11.73	10.72	1.01
Punjab	42.17	42.00	0.17	46.35	44.24	2.11
Rajasthan	30.43	29.97	0.45	30.30	29.69	0.61
Tamil Nadu	24.03	23.70	0.33	25.03	24.66	0.37
Telangana	24.19	23.94	0.25	23.79	23.39	0.40
Uttar Pradesh	24.56	24.25	0.31	30.69	30.14	0.55
West Bengal	32.61	32.27	0.34	30.64	30.22	0.42
Major States	23.50	23.04	0.46	23.66	23.02	0.64

Source: Background Data accessed from the NIPFP's Database Unit

Among 18 states, highest increase in public debt is noticed for Punjab (15.5% of GSDP) during 2015-16 to 2020-21 (Figure 6). Aggregate public debt of 18 major states has increased by 4.3% of aggregate GSDP during 2015-16 to 2020-21. The other states where increase in public debt is higher than average of all states is Chhattisgarh (9.4% of GSDP), Telangana (8%), Tamil Nadu (7.2%), Rajasthan (7%), Haryana (6.6%), Madhya Pradesh (5.4%), Kerala (5.4%) and Karnataka (5.3%). Goa and West Bengal reduced public debt liability during the period.

Figure 6: Change in Public Debt Position of States from 2015-16 to 2020-21 (as % of GSDP)*



Note: *-Public Debt of 2020-21 is adjusted by subtracting back-to-back loans
 Source: Background Data accessed from the NIPFP's Database Unit

6. Conclusions

Analysis of State Budgets to assess state of public finance at subnational level and the path that states follow in public finance management (PFM) is important. Consolidated database of state finances is available for 18 major Indian states upto 2022-23BE from the NIPFP's State Finances Database. In this paper we present a consolidated assessment of Indian state finances in recent years with a focus on state budgets of 2022-23. We also present state-specific assessments of deficits and debts of major states in the present paper. Fiscal implications of GST compensations that states received from the GST compensation fund as well as back-to-back loans from the Centre in lieu of shortfall in GST compensation fund are assessed in the paper.

After two consecutive years of fiscal stress during 2019-20 and 2020-21, state finances in India show sign of improvement in 2021-22RE. The revised estimates of 2021-22 show improvements in revenue mobilization as compared to 2020-21. With rising revenue mobilization, states have increased expenditures and also at the same time contained revenue as well as fiscal deficits. Our analysis shows that states have resumed following the path of fiscal consolidation post COVID-19 pandemic. Success in achieving targets set in the budget of 2022-23 (both in revenue mobilization as well as expenditures) will be important for Indian state finances to continue the path of fiscal consolidation after the COVID-19 pandemic.

Indian states experience slowdown in economic growth (GSDP at market prices, current prices) in 2019-20 and it continues in 2020-21. Growth in aggregate GSDP of 18 states falls by 3 percentage points in 2019-20 and 8.3 percentage points in 2020-21 as compared to average annual growth rate of aggregate GSDP during 2016-19. The COVID-19 pandemic has aggravated the economic slowdown in 2020-21 and the highest fall in growth rate is reported in Odisha (15.6 percentage points), as compared to average annual growth rate of GSDP during 2016-19. Except Bihar, Goa, Punjab and Uttar Pradesh, in 2021-22 economic growth of other states was higher than average annual growth rate of 2016-19. Growth rate of aggregate GSDP of 18 major states has gone up by 2.2 percentage points in 2021-22 as compared to average annual growth rate in aggregate GSDP of 18 states during 2016-19. However, in the budget estimates of 2022-23 many states have projected lower growth rate in GSDP as compared to average annual growth rate observed during 2016-19. Growth rate in aggregate GSDP of major states is projected to fall by 1.9 percentage points in 2022-23 as compared to 2021-22. In the face of slow economic growth, it is likely that there will be lower revenue mobilization and higher demands for public expenditures. Therefore, sustaining buoyancy in revenue mobilization and containing expenditures will be important to contain deficits and debts in 2022-23. However, apart from expectations of slowing down of economic growth in 2022-23, as presented by states in State Budget of 2022-23, states have to also manage public finances without GST compensation beyond 30 June 2022. The impact of end of GST compensation regime on state finances will vary across states and it will be depending on state-specific dependence on GST compensation to finance budgeted expenditures.

We observe that states have adopted cautious approach in projecting budget estimates of 2022-23. Together states have set a growth rate of 15.8% in Total Revenue Receipts (TRR) in 2022-23BE which is lower than the growth rate in TRR experienced by 18 states during 2021-22RE (i.e., 28.79%). This is also to be highlighted that growth rate achieved in 2021-22RE is also attributed to lower base effect due to two consecutive years (2019-21) of negative growth in TRR. In 2022-23BE, states set lower growth rate in all components of revenue mobilization vis-à-vis growth experienced in 2021-22RE. For example in 2022-23 BE, growth projected in Grants-in-Aids from the Centre is 15.92 percentage points lower than growth achieved in 2021-22. Perhaps states have taken into account the end of GST compensation regime beyond 30 June 2022 in presenting budget estimates of 2022-23 for 'Grants-in-Aids from the Centre'. Given the growth prospect of the economy, as projected in

2022-23BE, overall revenue side of state budget of 2022-23 seems realistic and states have set cautious targets in revenue mobilization in the budget estimates of 2022-23.

In the budget estimates of 2022-23, states have projected a growth rate of 12.8% in Total Expenditure (TE) with reference to 2021-22RE. This growth rate is lower than the growth rate experienced in 2021-22RE with reference to 2020-21 (i.e., 22.57%). States set aggressive target in reducing Revenue Expenditure (REVEX) by setting a growth rate of 11.07% for 2022-23BE vis-à-vis a growth rate of 19.61% experienced in 2021-22RE. It is to be noted that states followed expenditure consolidation during 2019-21 by containing annual growth rate in TE to 4.2% in 2019-20 and 5.1% in 2020-21. This helped states to moderate the revenue shocks experienced during 2019-21 and rein in deficits and debts. The rise in growth rate TE in 2021-22 is also attributed to lower base effect due to adoption of expenditure consolidation during 2019-21. Backed by revenue buoyancy in 2021-22, states increased expenditures and also contained revenue as well as fiscal deficits. It is to be highlighted that experience of individual states may differ from the overall analysis presented in this paper.

In the budget estimates of 2022-23, states aim to increase REVEX by Rs. 3.5 trillion and CAPEX by Rs. 1.21 trillion with reference to 2021-22RE. States also expect that this additional Rs. 4.71 trillion expenditure will be largely financed by mobilizing additional TRR of Rs. 4.62 trillion in 2022-23. In the budget estimate of 2022-23, aggregate TRR of 18 states is expected to reach 13.77% of aggregate GSDP. If revenue targets are met in 2022-23, TRR will reach the level marginally higher the level prevailing during 2018-19. Sustaining economic growth will be important in achieving revenue targets set in budget estimates of 2022-23.

States project an increase in TRR by 0.44% of GSDP in 2022-23BE with respect to 2021-22RE. In Tax Revenue (TR), states are expecting that there will be a marginal increase in states' share in Central taxes by 0.02% of GSDP in 2022-23BE with respect to 2021-22RE.

In expenditure side, states increase total expenditure (TE) in 2020-21 vis-a-vis 2019-20 by 0.23% of aggregate GSDP (TE increases from 15.4% in 2019-20 to 15.63% in 2020-21). Revenue stress observed during 2019-20 compelled states to reduce expenditures to contain deficits. Though states experience much severe revenue shock during 2020-21 due to COVID-19 pandemic, states increase revenue expenditures to cope up with the COVID-19 pandemic. Though the level of TE in 2020-21 (i.e., 15.63% of GSDP) is below the expenditure experienced in 2018-19 (i.e., 16.09%), it helped states to provide emergency healthcare services and livelihood supports to people during the pandemic. States also adopted expenditure switching by reducing capital expenditure (from 1.99% in 2019-20 to 1.87% in 2020-21) and increasing revenue expenditure (from 13.41% in 2019-20 to 13.76% in 2020-21) to moderate the burden of fiscal deficit in 2020-21. With rising revenue mobilization in 2021-22, states increase TE by 0.71% of GSDP as compared to 2018-19 (i.e., 1.17% of GSDP with respect to 2020-21). Therefore, in two years (during 2020-21 to 2021-22) states increase TE by 1.4% of GSDP with respect to 2019-20 which helped states to

mitigate the challenges posed by the COVID-19 pandemic. However, with gradual resumption of normal economic activities, states aim to contain total expenditures and therefore a moderate increase in TE projected in 2022-23BE (from 16.8% in 2021-22RE to 16.91% in 2022-23BE). States also aim to reduce REVEX by 0.13% of GSDP and increase CAPEX by 0.24% of GSDP in 2022-23BE vis-à-vis 2021-22RE. If successful, this will help states to increase the share of CAPEX marginally. The share of CAPEX in GSDP is hovering around 2 to 2.5% for a long time. Lack of fiscal space for states is one of the reasons for lower spending on CAPEX.

In the budget estimates of 2022-23, states envisage to reduce revenue deficit (RD) by half of the level prevalent in 2021-22RE, i.e., from 1.10% of GSDP in 2021-22RE to 0.53% of GSDP in 2022-23BE. States aim that a large part of this fall will be backed by revenue augmentation (increase in TRR by 0.44% of GSDP) and the rest by consolidation of revenue expenditure (fall in REVEX by 0.13% of GSDP). Elimination of RD in 2022-23 may not be a challenging task before states if revenue buoyancy improves beyond the budget expectations. However, end of GST compensation regime may be a constraint for some states to realize the revenue deficit target. Improvement in GSDP growth rate during 2022-23 is important to increase revenue mobilization as well as cutting public expenditures. In the budget estimates of 2022-23, consolidated fiscal deficit of 18 major states is projected to be 3.29% of GSDP. This will be in line with the prescribed glide path of fiscal deficit of states for 2022-23 (i.e., 3.3% of nominal GDP) recommended by the Fifteenth Finance Commission (XV Finance Commission 2020, Figure 1.1, Page No. 10). However, it is to be highlighted that our analysis does not include North East and Himalayan states. Interest payment as percentage of TRR was 15.91% in 2020-21 and it is reduced to 14.07% in 2021-22RE. It is projected that it will be further reduced to 13.29% in 2022-23BE. However, interest payment (as % of TRR) is still higher than the 10% limit recommended by the Fourteenth Finance Commission (XIV Finance Commission 2014, Chapter 14, Page No. 201). Running fiscal deficit to finance revenue deficit must be avoided as it erodes fiscal space for capital expenditure. Revenue deficit reached 50.26% of fiscal deficit in 2020-21 and it has gone down to 32.41% in 2021-22RE and in 2022-23BE it is projected to reach 16.03%.

Our analysis shows that out of 18 states 11 states have experienced revenue surplus during 2017-19. This number goes down to six in 2019-20 and further to one in 2020-21. In 2020-21, except Odisha, all states turn into revenue deficit state. With gradual improvement in revenue mobilization, states contained revenue deficit in 2021-22RE and there are five states with revenue surplus. According to the budget estimates of 2022-23, eight states may have revenue surplus. In fiscal deficit, 11 states met FRBM limit by restricting it to maximum 3% of GSDP during 2017-19. This number falls to eight in 2019-20 and four in 2020-21. However, improvements in fiscal situation observed in 2021-22RE for some states, as seven states met the FRBM limit in FD. This implies that after two consecutive years of fiscal stress, states have again resumed following the path of fiscal consolidation by augmenting revenue mobilization and containing expenditures. As compared to 2020-21, in 2021-22RE except Bihar, Kerala and Punjab all states reduced revenue deficit. Similarly except Bihar, Goa, Maharashtra, Punjab, Uttar Pradesh and West Bengal, all states reduced

fiscal deficit in 2021-21RE vis-a-vis 2020-21. In the budget estimates 2022-23, it is expected that six states will meet FRBM target. Budget 2022-23 may play an important role in Indian state finances by helping states to achieve fiscal consolidation post COVID-19 pandemic.

We have adjusted state-wise revenue and fiscal deficits after subtracting the amount received by states as GST compensation from the GST compensation fund. The objective of this exercise to assess what would have been revenue and fiscal deficits of states without GST compensation (only from GST compensation fund) during 2017-18 to 2020-21. Our analysis shows that GST compensation helped states to moderate the fiscal shocks experienced during 2019-21. The gain from the GST compensation (as measured by the difference between RD without and with GST compensation) differs across states. For example, in 2019-20 GST compensation payment helped Punjab to reduce RD substantially (by 1.83% of GSDP). RD of sum of 18 states would have increased by 0.64% of aggregate GSDP in 2019-20 without GST compensation from the GST compensation fund.

Aggregate public debt of 18 states went up by 0.97% of aggregate GSDP during 2015-16 to 2018-19. The highest increase in public debt observed in Punjab (8.5% of GSDP). As compared to 2018-19 public debt of all states increased in 2019-20, and it is mainly due to revenue shock experienced by states during 2019-20. Aggregate public debt of 18 major states went up by 0.86% of aggregate GSDP in 2019-20 as compared to 2018-19. In 2020-21 public debt liabilities of states again increased and the aggregate public debt of 18 states increased by 2.97% of aggregate GSDP with respect to 2019-20. Therefore, during 2018-19 to 2020-21, aggregate public debt of major states increased by 3.84% of GSDP. In 2021-22RE, many states reduced public debt and the aggregate public debt of 18 states increase marginally by 0.16% of GSDP with respect to 2020-21. In the budget estimates of 2022-23, majority of states are expecting to add additional public debt liability (except Gujarat, Haryana, Punjab, and Uttar Pradesh) and aggregate public debt of 18 states is expecting increase by 0.27% of aggregate GSDP in 2022-23 with respect to 2021-22. Except three states (West Bengal in 2020-21, Bihar in 2021-22 and 2022-23 and Punjab in 2020-21 to 2022-23), all states are adhering to public debt limits recommended by the Fifteenth Finance Commission (i.e., 31.1% in 2020-21, 30.7% in 2021-22 and 31.3% in 2022-23) (Figure 1.2, Page No. 11 of XV Finance Commission 2020).

States received back-to-back loans from the Centre in lieu of shortfall in GST compensation fund in 2020-21 and 2021-22. Liabilities of interest payment and repayment of loans do not fall on states, as it will be paid by the Union government from the proceeds of GST compensation cess collection beyond 30 June 2022. In aggregate 18 major states received Rs. 0.89 trillion (i.e., 80.5% of total disbursement of Rs. 1.10 trillion) in 2020-21 and Rs. 1.41 trillion (i.e., 88.7% of total disbursement of Rs. 1.59 trillion) in 2021-22. We have adjusted the public debt figures for 2020-21 and 2021-22 after deducting the amount that each state received from the Centre as back-to-back loans. In aggregate (18 major states), back-to-back loans helped states to reduce public debt by 0.46% of GSDP in 2020-21 and 0.64% of GSDP in 2021-22. Therefore on average back-to-back loans helped states to reduce public debt liability by 0.55% of GSDP annually during 2020-22. The benefits of back-to-back loans

in reducing public debt liability vary across states. For example, in 2020-21 it helped Goa to reduce public debt by 0.91% of GSDP whereas in 2021-22 it helped Punjab to reduce public debt by 2.11% of GSDP. After adjustments of public debt, except two states (West Bengal in 2020-21 and Punjab in 2020-21 and 2021-22), all states are adhering to public debt limits recommended by the Fifteenth Finance Commission for 2020-21 and 2021-22.

Analysis of this paper shows that states have resumed following the path of fiscal consolidation post COVID-19 pandemic and the success in achieving revenue as well as expenditure targets set in the budget of 2022-23 could help states to control deficits and debts.

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Sacchidananda Mukherjee, is Associate Professor, NIPFP
Email: Sacchidananda.mukherjee@nipfp.org.in



National Institute of Public Finance and Policy,
18/2, Satsang Vihar Marg,
Special Institutional Area (Near JNU),
New Delhi 110067
Tel. No. 26569303, 26569780, 26569784
Fax: 91-11-26852548
www.nipfp.org.in