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# State of State Finances in India in the Present Decade

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## 1. Introduction

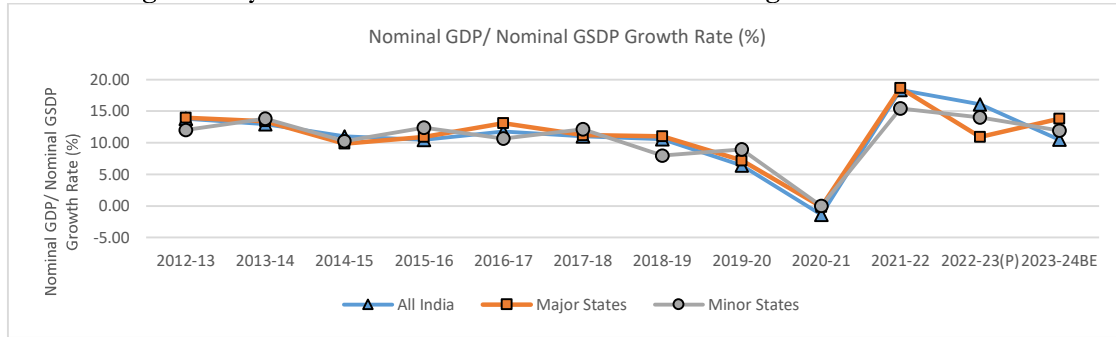
Indian economy has gone through economic slowdown during 2019-21. Unexpected economic shock in 2019-20 and COVID-19 pandemic in 2020-21 led to fall in economic growth (as measured by nominal GDP) to 6.37 per cent in 2019-20 and -1.36 per cent in 2020-21 from average annual growth rate of 11.7 per cent observed during 2012-19 (Figure 1). In aggregate 18 major states experienced a larger fall in growth rate of aggregate GSDP (nominal) in 2019-20 as compared to 10 minor states. In 2021-22 economic growth improves and improvement in growth rate was higher for major states as compared to minor states. As compared to 2021-22, economic growth in 2022-23(P) falls and the fall in economic growth was sharper for major states as compared to minor states. In aggregate states project a fall in economic growth rate in 2023-24BE as compared to 2022-23(P) which may have impact on fiscal positions of states. In aggregate GSDP of 18 major states and 10 minor states contribute 94 per cent of GDP (nominal) during 2011-23.

After two consecutive years of fiscal stress during 2019-21 (Mukherjee 2023a), state finances in India improve in 2021-22 with the gradual recovery of the Indian economy from the shock of COVID-19 pandemic. To assess the state finances of Indian states, we divide the time period of our analysis (2013-14 to 2021-22) into two sub-periods – 2013-14 to 2016-17 and 2018-19 to 2021-22. We named the first sub-period as pre-GST period and the second sub-period as post-GST period, as India introduced comprehensive Goods and Services Tax (GST) on 1 July 2017. It is to be highlighted that the present paper does not envisage to assess the impact of GST on Indian state finances.<sup>1</sup> For our convenience we have divided the period of our analysis into two sub-periods and named them accordingly. In addition, we also assess the state finances for recent years (i.e., 2022-23RE and 2023-24BE) in this paper. Average annual growth rate of GDP falls to 8.5 per cent during post-GST period from 11.5 per cent during pre-GST period. For major states, average annual growth rate of GSDP falls to 9.2 per cent during post-GST period from 11.8 per cent during pre-GST period. For minor states, average annual growth rate falls to 8.1 per cent during post-GST period from 11.8 per cent during pre-GST period. Economic slowdown during post-GST period has impact on fiscal health of states.

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<sup>1</sup> This issue has been discussed elsewhere (e.g., Mukherjee 2023b).

**Figure 1: Dynamics of Economic Growth in India during 2011-12 to 2023-24BE**



Notes: P-stands for Provisional Estimate, BE- stands for Budget Estimate

Source: Computed by the author based on data compiled from *National Accounts Statistics 2023*<sup>2</sup> and State GSVAs/NSVAs Database<sup>3</sup> of Ministry of Statistics and Programme Implementation.

Except Odisha, average annual growth rate of nominal GSDP falls during post-GST period as compared to pre-GST period for all other major states. Among minor states, except Meghalaya, average annual growth rate of GSDP falls during post-GST period as compared to pre-GST period. All major states experience higher growth rate of GSDP in 2022-23(P) as compared to average annual growth rate of GSDP during post-GST period. Except Arunachal Pradesh, Manipur and Mizoram, all minor states experience higher growth rate of GSDP in 2022-23(P) as compared to post-GST average annual growth rate. Except Karnataka and Kerala among major states and Manipur and Mizoram among minor states, all states project lower growth rate of GSDP in 2023-24(BE) as compared to 2022-23(P). Therefore, states again project a fall in economic growth rate in 2023-24BE as compared to 2022-23(P) which may have impact on fiscal positions of states.

In the next section we present aggregate as well as state-wise analysis of state finances in India for the current decade. It is followed by conclusions in section three.

## 2. Results and Discussion

### 2.1 State of Public Finances of Major States

Table 1 shows that there is a marginal fall in average annual Total Revenue Receipts (TRR) (as % of GSDP) of major Indian states during post-GST period as compared to the pre-GST period. For major states, both the average shares of Own Tax Revenue (OTR) and Own Non-Tax Revenue (ONTR) in GSDP have fallen during the post-GST period as compared to the pre-GST period. The rise in the average annual federal transfers (comprising of states' share in the Union taxes as well as grants-in-aids from the Union government) in GSDP during post-GST period was not enough to compensate the entire fall in the average annual share of Own Revenue Receipts (OTR and ONTR) in GSDP during the post-GST period. This results in fall of average annual share of TRR in GSDP during post-GST period. In the revised estimate of 2022-23, TRR rises by 76 basis point of GSDP as compared to the average annual share of TRR during post-GST period. The sources of rise in the share of TRR in 2022-23RE are rise in the shares of OTR as well as grants-in-aids from the Union government in GSDP. In 2023-24BE, states expect a fall in the

<sup>2</sup> <https://www.mospi.gov.in/publication/national-accounts-statistics-2023> (last accessed on 10 October 2023).

<sup>3</sup> <https://mospi.gov.in/GSVA-NSVA> (last accessed on 10 October 2023).

share of TRR and it will be largely driven by the fall in the share of federal transfers. In 2023-24RE, fall in the grants-in-aids from the Union government is quite expected as there will be no pending GST compensation payments to states after 2022-23. However, the apprehension that states' share in the Union taxes will fall by 11 basis point of GSDP in 2023-24BE as compared to 2022-23RE may be the result of uncertainty associated with growth prospect of 2023-24.

Average annual Revenue Expenditure (REVEX) increases by 58 basis point of GSDP during post-GST period as compared to pre-GST average. Average annual Capital Expenditure (CAPEX) declines by 23 basis point of GSDP during post-GST period as compared to pre-GST period. Fall in the average annual share of expenditure (both REVEX as well as CAPEX) on economic services by 23 basis point of GSDP during post-GST may be a concern for long-run growth of states.

In aggregate, 18 major states project to increase CAPEX by 24 basis point of GSDP in 2023-24BE as compared to 2022-23RE. However, this will be lower than the increase in the CAPEX presented in 2022-23RE as compared to the average annual CAPEX experienced during post-GST period.

Average annual Revenue Deficit (RD) of major states has gone up during post-GST period as compared to the pre-GST period. With the fall in average TRR, states cannot contain REVEX, as a result RD went up by 61 basis point of GSDP during post-GST period as compared to pre-GST period. In 2022-23RE, RD has fallen by 27 basis point from the average annual RD experienced during post-GST period. In 2023-24BE, 18 major states have envisaged to contain RD by 38 basis point of GSDP from the level presented in 2022-23RE. This shows the seriousness of states to contain RD aftermath of two consecutive years of fiscal shocks during 2019-21.

Major states have experienced fall in average annual Fiscal Deficit (FD) by 27 basis point of GSDP during post-GST period as compared to the pre-GST average when adjusted for GST back-to-back loans (hereafter GST loans) from the Union government in lieu of shortfall in the GST compensation cess collection. States received GST loans during 2020-22 and both interest and principle payment liabilities of these loans rest on the Union government which will be serviced from the GST compensation fund. For this purpose the GST compensation cess collection has been extended till 31 March 2026. In estimation of adjusted Fiscal Deficit of states we have taken these loans as revenue of states.

In 2022-23RE, fiscal deficit went up by 65 basis point of GSDP as compared to average annual FD during post-GST period. The rise in the FD in 2022-23RE is largely due to lower base effect, as states received GST loans during 2020-22. In 2023-24BE, states project a fall in FD by 24 basis point of GSDP as compared to 2022-23RE.

Average ratio of Revenue Deficit to Fiscal Deficit went up during post-GST period as compared to the pre-GST period. In 2022-23RE, states present it to 18.26 per cent and in 2023-24BE it is projected to be 7.53 per cent. This shows that states are financing capital expenditures from the fund generated by running fiscal deficit.



**Table 1: State of State Finances of 18 Major States in India (as % of GSDP)**

Major States	Pre-GST (2013-14 to 2016- 17) (A)	Post-GST (2018-19 to 2021- 22) (B)	2022- 23RE (C)	2023- 24BE (D)	B-A	C-B	D-C
<b>Total Revenue Receipts (TRR) (1+2)</b>	<b>13.09</b>	<b>13.05</b>	<b>13.81</b>	<b>13.73</b>	-0.03	<b>0.76</b>	<b>-0.07</b>
<b>1. Tax Revenue (a+b)</b>	<b>9.95</b>	<b>9.67</b>	<b>10.17</b>	<b>10.41</b>	<b>-0.27</b>	<b>0.50</b>	<b>0.24</b>
a. Own Tax Revenue	6.63	6.26	6.74	7.08	<b>-0.37</b>	0.48	0.34
b. Share in Central Taxes	3.32	3.41	3.43	3.32	0.10	0.02	-0.11
<b>2. Non-Tax Revenue (c+d)</b>	<b>3.14</b>	<b>3.38</b>	<b>3.63</b>	<b>3.32</b>	<b>0.24</b>	<b>0.25</b>	<b>-0.31</b>
c. Own Non-Tax Revenue	1.18	1.09	1.03	1.15	-0.09	-0.06	0.13
d. Grants-in-Aids from the Centre	1.96	2.29	2.61	2.17	<b>0.33</b>	0.32	-0.44
<b>3. Revenue Expenditure (e+f+g+h)</b>	<b>13.36</b>	<b>13.94</b>	<b>14.42</b>	<b>13.97</b>	<b>0.58</b>	<b>0.49</b>	<b>-0.46</b>
e. General Services	4.47	4.86	4.83	4.85	0.39	-0.03	0.02
f. Social Services	5.33	5.49	5.90	5.68	0.16	0.41	-0.21
g. Economic Services	3.16	3.15	3.27	3.01	-0.01	0.12	-0.26
h. Grants-in-Aids to Local Bodies	0.39	0.43	0.43	0.43	0.04	-0.01	0.00
<b>4. Capital Expenditure (i+j+k)</b>	<b>2.34</b>	<b>2.11</b>	<b>2.51</b>	<b>2.75</b>	<b>-0.23</b>	<b>0.40</b>	<b>0.24</b>
i. General Services	0.12	0.10	0.14	0.16	-0.02	0.04	0.02
j. Social Services	0.50	0.52	0.77	0.89	0.02	0.25	0.12
k. Economic Services	1.71	1.49	1.60	1.70	-0.22	0.11	0.10
5. Recovery of Loans & Advances	0.10	0.17	0.04	0.07	0.06	-0.12	0.03
6. Misc. Capital Receipts	0.00	0.02	0.01	0.09	0.01	-0.01	0.08
7. Disbursement of Loans & Advances	0.50	0.22	0.30	0.30	-0.29	0.09	0.00
<b>8. Revenue Deficit (3-1)</b>	<b>0.27</b>	<b>0.88</b>	<b>0.62</b>	<b>0.24</b>	<b>0.61</b>	<b>-0.27</b>	<b>-0.38</b>
<b>9. Fiscal Deficit [(3+4+7)-(1+5+6)]</b>	<b>3.01</b>	<b>3.02</b>	<b>3.38</b>	<b>3.13</b>	<b>0.02</b>	<b>0.35</b>	<b>-0.24</b>
<b>10. Adjusted Fiscal Deficit (9-13)</b>	<b>3.01</b>	<b>2.73</b>	<b>3.38</b>	<b>3.13</b>	<b>-0.27</b>	<b>0.65</b>	<b>-0.24</b>
11. Primary Deficit (10-12)	1.28	0.82	1.56	1.32	-0.46	0.74	-0.24
12. Interest Payment & Servicing of Debt	1.73	1.91	1.81	1.81	0.18	-0.09	0.00
13. GST Compensation B2B Loans	0.00	0.29	0.00	0.00	0.29	-0.29	0.00

Major States	Pre-GST (2013-14 to 2016- 17) (A)	Post-GST (2018-19 to 2021- 22) (B)	2022- 23RE (C)	2023- 24BE (D)	B-A	C-B	D-C
14. Revenue Deficit (as % of Fiscal Deficit)	9.21	26.20	18.26	7.53	<b>16.99</b>	-7.94	-10.73

## 2.2 State of Public Finances of Minor States

During post-GST period, together 10 minor states have experienced average annual TRR higher than pre-GST average by 83 basis point of GSDP (Table 2). This is largely backed by increase in the average annual share of states' in the Union taxes by 1.08 per cent of GSDP during post-GST period as compared to the pre-GST period. Average annual share of states' own revenue receipts (OTR and ONTR) rises by only 21 basis point of GSDP during post-GST period as compared to pre-GST period. Fall in the average annual share of grants-in-aids from the Union government by 46 basis point of GSDP during post-GST period as compared to pre-GST period counter balance the gains in Tax Revenue and Own NTR during the post-GST period.

In 2022-23RE, TRR increases by 3.77 per cent of GSDP as compared to average annual share of TRR in GSDP during post-GST period. This is largely driven by increase in the grants-in-aids from the Union government by 2.98 per cent of GSDP and increase in Tax Revenue by 83 basis point of GSDP as compared to average annual share during post-GST period. However, realisation of such optimistic revenue requires validation of public finance data of 2022-23RE with actual (audited) statement of accounts for 2022-23.

In 2023-24BE, together 10 minor states set a lower TRR target by 1.94 per cent of GSDP as compared to 2022-23RE, and the major fall in the revenue is expected to come from grants-in-aids from the Union government as compared to 2022-23RE. States also expect a fall in the share of the Union taxes in 2023-24BE as compared to 2022-23RE. Together 10 minor states project a fall in the federal transfer by 2.26 per cent of GSDP (1.98% in grants-in-aids and 0.28% in the share of the Union taxes) in 2023-24BE as compared to 2022-23RE.

Both revenue and capital expenditures as percentage of GSDP are higher for minor states as compared to major states. Minor states also receive higher federal transfers (both in the share of Union taxes as well as grants-in-aids) as percentage of GSDP as compared to major states. For minor states, average annual revenue expenditure went up by 1.21 per cent of GSDP during post-GST period as compared to pre-GST period. Increase in average annual share of REVEX in GSDP was higher than the increase in TRR during post-GST period which results in increasing revenue deficit during post-GST period. In 2022-23RE, substantial increase in revenue expenditure (by 4.62% of GSDP) reported by minor states as compared to post-GST annual average. A large part of the increase in REVEX is backed by the increase in the share of expenditures on social services and general services (Table 2). In 2023-24BE, REVEX is expected to fall by 3.25 per cent of GSDP as compared to 2022-23RE. Sudden spurt in REVEX in 2022-23RE demands validation of data of 2022-23RE with audited statements of accounts for 2022-23.

During post-GST period average annual share of capital expenditure in GSDP has gone up by 79 basis point as compared to average annual share during pre-GST period. It is largely driven by increase in CAPEX on economic services. In 2022-23RE, the share of CAPEX in GSDP has gone up by 1.7 per cent of GSDP as compared to average annual share during post-GST period. However, these states expect a fall in the share of CAPEX by 76 basis point of GSDP in 2023-24BE as compared to 2022-23RE and it will be largely driven by fall in the CAPEX on economic services.

On average during pre- as well as post-GST periods, together 10 minor states experienced revenue surplus. In 2022-23RE, these states present a revenue deficit of 0.19 per cent of GSDP. Again in 2023-24BE, together minor states project revenue surplus of 1.12 per cent of GSDP. Despite running revenue surplus during pre- and post-GST periods, states experienced fiscal deficits (adjusted). States present Fiscal Deficit of 5.9 per cent of GSDP in 2022-23RE and 3.8 per cent of GSDP in 2023-24BE. Rising fiscal deficits among minor states could be a concern during post-GST period, though a large part of it goes to finance CAPEX of the states.

**Table 2: State of State Finances of 10 Minor States in India (as % of GSDP)**

Minor States	Pre-GST (2013-14 to 2016- 17) (A)	Post-GST (2018-19 to 2021- 22) (B)	2022- 23RE (C)	2023- 24BE (D)	B-A	C-B	D-C
<b>Total Revenue Receipts (TRR) (1+2)</b>	<b>20.96</b>	<b>21.80</b>	<b>25.56</b>	<b>23.62</b>	<b>0.83</b>	<b>3.77</b>	<b>-1.94</b>
<b>1. Tax Revenue (a+b)</b>	<b>10.84</b>	<b>12.03</b>	<b>12.87</b>	<b>12.93</b>	<b>1.19</b>	<b>0.83</b>	<b>0.06</b>
a. Own Tax Revenue	4.70	4.81	5.18	5.52	0.11	0.37	0.34
b. Share in Central Taxes	6.14	7.22	7.69	7.41	1.08	0.47	-0.28
<b>2. Non-Tax Revenue (c+d)</b>	<b>10.12</b>	<b>9.76</b>	<b>12.69</b>	<b>10.69</b>	<b>-0.36</b>	<b>2.93</b>	<b>-2.00</b>
c. Own Non-Tax Revenue	1.36	1.46	1.41	1.39	0.10	-0.05	-0.02
d. Grants-in-Aids from the Centre	8.76	8.30	11.28	9.30	<b>-0.46</b>	2.98	-1.98
<b>3. Revenue Expenditure (e+f+g+h)</b>	<b>19.92</b>	<b>21.13</b>	<b>25.75</b>	<b>22.50</b>	<b>1.21</b>	<b>4.62</b>	<b>-3.25</b>
e. General Services	7.28	8.23	9.38	8.60	0.96	1.15	-0.78
f. Social Services	7.96	8.23	10.99	9.10	0.27	2.76	-1.88
g. Economic Services	4.37	4.37	5.02	4.42	0.00	0.66	-0.60
h. Grants-in-Aids to Local Bodies	0.31	0.30	0.36	0.38	-0.01	0.06	0.02
<b>4. Capital Expenditure (i+j+k)</b>	<b>3.22</b>	<b>4.02</b>	<b>5.72</b>	<b>4.96</b>	<b>0.79</b>	<b>1.70</b>	<b>-0.76</b>
i. General Services	0.22	0.33	0.78	0.88	0.11	0.45	0.10
j. Social Services	0.85	1.01	1.49	1.31	0.16	0.48	-0.19
k. Economic Services	2.16	2.68	3.45	2.77	0.52	0.77	-0.68

Minor States	Pre-GST (2013-14 to 2016- 17) (A)	Post-GST (2018-19 to 2021- 22) (B)	2022- 23RE (C)	2023- 24BE (D)	B-A	C-B	D-C
5. Recovery of Loans & Advances	0.04	0.08	0.02	0.03	0.04	-0.06	0.01
6. Misc. Capital Receipts	0.04	0.00	0.05	0.05	-0.04	0.05	0.00
7. Disbursement of Loans & Advances	0.31	0.10	0.06	0.04	-0.22	-0.04	-0.02
<b>8. Revenue Deficit (3-1)</b>	<b>-1.05</b>	<b>-0.67</b>	<b>0.19</b>	<b>-1.12</b>	<b>0.38</b>	<b>0.86</b>	<b>-1.31</b>
9. Fiscal Deficit [(3+4+7)-(1+5+6)]	2.41	3.36	5.90	3.80	0.95	2.54	-2.10
<b>10. Adjusted Fiscal Deficit (9-13)</b>	<b>2.41</b>	<b>3.04</b>	<b>5.90</b>	<b>3.80</b>	<b>0.63</b>	<b>2.86</b>	<b>-2.10</b>
11. Primary Deficit (10-12)	0.54	1.04	3.75	1.69	0.50	2.71	-2.06
12. Interest Payment & Servicing of Debt	1.87	2.00	2.15	2.11	0.13	0.15	-0.04
13. GST Compensation B2B Loans	0.00	0.32	0.00	0.00	0.32	-0.32	0.00
14. Revenue Deficit (as % of Fiscal Deficit)	-57.92	-23.97	3.17	-29.44	33.96	27.14	-32.60

### 2.3 Drivers of Change in Own Tax Revenue Profile of States

As we have noticed in Table 1 that there is a fall in average annual share of OTR in GSDP for major states during post-GST period as compared to pre-GST period by 37 basis point of GSDP. In Table 3 we try to identify the source(s) of this fall. Table 3 shows that for major states, average share of all sources of OTR have fallen during post-GST period as compared to the same during pre-GST period. The largest fall is observed in 'taxes on commodities'. Average annual share of 'taxes on commodities' fall by 32 basis point of GSDP during post-GST period as compared to the pre-GST period. It is worthwhile to explore the specific source(s) of this fall in tax revenue within the components of 'taxes on commodities'. Both in 2022-23RE and 2023-24BE, increase in the share of 'taxes on property' and 'taxes on commodities' are presented whereas the 'share of taxes on income' remains unchanged. Together 18 major states present 40 basis point of GSDP increase in 'taxes on commodities' in 2023-23RE as compared to post-GST average share. In 2023-24BE, the share of 'taxes on commodities' is projected to rise by 28 basis point of GSDP as compared to 2022-23RE.

For minor states there is a rise in the average annual share of 'taxes on commodities' in GSDP during post-GST period as compared to pre-GST period. Since the shares of 'taxes on income' and 'taxes on property' fall during post-GST period, overall OTR increase by only 11 basis point of GSDP. Together minor states present 31 basis point of GSDP increase in 'taxes on commodities' in 2023-23RE as compared to post-GST average share. In 2023-24BE, the share of 'taxes on commodities' is projected to rise by 31 basis point as compared to 2022-23RE. It will be

worthwhile to see the changes in the revenue profile of states from ‘taxes on commodities (or goods and services)’ between pre- and post-GST periods.

**Table 3: Average Annual Source-wise Statement of Own Tax Revenue Mobilisation of States (% of GSDP)**

Major States	Pre-GST (2013-14 to 2016-17) (A)	Post-GST (2018-19 to 2021- 22) (B)	2022- 23RE (C)	2023- 24BE (D)	B-A	C-B	D-C
<b>Major States</b>							
Taxes on Income <sup>a</sup>	0.04	0.03	0.03	0.03	-0.01	0.00	0.00
Taxes on Property <sup>b</sup>	0.82	0.77	0.86	0.92	-0.04	0.08	0.07
<b>Taxes on Commodities<sup>c</sup></b>	<b>5.77</b>	<b>5.46</b>	<b>5.86</b>	<b>6.13</b>	<b>-0.32</b>	<b>0.40</b>	<b>0.28</b>
<b>Own Tax Revenue</b>	<b>6.63</b>	<b>6.26</b>	<b>6.74</b>	<b>7.08</b>	<b>-0.37</b>	<b>0.48</b>	<b>0.34</b>
<b>Minor States</b>							
Taxes on Income <sup>a</sup>	0.06	0.03	0.03	0.03	-0.03	0.00	0.00
Taxes on Property <sup>b</sup>	0.24	0.21	0.28	0.30	-0.03	0.07	0.03
Taxes on Commodities <sup>c</sup>	4.39	4.57	4.87	5.19	<b>0.17</b>	0.31	0.31
<b>Own Tax Revenue</b>	<b>4.70</b>	<b>4.81</b>	<b>5.18</b>	<b>5.52</b>	<b>0.11</b>	<b>0.37</b>	<b>0.34</b>

Notes: a-Taxes on Income include ‘Agricultural Income Tax’, ‘Hotel Receipts Tax’ and ‘Taxes on Profession, Trades, Callings and Employment’, b- Taxes on property include ‘Land Revenue’, ‘Stamps and Registration Fees’ and ‘Urban Immovable Property Tax’, c-Taxes on Commodities include ‘State Good & Service Tax (SGST)’, ‘Integrated Goods Services Tax (IGST)’, ‘State Excise’, ‘Sales Tax (including Central Sales Tax)’, ‘Taxes on Vehicles’, ‘Taxes on Goods and Passengers’, ‘Taxes and Duties on Electricity’, ‘Other taxes and Duties (excluding 0045-901)’.

Table 4 shows that for major states, average annual share of some pre-GST taxes on commodities (or goods and services) fall during post-GST period as compared to pre-GST period. Since GST subsumes taxes from state sales tax/VAT (0040), taxes on passengers & goods (0042-106-Tax on entry of goods into Local Areas) and other taxes on commodities and services (0045), it is likely that there will be fall in revenue mobilisation for tax heads from where tax components are subsumed into GST. This is evident from Table 4 that for major states the increase in the share of new revenue stream (as presented as ‘Total GST’ in Table 4) cannot fully compensate the fall in the share of revenue in original revenue streams during post-GST period. This results in fall in the total taxes on commodities and services during post-GST period. If we consider the GST compensation receipts (both from GST compensation fund as well as GST loans) as own revenue of states, there will be marginal increase in average annual share of ‘taxes on commodities’ (by 47 basis point of GSDP) in GSDP during post-GST period as compared to pre-GST period (Table 4). This analysis shows that GST compensation payments helped states to sustain the revenue stream from taxes on goods and services which is subsumed into GST. However, there was no windfall gains for states from the GST compensation receipts.

For minor states, except for state sales tax/VAT, taxes on passengers and goods and other taxes on commodities and services, average annual share in GSDP has gone up for other taxes during post-GST period as compared pre-GST period. Overall there is an increase in the share of taxes on goods and services in GSDP during post-GST period as compared to the pre-GST period. In addition some minor states have received GST compensation, as a result overall share of taxes on

goods and services increases by 1.03 percent of GSDP during post-GST period as compared to the pre-GST period.

**Table 4: Average Annual Source-wise Statement of State Own Taxes on Commodities and Services (as % of GSDP)**

Major States	Pre-GST (2013-14 to 2016-17) (A)	Post-GST (2018-19 to 2021-22) (B)	2022-23RE (C)	2023-24BE (D)	B-A	C-B	D-C
State GST (SGST)	0.00	2.50	2.81	2.98	2.50	0.31	0.17
IGST	0.00	0.02	0.00	0.00	0.02	-0.02	0.00
<b>Total GST</b>	<b>0.00</b>	<b>2.52</b>	<b>2.81</b>	<b>2.98</b>	<b>2.52</b>	<b>0.29</b>	<b>0.17</b>
<b>Sales Tax</b>	<b>4.19</b>	<b>1.52</b>	<b>1.56</b>	<b>1.59</b>	<b>-2.66</b>	<b>0.03</b>	<b>0.03</b>
State Excise	0.76	0.83	0.89	0.94	0.07	0.06	0.05
Taxes on Vehicles	0.36	0.34	0.36	0.38	-0.02	0.02	0.02
<b>Taxes on Passengers &amp; Goods</b>	<b>0.17</b>	<b>0.01</b>	<b>0.01</b>	<b>0.01</b>	<b>-0.17</b>	<b>0.00</b>	<b>0.00</b>
Electricity Duty	0.22	0.21	0.22	0.23	-0.01	0.00	0.01
<b>Other Taxes</b>	<b>0.06</b>	<b>0.01</b>	<b>0.01</b>	<b>0.01</b>	<b>-0.05</b>	<b>0.00</b>	<b>0.00</b>
<b>Total (Taxes on Commodities and Services)</b>	<b>5.77</b>	<b>5.46</b>	<b>5.86</b>	<b>6.13</b>	<b>-0.32</b>	0.40	0.28
GST Compensation from GST Compensation Fund	0.00	0.50			0.50		
GST Compensation as Back-to-Back Loans	0.00	0.29			0.29		
<b>Total GST Compensation</b>	<b>0.00</b>	<b>0.79</b>			<b>0.79</b>		
Minor States	Pre-GST (A)	Post-GST (B)	2022-23RE (C)	2023-24BE (D)	B-A	C-B	D-C
State GST	0.00	2.34	2.60	2.76	2.34	0.27	0.16
IGST	0.00	0.04	0.10	0.10	0.04	0.06	0.00
<b>Total GST</b>	<b>0.00</b>	<b>2.38</b>	<b>2.70</b>	<b>2.86</b>	<b>2.38</b>	<b>0.32</b>	<b>0.16</b>
<b>Sales Tax</b>	<b>3.24</b>	<b>1.04</b>	<b>0.99</b>	<b>1.04</b>	<b>-2.20</b>	<b>-0.05</b>	<b>0.05</b>
State Excise	0.63	0.74	0.72	0.74	0.11	-0.01	0.02
Taxes on Vehicles	0.21	0.26	0.30	0.30	0.05	0.04	0.01
<b>Taxes on Passengers &amp; Goods</b>	<b>0.15</b>	<b>0.01</b>	<b>0.01</b>	<b>0.01</b>	<b>-0.13</b>	<b>-0.01</b>	<b>0.00</b>
Electricity Duty	0.08	0.08	0.07	0.10	0.00	-0.01	0.02
Other Taxes	0.09	0.06	0.08	0.13	-0.03	0.02	0.05
<b>Total (Taxes on Commodities and Services)</b>	<b>4.39</b>	<b>4.57</b>	<b>4.87</b>	<b>5.19</b>	<b>0.17</b>	0.31	0.31
GST Compensation from GST Compensation Fund	0.00	0.54			0.54		
GST Compensation as Back-to-Back Loans	0.00	0.32			0.32		
<b>Total GST Compensation</b>	<b>0.00</b>	<b>0.86</b>			<b>0.86</b>		

## 2.4 Adjusted Grants-in-Aids from the Union Government

In Table 1, we observe that average annual share of grants-in-aids from the Union government increases by 33 basis point of GSDP during post-GST period as compared to pre-GST period. It is to be highlighted that during GST transition period (1 July 2017 to 30 June 2022) states receive GST compensation from the GST compensation fund on account of shortfall in State GST (SGST) collection from the projected SGST collection. States book the receipts of GST compensations under Grants-in-Aids from the Union government (under the budget head 1601-08-114). If we adjust the overall grants-in-aids receipts (broad budget head 1601) of states by taking out GST compensation receipts, the share of grants-in-aids in GSDP falls (Table 4). Therefore, the shares of grants-in-aids in GSDP reported in Table 1 & 2 changes. For major states, average annual share of adjusted grants-in-aids in GSDP falls by 17 basis point during post-GST period as compared to pre-GST period. If we consider GST compensation receipts (from all sources) as states' OTR, annual average share of OTR in GSDP increases by 42 basis point (-0.37+0.79) of GSDP during post-GST period as compared to pre-GST period.

**Table 5: Average Annual Statement of Grants-in-Aids from the Centre (% of GSDP)**

<b>Major States</b>	<b>Pre-GST (2013-14 to 2016-17) (A)</b>	<b>Post-GST (2018-19 to 2021-22) (B)</b>	<b>B-A</b>
Grants-in-Aids from the Centre	1.96	2.29	0.33
GST Compensation from Compensation Fund (GSTCCF)	0.00	0.50	0.50
<b>Grants-in-Aids without GSTCCF</b>	<b>1.96</b>	<b>1.79</b>	<b>-0.17</b>
<b>Minor States</b>	<b>Pre-GST (2013-14 to 2016-17) (A)</b>	<b>Post-GST (2018-19 to 2021-22) (B)</b>	<b>B-A</b>
Grants-in-Aids from the Centre	8.76	8.30	-0.46
GST Compensation from Compensation Fund (GSTCCF)	0.00	0.54	0.54
<b>Grants-in-Aids without GSTCCF</b>	<b>8.76</b>	<b>7.76</b>	<b>-1.00</b>

## 2.5 Adjusted Fiscal Deficit of States

During 2020-22 states received GST compensation as back-to-back loans from the Union government. States booked the receipts of these loans under 'Loans and Advances from the Union government' (under the budget head 6004-09-101/106 or 6004-08-101). Unlike GST compensation from the GST compensation fund which is accounted under the grants-in-aids from the Union government and already taken into account to derive fiscal deficits of states, GST compensation receipts as back-to-back loans is often not adjusted (or accounted as states' revenue) to derive fiscal deficit numbers of states. Not adjusting GST loans leads to over estimation of fiscal deficits of states for 2020-21 and 2021-22. In Table 6 we present adjusted fiscal deficits of states.

Out of 18 major states, 9 states experienced fall in average annual FD during post-GST period as compared to pre-GST period. The largest fall in FD observed for Punjab and it is followed by Uttar Pradesh, Odisha, Jharkhand, and Rajasthan. The largest increase in FD observed for Tamil Nadu and it is followed by Madhya Pradesh, Karnataka and Chhattisgarh. Overall FD of major states fall by 27 basis point of GSDP during post-GST period as compared to pre-GST annual average. We observe 65 basis point of GSDP rise in FD for major states in 2022-23RE. The largest



rise in FD is observed for Bihar (6.08% of GSDP) followed by Odisha, Goa, Uttar Pradesh and Punjab. To validate the fiscal deficits of states presented in the revised estimate of 2022-23, we derive fiscal deficits of states based on Monthly Key Indicator (MKI) database of the Comptroller and Auditor General (CAG) of India and present it as Provisional Estimate of 2022-23 (PE) in Table 6. We also present key indicators of state finances for 2022-23RE vis-à-vis 2022-23PE in Appendix Table A.1. We see that except own non-tax revenue of major states and revenue deficit of minor states values of all indicators are higher in 2022-23RE as compared to 2022-23PE. Revenue deficit of minor states exceeds revised estimate of 2022-23 in 2022-23PE whereas own NTR of major states remains unchanged between RE and PE of 2022-23.

As compared to post-GST annual average, overall FD of major states increases by only 4 basis point of GSDP in 2022-23PE. In comparison to 2022-23RE, overall FD of major states is lower in 2022-23PE. In 2023-24BE, overall FD of major states is expected to increase by 36 basis point of GSDP as compared to 2022-23PE.

Out of 10 minor states, 5 states (Assam, Himachal Pradesh, Meghalaya, Tripura and Uttarakhand) have received GST loans. For others either there was no shortfall in SGST collection or GST compensation received from the GST compensation fund was enough to compensate for the shortfall in SGST collection. Together average annual FD of 10 minor states went up by 63 basis point of GSDP during post-GST period as compared to pre-GST period. Together these states observe increase in FD by 2.86 per cent of GSDP in 2022-23RE from post-GST annual average. As compared to post-GST annual average, overall FD of minor states increases by 1.81 per cent of GSDP in 2022-23PE. Fiscal deficits of states are higher in 2022-23RE as compared to 2022-23PE by 1.05 per cent of GSDP. In 2023-24BE, these states together aim to reduce FD by 1.05 per cent of GSDP as compared to 2022-23PE.

**Table 6: Average Annual Fiscal Deficit (Adjusted) (% of GSDP)**

State	Pre-GST (A)	Post-GST (B) (Adj.)	2022- 23RE (C)	2022- 23PE (D)	2023- 24BE (E)	B-A	C-B	D-B	E-D
Andhra Pradesh	4.52	3.95	3.62	3.90	3.77	-0.57	-0.32	-0.04	-0.14
Bihar	3.14	3.15	<b>9.23</b>	<b>12.16</b>	2.98	0.01	<b>6.08</b>	<b>9.01</b>	-9.18
Chhattisgarh	2.51	2.92	3.17	1.01	2.99	0.41	0.25	-1.91	1.98
Goa	2.49	2.75	4.86		4.31	0.26	<b>2.12</b>	-2.75	4.31
Gujarat	1.98	1.43	1.48	0.56	1.75	-0.55	0.05	-0.87	1.19
Haryana	4.00	3.35	3.29	3.12	2.96	-0.65	-0.06	-0.23	-0.16
<b>Jharkhand</b>	3.47	2.31	2.23	1.37	2.76	-1.16	-0.08	-0.94	1.38
Karnataka	2.11	2.69	2.73	1.71	2.18	0.58	0.04	-0.98	0.48
Kerala	3.66	3.73	3.61	2.51	3.50	0.07	-0.12	-1.22	0.99
Madhya Pradesh	2.87	3.49	3.58	3.28	4.02	0.62	0.09	-0.20	0.73
Maharashtra	1.64	1.71	2.69	1.91	2.46	0.07	0.99	0.20	0.56
<b>Odisha</b>	1.95	0.65	2.82	1.68	2.99	-1.30	<b>2.17</b>	1.03	1.31
<b>Punjab</b>	5.63	2.86	4.93	4.59	4.98	-2.77	2.07	1.73	0.39
<b>Rajasthan</b>	5.25	4.14	4.33	3.48	3.98	-1.11	0.19	-0.66	0.50
Tamil Nadu	2.94	3.75	3.15	3.06	3.44	0.81	-0.60	-0.69	0.38



State	Pre-GST (A)	Post-GST (B) (Adj.)	2022- 23RE (C)	2022- 23PE (D)	2023- 24BE (E)	B-A	C-B	D-B	E-D
Telangana	2.60	3.79	3.82	2.45	4.06	1.19	0.03	-1.34	1.62
<b>Uttar Pradesh</b>	3.80	1.52	3.60	2.98	3.48	-2.28	<b>2.08</b>	1.46	0.50
West Bengal	3.29	3.22	3.97	3.16	3.83	-0.07	0.75	-0.06	0.67
<b>Major States</b>	<b>3.01</b>	<b>2.73</b>	<b>3.38</b>	<b>2.77</b>	<b>3.13</b>	<b>-0.27</b>	<b>0.65</b>	<b>0.04</b>	<b>0.36</b>
Arunachal Pradesh	0.74	4.48	6.99	4.58	6.63	3.74	2.51	0.10	2.05
Assam*	1.50	3.34	8.15	5.95	3.70	1.84	4.81	2.61	-2.25
Himachal Pradesh*	3.71	2.47	6.39	6.14	4.61	-1.23	3.91	3.66	-1.53
Manipur	1.49	4.25	6.88	4.57	6.11	2.77	2.63	0.32	1.55
Meghalaya*	2.66	5.51	4.36	6.23	3.41	2.85	-1.15	0.71	-2.82
Mizoram	2.69	3.92	7.22	9.13	3.14	1.22	3.31	5.21	-5.99
Nagaland	1.97	3.52	5.47	18.12	2.82	1.55	1.95	14.60	-15.30
Sikkim	1.16	4.55	4.44	4.45	4.67	3.39	-0.10	-0.09	0.22
Tripura*	3.59	2.78	3.10	1.50	4.83	-0.82	0.32	-1.28	3.34
Uttarakhand*	2.91	1.96	2.68	0.91	2.72	-0.95	0.72	-1.05	1.80
<b>Minor States</b>	<b>2.41</b>	<b>3.04</b>	<b>5.90</b>	<b>4.85</b>	<b>3.80</b>	<b>0.63</b>	<b>2.86</b>	<b>1.81</b>	<b>-1.05</b>

Notes: \*-received GST back-to-back loans during 2020-22

In three major states (viz., Madhya Pradesh, Tamil Nadu and Telangana) post-GST average annual FD exceeds 3 per cent of GSDP as compared to pre-GST average of less than 3 per cent (Table 7). Jharkhand, Punjab and Uttar Pradesh have reduced average annual FD to less than 3 per cent of GSDP during post-GST period as compared to pre-GST annual average exceeding 3 per cent of GSDP. For Andhra Pradesh, Bihar, Haryana, Kerala, Rajasthan and West Bengal average annual FD exceeds 3 per cent of GSDP in both the periods. In 7 minor states (viz., Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland and Sikkim) average annual FD exceeds 3 per cent of GSDP during post-GST period as compared to pre-GST average of less than 3 per cent. Himachal Pradesh and Tripura have reduced their average annual FD to less than 3 per cent of GSDP during post-GST period from pre-GST average annual FD greater than 3 per cent. This analysis shows that different states have faced different challenges in public finance management during pre- and post-GST periods.

**Table 7: Changing Fiscal Deficits of Indian States (as % of GSDP)**

Category of States	Fiscal Deficit	Pre-GST	Post-GST	States
Major States	Increased	<3%	>3%	Madhya Pradesh, Tamil Nadu, Telangana
	Reduced	>3%	<3%	Jharkhand, Punjab, Uttar Pradesh
	Exceeds 3%	>3%	>3%	Andhra Pradesh, Bihar, Haryana, Kerala, Rajasthan, West Bengal
	below 3%	<3%	<3%	Chhattisgarh, Goa, Gujarat, Karnataka, Maharashtra, Odisha
Minor States	Increased	<3%	>3%	Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim

Category of States	Fiscal Deficit	Pre-GST	Post-GST	States
Reduced	>3%	<3%		Himachal Pradesh, Tripura
Exceeds 3%	>3%	>3%	--	
below 3%	<3%	<3%		Uttarakhand

## 2.6 State of Public Debt of Indian States

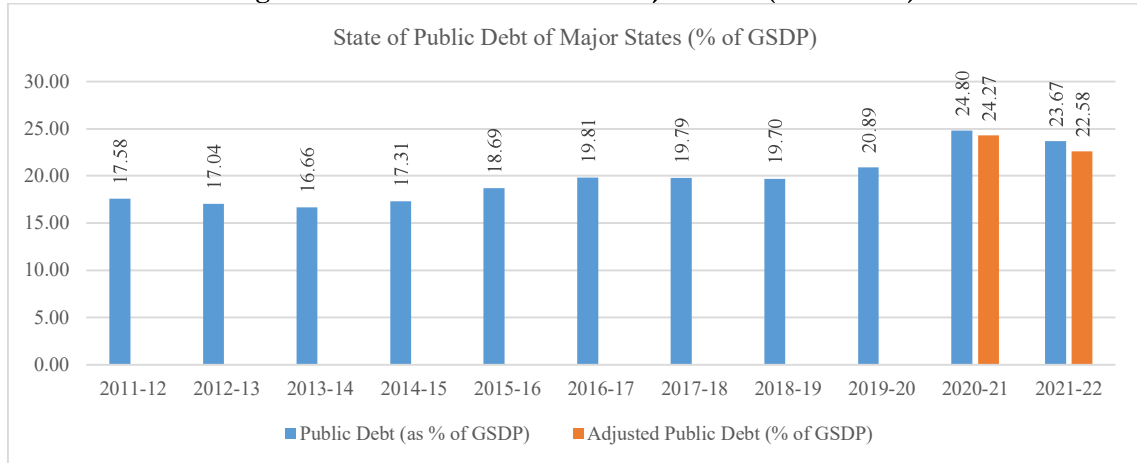
As we have discussed earlier, states have booked GST loans as "Loans and Advances from the Central Government". Since there is no liability of these loans rest on states, proceeds of these loans cannot be considered as public debt of states.<sup>4</sup> So, we have adjusted public debt of states after taking out the amount of these loans received in 2020-21 and 2021-22.

Figure 2 shows that for major states in aggregate public debt has gone up during 2014-15 to 2016-17 and it remains stable during 2017-18 to 2018-19, and thereafter it exceeds 20 per cent of GSDP since 2019-20. The rise in public debt since 2015-16 may be a result of *Ujwal DISCOM Assurance Yojana (UDAY)* scheme introduced in November 2015 to provide debt relief to public power Distribution Companies (DISCOM). The scheme aims to clean up the balance sheet of DISCOMs by taking over 75 per cent of the outstanding debt (as on 30 September 2015) in two tranches - 50 per cent in 2015-16 and 25 per cent in 2016-17 - by the participating state governments and free the credit blocked by creditors (mostly Public Sector Banks). During 2019-21, states faced fiscal shocks due to unexpected economic slowdown in 2019-20 and COVID-19 pandemic in 2020-21. With gradual recovery of the economy from the shock towards the end of 2020-21, the second wave of the pandemic strikes during Q1 of 2021-22. Together major states are yet to recover from the fiscal shock experienced during 2019-21 (Mukherjee 2023). GST loans helped these states to reduce public debt by 53 basis point of GSDP in 2020-21 and 1.09 per cent of GSDP in 2021-22. Barring three years (i.e., 2019-22), aggregate public debt of major states was lower than 20 per cent of GSDP during 2011-22.

Figure 3 shows that aggregate public debt of minor states is increasing since 2014-15 and it crosses 20 per cent of GSDP in 2019-20. Except during 2019-22, aggregate public debt of minor states was lower than 20 per cent of GSDP during 2011-22. The rise in public debt since 2015-16 could be due to adoption of UDAY scheme by some minor states. Like major states, minor states also face fiscal shock during 2019-21 and all minor states have not recovered from the shock yet (Mukherjee 2023). The GST loans helped minor states to reduce aggregate public debt by 55 basis point of GSDP in 2020-21 and 1.21 per cent of GSDP in 2021-22.

<sup>4</sup> Public Debt is comprising of Internal Debt of the State Government (6003) and Loans and Advances from Central Government (6004). Internal Debt of the State Government is comprising of Market Loans (6003-101) and Other Loans.

**Figure 2: State of Public Debt of Major States (% of GSDP)**



**Figure 3: State of Public Debt of Minor States (% of GSDP)**

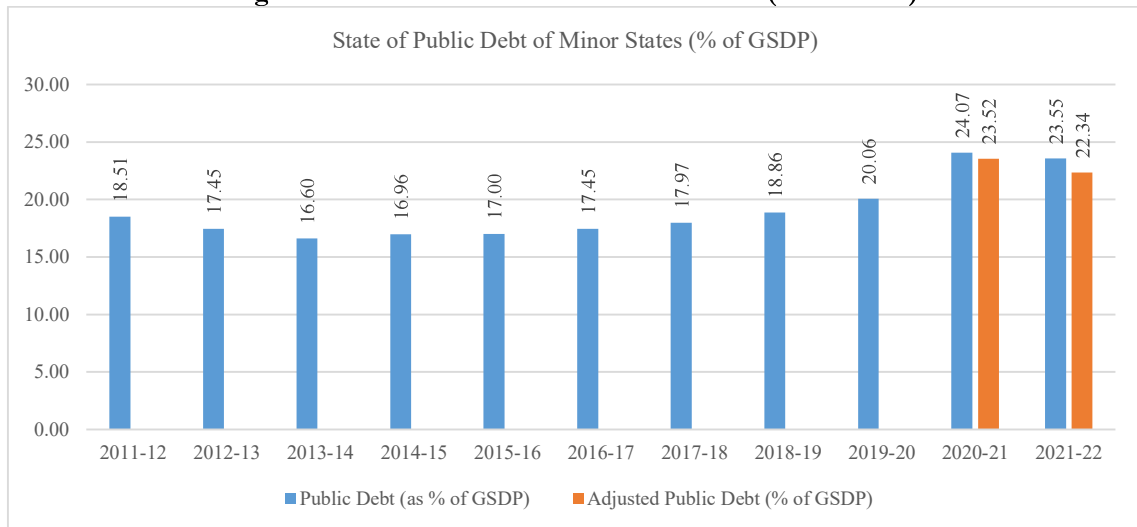
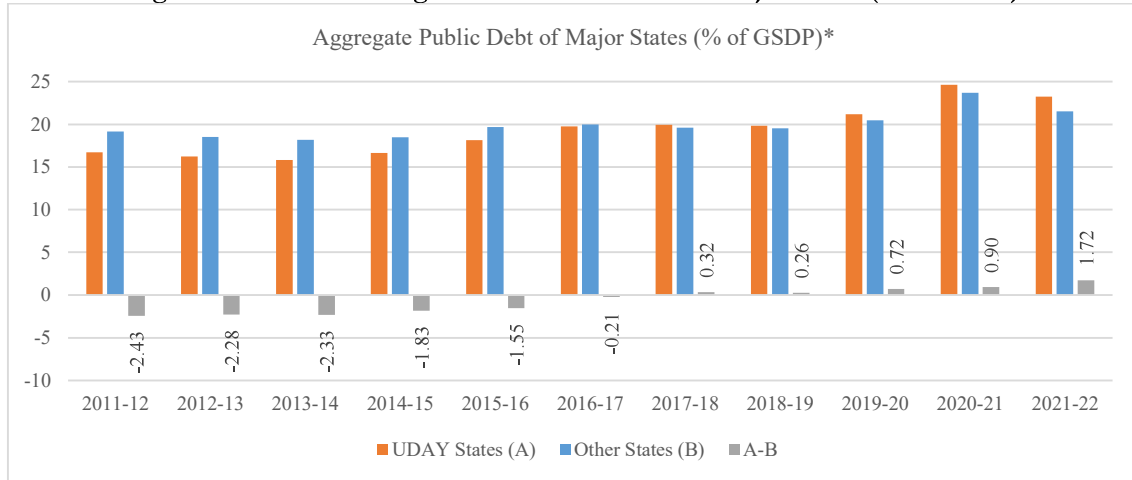


Figure 4 shows that during 2011-17, for major states aggregate public debt of Non-UDAY states was higher than UDAY states. Since 2014-15 difference in aggregate public debt between Non-UDAY and UDAY states is going down and public debt of UDAY states surpasses non-UDAY states in 2017-18. For Non-UDAY states public debt has also risen in 2015-16 and thereafter it remains stable during 2015-19. For UDAY states, aggregate public debt is rising since 2014-15. Therefore, adoption of UDAY scheme cannot be the only reason for rising aggregate public debt of major states since 2015-16. Except for three years (2019-22), aggregate public debt of both UDAY and Non-UDAY states remain lower than 20 per cent of GSDP during 2011-22.

Figure 5 shows that aggregate public debt of Non-UDAY minor states remains higher than UDAY minor states during 2011-22. For minor states aggregate public debt is continuously increasing since 2016-17 and it exceeds 20 per cent of GSDP since 2019-20.

**Figure 4: Status of Average Annual Public Debt of Major States (% of GSDP)**



**Figure 5: Status of Average Annual Public Debt of Minor States (% of GSDP)**

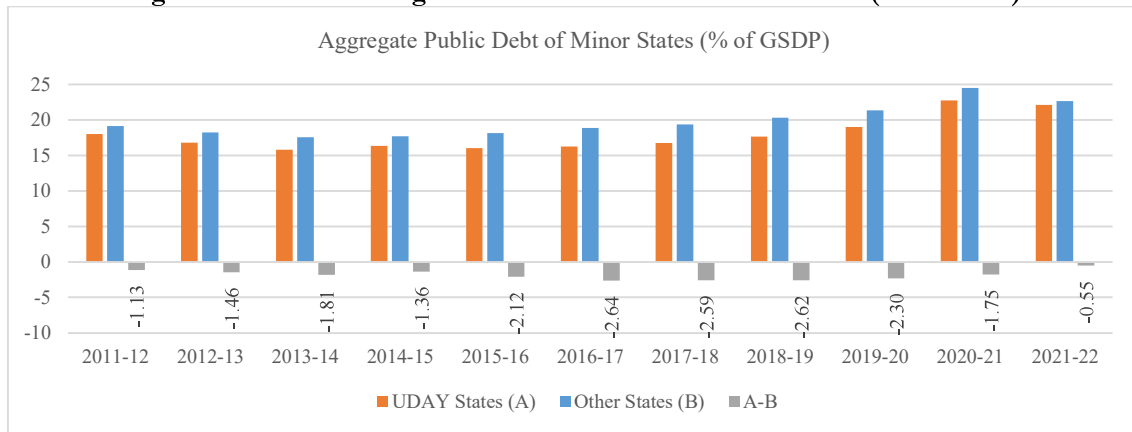


Figure 6 shows that number of major states having public debt exceeding 20 per cent of GSDP has gone up since 2015-16. During 2020-21 public debt situation further deteriorates. Since 2018-19, number of minor states having public debt exceeding 20 per cent of GSDP has gone up. Public debt of five major states is exceeding 20 per cent GSDP consistently during the period of our analysis (viz., Andhra Pradesh, Bihar, Punjab, Uttar Pradesh<sup>5</sup> and West Bengal) (Table 8). Except for a few years (2011-12 and 2016-18), public debt of Goa is also exceeding 20 per cent of GSDP during 2011-22. Since 2015-16, public debt of another 3 states exceeds 20 per cent of GSDP (viz., Haryana, Jharkhand<sup>6</sup> and Rajasthan). For Kerala, public debt exceeds 20 per cent of GSDP since 2017-18. In recent years, public debt of another three states exceeds 20 per cent of GSDP (viz., Madhya Pradesh, Tamil Nadu, Telangana). Therefore, containing public debt to below 20 per cent of GSDP would be a challenge for many states in coming years.

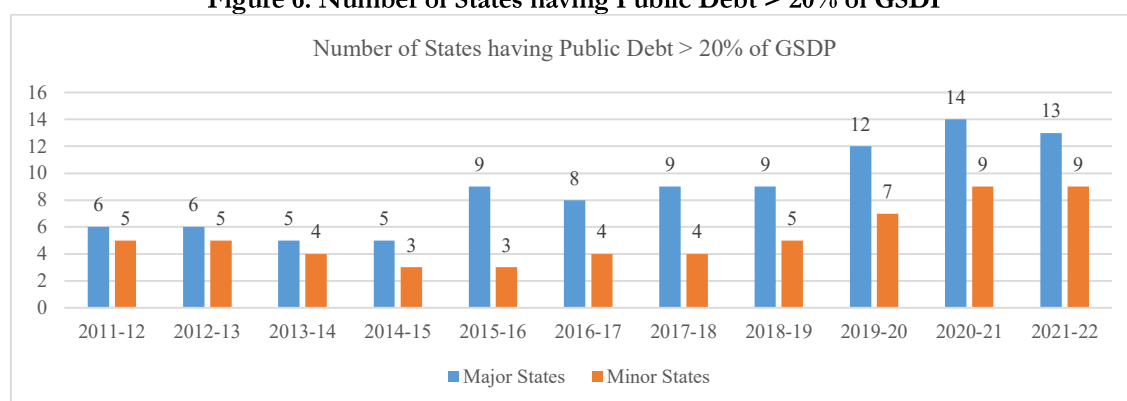
Public debt of three minor states (viz., Himachal Pradesh, Manipur and Nagaland) is consistently higher than 20 per cent of GSDP during 2011-22. Public debt of Uttarakhand since 2018-19, public debt of Arunachal Pradesh and Tripura since 2019-20 and the same for Mizoram and Sikkim since

<sup>5</sup> Except during 2013-15.

<sup>6</sup> Except in 2018-19

2020-21 is higher than 20 per cent of GSDP. This shows that more minor states are exceeding 20 per cent GSDP limit in public debt in recent years.

**Figure 6: Number of States having Public Debt > 20% of GSDP**



**Table 8: Status of Public Debt (adjusted) of Indian States (% of GSDP)**

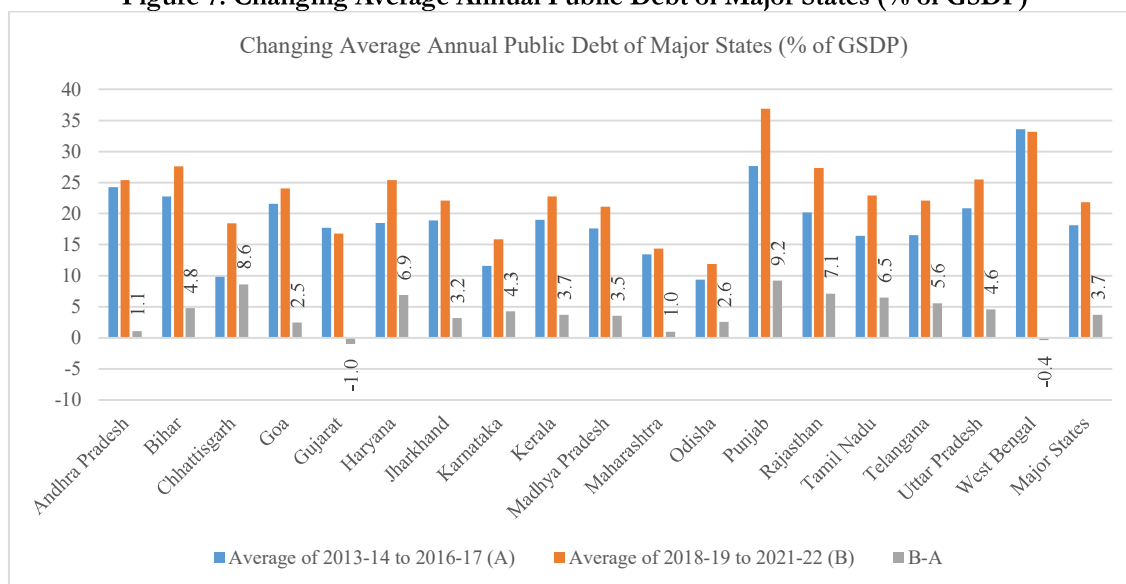
State	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Andhra Pradesh	--	--	--	20.86	20.65	21.90	21.47	22.16	24.48	28.01	26.82
Bihar	20.63	20.35	20.27	21.74	23.90	25.22	24.47	23.89	25.47	30.55	30.48
Chhattisgarh	6.76	6.59	7.23	9.07	11.57	11.56	13.80	15.97	18.32	21.16	18.41
Goa	16.22	21.17	25.15	20.78	20.61	19.68	19.63	21.18	22.52	26.27	26.13
Gujarat	20.05	18.82	18.51	17.73	17.56	17.08	16.00	16.10	16.52	18.49	15.92
Haryana	13.91	14.60	15.10	16.22	20.53	22.19	21.88	22.44	25.33	27.70	26.15
Jharkhand	16.11	15.64	15.93	15.94	22.19	21.52	20.77	19.88	21.31	25.37	21.84
Karnataka	10.78	10.79	10.84	11.55	11.73	12.11	12.24	13.11	14.54	18.17	17.52
Kerala	16.97	17.52	17.95	18.76	19.53	19.83	20.38	20.07	21.48	25.87	23.59
Madhya Pradesh	19.45	17.48	16.41	17.14	18.00	18.82	19.06	18.97	19.49	23.78	22.25
Maharashtra	14.48	13.73	13.15	13.35	13.50	13.73	14.20	13.25	13.83	15.85	14.71
Odisha	10.66	8.91	7.86	8.54	10.27	10.70	11.85	11.68	12.73	14.01	9.28
Punjab	24.06	23.92	23.69	24.45	26.45	36.01	34.99	34.95	36.19	39.76	36.60
Rajasthan	16.49	15.59	15.85	16.33	22.97	25.69	25.50	25.59	25.97	29.79	28.05
Tamil Nadu	13.84	14.06	14.46	15.35	16.50	19.35	19.71	19.73	21.26	25.22	25.47
Telangana				15.29	15.92	18.42	19.05	19.26	20.52	24.63	23.96
Uttar Pradesh	21.81	20.04	18.24	19.54	22.37	23.42	23.22	23.08	24.50	28.61	25.81
West Bengal	35.49	34.30	32.65	34.05	33.87	33.84	32.42	30.89	31.86	36.32	33.68
<b>Major States</b>	<b>17.58</b>	<b>17.04</b>	<b>16.66</b>	<b>17.31</b>	<b>18.69</b>	<b>19.81</b>	<b>19.79</b>	<b>19.70</b>	<b>20.89</b>	<b>24.27</b>	<b>22.58</b>
Arunachal Pradesh	19.97	18.48	17.17	16.65	12.56	13.84	18.19	19.79	21.49	25.23	25.16
Assam	13.93	12.63	11.15	11.64	11.54	11.07	12.24	13.84	15.54	19.43	19.41
Himachal Pradesh	26.83	25.07	24.39	24.79	24.43	25.92	25.02	24.55	25.49	28.64	26.50
Manipur	29.99	29.40	25.73	24.16	24.88	24.73	22.82	24.51	24.34	30.23	29.38
Meghalaya	15.05	15.33	16.07	18.12	18.75	20.07	21.69	22.78	24.18	30.35	30.72

State	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Mizoram	29.36	27.09	21.99	18.19	16.32	16.94	17.20	14.71	16.08	20.95	20.75
Nagaland	39.92	37.16	34.84	32.04	34.50	32.76	32.00	30.59	30.68	35.70	35.75
Sikkim	16.59	16.03	15.77	16.29	16.46	16.95	16.24	17.56	17.19	20.87	23.04
Tripura	20.65	20.71	19.75	17.91	16.63	16.73	17.47	17.75	20.71	24.47	20.92
Uttarakhand	15.00	14.28	14.33	15.51	16.84	18.04	18.62	20.07	21.00	23.14	20.41
<b>Minor States</b>	<b>18.51</b>	<b>17.45</b>	<b>16.60</b>	<b>16.96</b>	<b>17.00</b>	<b>17.45</b>	<b>17.97</b>	<b>18.86</b>	<b>20.06</b>	<b>23.52</b>	<b>22.34</b>

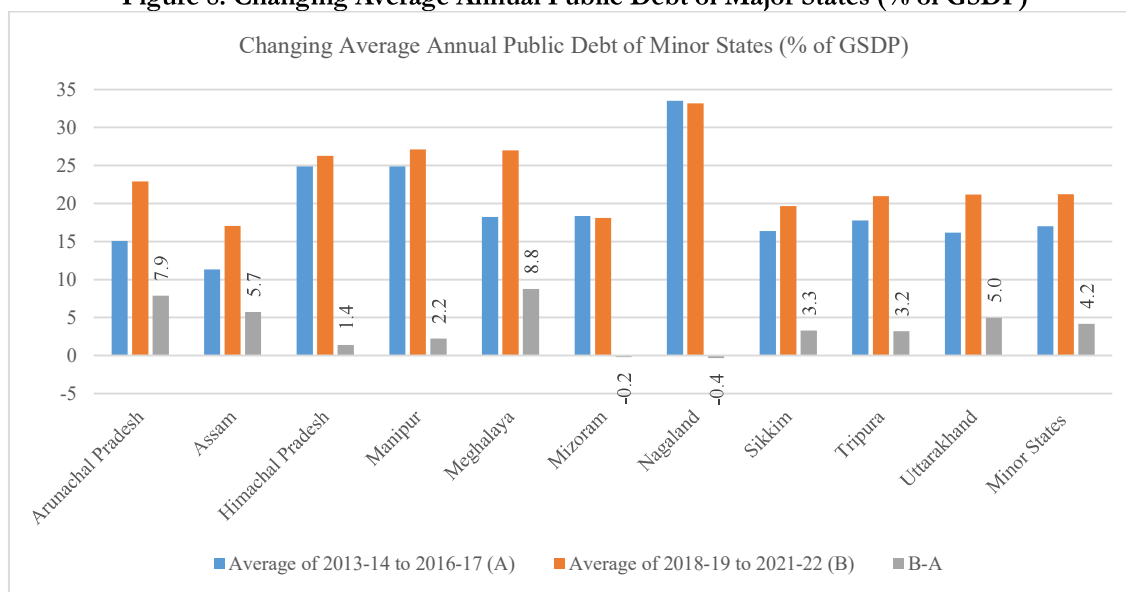
Except for Gujarat and West Bengal, average annual public debt of major states has gone up during post-GST period as compared to pre-GST period (Figure 7). Aggregate public debt of major states has gone up by 3.7 per cent of GSDP during post-GST period as compared to pre-GST period. The largest increase in public debt is observed for Punjab (9.2%) followed by Chhattisgarh (8.6%), Haryana (6.9%), Tamil Nadu (6.5%) and Telangana (5.6%). Except Chhattisgarh, Gujarat, Karnataka, Maharashtra and Odisha, post-GST average annual public debt exceeds 20 per cent of GSDP for all other major states.

Except Mizoram and Nagaland, average annual public debt of minor states has gone up during post-GST period as compared to pre-GST period (Figure 8). Aggregate public debt of minor states has gone up by 4.2 per cent of GSDP. The largest increase in public debt is observed for Meghalaya (8.8%) and it is followed by Arunachal Pradesh (7.9%), Assam (5.7%) and Uttarakhand (5%). Except Assam, Mizoram and Sikkim, post-GST average annual public debt exceeds 20 per cent of GSDP for all other minor states.

**Figure 7: Changing Average Annual Public Debt of Major States (% of GSDP)**



**Figure 8: Changing Average Annual Public Debt of Major States (% of GSDP)**



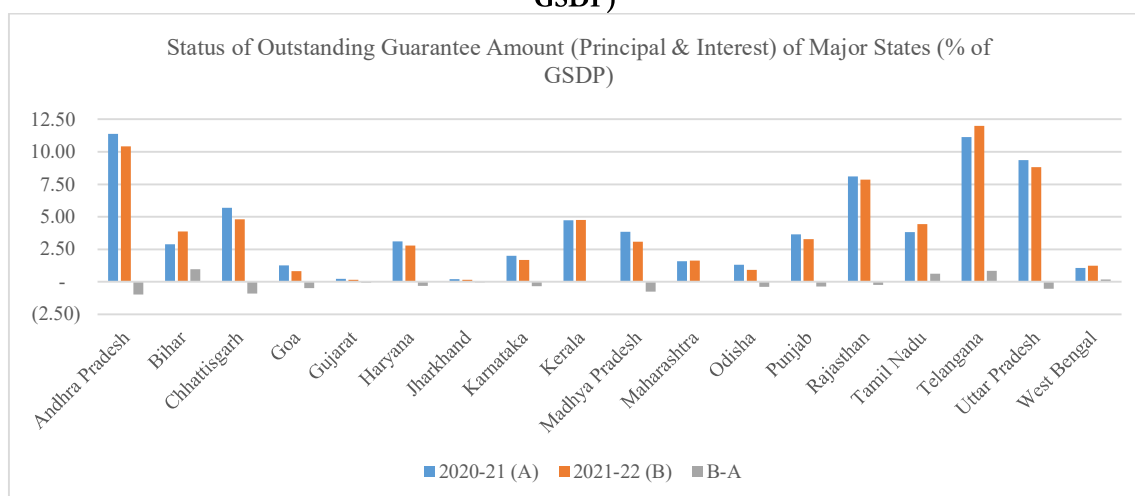
## 2.7 Outstanding Guarantees of States

According to the Government Guarantee Policy 2022 (Ministry of Finance 2022), “Guarantees are contingent liabilities that arise on occurrence of an event covered by the guarantee. Since guarantees result in increase in contingent liability, ... Government will be liable to pay in case the entity/organization defaults in respect of which guarantee is given.” Like the Union Government, state governments also provide guarantees to public entities (e.g., statutory corporations, government companies, co-operative institutions, financial institutions, autonomous bodies and authorities) to take loans from the markets to reduce pressure on the budgetary resources.

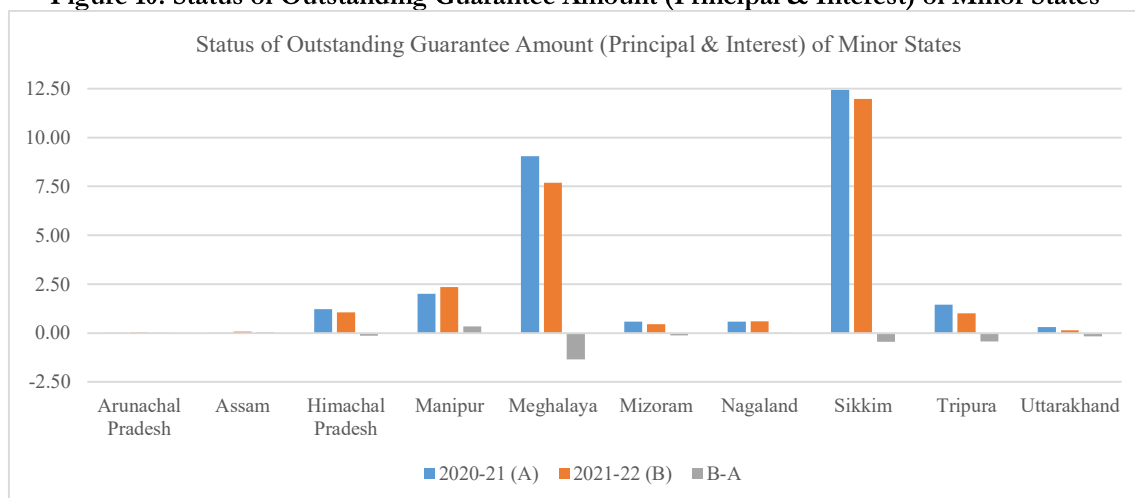
We find that except Andhra Pradesh and Telangana outstanding guarantee amount lies below 10 per cent of GSDP for other major states during 2020-22 (Figure 9). For Rajasthan and Uttar Pradesh outstanding guarantee amount lies between 7.5 to 10 per cent of GSDP. Except Bihar, Kerala, Maharashtra, Tamil Nadu, Telangana and West Bengal, outstanding guarantee amount of all other major states has gone down in 2021-22 as compared to 2020-21. Aggregate outstanding guarantee amount of major states has gone down from 4.23 per cent of GSDP in 2020-21 to 4.14 per cent of GSDP in 2021-22.

Among minor states outstanding guarantee amount of Sikkim exceeds 10 per cent of GSDP during 2020-22 (Figure 10). For Meghalaya, outstanding guarantee amount lies between 7.5 to 10 per cent of GSDP during 2020-22. Except four minor states (viz., Arunachal Pradesh, Assam, Manipur and Nagaland), outstanding guarantee amount has fallen in 2021-22 as compared to 2020-21. In aggregate, outstanding guarantee amount of minor states has fallen from 1.18 per cent of GSDP in 2020-21 to 1.05 percent of GSDP in 2021-22.

**Figure 9: Status of Outstanding Guarantee Amount (Principal & Interest) of Major States (% of GSDP)**



**Figure 10: Status of Outstanding Guarantee Amount (Principal & Interest) of Minor States**



### 3. Summary and Conclusions

Indian economy has gone through economic slowdown during 2019-21 – annual economic growth (as measured by growth rate of nominal GDP) falls to 6.37 per cent in 2019-20 and -1.36 per cent in 2020-21 from average annual growth rate of 11.7 per cent during 2012-19. In 2021-22 economic growth improves with the gradual recovery of the Indian economy from the shock of COVID-19 pandemic. As compared to 2021-22, economic growth in 2022-23(P) falls.

To assess the state finances of Indian states (18 major states and 10 minor states), we divide the time period of our analysis (2013-14 to 2021-22) into two sub-periods – 2013-14 to 2016-17 and 2018-19 to 2021-22. We named the first sub-period as pre-GST period and the second sub-period as post-GST period, as India introduced comprehensive Goods and Services Tax (GST) on 1 July 2017.

Except Odisha, average annual growth rate of nominal GSDP falls during post-GST period as compared to pre-GST period for all other major states. All major states experience higher growth



rate of GSDP in 2022-23(P) as compared to average annual growth rate of GSDP during post-GST period.

Among minor states, except Meghalaya, average annual growth rate of GSDP falls during post-GST period as compared to pre-GST period. Except Arunachal Pradesh, Manipur and Mizoram, all minor states experience higher growth rate of GSDP in 2022-23(P) as compared to post-GST average.

Except Karnataka and Kerala among major states and Manipur and Mizoram among minor states, all states project lower growth rate of GSDP in 2023-24(BE) as compared to 2022-23(P), which may have impact on fiscal positions of states.

After two consecutive years of fiscal stress during 2019-21, state finances in India improve in 2021-22. Recovery from the fiscal shock of 2019-21 is slow for majority of Indian states. Moreover, GST compensation has not been extended beyond 30 June 2022. Therefore, it will be important to see how states manage their public finances with growing pressure of public expenditures and constraints to mobilise additional public resources from own as well as shared sources of revenues.

As compared to pre-GST period, average annual Revenue Deficit (RD) of major states increases by 61 basis point of GSDP during post-GST period. In 2022-23RE, aggregate RD of these states shows a fall by 27 basis point of GSDP as compared to post-GST average. In 2023-24BE it is expected to fall by 38 basis point as compared to 2022-23RE. During post-GST period average annual capital expenditure (CAPEX) falls by 23 basis point of GSDP as compared to pre-GST average. Apart from cutting CAPEX, rising share of non-debt capital receipts (by 7 basis point of GSDP), containing disbursement of fresh loans and advances (by 29 basis point) and GST compensation receipts as back-to-back loans from the Union government during 2020-22 helped major states to reduce the pressure on fiscal space during post-GST period. Average annual fiscal deficit (adjusted) has gone down by 27 basis point of GSDP during post-GST period as compared to pre-GST average. In 2022-23RE, aggregate FD of major states rises by 65 basis point of GSDP as compared to post-GST average. In 2023-24BE, aggregate FD is expected to fall by 24 basis point of GSDP as compared to 2022-23RE.

For minor states, average annual revenue deficit increases by 38 basis point of GSDP during post-GST period as compared to pre-GST period. In 2022-23RE, aggregate revenue deficit increases by 86 basis point of GSDP as compared to post-GST average. In 2023-24BE, it is expected to fall by 1.31 per cent of GSDP as compared to 2022-23RE. Average annual CAPEX increases by 79 basis point of GSDP during post-GST period as compared to pre-GST period. Though, minor states reduced disbursement of fresh loans and advances, they could not generate additional revenue on account non-debt capital receipts. Moreover, only a few minor states received GST back-to-back loans for protection of their revenue under GST. As a result, average annual fiscal deficit (adjusted) went up by 63 basis point of GSDP during post-GST period as compared to pre-GST average. Aggregate fiscal deficit increases by 2.86 per cent of GSDP in 2022-23RE as compared to post-GST average. In 2023-24BE, it is expected to be reduced by 2.10 per cent of GSDP as compared to 2022-23RE.

For major states, average annual share of all sources of OTR in GSDP has fallen during post-GST period as compared to the pre-GST period. The largest fall is observed in 'taxes on commodities' - falls by 32 basis point of GSDP during post-GST period as compared to the pre-GST average. If we consider GST compensation receipts from all sources as states' OTR, annual average share of OTR in GSDP increases by 42 basis point  $(-0.37+0.79)$  of GSDP during post-GST period as compared to pre-GST period. Therefore, GST compensation payments helped states to sustain the revenue stream from taxes on goods and services which is subsumed into GST. However, there was no windfall gains for states from the GST compensation receipts.

For minor states, there is an increase in the share of taxes on goods and services in GSDP during post-GST period as compared to the pre-GST period.

For major states, if we adjust the overall grants-in-aids receipts (broad budget head 1601) of states by taking out GST compensation receipts from the GST compensation fund (1601-08-114), average annual share of adjusted grants-in-aids in GSDP falls by 17 basis point during post-GST period as compared to pre-GST average.

GST compensation receipts as back-to-back loans from the Union government is often not adjusted (or accounted as states' revenue) to derive fiscal deficit numbers of states. Out of 18 major states, 9 states experience fall in average annual fiscal deficit (adjusted) during post-GST period as compared to pre-GST period. The largest fall in FD observed for Punjab followed by Uttar Pradesh, Odisha, Jharkhand, and Rajasthan. The largest increase in FD observed for Tamil Nadu followed by Madhya Pradesh, Karnataka and Chhattisgarh. Overall FD of major states falls by 27 basis point of GSDP during post-GST period as compared to pre-GST average. We observe 65 basis point of GSDP rise in FD for major states in 2022-23RE.

As compared to post-GST average, overall FD of major states increases by only 4 basis point of GSDP in 2022-23PE (i.e., Provisional Estimate of 2022-23 based on CAG's Monthly Key Indicator Database). In comparison to 2022-23RE, overall FD of major states is lower in 2022-23PE. In 2023-24BE, overall FD of major states is expected to increase by 36 basis point of GSDP as compared to 2022-23PE.

Together average annual FD of 10 minor states has gone up by 63 basis point of GSDP during post-GST period as compared to pre-GST period. Together FD of these states increases by 2.86 per cent of GSDP in 2022-23RE from post-GST annual average. As compared to post-GST annual average, overall FD of minor states increases by 1.81 per cent GSDP in 2022-23PE. Fiscal deficits of states are higher in 2022-23RE as compared to 2022-23PE by 1.05 per cent of GSDP. In 2023-24BE, these states together aim to reduce FD by 1.05 per cent of GSDP as compared to 2022-23PE.

In three major states (viz., Madhya Pradesh, Tamil Nadu and Telangana) post-GST average annual FD exceeds 3 per cent of GSDP as compared to pre-GST average of less than 3 per cent. Jharkhand, Punjab and Uttar Pradesh have reduced average annual FD to less than 3 per cent of GSDP during post-GST period as compared to pre-GST average exceeding 3 per cent of GSDP. For Andhra Pradesh, Bihar, Haryana, Kerala, Rajasthan and West Bengal average annual FD

exceeds 3 per cent of GSDP in both the periods. In 7 minor states (viz., Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland and Sikkim) average annual FD exceeds 3 per cent of GSDP during post-GST period as compared to pre-GST average of less than 3 per cent. Himachal Pradesh and Tripura have reduced their average annual FD to less than 3 per cent of GSDP during post-GST period from pre-GST average of greater than 3 per cent. This analysis shows that different states have faced different challenges in public finance management during pre- and post-GST periods.

We have adjusted public debt of states after taking out the amount of the GST back-to-back loans received by states in 2020-21 and 2021-22. For major states, aggregate public debt has gone up during 2014-15 to 2016-17 and it remains stable during 2017-18 to 2018-19, and thereafter it exceeds 20 per cent of GSDP since 2019-20. Adoption of *Ujwal DISCOM Assurance Yojana (UDAY)* scheme cannot be the only reason for rising aggregate public debt of major states. For Non-UDAY states public debt has also risen in 2014-15 and thereafter it remains stable during 2015-19. For UDAY states, aggregate public debt is rising since 2014-15. GST back-to-back loans helped major states to reduce aggregate public debt by 53 basis point of GSDP in 2020-21 and 1.09 per cent of GSDP in 2021-22. Barring three years (i.e., 2019-22), aggregate public debt of major states was lower than 20 per cent of GSDP during 2011-22.

Aggregate public debt of minor states is increasing since 2014-15 and it crosses 20 per cent of GSDP in 2019-20. Aggregate public debt of Non-UDAY minor states remains higher than UDAY minor states during 2011-22. Except during 2019-22, aggregate public debt of minor states was lower than 20 per cent during 2011-22. The GST back-to-back loans helped minor states to reduce aggregate public debt by 55 basis point of GSDP in 2020-21 and 1.21 per cent of GSDP in 2021-22.

Public debt of five major states is exceeding 20 per cent of GSDP consistently during the period of our analysis (viz., Andhra Pradesh, Bihar, Punjab, Uttar Pradesh and West Bengal). Except for a few years (2011-12 and 2016-18), public debt of Goa is also exceeding 20 per cent of GSDP during 2011-22. Since 2015-16, public debt of another 3 states exceeds 20 per cent of GSDP (viz., Haryana, Jharkhand and Rajasthan). For Kerala, public debt exceeds 20 per cent of GSDP since 2017-18. Since 2019-20, public debt of another three states exceeds 20 per cent of GSDP (viz., Madhya Pradesh, Tamil Nadu, Telangana). Therefore, containing public debt to below 20 per cent of GSDP would be a challenge for many states in the coming years.

Public debt of three minor states (viz., Himachal Pradesh, Manipur and Nagaland) is consistently higher than 20 per cent of GSDP during 2011-22. Public debt of Uttarakhand since 2018-19, Arunachal Pradesh and Tripura since 2019-20 and Mizoram and Sikkim since 2020-21 is higher than 20 per cent of GSDP. This shows that more minor states are exceeding 20 per cent of GSDP limit in the public debt in recent years.

Except for Gujarat and West Bengal, average annual public debt of major states has gone up during post-GST period as compared to pre-GST period. Aggregate public debt of major states has gone up by 3.7 per cent of GSDP during post-GST period as compared to pre-GST period. The largest increase in public debt is observed for Punjab (9.2%) followed by Chhattisgarh (8.6%), Haryana

(6.9%), Tamil Nadu (6.5%) and Telangana (5.6%). Except Chhattisgarh, Gujarat, Karnataka, Maharashtra and Odisha, post-GST annual average public debt exceeds 20 per cent of GSDP for all other major states.

Except Mizoram and Nagaland, average annual public debt of minor states has gone up during post-GST period as compared to pre-GST period. Aggregate public debt of minor states has gone up by 4.2 per cent of GSDP. The largest increase in public debt is observed for Meghalaya (8.8%) and it is followed by Arunachal Pradesh (7.9%), Assam (5.7%) and Uttarakhand (5%). Except Assam, Mizoram and Sikkim, post-GST average annual public debt exceeds 20 per cent of GSDP for all other minor states.

We find that except Andhra Pradesh and Telangana outstanding guarantee amount lies below 10 per cent of GSDP for other major states during 2020-22. For Rajasthan and Uttar Pradesh outstanding guarantee amount lies between 7.5 to 10 per cent of GSDP. Except Bihar, Kerala, Maharashtra, Tamil Nadu, Telangana and West Bengal, outstanding guarantee amount of all other major states has gone down in 2021-22 as compared to 2020-21. Aggregate outstanding guarantee amount of major states has gone down from 4.23 per cent of GSDP in 2020-21 to 4.14 per cent of GSDP in 2021-22.

Among minor states outstanding guarantee amount of Sikkim exceeds 10 per cent of GSDP during 2020-22. For Meghalaya, outstanding guarantee amount lies between 7.5 to 10 per cent of GSDP during 2020-22. Except four minor states (viz., Arunachal Pradesh, Assam, Manipur and Nagaland), outstanding guarantee amount has fallen in 2021-22 as compared to 2020-21. In aggregate, outstanding guarantee amount of minor states has fallen from 1.18 per cent of GSDP in 2020-21 to 1.05 per cent of GSDP in 2021-22.

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## Appendix

Description	2022-23RE			2022-23PE			D-A	E-B	F-C
	Major States (A)	Minor States (B)	All States (C)	Major States (D)	Minor States (E)	All States (F)			
Total Revenue Receipts (A+B+C)	13.81	25.56	14.39	12.84	21.72	13.28	-0.96	-3.84	-1.11
A. Tax Revenue	10.17	12.87	10.31	9.87	12.81	10.02	-0.30	-0.05	-0.29
B. Own Non-Tax Revenue	1.03	1.41	1.05	1.02	1.34	1.04	<b>0.00</b>	-0.07	-0.01
C. Grants-in-Aids from the Union Government	2.61	11.28	3.04	1.95	7.57	2.23	-0.66	-3.72	-0.81
D. Revenue Expenditure	14.42	25.75	14.99	13.25	22.04	13.69	-1.17	-3.70	-1.30
E. Capital Expenditure	2.51	5.72	2.67	2.14	4.47	2.25	-0.38	-1.25	-0.42
F. Revenue Deficit	0.62	0.19	0.60	0.41	0.32	0.41	-0.21	<b>0.13</b>	-0.19
G. Fiscal Deficit	3.38	5.90	3.50	2.79	4.85	2.89	-0.59	-1.05	-0.61