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EDITORIAL ANALYSIS

# State Budget Numbers Don't Add Up — Fiscal Federalism Under Stress

INDIAN EXPRESS

24 April 2026

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CURATED &amp; WRITTEN BY

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# State Budget Numbers Don't Add Up — Fiscal Federalism Under Stress

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## INTERVIEW ANGLE

*"India's states show budget figures that don't match actual spending or development outcomes. Is India's fiscal federalism framework broken — and what reforms are needed to make state budgets credible and accountable?"*

## THE CORE ARGUMENT

India's state governments present ambitious budget estimates — but actual expenditure diverges significantly, especially on social sector spending. The editorial analyses structural weaknesses in state budget credibility: capital expenditure routinely under-executed, welfare promises made but not funded, and fiscal deficit reported differently across states. The piece calls for mandatory medium-term fiscal frameworks, independent fiscal councils for states, and strengthening of Comptroller and Auditor General (CAG) oversight. It also flags that devolution from Centre to states (via Finance Commission) alone cannot fix state fiscal behaviour — political economy drives spending decisions more than budget documents.

## THE PROBLEM — BUDGET VS. REALITY

### Capital Expenditure Under-execution

YEAR (ALL STATES)	BUDGET ESTIMATE (CAPEX)	ACTUAL EXECUTION
FY22	₹7.8 lakh crore	~70%
FY23	₹9.5 lakh crore	~72%
FY24	₹11.2 lakh crore	~68%
FY25	₹12.8 lakh crore	Est. ~65–70%

### Why capex underperforms:

- Land acquisition delays
- Tender process bottlenecks
- Contractor payment delays (states owe contractors ~₹2-3 lakh crore)
- Last-quarter spending spikes (“March rush”)

### Revenue Expenditure Over-run

In contrast, revenue spending (salaries, subsidies, interest) tends to **overrun** budgets:

- States compete to attract voters via loan waivers, free electricity, cash transfers
- These schemes create permanent fiscal liabilities
- Punjab, Telangana, Rajasthan, Karnataka — “freebies” debates now central to budget analysis

## FISCAL FEDERALISM — INDIA’S ARCHITECTURE

### How States Get Money

SOURCE	SHARE
<b>Own tax revenue</b>	GST (state share), VAT on alcohol/petroleum, stamp duty
<b>Devolution from Centre</b>	41% of divisible pool (15th Finance Commission)
<b>Grants from Centre</b>	Tied (scheme-specific) + untied grants
<b>Borrowings</b>	State Fiscal Responsibility and Budget Management (FRBM) limits
<b>Off-budget borrowings</b>	Via state PSUs — a growing concern

### The Off-Budget Debt Problem

States borrow through:

- **State Electricity Boards (DISCOMs)**
- **State Road Development Corporations**
- **State Housing Boards**

These borrowings do not appear in the official fiscal deficit — creating **hidden debt**. India’s state off-budget liabilities estimated at **₹12–15 lakh crore** (RBI estimate range).

## FINANCE COMMISSION AND DEVOLUTION

### 15th Finance Commission (2021–26)

PARAMETER	DECISION
Vertical devolution	41% of divisible pool to states (down from 42% in 14th FC — 1% to new UTs of J&K, Ladakh)
Horizontal distribution criteria	Population (15%), Area (15%), Income distance (45%), Demographic performance (12.5%), Forest/ecology (10%), Tax effort (2.5%)
Revenue deficit grants	₹2.94 lakh crore to deficit states
Performance grants	Linked to education, health, Ease of Doing Business outcomes

**Tension:** Southern states feel penalised by population-based formula (they controlled population growth, receive less devolution per capita).

## FIXING STATE FISCAL GOVERNANCE

### Reforms Needed

REFORM	RATIONALE
<b>Independent state fiscal councils</b>	Like UK's OBR — provide credible independent budget assessments
<b>Medium-term fiscal framework (MTFF)</b>	3-year rolling budgets to prevent one-year gamesmanship
<b>Off-budget disclosure mandates</b>	States must consolidate all contingent liabilities
<b>CAG empowerment</b>	Performance audit of scheme spending (not just compliance)
<b>Transparency in freebie funding</b>	FRBM amendment to account for guarantee exposure

## UPSC ANGLE

PAPER	ANGLE
GS3 — Economy	Fiscal federalism, Finance Commission, state debt
GS2 — Governance	CAG; budget accountability; FRBM
GS2 — Polity	Centre-state relations; devolution; horizontal equity

**Mains Keywords:** Fiscal federalism, 15th Finance Commission, FRBM, off-budget borrowings, freebies, revenue deficit, capex under-execution, CAG, state fiscal councils, vertical and horizontal devolution

**Probable Question:** “India’s fiscal federalism is asymmetric — states bear expenditure responsibilities without adequate revenue autonomy. Critically examine.” (GS2/GS3 Mains)

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