



STATE GOVERNMENT FINANCES

**Further upward revision in tax
devolution in FY2025 poses
downside to ICRA's forecast of SGS
issuances of Rs. 10.5-11 trillion**

AUGUST 2024





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Sample set for this note includes 13 state governments, namely, Andhra Pradesh (AP), Gujarat, Haryana, Karnataka, Kerala, Madhya Pradesh (MP), Maharashtra, Punjab, Rajasthan, Tamil Nadu (TN), Telangana, Uttar Pradesh (UP) and West Bengal (WB).

The combined gross state domestic product or GSDP (at current prices) of these 13 states comprises nearly 81% of India's gross domestic product or GDP (at current prices) in FY2022.

An analysis of the revenue receipts of the 13 state governments during FY2018-2024 reveal that the actual revenues were lower than the budget estimates (BE) by up to 10% in all years except FY2020 and FY2021. However, the source of deviation in actual revenues versus the BE has changed in recent years. During FY2022-2024 the Government of India (GoI) devolved higher taxes to the states than the amount included in the BE, mainly benefiting from the better-than-expected performance of its gross tax revenues. In contrast, the extent of downward revision in grants from the Centre from the BE levels worsened during FY2022-2024 over FY2018-2021. Aside from Central transfers, actual states own tax revenues (SOTR) continued to trail the BE in a range-bound manner in recent years. Overall, the positive deviation in tax devolution in FY2022-2024 had partly offset the downward revision in other components of state revenues, compressing the variation in total revenues.

In response to revenues lagging the BE, states made moderate downward adjustment in their revenue expenditure. However, states continued to compress their planned capital spending by double-digits during FY2022-2024 so that they could adhere to the annual fiscal deficit target imposed by the GoI.

There has also been a sustained trend of issuances through state government securities (SGS) trailing the amount indicated by the states to the Reserve Bank of India (RBI) during FY2022-2024, which could be partly attributed to higher tax devolution. Further upward revisions by the GoI in the amount of tax devolution for FY2025 from the recent increase to Rs. 12.5 trillion included in the Union Budget from Rs. 12.2 trillion in the Interim Budget FY2025, poses a downside to ICRA's projection of gross market borrowing of Rs. 10.5-11 trillion in FY2025.

Exhibit: Trends in variation in key fiscal indicators during FY2018-2024

	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024
Revenue Receipts	-8%	-7%	-13%	-21%	-6%	-4%	-9%
Revenue Expenditure	-7%	-6%	-11%	-9%	-6%	-6%	-8%
Capital Expenditure	-15%	-9%	-23%	-25%	-19%	-16%	-13%



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