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State Budget Analysis of 2023-24: State of Indian State Finances

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Abstract

After two years of fiscal stress during 2019-20 and 2020-21, state finances in India improved in 2021-22 with the recovery of the Indian economy after the COVID-19 pandemic. However, based on analysis of the Revised Estimate and Provisional Estimate (based on the Monthly Key Indicator Database of the Comptroller and Auditor General of India) of 2022-23, we find that states again faced fiscal shock in 2022-23. Given the experience of revenue mobilisation and expenditure management in 2022-23, states adopt a cautious approach in setting the Budget Estimates for 2023-24.

This paper presents a consolidated assessment of the Indian state finances of 18 major and 9 minor Indian states with a focus on the state budget of 2023-24. To understand the process of recovery from the fiscal stress of 2019-21, we compare the performance of major and minor states between the pre- and post-pandemic periods. In addition to consolidated assessment of state finances, state-specific assessments of deficits (revenue as well as fiscal) are also presented in the paper.

Key Words: State Finances, Budget Analysis, Fiscal management, revenue mobilization, public finance management, fiscal deficit, revenue deficit, India.

JEL Codes: H20, H61, H62, H68.

1. Introduction

After two consecutive years of fiscal stress during 2019-21, state finances in India improved in 2021-22 with the gradual recovery of the Indian economy from the shock of COVID-19 pandemic. Based on our analysis of 18 major states and 9 minor states,¹ we find that states again faced fiscal stress in the 2022-23RE. The aggregate fiscal deficit of 18 major states went up from 2.8 per cent of GSDP in 2021-22 to 3.4 per cent of GSDP in the 2022-23RE. Similarly, consolidated fiscal deficit of 9 minor states went up from 3.19 per cent in 2021-22 to 6.11 per cent of GSDP in the 2022-23RE. Taking a cue from the experience of the 2022-23RE and growth prospects of 2023-24, states adopt a cautious approach in projecting budget numbers for the 2023-24BE. For example, together major states project a growth rate of Total Revenue Receipts (TRR) by 10.83 per cent in the 2023-24BE as compared to a growth rate of 19.86 per cent experienced between 2021-22 to the 2022-23RE. Similarly, major states also envisage containing the growth rate of revenue and capital expenditures in the 2023-24BE.

The objective of the present paper is to present a consolidated assessment of the Indian state finances of 18 major and 9 minor Indian states (except Tripura)² with a focus on the state budget of 2023-24. In addition to consolidated assessment of state finances, state-specific assessments of deficits (revenue as well as fiscal) are also presented in the paper. According to the 2022-23RE, states faced severe fiscal shock. To validate revenue and expenditure figures of the 2022-23RE, we compile state-wise public finance statistics from the Monthly Key Indicators database of the Comptroller and Auditor General of India (CAG) for 2022-23 and present it as Provisional Estimate (PE). To understand the sources of the difference between the RE and PE figures of 2022-23 in state finances, we have compiled monthly states' share in the Union taxes (as % of Gross Tax Revenue or GTR) as well as month-wise distribution of total states' share in the Union taxes (%) for the period 2017-18 to 2022-23. The rationale behind this exercise is that the difference between the RE and PE could be due to forecasting errors of the state finances and/or increasing volatility in tax devolution as well as grants-in-aid transfers to states that the revenue forecasting exercise of state finances may not have adequately captured yet. For monthly statistics of Union finances, we have relied on the Monthly Abstracts of the Union finances of the Controller General of Accounts (CGA). Forecast errors in the Union taxes is an area that we have also highlighted in the paper, as it may spill over to state finances in terms of tax devolution. Based on the Union budget documents, we estimate forecast errors of the Gross Tax Revenue of the Union government, states' share in the Union taxes, the Centre's net tax revenue for the period 2013-14 to 2022-23, and the broad head-wise grants-in-aid transfers to states during 2016-17 to 2021-22. We have also assessed the fiscal benefits that states have reaped from the GST back-to-back loans from the Union government in lieu of the shortfall in GST compensation fund during 2020-22.

In the next section, we present the state of public finances of major states from 2019-20 to the 2023-24BE. In section 3, we discuss the state finances of minor states. In section 4, we present

¹Minor states represent the Himalayan and North Eastern States. We have not included Tripura in our consolidated analysis, as the full budget of 2023-24 is yet to be presented.

²Budget of 2023-24 is yet to be presented in Tripura.

the state-specific fiscal health during 2019-20 to the 2023-24BE. We conclude the paper in section 5

2. Analysis of State Budgets of Major States

The aggregate budget estimate (B.E.) of 18 major states project a growth rate of Total Revenue Receipts (TRR) by 10.83 per cent which is 9 per cent lower than the growth experienced by the major states between 2021-22 to the 2022-23RE (Table 1). In aggregate, these states project buoyancy in TRR by 0.84 in the 2023-24BE as compared to TRR buoyancy of 1.50 in the 2022-23RE. There is apprehension among major states that there will be a marginal fall in the growth rate of states' Own Tax Revenue (OTR) (by 5%) and a considerable fall in grants-in-aid from the Union government (by 45%) in the 2023-24BE as compared to the 2022-23RE. In preparing the BE of 2023-24, perhaps states have taken into account that there will be no pending GST compensation payments from the Union government during 2023-24, as states may have received all pending arrears in the GST compensation by 2022-23.

To accommodate the lower revenue growth, states have cautiously set BE of expenditures in 2023-24. States have set lower growth rates in revenue as well as capital expenditures in the 2023-24BE as compared to the 2022-23RE. However, containing the expenditures is not enough to accommodate the revenue shortfall. As a result, in aggregate, 18 major states project a revenue deficit of Rs. 0.65 trillion (or 0.24% of GSDP) and a fiscal deficit of Rs. 8.45 trillion (or 3.07% of GSDP) in the 2023-24BE. In projecting deficit numbers, states have shown their seriousness to stick to the path of fiscal consolidation by reducing the growth rates of deficits in the 2023-24BE vis-a-vis the 2022-23RE.

According to a revised estimate of 2022-23 for 18 major states, the aggregate fiscal deficit was Rs. 8.28 trillion. This figure is much higher than what these states experienced in 2020-21 (i.e. Rs. 7.39 trillion) during the COVID-19 pandemic. According to Table 1, the fiscal deficit of the 2022-23RE has gone up by Rs. 2.24 trillion as compared to 2021-22 and a large part of this rise is on account of an incremental increase of capital expenditure by Rs. 1.6 trillion as compared to 2021-22. An incremental increase in revenue expenditure by Rs. 6 trillion in the 2022-23RE is largely matched by the increase in TRR by Rs. 5.7 trillion in the 2022-23RE. As a result, there was an increase in revenue deficit by only Rs. 0.31 trillion.

We presume that the consolidated revised estimate of 2022-23 for major states is suffering from forecasting errors. Therefore, to validate the RE of 2022-23 (as presented in Table 1), we have compiled major head-wise revenue and expenditure statements of states from the Monthly Key Indicators (MKI) database of the Comptroller and Auditor General of India (CAG) for 2022-23 (Up to March 2023). We present the MKI-based numbers in Table 2 as Provisional Estimated (P.E.) of 2022-23 (or 2022-23PE).

Table 1: Consolidated Statement of Public Finances of 18 Major States (Rs. Trillion)

Major States	2019-20 (A)	2020-21 (B)	2021-22 (C)	2022-23RE (D)	2023-24BE (E)	Growth rate (%)		
						D to E	C to D	A to B
I. Total Revenue Receipts (A+B)	23.66	22.69	28.49	34.15	37.84	10.83	19.86	-4.08
A. Tax Revenue (a+b)	17.11	16.18	21.55	25.16	28.68	14.02	16.76	-5.47
a) Own Tax Revenue	11.31	10.85	13.63	16.67	19.52	17.08	22.29	-4.05
b) States' Share in the Union Taxes	5.80	5.33	7.91	8.48	9.16	8.01	7.23	-8.23
B. Non Tax Revenue (c+d)	6.54	6.51	6.94	8.99	9.16	1.92	29.46	-0.45
c) Own Non-Tax Revenue	2.39	1.57	2.27	2.54	3.18	25.17	12.02	-34.38
d) Grants-in-Aids from the Union Government	4.16	4.95	4.67	6.45	5.98	-7.25	37.9	19.0
C. Non-Debt Capital Receipts (e+f)	0.63	0.34	0.18	0.20	0.60	196.07	10.9	-46.1
e) Recovery of Loans and Advances	0.56	0.13	0.17	0.10	0.19	81.33	-38.4	-77.5
f) Misc. Capital Receipts	0.08	0.22	0.02	0.10	0.42	311.90	473.7	183.7
II. Revenue Expenditure	24.90	26.45	29.70	35.67	38.49	7.92	20.09	6.22
III. Capital Expenditure	3.69	3.60	4.61	6.21	7.58	22.08	34.72	-2.52
D. Loans & Advances Disbursed	0.38	0.35	0.39	0.74	0.82	10.67	91.53	-6.62
E. Misc. Capital Expenditure	0.15	0.02	0.01	0.00	0.00	-95.99	-83.33	-84.98
IV. Revenue Deficit	1.24	3.76	1.21	1.52	0.65	-57.38	25.61	202.20
V. Fiscal Deficit	4.83	7.39	6.04	8.28	8.45	2.12	37.05	53.00
VI. Nominal GSDP	182.84	183.22	215.74	244.22	275.57	12.84	13.20	0.21
VII. Growth Rate of Nominal GSDP		0.21	17.75	13.20	12.84			
VIII. Growth Rate of Own Tax Revenue		-4.05	25.65	22.29	17.08			
IX. Own Tax Revenue Buoyancy		-19.18	1.45	1.69	1.33			

Note: *- Fiscal Deficit = (Revenue + Capital + Miscellaneous Capital) Expenditure - (Total Revenue + Non-Debt Capital) Receipts.

Source: Basic Data compiled from the State Budget Documents & Finance Accounts by the NIPFP Database Unit.

As compared to the 2022-23RE, the provisional estimate of 2022-23 shows lower TRR by Rs. 2.4 trillion (of which Rs. 0.75 trillion is on account of Tax Revenue and Rs. 1.65 trillion is on account of Non-Tax Revenue), lower revenue expenditure by Rs. 2.88 trillion, and lower capital expenditure by Rs. 0.89 trillion (Figure 1). As a result, the revenue deficit of the 2022-23PE is lower than the 2022-23RE by Rs. 0.48 trillion and fiscal deficit is lower by Rs. 1.32 trillion. This shows that there is scope for improvement in revenue forecasting as well as in setting the demands for grants at the state level.

Like the 2022-23RE, the PE of 2022-23 also confirms that it was fiscally stressful for major states to manage the public finances of 2022-23, as compared to 2021-22. However, 2022-23 was not as bad as the 2022-23RE figures presented in the budgets of 2023-24. Though TRR increased by Rs. 3.26 trillion in the 2022-23PE as compared to 2021-22, it was not enough to finance the rise in the total expenditure of Rs. 3.80 trillion (Rs. 3.09 trillion on account of revenue expenditure and Rs. 0.71 trillion on account of capital expenditure) in 2022-23 as compared to 2021-22. As a result, there was an increase in fiscal deficit by Rs. 0.92 trillion in the 2022-23PE as compared to 2021-22.

TRR of 18 major states was projected to be Rs. 33.84 trillion in the 2022-23BE,³ in the 2022-23RE, it was Rs. 34.15 trillion (Table 1) and in the PE of 2022-23 (Table 2), it reaches Rs. 31.75 trillion. Therefore, we find that though the RE of 2022-23 projected higher revenue mobilisation in 2022-23 as compared to the 2022-23BE, it is higher than the PE of 2022-23 by Rs. 2.40 trillion. Like in the revenue side of the budget, the total expenditure (revenue and capital) of 18 major states was projected to reach Rs. 41.54 trillion in the 2022-23BE. However, according to the 2022-23RE, it is Rs. 41.88 trillion and in the 2022-23PE, it is Rs. 38.11 trillion. Therefore, both in the revenue and expenditure fronts, there was over-estimation in the 2022-23RE.

Table 2: Consolidated Statement of Public Finances of 18 Major States (Rs. Trillion)

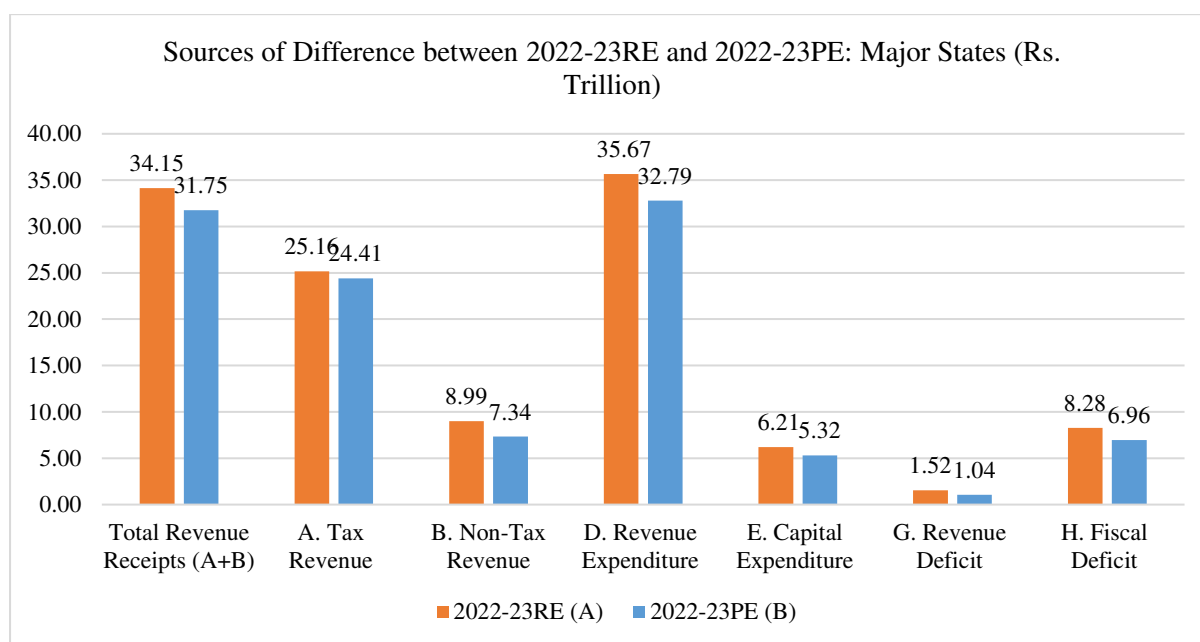
Major States	2019-20 (A)	2020-21 (B)	2021-22 (C)	2022-23PE (D)	2023-24BE (E)	Growth rate (%)		
						D to E	C to D	A to B
Total Revenue Receipts (A+B)	23.66	22.69	28.49	31.75	37.84	19.2	11.4	-4.1
A. Tax Revenue	17.11	16.18	21.55	24.41	28.68	17.5	13.3	-5.5
B. Non-Tax Revenue	6.54	6.51	6.94	7.34	9.16	24.8	5.7	-0.5
C. Non-Debt Capital Receipts	0.63	0.34	0.18	0.08	0.60	630.8	-55.1	-46.1
D. Revenue Expenditure	24.90	26.45	29.70	32.79	38.49	17.4	10.4	6.2
E. Capital Expenditure	3.69	3.60	4.61	5.32	7.58	42.6	15.4	-2.5
F. Loans & Advances Disbursed	0.38	0.35	0.39	0.68	0.82	21.4	74.6	-6.6
G. Revenue Deficit	1.24	3.76	1.21	1.04	0.65	-37.8	-13.9	202.2
H. Fiscal Deficit	4.83	7.39	6.04	6.96	8.45	21.5	15.2	53.0
I. Nominal GSDP	182.84	183.22	215.74	244.22	275.57	12.8	13.2	0.2

Source: As in Table 1 and the Monthly Key Indicator Database of the Comptroller and Auditor General of India.

³ See Mukherjee (2022)

In general, the revised estimates cover the actual figures for three quarters (i.e. Q1 to Q3) of any financial year and project revenues and expenditures for one quarter (i.e. Q4). An introspection of the methodology in projecting budget numbers (both revenues as well as expenditures) may help states to set realistic budget targets.

Figure 1: Sources of Difference between the 2022-23RE and the 2022-23PE: Major States (Rs. Trillion)



Source: Computed by the author

In the BE of 2023-24, the aggregate fiscal deficit of 18 major states is projected to be 3.07 per cent of nominal GSDP (Table 3). This is considerably higher than the fiscal deficit observed in 2021-22 and lower than the 2022-23RE. In presenting the budget estimates of 2023-24, 18 major states have projected a marginal fall in the TRR by 25 percentage points of GSDP in the 2023-24BE vis-a-vis the 2022-23RE and the source of this fall, as they presume/expect, will be largely coming from a fall in the grants-in-aid from the Union government as well as states' share in the Union taxes as compared to the 2022-23RE. Though the combined share of states' OTR and own non-tax revenue is expected to increase by 37 percentage points of GSDP in the 2023-24BE, this will be not enough to compensate for the loss of prospective revenue on accounts of the fall in the states' share in the Union taxes and grants-in-aid from the Union government. As a result, the share of TRR in GSDP is expected to fall in the 2023-24BE vis-à-vis the 2022-23RE. Despite bleak revenue prospects of the 2023-24BE, states project to increase capital expenditure by 21 percentage points of GSDP and reduce revenue expenditure by 64 percentage points of GSDP in the 2023-24BE vis-a-vis the 2023-24RE. States have reduced revenue deficit to fiscal deficit ratio (in %) from 51 per cent in 2020-21 to 20 per cent in 2021-22 and also envisage reaching 7.7 per cent in the 2023-24BE. This shows that a large part of the fiscal deficit will be utilised to finance the capital expenditure of the states. In aggregate, states have shown sincerity in their commitment to follow the path of prudential fiscal management.

Table 3: Consolidated Statement of Public Finances of 18 Major States (as % of Nominal GSDP)

Major States	2019-20 (A)	2020-21 (B)	2021-22 (C)	2022-23RE (D)	2023-24BE (E)	E-D	D-C	B-A
I. Total Revenue Receipts (A+B)	12.94	12.39	13.20	13.98	13.73	-0.25	0.78	-0.55
A. Tax Revenue (a+b)	9.36	8.83	9.99	10.30	10.41	0.11	0.31	-0.53
a) Own Tax Revenue	6.19	5.92	6.32	6.83	7.08	0.26	0.51	-0.26
b) States' Share in the Union Taxes	3.17	2.91	3.67	3.47	3.32	-0.15	-0.19	-0.27
B. Non Tax Revenue (c+d)	3.58	3.56	3.22	3.68	3.32	-0.36	0.46	-0.02
c) Own Non-Tax Revenue	1.31	0.85	1.05	1.04	1.15	0.11	-0.01	-0.45
d) Grants-in-Aids from the Union Government	2.27	2.70	2.17	2.64	2.17	-0.47	0.47	0.43
C. Non-Debt Capital Receipts (e+f)	0.35	0.19	0.08	0.08	0.22	0.14	0.00	-0.16
e) Recovery of Loans and Advances	0.30	0.07	0.08	0.04	0.07	0.03	-0.04	-0.24
f) Misc. Capital Receipts	0.04	0.12	0.01	0.04	0.15	0.11	0.03	0.08
II. Revenue Expenditure	13.62	14.44	13.77	14.61	13.97	-0.64	0.84	0.82
III. Capital Expenditure	2.02	1.96	2.14	2.54	2.75	0.21	0.41	-0.06
D. Loans & Advances Disbursed	0.21	0.19	0.18	0.30	0.30	-0.01	0.12	-0.01
E. Misc. Capital Expenditure	0.084	0.013	0.005	0.001	0.000	-0.001	-0.004	-0.071
IV. Revenue Deficit	0.68	2.05	0.56	0.62	0.24	-0.39	0.06	1.37
V. Fiscal Deficit	2.64	4.03	2.80	3.39	3.07	-0.32	0.59	1.39
VI. Revenue Deficit/Fiscal Deficit*100	25.76	50.89	20.10	18.42	7.69	-10.73	-1.68	25.12

Source: Computed by the author

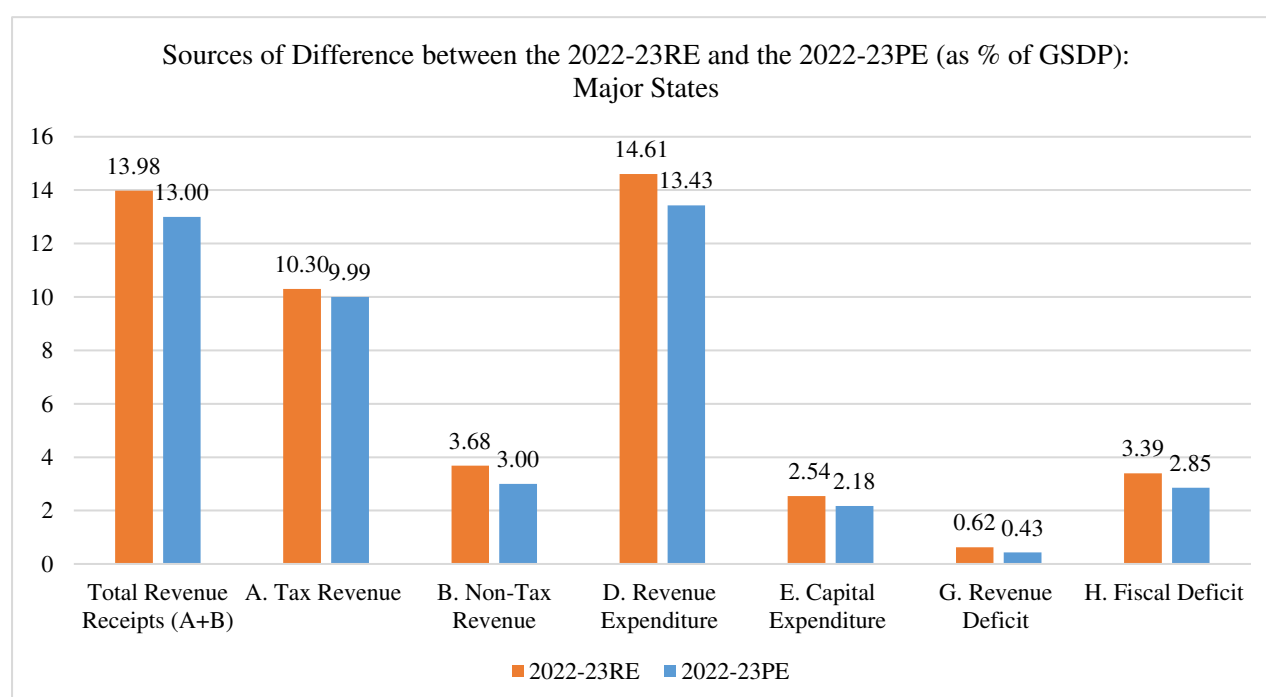
As compared to the 2022-23PE, the aggregate fiscal deficit of 18 major states is projected to increase by 22 percentage points of GSDP in the 2023-24BE (Table 4). Total expenditure (revenue and capital) is expected to increase by 111 percentage points of GSDP in the 2023-24BE as compared to the 2022-23PE. The expected rise in TRR by 73 percentage points of GSDP in the 2023-24BE may not be sufficient to compensate the entire increase in the expenditures, as a result, states have projected 22 percentage points higher fiscal deficit in the 2023-24BE vis-a-vis the 2022-23PE. As compared to 2021-22, 2022-23 was a relatively stressful year for Indian state finances. To contain fiscal deficit, states compensate the fall in TRR by 21 percentage points of GSDP between 2021-22 and 2022-23PE by reducing the revenue expenditure by 34 percentage points of GSDP while maintaining the share of capital expenditure in GSDP at the level it was prevalent in 2021-22.

Table 4: Consolidated Statement of Public Finances of 18 Major States (as % of Nominal GSDP)

Major States	2019-20 (A)	2020-21 (B)	2021-22 (C)	2022-23PE (D)	2023-24BE (E)	E-D	D-C	B-A
Total Revenue Receipts (A)	12.94	12.39	13.20	13.00	13.73	0.73	-0.21	-0.55
A. Tax Revenue	9.36	8.83	9.99	9.99	10.41	0.41	0.01	-0.53
B. Non-Tax Revenue	3.58	3.56	3.22	3.00	3.32	0.32	-0.21	-0.02
C. Non-Debt Capital Receipts	0.35	0.19	0.08	0.03	0.22	0.18	-0.05	-0.16
D. Revenue Expenditure	13.62	14.44	13.77	13.43	13.97	0.54	-0.34	0.82
E. Capital Expenditure	2.02	1.96	2.14	2.18	2.75	0.57	0.04	-0.06
F. Loans & Advances Disbursed	0.21	0.19	0.18	0.28	0.30	0.02	0.10	-0.01
G. Revenue Deficit	0.68	2.05	0.56	0.43	0.24	-0.19	-0.13	1.37
H. Fiscal Deficit	2.64	4.03	2.80	2.85	3.07	0.22	0.05	1.39
I. Revenue Deficit/Fiscal Deficit*100	25.76	50.89	20.10	15.02	7.69	-7.33	-5.08	25.12

Source: Computed by the author

Figure 2: Sources of Difference between the 2022-23RE and the 2022-23PE (as % of GSDP): Major States



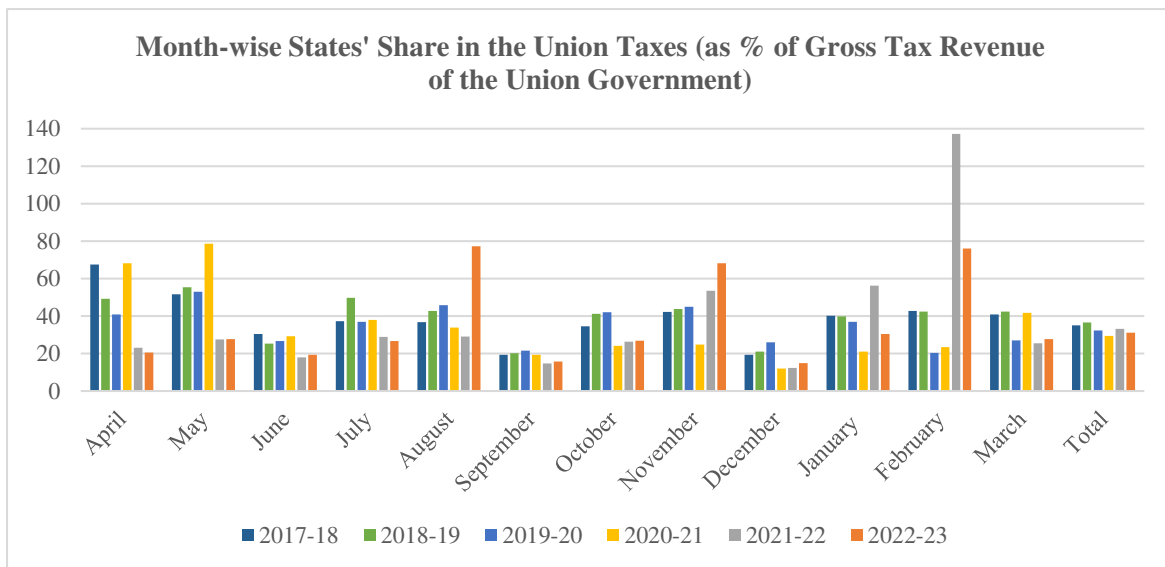
Source: Computed by the author

The difference in TRR (as % of GSDP) between the 2022-23RE and the 2022-23PE is 1 per cent of GSDP and the same for revenue expenditure is 1.2 per cent of GSDP and capital expenditure is 0.3 per cent of GSDP (Figure 2). Both in revenue and capital expenditures, the shares are lower in the 2022-23PE as compared to the 2022-23RE. This results in a lower fiscal deficit in the 2022-23PE as compared to the 2022-23RE. The difference between the RE and PE figures could be due to not taking into account the bunching of states' own revenue mobilisation and expenditures towards the end of the financial year in the budgeting exercise

and/or bunching of transfers from the Union governments (either in states' share in the Union taxes or grants-in-aid from the Union government) towards the end of the financial year. Revenue mobilisation pattern of states differs and it would be strenuous task to compile state-wise month-wise revenue mobilisation across years to see if there is any discernible pattern. However, we have compiled monthly states' share in the Union taxes based on the Monthly Accounts of Controller General of Accounts (CGA) and presented it in Figure 3.

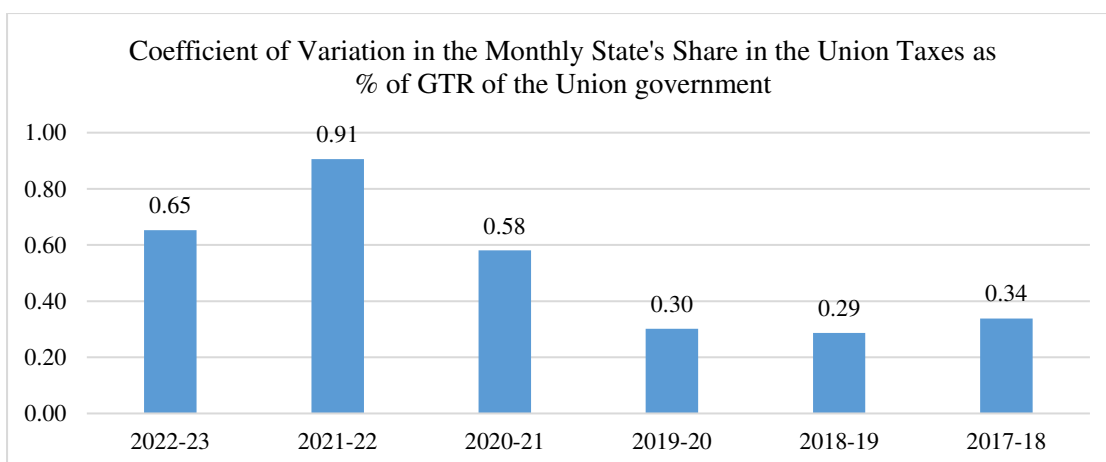
Figure 4 shows that volatility (as measured by the coefficient of variation) in the monthly states' share in the Gross tax Revenue (GTR) of the Union government has gone up since 2020-21 as compared to the average volatility observed from 2017-18 to 2019-20.

Figure 3: Monthly States' Share in the Union Taxes (as % of Gross Tax Revenue of the Union Government)



Source: Computed by the author based on the Monthly Accounts of Controller General of Accounts.

Figure 4: Coefficient of Variation in the Monthly States' Share in the Union Taxes as % of GTR of the Union government



Source: Computed by the author

Prior to 2021-22, there was a bunching of tax devolution (i.e. monthly share in total states' share in the Union taxes) towards the terminal month of a financial year (Figure 5). During 2021-22 and 2022-23, tax devolution is lumped towards the terminal month of every quarter. Therefore, a change in the pattern of the distribution of tax devolution across months of a financial year may have played a role in the revenue and expenditure projections of states. Figure 6 shows that though volatility in tax devolution went up during 2020-22, it has again reduced in 2022-23 to the level as it was prevalent during 2017-19. Therefore, the volatility on this front may not be a factor behind the difference between the RE and PE numbers for 2022-23.

Figure 5: Month-wise Distribution of Total States' Share in the United Taxes (%)

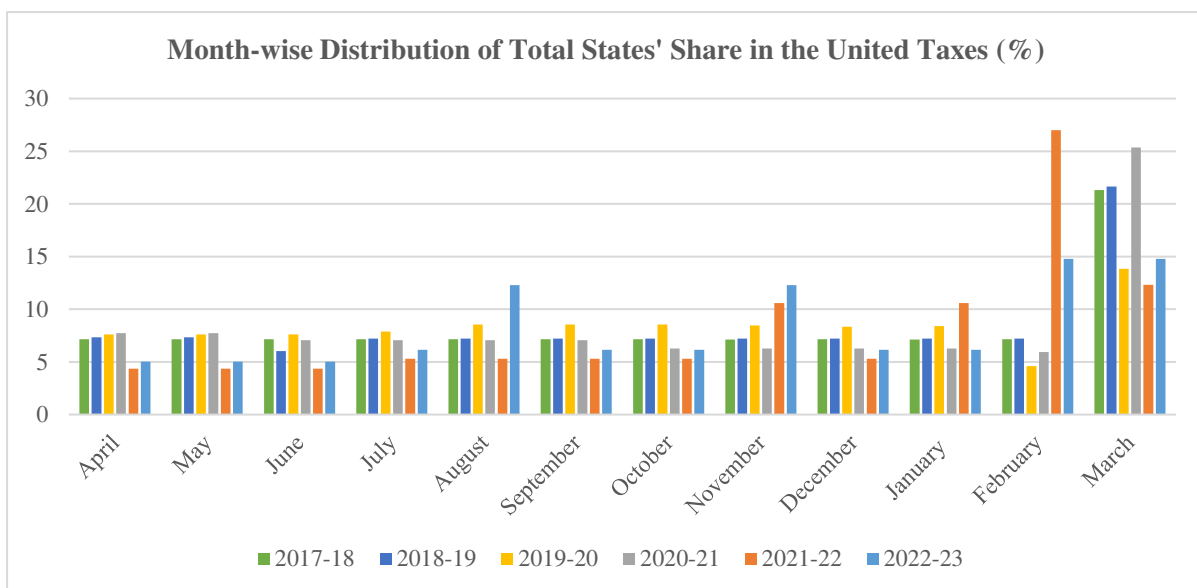
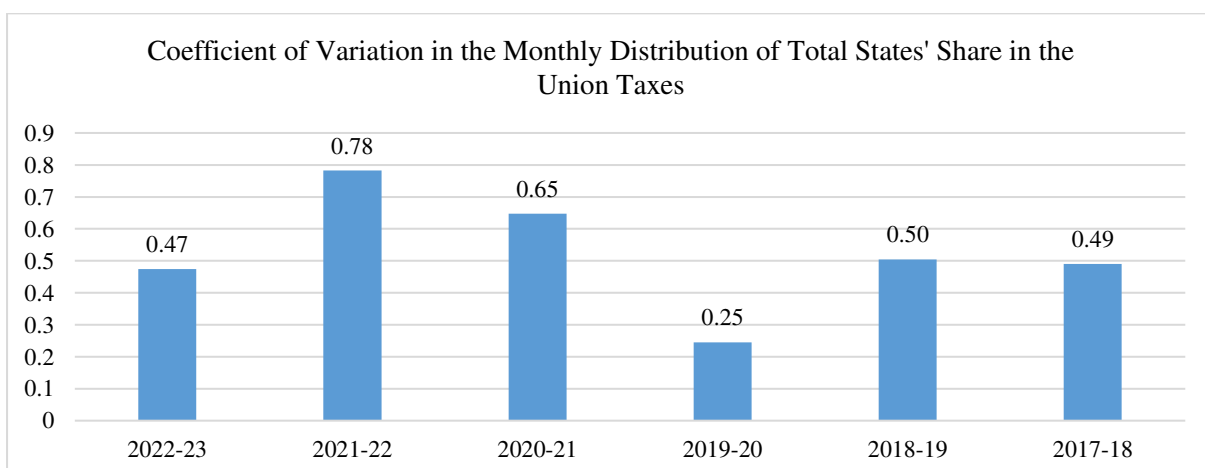


Figure 6: Coefficient of Variation in the Monthly Distribution of Total States' Share in the Union Taxes



Source: Computed by the author

Therefore, the rising volatility in the disbursement of monthly states' share in the Union taxes (as % of GTR) could be a reason for the difference between the Revised Estimate and Provisional Estimate of 2022-23. It is also expected that forecast errors of the Union taxes may have an impact on projecting states' share in the Union taxes. Table 5 shows that prior to 2019-20, there was no difference between the RE and Actual figures of states' share in the Union taxes and whatever the difference occurred between the RE and Actual figures of GTR, it used to be absorbed by the Union government into Centre's Net Tax Revenue. In other words, prior to 2019-20, the states' share in the GTR was insulated from any difference between the RE and Actual figures of GTR. The differences between the RE and Actual figures of GTR used to be absorbed by the Union government by changing the Centre's Net Tax Revenue. However, rising forecast errors of the states' share in the Union taxes with respect to BE (i.e., FE(BE) in Table 5) after 2019-20 is an issue that may have an impact on setting the BE of state revenue. Except during 2020-22, we have not found any difference between the RE and Actual figures of states' share in the Union taxes during 2013-23.

Table 5: Forecast Errors in Gross Tax Revenue (GTR), States' Share and Centre's Net Tax Revenue*

Year	Gross Tax Revenue (GTR)		States' Share		Centre's Net Tax Revenue	
	F.E. (B.E.)	F.E. (R.E.)	F.E. (B.E.)	F.E. (R.E.)	F.E. (B.E.)	F.E. (R.E.)
2013-14	-7.86	-1.74	-8.29	0.00	-8.36	-2.28
2014-15	-8.77	-0.52	-11.62	0.00	-8.15	-0.50
2015-16	0.42	-0.27	-3.39	0.00	2.49	-0.46
2016-17	5.21	0.74	6.60	0.00	4.29	1.19
2017-18	0.39	-1.39	-0.23	0.00	1.25	-2.20
2018-19	-8.40	-7.46	-3.38	0.00	-12.41	-11.29
2019-20	-18.33	-7.09	-19.58	-0.82	-21.57	-8.95
2020-21	-16.34	6.67	-24.13	8.19	-14.70	5.00
2021-22	22.20	7.68	34.98	20.62	14.37	2.57
2022-23**	10.73	0.35	16.13	0.00	8.10	0.97

Note: *-Forecast Error (FE) w.r.t B.E. or F.E. (B.E.) = (Actual – B.E.)/B.E.*100 and Forecast Error of R.E. = (Actual – R.E.)/R.E.*100

**-Actuals of 2022-23 are Provisional Figures compiled from CGA's Monthly Accounts

Source: Compiled from the Union Budget Documents (various years)

Table 6 shows that on average, "Some Important Items of Transfer (I)" and "Finance Commission Grants (II)" contributed one-fourth of the total Grants-in-Aid transfers to states during 2020-22, the forecast error specific to Revised Estimate is not high. However, on average, "Transfer to States (other than I & II)" contributed half of the total grants-in-aid transfers to the states during 2020-22 and the forecast error with respect to RE is similar to earlier years (except in 2016-17). Though forecast errors of 2022-23 cannot be compiled from available data sources, it is likely that they may not be very high. Therefore, we conclude that forecast errors in either tax devolution or grants-in-aid may not be reasons for the difference between PE and RE figures of states' finances for 2022-23.

Table 6: Forecast Errors in Grants-in-Aid to States from the Union Government **

	I. Some Important Items of Transfer			II. Finance Commission Grants			III. Transfer to States [Other than (I) + (II)]			Total	
	% Share in Total*	F.E. (B.E.)	F.E. (R.E.)	% Share in Total*	F.E. (B.E.)	F.E. (R.E.)	% Share in Total*	F.E. (B.E.)	F.E. (R.E.)	F.E. (B.E.)	F.E. (R.E.)
2016-17	12.90	109.3	77.6	25.65	-5.06	-3.60	61.45	12.82	4.47	4.94	-1.12
2017-18	9.12	24.3	-5.5	22.59	-10.53	-9.11	68.29	20.72	-6.04	0.44	-6.70
2018-19	10.85	-15.1	-16.8	22.00	-14.33	-11.71	67.15	-8.02	-9.23	-10.29	-10.66
2019-20	11.51	-1.6	-6.3	26.51	2.69	0.00	61.98	-13.72	-10.30	-8.55	-7.32
2020-21	24.45	125.0	-4.1	27.29	22.77	0.94	48.26	-3.10	-9.29	20.63	-5.42
2021-22	26.82	125.2	-8.3	27.44	-6.07	-1.72	45.74	-4.82	-7.24	12.14	-6.09

Note: *-Percentage share in Total (Actual) to Actual of Any Category

**-Forecast Error w.r.t B.E. = (Actual – B.E.)/B.E.*100 and Forecast Error of R.E. = (Actual – R.E.)/R.E.*100

Source: Compiled from the Union Budget Documents (various years)

3. Analysis of State Budgets of Minor States

Together, 9 minor states set the target for TRR of Rs. 3.19 trillion in the 2023-24BE. These states set a growth rate of 3.23 percent in aggregate TRR as compared to 28.05 per cent in the 2022-23RE. There is apprehension among minor states that except in OTR, the growth rate will fall across all revenue sources of states in the 2023-24BE as compared to the 2022-23RE – the growth rate of own non-tax revenue will fall by 38.8 percentage points and the growth rate of grants-in-aid from the Union government will fall by 55.1 percentage points in the 2023-24 BE as compared to the 2022-23RE. Keeping in mind the bleak growth prospects of TRR in the 2023-24BE, minor states set lower growth rates in expenditures to contain deficits. Together, minor states aim to achieve revenue surplus of Rs. 0.16 trillion and fiscal deficit of Rs. 0.51 trillion in the 2023-24BE (Table 7). According to the 2022-23RE, fiscal deficit was Rs. 0.74 trillion. In the 2022-23RE, fiscal deficit is more than double of what minor states have realised in 2020-21 (Rs. 0.33 trillion) and 2021-22 (Rs. 0.34 trillion).

To validate the RE figures of 2022-23 (as presented in Table 7), we compile major head-wise revenues and expenditures statements of minor states from the Monthly Key Indicator (MKI) database of the Comptroller General of India (CAG).⁴ We present the MKI based numbers in Table 8 as Provisional Estimate (P.E.) of 2022-23 (or 2022-23PE).

As compared to the 2022-23RE, the provisional estimate of 2022-23 shows lower TRR by Rs. 0.50 trillion (of which Rs. 0.02 trillion is on account of Tax Revenue and Rs. 0.48 trillion is on account of Non-Tax Revenue), the lower revenue expenditure by Rs. 0.52 trillion and lower capital expenditure by Rs. 0.17 trillion. As a result, the revenue deficit of the 2022-23PE is lower than the 2022-23RE by Rs. 0.02 trillion and the fiscal deficit is lower by Rs. 0.19 trillion.

PE of 2022-23 confirms that it was fiscally stressful for minor states to manage the public finances of 2022-23, as compared to 2021-22. Though TRR increased by Rs. 0.18 trillion in the 2022-23PE as compared to 2021-22, it was not enough to finance the entire rise in the total expenditure by Rs. 0.37 trillion (Rs. 0.33 trillion on account of revenue expenditure and Rs. 0.04 trillion on account of capital expenditure). As a result, there was an increase in the fiscal deficit by Rs. 0.21 trillion in the 2022-23PE as compared to 2021-22. Perhaps the experience helps states to adopt a cautious approach in setting the budget estimates of 2023-24.

⁴ CAG's MKI data for Manipur and Meghalaya is available up to February 2023, so we project the revenue and expenditure figures of March 2023 by assuming that the average monthly trend will continue.

Table 7: Consolidated Statement of Public Finances of 9 Minor States (Rs. Trillion)*

Minor States	2019-20 (A)	2020-21 (B)	2021-22 (C)	2022-23RE (D)	2023-24BE (E)	Growth Rate (%)		
						D to E	C to D	A to B
I. Total Revenue Receipts (A+B)	1.87	2.03	2.41	3.09	3.19	3.23	28.05	8.69
A. Tax Revenue (a+b)	1.02	1.03	1.37	1.56	1.76	12.58	13.86	0.77
a) Own Tax Revenue	0.43	0.45	0.53	0.63	0.75	19.59	19.33	4.55
b) States' Share in the Union Taxes	0.59	0.58	0.85	0.94	1.01	7.90	10.48	-1.95
B. Non Tax Revenue (c+d)	0.85	1.01	1.04	1.52	1.43	-6.37	46.84	18.16
c) Own Non-Tax Revenue	0.15	0.12	0.12	0.18	0.20	9.97	48.76	-17.96
d) Grants-in-Aids from the Union Government	0.70	0.88	0.92	1.35	1.23	-8.53	46.59	25.83
C. Non-Debt Capital Receipts	0.001	0.001	0.032	0.002	0.005	141.99	-93.80	6.46
e) Recovery of Loans and Advances	0.001	0.001	0.032	0.002	0.004	117.05	-93.78	5.68
f) Misc. Capital Receipts	0.000	0.000	0.000	0.000	0.001	**	-100.00	50.94
II. Revenue Expenditure	1.89	1.98	2.27	3.12	3.03	-2.91	37.46	4.98
III. Capital Expenditure	0.33	0.38	0.50	0.71	0.67	-5.13	40.74	14.98
D. Loans & Advances Disbursed	0.0107	0.0055	0.0093	0.0067	0.0056	-16.33	-28.40	-48.43
E. Misc. Capital Expenditure	0.0010	0.0000	0.0020	0.0000	0.0000	--	-100.00	-100.00
IV. Revenue Deficit	0.02	-0.05	-0.14	0.03	-0.16	-660.61	-119.99	-372.81
V. Fiscal Deficit	0.36	0.33	0.34	0.74	0.51	-31.06	119.27	-7.08
VI. Nominal GSDP	9.26	9.32	10.62	12.16	13.66	12.32	14.59	0.61
VII. Growth Rate of Nominal GSDP		0.61	13.94	14.59	12.32			
VIII. Growth Rate of Own Tax Revenue		4.55	17.72	19.33	19.59			
IX. Own Tax Revenue Buoyancy		7.44	1.27	1.33	1.59			

Note: *-2023-24 Budget of Tripura is awaited. **-very high growth rate.

Source:

Table 8: Consolidated Statement of Public Finances of 9 Minor States (Rs. Trillion)*

Minor States	2019-20 (A)	2020-21 (B)	2021-22 (C)	2022-23PE (D)	2023-24BE (E)	Growth rate (%)		
						D to E	C to D	A to B
Total Revenue Receipts (A)	1.87	2.03	2.41	2.59	3.19	22.94	7.52	8.69
A. Tax Revenue	1.02	1.03	1.37	1.55	1.76	13.83	12.61	0.77
B. Non-Tax Revenue	0.85	1.01	1.04	1.05	1.43	36.42	0.78	18.16
C. Non-Debt Capital Receipts	0.001	0.001	0.031	0.002	0.005	153.23	-94.07	6.46
D. Revenue Expenditure	1.89	1.98	2.27	2.60	3.03	16.42	14.64	4.98
E. Capital Expenditure	0.33	0.38	0.50	0.54	0.67	24.34	7.39	14.98
F. Loans & Advances Disbursed	0.01	0.01	0.01	0.01	0.01	-14.93	-29.58	-48.43
G. Revenue Deficit	0.02	-0.05	-0.14	0.01	-0.16	-2576.71	-104.53	-372.81
H. Fiscal Deficit	0.36	0.33	0.34	0.55	0.51	-7.30	63.06	-7.08
I. Nominal GSDP	9.26	9.32	10.62	12.16	13.66	12.32	14.59	0.61

Note: *-2023-24 Budget of Tripura is awaited.

In the BE of 2023-24, the aggregate fiscal deficit of 9 minor states is projected to be 3.75 per cent of nominal GSDP (Table 9). This is considerably higher than the fiscal deficit observed in 2021-22 and lower than the 2023-24RE. In presenting the budget estimates of 2023-24, 9 minor states have projected a fall in the TRR by 205 percentage points of GSDP in the 2023-24BE vis-a-vis the 2022-23RE and the source of this fall, as they presume, will be coming from fall in the grants-in-aid from the Union government (by 205 percentage points of GSDP) as well as states' share in the Union taxes (by 30 percentage points of GSDP) as compared to the 2022-23RE. It is also expected that there will be a marginal fall in the share of states' own non-tax revenue in GSDP during the 2023-24BE as compared to the 2022-23RE. Though the combined share of states' OTR and own non-tax revenue is expected to increase by 30 percentage points of GSDP in the 2023-24BE, this will be not enough to compensate for the loss of the prospected fall in the revenue on account of the states' share in the Union taxes and grants-in-aid from the Union government. As a result, the share of TRR in GSDP is expected to fall in the 2023-24BE vis-à-vis the 2022-23RE. Given the bleak revenue prospects of the 2023-24BE, the together minor states project to reduce capital expenditure by 91 percentage points of GSDP and revenue expenditure by 347 percentage points of GSDP in the 2023-24BE vis-a-vis the 2023-24RE. States have also set the target to reduce revenue as well as fiscal deficit in the 2023-24BE. Together, minor states aim to achieve a revenue surplus of 1.18 per cent of GSDP and a fiscal deficit of 3.75 per cent of GSDP in the 2023-24BE.

Table 9: Consolidated Statement of Public Finances of 9 Minor States (as % of Nominal GSDP)

Minor States	2019-20 (A)	2020-21 (B)	2021-22 (C)	2022-23RE (D)	2023-24BE (E)	E-D	D-C	B-A
I. Total Revenue Receipts (A+B)	20.18	21.80	22.73	25.40	23.34	-2.05	2.67	1.62
A. Tax Revenue (a+b)	10.99	11.01	12.95	12.87	12.90	0.03	-0.08	0.02
a) Own Tax Revenue	4.61	4.79	4.95	5.15	5.48	0.33	0.20	0.18
b) States' Share in the Union Taxes	6.38	6.22	8.00	7.72	7.41	-0.30	-0.29	-0.16
B. Non Tax Revenue (c+d)	9.19	10.79	9.78	12.53	10.44	-2.08	2.75	1.60
c) Own Non-Tax Revenue	1.61	1.31	1.13	1.46	1.43	-0.03	0.34	-0.30
d) Grants-in-Aids from the Union Government	7.58	9.48	8.65	11.07	9.01	-2.05	2.42	1.90
C. Non-Debt Capital Receipts	0.01	0.01	0.30	0.02	0.04	0.02	-0.29	0.00
e) Recovery of Loans and Advances	0.01	0.01	0.30	0.02	0.03	0.02	-0.29	0.00
f) Misc. Capital Receipts	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
II. Revenue Expenditure	20.38	21.26	21.37	25.63	22.16	-3.47	4.27	0.88
III. Capital Expenditure	3.56	4.06	4.75	5.83	4.93	-0.91	1.08	0.51
D. Loans & Advances Disbursed	0.12	0.06	0.09	0.05	0.04	-0.01	-0.03	-0.06
E. Misc. Capital Expenditure	0.01	0.00	0.02	0.00	0.00	0.00	-0.02	-0.01
IV. Revenue Deficit	0.20	-0.54	-1.36	0.24	-1.18	-1.42	1.60	-0.74
V. Fiscal Deficit	3.87	3.57	3.19	6.11	3.75	-2.36	2.92	-0.30
VI. Revenue Deficit/Fiscal Deficit*100	5.13	-15.05	-42.57	3.88	-31.56	-35.45	46.45	-20.18

Source: Computed by the author

As compared to the 2022-23PE, the aggregate fiscal deficit of 9 minor states is projected to fall by 79 percentage points of GSDP in the 2023-24BE (Table 10). Total expenditure (revenue and capital) is expected to increase by 116 percentage points of GSDP in the 2023-24BE as compared to the 2022-23PE. An expected rise in TRR by 202 percentage points of GSDP in the 2023-24BE may be sufficient to compensate the entire increase in the expenditures. As a result, states have projected a fall in fiscal deficit in the 2023-24BE vis-a-vis the 2022-23PE. As compared to 2021-22, the 2022-23PE was a relatively stressful year for minor states' public finances. According to the PE of 2022-23, the states compensate the fall in TRR by 140 percentage points of GSDP by reducing the revenue expenditure as well as capital expenditure by 30 percentage points and 3 percentage points of GSDP respectively to rein in revenue as well as fiscal deficits. Despite all efforts, the fiscal deficit reached 4.54 per cent of GSDP in 2023-24PE and it was 135 percentage points of GSDP higher than 2021-22.

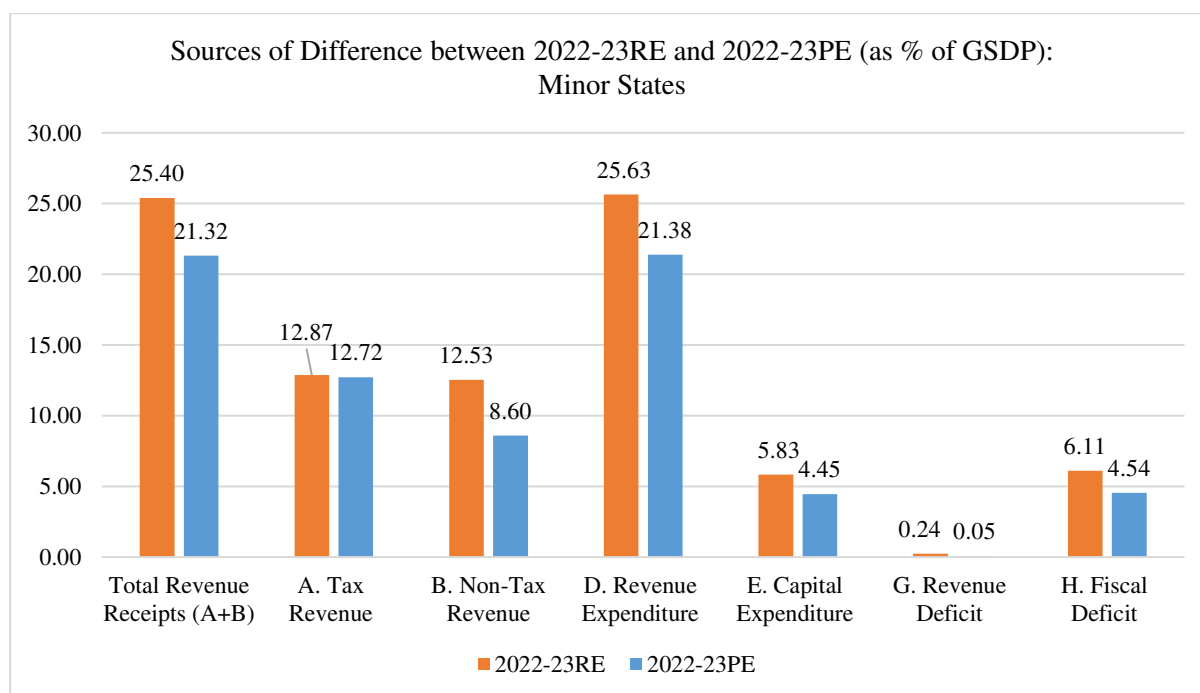
Table 10: Consolidated Statement of Public Finances of 9 Minor States (as % of Nominal GSDP)

Minor States	2019-20 (A)	2020-21 (B)	2021-22 (C)	2022-23PE (D)	2023-24BE (E)	E-D	D-C	B-A
Total Revenue Receipts (TRR)	20.18	21.80	22.73	21.32	23.34	2.02	-1.40	1.62
A. Tax Revenue (TR)	10.99	11.01	12.95	12.72	12.90	0.17	-0.22	0.02
B. Non-Tax Revenue (NTR)	9.19	10.79	9.78	8.60	10.44	1.85	-1.18	1.60
C. Non-Debt Capital Receipts	0.013	0.013	0.305	0.016	0.036	0.02	-0.29	0.00
D. Revenue Expenditure	20.38	21.26	21.37	21.38	22.16	0.78	0.01	0.88
E. Capital Expenditure	3.56	4.06	4.75	4.45	4.93	0.48	-0.30	0.51
F. Loans & Advances Disbursed	0.12	0.06	0.09	0.05	0.04	-0.01	-0.03	-0.06
G. Revenue Deficit	0.20	-0.54	-1.36	0.05	-1.18	-1.24	1.41	-0.74
H. Fiscal Deficit	3.87	3.57	3.19	4.54	3.75	-0.79	1.35	-0.30

Source: Computed by the author

The difference in TRR (as % of GSDP) between the 2022-23RE and the 2022-23PE is 4.07 per cent of GSDP and the same for revenue expenditure is 4.25 per cent of GSDP and capital expenditure is 1.38 per cent of GSDP (Figure 7). Both revenue and capital expenditures (as % of GSDP) are lower in the 2022-23PE as compared to the 2022-23RE. This results in a lower fiscal deficit in the 2022-23PE as compared to the 2022-23RE.

Figure 7: Sources of Difference between the 2022-23RE and the 2022-23PE (as % of GSDP): Minor States



Source: Computed by the author

4. State of Fiscal Health of Indian States

We compare the performance of major and minor states between the pre- and post-pandemic periods in Table 11. For the pre-pandemic period, we consider the average share of each indicator in GSDP for the period 2015-16 to 2018-19. We present the change in the share of individual indicators with reference to the pre-pandemic average share across years (2019-20 to 2023-24BE) in Table 11. It is to be highlighted that both major and minor states faced a revenue shock in 2019-20 and in aggregate, major states have not recovered from the shock yet. Table 11 shows that the revenue performance of the 2022-23PE has prolonged the recovery of major states from the revenue shock. Just when minor states recovered from the revenue shock of 2019-20, the revenue shock of the 2022-23PE had resurfaced. In the 2023-24BE, together, 18 major states have envisaged surpassing the average share of TRR in GSDP that was prevalent during the pre-pandemic period (i.e. 2015-19). For these states, the share of the aggregate TRR as well as Tax Revenue in GSDP is persistently lower than the pre-pandemic average since 2019-20. As compared to the tax revenue, the performance of major states is relatively better in non-tax revenue mobilisation, except in the 2022-23PE. This is largely due to the higher share of grants-in-aid received by the major states both during and after the pandemic as compared to the pre-pandemic average (Appendix Table A.1). It is also to be highlighted that since 2017-18, states have also received GST compensation from the GST compensation fund which is booked under the grants-in-aid from the Union government in the state budget. In aggregate, minor states have recovered from the revenue shock of 2019-20 due to the increasing share of own tax revenue (since 2020-21) as well as higher share of grants-in-aid from the Union government in GSDP during and after the pandemic period vis-à-vis pre-pandemic average (Table 11 and Appendix Table A.1). The average share of aggregate TRR of 9 minor states surpasses the average share that was prevailing during 2015-19 (i.e. the pre-pandemic period) in 2020-21 and 2021-22 before it again fell in the 2022-23PE. For minor states, the revenue shock of the 2022-23PE came from the fall in the share of non-tax revenue (NTR) in GSDP. This is to be highlighted that for minor states, the revenue impact of the COVID-19 pandemic in terms of the fall in the share of tax revenue in GSDP is overcompensated by a rise in the share of NTR in 2020-21. As a result, the share of the aggregate TRR in GSDP has increased marginally in 2020-21 as compared to the pre-pandemic average. This was mainly possible due to the receipts of a higher share of grants-in-aid in GSDP for the minor states in 2020-21 (Table A.1 in Appendix).

Though major states have gained in the share of non-tax revenue in GSDP from 2019-20 to 2021-22 with reference to the average share that was prevalent during 2015-19, the gains were much lesser than the loss in the share of tax revenue to GSDP, as a result, the share of TRR in GSDP falls during 2019-22. Except in the 2022-23PE, minor states have gained in the share of NTR in GSDP every year during 2019-22 before it fell in the 2022-23PE.

Both major and minor states have experienced a revenue shock in the 2022-23PE. For major states, the revenue shock came from both tax and non-tax revenue sides of the budget whereas for minor states, it came from the NTR side of the budget.

From Table 11, we conclude that together 18 major states are yet to achieve the average share of TRR in GSDP which was prevalent prior to the pandemic. The share of tax revenue in GSDP is yet to catch up with the pre-pandemic average. This is due to fall in the share of both states' own tax revenue (OTR) as well as "states' share in the Union taxes" in GSDP since 2019-20 (Appendix Table A.1). Though the share of states' own NTR in GSDP falls during 2020-21 & 2021-22 vis-a-vis the average share of the same that was prevalent during the pre-pandemic period, the gain in the share of grants-in-aid from the Union government has helped major states to maintain a positive gain in the share of NTR in GSDP since 2019-20. It is to be noted that in addition to the GST compensation from the GST compensation fund, states also receive GST back-to-back loans in lieu of the shortfall in the GST compensation cess collection. The Union government has borrowed Rs. 1.10 trillion in 2020-21 and Rs. 1.59 trillion in 2021-22 against the Government of India securities and transferred the amounts to the states (along with the UTs with a legislative assembly) as GST compensation. These GST back-to-back loans are accounted under "Loans and Advances from the Union Government" in the state budget and those figures are not taken into account in presenting Table 11.

The revenue performance of minor states is relatively better than the major states and it is largely due to the persistently higher share of grants-in-aid as well as own tax revenue mobilisation (since 2020-21) vis-à-vis pre-pandemic average during the period of our analysis. We found that for minor states, the share of states' own NTR falls during 2020-22 and states' share in the Union taxes during 2019-21. Overall, the share of TRR in GSDP shows a sign of recovery since 2020-21 before it again falls in the 2022-23PE. These states expect to gain substantially in the share of TRR in GSDP in the 2023-24BE.

For major states, the share of capital expenditure in GSDP is consistently lower than the pre-pandemic average from 2019-20 to the 2022-23PE. However, in the budget estimate of 2023-24, the aggregate share of capital expenditure is expected to increase by 33 percentage points of GSDP from the pre-pandemic average. Except during 2020-21, major states have also contained the revenue expenditure in GSDP by either reducing it in 2019-20 & 2022-23PE or increasing it marginally in 2021-22 with respect to the pre-pandemic average. In the BE of 2023-24, major states have projected to increase the aggregate revenue expenditure by 25 percentage points of GSDP from the pre-pandemic average. Even with the containment of expenditures, together, major states are not able to wipe out the revenue deficit. The revenue deficit (as % of GSDP) lies higher than the pre-pandemic average from 2019-20 to the 2022-23PE. In the BE of 2023-24, together major states have envisaged to contain revenue deficit to the pre-pandemic average. Together, the fiscal deficit of major states falls below the pre-pandemic average in 2019-20 and during 2021-22 to 2022-23PE. In the 2023-24BE, the aggregate fiscal deficit is expected to be 3.07 per cent of GSDP which is 6 percentage points of GSDP higher than the pre-pandemic average.

Both the shares of revenue and capital expenditures in GSDP are persistently higher than the pre-pandemic average for minor states. As a percentage of GSDP, minor states spend more on revenue as well as capital expenditures as compared to major states. The expenditures of minor states are not always consistent with the revenue side of the budget and this has resulted in a

rise in the revenue deficit (except in 2021-22) and fiscal deficit vis-à-vis pre-pandemic average. In aggregate, the fiscal deficit of minor states is higher than 3 per cent of GSDP since 2019-20 and in the budget estimate of 2023-24, it is projected to reach 3.75 per cent of GSDP.

For major states recovery in economic growth has weakened in 2022-23, and in the 2023-24BE growth in aggregate GSDP of major states is expected to further slowdown. For minor states, the recovery was slow and it is expected to further slowdown in the 2023-24BE.

So far the discussion of this paper revolves around the overall performance of 18 major and 9 minor states. In this section, we present the state-wise revenue and fiscal deficits from 2020-21 to the 2023-24BE. We have also presented the fiscal situation prevailing in Tripura till 2021-22. In the budget estimate of 2023-24, many states have projected a higher revenue deficit (or fall in the revenue surplus) vis-à-vis the 2022-23PE (highlighted in grey in Table 12). In aggregate, the major states project a revenue deficit of 24 percentage points of GSDP in the 2023-24BE. This is 19 percentage points of GSDP lower than the overall revenue deficit of 18 major states realised in the 2022-23PE (i.e. 0.43 per cent of GSDP). Except for Odisha, all the major states have recorded a revenue deficit in 2020-21 and all the major states have reduced their revenue deficits in 2021-22. Among major states, Odisha has consistently maintained a revenue surplus during the period of our analysis.

In aggregate, 9 minor states project a revenue surplus of 1.18 per cent of GSDP in the 2023-24BE. These states have realised the aggregate revenue deficit of 0.05 per cent of GSDP in the 2022-23PE. Therefore, together, minor states aim to reduce their revenue deficits by 124 percentage points of GSDP in the 2023-24BE with reference to the 2022-23PE. Arunachal Pradesh, Manipur, Nagaland, and Uttarakhand have consistently maintained revenue surpluses during the period of our analysis. In 2020-21, Himachal Pradesh, Meghalaya, Mizoram, Sikkim, and Tripura have experienced revenue deficits and in 2021-22, all these states have experienced revenue surpluses. Except for Assam, none of the minor states have experienced a revenue deficit in 2021-22. In the 2022-23PE, Mizoram turns into a revenue deficit state from a revenue surplus state in 2021-22. An in-depth analysis of fiscal performance of Manipur, Meghalaya, Mizoram and Sikkim may reveal major drivers for fiscal shock that these states experienced in 2022-23PE.

Table 11: Pre- & Post-COVID Comparative Public Finance Management of Major & Minor States in India (as % of GSDP)

Indicator	Aggregate of 18 Major States						Aggregate of 9 Minor States					
	Average of 2015-19 (A)	2019-20 (A)	2020-21 (A)	2021-22 (A)	2022-23PE (A)	2023-24BE (A)	Average of 2015-19 (B)	2019-20 (B)	2020-21 (B)	2021-22 (B)	2022-23PE (B)	2023-24BE (B)
Total Revenue Receipts (TRR)	13.49	-0.55	-1.10	-0.28	-0.49	0.24	21.40	-1.22	0.40	1.33	-0.07	1.94
A. Tax Revenue (TR)	10.32	-0.96	-1.49	-0.33	-0.32	0.09	12.45	-1.46	-1.45	0.49	0.27	0.44
B. Non-Tax Revenue (NTR)	3.17	0.41	0.38	0.05	-0.17	0.15	8.94	0.25	1.85	0.84	-0.34	1.50
C. Non-Debt Capital Receipts	0.17	0.18	0.02	-0.08	-0.13	0.05	0.05	-0.03	-0.03	0.26	-0.03	-0.01
D. Revenue Expenditure	13.72	-0.10	0.71	0.04	-0.30	0.25	20.16	0.22	1.10	1.21	1.22	2.00
E. Capital Expenditure	2.43	-0.41	-0.46	-0.29	-0.25	0.33	3.32	0.24	0.75	1.43	1.13	1.61
F. Loans & Advances Disbursed	0.51	-0.30	-0.32	-0.33	-0.23	-0.21	0.25	-0.13	-0.19	-0.16	-0.19	-0.21
G. Revenue Deficit	0.23	0.45	1.82	0.33	0.19	0.00	-1.23	1.43	0.70	-0.12	1.29	0.05
H. Fiscal Deficit	3.01	-0.37	1.02	-0.21	-0.16	0.06	2.29	1.58	1.28	0.90	2.25	1.46
I. Nominal GSDP (Rs. Trillion)	145.83	37.01	37.40	69.91	98.39	129.74	7.44	1.82	1.87	3.17	4.72	6.22
J. Growth Rate of Nominal GSDP	11.55	-4.11	-11.34	6.20	1.66	1.29	10.63	-1.66	-10.02	3.31	3.96	1.69

Source:

Table 12: State-wise Revenue Deficit (% of Nominal GSDP)

State	2020-21 (A)	2021-22 (B)	2022-23RE (C)	2022-23PE (D)	D-C	2023-24BE (E)	E-D
Andhra Pradesh	3.50	0.72	2.21	3.20	0.99	1.54	-1.66
Bihar	1.93	0.06	3.80	7.82	4.02	-0.52	-8.34
Chhattisgarh	1.97	-1.14	-0.58	-1.76	-1.17	-0.69	1.07
Goa*	0.88	-0.07	-0.60	-0.60	0.00	-0.67	-0.07
Gujarat	1.38	-0.33	-0.30	-1.07	-0.78	-0.35	0.72
Haryana	3.02	2.34	1.81	1.84	0.03	1.51	-0.33
Jharkhand	1.04	-2.02	-2.48	-3.27	-0.79	-3.23	0.04
Karnataka	1.19	0.70	0.27	-0.97	-1.24	-0.01	0.95
Kerala	3.35	3.26	1.96	0.67	-1.29	2.11	1.44
Madhya Pradesh	1.91	-0.42	-0.11	-0.14	-0.02	-0.03	0.11
Maharashtra	1.57	0.53	0.57	0.04	-0.52	0.42	0.37
Odisha	-1.69	-6.57	-2.28	-2.87	-0.59	-3.09	-0.22
Punjab	3.26	3.16	3.74	3.60	-0.15	3.52	-0.08
Rajasthan	4.32	2.12	2.29	2.35	0.06	1.58	-0.77
Tamil Nadu	3.45	2.25	1.30	1.17	-0.12	1.40	0.23
Telangana	2.37	0.84	-0.23	-0.50	-0.27	-0.35	0.15
Uttar Pradesh	0.14	-1.74	-2.63	-1.72	0.91	-2.81	-1.09
West Bengal	2.55	2.35	2.55	1.69	-0.86	1.80	0.11
Major States	2.05	0.56	0.62	0.43	-0.20	0.24	-0.19
Arunachal Pradesh	-12.91	-16.09	-15.09	-16.71	-1.62	-8.08	8.63
Assam	-0.39	0.23	3.01	1.85	-1.15	-0.48	-2.34
Himachal Pradesh	0.06	-0.64	3.16	3.05	-0.11	2.19	-0.86
Manipur	-1.77	-4.28	-16.22	-4.60	11.62	-16.07	-11.47
Meghalaya	2.35	-1.73	-3.58	-1.88	1.70	-4.78	-2.90
Mizoram	3.19	-2.45	-1.74	4.82	6.57	-1.50	-6.32
Nagaland	-1.20	-4.67	-2.86	-3.15	-0.29	-1.72	1.44
Sikkim	2.39	-1.12	-2.08	-1.01	1.08	-0.09	0.92
Uttarakhand	-0.47	-1.52	-0.81	-1.82	-1.01	-1.29	0.52
Minor States	-0.54	-1.36	0.24	0.05	-0.18	-1.18	-1.24
Tripura	1.98	-2.30	N.A.	-1.68	N.A.	N.A.	N.A.

Note: *-CAG's Monthly Key Indicator is not available, so we have used RE of 2022-23.

We have adjusted the fiscal deficit figures of 2020-21 and 2021-22 by reducing the unadjusted fiscal deficit figures by the GST back-to-back loans that states received due to the shortfall in GST compensation cess collection vis-à-vis GST compensation requirements of states. The states (including the Union Territories with a Legislative Assembly) received Rs. 1.10 trillion in 2020-21 and Rs. 1.59 trillion in 2021-22 as back-to-back loans in lieu of the shortfall in GST compensation cess collection from the Union government. Since both the interest and principal payments obligations of these loans rest with the Union government, we have taken the receipts as the revenue for states (like GST compensation from the GST compensation fund) and adjusted the fiscal deficit figures of states for 2020-21 and 2021-22. Table 13 shows that in the aggregate back-to-back to loans helped major states to reduce fiscal deficit by 52 percentage points of GSDP in 2020-21 and 65 percentage points of GSDP in 2021-22. For example, it

helped Punjab to reduce fiscal deficit from 4.26 per cent to 2.68 per cent of GSDP in 2020-21 and from 4.77 per cent to 2.69 per cent in 2021-22. Except for Andhra Pradesh and Bihar, the provisional estimates of 2022-23 show lower fiscal deficit than the revised estimate of 2022-23 for all major states. In comparison to the 2022-23RE, the fiscal deficit of Bihar has went up by 2.95 per cent of GSDP in the 2022-23PE. This demands an in-depth review of state of public finance management in Bihar. In aggregate, the fiscal deficit of major states is 54 percentage of GSDP lower in the 2022-23PE than the aggregate fiscal deficit of these states as presented in the 2022-23RE. Out of the 18 major states, only five major states (Andhra Pradesh, Bihar, Goa, Haryana, and Rajasthan) have projected a lower fiscal deficit in the 2023-24BE vis-à-vis fiscal deficit provisionally accounted in 2022-23. Overall, the fiscal deficit of 18 major states is expected to go up by 22 percentage points of aggregate GSDP in the 2023-24BE as compared to the 2022-23PE.

In aggregate, GST back-to-back loans helped 9 minor states to reduce fiscal deficit by 55 percentage points and 75 percentage points of GSDP in 2020-21 and 2021-22 respectively. For example, GST back-to-back loans helped Himachal Pradesh to reduce its fiscal deficit by 110 percentage points and 154 percentage points of GSDP in 2020-21 and 2021-22 respectively. Overall, the fiscal deficit of minor states is projected to be 3.75 per cent of GSDP in the 2023-24BE. It will be 79 percentage points of GSDP lower than the PE of 2022-23. As compared to the 2022-23RE, in the PE of 2022-23, the fiscal deficit of minor states is 157 percentage points of GSDP lower. As compared to the 2022-23RE, in the 2022-23PE, the fiscal deficit of Nagaland went up by 1265 percentage points of GSDP. Despite having a revenue surplus for many minor states, a large number of minor states has had a fiscal deficit higher than 3 per cent of GSDP – for example, the adjusted fiscal deficit of 8 minor states in 2020-21 and 4 minor states in 2021-2022 have exceeded 3 per cent of GSDP. In the 2022-23PE, the fiscal deficit of 8 minor states was more than 3 per cent of GSDP. In the budget of 2023-24, 8 minor states have projected more than 3 per cent fiscal deficit. Therefore, the public finance management of minor states may be an issue to be assessed in detail.

Table 13: State-wise Fiscal Deficit and Adjusted Fiscal Deficit (% of GSDP)

State	2020-21 (A)	2020-21 (Adj.)* (B)	B-A	2021-22 (C)	2021-22 (Adj.)* (D)	D-C	2022-23RE (E)	2022-23PE (F)	F-E	2023-24BE (G)	G-F
Andhra Pradesh	5.44	5.21	-0.23	2.08	1.81	-0.27	3.62	3.90	0.28	3.77	-0.14
Bihar	5.08	4.41	-0.67	3.78	2.77	-1.01	9.31	12.26	2.95	2.98	-9.28
Chhattisgarh	4.55	3.66	-0.89	1.50	0.28	-1.22	3.17	1.25	-1.92	2.99	1.74
Goa**	3.61	2.50	-1.11	3.18	2.15	-1.03	4.86	4.86	0.00	4.31	-0.55
Gujarat	2.47	1.91	-0.56	1.16	0.49	-0.67	1.48	0.56	-0.92	1.75	1.19
Haryana	3.97	3.39	-0.59	3.65	2.80	-0.85	3.29	3.12	-0.17	2.96	-0.16
Jharkhand	3.85	3.28	-0.56	0.76	0.03	-0.72	2.31	1.42	-0.89	2.76	1.34
Karnataka	4.13	3.37	-0.76	3.34	2.42	-0.92	2.73	1.71	-1.02	2.18	0.48
Kerala	5.31	4.57	-0.75	5.08	4.11	-0.96	3.61	2.23	-1.38	3.50	1.28
Madhya Pradesh	5.19	4.71	-0.47	3.34	2.73	-0.62	3.58	3.28	-0.30	4.02	0.73
Maharashtra	2.34	1.89	-0.46	2.07	1.63	-0.44	2.69	1.91	-0.79	2.46	0.56
Odisha	1.83	1.11	-0.71	-3.12	-4.09	-0.97	2.85	1.70	-1.15	2.99	1.29
Punjab	4.26	2.68	-1.58	4.77	2.69	-2.08	5.21	4.84	-0.36	4.98	0.14
Rajasthan	5.82	5.37	-0.45	3.96	3.36	-0.60	4.33	4.07	-0.27	3.98	-0.08
Tamil Nadu	5.20	4.85	-0.35	3.96	3.57	-0.39	3.17	3.08	-0.09	3.44	0.36
Telangana	5.21	4.96	-0.25	4.19	3.78	-0.41	3.30	2.48	-0.81	2.77	0.29
Uttar Pradesh	3.33	2.96	-0.37	2.05	1.62	-0.42	3.97	3.28	-0.69	3.48	0.20
West Bengal	3.87	3.48	-0.38	3.70	3.23	-0.47	3.98	3.16	-0.82	3.83	0.67
Major States	4.03	3.51	-0.52	2.80	2.15	-0.65	3.39	2.85	-0.54	3.07	0.22
Arunachal Pradesh	3.47	3.47	0.00	3.30	3.30	0.00	7.76	4.31	-3.45	6.63	2.32
Assam	3.14	2.86	-0.28	4.38	3.95	-0.43	8.15	5.15	-3.00	3.70	-1.45
Himachal Pradesh	3.64	2.54	-1.10	2.99	1.46	-1.54	6.39	6.14	-0.25	4.61	-1.53
Manipur	6.05	6.05	0.00	5.32	5.32	0.00	6.88	3.15	-3.74	6.11	2.97
Meghalaya	7.50	7.18	-0.32	6.24	5.86	-0.37	4.45	1.77	-2.68	3.42	1.65
Mizoram	7.71	7.71	0.00	1.51	1.51	0.00	7.22	9.13	1.91	3.14	-5.99
Nagaland	4.17	4.17	0.00	0.74	0.74	0.00	5.47	18.12	12.65	2.82	-15.30
Sikkim	7.15	7.15	0.00	2.46	2.46	0.00	4.63	4.88	0.26	4.67	-0.21
Uttarakhand	2.30	1.32	-0.98	1.37	0.15	-1.22	2.68	0.91	-1.77	2.72	1.80
Minor States	3.57	3.02	-0.55	3.19	2.44	-0.75	6.11	4.54	-1.57	3.75	-0.79
Tripura	3.51	3.09	-0.42	-0.10	-0.72	-0.62	N.A.	1.51	N.A.	N.A.	N.A.

Note: *-Adjusted for GST Compensation received as back-to-back loans in lieu of shortfall in GST compensation Cess Collection

**-CAG's Monthly Key Indicator is not available, so we have used RE of 2022-23.

Source: Computed by the author based on the State Budget Documents and Finance Accounts.

5. Conclusions

In this paper we explore the state of public finance management of both major and minor states in India with a specific focus on consolidated analysis of state budgets of 2023-24. We explore the key aspects of revenue mobilisation, expenditure management, deficits, and the states' approach to fiscal management.

Based on analysis of 18 major and 9 minor states, we present consolidated picture of fiscal situation of Indian state finances. We notice that aggregate budget estimate for major states anticipate a growth rate of 10.83 per cent in Total Revenue Receipts (TRR) for the 2023-24BE. However, this growth rate is 9 per cent lower than the growth rate of TRR experienced in the 2022-23RE with respect to 2021-22. There is apprehension among major states regarding a fall in the growth rate of states' Own Tax Revenue (OTR) as well as grants-in-aid from the Union government in the 2023-24BE as compared to the growth experienced between 2021-22 to the 2022-23RE.

To accommodate the expected fall in the revenue growth, the major states have prudently set lower growth rates for expenditures in the 2023-24BE. However, containing expenditures is not enough to compensate for the entire fall in the expected revenue. As a result, major states project a revenue deficit of Rs. 0.65 trillion (0.24% of GSDP) and a fiscal deficit of Rs. 8.45 trillion (3.07% of GSDP) in the 2023-24BE. Despite these challenges, the states demonstrate their commitment to follow the path of prudential fiscal management by reducing the growth rates of deficits as compared to the previous year.

Like major states, minor states also anticipate a fall in the growth rate of TRR in the 2023-24BE and they apprehend that there will be a fall in the growth rates from all the sources of revenue, except for OTR, during the 2023-24BE. Given the expectations on the revenue front, minor states have reduced growth rates in both revenue and capital expenditures in the 2023-24BE vis-à-vis the growth experienced during 2021-22 to the 2022-23RE. Together, minor states try to achieve a revenue surplus of 1.18 per cent of GSDP and a fiscal deficit of 3.75 per cent of GSDP in the 2023-24BE.

Based on analysis of the Revised Estimate as well as Provisional Estimate (based on the Monthly Key Indicator Database of the Comptroller and Auditor General of India) of 2022-23, we find that states faced fiscal stress in 2022-23. Given the experience of revenue mobilisation and expenditure management in 2022-23, states adopt a cautious approach in setting the Budget Estimates for 2023-24.

The analysis of this paper shows that the volatility (as measured by Coefficient of Variation) of the monthly tax devolution from the Union government to the states has gone up in recent years. This may be one of the factors behind differences between RE and PE figures of 2022-23. A robust revenue forecasting exercise at the state level may help to take into account such volatilities and also in setting budget targets.

Furthermore, the paper discusses forecasting errors of the Union taxes and plausible impact on state finances in terms of tax devolution. Rising forecasting errors of the states' share in the Union taxes with respect to BE after 2019-20 is an issue that may have an impact on setting the BE of state revenue.

States have reduced revenue deficit to fiscal deficit ratio (in %) from 51 per cent in 2020-21 to 20 per cent in 2021-22 and also envisage reaching 7.7 per cent in the 2023-24BE. This shows that a large part of the fiscal deficit will be utilised to finance the capital expenditure of the states. In aggregate, states have shown sincerity in their commitment to follow the path of prudential fiscal management.

Despite the challenges posed by the COVID-19 pandemic, major states are projected to recover from the revenue loss in the 2023-24BE and achieve targets similar to the pre-pandemic period.

The introduction of Goods and Services Tax (GST) and the role played by the GST Compensation have been instrumental in offsetting revenue loss. However, it is noteworthy that the overall fiscal deficit is expected to increase by 22 percentage points of the aggregate GSDP among major states in 2023-24BE as compared to 2022-23PE, with minor states facing similar concerns about high fiscal deficits.

In summary, these articles provide a comprehensive analysis of state budgets, encompassing revenue projections, expenditure plans, deficits, and the states' approach to fiscal management. The papers shed light on the financial landscape of major and minor states, emphasizing the need for prudent fiscal policies, managing deficits, and addressing challenges in the Public Finance Management.

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References

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Appendix

Table A.1: Pre- & Post-COVID Comparative Public Finance Management of Major & Minor States in India (as % of GSDP)

	Aggregate of 18 Major States						Aggregate of 9 Minor States					
	Average of 2015-19 (A)	2019- 20-(A)	2020-21 - (A)	2021-22 - (A)	2022- 23RE - (A)	2023- 24BE- (A)	Average of 2015-19 (B)	2019- 20-(B)	2020-21 - (B)	2021-22 - (B)	2022- 23RE - (B)	2023- 24BE- (B)
I. Total Revenue Receipts (A+B)	13.49	-0.55	-1.10	-0.28	0.49	0.24	21.40	-1.22	0.40	1.33	4.00	1.94
A. Tax Revenue (a+b)	10.32	-0.96	-1.49	-0.33	-0.02	0.09	12.45	-1.46	-1.45	0.49	0.41	0.44
a) Own Tax Revenue	6.46	-0.27	-0.54	-0.14	0.37	0.63	4.74	-0.13	0.05	0.21	0.41	0.74
b) States' Share in the Union Taxes	3.86	-0.69	-0.95	-0.19	-0.39	-0.54	7.71	-1.33	-1.49	0.29	0.00	-0.30
B. Non Tax Revenue (c+d)	3.17	0.41	0.38	0.05	0.51	0.15	8.94	0.25	1.85	0.84	3.59	1.50
c) Own Non-Tax Revenue	1.12	0.18	-0.27	-0.07	-0.08	0.03	1.48	0.13	-0.17	-0.36	-0.02	-0.05
d) Grants-in-Aids from the Union Government	2.05	0.23	0.65	0.12	0.59	0.12	7.46	0.12	2.02	1.19	3.61	1.55
C. Own Revenue Receipts (a+c)	7.58	-0.09	-0.80	-0.21	0.29	0.66	6.22	-0.01	-0.12	-0.15	0.39	0.69
D. Transfers from the Union Government (b+d)	5.91	-0.46	-0.30	-0.08	0.20	-0.41	15.17	-1.21	0.53	1.48	3.61	1.25
II. Revenue Expenditure	13.72	-0.10	0.71	0.04	0.88	0.25	20.16	0.22	1.10	1.21	5.47	2.00
III. Capital Expenditure	2.43	-0.41	-0.46	-0.29	0.12	0.33	3.32	0.24	0.75	1.43	2.51	1.61
IV. Revenue Deficit	0.23	0.45	1.82	0.33	0.39	0.00	-1.23	1.43	0.70	-0.12	1.47	0.05
V. Fiscal Deficit	3.01	-0.37	1.02	-0.21	0.38	0.06	2.29	1.58	1.28	0.90	3.82	1.46
VI. Nominal GSDP	145.83	37.01	37.40	69.91	98.39	129.74	7.44	1.82	1.87	3.17	4.72	6.22
VII. Growth Rate of Nominal GSDP	11.55	-4.11	-11.34	6.20	1.66	1.29	10.63	-1.66	-10.02	3.31	3.96	1.69

Source: Computed by the author based on the State Budget Documents and Finance Accounts.